

Notes to the Consolidated Financial Statements

For the years ended 31 March 2005 and 2004

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of THE NIPPON ROAD CO., LTD. (the "Company") and its consolidated subsidiaries (hereinafter referred to in total as the "Companies") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

Certain items presented in the consolidated financial statements submitted to the Director of Kanto Finance Bureau in Japan have been reclassified 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.

2. Summary of Significant Accounting Policies

(1) Principles of Consolidation

As at 31 March 2005, the consolidated financial statements include the accounts of the Company and its 46 (2004: 43) subsidiaries (43 domestic subsidiaries and 3 overseas subsidiaries). During the year ended 31 March 2005, 4 subsidiaries were established and included in the consolidation and 1 subsidiary was excluded from the consolidation due to immateriality in the consolidated financial statement. All assets and liabilities of consolidated subsidiaries are revalued to fair market value as of the date of establishment of control. Any difference between the cost of an investment in a subsidiary and the amount of underlying equity in the net assets of the subsidiary, if any at the date of establishment of control, has been expensed when incurred as any such difference was minor. All significant intercompany accounts and transactions and unrealized profit among the Companies, if any, have been eliminated on consolidation.

The unconsolidated subsidiaries and affiliates would have not had a material effect on the consolidated financial statements of the Companies and therefore have been excluded from consolidation. Those companies are not accounted for using the equity method for the same reason described above.

Overseas consolidated subsidiaries have adopted accounting principles generally accepted in their respective countries and no adjustment have been made to their financial statements on consolidation, as allowed under accounting principles and practices generally accepted in Japan. In addition, the financial statements of three overseas subsidiaries (Nippon Road (M) Sdn. Bhd., Thai Nippon Road Co., Ltd. and Thai Nippon Holding Ltd.) are prepared on a calendar year basis. Significant transactions that occurred between 1 January and 31 March are reflected in the accompanying consolidated financial statements.

(2) Securities Valuation

Securities held by the Company and its subsidiaries are classified into three categories;

- a) Held-to-maturity debt securities, that the Company and its subsidiaries intend to hold to maturity, are stated at cost after accounting for any premium or discount on acquisition, which is amortized over the period to maturity.
- b) Investments of the Company in equity securities issued by unconsolidated subsidiaries and affiliates are valued at the cost, cost being determined by the moving average method.

c) Other securities for which market quotations are available are stated at fair value. Net unrealized gains on other securities with market quotations are reported net of taxes as a separated component of “Shareholders’ Equity”.

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

(3) Inventory Valuation

Inventories are classified into three categories:

a) Cost of uncompleted construction contracts and b) other inventories, are valued at cost as determined by the job order costing method.

c) Raw materials and supplies are valued at cost as determined by the moving average method.

(4) Accounting standard for impairment of fixed assets

On 9 August 2002, the Business Accounting Council in Japan issued “Accounting Standard for Impairment of Fixed Assets”. The standard requires that fixed assets reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use.

The standard shall be effective for fiscal years beginning 1 April 2005. However, earlier adoption is permitted for fiscal years beginning 1 April 2004 and for fiscal years ending between 31 March 2004 and 2005.

The Company has not yet applied this new standard nor has it determined the effect of applying it on the Company’s consolidated financial statements.

(5) Tangible Fixed Assets

Tangible fixed assets of the Company and its domestic subsidiaries, excluding leased assets, are principally depreciated by the declining-balance method over the estimated useful lives of the assets at the balance sheet date. However, the straight-line method has been applied to buildings, excluding building fixtures, acquired after 1 April 1998 over the estimated useful lives of the assets at the balance sheet date.

Leased assets are depreciated using the straight-line method over the lease term.

Tangible fixed assets of overseas subsidiaries are principally depreciated by the straight-line method over the estimated useful lives of the assets at the balance sheet date.

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

(6) Intangible Assets

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

Software costs for internal use are amortized over the expected useful life of the software (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.

(7) Reserves and Allowances

(i) Allowance for doubtful accounts

The Company and its domestic subsidiaries provided an allowance for doubtful accounts based on a historical default ratio, in addition to the amount of potential losses from irrecoverable receivables based on the management's estimate.

The foreign consolidated subsidiaries provided for potential losses from irrecoverable receivables based on the management's estimate.

(ii) Warranty Reserve for completed construction contracts

A warranty reserve for completed construction contracts is provided at an estimated amount, based on the actual level of defects and related warranty costs specified in completed construction contracts.

(iii) Reserve for retirement benefits

(a) Retirement Benefits to Employees

A reserve for retirement benefits to employees is provided at an amount equal to the present value of the projected benefit obligation less the fair value of the plan assets at year-end.

Unrecognized past service costs are amortized on a straight-line basis over 13 years from the year in which they occur.

Unrecognized actuarial differences are amortized on a straight-line basis over 13 years from the year after they occur.

(b) Retirement Benefits to Directors and Corporate Auditors

The Company has provided for the accrued cost of retirement benefits payable to Directors and Corporate Auditors at an amount equivalent to 100 per cent of the benefits that the Company would be required to pay in accordance with the relevant internal rules and regulations, were all eligible Directors and Corporate Auditors to retire at the year-end date.

(8) Translation of Foreign Currency

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rate prevailing at the balance sheet date. Resulting gains and losses are included in net profit or loss for the period.

Assets and liabilities of the foreign subsidiaries and affiliates are translated into Japanese yen at exchange rates prevailing at the balance sheet date. Shareholders' equity at the 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.

(9) Accounting for Leases

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases, except those leases which do not transfer ownership of the assets at the end of the lease term, which are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

(10) Hedge Accounting

The derivatives designated as hedging instruments by the Company are principally foreign exchange contracts and interest swaps for future transactions and borrowings denominated in foreign currency. The Companies have a policy to utilize hedging instruments in order to reduce the Companies' risk of fluctuation in interest and exchange rates. Therefore, the Companies' purchases of hedging instruments are limited to, at maximum, the amounts of the hedged items.

Gains or losses from changes in the fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net income for the same year during which the gains or losses on the hedged items or transactions are recognized. However, interest rate swaps, if they meet the conditions for hedge accounting and their nominal amount, terms of interest and contract period are substantially the same as those of hedged items, are not valued at fair value, but are accrued net of the swap interests paid and received.

The Companies evaluate the effectiveness of its hedging activities, except for interest rate swaps which meet the conditions described above, by the level of co-relationship in fluctuation of market value of hedged items and hedging instruments accumulated from the commencement of the hedges to the point of evaluation of its effectiveness.

(11) Revenue Recognition

The Company and its domestic consolidated subsidiaries adopt the completion method in recognition of revenue and costs relating to all construction contracts. The foreign consolidated subsidiaries adopt the percentage of completion method.

(12) 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.

(13) 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 "Accounts payable - other" in the consolidated balance sheets at 31 March 2005 and "Other current liabilities" in the consolidated balance sheets at 31 March 2004.

(14) Income Taxes

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

The Company and its subsidiaries adopt deferred tax accounting in accordance with the amended regulations for preparation of consolidated financial statements. Deferred income taxes are determined using the asset and liability approach, whereby deferred tax assets and liabilities are recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the consolidated financial statements.

(15) 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 does not pay such interim dividends to its shareholders.

(16) Legal Reserves

Additional paid-in capital, recorded pursuant to the Japanese Commercial Code, primarily consists of proceeds on the issuance of shares of common stock of the Company that were not recorded as “common stock” (Under the Japanese Commercial Code, the Company is allowed to account for an amount not exceeding one-half of the issue price of new shares as additional paid-in capital). Capital reserve may be transferred to other additional paid in capital to the extent that the sum of additional paid-in capital and earned reserve (collectively, “legal reserves”) does not fall below 25% of stated capital. However, additional paid-in capital may not be transferred to retained earnings.

The Japanese Commercial Code requires all Companies to appropriate as an earned reserve an amount equivalent to at least 10% of cash payments for appropriation of retained earnings until the legal reserves equal 25% of stated capital. The earned reserve may be transferred to unappropriated retained earnings to the extent that the legal reserves do not fall below 25% of stated capital.

Legal reserves may be transferred to stated capital through appropriate action by the directors or offset against deficit through appropriate action by the shareholders.

(17) 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, excluding treasury stock. The average number of shares used in the computation was 96,072,242 for the year ended 31 March 2005 and 97,523,212 for the year ended 31 March 2004.

(18) Changes in Accounting Presentation

Changes in accounting presentation have been made in the consolidated statements of cash flows for the year ended 31 March 2004 as follows.

- i) Gain on the sale of investment in securities in the cash flows from operating activities is individually itemized from the year ended 31 March 2004 because it is now deemed important. It was itemized in ‘others’ in the cash flows from operating activities for the year ended 31 March 2003. The amount of gain on the sale of investment in securities itemized in others in the cash flows from operating activities for the year ended 31 March 2003 was ¥ (0) million.
- ii) Increase in accounts payable - other in the cash flows from operating activities is individually itemized from the year ended 31 March 2004 because it is now deemed important. It was itemized in ‘others’ in the cash flows from operating activities for the year ended 31 March 2003. The amount of accounts payable - other itemized in others in the cash flows from operating activities for the year ended 31 March 2003 was ¥ (174) million.

Changes in the accounting presentation have been made in the consolidated balance sheets for the year ended 31 March 2005 as follows:

Accounts payable – other is individually itemized from the year ended 31 March 2005 because it is now deemed important. It was itemized in "other current liabilities" for the year ended 31 March 2004. The amount of accounts payable – other itemized in other current liabilities for the year ended 31 March 2004 was ¥5,135 million.

Changes in the accounting presentation have been made in the consolidated statements of income for the year ended 31 March 2005 as follows:

Valuation loss on facilities membership is itemized in "other – net" in special items from the year ended 31 March 2005 because it is now deemed to be immaterial. It was individually itemized for the year ended 31 March 2004. The amount of valuation loss on facilities membership for the year ended 31 March 2005 is ¥0 million.

Changes in the accounting presentation have been made in the consolidated statements of cash flows for the year ended 31 March 2005 as follows:

Valuation loss on facilities membership in the cash flows from operating activities is itemized in "others" from the year ended 31 March 2005 because it is now deemed immaterial. It was individually itemized for the year ended 31 March 2004. The amount of valuation loss on facilities membership itemized in others in the cash flows from operating activities for the year ended 31 March 2005 is ¥0 million.

3. United States Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥107.41=U.S. \$1, the approximate rate of exchange prevailing at 31 March 2005 has been used in translation. The inclusion of such amounts is 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 31 March 2005 and 2004 consisted of:

31 March	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Cash in hand and at bank	¥11,252	¥13,619	\$104,757
Fixed deposits over 3 months.....	(13)	(123)	(121)
Cash and cash equivalents	¥11,239	¥13,496	\$104,636

5. Investments in Securities

Investments in securities as at 31 March 2005 and 2004 were as follows:

	Millions of yen					
	2005			2004		
	Fair market value	Book value	Difference	Fair market value	Book value	Difference
Held-to-maturity debt securities						
Governmental and municipal bonds	¥48	¥45	¥3	¥48	¥45	¥3
	Acquisition cost	Fair market value (book value)	Difference	Acquisition cost	Fair market value (book value)	Difference
Other securities with market quotations						
Equity securities	¥2,678	¥5,749	¥3,071	¥2,678	¥5,757	¥3,079
Debt securities:						
Convertible bonds	-	-	-	10	10	-
Others	-	-	-	-	-	-
	¥2,678	¥5,749	¥3,071	¥2,688	¥5,767	¥3,079
			Book value			Book value
Other securities without market quotations						
Unlisted shares (excluding OTC shares)			¥984			¥980
			Book value			Book value
Investments in unconsolidated subsidiaries and affiliates			¥127			¥119
Total investments in securities			¥6,905			¥6,911

Thousands of U.S. dollars (Note 3)			
2005			
	Fair market value	Book value	Difference
Held-to-maturity debt securities			
Governmental and municipal bonds	\$447	\$419	\$28
	Acquisition cost	Fair market value (book value)	Difference
Other securities			
Equity securities	\$24,933	\$53,524	\$28,591
Debt securities:			
Convertible bonds	-	-	-
Others	-	-	-
	\$24,933	\$53,524	\$28,591
			Book value
Other securities without market quotations			
Unlisted shares (excluding OTC shares)			\$9,161
			Book value
Investments in unconsolidated subsidiaries and affiliates			\$1,182
Total investments in securities			\$64,286

6. Pledged Assets

The following assets have been pledged as collateral in substitution for guarantee money paid.

31 March	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Cash at bank	¥2	¥2	\$19
Investment in securities	45	45	419
	¥47	¥47	\$438

7. Short-term Debt and Long-term Debt

- a) Short-term debt consists principally of bank overdrafts, bearing interest at annual rates averaged 0.89 per cent and 0.87 per cent as at 31 March 2005 and 2004, respectively. It is normal business custom in Japan for short-term borrowings to be rolled over each year.

Short-term debt as at 31 March 2005 and 2004 was as follows:

31 March	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Bank			
Unsecured	¥5,299	¥5,705	\$49,334
Current portion of long-term debt.....	776	1,656	7,225
	<u>¥6,075</u>	<u>¥7,361</u>	<u>\$56,559</u>

- b) Long-term debt as at 31 March 2005 and 2004 was as follows:

31 March	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Unsecured payable to domestic banks, insurance companies and others, with interest rates shown below (* 1)	¥8,385	¥7,267	\$78,065

For the year ended 31 March	2005	2004
(*1) Interest rates	0.8 per cent To 5.2 per cent	1.4 per cent to 6.8 per cent

Annual maturities of long-term debt are as follows:

Year ending on 31 March	Millions of yen	Thousands of U.S. dollars (Note 3)
2006	¥776	\$7,225
2007	1,779	16,563
2008	5,061	47,118
2009	421	3,919
2010 and thereafter	1,125	10,474
	<u>¥9,162</u>	<u>\$85,299</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 40.69% for the year ended 31 March 2005 and 42.05% for the year ended 31 March 2004. Foreign subsidiaries are subject to the income taxes of the countries in which they operate.

At 31 March 2005 and 2004, significant components of deferred tax assets and liabilities were as follows:

31 March 2005	Millions of yen	Thousands of U.S. dollars (Note 3)
Deferred tax assets:		
Valuation loss on real estate for sale.....	¥ 3,037	\$ 28,275
Excess over the limit of reserve for bad debt	480	4,469
Excess over the limit of reserve for retirement benefit to employees.....	1,014	9,440
Tax loss carried forward	694	6,461
Excess over the limit of reserve for bonus	408	3,799
Valuation loss on investments in securities	333	3,100
Valuation loss on facility membership.....	139	1,294
Disallowed accrued enterprise taxes.....	54	503
Unrealized loss on other securities	1	9
Others	356	3,315
Sub total of deferred tax assets	<u>6,516</u>	<u>60,665</u>
Less valuation allowance	<u>(1,429)</u>	<u>(13,304)</u>
Total of deferred tax assets	<u>5,087</u>	<u>47,361</u>
Deferred tax liabilities		
Reserve for advanced depreciation of fixed assets	(530)	(4,934)
Unrealized gain on other securities	(1,146)	(10,670)
Special depreciation reserve	(1)	(9)
Total of deferred tax liabilities	<u>(1,677)</u>	<u>(15,613)</u>
Net deferred tax assets	<u>3,410</u>	<u>31,748</u>
Current assets	3,508	32,660
Non-current assets	71	661
Other non-current liabilities	(169)	(1,573)

31 March 2004

Millions of yen

Deferred tax assets:	
Valuation loss on real estate for sale.....	¥ 3,156
Excess over the limit of reserve for bad debt	1,217
Excess over the limit of reserve for retirement benefit to employees.....	576
Tax loss carried forward.....	301
Excess over the limit of reserve for bonus	534
Valuation loss on investments in securities	333
Valuation loss on facility membership.....	222
Disallowed accrued enterprise taxes	11
Unrealized loss on other securities	(1)
Others	365
Sub total of deferred tax assets	<u>6,714</u>
Less valuation allowance	<u>(1,182)</u>
Total of deferred tax assets	<u>5,532</u>
Deferred tax liabilities	
Reserve for advanced depreciation of fixed assets	(532)
Unrealized gain on other securities	(1,153)
Special depreciation reserve	(4)
Others	(6)
Total of deferred tax liabilities	<u>(1,695)</u>
Net deferred tax assets	<u>3,837</u>
Current assets	3,622
Non-current assets	215
Other Non-current liabilities	-

In assessing the realizability of deferred tax assets, the management of the Company considers whether it is more likely than not that some portion of these assets 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, the management considered the projected future taxable income in making this assessment. Based on these factors, the management believes it is more likely than not that the Company will realize the benefit of these deductible differences, net of the existing valuation allowances as of 31 March 2005.

At 31 March 2005 and 2004, the reconciliation of the statutory tax rate to the effective income tax rate is as follows:

31 March 2005	<u>2005</u>
Statutory tax rate	40.69 %
Adjustments	
Permanent non-deductible differences	19.88
Permanent non-taxable differences	(4.73)
Inhabitant tax per capital	15.92
Refunded enterprise tax	(16.89)
Valuation allowance to deferred tax assets	(13.28)
Reassessment of temporary differences	15.52
Other	<u>0.75</u>
Effective income tax rate	<u>57.86 %</u>

31 March 2004	<u>2004</u>
Statutory tax rate	42.05 %
Adjustments	
Permanent non-deductible differences	8.94
Permanent non-taxable differences	(1.01)
Inhabitant tax per capital	6.51
Reassessment of temporary differences	2.44
Other	<u>0.87</u>
Effective income tax rate	<u>59.80 %</u>

9. Leases

The Companies use certain machinery, equipment and other fixed assets under finance lease contracts. Information regarding the leased assets 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 31 March 2005 and 2004 is as follows:

	Millions of yen			Thousands of U.S. dollars (Note 3)
	Acquisition costs	Accumulated depreciation	Balance	Balance
31 March 2005				
Machinery and equipment	¥ 17,726	¥ 9,141	¥8,585	\$79,927
Other	185	133	52	484
	¥17,911	¥9,274	¥8,637	\$80,411

	Millions of yen		
	Acquisition costs	Accumulated depreciation	Balance
31 March 2004			
Machinery and equipment	¥16,865	¥8,176	¥8,689
Other	209	145	64
	¥17,074	¥8,321	¥8,753

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
31 March			
The scheduled maturities of future lease payments, on such lease contracts were as follows:			
Due within one year	¥2,525	¥2,507	\$23,508
Due over one year	4,672	5,103	43,497
	¥7,197	¥7,610	\$67,005

Information regarding the leased assets 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 companies as lessee for the years ended 31 March 2005 and 2004 is as follows:

	Millions of yen			Thousands of U.S. dollars (Note 3)
	Acquisition costs (equivalent)	Accumulated depreciation (equivalent)	Balance (equivalent)	Balance (equivalent)
31 March 2005				
Machinery and equipment	¥ 23	¥9	¥14	\$131
	¥23	¥9	¥14	\$131

31 March	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
The scheduled maturities of future lease payments, on such lease contracts (equivalent) were as follows:			
Due within one year	¥5	4	\$47
Due over one year	9	14	84
	¥14	18	\$131

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 assessment 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 31 March 2005 and 2004, outstanding interest rate swap agreements were as follows:

For the year ended 31 March 2005	Millions of yen	
	Notional amount	Unrealized loss
Interest-rate swap agreements:		
Valuable-rate into fixed-rate Obligations.....	¥2,000	¥ (63)

For the year ended 31 March 2004	Millions of yen	
	Notional amount	Unrealized loss
Interest-rate swap agreements:		
Valuable-rate into fixed-rate Obligations.....	¥2,000	¥ (91)

For the year ended 31 March 2005	Thousands of U.S. dollars (Note 3)	
	Notional amounts	Unrealized loss
Interest-rate swap agreements:		
Valuable-rate into fixed-rate Obligations.....	\$18,620	\$(587)

11. Retirement Benefits

The Company and its domestic consolidated subsidiaries operate a severance payment plan and qualified pension plan. Furthermore, an additional payment is allowed in certain case.

32 (2004:25) domestic consolidated subsidiaries participate in another type of contributory severance payment plan, operated by two independent pension plans.

1) The reserve for retirement benefits as at 31 March 2005 and 2004 is summarized as follows:

31 March	Millions of yen		Thousand of U.S. dollars (Note 3)
	2005	2004	2005
Projected benefit obligations	¥ (11,996)	¥ (12,402)	\$ (111,684)
Plan assets	9,934	9,649	92,487
Unfunded benefit obligations	(2,062)	(2,753)	(19,197)
Unrecognized actuarial differences	688	1,278	6,405
Unrecognized past service obligations	(1,595)	(1,740)	(14,850)
	¥ (2,969)	¥ (3,215)	\$ (27,642)

(Note) Domestic consolidated subsidiaries calculate the projected benefit obligation by the simple method permitted under the Japanese accounting standard.

The net periodic pension expense is summarized as follows:

31 March	Millions of yen		Thousand of U.S. dollars (Note 3)
	2005	2004	2005
Service costs	¥ 549	¥ 497	\$ 5,112
Interest costs	310	309	2,886
Expected return on plan assets	(241)	(217)	(2,243)
Amortization of unrecognized actuarial differences	126	183	1,173
Amortization of unrecognized past service obligations	(145)	(144)	(1,350)
	¥ 599	¥ 628	\$ 5,578

Note) Service costs include the net periodic pension expense incurred by certain consolidated subsidiaries which adopt the simple method for calculation of projected benefit obligations.

2) Assumptions used in calculation of the above information:

Method of attributing the projected benefits to period of services	2005	2004
	Benefit/year of service approach	Benefit/ year of service approach
Discount rate	2.5%	2.5%
Expected rate of return	2.5%	2.5%

12. Contingent Liabilities and Commitments

1) As at 31 March 2005 and 2004, the Company was contingently liable for guarantees as follows:

31 March 2005	Millions of yen	Thousands of U.S. dollars (Note 3)
Guarantees of loans from banks	¥ 99	\$ 922

31 March 2004	Millions of yen
Guarantees of loans from banks	¥ 30

2) The Company had a total of ¥4,300 million (\$40,034 thousand) of overdraft contracts and credit lines from two banks to facilitate efficient funds as at 31 March 2005, and ¥4,300 million as at 31 March 2004. The unutilized portion was ¥4,300 million (\$40,034 thousand) as at 31 March 2005 and ¥4,300 million as at 31 March 2004.

3) Litigation

With regard to a court case on compensation for loss brought against the company by a client due to the company's performance of ground work on a housing development contract from 1976 to 1981, on initial judgement was passed by Otsu regional court on 30 March 1998, requiring the company to pay ¥1,943 million, including interest in compensation. The company appealed to the Osaka high court, and on 28 March 2002, a second decision was reached stating that the company should pay ¥285 million, that is inclusive of interest in compensation to the client. The client protested against this decision and appealed to the Supreme Court. However this appeal was withdrawn on 31 May 2004. Therefore, the decision by Osaka high court has been confirmed.

13. The Major Components of "Selling, General and Administrative Expenses"

31 March	Millions of yen		Thousand of U.S. dollars (Note 3)
	2005	2004	2005
Salaries and allowances to employees.....	¥4,269	¥4,560	\$39,745
The net periodic pension expense.....	238	258	2,216
Reserve for retirement benefits to directors and corporate auditors.....	26	22	242
Allowance for doubtful accounts.....	72	32	670

14. Research and Development Expenses

Research and development expenses, which were included in general and administrative expenses, amounted to ¥385 million (\$3,584 Thousand) as at 31 March 2005 and ¥425 million as at 31 March 2004.

15. Subsequent Events

The appropriation of retained earnings of the Company, including cash dividends applicable to the year ended 31 March 2005, which was proposed by the Board of Directors and approved at the shareholders' meeting held on 29 June 2005, was for the purpose of paying cash dividends to shareholders on record at 31 March 2005 in the aggregate amount of ¥475 million (\$4,422 thousand) (¥5 per share). Bonuses to directors were not proposed.

16. Segment Information

(1) Industry Segment Information

The operations of the Company and its consolidated subsidiaries for the years ended 31 March 2005 and 2004 are summarized by product group as follows:

Millions of yen						
For the year ended 31 March 2005	Construction	Material sales	Leasing business	Other	Eliminations or corporate assets	Consolidated total
Sales						
Sales to external customers	¥ 102,206	¥ 24,765	¥ 5,644	¥ 862	¥	¥ 133,477
Inter-segment sales	161	3,392	1,087	436	(5,076)	
Total	102,367	28,157	6,731	1,298	(5,076)	133,477
Operating costs and expenses	101,180	25,890	6,558	1,324	(2,314)	132,638
Operating income (loss)	¥ 1,187	¥ 2,267	¥ 173	¥ (26)	¥ (2,762)	¥ 839
Assets	¥ 67,893	¥ 25,281	¥ 13,747	¥ 5,731	¥ 17,130	¥ 129,782
Depreciation	¥ 644	¥ 1,243	¥ 3,507	¥ 44	¥ 134	¥ 5,572
Capital expenditure	¥ 374	¥ 1,865	¥ 3,639	¥ 16	¥ 19	¥ 5,913
Millions of yen						
For the year ended 31 March 2004	Construction	Material sales	Leasing business	Other	Eliminations or corporate assets	Consolidated total
Sales						
Sales to external customers	¥ 110,078	¥ 24,001	¥ 5,129	¥ 999	¥	¥ 140,207
Inter-segment sales	171	4,576	1,024	538	(6,309)	
Total	110,249	28,577	6,153	1,537	(6,309)	140,207
Operating costs and expenses	108,310	25,927	5,960	1,475	(3,640)	138,032
Operating income	¥ 1,939	¥ 2,650	¥ 193	¥ 62	¥ (2,669)	¥ 2,175
Assets	¥ 64,224	¥ 23,598	¥ 13,330	¥ 6,846	¥ 22,882	¥ 130,880
Depreciation	¥ 715	¥ 1,085	¥ 3,106	¥ 49	¥ 162	¥ 5,117
Capital expenditure	¥ 454	¥ 1,467	¥ 4,888	¥ 1	¥ 52	¥ 6,862
Thousands of U.S. dollars (Note 3)						
For the year ended 31 March 2005	Construction	Material sales	Leasing business	Other	Eliminations or corporate assets	Consolidated total
Sales						
Sales to external customers	\$ 951,550	\$ 230,565	\$ 52,546	\$ 8,026	\$	\$ 1,242,687
Inter-segment sales	1,499	31,580	10,120	4,059	(47,258)	
Total	953,049	262,145	62,666	12,085	(47,258)	1,242,687
Operating costs and expenses	941,998	241,039	61,056	12,327	(21,544)	1,234,876
Operating income (loss)	\$ 11,051	\$ 21,106	\$ 1,610	\$ (242)	\$ (25,714)	\$ 7,811
Assets	\$ 632,092	\$ 235,369	\$ 127,986	\$ 53,357	\$ 159,482	\$ 1,208,286
Depreciation	\$ 5,996	\$ 11,572	\$ 32,651	\$ 410	\$ 1,248	\$ 51,877
Capital expenditure	\$ 3,482	\$ 17,364	\$ 33,880	\$ 149	\$ 177	\$ 55,052

(2) Geographic Segment Information

Segment information classified by geographic area was omitted because the 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 such sales make up less than 10% of consolidated sales and are, thus, immaterial.

17. Related Party Transactions

The material transactions of the Company with 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 31 March 2005 and 2004 were as follows:

Name of related company	Paid-in capital	Principal business	Equity ownership percentage by the company	Description of the company's transaction	Millions of yen/Thousands of U.S. dollars (Note 3)				
					Transaction		Resulting accounting balance		
					For the year ended 31 March		Account	At 31 March,	
2005	2004	2005	2004						
Shimizu Corporation	¥74,365 million	Construction & Development	23.2%	Construction contracts	¥ 12,473 (\$116,125)	¥11,963	Notes & accounts receivable -trade	¥6,023 (\$56,075)	¥4,422
				Material sales	24 (\$ 223)	10	Advances received on uncompleted construction contracts	696 (\$6,480)	384
				Construction order	14 (\$130)	963	Notes & accounts payable (on construction)-trade	- (\$-)	-

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