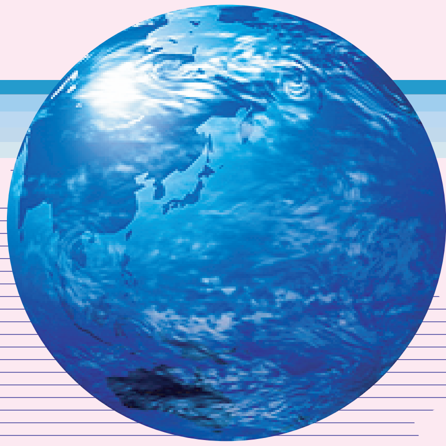


# ANNUAL REPORT 2012

SUMITOMO MITSUI CONSTRUCTION CO.,LTD.

# CONTENTS

# PROFILE

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

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

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

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

# THE MESSAGE FROM THE PRESIDENT

During the fiscal year ended March 31, 2012, while the Great East Japan Earthquake disrupted the supply chain system and temporarily slowed down the Japanese economy, the restorations and reconstruction works resulted in recovery of production activities and domestic demand growth which improved consumer spending. However, the European debt crisis still posed risks to the international financial system, and the rise in the cost of crude oil and the impact of the strong yen on international currency markets created uncertainty for the Japanese economy.

In the domestic construction market, while we have seen the increase in public investment concentrated in disaster relief works and recovery of investment in private residential construction project in the metropolitan Tokyo area, we continue to face the downturn of investment in the domestic manufacturing sector, portions of which have been shifted overseas due to the high cost of materials and labor in Japan.

Under these circumstances, in the fiscal year ended March 31, 2012, SMCC group has achieved total sales of 313.6 billion yen (up 14.9 billion yen from the previous fiscal year), operating profit of 4.7 billion yen (down 0.3 billion yen from the previous fiscal year), and a net profit of 1.4 billion yen.

Two years have passed since we launched in the "The Third Mid-term Management Plan" in May 2010 in order to create management with a high level of transparency and to further improve the profitability in our core business, as well as to develop sustainable corporate activities through new growth strategies.

The basic policies of the Plan are as follows:

- ○ Focus on three strategic segments in the domestic civil engineering, building construction and the overseas business to achieve sustainable growth.
- ○ Further, enhance the strengths of our core business segments to maintain the business volume and improve profitability.

The key elements of our business strategies are as follows:

a. For the domestic civil engineering division, we will strengthen its profitability by expanding the Prestressed Concrete (PC) bridge business, as the core segment with an emphasis on the technical-proposal type overall evaluation method while also putting our resources into the tunnel business, as the second major civil engineering business next to the PC bridge segment.
b. For the domestic building construction division, we will fortify the sales promotion force and increase competitiveness to win more orders and improve profitability by utilizing our leading-edge core technology in the high-rise housing construction area.
c. For the overseas division, we will develop and improve the construction and risk-management systems in overseas activities, and further expand our marketing efforts, primarily in Asia.

Despite our diligent efforts in these activities, SMCC group fell short of this fiscal year's target under the difficult conditions mentioned above. However, the implementation of these strategies has showed some improvement as the overseas business made steady growth .

Fiscal year 2012 is our concluding year of the "The Third Mid-term Management Plan".

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

Finally, we will fulfill our social responsibilities as a construction company to recover infrastructure, production base and living environment of the disaster area in response to the full scale reconstruction from the Great East Japan Earthquake.

Yoshiyuki Norihisa

Yoshiyuki Norihisa
Representative Director,
President And Chief Executive Officer

# Consolidated Financial Statements

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

***Years ended March 31, 2012 and 2011***
***with Independent Auditor's Report***

**Consolidated Balance Sheets**

*March 31, 2012*

| | As of March 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars) (Note 3)* |
| **Assets** | | | |
| Current assets: | | | |
| Cash and deposits *(Notes 6-(c) and 10)* | ¥ 34,897 | ¥ 20,730 | $ 424,589 |
| Trade notes and accounts receivable *(Notes 6-(c) and 6-(g))* | 115,418 | 93,034 | 1,404,282 |
| Inventories *(Notes 6-(a) and 6-(f))* | 22,471 | 21,248 | 273,403 |
| Deferred tax assets *(Note 16)* | 1,504 | 2,764 | 18,299 |
| Other current assets | 10,364 | 10,819 | 126,098 |
| Less allowance for doubtful receivables | (531) | (608) | (6,460) |
| Total current assets | 184,124 | 147,989 | 2,240,223 |
| Non-current assets: | | | |
| Property and equipment, at cost: | | | |
| Land *(Notes 6-(c) and 6-(d))* | 15,820 | 16,540 | 192,480 |
| Buildings and structures *(Note 6-(c))* | 14,694 | 14,551 | 178,780 |
| Machinery, equipment and vehicles *(Note 6-(c))* | 16,435 | 17,740 | 199,963 |
| Construction in progress | 58 | 89 | 705 |
| Accumulated depreciation | (24,202) | (25,302) | (294,464) |
| Property and equipment, net | 22,807 | 23,617 | 277,491 |
| Intangible fixed assets | 2,294 | 2,262 | 27,910 |
| Investments and other assets: | | | |
| Investments in securities *(Notes 6-(c) and 13)* | 4,707 | 4,649 | |
| Long-term loans receivable | 7,487 | 7,544 | 91,093 |
| Claims provable in bankruptcy and other | 4,912 | 7,848 | 59,763 |
| Investments in unconsolidated subsidiaries and affiliates | 1,547 | 1,481 | 18,822 |
| Investments in real estate *(Notes 6-(b) and 6-(c))* | 4,067 | 3,569 | 49,482 |
| Long-term non-operating accounts receivable *(Note 19)* | 37,425 | 38,114 | 455,347 |
| Deferred tax assets *(Note 16)* | 2,926 | 2,016 | 35,600 |
| Other | 7,364 | 7,534 | 89,597 |
| Less allowance for doubtful receivables | (46,058) | (49,610) | (560,384) |
| Total investments and other assets | 24,381 | 23,150 | 296,641 |
| Total non-current assets | 49,483 | 49,031 | 602,056 |
| Total assets | ¥233,608 | ¥197,021 | $2,842,292 |

| | As of March 31, | | |
|---|---|---|---|
| | **2012** | **2011** | **2012** |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars) (Note 3)* |
| **Liabilities and net assets** | | | |
| Current liabilities: | | | |
| Short-term bank loans and current portion of long-term debt *(Notes 6-(c) and 22)* | ¥ 20,579 | ¥ 7,517 | $ 250,383 |
| Trade notes and accounts payable (*Note 6-(g))* | 118,786 | 101,548 | 1,445,260 |
| Accrued expenses | 2,292 | 1,961 | 27,886 |
| Advances received on contracts in progress | 29,433 | 21,164 | 358,109 |
| Reserve for defects on completed construction projects | 939 | 1,161 | 11,424 |
| Allowance for losses on construction contracts *(Note 6-(f))* | 1,624 | 372 | 19,759 |
| Allowance for loss on litigation | 862 | 1,280 | 10,487 |
| Allowance for loss on disaster | – | 470 | – |
| Other current liabilities *(Note 6-(c))* | 12,772 | 16,568 | 155,396 |
| Total current liabilities | 187,291 | 152,045 | 2,278,756 |
| Long-term liabilities: | | | |
| Long-term debt *(Notes 6-(c) and 22)* | 2,413 | 2,582 | 29,358 |
| Accrued retirement benefits *(Note 15)* | 16,662 | 16,135 | 202,725 |
| Deferred tax liability on land revaluation *(Note 6-(d))* | 335 | 445 | 4,075 |
| Other long-term liabilities *(Note 6-(c))* | 4,901 | 5,163 | 59,630 |
| Total long-term liabilities | 24,313 | 24,327 | 295,814 |
| Contingent liabilities *(Notes 6-(e) and 19)* | | | |
| Net assets: | | | |
| Shareholders' equity: | | | |
| Capital stock: | 12,003 | 12,003 | 146,039 |
| Common stock: | | | |
| Authorized: | | | |
| 2,669,464,970 shares in 2012 and 2011 | | | |
| Issued and outstanding: | | | |
| 288,989,667 shares in 2012 and 283,363,598 shares in 2011 | | | |
| Preferred stock: | | | |
| Authorized: | | | |
| 26,894,644 shares in 2012 and 2011 | | | |
| Issued and outstanding: | | | |
| 13,149,900 shares in 2012 and 13,843,700 shares in 2011 | | | |
| Additional paid-in capital | 481 | 682 | 5,852 |
| Retained earnings | 7,771 | 6,360 | 94,549 |
| Less treasury stock, at cost: 447,922 shares in 2012 and 436,646 shares in 2011 | (241) | (242) | (2,932) |
| Total shareholders' equity | 20,014 | 18,804 | 243,508 |
| Accumulated other comprehensive income: | | | |
| Unrealized holding loss on securities | (137) | (195) | (1,666) |
| Deferred gain on hedging instruments, net of taxes *(Note 14)* | 30 | – | 365 |
| Land revaluation *(Note 6-(d))* | 39 | 57 | 474 |
| Translation adjustments | (856) | (694) | (10,414) |
| Total accumulated other comprehensive income (loss) | (923) | (833) | (11,230) |
| Minority interests | 2,913 | 2,677 | 35,442 |
| Total net assets | 22,004 | 20,648 | 267,721 |
| Total liabilities and net assets | ¥233,608 | ¥197,021 | $2,842,292 |

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

**Consolidated Statements of Income**

*March 31, 2012*

| | Years ended March 31, | | |
|---|---|---|---|
| | **2012** | **2011** | **2012** |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars) (Note 3)* |
| Net sales *(Note 7-(a))* | ¥313,558 | ¥298,647 | $3,815,038 |
| Cost of sales *(Note 7-(b))* | 294,521 | 278,285 | 3,583,416 |
| Gross profit | 19,036 | 20,362 | 231,609 |
| Selling, general and administrative expenses *(Notes 7-(c) and 15)* | 14,345 | 15,399 | 174,534 |
| Operating income | 4,691 | 4,962 | 57,075 |
| Other income (expenses): | | | |
| Interest and dividend income | 433 | 248 | 5,268 |
| Payments received from insurance claims | 156 | 195 | 1,898 |
| Interest expense | (1,048) | (963) | (12,750) |
| Reversal of provision for doubtful receivables | 687 | – | 8,358 |
| Exchange loss, net | (683) | (386) | (8,310) |
| Provision for doubtful receivables | – | (605) | – |
| Loss on disaster *(Note 7-(g))* | (77) | (547) | (936) |
| Equity in earnings of affiliates | 24 | 67 | 292 |
| Gain on sales of property and equipment *(Note 7-(e))* | 21 | 15 | 255 |
| Loss on sales and disposal of property and equipment *(Note 7-(f))* | (86) | (44) | (1,046) |
| Gain on prior-period adjustment | – | 245 | – |
| Loss on litigation | (69) | – | (839) |
| Other, net | (1,003) | (549) | (12,203) |
| | (1,647) | (2,325) | (20,038) |
| Income before income taxes and minority interests | 3,043 | 2,636 | 37,023 |
| Income taxes *(Note 16)*: | | | |
| Current | 1,109 | 603 | 13,493 |
| Deferred | 265 | 191 | 3,224 |
| | 1,375 | 795 | 16,729 |
| Income before minority interests | 1,668 | 1,841 | 20,294 |
| Minority interests in net income of consolidated subsidiaries | 294 | 300 | 3,577 |
| Net income | ¥ 1,374 | ¥ 1,541 | $ 16,717 |
| | *(Yen)* | | *(U.S. dollars) (Note 3)* |
| Net income per share – basic *(Note 20)* | ¥ 4.82 | ¥ 5.47 | $ 0.058 |
| Net income per share – diluted *(Note 20)* | 1.81 | 2.34 | 0.022 |

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

**Consolidated Statements of Comprehensive Income**

*March 31, 2012*

| | Years ended March 31, | | |
|---|---|---|---|
| | **2012** | **2011** | **2012** |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars) (Note 3)* |
| Income before minority interests | ¥1,668 | ¥1,841 | $20,294 |
| Other comprehensive income: | | | |
| Unrealized holding gain (loss) on securities | 58 | (234) | 705 |
| Deferred gain on hedging instruments, net of taxes | 30 | – | 365 |
| Land revaluation | 47 | – | 571 |
| Translation adjustments | (197) | (104) | (2,396) |
| Share of other comprehensive income of affiliates accounted for by the equity method | (7) | (8) | (85) |
| Total other comprehensive income *(Note 8)* | (67) | (347) | (815) |
| Comprehensive income | ¥1,601 | ¥1,494 | $19,479 |
| Comprehensive income attributable to: | | | |
| Owners of the parent | ¥1,320 | ¥1,217 | $16,060 |
| Minority interests | ¥ 280 | ¥ 276 | $ 3,406 |

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

| | Years ended March 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars) (Note 3)* |
| **Shareholders' equity** | | | |
| Capital stock: | | | |
| Balance at the beginning of the period | ¥12,003 | ¥12,003 | $146,039 |
| Changes in items during the period | | | |
| Total changes in items during the period | – | – | – |
| Balance at the end of the period | 12,003 | 12,003 | 146,039 |
| Additional paid-in capital: | | | |
| Balance at the beginning of the period | 682 | 682 | 8,297 |
| Changes in items during the period | | | |
| Disposition of treasury stock | (1) | (0) | (12) |
| Cancellation of treasury stock | (200) | – | (2,433) |
| Total changes in items during the period | (201) | (0) | (2,445) |
| Balance at the end of the period | 481 | 682 | 5,852 |
| Retained earnings : | | | |
| Balance at the beginning of the period | 6,360 | 5,651 | 77,381 |
| Changes in items during the period | | | |
| Cash dividends paid | – | (833) | – |
| Net income | 1,374 | 1,541 | 16,717 |
| Reversal of revaluation reserve for land, net of taxes | 36 | 0 | 438 |
| Total changes in items during the period | 1,411 | 708 | 17,167 |
| Balance at the end of the period | 7,771 | 6,360 | 94,549 |
| Treasury stock, at cost: | | | |
| Balance at the beginning of the period | (242) | (241) | (2,944) |
| Changes in items during the period | | | |
| Purchases of treasury stock | (200) | (0) | (2,433) |
| Disposition of treasury stock | 1 | 0 | 12 |
| Cancellation of treasury stock | 200 | – | 2,433 |
| Total changes in items during the period | 0 | (0) | 0 |
| Balance at the end of the period | (241) | (242) | (2,932) |
| Total shareholders' equity: | | | |
| Balance at the beginning of the period | 18,804 | 18,096 | 228,786 |
| Changes in items during the period | | | |
| Dividends from surplus | – | (833) | – |
| Net income | 1,374 | 1,541 | 16,717 |
| Purchases of treasury stock | (200) | (0) | (2,433) |
| Disposition of treasury stock | 0 | 0 | 0 |
| Cancellation of treasury stock | – | – | – |
| Reversal of revaluation reserve for land, net of taxes | 36 | 0 | 438 |
| Total changes in items during the period | 1,210 | 708 | 14,721 |
| Balance at the end of the period | 20,014 | 18,804 | 243,508 |

| | Years ended March 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars) (Note 3)* |
| **Accumulated other comprehensive income** | | | |
| Unrealized holding (loss) gain on securities: | | | |
| Balance at the beginning of the period | (195) | 37 | (2,372) |
| Changes in items during the period | | | |
| Net changes in items other than shareholders' equity | 58 | (233) | 705 |
| Total changes in items during the period | 58 | (233) | 705 |
| Balance at the end of the period | (137) | (195) | (1,666) |
| Deferred gain on hedging instruments, net of taxes | | | |
| Balance at the beginning of the period | – | – | – |
| Changes in items during the period | | | |
| Net changes in items other than shareholders' equity | 30 | – | 365 |
| Total changes in items during the period | 30 | – | 365 |
| Balance at the end of the period | 30 | – | 365 |
| Land revaluation: | | | |
| Balance at the beginning of the period | 57 | 57 | 693 |
| Changes in items during the period | | | |
| Net changes in items other than shareholders' equity | (17) | (0) | (206) |
| Total changes in items during the period | (17) | (0) | (206) |
| Balance at the end of the period | 39 | 57 | 474 |
| Translation adjustments: | | | |
| Balance at the beginning of the period | (694) | (604) | (8,443) |
| Changes in items during the period | | | |
| Net changes in items other than shareholders' equity | (161) | (90) | (1,958) |
| Total changes in items during the period | (161) | (90) | (1,958) |
| Balance at the end of the period | (856) | (694) | (10,414) |
| Total accumulated other comprehensive income (loss): | | | |
| Balance at the beginning of the period | (833) | (508) | (10,135) |
| Changes in items during the period | | | |
| Net changes in items other than shareholders' equity | (90) | (324) | (1,095) |
| Total changes in items during the period | (90) | (324) | (1,095) |
| Balance at the end of the period | (923) | (833) | (11,230) |
| **Minority interests** | | | |
| Balance at the beginning of the period | 2,677 | 2,723 | 32,570 |
| Changes in items during the period | | | |
| Net changes in items other than shareholders' equity | 236 | (45) | 2,871 |
| Total changes in items during the period | 236 | (45) | 2,871 |
| Balance at the end of the period | 2,913 | 2,677 | 35,442 |

| | Years ended March 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars) (Note 3)* |
| **Total net assets** | | | |
| Balance at the beginning of the period | 20,648 | 20,310 | 251,222 |
| Changes in items during the period | | | |
| Dividends from surplus | – | (833) | – |
| Net income | 1,374 | 1,541 | 16,717 |
| Purchases of treasury stock | (200) | (0) | (2,433) |
| Disposition of treasury stock | 0 | 0 | 0 |
| Cancellation of treasury stock | – | – | – |
| Reversal of revaluation reserve for land, net of taxes | 36 | 0 | 438 |
| Net changes in items other than shareholders’ equity | 145 | (370) | 1,764 |
| Total changes in items during the period | 1,356 | 337 | 16,498 |
| Balance at the end of the period | ¥22,004 | ¥20,648 | $267,721 |

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

| | Years ended March 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars) (Note 3)* |
| **Operating activities** | | | |
| Income before income taxes and minority interests | ¥ 3,043 | ¥ 2,636 | $ 37,023 |
| Depreciation and amortization | 1,786 | 1,502 | 21,730 |
| (Decrease) increase in allowance for doubtful receivables | (491) | 916 | (5,973) |
| Increase in accrued retirement benefits | 531 | 1,142 | 6,460 |
| (Decrease) in reserve for defects on completed construction projects | (220) | (92) | (2,676) |
| Increase in allowance for losses on construction contracts | 1,251 | 45 | 15,220 |
| (Decrease) in allowance for loss on litigation | (417) | (45) | (5,073) |
| (Decrease) increase in provision for loss on disaster | (470) | 470 | (5,718) |
| Loss on sales and disposal of property and equipment | 65 | 13 | 790 |
| Interest and dividend income | (433) | (248) | (5,268) |
| Interest expense | 1,048 | 963 | 12,750 |
| Exchange loss, net | 81 | 308 | 985 |
| Equity in earnings of affiliates | (24) | (67) | (292) |
| (Increase) decrease in trade notes and accounts receivable | (22,457) | 7,903 | (273,232) |
| (Increase) decrease in inventories | (1,231) | 2,852 | (14,977) |
| Decrease in other assets | 1,611 | 4,036 | 19,600 |
| Decrease (increase) in trade notes and accounts payable | 17,466 | (20,663) | 212,507 |
| Increase (decrease) in advances received on contracts in progress | 8,471 | (2,221) | 103,066 |
| (Decrease) in other liabilities | (4,188) | (6,023) | (50,955) |
| Other | 31 | (237) | 377 |
| Subtotal | 5,454 | (6,807) | 66,358 |
| Interest and dividends received | 496 | 271 | 6,034 |
| Interest paid | (1,087) | (959) | (13,225) |
| Income taxes paid | (875) | (984) | (10,646) |
| Special retirement benefits | – | (32) | – |
| Relocation expenses | – | (293) | – |
| Net cash provided by (used in) operating activities | 3,987 | (8,805) | 48,509 |
| **Investing activities** | | | |
| Increase in fixed deposits | (1,544) | (1,297) | (18,785) |
| Purchases of property and equipment | (1,175) | (1,508) | (14,296) |
| Proceeds from sales of property and equipment | 255 | 48 | 3,102 |
| Purchases of intangible fixed assets | (344) | (114) | (4,185) |
| Purchases of investments in securities | (1) | (234) | (12) |
| Proceeds from sales of investments in securities | 1 | 102 | 12 |
| Increase in investments in unconsolidated subsidiaries and affiliates | (10) | (15) | (121) |
| Disbursements for loans | (1,047) | (220) | (12,738) |
| Proceeds from collection of loans | 604 | 185 | 7,348 |
| Other | 24 | 539 | 292 |
| Net cash used in investing activities | (3,238) | (2,514) | (39,396) |
| **Financing activities** | | | |
| Increase in short-term bank loans | 12,892 | 1,101 | 156,856 |
| Increase in long-term debt | 700 | 3,200 | 8,516 |
| Decrease in long-term debt | (700) | (2,040) | (8,516) |
| Increase in long-term loans of employees | 97 | 51 | 1,180 |
| (Increase) in treasury stock | (200) | (0) | (2,433) |
| Cash dividends paid | – | (833) | – |
| Cash dividends paid for minority shareholders | (62) | (25) | (754) |
| Other | (127) | (89) | (1,545) |
| Net cash provided by financing activities | 12,598 | 1,363 | 153,278 |
| **Effect of exchange rate changes on cash and cash equivalents** | (243) | (267) | (2,956) |
| **Net increase (decrease) in cash and cash equivalents** | 13,104 | (10,224) | 159,435 |
| **Cash and cash equivalents at beginning of the year** | 16,742 | 26,967 | 203,698 |
| **Cash and cash equivalents at end of the year** | ¥ 29,847 | ¥ 16,742 | $ 363,146 |

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

## 1. Basis of Preparation

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

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

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

## 2. Summary of Significant Accounting Policies

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

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

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

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

The Company had 13 consolidated subsidiaries, 2 unconsolidated subsidiaries and 2 affiliates accounted for by the equity method as of March 31, 2012.

(b) Fiscal Year of Consolidated Subsidiaries

All foreign consolidated subsidiaries (4 companies) have a fiscal year that ends on December 31. The accompanying consolidated financial statements were prepared based on the financial statements as of the same date. Necessary adjustments for consolidation were made on significant transactions that took place during the period between the fiscal year-end of the subsidiaries and the fiscal year-end of the Company.

(c) Securities

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

(d) Inventories

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

(e) Depreciation and Amortization

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

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

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

(2) Intangible fixed assets (except leased assets)

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

(e) Depreciation and Amortization (continued)

(3) Leased assets

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

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

(f) Allowance for Doubtful Receivables

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

(g) Advances Received on Contracts in Progress

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

(h) Reserve for Defects on Completed Construction Projects

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

(i) Allowance for Losses on Construction Contracts

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

(j) Allowance for Loss on Litigation

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

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

(Additional Information)

Effective July 1, 2011, the Company has transferred a portion of its lump-sum retirement benefit plan covering substantially all employees to a defined contribution pension plan and has adopted "Practical Solution on Accounting for Transfers between Retirement Benefit Plans" (Accounting Standards Board of Japan (ASBJ) Guidance No. 1)

As a result, prior service cost was recognized in the amount of ¥(3,482) million, and is being amortized from the second quarter of the year ended March 31, 2012 by the straight-line method over a period of 11 years, which is 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.

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

(m) 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.

(n) Derivatives and Hedge Accounting

(1) Method of hedge accounting

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

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

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

(2) Hedging instruments and hedged items

| | |
|---|---|
| Hedging instruments: | Forward foreign exchange contracts<br>Interest rate swaps |
| Hedged items: | Future foreign currency transactions<br>Interest on debt. |

(3) Hedging policy

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

(4) Assessment of hedge effectiveness

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

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

(o) 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.

(p) Consumption Taxes

Consumption taxes are accounted for by the tax exclusion method.

(q) 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 ¥82.19 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2012. 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, 2012, the Company has adopted "Accounting Standard for Net Income Per Share" (ASBJ Statement No. 2, issued on June 30, 2010), "Guidance on Accounting Standard for Net Income Per Share" (ASBJ Guidance No. 4, issued on June 30, 2010), and "Practical Solution on Accounting for Net Income Per Share" (ASBJ PITF No. 9, issued on June 30, 2010).

In addition, see "Per Share Information" for details on the impact of this change.

## 5. Additional Information

Adoption of the "Accounting Standard for Accounting Changes and Error Corrections"

Effective April 1, 2011 the year, the Company has adopted "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No. 24, issued on December 4, 2009), and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24 issued on December 4, 2009) for accounting changes and corrections of prior period errors.

## 6. Notes to Consolidated Balance Sheets

(a) Inventories

The components of inventories as of March 31, 2012 and 2011 were as follows:

| | As of March 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Merchandise and finished goods | ¥ 440 | ¥ 484 | $ 5,353 |
| Materials and supplies | 1,977 | 1,937 | 24,054 |
| Costs on uncompleted construction contracts | 19,963 | 18,717 | 242,888 |
| Real estate for sale | 89 | 108 | 1,082 |
| | ¥22,471 | ¥21,248 | $273,403 |

(b) Investments in Real Estate

"Investments in real estate" includes accumulated depreciation in the amount of ¥651 million ($7,920 thousand) and ¥619 million at March 31, 2012 and 2011, respectively.

(c) Pledged Assets

The following assets were pledged at March 31, 2012 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, | | |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Cash and deposits | ¥ 1,894 | ¥ 2,788 | $ 23,044 |
| Trade notes and accounts receivable | 17,390 | 338 | 211,582 |
| Land | 12,210 | 12,959 | 148,558 |
| Buildings and structures, net of accumulated depreciation | 1,297 | 1,371 | 15,780 |
| Machinery, equipment and vehicles, net of accumulated depreciation | 54 | 90 | 657 |
| Investments in securities | 1,990 | 1,926 | 24,212 |
| Investments in real estate | 3,832 | 3,333 | 46,623 |
| | ¥38,669 | ¥22,809 | $470,483 |

(c) Pledged Assets (continued)

Of the above property and equipment, assets that were held in mortgages for factory foundations at March 31, 2012 and 2011 are summarized as follows:

| | As of March 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Land | ¥1,236 | ¥1,236 | $15,038 |
| Buildings and structures, net of accumulated depreciation | 245 | 267 | 2,980 |
| Machinery, equipment and vehicles, net of accumulated depreciation | 54 | 90 | 657 |
| | ¥1,536 | ¥1,594 | $18,688 |

The secured liabilities as of March 31, 2012 and 2011 are summarized as follows:

| | As of March 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Short-term bank loans | ¥14,073 | ¥2,213 | $171,225 |
| [Including current portion of long-term debt] | [636] | [873] | [7,738] |
| Long-term debt | 2,196 | 2,332 | 26,718 |
| Other current liabilities | 100 | 100 | 1,216 |
| Other long-term liabilities | 325 | 425 | 3,954 |

(d) Land Revaluation

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

The market value of the land was ¥689 million ($8,383 thousand) and ¥678 million more than the revalued book amount at March 31, 2012 and 2011, respectively.

(e) Contingent Liabilities

At March 31, 2012 and 2011, the Company and consolidated subsidiaries were contingently liable for the following:

| | As of March 31, | | |
|---|---|---|---|
| | **2012** | **2011** | **2012** |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| As guarantors of bank loans to customers, unconsolidated subsidiaries, an affiliate and employees | ¥3,096 | ¥3,291 | $37,668 |
| As endorsers of notes receivable discounted with banks | 331 | 433 | 4,027 |
| As endorsers of notes receivable endorsed to vendors | – | 7 | – |

(f) Estimated Loss on Uncompleted Construction Contracts

An estimated loss on uncompleted construction contracts was recognized and included as part of inventories but was not offset against the amount on the balance sheet. It has been recorded as an allowance for losses on construction contracts in the amount of ¥507 million ($6,168 thousand) and ¥57 million as of March 31, 2012 and 2011.

(g) Trade Notes Maturing on the Balance Sheet Date

Trade notes are settled on the dates they mature.

Since the last day of fiscal year fell on a bank holiday, the below-listed notes maturing on that day are excluded from the corresponding balances in the consolidated balance sheet as of March 31, 2012.

| | As of March 31, 2012 | |
|---|---|---|
| | *(Millions of yen)* | *(Thousands of U.S. dollars)* |
| Trade notes receivable | ¥214 | $2,603 |
| Trade notes payable | 175 | 2,129 |

## 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 ¥215,008 million ($2,615,987 thousand) and ¥208,742 million for the years ended March 31, 2012 and 2011, 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 ¥1,542 million ($18,761 thousand) and ¥298 million for the years ended March 31, 2012 and 2011, respectively.

(c) Selling, General and Administrative Expenses

The significant components of selling, general and administrative expenses at March 31, 2012 and 2011 were as follows:

| | Years ended March 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Salaries and wages | ¥ 6,099 | ¥ 6,348 | $ 74,206 |
| Retirement benefit expenses | 1,001 | 1,171 | 12,179 |
| Provision for doubtful receivables | 23 | 132 | 279 |
| Other | 7,221 | 7,747 | 87,857 |
| Total | ¥14,345 | ¥15,399 | $174,534 |

(d) Research and Development Expenses

Research and development costs included in selling, general and administrative expenses and manufacturing costs amounted to ¥909 million ($11,059 thousand) and ¥916 million for the years ended March 31, 2012 and 2011, respectively.

(e) Gain on Sale of Property and Equipment

The significant components of gain on sale of property and equipment for the years ended March 31, 2012 and 2011 were as follows:

| | Years ended March 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Buildings and structures | ¥ 3 | ¥ 6 | $ 36 |
| Land | 5 | – | 60 |
| Others | 12 | 8 | 146 |
| Total | ¥21 | ¥15 | $255 |

(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, 2012 and 2011 were as follows:

| | Years ended March 31, | | |
|---|---|---|---|
| | **2012** | **2011** | **2012** |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Loss on disposal | ¥19 | ¥34 | $ 231 |
| Loss on sales | 44 | 1 | 535 |
| Others | 22 | 9 | 267 |
| Total | ¥86 | ¥44 | $1,046 |

(g) Loss on Disaster

Loss on disaster was due to the Great East Japan Earthquake on March 11, 2011.

## 8. Notes to Consolidated Statements of Comprehensive Income

Amount of recycling and amount of income tax effect associated with other comprehensive income for the year ended March 31, 2012 was as follows:

| | As of March 31, 2012 | |
|---|---|---|
| | *(Millions of yen)* | *(Thousands of U.S. dollars)* |
| Unrealized holding gain on securities: | | |
| Changes in items during the period | ¥ 59 | $ 717 |
| Amount of recycling | – | – |
| Before income tax effect adjustment | 59 | 717 |
| Income tax effect adjustment | (0) | (0) |
| Unrealized holding gain on securities | 58 | 705 |
| Deferred gain on hedging instruments, net of taxes: | | |
| Changes in items during the period | 48 | 584 |
| Amount of recycling | – | – |
| Before income tax effect adjustment | 48 | 584 |
| Income tax effect adjustment | (18) | (219) |
| Deferred gain on hedging instruments, net of taxes | 30 | 365 |
| Land revaluation: | | |
| Income tax effect adjustment | 47 | 571 |
| Land revaluation | 47 | 571 |
| Translation adjustments: | | |
| Changes in items during the period | (197) | (2,396) |
| Amount of recycling | – | – |
| Before income tax effect adjustment | (197) | (2,396) |
| Income tax effect adjustment | – | – |
| Translation adjustments | (197) | (2,396) |
| Share of other comprehensive income of affiliates accounted for by the equity method: | | |
| Changes in items during the period | (7) | (85) |
| Amount of recycling | – | – |
| Share of other comprehensive income of affiliates accounted for by the equity method | (7) | (85) |
| Total other comprehensive income (loss) | ¥ (67) | $ (815) |

## 9. Notes to Consolidated Statements of Changes in Net Assets

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

(1) For the year ended March 31, 2012

| | Balance at April 1, 2011 | Increase | Decrease | Balance at March 31, 2012 |
|---|---|---|---|---|
| | | *(Number of shares)* | | |
| Shares issued: | | | | |
| Common stock | 283,363,598 | 5,626,069 | – | 288,989,667 |
| 2nd Series Class A preferred stock | 2,020,600 | – | 520,600 | 1,500,000 |
| 3rd Series Class C preferred stock | 5,861,200 | – | 80,000 | 5,781,200 |
| 3rd Series Class D preferred stock | 5,961,900 | – | 93,200 | 5,868,700 |
| Total | 297,207,298 | 5,626,069 | 693,800 | 302,139,567 |

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

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

Note 3: Decrease of 3rd Series Class C preferred stock is due to redemption to based on a resolution at the annual general meeting of the shareholders on June 29, 2011.

| | Balance at April 1, 2011 | Increase | Decrease | Balance at March 31, 2012 |
|---|---|---|---|---|
| | | *(Number of shares)* | | |
| Treasury shares: | | | | |
| Common stock | 436,646 | 13,431 | 2,155 | 447,922 |
| 2nd Series Class A preferred stock | – | 520,600 | 520,600 | – |
| 3rd Series Class C preferred stock | – | 80,000 | 80,000 | – |
| 3rd Series Class D preferred stock | – | 93,200 | 93,200 | – |
| Total | 436,646 | 707,231 | 695,955 | 447,922 |

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

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

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

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

Note 5: Increase of 3rd Series Class C preferred stock is due to the acquisition of common stock by exercising a call option based on a resolution at the annual general meeting of the shareholders on June 29, 2011.

Note 6: Decrease of 3rd Series Class C preferred stock is due to redemption based on a resolution at the annual general meeting of the shareholders on June 29, 2011.

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

(2) For the year ended March 31, 2011

| | Balance at April 1, 2010 | Increase | Decrease | Balance at March 31, 2011 |
|---|---|---|---|---|
| | | *(Number of shares)* | | |
| Shares issued: | | | | |
| Common stock | 275,313,598 | 8,050,000 | – | 283,363,598 |
| 2nd Series Class A preferred stock | 4,500,000 | – | 2,479,400 | 2,020,600 |
| 3rd Series Class C preferred stock | 5,861,200 | – | – | 5,861,200 |
| 3rd Series Class D preferred stock | 5,961,900 | – | – | 5,961,900 |
| Total | 291,636,698 | 8,050,000 | 2,479,400 | 297,207,298 |

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

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

| | Balance at April 1, 2010 | Increase | Decrease | Balance at March 31, 2011 |
|---|---|---|---|---|
| | | *(Number of shares)* | | |
| Treasury shares: | | | | |
| Common stock | 425,236 | 11,877 | 467 | 436,646 |
| 2nd Series Class C preferred stock | – | 2,479,400 | 2,479,400 | – |
| Total | 425,236 | 2,491,277 | 2,479,867 | 436,646 |

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

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

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

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

(b) Dividends:

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

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

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

## 10. Notes to Consolidated Statements of Cash Flows

Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2012 and 2011 were as follows:

| | As of March 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Cash and deposits | ¥34,897 | ¥20,730 | $424,589 |
| Time deposits with maturities of over three months | (5,050) | (3,987) | (61,442) |
| Cash and cash equivalents | ¥29,847 | ¥16,742 | $363,146 |

## 11. Leases

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation / amortization and net book value of the leased property as of March 31, 2012 and 2011, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

(a) As lessee:

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

| | As of March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | | 2011 | | |
| | Machinery, equipment and vehicles | Intangible fixed assets | Total | Machinery, equipment and vehicles | Intangible fixed assets | Total |
| | *(Millions of yen)* | | | | | |
| Acquisition costs | ¥514 | ¥83 | ¥597 | ¥721 | ¥146 | ¥867 |
| Accumulated depreciation / amortization | 326 | 75 | 402 | 431 | 115 | 547 |
| Net book value | ¥187 | ¥ 7 | ¥195 | ¥290 | ¥ 30 | ¥320 |

| | As of March 31, 2012 | | |
|---|---|---|---|
| | Machinery, equipment and vehicles | Intangible fixed assets | Total |
| | *(Thousands of U.S. dollars)* | | |
| Acquisition costs | $6,253 | $1,009 | $7,263 |
| Accumulated depreciation / amortization | 3,966 | 912 | 4,891 |
| Net book value | $2,275 | $ 85 | $2,372 |

(a) As lessee: (continued)

| | As of March 31, | | |
|---|---|---|---|
| | **2012** | **2011** | **2012** |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Future minimum payments: | | | |
| Within one year | ¥ 85 | ¥135 | $1,034 |
| Over one year | 124 | 205 | 1,508 |
| | ¥209 | ¥340 | $2,542 |
| Lease payments | ¥130 | ¥173 | $1,581 |
| Depreciation / amortization equivalents | 112 | 152 | 1,362 |
| Interest expense equivalents | 12 | 18 | 146 |

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

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

(2) Operating leases

| | As of March 31, | | |
|---|---|---|---|
| | **2012** | **2011** | **2012** |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Future minimum payments: | | | |
| Within one year | ¥2 | ¥ 6 | $24 |
| Over one year | 1 | 3 | 12 |
| | ¥3 | ¥10 | $36 |

## 12. 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.

(a) Overview (continued)

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

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

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

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

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

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

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

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

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

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

(a) Overview (continued)

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

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

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

(b) Fair value of financial instruments

Amounts recognized in the consolidated balance sheets, market value, and the difference at March 31, 2012 and 2011, are as shown below. Moreover, items for which it is extremely difficult to determine fair values are not included in the following table (see Note 2).

| | As of March 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Carrying value | Fair value | Difference | Carrying value | Fair value | Difference |
| | (Millions of yen) | | | (Thousands of U.S. dollars) | | |
| Cash and deposits | ¥ 34,897 | ¥ 34,897 | ¥ – | $ 424,589 | $ 424,589 | $ – |
| Trade notes and accounts receivable | 115,418 | 115,377 | (40) | 1,404,282 | 1,403,783 | (486) |
| Investments in securities | 2,031 | 2,031 | 0 | 24,711 | 24,711 | 0 |
| Held-to-maturity securities | 9 | 9 | 0 | 109 | 109 | 0 |
| Other securities | 2,021 | 2,021 | – | 24,589 | 24,589 | – |
| Long-term loans receivable | 7,547 | | | 91,823 | | |
| Allowance for doubtful receivables (*1) | (5,845) | | | (71,115) | | |
| | 1,701 | 1,566 | (135) | 20,695 | 19,053 | (1,642) |
| Claims provable in bankruptcy and other | 4,912 | | | 59,763 | | |
| Allowance for doubtful receivables (*1) | (4,856) | | | (59,082) | | |
| | 56 | 55 | (0) | 681 | 669 | (0) |
| Long-term non-operating accounts receivable | 37,425 | | | 455,347 | | |
| Allowance for doubtful receivables (*1) | (34,605) | | | (421,036) | | |
| | 2,819 | 2,794 | (25) | 34,298 | 33,994 | (304) |
| Total assets | 156,925 | 156,724 | (201) | 1,909,295 | 1,906,849 | (2,445) |
| Trade notes and accounts payable | 118,786 | 118,786 | – | 1,445,260 | 1,445,260 | – |
| Short-term bank loans and current portion of long-term debt | 20,579 | 20,597 | 18 | 250,383 | 250,602 | 219 |
| Long-term debt | 2,413 | 2,269 | (144) | 29,358 | 27,606 | (1,752) |
| Total liabilities | ¥141,779 | ¥141,653 | ¥(125) | $1,725,015 | $1,723,482 | $(1,520) |
| Derivative transactions (*2) | 48 | 48 | – | 584 | 584 | – |

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

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

(b) Fair value of financial instruments (continued)

| | As of March 31, 2011 | | |
|---|---|---|---|
| | Carrying value | Fair value | Difference |
| | | *(Millions of yen)* | |
| Cash and deposits | ¥ 20,730 | ¥ 20,730 | ¥ – |
| Trade notes and accounts receivable | 93,034 | 93,023 | (10) |
| Investments in securities | 1,970 | 1,970 | 0 |
| Held-to-maturity securities | 9 | 9 | 0 |
| Other securities | 1,960 | 1,960 | – |
| Long-term loans receivable | 7,544 | | |
| Allowance for doubtful receivables (*) | (5,792) | | |
| | 1,752 | 1,597 | (155) |
| Claims provable in bankruptcy and other | 7,848 | | |
| Allowance for doubtful receivables (*) | (7,653) | | |
| | 195 | 195 | (0) |
| Long-term non-operating accounts receivable | 38,114 | | |
| Allowance for doubtful receivables (*) | (35,245) | | |
| | 2,868 | 2,824 | (43) |
| Total assets | 120,551 | 120,341 | (210) |
| Trade notes and accounts payable | 101,548 | 101,548 | – |
| Short-term bank loans and current portion of long-term debt | 7,517 | 7,528 | 11 |
| Long-term debt | 2,582 | 2,519 | (63) |
| Total liabilities | ¥111,648 | ¥111,597 | ¥ (51) |
| Derivative transactions | – | – | – |

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

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

## Assets

### (1) Cash and deposits

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

### (2) Trade notes and accounts receivable

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

(b) Fair value of financial instruments (continued)

(3) Investments in securities

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

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

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

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

Liabilities

(1) Trade notes and accounts payable

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

(2) Short-term bank loans

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

(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 14.

## (b) Fair value of financial instruments (continued)

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

| | As of March 31, 2012 | 2011 | 2012 |
|---|---|---|---|
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Unlisted stocks (*) | ¥4,163 | ¥4,160 | $50,650 |

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

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

| | As of March 31, 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Within 1 year | Over 1 year and within 5 years | Over 5 years and within 10 years | Over 10 years | Within 1 year | Over 1 year and within 5 years | Over 5 years and within 10 years | Over 10 years |
| | *(Millions of yen)* | | | | *(Thousands of U.S. dollars)* | | | |
| Deposits | ¥ 34,869 | ¥ – | ¥ – | ¥ – | $ 424,248 | $ – | $ – | $ – |
| Trade notes and accounts receivable | 111,553 | 3,864 | – | – | 1,357,257 | 47,013 | – | – |
| Investments in securities Held-to-maturity securities (Bonds) | – | 9 | – | – | – | 109 | – | – |
| Long-term loans receivable | 3 | 6 | 789 | 902 | 36 | 73 | 9,599 | 10,974 |
| Claims provable in bankruptcy and other (*) | 22 | 1 | – | – | 267 | 12 | – | – |
| Long-term non-operating accounts receivable (*) | 1,039 | 588 | 0 | – | 12,641 | 7,154 | 0 | – |
| | ¥147,488 | ¥4,469 | ¥789 | ¥902 | $1,794,476 | $54,374 | $9,599 | $10,974 |

(*) The fair values of these items are extremely difficult to determine. This table does not include the amount of ¥32 million ($389 thousand) out of claims provable in bankruptcy and other and the amount of ¥1,191 million ($14,490 thousand) out of long-term non-operating accounts receivable.

Note 4: The redemption schedule for corporate bonds, long-term debt, and other interest bearing debt with maturity dates subsequent to the consolidated balance sheet date. *See Note 22.*

(b) Fair value of financial instruments (continued)

| | As of March 31, 2011 | | | |
|---|---|---|---|---|
| | Within 1 year | Over 1 year and within 5 years | Over 5 years and within 10 years | Over 10 years |
| | *(Millions of yen)* | | | |
| Deposits | ¥ 20,663 | ¥ – | ¥ – | ¥ – |
| Trade notes and accounts receivable | 92,179 | 854 | – | – |
| Investments in securities | | | | |
| Held-to-maturity securities (Bonds) | – | 9 | – | – |
| Long-term loans receivable | 12 | 5 | 783 | 951 |
| Claims provable in bankruptcy and other (*) | 20 | 3 | – | – |
| Long-term non-operating accounts receivable (*) | 211 | 1,407 | 0 | – |
| | ¥113,088 | ¥2,281 | ¥783 | ¥951 |

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

## 13. Securities

Securities at March 31, 2012 and 2011 are summarized as follows:

(a) Held-to-maturity securities

| | As of March 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Carrying value | Fair value | Unrealized gain | Carrying value | Fair value | Unrealized gain |
| | *(Millions of yen)* | | | *(Thousands of U.S. dollars)* | | |
| Securities whose fair value exceeds their carrying value: | | | | | | |
| Bonds | ¥9 | ¥9 | ¥0 | $109 | $109 | $0 |

| | As of March 31, 2011 | | |
|---|---|---|---|
| | Carrying value | Fair value | Unrealized gain |
| | *(Millions of yen)* | | |
| Securities whose fair value exceeds their carrying value: | | | |
| Bonds | ¥9 | ¥9 | ¥0 |

(b) Other securities

| | As of March 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Cost | Balance sheet amount | Unrealized gain (loss) | Cost | Balance sheet amount | Unrealized gain (loss) |
| | *(Millions of yen)* | | | *(Thousands of U.S. dollars)* | | |
| Unrealized gain: | | | | | | |
| Stock | ¥ 972 | ¥ 817 | ¥ 154 | $11,826 | $ 9,940 | $ 1,873 |
| Unrealized loss: | | | | | | |
| Stock | 1,049 | 1,330 | (281) | 12,763 | 16,182 | (3,418) |
| Total | ¥2,021 | ¥2,148 | ¥(126) | $24,589 | $26,134 | $(1,533) |

| | As of March 31, 2011 | | |
|---|---|---|---|
| | Cost | Balance sheet amount | Unrealized gain (loss) |
| | *(Millions of yen)* | | |
| Unrealized gain: | | | |
| Stock | ¥ 629 | ¥ 521 | ¥ 107 |
| Unrealized loss: | | | |
| Stock | 1,331 | 1,625 | (293) |
| Total | ¥1,960 | ¥2,146 | ¥(186) |

(c) Sales of securities classified as other securities

| | Years ended March 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Sales amount-stock | ¥– | ¥32 | $– |
| Aggregate gain-stock | – | 3 | – |

## 14. Derivatives and Hedge Accounting

Derivative transactions for the years ended March 31, 2012 and March 31, 2011 are summarized as follows:

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

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

Currency-related transactions

**As of March 31, 2012**

| Method of hedge accounting | Transaction type | Hedged item | Contract amount | Over 1 year | Fair value | Contract amount | Over 1 year | Fair value |
|---|---|---|---|---|---|---|---|---|
| | | | *(Millions of yen)* | | | *(Thousands of U.S. dollars)* | | |
| Allocation accounting method for foreign exchange forward contracts | Foreign exchange forward contracts Long U.S. dollar | Accounts payable | ¥ 2 | ¥ – | *Note 2* | $ 24 | $ – | *Note 2* |
| | Long U.S. dollar | Future foreign currency transactions | 1,761 | 886 | ¥48 | 21,425 | 10,779 | $584 |
| Total | | | ¥1,763 | ¥886 | ¥48 | $21,450 | $10,779 | $584 |

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

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

For the year ended March 31, 2011, there were no currency-related transactions.

Interest-related transactions

**As of March 31, 2012**

| 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 | ¥2,500 | ¥1,900 | *Note 1* | $30,417 | $23,117 | *Note 1* |

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

**As of March 31, 2011**

| Method of hedge accounting | Transaction type | Hedged item | Contract amount | Over 1 year | Fair value |
|---|---|---|---|---|---|
| | | | *(Millions of yen)* | | |
| Short-cut method | Interest rate swaps: Pay fixed/ Receive floating | Long-term debt | ¥2,500 | ¥2,000 | *Note 1* |

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

## 15. Retirement Benefit Plans

For the year ended March 31, 2012, the Company and its consolidated subsidiaries have lump-sum retirement benefit plans covering substantially all employees. The benefit amounts are determined by reference to basic rates of pay, length of service and the conditions under which termination occurs. Certain consolidated domestic subsidiaries transferred annuity payments to a defined benefits pension plan or the Smaller Enterprise Retirement Allowance Mutual Aid Scheme. Certain foreign consolidated subsidiaries set up an employee pension trust.

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, 2012 and 2011 for the Company's and the consolidated subsidiaries' defined benefit plans:

| | As of March 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Retirement benefit obligation | ¥(22,012) | ¥(27,222) | $(267,818) |
| Plan assets at fair value | 187 | 179 | 2,275 |
| Unfunded retirement benefit obligation | (21,825) | (27,042) | (265,543) |
| Unrecognized net retirement benefit obligation at transition | 5,948 | 7,934 | 72,368 |
| Unrecognized actuarial loss | 2,424 | 2,876 | 29,492 |
| Unrecognized prior service cost | (3,210) | 95 | (39,055) |
| Accrued retirement benefits | ¥(16,662) | ¥(16,135) | $(202,725) |

The components of retirement benefit expenses for the years ended March 31, 2012 and 2011 are outlined as follows:

| | Years ended March 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Service cost | ¥1,007 | ¥1,146 | $12,252 |
| Interest cost | 408 | 645 | 4,964 |
| Expected return on plan assets | (4) | (1) | (48) |
| Amortization of net retirement benefit obligation at transition | 1,983 | 1,983 | 24,127 |
| Amortization of actuarial loss | 554 | 430 | 6,740 |
| Amortization of prior service cost | (174) | 62 | (2,117) |
| Total retirement benefit expenses | ¥3,775 | ¥4,266 | $45,930 |
| Expenses for transfer to defined contribution pension plan | 2 | – | 24 |
| Total retirement benefit expenses | ¥3,777 | ¥4,266 | $45,954 |

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

| | 2012 | 2011 |
|---|---|---|
| Discount rate | Principally 1.7% | Principally 1.7% |
| Expected rate of return on plan assets | 1.0% | 1.0% |
| Amortization period for prior service cost | Principally 11 years | Principally 11 years |
| Amortization period for actuarial differences | Principally 11 years | Principally 11 years |
| Period for recognition of net retirement benefit obligation at transition | Principally 15 years | Principally 15 years |

## 16. Income Taxes

The significant components of deferred tax assets and liabilities at March 31, 2012 and 2011 were as follows:

| | As of March 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Deferred tax assets: | | | |
| Tax loss carryforwards | ¥ 38,358 | ¥ 61,760 | $ 466,699 |
| Accrued retirement benefits | 6,008 | 6,574 | 73,098 |
| Allowance for bad debts | 2,431 | 3,357 | 29,577 |
| Accounts payable and accrued expenses | 1,404 | 1,294 | 17,082 |
| Allowance for losses on construction contracts | 616 | 152 | 7,494 |
| Reserve for defects on completed construction projects | 353 | 466 | 4,294 |
| Allowance for loss on litigation | 307 | 521 | 3,735 |
| Other | 1,228 | 1,965 | 14,940 |
| Gross deferred tax assets | 50,707 | 76,091 | 616,948 |
| Valuation allowance | (46,227) | (71,277) | (562,440) |
| Total deferred tax assets | 4,480 | 4,814 | 54,507 |
| Deferred tax liabilities: | | | |
| Deferred gain on hedging instruments, net of taxes | (18) | – | (219) |
| Asset retirement obligations | (11) | (11) | (133) |
| Unrealized holding gain on securities | (2) | (1) | (24) |
| Other | (17) | (19) | (206) |
| Total deferred tax liabilities | (49) | (32) | (596) |
| Net deferred tax assets | ¥ 4,430 | ¥ 4,781 | $ 53,899 |

The following table summarizes the significant differences between the statutory tax rate and the effective tax rates for the years ended March 31, 2012 and 2011:

| | Years ended March 31, | |
|---|---|---|
| | **2012** | **2011** |
| Statutory tax rate | 40.7% | 40.7% |
| Non-deductible expenses | 12.0 | 8.0 |
| Non-taxable income | (7.1) | (4.7) |
| Per capita inhabitants' taxes | 3.3 | 6.4 |
| Valuation allowance | (9.2) | (16.6) |
| Adjustments related to consolidation | (0.3) | (1.0) |
| Change in corporate tax rate | 10.3 | – |
| Other | (4.5) | (2.6) |
| Effective tax rates | 45.2% | 30.2% |

Adjustment of deferred tax assets and deferred tax liabilities due to change of effective statutory tax rate

Following the promulgation on December 2, 2011 of the "Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Creating a Taxation System Responding to Changes in Economic and Social Structures" (Act No. 114 of 2011) and the "Act on Special Measures for Securing Financial Resources Necessary to Implement for Measures for Reconstruction following the Great East Japan Earthquake" (Act No. 117 of 2011), the effective statutory tax rate used to measure deferred tax assets and liabilities was changed.

As a result, deferred tax assets, after offsetting deferred tax liabilities, decreased ¥310 million ($3,771 thousand), income taxes-deferred increased ¥312 million ($3,796 thousand), unrealized holding gain on securities increased ¥0 million and deferred gain on hedging instruments, net of taxes increased ¥1 million ($12 thousand). Additional deferred tax liabilities for land revaluation decreased ¥47 million ($571 thousand) and land revaluation increased by the same amount.

## 17. Investment and Rental Property

Investment and rental property as of March 31, 2012 and 2011 were as follows;

(a) Types of investment and rental property

A consolidated subsidiary maintains warehouses available for rent including land in Saitama prefecture. Gains on investment and rental property for the years ended March 31, 2012 and 2011 were ¥134 million ($1,630 thousand) and ¥133 million, respectively.

(b) Fair value of investment and rental property

The book value, net increase (decrease) and fair value of investment and rental property for the years ended March 31, 2012 and 2011 were as follows:

**Year ended March 31, 2012**

| Book value | | | | Book value | | | |
|---|---|---|---|---|---|---|---|
| Balance as of March 31, 2011 | Net increase (decrease) | Balance as of March 31, 2012 | Fair value as of March 31, 2012 | Balance as of March 31, 2011 | Net increase (decrease) | Balance as of March 31, 2012 | Fair value as of March 31, 2012 |
| *(Millions of yen)* | | | | *(Thousands of U.S. dollars)* | | | |
| ¥3,333 | ¥(31) | ¥3,302 | ¥2,869 | $40,552 | $(377) | $40,175 | $34,906 |

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

Note 2: Net decrease is due to depreciation.

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

**Year ended March 31, 2011**

| Book value | | | |
|---|---|---|---|
| Balance as of March 31, 2010 | Net increase (decrease) | Balance as of March 31, 2011 | Fair value as of March 31, 2011 |
| *(Millions of yen)* | | | |
| ¥3,365 | ¥(31) | ¥3,333 | ¥2,821 |

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

Note 2: Net decrease is due to depreciation.

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

## 18. 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.

*Segment Information (continued)*

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

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

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

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

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

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

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

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

| | Year ended March 31, 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Reportable operating segments | | | | | | |
| | Civil | Building | Total | Others | Total | Adjustments | Consolidated |
| | | | | *(Millions of yen)* | | | |
| Sales | | | | | | | |
| External Customers | ¥119,492 | ¥193,330 | ¥312,823 | ¥735 | ¥313,558 | ¥ – | ¥313,558 |
| Intersegment transactions or transfers | 1,153 | 20 | 1,173 | 51 | 1,224 | (1,224) | – |
| Net sales | ¥120,645 | ¥193,350 | ¥313,996 | ¥786 | ¥314,783 | ¥(1,224) | ¥313,558 |
| Segment income | 10,496 | 8,323 | 18,819 | 306 | 19,126 | (89) | 19,036 |

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

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

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

*Segment Information (continued)*

| | Year ended March 31, 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Reportable operating segments | | | | | | |
| | Civil | Building | Total | Others | Total | Adjustments | Consolidated |
| | *(Thousands of U.S. dollars)* | | | | | | |
| Sales | | | | | | | |
| External Customers | $1,453,850 | $2,352,232 | $3,806,095 | $8,942 | $3,815,038 | $ – | $3,815,038 |
| Intersegment transactions or transfers | 14,028 | 243 | 14,271 | 620 | 14,892 | (14,892) | – |
| Net sales | $1,467,879 | $2,352,475 | $3,820,367 | $9,563 | $3,829,942 | $(14,892) | $3,815,038 |
| Segment income | 127,704 | 101,265 | 228,969 | 3,723 | 232,704 | (1,082) | 231,609 |

| | Year ended March 31, 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Reportable operating segments | | | | | | |
| | Civil | Building | Total | Others | Total | Adjustments | Consolidated |
| | *(Millions of yen)* | | | | | | |
| Sales | | | | | | | |
| External Customers | ¥117,118 | ¥180,741 | ¥297,859 | ¥787 | ¥298,647 | ¥ – | ¥298,647 |
| Intersegment transactions or transfers | 1,211 | 1 | 1,213 | 68 | 1,281 | (1,281) | – |
| Net sales | ¥118,330 | ¥180,742 | ¥299,073 | ¥855 | ¥299,928 | ¥(1,281) | ¥298,647 |
| Segment income | 10,100 | 10,010 | 20,110 | 352 | 20,463 | (100) | 20,362 |

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

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

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

*Related Information*

For the year ended March 31, 2012

(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, 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Japan | Asia | Others | Total | Japan | Asia | Others | Total |
| *(Millions of yen)* | | | | *(Thousands of U.S. dollars)* | | | |
| ¥270,576 | ¥42,354 | ¥627 | ¥313,558 | $3,292,079 | $515,318 | $7,628 | $3,815,038 |

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

*Related Information (continued)*

(2) Tangible fixed assets

Geographical segment information on tangible fixed assets has been omitted as the amount of tangible fixed assets in Japan constituted over 90% of total as of March 31, 2012.

(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, 2012.

For the year ended March 31, 2011

(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, 2011** | | | |
|---|---|---|---|
| Japan | Asia | Others | Total |
| *(Millions of yen)* | | | |
| ¥264,260 | ¥32,396 | ¥1,990 | ¥298,647 |

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

(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, 2011.

*Loss on impairment by reportable segment*

For the years ended March 31, 2012 and 2011, there was no loss on impairment for any reportable segment.

*Amortization of goodwill and unamortized balance by reportable segment*

For the years ended March 31, 2012 and 2011, there was no amortization and unamortized balance of goodwill by reportable segment.

*Gain on negative goodwill by reportable segment*

For the year ended March 31, 2012, there was no gain on negative goodwill by reportable segment.

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

Gain on negative goodwill was ¥270 million for the year ended March 31, 2011.

## 19. Related Party Transactions

(a) Related party transaction

Transactions with affiliates for the year ended March 31, 2012 are summarized as follows:

| | Year ended March 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Capital contribution of the related party | Number of voting shares held as a percentage of voting shares issued | Nature of transaction | Total amount of transaction | Balance sheet account | Balance at March 31, 2012 |
| | | | *(Millions of yen)* | | | |
| Affiliated company: | | | | | | |
| Yoshiikikaku Co., Ltd. (Real estate business) | ¥10 | 30.0% | Guarantee of bank loan | ¥2,797 | Long-term non-operation accounts receivable | ¥579 |

| | Year ended March 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Capital contribution of the related party | Number of voting shares held as a percentage of voting shares issued | Nature of transaction | Total amount of transaction | Balance sheet account | Balance at March 31, 2012 |
| | | | *(Thousands of U.S. dollars)* | | | |
| Affiliated company: | | | | | | |
| Yoshiikikaku Co., Ltd. (Real estate business) | $121 | 30.0% | Guarantee of bank loan | $34,030 | Long-term non-operation accounts receivable | $7,044 |

(a) Related party transaction (continued)

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

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

(b) Significant affiliates

(1) The parent information

There is no parent company at March 31, 2012 and March 31, 2011.

(2) Financial information on significant affiliates

For the year ended March 31, 2012, a significant affiliate was Aseismic Devices Co., Ltd. Financial information on the company was as follows:

| | 2012 | 2012 |
|---|---|---|
| | *(Millions of yen)* | *(Thousands of U.S. dollars)* |
| Total current assets | ¥2,458 | $29,906 |
| Total non-current assets | 224 | 2,725 |
| Total current liabilities | 1,959 | 23,835 |
| Total long-term liabilities | 3 | 36 |
| Total net assets | ¥ 720 | $ 8,760 |
| Net sales | ¥3,027 | $36,829 |
| Income before income taxes | 442 | 5,377 |
| Net income | ¥ 237 | $ 2,883 |

## 20. Per Share Information

Net assets and basic net income per share as of and for the years ended March 31, 2012 and 2011 were as follows:

| | 2012 | 2011 | 2012 |
|---|---|---|---|
| | *(Yen)* | | *(U.S. dollars)* |
| Net assets per share | ¥(37.37) | ¥(44.52) | $(0.454) |
| Net income per share – basic | 4.82 | 5.47 | 0.058 |
| Net income per share – diluted | 1.81 | 2.34 | 0.022 |

The basis of calculation for net assets per share at March 31, 2012 and 2011 was as follows:

| | As of March 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Total net assets | ¥ 22,004 | ¥ 20,648 | $ 267,721 |
| Amounts deducted from total net assets | 32,788 | 33,245 | 398,929 |
| [Including paid-in amounts for shares of preferred stock] | [29,874] | [30,568] | [363,474] |
| [Including minority interests] | [2,913] | [2,677] | [35,442] |
| Total net assets attributable to common stock | ¥(10,783) | ¥(12,596) | $(131,196) |
| | *(Thousands of shares)* | | |
| Number of shares of common stock used to determine net assets per share | 288,541 | 282,926 | |

The basis for calculating basic net income per share for the years ended March 31, 2012 and 2011 was as follows:

| | Years ended March 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Net income per share – basic: | | | |
| Net income | ¥1,374 | ¥1,541 | $16,717 |
| Amount not available to common shareholders | – | – | – |
| Net income per share – basic | ¥1,374 | ¥1,541 | $16,717 |
| | *(Thousands of shares)* | | |
| Average number of shares of common stock outstanding | 285,186 | 281,799 | |

| | Years ended March 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Net income per share – diluted: | | | |
| Adjustment for net income | – | – | – |
| | *(Thousands of shares)* | | |
| Increase in number of share of common stock | 476,133 | 375,905 | |
| [Including preferred stock] | [476,133] | [375,905] | |

As described in "Changes in Accounting Methods", previous period financial statements have been adjusted retroactively to apply the change in accounting methods.

As a result, net income per share diluted for the previous period decreased ¥0.31 compared with the amount before the retroactive adjustment.

## 21. Subsequent Event

Acquisition of treasury stock pursuant to clause 156 of the Companies Act.

The following acquisition of treasury stock (3rd Series Class C preferred stock) was determined at the board of directors' meeting held on May 10, 2012. The proposal was submitted to the shareholders' meeting for approval, and subsequently approved at the shareholders' meeting held on June 28, 2012.

(a) Reason for acquisition

To maintain the value of common stock in the event that preferred stock holders exercise their acquisition rights to common stock, and to reduce the total amount of dividends, the Company plans to acquire treasury stock.

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

(1) Type of stock

3rd Series Class C preferred stock

(2) Amount of stock

400,000 shares [Maximum]

(3) Total of acquisition cost

¥1,000 million ($12,166 thousand) [Maximum]

(4) Term for acquisition

1 year from the day following the date of the shareholders' meeting.

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

Short-term bank loans generally represent notes, principally at average annual interest rates of 2.4% and 1.9% at March 31, 2012 and 2011, respectively.

Long-term debt at March 31, 2012 and 2011 is summarized as follows:

| | As of March 31, | | |
|---|---|---|---|
| | **2012** | **2011** | **2012** |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Debt with collateral (at average interest rates of 2.6% at 2012 and 2011) | ¥2,832 | ¥2,866 | $ 34,456 |
| Debt without collateral (at average interest rates of 2.3% at 2012 and 2.4% at 2011) | 450 | 416 | 5,475 |
| Lease obligations | 404 | 393 | 4,915 |
| Current portion (excluding lease obligations) | (869) | (700) | (10,573) |
| Current portion of lease obligations | (128) | (111) | (1,557) |
| Deposits from employees | 1,758 | 1,660 | 21,389 |
| | ¥4,447 | ¥4,525 | $ 54,106 |

The aggregate annual maturities of long-term debt subsequent to March 31, 2012 are summarized as follows:

| Year ending March 31, | *(Millions of yen)* | *(Thousands of U.S. dollars)* |
|---|---|---|
| 2013 | ¥ 869 | $10,573 |
| 2014 | 786 | 9,563 |
| 2015 | 703 | 8,553 |
| 2016 and thereafter | 923 | 11,230 |
| | ¥3,282 | $39,931 |

The aggregate annual maturities of lease obligations subsequent to March 31, 2012 are summarized as follows:

| Year ending March 31, | *(Millions of yen)* | *(Thousands of U.S. dollars)* |
|---|---|---|
| 2013 | ¥128 | $1,557 |
| 2014 | 120 | 1,460 |
| 2015 | 103 | 1,253 |
| 2016 and thereafter | 52 | 632 |
| | ¥404 | $4,915 |

ERNST & YOUNG

Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011

Tel : +81 3 3503 1100
Fax: +81 3 3503 1197

# Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Sumitomo Mitsui Construction Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2012, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sumitomo Mitsui Construction Co., Ltd. and its consolidated subsidiaries as at March 31, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

*Convenience Translation*

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 3.

Ernst & Young ShinNihon LLC

June 28, 2012
Tokyo, Japan

# Non-Consolidated Financial Statements

## Sumitomo Mitsui Construction Co., Ltd.

***Years ended March 31, 2012 and 2011***
***with Independent Auditor's Report***

| | As of March 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars) (Note 2)* |
| **Assets** | | | |
| Current assets: | | | |
| Cash and deposits *(Note 5-(c))* | ¥ 20,743 | ¥ 11,407 | $ 252,378 |
| Notes receivable *(Note 5-(f))* | 744 | 190 | 9,052 |
| Accounts receivable on completed contracts *(Note 5-(c))* | 97,664 | 78,984 | 1,188,271 |
| Short-term loans receivable *(Note 5-(b))* | 8,530 | 8,136 | 103,783 |
| Inventories *(Notes 5-(a) and 5-(e))* | 17,421 | 17,537 | 211,960 |
| Deferred tax assets *(Note 10)* | 1,290 | 2,600 | 15,695 |
| Accounts receivable, other | 2,370 | 2,025 | 28,835 |
| Advance payments | 5,750 | 6,591 | 69,959 |
| Other current assets *(Note 5-(f))* | 3,242 | 2,925 | 39,445 |
| Less allowance for doubtful receivables | (1,040) | (1,218) | (12,653) |
| Total current assets | 156,716 | 129,180 | 1,906,752 |
| Non-current assets: | | | |
| Property and equipment, at cost: | | | |
| Land *(Note 5-(c))* | 5,500 | 5,500 | 66,918 |
| Buildings *(Note 5-(c))* | 4,768 | 4,759 | 58,011 |
| Structures *(Note 5-(c))* | 702 | 697 | 8,541 |
| Machinery and equipment | 2,713 | 3,951 | 33,008 |
| Vehicles | 300 | 143 | 3,650 |
| Tools, furniture and fixtures | 3,568 | 3,635 | 43,411 |
| Construction in progress | 56 | 87 | 681 |
| Accumulated depreciation | (9,306) | (10,398) | (113,225) |
| Property and equipment, net | 8,303 | 8,377 | 101,022 |
| Intangible fixed assets | 1,650 | 1,717 | 20,075 |
| Investments and other assets: | | | |
| Investments in securities *(Note 5-(c))* | 4,475 | 4,422 | 54,447 |
| Investments in subsidiaries and affiliates *(Notes 5-(c) and 9)* | 6,382 | 6,342 | 77,649 |
| Long-term loans receivable | 6,561 | 6,571 | 79,827 |
| Long-term loans to employees | 895 | 941 | 10,889 |
| Claims provable in bankruptcy and other | 4,819 | 7,740 | 58,632 |
| Long-term prepaid expenses | 50 | 54 | 608 |
| Deferred tax assets *(Note 10)* | 2,784 | 1,892 | 33,872 |
| Long-term non-operating accounts receivable | 37,412 | 37,928 | 455,189 |
| Other | 6,801 | 7,092 | 82,747 |
| Less allowance for doubtful receivables | (48,111) | (51,515) | (585,363) |
| Total investments and other assets | 22,071 | 21,470 | 268,536 |
| Total non-current assets | 32,025 | 31,565 | 389,645 |
| Total assets | ¥188,742 | ¥160,745 | $2,296,410 |

| | As of March 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars) (Note 2)* |
| **Liabilities and net assets** | | | |
| Current liabilities: | | | |
| Short-term bank loans and current portion of long-term debt *(Notes 5-(c) and 13)* | ¥ 20,389 | ¥ 8,682 | $ 248,071 |
| Trade notes payable *(Note 5-(b))* | 37,593 | 35,760 | 457,391 |
| Accounts payable on completed contracts *(Note 5-(b))* | 61,545 | 49,339 | 748,813 |
| Accounts payable, other | 1,748 | 1,986 | 21,267 |
| Accrued expenses | 1,674 | 1,402 | 20,367 |
| Income taxes payable | 212 | 231 | 2,579 |
| Consumption taxes payable | 2,309 | 4,340 | 28,093 |
| Advances received on contracts in progress | 22,526 | 17,348 | 274,072 |
| Deposits received | 4,813 | 6,902 | 58,559 |
| Reserve for defects on completed construction projects | 888 | 1,134 | 10,804 |
| Allowance for losses on construction contracts *(Note 5-(e))* | 1,521 | 231 | 18,505 |
| Allowance for loss on litigation | 862 | 1,280 | 10,487 |
| Allowance for loss on disaster | – | 470 | – |
| Other current liabilities | 1,816 | 1,701 | 22,095 |
| Total current liabilities | 157,903 | 130,811 | 1,921,194 |
| Long-term liabilities: | | | |
| Long-term debt *(Notes 5-(c) and 13)* | 2,116 | 2,250 | 25,745 |
| Accrued retirement benefits | 14,635 | 14,226 | 178,063 |
| Other long-term liabilities | 279 | 256 | 3,394 |
| Total long-term liabilities | 17,032 | 16,733 | 207,227 |
| Contingent liabilities *(Note 5-(d))* | | | |
| Net assets: | | | |
| Shareholders' equity: | | | |
| Capital stock: | 12,003 | 12,003 | 146,039 |
| Common stock: | | | |
| Authorized: | | | |
| 2,669,464,970 shares in 2012 and 2011 | | | |
| Issued and outstanding: | | | |
| 288,989,667 shares in 2012 and 283,363,598 shares in 2011 | | | |
| Preferred stock: | | | |
| Authorized: | | | |
| 26,894,644 shares in 2012 and 2011 | | | |
| Issued and outstanding: | | | |
| 13,149,900 shares in 2012 and 13,843,700 shares in 2011 | | | |
| Capital surplus: | | | |
| Other capital surplus | 400 | 601 | 4,866 |
| Total capital surpluses | 400 | 601 | 4,866 |
| Retained earnings: | | | |
| Legal retained earnings | 83 | 83 | 1,009 |
| Earned surplus carried forward | 1,654 | 934 | 20,124 |
| Total retained earnings | 1,737 | 1,018 | 21,133 |
| Less treasury stock, at cost: 447,922 shares in 2012 and 436,646 shares in 2011 | (241) | (242) | (2,932) |
| Total shareholders' equity | 13,900 | 13,381 | 169,120 |
| Valuation, translation adjustments and other: | | | |
| Unrealized holding loss on securities | (124) | (180) | (1,508) |
| Deferred gain on hedging instruments, net of taxes | 30 | – | 365 |
| Total valuation, translation adjustments and other | (94) | (180) | (1,143) |
| Total net assets | 13,805 | 13,200 | 167,964 |
| Total liabilities and net assets | ¥188,742 | ¥160,745 | $2,296,410 |

*See accompanying notes to non-consolidated financial statements.*

**Non-Consolidated Statements of Income**

*March 31, 2012*

| | Years ended March 31, | | |
|---|---|---|---|
| | **2012** | **2011** | **2012** |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars) (Note 2)* |
| Net sales: | | | |
| Completed construction *(Note 6-(a))* | ¥247,037 | ¥240,996 | $3,005,681 |
| Cost of sales: | | | |
| Completed construction *(Note 6-(b))* | 234,239 | 226,166 | 2,849,969 |
| Gross profit | 12,798 | 14,830 | 155,712 |
| Selling, general and administrative expenses *(Note 6-(d))* | 10,500 | 11,447 | 127,752 |
| Operating income | 2,297 | 3,382 | 27,947 |
| Other income (expenses): | | | |
| Interest and dividend income | 822 | 543 | 10,001 |
| Payments received from insurance claims | 147 | 188 | 1,788 |
| Reversal of provision for doubtful receivables | 776 | – | 9,441 |
| Interest expense | (1,073) | (1,018) | (13,055) |
| Exchange loss, net | (693) | (422) | (8,431) |
| Provision for doubtful receivables | – | (582) | – |
| Loss on devaluation of investments in subsidiaries and affiliates | – | 640 | – |
| Loss on sales and disposal of property and equipment | (27) | (17) | (328) |
| Loss on disaster *(Note 6-(f))* | (77) | (534) | (936) |
| Gain on prior-period adjustment | – | 179 | – |
| Gain on sales of investment in securities | 0 | 6 | 0 |
| Loss on litigation | (69) | – | (839) |
| Loss on devaluation of golf club memberships | (22) | – | (267) |
| Other, net | (913) | (637) | (11,108) |
| | (1,128) | (2,935) | (13,724) |
| Income before income taxes | 1,169 | 446 | 14,223 |
| Income taxes *(Note 10)*: | | | |
| Current | 50 | 111 | 608 |
| Deferred | 398 | 7 | 4,842 |
| | 449 | 118 | 5,462 |
| Net income | ¥ 719 | ¥ 327 | $ 8,748 |
| | *(Yen)* | | *(U.S. dollars) (Note 2)* |
| Net income per share – basic *(Note 11)* | ¥ 2.52 | ¥ 1.16 | $ 0.030 |
| Net income per share – diluted *(Note 11)* | 0.95 | 0.50 | 0.011 |

*See accompanying notes to non-consolidated financial statements.*

| | Years ended March 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars) (Note 2)* |
| **Shareholders' equity** | | | |
| Capital stock: | | | |
| Balance at the beginning of the period | ¥12,003 | ¥12,003 | $146,039 |
| Changes in items during the period | | | |
| Total changes in items during the period | – | – | – |
| Balance at the end of the period | 12,003 | 12,003 | 146,039 |
| Additional paid-in capital: | | | |
| Other capital surplus: | | | |
| Balance at the beginning of the period | 601 | 601 | 7,312 |
| Changes in items during the period | | | |
| Disposition of treasury stock | (1) | (0) | (12) |
| Cancellation of treasury stock | (200) | – | (2,433) |
| Total changes of items during the period | (201) | (0) | (2,445) |
| Balance at the end of the period | 400 | 601 | 4,866 |
| Retained earnings: | | | |
| Earned reserve: | | | |
| Balance at the beginning of the period | 83 | – | 1,009 |
| Changes in items during the period | | | |
| Provision of legal retained earnings | – | 83 | – |
| Total changes in items during the period | – | 83 | – |
| Balance at the end of the period | 83 | 83 | 1,009 |
| Earned surplus carried forward: | | | |
| Balance at the beginning of the period | 934 | 1,523 | 11,363 |
| Changes in items during the period | | | |
| Cash dividends paid | – | (833) | – |
| Provision of legal retained earnings | – | (83) | – |
| Net income | 719 | 327 | 8,748 |
| Total changes in items during the period | 719 | (588) | 8,748 |
| Balance at the end of the period | 1,654 | 934 | 20,124 |
| Total retained earnings : | | | |
| Balance at the beginning of the period | 1,018 | 1,523 | 12,385 |
| Changes in items during the period | | | |
| Cash dividends paid | – | (833) | – |
| Net income | 719 | 327 | 8,748 |
| Total changes in items during the period | 719 | (505) | 8,748 |
| Balance at the end of the period | 1,737 | 1,018 | 21,133 |

| | Years ended March 31, | | |
|---|---|---|---|
| | **2012** | **2011** | **2012** |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars) (Note 2)* |
| Treasury stock, at cost: | | | |
| Balance at the beginning of the period | (242) | (241) | (2,944) |
| Changes in items during the period | | | |
| Purchases of treasury stock | (200) | (0) | (2,433) |
| Disposition of treasury stock | 1 | 0 | 12 |
| Cancelation of treasury stock | 200 | – | 2,433 |
| Total changes in items during the period | 0 | (0) | 0 |
| Balance at the end of the period | (241) | (242) | (2,932) |
| Total shareholders' equity: | | | |
| Balance at the beginning of the period | 13,381 | 13,887 | 162,805 |
| Changes in items during the period | | | |
| Cash dividends paid | – | (833) | – |
| Net income | 719 | 327 | 8,748 |
| Purchases of treasury stock | (200) | (0) | (2,433) |
| Disposition of treasury stock | 0 | 0 | 0 |
| Cancelation of treasury stock | – | – | – |
| Total changes in items during the period | 519 | (506) | 6,314 |
| Balance at the end of the period | 13,900 | 13,381 | 169,120 |
| **Valuation, translation adjustments and other** | | | |
| Unrealized holding gain (loss) on securities: | | | |
| Balance at the beginning of the period | (180) | 51 | (2,190) |
| Changes in items during the period | | | |
| Net changes in items other than shareholders' equity | 55 | (232) | 669 |
| Total changes in items during the period | 55 | (232) | 669 |
| Balance at the end of the period | (124) | (180) | (1,508) |
| Deferred gain on hedging instruments, net of taxes | | | |
| Balance at the beginning of the period | – | – | – |
| Changes in items during the period | | | |
| Net changes in items other than shareholders' equity | 30 | – | 365 |
| Total changes in items during the period | 30 | – | 365 |
| Balance at the end of the period | 30 | – | 365 |
| Total valuation, translation adjustments and other: | | | |
| Balance at the beginning of the period | (180) | 51 | (2,190) |
| Changes in items during the period | | | |
| Net changes in items other than shareholders' equity | 86 | (232) | 1,046 |
| Total changes in items during the period | 86 | (232) | 1,046 |
| Balance at the end of the period | (94) | (180) | (1,143) |

| | Years ended March 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars) (Note 2)* |
| **Total net assets** | | | |
| Balance at the beginning of the period | 13,200 | 13,939 | 160,603 |
| Changes in items during the period | | | |
| Cash dividends paid | – | (833) | – |
| Net income | 719 | 327 | 8,748 |
| Purchases of treasury stock | (200) | (0) | (2,433) |
| Disposition of treasury stock | 0 | 0 | 0 |
| Cancelation of treasury stock | – | – | – |
| Net changes in items other than shareholders' equity | 86 | (232) | 1,046 |
| Total changes in items during the period | 605 | (738) | 7,360 |
| Balance at the end of the period | ¥13,805 | ¥13,200 | $167,964 |

*See accompanying notes to non-consolidated financial statements.*

## 1. Summary of Significant Accounting Policies

### (a) Basis of Presentation

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

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

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

### (b) Securities and Investments in Subsidiaries and Affiliates

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

### (c) Inventories

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

(d) Depreciation and Amortization

(1) Property and equipment (except leased assets)

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

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

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

(3) Leased assets

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

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

(e) Allowance for Doubtful Receivables

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

(f) Advances Received on Contracts in Progress

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

(g) Reserve for Defects on Completed Construction Projects

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

(h) Allowance for Losses on Construction Contracts

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

(i) Allowance for Loss on Litigation

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

(j) 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.

(Additional Information)

Effective from July 1, 2011, the Company has transferred a portion of its lump-sum retirement benefit plan covering substantially all employees to a defined contribution pension plan and has adopted "Practical Solution on Accounting for Transfers between Retirement Benefit Plans" (Accounting Standards Board of Japan (ASBJ) Guidance No. 1)

As a result, prior service cost was recognized in the amount of ¥(3,482) million, and is being amortized from the second quarter of the year ended March 31, 2012 by the straight-line method over a period of 11 years, which is shorter than the average remaining years of service of the employees.

(k) Recognition of Revenues and Costs on Construction Contracts

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

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

(l) Derivatives and Hedge Accounting

(1) Method of hedge accounting

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

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

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

(2) Hedging instruments and hedged items

| | |
|---|---|
| Hedging instruments: | Forward foreign exchange forward contracts<br>Interest rate swaps |
| Hedged items: | Future foreign currency transactions<br>Interest on debt |

(3) Hedging policy

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

(4) Assessment of hedge effectiveness

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

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

(m) Consumption Taxes

Consumption taxes are accounted for by the tax exclusion method.

(n) Income Taxes

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

The Company has adopted the consolidated taxation system.

## 2. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at ¥82.19 = U.S.$1.00, the approximate rate of exchange prevailing on March 31, 2012. 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, 2012, the Company has adopted "Accounting Standard for Net Income Per Share" (ASBJ Statement No. 2, issued on June 30, 2010), "Guidance on Accounting Standard for Net Income Per Share" (ASBJ Guidance No. 4, issued on June 30, 2010), and "Practical Solution on Accounting for Net Income Per Share" (ASBJ PITF No. 9, issued on June 30, 2010).
In addition, see "Per Share Information" for details on the impact of this change.

## 4. Additional Information

Adoption of the "Accounting Standard for Accounting Changes and Error Corrections"

Effective April 1, 2011 the year, the Company has adopted "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No. 24, issued on December 4, 2009), and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24 issued on December 4, 2009) for accounting changes and corrections of prior period errors.

## 5. Notes to Non-Consolidated Balance Sheets

(a) Inventories

The components of inventories as of March 31, 2012 and 2011 were as follows:

| | As of March 31, | | |
|---|---|---|---|
| | **2012** | **2011** | **2012** |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Costs on uncompleted construction contracts | ¥17,333 | ¥17,430 | $210,889 |
| Real estate for sale | 87 | 106 | 1,058 |
| | ¥17,421 | ¥17,537 | $211,960 |

(b) Transactions and Outstanding Balances with Subsidiaries and Affiliates

Significant outstanding balances for subsidiaries and affiliates other than individually presented on the accompanying non-consolidated balance sheets at March 31, 2012 and 2011 were as follows:

| | As of March 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Short-term loans receivable | ¥ 8,403 | ¥ 8,008 | $102,238 |
| Trade notes payable | 1,122 | 711 | 13,651 |
| Accounts payable on completed contracts | 13,748 | 12,220 | 167,270 |

(c) Pledged Assets

The following assets were pledged at March 31, 2012 and 2011 principally as collateral for short-term bank loans, long-term debt and guarantees (such as guarantees for the completion of construction contracts):

| | As of March 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Cash and deposits | ¥ 1,848 | ¥ 2,776 | $ 22,484 |
| Accounts receivable on completed contracts | 17,169 | – | 208,894 |
| Land | 5,209 | 5,209 | 63,377 |
| Buildings, net of accumulated depreciation | 375 | 402 | 4,562 |
| Structures, net of accumulated depreciation | 33 | 34 | 401 |
| Investments in securities | 1,965 | 1,909 | 23,908 |
| Investments in subsidiaries and affiliates | 364 | 358 | 4,428 |
| | ¥26,966 | ¥10,691 | $328,093 |

The secured liabilities as of March 31, 2012 and 2011 are summarized as follows:

| | As of March 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Short-term bank loans | ¥14,037 | ¥2,123 | $170,787 |
| [Including current portion of long-term debt] | [600] | [500] | [7,300] |
| Long-term debt | 1,900 | 2,000 | 23,117 |

(d) Contingent Liabilities

At March 31, 2012 and 2011, the Company was contingently liable for the followings:

| | As of March 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| As guarantor of bank loans to customers, subsidiaries, an affiliate and employees | ¥4,124 | ¥4,358 | $50,176 |
| As endorsers of notes receivable discounted with banks | 78 | 433 | 949 |
| As endorsers of other current assets (Non-operating notes receivable) discounted with banks | 252 | – | 3,066 |

(e) Estimated Loss on Uncompleted Construction Contracts

An estimated loss on uncompleted construction contracts was recognized and included as part of inventories but was not offset against the amount on the balance sheet. It has been recorded as an allowance for losses on construction contracts in the amount of ¥485 million ($5,900 thousand) and ¥51 million as of March 31, 2012 and 2011, 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 fiscal year fell on a bank holiday, notes receivable maturing on that date were excluded from the corresponding balances in the non-consolidated balance sheet as of March 31, 2012.

| | As of March 31, 2012 | |
|---|---|---|
| | *(Millions of yen)* | *(Thousands of U.S. dollars)* |
| Trade notes receivable | ¥ 8 | $ 97 |
| Other current assets (Non-operating notes receivable) | 16 | 194 |

**6. 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 ¥186,588 million ($2,270,203 thousand) and ¥185,894 million for the years ended March 31, 2012 and 2011, 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 ¥1,472 million ($17,909 thousand) and ¥156 million for the years ended March 31, 2012 and 2011, respectively.

(c) Transactions and Outstanding Balances with Subsidiaries and Affiliates

Significant transactions with subsidiaries and affiliates other than individually presented on the accompanying non-consolidated statements of Income for the years ended 2012 and 2011 were as follows:

| | Years ended March 31, | | |
|---|---|---|---|
| | **2012** | **2011** | **2012** |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Interest and dividend income | ¥721 | ¥461 | $8,772 |

(d) Selling, General and Administrative Expenses

The significant components of selling, general and administrative expenses for the years ended March 31, 2012 and 2011 were as follows:

| | Years ended March 31, | | |
|---|---|---|---|
| | **2012** | **2011** | **2012** |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Salaries and wages | ¥ 4,360 | ¥ 4,590 | $ 53,047 |
| Retirement benefit expenses | 879 | 1,016 | 10,694 |
| Legal welfare expenses | 658 | 683 | 8,005 |
| Communication and traveling expenses | 841 | 844 | 10,232 |
| Rent | 1,022 | 1,363 | 12,434 |
| Depreciation expenses | 499 | 502 | 6,071 |
| Provision for doubtful receivables | 7 | 125 | 85 |
| Other | 2,231 | 2,321 | 27,144 |
| Total | ¥10,500 | ¥11,447 | $127,752 |

(e) Research and Development Expenses

Research and development costs included in selling, general and administrative expenses and manufacturing costs amounted to ¥835 million ($10,159 thousand) and ¥842 million for the years ended March 31, 2012 and 2011, respectively.

(f) Loss on Disaster

Loss on disaster was due to the Great East Japan Earthquake on March 11, 2011.

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

Type and number of treasury stocks at March 31, 2012 are as follows:

| | Balance at April 1, 2011 | Increase | Decrease | Balance at March 31, 2012 |
|---|---|---|---|---|
| | | *(Number of shares)* | | |
| Treasury shares: | | | | |
| Common stock | 436,646 | 13,431 | 2,155 | 447,922 |
| 2nd Series Class A preferred stock | – | 520,600 | 520,600 | – |
| 3rd Series Class C preferred stock | – | 80,000 | 80,000 | – |
| 3rd Series Class D preferred stock | – | 93,200 | 93,200 | – |
| Total | 436,646 | 707,231 | 695,955 | 447,922 |

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

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

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

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

Note 5: Increase of 3rd Series Class C preferred stock is due to the acquisition of common stock by exercising a call option based on a resolution at the annual general meeting of the shareholders on June 29, 2011.

Note 6: Decrease of 3rd Series Class C preferred stock is due to redemption based on a resolution at the annual general meeting of the shareholders on June 29, 2011.

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

| | Balance at April 1, 2010 | Increase | Decrease | Balance at March 31, 2011 |
|---|---|---|---|---|
| | | *(Number of shares)* | | |
| Treasury shares: | | | | |
| Common stock | 425,236 | 11,877 | 467 | 436,646 |
| 2nd Series Class A preferred stock | – | 2,479,400 | 2,479,400 | – |
| Total | 425,236 | 2,491,277 | 2,479,867 | 436,646 |

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

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

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

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

## 8. Leases

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation / amortization and net book value of the leased property as of March 31, 2012 and 2011, which would have been reflected in the non-consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

(a) As lessee:

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

| | As of March 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2012 | | | | 2011 | | | |
| | Vehicles | Tools, furniture and fixtures | Intangible fixed assets | Total | Vehicles | Tools, furniture and fixtures | Intangible fixed assets | Total |
| | *(Millions of yen)* | | | | | | | |
| Acquisition costs | – | ¥48 | ¥83 | ¥132 | ¥10 | ¥116 | ¥133 | ¥260 |
| Accumulated depreciation / amortization | – | 43 | 75 | 119 | 9 | 88 | 104 | 201 |
| Net book value | – | ¥ 5 | ¥ 7 | ¥ 13 | ¥ 1 | ¥ 28 | ¥ 29 | ¥ 59 |

| | As of March 31, 2012 | | | |
|---|---|---|---|---|
| | Vehicles | Tools, furniture and fixtures | Intangible fixed assets | Total |
| | *(Thousands of U.S. dollars)* | | | |
| Acquisition costs | – | $584 | $1,009 | $1,606 |
| Accumulated depreciation / amortization | – | 523 | 912 | 1,447 |
| Net book value | – | $ 60 | $ 85 | $ 158 |

| | As of March 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Future minimum payments: | | | |
| Within one year | ¥13 | ¥46 | $158 |
| Over one year | 1 | 17 | 12 |
| | ¥14 | ¥63 | $170 |
| Lease payments | ¥43 | ¥59 | $523 |
| Depreciation / amortization equivalents | 39 | 53 | 474 |
| Interest expense equivalents | 1 | 3 | 12 |

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

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

## 9. Securities

Stocks of subsidiaries and affiliates at March 31, 2012 and 2011 were as follows:

| | As of March 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Carrying value | Fair value | Unrealized gain | Carrying value | Fair value | Unrealized gain |
| | *(Millions of yen)* | | | *(Thousands of U.S. dollars)* | | |
| Stocks of a subsidiary | ¥717 | ¥1,863 | ¥1,145 | $8,723 | $22,666 | $13,931 |

| | As of March 31, 2011 | | |
|---|---|---|---|
| | Carrying value | Fair value | Unrealized gain |
| | *(Millions of yen)* | | |
| Stocks of a subsidiary | ¥717 | ¥1,394 | ¥677 |

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, | | |
|---|---|---|---|
| | 2012 | | 2011 |
| | Carrying value | | Carrying value |
| | *(Millions of yen)* | *(Thousands of U.S. dollars)* | *(Millions of yen)* |
| Stocks of a subsidiaries | ¥2,628 | $31,974 | ¥2,618 |
| Stocks of a affiliates | 400 | 4,866 | 400 |

## 10. Income Taxes

The significant components of the Company's deferred tax assets and liabilities at March 31, 2012 and 2011 were as follows:

| | As of March 31, | | |
|---|---|---|---|
| | **2012** | **2011** | **2012** |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Deferred tax assets: | | | |
| Tax loss carryforwards | ¥ 36,058 | ¥ 59,469 | $ 438,715 |
| Accrued retirement benefits | 5,273 | 5,790 | 64,156 |
| Allowance for bad debts | 3,508 | 4,432 | 42,681 |
| Account payable and accrued expenses | 1,180 | 1,103 | 14,356 |
| Loss on devaluation of investments in subsidiaries and affiliates | 1,108 | 1,277 | 13,480 |
| Allowance for losses on construction contracts | 577 | 94 | 7,020 |
| Reserve for defects on completed construction projects | 337 | 461 | 4,100 |
| Allowance for loss on litigation | 307 | 521 | 3,735 |
| Other | 406 | 952 | 4,939 |
| Gross deferred tax assets | 48,758 | 74,101 | 593,235 |
| Valuation allowance | (44,658) | (69,601) | (543,350) |
| Total deferred tax assets | 4,100 | 4,500 | 49,884 |
| Deferred tax liabilities: | | | |
| Deferred gain on hedging instruments, net of taxes | (18) | – | (219) |
| Asset retirement obligations | (6) | (7) | (73) |
| Unrealized holding gain on securities | (0) | (0) | (0) |
| Total deferred tax liabilities | (25) | (7) | (304) |
| Net deferred tax assets | ¥ 4,074 | ¥ 4,492 | $ 49,568 |

The following table summarizes the significant differences between the statutory tax rate and the effective tax rates for the years ended March 31, 2012 and 2011:

| | Years ended March 31, | |
|---|---|---|
| | **2012** | **2011** |
| Statutory tax rate | 40.7 % | 40.7 % |
| Non-deductible expenses | 28.8 | 40.2 |
| Non-taxable income | (18.6) | (27.7) |
| Per capita inhabitants' taxes | 4.3 | 26.6 |
| Valuation allowance | (41.5) | (53.2) |
| Change in corporate tax rate | 24.8 | – |
| Effective tax rates | 38.5% | 26.6% |

Adjustment of deferred tax assets and deferred tax liabilities due to change of effective statutory tax rate

Following the promulgation on December 2, 2011 of the "Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Creating a Taxation System Responding to Changes in Economic and Social Structures "(Act No. 114 of 2011) and the "Act on Special Measures for Securing Financial Resources Necessary to Implement for Measures for Reconstruction following the Great East Japan Earthquake" (Act No. 117 of 2011), the effective statutory tax rate used to measure deferred tax assets and liabilities was changed.

As a result, deferred tax assets, after offsetting deferred tax liabilities, decreased ¥288 million ($3,504 thousand), and income taxes-deferred increased ¥289 million ($3,516 thousand), unrealized holding gain on securities increased ¥0 million and deferred gain on hedging instruments, net of taxes increased ¥1 million ($12 thousand).

## 11. Per Share Information

Net assets and basic net income per share as of and for the years ended March 31, 2012 and 2011 were as follows:

| | **2012** | **2011** | **2012** |
|---|---|---|---|
| | *(Yen)* | | *(U.S. dollars)* |
| Net assets per share | ¥(55.69) | ¥(61.38) | $(0.677) |
| Net income per share – basic | 2.52 | 1.16 | 0.030 |
| Net income per share – diluted | 0.95 | 0.50 | 0.011 |

The basis of calculation for net assets per share at March 31, 2012 was as follows:

| | **As of March 31,** | | |
|---|---|---|---|
| | **2012** | **2011** | **2012** |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Total net assets | ¥ 13,805 | ¥ 13,200 | $ 167,964 |
| Amounts deducted from total net assets | 29,874 | 30,568 | 363,474 |
| [Including paid-in amounts for shares of preferred stock] | [29,874] | [30,568] | [363,474] |
| Total net assets attribute to common stock | ¥(16,068) | ¥(17,367) | $(195,498) |
| | *(Thousands of shares)* | | |
| Number of shares of common stock used to determine net assets per share | 288,541 | 282,926 | |

The basis for calculating basic net income per share – basic and net income per share – diluted for the years ended March 31, 2012 and 2011 was as follows:

| | **Years ended March 31,** | | |
|---|---|---|---|
| | **2012** | **2011** | **2012** |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Net income per share – basic: | | | |
| Net income | ¥719 | ¥327 | $8,748 |
| Amount not available to common shareholders | – | – | – |
| Net income per share – basic | ¥719 | ¥327 | $8,748 |
| | *(Thousands of shares)* | | |
| Average number of share of common stock outstanding | 285,186 | 281,799 | |

| | **Years ended March 31,** | | |
|---|---|---|---|
| | **2012** | **2011** | **2012** |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Net income per share – diluted: | | | |
| Adjustment for net income | – | – | – |
| | *(Thousands of shares)* | | |
| Increase in number of share of common stock | 476,133 | 375,905 | |
| [Including preferred stock] | [476,133] | [375,905] | |

As described in “Changes in Accounting Methods”, previous period financial statements have been adjusted retroactively to apply the change in accounting methods.

As a result, net income per share diluted for the previous period decreased ¥0.06 compared with the amount before the retroactive adjustment.

## 12. Subsequent Event

Acquisition of treasury stock pursuant to clause 156 of the Companies Act.

The following acquisition of treasury stock (3rd Series Class C preferred stock) was determined at the board of directors' meeting held on May 10, 2012. The proposal was submitted to the shareholders' meeting for approval, and subsequently approved at the shareholders' meeting held on June 28, 2012.

(a) Reason for acquisition

To maintain the value of common stock in the event that preferred stock holders exercise their acquisition rights to common stock, and to reduce the total amount of dividends, the Company plans to acquire treasury stock.

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

(1) Type of stock

3rd Series Class C preferred stock

(2) Amount of stock

400,000 shares [Maximum]

(3) Total of acquisition cost

¥1,000 million ($12,166 thousand) [Maximum]

(4) Term for acquisition

1 year from the day following the date of the shareholders' meeting.

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

Short-term bank loans generally represent notes, principally at average interest rates of 2.4% and 2.1% at March 31, 2012 and 2011, respectively.

Long-term debt at March 31, 2012 and 2011 is summarized as follows:

| | As of March 31, | | |
|---|---|---|---|
| | **2012** | **2011** | **2012** |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Debt with collateral (at average interest rates of 2.6% at 2012 and 2011) | ¥2,500 | ¥2,500 | $30,417 |
| Less current portion | (600) | (500) | 7,300 |
| | ¥1,900 | ¥2,000 | $23,117 |

ERNST & YOUNG

Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011

Tel : +81 3 3503 1100
Fax: +81 3 3503 1197

# Independent Auditor's Report

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

We have audited the accompanying non-consolidated financial statements of Sumitomo Mitsui Construction Co., Ltd. which comprise the non-consolidated balance sheet as at March 31, 2012, and the non-consolidated statements of income, changes in net assets for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

*Management's Responsibility for the Non-Consolidated Financial Statements*

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

*Auditor's Responsibility*

Our responsibility is to express an opinion on these non-consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error. The purpose of an audit of the non-consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the non-consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sumitomo Mitsui Construction Co., Ltd. as at March 31, 2012, and its financial performance for the year then ended in conformity with accounting principles generally accepted in Japan.

*Convenience Translation*

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

Ernst & Young ShinNihon LLC

June 28, 2012
Tokyo, Japan

# CORPORATE OUTLINE

Corporate Name:
Sumitomo Mitsui Construction Co.,Ltd.

Established:
October 14,1941

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

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

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

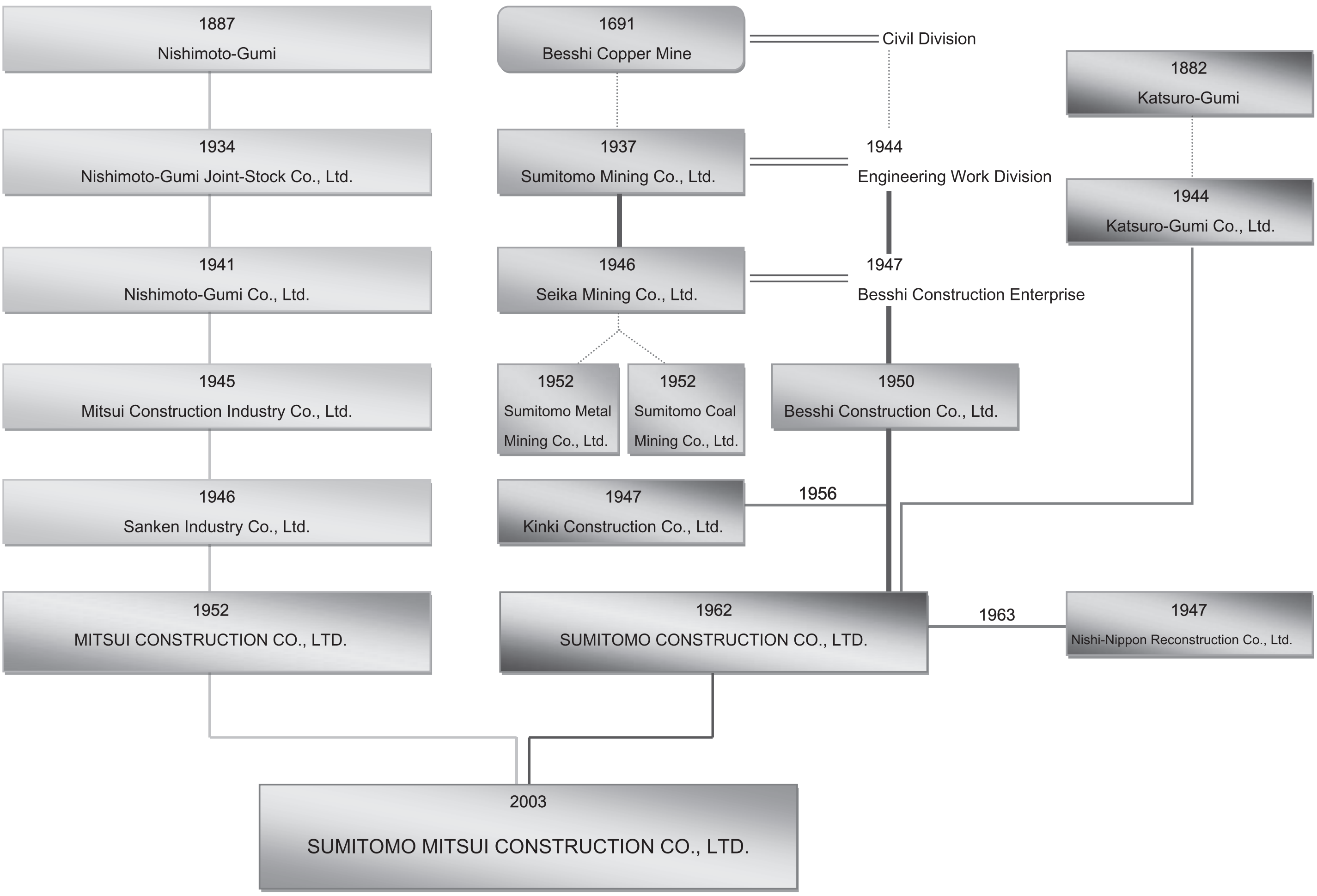
2) To plan, design and supervise marine development, regional development, urban development, natural resource development and environment maintenance

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

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

**Main Shareholders**
Japan Securities Finance Co., Ltd.
Daiwa Securities SMBC Principal Investments Co., Ltd.
Mitsui Fudosan Co., Ltd.
Matsui Securities Co., Ltd.
Mito Securities Co., Ltd.

Corporate History



# CORPORATE DATA

**HEAD OFFICE**
2-1-6 Tsukuda, Chuo-ku,
Tokyo, 104-0051, Japan

**INTERNATIONAL DIVISION**
2-1-6 Tsukuda, Chuo-ku,
Tokyo, 104-0051, Japan
TEL:81-3-4582-3171
FAX:81-3-4582-3247

**OVERSEAS OFFICE**

**Shanghai:(China)**
Room No.202, No.2 Building, 641 Tian Shan Road,
Chang Ning Zone, Shanghai 200336, China
TEL:86-21-6228-6780
FAX:86-21-6228-6781

**Taipei:(Taiwan)**
8F., No.96, Guangfu N. Rd., Songshan Dist., Taipei
City 105, Taiwan R.O.C.

**Manila:(Philippines)**
2nd Floor, Pioneer House Building, 108 Paseo de
Roxas, Makati City, Metro Manila, Philippines
TEL:63-2-840-4913
FAX:63-2-840-4912

**Guam:(USA)**
Suite 105-107, IBC Building, J.L. Baker Street,
Harmon Industrial Park, Harmon, Guam 96913
(P.O.Box 9670, Tamuning, Guam 96931)
TEL:1-671-649-7521
FAX:1-671-649-7550

**Hanoi:(Vietnam)**
17-21 Floor Building, Building Group No 4,
Hacinco Student's Village, Nguy Nhu Kon Tum
road, Nhan Chinh Wrd, Thanh Xuan District, Hanoi,
Vietnam
TEL:84-4-3942-8888
FAX:84-4-3942-8808

**Singapore:**
491B River Valley Road, #10-02/04, Singapore
TEL:65-6933-8000
FAX:65-6933-8001

**Jakarta:(Indonesia)**
Summitmas 2, 20th Floor JL.Jend. Sudirman Kav.
61-62, Jakarta Selatan 12190, Indonesia
TEL 62-21-520-1757
FAX 62-21-525-0905

**Bangkok:(Thailand)**
26/49, 14th Floor, Orakarn Building, Soi Chidlom,
Ploenchit Road, Lumpini, Pathumwan, Bangkok
10330, Thailand
TEL:66-2-250-0560
FAX:66-2-254-7405

**Nairobi:(Kenya)**
P.O.Box 60487-00200 Arwings Kodhek Road,
Chemusian Apartments, Apartment No.2 Next to
Olive Garden Hotel, Hurlingham, Nairobi, Kenya
TEL:254-20-2722560
FAX:254-20-2722619

**SUBSIDIARY COMPANIES IN OVERSEAS**

**SMCC(Thailand)Co.,Ltd.**
26/49, 14th Floor, Orakarn Building, Soi Chidlom,
Ploenchit Road, Lumpini, Pathumwan, Bangkok
10330, Thailand
TEL:66-2-250-0560
FAX:66-2-254-7405

**Pt.SMCC Utama Indonesia**
Summitmas 2, 20th Floor JL.Jend. Sudirman Kav.
61-62, Jakarta Selatan 12190, Indonesia
TEL:62-21-520-1757
FAX:62-21-525-0905

**SMCC Construction India Ltd.**
23,Local Shopping Centre, Madangir,Near Pushp
Bhawan, New Delhi 110062,India
TEL:91-11-41392800
FAX:91-11-41652592,41652593

**SMCC Philippines, Inc.**
2nd Floor, Pioneer House Building, 108 Paseo de
Roxas, Makati City, Metro Manila, Philippines
TEL:63-2-840-4913
FAX:63-2-840-4912

**SMCC Shanghai**
Room No.202, No.2 Building, 641 Tian Shan Road,
Chang Ning Zone, Shanghai 200336, China
TEL:86-21-6228-6780
FAX:86-21-6228-6781

**SMCC Guam, Inc.**
Suite 105-107, IBC Building, J.L. Baker Street,
Harmon Industrial Park, Harmon, Guam 96913
(P.O.Box 9670, Tamuning, Guam 96931)
TEL:1-671-649-7521
FAX:1-671-649-7550

SUMITOMO MITSUI CONSTRUCTION CO.,LTD.