

Notes to the Consolidated Financial Statements

For the years ended 31st March, 2001 and 2000

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by THE NIPPON ROAD CO., LTD. and its consolidated subsidiaries (the "Companies") in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Accounting Standards.

Certain items presented in the consolidated financial statements submitted to the Director of Kanto Finance Bureau in Japan have been reclassified in these accounts for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

From the year ended 31st March 2000, consolidated statements of cash flows have been required to be prepared in accordance with a new accounting standard. This new standard specifies a format which differs from that used in earlier years, under the previous accounting practice, accordingly the comparative period's consolidated statements of cash flows have been reformatted.

- **Amortization**

Amortization of intangible assets and long-term prepaid expenses included in "Other Assets" is computed using the straight-line method, over a period prescribed by the Japanese tax laws.

Software costs for internal use are amortized over their expected useful lives (less than 5 years) on a straight-line basis.

Research and development costs incurred for specific projects in search of new products and new technology are charged to income as incurred.

- **Accounting for Consumption Tax**

Consumption tax is imposed at the flat rate of 5% on all domestic consumption of goods and services (with certain exemptions).

The consumption tax withheld upon sale and consumption tax paid by the Companies on their purchases of goods and services is not included in the amounts of respective revenue and cost or expense items in the accompanying consolidated statements of income. The consumption tax withheld and consumption tax paid are recorded as assets or liabilities and the net balance is included in "Notes and accounts payables - Other" of the consolidated balance sheets at 31st March 2000 and 2001.

- **Accrued bonuses to employees**

Accrued bonuses to employees are provided for at the estimated amounts which the Companies are obliged to pay to employees after the year end, based on their services for the six-month period ended on the balance sheet date.

- **Accounting for Revenues on Construction Contracts**

The Companies adopt the completion method in recognition of revenues and costs relating to all construction contracts.

- **Appropriation of Retained Earnings**

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, the appropriation of retained earnings proposed by the Board of Directors is subject to approval by the shareholders at a meeting which must be held within three months of the end of each financial year. The appropriations of retained earnings reflected in the accompanying consolidated financial statements include the results of such appropriations applicable to the immediately preceding financial year as approved at the shareholders' meeting, and effected, during the relevant year. Dividends are paid to shareholders on the shareholders' register as at the end of each financial year. As is customary practice in Japan, the payment of bonuses to directors and corporate auditors is made out of retained earnings through an appropriation, instead of being charged to the income of the year.

The Japanese Commercial Code provides that interim cash dividends may be paid as a part of the annual dividend upon approval by the Board of Directors. The Company doesn't pay such interim dividends to its shareholders.

2. Summary of Significant Accounting Policies

(1) Principles of Consolidation

As at 31st March, 2001, the consolidated financial statements include the accounts of the Company and its 9 significant subsidiaries (8 domestic subsidiaries and 1 overseas subsidiary). All significant intercompany accounts and transactions and unrealized profit among the Companies, if any, have been eliminated in consolidation.

The unconsolidated subsidiaries would have no material effect on the Consolidated Financial Statements of the Companies and therefore are excluded from consolidation.

(2) Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates are not accounted for by the equity method, due to their insignificant effect on the Consolidated Financial Statements of the Companies.

(3) Remeasurement of Assets and Liabilities of the Subsidiaries

Full portion of the assets and liabilities of the subsidiaries is marked to fair value as of the acquisition of the control.

(4) Translation of Foreign Currency

Effective from the year ended March 31, 2001, the Company and its subsidiaries adopted the new Japanese accounting standard for foreign currency translation, which is effective for periods beginning on or after April 1, 2000. Under the new standard, all monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at exchange rate prevailing the balance sheet date. Resulting gains and losses are included in net profit or loss for the period. The adoption of the new method had no material impact on the accompanying consolidated financial statements.

The new standard also amended the method of translating foreign currency financial statements of foreign subsidiaries and affiliates into Japanese yen. Under the new standard, assets and liabilities of the foreign subsidiaries and affiliates are translated into Japanese yen at exchange rates prevailing at the balance sheet date. The shareholder's equity at beginning of the year is translated into Japanese yen at the historical rates. Profit and loss accounts for the year are translated into Japanese yen using the exchange rates prevailing at the balance sheet date. Differences in yen amounts arising from the use of different rates are presented as "foreign currency translation adjustments" in the shareholders' equity. The effect of adopting the new accounting standard on the accompanying consolidated financial statements was immaterial.

(5) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash in hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuations in value.

(6) Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided at an amount equivalent to the maximum limit allowed for deduction under the Japanese income tax law, plus the amount of possible losses from uncollectable receivables based on the management's estimate.

(7) Inventories

Inventories are valued at cost as determined by the moving average cost method.

(8) Financial Instruments

Until the year ended March 31, 2000, Marketable securities (current) and investments in securities (non-current) are valued at the cost determined by the moving average cost method.

Effective from the year ended March 31, 2001, the Company and its subsidiaries adopted the new Japanese accounting standard for financial instruments, which is effective for periods beginning on or after April 1, 2000. Effect of adoption of the new standard on net profit is immaterial.

(a) Derivatives

Under the new standard, all derivatives are stated at fair value, with changes in fair value included in net profit or loss for the period in which they arise, except for derivatives that are designated as “hedging instruments”(see 10. Derivative and Hedging Activities)

(b) Securities

Securities held by the Company and its subsidiaries are, under the new standard, classified into three categories;

Held-to-maturity debt securities, that the Company and its subsidiaries have intent to hold to maturity, are stated at cost after accounting for premium or discount on acquisition, which are amortized over the period to maturity.

Investments of the Company in equity securities issued by unconsolidated subsidiaries and affiliates are valued at the cost determined by the moving average cost method because the effect of application of the equity method would be immaterial.

Other securities for which market quotations are stated at fair value.

Other securities for which market quotations are unavailable are valued at cost determined by the moving average cost method.

(9) Property, Plant and Equipment

The acquisition costs of property, plant and equipment are depreciated using the declining-balance method over the estimated useful lives at the balance sheet date.

Normal repairs and maintenance including minor renewals and improvements are charged to income as incurred.

(10) Income Taxes

Income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitants taxes and enterprise taxes.

From the beginning of the year ended 31st March, 2000, the Company and its subsidiaries adopted deferred tax accounting in accordance with the amended regulations for preparation of consolidated financial statements. Income taxes were determined using the asset and liability approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the consolidated financial statements. The cumulative effect of adopting deferred tax accounting at 1st April, 1999 was directly charged to retained earnings.

(11) Retirement Benefit Plans

(a) Retirement Benefits for Employees

The employees of the Company and its subsidiaries are generally covered by the retirement benefit plans under which the retiring employees are entitled to lump-sum payments determined by reference to the current rates of pay, length of services, and conditions under which the terminations occur.

Until the year ended March 31, 2000, the balance of accrued employees' retirement benefits in the accompanying consolidated balance sheets represents the amount mainly equivalent to 40 per cent of such retirement payments the Company and its subsidiaries would have been required to pay, if all eligible employees had retired at the year-end date (equivalent to the maximum allowed deduction for tax purpose).

(b) Retirement Benefits for Directors and Corporate Auditors

The Company and its subsidiaries have provided for the accrued cost of retirement benefits payable to Directors and Corporate Auditors at an amount equivalent to 100 per cent. of such benefits the Company and subsidiaries would be required to pay, had all eligible Directors and Corporate Auditors retired at the year-end date.

(12) Accounting for Finance Leases

Finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees are accounted for by a method similar to that used for ordinary operating leases.

(13) Earnings Per Share

The computation of basic net income per common share is based on the weighted average number of outstanding shares of common stock. The average number of shares used in the computation was 97,616,187 for the both years ended March 31, 2001 and 2000.

3. United States Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥123.90=U.S. \$1, the approximate rate of exchange prevailing at 31st March, 2000 has been used in translation. The inclusion of such amounts are not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this rate or any other rates.

4. Cash and Cash Equivalents

Cash and Cash Equivalents at 31st March, 2001 and 2000 consisted of:

31st March,	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Cash in hand and at bank.....	¥15,164	¥17,627	\$122,393
Fixed Deposit over 3 months.....	(100)	(35)	(807)
Over Draft	(288)	(288)	(2,330)
Cash and Cash Equivalents	¥14,776	¥17,304	\$119,256

5. Marketable Securities

No Marketable Securities as at 31st March, 2001 and 2000.

6. Investments in Securities

Investments in securities as at 31st March, 2001 and 2000 were as follows:

31st March,	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Listed equity securities and bonds*	¥6,774	¥6,759	\$54,675
Unlisted equity securities.....	541	530	4,366
	¥7,315	¥7,289	\$59,041
*Market value of listed equity securities and bonds..	¥6,779	¥7,397	\$54,715
Investments in unconsolidated subsidiaries and affiliates	¥343	¥379	\$2,772
Other.....	50	50	404
	¥393	¥429	\$3,176

7. Short-term Debt and Long-term Debt

Short-term debt consists principally of bank overdrafts, bearing interest at annual rates ranging from 0.6 per cent. to 4.7 per cent. and from 0.6 per cent. to 4.2 per cent. as at 31st March, 2001 and 2000, respectively.

Short-term debt as at 31st March, 2001 and 2000 was as follows:

31st March,	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Bank			
Collateralized	¥ 0	¥ 0	\$ 0
Unsecured.....	5,689	6,842	45,913
Current portion of long-term debt	2,406	1,007	19,419
	<u>¥8,095</u>	<u>¥7,849</u>	<u>\$65,332</u>

Long-term debt as at 31st March, 2001 and 2000 was as follows:

31st March,	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Payable to domestic banks, insurance companies and others, with interest rates shown below (* 1)			
Collateralized	¥0	¥0	\$0
Unsecured	8,825	11,242	71,227
	<u>8,825</u>	<u>11,242</u>	<u>71,227</u>

For the year ended 31st March,	2001	2000
(*1) Interest rates	1.7 per cent. to 6.8 per cent	1.7 per cent. to 6.7 per cent

Annual maturities of long-term debt are as follows:

Year ending on 31st March,	Millions of Yen	Thousands of U.S. Dollars
2002.....	¥2,406	\$19,419
2003.....	6,704	54,109
2004.....	2,104	16,980
2005	3	20
2006 and thereafter.....	14	118
	<u>¥11,231</u>	<u>\$90,646</u>

8. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income, which in the aggregate resulted in the statutory tax rate of approximately 42.05% for the years ended 31st March, 2001 and 2000.

Foreign subsidiaries are subject to income taxes of the countries in which they operate.

At 31st March 2001 and 2000, significant components of deferred tax assets and liabilities were as follows:

31st March, 2001	Millions of Yen	Thousands of U.S. Dollars
Deferred tax assets:		
Tax on evaluation loss for real estate for sale	¥ 1,446	\$ 11,672
Tax on evaluation loss for investment in securities..	543	4,383
Tax on evaluation loss for facility membership	314	2,537
Denied business tax and others	142	1,145
Excess over the limit of reserve for bonus	340	2,746
Excess over the limit of reserve for bad debt	1,200	9,688
Excess over the limit of reserve for retirement benefit for employees	725	5,847
Excess over the limit of reserve for retirement benefit for directors.....	140	1,132
Loss for carried over	82	657
Difference of evaluation for other investment securities	3	23
Others	73	591
Sub total of deferred tax assets	5,008	40,421
Less valuation allowance	(670)	(5,406)
Total of deferred tax assets	4,338	35,015
Differed tax liabilities		
Special depreciation reserve	(24)	(190)
Reserve for advanced depreciation of fixed assets .	(557)	(4,503)
Difference on evaluation of other investment securities	(76)	(615)
Total of deferred tax Liabilities	(657)	(5,308)
Net deferred tax Assets	3,681	29,707
Current assets	2,015	16,265
Non-current assets	1,671	13,486
Other non-current liabilities	(5)	(44)
31st March, 2000	Millions of Yen	
Deferred tax assets:		
Tax on evaluation loss for real estate for sale	¥ 1,340	
Tax on evaluation loss for investment in securities..	552	
Tax on evaluation loss for facility membership	274	
Denied business tax and others	138	
Excess over the limit of reserve for bonus	218	
Excess over the limit of reserve for bad debt	1,351	

Excess over the limit of reserve for retirement benefit for employees	339
Excess over the limit of reserve for retirement benefit for directors.....	121
Loss for carried over	17
Others	<u>248</u>
Sub total of deferred tax assets	<u>4,598</u>
Less valuation allowance	(619)
Total of deferred tax assets	<u>3,979</u>
Deferred tax liabilities	
Special depreciation reserve	(35)
Reserve for advanced depreciation of fixed assets .	(561)
Total of deferred tax liabilities	<u>(596)</u>
Net deferred tax Assets	<u>3,383</u>
Current assets	2,073
Non-current assets	1,310

In assessing the realizability of deferred tax assets, management of the Company considers whether it is more likely than not that some portion will not be realized. The ultimate realization of deferred tax assets is entirely dependent on the generation of future taxable income in specific tax jurisdictions during the periods in which those temporary differences become deductible. Although realization is not assured, management considered the projected future taxable income in making this assessment. Based on these factors, management believes it is more likely than not the Company will realize the benefit of these deductible differences, net of the existing valuation allowances as of 31st March 2001.

At 31st March 2001, the difference between the statutory tax rate and the effective tax rate was insignificant.

9. Leases

The Companies use certain machinery, equipment and other under the finance lease contracts.

Pro forma information regarding the leased property such as acquisition cost, accumulated depreciation and future minimum lease payments under finance leases that do not transfer the ownership of the leased property to the lessee for the years ended 31st March, 2001 and were as follows:

31st March, 2001	Millions of Yen			Thousands of U.S. Dollars
	Acquisition Costs	Accumulated Depreciation	Balance	Balance
Machinery and equipment	¥ 12,709	¥6,306	¥6,403	\$51,676
Other.....	310	199	111	898
	¥13,019	¥6,505	¥6,514	\$52,574

31st March, 2000	Millions of Yen		
	Acquisition Costs	Accumulated Depreciation	Balance
Machinery and equipment	¥11,022	¥5,564	¥5,458
Other.....	465	344	121
	¥11,487	¥5,908	¥5,579

31st March,	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
The scheduled maturities of future lease payments, on such lease contracts were as follows:			
Due within one year.....	¥2,650	¥2,413	\$21,385
Due over one year.....	4,596	3,822	37,101
	¥7,246	¥6,235	\$58,486

10. Derivative and Hedging Activities

The Companies use forward currency exchange contracts to hedge against the exchange rate risk associated with monetary receivables and payables denominated in foreign currencies. Interest rate swap transactions and interest rate cap transactions are used in order to minimize the risk of fluctuation in interest rates on borrowings.

The Companies have established a control environment which includes policies and procedures for risk assessments and for the approval, reporting and monitoring of transactions involving derivative financial instruments. The Companies do not hold or issue derivative financial instruments for trading purposes.

The Companies are exposed to certain market risks arising from their forward exchange contracts and swap agreements. The Companies are also exposed to the risk of credit loss in the event of non-performance by the counterparties to the currency and interest; however, the Companies do not anticipate nonperformance by any of these counterparties all of whom are financial institutions with high credit ratings.

At 31st March, 2001, outstanding forward exchange contracts were as follows:

At 31st March, 2001, outstanding interest rate swap agreements were as follows:

For the year ended 31st March, 2001	Millions of Yen	
	Notional Amount	Unrealized Gain
Interest-rate swap agreements:		
Valuable-rate into fixed-rate Obligations	¥2,000	¥ (106)

For the year ended 31 st March, 2001	Thousands of U.S. Dollars	
	Notional Amounts	Unrealized Gain
Interest-rate swap agreements:		
Valuable-rate into fixed-rate Obligations	\$16,142	\$(856)

11. Contingent Liabilities

As at 31st March, 2001, the Companies other than consolidated companies are contingently liable for guarantees as follows:

31st March, 2001	Millions of Yen	Thousands of U.S. Dollars
Guarantees of loans from banks	¥ 119	\$ 961

12. Subsequent Events

The appropriation of retained earnings of the Company, including cash dividends applicable to the year ended 31st March, 2001, which was proposed by the Board of Directors and approved at the shareholders' meeting held on 28th June, 2001, was for the purpose of paying cash dividends to shareholders of record at 31st March, 2001, in the aggregate amount of ¥488 million (\$3,939 thousand) (¥5 per share). Bonuses to directors were not proposed.

13. Segment Information

(1) Industry Segment Information

The operations of the Company and its consolidated subsidiaries for the years ended 31st March, 2001 and 2000 are summarized by product group as follows:

Millions of Yen						
For the year ended 31st March, 2001	Construction	Material Sales	Real Estate Business	Other	Eliminations or Corporate Assets*	Consolidated Total
Sales						
Sales to external customers	¥ 138,104	¥ 22,601	¥ 600	¥ 5,114	¥	¥ 166,421
Inter-segment sales	39	9,202	97	1,302	(10,640)	
Total	138,143	31,803	698	6,416	(10,640)	166,421
Operating costs and expenses	135,859	29,406	607	6,289	(7,534)	164,627
Operating income	¥ 2,284	¥ 2,397	¥ 91	¥ 127	¥ (3,106)	¥ 1,794
Assets	¥ 84,344	¥ 22,195	¥ 9,954	¥ 11,582	¥ 25,313	¥ 153,389
Depreciation	¥ 686	¥ 1,003	¥ 46	¥ 3,001	¥ 180	¥ 4,916
Capital expenditure	¥ 452	¥ 1,369	¥ 8	¥ 4,256	¥ 154	¥ 6,240
Millions of Yen						
For the year ended 31st March, 2000	Construction	Material Sales	Real Estate Business	Other	Eliminations or Corporate Assets*	Consolidated Total
Sales						
Sales to external customers	¥ 136,366	¥ 22,658	¥ 716	¥ 5,967	¥	¥ 165,707
Inter-segment sales	40	7,250	98	1,292	(8,680)	
Total	136,406	29,908	814	7,259	(8,680)	165,707
Operating costs and expenses	133,444	26,749	865	7,039	(5,174)	162,923
Operating income	¥ 2,962	¥ 3,159	¥ (51)	¥ 220	¥ (3,506)	¥ 2,784
Assets	¥ 86,379	¥ 21,450	¥ 10,602	¥ 11,175	¥ 27,275	¥ 156,881
Depreciation	¥ 728	¥ 1,014	¥ 51	¥ 2,507	¥ 94	¥ 4,394
Capital expenditure	¥ 368	¥ 934	¥ 2	¥ 3,341	¥ 395	¥ 5,040
Thousands of U.S. Dollars						
For the year ended 31st March, 2001	Construction	Material Sales	Real Estate Business	Other	Eliminations or Corporate Assets*	Consolidated Total
Sales						
Sales to external customers	\$ 1,114,648	\$ 182,417	\$ 4,843	\$ 41,278	\$	\$ 1,343,186
Inter-segment sales	316	74,266	787	10,506	(85,875)	
Total	1,114,964	256,683	5,630	51,784	(85,875)	1,343,186
Operating costs and expenses	1,096,527	237,333	4,897	50,756	(60,810)	1,328,703
Operating income	\$ 18,437	\$ 19,350	\$ 733	\$ 1,028	\$ (25,065)	\$ 14,483
Assets	\$ 680,745	\$ 179,140	\$ 80,341	\$ 93,480	\$ 204,301	\$ 1,238,007
Depreciation	\$ 5,539	\$ 8,094	\$ 373	\$ 24,221	\$ 1,454	\$ 39,681
Capital expenditure	\$ 3,653	\$ 11,052	\$ 64	\$ 34,352	\$ 1,244	\$ 50,365

(2) Geographic Segment Information

Segment information classified by geographic area* was omitted because a majority of the Companies' operations were performed in Japan.

(3) Export sales and sales by overseas subsidiaries

Segment information for Export sales and sales by overseas subsidiaries is omitted since the sales is less than 10% of consolidated sales and immaterial.

14. Related Party Transactions

Material transactions of the Company with its related companies and individuals, excluding transactions with consolidated subsidiaries which are eliminated in the consolidated financial statements and other than those disclosed elsewhere in these financial statements, for the years ended 31st March, 2001 and 2000 were as follows:

Name of Related Company	Paid-in Capital	Principal Business	Equity Ownership Percentage by the Company	Description of the Company's Transactions	Millions of Yen/Thousands of U.S. Dollars				
					Transactions		Resulting Accounting Balance		
					For the year ended 31st March		Account	At 31st March,	
2001	2000	2001	2000						
Shimizu Corporation	¥74,365 millions	Construction & Development	22.6%	Construction contracts and	¥ 18,547 (\$149,696)	¥12,768	Notes & account receivable-trade	¥7,704 (\$62)	¥4,644
				Material Sales	15 (\$118)	16	Advances received on uncompleted contracts	371 (\$2,995)	1,629
				Construction order	304 (\$2,456)	154	Notes & accounts payable-trade	25 (\$203)	60,125

The terms and conditions of the above transactions are on an arm's-length basis.