



May 14, 2004

# Consolidated Financial Statements

For the Fiscal Year Ended March 31, 2004

## KYOWA EXEO CORPORATION

Code No. : 1951  
 URL : <http://www.exeo.co.jp>  
 Stock Exchange Listed : Tokyo and Osaka Stock Exchange-First Section  
 Corporate Headquarters : 29-20, Shibuya 3-chome, Shibuya-ku, Tokyo Japan  
 Representative : Seiji Takashima, President  
 Investor Relations : Norio Koide, Director, General Manager,  
 Finance & Accounts Division /Tel (03) 5778-1106  
 Date of the meeting of the Board of Directors for approval of consolidated financial statements : May 14, 2004  
 Adoption of U.S.GAAP : No

### 1. Consolidated Financial Results for the Fiscal Years Ended March 31, 2004 and 2003

(1) Consolidated Results of Operations (Millions of yen, except per share amounts)

	Sales		Operating Income		Ordinary Income	
Year ended March 31, 2004	203,930	9.4 %	9,108	100.6 %	9,104	92.0 %
Year ended March 31, 2003	186,334	(8.4)%	4,541	(45.3)%	4,741	(47.7)%

	Net Income		Net Income per Share	Diluted Net Income Per Share	ROE [Ratio of Net Income to Shareholders' Equity]	Ordinary Income/ Total Assets	Ordinary Income/ Net Sales
Year ended March 31, 2004	3,407	105.0 %	29.51 yen	27.50 yen	5.5 %	6.9 %	4.4 %
Year ended March 31, 2003	1,661	(44.4)%	14.00 yen	13.34 yen	2.7 %	3.5 %	2.5 %

Notes : 1. Equity in earnings (losses) of affiliates : For the fiscal year ended March 31, 2004 : - million yen  
 For the fiscal year ended March 31, 2003 : - million yen  
 2. Weighted average number of shares outstanding : For the fiscal year ended March 31, 2004 : 111,429,485 shares  
 For the fiscal year ended March 31, 2003 : 113,563,358 shares  
 3. Change in accounting policy : No  
 4. Percentages above represent annual changes over the preceding year unless otherwise stated.

(2) Consolidated Financial Positions (Millions of yen, except per share amounts)

	Total Assets	Shareholders' Equity	Ratio of Shareholders' Equity to Total Assets	Shareholders' Equity per Share
Year ended March 31, 2004	131,791	63,606	48.3 %	569.90 yen
Year ended March 31, 2003	130,779	60,653	46.4 %	543.59 yen

Notes : Number of shares outstanding at end of period : March 31, 2004 : 111,400,547 shares  
 March 31, 2003 : 111,447,130 shares

(3) Consolidated Cash Flows (Millions of yen)

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents at Fiscal Year End
Year ended March 31, 2004	16,452	(256)	(15,918)	21,893
Year ended March 31, 2003	8,365	(1,932)	(4,656)	21,643

(4) Number of Consolidated Subsidiaries and Companies Accounted for Using the Equity Method

The number of consolidated subsidiaries : 23  
 The number of unconsolidated subsidiaries accounted for using the equity method : -  
 The number of affiliated companies accounted for using the equity method : -

(5) Change of Reporting Entities

The number of consolidated companies added : 2 The number of consolidated companies removed : 3  
 The number of companies on the equity method added : - The number of companies on the equity method removed : -

### 2. Consolidated Financial Forecasts for the Fiscal Year Ending March 31, 2005

(Millions of yen)

	Sales	Ordinary Income	Net Income
Six months ending September 30, 2004	105,000	3,700	1,800
Year ending March 31, 2005	245,000	10,400	5,100

(Reference) Expected Net Income per Share : 44.72 yen

※Management of the Company has made estimates and assumptions relating to financial forecasts based on information available as of the reporting date. Actual results could differ from those estimates. Financial forecasts above are reflected in two subsidiaries to be consolidated.

Notes: All amounts less than one million yen have been disregarded.

## Consolidated Balance Sheets (1)

March 31, 2003 and 2004

(Millions of yen)

	March 31, 2003		March 31, 2004		Increase (Decrease)
		%		%	
(ASSETS)					
Current assets	¥91,153	69.7	¥94,152	71.4	¥2,998
Cash and bank deposits	19,137		17,385		(1,752)
Notes and accounts receivable, trade	49,818		50,397		578
Marketable securities	3,505		5,517		2,011
Contracts in process	15,744		15,650		(94)
Deferred tax assets –current	893		2,944		2,050
Other	2,214		2,431		217
Allowance for doubtful accounts	(161)		(173)		(12)
Fixed assets	39,625	30.3	37,638	28.6	(1,986)
Property and equipment	26,792	20.5	25,696	19.5	(1,095)
Buildings and structures	10,265		9,773		(491)
Machinery, vehicles, tools and equipment	1,237		1,192		(45)
Land	15,290		14,731		(558)
Intangible fixed assets	1,914	1.5	704	0.6	(1,209)
Investments and other	10,918	8.3	11,237	8.5	318
Investment securities	4,591		5,874		1,282
Deferred tax assets-non-current	3,699		3,729		29
Other	3,123		2,506		(616)
Allowance for doubtful accounts	(495)		(873)		(378)
<b>TOTAL ASSETS</b>	<b>¥130,779</b>	<b>100</b>	<b>¥131,791</b>	<b>100</b>	<b>¥1,011</b>

## Consolidated Balance Sheets (2)

March 31, 2003 and 2004

(Millions of yen)

	March 31, 2003		March 31, 2004		Increase (Decrease)
		%		%	
(LIABILITIES)					
Current liabilities	¥47,975	36.7	¥45,051	34.2	¥(2,924)
Notes and accounts payable, trade	22,067		24,089		2,021
Current portion of convertible bonds	14,664		—		(14,664)
Accrued expenses	—		6,967		6,967
Income taxes payable	1,048		5,652		4,603
Advances received on contracts in process	5,352		4,670		(681)
Allowance for compensation for construction damages	120		244		123
Other	4,721		3,426		(1,295)
Long-term liabilities	21,669	16.5	22,820	17.3	1,151
Bonds	14,100		14,100		—
Accrued pension and severance cost	5,034		6,750		1,715
Allowance for retirement benefits for directors and corporate auditors	420		357		(62)
Deferred tax liabilities-non-current	132		149		16
Negative consolidation goodwill	1,967		1,451		(515)
Other	15		12		(2)
<b>TOTAL LIABILITIES</b>	<b>69,644</b>	<b>53.2</b>	<b>67,872</b>	<b>51.5</b>	<b>(1,772)</b>
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES					
	480	0.4	312	0.2	(167)
(SHAREHOLDERS' EQUITY)					
I Common stock	6,888	5.3	6,888	5.2	—
Capital surplus	5,761	4.4	5,761	4.4	—
Retained earnings	51,634	39.5	53,783	40.8	2,149
Net unrealized gains on securities	197	0.1	1,029	0.8	831
Treasury stock	(3,828)	(2.9)	(3,856)	(2.9)	(28)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>60,653</b>	<b>46.4</b>	<b>63,606</b>	<b>48.3</b>	<b>2,952</b>
<b>TOTAL LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY</b>	<b>¥130,779</b>	<b>100</b>	<b>¥131,791</b>	<b>100</b>	<b>¥1,011</b>

Notes: All amounts less than one million yen have been disregarded.

## Consolidated Statements of Income

Years Ended March 31, 2003 and 2004

(Millions of yen)

	Year ended March 31, 2003		Year ended March 31, 2004		Increase (Decrease)
		%		%	
Net sales	¥186,334	100	¥203,930	100	¥17,596
Cost of sales	166,216	89.2	179,637	88.1	13,420
Gross income	20,117	10.8	24,293	11.9	4,175
Selling, general and administrative expenses	15,576	8.4	15,184	7.5	(391)
Operating income	4,541	2.4	9,108	4.4	4,567
Non-operating income	1,170	0.6	1,185	0.6	15
Interest income	36		44		8
Dividends income	100		86		(14)
Commission income	150		—		(150)
Amortization of consolidation goodwill	587		682		94
Other	294		372		78
Non-operating expenses	970	0.5	1,189	0.6	219
Interest expenses	468		464		(3)
Provision for doubtful accounts	—		333		333
Foreign currency exchange losses	116		—		(116)
Other	385		391		6
Ordinary income	4,741	2.5	9,104	4.4	4,363
Special income	1,968	1.1	550	0.3	(1,417)
Gains on sales of fixed assets	116		431		314
Gains on sales of investment securities	194		119		(74)
Gains on return of the substitutional portion of the employee pension fund	1,657		—		(1,657)
Special losses	3,313	1.8	2,846	1.4	(466)
Special retirement benefits	1,898		1,764		(133)
Losses on devaluation of fixed assets	—		660		660
Losses on devaluation of investment securities	1,103		421		(682)
Other	311		—		(311)
Income before income taxes and minority interests	3,395	1.8	6,808	3.3	3,413
Income taxes – current	1,384	0.7	5,975	2.9	4,590
Income taxes – deferred	325	0.2	(2,607)	(1.3)	(2,933)
Minority interests	23	0.0	33	0.0	10
Net income	¥1,661	0.9	¥3,407	1.7	¥1,745

Notes: All amounts less than one million yen have been disregarded.

## Consolidated Statements of Retained Earnings

Years Ended March 31, 2003 and 2004

(Millions of yen)

	Year ended March 31, 2003		Year ended March 31, 2004	
(CAPITAL SURPLUS)				
Balance, beginning of year		5,761		5,761
Balance, end of year		5,761		5,761
(RETAINED EARNINGS)				
Balance, beginning of year		51,914		51,634
Increase in retained earnings		1,661		3,445
Net income	1,661		3,407	
Increase due to inclusion of subsidiaries in consolidation	—		37	
Decrease in retained earnings		1,941		1,296
Cash dividends	1,843		1,225	
Directors' bonuses	97		70	
Balance, end of year		51,634		53,783

Notes: All amounts less than one million yen have been disregarded.

## Consolidated Statements of Cash Flows

Years Ended March 31, 2003 and 2004

(Millions of yen)

	Year ended March 31, 2003	Year ended March 31, 2004
Cash flows from operating activities:		
Income before income taxes and minority interests	¥3,395	¥6,808
Depreciation and amortization	2,152	2,087
Amortization of consolidation goodwill	(587)	(530)
Special retirement benefits	1,898	1,764
Losses on devaluation of fixed assets	—	660
Losses on devaluation of investment securities	1,103	421
Gains on return of the substitutional portion of the employee pension fund	(1,657)	—
Gains on sales of fixed assets	(116)	(431)
Gains on sales of investment securities	(194)	(119)
Foreign currency exchange losses	24	44
Changes in other operating assets	(150)	(151)
Changes in other operating liabilities	(737)	5,117
Changes in allowance for doubtful accounts	301	444
Changes in accrued pension and severance cost	1,024	1,715
Interest and dividends income	(137)	(130)
Interest expenses	468	464
Changes in notes and accounts receivable, trade	3,610	(362)
Changes in contracts in process	5,157	248
Changes in accounts payable, trade	(1,551)	2,156
Changes in advances received on contracts in process	(1,198)	(724)
Other, net	385	43
Sub-total	13,190	19,528
Interest and dividends received	133	120
Interest expenses paid	(469)	(537)
Income taxes paid	(1,998)	(1,122)
Special retirement benefits paid	(2,179)	(1,535)
Other, net	(311)	—
Net cash provided by operating activities	8,365	16,452
Cash flows from investing activities:		
Proceeds from time deposits	164	—
Payments for purchases of marketable securities	(2,198)	(1,998)
Proceeds from sales of marketable securities	1,205	1,999
Payments for purchases of property and equipment	(931)	(761)
Proceeds from sales of property and equipment	240	901
Payments for purchases of intangible fixed assets and other investments	(170)	(108)
Payments for purchases of investment securities	(469)	(442)
Proceeds from sales of investment securities	392	194
Payments for purchases of subsidiary stock due to changing scope of consolidation	(8)	—
Payment for loans receivable	(601)	(754)
Settlement of loans receivable	290	244
Other, net	154	467
Net cash used in investing activities	(1,932)	(256)
Cash flows from financing activities:		
Net change in short-term borrowings	(389)	—
Payments of long-term debt	(52)	—
Payments for redemption of bonds	—	(14,664)
Payments for purchases of treasury stock	(2,368)	(28)
Cash dividends paid	(1,843)	(1,225)
Cash dividends paid to minority shareholders	(1)	(0)
Net cash used in financing activities	(4,656)	(15,918)
Effect of exchange rate changes on cash and cash equivalents	(3)	(36)
Net increase (decrease) in cash and cash equivalents	1,772	240
Cash and cash equivalents, beginning of year	19,325	21,643
Increase in cash and cash equivalents due to inclusion of subsidiaries in consolidation	367	6
Increase in cash and cash equivalents due to merger of non-consolidated subsidiaries	178	2
Cash and cash equivalents, end of year	¥21,643	¥21,893

Notes: All amounts less than one million yen have been disregarded.

[ Accounting Basis for the Consolidated Financial Statements ]

**1. Principles of consolidation**

The consolidated financial statements include the accounts of KYOWA EXEO CORPORATION (the "Company") and substantially all of its 23 subsidiaries except 6 subsidiaries.

**2. Application of the equity method of accounting for investments**

Investments in non-consolidated subsidiaries and affiliated companies have not been accounted for by the equity method because they have not been significant to the consolidated net income and retained earnings.

**3. Fiscal year of consolidated subsidiaries**

The fiscal year-ends for all consolidated subsidiaries are March 31.

**4. Significant accounting policies**

( 1 ) Valuation of certain assets

a. Marketable and investment securities

Investments in non-consolidated subsidiaries and affiliated companies are stated at cost determined by the moving-average method.

Available-for-sale securities with available fair market values are stated at fair value, with unrealized gains and losses excluded from earnings and included in a separate component of shareholders' equity on a net-of-tax basis. The cost of securities sold is determined by the moving-average method.

Other securities that do not have fair values are stated at cost determined by the moving average method.

b. Derivative

Derivative financial instruments are stated at fair value.

c. Valuation of inventories

Contracts in process are stated at cost using the specific identification cost method.

Raw materials and supplies are stated at cost using the first-in, first-out method.

( 2 ) Depreciation of fixed assets

a. Property and equipment

Property and equipment are stated at cost. For both financial and tax purposes, depreciation of property and equipment is computed using the declining-balance method at rates based on the estimated useful lives of the respective assets. Buildings acquired after March 31, 1998 are depreciated using the straight-line method.

b. Intangible fixed assets

Goodwill is amortized over five years by the straight-line method. Software for internal use is amortized for the estimated useful life (five years) by the straight-line method. Other intangible assets are amortized using the straight-line method.

( 3 ) Accounting for allowances

a. Allowance for doubtful accounts

The Company and its consolidated subsidiaries provide for doubtful receivables principally at an amount computed based on the historical bad debt ratio during a certain reference period plus an estimated uncollectible amount based on the analysis of certain individual accounts, including claims in bankruptcy.

b. Allowance for compensation for construction damages

Allowance for compensation for construction damages is provided at the amount calculated based on the estimated compensation to the completed construction for which the Company and its consolidated subsidiaries is responsible.

- c. Accrued pension and severance cost  
In order to provide for the employees' retirement benefits, the Company and its consolidated subsidiaries accrue the liability by the amount calculated based on the estimated projected benefit obligation and plan asset at the end of the fiscal year. Actuarial losses are amortized by the straight-line method over the average remaining service periods of the employees from next fiscal year.
- d. Allowance for retirement benefits for directors and corporate auditors  
Allowance for retirement benefits for directors and corporate auditors is provided in accordance with the Company's and consolidated subsidiaries' bylaws respectively.
- (4) Accounting for certain lease transactions  
Finance lease which do not transfer titles to lessees are accounted for in the same manner as operating leases.
- (5) Others  
Consumption tax  
Consumption tax is excluded from each account that is subject to such tax.
- 5. Valuation of assets and liabilities of consolidated subsidiaries**  
The subsidiaries' assets and liabilities are valued using gross basis fair value method.
- 6. Consolidation goodwill**  
Consolidation goodwill is amortized over an estimated useful life of five years.
- 7. Appropriation of retained earnings**  
Consolidated statements of retained earnings have been prepared based on the appropriation of the retained earnings approved during the fiscal year.
- 8. Cash and cash equivalents in the statement of cash flows**  
Cash and cash equivalents include cash balances and short-term highly liquid investments with an original maturity of three months or less.

**[ Notes to Consolidated Balance Sheets ]**

<b>1. Accumulated depreciation of property and equipment</b>	13,538 million yen
<b>2. Investments in non-consolidated subsidiaries and affiliated companies</b>	
Investment securities (stock)	621 million yen
<b>3. Liability for guarantee</b>	506 million yen

**[ Notes to Consolidated Statements of Cash Flows ]**

Reconciliation between balance of cash and cash equivalents and the amounts shown on consolidated balance sheets.

	(March 31, 2004)
Cash and bank deposits	17,385 million yen
Marketable securities	5,517 million yen
Marketable securities with original maturities of more than three months	(1,009) million yen
Cash and cash equivalents	21,893 million yen



# Non-consolidated Financial Statements

For the Fiscal Year Ended March 31, 2004

May 14, 2004

## KYOWA EXEO CORPORATION

Code No. : 1951  
 URL : <http://www.exeo.co.jp>  
 Stock Exchange Listed : Tokyo and Osaka Stock Exchange-First Section  
 Corporate Headquarters : 29-20, Shibuya 3-chome, Shibuya-ku, Tokyo Japan  
 Representative : Seiji Takashima, President  
 Investor Relations : Norio Koide, Director, General Manager,  
 Finance & Accounts Division /Tel (03) 5778-1106  
 Date of the meeting of the Board of Directors for approval  
 of non-consolidated financial statements : May 14, 2004  
 Date of the meeting of shareholders for approval of  
 non-consolidated financial statements : June 25, 2004  
 Interim Dividends Plan : Yes  
 Trading unit share plan : Yes ( 1,000 shares per trading unit share )

### 1. Non-consolidated Financial Results for the Fiscal Years Ended March 31, 2004 and 2003

(1) Non-consolidated Results of Operations (Millions of yen, except per share amounts)

	Sales		Operating Income		Ordinary Income	
Year ended March 31, 2004	193,748	10.0 %	7,365	93.7 %	6,197	81.7 %
Year ended March 31, 2003	176,206	(7.6)%	3,803	(47.2)%	3,410	(53.1)%

	Net Income		Net Income Per Share	Diluted Net Income Per Share	ROE [Ratio of Net Income to Shareholders' Equity]	Ordinary Income/ Total Assets	Ordinary Income/ Net Sales
Year ended March 31, 2004	2,122	158.6 %	18.42 yen	17.52 yen	3.7 %	5.0 %	3.2 %
Year ended March 31, 2003	820	(64.8)%	6.88 yen	- yen	1.4 %	2.7 %	1.9 %

- Notes : 1. Weighted average number of shares outstanding : For the fiscal year ended March 31, 2004 : 111,429,485 shares  
 For the fiscal year ended March 31, 2003 : 113,563,358 shares  
 2. Change in accounting policy : No  
 3. Percentages above represent annual changes over the preceding period unless otherwise stated.

(2) Dividends (yen, except Total Dividends for the Year)

	Total Dividends per Share			Total Dividends for the Year	Payout Ratio	Ratio of Dividends to Shareholders' Equity
	Interim Dividends per Share	Year-End Dividends per Share				
Year ended March 31, 2004	12.00	5.00	7.00	1,336 million yen	65.1 %	2.3%
Year ended March 31, 2003	11.00	5.00	6.00	1,233 million yen	159.9 %	2.2%

※For the year ended March 31, 2004, the year-end dividends consist of 6 yen and 1 yen, for ordinary and the 50th anniversary commemorative dividend, respectively.

(3) Non-consolidated Financial Positions (Millions of yen, except per share amounts)

	Total Assets	Shareholders' Equity	Ratio of Shareholders' Equity to Total Assets	Shareholders' Equity Per Share
Year ended March 31, 2004	124,760	57,872	46.4%	518.87 yen
Year ended March 31, 2003	124,156	56,249	45.3%	504.37 yen

- Notes : 1. Number of shares outstanding at end of period : March 31, 2004 : 111,400,547 shares  
 March 31, 2003 : 111,447,130 shares  
 2. Number of treasury stock : March 31, 2004 : 6,411,872 shares  
 March 31, 2003 : 6,365,289 shares

### 2. Non-consolidated Financial Forecasts for the Fiscal Year ending March 31, 2005

(Millions of yen, except per share amounts)

	Sales	Ordinary Income	Net Income	Total Dividends per Share		
				Interim Dividends per Share	Year-End Dividends per Share	
Six months ending September 30, 2004	80,000	2,500	1,300	5.00 yen	- yen	- yen
Year ending March 31, 2005	192,000	7,100	3,700	- yen	6.00 yen	11.00 yen

(Reference) Expected Net Income per Share : 32.59 yen

Management of the Company has made estimates and assumptions relating to financial forecasts based on information available as of the reporting date.

Actual results could differ from those estimates.

Notes: All amounts less than one million yen have been disregarded.

**Balance Sheets (1)**

March 31, 2003 and 2004

(Millions of yen)

	March 31, 2003		March 31, 2004		Increase (Decrease)
		%		%	
(ASSETS)					
Current assets	¥89,020	71.7	¥89,577	71.8	¥557
Cash and bank deposits	18,892		16,920		(1,972)
Notes receivable	2,012		1,246		(765)
Accounts receivable, trade	45,258		46,976		1,718
Marketable securities	3,505		5,517		2,011
Contracts in process	13,716		13,532		(183)
Short-term loans receivable	3,207		1,411		(1,796)
Deferred tax assets –current	810		2,277		1,467
Other	1,777		1,860		83
Allowance for doubtful accounts	(158)		(164)		(6)
Fixed assets	35,135	28.3	35,182	28.2	47
Property and equipment	23,119	18.6	22,408	18.0	(710)
Buildings and structures	9,013		8,603		(409)
Machinery and vehicles	271		214		(57)
Tools and equipment	527		572		45
Land	13,306		13,017		(289)
Intangible fixed assets	1,817	1.5	635	0.5	(1,181)
Investments and other	10,199	8.2	12,138	9.7	1,938
Investment securities	5,256		7,016		1,760
Long-term loans receivable	511		1,358		846
Reorganization credits	230		109		(120)
Long-term prepaid expenses	154		131		(23)
Deferred tax assets-non-current	3,155		3,819		663
Other	1,684		1,251		(433)
Allowance for doubtful accounts	(793)		(1,548)		(754)
<b>TOTAL ASSETS</b>	<b>¥124,156</b>	<b>100</b>	<b>¥124,760</b>	<b>100</b>	<b>¥604</b>

**Balance Sheets (2)**

March 31, 2003 and 2004

(Millions of yen)

	March 31, 2003		March 31, 2004		Increase (Decrease)
		%		%	
<b>(LIABILITIES)</b>					
Current liabilities	¥49,608	40.0	¥46,820	37.5	¥(2,788)
Notes payable	550		314		(236)
Accounts payable, trade	22,589		25,756		3,167
Current portion of convertible bonds	14,664		—		(14,664)
Accounts payable	—		1,568		1,568
Accrued expenses	1,871		4,848		2,976
Income taxes payable	854		4,846		3,991
Advances received on contracts in process	5,087		4,337		(750)
Deposits received	2,472		4,308		1,835
Allowance for compensation for construction damages	118		242		124
Other	1,399		597		(801)
Long-term liabilities	18,298	14.7	20,067	16.1	1,769
Bonds	14,100		14,100		-
Accrued pension and severance cost	3,899		5,704		1,804
Allowance for retirement benefits for directors and corporate auditors	297		262		(34)
Other	1		—		(1)
<b>TOTAL LIABILITIES</b>	<b>67,906</b>	<b>54.7</b>	<b>66,888</b>	<b>53.6</b>	<b>(1,018)</b>
<b>(SHAREHOLDERS' EQUITY)</b>					
Common stock	6,888	5.6	6,888	5.5	—
Capital surplus	5,761	4.6	5,761	4.6	—
Additional paid-in capital	5,761		5,761		—
Retained earnings	47,230	38.0	48,087	38.6	857
Legal reserve	1,547		1,547		—
Voluntary reserves	44,478		44,478		(0)
Reserve for deferred gain on sale of property	148		148		(0)
General reserve	44,330		44,330		—
Unappropriated retained earnings	1,204		2,061		857
Net unrealized gains on securities	197	0.2	991	0.8	794
Treasury stock	(3,828)	(3.1)	(3,856)	(3.1)	(28)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>56,249</b>	<b>45.3</b>	<b>57,872</b>	<b>46.4</b>	<b>1,622</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>¥124,156</b>	<b>100</b>	<b>¥124,760</b>	<b>100</b>	<b>¥604</b>

Notes: All amounts less than one million yen have been disregarded.

## Statements of Income

Years Ended March 31, 2003 and 2004

(Millions of yen)

	Year ended March 31, 2003		Year ended March 31, 2004		Increase (Decrease)
		%		%	
Net sales	¥176,206	100	¥193,748	100	¥17,542
Cost of sales	158,825	90.1	172,874	89.2	14,049
Gross income	17,380	9.9	20,874	10.8	3,493
Selling, general and administrative expenses	13,577	7.7	13,508	7.0	(69)
Operating income	3,803	2.2	7,365	3.8	3,562
Non-operating income	471	0.2	397	0.2	(74)
Interest and dividends income	163		147		(15)
Commission income	150		97		(53)
Land and house rent income	101		95		(5)
Other	55		56		1
Non-operating expenses	864	0.5	1,564	0.8	700
Interest expenses	466		468		1
Provision for doubtful accounts	—		692		692
Foreign currency exchange losses	116		—		(116)
Other	281		403		122
Ordinary income	3,410	1.9	6,197	3.2	2,787
Special income	1,951	1.1	516	0.2	(1,435)
Gains on sales of fixed assets	112		397		284
Gains on sales of investment securities	182		119		(62)
Gains on return of the substitutional portion of the employee pension fund	1,657		—		(1,657)
Special losses	3,277	1.8	2,178	1.1	(1,099)
Special retirement benefits	1,886		1,420		(465)
Losses on devaluation of investment securities	1,079		416		(663)
Losses on devaluation of fixed assets	—		341		341
Other	311		—		(311)
Income before income taxes	2,084	1.2	4,536	2.3	2,451
Income taxes – current	990	0.5	5,090	2.6	4,100
Income taxes – deferred	274	0.2	(2,675)	△ 1.4	(2,950)
Net income	820	0.5	2,122	1.1	1,301
Retained earnings brought forward	948		496		(451)
Interim dividends	564		557		(7)
Unappropriated retained earnings	¥1,204		¥2,061		¥857

Notes: All amounts less than one million yen have been disregarded.

## Proposal for Appropriation of Retained Earnings

Years Ended March 31, 2003 and 2004

(Millions of yen)

	March 31,2003		March 31,2004	
Unappropriated retained earnings		¥1,204		¥2,061
Reversal of voluntary reserves				
Transfer from reserve for deferred gain on sale of property	3	3	3	3
Sub-total		1,207		2,064
Appropriations of retained earnings				
Cash dividends	668		779	
	(¥6.00 per share)		(¥7.00 per share)	
Directors' bonuses	39		70	
Voluntary reserves				
Reserve for deferred gain on sale of property	3	710	-	849
Retained earnings carried forward		¥496		¥1,215

Notes : All amounts less than one million yen have been disregarded.

The company paid interim dividends from this fiscal year. The interim dividends paid of this fiscal year are 557 million yen (¥ 5.00 per share).

### [ Breakdown of dividends per share ]

(Yen)

	March 31,2003			March 31,2004		
	Annual	Interim	Year-End	Annual	Interim	Year-End
Common stock	¥11.00	¥5.00	¥6.00	¥12.00	¥5.00	¥7.00
Ordinary	11.00	5.00	6.00	11.00	5.00	6.00
Commemorative				1.00		1.00

**[ Significant accounting policies ]****1. Marketable and investment securities**

Investments in subsidiaries and affiliated companies are stated at cost determined by the moving-average method.

Available-for-sale securities with available fair market values are stated at fair value, with unrealized gains and losses excluded from earnings and included in a separate component of shareholders' equity on a net-of-tax basis. The cost of securities sold is determined by the moving-average method.

Other securities that do not have fair values are stated at cost determined by the moving average method.

**2. Derivative**

Derivative financial instruments are stated at fair value.

**3. Valuation of inventories**

Contracts in process are stated at cost using the specific identification cost method.

Raw materials and supplies are stated at cost using the first-in, first-out method.

**4. Depreciation of fixed assets****( 1 ) Property and equipment**

Property and equipment are stated at cost. For both financial and tax purposes, depreciation of property and equipment is computed using the declining-balance method at rates based on the estimated useful lives of the respective assets. Buildings acquired after March 31, 1998 are depreciated using the straight-line method.

**( 2 ) Intangible fixed assets**

Goodwill is amortized over five years by the straight-line method. Software for internal use is amortized for the estimated useful life (five years) by the straight-line method. Other intangible assets are amortized using the straight-line method.

**5. Accounting for allowances****( 1 ) Allowance for doubtful accounts**

The Company provides for doubtful receivables principally at an amount computed based on the historical bad debt ratio during a certain reference period plus an estimated uncollectible amount based on the analysis of certain individual accounts, including claims in bankruptcy.

**( 2 ) Allowance for compensation for construction damages**

Allowance for compensation for construction damages is provided at the amount calculated based on the estimated compensation to the completed construction for which the Company is responsible.

**( 3 ) Accrued pension and severance cost**

In order to provide for the employees' retirement benefits, the Company accrues the liability by the amount calculated based on the estimated projected benefit obligation and plan asset at the end of the fiscal year.

Actuarial losses are amortized by the straight-line method over the average remaining service periods of the employees from next fiscal year.

**( 4 ) Allowance for retirement benefits for directors and corporate auditors**

Allowance for retirement benefits for directors and corporate auditors is provided in accordance with the Company's bylaws respectively.

**6. Accounting for certain lease transactions**

Finance leases which do not transfer titles to lessees are accounted for in the same manner as operating leases.

**7. Others**

Consumption tax

Consumption tax is excluded from each account that is subject to such tax.

**[ Notes to Balance Sheets ]**

**1. Accumulated depreciation of property and equipment**

10,859 million yen

**2. Liability for guarantee**

506 million yen

**3. Restriction on dividends**

Valuation of assets stipulated in Enforcement Regulations of commercial code increased the net assets by 996 million yen.