

KUMAGAI GUMI

Annual Report
2006

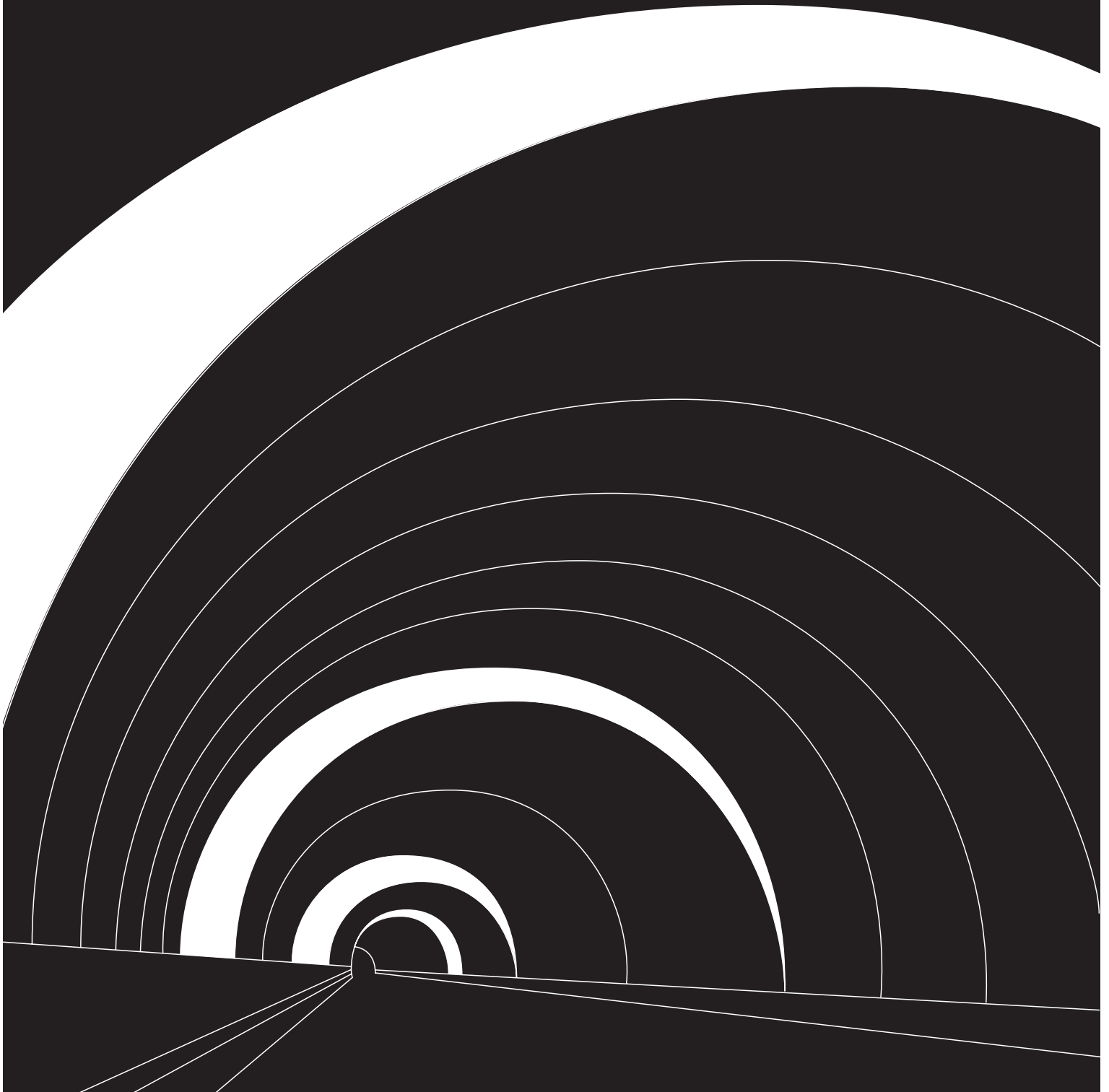


Illustration on front cover: The Minoh Tunnel —Osaka, Japan

THE COMPANY

A CENTURY OF PROGRESS

Kumagai Gumi traces its roots back to 1898 when Santaro Kumagai founded the company and embarked on constructing the stonework for the Shukununo Hydroelectric Plant in Fukui Prefecture. January 1998 marked the 100th anniversary of Kumagai Gumi's inception. Throughout those 100 years, the company has participated in a diverse array of projects, often with unprecedented challenges that required technological innovation. Kumagai Gumi, through its deeds, has established a place as one of Japan's leading general contractors.

RESEARCH AND DEVELOPMENT UNDERPINS TECHNOLOGICAL PROWESS

Kumagai Gumi's Institute of Construction Technology, which is located in Tsukuba north of Tokyo, engages in wide-ranging research activities. Equipped with state-of-the-art facilities including seismic simulation equipment, wave tanks and environmental laboratories, the institute strives to develop more effective ways of meeting changing customer needs. A core tenet of R&D is enhancing quality and safety while realizing lower costs and shorter construction periods.

STRENGTHS AT HOME

Kumagai Gumi is one of Japan's largest construction and engineering firms. In this capacity, the company has played a key role in the creation, expansion and improvement of the nation's infrastructure. The company's contributions range from the fields of transportation and power generation to living, working and leisure environments. Building on this long record of service to society, Kumagai Gumi is providing customers with reliable, high-quality construction services at a reasonable cost.

A SOLID OVERSEAS PRESENCE

Kumagai Gumi has remained committed to overseas operations. The company has chalked up a list of achievements at myriad projects worldwide. Undersea tunnels, roads, dams, hotels, renovation of historic structures, and landmark office towers in locations including Hong Kong, Taipei and Bangkok attest to Kumagai Gumi's devotion to quality and social contributions. Most major cities in Asia, the focal area of the company's overseas operation, have benefited from the company's construction expertise.

Message from the President:

As the final year of the Three-Year Structural Reform Plan set out in April of 2003, in fiscal year 2005 Kumagai Gumi is pulling ever closer together in order to realize the goals outlined in the plan. The results of these efforts were higher net sales and orders compared with the previous years, further reduction in interest-bearing debt, and other improvements enabling us to announce that we have achieved every major results goal set out in the plan.

Our consolidated group results for this period were net sales of ¥326.3 bn (an increase of 0.9% compared with the previous period). On the profit side, increased total profits from completed construction and reduced general management costs resulted in operating profits of ¥10.6 bn (an increase of 8.8% compared with the previous period) and recurring profits of ¥9.1 bn (an increase of 8.6% compared with the previous period), leading to net profits of ¥5.2 bn for this period (an increase of 20.2% compared with the previous period).

Although the Japanese economy continues to improve, the environment faced by the construction industry is expected to remain severe. In this environment, our company has set forth a variety of measures outlined below in order to achieve continuous, stable growth.

In the area of domestic civil engineering, we will create a corporate structure able to compete for orders in the ever-harsher field of public works construction. We will bring together the strong technological ability we have built up to date in order to deliver technical proposals reflecting the strength of our entire company as a whole, and pro-actively market ourselves using a sales strategy backed up by our cost performance and technical strength. This structure will also enable us to move swiftly in shrinking markets such as private-sector civil engineering including construction related to telecommunications (construction of wireless base stations for mobile phones, etc.), and public works renewal projects.

In the area of domestic construction, we will further strengthen our planning, technology marketing, and after-care services in our core business of traditional construction in order to pursue the highest

levels of customer satisfaction. We will also leverage the wealth of knowledge we have built up over long years in the construction business to develop additional business areas including renewal project proposals aimed at creating demand by "recycling" buildings, and expansion into new needs areas including fee-based arrangements and multi-party participatory structures in order to win new project orders. The result of these endeavors will be an even stronger corporate and financial base for our company.

Looking overseas, our goal is to further broaden our reach in regions where we already have a business presence in order to enhance our sales power in these areas.

Our continuing slogan at Kumagai Gumi is "thrilling the customer", through which we signal our commitment to delivering the highest levels of satisfaction both to the customers for whom we construct buildings and the customers who use them upon completion. Our vision is of "bold sincerity" in every project we undertake in order to win the praise of society not just in the present, but also 50, or even 100 years down the road. As part of this vision, we are also further strengthening our internal controls in order to insure 100% compliance with all rules and regulations, thereby winning the trust and support of society at large.

We look forward to your continuing support and encouragement as we work to develop into the future.



June 2006

Hiroshi Ota
President
Kumagai Gumi



CONSOLIDATED FINANCIAL HIGHLIGHTS

Kumagai GumI Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2006 and 2005.

	(¥ million)		(US \$ thousand)
	2006	2005	2006
FOR THE YEAR:			
Net sales	¥ 326,344	¥ 323,353	\$ 2,789,267
Net income	5,275	4,388	45,086
AT YEAR-END:			
Total assets	¥ 275,649	¥ 276,233	\$ 2,355,976
Shareholders' equity	44,839	37,955	383,241
PER SHARE OF COMMON STOCK (¥ AND US \$):			
Net income	¥ 40.02	¥ 33.18	\$ 0.34

Note: Conversion into U.S. dollars has been made at the exchange rate of ¥117= US \$1 solely for convenience. Refer to Notes to the Financial Statements.

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CONSOLIDATED BALANCE SHEETS

Kumagai Gumi Co., Ltd. and Consolidated Subsidiaries March 31, 2006 and 2005

ASSETS	(¥ million)		(US \$ thousand)
	2006	2005	2006
CURRENT ASSETS:			
Cash and cash equivalents	¥ 60,622	¥ 49,508	\$ 518,137
Time deposits	65	114	559
Notes and accounts receivable, trade	115,903	125,441	990,627
Allowance for doubtful accounts.....	(1,187)	(1,728)	(10,144)
Inventories (Note 6).....	15,965	14,634	136,453
Deferred income taxes (Note 13).....	3,634	3,927	31,061
Other current assets.....	25,774	25,637	220,286
	<u>220,776</u>	<u>217,533</u>	<u>1,886,979</u>
INVESTMENTS AND OTHER ASSETS (Note 9):			
Investment securities (Note 5).....	17,433	16,666	148,995
Investments in unconsolidated subsidiaries and affiliates	4,621	4,476	39,492
Long-term loans receivable.....	1,105	2,095	9,445
Long-term loans to unconsolidated subsidiaries and affiliates.....	95	95	815
Long-term receivables.....	5,017	2,631	42,875
Claims to companies in bankruptcy, reorganization, etc.....	1,614	1,198	13,795
Deferred income taxes (Note 13).....	8,174	9,245	69,866
Other.....	7,642	9,213	65,318
Allowance for doubtful accounts.....	(6,193)	(4,136)	(52,930)
	<u>39,508</u>	<u>41,483</u>	<u>337,671</u>
PROPERTY AND EQUIPMENT (Note 9):			
Land.....	10,405	11,430	88,932
Buildings	13,282	14,000	113,523
Machinery and equipment.....	14,989	17,245	128,109
Construction in progress.....	21	–	179
	<u>38,697</u>	<u>42,675</u>	<u>330,743</u>
Accumulated depreciation.....	(23,332)	(25,458)	(199,417)
	<u>15,365</u>	<u>17,217</u>	<u>131,326</u>
	<u>¥ 275,649</u>	<u>¥ 276,233</u>	<u>\$ 2,355,976</u>

The accompanying notes are an integral part of this statement.

LIABILITIES AND SHAREHOLDERS' EQUITY	(¥ million)		(US \$ thousand)
	2006	2005	2006
CURRENT LIABILITIES:			
Short-term borrowings (Note 7).....	¥ 31,743	¥ 7,081	\$ 271,304
Current portion of long-term debt (Note 7).....	7,779	651	66,483
Notes and accounts payable, trade.....	107,284	111,788	916,955
Advances received on uncompleted contracts (Note 10).....	15,984	13,232	136,614
Accrued expenses.....	2,374	2,331	20,294
Accrued income taxes (Note 13).....	727	1,041	6,214
Employees' savings deposits.....	2,179	2,137	18,624
Other current liabilities.....	25,917	22,064	221,517
	<u>193,987</u>	<u>160,325</u>	<u>1,658,005</u>
 LONG-TERM LIABILITIES:			
Long-term debt (Note 7).....	20,016	62,615	171,078
Accrued severance indemnities (Note 11).....	15,279	13,561	130,591
Other long-term liabilities.....	198	315	1,692
	<u>35,493</u>	<u>76,491</u>	<u>303,361</u>
 MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES.....	1,330	1,462	11,369
 CONTINGENT LIABILITIES (Note 16)			
 SHAREHOLDERS' EQUITY:			
Capital stock:			
Authorized— 774,000,000 shares in 2006 and 2005			
Issued — 193,646,504 shares in 2006 and 2005.....	13,341	13,341	114,027
Additional paid-in capital.....	9,927	9,927	84,845
Retained earnings.....	18,043	12,768	154,216
Unrealized gain on available-for-sale securities.....	3,901	2,211	33,344
Foreign currency statements translation adjustments.....	65	(41)	553
	<u>45,277</u>	<u>38,206</u>	<u>386,985</u>
Treasury stock, at cost.....	(438)	(251)	(3,744)
	<u>44,839</u>	<u>37,955</u>	<u>383,241</u>
	<u>¥ 275,649</u>	<u>¥ 276,233</u>	<u>\$ 2,355,976</u>

CONSOLIDATED STATEMENTS OF INCOME

Kumagai Gumi Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2006 and 2005

	(¥ million)		(US \$ thousand)
	2006	2005	2006
NET SALES (Note 15):			
Contracts completed	¥ 326,344	¥ 323,353	\$ 2,789,267
COST OF SALES (Note 15):			
Cost of construction.....	299,727	296,723	2,561,774
Gross profit.....	26,617	26,630	227,493
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....			
Operating income	15,968	16,842	136,474
	10,649	9,788	91,019
OTHER INCOME (EXPENSE):			
Interest and dividend income	641	480	5,484
Interest expense.....	(1,657)	(2,042)	(14,164)
Equity in earnings of affiliates	(27)	172	(233)
Other, net (Note 12).....	(3,331)	(2,593)	(28,470)
Income before income taxes and minority interest	6,275	5,805	53,636
Income taxes (Note 13):			
Current.....	756	972	6,459
Deferred.....	334	370	2,858
	1,090	1,342	9,317
Minority interest in consolidated subsidiaries	90	(75)	767
Net income.....	¥ 5,275	¥ 4,388	\$ 45,086
PER SHARE OF COMMON STOCK (Note 14):			
Net income.....	¥ 40.02	¥ 33.18	\$ 0.34

The accompanying notes are an integral part of this statement.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Kumagai Gumi Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2006 and 2005

	Capital stock	Additional paid-in capital	Retained earnings	Unrealized gain on available-for-sale securities	Foreign currency statements translation adjustments	Treasury stock
(¥ million)						
Balance at March 31, 2004.....	¥ 13,341	¥ 9,927	¥ 8,492	¥ 1,957	¥ (69)	¥ (191)
Net income for the year.....			4,388			
Bonuses to directors and corporate auditors			(1)			
Adjustment of deficit for other.....			(111)			
Change in the current period.....				254	28	
Treasury stock purchased.....						(60)
Balance at March 31, 2005.....	¥ 13,341	¥ 9,927	¥ 12,768	¥ 2,211	¥ (41)	¥ (251)
Net income for the year.....			5,275			
Change in the current period.....				1,690	106	
Treasury stock purchased.....						(187)
Balance at March 31, 2006.....	¥ 13,341	¥ 9,927	¥ 18,043	¥ 3,901	¥ 65	¥ (438)

(US \$ thousand)						
Balance at March 31, 2005.....	\$ 114,027	\$ 84,845	\$ 109,130	\$ 18,899	\$ (352)	\$ (2,145)
Net income for the year.....			45,086			
Change in the current period.....				14,445	905	
Treasury stock purchased.....						(1,599)
Balance at March 31, 2006.....	\$ 114,027	\$ 84,845	\$ 154,216	\$ 33,344	\$ 553	\$ (3,744)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Kumagai Gumi Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2006 and 2005

	(¥ million)		(US \$ thousand)
	2006	2005	2006
Cash flows from operating activities:			
Income before income taxes and minority interest	¥ 6,275	¥ 5,805	\$ 53,636
Depreciation and amortization	935	1,275	7,987
Loss on asset impairment.....	1,120	—	9,575
Increase (decrease) in provision for allowance for doubtful accounts.....	1,480	152	12,653
Increase (decrease) in accrued severance indemnities.....	1,716	(131)	14,664
Interest and dividends revenue.....	(642)	(480)	(5,484)
Interest expenses.....	1,657	2,042	14,164
Foreign exchange gain.....	(215)	(218)	(1,842)
Equity in (earnings) losses of affiliates.....	27	(172)	233
Loss on valuation of marketable and investment securities.....	18	20	152
Gain on sale of marketable and investment securities, net.....	(676)	(153)	(5,777)
Loss on disposal of property and equipment.....	73	184	619
Loss on valuation of property and equipment.....	35	9	301
(Gain) loss on sale of property and equipment, net.....	(733)	123	(6,265)
Decrease in notes and accounts receivable.....	9,507	8,081	81,254
(Increase) decrease in uncompleted construction costs.....	(1,302)	1,376	(11,128)
Decrease in notes and accounts payable.....	(4,486)	(3,196)	(38,339)
Increase (decrease) in advances received on uncompleted contracts....	2,742	(6,893)	23,438
(Increase) decrease in other assets.....	(1,214)	2,918	(10,374)
Other, net.....	3,214	(5,065)	27,467
Sub-total.....	19,531	5,677	166,934
Interest and dividends received.....	664	466	5,677
Interest paid.....	(1,649)	(1,979)	(14,096)
Income tax paid.....	(928)	(326)	(7,936)
Net cash provided by operating activities	17,618	3,838	150,579
Cash flows from investing activities:			
Disbursements for acquisitions of marketable and investment securities....	(245)	(68)	(2,096)
Proceeds from sale of marketable and investment securities.....	2,629	519	22,468
Proceeds from sale of investment in consolidated subsidiaries.....	41	39	350
Disbursements for acquisitions of property and equipment	(376)	(832)	(3,211)
Proceeds from sale of property and equipment	1,311	125	11,200
Disbursements for loans.....	(222)	(1,116)	(1,895)
Proceeds from collection of loans	1,281	756	10,951
Other, net.....	(178)	400	(1,519)
Net cash provided by (used in) investing activities	4,241	(177)	36,248
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings	(1,585)	37	(13,548)
Disbursements for repayment of long-term debt.....	(9,225)	(16,335)	(78,845)
Other, net.....	(156)	(114)	(1,335)
Net cash used in financing activities.....	(10,966)	(16,412)	(93,728)
Translation differences on cash and cash equivalents.....	297	152	2,537
Increase (decrease) in cash and cash equivalents.....	11,190	(12,599)	95,636
Cash and cash equivalents at beginning of year.....	49,508	61,443	423,145
Cash and cash equivalents increased by merger of consolidated subsidiaries.....	—	730	—
Cash and cash equivalents of subsidiaries excluded from consolidation	(76)	(66)	(644)
Cash and cash equivalents at end of year.....	¥ 60,622	¥ 49,508	\$ 518,137

The accompanying notes are an integral part of this statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Kumagai Gumi Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2006 and 2005

1. BASIS OF PRESENTING FINANCIAL STATEMENTS

The accompanying consolidated financial statements of KUMAGAI GUMI CO.,LTD. (the "Company") and its consolidated subsidiaries have been prepared in accordance with generally accepted accounting principles and practices in Japan. In preparing the consolidated financial statements for purpose of inclusion in this Annual Report, certain reclassifications and rearrangements have been made to the financial statements issued domestically in Japan in order to present these statements in a form which is more familiar to the readers of these statements outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under generally accepted accounting principles and practices in Japan but is presented herein as additional information for the Annual Report.

Consolidation:

The Company applies the control or influence standard for determining the criteria of subsidiaries and affiliates included within the scope of consolidation.

The consolidated financial statements include the accounts of the Company, ten of its consolidated subsidiaries and five of its affiliates accounted for applying the equity method as at and for the year ended March 31, 2006.

In fiscal 2006, changes in the scope of consolidation were as follows:

	No. of companies
* Companies excluded from consolidation	-1 : KN Facilities CO.,LTD.
Total	-1

The subsidiaries which are consolidated with the Company are listed below:

Company Name	Fiscal Year- End
GAEART TK Co., Ltd.	31 Mar. 2006
Technos Co., Ltd.	31 Mar. 2006
K&E Co., Ltd.	31 Mar. 2006
Techno-Space Creates Co., Ltd.	31 Mar. 2006
FATEC CO., LTD.	31 Mar. 2006
Technical Support Co.,Ltd.	31 Mar. 2006
Khiva Limited.	31 Mar. 2006
Taiwan Kumagai Co., Ltd.	31 Dec. 2005
Thai Kumagai Co., Ltd.	31 Dec. 2005
Kumagai Gumi (Malaysia) SDN.BHD.	31 Dec. 2005

All significant intercompany accounts and transactions are eliminated in consolidation.

Investments in other unconsolidated subsidiaries and affiliates accounted for applying the equity method are stated at cost.

The Company consolidates such subsidiaries' financial statements as of each subsidiary's most recent year- end. Unusual significant transactions occurring between subsidiaries' year-ends and the Company's are adjusted on consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**(a) Recognition of net sales and related costs**

Net sales from and the related costs of construction contracts are recorded mainly by the percentage of completion method. The completed-contract method is applied for certain projects whose construction period is less than one year.

(b) Foreign currency translations

Short-term and long-term receivables and payables in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. Investments in overseas subsidiaries and affiliates in foreign currencies are translated into Japanese yen at the historical rates of exchange. Overseas accumulated construction cost in progress in foreign currencies (included in inventories) is translated into Japanese yen at the monthly rates of exchange.

(c) Foreign currency financial statements

The balance sheet accounts and revenue and expense accounts of the consolidated overseas subsidiaries and overseas affiliates accounted for on the equity method are translated into Japanese yen at the current rates of exchange at each balance sheet date except for shareholders' equity, which is translated at the historical rates of exchange at dates of acquisition.

Retained earnings of the consolidated overseas subsidiaries and overseas affiliates accounted for by the equity method at the end of every year are translated at the historical rates of exchange. Differences arising from such translation are included in "Foreign currency translation adjustments" in the accompanying consolidated financial statements.

(d) Cash and cash equivalents

Cash and cash equivalents include an overnight bank deposit and time deposits, all of which have original maturities of three months or less.

(e) Time deposits

Time deposits have original maturities of more than three months through one year.

(f) Marketable and investment securities

The Company and its consolidated subsidiaries listed all the securities as available-for-sale which are stated at fair value, with unrealized gains and losses net of taxes under shareholders' equity. Cost of sales is determined by the moving-average method.

Other securities are stated at cost.

(g) Inventories

Inventories other than materials and supplies are stated at accumulated construction cost for each project. Selling, general and administrative expenses are excluded from such cost. Materials and supplies are stated at cost determined by the moving-average method.

(h) Property, equipment and depreciation

Property and equipment, including significant renewals and additions, are carried at cost. The cost of property and equipment retired or otherwise disposed of and accumulated depreciation in respect thereof are eliminated from the related accounts, and the resulting gain or loss is reflected in income. Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred.

Depreciation is computed by the declining-balance method at rates based on estimated useful lives of the assets, according to general class, type of construction and use.

(i) Accrued severance indemnities

To provide for employees' severance indemnities, net period pension cost, which represents the amount recognized as the cost of a pension plan for the year, is accounted for based on the projected benefit obligation and the plan assets.

The unrecognized transitional obligation is being amortized by the straight-line method over a period of 15 years.

The adjustment for actuarial assumptions is being amortized by the straight-line method over a period which is less than the average remaining years (5 to 9 years) of service of the active participants in the plans. Amortization is computed from the fiscal year subsequent to the year in which the adjustment was recorded.

Prior service cost is being amortized by the straight-line method over a period which is less than the average remaining years (5 to 9 years) of service of the active participants in the plans.

(j) Income taxes

Income taxes are accounted for by the asset and liability method.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards.

(k) Appropriations of retained earnings

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

3. ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS Effective April 1, 2005, the Company and its consolidated domestic subsidiaries adopted a new accounting standard for the impairment of their long-lived assets held and used. Applying the new standard, long-lived assets to be held and used are reviewed for impairment by comparing the carrying value of the assets with their estimated future undiscounted cash flow. If it is determined that an impairment loss has occurred, the loss would be recognized during the period. The impairment loss would be calculated as the different between the carrying value of estimated future cash flows or comparable market values. The effect of adoption of the new accounting standard was to decrease income before income taxes by ¥1,120 million (\$9,536 thousand) for the year ended March 31, 2006.

4. UNITED STATES DOLLAR AMOUNTS The United States dollar amounts included in the accompanying consolidated financial statements are presented solely for convenience and are stated, as a matter of arithmetical computation only, at the rate of ¥117 = US\$1, which was the approximate exchange rate at March 31, 2006. These 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 United States dollars at that rate.

5. MARKETABLE AND INVESTMENT SECURITIES The breakdown of available-for-sale securities as of March 31, 2006 is as follows:

	Cost	Fair value (Carrying amount) (¥ million)	Difference
Marketable equity securities.....	¥ 7,339	¥ 13,612	¥ 6,273
Debentures.....	—	—	—
Fund trust and other.....	—	—	—
Total.....	¥ 7,339	¥ 13,612	¥ 6,273
		(US \$ thousand)	
Marketable equity securities.....	\$ 62,726	\$ 116,344	\$ 53,618
Debentures.....	—	—	—
Fund trust and other.....	—	—	—
Total.....	\$ 62,726	\$ 116,344	\$ 53,618

The breakdown of available-for-sale securities as of March 31, 2005 is as follows:

	Cost	Fair value (Carrying amount) (¥ million)	Difference
Marketable equity securities.....	¥ 8,802	¥ 12,535	¥ 3,733
Debentures.....	463	463	0
Fund trust and other.....	—	—	—
Total.....	¥ 9,265	¥ 12,998	¥ 3,733

6. INVENTORIES Inventories comprised the following:

<i>March 31, 2006 and 2005</i>	2006	2005	2006
	(¥ million)		(US \$ thousand)
Cost of uncompleted contracts.....	¥ 15,607	¥ 14,305	\$ 133,390
Materials and supplies.....	358	329	3,063
	¥ 15,965	¥ 14,634	\$ 136,453

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT The weighted average interest rates on short-term bank loans were 2.45% and 1.81% at March 31, 2006 and 2005, respectively.

Long-term debt comprised the following:

<i>March 31, 2006 and 2005</i>	2006	2005	2006
	(¥ million)		(US \$ thousand)
Loans, principally from banks and insurance, bearing weighted average interest of 2.33% and 2.15% at March 31, 2006 and 2005, respectively.....	¥ 27,795	¥ 63,266	\$ 237,561
Less current portion.....	7,779	651	66,483
	¥ 20,016	¥ 62,615	\$ 171,078

The aggregate annual maturities of long-term debt (including current portion) at March 31, 2006 were as follows:

<i>Years ending March 31</i>	(¥ million)	(US \$ thousand)
	2006.....	¥ 7,779
2007.....	5,694	48,671
2008.....	9,155	78,244
2009.....	1,672	14,287
2010 and thereafter.....	3,495	29,876
	¥ 27,795	\$ 237,561

8. LEASES The lease payments under noncancelable financing leases are principally accounted for as rental expenses, and no asset or liability (other than a short-term liability for accrued rent payable) relating to the lease is recorded.

9. PLEDGED ASSETS

Assets pledged as collateral for short-term borrowings, long-term debt and other obligation were as follows:

March 31, 2006

	(¥ million)	(US \$ thousand)
Assets pledged as collateral:		
Investments and other assets.....	¥ 9,692	\$ 82,838
Property and equipment.....	9,627	82,285
	¥ 19,319	\$ 165,123
Liabilities secured thereby:		
Short-term borrowings, long-term debt and other obligation.....	¥ 4,005	\$ 34,231

10. ADVANCES RECEIVED ON UNCOMPLETED CONTRACTS

As is the customary practice in Japan, the Company receives progress payments from customers in accordance with the terms of the respective construction contracts.

11. ACCRUED SEVERANCE INDEMNITIES AND PENSION EXPENSES FOR EMPLOYEES

Employees (excluding directors and corporate auditors) whose service with the Company and its consolidated domestic subsidiaries is terminated are, under most circumstances, entitled to lump-sum severance indemnities determined by reference to rank and length of time served in each rank until the termination occurs.

In addition to the lump-sum indemnities, a consolidated domestic subsidiary has both contributory and non-contributory funded pension plans.

The Company and its consolidated domestic subsidiaries accounted for the liability for retirement benefit based on projected benefits obligations and plan assets at each balance sheet date.

The liability(asset)for employees' retirement benefits and the components of net periodic benefit costs were as follows:

(1) The liability (asset) for employees' retirement benefits

As of March 31, 2006 and 2005

	2006	2005	2006
	(¥ million)		(US \$ thousand)
Projected benefit obligation	¥ (29,250)	¥ (29,720)	\$ (249,998)
Fair value of plan assets.....	667	804	5,699
Unrecognized transition obligation.....	10,088	11,209	86,224
Unrecognized prior service cost and actuarial loss....	3,216	4,146	27,484
Net liability.....	¥ (15,279)	¥ (13,561)	\$ (130,591)

(2) The components of net periodic benefit costs

For the year ended March 31, 2006 and 2005

	2006	2005	2006
	(¥ million)		(US \$ thousand)
Service cost.....	¥ 1,303	¥ 1,421	\$ 11,136
Interest cost.....	593	627	5,069
Expected return on plan assets.....	(16)	(26)	(138)
Amortization of transitional obligation.....	1,121	1,121	9,580
Amortization of prior service cost and actuarial loss..	618	599	5,282
Net periodic benefit cost.....	¥ 3,619	¥ 3,742	\$ 30,929

(3) Assumptions used for the years ended March 31, 2006 and 2005

	2006	2005
Discount rate.....	2.0%	2.0%
Expected rate of return on plan assets	2.0%	2.0%
Amortization period of prior service cost	5 to 9 years	5 to 9 years
Recognition period of actuarial gain/loss.....	5 to 9 years	5 to 9 years
Amortization period of transitional obligation.....	15 years	15 years

12. OTHER, NET IN
OTHER INCOME
(EXPENSES)

Other, net in other income (expenses) comprised the following:

March 31, 2006 and 2005

	2006	2005	2006
	(¥ million)		(US \$ thousand)
Gain (loss) on disposal of property and equipment, net.....	¥ 660	¥ (307)	\$ 5,645
Loss on valuation of property and equipment.....	(35)	(9)	(301)
Loss from bad debt.....	(60)	(30)	(513)
Provision for allowance for doubtful accounts.....	(2,058)	(2,034)	(17,592)
Loss on valuation of marketable and investment securities.....	(18)	(20)	(152)
Gain on sale of marketable and investment securities, net.....	676	222	5,777
Foreign exchange gain, net.....	252	227	2,157
Loss on asset impairment.....	(1,120)	–	(9,575)
Loss on lease cancellation.....	(1,105)	–	(9,444)
Other, net.....	(523)	(642)	(4,472)
	¥ (3,331)	¥ (2,593)	\$ (28,470)

13. INCOME TAXES Tax effects of significant temporary differences and loss carryforwards that result in deferred tax assets or liabilities were as follows:

<i>March 31, 2006 and 2005</i>	2006	2005	2006
	(¥ million)		(US \$ thousand)
Deferred Tax Assets:			
Loss on valuation of property and equipment.....	¥ 1,014	¥ 1,522	\$ 8,666
Accrued severance indemnities.....	6,156	5,341	52,613
Loss on valuation of golf club membership right and other.....	1,585	1,692	13,547
Tax loss carry-forwards.....	97,666	98,957	834,755
Others.....	6,913	8,130	59,086
Subtotal.....	113,334	115,642	968,667
Valuation Allowance.....	(98,789)	(100,720)	(844,349)
Total.....	14,545	14,922	124,318
Deferred Tax Assets:			
Unrealized gain on available-for-sale securities..	(2,565)	(1,538)	(21,926)
Others.....	(172)	(212)	(1,465)
Total.....	(2,737)	(1,750)	(23,391)
Net deferred tax assets.....	¥ 11,808	¥ 13,172	\$ 100,927

14. PER SHARE DATA

The weighted average number of common shares used in computing net income per share for the years ended March 31, 2006 and 2005 were as follows:

	Number of shares (thousand)
2005.....	132,231
2006.....	131,813

15. TRANSACTIONS WITH UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Purchases from and sales to unconsolidated subsidiaries and affiliates for the respective periods were as follows:

<i>March 31, 2006 and 2005</i>	2006	2005	2006
	(¥ million)		(US \$ thousand)
Purchases.....	¥ 497	¥ 285	\$ 4,247
Sales.....	1,121	4	9,578

16. CONTINGENT LIABILITIES

The Company and its consolidated subsidiaries were contingently liable for guarantees of debt of customers, unconsolidated subsidiaries and affiliates, in the amount of ¥2,896 million (US\$24,756 thousand) at March 31, 2006. The guarantees are in respect of loans relating to purchases and development of land for civil engineering and architectural construction projects.

REPORT OF THE INDEPENDENT PUBLIC ACCOUNTANTS (CONSOLIDATED)

To the Board of Directors of
Kumagai Gumi Co., Ltd.

We have examined the consolidated balance sheets of Kumagai Gumi Co., Ltd. and its consolidated subsidiaries at March 31, 2006 and 2005, and the related consolidated statements of income shareholders' equity and cash flows for each of the two years in the period ended March 31, 2006, expressed in Japanese 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 financial statements. An audit also includes assessing the accounting principles used and significant estimates made by managements, 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 the financial position of Kumagai Gumi Co., Ltd. and its consolidated subsidiaries at March 31, 2006 and 2005, and the results of their operations and their cash flows for each of the two years in the period ended March 31, 2006, in conformity with generally accepted accounting principles and practices in Japan applied on a consistent basis.

As discussed in Note 3 to the consolidated financial statements, effective April 1, 2005, the Company and its consolidated domestic subsidiaries adopted the new accounting standard for the impairment of their long-lived assets held and used.

The United States dollar amounts shown in the consolidated financial statements referred to above have been translated solely for convenience. We have reviewed this translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis described in Note 4.

M. Serizawa & Co.

Tokyo, Japan
June 29, 2006

M. Serizawa & Co.
Certified Public Accountants

Shin-Yurakucho Bldg., 12-1, Yurakucho 1-chome, Chiyoda-ku, Tokyo, Japan

NON-CONSOLIDATED BALANCE SHEETS

Kumagai Gumi Co., Ltd. (Company Only) March 31, 2006 and 2005

ASSETS	(¥ million)		(US \$ thousand)
	2006	2005	2006
CURRENT ASSETS:			
Cash and cash equivalents	¥ 54,001	¥ 45,563	\$ 461,549
Time deposits	5	5	43
Notes and accounts receivable, trade	96,343	101,886	823,445
Allowance for doubtful accounts.....	(925)	(1,406)	(7,906)
Inventories (Note 5).....	13,259	11,553	113,321
Deferred income taxes (Note 10).....	3,622	3,685	30,959
Other current assets.....	25,278	24,292	216,047
	<u>191,583</u>	<u>185,578</u>	<u>1,637,458</u>
INVESTMENTS AND OTHER ASSETS (Note 7):			
Investment securities	14,568	11,716	124,515
Investments in subsidiaries and affiliates.....	4,624	4,752	39,521
Long-term loans receivable.....	938	1,624	8,012
Long-term loans to subsidiaries and affiliates.....	1,462	366	12,499
Long-term receivable	3,962	1,824	33,859
Claims to companies in bankruptcy, reorganization, etc.....	4	31	33
Deferred income taxes (Note 10).....	6,280	7,525	53,675
Other.....	7,886	10,182	67,405
Allowance for doubtful accounts	(3,514)	(1,124)	(30,035)
	<u>36,210</u>	<u>36,896</u>	<u>309,484</u>
PROPERTY AND EQUIPMENT (Note 7):			
Land	7,578	7,556	64,771
Buildings.....	8,642	8,705	73,859
Machinery and equipment.....	5,668	6,929	48,448
	<u>21,888</u>	<u>23,190</u>	<u>187,078</u>
Accumulated depreciation.....	(11,805)	(12,951)	(100,896)
	<u>10,083</u>	<u>10,239</u>	<u>86,182</u>
	<u>¥ 237,876</u>	<u>¥ 232,713</u>	<u>\$ 2,033,124</u>

The accompanying notes are an integral part of this statement.

LIABILITIES AND SHAREHOLDERS' EQUITY	(¥ million)		(US \$ thousand)
	2006	2005	2006
CURRENT LIABILITIES:			
Short-term borrowings	¥ 31,543	¥ 1,172	\$ 269,595
Current portion of long-term debt.....	7,520	3,995	64,272
Notes and accounts payable, trade	93,406	95,758	798,340
Advances received on uncompleted contracts (Note 8)	13,855	11,145	118,423
Accrued expenses	2,244	2,113	19,179
Accrued income taxes (Notes 10).....	356	446	3,042
Employees' savings deposits.....	2,176	2,130	18,602
Other current liabilities	24,474	20,181	209,176
	<u>175,574</u>	<u>136,940</u>	<u>1,500,629</u>
LONG-TERM LIABILITIES:			
Long-term debt	19,222	59,977	164,289
Accrued severance indemnities	11,684	10,098	99,866
Other long-term liabilities.....	198	314	1,692
	<u>31,104</u>	<u>70,389</u>	<u>265,847</u>
CONTINGENT LIABILITIES (Note 12)			
SHAREHOLDERS' EQUITY:			
Capital stock:			
Authorized — 774,000,000 shares in 2006 and 2005			
Issued — 193,646,504 shares in 2006 and 2005.....	13,341	13,341	114,027
Additional paid-in capital.....	9,927	9,927	84,845
Retained earnings.....	5,105	734	43,629
Unrealized gain on available-for-sale securities.....	3,164	1,565	27,046
Treasury stock, at cost.....	(339)	(183)	(2,899)
	<u>31,198</u>	<u>25,384</u>	<u>266,648</u>
	<u>¥ 237,876</u>	<u>¥ 232,713</u>	<u>\$ 2,033,124</u>

NON-CONSOLIDATED STATEMENTS OF INCOME

Kumagai Gumi Co., Ltd. (Company Only) Years ended March 31, 2006 and 2005

	(¥ million)		(US \$ thousand)
	2006	2005	2006
NET SALES:			
Contracts completed.....	¥ 265,569	¥ 249,214	\$ 2,269,821
COST OF SALES :			
Cost of construction.....	243,495	228,240	2,081,156
Gross profit.....	22,074	20,974	188,665
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES			
Operating income.....	12,336	12,821	105,432
	9,738	8,153	83,233
OTHER INCOME (EXPENSES):			
Interest and dividend income.....	417	415	3,564
Interest expense	(1,607)	(1,969)	(13,736)
Other, net (Note 9).....	(3,681)	(808)	(31,459)
Income before income taxes.....	4,867	5,791	41,602
Income taxes (Note 10):			
Current.....	286	322	2,449
Deferred.....	210	294	1,793
	496	616	4,242
Net income	¥ 4,371	¥ 5,175	\$ 37,360
PER SHARE OF COMMON STOCK (Note 11):			
	(¥)		(US \$)
Net income.....	¥ 33.01	¥ 38.95	\$ 0.28
Cash dividends applicable to the period.....	-	-	-

The accompanying notes are an integral part of this statement.

NON-CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Kumagai Gumi Co., Ltd. (Company Only) Years ended March 31, 2006 and 2005

	Number of shares issued (thousand)	Capital stock	Additional paid-in capital	Retained earnings (deficit) (¥ million)	Unrealized gain on available- for-sale securities	Treasury stock
Balance at March 31, 2004	193,647	¥ 13,341	¥ 9,927	¥ (4,441)	¥ 1,561	¥ (69)
Net income for the year.....				5,175		
Change in the current period					4	
Treasury stock purchased.....						(114)
Balance at March 31, 2005	193,647	¥ 13,341	¥ 9,927	¥ 734	¥ 1,565	¥ (183)
Net income for the year.....				4,371		
Change in the current period					1,599	
Treasury stock purchased.....						(156)
Balance at March 31, 2006	193,647	¥ 13,341	¥ 9,927	¥ 5,105	¥ 3,164	¥ (339)

(US \$ thousand)

Balance at March 31, 2005	\$ 114,027	\$ 84,845	\$ 6,269	\$ 13,377	\$ (1,563)
Net income for the year.....			37,360		
Change in the current period				13,669	
Treasury stock purchased.....					(1,336)
Balance at March 31, 2006	\$ 114,027	\$ 84,845	\$ 43,629	\$ 27,046	\$ (2,899)

The accompanying notes are an integral part of this statement.

NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS

Kumagai Gumi Co., Ltd. (Company Only) Years ended March 31, 2006 and 2005

-
- 1. BASIS OF PRESENTING FINANCIAL STATEMENTS**
- The accompanying non-consolidated financial statements of KUMAGAI GUMI CO., LTD. (the “Company”) have been prepared in accordance with generally accepted accounting principles and practices in Japan. Non-consolidated statements of shareholders’ equity have been prepared for the purpose of this Annual Report to supply additional information. In preparing the non-consolidated financial statements for the purpose of inclusion in this Annual Report, certain reclassifications and rearrangements have been made to the financial statements issued domestically in Japan in order to present these statements in a form which is more familiar to the readers of these statements outside Japan. In addition, the notes to the non-consolidated financial statements include information which is not required under generally accepted accounting principles and practices in Japan but is presented herein as additional information for this Annual Report.
-
- 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**
- (a) Recognition of net sales and related costs**
- Net sales from and the related costs of construction contracts are recorded mainly by the percentage of completion method. The completed-contract method is applied for certain projects whose construction period is less than one year.
- (b) Foreign currency translations**
- Short-term and long-term receivables and payables in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. Investments in overseas subsidiaries and affiliates in foreign currencies are translated into Japanese yen at the historical rates of exchange. Overseas accumulated construction cost in progress in foreign currencies (included in inventories) is translated into Japanese yen at the monthly rates of exchange.
- (c) Cash and cash equivalents**
- Cash and cash equivalents include time deposits which have original maturities of three months or less.
- (d) Time deposits**
- Time deposits have original maturities of more than three months through one year.
- (e) Marketable and investment securities**
- The Company listed all the securities as available-for-sale which are stated at fair value, with unrealized gains and losses net of taxes under shareholders’ equity section. Cost of sales is determined by the moving-average method.
- Other securities are stated at cost.

(f) Investments in subsidiaries and affiliates

Investments in subsidiaries and affiliates are stated at cost.

(g) Inventories

Inventories other than materials and supplies are stated at accumulated construction cost for each project. Selling, general and administrative expenses are excluded from such cost. Materials and supplies are stated at cost determined by the moving-average method.

(h) Property, equipment and depreciation

Property and equipment, including significant renewals and additions, are carried at cost. The cost of property and equipment retired or otherwise disposed of and accumulated depreciation in respect thereof are eliminated from the related accounts, and the resulting gain or loss is reflected in income. Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred.

Depreciation is computed by the declining-balance method at rates based on estimated useful lives of the assets, according to general class, type of construction and use.

(i) Accrued severance indemnities

To provide for employees' severance indemnities, net period pension cost, which represents the amount recognized as the cost of a pension plan for the year, is accounted for based on the projected benefit obligation and the plan assets.

The unrecognized obligation at transition is being amortized by the straight-line method over a period of 15 years.

The adjustment for actuarial assumptions is being amortized by the straight-line method over a period which is less than the average remaining years (9 years) of service of the active participants in the plans. Amortization is computed from the fiscal year subsequent to the year in which the adjustment was recorded.

Prior service cost is being amortized by the straight-line method over a period which is less than the average remaining years (9 years) of service of the active participants in the plans.

(j) Income taxes

Income taxes are accounted for by the asset and liability method.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards.

(k) Appropriations of retained earnings

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

3. ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS Effective April 1, 2005, the Company adopted a new accounting standard for the impairment of its long-lived assets held and used. This adoption of a new standard had no effect on the results of the Company.

4. UNITED STATES DOLLAR AMOUNTS The United States dollar amounts included in the accompanying non-consolidated financial statements are presented solely for convenience and are stated, as a matter of arithmetical computation only, at the rate of ¥117=US\$1, which was the approximate exchange rate at March 31, 2006. These 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 United States dollars at that rate.

5. INVENTORIES

<i>March 31, 2006 and 2005</i>	2006	2005	2006
	(¥ million)		(US \$ thousand)
Cost of uncompleted contracts.....	¥ 13,216	¥ 11,474	\$ 112,959
Materials and supplies	43	79	362
	¥ 13,259	¥ 11,553	\$ 113,321

6. LEASES The lease payments under noncancelable financing leases are accounted for as rental expenses, and no asset or liability (other than a short-term liability for accrued rent payable) relating to the lease is recorded.

7. PLEDGED ASSETS Assets pledged as collateral for short-term borrowings, long-term debt and other obligation were as follows:

<i>March 31, 2006</i>	(¥ million)	(US \$ thousand)
Assets pledged as collateral:		
Investment and other assets.....	¥ 9,713	\$ 83,018
Property and equipment.....	9,388	80,235
	¥ 19,101	\$ 163,253
Liabilities secured thereby:		
Short-term borrowings, long-term debt and other obligation	¥ 3,092	\$ 26,427

8. ADVANCES RECEIVED ON UNCOMPLETED CONTRACTS As is the customary practice in Japan, the Company receives progress payments from customers in accordance with the terms of the respective construction contracts.

9. OTHER, NET IN OTHER INCOME (EXPENSES)	Other, net in other income (expenses) comprised the following: <i>March 31, 2006 and 2005</i>	2006	2005	2006
		(\yen million)		(US \$ thousand)
		\yen	\yen	\$
Gain (loss) on disposal of property and equipment, net.....		128	(12)	1,095
Loss on valuation of marketable and investment securities....		(16)	(14)	(140)
Gain on sale of marketable and investment securities, net.....		14	197	120
Loss on valuation of property and equipment.....		(31)	(1)	(260)
Provision for allowance for doubtful accounts.....		(2,043)	(535)	(17,462)
Loss on valuation of investments in subsidiaries and affiliates..		(116)	–	(989)
Foreign exchange gain, net.....		269	253	2,297
Loss on lease cancellation.....		(1,105)	–	(9,444)
Other, net.....		(781)	(696)	(6,676)
		\yen (3,681)	\yen (808)	\$ (31,459)

10. INCOME TAXES Tax effects of significant temporary differences and loss carryforwards that result in deferred tax assets or liabilities were as follows:

	<i>March 31, 2005 and 2004</i>		
	2006	2005	2006
	(\yen million)		(US \$ thousand)
Deferred Tax Assets:			
Loss on valuation of property and equipment.....	\yen 1,014	\yen 1,522	\$ 8,666
Accrued severance indemnities.....	4,756	4,110	40,645
Loss on valuation of golf club membership right and other.....	1,497	1,606	12,795
Tax loss carry-forwards.....	96,226	97,879	822,447
Others.....	4,935	5,810	42,179
Subtotal.....	108,428	110,927	926,732
Valuation Allowance.....	(96,308)	(98,563)	(823,142)
Total.....	12,120	12,364	103,590
Deferred Tax Assets:			
Unrealized gain on available-for-sale securities.....	(2,172)	(1,074)	(18,563)
Others.....	(46)	(80)	(393)
Total.....	(2,218)	(1,154)	(18,956)
Net deferred tax assets.....	\yen 9,902	\yen 11,210	\$ 84,634

11. PER SHARE DATA

The weighted average number of common shares used in computing net income per share for the years ended March 31, 2006 and 2005 were as follows:

	Number of shares (thousand)
2005	132,849
2006	132,434

12. CONTINGENT LIABILITIES

The Company was contingently liable for guarantees of debt of customers, subsidiaries and affiliates, in the amount of ¥3,651 million (US\$31,203 thousand) at March 31, 2006. The guarantees are in respect of loans relating to purchases and development of land for civil engineering and architectural construction projects.

REPORT OF THE INDEPENDENT PUBLIC ACCOUNTANTS (NON-CONSOLIDATED)

To the Board of Directors of
Kumagai Gumi Co., Ltd.

We have examined the non-consolidated balance sheets of Kumagai Gumi Co., Ltd. at March 31, 2006 and 2005, and the related non-consolidated statements of income shareholders' equity for each of the two years in the period ended March 31, 2006, expressed in Japanese yen. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-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 non-consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the non-financial statements. An audit also includes assessing the accounting principles used and significant estimates made by managements, as well as evaluating the overall non-consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly the financial position of Kumagai Gumi Co., Ltd. at March 31, 2006 and 2005, and the results of their operations for each of the two years in the period ended March 31, 2006, in conformity with generally accepted accounting principles and practices in Japan applied on a consistent basis.

The United States dollar amounts shown in the non-consolidated financial statements referred to above have been translated solely for convenience. We have reviewed this translation and, in our opinion, the non-consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis described in Note 4.



Tokyo, Japan
June 29, 2006

M. Serizawa & Co.
Certified Public Accountants

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GLOBAL DIRECTORY

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(Overseas Division)

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Facsimile: 66-2694-1195

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**PRINCIPAL SUBSIDIARIES
AND AFFILIATES:**

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Level 2A, Valiant Towers
46/7 Navam Mawatha
Colombo 2, Sri Lanka
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Facsimile: 94-11-2387423

VIETNAM BRANCH

Unit 205-207, 2nd Floor,
V-Tower, 649 Kim Ma Street,
Ba Dinh District,
Hanoi, Vietnam
Telephone: 84-4-7661501
Facsimile: 84-4-7661506

**PAPUA NEW GUINEA
BRANCH**

Section 427, Allotment 3,
Islander Drive, Waigani NCD
Papua New Guinea
Telephone: 675-325-3688
Facsimile: 675-325-0629

GAEART TK Co., Ltd.

Head Office: Tokyo, Japan
President: Toshikazu Fujii
Capital: ¥1,000,000,000
(US\$9,461,633)
Major Activities:
Construction and pavement
of roads and airports, other
civil engineering works and
architecture.

K&E Co., Ltd.

Head Office: Tokyo, Japan
President: Yasushi Higuchi
Capital: ¥300,000,000
(US\$2,838,489)
Major Activities:
Consulting and reform
building business
Installation of building
equipment.

FATEC CO., LTD.

Head Office: Tokyo, Japan
President: Takayuki Aono
Capital: ¥20,000,000
(US\$189,232)
Major Activities:
Sales of construction
materials and equipment
developed by Kumagai's
various technologies.

Technos Co., Ltd.

Head Office: Toyokawa
Aichi, Japan
President: Yoshiaki
Nagashima
Capital: ¥470,000,000
(US\$4,446,967)
Major Activities:
Production and sale of
construction machinery and
materials.
Construction of
underground diaphragm
walls and noiseless
vibration-free piles.

Taiwan Kumagai Co., Ltd.

Head Office: Taipei, Taiwan
President: Shizuo Tashiro
Capital: NT\$301,200,000
(US\$9,480,944)
Major Activities:
Construction business in
Taiwan.

Thai Kumagai Co., Ltd.

Head Office: Bangkok,
Thailand
President: Masahiko Fujita
Capital: B30,000,000
(US\$762,641)
Major Activities:
Construction business in
Thailand.

(As of March 31, 2005)

Conversion into U.S. dollars
at the rate of
¥117.47=US\$1.00
US\$1.00=NT\$32.52998
=B38.89735
(As of March 31, 2006)

MAJOR CONTRACTS

Contracts awarded in fiscal year 2006:

CIVIL ENGINEERING

- Kuzuryu River Downstream (Phase 2) Agricultural Irrigation Project, Shibahara Channel No. 2, Part 16 Construction Project
Owner: Ministry of Agriculture, Forestry and Fisheries
- The Tohoku Shinkansen Line, Kamikita Tunnel, and other projects
Owner: Japan Railway Construction, Transport and Technology Agency
- Hokusei Coastal Basin Sewage System (Northern Treatment Zone), Northern Purification Center, B-1 Route Water Treatment Plant (Civil Engineering & Architecture) Construction Project
Owner: Mie Prefectural Government
- KCRC Kowloon Southern Link (KDB200) Project
Owner: Kowloon-Canton Railway Corporation (Hong Kong)

ARCHITECTURE

- Century Tsukuba Miraidaira Construction Project
Owner: Iida Sangyo Co., Ltd.
- Times Peace Square Construction Project
Owner: MID Urban Development Co., Ltd., Mitsui Fudosan Co., Ltd., Sumitomo Realty & Development Co., Ltd., PanaHome Corporation
- AL PLAZA Tsurumi (Tentative Name) Renovation Project
Owner: K.K. Heiwado
- Ekoda-no-mori Health and Welfare Facility (Tentative Name) Construction Project
Owner: Southern TOHOKU Social Welfare Foundation

Contracts completed in fiscal year 2006:

CIVIL ENGINEERING

- Civil Engineering Works (Channel Zone) for Kannagawa Hydropower Plant Construction Project (Phase I)
Owner: The Tokyo Electric Power Company, Inc.
- Delhi The Metro Corridor Phase 1 (MC1A) Project
Owner: Delhi Metro Rail Corporation-Ltd.(India)
- Daishoji River Comprehensive Development, Kutani Dam Construction Project
Owner: Ishikawa Prefectural Government
- Minoh Toll Road Mountain Tunnel (South Zone) Construction Project
Owner: Osaka Prefectural Road Public Corporation

ARCHITECTURE

- Taipei International Financial Center Construction Project
Owner: Taipei Financial Center Corporation (Taiwan)
- New City Higashitotsuka (Tentative Name), Central District, Building A Construction Project
Owner: Mitsui Fudosan Co., Ltd., Sotetsu Real Estate Sales Co., Ltd., Nippon Oil Real Estate Co., Ltd.
- Yokohama Minato Mirai Manyo Club (Tentative Name) Construction Project
Owner: Manyo Club Co., Ltd.
- Aichi Gakuin University Kusumoto Campus, Building for School of Pharmacy Construction Project
Owner: Aichi Gakuin University

Contracts carried over to fiscal year 2007:

CIVIL ENGINEERING

- New Metrorail City Project
Owner: Public Transport Authority, Government of Western Australia
- Southern Transport Development Project Highway Section From Kurundugahahetekma to Matara
Owner: Road Development Authority (Sri Lanka)
- Route 8-Eagle's Nest Tunnel and Associated Works Project
Owner: Highways Department The Government of Hong Kong SAR
- Zone SJ 11 (4) _ Zone 31 (Outer Route) Tunnel Construction Project
Owner: Metropolitan Expressway Co., Ltd.
- Hiroshima Expressway Route 1 (Aki-Fuchu Road) Road Construction Project (Tunnel Section)
Owner: Hiroshima Expressway Public Corporation

ARCHITECTURE

- Musashiurawa Station, District 8-1, Urban Redevelopment Project, Facility Building Construction
Owner: Musashiurawa Station District 8-1 Urban Redevelopment Union
- Itoyacho Construction Project (Tentative Name)
Owner: Daikyo Inc., Kanden Fudosan Co., Ltd.
- Teyose District Class 1 Urban Redevelopment Project Facilities Buildings Construction
Owner: Teyose District Urban Redevelopment Union
- Keikyu City Kaminagaya Collective Housing Construction Project
Owner: Keihin Electric Express Railway Co., Ltd., Keihin Real Estate Co., Ltd.
- Kobe Diesel Co., Ltd. Headquarters Factory Construction Project
Owner: Kinki Ryoju Estate Co., Ltd.

CORPORATE DATA

Date Incorporated:
January 6, 1938 (Inaugurated in 1898)

Shareholders' Equity:
¥31,198 million
(US\$266,648 thousand)
(As of March 31, 2006)

Major Activities:

1. Engineering, architecture, and general construction
2. Design, manufacture, and sale of construction machinery and equipment
3. Construction-related consulting services

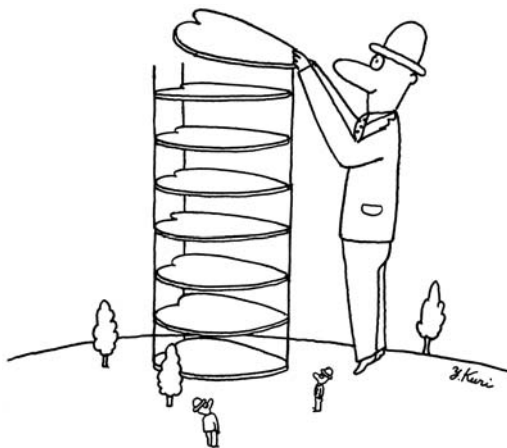
Number of Employees:

Civil Engineers.....	909
Architectural Engineers.....	1,068
Electrical Engineers.....	46
Mechanical Engineers.....	33
Administrative Staff.....	528
Others.....	3
Total.....	2,587

(As of March 31, 2006)

For further information, please contact the
nearest local branch or the Overseas
Division at the Head Office.

We build with heart.



KUMAGAI GUMI

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