Financial Section

Consolidated Balance Sheets

Taiheiyo Cement Corporation and Subsidiaries
As of 31st March, 2005 and 2006

Assets	2005	2006	2006
	(Millions of yen)		(Thousands of U.S. dollars) (Note 5)
Current assets:			
Cash and time deposits (Notes 6 and 9)	¥ 73,365	**¥ 98,892**	**$ 841,846**
Notes and accounts receivable (Note 9)	190,071	**197,455**	**1,680,898**
Less: allowance for doubtful accounts	(2,590)	**(3,547)**	**(30,191)**
	187,481	**193,908**	**1,650,707**
Inventories	67,812	**73,995**	**629,906**
Deferred income taxes (Note 18)	3,593	**4,246**	**36,144**
Other	33,993	**31,181**	**265,442**
	366,244	**402,222**	**3,424,045**
Investments, advances and other assets:			
Investments in securities (Notes 7 and 9)	158,716	**180,110**	**1,533,246**
Long-term loans	8,729	**6,206**	**52,827**
Other (Note 9)	59,795	**58,489**	**497,905**
	227,240	**244,805**	**2,083,978**
Less: allowance for doubtful accounts	(16,547)	**(15,479)**	**(131,766)**
	210,693	**229,326**	**1,952,212**
Property, plant and equipment, at cost (Note 9):			
Buildings and structures	330,761	**500,591**	**4,261,434**
Machinery and equipment	429,501	**811,182**	**6,905,441**
Other	41,234	**51,730**	**440,367**
	801,496	**1,363,503**	**11,607,242**
Less: accumulated depreciation	(409,233)	**(973,439)**	**(8,286,703)**
	392,263	**390,064**	**3,320,539**
Land (Note 14)	202,639	**179,662**	**1,529,429**
Construction in progress	13,208	**13,663**	**116,310**
	608,110	**583,389**	**4,966,278**
Goodwill and other intangibles	47,061	**47,593**	**405,148**
Deferred income taxes (Note 18)	15,425	**15,715**	**133,779**
Total assets	¥ 1,247,533	**¥ 1,278,245**	**$ 10,881,462**

The accompanying notes are an integral part of these statements.

Liabilities, minority interests and shareholders' equity	2005	2006	2006
	(Millions of yen)		(Thousands of U.S. dollars) (Note 5)
Current liabilities:			
Short-term bank loans (Notes 8 and 9)	¥ 254,203	**¥ 247,757**	**$ 2,109,107**
Current portion of long-term debt (Notes 8 and 9)	98,998	**142,739**	**1,215,113**
Notes and accounts payable (Note 9)	117,476	**119,987**	**1,021,429**
Income taxes payable (Note 18)	3,949	**12,953**	**110,266**
Deferred income taxes (Note 18)	69	**5**	**45**
Other (Note 9)	72,709	**70,488**	**600,048**
	547,404	**593,929**	**5,056,008**
Non-current liabilities:			
Long-term debt (Notes 8 and 9)	312,756	**268,959**	**2,289,595**
Deposits received from retailers (Note 8)	18,283	**–**	**–**
Deferred income taxes (Note 18)	34,120	**27,087**	**230,586**
Accrued retirement benefits to:			
Employees (Note 10)	33,622	**33,315**	**283,604**
Directors and corporate auditors	2,305	**2,314**	**19,696**
	35,927	**35,629**	**303,300**
Other (Note 9)	32,440	**47,486**	**404,243**
	433,526	**379,161**	**3,227,724**
Minority interests in consolidated subsidiaries	29,868	**35,768**	**304,488**
Contingent liabilities (Note 11)			
Shareholders' equity (Note 13):			
Common stock:			
Authorized:			
1,977,308,000 shares as of 31st March, 2005 and 2006			
Issued:			
950,300,586 shares as of 31st March, 2005 and 2006	69,499	**69,499**	**591,633**
Additional paid-in capital	58,605	**59,515**	**506,643**
Retained earnings	101,337	**105,973**	**902,131**
Revaluation excess (Note 14)	4,856	**4,692**	**39,942**
Unrealized gain on other securities	19,886	**28,200**	**240,061**
Foreign currency translation adjustments	(14,725)	**3,260**	**27,753**
Less: treasury stock, at cost			
(15,565,464 shares as of 31st March, 2005 and 14,647,521 shares as of 31st March, 2006)	(2,723)	**(1,752)**	**(14,921)**
Total shareholders' equity	236,735	**269,387**	**2,293,242**
Total liabilities, minority interests and shareholders' equity	¥ 1,247,533	**¥ 1,278,245**	**$ 10,881,462**

Consolidated Statements of Income and Retained Earnings

Taiheiyo Cement Corporation and Subsidiaries
For the years ended 31st March, 2005 and 2006

	2005	2006	2006
	(Millions of yen)		(Thousands of U.S. dollars) (Note 5)
Net sales	¥ 872,687	**¥ 906,657**	**$ 7,718,200**
Cost of sales	682,891	**708,259**	**6,029,275**
Gross profit	189,796	**198,398**	**1,688,925**
Selling, general and administrative expenses (Notes 15 and 16)	141,610	**136,387**	**1,161,034**
Income from operations	48,186	**62,011**	**527,891**
Other income (expenses):			
Interest and dividend income	5,346	**4,306**	**36,657**
Interest expenses	(12,627)	**(11,228)**	**(95,585)**
Loss on sales/disposal of property, plant and equipment	(4,271)	**(3,954)**	**(33,660)**
Gain on sale of investments in securities	6,880	**13,593**	**115,711**
Liquidation of unconsolidated subsidiaries and affiliates	(2,477)	**(130)**	**(1,103)**
Write-off of investments in securities	(2,029)	**(1,121)**	**(9,543)**
Special allowance to employees retired under early retirement scheme	(740)	**(264)**	**(2,244)**
Provision for allowance for doubtful accounts	(4,300)	**(3,897)**	**(33,171)**
Equity in earnings (losses) of unconsolidated subsidiaries and affiliates	847	**(5,546)**	**(47,211)**
Loss on withdrawal of business	(6,898)	**–**	**–**
Gains on changes of ownership interests in affiliates (Note 17)	1,373	**1,496**	**12,736**
Loss on closure of a cement plant	(518)	**–**	**–**
Loss on impairment of fixed assets	–	**(33,435)**	**(284,628)**
Loss on impairment of investments in affiliates	–	**(950)**	**(8,086)**
Other, net	(3,944)	**(1,409)**	**(12,003)**
	(23,358)	**(42,539)**	**(362,130)**
Income before income taxes and minority interests	24,828	**19,472**	**165,761**
Income taxes (Note 18):			
Current	9,316	**23,227**	**197,727**
Deferred	892	**(14,108)**	**(120,100)**
	10,208	**9,119**	**77,627**
Minority interests in net income of consolidated subsidiaries	208	**1,252**	**10,658**
Net income	14,412	**9,101**	**77,476**
Retained earnings:			
Balance at beginning of year	88,769	**101,337**	**862,666**
Increase:			
Merger of consolidated subsidiaries	3	**–**	**–**
Reversal of revaluation excess	517	**71**	**602**
Decrease:			
Cash dividends	(2,314)	**(2,331)**	**(19,842)**
Directors' and corporate auditors' bonuses	(50)	**(49)**	**(417)**
Increases in consolidated subsidiaries	–	**(129)**	**(1,102)**
Decreases in companies accounted for by the equity method	–	**(1,844)**	**(15,696)**
Other, net	–	**(183)**	**(1,556)**
Balance at end of year	¥ 101,337	**¥ 105,973**	**$ 902,131**
Per share (Note 4(12)):	(Yen)		(U.S. dollars) (Note 5)
Net income			
Basic	¥ 15.33	**¥ 9.63**	**$ 0.08**
Diluted	14.80	**9.29**	**0.08**
Cash dividends	2.50	**2.50**	**0.02**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Taiheiyo Cement Corporation and Subsidiaries
For the years ended 31st March, 2005 and 2006

	2005	2006	2006
	(Millions of yen)		(Thousands of U.S. dollars) (Note 5)
Cash flows from operating activities			
Income before income taxes and minority interests	¥ 24,828	**¥ 19,472**	**$ 165,761**
Depreciation and amortization	40,339	**38,610**	**328,682**
Amortization of difference between equity in net assets of consolidated subsidiaries and investment cost	1,177	**69**	**590**
Equity in earnings (losses) of unconsolidated subsidiaries and affiliates	(847)	**5,546**	**47,211**
Gains on changes of ownership interests in affiliates	(1,373)	**(1,496)**	**(12,736)**
Gain on sale of investments in securities	(6,880)	**(13,593)**	**(115,711)**
Liquidation of unconsolidated subsidiaries and affiliates	2,477	**130**	**1,103**
Write-off of investments	2,029	**1,121**	**9,543**
Decrease in accrued retirement benefits	(2,671)	**(2,604)**	**(22,170)**
Increase (decrease) in allowance for doubtful accounts	648	**(91)**	**(773)**
Interest and dividend income	(5,346)	**(4,306)**	**(36,657)**
Interest expenses	12,627	**11,228**	**95,585**
Loss on sale/disposal of property, plant and equipment	4,271	**3,954**	**33,660**
Loss on impairment of fixed assets	–	**33,435**	**284,628**
Loss on impairment of investments in affiliates	–	**950**	**8,086**
Increase in notes and accounts receivable	(2,821)	**(6,335)**	**(53,932)**
Increase in inventories	(2,423)	**(1,257)**	**(10,709)**
Increase in notes and accounts payable	1,692	**3,310**	**28,176**
Other, net	7,182	**(7,862)**	**(66,923)**
Subtotal	74,909	**80,281**	**683,414**
Interest and dividends received	7,084	**4,558**	**38,797**
Interest paid	(12,888)	**(10,809)**	**(92,011)**
Income taxes paid	(14,805)	**(12,570)**	**(107,002)**
Net cash provided by operating activities	54,300	**61,460**	**523,198**
Cash flows from investing activities			
Increase (decrease) in time deposits	(637)	**694**	**5,909**
Purchase of property, plant and equipment	(33,508)	**(41,899)**	**(356,677)**
Proceeds from sale of property, plant and equipment	26,284	**15,464**	**131,644**
Purchase of investments in securities	(935)	**(14,004)**	**(119,212)**
Proceeds from sale of investments in securities	11,064	**14,660**	**124,800**
Long-term loans made	(11,631)	**(4,640)**	**(39,503)**
Collections of long-term loans receivable	10,357	**5,461**	**46,484**
Other, net	2,016	**1,636**	**13,928**
Net cash provided (used) by investing activities	¥ 3,010	**¥ (22,628)**	**$ (192,627)**
Cash flows from financing activities			
Decrease in short-term borrowings	¥ (28,213)	**¥ (23,703)**	**$(201,778)**
Proceeds from long-term borrowings	39,720	**54,870**	**467,100**
Repayment of long-term borrowings	(72,720)	**(79,029)**	**(672,759)**
Proceeds from issuance of bonds	23,100	**51,350**	**437,133**
Redemption of bonds	(30,600)	**(20,922)**	**(178,105)**
Repayment of treasury stocks	(193)	**(256)**	**(2,180)**
Issue of shares	1,542	**2,545**	**21,663**
Cash dividends paid	(2,719)	**(2,714)**	**(23,106)**
Disposal of treasury stock	240	**3,210**	**27,326**
Net cash used in financing activities	(69,843)	**(14,649)**	**(124,706)**
Effect of exchange rate changes on cash and cash equivalents	96	**1,758**	**14,968**
Decrease (increase) in cash and cash equivalents	(12,437)	**25,941**	**220,833**
Cash and cash equivalents at beginning of year	80,534	**67,473**	**574,387**
Increase in cash and cash equivalents resulting from merger of consolidated subsidiaries	76	**279**	**2,377**
Cash and cash equivalents at beginning of year resulting from changes in the scope of consolidation	(700)	**(204)**	**(1,734)**
Cash and cash equivalents at end of year (Note 6)	¥ 67,473	**¥ 93,489**	**$ 795,863**

The accompanying notes are an integral part of these statements.

<Yen in millions and U.S. dollars in thousands, except Note 2 (1) and (2) and share capital amounts in Note 2, conversion price of convertible bonds and per share amounts and unless otherwise indicated.>

1. Basis of Presentation of the Consolidated Financial Statements

The accompanying consolidated financial statements of Taiheiyo Cement Corporation (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

In preparing the accompanying consolidated financial statements, certain items presented in the consolidated financial statements filed with the Directors of Kanto Finance Bureau in Japan have been reclassified and/or recapitulated in these accounts and certain notes have been added for the convenience of readers outside Japan and to conform to the current year presentation.

2. Scope of Consolidation and Investments in Unconsolidated Subsidiaries and Affiliates

Under Japanese accounting standards, a subsidiary and an affiliate are defined as follows:

• a subsidiary: a company in which the reporting entity directly or indirectly holds more than 50% of the voting rights thereof or which is deemed to be controlled directly or indirectly by the reporting entity; and

• an affiliate: a company in which the reporting entity directly or indirectly holds 20% or more of the voting rights thereof or in which the reporting entity is deemed to exercise significant influence directly or indirectly on its decision making.

(1) Scope of Consolidation

The numbers of subsidiaries the Company had for the years ended 31st March, 2005 and 2006 were 338 and 327, respectively, of which 181 and 176, respectively, were consolidated in the respective years.

The significant subsidiaries which have been consolidated by the Company are listed below:

Consolidated subsidiaries	Equity ownership* (%)	Share capital* (Millions of yen)
(Domestic)		
NM Cement Co., Ltd.	70.0	¥ 8,650
CLION Co., Ltd.	70.7	5,489
Mitsui Wharf Co., Ltd.	100.0	3,500
Myojo Cement Co., Ltd.	100.0	2,500
Azuma Shipping Co.,Ltd.	56.4	2,213
NIHON CERATEC Co., Ltd.	62.9	1,825
Taiheiyo Material Corporation	100.0	1,631
(Overseas)		(Millions of U.S. dollards)
TAIHEIYO CEMENT U.S.A., Inc. (USA)	100.0	$ 63.5
CALIFORNIA PORTLAND CEMENT COMPANY (USA)	100.0	24.2
Jiangnan-Onoda Cement Co., Ltd. (China)	88.5	134.3
Dalian-Onoda Cement Co., Ltd. (China)	84.8	82.8
Qinhuangdao Asano Cement Co., Ltd. (China)	71.9	93.1
NGHI SON CEMENT CORPORATION (Vietnam)	65.0	108.1

* as of 31st March, 2006

The remaining 151 unconsolidated subsidiaries for the year ended 31st March, 2006 (157 for the year ended 31st March, 2005) have not been consolidated with the Company since the total assets, net sales and net income of those companies in the aggregate were not significant in relation to those of the consolidated financial statements of the Companies.

(2) Investments in Unconsolidated Subsidiaries and Affiliates

For the year ended 31st March, 2006, the Company had 153 affiliates (165 for the year ended 31st March, 2005), of which 57 affiliates (62 for the year ended 31st March, 2005) were accounted for by the equity method, as are 15 unconsolidated subsidiaries (15 for the year ended 31st March, 2005).

Investments in the remaining 136 unconsolidated subsidiaries and 96 affiliates (142 and 103, respectively, for the year ended 31st March, 2005) were carried at cost due to the immateriality of these entities in relation to the consolidated financial position and the results of operations of the Companies.

The unconsolidated subsidiaries and significant affiliates, to which the equity method was applied, include:

Unconsolidated subsidiaries/affiliates	Equity ownership* (%)	Share capital* (Millions of yen)
(Domestic)		
NIPPON HUME CORPORATION	30.1	¥ 5,251
A&A Material Corporation	43.0	3,889
DC Co., Ltd.	35.9	3,402
ORIENTAL Construction Co., Ltd.	19.9	2,985
Fuji P.S Corporation	21.1	2,379
Magu Co., Ltd.	43.6	2,217
Yakushima Denko Co., Ltd.	49.5	2,006
Asahi Concrete Works Co., Ltd.	21.5	1,204
		(Billions of Korean Won)
(Overseas)		
Ssangyong Cement Industrial Co., Ltd. (Korea)	30.3	401.5

* as of 31st March, 2006

For subsidiaries and affiliates which are accounted for by the equity method and of which net assets are negative, ¥5,804 ($49,417) has been directly deducted from "Investments in and advances to unconsolidated subsidiaries and affiliates" in the accompanying consolidated balance sheets as of 31st March, 2006 by taking into account the amounts of loans to and guarantees for those companies (¥ 4,934 as of 31st March, 2005).

3. Consolidation Policies

For consolidation purposes, all significant inter-company transactions, account balances and unrealized profit/loss arising from inter-company transactions have been eliminated.

Where the year-end dates of consolidated subsidiaries and unconsolidated subsidiaries and affiliates accounted for by the equity method are different from that of the Company, necessary adjustments have been made for any significant transactions that took place between such different year-end dates.

Adjustments are made to eliminate the depreciation of assets related to unrealized profits incurred from inter-company transactions among the Companies.

The difference between the purchase cost of an investment in a consolidated subsidiary and the amount of the underlying equity in net assets at fair value of such subsidiary is directly charged/credited, as the case may be, against income for the year unless such difference is material. If the difference is material and the effective period is able to be estimated, the difference is amortized over the relevant estimated effective periods.

4. Summary of Significant Accounting Policies

Significant accounting policies employed by the Company and its consolidated subsidiaries in preparing the accompanying consolidated financial statements are outlined below:

(1) Inventories

Generally, inventories are stated at cost, which is determined by the moving average method. Appropriate write-downs are recorded for inventories which are deemed impaired in value. Inventories held by the consolidated subsidiaries in the U.S.A. are valued at the lower of cost or market, cost being determined by the average method.

(2) Property, Plant and Equipment

Property, plant and equipment are stated at cost.

Depreciation is computed generally based on the declining-balance method by the Company and its domestic consolidated subsidiaries at rates based on the estimated useful lives of assets. The depreciation of buildings, excluding leasehold improvements, purchased on and after 1st April, 1998 is computed based on the straight-line method.

Depreciation of property and equipment held by the subsidiaries in foreign countries is calculated by the straight-line method in accordance with accounting standards generally accepted in the respective countries.

The range of useful lives is summarized as follows:

Buildings and structures	10 – 75 years
Machinery and equipment	4 – 15 years

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

(3) Financial Instruments

(a) Derivatives

All derivatives, except for derivatives that are designated as "hedging instruments" (see (c) Hedge Accounting below), are stated at fair value, and changes in fair value are included in the determination of net profit or loss for the period in which they arise.

(b) Securities

Securities are classified in accordance with Japanese accounting standards into four categories, namely, trading securities, held-to-maturity debt securities, shares in equity of subsidiaries and affiliates, and other securities.

Prior to the year ended 31st March, 2006, the Company determined the fair value of marketable securities classified as other securities based on the quoted prices (or the equivalent) as of the balance sheet date. Effective the year ended 31st March , 2006, the Company changed its method of determining fair value to one based on the average quoted prices (or the equivalent) in the one-month period immediately before the balance sheet date. This change was made in order to exclude the direct effects of temporary fluctuations in the quoted prices (or the equivalent). The effect of this change on the consolidated results of operations for the year ended 31st March, 2006 was immaterial. The effect of this change on the calculation of fair value was immaterial.

Trading securities and certain financial instruments which meet strict conditions are categorized as current assets, and all other securities other than investments in consolidated subsidiaries are shown as "Investments in securities" in the accompanying consolidated balance sheets, as the case may be.

Valuation of securities is as follows:

Trading securities are valued at fair market value at the year-end and the resulting valuation gain/loss is charged to income;

Held-to-maturity debt securities are valued by applying amortization/ accumulation unless impairments in value are to be recognized;
and

With respect to other securities, such securities with market values are valued at fair market value and those without market values are valued at cost unless impairments in the value of those investments are to be recognized. The unrealized gain/loss resulting from the valuation of other securities at year-end is shown as "Unrealized gain on other securities," net of deferred income taxes thereon, in the accompanying consolidated balance sheets. Cost of securities sold is determined by the moving-average method.

When market values of other securities are 50% of the cost or lower at the end of the financial year, such securities are written down to such market value. With respect to other securities of which market values have declined between 30% and 50% of the respective costs, amounts to be written -off are determined by considering the recoverability of the respective securities.

(c) Hedge Accounting

Gains or losses arising from changes in fair value of derivatives designated as hedging instruments are deferred as an asset or liability and included in net profit or loss in the same period during which the gains and losses on the hedged items or transactions are recognized.

The derivatives designated as hedging instruments are principally interest swaps and forward exchange contracts. The related hedged items are trade accounts receivable and payable, long-term bank loans, and debt securities.

The Company has a policy to utilize the above hedging instruments in order to reduce the exposure to the risk of interest rate and foreign exchange fluctuations. Thus, the purchases of the hedging instruments are limited to, at maximum, the amounts of the hedged items. Effectiveness of hedging activities is evaluated by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

(4) Foreign Currency Translation

(Translation of foreign currency financial statements of overseas subsidiaries and affiliates)

Exchange rates at the balance sheet date are applied for all assets and liabilities and the historical exchange rates are applied to shareholders' equity whereas profit and loss items are translated at the average exchange rates prevailing during the year. Items related to inter-company transactions with the Company which are subject to elimination on consolidation are translated in the amounts the Company recorded.

The difference in the debits and credits in the balance sheets resulting from the translation in the above manner is shown as "Foreign currency translation adjustments" in the shareholders' equity of the accompanying consolidated balance sheets, net of the amount attributable to minority interests in consolidated subsidiaries.

(Translation of foreign currency items)

Receivables and payables denominated in foreign currencies were translated into Japanese yen at the exchange rates at the balance sheet date. Gains or losses arising from transactions in foreign currency receivables and payables are credited or charged to income as incurred.

(5) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statement of cash flows consist of cash on hand, bank deposits readily available, and short-term investments with a maturity of three months or less when purchased.

(6) Income Taxes

Deferred tax accounting is applied for the preparation of the accompanying consolidated financial statements. The asset and liability approach is used to recognize deferred tax assets and liabilities in respect of temporary differences between the carrying amounts and the tax base of assets and liabilities.

(7) Amortization of Goodwill and Software

(Goodwill)

In accordance with SFAS No. 142, goodwill recorded in the consolidated subsidiary in the U.S.A. is not subject to amortization, but rather is tested for impairment annually and when indicator of impairment thereon is recognized.

(Software)

Capitalized software is amortized by the straight-line method over the estimated useful lives (basically 5 years).

(8) Recognition of Certain Accrued Expenses

In general, the accrual basis of accounting for all income and expense items is followed for the preparation of the accompanying consolidated financial statements.

(i) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on the estimated uncollectible amounts of doubtful receivables, in addition to a general provision computed by applying past credit loss experience. Consolidated overseas subsidiaries mainly provide for such allowance at the estimated amounts of credit losses.

(ii) Accrued retirement benefits

(Retirement benefits to employees)

Employees are generally entitled to lump-sum retirement and/or annuity upon termination of services, the amount of which is determined in light of the regulations set forth within the relevant companies of the Companies. As a part of such employees' retirement benefit scheme, the Company and certain subsidiaries have non-contributory pension funds.

Accrued retirement benefits to employees are provided for in the amount of projected benefit obligation less the fair value of plan assets at the end of the financial year.

The actuarial gains and losses and prior service cost are being amortized by the straight-line method over the certain number of years within the expected remaining years of service of the then-active employee participants (primarily 10 years), corresponding the year following the year in which they arise and effective the period in which they arise, respectively.

The Company established a retirement benefit trust by contributing a certain shares of stock.

When the value of plan assets exceeds the amount of the projected benefit obligation minus both the actuarial gains and losses and prior service costs, the amount of such excess is included as prepaid pension costs in “Other” in “Investment, advances and other assets.”

(Retirement benefits to directors and corporate auditors)

As is customary practice in Japan, the Company pays lump-sum retirement benefits to retiring directors or corporate auditors, the amount of which is determined by the internal rules similar to those for employees. The payment of such retirement benefits is subject to approval by shareholders at the annual general meeting. The Company recognizes 100% of the amounts the Company would have paid if all directors and statutory auditors had retired at the year-end.

(9) Appropriation of Retained Earnings

Under the Japanese Commercial Code (the “Code”), the appropriations of retained earnings, including year-end cash dividends, are subject to shareholders’ approval at the annual general meeting to be held within three months after the respective periods. The board of directors is allowed to make interim cash distributions (“interim cash dividends”) with certain strict conditions stipulated in the Code.

The appropriation of retained earnings shown in the accompanying consolidated statements of income and retained earnings reflects the results of the appropriation of retained earnings applicable to the immediately preceding year and approved at the shareholders’ meeting and the interim cash dividends made during the current year.

(10) Accounting for Treasury Stock

The shares of the Company held by consolidated subsidiaries are recognized as treasury stock after netting off the amounts attributable to minority interests. With respect to those shares held by affiliates to which the equity method is applied, the amounts attributable to the Companies are also recorded as treasury stock in the accompanying consolidated balance sheets, and debit/credit differences (gain/loss) incurred from transactions involving treasury stocks are charged to additional paid-in capital.

(11) Segment Information

The Company introduced a new “in-house company” corporate structure on 1 April 2004, which consists of seven in-house companies named Cement Business Company, Mineral Resources Business Company, Environmental Business Company, Real Estate Business Company, Construction Materials Business Company, Ceramics & Electronics Business Company and International Business Company. It aims strengthening group management in each respective business segments and maximizing business value. The objective of this change is to define ownership of responsibilities in each of the respective businesses and to expedite the making and the execution of management decisions. Accordingly the business segments in the segment information were reviewed and the ready-mixed concrete business unit was reclassified from the Construction and construction material segment to the Cement Business segment. Also, in consideration of materiality, Environmental business segment and Ceramics & Electronics Business segment are newly established and Real estate segment is now included in Other.

(12) Per Share Information

Net income per share is computed based on the weighted-average number of shares of common stock outstanding during the respective periods.

The amount of cash dividends is the total of interim cash dividends paid during the respective periods and dividends declared as applicable to the respective periods.

(13) Impairment of Fixed Assets

The Company and the consolidated subsidiaries adopted the “Accounting Standard for Impairment of Fixed Assets” (“Statement of Opinion on the Establishment of Accounting Standard for Impairment of Fixed Assets” issued by the Business Accounting Council in Japan on 9th August, 2002) and “Application Guidance for Accounting Standard for Impairment of Fixed Assets” (Application Guidance for Accounting Standard No. 6, 31st October , 2003), Effective the year ended 31st March, 2006. The new standard requires that tangible and intangible fixed assets be carried at cost less depreciation, and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. As a result of adapting the new accounting standard, a loss on impairment of ¥33,435 ($284,628) was recognized and income before income taxes and minority interests decreased by the same amount for the year ended 31st March, 2006 as compared with the corresponding amount under the previous method. Accumulated impairment losses are directly credited from the related assets under the new rules of The presentation on Consolidated Financial Statements.

5. United States Dollar Amounts

The accompanying consolidated financial statements are prepared in Japanese yen. The U.S. dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating Japanese yen to U.S. dollars on a basis of ¥117.47 = U.S.$1, the approximate effective rate of exchange prevailing at 31st March, 2006. The inclusion of such U.S. dollar amounts is solely for convenience of the readers and is not intended to imply that yen amounts have been or could be converted, realized or settled in U.S. dollars at that or any other rate.

6. Cash and Cash Equivalents

“Cash and time deposits” in the accompanying consolidated balance sheets as of 31st March, 2005 and 2006 are reconciled to cash and cash equivalents in the accompanying consolidated statements of cash flows as follows:

	2005	2006	
Cash and time deposits	¥73,365	¥98,891	$841,846
Time deposits with a maturity of over three months	(5,892)	(5,402)	(45,983)
Cash and cash equivalents	¥67,473	¥93,489	$795,863

7. Investments in Securities

Investments in securities shown in the accompanying consolidated balance sheets as of 31st March, 2005 and 2006 comprises:

	2005	2006	
Investments in and advances to unconsolidated subsidiaries and affiliates	¥ 90,207	¥ 100,373	$ 854,452
Others	68,509	79,737	678,794
	¥ 158,716	¥ 180,110	$ 1,533,246

At 31st March, 2005 and 2006, information with respect to "other securities" for which market prices were available is summarized as follows:

	As of 31st March, 2006					
	Acquisition cost	Fair value	Unrealized gain (loss)	Acquisition cost	Fair value	Unrealized gain (loss)
Securities with fair value exceeding their acquisition cost:						
Equity securities	¥ 15,993	¥ 61,842	¥ 45,849	$136,145	$526,447	$390,302
Bonds:						
Government bonds	–	–	–	–	–	–
Corporate bonds	–	–	–	–	–	–
Other	37	47	10	317	399	82
	16,030	61,889	45,859	136,462	526,846	390,384
Securities with fair value not exceeding their acquisition cost:						
Equity securities	474	414	(60)	4,037	3,527	(510)
Bonds:						
Government bonds	33	33	(0)	281	278	(3)
Corporate bonds	–	–	–	–	–	–
Other	–	–	–	–	–	–
	507	447	(60)	4,318	3,805	(513)
	¥ 16,537	¥ 62,336	¥ 45,799	$ 140,780	$530,651	$389,871

	As of 31st March, 2006		
	Acquisition cost	Fair value	Unrealized gain (loss)
Securities with fair value exceeding their acquisition cost:			
Equity securities Bonds:	¥16,762	¥50,009	¥33,247
Government bonds	–	–	–
Corporate bonds	15	15	0
Other	37	38	1
	16,814	50,062	33,248
Securities with fair value not exceeding their acquisition cost:			
Equity securities Bonds:	1,308	1,148	(160)
Government bonds	30	30	(0)
Corporate bonds	–	–	–
Other	–	–	–
	1,338	1,178	(160)
	¥18,152	¥51,240	¥33,088

Other securities without market values as of 31st March, 2005 and 2006 were as follows:

	2005	2006	
Shares other than listed shares and shares traded on the OTC market	¥17,070	¥17,329	$147,516
Other equity securities	198	73	620

Gains and losses incurred from the sale of other securities included in the accompanying consolidated statements of income and retained earnings for the years ended 31st March, 2005 and 2006 were as follows:

	2005	2006	
Sales amounts	¥ 5,269	¥ 12,527	$ 106,636
Gains	3,107	9,815	83,550
Losses	132	136	1,163

The aggregated maturities of other securities with maturity at 31st March, 2006 were as follows:

Within 1 year	1 – 5 years	5 – 10 years	Over 10 years
¥ 26	¥ –	¥ 20	¥ –
$ 221	$ –	$ 167	$ –

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

Weighted average interest rates on short-term bank loans and deposits received from retailers to secure trade receivables outstanding at 31st March, 2006 were 1.08% and 1.87%, respectively.

Interest bearing liabilities as of 31st March, 2005 and 2006 are as follows:

	2005		2006		
		Weighted average interest rates (%)		Weighted average interest rates (%)	
Long-term debt					
Long-term bank loans	¥ 293,374	2.04	¥ 262,890	2.27	$ 2,237,934
Bonds	84,380	0.45 – 2.975	114,808	0.45 – 2.975	977,339
Convertible bonds *	34,000	0.00	34,000	0.00	289,435
	411,754		411,698		3,504,708
Less: due within one year					
Long-term bank loans	78,108	2.10	80,985	1.99	689,413
Bonds	20,890	0.45 – 2.85	61,754	0.45 – 2.975	525,700
	98,998		142,739		1,215,113
	¥ 312,756		¥ 268,959		$ 2,289,595

* The Company issued ¥12,000 Zero coupon convertible bonds due 2013 with a conversion price of ¥382 per share on 5th November, 2003 and ¥22,000 Zero coupon convertible bonds due 2014 with a conversion price of ¥506 per share on 11th May, 2004.

Aggregate annual maturities of long-term bank loans and bonds outstanding as of 31st March, 2006 for the next five years are as follows:

Year ending 31st March,	Bonds		Long-term bank loans		Total	
2007	¥ 61,754	$525,700	¥ 80,985	$ 689,417	¥ 142,739	$1,215,117
2008	1,464	12,463	50,005	425,685	51,469	438,148
2009	1,070	9,109	55,538	472,791	56,608	481,900
2010	300	2,554	29,763	253,373	30,063	255,927
2011	20,220	172,129	24,114	205,283	44,334	377,412

9. Assets Pledged as Collateral and Secured Liabilities

Assets pledged as collateral and secured liabilities as of 31st March, 2005 and 2006 were as follows:

(1) Assets pledged as collateral

	2005	2006	
Cash and time deposits	¥ 1,223	¥ 1,083	$ 9,219
Notes and accounts receivable	101	–	–
Investments in securities	51,618	37,967	323,205
Other assets	973	3,258	27,739
Buildings and structures	58,077	53,470	455,181
Machinery and equipment	48,887	45,573	387,957
Land	73,095	66,126	562,916
Other property, plant and equipment	270	229	1,948
Total	¥ 234,244	¥ 207,706	$1,768,165

(2) Secured liabilities

	2005	2006	
Notes and accounts payable	¥ 8,158	¥ 5,513	$ 46,931
Short-term bank loans	44,887	37,285	317,400
Long-term bank loans	87,355	78,157	665,338
Bonds	2,400	2,718	23,138
Other liabilities	4,313	6,880	58,566
Total	¥ 147,113	¥ 130,553	$ 1,111,373

10. Accrued Retirement Benefits to Employees

Accrued retirement benefits to employees as of 31st March, 2005 and 2006 were analyzed as follows:

	2005	2006	
Projected benefit obligations	¥ (98,400)	¥ (96,806)	$ (824,090)
Plan assets	55,484	88,964	757,329
	(42,916)	(7,842)	(66,761)
Unrecognized actuarial differences	9,294	(24,048)	(204,716)
Amounts recognized in the consolidated balance sheets	(33,622)	(31,890)	(271,477)
Prepaid pension costs	–	1,425	12,127
Accrued retirement benefit	¥ (33,622)	¥ (33,315)	$ (283,604)

Expenses related to retirement benefits to employees incurred for the years ended 31st March, 2005 and 2006 were as follows:

	2005	2006	
Service cost	¥ 4,260	¥ 3,634	$ 30,935
Interest cost	1,940	1,862	15,851
Expected return on plan assets	(493)	(533)	(4,539)
Amortization of actuarial loss	3,025	2,613	22,245
Amortization of unrecognized prior service cost	(474)	(474)	(4,035)
Expenses for the year	¥ 8,258	¥ 7,102	$ 60,457

Assumptions used in the calculation of the above information were as follows:

Discount rate	Mainly 2.5%
Expected rate of return on plan assets	Mainly 2.5%
Method of attributing the projected benefits to periods of services	Straight-line basis
Amortization of actuarial differences	Mainly 10 years from the year following that recognition

11. Contingent Liabilities

(1) As of 31st March, 2006, the Companies were contingently liable for notes discounted by banks in the aggregate amount of ¥12,127 ($103,239) (¥17,389 as of 31st March, 2005), notes endorsed for payments in the aggregate amount of ¥539 ($4,585) (¥569 as of 31st March, 2005), and the assignment of receivable with recourse of ¥0 ($0) (¥137 as of 31st March, 2005).

(2) The Companies were also contingently liable as guarantors of bank loans and trade payables for certain companies (including guarantee forward commitments), the balances of which as of 31st March, 2005 and 2006 were as follows:

	2005	2006	
Guarantees for bank loan payables	¥16,894	¥14,132	$120,302
Guarantees for account payables to Ready-mixed Cooperative Association	1,920	1,719	14,637
Guarantees (forward commitments) for bank loans payables	1,336	1,287	10,954

12. Supplementary Information

The Company and a consolidated subsidiary have invested the aggregate amount of ¥75,769 ($645,012) since October 2000 in Ssangyong Cement Industrial Co., Ltd. ("Ssangyong") in Korea. The Company has been jointly managing Ssangyong under a joint management contract. The Company, Ssangyong and its financial creditors committee ("Creditors Committee") agreed in November 2001 on the acceleration of the restructuring of Ssangyong with the quarterly review by the Creditors Committee based on the "Enterprise Structural Adjustment Promotion Law" in Korea effective until 31st December, 2005. Such restructuring was completed at the end of November 2005 as its financial position and liquidity as well as profit structure, improved.

At the shareholders' meeting on 21st October, 2005 , a decrease of 87.5% in common stock was approved , and this became effective on 23rd November 2005. Also convertible bonds with obligation of conversion were converted into common stock by the end of November 2005.

With respect to the investment in Ssangyong, the equity method of accounting has been applied in preparation of the accompanying consolidated financial statements. The difference between the cost of the investment and the amount of underlying equity in net assets at fair value of ¥ 949 ($8,086) was impairment and charged against income for the year ended 31st March, 2006.

13. Shareholders' Equity

Under the Code, at least 50% of the issue price of new shares is required to be designated as stated capital, which is determined by a resolution of the Board of Directors. Proceeds in excess of the amount designated as stated capital are credited to additional paid-in capital.

Under the Code, an amount equivalent to 10% of interim cash distributions (interim cash dividends) and at least 10% of cash distributions including cash dividends made as a result of the appropriation of retained earnings is required to be transferred to the legal reserve until the balance of the total of the additional paid-in capital and the legal reserve reaches 25% of the stated share capital. The balance of legal reserve is included in retained earnings, the use of which is strictly limited under the Code.

The amount in excess of 25% of the stated share capital, as the case may be , is allowed to be distributed as dividends when certain conditions specifically stipulated in the Code are satisfied.

The legal reserve included in retained earnings in the accompanying consolidated balance sheets was ¥ 15,261 ($129,914) at 31st March, 2005 and 2006.

14. Revaluation of Land

Chichibu Railway Co., Ltd., a domestic consolidated subsidiary, revalued land on 31st March, 2000 in the aggregate book value of ¥1,065 at the fair value of ¥15,867 in accordance with the Law for Land Revaluation.

With respect to the amount of unrealized profit less deferred taxes thereon, the amount attributable to minority interests is credited to "Minority interests in consolidated subsidiaries" and the rest is recorded as "Revaluation excess" in the accompanying consolidated balance sheets.

With respect to the land revalued as mentioned above, the difference between the aggregate book value of such land (after revaluation) and the aggregate fair value thereof was ¥ 4,803 ($40,890) at 31st March, 2006 (¥ 4,362 at 31st March, 2005).

During the year ended 31st March, 2002, A&A Material Corporation and DC Co., Ltd., domestic affiliates accounted for by the equity method, revalued their land in accordance with the Law for Land Revaluation. With respect to the amount of unrealized profit less deferred taxes thereon, the amount attributable to the Company is included in "Revaluation excess" in the accompanying consolidated balance sheets.

15. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended 31st March, 2005 and 2006 are summarized as follows:

	2005	2006	
Labor and payroll cost	¥ 40,847	¥ 40,329	$ 343,317
Freight and transportation / distribution expenses	53,230	56,125	477,780
Provision for accrued bonuses to employees	2,011	2,523	21,481
Expenses related to accrued retirement benefits	6,152	5,107	43,478
Amortization of difference between equity in net assets of consolidated subsidiaries and investment cost	1,177	69	590
Others	38,193	32,234	274,388
Total	¥ 141,610	¥ 136,387	$ 1,161,034

16. Research and Development Costs

Research and development costs charged to selling, general and administrative expenses and manufacturing costs for the year ended 31st March, 2005 and 2006 were ¥ 5,883 and ¥5,691 ($48,446), respectively.

17. Gains on Changes of Ownership Interests in Affiliates

As a result of the issuance of new shares by Azuma Shipping Co., Ltd and merge transaction of Nihon Network Support Co., Ltd, (formerly Kinki Concrete Kogyo K.K.), the Company's proportionate share in these entities' equity increased by ¥1,496 ($12,736). The Company recognized such a gain in income for the year ended 31st March, 2006, merge transaction.

18. Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporate tax, inhabitants' taxes and enterprise tax. Enterprise tax is deductible when paid as expenses for the purpose of the calculation of other income taxes. The effective statutory tax rate for the year ended 31st March, 2005 and 2006 were approximately 39.54%.

Since the difference between the effective statutory tax rate and the effective tax rate is less than 5% of the effective statutory tax rate, according to Japanese accounting standards, a rate reconciliation is not required for 2005.

The effective tax rate reflected in the consolidated statements of income and retained earnings for the year ended 31st March, 2006 is reconciled to the effective statutory tax rate as follows:

	2006
Effective statutory tax rate	39.54%
Effect of:	
Entertainment expenses	15.52
Tax-exempt income including certain dividends	(2.38)
Per capita	1.60
Equity in (earnings) losses of unconsolidated subsidiaries and affiliates	11.26
Valuation allowance for deferred tax assets	(5.85)
Dilution gain of affiliated company	(3.04)
Differences of tax rates between Japan and overseas	(11.54)
Amortization of difference between equity in net assets of consolidated subsidiaries and investment cost	0.14
Others	1.58
Effective tax rate in the consolidated statements of income and retained earnings	46.83%

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

	2005	2006	
Deferred tax assets:			
Nondeductible portion of:			
– provision for doubtful accounts	¥ 5,011	¥ 3,646	$ 31,039
– provision for bonus to employees	2,285	2,393	20,372
– accrued retirement benefits to employees	23,339	22,305	189,880
Unrealized loss of property, plant and equipment	16,365	15,858	134,996
Loss on impairment of fixed assets	–	10,180	86,661
Others	9,708	12,816	109,102
Loss carried forward	3,302	8,180	69,632
Subtotal	60,010	75,378	641,682
Valuation allowance	(25,611)	(28,843)	(245,542)
Total deferred tax assets	34,399	46,535	396,140
Deferred tax liabilities:			
Special tax reserve on property, plant and equipment	(21,763)	(20,722)	(176,403)
Other reserves under Special Taxation Measures Law	(542)	(518)	(4,407)
Depreciation	(5,545)	(5,096)	(43,383)
Difference between the cost of investments and their underlying net equity at fair value	(1,769)	(2,005)	(17,067)
Unrealized holding gain on other securities	(12,836)	(18,139)	(154,419)
Land revaluation	(5,938)	(6,077)	(51,733)
Others	(1,177)	(1,109)	(9,437)
Total deferred tax liabilities	(49,570)	(53,666)	(456,849)
Net deferred tax liabilities	¥ (15,171)	¥ (7,131)	$ (60,709)

19. Loss on Impairment of Fixed Assets

Effective 31st March, 2006, the Company adopted a new accounting standard for the impairment of fixed assets. The Company evaluated the impairment of fixed assets by grouping assets based on a business unit that was largely independent of other asset groups, except for assets used for rent, important idle properties and assets scheduled for disposal, which are individually considered. Each consolidated subsidiary principally formed an asset group. Certain significant subsidiaries formed asset groups by segment for management accounting purposes, except for important idle properties and assets scheduled for disposal.

As a result, the Company and its consolidated subsidiaries recognized impairment losses of ¥33,435 ($284,629) in other expenses for the year ended 31st March, 2006 as follows:

	2006	
Golf course		
Buildings and structures	¥ 3,646	$ 31,034
Machinery and equipment	103	874
Land	5,995	51,035
Other	139	1,190
	9,883	84,133
Rental assets		
Buildings and structures	121	1,032
Land	6,872	58,499
Other	8	70
	7,001	59,601
Business assets of ready-mixed concrete		
Buildings and structures	371	3,156
Machinery and equipment	274	2,330
Land	640	5,447
Other	173	1,477
	1,458	12,410
Other Business assets		
Buildings and structures	398	3,389
Machinery and equipment	205	1,749
Land	123	1,048
Other	111	941
	837	7,127
Idle properties		
Buildings and structures	1,472	12,527
Machinery and equipment	427	3,635
Land	10,466	89,094
Other tangible assets	1,172	9,975
Other	719	6,127
	14,256	121,358
	¥ 33,435	$ 284,629

The impairment losses were measured as the excess of the book value over the higher of (1) the fair market value of the assets, net of disposal costs or (2) the present value of future cash flows arising from ongoing utilization of the assets and disposal after the assets' use.

The fair market value of the assets, net of disposal costs, was estimated as the residual value for tax purposes less disposal costs for tangible depreciable assets including buildings and structures, an appraised value for lands, and structures ; the appraised value for lands; the aggregated amount of appraised values of lands and estimated values of minable raw materials for mining lands for raw materials.

The present value of future cash flows was calculated using discount rates ranging from 3% to 4%.

20. Leases

The Companies have various lease agreements whereby the Companies act both as lessees and lessors.

(1) As lessees

(a) Finance lease contracts other than those which are deemed to transfer the ownership of the leased assets to lessees are accounted for by the method that is applicable to ordinary operating leases. Assumed data as to acquisition costs, accumulated depreciation and net balance of the leased assets would be follows:

	As of 31st March, 2006			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Net balance
Buildings and structures	¥ 203	¥ 28	¥ –	¥ 175
Machinery and equipment	63,364	34,579	68	28,717
Other tangible assets	3,834	1,929	–	1,905
Total	¥ 67,401	¥ 36,536	¥ 68	¥ 30,797
Buildings and structures	$ 1,726	$ 237	$ –	$ 1,489
Machinery and equipment	539,404	294,361	582	244,461
Other tangible assets	32,638	16,422	–	16,216
Total	$ 573,768	$ 311,020	$ 582	$ 262,166

	As of 31st March, 2006		
	Acquisition cost	Accumulated depreciation	Net balance
Buildings and structures	¥ 21	¥ 8	¥ 13
Machinery and equipment	62,924	29,128	33,796
Other tangible assets	3,730	1,697	2,033
Total	¥ 66,675	¥ 30,833	¥ 35,842

Future minimum lease payments as of 31st March, 2006 and lease rental expenses for the year ended 31st March, 2006 are as follows.

	As of 31st March, 2006	
The scheduled maturities of future lease rental payments on such lease:		
Due within one year	¥ 7,811	$ 66,494
Due over one year	22,986	195,672
	¥ 30,797	$ 262,166
Lease rental expenses for the year	¥ 8,413	$ 71,620

(b) Future lease payments under operating leases are as follows:

	As of 31st March, 2006	
Due within one year	¥ 823	$ 7,010
Due over one year	2,147	18,274
	¥ 2,970	$ 25,284

(2) As lessors

Certain assets of the Companies including buildings and structures with aggregated acquisition costs of ¥1,138 ($9,687) as of 31st March, 2006 (¥758 as of 31st March, 2005) were leased out, from which lease rental income of ¥104 ($883) was recorded for the year ended 31st March, 2006 (¥59 for the year ended 31st March, 2005).

21. Derivative Transactions

Derivative financial instruments are utilized for the purpose of hedging exposure to adverse fluctuations in foreign currency exchange rates and interest rates. No such transactions for speculation or trading purposes were entered into.

The Companies are exposed to market risks such as volatility of foreign currency exchange rates and interests rates, and use these derivative financial instruments to hedge the related risk effectively. Accordingly, these risks are not material.

Credit loss in the event of nonperformance by the counterparties to the derivative financial instruments may incur, but any such loss from such event would not be material because the Company enters into transactions only with financial institutions with high credit ratings. The notional amounts of the derivative financial instruments do not necessarily represent the amounts exchanged by the parties and, therefore, are not a direct measure of the Company's risk exposure in connection with derivative financial instruments.

Summarized below are the notional amounts and the estimated fair values of the derivatives outstanding at 31st March, 2005 and 2006:

Interest related transactions

	2006					
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
(Interest rate swaps)						
Receive/fixed and pay/floating	¥ 500	¥(34)	¥(34)	$ 4,256	$(286)	$(286)
Receive/floating and pay/fixed	1,060	(5)	(5)	9,024	(45)	(45)
(Options)						
Caps	17	0	0	142	0	0
Total	¥ 1,577	¥(39)	¥(39)	$13,422	$(331)	$(331)

	2005		
	Notional amount	Fair value	Unrealized gain (loss)
(Interest rate swaps)			
Receive/fixed and pay/floating	¥ 500	¥(32)	¥(32)
Receive/floating and pay/fixed	12,080	(105)	(105)
(Options)			
Caps	672	0	0
Total	¥ 13,252	¥(137)	¥(137)

22. Segment Information

(1) Industry segments

	2006								
	Cement Business	Mineral Resources Business	Environmental Business	Construction Materials Business	Ceramics & Electronics Business	Other	Total	Eliminations or corporate assets	Consolidated total
Net sales:									
(1) Net sales to outside customers	¥ 528,452	¥ 81,321	¥ 61,466	¥ 96,694	¥ 65,480	¥ 73,244	¥ 906,657	¥ –	¥ 906,657
(2) Inter-segment net sales	13,769	21,575	5,360	7,715	4	43,360	91,783	(91,783)	–
Total	542,221	102,896	66,826	104,409	65,484	116,604	998,440	(91,783)	906,657
Operating costs and expenses	496,203	99,626	62,565	102,387	65,237	110,302	936,320	(91,674)	844,646
Income from operations	¥ 46,018	¥ 3,270	¥ 4,261	¥ 2,022	¥ 247	¥ 6,302	¥ 62,120	¥ (109)	¥ 62,011
Assets	¥ 691,367	¥ 158,246	¥ 23,247	¥ 117,800	¥ 41,472	¥ 287,946	¥ 1,320,078	¥ (41,833)	¥ 1,278,245
Depreciation	¥ 22,641	¥ 4,703	¥ 1,044	¥ 2,281	¥ 1,370	¥ 5,580	¥ 37,619	¥ 991	¥ 38,610
Loss on impairment of fixed assets	¥ 9,827	¥ 2,335	¥ 3	¥ 1,678	¥ 117	¥ 18,645	¥ 32,605	¥ 830	¥ 33,435
Capital expenditures	¥ 21,363	¥ 4,902	¥ 478	¥ 1,990	¥ 3,095	¥ 5,421	¥ 37,249	¥ 612	¥ 37,861
Net sales:									
(1) Net sales to outside customers	$ 4,498,613	$ 692,269	$ 523,247	$ 823,139	$ 557,419	$ 623,513	$ 7,718,200	$ –	$ 7,718,200
(2) Inter-segment net sales	117,212	183,669	45,632	65,673	32	369,118	781,336	(781,336)	–
Total	4,615,825	875,938	568,879	888,812	557,451	992,631	8,499,536	(781,336)	7,718,200
Operating costs and expenses	4,224,084	848,098	532,610	871,602	555,345	938,979	7,970,718	(780,409)	7,190,309
Income from operations	$ 391,741	$ 27,840	$ 36,269	$ 17,210	$ 2,106	$ 53,652	$ 528,818	$(927)	$ 527,891
Assets	$ 5,885,479	$ 1,347,122	$ 197,895	$ 1,002,810	$ 353,045	$ 2,451,227	$ 11,237,578	$(356,116)	$ 10,881,462
Depreciation	$ 192,743	$ 40,037	$ 8,885	$ 19,418	$ 11,662	$ 47,498	$ 320,243	$ 8,439	$ 328,682
Loss on impairment of fixed assets	$ 83,656	$ 19,882	$ 25	$ 14,282	$ 993	$ 158,725	$ 277,563	$ 7,065	$ 284,628
Capital expenditures	$ 181,860	$ 41,736	$ 4,067	$ 16,937	$ 26,346	$ 46,144	$ 317,090	$ 5,216	$ 322,306

	2005								
	Cement Business	Mineral Resources Business	Environmental Business	Construction Materials Business	Ceramics & Electronics Business	Other	Total	Eliminations or corporate assets	Consolidated total
Net sales:									
(1) Net sales to outside customers	¥ 501,591	¥ 79,902	¥ 53,980	¥ 95,927	¥ 67,961	¥ 73,326	¥ 872,687	¥ –	¥ 872,687
(2) Inter-segment net sales	14,197	19,706	5,067	7,615	12	43,341	89,938	(89,938)	–
Total	515,788	99,608	59,047	103,542	67,973	116,667	962,625	(89,938)	872,687
Operating costs and expenses	482,445	97,541	54,418	101,942	66,140	110,631	913,117	(88,616)	824,501
Income from operations	¥ 33,343	¥ 2,067	¥ 4,629	¥ 1,600	¥ 1,833	¥ 6,036	¥ 49,508	¥ (1,322)	¥ 48,186
Assets	¥ 669,229	¥ 148,377	¥ 26,022	¥ 105,652	¥ 33,645	¥ 307,802	¥ 1,290,727	¥ (43,194)	¥ 1,247,533
Depreciation	¥ 23,225	¥ 5,198	¥ 1,016	¥ 2,636	¥ 1,030	¥ 5,767	¥ 38,872	¥ 1,467	¥ 40,339
Capital expenditures	¥ 16,188	¥ 3,686	¥ 1,072	¥ 1,354	¥ 2,831	¥ 3,223	¥ 28,354	¥ 5,905	¥ 34,259

(2) Geographic segments

	2006						
	Domestic (in Japan)	North America	Asia	Other	Total	Eliminations or corporate assets	Consolidated total
Net sales:							
(1) Net sales to outside customers	¥ 729,112	¥ 99,189	¥ 74,945	¥ 3,411	¥ 906,657	¥ –	¥ 906,657
(2) Inter-segment net sales	2,688	50	8,066	17	10,821	(10,821)	–
Total	731,800	99,239	83,011	3,428	917,478	(10,821)	906,657
Operating costs and expenses	690,886	83,776	76,292	3,638	854,592	(9,946)	844,646
Income (loss) from operations	¥ 40,914	¥ 15,463	¥ 6,719	¥ (210)	¥ 62,886	¥(875)	¥ 62,011
Assets	¥ 1,085,350	¥ 114,166	¥ 137,529	¥ 5,171	¥ 1,342,216	¥(63,971)	¥ 1,278,245
Net sales:							
(1) Net sales to outside customers	$ 6,206,794	$ 844,375	$ 637,992	$ 29,039	$ 7,718,200	$ –	$ 7,718,200
(2) Inter-segment net sales	22,881	427	68,669	140	92,117	(92,117)	–
Total	6,229,675	844,802	706,661	29,179	7,810,317	(92,117)	7,718,200
Operating costs and expenses	5,881,380	713,173	649,461	30,966	7,274,980	(84,671)	7,190,309
Income (loss) from operations	$ 348,295	$ 131,629	$ 57,200	($ 1,787)	$ 535,337	$(7,446)	$ 527,891
Assets	$ 9,239,379	$ 971,875	$ 1,170,760	$ 44,021	$ 11,426,035	$(544,573)	$ 10,881,462

	2005						
	Domestic (in Japan)	North America	Asia	Other	Total	Eliminations or corporate assets	Consolidated total
Net sales:							
(1) Net sales to outside customers	¥ 709,763	¥ 75,014	¥ 84,901	¥ 3,009	¥ 872,687	¥ –	¥ 872,687
(2) Inter-segment net sales	5,543	80	559	226	6,408	(6,408)	–
Total	715,306	75,094	85,460	3,235	879,095	(6,408)	872,687
Operating costs and expenses	680,702	66,953	78,772	3,283	829,710	(5,209)	824,501
Income from operations	¥ 34,604	¥ 8,141	¥ 6,688	¥ (48)	¥ 49,385	¥ (1,199)	¥ 48,186
Assets (loss)	¥ 1,087,085	¥ 95,668	¥ 123,163	¥ 4,244	¥ 1,310,160	¥ (62,627)	¥ 1,247,533

(3) Export sales

Export sales by the Company and its domestic subsidiaries, plus the sales of overseas consolidated subsidiaries, for the years ended 31st March, 2005 and 2006 are presented below:

	2005	2006	
Export sales and sales by overseas subsidiaries:			
North America	¥ 79,602	¥ 100,500	$ 855,535
Asia	88,114	86,675	737,851
Others	10,384	14,437	122,895
Total (a)	¥ 178,100	¥ 201,612	$1,716,281
Net sales of the Companies (b)	¥ 872,687	¥ 906,657	$7,718,200
(a)/(b)	20.40%	22.20%	22.20%

23. Subsequent Events

At the annual general meeting held on 28th June, 2006, shareholders of the Company approved as the appropriation of the retained earnings, the year end cash dividends of ¥2.5 (¢2.33) per share in the total amount of ¥2,370 ($20,177).

Report of Independent Auditors

The Board of Directors
Taiheiyo Cement Corporation

We have audited the accompanying consolidated balance sheets of Taiheiyo Cement Corporation and its subsidiaries as of 31st March, 2005 and 2006, and the related consolidated statements of income and retained earnings, and cash flows for the years then ended, all expressed in yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 Taiheiyo Cement Corporation and its subsidiaries as of 31st March, 2005 and 2006, 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.

As described in Note 4(13), the Company adopted the "Accounting Standard for Impairment of Fixed Assets" from effective the year ended 31st March, 2006.

The U.S. dollar amounts in the accompanying consolidated financial statements as of and for the year ended 31st March, 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 5.

Ernst & Young ShinNihon

Ernst & Young ShinNihon

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers

Tokyo, Japan
28th June, 2006