

Notes to the Consolidated Financial Statements

For the years ended 31 March 2006 and 2005

1. Basis of Presenting the Consolidated Financial Statements

The accompanying consolidated financial statements of THE NIPPON ROAD CO., LTD. (the "Company") and its consolidated subsidiaries (hereinafter referred to collectively 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 from 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 2006, the consolidated financial statements include the accounts of the Company and its 45 (2005: 46) subsidiaries (42 domestic subsidiaries and 3 overseas subsidiaries). During the year ended 31 March 2006, one subsidiary was established and included in the consolidation, one subsidiary was excluded from the consolidation due to immateriality in the consolidated financial statements, and one subsidiary was excluded from the consolidation due to merger with another consolidated subsidiary. 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 not have 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 reason described above.

Overseas consolidated subsidiaries have adopted accounting principles generally accepted in their respective countries and no adjustments 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) Valuation of Securities

Securities held by the Companies are classified into three categories:

- a) Held-to-maturity debt securities that the Companies 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 separate 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) The 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) Tangible Fixed Assets

The tangible fixed assets of the Company and its domestic subsidiaries, excluding leased assets, are principally depreciated using 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.

The tangible fixed assets of overseas subsidiaries are principally depreciated using 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.

Estimated useful lives range from 3 to 50 years for buildings and structures, and from 2 to 20 years for machinery, equipment, and leased assets.

(5) 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 for internal use are amortized over the expected useful life of the software (5 years) on a straight-line basis.

(6) Reserves and Allowances

- (i) Allowance for doubtful accounts

The Company and its domestic subsidiaries provide 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 provide 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 the related warranty costs specified in the completed construction contracts.

(iii) Reserve for loss on construction contracts

The Company provides a reasonable estimated amount for future loss on construction contracts outstanding at the year-end.

(iv) 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.

(7) 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.

(8) Accounting for Leases

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases. Those leases which do not transfer ownership of the assets at the end of the lease

term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

(9) Hedge Accounting

The derivatives designated as hedging instruments by the Company are principally interest swaps.

The Companies have a policy to utilize hedging instruments in order to reduce the Companies' risk of fluctuations in interest. 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 interest paid and received.

The Companies evaluate the effectiveness of their hedging activities, except for interest rate swaps which meet the conditions described above, with reference to the correlation between fluctuation in the market value of hedged items and hedging instruments accumulated from the commencement of the hedges and the evaluation of its effectiveness.

(10) 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.

(11) 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.

(12) 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 are 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.

(13) Income Taxes

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

The Company and its subsidiaries adopt deferred tax accounting in accordance with the amended regulations for the 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.

(14) 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.

(15) 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.

(16) 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 95,015,900 for the year ended 31 March 2006 and 96,072,242 for the year ended 31 March 2005.

(17) Change in the Accounting Method

On 9 August 2002, the Business Accounting Council in Japan issued “Accounting Standard for Impairment of Fixed Assets”. The standard requires that fixed assets be 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 is effective from fiscal years beginning 1 April 2005. The Companies have applied this new standard to the consolidated financial statements from the year ended 31 March 2006.

As a result of the adoption of this new accounting standard, an impairment loss on fixed assets was recognized and the profit before income taxes and minority interests decreased by ¥588 million (\$5,006 thousand) in the consolidated statements of income for the year ended 31 March 2006. The impairment loss on fixed assets has been deducted directly from the carrying amounts of the respective assets in the consolidated balance sheets for the year ended 31 March 2006.

(18) Changes in the Accounting Presentation

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.

Changes in the accounting presentation have been made in the consolidated statements of income for the year ended 31 March 2006 as follows:

“Foreign currency transaction gain” is individually itemized from the year ended 31 March 2006 because it is now deemed important. It was itemized in “other net” for the year ended 31 March 2005. The amount of “foreign currency transaction gain” for the year ended 31 March 2005 was ¥27 million.

Changes in the accounting presentation have been made in the consolidated statements of cash flows for the year ended 31 March 2006 as follows:

i) “Valuation loss on real estate held for resale” in the cash flows from operating activities is individually itemized from the year ended 31 March 2006 because it is now deemed important. It was itemized in “others” for the year ended 31 March 2005. The amount of “valuation loss on real estate held for resale” in “others” in the cash flows from operating activities for the year ended 31 March 2005 was ¥57 million.

ii) “Payment of long-term loans” in the cash flows from investing activities is individually itemized from the year ended 31 March 2006 because it is now deemed important. It was itemized in “others” for the year ended 31 March 2005. The amount of “payment of long-term loans” in “others” in the cash flows from investing activities for the year ended 31 March 2005 was ¥(1) million.

3. United States Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥117.47=U.S. \$1, the approximate rate of exchange prevailing at 31 March 2006 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. Note to Consolidated Balance Sheets

(1) Investments of the Company in equity securities issued by unconsolidated subsidiaries and affiliates

31 March	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Investment in securities (corporate stock).....	¥171	¥127	\$1,456

(2) 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)
	2006	2005	2006
Cash at bank.....	-	¥2	-
Investment in securities.....	¥45	45	\$383
	¥45	¥47	\$383

(3) Contingent Liabilities

As at 31 March 2006 and 2005, the Company was contingently liable for guarantees as follows:

31 March 2006	Millions of yen	Thousands of U.S. dollars (Note 3)
Guarantees of loans from banks	¥ 17	\$ 145

31 March 2005	Millions of yen
Guarantees of loans from banks	¥ 99

(4) Commitments

The Company had a total of ¥4,300 million (\$36,605 thousand) of overdraft contracts and credit lines from two banks to facilitate the availability of efficient funds as at 31 March 2006, and ¥4,300 million as at 31 March 2005. The unutilized portion was ¥4,300 million (\$36,605 thousand) as at 31 March 2006 and ¥4,300 million as at 31 March 2005.

5. Notes to Consolidated Statements of Income

(1) The major components of “Selling, General and Administrative Expenses”

31 March	Millions of yen		Thousand of U.S. dollars (Note 3)
	2006	2005	2006
Salaries and allowances to employees.....	¥4,035	¥4,269	\$34,349
The net periodic pension expense.....	199	238	1,694
Reserve for retirement benefits to directors and corporate auditors.....	23	26	196
Allowance for doubtful accounts.....	30	72	255

(2) Research and Development Expenses

Research and development expenses, which were included in general and administrative expenses, amounted to ¥309 million (\$2,630 thousand) as at 31 March 2006 and ¥385 million as at 31 March 2005.

(3) Components of gain on sale of tangible fixed assets

31 March	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Land	¥40	¥260	\$341
Machinery and equipment and others	8	18	68
	¥48	¥278	\$409

(4) Components of loss on sale of tangible fixed assets

31 March	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Land	¥274	¥10	\$2,332
Machinery and equipment.....	19	24	162
Others.....	3	6	26
	¥296	¥40	\$2,520

(5) Components of loss on disposal of tangible fixed assets

31 March	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Buildings	¥30	¥41	\$255
Structures	11	44	94
Machinery and equipment.....	36	111	306
Others.....	4	12	34
	¥81	¥208	\$689

(6) Impairment loss on fixed assets

The Companies have recognized an impairment loss of ¥588 million (\$5,006 thousand) for the following group of assets as of 31 March 2006.

Branch	Segment	Use	Category	Impairment loss	
				Millions of yen	Thousands of dollars
Kansai branch	Construction	Business offices,	Buildings	¥ 30	\$256
		machinery,	Land	62	528
		and others	Others	43	366
Tohoku branch	Construction	Business offices,	Buildings	98	834
		machinery,	Land	252	2,145
		and others	Others	103	877

The companies assessed impairment for each group of assets, which are grouped on the basis of managerial accounting, branch and segment.

As a result of the aggravation of the business environment, operating profitability has worsened substantially. Therefore, the Companies have decided to mark the above assets down to their recoverable value, and accrued impairment loss.

The recoverable value is determined as the net selling value. The net selling value of land is based on the price of deals or the assessed value of fixed assets.

6. Notes to Consolidated Statements of Cash Flows

Cash and Cash Equivalents at 31 March 2006 and 2005 consisted of:

31 March	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Cash in hand and at bank	¥15,621	¥11,252	\$132,979
Fixed deposits over 3 months.....	-	(13)	-
Cash and cash equivalents	¥15,621	¥11,239	\$132,979

7. Leases

Information regarding finance leases as lessor that do not transfer the ownership of the leased property to the lessee for the years ended 31 March 2006 and 2005 is as follows:

(1) The acquisition cost, accumulated depreciation and the balance

31 March 2006	Millions of yen		
	Acquisition costs	Accumulated depreciation	Balance
Machinery and equipment	¥ 17,820	¥ 9,552	¥8,268
Other	142	99	43
	¥17,962	¥9,651	¥8,311

31 March 2005	Millions of yen		
	Acquisition costs	Accumulated depreciation	Balance
Machinery and equipment	¥17,726	¥9,141	¥8,585
Other	185	133	52
	¥17,911	¥9,274	¥8,637

31 March 2006	Thousands of U.S. dollars (Note 3)		
	Acquisition costs	Accumulated depreciation	Balance
Machinery and equipment	\$151,698	\$81,314	\$70,384
Other	1,209	843	366
	\$152,907	\$82,157	\$70,750

(2) The scheduled maturities of future lease receivables on such lease contracts

31 March	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Due within one year	¥2,502	¥2,525	\$21,299
Due over one year	4,433	4,672	37,737
	¥6,935	¥7,197	\$59,036

(3) Lease revenue, depreciation expenses and equivalent to interest income

31 March	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Lease revenue	¥3,259	¥3,251	\$27,743
Depreciation expenses	2,592	2,588	22,065
Equivalent to interest income	687	724	5,848

(4) The Companies calculate the equivalent to interest income using the interest method.

(5) Impairment loss on fixed assets is not recognized on leased assets.

Information regarding finance leases as lessee that do not transfer the ownership of the leased property to the Companies for the years ended 31 March 2006 and 2005 is as follows:

(1) The acquisition cost, accumulated depreciation and the balance

31 March 2006	Millions of yen		
	Acquisition costs (equivalent)	Accumulated depreciation (equivalent)	Balance (equivalent)
Machinery and equipment	¥23	¥14	¥9
	¥23	¥14	¥9

31 March 2005	Millions of yen		
	Acquisition costs (equivalent)	Accumulated depreciation (equivalent)	Balance (equivalent)
Machinery and equipment	¥23	¥9	¥14
	¥23	¥9	¥14

31 March 2006	Thousands of U.S. dollars (Note 3)		
	Acquisition costs (equivalent)	Accumulated depreciation (equivalent)	Balance (equivalent)
Machinery and equipment	\$196	\$119	\$77
	\$196	\$119	\$77

(2) The scheduled maturities of future lease payments on such lease contracts

31 March	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Due within one year	¥5	¥5	\$43
Due over one year	4	9	34
	¥9	¥14	\$77

(3) Lease payments and depreciation expenses

31 March	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Lease payments	¥4	¥4	\$34
Depreciation expenses	4	4	34

(4) Depreciation expenses are computed using the straight-line method over a period up to the length of the relevant lease contracts, with no residual value.

(5) The figures shown above include the portion of interest thereon.

8. Investments in Securities

Investments in securities as at 31 March 2006 and 2005 were as follows:

(1) Held-to-maturity debt securities with market quotations

	Millions of yen					
	2006			2005		
	Fair market value	Book value	Difference	Fair market value	Book value	Difference
Securities with unrealized gains						
Governmental and municipal bonds	¥46	¥45	¥1	¥48	¥45	¥3
Securities with unrealized losses						
Governmental and municipal bonds	-	-	-	-	-	-
Total	¥46	¥45	¥1	¥48	¥45	¥3

Thousands of U.S. dollars (Note 3)

	2006		
	Fair market value	Book value	Difference
	Securities with unrealized gains		
Governmental and municipal bonds	\$392	\$383	\$9
Securities with unrealized losses			
Governmental and municipal bonds	-	-	-
Total	\$392	\$383	\$9

(2) Other securities with market quotations

	Millions of yen					
	2006			2005		
	Acquisition cost	Fair market value (book value)	Difference	Acquisition cost	Fair market value (book value)	Difference
Other securities with unrealized gains						
Equity securities	¥2,501	¥8,218	¥ 5,717	¥2,644	¥5,722	¥ 3,078
Debt securities:						
Convertible bonds	-	-	-	-	-	-
Others	-	-	-	-	-	-
Sub total	¥2,501	¥8,218	¥ 5,717	¥2,644	¥5,722	¥ 3,078
Other securities with unrealized losses						
Equity securities	¥29	¥26	¥(3)	¥34	¥27	¥(7)
Debt securities:						
Convertible bonds	-	-	-	-	-	-
Others	-	-	-	-	-	-
Sub total	¥29	¥26	¥(3)	¥34	¥27	¥(7)
Total	¥2,530	¥8,244	¥ 5,714	¥2,678	¥5,749	¥ 3,071

Thousands of U.S. dollars (Note 3)			
2006			
	Acquisition cost	Fair market value (book value)	Difference
Other securities with unrealized gains			
Equity securities	\$21,290	\$69,958	\$48,668
Debt securities:			
Convertible bonds	-	-	-
Others	-	-	-
Sub total	\$21,290	\$69,958	\$48,668
Other securities with unrealized losses			
Equity securities	\$247	\$221	\$(26)
Debt securities:			
Convertible bonds	-	-	-
Others	-	-	-
Sub total	\$247	\$221	\$(26)
Total	\$21,537	\$70,179	\$48,642

When the fair market value of a security declines by 50% or more from the acquisition cost, the Company automatically recognizes an impairment loss on the security. When the fair market value of a security declines by 30% or more but less than 50% from the acquisition cost, the Company recognizes an impairment loss on the security based on the management's estimate.

(3) Other securities sold for the years ended 31 March 2006 and 2005

Millions of yen						
2006			2005			
	Proceeds from sales	Gains on sales	Losses on sales	Proceeds from sales	Gains on sales	Losses on sales
Other securities	¥2,305	¥1,248	-	¥930	¥7	-

Thousands of U.S. dollars			
2006			
	Proceeds from sales	Gains on sales	Losses on sales
Other securities	\$19,622	\$10,624	-

(4) Securities without market quotations

Millions of yen				Thousands of U.S. dollars	
2006		2005		2006	
	Book value		Book value		Book value
Other securities					
Unlisted shares (excluding OTC shares)	¥1,018		¥984		\$8,666

- (5) The following tables summarize the securities with maturities and held-to-maturity debt securities held by the Companies at 31 March 2006 and 2005

	Millions of yen				Thousands of U.S. dollars	
	2006		2005		2006	
	Within 1 year	Over 1 year but within 5 years	Within 1 year	Over 1 year but within 5 years	Within 1 year	Over 1 year but within 5 years
Bonds						
Governmental and municipal bonds	-	¥45	-	¥45	-	\$383
Total	-	¥45	-	¥45	-	\$383

All securities have a maturity of 5 years or less.

9. Derivative and Hedging Activities

The Companies use interest rate swap transactions 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 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 2006 and 2005, outstanding interest rate swap agreements were as follows:

For the year ended 31 March 2006	Millions of yen	
	Notional amount	Unrealized loss
Interest-rate swap agreements:		
Valuable-rate into fixed-rate Obligations.....	¥1,500	¥ (29)

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 2006	Thousands of U.S. dollars (Note 3)	
	Notional amounts	Unrealized loss
Interest-rate swap agreements:		
Valuable-rate into fixed-rate Obligations.....	\$12,769	\$(247)

10. 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 cases.

36 (2005: 32) 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 2006 and 2005 is summarized as follows:

31 March	Millions of yen		Thousand of U.S. dollars (Note 3)
	2006	2005	2006
Projected benefit obligations	¥ (12,249)	¥ (11,996)	\$ (104,274)
Plan assets	11,697	9,934	99,575
Unfunded benefit obligations	(552)	(2,062)	(4,699)
Unrecognized actuarial differences	(748)	688	(6,368)
Unrecognized past service obligations	(1,450)	(1,595)	(12,343)
	¥ (2,750)	¥ (2,969)	\$ (23,410)

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)
	2006	2005	2006
Service costs	¥ 484	¥ 549	\$ 4,120
Interest costs	298	310	2,537
Expected return on plan assets	(248)	(241)	(2,111)
Amortization of unrecognized actuarial differences	90	126	766
Amortization of unrecognized past service obligations	(145)	(145)	(1,234)
	¥ 479	¥ 599	\$ 4,078

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:

	2006	2005
Method of attributing the projected benefits to period of services	Benefit/year of service approach	Benefit/ year of service approach
Discount rate	2.5%	2.5%
Expected rate of return	2.5%	2.5%

11. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income, which in the aggregate resulted in a statutory tax rate of approximately 40.69% for the year ended 31 March 2006 and 2005. Foreign subsidiaries are subject to the income taxes of the countries in which they operate.

At 31 March 2006 and 2005, significant components of deferred tax assets and liabilities were as follows:

31 March 2006	Millions of yen	Thousands of U.S. dollars (Note 3)
Deferred tax assets:		
Valuation loss on real estate for sale.....	¥ 1,654	\$ 14,080
Excess over the limit of reserve for bad debt	461	3,924
Excess over the limit of reserve for retirement benefit to employees.....	1,119	9,526
Tax loss carried forward	976	8,308
Excess over the limit of reserve for bonuses	434	3,695
Valuation loss on investments in securities	329	2,801
Impairment loss on fixed assets.....	204	1,737
Valuation loss on facility membership.....	113	962
Disallowed accrued enterprise taxes.....	55	468
Others	324	2,758
Sub total of deferred tax assets	<u>5,669</u>	<u>48,259</u>
Less valuation allowance	<u>(1,426)</u>	<u>(12,139)</u>
Total of deferred tax assets	<u>4,243</u>	<u>36,120</u>
Deferred tax liabilities		
Reserve for advanced depreciation of fixed assets	(528)	(4,495)
Unrealized gain on other securities	(2,216)	(18,864)
Special depreciation reserve	<u>(0)</u>	<u>(0)</u>
Total of deferred tax liabilities	<u>(2,744)</u>	<u>(23,359)</u>
Net deferred tax assets	<u>1,499</u>	<u>12,761</u>
Current assets	2,573	21,903
Non-current assets	36	307
Current liabilities	(4)	(34)
Other non-current liabilities	(1,106)	(9,415)

31 March 2005

Millions of yen

Deferred tax assets:	
Valuation loss on real estate for sale.....	¥ 3,037
Excess over the limit of reserve for bad debt	480
Excess over the limit of reserve for retirement benefit to employees.....	1,014
Tax loss carried forward.....	694
Excess over the limit of reserve for bonuses	408
Valuation loss on investments in securities	333
Valuation loss on facility membership.....	139
Disallowed accrued enterprise taxes	54
Others	357
Sub total of deferred tax assets	6,516
Less valuation allowance	(1,429)
Total of deferred tax assets	<u>5,087</u>
Deferred tax liabilities	
Reserve for advanced depreciation of fixed assets ..	(530)
Unrealized gain on other securities	(1,146)
Special depreciation reserve.....	(1)
Total of deferred tax liabilities	<u>(1,677)</u>
Net deferred tax assets	<u>3,410</u>
Current assets	3,508
Non-current assets	71
Other non-current liabilities	(169)

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 considers 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 2006.

At 31 March 2006 and 2005, the reconciliation of the statutory tax rate to the effective income tax rate is as follows:

31 March 2006	<u>2006</u>
Statutory tax rate	40.69 %
Adjustments	
Permanent non-deductible differences	7.05
Permanent non-taxable differences	(1.61)
Inhabitant tax per capital	6.76
Valuation allowance to deferred tax assets	2.17
Other	1.76
Effective income tax rate	<u>56.82 %</u>

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	0.75
Effective income tax rate	<u>57.86 %</u>

12. Segment Information

(1) Industry Segment Information

The operations of the Company and its consolidated subsidiaries for the years ended 31 March 2006 and 2005 are summarized by product group as follows:

Millions of yen						
For the year ended 31 March 2006	Construction	Material sales	Leasing business	Other	Eliminations or corporate assets	Consolidated total
Sales						
Sales to external customers	¥ 104,759	¥ 25,065	¥ 5,836	¥ 1,027	¥ -	¥ 136,687
Inter-segment sales	146	3,595	1,020	410	(5,171)	-
Total	104,905	28,660	6,856	1,437	(5,171)	136,687
Operating costs and expenses	103,305	26,319	6,772	1,378	(2,707)	135,067
Operating income	¥ 1,600	¥ 2,341	¥ 84	¥ 59	¥ (2,464)	¥ 1,620
Assets	¥ 67,535	¥ 24,093	¥ 14,266	¥ 3,751	¥ 24,048	¥ 133,693
Depreciation	¥ 549	¥ 1,190	¥ 3,495	¥ 36	¥ 46	¥ 5,316
Impairment loss on fixed assets	¥ 588	-	-	-	-	¥ 588
Capital expenditure	¥ 396	¥ 938	¥ 3,560	¥ 0	¥ 100	¥ 4,994
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
Thousands of U.S. dollars (Note 3)						
For the year ended 31 March 2006	Construction	Material sales	Leasing business	Other	Eliminations or corporate assets	Consolidated Total
Sales						
Sales to external customers	\$ 891,794	\$ 213,374	\$ 49,680	\$ 8,743	\$ -	\$ 1,163,591
Inter-segment sales	1,243	30,603	8,683	3,490	(44,019)	-
Total	893,037	243,977	58,363	12,233	(44,019)	1,163,591
Operating costs and expenses	879,416	224,049	57,648	11,731	(23,044)	1,149,800
Operating income	\$ 13,621	\$ 19,928	\$ 715	\$ 502	\$ (20,975)	\$ 13,791
Assets	\$ 574,913	\$ 205,099	\$ 121,444	\$ 31,931	\$ 204,716	\$ 1,138,103
Depreciation	\$ 4,674	\$ 10,130	\$ 29,752	\$ 306	\$ 392	\$ 45,254
Impairment loss on fixed assets	\$ 5,006	-	-	-	-	\$ 5,006
Capital expenditure	\$ 3,371	\$ 7,985	\$ 30,306	\$ 0	\$ 851	\$ 42,513

Note) 1. The types of business above are based upon the Standard Industrial Classification in Japan and net sales categories in the consolidated statements of income.

2. Outline of the businesses

Construction: Paving, civil engineering, construction, or others relating to the construction business

Material sales: Sales of road material

Leasing business: Leasing of automobiles, business equipment, and others

Other: Development, consulting business, real estate rental service, sales of software, non-life insurance agency, administration of sports facilities

3 .The amounts of unallocatable operating costs and expenses included in "Eliminations or corporate assets" for the years ended 31 March 2006 and 2005 were ¥2,456 million (\$20,907 thousand) and ¥2,757 million. Unallocatable operating costs consist of the operating costs of the administrative department of the Company.

The amounts of corporate assets included in "Eliminations or corporate assets" for the years ended 31 March 2006 and 2005 were ¥25,123 million (\$213,867 thousand) and ¥18,038 million. Corporate assets consist of surplus operating funds (cash), long-term investments (securities), assets of administrative department, or other, of the Company.

(2) Geographic Segment Information

Segment information classified by geographic area is 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.

13. 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 2006 and 2005 were as follows:

Name of related company	Paid-in capital	Principal business	Equity ownership percentage by the company	Description of the company's transaction	Transaction		Resulting accounting balance		
					Millions of yen/Thousands of U.S. dollars (Note 3)		At 31 March,		
					For the year ended 31 March 2006	2005	Account	2006	2005
Shimizu Corporation	¥74,365 million	Construction & Development	23.2%	Construction contracts	¥14,826	¥12,473	Notes & accounts receivable -trade	¥5,536	¥6,023
					(\$126,211)			(\$47,127)	
				Material sales	¥12	24	Advances received on uncompleted construction contracts	¥637	696
				(\$102)				(\$5,423)	
				Construction order	¥ -	14			
					(\$-)				

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

14. Per Share Data

Per Share (Note 2 (17))	Yen		U.S. dollars
	2006	2005	2006
Net profit	¥566.41	¥547.11	\$4.82
Basic	¥8.93	¥3.97	\$0.08
Diluted	-	-	-
Cash dividends			
Common shares	¥ 5.00	¥5.00	\$0.04

Note) Diluted per share amounts are not shown because no convertible bonds have been issued

Calculation bases for net profit per share for the years ended 31 March 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Net profit.....	¥855	¥383	\$7,278
Net profit not available to common stockholders ... (Net profit appropriated as bonuses to directors)...	¥6	¥2	\$51
Net profit available to common stockholders	¥849	¥381	\$7,227
Average common stock outstanding (in thousands of shares)	95,016	96,072	

15. Subsequent Events

The appropriation of retained earnings of the Company, including cash dividends applicable to the year ended 31 March 2006, which was proposed by the Board of Directors and approved at the shareholders' meeting held on 29 June 2006, was for the purpose of paying cash dividends to shareholders on record at 31 March 2006 in the aggregate amount of ¥475 million (\$4,044 thousand) (¥5 per share). Bonuses to directors were not proposed.

16. Short-term Debt and Long-term Debt

31 March	Millions of yen		Thousands of U.S. dollars (Note 3)	Average interest rate (%)	Repayment term
	2006	2005	2006		
Shot-term borrowings	¥5,134	¥5,299	\$43,705	0.78	-
Current portion of long-term borrowings	1,979	776	16,847	1.44	-
Long-term borrowings (excluding current portion)	7,181	8,385	61,131	1.55	2006~2015
Others	-	-	-	-	-
Total	¥14,294	¥14,460	\$121,683		

Annual maturities of long-term debt are as follows:

Year ending on 31 March	Millions of yen	Thousands of U.S. dollars (Note 3)
2007	¥1,979	\$16,847
2008	5,261	44,786
2009	621	5,287
2010	1,221	10,394
2011 and thereafter.....	78	664
	¥9,160	\$77,978