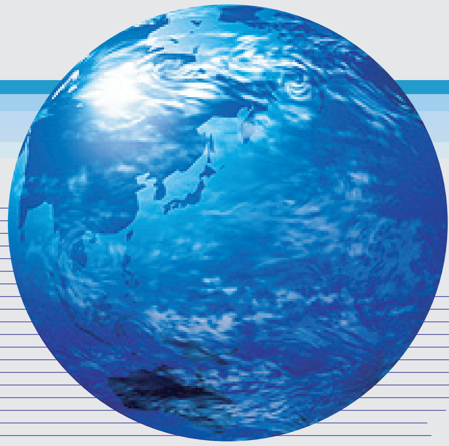


ANNUAL REPORT 2008

SUMITOMO MITSUI CONSTRUCTION CO.,LTD.

CONTENTS

PROFILE

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

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

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

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

THE MESSAGE FROM THE PRESIDENT

Japan's economy in this term was affected by the escalating prices of energy and raw materials, thus worsening the environment for corporate profitability. Because of this, economic recovery is showing a slowing trend. In addition, with the subprime mortgage crisis in the background, the U.S. economic slowdown and fluctuations in the stock and exchange markets have caused a rise in downside risks to the economy.

Under these conditions, the level of public investment continues to remain low in the construction industry. In an effort to supplement this decrease in public works with private construction projects, our company has focused on sales towards the private sector. However, the soaring price of steel and other materials, as well as subcontract costs were greater than we expected. This, in addition to fierce cost competition with rival companies, has increased pressure on construction profits, especially for large-scale projects with long construction periods. This greatly affected our business performance for this term.

In order to enable development that is sustainable into the future, instead of being trapped in the cost competition we face, we believe that it is necessary to transform the quality of this competition.

To do this, and in order to become "one of the highest quality general contractors in Japan", "the Medium-term Management Plan" was formulated for the next three years as the first phase of a long-term structural reform plan. In this plan, the following basic policies will be steadily implemented. By speedily achieving each goal, we expect to sharpen our corporate competitive edge, as well as streamline our operations.

○ Establish the "Trusted Sumitomo Mitsui Construction" brand, supported by technology and "offering high quality products" as the core idea of operations

○ Build a strong revenue base of an optimal scale, which is not swayed by the market environment

○ Radical restructuring of operations, organizational systems and human resources placement, etc.

○ Focus on "creating new sources of revenue for future generations"

Hisaya Igarashi

Hisaya Igarashi
Representative Director,
President and Chief Executive Officer

Consolidated Financial Statements

Sumitomo Mitsui Construction Co., Ltd.
and Consolidated Subsidiaries

Years ended March 31, 2008 and 2007
with Report of Independent Auditors

Consolidated Balance Sheets

March 31, 2008

	March 31, 2008	March 31, 2007	2008
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Assets			
Current assets:			
Cash and deposits *(Notes 8 and 13)*	¥ 28,602	¥ 31,566	$ 285,477
Trade notes and accounts receivable *(Note 8)*	205,419	195,307	2,050,294
Inventories	27,182	31,127	271,304
Deferred income taxes *(Note 11)*	5,428	7,116	54,177
Other current assets *(Note 5)*	24,547	23,345	245,004
Less allowance for doubtful receivables	(5,549)	(6,123)	(55,384)
Total current assets	285,631	282,340	2,850,893
Non-current assets:			
Property and equipment, at cost:			
Land *(Notes 6 and 8)*	16,486	16,562	164,547
Buildings and structures *(Note 8)*	14,822	14,615	147,938
Machinery, equipment and vehicles *(Note 8)*	17,181	19,241	171,484
Construction in progress	–	250	–
Accumulated depreciation	(24,564)	(26,210)	(245,174)
Property and equipment, net	23,924	24,458	238,786
Intangible fixed assets	1,864	1,931	18,604
Investments and other assets:			
Investments in securities *(Notes 5 and 8)*	6,834	7,633	68,210
Long-term loans receivable	10,231	10,880	102,115
Claims provable in bankruptcy and other	8,887	10,003	88,701
Investments in unconsolidated subsidiaries and affiliates *(Notes 5 and 8)*	1,451	2,703	14,482
Investments in real estate *(Notes 7 and 8)*	4,243	3,461	42,349
Long-term non-operating accounts receivable	38,089	44,343	380,167
Deferred income taxes *(Note 11)*	1,069	914	10,669
Other *(Note 8)*	7,885	9,703	78,700
Less allowance for doubtful receivables	(52,220)	(58,292)	(521,209)
Total investments and other assets	26,472	31,350	264,217
Total non-current assets	52,262	57,740	521,628
Total assets	¥337,893	¥340,081	$3,372,522

	March 31,		
	2008	**2007**	**2008**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Liabilities and net assets			
Current liabilities:			
Short-term bank loans and current portion of long-term debt *(Notes 8 and 9)*	¥ 26,166	¥ 8,786	$ 261,163
Trade notes and accounts payable	211,110	213,570	2,107,096
Accrued expenses	4,944	5,652	49,346
Advances received on construction contracts in progress	24,985	31,302	249,376
Reserve for defects on completed construction projects	1,851	1,840	18,474
Allowance for losses on construction contracts	1,290	1,033	12,875
Other current liabilities *(Note 8)*	18,889	22,311	188,531
Total current liabilities	289,239	284,496	2,886,904
Long-term liabilities:			
Long-term debt *(Notes 8 and 9)*	2,279	5,779	22,746
Accrued retirement benefits *(Note 10)*	17,987	16,672	179,528
Deferred tax liability on land revaluation *(Note 6)*	485	485	4,840
Other long-term liabilities *(Note 8)*	4,630	5,041	46,212
Total long-term liabilities	25,383	27,978	253,348
Contingent liabilities *(Note 12)*			
Net assets:			
Shareholders' equity:			
Capital stock:	16,859	16,859	168,270
Common stock:			
Authorized:			
2,669,464,970 shares in 2008 and 2007			
Issued and outstanding:			
271,242,956 shares in 2008 and 127,399,973 shares in 2007			
Preferred stock:			
Authorized:			
26,894,644 shares in 2008 and 2007			
Issued and outstanding:			
17,238,700 shares in 2008 and 24,555,000 shares in 2007			
Additional paid-in capital	83	84	828
Retained earnings	3,979	7,721	39,714
Less treasury stock, at cost:			
377,598 shares in 2008 and 348,034 shares in 2007	(240)	(236)	(2,395)
Total shareholders' equity	20,680	24,428	206,407
Valuation, translation adjustments and other:			
Unrealized holding gain on securities	585	1,273	5,838
Land revaluation *(Note 6)*	81	81	808
Translation adjustments	(331)	(313)	(3,303)
Total valuation, translation adjustments and other	335	1,042	3,343
Minority interests	2,254	2,135	22,497
Total net assets	23,270	27,606	232,258
Total liabilities and net assets	¥337,893	¥340,081	$3,372,522

The accompanying notes are an integral part of these statements.

	Years ended March 31,		
	2008	**2007**	**2008**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Net sales	¥499,989	¥529,950	$4,990,408
Cost of sales	476,322	496,898	4,754,187
Gross profit	23,666	33,052	236,211
Selling, general and administrative expenses *(Notes 10 and 15)*	20,930	21,459	208,903
Operating income	2,736	11,592	27,308
Other income (expenses):			
Interest and dividend income	437	323	4,361
Payments received from insurance claims	270	262	2,694
Interest expense	(1,329)	(919)	(13,264)
Exchange gain, net	122	109	1,217
Provision for doubtful receivables	(609)	(1,199)	(6,078)
Equity in earnings (losses) of affiliates	48	(231)	479
Gain on sales of property and equipment	119	4	1,187
Loss on sales and disposal of property and equipment	(143)	(198)	(1,427)
Surcharge duties	(296)	–	(2,954)
Loss on out-of-court settlements	(399)	(1,245)	(3,982)
Gain on sales of investments in securities	62	31	618
Gain on prior-period adjustment	212	1,684	2,115
Amortization of negative goodwill upon consolidation	0	52	0
Other, net	(1,131)	(1,972)	(11,288)
	(2,635)	(3,298)	(26,300)
Income before income taxes and minority interests	100	8,293	998
Income taxes *(Note 11)*:			
Current	600	800	5,988
Deferred	2,021	37	20,171
	2,621	838	26,160
Minority interests in net income of consolidated subsidiaries	(125)	(442)	(1,247)
Net (loss) income	¥(2,646)	¥7,013	$(26,409)

	(Yen)		*(U.S. dollars) (Note 3)*
Net (loss) income per share – basic *(Note 16)*	¥(13.19)	¥60.98	$(0.131)
Net income per share – diluted *(Note 16)*	–	12.72	–

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes In Net Assets

March 31, 2008

	Millions of yen				
	Capital stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at March 31, 2007	¥16,859	¥84	¥7,721	¥(236)	¥24,428
Cash dividends paid *(Note 4)*			(1,095)		(1,095)
Net loss			(2,646)		(2,646)
Purchases of treasury stock				(6)	(6)
Disposition of treasury stock		(1)		2	0
Net changes in items other than shareholders' equity					
Balance at March 31, 2008	¥16,859	¥83	¥3,979	¥(240)	¥20,680

	Millions of yen					
	Unrealized holding gain on securities	Land revaluation	Translation adjustments	Total valuation, translation adjustments and other	Minority interests	Total net assets
Balance at March 31, 2007	¥1,273	¥81	¥(313)	¥1,042	¥2,135	¥27,606
Cash dividends paid *(Note 4)*						(1,095)
Net loss						(2,646)
Purchases of treasury stock						(6)
Disposition of treasury stock						0
Net changes in items other than shareholders' equity	(688)		(18)	(706)	119	(587)
Balance at March 31, 2008	¥585	¥81	¥(331)	¥335	¥2,254	¥23,270

	Thousands of U.S. dollars (Note 3)				
	Capital stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at March 31, 2007	$168,270	$838	$77,063	$(2,355)	$243,816
Cash dividends paid *(Note 4)*			(10,929)		(10,929)
Net loss			(26,409)		(26,409)
Purchases of treasury stock				(59)	(59)
Disposition of treasury stock		(9)		19	0
Net changes in items other than shareholders' equity					
Balance at March 31, 2008	$168,270	$828	$39,714	$(2,395)	$206,407

	Thousands of U.S. dollars (Note 3)					
	Unrealized holding gain on securities	Land revaluation	Translation adjustments	Total valuation, translation adjustments and other	Minority interests	Total net assets
Balance at March 31, 2007	$12,705	$808	$(3,124)	$10,400	$21,309	$275,536
Cash dividends paid *(Note 4)*						(10,929)
Net loss						(26,409)
Purchases of treasury stock						(59)
Disposition of treasury stock						0
Net changes in items other than shareholders' equity	(6,866)		(179)	(7,046)	1,187	(5,858)
Balance at March 31, 2008	$5,838	$808	$(3,303)	$3,343	$22,497	$232,258

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

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

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

March 31, 2008

	Years ended March 31,		
	2008	2007	2008
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Operating activities			
Income before income taxes and minority interests	¥ 100	¥ 8,293	$ 998
Depreciation and amortization	1,329	1,142	13,264
Increase (decrease) in allowance for doubtful receivables	561	(228)	5,599
Increase in accrued retirement benefits	1,313	1,008	13,105
Increase in reserve for defects on completed construction projects	11	513	109
Increase in allowance for losses on construction contracts	257	258	2,565
Loss on sales and disposal of property and equipment	13	191	129
Amortization of (negative goodwill) goodwill upon consolidation	(0)	32	(0)
Interest and dividend income	(437)	(323)	(4,361)
Interest expense	1,329	919	13,264
Exchange loss, net	382	131	3,812
Equity in (earnings) losses of affiliates	(48)	231	(479)
Increase in trade notes and accounts receivable	(10,858)	(714)	(108,374)
Decrease in inventories	4,102	9,450	40,942
Decrease in other assets	1,506	10,435	15,031
Decrease in trade notes and accounts payable	(2,781)	(5,482)	(27,757)
Decrease in advances received on construction contracts in progress	(6,418)	(7,555)	(64,058)
Decrease in other liabilities	(4,623)	(7,008)	(46,142)
Other	533	1,105	5,319
Subtotal	(13,725)	12,401	(136,989)
Interest and dividends received	496	212	4,950
Interest paid	(1,423)	(849)	(14,203)
Income taxes paid	(829)	(737)	(8,274)
Net cash (used in) provided by operating activities	(15,482)	11,026	(154,526)
Investing activities			
Increase in short-term investments	(671)	(319)	(6,697)
Purchases of property and equipment	(708)	(910)	(7,066)
Proceeds from sales of property and equipment	154	95	1,537
Purchases of intangible fixed assets	(229)	(244)	(2,285)
Purchases of investments in real estate	(1,144)	–	(11,418)
Proceeds from sales of investments in real estate	330	–	3,293
Purchases of investments in securities	(43)	(24)	(429)
Proceeds from sales of investments in securities	225	322	2,245
Increase in investments in unconsolidated subsidiaries and affiliates	(16)	(69)	(159)
Disbursements for loans	(196)	(1,750)	(1,956)
Proceeds from collection of loans	456	1,493	4,551
Other	1,034	105	10,320
Net cash used in investing activities	(810)	(1,300)	(8,084)
Financing activities			
Increase (decrease) in short-term bank loans	17,401	(12,125)	173,680
Increase in long-term debt	22	196	219
Decrease in long-term debt	(3,543)	(3,015)	(35,362)
Increase in long-term loans of employees	71	119	708
(Increase) decrease in treasury stock	(6)	0	(59)
Cash dividends paid	(1,095)	–	(10,929)
Cash dividends paid for minority shareholders	(11)	(2)	(109)
Net cash provided by (used in) financing activities	12,838	(14,826)	128,136
Effect of exchange rate changes on cash and cash equivalents	(230)	(20)	(2,295)
Net decrease in cash and cash equivalents	(3,685)	(5,121)	(36,780)
Cash and cash equivalents at beginning of the year	30,194	35,295	301,367
Increase in cash and cash equivalents resulting from merger of unconsolidated subsidiaries	–	20	–
Cash and cash equivalents at end of the year	¥ 26,508	¥ 30,194	$264,577

The accompanying notes are an integral part of these statements.

1. Basis of Preparation

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

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

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

The Company had 14 consolidated subsidiaries, 2 unconsolidated subsidiaries and 3 affiliates as of March 31, 2008 and 15 consolidated subsidiaries, 2 unconsolidated subsidiaries and 3 affiliates as of March 31, 2007.

(b) Recognition of Revenues and Related Costs

Net sales on construction of the Company and certain consolidated subsidiaries which cover a construction period longer than 12 months are, in principle, recognized by the percentage-of-completion method based on the ratio of costs incurred to total estimated costs, except for net sales on long-term contracts which total less than ¥500 million. Net sales on such contracts amounted to ¥323,099 million ($3,224,862 thousand) and ¥322,570 million for the years ended March 31, 2008 and 2007, respectively.

(c) Securities

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

(d) Inventories

Inventories other than materials and supplies are stated at cost determined by the specific identification method. Materials and supplies are valued at cost determined by the average method.

(e) Depreciation and Amortization

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

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

(Changes in accounting policy)
In accordance with an amendment to the Corporation Tax Law, effective the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries have changed their method of accounting for depreciation of property and equipment acquired on or after April 1, 2007 to that under the amended Corporation Tax Law. As a result, operating income and income before income taxes and minority interests have each decreased by ¥30 million ($299 thousand) for the year ended March 31, 2008 from the corresponding amounts which would have been recorded under the previous method.

(Additional information)
In accordance with an amendment to the Corporation Tax Law, effective the year ended March 31, 2008, the residual value of property and equipment acquired before April 1, 2007 is depreciated over a period of 5 years using the straight-line method after the fiscal year in which the depreciable limits of such property and equipment are reached. As a result, operating income and income before income taxes and minority interests each decreased by ¥150 million ($1,497 thousand) for the year ended March 31, 2008 from the corresponding amounts which would have been recorded under the previous method.

(f) Allowance for Doubtful Receivables

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

(g) Advances Received on 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.

(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) Employees' Retirement Benefits

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

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

(k) 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 files a tax return under the consolidated corporate-tax system effective the year ended March 31, 2008.

(l) Leases

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

(m) Cash Equivalents

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

3. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made, as a matter of arithmetic computation only, at ¥100.19 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2008. 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. Dividends

Information regarding dividends was as follows:

Dividends paid to shareholders

		2008					
Resolution approved by	Type of shares	Amount *(Millions of yen)*	Amount *(Thousands of U.S. dollars)*	Amount per share *(Yen)*	Amount per share *(U.S. dollars)*	Record date	Effective date
Annual general meeting of shareholders (June 28, 2007)	1st Series preferred stock	¥ 8	$ 79	¥ 4.21	$0.042	March 31, 2007	June 29, 2007
	2nd Series Class A preferred stock	30	299	6.71	0.066		
	3rd Series Class B preferred stock	354	3,533	58.55	0.584		
	3rd Series Class C preferred stock	351	3,503	58.55	0.584		
	3rd Series Class D preferred stock	351	3,503	58.55	0.584		
		¥1,095	$10,929				

5. Securities

Securities at March 31, 2008 and 2007 are summarized as follows:

a) Held-to-maturity securities

	2008					
	Carrying value	Fair value	Unrealized gain	Carrying value	Fair value	Unrealized gain
	(Millions of yen)			*(Thousands of U.S. dollars)*		
Securities whose fair value exceeds their carrying value:						
Bonds	¥ 9	¥ 9	¥ 0	$89	$89	$ 0

	2007		
	Carrying value	Fair value	Unrealized loss
	(Millions of yen)		
Securities whose fair value does not exceed their carrying value:			
Bonds	¥ 9	¥ 9	¥(0)

b) Marketable other securities

	2008					
	Cost	Balance sheet amount	Unrealized gain (loss)	Cost	Balance sheet amount	Unrealized gain (loss)
	(Millions of yen)			*(Thousands of U.S. dollars)*		
Unrealized gain:						
Stock	¥2,368	¥3,385	¥1,017	$23,635	$33,785	$10,150
Unrealized loss:						
Stock	633	574	(59)	6,317	5,729	(588)
Total	¥3,002	¥3,960	¥ 957	$29,963	$39,524	$ 9,551

	2007		
	Cost	Balance sheet amount	Unrealized gain
	(Millions of yen)		
Unrealized gain:			
Stock	¥3,096	¥5,216	¥2,120

c) Sales of securities classified as other securities

	2008	2007	2008
	(Millions of yen)		*(Thousands of U.S. dollars)*
Sales amount	¥172	¥ 0	$1,716
Aggregate gain	46	0	459

d) Major components and book value of securities without market value

	2008	2007	2008
	(Millions of yen)		*(Thousands of U.S. dollars)*
Other securities:			
Unlisted stock	¥2,865	¥2,899	$28,595
Investments in unconsolidated subsidiaries and affiliates	1,451	1,445	14,482
Unlisted preferred equity securities	100	105	998

e) Redemption schedule for held-to maturity securities

	2008							
	Within 1 year	Over 1 year and within 5 years	Over 5 years and within 10 years	Over 10 years	Within 1 year	Over 1 year and within 5 years	Over 5 years and within 10 years	Over 10 years
	(Millions of yen)				*(Thousands of U.S. dollars)*			
Bonds	¥ —	¥ —	¥ 9	¥ —	$ —	$ —	$89	$ —

	2007			
	Within 1 year	Over 1 year and within 5 years	Over 5 years and within 10 years	Over 10 years
	(Millions of yen)			
Bonds	¥ —	¥ —	¥ 9	¥ —

6. 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 ¥538 million ($5,369 thousand) and ¥510 million more than the revalued book amount at March 31, 2008 and 2007, respectively.

7. Investments in Real Estate

"Investments in real estate" includes accumulated depreciation in the amount of ¥523 million ($5,220 thousand) and ¥492 million at March 31, 2008 and 2007, respectively.

8. Pledged Assets

The following assets were pledged at March 31, 2008 principally as collateral for short-term bank loans, long-term debt, and guarantees (such as guarantees for the completion of construction contracts):

	March 31,		
	2008	2007	2008
	(Millions of yen)		*(Thousands of U.S. dollars)*
Cash and deposits	¥ 255	¥ 101	$ 2,545
Trade notes and accounts receivable	21,045	3,368	210,050
Land	12,899	13,601	128,745
Buildings and structures, net of accumulated depreciation	1,766	1,645	17,626
Machinery, equipment and vehicles, net of accumulated depreciation	192	213	1,916
Investments in securities	3,929	5,161	39,215
Investments in unconsolidated subsidiaries and affiliates	49	49	489
Investments in real estate	3,429	3,461	34,224
Other	—	669	—
	¥43,568	¥28,272	$434,853

Of the above property and equipment, assets that were held in mortgage for factory foundations at March 31, 2008 and 2007 are summarized as follows:

	March 31,		
	2008	2007	2008
	(Millions of yen)		*(Thousands of U.S. dollars)*
Land	¥ 1,236	¥ 1,236	$ 12,336
Buildings and structures, net of accumulated depreciation	338	354	3,373
Machinery, equipment and vehicles, net of accumulated depreciation	192	213	1,916
	¥ 1,767	¥ 1,804	$ 17,636

The secured liabilities as of March 31, 2008 and 2007 are summarized as follows:

	March 31,		
	2008	2007	2008
	(Millions of yen)		*(Thousands of U.S. dollars)*
Short-term bank loans	¥23,398	¥ 7,938	$233,536
[Including current portion of long-term debt]	[2,713]	[2,735]	[27,078]
Long-term debt	2,179	5,629	21,748
Other current liabilities	100	—	998
Other long-term liabilities	725	925	7,236

9. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans generally represent notes, principally at average annual interest rates of 2.7% and 1.9% at March 31, 2008 and 2007, respectively.

Long-term debt at March 31, 2008 and 2007 is summarized as follows:

	March 31,		
	2008	**2007**	**2008**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Debt with collateral (at average interest rates of 2.8% at 2008 and 2.7% at 2007)	¥ 4,893	¥ 8,364	$ 48,837
Debt without collateral (at average interest rates of 2.4% at 2008 and 2.4% at 2007)	150	200	1,497
	5,043	8,564	50,334
Less current portion	(2,763)	(2,785)	(27,577)
	¥ 2,279	¥ 5,779	$ 22,746

The aggregate annual maturities of long-term debt subsequent to March 31, 2008 are summarized as follows:

Year ending March 31,	*(Millions of yen)*	*(Thousands of U.S. dollars)*
2009	¥2,763	$27,577
2010	1,815	18,115
2011	86	858
2012 and thereafter	377	3,762
	¥5,043	$50,334

10. Retirement Benefit Plans

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

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets at March 31, 2008 and 2007 for the Company's and the consolidated subsidiaries' defined benefit plans:

	March 31,		
	2008	**2007**	**2008**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Retirement benefit obligation	¥(34,391)	¥(35,856)	$(343,257)
Plan assets at fair value	399	518	3,982
Unfunded retirement benefit obligation	(33,991)	(35,338)	(339,265)
Unrecognized net retirement benefit obligation at transition	13,891	15,887	138,646
Unrecognized actuarial loss	1,886	2,520	18,824
Unrecognized prior service cost	283	345	2,824
Net retirement benefit obligation	(17,930)	(16,583)	(178,959)
Prepaid pension cost	56	88	558
Accrued retirement benefits	¥(17,987)	¥(16,672)	$(179,528)

The components of retirement benefit expenses for the years ended March 31, 2008 and 2007 are outlined as follows:

	Years ended March 31,		
	2008	**2007**	**2008**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Service cost	¥1,492	¥1,488	$14,891
Interest cost	857	888	8,553
Expected return on plan assets	(4)	(4)	(39)
Amortization of net retirement benefit obligation at transition	1,996	1,985	19,922
Amortization of actuarial loss	380	371	3,792
Amortization of prior service cost	61	36	608
Total retirement benefit expenses	¥4,783	¥4,765	$47,739

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

	2008	**2007**
Discount rate	Principally 2.5%	Principally 2.5%
Expected rate of return on plan assets	2.0%	Principally 2.0%
Amortization period for prior service cost	Principally 11 years	Principally 11 years
Amortization period for actuarial differences	Principally 11 years	Principally 11 years
Period for recognition of net retirement benefit obligation at transition	Principally 15 years	Principally 15 years

11. Income Taxes

The significant components of deferred tax assets and liabilities at March 31, 2008 and 2007 were as follows:

	March 31,		
	2008	2007	2008
	(Millions of yen)		*(Thousands of U.S. dollars)*
Deferred tax assets:			
Tax loss carryforwards	¥ 101,621	¥ 101,959	$ 1,014,282
Accrued retirement benefits	7,303	6,800	72,891
Allowance for bad debts	2,559	2,929	25,541
Accrued expenses	1,671	1,976	16,678
Reserve for defects on completed construction projects	745	751	7,435
Other	2,463	2,154	24,583
Gross deferred tax assets	116,363	116,571	1,161,423
Valuation allowance	(109,471)	(107,666)	(1,092,633)
Total deferred tax assets	6,891	8,905	68,779
Deferred tax liabilities:			
Unrealized holding gain on securities	(375)	(848)	(3,742)
Other	(18)	(25)	(179)
Total deferred tax liabilities	(393)	(874)	(3,922)
Net deferred tax assets	¥ 6,498	¥ 8,031	$ 64,856

The following table summarizes the significant differences between the statutory tax rate and the effective tax rates at March 31, 2008 and 2007:

	March 31,	
	2008	2007
Statutory tax rate	40.7%	40.7%
Non-deductible expenses	523.0	4.5
Non-taxable income	(204.9)	(0.4)
Per capita inhabitants' taxes	(25.8)	3.3
Valuation allowance	2,404.3	(37.1)
Adjustments related to consolidation	(19.5)	(0.3)
Adjustment on prior-year income taxes	(17.3)	0.2
Differences in tax rates with consolidated subsidiaries	(98.9)	(0.6)
Other	(1.0)	(0.2)
Effective tax rates	2,600.6%	10.1%

12. Contingent Liabilities

At March 31, 2008 and 2007, the Company and consolidated subsidiaries were contingently liable for the following:

	March 31, 2008	March 31, 2007	2008
	(Millions of yen)		*(Thousands of U.S. dollars)*
As guarantors of bank loans to customers, unconsolidated subsidiaries, an affiliate and employees	¥5,119	¥5,941	$51,092
As endorsers of notes receivable discounted with banks	816	59	8,144
As endorsers of notes receivable endorsed to vendors	2,170	3,041	21,658
Assignment of receivables	4,462	342	44,535

13. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2008 and 2007 were as follows:

	March 31, 2008	March 31, 2007	2008
	(Millions of yen)		*(Thousands of U.S. dollars)*
Cash and deposits	¥28,602	¥31,566	$285,477
Time deposits with maturities of over three months	(2,094)	(1,372)	(20,900)
Cash and cash equivalents	¥26,508	¥30,194	$264,577

14. Leases

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation / amortization and net book value of the leased property as of March 31, 2008 and 2007, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

a) As lessee:

(1) Finance leases

	2008		
	Machinery and equipment	Intangible fixed assets	Total
	(Millions of yen)		
Acquisition costs	¥1,318	¥ 383	¥1,702
Accumulated depreciation / amortization	520	200	720
Net book value	¥ 798	¥ 183	¥ 982

	2008		
	Machinery and equipment	Intangible fixed assets	Total
	(Thousands of U.S. dollars)		
Acquisition costs	$13,155	$ 3,822	$16,987
Accumulated depreciation / amortization	5,190	1,996	7,186
Net book value	$ 7,964	$ 1,826	$ 9,801

	2007		
	Machinery and equipment	Intangible fixed assets	Total
	(Millions of yen)		
Acquisition costs	¥1,207	¥ 346	¥1,553
Accumulated depreciation / amortization	714	175	889
Net book value	¥ 492	¥ 170	¥ 663

	2008	2007	2008
	(Millions of yen)		*(Thousands of U.S. dollars)*
Future minimum payments:			
Within one year	¥ 296	¥ 295	$ 2,954
Over one year	708	392	7,066
	¥1,004	¥ 687	$10,020
Lease payments	¥ 352	¥ 378	$ 3,513
Depreciation / amortization equivalents	310	339	3,094
Interest expense equivalents	33	30	329

Depreciation / amortization equivalents are computed by the straight-line method over the respective lease terms with no residual value.

(2) Operating leases

	2008	2007	2008
	(Millions of yen)		*(Thousands of U.S. dollars)*
Future minimum payments:			
Within one year	¥ 16	¥ 28	$ 159
Over one year	32	41	319
	¥ 49	¥ 69	$ 489

b) As lessor:

(1) Finance leases

	March 31,		
	2008	2007	2008
	(Millions of yen)		*(Thousands of U.S. dollars)*
	Machinery and equipment		
Acquisition costs	¥ 80	¥ 106	$ 798
Accumulated depreciation / amortization	47	68	469
Net book value	¥ 32	¥ 38	$ 319

	2008	2007	2008
	(Millions of yen)		*(Thousands of U.S. dollars)*
Future minimum payments:			
Within one year	¥ 15	¥ 19	$ 149
Over one year	24	25	239
	¥ 39	¥ 45	$ 389
Lease payments	¥ 22	¥ 23	$ 219
Depreciation equivalents	18	19	179

15. Research and Development Costs

Research and development costs included in selling, general and administrative expenses and manufacturing costs amounted to ¥1,269 million ($12,665 thousand) and ¥1,354 million for the years ended March 31, 2008 and 2007, respectively.

16. Per share information

Net assets, net (loss) income per share – basic and net income per share – diluted as of and for the years ended March 31, 2008 and 2007 were as follows:

	2008	2007	2008
	(Yen)		*(U.S. dollars)*
Net assets per share	¥(41.87)	¥(189.00)	$(0.417)
Net (loss) income per share – basic	(13.19)	60.98	(0.131)
Net income per share – diluted	—	12.72	—

The basis of calculation for net assets per share at March 31, 2008 and 2007 was as follows:

	2008	2007	2008
	(Millions of yen)		*(Thousands of U.S. dollars)*
Total net assets	¥ 23,270	¥ 27,606	$ 232,258
Amounts deducted from total net assets	34,611	51,618	345,453
[Including paid-in amounts for shares of preferred stock]	[32,356]	[48,387]	[322,946]
[Including amount of preferred dividends]	[−]	[1,095]	[−]
[Including minority interests]	[2,254]	[2,135]	[22,497]
Total net assets for common stock	¥(11,340)	¥(24,012)	$(113,184)
	(Thousands of shares)		
Number of shares of common stock used to determine total net assets per share	270,865	127,051	

The basis of calculation for net (loss) income per share – basic and net income per share – diluted for the years ended March 31, 2008 and 2007 was as follows:

	2008	2007	2008
	(Millions of yen)		*(Thousands of U.S. dollars)*
Net income per share – basic:			
Net (loss) income	¥(2,646)	¥7,013	$(26,409)
Amount not available to common shareholders	—	1,095	—
[Including amount of preferred dividends]	[−]	[1,095]	[−]
Net (loss) income per share – basic	¥(2,646)	¥5,917	$(26,409)
	(Thousands of shares)		
Average number of shares of common stock outstanding	200,598	97,039	

	2008	2007	2008
	(Millions of yen)		*(Thousands of U.S. dollars)*
Net income per share – diluted:			
Adjustment for net income	¥−	¥1,095	$−
	(Thousands of shares)		
Increase in number of shares of common stock	—	454,327	
[Including preferred stock]	[−]	[454,327]	

ERNST & YOUNG SHINNIHON

Certified Public Accountants
Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011
C.P.O. Box 1196, Tokyo, Japan 100-8641

Tel : 03 3503 1100
Fax : 03 3503 1197

Report of Independent Auditors

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sumitomo Mitsui Construction Co., Ltd. and consolidated subsidiaries at March 31, 2008 and 2007, 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.

Ernst & Young ShinNihon

June 20, 2008

Non-Consolidated Financial Statements

Sumitomo Mitsui Construction Co., Ltd.

Years ended March 31, 2008 and 2007
with Report of Independent Auditors

Non-Consolidated Balance Sheets

March 31, 2008

	March 31,		
	2008	2007	2008
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Assets			
Current assets:			
Cash and deposits *(Note 4)*	¥ 20,116	¥ 22,753	$ 200,778
Accounts receivable on completed contracts *(Note 4)*	184,907	174,330	1,845,563
Notes receivable *(Note 4)*	2,949	3,391	29,434
Securities	100	—	998
Short-term loans receivable	7,714	7,405	76,993
Inventories	23,319	26,911	232,747
Deferred income taxes *(Note 6)*	5,200	6,900	51,901
Accounts receivable	4,944	2,799	49,346
Advance payments	15,513	16,773	154,835
Other current assets *(Note 4)*	4,330	4,747	43,217
Less allowance for doubtful receivables	(6,116)	(6,981)	(61,044)
Total current assets	262,981	259,032	2,624,822
Non-current assets:			
Property and equipment, at cost:			
Land *(Note 4)*	5,349	5,349	53,388
Buildings *(Note 4)*	4,880	4,976	48,707
Structures *(Note 4)*	780	791	7,785
Machinery and equipment	3,515	3,888	35,083
Vehicles	133	186	1,327
Tools, furniture and fixtures	3,735	3,940	37,279
Accumulated depreciation	(10,451)	(10,995)	(104,311)
Property and equipment, net	7,944	8,137	79,289
Intangible fixed assets	1,311	1,361	13,085
Investments and other assets:			
Investments in securities *(Note 4)*	6,585	7,911	65,725
Investments in subsidiaries and affiliates *(Notes 3 and 4)*	7,388	8,386	73,739
Long-term loans receivable	7,890	8,342	78,750
Long-term loans to employees	1,032	1,042	10,300
Claims provable in bankruptcy and other	8,720	9,627	87,034
Long-term prepaid expenses	63	84	628
Deferred income taxes *(Note 6)*	929	783	9,272
Long-term non-operating accounts receivable	37,669	44,611	375,975
Other	7,376	8,992	73,620
Less allowance for doubtful receivables	(53,194)	(59,184)	(530,931)
Total investments and other assets	24,461	30,598	244,146
Total non-current assets	33,717	40,097	336,530
Total assets	¥296,698	¥299,129	$2,961,353

	March 31, 2008	March 31, 2007	2008
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Liabilities and net assets			
Current liabilities:			
Short-term bank loans and current potion of long-term debt *(Notes 4 and 5)*	¥24,400	¥5,139	$243,537
Trade notes payable	76,831	71,597	766,852
Accounts payable on completed contracts	111,174	121,251	1,109,631
Accounts payable, other	2,401	2,739	23,964
Accrued expenses	4,285	5,015	42,768
Income taxes payable	112	363	1,117
Consumption taxes payable	4,796	1,951	47,869
Advances received on contracts in progress	23,001	29,008	229,573
Deposits received	7,961	13,095	79,459
Reserve for defects on completed construction projects	1,798	1,798	17,945
Allowance for losses on construction contracts	1,113	942	11,108
Other current liabilities	1,873	1,802	18,694
Total current liabilities	259,749	254,707	2,592,564
Long-term liabilities:			
Long-term debt *(Notes 4 and 5)*	1,729	5,162	17,257
Accrued retirement benefits	16,418	15,266	163,868
Other long-term liabilities	17	132	169
Total long-term liabilities	18,165	20,561	181,305
Contingent liabilities *(Note 7)*			
Net assets:			
Shareholders' equity:			
Capital stock:	16,859	16,859	168,270
Common stock:			
Authorized:			
2,669,464,970 shares in 2008 and 2007			
Issued and outstanding:			
271,242,956 shares in 2008 and 127,399,973 shares in 2007			
Preferred stock:			
Authorized:			
26,894,644 shares in 2008 and 2007			
Issued and outstanding:			
17,238,700 shares in 2008 and 24,555,000 shares in 2007			
Retained earnings:			
Earned reserve	109	—	1,087
Earned surplus carried forward	1,480	6,012	14,771
Less treasury stock, at cost: 377,598 shares in 2008 and 348,034 shares in 2007	(240)	(236)	(2,395)
Total shareholders' equity	18,207	22,635	181,724
Valuation, translation adjustments and other:			
Unrealized holding gain on securities	575	1,226	5,739
Total valuation, translation adjustments and other	575	1,226	5,739
Total net assets	18,783	23,861	187,473
Total liabilities and net assets	¥296,698	¥299,129	$2,961,353

See accompanying notes to non-consolidated financial statements.

	Years ended March 31,		
	2008	2007	2008
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Net sales:			
Completed construction	¥423,282	¥455,403	$4,224,792
Cost of sales:			
Completed construction	405,947	429,479	4,051,771
Gross profit	17,335	25,924	173,021
Selling, general and administrative expenses	16,502	16,911	164,707
Operating income	833	9,013	8,314
Other income (expenses):			
Interest and dividend income	984	464	9,821
Payments received from insurance claims	270	262	2,694
Interest expense	(1,325)	(879)	(13,224)
Provision for doubtful receivables	(514)	(1,465)	(5,130)
Gain on sales of property and equipment	89	0	888
Surcharge duties	(296)	—	(2,954)
Loss on out-of-court settlements	(399)	(1,132)	(3,982)
Gain on sales of investments in securities	62	13	618
Loss on devaluation of investments in subsidiaries and affiliates	(907)	(23)	(9,052)
Gain on prior-period adjustment	414	1,341	4,132
Other, net	(619)	(1,361)	(6,178)
	(2,241)	(2,779)	(22,367)
(Loss) income before income taxes	(1,408)	6,233	(14,053)
Income taxes *(Note 6)*:			
Current	(83)	220	(828)
Deferred	2,000	—	19,962
	1,917	220	19,133
Net (loss) income	¥(3,325)	¥6,013	$(33,186)

	(Yen)		*(U.S. dollars) (Note 2)*
Net (loss) income per share – basic *(Note 9)*	¥(16.58)	¥50.68	$(0.165)
Net income per share – diluted *(Note 9)*	—	10.91	—

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Changes In Net Assets

March 31, 2008

	Millions of yen						
	Capital stock	Earned reserve	Earned surplus carried forward	Treasury stock, at cost	Total shareholders' equity	Unrealized holding gain on securities	Total net assets
Balance at March 31, 2007	¥16,859	¥ —	¥6,012	¥ (236)	¥22,635	¥1,226	¥23,861
Cash dividends paid			(1,095)		(1,095)		(1,095)
Transfer from earned surplus carried forward to earned reserve		109	(109)		—		—
Net loss			(3,325)		(3,325)		(3,325)
Purchases of treasury stock				(6)	(6)		(6)
Disposition of treasury stock			(1)	2	0		0
Net changes in items other than shareholders' equity						(650)	(650)
Balance at March 31, 2008	¥16,859	¥109	¥1,480	¥ (240)	¥18,207	¥ 575	¥18,783

	Thousands of U.S. dollars (Note 2)						
	Capital stock	Earned reserve	Earned surplus carried forward	Treasury stock, at cost	Total shareholders' equity	Unrealized holding gain on securities	Total net assets
Balance at March 31, 2007	$168,270	$ —	$60,005	$(2,355)	$225,920	$12,236	$238,157
Cash dividends paid			(10,929)		(10,929)		(10,929)
Transfer from earned surplus carried forward to earned reserve		1,087	(1,087)		—		—
Net loss			(33,186)		(33,186)		(33,186)
Purchases of treasury stock				(59)	(59)		(59)
Disposition of treasury stock			(9)	19	0		0
Net changes in items other than shareholders' equity						(6,487)	(6,487)
Balance at March 31, 2008	$168,270	$1,087	$14,771	$(2,395)	$181,724	$ 5,739	$187,473

	Millions of yen						
	Capital stock	Additional paid-in capital	Retained earnings (deficit)	Treasury stock, at cost	Total shareholders' equity	Unrealized holding gain on securities	Total net assets
Balance at March 31, 2006	¥36,657	¥30,000	¥(49,798)	¥(225)	¥16,633	¥1,078	¥17,711
Transfer from capital stock to retained earnings deficit	(19,798)		19,798		—		—
Transfer from additional paid-in capital to retained earnings deficit		(30,000)	30,000		—	—	—
Net income			6,013		6,013		6,013
Purchases of treasury stock				(13)	(13)		(13)
Disposition of treasury stock			(1)	2	1		1
Net changes in items other than shareholders' equity						147	147
Balance at March 31, 2007	¥16,859	¥ —	¥6,012	¥(236)	¥22,635	¥1,226	¥23,861

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) Recognition of Revenues and Related Costs

Net sales on construction of the Company which cover a construction period longer than 12 months are, in principle, recognized by the percentage-of-completion method based on the ratio of costs incurred to total estimated costs, except for net sales on long-term contracts which total less than ¥500 million. Net sales on such contracts amounted to ¥298,052 million ($2,974,867 thousand) and ¥302,984 million for the years ended March 31, 2008 and 2007, respectively.

(c) Securities and Investments in Subsidiaries and Affiliates

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

(d) Inventories

Inventories, other than materials and supplies, are stated at cost determined by the specific identification method. Materials and supplies are valued at cost determined by the average method.

(e) Depreciation and Amortization

Depreciation of property and equipment and real estate is determined by the declining-balance method except that the straight-line method is applied to office buildings acquired on or after April 1, 1998. Amortization of intangible assets and long-term prepaid expenses is calculated by the straight-line method based on the estimated useful lives of the respective assets as prescribed in the Corporation Tax Law of Japan.

(Changes in accounting policy)
In accordance with an amendment to the Corporation Tax Law, effective the year ended March 31, 2008, the Company has changed its method of accounting for depreciation of property and equipment acquired on or after April 1, 2007 to that under the amended Corporation Tax Law. As a result, operating income decreased by ¥11 million ($109 thousand) and loss before income taxes increased by ¥11 million ($109 thousand) for the ended March 31, 2008 as compared to the corrèsponding amounts which would have been recorded under the previous method.
(Additional information)
In accordance with an amendment to the Corporation Tax Law, effective the year ended March 31, 2008, the residual value of property and equipment acquired before April 1, 2007 is depreciated over a period of 5 years using the straight-line method after the fiscal year in which the depreciable limits of such property and equipment are reached. As a result, operating income decreased by ¥61 million ($608 thousand) and loss before income taxes increased by ¥61 million ($608 thousand) for the year ended March 31, 2008 as compared to the corresponding amounts which would have been recorded under the previous method.

(f) Allowance for Doubtful Receivables

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

(g) Advances Received on Contracts in Progress

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

(h) 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) Employees' Retirement Benefits

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

(k) 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 files a tax return under the consolidated corporate-tax system effective the year ended March 31, 2008.

(l) Leases

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

2. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at ¥100.19 = U.S.$1.00, the approximate rate of exchange prevailing on March 31, 2008. 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. Securities

At March 31, 2008 and 2007, stocks of a subsidiary for which market prices were available are summarized as follows:

	2008					
	Carrying value	Fair value	Unrealized gain	Carrying value	Fair value	Unrealized gain
	(Millions of yen)			*(Thousands of U.S. dollars)*		
Stocks of a subsidiary	¥717	¥717	—	$7,156	$7,156	—

	2007		
	Carrying value	Fair value	Unrealized loss
	(Millions of yen)		
Stocks of a subsidiary	¥1,598	¥1,155	¥(442)

4. Pledged Assets

The following assets were pledged at March 31, 2008 and 2007 principally as collateral for short-term bank loans, long-term debt and guarantees (such as guarantees for the completion of construction contracts):

	March 31,		
	2008	2007	2008
	(Millions of yen)		*(Thousands of U.S. dollars)*
Cash and deposits	¥ 245	¥ 5	$ 2,445
Accounts receivable on completed contracts	18,400	—	183,651
Notes receivable	1,563	2,091	15,600
Other current assets	414	202	4,132
Land	5,209	5,209	51,991
Buildings, net of accumulated depreciation	538	563	5,369
Structures, net of accumulated depreciation	59	67	588
Investments in securities	3,812	5,000	38,047
Investments in subsidiaries and affiliates	766	1,647	7,645
Other	—	669	—
	¥ 31,010	¥ 15,457	$309,511

The secured liabilities as of March 31, 2008 and 2007 are summarized as follows:

	March 31,		
	2008	2007	2008
	(Millions of yen)		*(Thousands of U.S. dollars)*
Short-term bank loans	¥22,900	¥ 5,139	$228,565
[Including current portion of long-term debt]	[2,677]	[2,703]	[26,719]
Long-term debt	1,729	5,162	17,257

5. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans generally represent notes, principally at average interest rates of 2.8% and 1.9% at March 31, 2008 and 2007, respectively.

Long-term debt at March 31, 2008 and 2007 is summarized as follows:

	March 31,		
	2008	2007	2008
	(Millions of yen)		*(Thousands of U.S. dollars)*
Debt with collateral (at average interest rates of 2.7% at 2008 and 2.7% at 2007)	¥ 4,406	¥ 7,865	$ 43,976
Less current portion	(2,677)	(2,703)	(26,719)
	¥ 1,729	¥ 5,162	$ 17,257

6. Income Taxes

The significant components of the Company's deferred tax assets and liabilities at March 31, 2008 and 2007 were as follows:

	March 31,		
	2008	2007	2008
	(Millions of yen)		*(Thousands of U.S. dollars)*
Deferred tax assets:			
Tax loss carryforwards	¥ 99,270	¥ 99,884	$ 990,817
Accrued retirement benefits	6,682	6,213	66,693
Allowance for bad debts	3,380	3,981	33,735
Accrued expenses	1,487	1,807	14,841
Loss on devaluation of investments in subsidiaries and affiliates	915	562	9,132
Reserve for defects on completed construction projects	731	731	7,296
Other	1,969	1,385	19,652
Gross deferred tax assets	114,436	114,567	1,142,189
Valuation allowance	(107,936)	(106,067)	(1,077,313)
Total deferred tax assets	6,500	8,500	64,876
Deferred tax liabilities:			
Unrealized holding gain on securities	(371)	(817)	(3,702)
Total deferred tax liabilities	(371)	(817)	(3,702)
Net deferred tax assets	¥ 6,129	¥ 7,683	$ 61,173

The following table summarizes the significant differences between the statutory tax rate and the effective tax rate at March 31, 2007:

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

A reconciliation of the statutory and effective tax rates for the year ended March 31, 2008 has been omitted because a net loss for the year then ended was recorded.

7. Contingent Liabilities

At March 31, 2008 and 2007, the Company was contingently liable for the following:

	March 31, 2008	March 31, 2007	2008
	(Millions of yen)		*(Thousands of U.S. dollars)*
As guarantor of bank loans to customers, subsidiaries, an affiliate and employees	¥ 8,352	¥ 9,141	$ 83,361
As endorser of notes receivable discounted with banks	747	—	7,455
As endorser of notes receivable endorsed to vendors	2,065	2,625	20,610
As endorser of non-operating notes receivable endorsed to vendors	97	399	968
Assignment of receivables	4,462	342	44,535

8. Leases

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation / amortization and net book value of the leased property as of March 31, 2008 and 2007, which would have been reflected in the non-consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

a). As lessee:

(1) Finance leases

	2008 Vehicles	Equipment	Intangible fixed assets	Total
	(Millions of yen)			
Acquisition costs	¥ 27	¥288	¥359	¥675
Accumulated depreciation / amortization	15	133	188	337
Net book value	¥ 11	¥155	¥171	¥338

	2008 Vehicles	Equipment	Intangible fixed assets	Total
	(Thousands of U.S. dollars)			
Acquisition costs	$269	$2,874	$3,583	$6,737
Accumulated depreciation / amortization	149	1,327	1,876	3,363
Net book value	$109	$1,547	$1,706	$3,373

	2007			
	Vehicles	Equipment	Intangible fixed assets	Total
	(Millions of yen)			
Acquisition costs	¥ 25	¥454	¥315	¥794
Accumulated depreciation / amortization	10	283	162	455
Net book value	¥ 14	¥171	¥152	¥338

	2008	2007	2008
	(Millions of yen)		*(Thousands of U.S. dollars)*
Future minimum payments:			
Within one year	¥ 128	¥ 154	$1,277
Over one year	220	198	2,195
	¥ 349	¥ 352	$3,483
Lease payments	¥ 167	¥ 196	$1,666
Depreciation / amortization equivalents	152	179	1,517
Interest expense equivalents	13	14	129

Depreciation / amortization equivalents are computed by the straight-line method over the respective lease terms with no residual value.

(2) Operating leases

	2008	2007	2008
	(Millions of yen)		*(Thousands of U.S. dollars)*
Future minimum payments:			
Within one year	¥ 2	¥ 2	$ 19
Over one year	4	2	39
	¥ 7	¥ 5	$ 69

9. Per share information

Net assets, net (loss) income per share – basic and net income per share – diluted as of and for the years ended March 31, 2008 and 2007 were as follows:

	2008	2007	2008
	(Yen)		*(U.S. dollars)*
Net assets per share	¥(50.11)	¥(201.66)	$(0.500)
Net (loss) income per share – basic	(16.58)	50.68	(0.165)
Net income per share – diluted	—	10.91	—

The basis of calculation for net assets per share at March 31, 2008 and 2007 was as follows:

	2008	2007	2008
	(Millions of yen)		*(Thousands of U.S. dollars)*
Total net assets	¥18,783	¥23,861	$187,473
Amounts deducted from total net assets	32,356	49,483	322,946
[Including paid-in amounts for shares of preferred stock]	[32,356]	[48,387]	[322,946]
[Including amount of preferred dividends]	[−]	[1,095]	[−]
Total net assets for common stock	¥(13,573)	¥(25,621)	$(135,472)
	(Thousands of shares)		
Number of shares of common stock used to determine net assets per share	270,865	127,051	

The basis of calculation for net (loss) income per share – basic and net income per share – diluted for the years ended March 31, 2008 and 2007 was as follows:

	2008	2007	2008
	(Millions of yen)		*(Thousands of U.S. dollars)*
Net income per share – basic:			
Net (loss) income	¥(3,325)	¥6,013	$(33,186)
Amount not available to common shareholders	—	1,095	—
[Including amount of preferred dividends]	[−]	[1,095]	[−]
Net (loss) income per share – basic	¥(3,325)	¥4,918	$(33,186)
	(Thousands of shares)		
Average number of share of common stock outstanding	200,598	97,043	

	2008	2007	2008
	(Millions of yen)		*(Thousands of U.S. dollars)*
Net income per share – diluted:			
Adjustment for net income	¥ —	¥1,095	$ —
	(Thousands of shares)		
Increase in number of share of common stock	—	454,327	
[Including preferred stock]	[−]	[454,327]	

ERNST & YOUNG SHINNIHON

■ Certified Public Accountants
Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011
C.P.O. Box 1196, Tokyo, Japan 100-8641

■ Tel : 03 3503 1100
Fax : 03 3503 1197

Report of Independent Auditors

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the non-consolidated financial position of Sumitomo Mitsui Construction Co., Ltd. at March 31, 2008 and 2007, and the non-consolidated 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 2.

Ernst & Young ShinNihon

June 20, 2008

CORPORATE OUTLINE

Corporate Name:
Sumitomo Mitsui Construction Co.,Ltd.

Established:
October 14,1941

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

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

Scope of Business:

1) Planning and executing of civil engineering and construction works and prestressed concrete works

2) Manufacturing and selling civil engineering and construction materials and PC products

3) Real estate business

4) Other related business to the above

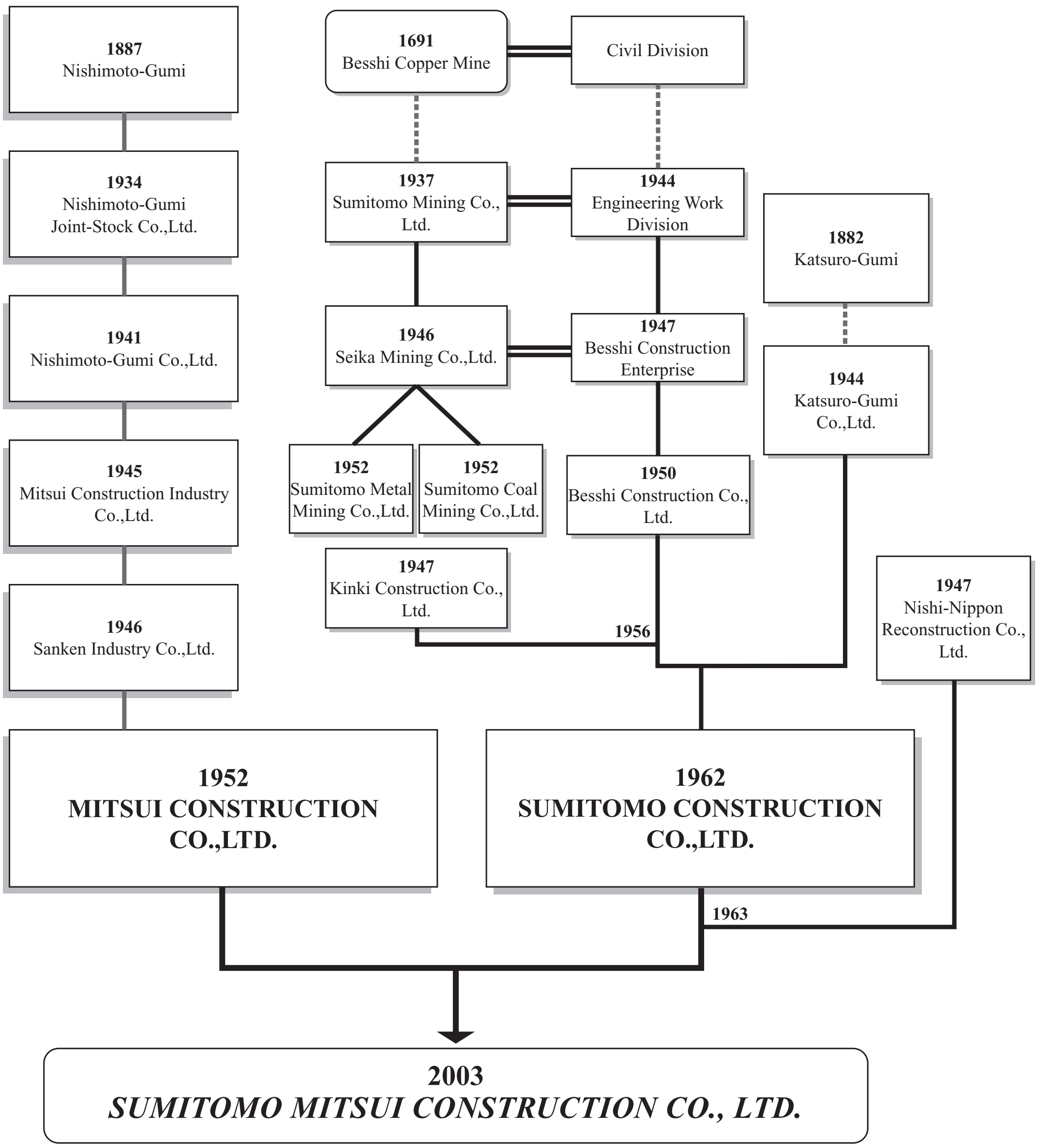
Main Banks

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

Main Shareholders

Daiwa Securities SMBC Co.,Ltd.
Mitsui Fudosan Co.,Ltd.
Mitsui Sumitomo Insurance Co.,Ltd.
UBS AG London A/C IPB Segregated Client Account
Sumitomo Mitsui Banking Corporation

Corporate History



CORPORATE DATA

HEAD OFFICE
7-5-25, Nishi-Shinjuku, Shinjuku-ku
Tokyo, 160-0023, Japan

INTERNATIONAL DIVISION
1-38-1 Chuo, Nakano-ku, Tokyo
164-0011, Japan
TEL:81-3-5337-2450
FAX:81-3-3367-5485

OVERSEAS OFFICE

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

Taipei:(Taiwan)
4F, No.48, Sec.1, Cang an East Road,
Taipei, Taiwan
TEL:886-2-25423596, 25210056
FAX:886-2-25613370

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

Guam:(USA)
106 & 107 IBC Building,
J.L. Baker Street, Harmon Industrial Park,
Harmon, Guam 96913
TEL:1-671-649-7521
FAX:1-671-649-7550

Hanoi:(Vietnam)
Skyline Tower, 4 Dang Dung Street,
Ba Dinh District,Hanoi, Vietnam
TEL:84-4-9428888
FAX:84-4-9428808

Singapore:
No.4 Leng Kee Road, #06-05 SIS Building,
Singapore 159088
TEL:65-64750079
FAX:65-64756996

Jakarta:(Indonesia)
Summitmas 2, 12th Floor JL.Jend.
Sudirman Kav. 61-62,
Jakarta Selatan 12190, Indonesia
TEL:62-21-520-1757
FAX:62-21-525-0905

Bangkok:(Thailand)
7th Floor, Orakarn Office Condominium,
26/21 Soi Chidlom, Ploenchit Road,
Bangkok 10330, Thailand
TEL:66-2-250-0560
FAX:66-2-254-7405

Colombo:(SriLanka)
1F, B.W.Holdings Building,
No.5A, Austin Place Colombo-8, SriLanka
TEL:94-11-2684914
FAX:94-11-2684915

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

Subsidiary Companies in overseas

SMCC(Thailand)Co.,Ltd.
7th Floor, Orakarn Office Condominium,
26/21Soi, Chidlom Ploenchit Road,
Bangkok 10330, Thailand
TEL:66-2-254-0560
FAX:66-2-254-7405

Pt.SMCC Utama Indonesia
Summitmas 2, 12th Floor JL.Jend.
Sudirman Kav. 61-62,
Jakarta Selatan 12190, Indonesia
TEL:62-21-520-1757
FAX:62-21-525-0905

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

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

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

Beijing M.B.R. Construction Engineering Co., Ltd.
Jiali Hotel MBR Loft No.21 Yi Jiuxianqiao Road
Chaoyang District,Beijing,100016
People's Republic of China
TEL:86-10-8456-0619~23
FAX:86-10-8456-0624

SMCC Guam, Inc.
106 & 107 IBC Building,
J.L. Baker Street, Harmon Industrial Park,
Harmon, Guam 96913
TEL:1-671-649-7521
FAX:1-671-649-7550

SUMITOMO MITSUI
CONSTRUCTION CO.,LTD.