



MEMBERSHIP  
May 12, 2006

# Consolidated Financial Statements

For the Fiscal Year Ended March 31, 2006

## KYOWA EXEO CORPORATION

Code No. : 1951  
 URL : <http://www.exeo.co.jp>  
 Stock Exchange Listed : Tokyo and Osaka Stock Exchange  
 Corporate Headquarters : 29-20, Shibuya 3-chome, Shibuya-ku, Tokyo Japan  
 Representative : Seiji Takashima, President  
 Investor Relations : Norio Koide, Director, General Manager,  
 Accounting & Financial Division /Phone (03) 5778-1106  
 Date of the meeting of the Board of Directors for approval of consolidated financial statements : May 12, 2006  
 Adoption of U.S.GAAP : No

### 1. Consolidated Financial Results for the Fiscal Years Ended March 31, 2006 and 2005

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

|                           | Sales   |        | Operating Income |        | Ordinary Income |        |
|---------------------------|---------|--------|------------------|--------|-----------------|--------|
| Year ended March 31, 2006 | 278,869 | 12.6 % | 14,537           | 21.3 % | 15,278          | 23.4 % |
| Year ended March 31, 2005 | 247,687 | 21.5 % | 11,988           | 31.6 % | 12,377          | 35.9 % |

|                           | 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, 2006 | 9,174      | 42.8 % | 81.94 yen            | 81.82 yen                    | 12.9 %  | 9.6 %                         | 5.5 %                      |
| Year ended March 31, 2005 | 6,423      | 88.5 % | 56.59 yen            | 56.55 yen                    | 9.8 %   | 8.7 %                         | 5.0 %                      |

- Notes : 1. Equity in earnings (losses) of affiliates : For the fiscal year ended March 31, 2006 : - million yen  
 For the fiscal year ended March 31, 2005 : - million yen  
 2. Weighted average number of shares outstanding : For the fiscal year ended March 31, 2006 : 109,839,021 shares  
 For the fiscal year ended March 31, 2005 : 110,528,935 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, 2006 | 162,640      | 75,575               | 46.5 %  | 686.15 yen                     |
| Year ended March 31, 2005 | 154,280      | 67,119               | 43.5 %  | 611.97 yen                     |

- Notes : Number of shares outstanding at end of period : March 31, 2006 : 109,890,079 shares  
 March 31, 2005 : 109,402,753 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, 2006 | 7,529                                | (2,858)                              | (12,125)                             | 8,537  |
| Year ended March 31, 2005 | 4,112                                | (2,419)                              | (7,617)                              | 15,973                                       |

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

- The number of consolidated subsidiaries : 48  
 The number of unconsolidated subsidiaries accounted for using the equity method : -  
 The number of affiliated companies accounted for using the equity method : 1

(5) Change in Scope of Consolidation and Equity Method

- The number of consolidated companies added : 9 The number of consolidated companies removed : 6  
 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, 2007

(Millions of yen)

|                                      | Sales   | Ordinary Income | Net Income |
|--------------------------------------|---------|-----------------|------------|
| Six months ending September 30, 2006 | 128,000 | 6,600           | 3,800      |
| Year ending March 31, 2007           | 285,000 | 16,000          | 9,200      |

(Reference) Expected Net Income per Share : 83.72 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.

Notes1: Fractions less than one million yen were omitted.

- 2: This English version of financial information, based on our news release ("Kessan Tanshin") announced at the Tokyo and Osaka Stock Exchange on May 12, 2006, is presented solely for the convenience of users.

## Consolidated Balance Sheets (1)

March 31, 2005 and 2006

(Millions of yen)

| (ASSETS)                                 | March 31,<br>2005 |            | March 31,<br>2006 |            | Increase<br>(Decrease) |
|--|-------------------|------------|-------------------|------------|------------------------|
|  |                   | %          |                   | %          |                        |
| Current assets                           | ¥105,434          | 68.3       | ¥110,291          | 67.8       | ¥4,857                 |
| Cash and bank deposits                   | 9,478             |            | 8,532             |            | (946)                  |
| Notes and accounts receivable, trade     | 66,303            |            | 75,579            |            | 9,276                  |
| Marketable securities                    | 6,660             |            | 68                |            | (6,592)                |
| Contracts in process                     | 17,556            |            | 19,449            |            | 1,893                  |
| Deferred tax assets                      | 3,460             |            | 4,673             |            | 1,212                  |
| Other                                    | 2,357             |            | 2,430             |            | 72                     |
| Allowance for doubtful accounts          | (383)             |            | (442)             |            | (58)                   |
| Fixed assets                             | 48,845            | 31.7       | 52,348            | 32.2       | 3,502                  |
| Property and equipment                   | 35,450            | 23.0       | 36,786            | 22.6       | 1,336                  |
| Buildings and structures                 | 11,517            |            | 12,059            |            | 541                    |
| Machinery, vehicles, tools and equipment | 2,083             |            | 2,100             |            | 16                     |
| Land                                     | 21,848            |            | 22,613            |            | 764                    |
| Construction in progress                 | —                 |            | 12                |            | 12                     |
| Intangible fixed assets                  | 975               | 0.6        | 1,060             | 0.7        | 84                     |
| Investments and other                    | 12,420            | 8.1        | 14,501            | 8.9        | 2,081                  |
| Investment securities                    | 7,051             |            | 8,663             |            | 1,612                  |
| Deferred tax assets                      | 3,446             |            | 3,100             |            | (346)                  |
| Other                                    | 2,993             |            | 4,747             |            | 1,754                  |
| Allowance for doubtful accounts          | (1,070)           |            | (2,009)           |            | (938)                  |
| <b>TOTAL ASSETS</b>                      | <b>¥154,280</b>   | <b>100</b> | <b>¥162,640</b>   | <b>100</b> | <b>¥8,359</b>          |

## Consolidated Balance Sheets (2)

March 31, 2005 and 2006

(Millions of yen)

|   | March 31,<br>2005 |             | March 31,<br>2006 |             | Increase<br>(Decrease) |
|---|-------------------|-------------|-------------------|-------------|------------------------|
|   |                   | %           |                   | %           |                        |
| (LIABILITIES)   |                   |             |                   |             |                        |
| Current liabilities   | ¥62,359           | 40.4        | ¥65,270           | 40.1        | ¥2,911                 |
| Notes and accounts payable, trade   | 29,587            |             | 34,040            |             | 4,452                  |
| Short-term borrowings   | 2,230             |             | 911               |             | (1,318)                |
| Current portion of bonds  | 9,600             |             | 4,500             |             | (5,100)                |
| Accounts payable-other  | —                 |             | 2,381             |             | 2,381                  |
| Accrued expenses  | 8,189             |             | 9,068             |             | 879                    |
| Income taxes payable  | 5,006             |             | 5,515             |             | 509                    |
| Advances received on contracts in process                                 | 3,720             |             | 5,153             |             | 1,432                  |
| Allowance for bonuses payable   | 403               |             | 684               |             | 280                    |
| Allowance for compensation for<br>construction damages                    | 402               |             | 116               |             | (286)                  |
| Allowance for losses on<br>construction contracts                         | 419               |             | 938               |             | 518                    |
| Other   | 2,799             |             | 1,960             |             | (838)                  |
| Long-term liabilities   | 21,161            | 13.7        | 15,603            | 9.6         | (5,558)                |
| Bonds   | 4,500             |             | —                 |             | (4,500)                |
| Long-term accounts payable-other  | —                 |             | 5,818             |             | 5,818                  |
| Employees' severance<br>and retirement benefits                           | 12,952            |             | 6,857             |             | (6,095)                |
| Allowance for retirement benefits<br>for directors and corporate auditors | 562               |             | 698               |             | 135                    |
| Allowance for losses on investment  | 238               |             | 322               |             | 84                     |
| Deferred tax liabilities  | 1,339             |             | 617               |             | (722)                  |
| Consolidation goodwill  | 1,403             |             | 1,123             |             | (279)                  |
| Other   | 165               |             | 165               |             | 0                      |
| <b>TOTAL LIABILITIES</b>  | <b>83,521</b>     | <b>54.1</b> | <b>80,873</b>     | <b>49.7</b> | <b>(2,647)</b>         |
| <b>MINORITY INTERESTS</b>   | <b>3,639</b>      | <b>2.4</b>  | <b>6,191</b>      | <b>3.8</b>  | <b>2,551</b>           |
| (SHAREHOLDERS' EQUITY)  |                   |             |                   |             |                        |
| I Common stock  | 6,888             | 4.5         | 6,888             | 4.2         | —                      |
| Capital surplus   | 5,761             | 3.7         | 5,868             | 3.6         | 107                    |
| Retained earnings   | 58,750            | 38.1        | 66,340            | 40.8        | 7,590                  |
| Net unrealized holding gains on securities                                | 1,286             | 0.8         | 1,794             | 1.1         | 507                    |
| Treasury stock  | (5,567)           | (3.6)       | (5,316)           | (3.2)       | 250                    |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>   | <b>67,119</b>     | <b>43.5</b> | <b>75,575</b>     | <b>46.5</b> | <b>8,456</b>           |
| <b>TOTAL LIABILITIES, MINORITY INTERESTS<br/>AND SHAREHOLDERS' EQUITY</b> | <b>¥154,280</b>   | <b>100</b>  | <b>¥162,640</b>   | <b>100</b>  | <b>¥8,359</b>          |

Notes: Fractions less than one million yen were omitted.

## Consolidated Statements of Income

Years Ended March 31, 2005 and 2006

(Millions of yen)

|  | Year ended<br>March 31,<br>2005 |       | Year ended<br>March 31,<br>2006 |       | Increase<br>(Decrease) |
|--|---------------------------------|-------|---------------------------------|-------|------------------------|
|  |                                 | %     |                                 | %     |                        |
| Net sales  | ¥247,687                        | 100   | ¥278,869                        | 100   | ¥31,182                |
| Cost of sales  | 216,723                         | 87.5  | 244,485                         | 87.7  | 27,762                 |
| Gross income   | 30,964                          | 12.5  | 34,383                          | 12.3  | 3,419                  |
| Selling, general and administrative expenses                     | 18,975                          | 7.7   | 19,846                          | 7.1   | 871                    |
| Operating income   | 11,988                          | 4.8   | 14,537                          | 5.2   | 2,548                  |
| Non-operating income   | 1,511                           | 0.6   | 1,619                           | 0.6   | 107                    |
| Interest and dividends income                                    | 175                             |       | 213                             |       | 38                     |
| Gains on sales of investment securities                          | —                               |       | 209                             |       | 209                    |
| Amortization of consolidation goodwill                           | 730                             |       | 645                             |       | (84)                   |
| Other  | 605                             |       | 549                             |       | (55)                   |
| Non-operating expenses   | 1,122                           | 0.4   | 878                             | 0.3   | (244)                  |
| Interest expenses  | 371                             |       | 193                             |       | (177)                  |
| Losses on retirement of fixed assets                             | —                               |       | 139                             |       | 139                    |
| Provision for doubtful accounts                                  | 284                             |       | 129                             |       | (155)                  |
| Other  | 467                             |       | 415                             |       | (51)                   |
| Ordinary income  | 12,377                          | 5.0   | 15,278                          | 5.5   | 2,900                  |
| Special income   | 189                             | 0.1   | 391                             | 0.1   | 202                    |
| Gains on contribution of securities to retirement benefit trust  | —                               |       | 391                             |       | 391                    |
| Gains on sales of property and equipment                         | 189                             |       | —                               |       | (189)                  |
| Special losses   | 514                             | 0.2   | 1,489                           | 0.5   | 974                    |
| Losses on impairment of long-lived assets                        | —                               |       | 228                             |       | 228                    |
| Provision for doubtful accounts of long-term accumulated credits | —                               |       | 523                             |       | 523                    |
| Losses on shift of retirement benefit scheme                     | —                               |       | 737                             |       | 737                    |
| Losses on devaluation of investment securities                   | 106                             |       | —                               |       | (106)                  |
| Losses on sales of property and equipment                        | 170                             |       | —                               |       | (170)                  |
| Provision for losses on investment                               | 238                             |       | —                               |       | (238)                  |
| Income before income taxes and minority interests                | 12,052                          | 4.9   | 14,180                          | 5.1   | 2,128                  |
| Income taxes – current   | 5,497                           | 2.2   | 6,060                           | 2.2   | 562                    |
| Income taxes – deferred  | (258)                           | (0.1) | (1,899)                         | (0.7) | (1,641)                |
| Minority interests   | 389                             | 0.2   | 844                             | 0.3   | 455                    |
| Net income   | ¥6,423                          | 2.6   | ¥9,174                          | 3.3   | ¥2,751                 |

Notes: Fractions less than one million yen were omitted.

## Consolidated Statements of Retained Earnings

Years Ended March 31, 2005 and 2006

(Millions of yen)

|   | Year ended<br>March 31,<br>2005 |        | Year ended<br>March 31,<br>2006 |        |
|---|---------------------------------|--------|---------------------------------|--------|
|   |                                 |        |                                 |        |
| (CAPITAL SURPLUS)                       |                                 |        |                                 |        |
| Balance at beginning of year            |                                 | 5,761  |                                 | 5,761  |
| Increase in retained earnings           |                                 | —      |                                 | 107    |
| Surplus from sales of treasury stock    | —                               |        | 107                             |        |
| Balance at end of year                  |                                 | 5,761  |                                 | 5,868  |
| (RETAINED EARNINGS)                     |                                 |        |                                 |        |
| Balance at beginning of year            |                                 | 53,783 |                                 | 58,750 |
| Increase in retained earnings           |                                 | 6,423  |                                 | 9,174  |
| Net income                              | 6,423                           |        | 9,174                           |        |
| Decrease in retained earnings           |                                 | 1,456  |                                 | 1,584  |
| Cash dividends                          | 1,331                           |        | 1,425                           |        |
| Directors' bonuses                      | 118                             |        | 158                             |        |
| Losses on sales of treasury stock       | 7                               |        | —                               |        |
| Difference caused by shift of interests | —                               |        | 0                               |        |
| Balance at end of year                  |                                 | 58,750 |                                 | 66,340 |

Notes: Fractions less than one million yen were omitted.

## Consolidated Statements of Cash Flows

Years Ended March 31, 2005 and 2006

(Millions of yen)

|   | Year ended<br>March 31,<br>2005 | Year ended<br>March 31,<br>2006 |
|---|---------------------------------|---------------------------------|
| Cash flows from operating activities:   |                                 |                                 |
| Income before income taxes and minority interests                                 | ¥12,052                         | ¥14,180                         |
| Depreciation and amortization   | 2,251                           | 1,943                           |
| Losses on impairment of long-lived assets   | —                               | 228                             |
| Amortization of consolidation goodwill  | (615)                           | (645)                           |
| Changes in allowance for doubtful accounts  | 382                             | 694                             |
| Changes in employees' severance and retirement benefits                           | 187                             | (6,468)                         |
| Interest and dividends income   | (175)                           | (213)                           |
| Interest expenses   | 371                             | 193                             |
| Losses on devaluation of investment securities                                    | 106                             | —                               |
| Gains on sales of property and equipment  | (189)                           | —                               |
| Losses on sales of property and equipment   | 170                             | —                               |
| Provision for losses on investment  | 238                             | —                               |
| Changes in notes and accounts receivable, trade                                   | (5,087)                         | (6,537)                         |
| Changes in contracts in process   | 703                             | (1,010)                         |
| Changes in other operating assets   | 60                              | (412)                           |
| Changes in notes and accounts payable, trade                                      | 1,580                           | 2,008                           |
| Changes in advances received on contracts in process                              | (1,378)                         | 965                             |
| Changes in other operating liabilities  | 662                             | 8,551                           |
| Other, net  | (380)                           | (271)                           |
| Sub-total   | 10,939                          | 13,207                          |
| Interest and dividends received   | 188                             | 209                             |
| Interest expenses paid  | (372)                           | (218)                           |
| Income taxes paid   | (6,017)                         | (5,668)                         |
| Special retirement benefits paid  | (625)                           | —                               |
| Net cash provided by operating activities   | 4,112                           | 7,529                           |
| Cash flows from investing activities:   |                                 |                                 |
| Net changes for time deposits   | 29                              | (389)                           |
| Payments for purchases of marketable securities                                   | (999)                           | —                               |
| Proceeds from sales and redemption of marketable securities                       | 2,009                           | —                               |
| Payments for purchases of property and equipment                                  | (3,348)                         | (1,945)                         |
| Proceeds from sales of property and equipment                                     | 632                             | 662                             |
| Payments for purchases of intangible fixed assets                                 | (408)                           | (437)                           |
| Payments for purchases of investment securities                                   | (409)                           | (1,715)                         |
| Proceeds from sales of investment securities                                      | 591                             | 1,362                           |
| Payments for purchases of subsidiary stock due to changing scope of consolidation | (782)                           | (26)                            |
| Payment for loans receivable  | (688)                           | (444)                           |
| Proceeds from collection of loans receivable                                      | 894                             | 139                             |
| Other, net  | 58                              | (64)                            |
| Net cash used in investing activities   | (2,419)                         | (2,858)                         |
| Cash flows from financing activities:   |                                 |                                 |
| Net change in short-term borrowings   | (2,908)                         | (1,428)                         |
| Proceeds from long-term borrowings  | 45                              | 174                             |
| Payments for long-term borrowings   | (1,177)                         | (112)                           |
| Payments for redemption of bonds  | (400)                           | (9,600)                         |
| Payments for purchases of treasury stock  | (1,897)                         | (178)                           |
| Proceeds from sales of treasury stock   | —                               | 536                             |
| Cash dividends paid   | (1,331)                         | (1,426)                         |
| Cash dividends paid to minority shareholders                                      | (122)                           | (89)                            |
| Other, net  | 175                             | —                               |
| Net cash used in financing activities   | (7,617)                         | (12,125)                        |
| Effect of exchange rate changes on cash and cash equivalents                      | 4                               | 19                              |
| Net increase (decrease) in cash and cash equivalents                              | (5,919)                         | (7,436)                         |
| Cash and cash equivalents, beginning of year                                      | 21,893                          | 15,973                          |
| Cash and cash equivalents, end of year  | ¥15,973                         | ¥8,537                          |

Notes: Fractions less than one million yen were omitted.

[ Basis of presenting 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 48 subsidiaries except 10 subsidiaries.

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

Investment in RETEC Corporation is accounted for by the equity method. Investments in other non-consolidated subsidiaries and other 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 analyses of certain individual accounts, including claims in bankruptcy.

b. Allowance for bonuses payable

Allowance for bonuses payable is provided for payments to employees of some consolidated subsidiaries at the amounts expected to be paid in respect of the calculation period ended on the balance sheet date.

- c. 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.
  - d. Allowance for losses on construction contracts  
Allowance for losses on construction contracts is provided based on an estimate of the total losses which can be anticipated for the next fiscal year and beyond in respect of construction contracts on which eventual losses are deemed probable and amounts thereof can reasonably be estimated.
  - e. Employees' severance and retirement benefits  
The liabilities and expenses for severance and retirement are determined based on the amounts actuarially calculated using certain assumptions. The Company and its consolidated subsidiaries provided for employees' severance and retirement benefits, based on the estimated amounts of projected benefit obligation and the fair value of plan assets at the end of the fiscal year.  
Prior service costs are recognized in expenses in equal amounts over the average of the estimated remaining service lives of the employees, and actuarial gains and losses are recognized in expenses in equal amounts over the average of the estimated remaining service lives commencing with the following period.
  - f. 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.
  - g. Allowance for losses on investment  
The Company provided for losses on investment in affiliated companies at an estimated loss amount.
- ( 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.

**[ Changes in accounting Basis for the Consolidated Financial Statements ]**

**Accounting standards for impairment of long-lived assets**

Effective from the year ended March 31, 2006, the Company and its consolidated subsidiaries adopted the new accounting standards for impairment of long-lived assets, "Statement of opinion on establishment of accounting standards for impairment of long-lived assets" (issued by the Business Accounting Deliberation Council on August 9, 2002) and "Application guidance on accounting standards for impairment of long-lived assets" (The Financial Accounting Standards Implementation Guidance No.6, which was issued on October 31, 2003). As a result, the income before income taxes and minority interests for the year ended March 31, 2006 decreased for 228 million yen compared to the method before the impairment accounting applied.

The accumulated impairment losses were directly deducted from the amounts of each related asset.

**[ Notes to Consolidated Balance Sheets ]**

|   |                                 |              |                    |
|---|---------------------------------|--------------|--------------------|
| <b>1. Accumulated depreciation of property and equipment</b>                    |                                 | 20,833       | million yen        |
| <b>2. Investments in non-consolidated subsidiaries and affiliated companies</b> |                                 |              |                    |
|   | Investment securities ( stock ) | 581          | million yen        |
|   | Other ( Amount invested )       | 1            | million yen        |
| <b>3. Hypothecated assets</b>   |                                 |              |                    |
|   | Buildings                       | 196          | million yen        |
|   | Land                            | 1,245        | million yen        |
|   | <b>Total</b>                    | <b>1,441</b> | <b>million yen</b> |
| <b>4. Liability for guarantee</b>   |                                 | 355          | million yen        |
| <b>5. Notes receivable discounted and Notes receivable endorsed</b>             |                                 |              |                    |
|   | Notes receivable discounted     | 314          | million yen        |
|   | Notes receivable endorsed       | 84           | million yen        |

**[ Notes to Consolidated Statements of Income ]**

During the year ended March 31, 2006, Impairment of long-lived assets had been added up, on the following property groups.

| Application       | Type of properties      | Location                      |
|-------------------|-------------------------|-------------------------------|
| Business assets   | Land                    | Iwaki city, Fukushima Japan   |
| Rental assets     | Land                    | Itabashi-ku, Tokyo Japan, etc |
| Unemployed assets | Land and Buildings, etc | Sakai city, Osaka Japan, etc  |

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

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

|  |              |                    |
|--|--------------|--------------------|
|  |              | (March 31, 2006)   |
| Cash and bank deposits   | 8,532        | million yen        |
| Marketable securities  | 68           | million yen        |
| Time deposits with original maturities of more than three months         | (55)         | million yen        |
| Marketable securities with original maturities of more than three months | (7)          | million yen        |
| <b>Cash and cash equivalents</b>   | <b>8,537</b> | <b>million yen</b> |



MEMBERSHIP  
May12, 2006

# Non-consolidated Financial Statements

For the Fiscal Year Ended March 31, 2006

## KYOWA EXEO CORPORATION

Code No. : 1951  
 URL : <http://www.exeo.co.jp>  
 Stock Exchange Listed : Tokyo and Osaka Stock Exchange  
 Corporate Headquarters : 29-20, Shibuya 3-chome, Shibuya-ku, Tokyo Japan  
 Representative : Seiji Takashima, President  
 Investor Relations : Norio Koide, Director, General Manager,  
 Accounting & Financial Division /Phone (03) 5778-1106  
 Date of the meeting of the Board of Directors for approval  
 of non-consolidated financial statements : May 12, 2006  
 Interim Dividends Plan : Yes  
 Date of scheduled payment of dividends : June 26, 2006  
 Date of the meeting of shareholders for approval of  
 non-consolidated financial statements : June 23, 2006  
 Trading unit share plan : Yes ( 1,000 shares per trading unit share )

### 1. Non-consolidated Financial Results for the Fiscal Years Ended March 31, 2006 and 2005

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

|                           | Sales   |         | Operating Income |         | Ordinary Income |         |
|---------------------------|---------|---------|------------------|---------|-----------------|---------|
|                           | Amount  | Ratio % | Amount           | Ratio % | Amount          | Ratio % |
| Year ended March 31, 2006 | 216,342 | 10.9 %  | 9,177            | 9.2 %   | 9,285           | 15.6 %  |
| Year ended March 31, 2005 | 195,020 | 0.7 %   | 8,402            | 14.1 %  | 8,032           | 29.6 %  |

  

|                           | 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 |
|---------------------------|------------|---------|----------------------|------------------------------|---|-------------------------------|----------------------------|
|                           | Amount     | Ratio % |                      |                              |   |                               |                            |
| Year ended March 31, 2006 | 5,060      | 25.7 %  | 45.16 yen            | 45.09 yen                    | 8.3 %   | 7.2 %                         | 4.3 %                      |
| Year ended March 31, 2005 | 4,024      | 89.7 %  | 35.57 yen            | 35.54 yen                    | 6.9 %   | 6.4 %                         | 4.1 %                      |

- Notes : 1. Weighted average number of shares outstanding : For the fiscal year ended March 31, 2006 : 109,839,021 shares  
 For the fiscal year ended March 31, 2005 : 110,529,508 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-End Dividends per Share |                              |              |  |
| Year ended March 31, 2006 | 15.00                       | 7.00                         | 8.00                         | 1,648 million yen            | 33.2 %       | 2.6%                                       |
| Year ended March 31, 2005 | 11.00                       | 5.00                         | 6.00                         | 1,207 million yen            | 30.9 %       | 2.0%                                       |

(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, 2006 | 130,411      | 63,482               | 48.7%   | 576.78 yen                     |
| Year ended March 31, 2005 | 127,305      | 59,046               | 46.4%   | 538.87 yen                     |

- Notes : 1. Number of shares outstanding at end of period : March 31, 2006 : 109,890,079 shares  
 March 31, 2005 : 109,402,753 shares  
 2. Number of treasury stock : March 31, 2006 : 7,922,340 shares  
 March 31, 2005 : 8,409,666 shares

### 2. Non-consolidated Financial Forecasts for the Fiscal Year ending March 31, 2007

(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 | Year-End Dividends per Share |
| Six months ending September 30, 2006 | 100,000 | 4,500           | 2,600      | 7.00 yen                    | - yen                        | - yen                        |
| Year ending March 31, 2007           | 220,000 | 9,800           | 5,500      | - yen                       | 8.00 yen                     | 15.00 yen                    |

(Reference) Expected Net Income per Share : 50.05 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.

Notes1: Fractions less than one million yen were omitted.

2: This English version of financial information, based on our news release ("Kessan Tanshin") announced at the Tokyo and Osaka Stock Exchange on May 12, 2006, is presented solely for the convenience of users.

## Non-Consolidated Balance Sheets (1)

March 31, 2005 and 2006

(Millions of yen)

|   | March 31,<br>2005 |            | March 31,<br>2006 |            | Increase<br>(Decrease) |
|---|-------------------|------------|-------------------|------------|------------------------|
|   |                   | %          |                   | %          |                        |
| (ASSETS)                                      |                   |            |                   |            |                        |
| Current assets                                | ¥87,650           | 68.9       | ¥87,675           | 67.2       | ¥25                    |
| Cash and bank deposits                        | 7,306             |            | 6,690             |            | (616)                  |
| Notes receivable                              | 1,626             |            | 1,731             |            | 104                    |
| Accounts receivable, trade                    | 51,281            |            | 57,822            |            | 6,540                  |
| Marketable securities                         | 6,600             |            | 7                 |            | (6,592)                |
| Contracts in process                          | 13,002            |            | 14,319            |            | 1,316                  |
| Short-term loans receivable                   | 3,309             |            | 2,181             |            | (1,128)                |
| Deferred tax assets                           | 2,790             |            | 3,608             |            | 817                    |
| Other   | 1,923             |            | 1,662             |            | (260)                  |
| Allowance for doubtful accounts               | (192)             |            | (347)             |            | (155)                  |
| Fixed assets                                  | 39,655            | 31.1       | 42,736            | 32.8       | 3,081                  |
| Property and equipment                        | 23,768            | 18.7       | 24,235            | 18.6       | 466                    |
| Buildings and structures                      | 8,252             |            | 8,507             |            | 254                    |
| Machinery and vehicles                        | 202               |            | 316               |            | 114                    |
| Tools and equipment                           | 938               |            | 906               |            | (31)                   |
| Land  | 14,376            |            | 14,492            |            | 116                    |
| Construction in progress                      | —                 |            | 12                |            | 12                     |
| Intangible fixed assets                       | 456               | 0.3        | 653               | 0.5        | 197                    |
| Investments and other                         | 15,429            | 12.1       | 17,847            | 13.7       | 2,417                  |
| Investment securities                         | 5,011             |            | 5,913             |            | 901                    |
| Investment securities of affiliated companies | 5,442             |            | 6,836             |            | 1,394                  |
| Long-term loans receivable                    | 1,681             |            | 1,537             |            | (144)                  |
| Reorganization credits                        | 114               |            | 273               |            | 159                    |
| Long-term prepaid expenses                    | 117               |            | 107               |            | (10)                   |
| Deferred tax assets                           | 3,545             |            | 3,076             |            | (469)                  |
| Other   | 1,052             |            | 2,179             |            | 1,127                  |
| Allowance for doubtful accounts               | (1,535)           |            | (2,077)           |            | (541)                  |
| <b>TOTAL ASSETS</b>                           | <b>¥127,305</b>   | <b>100</b> | <b>¥130,411</b>   | <b>100</b> | <b>¥3,106</b>          |

## Non-Consolidated Balance Sheets (2)

March 31, 2005 and 2006

(Millions of yen)

|   | March 31,<br>2005 |             | March 31,<br>2006 |             | Increase<br>(Decrease) |
|---|-------------------|-------------|-------------------|-------------|------------------------|
|   |                   | %           |                   | %           |                        |
| (LIABILITIES)   |                   |             |                   |             |                        |
| Current liabilities   | ¥57,231           | 44.9        | ¥61,183           | 46.9        | ¥3,952                 |
| Notes payable   | 83                |             | 241               |             | 158                    |
| Accounts payable, trade   | 28,561            |             | 32,018            |             | 3,456                  |
| Current portion of bonds  | 9,600             |             | 4,500             |             | (5,100)                |
| Accounts payable-other  | -                 |             | 2,282             |             | 2,282                  |
| Accrued expenses  | 5,940             |             | 6,406             |             | 466                    |
| Income taxes payable  | 3,960             |             | 4,155             |             | 195                    |
| Advances received on contracts in process                                 | 3,280             |             | 3,434             |             | 154                    |
| Deposits received   | 3,863             |             | 6,673             |             | 2,809                  |
| Allowance for compensation for<br>construction damages                    | 388               |             | 107               |             | (280)                  |
| Allowance for losses on construction contracts                            | 369               |             | 907               |             | 538                    |
| Other   | 1,184             |             | 454               |             | (729)                  |
| Long-term liabilities   | 11,027            | 8.7         | 5,745             | 4.4         | (5,282)                |
| Bonds   | 4,500             |             | -                 |             | (4,500)                |
| Long-term accounts payable-other  | -                 |             | 4,503             |             | 4,503                  |
| Employees' severance<br>and retirement benefits                           | 6,002             |             | 577               |             | (5,425)                |
| Allowance for retirement benefits<br>for directors and corporate auditors | 287               |             | 342               |             | 55                     |
| Allowance for losses on investment  | 238               |             | 322               |             | 84                     |
| <b>TOTAL LIABILITIES</b>  | <b>68,258</b>     | <b>53.6</b> | <b>66,928</b>     | <b>51.3</b> | <b>(1,330)</b>         |
| (SHAREHOLDERS' EQUITY)  |                   |             |                   |             |                        |
| Common stock  | 6,888             | 5.4         | 6,888             | 5.3         | -                      |
| Capital surplus   | 5,761             | 4.5         | 5,868             | 4.5         | 107                    |
| Additional paid-in capital  | 5,761             |             | 5,761             |             | -                      |
| Other capital surplus   | -                 |             | 107               |             | 107                    |
| Surplus from sales of treasury stock                                      | -                 |             | 107               |             | 107                    |
| Retained earnings   | 50,703            | 39.9        | 54,245            | 41.6        | 3,542                  |
| Legal reserve   | 1,547             |             | 1,547             |             | -                      |
| Voluntary reserves  | 44,475            |             | 47,172            |             | 2,697                  |
| Reserve for deferred gain on sale of property                             | 145               |             | 142               |             | (2)                    |
| General reserve   | 44,330            |             | 47,030            |             | 2,700                  |
| Unappropriated retained earnings  | 4,681             |             | 5,526             |             | 845                    |
| Net unrealized holding gains on securities                                | 1,260             | 1.0         | 1,796             | 1.4         | 535                    |
| Treasury stock  | (5,567)           | (4.4)       | (5,316)           | (4.1)       | 250                    |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>   | <b>59,046</b>     | <b>46.4</b> | <b>63,482</b>     | <b>48.7</b> | <b>4,436</b>           |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>                         | <b>¥127,305</b>   | <b>100</b>  | <b>¥130,411</b>   | <b>100</b>  | <b>¥3,106</b>          |

Notes: Fractions less than one million yen were omitted.

## Non-Consolidated Statements of Income

Years Ended March 31, 2005 and 2006

(Millions of yen)

|  | Year ended<br>March 31,<br>2005 |       | Year ended<br>March 31,<br>2006 |       | Increase<br>(Decrease) |
|--|---------------------------------|-------|---------------------------------|-------|------------------------|
|  |                                 | %     |                                 | %     |                        |
| Net sales  | ¥195,020                        | 100   | ¥216,342                        | 100   | ¥21,322                |
| Cost of sales  | 173,283                         | 88.9  | 193,265                         | 89.3  | 19,982                 |
| Gross income   | 21,736                          | 11.1  | 23,077                          | 10.7  | 1,340                  |
| Selling, general and administrative expenses                     | 13,334                          | 6.8   | 13,899                          | 6.4   | 565                    |
| Operating income   | 8,402                           | 4.3   | 9,177                           | 4.3   | 774                    |
| Non-operating income   | 474                             | 0.2   | 652                             | 0.3   | 178                    |
| Interest and dividends income                                    | 179                             |       | 230                             |       | 50                     |
| Gains on sales of investment securities                          | —                               |       | 96                              |       | 96                     |
| Land and house rent income                                       | 95                              |       | 97                              |       | 1                      |
| Foreign currency exchange gains                                  | —                               |       | 120                             |       | 120                    |
| Commission income  | 76                              |       | —                               |       | (76)                   |
| Other  | 121                             |       | 108                             |       | (13)                   |
| Non-operating expenses   | 844                             | 0.4   | 544                             | 0.3   | (300)                  |
| Interest expenses  | 316                             |       | 189                             |       | (127)                  |
| Losses on retirement of fixed assets                             | —                               |       | 74                              |       | 74                     |
| Provision for losses on investment                               | —                               |       | 84                              |       | 84                     |
| Provision for doubtful accounts                                  | 186                             |       | —                               |       | (186)                  |
| Other  | 341                             |       | 196                             |       | (144)                  |
| Ordinary income  | 8,032                           | 4.1   | 9,285                           | 4.3   | 1,253                  |
| Special income   | 140                             | 0.1   | 391                             | 0.2   | 251                    |
| Gains on contribution of securities to retirement benefit trust  | —                               |       | 391                             |       | 391                    |
| Gains on sales of property and equipment                         | 140                             |       | —                               |       | (140)                  |
| Special losses   | 511                             | 0.3   | 1,282                           | 0.6   | 770                    |
| Losses on impairment of long-lived assets                        | —                               |       | 21                              |       | 21                     |
| Provision for doubtful accounts of long-term accumulated credits | —                               |       | 523                             |       | 523                    |
| Losses on shift of retirement benefit scheme                     | —                               |       | 737                             |       | 737                    |
| Losses on devaluation of investment securities                   | 104                             |       | —                               |       | (104)                  |
| Losses on sales of property and equipment                        | 168                             |       | —                               |       | (168)                  |
| Provision for losses on investment                               | 238                             |       | —                               |       | (238)                  |
| Income before income taxes                                       | 7,661                           | 3.9   | 8,395                           | 3.9   | 733                    |
| Income taxes – current   | 4,060                           | 2.1   | 4,050                           | 1.9   | (10)                   |
| Income taxes – deferred  | (423)                           | (0.2) | (715)                           | (0.3) | (292)                  |
| Net income   | 4,024                           | 2.0   | 5,060                           | 2.3   | 1,036                  |
| Retained earnings brought forward                                | 1,215                           |       | 1,234                           |       | 19                     |
| Losses on sales of treasury stocks                               | 7                               |       | —                               |       | (7)                    |
| Interim dividends  | 551                             |       | 769                             |       | 218                    |
| Unappropriated retained earnings                                 | ¥4,681                          |       | ¥5,526                          |       | ¥845                   |

Notes: Fractions less than one million yen were omitted.

## Proposal for Appropriation of Retained Earnings

Years Ended March 31, 2005 and 2006

(Millions of yen)

|  | Year Ended March<br>31,2005 |        | Year Ended March<br>31,2006 |        |
|--|-----------------------------|--------|-----------------------------|--------|
|  |                             |        |                             |        |
| Unappropriated retained earnings                               |                             | ¥4,681 |                             | ¥5,526 |
| Reversal of voluntary reserves                                 |                             |        |                             |        |
| Transfer from reserve for deferred gain<br>on sale of property | 2                           | 2      | 2                           | 2      |
| Sub-total  |                             | 4,684  |                             | 5,529  |
| Appropriations of retained earnings                            |                             |        |                             |        |
| Cash dividends   | 656                         |        | 879                         |        |
|  | (¥6.00<br>per share)        |        | (¥8.00<br>per share)        |        |
| Directors' bonuses   | 93                          |        | 101                         |        |
| Voluntary reserves   |                             |        |                             |        |
| General reserve  | 2,700                       | 3,449  | 2,900                       | 3,880  |
| Retained earnings carried forward                              |                             | ¥1,234 |                             | ¥1,648 |

Notes : Fractions less than one million yen were omitted.

The interim dividends paid of this fiscal year are 769 million yen (¥ 7.00 per share).

**[ 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. 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.

**3. 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.

**4. 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 analyses 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 ) Allowance for losses on construction contracts**

Allowance for losses on construction contracts is provided based on an estimate of the total losses which can be anticipated for the next fiscal year and beyond in respect of construction contracts on which eventual losses are deemed probable and amounts thereof can reasonably be estimated.

**( 4 ) Employees' severance and retirement benefits**

The liabilities and expenses for severance and retirement are determined based on the amounts actuarially calculated using certain assumptions. The Company provided for employees' severance and retirement benefits, based on the estimated amounts of projected benefit obligation and the fair value of plan assets at the end of the fiscal year. Prior service costs are recognized in expenses in equal amounts over the average of the estimated remaining service lives of the employees, and actuarial gains and losses are recognized in expenses in equal amounts over the average of the estimated remaining service lives commencing with the following period.

**( 5 ) 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.

## ( 6 ) Allowance for losses on investment

The Company provided for losses on investment to affiliated companies at an estimated loss amount.

**5. Accounting for certain lease transactions**

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

**6. Others**

Consumption tax

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

**[ Change in accounting Policy ]****Accounting standards for impairment of long-lived assets**

Effective from the year ended March 31, 2006, the Company adopted the new accounting standards for impairment of long-lived assets, "Statement of opinion on establishment of accounting standards for impairment of long-lived assets" (issued by the Business Accounting Deliberation Council on August 9, 2002) and "Application guidance on accounting standards for impairment of long-lived assets" (The Financial Accounting Standards Implementation Guidance No.6, which was issued on October 31, 2003). As a result, the income before income taxes for the year ended March 31, 2006 decreased for 21 million yen compared to the method before the impairment accounting applied.

**[ Notes to Balance Sheets ]****1. Accumulated depreciation of property and equipment**

11,859 million yen

**2. Liability for guarantee**

223 million yen

**3. Restriction on dividends**

Valuation of assets stipulated in Enforcement Regulations of Commercial code increased the net assets by 1,796 million yen.

**[ Notes to statements of income ]**

During the year ended March 31, 2006, Impairment of long-lived assets had been added up, on the following property groups.

| Application       | Type of properties | Location                       |
|-------------------|--------------------|--------------------------------|
| Unemployed assets | Land               | Toyooka city, Hyogo Japan, etc |