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**Disclaimer for Forward-Looking Statements:**

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

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## PROFILE

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

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

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

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

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## THE MESSAGE FROM THE PRESIDENT

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### **I. Review of the Year ended March 31, 2017**

For the fiscal year ended March 31, 2017, the Japanese economy has remained in modest recovery through improvements in corporate earnings, as well as recoveries of exports and capital investment and gradual looking up in consumer spending. Going forward, the economy is expected to continue to remain in modest recovery due partly to the expansionary effect of public investments through the government's FY 2016 second supplementary budget, among others. However, it also remains unforeseeable due to such factors as price surge in resources, a slowdown in consumer spending and uncertainties about overseas economies.

In the domestic construction market, we have seen a stable growth in construction demand, led by an increase in public works supported by the government's supplementary budget, as well as active private investments, in particular, infrastructure development and redevelopment projects in the Tokyo metropolitan area. Such robust construction investments are expected to continue for a while. However, there are concerns over a shortage of skilled construction workers and a rise in material costs in the future. Thus, we should be required to make more careful business decision and attitudes in response to the changing operational environment.

In this economic environment, we reported the operating results for the year ended March 31, 2017, in the first year of our "Mid-term Management Plan 2016-2018" (the "PLAN"), as follows:

The consolidated net sales amounted to ¥403.9 billion, 2.7 percent decrease from the previous year, mainly due to a decrease in the completion of construction projects by ¥11.0 billion from the last year when we had completed a number of large-scale projects, in spite of the steadily sales in the favorable market for the entire construction industry.

With regard to earnings, the Civil works continued to maintain solid profitability, as labor costs and material costs generally remained stable though some of them showed up-and-down movements. The Building works overall substantially improved its gross profit from completed works, as a result of the significant improvement in profitability due to improved production efficiencies and cost reduction efforts.

As a result, consolidated operating income and consolidated ordinary income amounted to ¥27.9 billion, an increase by ¥4.6 billion from the previous year, and ¥26.2 billion, an increase by ¥4.4 billion from the previous year, respectively, which are record highs in two consecutive years since the merger of our company. Consolidated profit attributable to owners of parent was ¥17.0 billion, an increase by ¥7.1 billion from the previous year.

### **II. Mid- to Long-Term Management Strategies of the SMCC Group**

The SMCC Group has formulated a group vision from a longer-term perspective and established long-term management policies to be pursued in order to materialize the vision. In its "PLAN", we, in reflection of the quality problem of the piling works and by placing top priority on the restoration of creditability, are exerting group-wide efforts to enhance our corporate value.

(i) Group vision

<p>○ <b>Group vision:</b> “Our future direction” from the respective perspectives of management, technology and employees:</p> <ul style="list-style-type: none"><li>• Corporate group that secures solid profitability and achieves sustainable growth</li><li>• Corporate group that challenges to address social issues with its unique technologies and services</li><li>• Corporate group that expands its activities both in Japan and overseas by placing emphasis on faith and sincerity and keeping its pride in participating in building a society</li></ul>
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Our long-term management policies to materialize our Group vision are as follows:

○ <b>Long-term management policies:</b>	
• Enhance manufacturing capabilities	Enhance manufacturing capabilities by strengthening the development of technologies and reforming production systems
• Create an attractive corporate culture	Create an attractive corporate culture through securing, cultivating and vitalizing human resources
• Strengthen the competitiveness and profitability of construction business	Strengthen the competitiveness and profitability of our three core segments: Civil in Japan, Building in Japan and overseas business
• Build a multilayered earnings base enabling us to respond to changes in the business environment	Build a multilayered earnings base by promoting new businesses and businesses in new areas
• Promote corporate social responsibility (CSR) in management	Promote CSR in management; that is, conduct business with social responsibility

(ii) Outline of the “PLAN”

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

○ **Themes to be focused on**

- “Reform production systems”

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

- “Secure, cultivate and vitalize human resources”

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

- **Business targets of the “PLAN”** for the year ending March 31, 2019 (FY 2018) (consolidated):
  - Net sales: ¥440.0 billion
  - Operating income to sales ratio: 5% or more
  - Capital-to-asset ratio: 20% or more
  - Dividend payout ratio: 20% or more

The developments in comparison with the business targets (consolidated) of the “PLAN” for FY 2018 (the final year of the “PLAN”) are as follows:

	March 31, 2016 (FY 2015)	March 31, 2017 (FY 2016)
Net sales:	¥415.0 billion	¥403.9 billion
Operating income to sales ratio:	5.6%	6.9%
Capital-to-asset ratio:	14.3%	18.8%
Dividend payout ratio:	16.4%	14.3%

To foresee the business environment in the future, the economy is expected to continue to remain in modest recovery due partly to the expansionary effect of public investments through the government’s supplementary budget, among others. In the construction industry, construction investments are expected to continue to grow stably, led by an increase in public works supported by the government’s supplementary budget, as well as private investments, such as infrastructure development and redevelopment projects, in the Tokyo metropolitan area, specifically.

The SMCC Group will exert concerted efforts to implement the “PLAN” to restore creditability and enhance its corporate value.

新井英雄

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Hideo Arai  
Representative Director,  
President

**Consolidated Financial Statements**

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

*Year ended March 31, 2017  
with Independent Auditor's Report*

## Consolidated Balance Sheets

March 31, 2017

	As of March 31,		
	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
<b>Assets</b>			
Current assets:			
Cash and deposits (Notes 6-(b), 10 and 11)	¥ 68,122	¥ 66,209	\$ 607,202
Trade notes receivable, accounts receivable on completed construction contracts and other (Note 11)	143,631	134,596	1,280,247
Inventories (Notes 6-(a) and 6-(e))	22,300	29,530	198,769
Deferred tax assets (Notes 5 and 15)	3,248	3,175	28,950
Other current assets	19,733	13,854	175,889
Allowance for doubtful receivables (Note 11)	(31)	(41)	(276)
Total current assets	257,005	247,325	2,290,801
Non-current assets:			
Property and equipment, at cost:			
Land (Notes 6-(b) and 6-(c))	14,973	15,463	133,461
Buildings and structures (Note 6-(b))	16,492	16,288	147,000
Machinery, equipment and vehicles (Note 6-(b))	17,982	18,417	160,281
Construction in progress	12	62	106
Accumulated depreciation	(25,140)	(25,606)	(224,084)
Property and equipment, net	24,320	24,626	216,775
Intangible fixed assets	2,101	2,022	18,727
Investments and other assets:			
Investments in securities (Notes 6-(b), 11 and 12)	10,259	10,383	91,443
Long-term loans receivable (Note 11)	6,203	6,273	55,290
Deferred tax assets (Notes 5 and 15)	1,538	1,152	13,708
Investments in unconsolidated subsidiaries and affiliates	1,006	1,199	8,966
Other (Note 6-(b))	6,621	7,206	59,015
Allowance for doubtful receivables (Note 11)	(6,904)	(6,526)	(61,538)
Total investments and other assets	18,726	19,688	166,913
Total non-current assets	45,147	46,337	402,415
Total assets	¥302,152	¥293,663	\$2,693,216

## Consolidated Balance Sheets

March 31, 2017

	As of March 31,		
	2017 (Millions of yen)	2016	2017 (Thousands of U.S. dollars) (Note 3)
<b>Liabilities and net assets</b>			
Current liabilities:			
Trade notes payable, accounts payable on construction contracts and other (Note 11)	¥104,111	¥115,745	\$ 927,988
Electronically recorded payable (Note 11)	26,387	22,096	235,199
Short-term bank loans and current portion of long-term debt (Notes 6-(b), 6-(f), 11 and 20)	10,201	4,418	90,926
Accrued expenses	7,172	5,676	63,927
Income tax payable	4,681	4,701	41,723
Advances received on construction contracts in progress	24,263	31,926	216,267
Reserve for defects on completed construction projects	801	800	7,139
Allowance for losses on construction contracts (Note 6-(e))	389	939	3,467
Allowance for contingency loss	2,159	2,152	19,244
Allowance for loss related to Antitrust Law	146	287	1,301
Other current liabilities	10,948	12,825	97,584
Total current liabilities	191,262	201,569	1,704,804
Long-term liabilities:			
Long-term debt (Notes 6-(b), 6-(f), 11 and 20)	23,640	18,971	210,713
Deferred tax liability on land revaluation (Note 6-(c))	285	285	2,540
Liability for retirement benefits (Note 14)	18,720	19,474	166,859
Other long-term liabilities	5,001	5,225	44,576
Total long-term liabilities	47,647	43,957	424,699
Contingent liabilities (Notes 6-(d) and 17)			
Net assets:			
Shareholders' equity:			
Capital stock:	12,003	12,003	106,988
Common stock:			
Authorized:			
2,669,464,970 shares in 2017 and 2016			
Issued and outstanding:			
813,366,605 shares in 2017 and 2016			
Additional paid-in capital	523	523	4,661
Retained earnings	45,506	30,131	405,615
Treasury stock, at cost:			
511,444 shares in 2017 and 501,516 shares in 2016	(247)	(246)	(2,201)
Total shareholders' equity	57,786	42,412	515,072
Accumulated other comprehensive income:			
Unrealized holding gain on securities	312	373	2,780
Deferred (loss) gain on hedging instruments, net of taxes (Note 13)	(4)	6	(35)
Land revaluation (Note 6-(c))	73	56	650
Translation adjustments	(601)	(130)	(5,356)
Retirement benefits liability adjustment (Note 14)	(617)	(652)	(5,499)
Total accumulated other comprehensive income	(837)	(345)	(7,460)
Non-controlling interests	6,293	6,069	56,092
Total net assets	63,242	48,136	563,704
Total liabilities and net assets	¥302,152	¥293,663	\$2,693,216

The accompanying notes are an integral part of these statements.

Sumitomo Mitsui Construction Co., Ltd.  
**Consolidated Statements of Income**  
 March 31, 2017

	<b>Years ended March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 3)</i>
Net sales <i>(Note 7-(a))</i>	¥403,908	¥414,958	\$3,600,213
Cost of sales <i>(Notes 7-(b) and 7-(d))</i>	357,484	375,163	3,186,415
Gross profit	46,424	39,794	413,798
Selling, general and administrative expenses <i>(Notes 7-(c), 7-(d) and 14)</i>	18,483	16,429	164,747
Operating income	27,941	23,364	249,050
Other income (expenses):			
Interest and dividend income	814	869	7,255
Payments received from insurance claims	138	138	1,230
Interest expense	(539)	(532)	(4,804)
Provision of allowance for doubtful receivables	(394)	(246)	(3,511)
Loan related fee	(326)	(145)	(2,905)
Gain on sales of property and equipment <i>(Note 7-(e))</i>	9	17	80
Gain on donation of assets <i>(Note 7-(f))</i>	207	–	1,845
Gain on sales of investment in securities <i>(Note 12-(c))</i>	29	3	258
Loss on sales and disposal of property and equipment <i>(Note 7-(g))</i>	(118)	(353)	(1,051)
Impairment loss <i>(Note 7-(h))</i>	(624)	(711)	(5,561)
PCB disposal expenses	(115)	–	(1,025)
Loss on allowance for loss related to Antitrust Law	–	(287)	–
Other, net	(1,593)	(3,943)	(14,199)
	(2,512)	(5,191)	(22,390)
Profit before income taxes	25,428	18,173	226,651
Income taxes <i>(Notes 5 and 15)</i> :			
Current	7,906	6,786	70,469
Deferred	(394)	725	(3,511)
	7,511	7,511	66,948
Profit	17,916	10,661	159,693
Profit attributable to:			
Non-controlling interests	881	759	7,852
Owners of parent	¥ 17,035	¥ 9,902	\$ 151,840
	<i>(Yen)</i>		<i>(U.S. dollars)</i> <i>(Note 3)</i>
Profit per share <i>(Note 18)</i>	¥ 20.96	¥ 12.18	\$ 0.186

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

Sumitomo Mitsui Construction Co., Ltd.  
**Consolidated Statements of Comprehensive Income**  
 March 31, 2017

	<b>Years ended March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 3)</i>
Profit	¥17,916	¥10,661	\$159,693
Other comprehensive income:			
Unrealized holding (loss) on securities	(64)	(830)	(570)
Deferred (loss) on hedging instruments, net of taxes	(10)	(188)	(89)
Land revaluation	–	16	–
Translation adjustments	(586)	(481)	(5,223)
Retirement benefits liability adjustments	71	(262)	632
Total other comprehensive income <i>(Note 8)</i>	(590)	(1,746)	(5,258)
Comprehensive income	<u>¥17,326</u>	<u>¥ 8,914</u>	<u>\$154,434</u>
Comprehensive income attributable to:			
Owners of the parent	¥16,525	¥ 8,368	\$147,294
Non-controlling interests	800	546	7,130

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

Sumitomo Mitsui Construction Co., Ltd.  
**Consolidated Statements of Changes In Net Assets**  
 March 31, 2017

	<b>Year ended March 31, 2017</b>				
	Shareholders' equity				
	Capital stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity
	<i>(Millions of yen)</i>				
Balance at the beginning of the period	¥12,003	¥523	¥30,131	¥(246)	¥42,412
Changes in items during the period:					
Change in a parent's ownership interest due to transaction with non-controlling interests		0			0
Dividends from surplus			(1,625)		(1,625)
Profit attributable to owners of the parent			17,035		17,035
Change in the scope of consolidation			(18)		(18)
Purchases of treasury stock				(1)	(1)
Disposition of treasury stock		(0)		0	0
Reversal of land revaluation			(16)		(16)
Net changes in items other than shareholders' equity					
Total changes in items during the period	-	(0)	15,374	(0)	15,373
Balance at the end of the period	¥12,003	¥523	¥45,506	¥(247)	¥57,786

	<b>Year ended March 31, 2017</b>							
	Accumulated other comprehensive income							
	Unrealized holding gain (loss) on securities	Deferred gain (loss) on hedging instruments, net of taxes	Land revaluation	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
	<i>(Millions of yen)</i>							
Balance at the beginning of the period	¥373	¥ 6	¥56	¥(130)	¥(652)	¥(345)	¥6,069	¥48,136
Changes in items during the period:								
Change in a parent's ownership interest due to transaction with non-controlling interests								0
Dividends from surplus								(1,625)
Profit attributable to owners of the parent								17,035
Change in the scope of consolidation								(18)
Purchases of treasury stock								(1)
Disposition of treasury stock								0
Reversal of land revaluation								(16)
Net changes in items other than shareholders' equity	(61)	(10)	16	(470)	34	(491)	224	(267)
Total changes in items during the period	(61)	(10)	16	(470)	34	(491)	224	15,106
Balance at the end of the period	¥312	¥ (4)	¥73	¥(601)	¥(617)	¥(837)	¥6,293	¥63,242

Sumitomo Mitsui Construction Co., Ltd.  
**Consolidated Statements of Changes In Net Assets**  
 March 31, 2017

	Year ended March 31, 2017				Total shareholders' equity
	Shareholders' equity				
	Capital stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	
	<i>(Thousands of U.S. dollars) (Note 3)</i>				
Balance at the beginning of the period	\$106,988	\$4,661	\$268,571	\$(2,192)	\$378,037
Changes in items during the period:					
Change in a parent's ownership interest due to transaction with non-controlling interests		0			0
Dividends from surplus			(14,484)		(14,484)
Profit attributable to owners of the parent			151,840		151,840
Change in the scope of consolidation			(160)		(160)
Purchases of treasury stock				(8)	(8)
Disposition of treasury stock		(0)		0	0
Reversal of land revaluation			(142)		(142)
Net changes in items other than shareholders' equity					
Total changes in items during the period	-	(0)	137,035	(0)	137,026
Balance at the end of the period	\$106,988	\$4,661	\$405,615	\$(2,201)	\$515,072

	Year ended March 31, 2017							Total net assets
	Accumulated other comprehensive income							
	Unrealized holding gain (loss) on securities	Deferred gain (loss) on hedging instruments, net of taxes	Land revaluation	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	
	<i>(Thousands of U.S. dollars) (Note 3)</i>							
Balance at the beginning of the period	\$3,324	\$ 53	\$499	\$(1,158)	\$(5,811)	\$(3,075)	\$54,095	\$429,057
Changes in items during the period:								
Change in a parent's ownership interest due to transaction with non-controlling interests								0
Dividends from surplus								(14,484)
Profit attributable to owners of the parent								151,840
Change in the scope of consolidation								-
Purchases of treasury stock								(160)
Disposition of treasury stock								(8)
Reversal of land revaluation								(142)
Net changes in items other than shareholders' equity	(543)	(89)	142	(4,189)	303	(4,376)	1,996	(2,379)
Total changes in items during the period	(543)	(89)	142	(4,189)	303	(4,376)	1,996	134,646
Balance at the end of the period	\$2,780	\$(35)	\$650	\$(5,356)	\$(5,499)	\$(7,460)	\$56,092	\$563,704

Sumitomo Mitsui Construction Co., Ltd.  
**Consolidated Statements of Changes In Net Assets**  
 March 31, 2017

	<b>Year ended March 31, 2016</b>				
	Shareholders' equity				
	Capital stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity
	<i>(Millions of yen)</i>				
Balance at the beginning of the period	¥12,003	¥479	¥21,039	¥(244)	¥33,278
Changes in items during the period:					
Change in a parent's ownership interest due to transaction with non-controlling interests		43			43
Dividends from surplus			(812)		(812)
Profit attributable to owners of parent			9,902		9,902
Change in the scope of consolidation					-
Purchases of treasury stock				(2)	(2)
Disposition of treasury stock		(0)		0	0
Reversal of land revaluation			2		2
Net changes in items other than shareholders' equity					
Total changes in items during the period	-	43	9,092	(2)	9,133
Balance at the end of the period	¥12,003	¥523	¥30,131	¥(246)	¥42,412

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

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

Sumitomo Mitsui Construction Co., Ltd.  
**Consolidated Statements of Cash Flows**  
 March 31, 2017

	<b>Years ended March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 3)</i>
<b>Operating activities</b>			
Profit before income taxes	¥25,428	¥18,173	\$226,651
Depreciation and amortization	1,947	1,832	17,354
Impairment loss	624	711	5,561
Increase in allowance for doubtful receivables	451	233	4,019
Increase (decrease) in reserve for defects on completed construction projects	5	(59)	44
(Decrease) in allowance for losses on construction contracts	(543)	(2,088)	(4,840)
(Decrease) increase in allowance for loss related to Antitrust Law	(140)	287	(1,247)
(Decrease) in liability for retirement benefits	(742)	(1,114)	(6,613)
Loss on sales and disposal of property and equipment	109	336	971
Interest and dividend income	(814)	(869)	(7,255)
Interest expense	539	532	4,804
Exchange loss, net	49	389	436
Equity in loss of affiliates	-	3	-
(Increase) in trade notes receivable, accounts receivable on completed construction contracts and other	(9,008)	(6,480)	(80,292)
Decrease in inventories	7,437	1,414	66,289
(Increase) in other assets	(5,893)	(2,217)	(52,526)
Increase (decrease) in retirement benefits liability adjustments included in accumulated other comprehensive income.	8	(257)	71
(Decrease) increase in trade notes payable, accounts payable on construction contracts and other	(7,403)	6,095	65,986
(Decrease) in advances received on construction contracts in progress	(7,528)	(2,774)	(67,100)
(Decrease) in other liabilities	(480)	(1,028)	(4,278)
Other	(173)	2,165	(1,542)
Subtotal	<u>3,873</u>	<u>15,285</u>	<u>34,521</u>
Interest and dividends received	900	873	8,022
Interest paid	(528)	(540)	(4,706)
Income taxes paid	(8,127)	(4,876)	(72,439)
Net cash (used in) provided by operating activities	<u>(3,882)</u>	<u>10,742</u>	<u>(34,602)</u>
<b>Investing activities</b>			
(Decrease) in fixed deposits	(362)	(200)	(3,226)
Purchases of property and equipment	(1,602)	(2,034)	(14,279)
Proceeds from sales of property and equipment	353	172	3,146
Purchases of intangible fixed assets	(308)	(198)	(2,745)
Proceeds from sales of investments in real estate	-	2,920	-
Purchases of investments in securities	(1)	(171)	(8)
Proceeds from sales of investments in securities	88	3	784
Disbursements for loans receivable	(29)	(39)	(258)
Proceeds from collection of loans receivable	100	162	891
Other	114	190	1,016
Net cash (used in) provided by investing activities	<u>(1,648)</u>	<u>805</u>	<u>(14,689)</u>

Sumitomo Mitsui Construction Co., Ltd.  
**Consolidated Statements of Cash Flows**  
 March 31, 2017

	<b>Years ended March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 3)</i>
<b>Financing activities</b>			
(Decrease) in short-term bank loans	¥ (972)	¥ (6,448)	\$ (8,663)
Proceed from long-term debt	15,000	12,200	133,701
Payments of long-term debt	(3,680)	(2,358)	(32,801)
Increase in long-term loans of employees	279	154	2,486
(Increase) in treasury stock	(1)	(2)	(8)
Cash dividends paid	(1,615)	(806)	(14,395)
Cash dividends paid for non-controlling shareholders	(567)	(143)	(5,05)
Other	(648)	(425)	(5,053)
Net cash provided by financing activities	<u>7,792</u>	<u>2,168</u>	<u>69,453</u>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<u>(203)</u>	<u>(551)</u>	<u>(1,809)</u>
<b>Net increase in cash and cash equivalents</b>	<u>2,058</u>	<u>13,165</u>	<u>18,343</u>
<b>Cash and cash equivalents at beginning of the year</b>	<u>57,730</u>	<u>44,565</u>	<u>514,573</u>
<b>Increase in cash and cash equivalents due to inclusion in consolidation</b>	<u>21</u>	<u>–</u>	<u>187</u>
<b>Cash and cash equivalents at end of the year (Note 10)</b>	<u>¥59,809</u>	<u>¥57,730</u>	<u>\$533,104</u>

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

## **1. Basis of Preparation**

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

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

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

## **2. Summary of Significant Accounting Policies**

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

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

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

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

The Company had 19 consolidated subsidiaries and 1 affiliate accounted for by the equity method as of March 31, 2017.

### **(b) Fiscal Year of Consolidated Subsidiaries**

All foreign consolidated subsidiaries (7 companies) have a fiscal year that ends on December 31. The accompanying consolidated financial statements were prepared based on the financial statements as of the same date. Necessary adjustments for consolidation were made on significant transactions that took place during the period between the fiscal year-end of the subsidiaries and the fiscal year-end of the Company.

(c) Securities

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

(d) Inventories

Inventories other than materials and supplies are stated at cost determined by the specific identification method. Materials and supplies are valued at cost determined by the average method. 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 and facilities attached to buildings and structures acquired on or after April 1, 2016.

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

(2) Intangible fixed assets (except leased assets)

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

(3) Leased assets

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

(f) Advances Received on Construction Contracts in Progress

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

(g) Allowance for Doubtful Receivables

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

(h) Reserve for Defects on Completed Construction Projects

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

(i) Allowance for Losses on Construction Contracts

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

(j) Allowance for Contingency Loss

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

(k) Allowance for Loss Related to Antitrust Law

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

(Additional information)

SUMIKEN MITSUI ROAD CO., LTD. had recognized the allowance of ¥287 million for a surcharge payment, etc., which will be incurred related to a violation of the Antitrust Law on a project contracted by East Nippon Expressway Co., Ltd. for the year ended March 31, 2016.

Thereafter, a part of the allowance for the above surcharge payment, etc. has been reserved due to acceptance of order for payment of surcharge by Japanese Fair Trade Commission for the year ended March 31, 2017.

(l) Accounting for Retirement Benefits

(1) Method of attributing expected retirement benefits to periods

In calculating the retirement benefit obligation, the benefit formula method is applied to attribute the expected retirement benefits to the periods up to year ended March 31, 2017.

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

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

(l) Accounting for Retirement Benefits (continued)

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

(m) Recognition of Revenues and Costs on Construction Contracts

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

(n) Recognition of Income from Finance Leases

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

(o) Derivatives and Hedge Accounting

(1) Method of hedge accounting

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

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

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

(2) Hedging instruments and hedged items

Hedging instruments: Forward foreign exchange contracts  
Interest rate swaps

Hedged items: Future foreign currency transactions  
Interest on debt

(3) Hedging policy

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

(o) Derivatives and Hedge Accounting (continued)

(4) Assessment of hedge effectiveness

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

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

(p) Cash Equivalents

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

(q) Consumption Taxes

Consumption taxes are accounted for by the tax exclusion method.

(r) Income Taxes

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

The Company has adopted the consolidated taxation system.

### **3. U.S. Dollar Amounts**

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made, as a matter of arithmetic computation only, at ¥112.19 = U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2017. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

### **4. Changes in Accounting Methods**

The Company and its consolidated subsidiaries have adopted “Practical Solution on a change in depreciation method due to Tax Reform 2016” (ASBJ PITF No. 32 issued on June 17, 2016) effective from April 1, 2016. Accordingly the depreciation method for both facilities attached to buildings and structures acquired on or after April 1, 2016 was changed from declining-balance method to the straight-line method.

In addition, the effect of these changes is immaterial for the year ended March 31, 2017.

## 5. Additional Information

The Company and its consolidated subsidiaries have adopted “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26 issued on March 28, 2016) effective from April 1, 2016.

## 6. Notes to Consolidated Balance Sheets

### (a) Inventories

The components of inventories as of March 31, 2017 and 2016 were as follows:

	<b>As of March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Merchandise and finished goods	¥ 366	¥ 536	\$ 3,262
Materials and supplies	2,051	3,964	18,281
Costs on uncompleted construction contracts	19,879	25,026	177,190
Real estate for sale	2	2	17
	<u>¥22,300</u>	<u>¥29,530</u>	<u>\$198,769</u>

### (b) Pledged Assets

The following assets were pledged at March 31, 2017 and 2016 principally as collateral for short-term bank loans, long-term debt, and guarantees (such as guarantees for the completion of construction contracts):

	<b>As of March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Cash and deposits	¥ 0	¥ 0	\$ 0
Land	9,831	10,308	87,628
Buildings and structures, net of accumulated depreciation	787	774	7,014
Machinery, equipment and vehicles, net of accumulated depreciation	151	93	1,345
Investments in securities	20	20	178
Others (Investments and other assets)	530	530	4,724
	<u>¥11,323</u>	<u>¥11,727</u>	<u>\$100,926</u>

(b) Pledged Assets (continued)

Of the above property and equipment, mortgaged assets for factory foundations at March 31, 2017 and 2016 were summarized as follows:

	<b>As of March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Land	¥1,258	¥1,258	\$11,213
Buildings and structures, net of accumulated depreciation	219	180	1,952
Machinery, equipment and vehicles, net of accumulated depreciation	151	93	1,345
	<u>¥1,629</u>	<u>¥1,532</u>	<u>\$14,520</u>

The secured liabilities as of March 31, 2017 and 2016 were summarized as follows:

	<b>As of March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Short-term bank loans	¥134	¥237	\$1,194
[Including current portion of long-term debt]	[134]	[237]	[1,194]
Long-term debt	115	249	1,025

(c) Land Revaluation

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

The market value of the land was ¥692 million (\$6,168 thousand) and ¥704 million more than the revalued book amount at March 31, 2017 and 2016, respectively.

(d) Contingent Liabilities

At March 31, 2017 and 2016, the Company and consolidated subsidiaries were contingently liable for the following:

	<b>As of March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
As guarantors of bank loans to customers, unconsolidated subsidiaries, an affiliate and employees	¥ 5	¥241	\$ 44
As endorsers of notes receivable discounted with banks	250	—	2,228

(e) Estimated Loss on Uncompleted Construction Contracts

An estimated loss on uncompleted construction contracts was recognized and included as part of inventories but was not offset against the amount on the balance sheet. It has been recorded as an allowance for losses on construction contracts in the amounts of ¥222 million (\$1,978 thousand) and ¥277 million as of March 31, 2017 and 2016, respectively.

(f) Financial covenants

For the year ended March 31, 2017

- (1) The Company has entered into a syndicated loan contract dated on August 6, 2014 with its seven banks with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2015 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2014 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥7,500 million (\$66,850 thousand) in long-term debt (including the current portion) as of March 31, 2017.

- (2) The Company has entered into a syndicated loan contract dated on March 29, 2016 and loan commitment agreement dated on March 31, 2016 with its seven banks (same bank as we had contracted for the year ended March, 31 2015.) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

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

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

In addition, the balance of bank borrowings under this syndicated loan contract is ¥10,000 million (\$89,134 thousand) in long-term debt as of March 31, 2017.

(f) Financial covenants (continued)

Unused amount on loan commitment agreement as of March 31, 2017 and 2016 were as follows.

	<b>As of March 31,</b>		
	<u>2017</u>	<u>2016</u>	<u>2017</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Maximum limit under the agreement	¥20,000	¥20,000	\$178,269
Loan balance outstanding	—	—	—
Difference (unused portion)	<u>¥20,000</u>	<u>¥20,000</u>	<u>\$178,269</u>

- (3) The Company has entered into a syndicated loan contract dated on September 28, 2016 with its seven banks (same bank as we had contracted for the year ended March, 31 2015 and 2016.) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

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

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

In addition, the balance of bank borrowings under this syndicated loan contract is ¥9,500 million (\$84,677 thousand) in long-term debt (including the current portion) as of March 31, 2017.

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

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

In addition, the balance of bank borrowings under this syndicated loan contract is ¥4,750 million (\$42,338 thousand) in long-term debt (including the current portion) as of March 31, 2017.

(f) Financial covenants (continued)

For the year ended March 31, 2016

- (1) The Company has entered into a syndicated loan contract dated on August 6, 2014 with its seven banks with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2015 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2014 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥8,500 million in long-term debt (including the current portion) as of March 31, 2016.

- (2) The Company has entered into a syndicated loan contract dated on March 29, 2016 and loan commitment agreement dated on March 31, 2016 with its seven banks (same bank as we had contracted for the year ended March, 31 2015.) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

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

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

In addition, the balance of bank borrowings under this syndicated loan contract is ¥10,000 million in long-term debt as of March 31, 2016.

Unused amount on loan commitment agreement as of March 31, 2016 was as follows.

	<b>As of March 31,</b>	
	<b>2016</b>	<b>2015</b>
	<i>(Millions of yen)</i>	
Maximum limit under the agreement	¥20,000	¥-
Loan balance outstanding	-	-
Difference (unused portion)	<u>¥20,000</u>	<u>¥-</u>

## 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 ¥303,814 million (\$2,708,031 thousand) and ¥311,991 million for the years ended March 31, 2017 and 2016, 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 ¥113 million (\$1,007 thousand) and ¥316 million for the years ended March 31, 2017 and 2016, respectively.

### (c) Selling, General and Administrative Expenses

The significant components of selling, general and administrative expenses at March 31, 2017 and 2016 were as follows:

	<b>Years ended March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Salaries and wages	¥ 8,456	¥ 7,566	\$ 75,372
Retirement benefit expenses	604	499	5,383
Provision of allowance for doubtful receivables	66	0	588
Other	9,357	8,364	83,403
<b>Total</b>	<b>¥18,483</b>	<b>¥16,429</b>	<b>\$164,747</b>

### (d) Research and Development Expenses

Research and development costs included in selling, general and administrative expenses and manufacturing costs amounted to ¥1,657 million (\$14,769 thousand) and ¥1,380 million for the years ended March 31, 2017 and 2016, 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, 2017 and 2016 were as follows:

	<b>Years ended March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Buildings and structures	¥-	¥ 1	\$ -
Machinery, equipment and vehicles	6	16	53
Land	2	-	17
Others	-	0	-
<b>Total</b>	<b>¥9</b>	<b>¥17</b>	<b>\$80</b>

(f) Gain on Donation of Assets

Gain on donation of assets was recognized at a consolidated subsidiary “Amenity Life, Inc.,” which operates a senior care facility, due to the receipt of a bequest from a former resident for the year ended March 31, 2017.

(g) 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, 2017 and 2016 were as follows:

	<b>Years ended March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Loss on disposal	¥113	¥ 46	\$1,007
Loss on sales	4	307	35
<b>Total</b>	<b>¥118</b>	<b>¥353</b>	<b>\$1,051</b>

(h) Impairment Loss

The Group recognized impairment loss on the following asset groups.

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

(1) For the year ended March 31, 2017

The book values of following assets were reduced to their recoverable values as a result of determination of closure of product department in factory of assets for business. The corresponding write-down was recognized in the amount of ¥624 million (\$5,561 thousand) as part of other income expenses.

Location	Usage	Classification	<b>Year ended</b>	
			<b>March 31, 2017</b>	
			<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Iwaki, Fukushima	Assets for business (1 building)	Land, buildings and structures, machinery, equipment and vehicles	¥601	\$5,356
Shizuoka, Shizuoka	Assets for business (1 building)	Land, buildings and structures	12	106
Sayama, Saitama	Assets for business (1 building)	Land, buildings and structures	8	71
Kobe, Hyougo	Assets for business (1 building)	Land, buildings and structures	1	8

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

(h) Impairment Loss (continued)

(2) For the year ended March 31, 2016

The book values of following assets were reduced to their recoverable values as a result of profit deterioration on elder care facility and determination of closure of product department in factory of assets for business. The corresponding write-down was recognized in the amount of ¥711 million as part of other income expenses.

Location	Usage	Classification	Year ended March 31 2016, <i>(Millions of yen)</i>
Hachioji, Tokyo	Elder care facility (1 building)	Land	¥692
Esashi, Hokkaido	Assets for business (1 building)	Land, machinery, equipment and vehicles	19
Rishiri, Hokkaido	Assets for business (1 building)	Buildings and structures, machinery, equipment and vehicles	0

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

## 8. Notes to Consolidated Statements of Comprehensive Income

Amount of recycling and amount of income tax effects associated with other comprehensive income for the years ended March 31, 2017 and 2016 were as follows:

	<b>Years ended March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unrealized holding gain on securities:			
Changes in items during the period	¥ (78)	¥(1,241)	\$(695)
Amount of recycling	(14)	(0)	(124)
Before income tax effect adjustment	(92)	(1,241)	(820)
Income tax effect adjustment	28	411	249
Unrealized holding gain on securities	(64)	(830)	(570)
Deferred gain on hedging instruments, net of taxes:			
Changes in items during the period	(15)	(282)	(133)
Amount of recycling	-	-	-
Before income tax effect adjustment	(15)	(282)	(133)
Income tax effect adjustment	4	93	35
Deferred gain on hedging instruments, net of taxes	(10)	(188)	(89)
Land revaluation:			
Income tax effect adjustment	-	16	-
Land revaluation	-	16	-
Translation adjustments:			
Changes in items during the period	(586)	(481)	(5,223)
Amount of recycling	-	-	-
Before income tax effect adjustment	(586)	(481)	(5,223)
Income tax effect adjustment	-	-	-
Translation adjustments	(586)	(481)	(5,223)
Retirement benefits liability adjustments:			
Changes in items during the period	(67)	(233)	(597)
Amount of recycling	75	(23)	668
Before income tax effect adjustment	8	(257)	71
Income tax effect adjustment	62	(4)	552
Retirement benefits liability adjustments	71	(262)	632
Total other comprehensive income	¥(590)	¥(1,746)	\$(5,258)

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

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

For the year ended March 31, 2017

	Balance at April 1, 2016	Increase	Decrease	Balance at March 31, 2017
	<i>(Number of shares)</i>			
Shares issued:				
Common stock	813,366,605	–	–	813,366,605
	Balance at April 1, 2016	Increase	Decrease	Balance at March 31, 2017
	<i>(Number of shares)</i>			
Treasury shares:				
Common stock	501,516	10,394	466	511,444

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

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

For the year ended March 31, 2016

	Balance at April 1, 2015	Increase	Decrease	Balance at March 31, 2016
	<i>(Number of shares)</i>			
Shares issued:				
Common stock	813,366,605	–	–	813,366,605
	Balance at April 1, 2015	Increase	Decrease	Balance at March 31, 2016
	<i>(Number of shares)</i>			
Treasury shares:				
Common stock	482,953	19,300	737	501,516

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

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

(b) Dividends:

(1) Dividends paid

For the year ended March 31, 2017

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date
Annual general meeting of the shareholders on June 29, 2016	Common stock	¥1,625	¥2.00	March 31, 2016	June 30, 2016

For the years ended March 31, 2016

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date
Annual general meeting of the shareholders on June 26, 2015	Common stock	¥812	¥1.00	March 31, 2015	June 29, 2015

(2) Dividends with the cut-off date in the year ended March 31, 2017 and the effective date in the year ending March 31, 2018 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, 2017	Common stock	¥2,438	¥3.00	March 31, 2017	June 30, 2017

Dividends with the cut-off date in the year ended March 31, 2016 and the effective date in the year ending March 31, 2017 were as follows:

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date
Annual general meeting of the shareholders on June 26, 2016	Common stock	¥1,625	¥2.00	March 31, 2016	June 30, 2016

## 10. Notes to Consolidated Statements of Cash Flows

### Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2017 and 2016 were as follows:

	<b>As of March 31,</b>		
	<u>2017</u>	<u>2016</u>	<u>2017</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Cash and deposits	¥68,122	¥66,209	\$607,202
Time deposits with maturities of over three months	(8,313)	(8,479)	(74,097)
Cash and cash equivalents	<u>¥59,809</u>	<u>¥57,730</u>	<u>\$533,104</u>

## 11. Financial Instruments

### (a) Overview

#### (1) Policy for financial instruments

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

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

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

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

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

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

(a) Overview (continued)

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

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

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

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

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

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

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

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

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

(b) Fair value of financial instruments

Amounts recognized in the consolidated balance sheets, market value, and the difference at March 31, 2017 and 2016, were as shown below. Moreover, items for which it is extremely difficult to determine fair values are not included in the following table (see Note 2).

	As of March 31, 2017					
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
	(Millions of yen)			(Thousands of U.S. dollars)		
Cash and deposits	¥ 68,122	¥ 68,122	¥ -	\$ 607,202	\$ 607,202	\$ -
Trade notes receivable, accounts receivable on completed construction contracts and other	143,603			1,279,998		
Allowance for doubtful receivables (*1)	(27)			(240)		
	143,603	143,589	(14)	1,279,998	1,279,873	(124)
Securities and investments in securities	7,618	7,626	7	67,902	67,973	62
Held-to-maturity securities	282	289	7	2,513	2,575	62
Other securities	7,336	7,336	-	65,389	65,389	-
Long-term loans receivable	6,263			55,824		
Allowance for doubtful receivables (*1)	(5,545)			(49,425)		
	718	697	(20)	6,399	6,212	(178)
Total assets	220,063	220,035	(27)	1,961,520	1,961,271	(240)
Trade notes payable, accounts payable on construction contracts and other	104,111	104,111	-	927,988	927,988	-
Electronically recorded payable	26,387	26,387	-	235,199	235,199	-
Short-term bank loans and current portion of long-term debt	10,201	10,157	(43)	90,926	90,533	(383)
Long-term debt	23,640	23,425	(214)	210,713	208,797	(1,907)
Total liabilities	¥164,339	¥164,081	¥(258)	\$1,464,827	\$1,462,527	\$(2,299)
Derivative transactions (*2)						
Hedge accounting is not applied	(10)	(10)	-	(89)	(89)	-
Hedge accounting is applied	(5)	(5)	-	(44)	(44)	-

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

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

(b) Fair value of financial instruments (continued)

	<b>As of March 31, 2016</b>		
	Carrying value	Fair value	Difference
	<i>(Millions of yen)</i>		
Cash and deposits	¥ 66,209	¥ 66,209	¥ –
Trade notes receivable, accounts receivable on completed construction contracts and other	134,596	134,593	(3)
Securities and investments in securities	7,720	7,731	10
Held-to-maturity securities	280	291	10
Other securities	7,440	7,440	–
Long-term loans receivable	6,333		
Allowance for doubtful receivables (*1)	(5,485)		
	<u>848</u>	<u>822</u>	<u>(25)</u>
Total assets	<u>209,375</u>	<u>209,357</u>	<u>(17)</u>
Trade notes payable, accounts payable on construction contracts and other	115,745	115,745	–
Electronically recorded payable	22,096	22,096	–
Short-term bank loans and current portion of long-term debt	4,418	4,419	0
Long-term debt	18,971	18,759	(212)
Total liabilities	<u>¥161,232</u>	<u>¥161,019</u>	<u>¥(212)</u>
Derivative transactions (*2)			
Hedge accounting is not applied	(22)	(22)	–
Hedge accounting is applied	9	9	–

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

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

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

Assets

(1) Cash and deposits

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

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

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

(b) Fair value of financial instruments (continued)

(3) Securities and investments in securities

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

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

(4) Long-term loans receivable

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

Liabilities

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

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

(2) Short-term bank loans

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

(3) Long-term debt

Fair value of long-term debt is based on the price provided by financial institutions or the present value of future cash flows discounted using the current borrowing rate for similar debt with a comparable maturity.

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

(b) Fair value of financial instruments (continued)

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

	<b>As of March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unlisted stocks (*)	¥3,183	¥3,272	\$28,371

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

Note 3: The redemption schedule for monetary claims and held-to-maturity debt securities with maturity dates subsequent to March 31, 2017 and 2016

	<b>As of March 31, 2017</b>							
	Within 1 year	Over 1 year and within 5 years	Over 5 years and within 10 years	Over 10 years	Within 1 year	Over 1 year and within 5 years	Over 5 years and within 10 years	Over 10 years
	<i>(Millions of yen)</i>				<i>(Thousands of U.S. dollars)</i>			
Deposits	¥ 68,090	¥ –	¥ –	¥–	\$ 606,916	\$ –	\$ –	\$ –
Trade notes receivable, accounts receivable on completed construction contracts and other	133,983	9,620	–	–	1,194,250	85,747	–	–
Securities and investments in securities								
Held-to-maturity securities (Bonds)	–	213	68	–	–	1,898	606	–
Long-term loans receivable	3	147	562	4	26	1,310	5,009	35
	<u>¥202,077</u>	<u>¥9,981</u>	<u>¥631</u>	<u>¥4</u>	<u>\$1,801,203</u>	<u>\$88,965</u>	<u>\$5,624</u>	<u>\$35</u>

	<b>As of March 31, 2016</b>			
	Within 1 year	Over 1 year and within 5 years	Over 5 years and within 10 years	Over 10 years
	<i>(Millions of yen)</i>			
Deposits	¥ 66,177	¥ –	¥ –	¥ –
Trade notes receivable, accounts receivable on completed construction contracts and other	132,724	1,872	–	–
Securities and Investments in securities				
Held-to-maturity securities (Bonds)	–	166	113	–
Long-term loans receivable	1	147	70	628
	<u>¥198,904</u>	<u>¥2,186</u>	<u>¥183</u>	<u>¥628</u>

Note 4: The redemption schedule for corporate bonds, long-term debt, and other interest bearing debt with maturity dates subsequent to the consolidated balance sheet date. See Note 20.

## 12. Securities

Securities at March 31, 2017 and 2016 were summarized as follows:

### (a) Held-to-maturity securities

	<b>As of March 31, 2017</b>					
	Carrying value	Fair value	Unrealized gain	Carrying value	Fair value	Unrealized gain
	<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>		
Securities whose fair value exceeds their carrying value:						
Bonds	¥282	¥289	¥7	\$2,513	\$2,575	\$62

	<b>As of March 31, 2016</b>		
	Carrying value	Fair value	Unrealized gain
	<i>(Millions of yen)</i>		
Securities whose fair value exceeds their carrying value:			
Bonds	¥280	¥291	¥10

### (b) Other securities

	<b>As of March 31, 2017</b>					
	Balance sheet amount	Cost	Unrealized gain (loss)	Balance sheet amount	Cost	Unrealized gain (loss)
	<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>		
Unrealized gain:						
Stock	¥4,330	¥2,604	¥ 1,726	\$38,595	\$23,210	\$15,384
Unrealized loss:						
Stock	3,005	4,267	(1,262)	26,784	38,033	(11,248)
Total	<u>¥7,336</u>	<u>¥6,872</u>	<u>¥ 463</u>	<u>\$65,389</u>	<u>\$61,253</u>	<u>\$ 4,126</u>

	<b>As of March 31, 2016</b>		
	Balance sheet amount	Cost	Unrealized gain (loss)
	<i>(Millions of yen)</i>		
Unrealized gain:			
Stock	¥4,033	¥2,398	¥ 1,635
Unrealized loss:			
Stock	3,406	4,485	(1,079)
Total	<u>¥7,440</u>	<u>¥6,883</u>	<u>¥ 556</u>

### (c) Sales of other securities

	<b>Year ended March 31,</b>		
	2017	2016	2017
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Sales proceeds	¥87	¥3	\$775
Total gain on sales of security	29	3	258
Total loss on sales of security	(1)	—	(8)

### 13. Derivatives and Hedge Accounting

Derivative transactions for the years ended March 31, 2017 and 2016 were summarized as follows:

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

(1) Currency-related transactions

As of March 31, 2017									
Segmentation	Transaction type	Contract amount	Over 1 year	Fair value	Valuation (loss)	Contract amount	Over 1 year	Fair value	Valuation (loss)
			<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollar)</i>			
Off-market transaction	Foreign exchange forward contracts								
	Long U.S. dollar	¥876	¥102	¥(10)	¥(10)	\$7,808	\$909	\$(89)	\$(89)

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

As of March 31, 2016					
Segmentation	Transaction type	Contract amount	Over 1 year	Fair value	Valuation (loss)
			<i>(Millions of yen)</i>		
Off-market transaction	Foreign exchange forward contracts				
	Long U.S. dollar	¥1,452	¥585	¥(22)	¥(22)

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

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

(1) Currency-related transactions

As of March 31, 2017								
Method of hedge accounting	Transaction type	Hedged item	Contract amount	Over 1 year	Fair value	Contract amount	Over 1 year	Fair value
			<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>		
Allocation accounting method for foreign exchange forward contracts	Foreign exchange forward contracts	Accounts payable						
	Long U.S. dollar		¥ 11	¥-	Note 2	\$ 98	\$ -	Note 2
	Long U.S. dollar	Future foreign currency transactions	285	9	¥(5)	2,540	80	\$(44)
Total			¥296	¥9	¥(5)	\$2,638	\$80	\$(44)

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

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

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

As of March 31, 2016					
Method of hedge accounting	Transaction type	Hedged item	Contract amount	Over 1 year	Fair value
<i>(Millions of yen)</i>					
Allocation accounting method for foreign exchange forward contracts	Foreign exchange forward contracts	Accounts payable			
	Long U.S. dollar		¥31	¥-	Note 2
	Long U.S. dollar	Future foreign currency transactions	298	30	¥9
Total			<u>¥330</u>	<u>¥30</u>	<u>¥9</u>

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.

(2) Interest-related transactions

There were no interest-transactions to which short-cut method is not applied for the year ended March 31, 2017.

As of March 31, 2016					
Method of hedge accounting	Transaction type	Hedged item	Contract amount	Over 1 year	Fair value
<i>(Millions of yen)</i>					
Short-cut method	Interest rate swaps: Pay fixed/Receive floating	Long-term debt	¥100	-	Note 1

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

## 14. Retirement Benefit Plans

For the year ended March 31, 2017, the Group has either funded or unfunded defined benefit and defined contribution plans.

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

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

The changes in the retirement benefit obligation during the year ended March 31, 2017 and 2016 were as follows (excluding plans for which the simplified method is applied):

	<b>Year ended March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of year	¥18,318	¥19,481	\$163,276
Service cost	879	717	7,834
Interest cost	74	95	659
Actuarial loss	65	231	579
Retirement benefit paid	(1,821)	(2,189)	(16,231)
Foreign currency translation	(16)	(19)	(142)
Balance at the end of year	<u>¥17,499</u>	<u>¥18,318</u>	<u>\$155,976</u>

The changes in plan assets during the year ended March 31, 2017 and 2016 were as follows (excluding plans for which the simplified method is applied):

	<b>Years ended March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of year	¥65	¥68	\$579
Expected return on plan assets	3	4	26
Actuarial gain	(1)	(1)	(8)
Retirement benefit paid	(2)	(1)	(17)
Foreign currency translation	(5)	(3)	(44)
Balance at the end of year	<u>¥59</u>	<u>¥65</u>	<u>\$525</u>

The changes in liability for retirement benefits based on the simplified method during the year ended March 31, 2017 and 2016 were as follows:

	<b>Years ended March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of year	¥1,221	¥1,191	\$10,883
Retirement benefit expense	121	123	1,078
Retirement benefit paid	(53)	(85)	(472)
Contribution to defined contribution plan	(8)	(8)	(71)
Balance at the end of year	<u>¥1,280</u>	<u>¥1,221</u>	<u>\$11,409</u>

A reconciliation of the funded retirement benefit obligation and plan assets and the net liability for retirement benefits recognized in the consolidated balance sheet at March 31, 2017 and 2016 is as follows:

	<b>As of March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Funded retirement benefit obligation	¥ 347	¥ 327	\$ 3,092
Plan assets at fair value	(195)	(209)	(1,738)
	151	118	1,345
Unfunded retirement benefit obligation	18,568	19,356	165,504
Net liability for retirement benefits in the consolidated balance sheet	18,720	19,474	166,859
Liability for retirement benefits	18,720	19,474	166,859
Assets for retirement benefits	—	—	—
Net liability for retirement benefits in the consolidated balance sheet	¥18,720	¥19,474	\$166,859

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

The components of retirement benefit expense during the year ended March 31, 2017 and 2016 were as follows:

	<b>Year ended March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Service cost	¥ 879	¥ 717	\$ 7,834
Interest cost	74	95	659
Expected return on plan assets	(3)	(4)	(26)
Amortization of actuarial loss	438	385	3,904
Amortization of prior service cost	(363)	(409)	(3,235)
Retirement benefit expense calculated by the simplified method	121	123	1,078
Total retirement benefit expense	¥ 1,147	¥ 910	\$ 10,223

The components of retirement benefit liability adjustments included in other comprehensive income (before tax effect) during the year ended March 31, 2017 and 2016 were as follows:

	<b>Years ended March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Actuarial loss	¥ 371	¥ 151	\$ 3,306
Prior service cost	(363)	(409)	(3,235)
Total	¥ (8)	¥(257)	\$ (71)

The components of retirement benefit liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2017 and 2016 were follows:

	<b>Years ended March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unrecognized actuarial loss	¥ 2,730	¥ 3,101	\$ 24,333
Unrecognized prior service cost	(1,983)	(2,347)	(17,675)
Total	¥ 746	¥ 754	\$ 6,649

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2017 and 2016 were follows:

	<b>As of March 31,</b>	
	<b>2017</b>	<b>2016</b>
Bonds	84%	83%
Cash and Deposits	15%	16%
Other	1%	1%
Total	100%	100%

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

The principal assumptions used for above plans were as follows:

	<b>As of March 31,</b>	
	<b>2017</b>	<b>2016</b>
Discount rate	Principally 0.3%	Principally 0.3%
Expected rate of return on plan assets	5.0%	4.7%
Expected rate of increase in salaries	Principally 4.1%	Principally 4.0%

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

	<b>Years ended March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Contribution to defined contribution plans	¥814	¥680	\$7,255

## 15. Income Taxes

The significant components of deferred tax assets and liabilities at March 31, 2017 and 2016 were as follows:

	<b>As of March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Deferred tax assets:			
Liability for retirement benefits	¥ 5,819	¥ 5,984	\$ 51,867
Accounts payable and accrued expenses	3,491	3,167	31,116
Allowance for bad debts	2,173	1,999	19,368
Reserve for defects on completed construction projects	246	246	2,192
Allowance for losses on construction contracts	116	290	1,033
Other	2,784	2,584	24,815
Gross deferred tax assets	14,631	14,272	130,412
Valuation allowance	(9,322)	(9,493)	(83,091)
Total deferred tax assets	5,309	4,778	47,321
Deferred tax liabilities:			
Retained earnings of foreign consolidated subsidiaries	(361)	(259)	(3,217)
Unrealized holding gain on securities	(141)	(169)	(1,256)
Other	(19)	(22)	(169)
Total deferred tax liabilities	(522)	(451)	(4,652)
Net deferred tax assets	¥ 4,786	¥ 4,327	\$ 42,659

The following table summarizes the significant differences between the statutory tax rate and the effective tax rates for the years ended March 31, 2017 and 2016:

	<b>Years ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Statutory tax rate	-%	33.1%
Non-deductible expenses	-	2.3
Non-taxable income	-	(1.4)
Per capita inhabitants' taxes	-	1.2
Tax credit	-	(3.0)
Valuation allowance	-	7.8
Different tax rate applied to foreign subsidiaries	-	(0.1)
Change in corporate tax rate	-	1.0
Other	-	0.4
Effective tax rates	<u>-%</u>	<u>41.3%</u>

The significant differences between the statutory tax rate and the effective tax rates for the years ended March 31, 2017 has been omitted as its difference was less than 5% of the statutory tax rate.

## **16. Segment Information, etc.**

### *Segment Information*

#### (a) Outline of Segments

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

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

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

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

#### (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.

*Segment Information (continued)*

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

	Year ended March 31, 2017						
	Reportable operating segments			Others	Total	Adjustments	Consolidated
	Civil	Building	Total				
	<i>(Millions of yen)</i>						
Sales							
External Customers	¥162,950	¥240,182	¥403,132	¥775	¥403,908	¥ –	¥403,908
Intersegment transactions or transfers	1,134	77	1,211	71	1,283	(1,283)	–
Net sales	¥164,084	¥240,259	¥404,344	¥847	¥405,191	¥(1,283)	¥403,908
Segment income	22,503	23,822	46,325	225	46,551	(127)	46,424

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

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

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

	Year ended March 31, 2017						
	Reportable operating segments			Others	Total	Adjustments	Consolidated
	Civil	Building	Total				
	<i>(Thousands of U.S. dollars)</i>						
Sales							
External Customers	\$1,452,446	\$2,140,850	\$3,593,297	\$6,907	\$3,600,213	\$ –	\$3,600,213
Intersegment transactions or transfers	10,107	686	10,794	632	11,435	(11,435)	–
Net sales	\$1,462,554	\$2,141,536	\$3,604,100	\$7,549	\$3,611,649	\$(11,435)	\$3,600,213
Segment income	200,579	212,336	412,915	2,005	414,930	(1,132)	413,798

	Year ended March 31, 2016						
	Reportable operating segments			Others	Total	Adjustments	Consolidated
	Civil	Building	Total				
	<i>(Millions of yen)</i>						
Sales							
External Customers	¥165,319	¥248,812	¥414,131	¥826	¥414,958	¥ –	¥414,958
Intersegment transactions or transfers	1,127	3	1,130	76	1,206	(1,206)	–
Net sales	¥166,446	¥248,815	¥415,261	¥903	¥416,164	¥(1,206)	¥414,958
Segment income	21,259	18,313	39,573	348	39,921	(127)	39,794

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

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

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

*Related Information*

For the year ended March 31, 2017

(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, 2017							
Japan	Asia	Others	Total	Japan	Asia	Others	Total
<i>(Millions of yen)</i>				<i>(Thousands of U.S. dollars)</i>			
¥344,543	¥56,505	¥2,859	¥403,908	\$3,071,066	\$503,654	\$25,483	\$3,600,213

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

(2) Tangible fixed assets

Geographical segment information on tangible fixed assets has been omitted as the amount of tangible fixed assets in Japan constituted over 90% of total as of March 31, 2017.

(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, 2017.

For the year ended March 31, 2016

(a) Product and service information

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

(b) Geographical segment information

(1) Sales

Year ended March 31, 2016			
Japan	Asia	Others	Total
<i>(Millions of yen)</i>			
¥350,035	¥63,704	¥1,217	¥414,958

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

(2) Tangible fixed assets

Geographical segment information on tangible fixed assets has been omitted as the amount of tangible fixed assets in Japan constituted over 90% of total as of March 31, 2016.

*Related Information (continued)*

(c) Major customer information

Information on major customers has been omitted as there were no sales to a single customer constituting over 10% of net sales for the year ended March 31, 2016.

*Loss on impairment by reportable segment*

For the year ended March 31, 2017, ¥624 million (\$5,561 thousand) impairment loss was recorded.

Note 1: The above amount is assets for business.

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

For the year ended March 31, 2016, ¥711 million impairment loss was recorded.

Note 1: The above amount consists of elder care facilities of ¥692 million and assets for business of ¥19 million.

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

*Amortization of goodwill and unamortized balance by reportable segment*

For the year ended March 31, 2017 and 2016, there were no amortization and unamortized balance of goodwill by reportable segment.

*Gain on negative goodwill by reportable segment*

For the years ended March 31, 2017 and 2016, there were no gain on negative goodwill by reportable segment.

**17. Related Party Transactions**

(a) Related party transaction

Transactions with affiliates for the year ended March 31, 2017 were summarized as follows:

	Year ended March 31, 2017					
	Capital investment	Number of voting shares held as a percentage of voting shares issued	Nature of transaction	Total amount of transaction	Balance sheet account	Balance at March 31, 2017
<i>(Millions of yen)</i>						
Affiliated company:						
Yoshiikikaku Co., Ltd. (Real estate business)	¥10	30.0%	Long-term non operating accounts receivable	¥-	Long-term non operating accounts receivable	¥3,158
			Long-term accounts payable	¥-	Long-term accounts payable	¥2,579

(a) Related party transaction (continued)

<b>Year ended March 31, 2017</b>					
Capital investment	Number of voting shares held as a percentage of voting shares issued	Nature of transaction	Total amount of transaction	Balance sheet account	Balance at March 31, 2017
<i>(Thousands of U.S. dollars)</i>					
Affiliated company:					
Yoshiikikaku Co., Ltd.					
(Real estate business)					
\$89	30.0%	Long-term non operating accounts receivable	\$-	Long-term non operating accounts receivable	\$28,148
		Long-term accounts payable	\$-	Long-term accounts payable	\$22,987

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

Note 2: Allowance for above long-term non operating accounts receivable was recognized in the amount of ¥2,843 million (\$25,340 thousand).

Note 3: Consumption tax was excluded from the total amount of the transaction, however it was included in the balance at March 31, 2017

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

<b>Year ended March 31, 2016</b>					
Capital investment	Number of voting shares held as a percentage of voting shares issued	Nature of transaction	Total amount of transaction	Balance sheet account	Balance at March 31, 2016
<i>(Millions of yen)</i>					
Affiliated company:					
Yoshiikikaku Co., Ltd.					
(Real estate business)					
¥10	30.0%	Long-term non operating accounts receivable	¥2,579	Long-term non operating accounts receivable	¥3,158
		Long-term accounts payable	¥2,579	Long-term accounts payable	¥2,579

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

Note 2: Allowance for above long-term non operating accounts receivable was recognized in the amount of ¥2,843 million.

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

## 18. Per Share Information

Net assets and basic profit per share as of and for the years ended March 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>	<u>2017</u>
	<i>(Yen)</i>		<i>(U.S. dollars)</i>
Net assets per share	¥70.06	¥51.75	\$0.624
Profit per share	20.96	12.18	0.186

Note: Profit per share – diluted was omitted as there were no diluted share for the year ended March 31, 2017 and 2016.

The basis of calculation for net assets per share at March 31, 2017 and 2016 were as follows:

	<u>As of March 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>2017</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Total net assets	¥63,242	¥48,136	\$563,704
Amounts deducted from total net assets [Including non-controlling interests]	6,293 [6,293]	6,069 [6,069]	56,092 [56,092]
Total net assets attributable to common stock	<u>¥56,948</u>	<u>¥42,066</u>	<u>\$507,603</u>
	<i>(Thousands of shares)</i>		
Number of shares of common stock used to determine net assets per share	812,855	812,865	

The basis for calculating basic profit per share – based and profit per share – diluted for the years ended March 31, 2017 and 2016 were as follows:

	<u>Years ended March 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>2017</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Profit per share – basic:			
Profit attributable to owners of parent	¥17,035	¥9,902	\$151,840
Amount not available to common shareholders	–	–	–
Profit attributable to owners of parent per share – basic	<u>¥17,035</u>	<u>¥9,902</u>	<u>\$151,840</u>
	<i>(Thousands of shares)</i>		
Average number of shares of common stock outstanding	812,860	812,874	

## 19. Subsequent Event

### Consolidation of Shares

The consolidation of shares was approved as proposed in the 14th Annual General Meeting of Shareholders held on June 29, 2017.

#### (a) Objective of the Consolidation of Shares

The total number of issued shares of the Company was 813,366,605 shares as of March 31, 2017, owing to an increase in the number of shares of common stock as a result of the exercise of call options on preferred stock issued in September 2005.

This number of shares is very high, at approximately 4.3 times the average number of listed shares of companies listed on the First Section of the Tokyo Stock Exchange, and the current share price level is also significantly below the minimum level of ¥50,000 which is the investment unit level that is seen as desirable in the Securities Listing Regulation of the Tokyo Stock Exchange.

As a result, the rate of fluctuation in the share price per one yen move is relatively large, and may attract large fluctuations in the share price as a target of speculative trading, and the Company thus recognizes that this has a considerable impact on general investors.

Taking this situation into consideration, the Company consolidate shares to adjusting the investment unit to a level that is deemed desirable, and to adjust the total number of issued shares to a level that reflects the Company's scale.

#### (b) Detail of Consolidation of Shares

##### (1) Type of Consolidation of Shares

Common stock

##### (2) Method and ratio of Consolidation of Shares

The Shares which were listed in Shareholder's list on September 30, 2017 (Substantially September 29, 2017) will be consolidated 5 shares into 1 share in October 1, 2017.

##### (3) The number of shares to be decreased by Consolidation of Shares

Total number of shares issued before consolidation of shares as of March 31, 2017	813,366,605
Number of shares to be decreased by consolidation of shares	650,693,284
Total number of shares issued after consolidation of shares	162,673,321

(b) Detail of Consolidation of Shares (continued)

(4) Total number of shares authorized after consolidation of shares

Total number of shares authorized before consolidation of shares as of March 31, 2017	2,669,464,970
Total number of shares authorized after consolidation of shares	553,892,994

(c) Treatment for fractional share of less than one share

In case fractional share of less than one share arises after the consolidation of shares, the share shall be subject to a bulk disposal or acquisition as treasury stock in accordance with the provisions of the Companies Act, and proceeds from the disposal, etc. shall be distributed to shareholders for which fractions arise in proportion to their respective fractional share ratios.

(d) Effect of Per Share Information

Effect of per share information for the year ended March 31, 2017 and 2016, assuming that the consolidation of shares had been executed at the beginning of the year ended March 31, 2017 is as follows

	<b>Year ended March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>(Yen)</i>		<i>(U.S. dollars)</i>
Net assets per share	¥350.30	¥258.76	\$3.122
Profit per share	104.79	60.91	0.934

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

Short-term bank loans generally represent notes, principally at average annual interest rates of 4.8% and 1.7% at March 31, 2017 and 2016, respectively.

Long-term debt at March 31, 2017 and 2016 were summarized as follows:

	<b>As of March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Debt with collateral (at average interest rates of 2.3% at 2017 and 2016)	¥ 249	¥ 487	\$ 2,219
Debt without collateral (at average interest rates of 1.3% at 2017 and 1.4% at 2016)	32,971	21,415	293,885
Lease obligations	931	1,310	8,298
Current portion (excluding lease obligations)	(9,581)	(2,930)	(85,399)
Current portion of lease obligations	(490)	(614)	(4,367)
Deposits from employees	2,381	2,101	21,222
	<u>¥26,462</u>	<u>¥21,769</u>	<u>\$235,867</u>

The aggregate annual maturities of long-term debt subsequent to March 31, 2017 were summarized as follows:

<u>Year ending March 31,</u>	<u>(Millions of yen)</u>	<u>(Thousands of U.S. dollars)</u>
2018	¥ 9,581	\$ 85,399
2019	2,286	20,376
2020	1,511	13,468
2021 and thereafter	19,842	176,860
	<u>¥33,221</u>	<u>\$296,113</u>

The aggregate annual maturities of lease obligations subsequent to March 31, 2017 were summarized as follows:

<u>Year ending March 31,</u>	<u>(Millions of yen)</u>	<u>(Thousands of U.S. dollars)</u>
2018	¥ 490	\$ 4,367
2019	208	1,853
2020	119	1,060
2021 and thereafter	113	1,007
	<u>¥931</u>	<u>\$8,298</u>

## 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, 2017, 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, 2017, 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.



June 29, 2017  
Tokyo, Japan



**Non-Consolidated Financial Statements**

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

*Year ended March 31, 2017  
with Independent Auditor's Report*

## Non-Consolidated Balance Sheets

March 31, 2017

	As of March 31,		
	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
<b>Assets</b>			
Current assets:			
Cash and deposits	¥ 40,546	¥ 37,875	\$ 361,404
Trade notes receivable	1,210	792	10,785
Accounts receivable on completed construction contracts	120,549	115,359	1,074,507
Inventories	19,056	23,567	169,854
Deferred tax assets (Notes 4 and 8)	2,341	2,207	20,866
Other current assets	22,097	17,082	196,960
Allowance for doubtful receivables	(161)	(36)	(1,435)
Total current assets	205,640	196,848	1,832,961
Non-current assets:			
Property and equipment, at cost:			
Land (Note 5-(b))	5,328	5,328	47,490
Buildings (Note 5-(b))	4,671	4,789	41,634
Structures (Note 5-(b))	771	737	6,872
Machinery and equipment	2,817	2,945	25,109
Vehicles	320	416	2,852
Tools, furniture and fixtures	3,272	3,276	29,164
Construction in progress	4	20	35
Accumulated depreciation	(9,324)	(9,495)	(83,109)
Property and equipment, net	7,862	8,018	70,077
Intangible fixed assets	1,502	1,383	13,388
Investments and other assets:			
Investments in securities	10,032	10,129	89,419
Investments in subsidiaries and affiliates (Notes 5-(b) and 7)	14,092	13,613	125,608
Long-term loans receivable	5,618	5,618	50,075
Long-term loans to employees	556	624	4,955
Long-term prepaid expenses	27	25	240
Deferred tax assets (Notes 4 and 8)	1,056	1,190	9,412
Other	5,614	6,261	50,040
Allowance for doubtful receivables	(9,886)	(9,529)	(88,118)
Total investments and other assets	27,113	27,933	241,670
Total non-current assets	36,478	37,335	325,144
Total assets	¥242,118	¥234,183	\$2,158,106

Sumitomo Mitsui Construction Co., Ltd.  
**Non-Consolidated Balance Sheets**  
 March 31, 2017

	As of March 31,		
	2017 <i>(Millions of yen)</i>	2016	2017 <i>(Thousands of U.S. dollars) (Note 2)</i>
<b>Liabilities and net assets</b>			
Current liabilities:			
Trade notes payable <i>(Note 5-(a))</i>	¥ 14,286	¥ 21,251	\$ 127,337
Electronically recorded payable <i>(Note 5-(a))</i>	30,707	20,953	273,705
Accounts payable on construction contracts <i>(Note 5-(a))</i>	60,903	71,785	542,855
Short-term bank loans and current portion of long-term debt <i>(Notes 5-(b), 5-(d) and 10)</i>	9,546	4,374	85,087
Income taxes payable	4,207	3,792	37,498
Advances received on construction contracts in progress	20,405	27,385	181,878
Reserve for defects on completed construction projects	692	693	6,168
Allowance for losses on construction contracts	328	890	2,923
Allowance for contingency loss	2,159	2,152	19,244
Other current liabilities	13,722	13,970	122,310
Total current liabilities	156,959	167,250	1,399,046
Long-term liabilities:			
Long-term debt <i>(Notes 5-(b), 5-(d) and 10)</i>	23,525	18,821	209,688
Accrued retirement benefits	14,952	15,700	133,273
Other long-term liabilities	2,908	3,040	25,920
Total long-term liabilities	41,386	37,562	368,892
Contingent liabilities <i>(Note 5-(c))</i>			
Net assets:			
Shareholders' equity:			
Capital stock:			
Common stock:			
Authorized:			
2,669,464,970 shares in 2017 and 2016			
Issued and outstanding:			
813,366,605 shares in 2017 and 2016			
Capital surplus:			
Other capital surplus	398	398	3,547
Total capital surpluses	398	398	3,547
Retained earnings:			
Legal retained earnings	347	184	3,092
Earned surplus carried forward	30,957	16,646	275,933
Total retained earnings	31,304	16,830	279,026
Treasury stock, at cost:			
511,444 shares in 2017 and 501,516 shares in 2016			
Total shareholders' equity	43,460	28,987	387,378
Valuation, translation adjustments and other:			
Unrealized holding gain on securities	317	376	2,825
Deferred (loss) gain on hedging instruments, net of taxes	(4)	6	(35)
Total valuation, translation adjustments and other	313	382	2,789
Total net assets	43,773	29,369	390,168
Total liabilities and net assets	¥242,118	¥234,183	\$2,158,106

See accompanying notes to non-consolidated financial statements.

Sumitomo Mitsui Construction Co., Ltd.  
**Non-Consolidated Statements of Income**  
 March 31, 2017

	Years ended March 31,		
	2017	2016	2017
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars) (Note 2)</i>
Net sales:			
Completed construction <i>(Note 6-(a))</i>	¥305,702	¥320,781	\$2,724,859
Others	46	45	410
	<u>305,749</u>	<u>320,826</u>	<u>2,725,278</u>
Cost of sales:			
Completed construction	268,674	292,493	2,394,812
Others	23	24	205
	<u>268,698</u>	<u>292,518</u>	<u>2,395,026</u>
Gross profit			
Completed construction	37,027	28,287	330,038
Others	23	20	205
	<u>37,050</u>	<u>28,308</u>	<u>330,243</u>
Selling, general and administrative expenses <i>(Note 6-(d))</i>	13,360	11,552	119,083
Operating income	<u>23,690</u>	<u>16,755</u>	<u>211,159</u>
Other income (expenses):			
Interest and dividend income <i>(Note 6-(b))</i>	1,466	972	13,067
Payments received from insurance claims	127	128	1,132
Royalty income <i>(Note 6-(b))</i>	713	494	6,355
Interest expense	(583)	(592)	(5,196)
Provision of allowance for doubtful receivables	(552)	(919)	(4,920)
Loan related fee	(326)	(145)	(2,905)
Gain on sales of property and equipment	–	1	–
Gain on sales of investments in securities	12	3	106
Loss on sales and disposal of property and equipment <i>(Note 6-(c))</i>	(95)	(54)	(846)
Loss on valuation of investments in subsidiaries and affiliates	(820)	(11)	(7,309)
Other, net	(1,155)	(3,516)	(10,295)
	<u>(1,214)</u>	<u>(3,640)</u>	<u>(10,820)</u>
Profit before income taxes	<u>22,475</u>	<u>13,114</u>	<u>200,329</u>
Income taxes <i>(Notes 4 and 8)</i> :			
Current	6,346	4,551	56,564
Deferred	29	569	258
	<u>6,375</u>	<u>5,120</u>	<u>56,823</u>
Profit	<u>¥ 16,099</u>	<u>¥ 7,994</u>	<u>\$ 143,497</u>
	<i>(Yen)</i>		<i>(U.S. dollars) (Note 2)</i>
Profit per share – basic	¥ 19.81	¥ 9.83	\$ 0.176

See accompanying notes to non-consolidated financial statements.

## Non-Consolidated Statements of Changes In Net Assets

March 31, 2017

	Year ended March 31, 2017						Total shareholders' equity
	Shareholders' equity						
	Capital stock	Additional paid-in capital		Retained earnings		Treasury stock, at cost	
		Other capital surplus	Earned reserve	Earned surplus carried forward	Total retained earnings		
	<i>(Millions of yen)</i>						
Balance at the beginning of the period	¥12,003	¥398	¥184	¥16,646	¥16,830	¥(246)	¥28,987
Changes in items during the period							
Dividends from surplus				(1,625)	(1,625)		(1,625)
Provision of legal retained earnings			162	(162)	—		—
Profit				16,099	16,099		16,099
Purchases of treasury stock						(1)	(1)
Disposition of treasury stock		(0)				0	0
Net changes in items other than shareholders' equity							
Total changes in items during the period	—	(0)	162	14,311	14,474	(0)	14,473
Balance at the end of the period	¥12,003	¥398	¥347	¥30,957	¥31,304	¥(247)	¥43,460

	Year ended March 31, 2017			
	Valuation, translation adjustments and other			
	Unrealized holding gain (loss) on securities	Deferred gain (loss) on hedging instruments, net of taxes	Total valuation, translation adjustments and other	Total net assets
Balance at the beginning of the period	¥376	¥ 6	¥382	¥29,369
Changes in items during the period				
Dividends from surplus				(1,625)
Provision of legal retained earnings				—
Profit				16,099
Purchases of treasury stock				(1)
Disposition of treasury stock				0
Net changes in items other than shareholders' equity	(58)	(10)	(69)	(69)
Total changes in items during the period	(58)	(10)	(69)	14,403
Balance at the end of the period	¥317	¥ (4)	¥313	¥43,773

## Non-Consolidated Statements of Changes In Net Assets

March 31, 2017

	Year ended March 31, 2017						Total shareholders' equity
	Shareholders' equity						
	Capital stock	Additional paid-in capital		Retained earnings		Treasury stock, at cost	
		Other capital surplus	Earned reserve	Earned surplus carried forward	Total retained earnings		
<i>(Thousands of U.S. dollars) (Note 2)</i>							
Balance at the beginning of the period	\$106,988	\$3,547	\$1,640	\$148,373	\$150,013	\$(2,192)	\$258,374
Changes in items during the period							
Dividends from surplus				(14,484)	(14,484)		(14,484)
Provision of legal retained earnings			1,443	(1,443)	–		–
Profit				143,497	143,497		143,497
Purchases of treasury stock						(8)	(8)
Disposition of treasury stock		(0)				0	0
Net changes in items other than shareholders' equity							
Total changes in items during the period	–	(0)	1,443	127,560	129,013	(0)	129,004
Balance at the end of the period	\$106,988	\$3,547	\$3,092	\$275,933	\$279,026	\$(2,201)	\$387,378

	Year ended March 31, 2017			
	Valuation, translation adjustments and other			
	Unrealized holding gain (loss) on securities	Deferred gain (loss) on hedging instruments, net of taxes	Total valuation, translation adjustments and other	Total net assets
<i>(Thousands of U.S. dollars) (Note 2)</i>				
Balance at the beginning of the period	\$3,351	\$ 53	\$3,404	\$261,779
Changes in items during the period				
Dividends from surplus				(14,484)
Provision of legal retained earnings				–
Profit				143,497
Purchases of treasury stock				(8)
Disposition of treasury stock				0
Net changes in items other than shareholders' equity	(516)	(89)	(615)	(615)
Total changes in items during the period	(516)	(89)	(615)	128,380
Balance at the end of the period	\$2,825	\$ 35	\$2,789	\$390,168

## Non-Consolidated Statements of Changes In Net Assets

March 31, 2017

	Year ended March 31, 2016						
	Shareholders' equity						
	Capital stock	Additional paid-in capital	Retained earnings			Treasury stock, at cost	Total shareholders' equity
			Earned reserve	Earned surplus carried forward	Total retained earnings		
<i>(Millions of yen)</i>							
Balance at the beginning of the period	¥12,003	¥399	¥103	¥ 9,546	¥ 9,649	¥(244)	¥21,808
Changes in items during the period							
Dividends from surplus				(812)	(812)		(812)
Provision of legal retained earnings			81	(81)	–		–
Profit				7,994	7,994		7,994
Purchases of treasury stock						(2)	(2)
Disposition of treasury stock		(0)				0	0
Net changes in items other than shareholders' equity							
Total changes in items during the period	–	(0)	81	7,099	7,181	(2)	7,178
Balance at the end of the period	¥12,003	¥398	¥184	¥16,646	¥16,830	¥(246)	¥28,987

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

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 and facilities attached to buildings and structures acquired on or after April 1, 2016.

(d) Depreciation and Amortization (continued)

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

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

(3) Leased assets

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

(e) Advances Received on Construction Contracts in Progress

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

(f) Allowance for Doubtful Receivables

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

(g) Reserve for Defects on Completed Construction Projects

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

(h) Allowance for Losses on Construction Contracts

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

(i) Allowance for Contingency Loss

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

(j) Employees' Retirement Benefits

(1) Method of attributing expected retirement benefits to periods

In calculating the retirement benefit obligation, the benefit formula method is applied to attribute the expected retirement benefits to the periods up to year ended March 31, 2017.

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

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

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

(k) Recognition of Revenues and Costs on Construction Contracts

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

(l) Derivatives and Hedge Accounting

(1) Method of hedge accounting

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

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

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

(2) Hedging instruments and hedged items

Hedging instruments: Forward foreign exchange forward contracts  
Interest rate swaps

Hedged items: Future foreign currency transactions  
Interest on debt

(l) Derivatives and Hedge Accounting (continued)

(3) Hedging policy

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

(4) Assessment of hedge effectiveness

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

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

(m) Accounting for Retirement Benefits

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

(n) Consumption Taxes

Consumption taxes are accounted for by the tax exclusion method.

(o) Income Taxes

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

The Company has adopted the consolidated taxation system.

## 2. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at ¥112.19 = U.S.\$1.00, the approximate rate of exchange prevailing on March 31, 2017. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

### 3. Changes in Accounting Methods

The Company have adopted “Practical Solution on a change in depreciation method due to Tax Reform 2016” (ASBJ PITF No. 32 issued on June 17, 2016) effective from April 1, 2016. Accordingly the depreciation method for both facilities attached to buildings and structures acquired on or after April 1, 2016 was changed from declining-balance method to the straight-line method.

In addition, the effect of these changes is immaterial for the year ended March 31, 2017.

### 4. Additional Information

The Company have adopted “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26 issued on March 28, 2016) effective from April 1, 2016.

### 5. Notes to Non-Consolidated Balance Sheets

#### (a) Outstanding Balances with Subsidiaries and Affiliates

Significant outstanding balances for subsidiaries and affiliates other than individually presented on the accompanying non-consolidated balance sheets at March 31, 2017 and 2016 were as follows:

	<b>As of March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Trade notes payable	¥ 385	¥ 220	\$ 3,431
Electronically recorded payable	8,280	1,261	73,803
Accounts payable on construction contracts	8,878	13,278	79,133

## (b) Pledged Assets

The following assets were pledged at March 31, 2017 and 2016 principally as collateral for short-term bank loans, long-term debt and guarantees (such as guarantees for the completion of construction contracts):

	<b>As of March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Land	¥5,209	¥5,209	\$46,430
Buildings, net of accumulated depreciation	265	290	2,362
Structures, net of accumulated depreciation	58	32	516
Investments in subsidiaries and affiliates	369	369	3,289
	<u>¥5,902</u>	<u>¥5,901</u>	<u>\$52,607</u>

The secured liabilities as of March 31, 2017 and 2016 are summarized as follows:

	<b>As of March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Short-term bank loans	¥100	¥200	\$891
[Including current portion of long-term debt]	[100]	[200]	[891]
Long-term debt	-	100	-

## (c) Contingent Liabilities

At March 31, 2017 and 2016, the Company was contingently liable for the following:

	<b>As of March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
As guarantor of bank loans to customers, subsidiaries, an affiliate and employees	¥2,977	¥2,535	\$26,535

## (d) Financial covenants

For the year ended March 31, 2017

- (1) The Company has entered into a syndicated loan contract dated on August 6, 2014 with its seven banks with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2015 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2014, or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥7,500 million (\$66,85 thousand) in long-term debt (including the current portion) as of March 31, 2017.

- (2) The Company has entered into a syndicated loan contract dated on March 29, 2016 and loan commitment agreement dated on March 31, 2016 with its seven banks (same bank as we had contracted for the year ended March, 31 2015.) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

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

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

In addition, the balance of bank borrowings under this syndicated loan contract is ¥10,000 million (\$89,134 thousand) in long-term debt as of March 31, 2017.

Unused amount on loan commitment agreement as of March 31, 2017 and 2016 were as follows.

	<b>As of March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Maximum limit under the agreement	¥20,000	¥20,000	\$178,269
Loan balance outstanding	—	—	—
Difference (unused portion)	<u>¥20,000</u>	<u>¥20,000</u>	<u>\$178,269</u>

(d) Financial covenants (continued)

- (3) The Company has entered into a syndicated loan contract dated on September 28, 2016 with its seven banks (same bank as we had contracted for the year ended March, 31 2015 and 2016.) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

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

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

In addition, the balance of bank borrowings under this syndicated loan contract is ¥9,500 million (\$84,677 thousand) in long-term debt (including the current portion) as of March 31, 2017.

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

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

In addition, the balance of bank borrowings under this syndicated loan contract is ¥4,750 million (\$42,338 thousand) in long-term debt (including the current portion) as of March 31, 2017.

For the year ended March 31, 2016

- (1) The Company has entered into a syndicated loan contract dated on August 6, 2014 with its seven banks with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2015 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2014, or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥8,500 million in long-term debt (including the current portion) as of March 31, 2016.

## (d) Financial covenants (continued)

- (2) The Company has entered into a syndicated loan contract dated on March 29, 2016 and loan commitment agreement dated on March 31, 2016 with its seven banks (same bank as we had contracted for the year ended March, 31 2015.) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

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

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

In addition, the balance of bank borrowings under this syndicated loan contract is ¥10,000 million in long-term debt as of March 31, 2016.

Unused amount on loan commitment agreement as of March 31, 2016 was as follows.

	<b>As of March 31,</b>	
	<b>2016</b>	<b>2015</b>
	<i>(Millions of yen)</i>	
Maximum limit under the agreement	¥20,000	¥-
Loan balance outstanding	-	-
Difference (unused portion)	<u>¥20,000</u>	<u>¥-</u>

**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 ¥254,900 million (\$2,272,038 thousand) and ¥265,349 million for the years ended March 31, 2017 and 2016, respectively.

## Notes to Non-Consolidated Financial Statements

March 31, 2017

## (b) Transactions with Subsidiaries and Affiliates

Significant transactions with subsidiaries and affiliates other than individually presented on the accompanying non-consolidated statements of income for the years ended 2017 and 2016 were as follows:

	Years ended March 31,		
	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Dividend income	¥1,121	¥715	\$9,991
Royalty income	713	494	6,355

## (c) Loss on Sales and Disposal of Property and Equipment

The significant components of loss on sales and disposal of property and equipment for the years ended March 31, 2017 and 2016 were as follows:

	Years ended March 31,		
	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Loss on disposal	¥92	¥16	\$820
Loss on sales	0	38	0
Others	3	—	26
Total	¥95	¥54	\$846

## (d) Selling, General and Administrative Expenses

The significant components of selling, general and administrative expenses for the years ended March 31, 2017 and 2016 were as follows:

	Years ended March 31,		
	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Salaries and wages	¥ 6,341	¥ 5,463	\$ 56,520
Rent	1,088	1,044	9,697
Retirement benefit expenses	499	379	4,447
Communication and traveling expenses	959	920	8,547
Legal welfare expenses	943	840	8,405
Depreciation expenses	420	404	3,743
Other	3,107	2,498	27,694
Total	¥13,360	¥11,552	\$119,083

## Notes to Non-Consolidated Financial Statements

March 31, 2017

## 7. Securities

Stocks of subsidiaries and affiliates at March 31, 2017 and 2016 were as follows:

	As of March 31, 2017					
	Carrying value	Fair value	Unrealized gain	Carrying value	Fair value	Unrealized gain
	<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>		
Stocks of a subsidiary	¥717	¥2,470	¥1,753	\$6,390	\$22,016	\$15,625

	As of March 31, 2016		
	Carrying value	Fair value	Unrealized gain
	<i>(Millions of yen)</i>		
Stocks of a subsidiary	¥717	¥2,082	¥1,364

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,		
	2017	2016	2017
	Carrying value		
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Stocks of a subsidiaries	¥3,638	¥2,448	\$32,427
Stocks of a affiliates	10	10	89

## 8. Income Taxes

The significant components of the Company's deferred tax assets and liabilities at March 31, 2017 and 2016 were as follows:

	<b>As of March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Deferred tax assets:			
Accrued retirement benefits	¥ 4,582	¥ 4,814	\$ 40,841
Allowance for bad debts	3,076	2,929	27,417
Account payable and accrued expenses	1,956	1,484	17,434
Loss on devaluation of investments in subsidiaries and affiliates	1,117	894	9,956
Reserve for defects on completed construction projects	213	213	1,898
Allowance for losses on construction contracts	101	274	900
Other	1,141	1,424	10,170
Gross deferred tax assets	12,189	12,035	108,646
Valuation allowance	(8,647)	(8,465)	(77,074)
Total deferred tax assets	3,542	3,570	31,571
Deferred tax liabilities:			
Unrealized holding gain on securities	(139)	(165)	(1,238)
Deferred gain on hedging instruments, net of taxes	(3)	(4)	(26)
Asset retirement obligations	(0)	(3)	(0)
Total deferred tax liabilities	(143)	(172)	(1,274)
Net deferred tax assets	¥ 3,398	¥ 3,397	\$ 30,287

The following table summarizes the significant differences between the statutory tax rates and the effective tax rates for the years ended March 31, 2017 and 2016:

	<b>Years ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Statutory tax rates	30.9 %	33.1 %
Non-deductible expenses	0.4	0.8
Non-taxable income	(1.5)	(1.8)
Per capita inhabitants' taxes	1.5	1.2
Tax credit	(3.1)	(3.9)
Valuation allowance	0.8	9.3
Change in corporate tax rate	-	1.3
Other	(0.6)	(1.0)
Effective tax rates	28.4 %	39.0 %

## 9. Subsequent Event

### Consolidation of Shares

The consolidation of shares was approved as proposed in the 14th Annual General Meeting of Shareholders held on June 29, 2017.

#### (a) Objective of the Consolidation of Shares

The total number of issued shares of the Company was 813,366,605 shares as of March 31, 2017, owing to an increase in the number of shares of common stock as a result of the exercise of call options on preferred stock issued in September 2005.

This number of shares is very high, at approximately 4.3 times the average number of listed shares of companies listed on the First Section of the Tokyo Stock Exchange, and the current share price level is also significantly below the minimum level of ¥50,000, which is the investment unit level that is seen as desirable in the Securities Listing Regulation of the Tokyo Stock Exchange.

As a result, the rate of fluctuation in the share price per one yen move is relatively large, and may attract large fluctuations in the share price as a target of speculative trading, and the Company thus recognizes that this has a considerable impact on general investors.

Taking this situation into consideration, the Company consolidate shares to adjusting the investment unit to a level that is deemed desirable, and to adjust the total number of issued shares to a level that reflects the Company's scale.

#### (b) Detail of Consolidation of Shares

##### (1) Type of Consolidation of Shares

Common stock

##### (2) Method and ratio of Consolidation of Shares

The Shares which were listed in Shareholder's list on September 30, 2017 (Substantially September 29, 2017) will be consolidated 5 shares into 1 share in October 1, 2017.

##### (3) The number of shares to be decreased by Consolidation of Shares

Total number of shares issued before consolidation of shares as of March 31, 2017	813,366,605
Number of shares to be decreased by consolidation of shares	650,693,284
Total number of shares issued after consolidation of shares	162,673,321

## (b) Detail of Consolidation of Shares (continued)

## (4) Total number of shares authorized after consolidation of shares

Total number of shares authorized before consolidation of shares as of March 31, 2017	2,669,464,970
Total number of shares authorized after consolidation of shares	553,892,994

## (c) Treatment for fractional share of less than one share

In case fractional share of less than one share arises after the consolidation of shares, the share shall be subject to a bulk disposal or acquisition as treasury stock in accordance with the provisions of the Companies Act, and proceeds from the disposal, etc. shall be distributed to shareholders for which fractions arise in proportion to their respective fractional share ratios.

## (d) Effect of Per Share Information

Effect of per share information for the year ended March 31, 2017 and 2016, assuming that the consolidation of shares had been executed at the beginning of the year ended March 31, 2017 is as follows

	<b>Year ended March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>(Yen)</i>		<i>(U.S. dollars)</i>
Net assets per share	¥269.26	¥180.66	\$2.400
Profit per share	99.03	49.17	0.882

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

Short-term bank loans generally represent notes, principally at average interest rates of none and 1.7% at March 31, 2017 and 2016, respectively.

Long-term debt at March 31, 2017 and 2016 were summarized as follows:

	<b>As of March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Debt with collateral (at average interest rates of 2.0% and 2.2% at 2017 and 2016)	¥ 100	¥ 300	\$ 891
Less current portion	(100)	(200)	(891)
	¥ —	¥ 100	\$ —

## 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, 2017, 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, 2017, 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.



June 29, 2017  
Tokyo, Japan



# CORPORATE OUTLINE

**Corporate Name:**

Sumitomo Mitsui Construction Co.,Ltd.

**Established:**

October 14, 1941

**Permission:**

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

**License:**

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

**Main Scope of Business:**

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

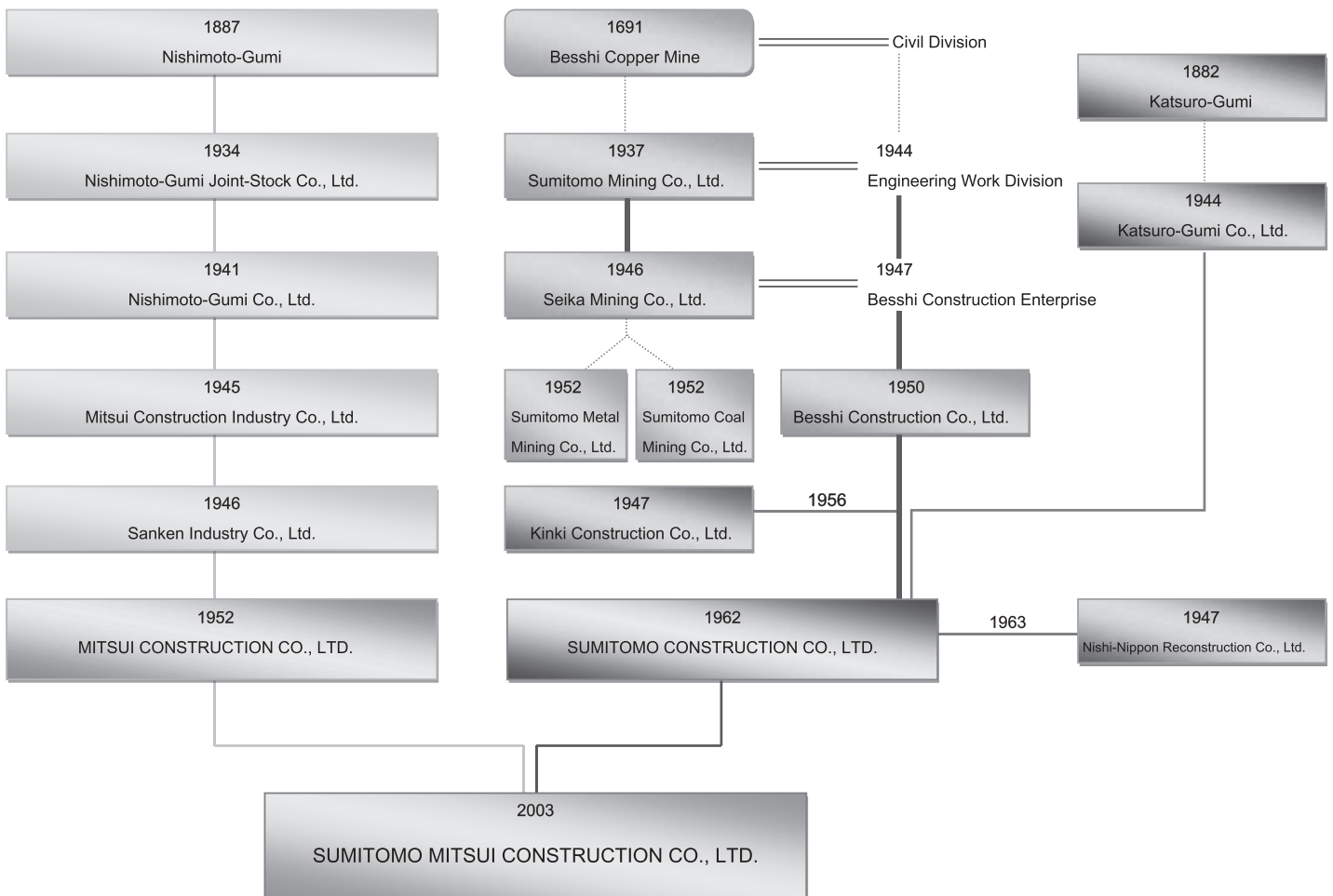
**Main Banks**

Sumitomo Mitsui Banking Corporation  
Sumitomo Mitsui Trust Bank, Ltd

**Main Shareholders**

Japan Trustee Services Bank, Ltd.  
The Master Trust Bank of Japan, Ltd.  
NORTHERN TRUST GLOBAL SERVICES LIMITED, LUXEMBOURG RE LUDU RE: UCTIS CLIENTS 15.315 PCT NON TREATY ACCOUNT  
Mitsui Fudosan Co., Ltd.  
Sumitomo Realty & Development Co.,Ltd

**Corporate History**



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## CORPORATE DATA

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### 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

#### Manila:(Philippines)

The Peninsula Court 6th Floor, 8735 Paseo de  
Roxas cor. Makati Avenue, 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)

#502-504, 5th Floor, V-Tower, 649 Kim Ma str., Ba  
Dinh Dist., Hanoi, Vietnam  
TEL:84-4-3942-8888  
FAX:84-4-3942-8808

#### Singapore:

2 Bukit Merah Central #06-01 Singapore 159835  
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

#### Yangon:(Myanmar)

#602, 6Floor, Tower B, Mindhama Condo,  
Mindhama Road, Mayangone Township, Yangon,  
Myanmar  
TEL:95-1-1224236

### 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.

201, 2nd Floor, Plot No. -D1, Ras Vilas, Saket  
District Centre, Saket, New Delhi - 110017, India  
TEL:91-11-41392800  
FAX:91-11-41652592,41652593

#### SMCC Philippines, Inc.

The Peninsula Court 6th Floor, 8735 Paseo de  
Roxas cor. Makati Avenue, Makati City, Metro  
Manila, Philippines  
TEL:63-2-840-4913  
FAX:63-2-840-4912

#### SMCC Shanghai

Room No.801, No.1 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

#### SMCC Overseas Singapore Pte. Ltd.

2Bukit Merah Central #06-01 Singapore 159835  
TEL:65-6933-8000  
FAX:65-6933-8001

#### SMCC Malaysia Sdn.Bhd.

Level 13, Suite13. 06, Johor Bahru City Square  
(Office Tower)  
106-108 Jalan Wong Ah Fook, 80000 Johor Bahru,  
Malaysia  
TEL:60-7-207-1133  
FAX:60-7-207-3311



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