

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2000 AND 1999

## 1. BASIS OF PRESENTATION

The accompanying consolidated financial statements of Kajima Corporation (the "Company") and its consolidated subsidiaries (together, the "Companies") have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan. Differences between the accounting policies followed by the Companies and International Accounting Standards (IAS) are described in Note 4. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Effective April 1, 1999, consolidated statements of cash flows are required to be prepared under Japanese accounting standards, and such statements for the years ended March 31, 2000 and 1999 are presented herein.

In preparing the consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in Japan in order to present these consolidated statements in a form which is more familiar to readers of these statements outside Japan. In addition, certain notes are not required under accounting principles and practices generally accepted in Japan but are presented herein as additional information.

Certain amounts in the 1999 consolidated financial statements have been restated to conform with classifications adopted in 2000.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. **Consolidation** - Effective April 1, 1999, the Company changed its consolidation scope of subsidiaries and affiliated companies from the application of the ownership concept to the control or influence concept. Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated and those companies over which the Companies have the ability to exercise significant influence are accounted for by the equity method. The consolidated financial statements for the year ended March 31, 1999 are not retroactively adjusted.

The consolidated financial statements for the year ended March 31, 2000 included the accounts of Kajima Corporation, Kajima Road Co., Ltd., Chemical Grouting Co., Ltd., Kajima Leasing Corporation, Kajima Hotel Enterprises, Ltd., Kajima Mechatro Engineering Co., Ltd., Taiko Trading Co., Ltd., Kajima U.S.A. Inc.(KUSA) and its 17 subsidiaries, Kajima Europe B.V.(KE) and its 33 subsidiaries, Kajima Overseas Asia Pte. Ltd.(KOA) and its 10 subsidiaries and 15 subsidiaries of the Company, including 2 subsidiaries of KE and 1 subsidiary of the Company newly established in 2000 and Kajima Road Co., Ltd., Chemical Grouting Co., Ltd. and 2 subsidiaries of the Company, previously accounted for by the equity method have been consolidated in the consolidated financial statements, with the exclusion of 2 subsidiaries of KUSA, 6 subsidiaries of KE and 1 subsidiary of the Company due to liquidation and other.

Other subsidiaries were not consolidated as they were not significant in terms of total assets, net sales, retained earnings, net income or net loss.

All unconsolidated subsidiaries and affiliates were accounted for using the equity method.

Up to the years ended March 31, 1999, the excess of the cost of the Company's investments in its consolidated subsidiaries and companies accounted for using the equity method over its equity in their net assets at the dates of acquisition is being amortized over a period of 5 years. Effective April 1, 1999, the excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is being amortized over a period of 5 years. Inter-company balances, transactions and unrealized profits have been eliminated in consolidation.

The number of consolidated subsidiaries and companies for which the equity method is applied is summarized below:

	2000	1999
Consolidated subsidiaries .....	84	86
Equity method applied:		
Unconsolidated subsidiaries .....	57	38
Affiliates .....	37	32
Stated at cost:		
Unconsolidated subsidiaries .....	-	14
Affiliates .....	-	2

- b. **Cash Equivalents** - Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits and certificate of deposits, all of which mature or become due within three months of the date of acquisition. The scope of cash and cash equivalents in 1999 was changed from ¥126,224 million to ¥114,435 million to conform with the presentation in 2000.

- c. **Inventories** - Construction projects in progress are stated at cost as determined on a specific project basis. Related general and administrative expenses and financial charges are principally excluded from such costs. Other inventories are primarily stated at cost determined on a specific project basis or by the moving-average method.

However, in the case of certain overseas subsidiaries, construction projects in progress and real estate for sale are stated at cost, when not in excess of net realizable value.

- d. **Capitalization of Interest** - Interest costs incurred for real estate development projects conducted mainly by certain overseas subsidiaries have been capitalized as a part of the development cost of such projects. Interest expense capitalized was ¥1,274 million (\$12,019 thousand) and ¥1,834 million for the years ended March 31, 2000 and 1999, respectively.

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e. Marketable Securities and Investments in Securities - Securities listed on stock exchanges are included in marketable securities and investments in securities, and are stated at the lower of cost or market value, cost being determined by the moving-average method.

Other securities are stated at cost determined by the moving-average method.

f. Property and Equipment - Property and equipment are stated principally at cost. Depreciation has been principally computed using the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998. The estimated useful lives for buildings and structures range from 2 to 50 years and for machinery and equipment range from 2 to 20 years.

However, in the accounts of certain overseas subsidiaries, depreciation is principally calculated by using the straight-line method over the estimated useful lives of the respective assets.

g. Allowance for Doubtful Accounts - The Company and its consolidated domestic subsidiaries provide for possible losses due to uncollectibility of notes, accounts and loans receivable at the greater of either management's estimate or the maximum amount allowable for tax purposes. The consolidated overseas subsidiaries provide for such possible losses using management's estimate.

h. Retirement Benefits - The Companies have two types of retirement benefit plans to cover severance payments that would be required if all employees voluntarily terminated their services with the Companies at each balance sheet date. A pension plan, the assets of which are vested in trustees, covers approximately 60% of the total amount of the severance payments and the remaining 40% is covered by an unfunded plan.

In the case of the Company, the Kajima Pension Fund has been established, the assets of which are administrated by the board of trustees composed of management and employee representatives.

In respect of the unfunded plan, the Companies provide for the liability for severance payments at 100% of the amounts payable if all eligible participants were to terminate their employment as of March 31, 2000 (see Note 3). Normal costs of the pension plan are funded and charged to income currently. Past service costs are amortized and charged to income principally over a period of 20 years.

The Companies provide for officers' retirement allowances at 100% of the amounts that would be required if all directors and corporate auditors voluntarily terminated their office as stipulated in the retirement regulations.

i. Allowance for Loss on Investments in Unconsolidated Subsidiaries and Affiliates - The Companies provide for loss of unconsolidated subsidiaries and affiliates, which will be attributable to the Companies.

j. Recognition of Revenues and Related Costs - Revenues from and related costs of construction contracts are recorded using the completed-contract method.

k. Costs of Research and Development and Debenture Issuance - All research and development costs and debenture issuance costs are charged to income as incurred. Costs of research and development totaled ¥13,071 million (\$123,311 thousand) for the year ended March 31, 2000.

l. Leases - All leases are accounted for as operating leases. Under the Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's consolidated financial statements.

m. Income Taxes - Effective April 1, 1998, the Companies adopted accounting for allocation of income taxes based on the asset and liability method. The cumulative effect of this application of interperiod tax allocation in prior years in the amount of ¥14,520 million is included as an adjustment to increase retained earnings as of April 1, 1998.

Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

n. Appropriations of Retained Earnings - Appropriations of retained earnings are accounted for and reflected in the accompanying consolidated financial statements when approved by the stockholders.

o. Foreign Currency Transactions - Short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates as of each balance sheet date.

Long-term receivables and payables denominated in foreign currencies are translated into Japanese yen at historical exchange rates. However, when there is a significant unrealized exchange loss related to long-term receivables and payables derived from foreign currency fluctuations, such receivables and payables are translated into Japanese yen at the exchange rates in effect at the balance sheet date.

Assets and/or liabilities which are converted at the foreign exchange rate or swap rate are translated using the exchange rates set forth in the applicable exchange contract and the relevant currency swap agreement.

The exchange gains arising from the above contracts are deferred and recognized as income ratably over the term of the contract period. Other exchange gains and losses are recognized in the fiscal periods in which they occur.

p. Foreign Currency Financial Statements - The balance sheet accounts and revenue and expense accounts of the consolidated overseas subsidiaries are translated into yen at the current exchange rates as of each balance sheet date except for stockholders' equity, which is translated at the historical exchange rate.

Differences arising from such translation are shown as "Foreign currency statements translation adjustments" in the accompanying consolidated balance sheets.

q. Per Share Information - Net income or loss per share is based upon the weighted average number of shares outstanding during the relevant fiscal year. The average number of shares outstanding used in the computation for the years ended March 31, 2000 and 1999 were 956,429 and 961,309 thousand shares, respectively.

Diluted net income per share is not disclosed because of anti-dilutive effect for the year ended March 31, 2000 and the net loss of the Companies for the year ended March 31, 1999.

Cash dividends per share in the accompanying consolidated statements of operations are dividends applicable to the respective years including dividends to be paid after the end of the year.

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### 3. ACCOUNTING CHANGE

Effective April 1, 1998, the Companies changed its accounting policy for the liability for severance payments under the unfunded pension plan from providing 40% to 100% of the amounts payable if all eligible participants were to terminate their employment at each balance sheet date. This change was made in order to reflect periodic income and expenses more appropriately and to present sound financial condition based on the strengthening plan of financial structure, which was made as a result of the investigation of various factors concerned with the eligible employees such as age structure and length of service, as well as the changes in circumstances of accounting practices in connection with retirement benefits.

The effect of this change was to increase loss before income taxes and minority interests by ¥39,515 million including a cumulative effect of ¥40,639 million for the year ended March 31, 1999. This cumulative effect was reflected in other expenses as "Provision for severance payments" in the accompanying consolidated statements of operations.

### 4. DIFFERENCES BETWEEN JAPANESE ACCOUNTING PRINCIPLES AND INTERNATIONAL ACCOUNTING STANDARDS

The accompanying consolidated financial statements are prepared in conformity with accounting principles generally accepted in Japan. The main differences between such accounting principles and IAS are as follows:

a. Consolidation and the Equity Method of Accounting

Under accounting principles generally accepted in Japan:

- (i) subsidiaries whose total assets, total revenue, net income or loss and retained earnings are not significant in aggregate in relation to the comparable figures in the consolidated financial statements may be excluded from consolidation; and
- (ii) the equity method of accounting is not required for unconsolidated subsidiaries and affiliates whose aggregate net income or loss and retained earnings are not significant in relation to the comparable figures in the consolidated financial statements.

These Japanese accounting principles regarding consolidation and adoption of the equity method of accounting are not in accordance with IAS 27 and 28, which require, except in certain circumstances, the consolidation of all subsidiaries and the application of the equity method to affiliates.

For the years ended March 31, 2000 and 1999, the total assets, revenues, net income or loss and retained earnings attributable to the Company's unconsolidated subsidiaries represented the following percentages of the corresponding figures in the consolidated financial statements:

	<u>2000</u>	<u>1999</u>
Total assets .....	2.4%	1.9%
Revenues .....	3.1	2.5
Net income (loss) .....	(0.3)	0.1
Retained earnings .....	(1.1)	(4.0)

These percentages are calculated on a consistent basis over the two fiscal years and are stated before adjusting for inter-company balances and transactions.

b. Recognition of Revenues and Related Costs - IAS 11 requires revenues and related costs to be recognized by reference to the stage of completion of contract activity where the outcome of a construction contract can be estimated reliably.

The Companies' reporting policy in relation to the recognition of revenues and related costs, which is in accordance with Japanese accounting principles, is set out in Note 2.j.

It is not practicable to quantify the effect on the net income or loss of the Companies as a result of this difference in accounting policy.

c. Retirement Benefits - IAS 19 requires retirement benefit costs to be recognized as an expense in the periods during which services are rendered based on the actuarial valuation method.

The Companies' reporting policy in relation to the recognition of retirement benefit costs, which is in accordance with Japanese accounting principles, is set out in Note 2.h.

It is not practicable to quantify the effect on the net income or loss of the Companies as a result of this difference in accounting policy.

d. Foreign Currency Transactions - IAS 21 requires foreign currency transactions to be reported at the closing rate of exchange.

The Companies' reporting policy in relation to foreign currency transactions, which is in accordance with Japanese accounting principles, is set out in Note 2.o.

It is not practicable to quantify the effect on the net income or loss of the Companies as a result of this difference in accounting policy.

### 5. TRANSLATION INTO U.S. DOLLARS

The accounts of the Company and its Japanese subsidiaries are maintained in Japanese yen, the currency of the country in which they are incorporated and principally operate. The U.S. dollar amounts included herein are presented solely for the convenience of the reader. Such dollar amounts have been translated from yen at the approximate exchange rate in Tokyo on March 31, 2000 of ¥106 = U.S.\$1. The translations should not be construed as representations that Japanese yen have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

## 6. MARKETABLE SECURITIES AND INVESTMENTS IN SECURITIES

Marketable securities and investments in securities as of March 31, 2000 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Current:		
Market quotations available:		
Marketable equity securities.....	¥ 128,295	\$ 1,210,330
Debentures.....	85	802
Fund trust and other.....	2,481	23,406
Subtotal.....	130,861	1,234,538
Market quotations not available.....	212	2,000
<b>Total</b> .....	<b>¥ 131,073</b>	<b>\$ 1,236,538</b>

	Millions of Yen	Thousands of U.S. Dollars
Non-Current:		
Market quotations available:		
Marketable equity securities.....	¥ 81,881	\$ 772,462
Debentures.....	1,474	13,906
Fund trust and other.....	720	6,792
Subtotal.....	84,075	793,160
Market quotations not available.....	26,539	250,368
<b>Total</b> .....	<b>¥ 110,614</b>	<b>\$ 1,043,528</b>

Securities for which market quotations are not available are principally non-listed securities excluding over-the-counter securities.

The carrying values and aggregate market values of securities for which market quotations are available included in marketable securities and investments in securities as of March 31, 2000 and 1999 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Current:			
Carrying value.....	¥ 130,861	¥ 140,635	\$ 1,234,538
Aggregate market value.....	260,915	233,749	2,461,462
<b>Unrealized gain</b> .....	<b>¥ 130,054</b>	<b>¥ 93,114</b>	<b>\$ 1,226,924</b>
Non-Current:			
Carrying value.....	¥ 84,075	¥ 86,509	\$ 793,160
Aggregate market value.....	123,953	126,896	1,169,368
<b>Unrealized gain</b> .....	<b>¥ 39,878</b>	<b>¥ 40,387</b>	<b>\$ 376,208</b>

## 7. LONG-TERM LOANS RECEIVABLE

Long-term loans receivable consist primarily of loans to customers of the Companies.

## 8. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings were represented generally by 365-day notes in 2000 and 1999 issued by the Companies and bore interest principally at the short-term primary interest rates of 1.375% in effect as of March 31, 2000 and 1999, respectively.

As is customary in Japan, the Company and its consolidated domestic subsidiaries maintain deposit balances with banks with which they have short-term bank loans or long-term debt. Such deposit balances are not legally or contractually restricted as to withdrawal.

Long-term debt as of March 31, 2000 and 1999, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
0.1175% to 9.5% loans from banks, due 2000 - 2010.....	¥ 215,384	¥ 238,025	\$ 2,031,924
0.0133% to 9.5% loans from insurance companies and other financial institutions, due 2000 - 2025.....	49,402	60,566	466,057
5.2% to 7.5713% Medium Term Notes, due 2000 - 2005.....	22,693	23,066	214,085
1.95% to 7.4188% bonds, due 2000 - 2012.....	195,147	205,734	1,841,010
1.6% convertible debentures due September 28, 2001.....	14,893	14,893	140,500
Total.....	497,519	542,284	4,693,576
Current portion included in current liabilities.....	(89,825)	(92,231)	(847,406)
<b>Total</b> .....	<b>¥ 407,694</b>	<b>¥ 450,053</b>	<b>\$ 3,846,170</b>

On July 27, 1989, the Company issued 1.6% convertible debentures in the principal amount of ¥15,000 million due in 2001, payable in Japanese yen and in denominations of ¥1,000,000 each. Each debenture was convertible into shares of common stock of the Company at a conversion price of ¥2,140 per share from April 1, 1990.

The conversion price described above is subject to adjustment to reflect, among other things, stock dividends, stock splits, the subdivision or consolidation of shares, and issuance of shares and related securities at less than market value.

As of March 31, 2000, the maximum number of new shares which would have been issued upon full conversion of the outstanding convertible debentures at the then current conversion price was 6,959,346 shares.

The carrying amounts of assets pledged as collateral for short-term borrowings of ¥284 million (\$2,679 thousand), long-term debt of ¥6,370 million (\$60,094 thousand) and other liabilities of ¥1,248 million (\$11,774 thousand) as of March 31, 2000 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	Inventories:	
Development projects in progress, real estate and other.....	¥ 5,336	\$ 50,340
Land.....	731	6,896
Buildings and structures - net of accumulated depreciation.....	6,078	57,340
Machinery and equipment - net of accumulated depreciation.....	23	217
Other assets.....	324	3,056
<b>Total</b> .....	<b>¥ 12,492</b>	<b>\$ 117,849</b>

Certain of the Company's long-term debt agreements provide, among other things, that the lender may request the Company to submit proposals for appropriations of retained earnings (including payment of dividends) for review and, in some instances, approval prior to presentation to the stockholders. However, the Company has never received such a request.

In addition, as is customary in Japan, substantially all of the Companies' bank borrowings are subject to general agreements with each bank which provide, among other things, that the relevant bank may treat any security furnished to the bank as well as cash deposited with it as security for all present and future indebtedness and may, when the bank deems it necessary, request additional security for the loans.

The aggregate annual maturities of long-term debt (including current portion) as of March 31, 2000 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2001.....	¥ 89,825	\$ 847,406
2002.....	179,100	1,689,623
2003.....	95,080	896,981
2004.....	30,856	291,094
2005.....	33,609	317,066
2006 and thereafter.....	69,049	651,406
<b>Total</b> .....	<b>¥ 497,519</b>	<b>\$ 4,693,576</b>

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## **9.COMMERCIAL PAPER**

Commercial paper was represented by 107 to 177-day paper issued by the Companies with interest at 0.064% to 6.262% and 31 to 170-day paper at 0.45% to 7.5% as of March 31, 2000 and 1999, respectively.

## **10.ADVANCES RECEIVED ON CONSTRUCTION PROJECTS IN PROGRESS**

The Companies normally receive payments from customers on a progress basis in accordance with the terms of the respective construction contracts.

## **11.RETIREMENT BENEFITS**

The Company and its consolidated domestic subsidiaries have severance payment plans for employees, directors and corporate auditors. The amount of the severance payments is, in general, determined on the basis of length of service and current basic salary at the time of termination of service. An employee is paid at higher rates if he retires at age 50 or over after serving with the Companies for more than 15 years at the date of retirement. If the termination of service is involuntary, an employee is entitled to greater payments than in the case of voluntary termination. The severance allowances for employees of the Companies are partially funded in a pension fund. Liability for severance payments as of March 31, 2000 and 1999 includes retirement benefits for directors and corporate auditors of ¥5,265 million (\$49,670 thousand) and ¥4,401 million, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of stockholders.

Provision for severance payments and pension expense totaled ¥22,721 million (\$214,349 thousand) and ¥61,427 million for the years ended March 31, 2000 and 1999, respectively, and the assets of the fund as of March 31, 2000 was ¥192,372 million (\$1,814,830 thousand).

## **12.STOCKHOLDERS' EQUITY**

The Japanese Commercial Code (the "Code") provides that retained earnings in an amount equal to at least 10% of any amount paid by the Company as an appropriation of retained earnings, including dividends and bonuses to directors and corporate auditors, be appropriated to a legal reserve until such reserve equals 25% of the stated capital. This reserve amount, included in retained earnings, totals ¥16,215 million (\$152,972 thousand) and ¥16,182 million as of March 31, 2000 and 1999, respectively, and is not available for dividends but may be used to reduce a deficit by resolution of the stockholders, or may be capitalized by resolution of the Board of Directors.

Under the Code, the amount available for dividends is based on retained earnings as recorded on the Company's books. As of March 31, 2000, retained earnings recorded on the Company's books were ¥102,784 million (\$969,660 thousand) which is available for future dividends subject to the approval of the stockholders and legal reserve requirements.

Also, under the Code, at least 50% of the issue price of new shares, with a minimum of the par value thereof, is required to be designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors.

Proceeds in excess of the amounts designated as stated capital have been credited to additional paid-in capital. The Company may transfer, by resolution of stockholders, a portion of retained earnings available for dividends to a common stock account, and the Company may issue new shares of common stock to the existing stockholders without consideration by resolution of the Board of Directors, to the extent that the amount calculated by multiplying the number of outstanding shares after the issuance by par value per share shall not exceed the stated capital, and that the amount calculated by dividing the total amount of stockholders' equity by the number of outstanding shares after the issuance shall not be less than ¥50. These issuances of the new shares are treated as stock splits.

Cash dividends are approved by the stockholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. However, a semiannual interim dividends may be paid upon resolution of the Board of Directors subject to limitations imposed by the Code.

As of March 31, 1999, the number of shares of common stock of the Company held by an affiliate was 4,878 thousand shares. As of March 31, 2000, such shares of common stock totaling ¥1,595 million (\$15,047 thousand) were included in "Treasury stock" because that company was consolidated due to the control concept as described in Note 2.a.

## **13.INCOME TAXES**

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rates of approximately 41.5% and 47.1% for the years ended March 31, 2000 and 1999, respectively.

The tax effects of significant temporary differences and loss carryforwards which result in deferred tax assets and liabilities at March 31, 2000 and 1999 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
<b>Deferred Tax Assets:</b>			
Inventories.....	¥ 53,527	¥ 60,937	\$ 504,972
Tax loss carryforwards.....	37,410	37,767	352,925
Liability for severance payments.....	24,438	19,976	230,547
Securities unlisted on stock exchanges .....	14,091	11,604	132,934
Equity loss in excess of investments in and loans to unconsolidated subsidiaries and affiliates .....	12,358	-	116,585
Allowance for doubtful accounts.....	11,975	10,102	112,972
Property and equipment .....	10,344	16,804	97,585
Unrealized inter-company profits of property and equipment.....	7,776	8,926	73,358
Allowance for loss on investments in unconsolidated subsidiaries and affiliates.....	-	14,230	-
Other.....	16,243	16,752	153,235
Subtotal .....	188,162	197,098	1,775,113
Valuation Allowance.....	(21,640)	(21,432)	(204,151)
Total .....	166,522	175,666	1,570,962
<b>Deferred Tax Liabilities:</b>			
Property and equipment.....	(8,215)	(7,977)	(77,500)
Other .....	(1,721)	(2,699)	(16,236)
Total .....	(9,936)	(10,676)	(93,736)
Net Deferred Tax Assets .....	¥ 156,586	¥ 164,990	\$ 1,477,226

As of March 31, 2000, the Company has tax loss carryforwards of approximately ¥60,308 million (\$568,943 thousand) which will expire in fiscal 2004 to the extent they remain unutilized. Certain consolidated subsidiaries of the Company also have tax loss carryforwards whose expiration dates range from 2001 to 2013. Due to the uncertainty of the realization of such subsidiaries' tax loss carryforwards, the Companies have established a valuation allowance to offset most of the related deferred tax assets in the amount of ¥ 11,504 million (\$108,528 thousand).

A reconciliation between the normal effective statutory tax rate and the actual effective tax rates reflected in the accompanying consolidated statements of operations for the years ended March 31, 2000 and 1999 were as follows:

	2000	1999
Normal effective statutory tax rate.....	41.5 %	(47.1) %
Expenses not deductible for income tax purposes .....	12.1	1.2
Non-taxable income.....	(4.8)	(0.4)
Inhabitant taxes.....	5.0	0.1
Tax benefits not recognized on tax loss carryforwards and other of consolidated subsidiaries .....	0.1	0.4
Tax benefits not recognized on equity in losses of unconsolidated subsidiaries and affiliates .....	3.0	3.4
Tax rate differences on realization of unrealized inter-company profit .....	1.6	-
Effect of tax rate reduction .....	-	5.2
Other .....	0.3	(0.1)
Actual effective tax rate.....	58.8 %	(37.3) %

#### 14. RELATED PARTY TRANSACTIONS

Transactions with unconsolidated subsidiaries and affiliates for the years ended March 31, 2000 and 1999 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Construction and other revenues.....	¥ 3,798	¥ 5,503	\$ 35,830
Purchases.....	10,056	28,753	94,868
Loss from liquidation of unconsolidated subsidiaries and affiliates.....	293	3,963	2,764

The Company also purchase materials and supplies for construction works or is provided certain other services from a company whose major stockholders are directors of the Company and their relatives. Purchases from that company were ¥1,331 million for the year ended March 31, 1999. The terms and conditions for transactions with the related party were in accordance with normal business practices.

Long-term loans to unconsolidated subsidiaries and affiliates include ¥10,363 million loan with no interest as of March 31, 1999.

#### 15. LEASES

- a. Finance Leases as a Lessee - The Companies have a number of lease agreements, primarily for office space and computer equipment, which are renewable upon expiration and mainly cancellable. Rental expenses on such leases were approximately ¥7,316 million (\$69,019 thousand) and ¥6,925 million, including total lease payments of ¥855 million (\$8,066 thousand) and ¥742 million for the years ended March 31, 2000 and 1999, respectively, in connection with finance leases as described in Note 2.1.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation equivalent and interest equivalent of finance leases that do not transfer ownership of the leased property to the lessee on a "as if capitalized" basis for the years ended March 31, 2000 and 1999 were as follows:

	As of March 31, 2000 (Millions of Yen)		
	Machinery and equipment	Other	Total
Acquisition cost .....	¥ 3,912	¥ 454	¥ 4,366
Accumulated depreciation .....	(2,924)	(288)	(3,212)
Net lease property .....	¥ 988	¥ 166	¥ 1,154

	As of March 31, 1999 (Millions of Yen)		
	Machinery and equipment	Other	Total
Acquisition cost .....	¥ 3,026	¥ 364	¥ 3,390
Accumulated depreciation .....	(2,449)	(228)	(2,677)
Net lease property .....	¥ 577	¥ 136	¥ 713

	As of March 31, 2000 (Thousands of U.S. Dollars)		
	Machinery and equipment	Other	Total
Acquisition cost .....	\$ 36,906	\$ 4,283	\$ 41,189
Accumulated depreciation .....	(27,585)	(2,717)	(30,302)
Net lease property .....	\$ 9,321	\$ 1,566	\$ 10,887

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Due within one year .....	¥ 688	¥ 575	\$ 6,491
Due after one year .....	1,127	717	10,632
Total .....	¥ 1,815	¥ 1,292	\$ 17,123

The imputed interest equivalent portion which is computed using the interest method is excluded from the above obligations under finance leases.

Depreciation equivalent and interest equivalent under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Depreciation equivalent .....	¥ 643	¥ 572	\$ 6,066
Interest equivalent .....	123	89	1,160

Depreciation equivalent is computed by a declining-balance method for machinery and equipment and by a straight-line method for other investments using the effective life of the lease and nil residual value, respectively.

Interest equivalent is not reflected in the accompanying consolidated statements of operations.

- b. Finance Leases as a Lessor - The Companies also have a number of lease agreements, primarily for computer equipment, which are renewable upon expiration and mainly cancellable. Lease income earned on such leases in connection with finance leases as described in Note 2.I. were approximately ¥1,030 million (\$9,717 thousand) and ¥1,158 million for the years ended March 31, 2000 and 1999, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, receivables under finance leases, depreciation and interest equivalent of finance leases that do not transfer ownership of the leased property to the lessee for the years ended March 31, 2000 and 1999 were as follows:

	As of March 31, 2000 (Millions of Yen)		
	Machinery and equipment	Other	Total
Acquisition cost .....	¥ 3,196	¥ 3,330	¥ 6,526
Accumulated depreciation .....	(1,448)	(864)	(2,312)
Net lease property .....	¥ 1,748	¥ 2,466	¥ 4,214

	As of March 31, 1999 (Millions of Yen)		
	Machinery and equipment	Other	Total
Acquisition cost .....	¥ 4,469	¥ 1,578	¥ 6,047
Accumulated depreciation .....	(2,317)	(669)	(2,986)
Net lease property .....	¥ 2,152	¥ 909	¥ 3,061

	As of March 31, 2000 (Thousands of U.S. Dollars)		
	Machinery and equipment	Other	Total
Acquisition cost .....	\$ 30,151	\$ 31,415	\$ 61,566
Accumulated depreciation .....	(13,660)	(8,151)	(21,811)
Net lease property .....	\$ 16,491	\$ 23,264	\$ 39,755

Receivables under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Due within one year .....	¥ 1,014	¥ 963	\$ 9,566
Due after one year .....	3,293	2,199	31,066
Total .....	¥ 4,307	¥ 3,162	\$ 40,632

The imputed interest equivalent portion which is computed using the interest method is excluded from the above receivables under finance leases.

Depreciation and interest equivalent under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Depreciation .....	¥ 928	¥ 1,018	\$ 8,755
Interest equivalent .....	149	147	1,406

c. Operating Leases as a Lessee - The minimum rental commitments under noncancellable operating leases as of March 31, 2000 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	Due within one year .....	¥ 1,367
Due after one year .....	20,095	189,576
Total .....	¥ 21,462	\$ 202,472

## 16.DERIVATIVES

The Companies enter into derivative financial instruments ("derivatives"), including foreign exchange forward contracts, currency swaps, interest rate swaps and currency and interest rate swaps agreements.

The Companies do not hold or issue derivatives for trading purposes and it is the policy to use derivatives only for the purpose of reducing market risks and financing costs in accordance with internal regulation.

Derivative transactions entered into by the Companies, such as interest rate swaps that convert U.S. dollar floating rate to fixed Yen rate, are subject to market risk associated with U.S. dollar and Yen exchange rates. Interest swap transactions are also subject to market risk and are used to convert fixed interest rate to floating interest rate.

The Companies do not anticipate any losses resulting from default by counterparties, as these transactions are limited to major domestic or overseas financial institutions with sound operational foundations.

The contract or notional amounts of derivatives which are shown in the following table do not represent the amounts exchanged by the parties and do not measure the exposure to credit or market risk.

The information of derivatives for the year ended March 31, 1999 is not separately disclosed in this note to the consolidated financial statements in accordance with disclosure standards in Japan.

Such information of derivatives is disclosed in the notes to the non-consolidated financial statements.

The Companies have the following derivatives contracts outstanding as of March 31, 2000:

a. Over-the-Counter Products for Foreign Exchange Contracts

	Millions of Yen			
	Contract / Notional Principal Amount		Market Value	Unrealized Gain (Loss)
	Within one year	After one year		
Foreign Exchange Contracts				
Buying:				
U.S.\$ forward	¥ 4,093	¥ 537	¥ 4,642	¥ 12
Thai Baht forward	787	-	716	(71)
Selling:				
U.S.\$ forward	600	-	602	(2)
Swiss Franc forward	1	-	1	0
Currency Swaps				
Receive ¥/Pay U.S.\$	10,351	10,610	3,623	3,623
Total	¥ 15,832	¥ 11,147	¥ 9,584	¥ 3,562

	Thousands of U.S. Dollars			
	Contract / Notional Principal Amount		Market Value	Unrealized Gain (Loss)
	Within one year	After one year		
Foreign Exchange Contracts				
Buying				
U.S.\$ forward	\$ 38,613	\$ 5,066	\$ 43,792	\$ 113
Thai Baht forward	7,425	-	6,755	(670)
Selling:				
U.S.\$ forward	5,660	-	5,679	(19)
Swiss Franc forward	9	-	9	0
Currency Swaps				
Receive ¥/Pay U.S.\$	97,651	100,094	34,179	34,179
Total	\$ 149,358	\$ 105,160	\$ 90,414	\$ 33,603

b. Over-the-Counter Products for Interest Rate Contracts

	Millions of Yen			
	Notional Principal Amount		Market Value	Unrealized Gain (Loss)
	Within one year	After one year		
Interest Rate Swaps				
Pay-float / Receive-fix	¥ -	¥ 27,500	¥ 2,664	¥ 2,664
Pay-fix / Receive-float	28,296	60,283	(514)	(514)
Currency and Interest Rate Swaps				
Pay-float(U.S.\$) / Receive-fix(¥)	-	4,640	870	870
Pay-fix(¥) / Receive-float(STG)	2,500	-	753	753
Total	¥ 30,796	¥ 92,423	¥ 3,773	¥ 3,773

	Thousands of U.S. Dollars			
	Notional Principal Amount		Market Value	Unrealized Gain (Loss)
	Within one year	After one year		
Interest Rate Swaps				
Pay-float / Receive-fix	\$ -	\$ 259,434	\$ 25,132	\$ 25,132
Pay-fix / Receive-float	266,943	568,708	(4,849)	(4,849)
Currency and Interest Rate Swaps				
Pay-float(U.S.\$) / Receive-fix(¥)	-	43,774	8,207	8,207
Pay-fix(¥) / Receive-float(STG)	23,585	-	7,104	7,104
<b>Total</b>	<b>\$ 290,528</b>	<b>\$ 871,916</b>	<b>\$ 35,594</b>	<b>\$ 35,594</b>

## 17. CONTINGENT LIABILITIES

As of March 31, 2000, contingent liabilities for trade notes endorsed and loans guaranteed including related items of similar nature amounted to ¥230 million (\$2,170 thousand) and ¥46,522 million (\$438,887 thousand), respectively.

## 18. SUBSEQUENT EVENT

On June 29, 2000, the following appropriations of retained earnings were approved at the stockholders' meeting of the Company:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends of ¥3.50 (\$0.033) per share (final for the year ended March 31, 2000) .....	¥ 3,365	\$ 31,745
Bonuses to directors.....	150	1,415
<b>Total</b> .....	<b>¥ 3,515</b>	<b>\$ 33,160</b>

## 19. SEGMENT INFORMATION

### a. Business Segments

Business segments are principally composed of the followings:

Construction .....	Civil Engineering and Architectural Construction
Real Estate .....	Development and sale of Land and Buildings
Other .....	Architecture, Engineering, Financing and any other relevant business

Year Ended March 31, 2000	Millions of Yen					
	Construction	Real Estate	Other	Total	Elimination	Consolidated
Revenues:						
Customers .....	¥ 1,431,435	¥ 129,120	¥ 167,316	¥ 1,727,871	¥ -	¥ 1,727,871
Inter-segments .....	1,869	2,240	1,716	5,825	(5,825)	-
<b>Total</b> .....	<b>1,433,304</b>	<b>131,360</b>	<b>169,032</b>	<b>1,733,696</b>	<b>(5,825)</b>	<b>1,727,871</b>
Operating expenses .....	1,403,366	111,797	166,414	1,681,577	(5,316)	1,676,261
Operating income .....	¥ 29,938	¥ 19,563	¥ 2,618	¥ 52,119	¥ (509)	¥ 51,610
Assets .....	¥ 2,146,789	¥ 483,098	¥ 122,783	¥ 2,752,670	¥ (329,128)	¥ 2,423,542
Depreciation .....	10,896	9,204	5,974	26,074	(61)	26,013
Capital expenditures .....	6,215	28,648	4,947	39,810	(4,289)	35,521

Year Ended March 31, 1999	Millions of Yen					
	Construction	Real Estate	Other	Total	Elimination	Consolidated
Revenues:						
Customers .....	¥ 1,384,770	¥ 125,894	¥ 148,220	¥ 1,658,884	¥ -	¥ 1,658,884
Inter-segments .....	2,764	2,204	1,381	6,349	(6,349)	-
Total .....	1,387,534	128,098	149,601	1,665,233	(6,349)	1,658,884
Operating expenses .....	1,371,682	110,441	147,990	1,630,113	(4,417)	1,625,696
Operating income .....	¥ 15,852	¥ 17,657	¥ 1,611	¥ 35,120	¥ (1,932)	¥ 33,188
Assets .....						
Depreciation .....	¥ 2,051,926	¥ 504,789	¥ 122,401	¥ 2,679,116	¥ (276,635)	¥ 2,402,481
Capital expenditures .....	10,753	9,369	5,863	25,985	(136)	25,849
	5,656	30,064	9,174	44,894	(4,887)	40,007

Year Ended March 31, 2000	Thousands of U.S. Dollars					
	Construction	Real Estate	Other	Total	Elimination	Consolidated
Revenues:						
Customers .....	\$ 13,504,104	\$ 1,218,113	\$ 1,578,453	\$ 16,300,670	\$ -	\$ 16,300,670
Inter-segments .....	17,632	21,132	16,189	54,953	(54,953)	-
Total .....	13,521,736	1,239,245	1,594,642	16,355,623	(54,953)	16,300,670
Operating expenses .....	13,239,302	1,054,689	1,569,943	15,863,934	(50,151)	15,813,783
Operating income .....	\$ 282,434	\$ 184,556	\$ 24,699	\$ 491,689	\$ (4,802)	\$ 486,887
Assets .....						
Depreciation .....	\$ 20,252,726	\$ 4,557,529	\$ 1,158,330	\$ 25,968,585	\$ (3,104,981)	\$ 22,863,604
Capital expenditures .....	102,793	86,830	56,358	245,981	(575)	245,406
	58,632	270,264	46,670	375,566	(40,462)	335,104

The effect of the change in the accounting for the liability for severance payments described in Note 3 was to increase operating income of the Construction segment by ¥1,125 million, operating income of the Real Estate segment by ¥27 million and to decrease operating income of the Other segment by ¥28 million for the year ended March 31, 1999, respectively.

b. Geographical Segments

Each area primarily refers to the following countries:

North America .....	U. S. A. and Canada
Europe .....	United Kingdom and France
Asia .....	Singapore and Thailand

Year Ended March 31, 2000	Millions of Yen						
	Japan	North America	Europe	Asia	Total	Elimination	Consolidated
Revenues:							
Customers .....	¥ 1,562,564	¥ 96,979	¥ 44,421	¥ 23,907	¥ 1,727,871	¥ -	¥ 1,727,871
Inter-segments .....	15	-	-	-	15	(15)	-
Total .....	1,562,579	96,979	44,421	23,907	1,727,886	(15)	1,727,871
Operating expenses .....	1,517,037	92,046	43,463	23,729	1,676,275	(14)	1,676,261
Operating income .....	¥ 45,542	¥ 4,933	¥ 958	¥ 178	¥ 51,611	¥ (1)	¥ 51,610
Assets .....							
	¥ 2,347,025	¥ 129,548	¥ 33,006	¥ 59,071	¥ 2,568,650	¥ (145,108)	¥ 2,423,542

Year Ended March 31, 1999	Millions of Yen						
	Japan	North America	Europe	Asia	Total	Elimination	Consolidated
Revenues:							
Customers .....	¥ 1,476,382	¥ 107,106	¥ 33,051	¥ 42,345	¥ 1,658,884	¥ -	¥ 1,658,884
Inter-segments .....	346	-	-	-	346	(346)	-
Total .....	1,476,728	107,106	33,051	42,345	1,659,230	(346)	1,658,884
Operating expenses .....	1,434,962	108,537	35,968	46,569	1,626,036	(340)	1,625,696
Operating income (loss) .....	¥ 41,766	¥ (1,431)	¥ (2,917)	¥ (4,224)	¥ 33,194	¥ (6)	¥ 33,188
Assets .....	¥ 2,264,054	¥ 166,064	¥ 53,455	¥ 68,874	¥ 2,552,447	¥ (149,966)	¥ 2,402,481

Year Ended March 31, 2000	Thousands of U.S. Dollars						
	Japan	North America	Europe	Asia	Total	Elimination	Consolidated
Revenues:							
Customers .....	\$14,741,170	\$ 914,896	\$ 419,066	\$ 225,538	\$ 16,300,670	\$ -	\$ 16,300,670
Inter-segments .....	142	-	-	-	142	(142)	-
Total .....	14,741,312	914,896	419,066	225,538	16,300,812	(142)	16,300,670
Operating expenses .....	14,311,670	868,358	410,028	223,858	15,813,914	(131)	15,813,783
Operating income .....	\$ 429,642	\$ 46,538	\$ 9,038	\$ 1,680	\$ 486,898	\$ (11)	\$ 486,887
Assets .....	\$22,141,745	\$ 1,222,151	\$ 311,377	\$ 557,274	\$ 24,232,547	\$ (1,368,943)	\$ 22,863,604

The effect of the change in the accounting for the liability for severance payments described in Note 3 was to increase operating income in Japan by ¥1,124 million for the year ended March 31, 1999. No effect of the change occurred in North America, Europe and Asia.

c. Overseas Revenues

Each area primarily refers to the following countries:

North America .....	U. S. A. and Canada
Europe .....	United Kingdom and France
Asia .....	Singapore and Thailand
Other Area .....	Egypt, Central African Republic and Ghana

Year ended March 31, 2000	Millions of Yen				
	North America	Europe	Asia	Other Area	Total
Overseas Revenues .....	¥ 96,979	¥ 44,421	¥ 34,676	¥ 13,161	¥ 189,237
Consolidated Revenues .....	-	-	-	-	1,727,871
Overseas / Consolidated Ratio(%) .....	5.6	2.6	2.0	0.8	11.0

Year ended March 31, 1999	Millions of Yen				
	North America	Europe	Asia	Other Area	Total
Overseas Revenues .....	¥ 107,106	¥ 33,051	¥ 53,840	¥ 11,312	¥ 205,309
Consolidated Revenues .....	-	-	-	-	1,658,884
Overseas / Consolidated Ratio(%) .....	6.5	2.0	3.2	0.7	12.4

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Year ended March 31, 2000

Thousands of U.S. Dollars

	North America	Europe	Asia	Other Area	Total
Overseas Revenues.....	\$ 914,896	\$ 419,066	\$ 327,132	\$ 124,160	\$ 1,785,254
Consolidated Revenues .....	-	-	-	-	16,300,670

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Touche  
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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Kajima Corporation:

We have examined the consolidated balance sheets of Kajima Corporation and consolidated subsidiaries as of March 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Kajima Corporation and consolidated subsidiaries as of March 31, 2000 and 1999, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan consistently applied during the period subsequent to the change, with which we concur, made as of April 1, 1998, in the accounting for the liability for severance payments, as discussed in Note 3.

As described in Note 2, effective April 1, 1999, the consolidated financial statements have been prepared in accordance with new accounting standards for consolidated financial statements.

Our examinations also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 5. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

  
June 29, 2000