

KUMAGAI GUMI



Annual Report
2008

THE COMPANY

A CENTURY OF PROGRESS

Kumagai Gumi traces its roots back to 1898 when Santaro Kumagai founded the company and embarked on constructing the stonework for the Shukununo Hydroelectric Plant in Fukui Prefecture. January 1998 marked the 100th anniversary of Kumagai Gumi's inception. Throughout those 100 years, the company has participated in a diverse array of projects, often with unprecedented challenges that required technological innovation. Kumagai Gumi, through its deeds, has established a place as one of Japan's leading general contractors.

RESEARCH AND DEVELOPMENT UNDERPINS TECHNOLOGICAL PROWESS

Kumagai Gumi's Institute of Construction Technology, which is located in Tsukuba north of Tokyo, engages in wide-ranging research activities. Equipped with state-of-the-art facilities including seismic simulation equipment, wave tanks and environmental laboratories, the institute strives to develop more effective ways of meeting changing customer needs. A core tenet of R&D is enhancing quality and safety while realizing lower costs and shorter construction periods.

STRENGTHS AT HOME

Kumagai Gumi is one of Japan's largest construction and engineering firms. In this capacity, the company has played a key role in the creation, expansion and improvement of the nation's infrastructure. The company's contributions range from the fields of transportation and power generation to living, working and leisure environments. Building on this long record of service to society, Kumagai Gumi is providing customers with reliable, high-quality construction services at a reasonable cost.

A SOLID OVERSEAS PRESENCE

Kumagai Gumi has remained committed to overseas operations. The company has chalked up a list of achievements at myriad projects worldwide. Undersea tunnels, roads, dams, hotels, renovation of historic structures, and landmark office towers in locations including Hong Kong, Taipei and Bangkok attest to Kumagai Gumi's devotion to quality and social contributions. Most major cities in Asia, the focal area of the company's overseas operation, have benefited from the company's construction expertise.

Message from the President:

Our Group's operating profit increased by 7% to ¥5.1 billion underpinned by improvements in profitability by our subsidiaries. Recurring profit increased 0.4% to ¥3.9 billion despite net sales falling 9.7% to ¥295.3 billion. Net profits for the year ¥3.2 billion, showing strong underlying growth after netting out last year's sale of securities.

In the coming year we expect to see continuing modest improvement in the domestic economy. Despite slight easing of corporate profits in Japan, they remain relatively high. We also see an improving trend in exports. However, we predict that the slowdown in the US economy arising from the subprime crisis and soaring oil price will continue to restrict growth of the economy generally. Public investment at national and regional levels, which is one of our principle construction markets, will continue to be sluggish.

To meet the challenges that these forecasts bring, we will continue to seek and exploit opportunities to diversify and strengthen our business. Our objective is to create a sustainable business meeting the needs of future generations. We are extending our lead in technologies for which we are renowned, such as tunneling and underground structures in densely urban areas, and for which world-wide demand has never been greater. We are expanding our expertise in the renewal and life-extension of existing utilities, structures and buildings to make better use of the assets already in existence through maintenance, repair, refurbishment and renovation. We are building durability into our design and achieving it through our quality of workmanship. We are also honing our leading edge in techniques and technologies to safeguard both the natural environment and the human environment. We are extending our expertise and services in relation to clean power generation. We shall further reinforce our abilities in power distribution, railway systems and mobile telephony.

In order to achieve these plans, we must retain the trust of our customers. We do this by instilling a sense of integrity and ethics in all our dealings with the public, our customers, our suppliers and subcontractors, and of course our people. Only with our people can we build trust, act with integrity, win orders, complete projects on time, exceed our customers' expectations and ultimately deliver the business results.

All enterprises rely on a platform of satisfied customers who provide the foundation for every successful business through repeat orders. We are no exception and we are determined to win many more such customers in the building sector for housing, manufacturing, distribution, retail, commercial office, public building and leisure projects as well as customers for major infrastructure works. With the increasing adoption of an "overall rating system" to assess tenders for public works we are strengthening our engineering capabilities to improve our competitiveness through intelligent design and construction techniques and thereby increase the size and quality of our order-book.

Finally, we are highly focused on improving our response to ever increasing threats to business prosperity and to increasing demands for reliable and durable products. To this end we are upgrading our processes to manage risks associated with the volatile markets for construction materials, the products of oil and exchange rates. We are constantly seeking and adopting methods of work to make our job-sites safe and healthy. We are also overhauling our quality control and quality assurance processes to deliver the quality of product demanded by owners, users and consumers in today's market.

With our overseas business, we are building an organization capable of delivering returns on investment which are fully commensurate with the political risks and exchange rate risks inherent in such enterprise. We shall select the opportunities that best match our core competencies and, when necessary, select partners who can complement our skills and expertise.

Our mission is to "Thrill Our Customers" with what we do and how we do it. I and my board of directors are confident that this provides the proper focus and foundation for delivering increased shareholder value over the coming years.



July 2008

Hiroshi Ota
President
Kumagai Gumi



CONSOLIDATED FINANCIAL HIGHLIGHTS

Kumagai GumI Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2008 and 2007.

	(¥ million)		(US \$ thousand)
	2008	2007	2008
FOR THE YEAR:			
Net sales	¥ 295,358	¥ 326,998	\$ 2,953,578
Net income	3,241	4,970	32,417
AT YEAR-END:			
Total assets	¥ 231,139	¥ 262,808	\$ 2,311,387
Net assets	49,092	49,937	490,919
PER SHARE OF COMMON STOCK (¥ AND US \$):			
Net income	¥ 17.32	¥ 32.24	\$ 0.17

Note: Conversion into U.S. dollars has been made at the exchange rate of ¥100= US \$1 solely for convenience. Refer to Notes to the Financial Statements.

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CONSOLIDATED BALANCE SHEETS

Kumagai Gumi Co., Ltd. and Consolidated Subsidiaries March 31, 2008 and 2007

ASSETS	(¥ million)		(US \$ thousand)
	2008	2007	2008
CURRENT ASSETS (Note 8):			
Cash and cash equivalents.....	¥ 32,889	¥ 54,849	\$ 328,890
Time deposits	14	5	145
Notes and accounts receivable, trade	123,523	122,529	1,235,226
Allowance for doubtful accounts.....	(1,127)	(1,249)	(11,271)
Inventories (Note 5).....	8,234	11,445	82,337
Deferred income taxes (Note 12).....	3,225	3,440	32,247
Other current assets.....	17,438	21,675	174,380
Total current assets.....	<u>184,196</u>	<u>212,694</u>	<u>1,841,954</u>
INVESTMENTS AND OTHER ASSETS (Note 8):			
Investment securities (Note 4).....	10,647	12,791	106,475
Investments in unconsolidated subsidiaries and affiliates	4,628	4,841	46,284
Long-term loans receivable.....	1,008	1,076	10,082
Long-term loans to unconsolidated subsidiaries and affiliates.....	351	101	3,514
Long-term receivables.....	3,450	6,197	34,496
Claims to companies in bankruptcy, reorganization, etc.....	947	1,259	9,468
Deferred income taxes (Note 12).....	8,775	8,779	87,751
Other.....	6,442	6,994	64,415
Allowance for doubtful accounts.....	(3,701)	(6,747)	(37,009)
Total investments and other assets.....	<u>32,547</u>	<u>35,291</u>	<u>325,476</u>
PROPERTY AND EQUIPMENT (Note 8):			
Land.....	10,276	10,282	102,760
Buildings	13,018	12,928	130,184
Machinery and equipment.....	13,648	14,013	136,484
Construction in progress.....	2	–	15
	<u>36,944</u>	<u>37,223</u>	<u>369,443</u>
Accumulated depreciation.....	(22,548)	(22,400)	(225,486)
Net property and equipment.....	<u>14,396</u>	<u>14,823</u>	<u>143,957</u>
	¥ 231,139	¥ 262,808	\$ 2,311,387

The accompanying notes are an integral part of this statement.

LIABILITIES AND NET ASSETS	(¥ million)		(US \$ thousand)
	2008	2007	2008
CURRENT LIABILITIES:			
Short-term borrowings (Note 6).....	¥ 18,864	¥ 19,644	\$ 188,636
Current portion of long-term debt (Note 6).....	10,017	6,076	100,166
Notes and accounts payable, trade.....	94,966	113,897	949,664
Advances received on uncompleted contracts (Note 9).....	11,082	13,161	110,822
Accrued expenses.....	1,909	1,708	19,093
Accrued income taxes.....	544	516	5,443
Employees' savings deposits.....	2,233	2,228	22,334
Allowance for losses on construction contracts.....	1,179	641	11,785
Other current liabilities.....	15,473	21,968	154,731
Total current liabilities.....	<u>156,267</u>	<u>179,839</u>	<u>1,562,674</u>
LONG-TERM LIABILITIES:			
Long-term debt (Note 6).....	8,177	16,180	81,768
Accrued severance indemnities (Note 10).....	17,552	16,707	175,521
Other long-term liabilities.....	51	145	505
Total long-term liabilities.....	<u>25,780</u>	<u>33,032</u>	<u>257,794</u>
CONTINGENT LIABILITIES (Note 15)			
NET ASSETS:			
Shareholders' equity:			
Capital stock:			
Authorized— 774,000,000 shares in 2008 and 2007			
Issued — 208,005,271 shares in 2008 and			
207,596,504 shares in 2007.....			
	13,341	13,341	133,412
Additional paid-in capital.....	7,909	9,928	79,095
Retained earnings.....	25,589	23,013	255,889
Treasury stock, at cost			
2,583,340 shares in 2008 and 2,226,996 shares in 2007.....	(531)	(505)	(5,308)
Total shareholders' equity.....	<u>46,308</u>	<u>45,777</u>	<u>463,088</u>
Valuation and translation adjustments:			
Unrealized gain on available-for-sale securities.....	1,417	2,811	14,166
Deferred loss on derivative instruments.....	(0)	(0)	(1)
Foreign currency statements translation adjustments.....	9	24	90
Total valuation and translation adjustments.....	<u>1,426</u>	<u>2,835</u>	<u>14,255</u>
Minority interests.....	1,358	1,325	13,576
Total net assets.....	<u>49,092</u>	<u>49,937</u>	<u>490,919</u>
	<u>¥ 231,139</u>	<u>¥ 262,808</u>	<u>\$ 2,311,387</u>

The accompanying notes are an integral part of this statement.

CONSOLIDATED STATEMENTS OF INCOME

Kumagai Gumi Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2008 and 2007

	(¥ million)		(US \$ thousand)
	2008	2007	2008
NET SALES (Note 14):			
Contracts completed	¥ 295,358	¥ 326,998	\$ 2,953,578
COST OF SALES (Note 14):			
Cost of construction.....	275,262	306,655	2,752,622
Gross profit.....	20,096	20,343	200,956
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	14,973	15,555	149,735
Operating income	5,123	4,788	51,221
OTHER INCOME (EXPENSE):			
Interest and dividend income	351	382	3,514
Interest expense.....	(1,114)	(1,265)	(11,138)
Equity in earnings of affiliates.....	94	136	938
Other, net (Note 11).....	405	1,891	4,054
Income before income taxes and minority interest	4,859	5,932	48,589
Income taxes (Note 12):			
Current.....	537	487	5,366
Deferred.....	1,037	428	10,366
	1,574	915	15,732
Minority interest in consolidated subsidiaries	(44)	(47)	(440)
Net income.....	¥ 3,241	¥ 4,970	\$ 32,417
PER SHARE OF COMMON STOCK (Note 13):			
Basic net income.....	¥ 17.32	¥ 32.24	\$ 0.17
Diluted net income.....	11.85	18.56	0.12

The accompanying notes are an integral part of this statement.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Kumagai Gumi Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2008 and 2007

	Shareholders' equity				Valuation and translation adjustments				
	Capital stock	Additional paid-in capital	Retained earnings	Treasury stock	Unrealized gain on available-for-sale securities	Deferred loss on derivative instruments	Foreign currency statements translation adjustments	Minority interests	
	(¥ million)								
Balance at March 31, 2006.....	¥ 13,341	¥ 9,927	¥ 18,043	¥ (438)	¥ 3,901	¥ -	¥ 65	¥ 1,330	
Net income for the year.....			4,970						
Purchase of treasury stock.....				(80)					
Disposal of treasury stock.....		1		13					
Change in the current period...					(1,090)	(0)	(41)	(5)	
Balance at March 31, 2007.....	¥ 13,341	¥ 9,928	¥ 23,013	¥ (505)	¥ 2,811	¥ (0)	¥ 24	¥ 1,325	
Cash dividends.....			(656)						
Net income for the year.....			3,241						
Decrease resulting from exclusion of equity method affiliates. ...			(9)						
Purchase of treasury stock.....				(2,144)					
Disposal of treasury stock.....		(7)		106					
Retirement of treasury stock...		(2,012)		2,012					
Change in the current period ..					(1,394)	0	(15)	33	
Balance at March 31, 2008.....	¥ 13,341	¥ 7,909	¥ 25,589	¥ (531)	¥ 1,417	¥ (0)	¥ 9	¥ 1,358	

(US \$ thousand)

Balance at March 31, 2007.....	\$ 133,412	\$ 99,279	\$ 230,130	\$ (5,048)	\$ 28,114	\$ (3)	\$ 240	\$ 13,247
Cash dividends.....			(6,563)					
Net income for the year.....			32,416					
Decrease resulting from exclusion of equity method affiliates. ...			(94)					
Purchase of treasury stock.....				(21,438)				
Disposal of treasury stock.....		(64)		1,058				
Retirement of treasury stock...		(20,120)		20,120				
Change in the current period ..					(13,948)	2	(150)	329
Balance at March 31, 2008.....	\$ 133,412	\$ 79,095	\$ 255,889	\$ (5,308)	\$ 14,166	\$ (1)	\$ 90	\$ 13,576

The accompanying notes are an integral part of this statement.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Kumagai Gumi Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2008 and 2007

	(¥ million)		(US \$ thousand)
	2008	2007	2008
Cash flows from operating activities:			
Income before income taxes and minority interest	¥ 4,859	¥ 5,932	\$ 48,589
Depreciation and amortization	1,052	884	10,521
Loss on asset impairment.....	12	-	118
(Decrease) increase in provision for allowance for doubtful accounts.....	(3,157)	634	(31,567)
Increase in accrued severance indemnities.....	846	1,428	8,464
Interest and dividends revenue.....	(351)	(382)	(3,514)
Interest expenses.....	1,114	1,265	11,138
Foreign exchange loss (gain).....	531	(45)	5,308
Equity in earnings of affiliates.....	(94)	(136)	(938)
Loss on valuation of marketable and investment securities.....	120	116	1,196
Gain on sale of marketable and investment securities, net.....	(84)	(3,492)	(838)
Loss on disposal of property and equipment.....	32	48	321
Loss on valuation of property and equipment.....	5	2	49
Gain on sale of property and equipment, net.....	(175)	(60)	(1,751)
Increase in notes and accounts receivable.....	(1,004)	(6,648)	(10,038)
Decrease in uncompleted construction costs.....	3,193	4,602	31,925
(Decrease) increase in notes and accounts payable.....	(18,908)	6,645	(189,077)
Decrease in advances received on uncompleted contracts.....	(2,063)	(2,816)	(20,629)
Decrease (increase) in other assets.....	4,010	(1,035)	40,095
Other, net.....	(2,987)	470	(29,867)
Sub-total.....	(13,049)	7,412	(130,495)
Interest and dividends received.....	347	381	3,470
Interest paid.....	(1,088)	(1,224)	(10,875)
Income tax paid.....	(408)	(808)	(4,075)
Net cash (used in) provided by operating activities	(14,198)	5,761	(141,975)
Cash flows from investing activities:			
Disbursements for acquisitions of property and equipment.....	(312)	(247)	(3,126)
Proceeds from sale of property and equipment.....	33	242	331
Disbursements for acquisitions of marketable and investment securities.....	(18)	(473)	(176)
Proceeds from sale of marketable and investment securities.....	185	6,444	1,847
Proceeds from sale of investment in consolidated subsidiaries.....	5	-	46
Disbursements for loans.....	(154)	(363)	(1,539)
Proceeds from collection of loans	262	438	2,623
Other, net.....	354	125	3,540
Net cash provided by investing activities	355	6,166	3,546
Cash flows from financing activities:			
Decrease in short-term borrowings	(781)	(12,098)	(7,809)
Proceeds from long-term debt.....	2,040	2,730	20,400
Disbursements for repayment of long-term debt.....	(6,103)	(8,268)	(61,030)
Disbursements for acquisitions of preferred stock.....	(2,012)	-	(20,120)
Payment of cash dividends.....	(656)	-	(6,563)
Other, net.....	(35)	(54)	(346)
Net cash used in financing activities.....	(7,547)	(17,690)	(75,468)
Translation differences on cash and cash equivalents.....	(570)	(10)	(5,698)
Decrease in cash and cash equivalents.....	(21,960)	(5,773)	(219,595)
Cash and cash equivalents at beginning of year.....	54,849	60,622	548,485
Cash and cash equivalents at end of year.....	¥ 32,889	¥ 54,849	\$ 328,890

The accompanying notes are an integral part of this statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Kumagai Gumi Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2008 and 2007

1. BASIS OF PRESENTING FINANCIAL STATEMENTS

The accompanying consolidated financial statements of KUMAGAI GUMI CO.,LTD. (the "Company") and its consolidated subsidiaries have been prepared in accordance with generally accepted accounting principles and practices in Japan. In preparing the consolidated financial statements for purpose of inclusion in this Annual Report, certain reclassifications and rearrangements have been made to the financial statements issued domestically in Japan in order to present these statements in a form which is more familiar to the readers of these statements outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under generally accepted accounting principles and practices in Japan but is presented herein as additional information for the Annual Report.

Consolidation:

The Company applies the control or influence standard for determining the criteria of subsidiaries and affiliates included within the scope of consolidation.

The consolidated financial statements include the accounts of the Company, ten of its consolidated subsidiaries and four of its affiliates accounted for applying the equity method as at and for the year ended March 31, 2008.

In fiscal 2008, changes in the scope of consolidation were as follows:

* Companies excluded from the equity method -1: ISHIDA Industry Co.,Ltd.

The subsidiaries which are consolidated with the Company are listed below:

Company Name	Fiscal Year-End
GAEART TK Co., Ltd. _____	31 Mar. 2008
Technos Co., Ltd. _____	31 Mar. 2008
K&E Co., Ltd. _____	31 Mar. 2008
Techno-Space Creates Co., Ltd. _____	31 Mar. 2008
FATEC CO., LTD. _____	31 Mar. 2008
Technical Support Co.,Ltd. _____	31 Mar. 2008
Khiva Limited. _____	31 Mar. 2008
Taiwan Kumagai Co., Ltd. _____	31 Dec. 2007
Thai Kumagai Co., Ltd. _____	31 Dec. 2007
Kumagai Gumi (Malaysia) SDN.BHD. _____	31 Dec. 2007

All significant intercompany accounts and transactions are eliminated in consolidation.

Investments in other unconsolidated subsidiaries and affiliates accounted for applying the equity method are stated at cost.

The Company consolidates such subsidiaries' financial statements as of each subsidiary's most recent year-end. Unusual significant transactions occurring between subsidiaries' year-ends and the Company's are adjusted on consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**(a) Recognition of net sales and related costs**

Net sales from and the related costs of construction contracts are recorded mainly by the percentage of completion method. The completed-contract method is applied for certain projects whose construction period is less than one year.

(b) Foreign currency translations

Short-term and long-term receivables and payables in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. Investments in overseas subsidiaries and affiliates in foreign currencies are translated into Japanese yen at the historical rates of exchange. Overseas accumulated construction cost in progress in foreign currencies (included in inventories) is translated into Japanese yen at the monthly rates of exchange.

(c) Foreign currency financial statements

The balance sheet accounts and revenue and expense accounts of the consolidated overseas subsidiaries and overseas affiliates accounted for on the equity method are translated into Japanese yen at the current rates of exchange at each balance sheet date except for net assets, which is translated at the historical rates of exchange at dates of acquisition.

Retained earnings of the consolidated overseas subsidiaries and overseas affiliates accounted for by the equity method at the end of every year are translated at the historical rates of exchange. Differences arising from such translation are included in "Foreign currency translation adjustments" in the accompanying consolidated financial statements.

(d) Cash and cash equivalents

Cash and cash equivalents include an overnight bank deposit and time deposits, all of which have original maturities of three months or less.

(e) Time deposits

Time deposits have original maturities of more than three months through one year.

(f) Allowance for doubtful accounts

Allowance for doubtful accounts is provided in amounts considered to be appropriate based on the Company's past credit losses experience and evaluation of potential losses in the receivables outstanding.

(g) Marketable and investment securities

The Company and its consolidated subsidiaries listed all the securities as available-for-sale which are stated at fair value, with unrealized gains and losses net of taxes under net assets section. Cost of sales is determined by the moving-average method.

Other securities are stated at cost.

(h) Inventories

Inventories other than materials and supplies are stated at accumulated construction cost for each project. Selling, general and administrative expenses are excluded from such cost. Materials and supplies are stated at cost determined by the moving-average method.

(i) Property, equipment and depreciation

Property and equipment, including significant renewals and additions, are carried at cost. The cost of property and equipment retired or otherwise disposed of and accumulated depreciation in respect thereof are eliminated from the related accounts, and the resulting gain or loss is reflected in income. Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred.

Depreciation is computed by the declining-balance method at rates based on estimated useful lives of the assets, according to general class, type of construction and use.

(j) Allowance for losses on construction contracts

Allowance for losses on construction contracts is provided at the fiscal year-end when substantial losses are anticipated in the future and such losses can be reasonably estimated.

(k) Accrued severance indemnities

To provide for employees' severance indemnities, net period pension cost, which represents the amount recognized as the cost of a pension plan for the year, is accounted for based on the projected benefit obligation and the plan assets.

The unrecognized transitional obligation is being amortized by the straight-line method over a period of 15 years.

The adjustment for actuarial assumptions is being amortized by the straight-line method over a period which is less than the average remaining years (5 to 9 years) of service of the active participants in the plans. Amortization is computed from the fiscal year subsequent to the year in which the adjustment was recorded.

Prior service cost is being amortized by the straight-line method over a period which is less than the average remaining years (5 to 9 years) of service of the active participants in the plans.

(l) Income taxes

Income taxes are accounted for by the asset and liability method.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards.

The Company files a tax return under the consolidated corporate-tax system, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

(m) Appropriations of retained earnings

Appropriations of retained earnings are reflected in the accompanying consolidated financial statements for the following year upon shareholders' approval.

(n) Accounting Standard for Statement for Presentation of Net Assets in the Balance Sheet

Effective for the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted new accounting standards, "Accounting Standard for Statement for Presentation of Net Assets in the Balance Sheet", and "the Implementation Guidance for the Accounting Standard for Presentation of Net Assets in the Balance Sheet", (collectively, the "New Accounting Standards"). Under the New Accounting Standards, the balance sheet comprises the assets, liabilities and net assets sections. Previously, the balance sheet comprised the assets, liabilities, minority interests and the shareholders' equity sections.

3. UNITED STATES DOLLAR AMOUNTS

The United States dollar amounts included in the accompanying consolidated financial statements are presented solely for convenience and are stated, as a matter of arithmetical computation only, at the rate of ¥100 = US\$1, which was the approximate exchange rate at March 31, 2008. These translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into United States dollars at that rate.

4. MARKETABLE AND INVESTMENT SECURITIES

The breakdown of available-for-sale securities as of March 31, 2008 is as follows:

	Cost	Fair value (Carrying amount)	Difference
	(¥ million)		
Marketable equity securities.....	¥ 4,716	¥ 6,930	¥ 2,214
Debentures.....	223	224	1
Fund trust and other.....	—	—	—
Total.....	¥ 4,939	¥ 7,154	¥ 2,215
	(US \$ thousand)		
Marketable equity securities.....	\$ 47,163	\$ 69,306	\$ 22,143
Debentures.....	2,227	2,236	9
Fund trust and other.....	—	—	—
Total.....	\$ 49,390	\$ 71,542	\$ 22,152

The breakdown of available-for-sale securities as of March 31, 2007 is as follows:

	Cost	Fair value (Carrying amount)	Difference
	(¥ million)		
Marketable equity securities.....	¥ 4,772	¥ 9,035	¥ 4,263
Debentures.....	222	221	(1)
Fund trust and other.....	—	—	—
Total.....	¥ 4,994	¥ 9,256	¥ 4,262

5. INVENTORIES

Inventories comprised the following:

<i>March 31, 2008 and 2007</i>	2008	2007	2008
	(¥ million)		(US \$ thousand)
Cost of uncompleted contracts.....	¥ 7,812	¥ 11,005	\$ 78,122
Materials and supplies.....	422	440	4,215
	¥ 8,234	¥ 11,445	\$ 82,337

- 6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT** The weighted average interest rates on short-term bank loans were 2.46% and 2.45% at March 31, 2008 and 2007, respectively.

Long-term debt comprised the following:

<i>March 31, 2008 and 2007</i>	2008	2007	2008
	(¥ million)		(US \$ thousand)
Loans, principally from banks and insurance, bearing weighted average interest of 2.60% and 2.56% at March 31, 2008 and 2007, respectively.....	¥ 18,194	¥ 22,256	\$ 181,934
Less current portion.....	10,017	6,076	100,166
	<u>¥ 8,177</u>	<u>¥ 16,180</u>	<u>\$ 81,768</u>

The aggregate annual maturities of long-term debt (including current portion) at March 31, 2008 were as follows:

<i>Years ending March 31</i>	(¥ million)	(US \$ thousand)
2009.....	¥ 10,017	\$ 100,166
2010.....	3,339	33,388
2011.....	4,029	40,294
2012.....	422	4,220
2013 and thereafter.....	387	3,866
	<u>¥ 18,194</u>	<u>\$ 181,934</u>

- 7. LEASES** The lease payments under noncancelable financing leases are principally accounted for as rental expenses, and no asset or liability (other than a short-term liability for accrued rent payable) relating to the lease is recorded.

- 8. PLEDGED ASSETS** Assets pledged as collateral for short-term borrowings, long-term debt and other obligation were as follows:

<i>March 31, 2008</i>	(¥ million)	(US \$ thousand)
Assets pledged as collateral:		
Current assets.....	¥ 2,012	\$ 20,119
Investment and other assets.....	4,733	47,335
Property and equipment.....	9,382	93,825
	<u>¥ 16,127</u>	<u>\$ 161,279</u>
Liabilities secured thereby:		
Short-term borrowings, long-term debt and other obligation.....	¥ 1,286	\$ 12,860

9. ADVANCES RECEIVED ON UNCOMPLETED CONTRACTS

As is the customary practice in Japan, the Company receives progress payments from customers in accordance with the terms of the respective construction contracts.

10. ACCRUED SEVERANCE INDEMNITIES AND PENSION EXPENSES FOR EMPLOYEES

Employees (excluding directors and corporate auditors) whose service with the Company and its consolidated domestic subsidiaries is terminated are, under most circumstances, entitled to lump-sum severance indemnities determined by reference to rank and length of time served in each rank until the termination occurs.

In addition to the lump-sum indemnities, a consolidated domestic subsidiary has both contributory and non-contributory funded pension plans.

The Company and its consolidated domestic subsidiaries accounted for the liability for retirement benefit based on projected benefits obligations and plan assets at each balance sheet date.

The liability(asset)for employees' retirement benefits and the components of net periodic benefit costs were as follows:

(1) The liability (asset) for employees' retirement benefits

As of March 31, 2008 and 2007

	2008	2007	2008
	(¥ million)		(US \$ thousand)
Projected benefit obligation	¥ (28,113)	¥ (28,659)	\$ (281,128)
Fair value of plan assets.....	989	879	9,886
Unrecognized transition obligation.....	7,846	8,967	78,463
Unrecognized prior service cost and actuarial loss....	1,726	2,106	17,258
Net liability.....	¥ (17,552)	¥ (16,707)	\$ (175,521)

(2) The components of net periodic benefit costs

For the year ended March 31, 2008 and 2007

	2008	2007	2008
	(¥ million)		(US \$ thousand)
Service cost.....	¥ 1,178	¥ 1,213	\$ 11,785
Interest cost.....	572	583	5,715
Expected return on plan assets.....	(18)	(13)	(176)
Amortization of transitional obligation.....	1,121	1,121	11,209
Amortization of prior service cost and actuarial loss..	337	560	3,373
Net periodic benefit cost.....	¥ 3,190	¥ 3,464	\$ 31,906

(3) Assumptions used for the years ended March 31, 2008 and 2007

	2008	2007
Discount rate.....	2.0%	2.0%
Expected rate of return on plan assets	2.0%	2.0%
Amortization period of prior service cost	5 to 9 years	5 to 9 years
Recognition period of actuarial gain/loss.....	5 to 9 years	5 to 9 years
Amortization period of transitional obligation.....	15 years	15 years

11. OTHER, NET IN OTHER INCOME (EXPENSES)

Other, net in other income (expenses) comprised the following:

<i>March 31, 2008 and 2007</i>	2008		2007	2008		
	(¥ million)			(US \$ thousand)		
Foreign exchange loss, net.....	¥	(318)	¥	(56)	\$	(3,178)
Gain on disposal of property and equipment, net.....		143		11		1,430
Loss on valuation of property and equipment.....		(5)		(2)		(49)
Loss on valuation of marketable and investment securities.....		(120)		(116)		(1,196)
Gain on sale of marketable and investment securities, net.....		94		3,492		941
Loss on sale of investments in unconsolidated subsidiaries and affiliates.....		(10)		0		(104)
Penal charges and other.....		(309)		0		(3,093)
Provision for allowance for doubtful accounts.....		(24)		(1,098)		(240)
Loss on asset impairment.....		(12)		0		(118)
Other, net.....		966		(340)		9,661
	¥	405	¥	1,891	\$	4,054

12. INCOME TAXES

Tax effects of significant temporary differences and loss carryforwards that result in deferred tax assets or liabilities were as follows:

<i>March 31, 2008 and 2007</i>	2008		2007	2008		
	(¥ million)			(US \$ thousand)		
Deferred Tax Assets:						
Loss on valuation of property and equipment.....	¥	980	¥	996	\$	9,799
Accrued severance indemnities.....		7,101		6,741		71,005
Loss on valuation of golf club membership right and other.....		1,494		1,551		14,941
Tax loss carry-forwards.....		92,518		94,279		925,180
Others.....		7,962		7,664		79,620
Subtotal.....		110,055		111,231		1,100,545
Valuation Allowance.....		(97,007)		(97,102)		(970,069)
Total.....		13,048		14,129		130,476
Deferred Tax Assets:						
Unrealized gain on available-for-sale securities..		(909)		(1,727)		(9,092)
Others.....		(139)		(183)		(1,386)
Total.....		(1,048)		(1,910)		(10,478)
Net deferred tax assets.....	¥	12,000	¥	12,219	\$	119,998

13. PER SHARE DATA

A reconciliation of the numerators and denominators of basic and diluted net income per share computations is as follows:

<i>March 31, 2008 and 2007</i>	2008	2007	2008
	(¥ million)		(US \$ thousand)
Net income.....	¥ 3,242	¥ 4,970	\$ 32,416
Cash dividends on preferred stock.....	(483)	(423)	(4,829)
Net income for common stock.....	2,759	4,547	27,587
Effect of dilution:			
Cash dividends on preferred stock.....	483	423	4,829
Diluted net income.....	¥ 3,242	¥ 4,970	\$ 32,416
	(thousands of shares)		
Weighted average shares of common stock.....	159,282	141,035	
Effect of dilution:			
Preferred stock.....	114,303	126,750	
	273,585	267,785	

14. TRANSACTIONS WITH UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Purchases from and sales to unconsolidated subsidiaries and affiliates for the respective periods were as follows:

<i>March 31, 2008 and 2007</i>	2008	2007	2008
	(¥ million)		(US \$ thousand)
Purchases.....	¥ 293	¥ 272	\$ 2,932
Sales.....	14	15	145

15. CONTINGENT LIABILITIES

The Company and its consolidated subsidiaries were contingently liable follows:

<i>March 31, 2008 and 2007</i>	2008	2007	2008
	(¥ million)		(US \$ thousand)
Guarantees of debt.....	¥ 318	¥ 1,093	\$ 3,179
Endorsed trade notes receivable.....	2	0	21
	¥ 320	¥ 1,093	\$ 3,200

**REPORT OF THE INDEPENDENT PUBLIC ACCOUNTANTS
(CONSOLIDATED)**

To the Board of Directors of
Kumagai Gumi Co., Ltd.

We have audited the accompanying consolidated balance sheets of Kumagai Gumi Co., Ltd. and consolidated subsidiaries as of March 31, 2007 and 2008, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in Japanese Yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kumagai Gumi Co., Ltd. and consolidated subsidiaries as of March 31, 2007 and 2008, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

Gyosei & Co.

Tokyo, Japan
Jun 27, 2008

GYOSEI & Co.
Certified Public Accountants

Kojimachi Bldg., 3-3-6 Kudan Minami, Chiyoda-ku, Tokyo, Japan

NON-CONSOLIDATED BALANCE SHEETS

Kumagai Gumi Co., Ltd. (Company Only) March 31, 2008 and 2007

ASSETS	(¥ million)		(US \$ thousand)
	2008	2007	2008
CURRENT ASSETS (Note 6):			
Cash and cash equivalents	¥ 19,684	¥ 41,421	\$ 196,840
Time deposits	14	5	145
Notes and accounts receivable, trade	103,008	100,802	1,030,080
Allowance for doubtful accounts.....	(990)	(969)	(9,900)
Inventories (Note 4).....	5,199	8,050	51,992
Deferred income taxes (Note 9).....	3,083	3,440	30,826
Other current assets.....	17,064	21,207	170,639
Total current assets	<u>147,062</u>	<u>173,956</u>	<u>1,470,622</u>
INVESTMENTS AND OTHER ASSETS (Note 6):			
Investment securities	9,969	11,921	99,687
Investments in subsidiaries and affiliates.....	3,656	4,624	36,564
Long-term loans receivable.....	894	926	8,935
Long-term loans to subsidiaries and affiliates.....	1,726	1,073	17,264
Long-term receivable	2,648	4,885	26,480
Claims to companies in bankruptcy, reorganization, etc.....	33	5	334
Deferred income taxes (Note 9).....	6,341	6,422	63,409
Other.....	5,615	6,394	56,146
Allowance for doubtful accounts	(1,976)	(4,271)	(19,759)
Total investments and other assets	<u>28,906</u>	<u>31,979</u>	<u>289,060</u>
PROPERTY AND EQUIPMENT (Note 6):			
Land.....	7,578	7,578	75,782
Buildings.....	8,642	8,640	86,418
Machinery and equipment.....	5,137	5,322	51,373
	<u>21,357</u>	<u>21,540</u>	<u>213,573</u>
Accumulated depreciation.....	(11,669)	(11,649)	(116,692)
Net property and equipment.....	<u>9,688</u>	<u>9,891</u>	<u>96,881</u>
	<u>¥ 185,656</u>	<u>¥ 215,826</u>	<u>\$ 1,856,563</u>

The accompanying notes are an integral part of this statement.

LIABILITIES AND NET ASSETS	(¥ million)		(US \$ thousand)
	2008	2007	2008
CURRENT LIABILITIES:			
Short-term borrowings	¥ 18,664	¥ 19,444	\$ 186,636
Current portion of long-term debt.....	9,827	5,870	98,270
Notes and accounts payable, trade	80,572	93,901	805,718
Advances received on uncompleted contracts (Note 7)	7,973	9,810	79,729
Accrued expenses	1,347	1,611	13,469
Accrued income taxes	266	329	2,664
Employees' savings deposits.....	2,233	2,227	22,334
Allowance for losses on construction contracts.....	1,156	639	11,560
Other current liabilities	11,563	19,956	115,631
Total current liabilities	<u>133,601</u>	<u>153,787</u>	<u>1,336,011</u>
LONG-TERM LIABILITIES:			
Long-term debt	8,033	15,847	80,326
Accrued severance indemnities	13,736	12,872	137,364
Other long-term liabilities.....	45	145	455
Total long-term liabilities.....	<u>21,814</u>	<u>28,864</u>	<u>218,145</u>
CONTINGENT LIABILITIES (Note 11)			
NET ASSETS			
Shareholders' equity:			
Capital stock:			
Authorized — 774,000,000 shares in 2008 and 2007			
Issued — 208,005,271 shares in 2008 and			
207,596,504 shares in 2007.....			
	13,341	13,341	133,412
Additional paid-in capital	7,910	9,928	79,095
Retained earnings.....	8,151	7,940	81,511
Treasury stock, at cost			
1,721,462 shares in 2008 and 1,570,418 shares in 2007.....			
	(422)	(394)	(4,223)
Total shareholders' equity.....	<u>28,980</u>	<u>30,815</u>	<u>289,795</u>
Valuation and translation adjustments:			
Unrealized gain on available-for-sale securities.....	1,261	2,360	12,612
Total net assets.....	<u>30,241</u>	<u>33,175</u>	<u>302,407</u>
	¥ 185,656	¥ 215,826	\$ 1,856,563

The accompanying notes are an integral part of this statement.

NON-CONSOLIDATED STATEMENTS OF INCOME

Kumagai Gumi Co., Ltd. (Company Only) Years ended March 31, 2008 and 2007

	(¥ million)		(US \$ thousand)
	2008	2007	2008
NET SALES:			
Contracts completed.....	¥ 228,528	¥ 263,532	\$ 2,285,284
COST OF SALES:			
Cost of construction.....	214,007	247,564	2,140,076
Gross profit.....	14,521	15,968	145,208
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES			
Operating income.....	11,146	11,882	111,455
	3,375	4,086	33,753
OTHER INCOME (EXPENSES):			
Interest and dividend income.....	484	341	4,841
Interest expense	(1,118)	(1,243)	(11,183)
Other, net (Note 8).....	(773)	388	(7,728)
Income before income taxes	1,968	3,572	19,683
Income taxes (Note 9):			
Current.....	(91)	129	(905)
Deferred.....	1,191	608	11,906
	1,100	737	11,001
Net income	¥ 868	¥ 2,835	\$ 8,682
PER SHARE OF COMMON STOCK (Note 10):			
	(¥)		(US \$)
Basic net income	¥ 2.41	¥ 17.02	\$ 0.02
Diluted net income	-	10.56	-
Cash dividends applicable to the period.....	1.50	1.50	0.02

The accompanying notes are an integral part of this statement.

NON-CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Kumagai Gumi Co., Ltd. (Company Only) Years ended March 31, 2008 and 2007

	Shareholders' equity				Valuation and translation adjustments
	Capital stock	Additional paid-in capital	Retained earnings	Treasury stock	Unrealized gain on available-for-sale securities
	(¥ million)				
Balance at March 31, 2006	¥ 13,341	¥ 9,927	¥ 5,105	¥ (339)	¥ 3,164
Net income for the year			2,835		
Purchase of treasury stock.....				(68)	
Disposal of treasury stock.....		1		13	
Change in the current period.....					(804)
Balance at March 31, 2007.....	¥ 13,341	¥ 9,928	¥ 7,940	¥ (394)	¥ 2,360
Cash dividends.....			(657)		
Net income for the year.....			868		
Purchase of treasury stock.....				(2,063)	
Disposal of treasury stock.....		(6)		23	
Retirement of treasury stock.....		(2,012)		2,012	
Change in the current period.....					(1,099)
Balance at March 31, 2008.....	¥ 13,341	¥ 7,910	¥ 8,151	¥ (422)	¥ 1,261

	(US \$ thousand)				
Balance at March 31, 2007.....	\$ 133,412	\$ 99,279	\$ 79,392	\$ (3,940)	\$ 23,603
Cash dividends.....			(6,563)		
Net income for the year.....			8,682		
Purchase of treasury stock.....				(20,633)	
Disposal of treasury stock.....		(64)		230	
Retirement of treasury stock.....		(20,120)		20,120	
Change in the current period.....					(10,991)
Balance at March 31, 2008.....	\$ 133,412	\$ 79,095	\$ 81,511	\$ (4,223)	\$ 12,612

The accompanying notes are an integral part of this statement.

NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS

Kumagai Gumi Co., Ltd. (Company Only) Years ended March 31, 2008 and 2007

-
- 1. BASIS OF PRESENTING FINANCIAL STATEMENTS**
- The accompanying non-consolidated financial statements of KUMAGAI GUMI CO., LTD. (the “Company”) have been prepared in accordance with generally accepted accounting principles and practices in Japan. In preparing the non-consolidated financial statements for the purpose of inclusion in this Annual Report, certain reclassifications and rearrangements have been made to the financial statements issued domestically in Japan in order to present these statements in a form which is more familiar to the readers of these statements outside Japan. In addition, the notes to the non-consolidated financial statements include information which is not required under generally accepted accounting principles and practices in Japan but is presented herein as additional information for this Annual Report.
-
- 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**
- (a) Recognition of net sales and related costs**
- Net sales from and the related costs of construction contracts are recorded mainly by the percentage of completion method. The completed-contract method is applied for certain projects whose construction period is less than one year.
- (b) Foreign currency translations**
- Short-term and long-term receivables and payables in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. Investments in overseas subsidiaries and affiliates in foreign currencies are translated into Japanese yen at the historical rates of exchange. Overseas accumulated construction cost in progress in foreign currencies (included in inventories) is translated into Japanese yen at the monthly rates of exchange.
- (c) Cash and cash equivalents**
- Cash and cash equivalents include time deposits which have original maturities of three months or less.
- (d) Time deposits**
- Time deposits have original maturities of more than three months through one year.
- (e) Allowance for doubtful accounts**
- Allowance for doubtful accounts is provided in amounts considered to be appropriate based on the Company’s past credit losses experience and evaluation of potential losses in the receivables outstanding.
- (f) Marketable and investment securities**
- The Company listed all the securities as available-for-sale which are stated at fair value, with unrealized gains and losses net of taxes under net assets section. Cost of sales is determined by the moving-average method.
- Other securities are stated at cost.
- (g) Investments in subsidiaries and affiliates**
- Investments in subsidiaries and affiliates are stated at cost.
- (h) Inventories**
- Inventories other than materials and supplies are stated at accumulated construction cost for each project. Selling, general and administrative expenses are excluded from such cost. Materials and supplies are stated at cost determined by the moving-average method.

(i) Property, equipment and depreciation

Property and equipment, including significant renewals and additions, are carried at cost. The cost of property and equipment retired or otherwise disposed of and accumulated depreciation in respect thereof are eliminated from the related accounts, and the resulting gain or loss is reflected in income. Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred.

Depreciation is computed by the declining-balance method at rates based on estimated useful lives of the assets, according to general class, type of construction and use.

(j) Allowance for losses on construction contracts

Allowance for losses on construction contracts is provided at the fiscal year-end when substantial losses are anticipated in the future and such losses can be reasonably estimated.

(k) Accrued severance indemnities

To provide for employees' severance indemnities, net period pension cost, which represents the amount recognized as the cost of a pension plan for the year, is accounted for based on the projected benefit obligation and the plan assets.

The unrecognized obligation at transition is being amortized by the straight-line method over a period of 15 years.

The adjustment for actuarial assumptions is being amortized by the straight-line method over a period which is less than the average remaining years (9 years) of service of the active participants in the plans. Amortization is computed from the fiscal year subsequent to the year in which the adjustment was recorded.

Prior service cost is being amortized by the straight-line method over a period which is less than the average remaining years (9 years) of service of the active participants in the plans.

(l) Income taxes

Income taxes are accounted for by the asset and liability method.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards.

The Company files a tax return under the consolidated corporate-tax system, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

(m) Appropriations of retained earnings

Appropriations of retained earnings are reflected in the accompanying non-consolidated financial statements for the following year upon shareholders approval.

(n) Accounting Standard for Statement for Presentation of Net Assets in the Balance Sheet

Effective for the year ended March 31, 2007, the Company adopted new accounting standards, "Accounting Standard for Statement for Presentation of Net Assets in the Balance Sheet", and "the Implementation Guidance for the Accounting Standard for Presentation of Net Assets in the Balance Sheet", (collectively, the "New Accounting Standards"). Under the New Accounting Standards, the balance sheet comprises the assets, liabilities and net assets sections. Previously, the balance sheet comprised the assets, liabilities and the shareholders' equity sections. The non-consolidated balance sheet as of March 31, 2006 has been restated to conform to the 2007 presentation.

3. UNITED STATES DOLLAR AMOUNTS

The United States dollar amounts included in the accompanying non-consolidated financial statements are presented solely for convenience and are stated, as a matter of arithmetical computation only, at the rate of ¥100=US\$1, which was the approximate exchange rate at March 31, 2008. These translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into United States dollars at that rate.

4. INVENTORIES

<i>March 31, 2008 and 2007</i>	2008	2007	2008
	(¥ million)		(US \$ thousand)
Cost of uncompleted contracts.....	¥ 5,174	¥ 8,010	\$ 51,745
Materials and supplies	25	40	247
	¥ 5,199	¥ 8,050	\$ 51,992

5. LEASES

The lease payments under noncancelable financing leases are accounted for as rental expenses, and no asset or liability (other than a short-term liability for accrued rent payable) relating to the lease is recorded.

6. PLEDGED ASSETS

Assets pledged as collateral for short-term borrowings, long-term debt and other obligation were as follows:

<i>March 31, 2008</i>	(¥ million)	(US \$ thousand)
Assets pledged as collateral:		
Current assets.....	¥ 1,598	\$ 15,980
Investment and other assets.....	4,652	46,518
Property and equipment.....	9,116	91,165
	¥ 15,366	\$ 153,663
Liabilities secured thereby:		
Short-term borrowings, long-term debt and other obligation	¥ 752	\$ 7,522

7. ADVANCES RECEIVED ON UNCOMPLETED CONTRACTS

As is the customary practice in Japan, the Company receives progress payments from customers in accordance with the terms of the respective construction contracts.

8. OTHER, NET IN OTHER INCOME (EXPENSES)	Other, net in other income (expenses) comprised the following: <i>March 31, 2008 and 2007</i>	2008	2007	2008
		(¥ million)		(US \$ thousand)
		¥	¥	\$
	Gain (loss) on disposal of property and equipment, net.....	164	(32)	1,643
	Loss on valuation of marketable and investment securities....	(76)	(116)	(760)
	Gain on sale of marketable and investment securities, net.....	94	2,088	939
	Loss on valuation of property and equipment.....	(5)	–	(47)
	Provision for allowance for doubtful accounts.....	(24)	(858)	(240)
	Loss on valuation of investments in subsidiaries and affiliates..	(962)	–	(9,618)
	Foreign exchange loss, net.....	(321)	(88)	(3,208)
	Penal charges and other.....	(309)	–	(3,093)
	Other, net.....	666	(606)	6,656
		¥ (773)	¥ 388	\$ (7,728)

9. INCOME TAXES Tax effects of significant temporary differences and loss carryforwards that result in deferred tax assets or liabilities were as follows:

	<i>March 31, 2008 and 2007</i>		
	2008	2007	2008
	(¥ million)		(US \$ thousand)
Deferred Tax Assets:			
Loss on valuation of property and equipment.....	¥ 980	¥ 996	\$ 9,799
Accrued severance indemnities.....	5,591	5,239	55,907
Loss on valuation of golf club membership right and other.....	1,409	1,464	14,087
Tax loss carry-forwards.....	91,288	92,906	912,878
Others.....	6,247	5,878	62,465
Subtotal.....	105,515	106,483	1,055,136
Valuation Allowance.....	(95,221)	(94,958)	(952,205)
Total.....	10,294	11,525	102,931
Deferred Tax Assets:			
Unrealized gain on available-for-sale securities.....	(852)	(1,604)	(8,517)
Others.....	(18)	(59)	(179)
Total.....	(870)	(1,663)	(8,696)
Net deferred tax assets.....	¥ 9,424	¥ 9,862	\$ 94,235

10. PER SHARE DATA

A reconciliation of the numerators and denominators of basic and diluted net income per share computation as follows:

<i>March 31, 2008 and 2007</i>	2008	2007	2008
	(¥ million)		(US \$ thousand)
Net income.....	¥ 868	¥ 2,835	\$ 8,682
Cash dividends on preferred stock.....	(483)	(423)	(4,829)
Net income for common stock.....	385	2,412	3,853
Effect of dilution:			
Cash dividends on preferred stock.....	483	423	4,829
Diluted net income.....	¥ 868	¥ 2,835	\$ 8,682
	(thousands of shares)		
Weighted average shares of common stock.....	159,981	141,680	
Effect of dilution:			
Preferred stock.....	114,387	126,750	
	274,368	268,430	

11. CONTINGENT LIABILITIES

The Company was contingently liable as follows:

<i>March 31, 2008 and 2007</i>	2008	2007	2008
	(¥ million)		(US \$ thousand)
Guarantees of debt.....	¥ 750	¥ 1,673	\$ 7,500

**REPORT OF THE INDEPENDENT PUBLIC ACCOUNTANTS
(NON-CONSOLIDATED)**

To the Board of Directors of
Kumagai Gumi Co., Ltd.

We have audited the accompanying non-consolidated balance sheets of Kumagai Gumi Co., Ltd. as of March 31, 2007 and 2008, and the related non-consolidated statements of income, and changes in net assets for the years then ended, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kumagai Gumi Co., Ltd. as of March 31, 2007 and 2008, and the results of its operations for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the non-consolidated financial statements.

Gyosei & Co.

Tokyo, Japan
Jun 27, 2008

GYOSEI & Co.
Certified Public Accountants

Kojimachi Bldg., 3-3-6 Kudan Minami, Chiyoda-ku, Tokyo, Japan

GLOBAL DIRECTORY

HEAD OFFICE:

2-1, Tsukudo-cho, Shinjuku-ku, Tokyo 162-8557, Japan
Telephone: 81-3-3235-8641
Facsimile: 81-3-5229-7090
(Overseas Division)

OVERSEAS BRANCHES:

HONG KONG BRANCH

22nd Floor
No. 625 King's Road
North Point, Hong Kong
Telephone: 852-2203-0888
Facsimile: 852-2203-0555

MALAYSIA BRANCH

Suit 809, 8th Floor
Wisma Lim Foo Yong 86
Jalan Raja Chulan
50200 Kuala Lumpur, Malaysia
Telephone: 60-3-2144-1312
Facsimile: 60-3-2144-3373

THAILAND BRANCH

10th Floor, Le Concorde
Tower 202, Rachadapisek
Road, Huaykwang, Bangkok
10320 Thailand
Telephone: 66-2694-1190
Facsimile: 66-2694-1195

TAIWAN BRANCH

Room No. 1407, 12th Floor
International Trade Building
205 Section 1, Tun Hua
South Road Taipei, Taiwan,
Republic of China
Telephone: 886-2-2721-0427
Facsimile: 886-2-2741-2476

PHILIPPINES BRANCH

3F, Port Royale Building,
Rada Str,
Legaspi Village, Makati City,
Metro Manila, PHILIPPINES
Telephone: 63-2-815-4660
Facsimile: 63-2-818-1756

SHANGHAI BRANCH

Room 1001, Zhonghuang
Mansion, 1007, Zhong Shan
No.2(S) Road, Shanghai
200030, P.R.C
Telephone: 86-21-6456-5450
Facsimile: 86-21-6456-5040

SRI LANKA BRANCH

124 Barnes Place,
Colombo 7, Sri Lanka
Telephone: 94-11-2665126
Facsimile: 94-11-2665126

VIETNAM BRANCH

Unit 205, 2nd Floor,
V-Tower, 649 Kim Ma Street,
Ba Dinh District,
Hanoi, Vietnam
Telephone: 84-4-7661501
Facsimile: 84-4-7661506

PAPUA NEW GUINEA BRANCH

P.O. Box 873
Boroko NCD
Papua New Guinea

PRINCIPAL SUBSIDIARIES AND AFFILIATES:

GAEART TK Co., Ltd.

Head Office: Tokyo, Japan
President: Toshikazu Fujii
Capital: ¥1,000,000,000
(US\$9,981,036)

Major Activities:

Construction and pavement of roads and airports, other civil engineering works and architecture.

K&E Co., Ltd.

Head Office: Tokyo, Japan
President: Yasushi Higuchi
Capital: ¥300,000,000
(US\$2,994,311)

Major Activities:

Plan, design, and construction for improvement of building and equipment.

FATEC CO., LTD.

Head Office: Tokyo, Japan
President: Takayuki Aono
Capital: ¥20,000,000
(US\$199,621)

Major Activities:

Sales of construction materials and equipment developed by Kumagai's various technologies.

TECHNOS Co., Ltd.

Head Office: Toyokawa
Aichi, Japan
President: Masatoshi
Nakagawa
Capital: ¥470,000,000
(US\$4,691,087)

Major Activities:

Production and sale of construction machinery and materials.
Construction of underground diaphragm walls and noiseless vibration-free piles.
Environmental business.

Taiwan Kumagai Co., Ltd.

Head Office: Taipei, Taiwan
President: Shizuo Tashiro
Capital: NT\$301,200,000
(US\$9,911,155)

Major Activities:

Construction business in Taiwan.

(As of March 31, 2008)

Conversion into U.S. dollars
at the rate of
¥100.19=US\$1.00
US\$1.00=NT\$30.39
(As of March 31, 2008)

MAJOR CONTRACTS

Contracts awarded in fiscal year 2007:

CIVIL ENGINEERING

- Oyama Dam Construction Project
Owner: Japan Water Agency
- Hokuriku Shinkansen Itoigawa Station Viaduct
Owner: Japan Railway Construction, Transport and Technology Agency
- Daini-Keihan(Osaka-Kita-Road) Kami/ShimoShimagashira District Substructure Construction and Other Projects
Owner: Ministry of Land, Infrastructure and Transport
- Seisho Bypass Emergency Disaster-Relief Project (No.1)
Owner: Central Nippon Expressway Co., Ltd

ARCHITECTURE

- AEON Hiezu Shopping Center Extension Construction Project (Tentative name)
Owner: AEON Co., Ltd
- AL PLAZA Katata Construction Project (Tentative name)
Owner: Heiwado Co., Ltd.
- Kobe Isogami Tower Construction Project (Tentative name)
Owner: KANDEN FUDOSAN CO., LTD., CELSUS Corporation
- Ebisu 4 Chome Planned Construction Project (Tentative name)
Owner: Mitsui Fudosan Co., Ltd.

Contracts completed in fiscal year 2007:

CIVIL ENGINEERING

- New Metrorail City Project
Owner: Public Transport Authority, Government of West Australia
- Route 8-Eagle's Nest Tunnel and Associated Works Project
Owner: Highways Department, The Government of Hong Kong SAR
- Tokuyama Dam Construction Project, Phase III
Owner: Japan Water Agency
- Hokukan Iiyama Tunnel (Tomikura) Other 3 Project
Owner: Japan Railway Construction, Transport and Technology Agency

ARCHITECTURE

- Century Miraidaira Construction Project (Tentative name)
Owner: Iida Sangyo Co., Ltd.
- Times Peace Square Construction Project, Section B
Owner: MID Urban Development Co., Ltd., Mitsui Fudosan Residential Co., Ltd., Sumitomo Realty & Development Co., Ltd., PanaHome Corporation
- JUSCO Tottori Kita Shopping Center Extension Construction Project (Tentative name)
Owner: AEON Co., Ltd
- UNY Kanazawa Nishi Shopping Center Construction Project (Tentative name)
Owner: UNY Co., Ltd.

Contracts carried over to fiscal year 2008:

CIVIL ENGINEERING

- Southern Transport Development Project, Highway
Owner: Road Development Authority (Sri Lanka)
- Central Circular Highway - Shinagawa Line Shield Tunnel (northbound) Construction Project
Owner: Metropolitan Expressway Co., Ltd.
- The Tohoku Shinkansen Line, Sanbongihara Tunnel and others projects 1, 2, 3
Owner: Japan Railway Construction, Transport and Technology Agency
- Takizawa Dam Construction Project, Phase 2
Owner: Japan Water Agency
- Isawa Dam Quarry Site Material Excavation Project, Phase 1
Owner: Ministry of Land, Infrastructure and Transport

ARCHITECTURE

- Higashitotsuka Station West Tower Construction Project (Tentative name)
Owner: Towa Real Estate Development Co., Ltd., Daiwa System Co., Ltd.
- LEXEL MANSION (condominium) Midorino Construction Project (Tentative name)
Owner: FUSO LEXEL INCORPORATED
- Kamitakamaru, Tarumi-ku, Kobe City Plan Construction Project (Tentative name)
Owner: Urban life Co., Ltd., KINTETSU REAL ESTATE Co., Ltd., Kinki Ryoju Estate Co., Ltd.
- Makita Corporation HQ Administrative Building, Development Testing Building Construction Project (tentative name)
Owner: Makita Corporation

CORPORATE DATA

Date Incorporated:
January 6,1938 (Inaugurated in 1898)

Capital Stock:
¥13,341 million
(US\$133,663 thousand)
(As of March 31, 2008)

Major Activities:

1. Engineering, architecture, and general construction
2. Design, manufacture, and sale of construction machinery and equipment
3. Construction-related consulting services

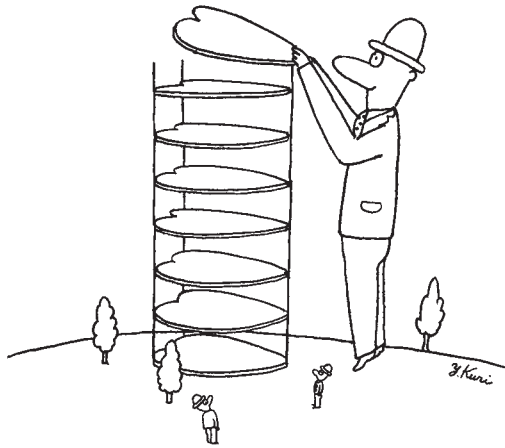
Number of Employees:

Civil Engineers.....	841
Architectural Engineers.....	1,081
Electrical Engineers.....	45
Mechanical Engineers.....	28
Administrative Staff.....	507
Others.....	4
Total.....	2,506

(As of March 31, 2008)

For further information, please contact the
nearest local branch or the Overseas
Division at the Head Office.

We build with heart.



KUMAGAI GUMI

Head Office

2-1, Tsukudo-cho, Shinjuku-ku Tokyo 162-8557, Japan

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Facsimile

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