

*ANNUAL REPORT*  
*2007*



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

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## PROFILE

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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.

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## THE MESSAGE FROM THE PRESIDENT

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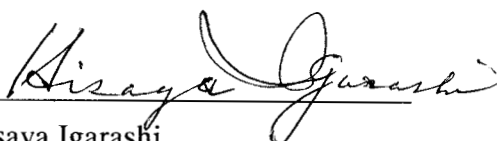
Despite a temporary stagnation in consumer spending, the Japanese economy sustained long-term recovery during the last fiscal year, owing to improved corporate profits and increased capital investment by private sectors.

The construction industry also benefited from stronger capital investment backed by higher corporate profits. Housing starts have been increasing steadily due to appreciating land values in metropolitan areas and continued low interest rates, which created large demand for new houses among end users. However, the overall business environment surrounding the industry is becoming increasingly severe due to reduced public works projects and intensified competition among bidding contractors as a result of restructuring in the public tender system, such as the adoption of total evaluation procedure and the expansion of competitive tendering.

Under these circumstances, we have reorganized our company in order to strengthen our sales promotion to solicit and secure more orders by accurately identifying the diversifying needs of our customers and proactively proposing optimum solutions. Placing quality as our No.1 priority, our officers and employees are working together full force in order to secure a consistent profit and accomplish all objectives under the “New Mid-Term Business Plan (April 1, 2005 – March 31, 2008)” formulated in March 2005.

The New Plan aims to build a stronger company with a stable profit base by “creating a secure business foundation” “culling out weak businesses” and “completely reviewing the company’s cost structure.” We have made a significant progress in meeting these objectives during the first and second year of the Plan, exceeding the ordinary profit targets for FY2005 and FY2006.

We are now taking steady steps toward meeting the goals for FY2007, the final year of this Plan, and accelerating our efforts to develop the next plan for transitioning to a new growth stage. In addition, in order to provide works of the highest possible quality for our customers, we will continue to pursue ever higher quality in every stage and process of design and construction under the slogan that “construction process is our product.” At the same time, we intend to further improve our competitiveness and streamline our operations by means of enhanced sales promotion and technical-solution proposals, introduction of a more transparent internal management system, and development of human and other corporate resources.



Hisaya Igarashi

Representative Director, President

**Consolidated Financial Statements**

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

*Years ended March 31, 2007 and 2006  
with Report of Independent Auditors*

## Consolidated Balance Sheets

March 31, 2007

	March 31,		
	2007	2006	2007
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 3)</i>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents <i>(Notes 10 and 14)</i>	¥ 30,194	¥ 35,295	\$ 255,772
Short-term investments <i>(Notes 10 and 14)</i>	1,372	1,038	11,622
Trade notes and accounts receivable <i>(Note 10)</i>	195,307	194,485	1,654,443
Short-term loans receivable	–	2,547	–
Inventories <i>(Notes 8 and 10)</i>	31,127	40,487	263,676
Deferred income taxes <i>(Note 12)</i>	7,116	6,041	60,279
Other current assets <i>(Note 10)</i>	23,345	31,943	197,755
Less allowance for doubtful receivables	<u>(6,123)</u>	<u>(6,464)</u>	<u>(51,867)</u>
Total current assets	282,340	305,373	2,391,698
Property and equipment, at cost:			
Land <i>(Note 10)</i>	16,562	12,526	140,296
Buildings and structures <i>(Note 10)</i>	14,615	14,245	123,803
Machinery and equipment <i>(Note 10)</i>	19,241	20,252	162,990
Construction in progress	250	–	2,117
	<u>50,668</u>	<u>47,024</u>	<u>429,207</u>
Accumulated depreciation	<u>(26,210)</u>	<u>(26,647)</u>	<u>(222,024)</u>
Property and equipment, net	24,458	20,376	207,183
Investments and other assets:			
Investments in unconsolidated subsidiaries and affiliates <i>(Note 10)</i>	2,703	2,546	22,897
Deferred income taxes <i>(Note 12)</i>	914	2,080	7,742
Other <i>(Notes 7, 9 and 10)</i>	87,955	97,260	745,065
Less allowance for doubtful receivables	<u>(58,292)</u>	<u>(65,351)</u>	<u>(493,790)</u>
Total investments and other assets	33,281	36,535	281,922
Total assets	<u>¥340,081</u>	<u>¥362,285</u>	<u>\$2,880,821</u>

## Consolidated Balance Sheets

March 31, 2007

	March 31,		
	2007	2006	2007
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 3)</i>
<b>Liabilities and net assets</b>			
Current liabilities:			
Short-term bank loans and current portion of long-term debt <i>(Note 10)</i>	¥ 8,786	¥ 17,592	\$ 74,426
Trade notes and accounts payable	213,570	218,440	1,809,148
Advances received on contracts in progress	31,302	38,796	265,158
Accrued expenses and other current liabilities	30,837	38,120	261,219
Total current liabilities	284,496	312,949	2,409,961
Long-term liabilities:			
Long-term debt <i>(Note 10)</i>	5,779	8,105	48,953
Accrued retirement benefits <i>(Note 11)</i>	16,672	15,638	141,228
Deferred tax liability on land revaluation	485	488	4,108
Other long-term liabilities	5,041	5,014	42,702
Total long-term liabilities	27,978	29,246	237,001
Contingent liabilities <i>(Note 13)</i>			
Net assets:			
Shareholders' equity:			
Capital stock <i>(Note 5)</i> :	16,859	36,657	142,812
Common stock:			
Authorized:			
2,669,464,970 shares in 2007 and 2006			
Issued and outstanding:			
127,399,973 shares in 2007 and			
79,512,814 shares in 2006			
Preferred stock:			
Authorized:			
26,894,644 shares in 2007 and 2006			
Issued and outstanding:			
24,555,000 shares in 2007 and			
26,894,644 shares in 2006			
Additional paid-in capital <i>(Note 5)</i>	84	30,100	711
Retained earnings (deficit) <i>(Note 6)</i>	7,721	(49,099)	65,404
Less treasury stock, at cost:			
348,034 shares in 2007 and 333,058 shares in 2006	(236)	(246)	(1,999)
Total shareholders' equity	24,428	17,411	206,929
Valuation, translation adjustments and other:			
Unrealized holding gain on securities	1,273	1,132	10,783
Land revaluation	81	61	686
Translation adjustments	(313)	(291)	(2,651)
Total valuation, translation adjustments and other	1,042	901	8,826
Minority interests	2,135	1,775	18,085
Total net assets	27,606	20,089	233,850
Total liabilities and net assets	¥340,081	¥362,285	\$2,880,821

*The accompanying notes are an integral part of these statements.*

Sumitomo Mitsui Construction Co., Ltd.  
**Consolidated Statements of Income**  
 March 31, 2007

	Years ended March 31,		
	2007	2006	2007
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 3)</i>
Net sales:			
Completed construction	¥528,750	¥539,301	\$4,479,034
Real estate	1,200	6,083	10,165
	<u>529,950</u>	<u>545,384</u>	<u>4,489,199</u>
Cost of sales:			
Completed construction	496,444	503,911	4,205,370
Real estate	454	4,141	3,845
	<u>496,898</u>	<u>508,053</u>	<u>4,209,216</u>
Gross profit	33,052	37,331	279,983
Selling, general and administrative expenses <i>(Notes 11 and 16)</i>	21,459	23,271	181,778
Operating income	<u>11,592</u>	<u>14,059</u>	<u>98,195</u>
Other income (expenses):			
Interest and dividend income	323	433	2,736
Interest expense	(919)	(4,622)	(7,784)
Provision for doubtful receivables	(1,199)	(1,766)	(10,156)
Equity in losses of affiliates	(231)	(433)	(1,956)
Gain on sales of property and equipment	–	190	–
Gain on debt relief	–	178,624	–
Loss on sales and disposal of property and equipment	(198)	(236)	(1,677)
Loss on business reorganization	–	(890)	–
Loss on out-of-court settlements	(1,245)	(5,002)	(10,546)
Gain on sales of investment securities	–	230	–
Gain on sales of subsidiaries' stock	–	4,207	–
Amortization of goodwill upon consolidation	52	2	440
Loss on devaluation of inventories	–	(391)	–
Impairment loss	–	(1,680)	–
Other, net	120	(1,072)	1,016
	<u>(3,298)</u>	<u>167,591</u>	<u>(27,937)</u>
Income before income taxes and minority interests	8,293	181,651	70,249
Income taxes <i>(Note 12)</i> :			
Current	800	572	6,776
Deferred	37	819	313
	<u>838</u>	<u>1,391</u>	<u>7,098</u>
Minority interests in net income of consolidated subsidiaries	(442)	(111)	(3,744)
Net income	<u>¥ 7,013</u>	<u>¥180,148</u>	<u>\$ 59,407</u>
	<i>(Yen)</i>		<i>(U.S. dollars)</i> <i>(Note 3)</i>
Net income per share – basic	¥60.98	¥2,602.68	\$0.516
Net income per share – diluted	12.72	501.97	0.107

*The accompanying notes are an integral part of these statements.*



Sumitomo Mitsui Construction Co., Ltd.  
**Consolidated Statements of Changes In Net Assets**  
 March 31, 2007

	Capital stock	Additional paid-in capital	Retained earnings (deficit)	Treasury stock, at cost	Total shareholders' equity
	(Millions of yen)				
Balance at March 31, 2006	¥ 36,657	¥ 30,100	¥(49,099)	¥(246)	¥17,411
Transfer from capital stock to retained earnings deficit (Note 5)	(19,798)		19,798		-
Transfer from additional paid-in capital to retained earnings deficit (Note 5)		(30,000)	30,000		-
Net income			7,013		7,013
Increase resulting from merger of unconsolidated subsidiaries			29		29
Purchases of treasury stock				(13)	(13)
Disposition of treasury stock		(15)		22	7
Reversal of revaluation reserve for land, net of taxes			(20)		(20)
Net changes in items other than shareholders' equity					
Balance at March 31, 2007	<u>¥16,859</u>	<u>¥ 84</u>	<u>¥ 7,721</u>	<u>¥(236)</u>	<u>¥24,428</u>

	Unrealized holding gain on securities	Land revaluation	Translation adjustments	Total valuation, translation adjustments and other	Minority interests	Total net assets
	(Millions of yen)					
Balance at March 31, 2006	¥1,132	¥61	¥(291)	¥ 901	¥1,775	¥20,089
Transfer from capital stock to retained earnings deficit (Note 5)						-
Transfer from additional paid-in capital to retained earnings deficit (Note 5)						-
Net income						7,013
Increase resulting from merger of unconsolidated subsidiaries						29
Purchases of treasury stock						(13)
Disposition of treasury stock						7
Reversal of revaluation reserve for land, net of taxes						(20)
Net changes in items other than shareholders' equity	141	20	(21)	140	359	499
Balance at March 31, 2007	<u>¥1,273</u>	<u>¥81</u>	<u>¥(313)</u>	<u>¥1,042</u>	<u>¥2,135</u>	<u>¥27,606</u>

	Capital stock	Additional paid-in capital	Retained earnings (deficit)	Treasury stock, at cost	Total shareholders' equity
	(Thousands of U.S. dollars) (Note 3)				
Balance at March 31, 2006	\$ 310,520	\$ 254,976	\$(415,916)	\$(2,083)	\$147,488
Transfer from capital stock to retained earnings deficit (Note 5)	(167,708)		167,708		-
Transfer from additional paid-in capital to retained earnings deficit (Note 5)		(254,129)	254,129		-
Net income			59,407		59,407
Increase resulting from merger of unconsolidated subsidiaries			245		245
Purchases of treasury stock				(110)	(110)
Disposition of treasury stock		(127)		186	59
Reversal of revaluation reserve for land, net of taxes			(169)		(169)
Net changes in items other than shareholders' equity					
Balance at March 31, 2007	<u>\$ 142,812</u>	<u>\$ 711</u>	<u>\$ 65,404</u>	<u>\$(1,999)</u>	<u>\$206,929</u>

	Unrealized holding gain on securities	Land revaluation	Translation adjustments	Total valuation, translation adjustments and other	Minority interests	Total net assets
	(Thousands of U.S. dollars) (Note 3)					
Balance at March 31, 2006	\$ 9,589	\$516	\$(2,465)	\$7,632	\$15,036	\$170,173
Transfer from capital stock to retained earnings deficit (Note 5)						-
Transfer from additional paid-in capital to retained earnings deficit (Note 5)						-
Net income						59,407
Increase resulting from merger of unconsolidated subsidiaries						245
Purchases of treasury stock						(110)
Disposition of treasury stock						59
Reversal of revaluation reserve for land, net of taxes						(169)
Net changes in items other than shareholders' equity	1,194	169	(177)	1,185	3,041	4,227
Balance at March 31, 2007	<u>\$10,783</u>	<u>\$686</u>	<u>\$(2,651)</u>	<u>\$8,826</u>	<u>\$18,085</u>	<u>\$233,850</u>

Sumitomo Mitsui Construction Co., Ltd.  
**Consolidated Statements of Changes In Net Assets**  
 March 31, 2007

	Capital stock	Additional paid-in capital	Retained earnings deficit	Treasury stock, at cost	Total shareholders' equity
	<i>(Millions of yen)</i>				
Balance at March 31, 2005	¥ 66,573	¥ 100	¥(289,177)	¥(166)	¥(222,670)
Transfer from capital stock to retained earnings deficit	(59,916)		59,916		-
Issuance of new shares	30,000	30,000			60,000
Net income			180,148		180,148
Purchases of treasury stock				(79)	(79)
Reversal of revaluation reserve for land, net of taxes			13		13
Net changes in items other than shareholders' equity					
Balance at March 31, 2006	<u>¥ 36,657</u>	<u>¥30,100</u>	<u>¥ (49,099)</u>	<u>¥(246)</u>	<u>¥ 17,411</u>

	Unrealized holding gain on securities	Land revaluation	Translation adjustments	Total valuation, translation adjustments and other	Minority interests	Total net assets
	<i>(Millions of yen)</i>					
Balance at March 31, 2005	¥ 531	¥ 167	¥ 574	¥1,273	¥1,830	¥(219,565)
Transfer from capital stock to retained earnings deficit						-
Issuance of new shares						60,000
Net income						180,148
Purchases of treasury stock						(79)
Reversal of revaluation reserve for land, net of taxes						13
Net changes in items other than shareholders' equity	600	(106)	(866)	(372)	(54)	(426)
Balance at March 31, 2006	<u>¥1,132</u>	<u>¥ 61</u>	<u>¥(291)</u>	<u>¥ 901</u>	<u>¥1,775</u>	<u>¥ 20,089</u>

*The accompanying notes are an integral part of these statements.*

Sumitomo Mitsui Construction Co., Ltd.  
**Consolidated Statements of Cash Flows**  
 March 31, 2007

	Years ended March 31,		
	2007	2006	2007
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 3)</i>
<b>Operating activities</b>			
Income before income taxes and minority interests	¥ 8,293	¥ 181,651	\$ 70,249
Depreciation and amortization	1,142	1,508	9,673
Interest expense	919	4,622	7,784
Trade notes and accounts receivable on completed contracts	(714)	(3,050)	(6,048)
(Decrease) increase in trade notes and accounts payable	(5,482)	2,360	(46,437)
(Decrease) increase in advances received on construction contracts in progress	(7,555)	4,914	(63,998)
Equity in losses of affiliates	231	433	1,956
Loss on sales and disposal of property and equipment	191	46	1,617
Gain on sales of investment securities and subsidiaries' stock	-	(4,436)	-
Loss on devaluation of inventories	-	391	-
(Decrease) increase in allowance for doubtful receivables	(228)	956	(1,931)
Reversal of loss on transfer of assets	-	(397)	-
Provision for construction projects	258	518	2,185
Impairment loss	-	1,680	-
Gain on debt relief	-	(178,624)	-
Other	15,345	(7,009)	129,987
Subtotal	12,401	5,566	105,048
Interest and dividends received	212	566	1,795
Interest paid	(849)	(3,731)	(7,191)
Income taxes paid	(737)	(820)	(6,243)
Net cash provided by operating activities	11,026	1,582	93,401
<b>Investing activities</b>			
(Increase) decrease in short-term investments	(319)	206	(2,702)
Purchases of property and equipment	(910)	(2,681)	(7,708)
Proceeds from sales of property and equipment	95	800	804
Purchases of intangible assets	(244)	(742)	(2,066)
Purchases of investments in real estate	-	(35)	-
Proceeds from sales of investments in real estate	-	7,087	-
Decrease in investment securities	298	463	2,524
(Increase) decrease in loans receivable	(256)	3,976	(2,168)
Increase in investments in unconsolidated subsidiaries and affiliates	(69)	(1,675)	(584)
Other	105	578	889
Net cash (used in) provided by investing activities	(1,300)	7,978	(11,012)
<b>Financing activities</b>			
Decrease in short-term bank loans	(12,125)	(40,120)	(102,710)
Increase in long-term bank loans	196	3,472	1,660
Decrease in long-term bank loans	(3,015)	(43,917)	(25,540)
Proceeds from issuance of new shares	-	59,756	-
Cash dividends paid	(2)	(1)	(16)
Decrease in deposits received on securities-lending agreements	-	(8)	-
Other	119	(91)	1,008
Net cash used in by financing activities	(14,826)	(20,910)	(125,590)
Effect of exchange rate changes on cash and cash equivalents	(20)	221	(169)
Net decrease in cash and cash equivalents	(5,121)	(11,128)	(43,379)
Cash and cash equivalents at beginning of the year	35,295	46,423	298,983
Increase in cash and cash equivalents resulting from merger of unconsolidated subsidiaries	20	-	169
Cash and cash equivalents at end of the year	¥ 30,194	¥ 35,295	\$ 255,772

*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 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 Securities 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.

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. All significant intercompany balances and transactions have been eliminated in consolidation.

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

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

The Company had 15 consolidated subsidiaries, 2 unconsolidated subsidiaries and 3 affiliates as of March 31, 2007 and 2006.

## 2. Summary of Significant Accounting Policies (continued)

### (b) Recognition of Revenues and Related Costs

Net sales on construction of the Company and certain consolidated subsidiaries which cover a construction period longer than 12 months are, in principle, recognized by the percentage-of-completion method based on the ratio of costs incurred to total estimated costs, except for net sales on long-term contracts which total less than ¥500 million. Net sales on such contracts amounted to ¥322,570 million (\$2,732,486 thousand) and ¥309,466 million for the years ended March 31, 2007 and 2006, respectively.

### (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. Investments in subsidiaries and affiliates are stated at cost 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.

### (e) Depreciation and Amortization

Depreciation of property and equipment, real estate, and other investments is determined primarily by the declining-balance method except that the straight-line method is applied to office buildings acquired on or after April 1, 1998. Amortization of intangible 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.

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

### (f) Allowance for Doubtful Accounts

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

## 2. Summary of Significant Accounting Policies (continued)

### (g) 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.

### (h) Employees' Retirement Benefits

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

The net retirement benefit obligation at transition is being amortized principally over a period of 15 years. Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized, primarily by the straight-line method over a period of 11 years.

### (i) 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.

### (j) Leases

The Company and consolidated subsidiaries lease certain equipment under noncancelable lease agreements referred to as finance leases. Finance leases other than those which transfer the ownership of the leased property to the Company and consolidated subsidiaries are accounted for as operating leases.

### (k) Cash Equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

## 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 ¥118.05 = U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2007. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

#### 4. Changes in Accounting Methods

Effective the year ended March 31, 2007, the Company has adopted "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan (ASBJ) Statement No. 5 issued on December 9, 2005) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Guidance No. 8 issued on December 9, 2005). In addition, effective the year ended March 31, 2007, the Company is required to prepare consolidated statements of changes in net assets. In this connection, the previously reported consolidated balance sheet at March 31, 2006 and consolidated statement of income and retained earnings deficit for the year then ended have been restated to conform to the presentation and disclosure of the consolidated financial statements for the year ended March 31, 2007. The amount corresponding to total shareholders' equity under the previous method of presentation amounted to ¥25,470 million ( \$215,756 thousand) at March 31, 2007.

Effective the year ended March 31, 2007, the Company has adopted "Accounting Standard for Business Combinations" (issued on October 31, 2003 by the Business Accounting Council of Japan), and "Accounting Standard for Business Divestitures" and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Statement No. 7 and ASBJ Guidance No. 10, respectively, both of which were issued on December 27, 2005, and Guidance No. 10 was subsequently amended on December 22, 2006).

#### 5. Retained Earnings Deficit

A resolution was approved at the annual general meeting of the shareholders of the Company held on June 29, 2006 to reduce additional paid-in capital by ¥30,000 million and capital stock by ¥19,798 million, and these capital decreases were allocated to offset the consolidated retained earnings deficit and went into effect on August 4, 2006.

#### 6. Dividends

Dividends with a record date during the current fiscal year but an effective date subsequent to the current fiscal year are summarized as follows:

Resolution approved by	Type of shares	2007				Paid from	Record date	Effective date
		Amount (Millions of yen)	Amount (Thousands of U.S. dollars)	Amount per share (Yen)	Amount per share (U.S. dollars)			
Annual general meeting of shareholders (June 28, 2007)	1st Series preferred stock	¥ 8	\$ 67	¥ 4.21	\$0.035			
	2nd Series Class A preferred stock	30	254	6.71	0.056			
	3rd Series Class B preferred stock	354	2,998	58.55	0.495	Retained earnings	March 31, 2007	June 29, 2007
	3rd Series Class C preferred stock	351	2,973	58.55	0.495			
	3rd Series Class D preferred stock	351	2,973	58.55	0.495			
		<u>¥1,095</u>	<u>\$9,275</u>					

## 7. Securities

- a) Held-to-maturity securities for which market prices were available at March 31, 2007 and 2006 are summarized as follows:

	2007					
	Carrying value	Fair value	Unrealized loss	Carrying value	Fair value	Unrealized loss
	<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>		
Securities whose fair value does not exceed their carrying value:						
Bonds	¥9	¥9	¥(0)	\$76	\$76	\$(0)

	2006		
	Carrying value	Fair value	Unrealized loss
	<i>(Millions of yen)</i>		
Securities whose fair value does not exceed their carrying value:			
Bonds	¥9	¥8	¥(0)

- b) At March 31, 2007 and 2006, other securities for which market prices were available are summarized as follows:

	2007					
	Cost	Balance sheet amount	Unrealized gain	Cost	Balance sheet amount	Unrealized gain
	<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>		
Unrealized gain:						
Stock	¥3,096	¥5,216	¥2,120	\$26,226	\$44,184	\$17,958

	2006		
	Cost	Balance sheet amount	Unrealized gain
	<i>(Millions of yen)</i>		
Unrealized gain:			
Stock	¥3,094	¥5,004	¥1,910

## 8. Inventories

Inventories at March 31, 2007 and 2006 were as follows:

	March 31,		
	2007	2006	2007
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Construction projects in progress and other inventories	¥31,125	¥40,325	\$263,659
Real estate held for sale	2	162	16
	¥31,127	¥40,487	\$263,676



## 9. Other Assets

“Investments and other assets – other” include outstanding balances due from companies under bankruptcy procedures and delinquent balances of ¥10,003 million (\$84,735 thousand) and ¥15,240 million at March 31, 2007 and 2006, respectively, for which reserves have been substantially provided in the accompanying consolidated financial statements.

## 10. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans generally represent notes, principally at average annual interest rates of 1.9% and 1.8% at March 31, 2007 and 2006, respectively.

Long-term debt at March 31, 2007 and 2006 is summarized as follows:

	<b>March 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2007</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Debt with collateral (at average interest rates of 2.7% at 2007 and 2.4% at 2006)	¥ 8,364	¥10,808	\$ 70,851
Debt without collateral (at average interest rates of 2.4% at 2007 and 6.0% at 2006)	200	0	1,694
	<u>8,564</u>	<u>10,809</u>	<u>72,545</u>
Less current portion	(2,785)	(2,703)	(23,591)
	<u>¥ 5,779</u>	<u>¥ 8,105</u>	<u>\$ 48,953</u>

The aggregate annual maturities of long-term debt subsequent to March 31, 2007 are summarized as follows:

<u>Year ending March 31,</u>	<u><i>(Millions of yen)</i></u>	<u><i>(Thousands of U.S. dollars)</i></u>
2008	¥2,785	\$23,591
2009	2,790	23,634
2010	2,546	21,567
2011 and thereafter	442	3,744
	<u>¥8,564</u>	<u>\$72,545</u>

## 10. Short-Term Bank Loans and Long-Term Debt (continued)

The following assets were pledged at March 31, 2007 principally as collateral for short-term bank loans, long-term debt and guarantees (such as guarantees for the completion of construction contracts):

	March 31,		
	2007	2006	2007
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Cash equivalents	¥ 101	¥ 1,392	\$ 855
Trade notes and accounts receivable	3,368	11,441	28,530
Inventories	0	67	0
Land	13,601	12,054	115,213
Buildings, net of accumulated depreciation	1,645	4,779	13,934
Investment securities	5,211	2,494	44,142
Investments in real estate	3,461	3,493	29,318
Other	883	1,218	7,479
	<u>¥28,272</u>	<u>¥36,941</u>	<u>\$239,491</u>

## 11. Retirement Benefit Plans

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

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets at March 31, 2007 and 2006 for the Company's and the consolidated subsidiaries' defined benefit plans:

	March 31,		
	2007	2006	2007
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Retirement benefit obligation	¥(35,856)	¥(37,132)	\$(303,735)
Plan assets at fair value	518	474	4,387
Unfunded retirement benefit obligation	(35,338)	(36,658)	(299,347)
Unrecognized net retirement benefit obligation at transition	15,887	17,873	134,578
Unrecognized actuarial loss	2,520	2,833	21,346
Unrecognized prior service cost	345	382	2,922
Net retirement benefit obligation	(16,583)	(15,569)	(140,474)
Prepaid pension cost	88	68	745
Accrued retirement benefits	<u>¥(16,672)</u>	<u>¥(15,638)</u>	<u>\$(141,228)</u>

## 11. Retirement Benefit Plans (continued)

The components of retirement benefit expenses for the years ended March 31, 2007 and 2006 are outlined as follows:

	March 31,		
	2007	2006	2007
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Service cost	¥1,488	¥1,703	\$12,604
Interest cost	888	989	7,522
Expected return on plan assets	(4)	(3)	(33)
Amortization of net retirement benefit obligation at transition	1,985	2,017	16,814
Amortization of actuarial loss	371	344	3,142
Amortization of prior service cost	36	(330)	304
Total retirement benefit expenses	<u>¥4,765</u>	<u>¥4,719</u>	<u>\$40,364</u>

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

	2007	2006
Discount rate	Principally 2.5%	Principally 2.5%
Expected rate of return on plan assets	Principally 2.0%	Principally 2.0%
Amortization period for prior service cost	Principally 11 years	Principally 11 years
Amortization period for actuarial differences	Principally 11 years	Principally 11 years
Period for recognition of net retirement benefit obligation at transition	Principally 15 years	Principally 15 years

## 12. Income Taxes

The significant components of deferred tax assets and liabilities at March 31, 2007 and 2006 were as follows:

	<b>March 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2007</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Deferred tax assets:			
Tax loss carryforwards	¥ 101,959	¥ 104,089	\$ 863,693
Accrued retirement benefits	6,800	6,356	57,602
Allowance for bad debts	2,929	3,472	24,811
Accrued expenses	1,976	2,700	16,738
Warranty reserve for completed contracts	751	540	6,361
Impairment loss	–	951	–
Other	2,154	2,570	18,246
Gross deferred tax assets	116,571	120,681	987,471
Valuation allowance	(107,666)	(111,752)	(912,037)
Total deferred tax assets	8,905	8,929	75,434
Deferred tax liabilities:			
Unrealized holding gain on securities	(848)	(777)	(7,183)
Other	(25)	(29)	(211)
Total deferred tax liabilities	(874)	(807)	(7,403)
Net deferred tax assets	¥ 8,031	¥ 8,121	\$ 68,030

The following table summarizes the significant differences between the statutory tax rate and the effective tax rates for the years ended March 31, 2007 and 2006:

	<b>March 31,</b>	
	<b>2007</b>	<b>2006</b>
Statutory tax rate	40.7%	40.7%
Non-deductible expenses	4.1	0.2
Per capita inhabitants' taxes	3.3	0.2
Valuation allowance	(37.1)	(38.1)
Adjustments related to consolidation	(0.3)	(2.2)
Other	(0.6)	0.0
Effective tax rates	10.1%	0.8%

### 13. Contingent Liabilities

At March 31, 2007, the Company and consolidated subsidiaries were contingently liable for the following:

	<b>March 31,</b>		
	<u>2007</u>	<u>2006</u>	<u>2007</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
As guarantors of bank loans to customers, unconsolidated subsidiaries, an affiliate and employees	¥5,941	¥9,225	\$50,326
As endorsers of notes receivable discounted with banks	¥ 59	¥ 11	\$ 499
As endorsers of notes receivable endorsed to vendors	¥3,041	¥7,339	\$25,760
Assignment of receivables	¥ 342	¥2,680	\$ 2,897

### 14. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2007 and 2006 were as follows:

	<b>March 31,</b>		
	<u>2007</u>	<u>2006</u>	<u>2007</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Cash and time deposits	¥31,566	¥36,333	\$267,395
Time deposits with maturities of over three months	(1,372)	(1,038)	(11,622)
Cash and cash equivalents	<u>¥30,194</u>	<u>¥35,295</u>	<u>\$255,772</u>

## 15. Leases

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2007 and 2006, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

a. As lessee:

	<b>2007</b>		
	Machinery and equipment	Other	Total
	<i>(Millions of yen)</i>		
Acquisition costs:			
Property and equipment	¥1,207	¥346	¥1,553
Accumulated depreciation:			
Property and equipment	714	175	889
Net book value:			
Property and equipment	¥ 492	¥170	¥ 663

	<b>2007</b>		
	Machinery and equipment	Other	Total
	<i>(Thousands of U.S. dollars)</i>		
Acquisition costs:			
Property and equipment	\$10,224	\$2,930	\$13,155
Accumulated depreciation:			
Property and equipment	6,048	1,482	7,530
Net book value:			
Property and equipment	\$ 4,167	\$1,440	\$ 5,616

	<b>2006</b>			
	Buildings and structures	Machinery and equipment	Other	Total
	<i>(Millions of yen)</i>			
Acquisition costs:				
Property and equipment	¥0	¥1,143	¥460	¥1,604
Accumulated depreciation:				
Property and equipment	0	611	257	869
Net book value:				
Property and equipment	¥0	¥ 532	¥203	¥ 735

## 15. Leases (continued)

### a. As lessee (continued):

	<u>2007</u> <i>(Millions of yen)</i>	<u>2006</u>	<u>2007</u> <i>(Thousands of U.S. dollars)</i>
Future minimum payments:			
Within one year	¥295	¥318	\$2,498
Over one year	392	448	3,320
	<u>¥687</u>	<u>¥767</u>	<u>\$5,819</u>

### b. As lessor:

	<u>Years ended March 31,</u>		
	<u>2007</u> <i>(Millions of yen)</i>	<u>2006</u>	<u>2007</u> <i>(Thousands of U.S. dollars)</i>
	Machinery and equipment		
Acquisition costs:			
Property and equipment	¥106	¥93	\$897
Accumulated depreciation:			
Property and equipment	68	51	576
Net book value:			
Property and equipment	<u>¥ 38</u>	<u>¥42</u>	<u>\$321</u>
	<u>2007</u> <i>(Millions of yen)</i>	<u>2006</u>	<u>2007</u> <i>(Thousands of U.S. dollars)</i>
Future minimum payments:			
Within one year	¥19	¥21	\$160
Over one year	25	28	211
	<u>¥45</u>	<u>¥49</u>	<u>\$381</u>

## 16. Research and Development Costs

Research and development costs included in selling, general and administrative expenses and manufacturing costs amounted to ¥1,354 million (\$11,469 thousand) and ¥1,437 million for the years ended March 31, 2007 and 2006, respectively.

## 17. Segment Information

The Company and consolidated subsidiaries are primarily engaged in the sale of completed construction and real estate, both in Japan and overseas, in three major segments: construction, development and other.

Business segment information has been omitted for the year ended March 31, 2007 sales, operating income and total assets of the building construction and civil engineering businesses ("Construction") constituted over 90% of the consolidated totals for the year then ended.

### *Business segments*

The business segment information of the Company and consolidated subsidiaries for the year ended March 31, 2006 is summarized below:

	Year ended March 31, 2006				Eliminations or corporate assets	Consolidated
	Construction	Development	Other	Total		
	<i>(Millions of yen)</i>					
I. Sales:						
(1) Sales to third parties	¥539,301	¥3,706	¥2,376	¥545,384	¥ -	¥545,384
(2) Intersegment sales	-	191	22	214	(214)	-
Net sales	539,301	3,898	2,399	545,599	(214)	545,384
Operating expenses	525,626	3,885	2,252	531,765	(440)	531,324
Operating income	¥ 13,674	¥ 12	¥ 146	¥ 13,834	¥ 225	¥ 14,059
II. Total assets, depreciation expense, impairment loss and capital expenditures:						
Total assets	¥303,809	¥ -	¥4,308	¥308,118	¥54,167	¥362,285
Depreciation expense	1,112	192	216	1,521	(12)	1,508
Impairment loss	31	-	1,648	1,680	-	1,680
Capital expenditures	3,478	36	29	3,544	-	3,544

## 18. Subsequent Event

In June 2007, the Company received a cease and desist order and a surcharge payment order in connection with a specific civil engineering and building construction project from Japan Fair Trade Commission. The surcharge amount is to be ¥29 million (\$245 thousand) when the payment order is settled in the future.



## Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Sumitomo Mitsui Construction Co., Ltd. and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sumitomo Mitsui Construction Co., Ltd. and consolidated subsidiaries at March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.



June 28, 2007

**Non-Consolidated Financial Statements**

**Sumitomo Mitsui Construction Co., Ltd.**

*Years ended March 31, 2007 and 2006  
with Report of Independent Auditors*

Sumitomo Mitsui Construction Co., Ltd.  
**Non-Consolidated Balance Sheets**  
 March 31, 2007

	March 31,		
	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
<b>Assets</b>			
Current assets:			
Cash and cash equivalents (Note 8)	¥ 22,748	¥ 26,020	\$ 192,698
Short-term investments (Note 8)	5	494	42
Accounts receivable on completed contracts	174,330	172,665	1,476,747
Notes receivable (Note 8)	3,391	4,292	28,725
Short-term loans receivable	7,405	8,132	62,727
Inventories (Note 6)	26,911	37,470	227,962
Deferred income taxes (Note 9)	6,900	5,800	58,449
Other current assets (Note 8)	24,320	32,939	206,014
Less allowance for doubtful receivables	(6,981)	(7,601)	(59,135)
Total current assets	259,032	280,214	2,194,256
Property and equipment, at cost:			
Land (Note 8)	5,349	5,349	45,311
Buildings and structures (Note 8)	5,768	5,698	48,860
Machinery and equipment	8,014	8,553	67,886
	19,132	19,601	162,066
Accumulated depreciation	(10,995)	(11,319)	(93,138)
Property and equipment, net	8,137	8,281	68,928
Investments and other assets:			
Subsidiaries and affiliates (Note 8)	8,386	9,187	71,037
Deferred income taxes (Note 9)	783	1,960	6,632
Other (Notes 7 and 8)	81,975	90,565	694,409
Less allowance for doubtful receivables	(59,184)	(66,802)	(501,346)
Total investments and other assets	31,960	34,910	270,732
Total assets	¥299,129	¥323,406	\$2,533,917

Sumitomo Mitsui Construction Co., Ltd.  
**Non-Consolidated Balance Sheets**  
 March 31, 2007

	March 31,		
	2007	2006	2007
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 2)</i>
<b>Liabilities and net assets</b>			
Current liabilities:			
Short-term bank loans <i>(Note 8)</i>	¥ 2,436	¥ 9,100	\$ 20,635
Current portion of long-term debt <i>(Note 8)</i>	2,703	2,703	22,897
Trade notes payable	71,597	74,984	606,497
Accounts payable on completed contracts	121,251	123,968	1,027,115
Income taxes payable	363	314	3,074
Advances received on contracts in progress	29,008	36,208	245,726
Accrued expenses and other current liabilities	27,345	35,632	231,639
Total current liabilities	254,707	282,913	2,157,619
Long-term liabilities:			
Long-term debt <i>(Note 8)</i>	5,162	8,105	43,727
Accrued retirement benefits	15,266	14,445	129,318
Other long-term liabilities	132	231	1,118
Total long-term liabilities	20,561	22,782	174,171
Contingent liabilities <i>(Note 10)</i>			
Net assets:			
Shareholders' equity:			
Capital stock <i>(Note 4)</i> :	16,859	36,657	142,812
Common stock:			
Authorized:			
2,669,464,970 shares in 2007 and 2006			
Issued and outstanding:			
127,399,973 shares in 2007 and			
79,512,814 shares in 2006			
Preferred stock:			
Authorized:			
26,894,644 shares in 2007 and 2006			
Issued and outstanding:			
24,555,000 shares in 2007 and			
26,894,644 shares in 2006			
Additional paid-in capital <i>(Note 4)</i>	-	30,000	-
Retained earnings (deficit)	6,012	(49,798)	50,927
Less treasury stock, at cost:			
348,034 shares in 2007 and 315,330 shares in 2006	(236)	(225)	(1,999)
Total shareholders' equity	22,635	16,633	191,740
Valuation, translation adjustments and other:			
Unrealized holding gain on securities	1,226	1,078	10,385
Total valuation, translation adjustments and other	1,226	1,078	10,385
Total net assets	23,861	17,711	202,126
Total liabilities and net assets	¥299,129	¥ 323,406	\$2,533,917

See accompanying notes to non-consolidated financial statements.

Sumitomo Mitsui Construction Co., Ltd.  
**Non-Consolidated Statements of Income**  
 March 31, 2007

	Years ended March 31,		
	2007	2006	2007
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 2)</i>
Net sales:			
Completed construction	¥455,403	¥469,236	\$3,857,712
Real estate	-	2,424	-
	<u>455,403</u>	<u>471,661</u>	<u>3,857,712</u>
Cost of sales:			
Completed construction	429,479	439,033	3,638,110
Real estate	-	2,632	-
	<u>429,479</u>	<u>441,666</u>	<u>3,638,110</u>
Gross profit	25,924	29,995	219,601
Selling, general and administrative expenses	16,911	18,163	143,252
Operating income	<u>9,013</u>	<u>11,831</u>	<u>76,349</u>
Other income (expenses):			
Interest and dividend income	464	953	3,930
Interest expense	(879)	(4,247)	(7,445)
Payments received from insurance claims	262	232	2,219
Gain on debt relief	-	178,624	-
Provision for doubtful receivables	(1,465)	(3,225)	(12,409)
Loss on out-of-court settlements	(1,132)	(5,002)	(9,589)
Loss on business reorganization	-	(890)	-
Loss on devaluation of investments in subsidiaries and affiliates	-	(1,195)	-
Gain on sales of investment securities	-	208	-
Other, net	(28)	(1,420)	(237)
	<u>(2,779)</u>	<u>164,036</u>	<u>(23,540)</u>
Income before income taxes	6,233	175,867	52,799
Income taxes <i>(Note 9)</i> :			
Current	220	260	1,863
Deferred	-	400	-
	<u>220</u>	<u>660</u>	<u>1,863</u>
Net income	<u>¥ 6,013</u>	<u>¥175,207</u>	<u>\$ 50,936</u>
	<i>(Yen)</i>		<i>(U.S. dollars)</i> <i>(Note 2)</i>
Net income per share – basic	¥50.68	¥2,530.65	\$0.429
Net income per share – diluted	10.91	488.18	0.092

See accompanying notes to non-consolidated financial statements.

## Non-Consolidated Statements of Changes In Net Assets

March 31, 2007

	Capital stock	Additional paid-in capital	Retained earnings (deficit)	Treasury stock, at cost	Total shareholders' equity	Unrealized holding gain on securities	Total net assets
<i>(Millions of yen)</i>							
Balance at March 31, 2006	¥ 36,657	¥ 30,000	¥(49,798)	¥(225)	¥16,633	¥1,078	¥17,711
Transfer from capital stock to retained earnings deficit (Note 4)	(19,798)		19,798		—		—
Transfer from additional paid-in capital to retained earnings deficit (Note 4)		(30,000)	30,000		—		—
Net income			6,013		6,013		6,013
Purchases of treasury stock				(13)	(13)		(13)
Disposition of treasury stock			(1)	2	1		1
Net changes in items other than shareholders' equity						147	147
Balance at March 31, 2007	<u>¥ 16,859</u>	<u>¥ —</u>	<u>¥ 6,012</u>	<u>¥(236)</u>	<u>¥22,635</u>	<u>¥1,226</u>	<u>¥23,861</u>
<i>(Thousands of U.S. dollars) (Note 2)</i>							
Balance at March 31, 2006	\$ 310,520	\$ 254,129	\$(421,838)	\$(1,905)	\$140,897	\$ 9,131	\$150,029
Transfer from capital stock to retained earnings deficit (Note 4)	(167,708)		167,708		—		—
Transfer from additional paid-in capital to retained earnings deficit (Note 4)		(254,129)	254,129		—		—
Net income			50,936		50,936		50,936
Purchases of treasury stock				(110)	(110)		(110)
Disposition of treasury stock			(8)	16	8		8
Net changes in items other than shareholders' equity						1,245	1,245
Balance at March 31, 2007	<u>\$ 142,812</u>	<u>\$ —</u>	<u>\$ 50,927</u>	<u>\$(1,999)</u>	<u>\$191,740</u>	<u>\$10,385</u>	<u>\$202,126</u>
<i>(Millions of yen)</i>							
Balance at March 31, 2005	¥ 66,573	¥ —	¥(284,922)	¥(146)	¥(218,495)	¥ 510	¥(217,984)
Transfer from capital stock to retained earnings deficit	(59,916)		59,916		—		—
Issuance of new shares	30,000	30,000			60,000		60,000
Net income			175,207		175,207		175,207
Purchases of treasury stock				(79)	(79)		(79)
Net changes in items other than shareholders' equity						567	567
Balance at March 31, 2006	<u>¥ 36,657</u>	<u>¥30,000</u>	<u>¥ (49,798)</u>	<u>¥(225)</u>	<u>¥ 16,633</u>	<u>¥1,078</u>	<u>¥ 17,711</u>

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 Securities 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.

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) Recognition of Revenues and Related Costs

Net sales on construction of the Company which cover a construction period longer than 12 months are, in principle, recognized by the percentage-of-completion method based on the ratio of costs incurred to total estimated costs, except for net sales on long-term contracts which total less than ¥500 million. Net sales on such contracts amounted to ¥302,984 million (\$2,566,573 thousand) and ¥292,173 million for the years ended March 31, 2007 and 2006, respectively.

### (c) 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.

### (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.

## 1. Summary of Significant Accounting Policies (continued)

### (e) Depreciation and Amortization

Depreciation of property and equipment, real estate, and other investments is determined by the declining-balance method. Amortization of intangible 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.

### (f) Allowance for Doubtful Accounts

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

### (g) Advances Received on Contracts in Progress

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

### (h) Employees' Retirement Benefits

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

### (i) 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.

### (j) Leases

The Company leases certain equipment under noncancelable lease agreements referred to as finance leases. Finance leases other than those which transfer the ownership of the leased property to the Company are accounted for as operating leases.

## 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 ¥118.05 = U.S.\$1.00, the approximate rate of exchange prevailing on March 31, 2007. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.



### 3. Changes in Accounting Methods

Effective the year ended March 31, 2007, the Company has adopted "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan (ASBJ) Statement No. 5 issued on December 9, 2005), and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Guidance No. 8 issued on December 9, 2005). In addition, effective the year ended March 31, 2007, the Company is required to prepare non-consolidated statements of changes in net assets. In this connection, the previously reported non-consolidated balance sheet at March 31, 2006 and non-consolidated statement of income and retained earnings deficit for the year then ended have been restated to conform to the presentation and disclosure of the non-consolidated financial statements for the year ended March 31, 2007. The amount corresponding to total shareholders' equity under the previous method of presentation amounted to ¥23,861 million ( \$202,126 thousand) at March 31, 2007.

Effective the year ended March 31, 2007, the Company has adopted "Accounting Standard for Business Combinations" (issued on October 31, 2003 by the Business Accounting Council of Japan), and "Accounting Standard for Business Divestitures" and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Statement No. 7 and ASBJ Guidance No. 10, respectively, both of which were issued on December 27, 2005, and Guidance No. 10 was subsequently amended on December 22, 2006).

### 4. Retained Earnings Deficit

A resolution was approved at the annual general meeting of the shareholders of the Company held on June 29, 2006 to reduce additional paid-in capital by ¥30,000 million and capital stock by ¥19,798 million, and these capital decreases were allocated to offset the retained earnings deficit and went into effect on August 4, 2006.

### 5. Securities

At March 31, 2007 and 2006, Stocks of subsidiaries and affiliates for which market prices were available are summarized as follows:

	<b>2007</b>					
	Carrying value	Fair value	Unrealized loss	Carrying value	Fair value	Unrealized loss
	<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>		
Stocks of subsidiaries	¥1,598	¥1,155	¥442	\$13,536	\$9,783	\$3,744
	<b>2006</b>					
	Carrying value	Fair value	Unrealized gain			
	<i>(Millions of yen)</i>					
Stocks of subsidiaries	¥1,598	¥1,982	¥384			

**6. Inventories**

Inventories consisted of construction projects in progress of ¥26,911 million (\$227,962 thousand) and ¥37,470 million at March 31, 2007 and 2006, respectively.

**7. Other Assets**

“Investments and other assets – other” include outstanding balances from companies under bankruptcy procedures and delinquent balances of ¥9,627 million (\$81,550 thousand) and ¥14,913 million at March 31, 2007 and 2006, respectively, for which reserves have been substantially provided in the accompanying non-consolidated financial statements.

**8. Short-Term Bank Loans and Long-Term Debt**

Short-term bank loans generally represent notes, principally at average interest rates of 1.9% and 1.6% at March 31, 2007 and 2006, respectively.

Long-term debt at March 31, 2007 and 2006 is summarized as follows:

	<b>March 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2007</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Debt with collateral (at average interest rates of 2.7% at 2007 and 2.4% at 2006)	¥ 7,865	¥10,808	\$ 66,624
Debt without collateral	0	0	0
	7,865	10,809	66,624
Less current portion	(2,703)	(2,703)	(22,897)
	<u>¥ 5,162</u>	<u>¥ 8,105</u>	<u>\$ 43,727</u>

The following assets were pledged at March 31, 2007 principally as collateral for short-term bank loans, long-term debt and guarantees (such as guarantees for the completion of construction contracts):

	<b>March 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2007</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Cash equivalents	¥ 5	¥ 1,355	\$ 42
Notes receivable	2,091	1,388	17,712
Accounts receivable on completed contracts	–	8,136	–
Investment securities	5,000	2,273	42,354
Land	5,209	5,209	44,125
Buildings, net of accumulated depreciation	631	1,462	5,345
Securities of affiliates	1,647	1,647	13,951
Other	872	1,040	7,386
	<u>¥15,457</u>	<u>¥22,512</u>	<u>\$130,936</u>

## 9. Income Taxes

The significant components of the Company's deferred tax assets and liabilities at March 31, 2007 and 2006 were as follows:

	March 31,		
	2007	2006	2007
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Deferred tax assets:			
Tax loss carryforwards	¥ 99,884	¥ 101,740	\$ 846,116
Accrued retirement benefits	6,213	5,879	52,630
Allowance for bad debts	3,981	4,452	33,722
Accrued expenses	1,807	2,555	15,307
Loss on revaluation of investments in subsidiaries and affiliates	562	552	4,760
Warranty reserve for completed contracts	731	525	6,192
Other	1,385	1,830	11,732
Gross deferred tax assets	114,567	117,535	970,495
Valuation allowance	(106,067)	(109,035)	(898,492)
Total deferred tax assets	8,500	8,500	72,003
Deferred tax liabilities:			
Unrealized holding gain on securities	(817)	(740)	(6,920)
Total deferred tax liabilities	(817)	(740)	(6,920)
Net deferred tax assets	¥ 7,683	¥ 7,760	\$ 65,082

The following table summarizes the significant differences between the statutory tax rate and the effective tax rates for the years ended March 31, 2007 and 2006:

	March 31,	
	2007	2006
Statutory tax rate	40.7%	40.7%
Non-deductible expenses	4.9	0.2
Per capita inhabitants' taxes	3.5	0.1
Valuation allowance	(45.6)	(40.6)
Effective tax rates	3.5%	0.4%

## 10. Contingent Liabilities

At March 31, 2007, the Company was contingently liable for the following:

	March 31,		
	2007	2006	2007
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
As guarantor of bank loans to customers, subsidiaries, an affiliate and employees	¥9,141	¥12,795	\$77,433
As endorser of notes receivable endorsed to vendors	2,625	7,202	22,236
As endorser of non-operating notes receivable endorsed to vendors	399	-	3,379
Assignment of receivables	342	2,680	2,897

## 11. Leases

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2007 and 2006, which would have been reflected in the non-consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

As lessee:

	2007			
	Vehicles	Equipment	Intangible fixed assets	Total
	<i>(Millions of yen)</i>			
Acquisition costs:				
Property and equipment	¥25	¥454	¥315	¥794
Accumulated depreciation:				
Property and equipment	10	283	162	455
Net book value:				
Property and equipment	¥14	¥171	¥152	¥338
	2007			
	Vehicles	Equipment	Intangible fixed assets	Total
	<i>(Thousands of U.S. dollars)</i>			
Acquisition costs:				
Property and equipment	\$211	\$3,845	\$2,668	\$6,725
Accumulated depreciation:				
Property and equipment	84	2,397	1,372	3,854
Net book value:				
Property and equipment	\$118	\$1,448	\$1,287	\$2,863

## 11. Leases (continued)

As lessee (continued):

	2006					Total
	Buildings	Machinery and equipment	Vehicles	Equipment	Intangible fixed assets	
	<i>(Millions of yen)</i>					
Acquisition costs:						
Property and equipment	¥0	¥15	¥20	¥419	¥433	¥888
Accumulated depreciation:						
Property and equipment	0	14	14	225	236	490
Net book value:						
Property and equipment	¥0	¥ 0	¥ 5	¥193	¥196	¥397
			<u>2007</u>	<u>2006</u>		<u>2007</u>
			<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>
Future minimum payments:						
Within one year			¥154	¥171		\$1,304
Over one year			198	242		1,677
			<u>¥352</u>	<u>¥413</u>		<u>\$2,981</u>

## 12. Subsequent Event

In June 2007, the Company received a cease and desist order and a surcharge payment order in connection with a specific civil engineering and building construction project from Japan Fair Trade Commission. The surcharge amount is to be ¥29 million (\$245 thousand) when the payment order is settled in the future.

## Report of Independent Auditors

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

We have audited the accompanying non-consolidated balance sheets of Sumitomo Mitsui Construction Co., Ltd. as of March 31, 2007 and 2006, and the related non-consolidated statements of income, and changes in net assets for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sumitomo Mitsui Construction Co., Ltd. at March 31, 2007 and 2006, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

*Ernst & Young ShinNihon*

June 28, 2007

# CORPORATE OUTLINE

**Corporate Name:**

Sumitomo Mitsui Construction Co.,Ltd.

**Established:**

October 14,1941

**Permission:**

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

**License:**

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

**Scope of Business:**

- 1) Planning and executing of civil engineering and construction works and prestressed concrete works
- 2) Manufacturing and selling civil engineering and construction materials and PC products
- 3) Real estate business
- 4) Other related business to the above

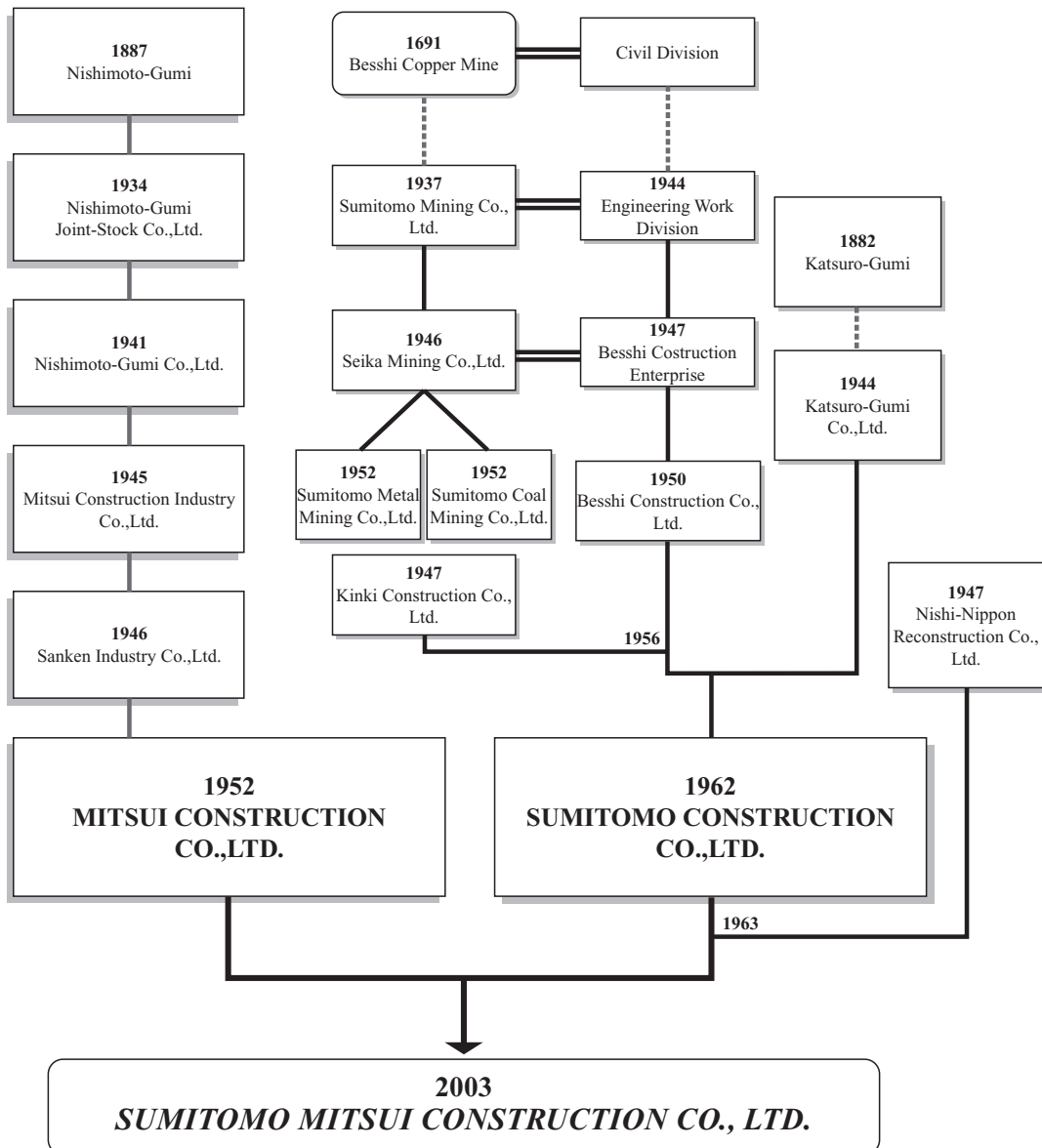
**Main Banks**

Sumitomo Mitsui Banking Corporation  
Sumitomo Trust & Banking Co.,Ltd.  
Mitsui Life Insurance Co.,Ltd.  
Mitsui Sumitomo Insurance Co.,Ltd.  
Sumitomo Life Insurance Company

**Main Shareholders**

Daiwa Securities SMBC Co.,Ltd.  
Mitsui Fudosan Co.,Ltd.  
UBS AG London A/C IPB Segregated Client Account  
Mitsui Sumitomo Insurance Co.,Ltd.  
BNY for GCM Client Accounts (E)ISG

**Corporate History**



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## CORPORATE DATA

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FAX:254-20-2722619

### Subsidiary Companies in overseas

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#### Pt.SMCC Utama Indonesia (Former Pt.Sumicon Utama)

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#### SMCC Construction India Ltd. (Former Mitsui Kensetsu PVT India,.,Ltd)

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