

ANNUAL REPORT 2006

Fiscal Year Ended March 31, 2006



Profile

On October 1, 2003, our company started as the “New Hazama” with the approval of listing on the First Section of the Tokyo Stock Exchange and taking over of the corporate name and all the business of construction from the former Hazama Corporation. From its foundation in 1889, the former Hazama Corporation contributed, as a general contractor with stellar technological capability in the industry, to Japan’s development and the realization of better lifestyles for people through all construction activities from resource-energy facilities to traffic networks, urban infrastructures, housing, and medical and social welfare facilities. Its construction activities were not confined to Japan, but were deployed to more than 20 countries around the world. The New Hazama has taken over its superior technical and quality management capabilities, supported by a tradition of successful achievement of over 110 years.

Hazama continues to reinforce its civil engineering business with superior competitiveness, further boosting the profitability of building work business and aiming for a quantitative expansion and improvement of corporate value. We intend to make even greater efforts to be a company that creates superior value and to contribute to society and customer satisfaction.

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Message from the President



Junichi Shimmyo

I would like to thank our shareholders and customers for their extraordinary support before reporting the summary of business activities for the third fiscal year of the Hazama Group, which began on April 1, 2005 and ended on March 31, 2006.

Starting on April 1, 2005, our company launched the new “Hazama Second Medium-Term Plan” adopting “Conversion to Growth Strategy” as a theme. To keep abreast of the market environment that is changing every moment, we are pushing forward with optimization of management resources by increasing the efficiency of the head office and branch office organizations and through priority allocation of personnel. As a result, orders received and revenues showed growth and nearly the same successful result as expected was obtained on earnings in the first year (the third fiscal year ended in March 31, 2006). The success owes much to the kind support and patronage extended by many of our customers and shareholders. Thanks to their support, a foundation for future growth is being formed.

With regard to capital and business association with ANDO Corporation, we judge it indispensable for the sustainable growth of both companies to further strengthen business association from a medium- and long-term perspective. For that purpose, we will strengthen the capital association by receiving the acquisition of shares and new share subscription right of our company by ANDO Corporation. We also announced recently the anticipated payment of a dividend of ¥2.50 per common share for the fiscal year ending March 31, 2007, a dividend increase of ¥1.00 per share from the fiscal year under review. This increase takes into account the forecast of business performance in the fourth fiscal year, ending on March 31, 2007.

We recognize that it is essential not only to realize continual payment of dividends but also to return as much profit as possible to our shareholders, taking into account an increase in the number of shareholders through the public offering of shares recently implemented. We are firmly determined to meet the expectations of our shareholders by further enhancing our corporate value, by continuing to implement various measures under the new “Hazama Second-Medium Term Plan.” We sincerely appreciate your continued support and guidance.

Summary of Business Activities

During the fiscal year under review, Japan’s economy showed a steady recovery that has extended to diverse fields and industries, supported by firm personal consumption due to the

improved employment environment and a sustained increase in capital investment due to higher corporate earnings. In the construction industry, the main business of our corporate group, investment in public works continues to decline, but demand for private-sector construction is expanding remarkably due to an increase in capital investment by manufacturing industry and the vigorous opening of new shops by the distribution industry. On the other hand, because of recent developments in the quality of clients’ order systems and requirements, the operating environment in the construction sector is changing rapidly and significantly. To respond to these circumstances, we are exerting all our powers to carry out the “Hazama Second Medium-Term Plan” (from March 2006 through March 2008).

Because we pushed forward the optimization of management resources by increasing the efficiency of head office and branch office organizations and through priority allocation of personnel, orders received and revenues grew and our earnings for the fiscal year under review were nearly as high as those for the first fiscal year. Accordingly, a foundation for future growth is being steadily formed. In these circumstances, for the fiscal year under review, we posted consolidated revenues of ¥230.4 billion, ordinary income of ¥5.6 billion, and net income of ¥2.1 billion.

A summary by operating segment is as follows. On a non-consolidated basis, orders received amounted to ¥196.6 billion, with civil engineering accounting for 44.8% of total construction orders and building construction accounting for 55.2%. Government orders accounted for 37.0%, and private-sector orders accounted for 63.0%. The percentage of overseas work was 14.8%. Revenues from other activities totaled ¥17.1 billion, comprising subsidiary business including sales and leasing of construction materials, with segment operating income of ¥0.5 billion.

Outlook for the Next Fiscal Year

We expect that further growth of corporate earnings and improvement of consumers’ outlook will be sustainable in the next fiscal year and that accordingly the economy should be moving away from deflation. However, we cannot eliminate concerns about a dampening of corporate earnings due to factors such as a rise in interest rates related to the shift in monetary policy in Japan and higher wage costs due to the improved environment for employment in Japan and overseas factors such as a hike in oil prices and the slowdown of the U.S. economy. Thus, the future outlook of the overall economy remains unclear. Although we expect that the construction industry’s operating environment will improve and that the volume of private building demand will increase, supported by the economic recovery, we cannot expect a quick improvement in the industry as a whole. Taking these factors into account, we forecast consolidated revenues of ¥230 billion, ordinary income of ¥5 billion and net income of ¥2.1 billion. We ask sincerely for the continued support of our shareholders and customers.

Junichi Shimmyo

President & Representative Director

June 2006



View of Ohzu Castle

Our Work on Ohzu Castle Wins the Goods Production (MONODZUKURI) Japan Grand Prize and the National Land Technology Development Award

Ohzu Castle, located in Ohzu City, Ehime Prefecture, has the tallest wooden castle towers in Japan (19.15 meters), which were reconstructed after World War II by blending traditional and state-of-the-art technology, a combination that has won recognition. Our work on it was completed in 2004 and employed the traditional structuring method to reconstruct one of the large-scale wooden castle towers. This work recently received the first Goods Production (MONODZUKURI) Japan Grand Prize—the Prime Minister's Award, which was set up in 2005. It was presented to five architects who took charge of the planning and design for the reconstruction. Our work on Ohzu Castle also received the prestigious seventh Natural Land Technology Development Award.



Road rehabilitation work

Rehabilitation Work in Sri Lanka for an Artery Road Damaged by the Tsunami Disaster

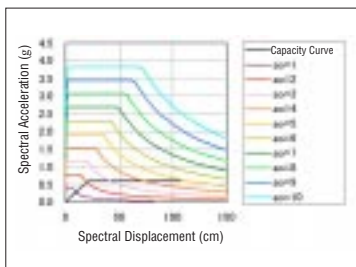
We were awarded a design and build package contract for the rehabilitation of a coastal road in eastern Sri Lanka, which was badly damaged by the Indian Ocean tsunami following the occurrence of the Great Sumatra Earthquake in December 2004. The work, which commenced recently, is carried out by a series of grant aid programs by the government of Japan. Because the road, national Route 4, is a major artery road in eastern Sri Lanka, the Sri Lankan government and local residents are eagerly awaiting its early completion.



CSM machine using the lift-down method

Deep Low-Altitude Head-Type Cutter Soil Mixing (CSM) Method: Development of a New Soil Cement Wall Construction Method

The ground diaphragm wall chiefly used today is the *in situ* mixing soil cement ground diaphragm wall, which excels in workability and is economical. In this regard, the Soil Mixing Wall (SMW) method and the Trench Cutting Re-Mixing Deep Wall (TRD) method have already been developed, but these conventional methods face problems in restrictions to stiff quality rocks, as well as high cost as construction methods for deep-ground road tunnels and underground dams for which future demand is expected. To overcome these difficulties, we developed the deep low-altitude head-type Cutter Soil Mixing (CSM) method after conducting trial construction assuming the deep-ground construction by introducing the BCM-10 *in situ* mixing soil cement ground diaphragm wall drilling machine developed by BAUER Maschinen GmbH of Germany. This method displaces the CSM method using a Kelly bar type machine and is applicable to the stiff quality ground by the machine (see photo) mounting the developed horizontal multi-axis rotary cutter using the lift-down method on the low-altitude head drilling machine, which has a wealth of experience in the construction of ground diaphragm walls. We are targeting business development aimed at applications in retaining walls in urban-type cut and cover work and in stiff quality ground, as well as cut-off walls in refuse landfills and underground dams.



Maximum response estimation using the response spectrum method

Joint Development with Business Partner ANDO Corporation of an Earthquake Loss Estimation Program for Precisely Estimating the Loss of Structures Due to Earthquake Using Personal Computers

A recent trend is the effort to predict precisely the loss of structures due to earthquake in due diligence for investment real estate, the strengthening of structures for earthquake-resistance and business continuity planning (BCP) following an earthquake. In this area, following our capital and business tie-up with ANDO Corporation in March 2003, we have intensified technical interchange by conducting joint research and mutual use of ANDO's technical laboratory. One successful outcome has been the joint development of the earthquake loss estimation system named Hazama Ando System for Earthquake Loss Estimation (HASEL). HASEL is a program that estimates precisely the earthquake response of structures using the response spectrum (see note) employed in critical yield calculations of the Building Standards Act, in addition to earthquake loss estimation based on statistical values and estimates in a short time on personal computers of the loss of structures due to earthquake. This method enables the estimation of damage not only to ordinary buildings but also to buildings using the earthquake resistance method and the earthquake limiting method, as well as the estimation of damage taking into account the interaction of the ground and the structure. We will make proposals for earthquake loss estimation and improvement of earthquake resistance through due diligence using this earthquake loss estimation program. We will also propose the use of this program as a support tool for corporate BCP during an earthquake, which has attracted increasing attention.

Note: Response spectrum is a method seeking a response value from the response spectrum showing the maximum response of each period and the period of structures.



Overall view of geo-melt plant



Digging up and recovery in diffusion preventing building

Application of Geo-Melt to Render Waste Agricultural Chemicals with Persistent Organic Pollutants (POPs) Harmless

The Stockholm Convention on Persistent Organic Pollutants such as polychlorinated biphenyl (PCB), dichloro-diphenyl-trichloroethane (DDT) and dioxin took effect in May 2004, and abolition and reduction of POPs has begun in Japan. As part of this effort, we dug up and recovered from three places in Nagano Prefecture waste agricultural chemicals with POPs embedded underground in the 1960s and rendered harmless about 145 tons of waste agricultural chemicals with POPs, and polluted concrete and soils. This was accomplished using a geo-melt plant, with a treatment capacity of 9.5 tons/batch, which was installed in Mie Prefecture in December 2005. POP substances such as DDT, benzene hexachloride (BHC) and endrin were melted and decomposed by the geo-melt method at a temperature exceeding 1,600 degrees Centigrade, and harmless treatment of all substances was completed with a decomposition rate of more than 99.999%. In 2006, harmless treatment of waste agricultural chemicals with POPs is planned in many prefectures and regions including Nagano Prefecture, and we aim to deploy positively such harmless treatment applying the geo-melt method.

Geo-melt technology was developed by the U.S Department of Energy, and the license for it is held by AMEC. ISV Japan Ltd., our affiliated company, owns the rights for exclusive use of the technology in Japan.

Review of Operations

Major Orders Received

Nishi Ohtsu BP Nagara Tunnel/Kinki Regional Development Bureau, Ministry of Land, Infrastructure and Transport
Kagoshima No. 3 Shin Takeoka Tunnel/Kyushu Regional Development Bureau, Ministry of Land, Infrastructure and Transport
Saigu Regulating Reservoir, Miyagawa Irrigation Canal Phase 2 Agricultural Water Utilization Project/Tokai Regional Agricultural Administration Office, Ministry of Agriculture, Forestry and Fisheries
Yachiyo Common Project/FUSO LEXEL INCORPORATED
Shiobara Hospital affiliated to Tochigi Prefectural Medical Association Spa Laboratory/Tochigi Prefectural Medical Association

Major Projects in Progress

Nagai Dam Phase 1 Work/Tohoku Regional Development Bureau, Ministry of Land, Infrastructure and Transport
Dai Ninh Hydropower Project CW2 Dam/Electricity of Vietnam
SJ62 Work Section (1) Tunnel Work/Metropolitan Expressway Public Corporation
Tokushukai Hospital/Tokushukai Sofia Ltd. ①
Osaka Prefectural Police Department Building Phase 2 Work/Osaka Prefectural Government



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Major Projects Completed

Tachikawa Washington Hotel/From One's Heart Co., Ltd.
Hai Van Pass Tunnel/Ministry of Transport and Communications, The Socialist Republic of Vietnam ②
Palembang Airport Development Project/Directorate General of Air Communications, Ministry of Communications, The Republic of Indonesia ③
Renaissance City Kachigawa/Matsushin District Land Redevelopment Association ④
Iiyama Tunnel/Japan Railway Construction, Transport and Technology Agency
Aqua Link Chiba/Chiba City ⑤



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Consolidated Financial Review

HAZAMA Corporation and Consolidated Subsidiaries

For the years ended March 31, 2006, 2005 and for the six-month period ended March 31, 2004

Summary

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Operating results:				
Revenues				
Construction	¥213,328	¥206,238	¥131,840	\$1,816,021
Other activities	17,146	19,091	8,501	145,961
Total	230,474	225,329	140,341	1,961,982
Cost of sales	213,024	206,369	128,092	1,813,433
Gross profit	17,450	18,960	12,249	148,549
Selling, general and administrative expenses	10,602	11,030	6,165	90,253
Operating income	6,848	7,930	6,084	58,296
Interest expense	(829)	(976)	(719)	(7,057)
Net income	2,132	2,608	746	18,149
Financial position:				
Total assets	¥173,773	¥174,611	¥182,223	\$1,479,297
Total liabilities	142,545	146,624	157,045	1,213,459
Shareholders' equity	31,228	27,987	25,178	265,838
		Yen		U.S. dollars
Per share amounts:				
Net income				
Basic	¥ 19.24	¥ 24.01	¥ 6.91	\$ 0.16
Diluted	14.84	18.16	5.78	0.13
Dividends				
Common stock	1.50	—	—	0.01
Class I preferred stock	64.72	64.56	17.29	0.55
Class II preferred stock	74.72	74.56	19.98	0.64
Class III preferred stock	84.72	84.56	22.66	0.72
Class IV preferred stock	79.72	79.56	21.32	0.68
Shareholders' equity	200.23	167.81	141.23	1.70

Notes: 1. U.S. dollar amounts in this annual report are translated from yen at the rate of ¥117.47 to US\$1.00 for convenience.

2. Basic net income per share is based on the weighted average number of common stock outstanding during the period, and diluted net income per share reflects the potential dilution that could occur if preferred stock were converted into common stock or warrants were exercised.

Financial Review

Revenues

Revenues in fiscal 2006 totaled ¥230,474 million (US\$1,961,982 thousand), of which ¥213,328 million (US\$1,816,021 thousand) came from completed construction projects and ¥17,146 million (US\$145,961 thousand) from other activities. These two business segments accounted for 92.6% and 7.4%, respectively, of total revenues.

Costs and Expenses

Cost of sales amounted to ¥213,024 million (US\$1,813,433 thousand), which is equivalent to 92.4% of revenues. Selling, general and administrative expenses amounted to ¥10,602 million (US\$90,253 thousand), which is equivalent to 4.6% of revenues. Operating income reached ¥6,848 million (US\$58,296 thousand), and the operating margin was 3.0%. Net income amounted to ¥2,132 million (US\$18,149 thousand). Basic net income per share was ¥19.24 (US\$0.16) and diluted net income per share was ¥14.84 (US\$0.13). We made dividend payments on common stock of ¥1.50 (US\$0.01) per share.

Financial Position and Analysis

Total assets amounted to ¥173,773 million (US\$1,479,297 thousand) and total liabilities amounted to ¥142,545 million (US\$1,213,459 thousand), at the end of fiscal 2006.

Shareholders' equity amounted to ¥31,228 million (US\$265,838 thousand) at the end of fiscal 2006.

The shareholders' equity ratio was 18.0%, and shareholders' equity per share amounted to ¥200.23 (US\$1.70).

Cash Flows

Net cash provided by operating activities amounted to ¥5,142 million (US\$43,773 thousand) mainly as a result of income before income taxes amounting to ¥4,649 million (US\$39,576 thousand), decrease in notes and accounts receivable amounting to ¥731 million (US\$6,223 thousand), increase in advances received of ¥490 million (US\$4,171 thousand) and interest paid amounting to ¥759 million (US\$6,461 thousand).

Net cash used in investing activities amounted to ¥1,642 million (US\$13,978 thousand) mainly as a result of acquisitions of property and equipment amounting to ¥710 million (US\$6,044 thousand) and purchase of marketable securities and investments in securities amounting to ¥632 million (US\$5,380 thousand).

Net cash used in financing activities amounted to ¥3,572 million (US\$30,408 thousand) as a result of repayments of long-term debt with proceeds from operating activities.

As a result, cash and cash equivalents at the end of the year increased by ¥255 million (US\$2,171 thousand) to ¥21,203 million (US\$180,497 thousand).

As Hazama Corporation's construction business accounts for a large percentage of the consolidated group business, the financial performance of the construction business is presented below for reference.

Revenues (Non-Consolidated Construction Projects)

Revenues in fiscal 2006 totaled ¥206,299 million (US\$1,756,185 thousand), of which ¥205,641 million (US\$1,750,583 thousand) came from completed construction projects.

The civil engineering category accounted for ¥106,062 million (US\$902,886 thousand), or 51.6%, of total revenue from completed construction projects, with domestic projects contributing ¥90,852 million (US\$773,406 thousand), or 85.7%.

The total for domestic civil engineering revenue was ¥61,917 million (US\$527,088 thousand), or 68.2%, from the government sector and ¥28,935 million (US\$246,318 thousand), or 31.8% of total domestic projects, from the private sector. Overseas civil engineering revenue amounted to ¥15,210 million (US\$129,480 thousand), or 14.3% of total civil engineering revenue.

Revenue from the building construction category totaled ¥99,579 million (US\$847,697 thousand), or 48.4% of total construction revenue.

Domestic projects accounted for ¥87,229 million (US\$742,564 thousand), or 87.6%. The government sector contributed ¥10,792 million (US\$91,870 thousand), or 12.4%, of total domestic building construction revenue. While private-sector building construction revenue amounted to ¥76,437 million (US\$650,694 thousand), or 87.6% of total domestic building construction revenue. Overseas building construction revenue reached ¥12,350 million (US\$105,133 thousand), equivalent to 12.4% of total revenue in the building construction category.

Total overseas construction revenue reached ¥27,560 million (US\$234,613 thousand) and accounted for 13.4% of total construction revenue.

Civil engineering projects accounted for 55.2% of this total, and building construction for 44.8%. Regional shares were 49.6% in Southeast Asia, 21.6% in North America, 9.3% in Middle East and Africa, 4.0% in Latin America, and 15.5% in other regions.

Revenues

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Civil engineering	¥106,062	¥101,144	¥ 61,839	\$ 902,886
Building construction	99,579	97,791	64,556	847,697
Total construction projects	¥205,641	¥198,935	¥126,395	\$1,750,583

Orders Received (Non-Consolidated Construction Projects)

Orders received for construction projects during fiscal 2006 amounted to ¥196,692 million (US\$1,674,402 thousand).

Overseas work contributed 14.8% of orders in the construction category. Civil engineering orders amounted to ¥88,121 million (US\$750,158 thousand), or 44.8% of total construction orders. Building construction orders amounted to ¥108,571 million (US\$924,244 thousand), which is equivalent to 55.2% of total construction orders.

Orders Received

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Civil engineering	¥ 88,121	¥ 84,548	¥ 62,839	\$ 750,158
Building construction	108,571	93,783	52,003	924,244
Total construction projects	¥196,692	¥178,331	¥114,842	\$1,674,402

Year-End Backlog (Non-Consolidated Construction Projects)

Order backlog for construction projects at the end of fiscal 2006 amounted to ¥203,480 million (US\$1,732,187 thousand), with civil engineering work accounting for ¥124,486 million (US\$1,059,726 thousand), or 61.2%, and building construction for ¥78,994 million (US\$672,461 thousand), or 38.8%.

Year-End Backlog

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Civil engineering	¥124,486	¥140,919	¥157,500	\$1,059,726
Building construction	78,994	69,743	73,521	672,461
Total construction projects	¥203,480	¥210,662	¥231,021	\$1,732,187

Consolidated Balance Sheets

HAZAMA Corporation and Consolidated Subsidiaries
March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Assets			
Current assets:			
Cash and time deposits (Notes 4 and 7)	¥ 21,797	¥ 21,142	\$ 185,554
Marketable securities (Notes 3 and 7)	5	3	43
Receivables:			
Notes	6,879	6,725	58,560
Accounts	58,374	58,557	496,927
Unconsolidated subsidiaries and affiliates	96	984	817
Inventories (Note 5)	14,068	14,699	119,758
Advances paid	20,335	18,370	173,108
Deferred income taxes (Note 11)	5,934	5,006	50,515
Other	3,577	4,426	30,450
Less allowance for doubtful accounts	(136)	(171)	(1,158)
Total current assets	130,929	129,741	1,114,574
Property and equipment (Note 7):			
Land	14,507	14,491	123,495
Buildings and structures	15,641	16,981	133,149
Machinery and equipment	12,995	15,974	110,624
Construction in progress	—	58	—
	43,143	47,504	367,268
Less accumulated depreciation	(19,778)	(23,578)	(168,366)
Net property and equipment	23,365	23,926	198,902
Investments and other assets (Note 7):			
Investments in securities (Note 3)	13,968	11,538	118,907
Investments in unconsolidated subsidiaries and affiliates	402	597	3,422
Long-term loans	108	136	919
Long-term loans to unconsolidated subsidiaries and affiliates	13	23	111
Deferred income taxes (Note 11)	954	4,874	8,121
Other	4,198	3,978	35,737
Less allowance for doubtful accounts	(164)	(202)	(1,396)
Total investments and other assets	19,479	20,944	165,821
Total assets	¥173,773	¥174,611	\$1,479,297

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Liabilities and Shareholders' Equity			
Current liabilities:			
Short-term bank loans (Note 6)	¥ 4,700	¥ 3,000	\$ 40,010
Current maturities of long-term debt (Note 6)	1,290	6,266	10,982
Payables:			
Notes	31,447	31,185	267,702
Accounts	40,069	43,343	341,100
Income taxes payable (Note 11)	333	489	2,835
Advances received (Note 9)	14,352	14,083	122,176
Deposit received	25,379	22,876	216,047
Accrued expenses	379	376	3,226
Allowance for losses on construction contracts	232	203	1,975
Other	3,633	3,895	30,927
Total current liabilities	121,814	125,716	1,036,980
Long-term liabilities:			
Long-term debt, less current maturities (Note 6)	17,607	17,737	149,885
Retirement and severance benefits (Note 10)	3,066	3,140	26,100
Other	58	31	494
Total long-term liabilities	20,731	20,908	176,479
Contingencies (Note 12)			
Shareholders' equity (Note 14):			
Common stock			
Authorized - 397,250,000 shares			
Issued - 100,000,000 shares	5,000	5,000	42,564
Preferred stock			
Authorized - 2,750,000 shares			
Issued - 2,750,000 shares	7,000	7,000	59,590
Additional paid-in capital	9,000	9,000	76,615
Retained earnings	7,539	5,779	64,178
Net unrealized holding gains on securities	2,694	1,211	22,934
Less treasury stock, at cost	(5)	(3)	(43)
Total shareholders' equity	31,228	27,987	265,838
Total liabilities and shareholders' equity	¥173,773	¥174,611	\$1,479,297

Consolidated Statements of Income

HAZAMA Corporation and Consolidated Subsidiaries
For the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Revenues (Note 15):			
Construction	¥213,328	¥206,238	\$1,816,021
Other activities	17,146	19,091	145,961
	230,474	225,329	1,961,982
Cost of sales (Notes 8 and 15):			
Construction	197,140	188,341	1,678,216
Other activities	15,884	18,028	135,217
	213,024	206,369	1,813,433
Gross profit	17,450	18,960	148,549
Selling, general and administrative expenses (Notes 8 and 15)	10,602	11,030	90,253
Operating income	6,848	7,930	58,296
Other income (expenses):			
Interest and dividends income	216	205	1,839
Interest expense	(829)	(976)	(7,057)
Gain on sale of property and equipment	13	1,624	112
Foreign exchange gain (loss), net	104	(84)	885
Provision for doubtful accounts	38	7	323
Gain (loss) on sale of investments in securities	(20)	269	(170)
Loss on relocation of headquarters and other	(590)	(935)	(5,023)
Write-down of investments in securities	(161)	(525)	(1,371)
Amortization of pre-investment costs for receiving orders	(374)	(352)	(3,184)
Additional amortization of the net transition obligation	(112)	(517)	(953)
Cost of the settlement of lawsuit	(114)	—	(971)
Additional retirement benefits for employees and other	—	(493)	—
Equity in earnings of unconsolidated subsidiaries and affiliates	10	155	85
Other, net	(380)	(1,293)	(3,235)
	(2,199)	(2,915)	(18,720)
Income before income taxes	4,649	5,015	39,576
Income taxes (Notes 2 and 11):			
Current	539	519	4,589
Deferred	1,978	1,888	16,838
	2,517	2,407	21,427
Net income	¥ 2,132	¥ 2,608	\$ 18,149

	Yen		U.S. dollars (Note 1)
Amounts per share of common stock (Notes 2 and 16):			
Net income			
Basic	¥19.24	¥24.01	\$0.16
Diluted	14.84	18.16	0.13
Cash dividends applicable to the year	1.50	—	0.01

See accompanying notes.

Consolidated Statements of Shareholders' Equity

HAZAMA Corporation and Consolidated Subsidiaries
For the years ended March 31, 2006 and 2005

	Thousands		Millions of yen					
	Number of shares issued Common stock	Preferred stock	Common stock	Preferred stock	Additional paid-in capital	Retained earnings	Net unrealized holding gains on securities	Treasury stock
Balance at March 31, 2004	100,000	2,750	¥5,000	¥7,000	¥9,000	¥3,226	¥ 953	¥(1)
Net income	—	—	—	—	—	2,608	—	—
Cash dividends on preferred stock	—	—	—	—	—	(55)	—	—
Increase in net unrealized holding gains on securities	—	—	—	—	—	—	258	—
Increase in treasury stock	—	—	—	—	—	—	—	(2)
Balance at March 31, 2005	100,000	2,750	¥5,000	¥7,000	¥9,000	¥5,779	¥1,211	¥(3)
Net income	—	—	—	—	—	2,132	—	—
Cash dividends on preferred stock	—	—	—	—	—	(207)	—	—
Increase in net unrealized holding gains on securities	—	—	—	—	—	—	1,483	—
Decrease resulting from merger of consolidated and unconsolidated subsidiaries	—	—	—	—	—	(165)	—	—
Increase in treasury stock	—	—	—	—	—	—	—	(2)
Balance at March 31, 2006	100,000	2,750	¥5,000	¥7,000	¥9,000	¥7,539	¥2,694	¥(5)

	Thousands of U.S. dollars (Note 1)					
	Common stock	Preferred stock	Additional paid-in capital	Retained earnings	Net unrealized holding gains on securities	Treasury stock
Balance at March 31, 2005	\$42,564	\$59,590	\$76,615	\$49,196	\$10,309	\$(26)
Net income	—	—	—	18,149	—	—
Cash dividends on preferred stock	—	—	—	(1,762)	—	—
Increase in net unrealized holding gains on securities	—	—	—	—	12,625	—
Decrease resulting from merger of consolidated and unconsolidated subsidiaries	—	—	—	(1,405)	—	—
Increase in treasury stock	—	—	—	—	—	(17)
Balance at March 31, 2006	\$42,564	\$59,590	\$76,615	\$64,178	\$22,934	\$(43)

See accompanying notes.

Consolidated Statements of Cash Flows

HAZAMA Corporation and Consolidated Subsidiaries
For the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Cash flows from operating activities:			
Income before income taxes	¥ 4,649	¥ 5,015	\$ 39,576
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	1,012	1,237	8,615
Provision for allowance for doubtful accounts	(38)	10	(323)
Additional amortization of the net transition obligation	112	517	953
Additional retirement benefits for employees and other	—	493	—
Loss on relocation of headquarters and other	590	935	5,023
Interest and dividends income	(216)	(205)	(1,839)
Interest expense	829	976	7,057
Foreign exchange (gain) loss	(223)	22	(1,898)
Equity in earnings of unconsolidated subsidiaries and affiliates	(10)	(155)	(85)
Write-down of investments in securities	161	525	1,371
Gain on sale of property and equipment	(13)	(1,624)	(111)
(Gain) loss on sale of investments in securities	20	(269)	170
Reversal of retirement and severance benefits, net	(186)	(1,627)	(1,583)
Changes in assets and liabilities:			
Decrease in notes and accounts receivable	731	282	6,223
Decrease in inventories	765	263	6,512
Increase in advances paid	(1,963)	(137)	(16,711)
Decrease in notes and accounts payable	(2,272)	(685)	(19,341)
Increase in advances received	490	234	4,171
Increase in deposit received	2,501	951	21,291
Decrease in consumption tax payable	(570)	(2,666)	(4,852)
Other, net	(454)	(1,505)	(3,866)
Subtotal	5,915	2,587	50,353
Interest and dividends received	576	365	4,903
Interest paid	(759)	(922)	(6,461)
Additional retirement benefits for employees and other paid	—	(423)	—
Income taxes paid	(590)	(330)	(5,022)
Net cash provided by operating activities	5,142	1,277	43,773
Cash flows from investing activities:			
Purchase of marketable securities and investments in securities	(632)	(40)	(5,380)
Sale of marketable securities and investments in securities	329	1,075	2,801
Acquisitions of property and equipment	(710)	(457)	(6,044)
Sale of property and equipment	327	3,853	2,784
Increase in loans receivable	(91)	(85)	(775)
Decrease in loans receivable	98	244	834
Other, net	(963)	539	(8,198)
Net cash provided by (used in) investing activities	(1,642)	5,129	(13,978)
Cash flows from financing activities:			
Net increase in short-term loans	1,700	2,697	14,472
Proceeds from long-term debt	15,897	3,000	135,328
Repayments of long-term debt	(21,003)	(11,624)	(178,795)
Cash dividends on preferred stock	(207)	(55)	(1,762)
Other, net	41	(2)	349
Net cash used in financing activities	(3,572)	(5,984)	(30,408)
Effect of exchange rate changes on cash and cash equivalents	210	(14)	1,788
Net increase in cash and cash equivalents	138	408	1,175
Cash and cash equivalents at beginning of year	20,948	20,540	178,326
Increase in cash and cash equivalents due to merger	117	—	996
Cash and cash equivalents at end of year (Note 4)	¥21,203	¥20,948	\$180,497

See accompanying notes.

Notes to Consolidated Financial Statements

HAZAMA Corporation and Consolidated Subsidiaries
For the years ended March 31, 2006 and 2005

1. Basis of Presenting Consolidated Financial Statements

HAZAMA CORPORATION (the "Company") was incorporated on October 1, 2003 as a result of company split-up under the Commercial Code of Japan. Upon the split-up, the Company succeeded to all the construction business and construction-related subsidiaries from former Hazama Corporation (the "Old Hazama"), which was renamed AOYAMA KANZAI CORPORATION on October 1, 2003. The accompanying consolidated financial statements of the Company and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2006, which was ¥117.47 to U.S.\$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

(1) Consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries (the "Companies"). All significant intercompany transactions and unrealized profits and losses among the Companies have been eliminated in consolidation.

All companies are required to consolidate all significant investees, which are controlled through substantial ownership of majority voting rights or existence of certain conditions. Investments in affiliates over which the Company has the ability to exercise significant influence over operating and financial policies of the investees, are accounted for by the equity method.

Investments in remaining unconsolidated subsidiaries and affiliates, which have immaterial effect on the consolidated financial statements, are accounted for at cost. Such investments are adjusted for any non-recoverable diminution in value, and income from these unconsolidated subsidiaries and affiliates is recognized only when the Companies receive dividends therefrom.

(2) Revenue recognition

Revenues from and related costs of construction contracts are generally recorded under the percentage-of-completion method. In case that a construction work takes within one year or its contract amount is below ¥100 million (\$851 thousand), the completed-contract method is applied.

(3) Foreign currency translation

Revenues and expenses are translated at the rates of exchange prevailing when transactions are made. Assets and liabilities denominated in foreign currencies are generally translated at the rates of foreign exchange prevailing at the balance sheet date and the resulting translation gains or losses included in earnings.

(4) Cash and cash equivalents

Cash and cash equivalents include cash on hand, highly liquid investments with maturity of three months or less from the purchase date. See Note 4 as to a reconciliation of cash and cash equivalents reported in the consolidated statements of cash flows with cash and time deposits reported in the consolidated balance sheets.

(5) Allowance for doubtful accounts

The Companies' policy is to set up a provision for doubtful accounts using the following methods.

(a) Normal receivables

For receivables from debtors who are not particularly in financial difficulties, an allowance for doubtful accounts is estimated by applying the historical overall credit loss rates.

(b) Doubtful receivables and failed receivables

For receivables from debtors who have not yet failed but are or would probably be in financial difficulties, and those who have either actually or substantially failed, an allowance for doubtful accounts is provided at the estimated uncollectible amount based on the specific analysis of collectibility of such individual receivables.

Under the “Accounting Standard for Financial Instruments” issued by Business Accounting Deliberation Council on January 22, 1999, “Long-term accounts receivable” and “Claims in bankruptcy, reorganization claims and similar claims” included in the consolidated balance sheets as “Other” in investments and other assets are reported at the amounts net of the estimated uncollectible amounts of ¥741 million (\$6,308 thousand) and ¥700 million, at March 31, 2006 and 2005, respectively.

(6) Inventories

Inventories are stated at cost as determined on a specific project basis.

(7) Securities

Securities of the Companies are classified into one of the following categories based on the intent of holding, and are accounted for as follows:

- (a) Debt securities that are intended to be held to maturity (“held-to-maturity debt securities”) are stated at amortized cost.
- (b) Securities other than trading securities, held-to-maturity debt securities and shares issued by unconsolidated subsidiaries and affiliated companies not on the equity method (“available-for-sale securities”) are stated at fair market values, if their fair market values are readily available. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders’ equity. Realized gains and losses on sale of these securities are computed using moving-average costs. Available-for-sale securities with no available fair market values are stated at moving-average cost.

(8) Derivatives and hedging transactions

Derivative financial instruments are stated at fair value and changes in the fair value are recognized as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,

- (a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the consolidated statements of income in the period which includes the inception date, and
- (b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.

Also, if interest rate swap contracts are used as hedge and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

The Companies use forward foreign currency contracts and interest rate swaps as derivative financial instruments only for the purpose of mitigating future risks of fluctuation of foreign currency exchange rates and interest rate increases.

The Companies evaluate hedge effectiveness by comparing the cumulative changes in cash flows from or the changes in fair value of hedged items and the corresponding changes in the hedging derivative instruments.

(9) Property and equipment, depreciation

Property and equipment are carried at cost. Depreciation of building is provided on the straight-line method, and depreciation of other property and equipment is provided on the declining-balance method over estimated useful lives, except that the declining-balance method is applied to buildings of one consolidated subsidiary.

Expenditures for significant renewals and betterments are capitalized, while expenditures for normal repairs and maintenance are charged to expense when incurred.

(10) Retirement and severance benefits

Employees whose services with the Companies are terminated are entitled to lump-sum payments and retirement benefits. The amount of the payments is generally determined on the basis of the current basic rate of pay and length of service at the time of termination.

The Company and its consolidated subsidiaries have established an unfunded retirement plan and the Company has established a funded retirement plan to provide for future payments of retirement benefits.

The liabilities and expenses for retirement and severance benefits are determined based on the amounts actuarially calculated using certain assumptions.

The excess of the projected benefit obligation over the fair value of pension assets as of April 1, 2000 and the liabilities for retirement and severance benefits recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥9,985 million, and has been amortized in equal amounts over 15 years commencing with the year ended March 31, 2001. The Company recorded additional amortization of the net transition obligation as other expense due to considerable unanticipated decrease of number of employees, amounting to ¥112 million (\$953 thousand) and ¥517 million, in the years ended March 31, 2006 and 2005, respectively.

Prior service costs are amortized using the straight-line method over period less than the average of the estimated remaining service lives (3 years).

Actuarial differences are recognized in expenses using the straight-line method over period less than the average of the estimated remaining service lives (13 years) commencing with the succeeding period.

Upon the split-up, the Company succeeded to the outstanding amounts of transition obligation, prior service costs, and actuarial differences from the Old Hazama, and the periods of their amortization include the periods before split-up.

(11) Allowance for losses on construction contracts

Allowance for losses on construction contracts is provided at the fiscal year-end when substantial losses are anticipated in the future and such losses can be reasonably estimated.

(12) Lease transactions

Finance leases which do not transfer the ownership of the leased assets to the lessee, are accounted for in the same manner as operating leases.

(13) Income taxes

The Companies recognize tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting purposes. The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

(14) Appropriations of retained earnings

Appropriations of retained earnings are reflected in the accompanying consolidated financial statements for the following year upon the shareholders' meeting approval.

(15) Amounts per share

Basic net income per share is based on the weighted average number of common stock outstanding during the period, and diluted net income per share reflects the potential dilution that could occur if preferred stock were converted into common stock or warrants were exercised.

Shareholders' equity per share is reported at the amounts of ¥200.23 (\$1.70) and ¥167.81 at March 31, 2006 and 2005, respectively.

(16) Reclassifications

Certain reclassifications have been made to the 2005 consolidated financial statements to conform to the 2006 presentation.

3. Securities

(1) The following tables summarize acquisition costs and book values of available-for-sale securities with available fair values as of March 31, 2006 and 2005:

(a) Securities with book values exceeding acquisition costs

Type	Millions of yen					
	2006			2005		
	Acquisition costs	Book values	Difference	Acquisition costs	Book values	Difference
Equity securities	¥6,787	¥11,259	¥4,472	¥5,727	¥7,758	¥2,031
Others	—	—	—	—	—	—
Total	¥6,787	¥11,259	¥4,472	¥5,727	¥7,758	¥2,031

Type	Thousands of U.S. dollars		
	2006		
	Acquisition costs	Book values	Difference
Equity securities	\$57,776	\$95,846	\$38,070
Others	—	—	—
Total	\$57,776	\$95,846	\$38,070

(b) Other securities

Type	Millions of yen					
	2006			2005		
	Acquisition costs	Book values	Difference	Acquisition costs	Book values	Difference
Equity securities	¥—	¥—	¥—	¥696	¥638	¥(58)
Others	—	—	—	277	274	(3)
Total	¥—	¥—	¥—	¥973	¥912	¥(61)

Type	Thousands of U.S. dollars		
	2006		
	Acquisition costs	Book values	Difference
Equity securities	\$—	\$—	\$—
Others	—	—	—
Total	\$—	\$—	\$—

(2) The following tables summarize book values of securities with no available fair values as of March 31, 2006 and 2005:

(a) Held-to-maturity debt securities:

Type	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
	Book values	Book values	Book values
Discount bond	¥5	¥5	\$43
Others	0	3	4
Total	¥5	¥8	\$47

(b) Available-for-sale securities:

Type	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
	Book values	Book values	Book values
Unlisted securities	¥2,707	¥2,863	\$23,044
Total	¥2,707	¥2,863	\$23,044

(3) Held-to-maturity debt securities as of March 31, 2006 and 2005 are as follows:

Type	Millions of yen			
	2006			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Discount bond	¥5	¥—	¥—	¥—
Others	0	—	—	—
Total	¥5	¥—	¥—	¥—

Type	Millions of yen			
	2005			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Discount bond	¥—	¥5	¥—	¥—
Others	3	—	—	—
Total	¥ 3	¥5	¥—	¥—

Type	Thousands of U.S. dollars			
	2006			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Discount bond	\$43	\$—	\$—	\$—
Others	4	—	—	—
Total	\$47	\$—	\$—	\$—

(4) Total sales, related gains and losses of available-for-sale securities are as follows:

Type	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Sales	¥316	¥1,011	\$2,690
Related gains	—	269	—
Related losses	(20)	0	(170)

4. Cash and Cash Equivalents

Cash and cash equivalents reported in the consolidated statements of cash flows at March 31, 2006 and 2005 were reconciled with cash and time deposits reported in consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash and time deposits	¥21,797	¥21,142	\$185,554
Time deposits with maturities of exceeding three months from the date of acquisition	(594)	(194)	(5,057)
Total: Cash and cash equivalents	¥21,203	¥20,948	\$180,497

5. Inventories

Inventories at March 31, 2006 and 2005 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Accumulated costs of uncompleted contracts	¥13,344	¥13,755	\$113,595
Others	724	944	6,163
	¥14,068	¥14,699	\$119,758

6. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans are represented mainly by loan on deed. The interest rate of short-term loans is 2.1% both at March 31, 2006 and 2005.

Long-term debt at March 31, 2006 and 2005 is summarized below:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Long-term debt from banks, insurance companies and others due serially through 2009:			
Secured 1.950% to 3.085%	¥18,897	¥21,593	\$160,867
Unsecured	—	2,410	—
	18,897	24,003	160,867
Less current maturities	(1,290)	(6,266)	(10,982)
	¥17,607	¥17,737	\$149,885

Repayment schedules for the long-term debt are summarized below:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥ 1,290	\$ 10,982
2008	4,290	36,520
2009	13,317	113,365
	¥18,897	\$160,867

As is customary in Japan, long-term and short-term bank loans are made under general agreements which provide that additional security and guarantees for present and future indebtedness will be given under certain circumstances at the request of the banks, and that any collateral furnished will be applicable to all indebtedness due to that bank.

In addition, the agreements provide that the bank has the right to offset cash deposited against any long-term and short-term debt that become due and in case of default and certain other specified events, against all other debts payable to the bank. Such rights have never been exercised by the bank.

7. Pledged Assets

The following assets were pledged to secure short-term bank loans, long-term debt and certain other obligation at March 31, 2006:

	Millions of yen	Thousands of U.S. dollars
Cash and time deposits	¥ 482	\$ 4,103
Marketable securities	1	9
Property and equipment	19,171	163,199
Investments and other assets	9,065	77,169
	¥28,719	\$244,480

8. Research and Development Expenses

Research and development expenses included in manufacturing costs, and selling, general and administrative expenses amounted to ¥1,292 million (\$10,999 thousand) and ¥1,314 million for the years ended March 31, 2006 and 2005.

9. Advances Received

As is customary in Japan, the Companies normally receive payments from customers on a progress basis in accordance with the terms of the respective construction contracts.

10. Retirement and Severance Benefits

The liabilities for retirement and severance benefits included in the consolidated balance sheets as of March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Projected benefit obligation	¥(21,506)	¥(20,796)	\$(183,077)
Fair value of pension assets	13,897	11,028	118,303
Less unrecognized net transition obligation	3,031	3,492	25,802
Less unrecognized actuarial differences	1,512	4,482	12,872
Unrecognized prior service costs	—	(1,346)	—
Retirement and severance benefits	¥ (3,066)	¥ (3,140)	\$ (26,100)

Included in the consolidated statements of income for the years ended March 31, 2006 and 2005 are retirement and severance benefit expenses as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Service costs-benefits earned during the year	¥1,021	¥1,064	\$ 8,692
Interest cost on projected benefit obligation	498	515	4,239
Expected return on pension assets	(165)	(152)	(1,405)
Amortization of net transition obligation	461	918	3,924
Amortization of net actuarial differences	418	378	3,558
Amortization of net prior service cost	(1,346)	(1,346)	(11,458)
Retirement and severance benefit expense	¥ 887	¥1,377	\$ 7,550

The discount rate and the rate of expected return on pension assets used by the Company are 2.5% and 1.5%, respectively at March 31, 2006 and 2005.

The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated total service years.

Actuarial differences are recognized in the consolidated statements of income using the straight-line method over 13 years commencing with the succeeding period.

Prior service costs are recognized in the consolidated statements of income using the straight-line method over 3 years, and net transition obligation are recognized using the straight-line method over 15 years.

11. Income Taxes

The Company and consolidated subsidiaries were subject to a number of taxes based on income, which, in the aggregate, indicate statutory rates in Japan of approximately 40.7% for the years ended March 31, 2006 and 2005.

The following table summarizes the significant differences between the statutory tax rate and the effective tax rate for financial statement purposes for the years ended March 31, 2006 and 2005.

	2006	2005
Statutory tax rate	40.7%	40.7%
Non-deductible expenses for tax purposes	9.2	8.6
Per capita inhabitant taxes	7.0	6.4
Others	(2.8)	(7.7)
Effective tax rate	54.1%	48.0%

Significant components of the Companies' deferred tax assets as of March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Undeductible allowance for doubtful accounts	¥ 928	¥3,237	\$ 7,900
Tax loss carry-forwards	2,972	3,009	25,300
Unrealized profits on property and equipment	210	210	1,788
Undeductible retirement benefits	1,180	592	10,045
Undeductible construction costs under the percentage-of-completion method	463	493	3,941
Others	5,061	5,229	43,083
Gross deferred tax assets	10,814	12,770	92,057
Less: Valuation allowance	(2,152)	(2,130)	(18,320)
Total deferred tax assets	8,662	10,640	73,737
Deferred tax liabilities:			
Net unrealized holding gains on securities	1,778	760	15,136
Total deferred tax liabilities	1,778	760	15,136
Net deferred tax assets	¥6,884	¥9,880	\$58,601

12. Contingencies

The Companies were contingently liable as follows at March 31, 2006:

	Millions of yen	Thousands of U.S. dollars
Guarantees of loans	¥280	\$2,384
Guarantees of advances	153	1,302
Guarantees of performance	175	1,490
Notes receivable endorsed	85	724
	¥693	\$5,900

13. Certain Lease Information

(Lessee)

A summary of assumed amounts (inclusive of interest) of acquisition cost, accumulated depreciation and net book value of assets under finance leases which do not transfer ownership of leased assets to the lessee at March 31, 2006 and 2005 was as follows:

	Millions of yen					
	2006			2005		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Vehicles, tools, furniture and fixtures	¥658	¥307	¥351	¥755	¥420	¥335
Other	15	12	3	22	15	7
	¥673	¥319	¥354	¥777	¥435	¥342

	Thousands of U.S. dollars		
	2006		
	Acquisition cost	Accumulated depreciation	Net book value
Vehicles, tools, furniture and fixtures	\$5,601	\$2,613	\$2,988
Other	128	102	26
	\$5,729	\$2,715	\$3,014

Depreciation charges are computed using the straight-line method over lease terms assuming no residual value.

Lease payments and assumed depreciation charges under such finance leases for the years ended March 31, 2006 and 2005 were ¥176 million (\$1,498 thousand) and ¥189 million, respectively.

The following is a schedule by year of future lease payments (inclusive of interest) under finance leases as of March 31, 2006:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥144	\$1,226
2008 and after	210	1,778
	¥354	\$3,014

(Lessor)

A summary of assumed amounts (inclusive of interest) of acquisition cost, accumulated depreciation and net book value of assets under finance leases which do not transfer ownership of leased assets to the lessee at March 31, 2006 and 2005 is as follows:

	Millions of yen					
	2006			2005		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Vehicles, tools, furniture and fixtures	¥190	¥123	¥67	¥143	¥78	¥65

	Thousands of U.S. dollars		
	2006		
	Acquisition cost	Accumulated depreciation	Net book value
Vehicles, tools, furniture and fixtures	\$1,617	\$1,047	\$570

Depreciation charges are computed using the straight-line method over lease terms assuming no residual value.

Lease receipts under such finance leases for the years ended March 31, 2006 and 2005 were ¥51 million (\$434 thousand) and ¥60 million, respectively.

Assumed depreciation charges for the years ended March 31, 2006 and 2005 were ¥27 million (\$230 thousand) and ¥34 million, respectively.

The following is a schedule by year of future lease receipt (inclusive of interest) under finance leases as of March 31, 2006:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥46	\$392
2008 and after	21	179
	¥67	\$571

The future lease receipts under operating leases at March 31, 2006 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥1	\$9
2008 and after	—	—
	¥1	\$9

14. Shareholders' Equity

Under the Commercial Code of Japan (the "Code"), the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital.

Effective October 1, 2001, the Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock.

The total amount of legal earnings reserve and additional paid-in capital of the Company has been reached to 25% of common stock, and therefore the Company is not required to provide legal earnings reserve any more.

The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors.

On condition that the total amount of legal earnings reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying financial statements.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Code.

On December 25, 2003, the Company issued 2,750 thousand shares of its preferred stock at ¥4,000 per each share newly issued, through a third-party allotment of shares with the following conditions:

	Preferred stock			
	Non-cumulative and non-participating			Cumulative and participating
	Class I	Class II	Class IV	Class III
Shares authorized	750,000	875,000	250,000	875,000
Shares issued	750,000	875,000	250,000	875,000
Annual dividend per share, applicable to the year ended March 31, 2006	¥64.72	¥74.72	¥79.72	¥84.72
Exercise period of conversion right	December 25, 2008 to December 24, 2023	December 25, 2010 to December 24, 2025	December 25, 2008 to December 24, 2023	December 25, 2012 to December 24, 2027

Holders of preferred stock of each class do not have any voting right on stock warrants and are entitled to receive ¥4,000 per share of preferred stock upon distribution of residual assets.

The amount of preferred stock was ¥11,000 million in total, ¥7,000 million of which was recorded in capital stock and remaining ¥4,000 million was recorded in additional paid-in capital.

On March 31, 2006, the Company issued warrants exercisable into 12,500,000 shares of common stock. The warrants are exercisable from April 2, 2007 to December 24, 2010. Exercise price of the warrants is ¥347 per share at the beginning, but is adjustable subject to market price of common stock.

15. Segment Information

Business segment information for the years ended March 31, 2006 and 2005 are as follows:

	Millions of yen				
	Construction	Other	Total	Elimination or corporate	Consolidated
Year ended March 31, 2006:					
Revenues:					
Outside customers	¥213,328	¥17,146	¥230,474	¥ —	¥230,474
Intersegment	—	27,150	27,150	(27,150)	—
Total	213,328	44,296	257,624	(27,150)	230,474
Operating expenses	206,427	43,701	250,128	(26,502)	223,626
Operating income	¥ 6,901	¥ 595	¥ 7,496	¥ (648)	¥ 6,848
At March 31, 2006:					
Assets	¥131,710	¥21,036	¥152,746	¥21,027	¥173,773
Depreciation and amortization	846	140	986	26	1,012
Capital expenditures	441	114	555	225	780
Year ended March 31, 2005:					
Revenues:					
Outside customers	¥206,238	¥ 19,091	¥225,329	¥ —	¥225,329
Intersegment	—	27,193	27,193	(27,193)	—
Total	206,238	46,284	252,522	(27,193)	225,329
Operating expenses	197,895	45,717	243,612	(26,213)	217,399
Operating income	¥ 8,343	¥ 567	¥ 8,910	¥ (980)	¥ 7,930
At March 31, 2005:					
Assets	¥136,493	¥20,501	¥156,994	¥17,617	¥174,611
Depreciation and amortization	972	227	1,199	38	1,237
Capital expenditures	416	101	517	—	517

	Thousands of U.S. dollars				
	Construction	Other	Total	Elimination or corporate	Consolidated
Year ended March 31, 2006:					
Revenues:					
Outside customers	\$1,816,021	\$145,960	\$1,961,981	\$ —	\$1,961,981
Intersegment	—	231,123	231,123	(231,123)	—
Total	1,816,021	377,083	2,193,104	(231,123)	1,961,981
Operating expenses	1,757,274	372,018	2,129,292	(225,607)	1,903,685
Operating income	\$ 58,747	\$ 5,065	\$ 63,812	\$ (5,516)	\$ 58,296
At March 31, 2006:					
Assets	\$1,121,222	\$179,076	\$1,300,298	\$178,999	\$1,479,297
Depreciation and amortization	7,203	1,191	8,394	221	8,615
Capital expenditures	3,754	970	4,724	2,130	6,854

Geographic segment information for the years ended March 31, 2006 and 2005 are as follows:

	Millions of yen				Consolidated
	Japan	Other	Total	Elimination or corporate	
Year ended March 31, 2006:					
Revenues:					
Outside customers	¥202,911	¥27,563	¥230,474	¥ —	¥230,474
Intersegment	50	—	50	(50)	—
Total	202,961	27,563	230,524	(50)	230,474
Operating expenses	195,614	27,410	223,024	602	223,626
Operating income	¥ 7,347	¥ 153	¥ 7,500	¥ (652)	¥ 6,848
At March 31, 2006:					
Assets	¥127,105	¥11,347	¥138,452	¥35,321	¥173,773
Year ended March 31, 2005:					
Revenues:					
Outside customers	¥202,556	¥22,773	¥225,329	¥ —	¥225,329
Intersegment	—	—	—	—	—
Total	202,556	22,773	225,329	—	225,329
Operating expenses	194,323	22,351	216,674	725	217,399
Operating income	¥ 8,233	¥ 422	¥ 8,655	¥ (725)	¥ 7,930
At March 31, 2005:					
Assets	¥134,736	¥ 8,255	¥142,991	¥31,620	¥174,611

	Thousands of U.S. dollars				Consolidated
	Japan	Other	Total	Elimination or corporate	
Year ended March 31, 2006:					
Revenues:					
Outside customers	\$1,727,343	\$234,638	\$1,961,981	\$ —	\$1,961,981
Intersegment	426	—	426	(426)	—
Total	1,727,769	234,638	1,962,407	(426)	1,961,981
Operating expenses	1,665,225	233,336	1,898,561	5,124	1,903,685
Operating income	\$ 62,544	\$ 1,302	\$ 63,846	\$ (5,550)	\$ 58,296
At March 31, 2006:					
Assets	\$1,082,021	\$ 96,595	\$1,178,616	\$300,681	\$1,479,297

Overseas sales information for the years ended March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Overseas sales	¥ 27,563	¥ 22,773	\$ 234,639
Total revenues	230,474	225,329	1,961,982
The proportion of overseas sales to total revenues	12.0%	10.1%	12.0%

16. Net Income per Share

Basis of calculation of basic and diluted net income per share (the "EPS") for the years ended March 31, 2006 and 2005 are as follows:

	Net income	Weighted-average shares	EPS	
	Millions of yen	Thousands of shares	Yen	U.S. dollars
Year ended March 31, 2006:				
Basic EPS - Net income available to common shareholders	¥1,924	99,986	¥19.24	\$0.16
Effect of dilution				
Cash dividends on preferred stock	208	43,651		
Shares adjusted by warrants	—	0		
Diluted EPS - Net income for computation	¥2,132	143,637	¥14.84	\$0.13
Year ended March 31, 2005:				
Basic EPS - Net income available to common shareholders	¥2,401	99,992	¥24.01	
Effect of dilution				
Cash dividends on preferred stock	207	43,651		
Diluted EPS - Net income for computation	¥2,608	143,643	¥18.16	

17. Subsequent Event

On June 29, 2006, the shareholders of the Company approved the appropriations of retained earnings to pay cash dividends in the amount of ¥358 million (\$3,047 thousand).

Independent Auditors' Report

To the Board of Directors of
HAZAMA CORPORATION:

We have audited the accompanying consolidated balance sheets of HAZAMA CORPORATION and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of HAZAMA CORPORATION and consolidated subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 29, 2006

Major Subsidiaries and Affiliates

(As of July 1, 2006)

Name	Issued share capital	Percentage held by the Company and subsidiaries	Primary operations	Address
Hazama-Kogyo Co., Ltd.	¥152.5 million	100	Sales of construction materials	1-38-4 Kameido, Koto-ku, Tokyo, Japan Tel.: 81-3-5626-7130
Aoyama-Kiko Co., Ltd.	¥200 million	100	Subcontractor	1-38-4 Kameido, Koto-ku, Tokyo, Japan Tel.: 81-3-5626-8111
Geoscape Corporation	¥100 million	49	Landscape design and research	2-5 Toranomom 2-chome, Minato-ku, Tokyo, Japan Tel.: 81-3-3588-5990
Ashcrete Corporation	¥52 million	38.46	Consultant business on increase of marine productivity	30-13 Motoyoyogimachi, Shibuya-ku, Tokyo, Japan Tel.: 81-3-5790-0275
Vietnam Development Construction Co., Ltd.	US\$1 million	95	Construction	11 Floor, Me Linh Point Tower 2, Ho Chi Minh City, Vietnam Tel.: 84-8-8221246
Hazama Philippines Inc.	PP15 million	40	Construction	Unit 304 Sedcco 1 Building, 120 Rada Street, Legaspi Village, Makati City, Philippines Tel.: 63-2-810-7651

Board of Directors

(As of July 1, 2006)

President & Representative Director

Junichi SHIMMYO

Vice Presidents & Representative Directors

Michio SHISHIDO
Shigefumi YOSHINO

Directors/ Senior Managing Executive Officers

Masayuki OZAKI
Tsugio HAYAKAWA
Toshihisa KUTSUNA

Directors/ Managing Executive Officers

Kazunori UCHINO
Tomio KATAYAMA

Director/Executive Officer

Kenichi YOSHIMI

Standing Corporate Auditor

Hisashi MISHIMA

Corporate Auditors

Junji NAKAMURA
Jiro KOJIMA
Tadamichi SHIRASAKI

Vice President & Executive Officer

Marenari TOMONO

Senior Managing Executive Officers

Toshihiro ENDO
Kenji ENDO
Tsuneyoshi FUNAZAKI
Tsutomu KIHARA

Managing Executive Officers

Mutsuo ONO
Katsuo MORIMOTO
Toshio ONO

Executive Officers

Masaru SHIOZAWA
Tetsuro MARUI
Yoshimi AKIBA
Hiroyuki YASUHARA
Osamu HOSOKAWA
Shigenobu AOKI
Yasutaka FURUKAWA
Tadashi OSHIMA
Shigeru TAKENOUCHI
Toru KUMAKI
Shinichi KANAZAWA
Tohachiro ISHIDA
Mitsuaki HIGO
Katsuta TAKEUCHI
Takashi ENDO

Corporate Data

(As of March 31, 2006)

Name

Hazama Corporation

Address

2-5, Toranomom 2-chome, Minato-ku,
Tokyo 105-8479, Japan

Branch Offices

Sapporo, Tohoku, Hokuriku,
Kanto-Doboku, Tokyo-Kenchiku-1,
Tokyo-Kenchiku-2, Yokohama,
Nagoya, Osaka, Shikoku, Hiroshima,
Kyushu, Kokusai-Jigyo-Toukatsu

Founded

April 1889

Established

October 1, 2003

Paid-in Capital

¥12,000,000 thousand

Authorized Shares

Common stock
397,250,000
Preferred stock
2,750,000

Issued Shares

Common stock
100,000,000
Preferred stock
2,750,000

Number of Shareholders

36,964

Number of Employees

2,008



GENERAL CONTRACTORS,
ARCHITECTS & ENGINEERS

HAZAMA CORPORATION

2-5, Toranomom 2-chome, Minato-ku,
Tokyo 105-8479, Japan

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