(5) Short-term borrowings and Long-term Debt

Bank loans at March 31, 2000 were represented generally by 30 to 365-days notes payable to banks, bearing an annual interest rate from 0.670% to 1.990%.

Long-term debt at March 31, 2000 and 1999 are summarized as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2000	1999	2000
3.20% Japanese yen unsecured bonds due 2002	¥ 4,000	¥ 4,000	$ 37,736
3.45% Japanese yen unsecured bonds due 2003	5,900	6,000	55,660
3.55% Japanese yen unsecured bonds due 2004	4,100	6,000	38,679
Loans from banks and insurance companies with interest rates ranging from 2.07% to 4.5%, due various dates through 2005:			
Collaterulized or	¥ 16,712	¥19,456	$ 157,656
guaranteed	30,712	35,456	289,731
Less current portion ...	(4,532)	(3,744)	(42,755)
	¥ 26,180	¥31,712	$ 246,976

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 Company's 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.

Assets pledged as collateral for short-term borrowings and long-term debt at March 31, 2000 were as follows:

	Millions of Japanese Yen	Thousands of U.S. Dollars
Assets pledged as collateral:		
Land	¥ 593	$ 5,592
Building and structures	374	3,531
Marketable securities and investment securities	6,418	60,550
Cash and time deposits	46	430
	¥ 7,431	$ 70,103

	Millions of Japanese Yen	Thousands of U.S. Dollars
Liabilities secured thereby:		
Current portion of long-term debt	¥ 1,259	$ 11,877
Long-term debt	¥ 2,522	$ 23,794

Aggregate annual repayments of long-term debt are summarized as follows:

Year ending March 31,	Millions of Japanese Yen	Thousands of U.S. Dollars
2001	¥ 4,532	$ 42,755
2002	3,988	37,623
2003	3,078	29,038
2004	4,665	44,005
2005 and thereafter	449	4,236

(6) Advances on Contracts in Progress

The Company usually receives payments from customers in the public sector on a progress basis in accordance with terms of the respective construction contracts.

(7) Accrued Severance Indemnities and Pension Plan

Upon retirement or termination of employment for reasons other than dismissal, employees of the Company is entitled to lump sum payments based on the current rate of pay and length of service. If the termination is in voluntary or caused by death, the severance payment is grater than those in the case of voluntary termination. In addition to the lump-sum severance indemnity regulations, the Company has contributory funded defined benefit pension plan, which are pursuant to the Japanese Welfare Pension Insurance Law. The contributory pension plans cover a portion of the govern mental welfare pension program, under which the contributions are made by the Company and its employees, and an additional portion.

The plan assets, at cost, totaled ¥14,953 million (US$141,066 thousand) and ¥13,707 million (US $129,311 thousand) at March 31, 2000 and 1999, respectively. The unfounded prior service cost of the pension plan were amortized over approximately 18 years.

(8) Income Taxes

(a) The significant components of deferred tax assets at March 31, 2000 were as follows.

Deferred Tax Assets:	Millions of Japanese Yen	Thousands of U.S. Dollars
Allowance for doubtful accounts	¥ 1,615	$ 15,240
Inventories	1,230	11,604
Reserve for retirement benefits to directors	665	6,273
Revaluation of securities	593	5,592
Accrued bonus to employees	329	3,102
Accrued tax	235	2,219
Other	2,109	19,895
Subtotal	6,776	63,925
Valuation Allowance	(251)	(2,369)
Deferred Tax Assets	6,525	61,556

(b) A Reconciliation between the normal effective statutory tax rate for the year ended March 31, 2000 and the actual effective tax rates reflected in the accompanying consolidated statements of operations is as follows:

Normal effective statutory tax rate	41.7 %
Expenses not deductible for income tax purposes	13.5
Non-taxable income	(1.1)
Per capita levy of inhabitant taxes	4.5
Valuation allowance	5.7
Other-net	1.9
Actual effective tax rate	66.2 %

(9) Shareholders' Equity

Under the Japanese Commercial Code, the entire amount of the issue price of new Shares is required to be accounted for as stated capital, although the Company may account for an amount not exceeding 50% such issue price as additional paid-in capital (subject to the remainder being not less than the total par value of the new Shares being issued). The Board of Directors may transfer the whole or any part of additional paid-in capital and legal reserve to stated capital and grant to shareholders additional Shares free of charge by way of a stock split, without affecting the par value thereof, by reference to the whole or any part of the amount of additional paid-in capital and legal reserve so transferred to stated capital; such additional Shares may also be granted by reference to the amount representing the portion of the issue price of Shares in excess of the par value thereof which has been accounted for as stated capital. In either case, as a result of such granting to the shareholders of additional Shares by way of a stock split, the total par value of the Shares in issue may not exceed the stated capital. Further, the net assets of the Company (as appearing in the latest balance sheet) divided by the number of Shares in issue must be at least ¥50.

The Japanese Commercial Code permits the Company to make a partially free distribution to shareholders by way of rights issue at a subscription price per Share which is less than the par value there of if (a) the difference between the subscription price and the par value does not exceed the amount of the stated capital minus the aggregate par value of all outstanding Shares, divided by the number of new Shares to be issued pursuant to such rights issue, (b) the sum of the net assets of the Company (as appearing on the latest balance sheet) and the total subscription price, divided by the number of the Shares in issue immediately after the issue of the new Shares, is at least ¥50 and (c) the subscription rights are made transferable. In order to satisfy the requirement mentioned in (a) above, the Board of Directors may transfer the whole or any part of additional paid-in capital or legal reserve to stated capital.

The Japanese Commercial Code permits the Company to transfer profits distributable as dividends to stated capital by resolution of the share-holders and distribute additional Shares to shareholders by way of a stock split without affecting the par value of the Shares.

The Japanese Commercial Code also provides that neither additional paid-in capital nor the legal reserve are available for each dividends, but may be used to reduce a capital deficit by a resolution of a shareholders' meeting or may be capitalized by a resolution of the Board of Directors.

(10) Leases

The Company leases tools, vehicles and certain other assets under operating leases. Leases qualifying as capital leases at March 31, 2000 and 1999 were as follows :

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2000	1999	2000
Machinery, vehicles, tools and others	¥1,215	¥1,312	$ 11,462
Accumulated depreciation	810	844	7,641
	¥ 405	¥ 468	$ 3,821

The scheduled maturities of future lease rental payments, including an interest portion on such lease contracts as of March 31, 2000 and 1999 are as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2000	1999	2000
Due within one year	¥ 217	¥ 201	$ 2,047
Due over one year	188	267	1,774
	¥ 405	¥ 468	$ 3,821

Under Japanese accounting regulations, finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees are permitted to be accounted for by using an accounting method similar to that applicable to ordinary operating leases, if certain information is disclosed in the notes to the financial statements.

Lease rental expenses incurred in connection with finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees amount to ¥250 million (US$2,358 thousand) and ¥251 million for the years ended March 31, 2000 and 1999, respectively.

(11) Commitments and Contingent Liabilities

There were no commitments outstanding at March 31, 2000 and 1999 for the purchase of property, plant and equipment.

The Company is contingently liable for the following at March 31, 2000 and 1999:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	2000	1999	2000
Trade notes receivable endorsed	¥ —	¥ 625	$ —
Contingently liable for guarantees of short-term and long-term debt of customers, unconsolidated subsidiaries and affiliates	¥14,028	¥15,637	$132,340

(12) Derivative Transactions

Derivative transactions of the Company at March 31, 2000 are as follows:

a. Status of Derivative Transactions

The Company utilizes interest rate swaps and interest rate options to mitigate fluctuation risk in interest rates or to reduce financing costs. The Company also enters into forward foreign exchange contracts to hedge foreign exchange risk. The Company's derivative positions related to interest rate swaps, interest rate options and forward foreign exchange contracts are exposed to the fluctuation of market interest rates and foreign exchange rates. The Company trades derivative transactions solely with internationally recognized, highly rated financial institutions and therefore considers its counterparty credit risks to be almost entirely eliminated.

During the fiscal year, the Company has entered into interest rate swap agreements.

b. Estimated Fair Value of Derivative Transactions

Interest Rate-Related Derivatives:

2000				Millions of Japanese Yen
	Contract amount			
Unlisted transactions	Total	Due after one year	Estimated fair Value	Unrealized gain (loss)
Interest rate swaps:				
Pay Fix / Receive Float	¥ 10,200	¥ 9,000	¥ (181)	¥ (181)
Receive Fix / Pay Float	1,000	1,000	1	1
Total	¥ 11,200	¥ 10,000	¥ (180)	¥ (180)

1999				Millions of Japanese Yen
	Contract amount			
Unlisted transactions	Total	Due after one year	Estimated fair Value	Unrealized gain (loss)
Interest rate swaps:				
Pay Fix / Receive Float	¥ 10,200	¥ 9,200	¥ (180)	¥ (180)
Receive Fix / Pay Float	1,000	1,000	4	4
Total	¥ 11,200	¥ 10,200	¥ (176)	¥ (176)

2000				Thousands of U.S. Dollars
	Contract amount			
Unlisted transactions	Total	Due after one year	Estimated fair Value	Unrealized gain (loss)
Interest rate swaps:				
Pay Fix / Receive Float	$ 96,226	$ 84,906	$ (1,712)	$ (1,712)
Receive Fix / Pay Float	9,434	9,434	9	9
Total	$105,660	$ 94,340	$ (1,703)	$ (1,703)

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of TOA CORPORATION

We have audited the accompanying non-consolidated balance sheets of TOA CORPORATION as of March 31, 2000 and 1999, and the related non-consolidated statements of operations and retained earnings for the years then ended, and the statement of cash flows for the year ended March 31 2000, all expressed in Japanese Yen. Our audits 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 non-consolidated financial statements referred to above present fairly the non-consolidated financial position of TOA CORPORATION as of March 31, 2000 and 1999, and the non-consolidated results of its operations for the years then ended, and the statement of cash flows for the year ended March 31, 2000 in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis, except as described in the third paragraph.

As described in Note (1), in Notes (1) (i), with respect to corporate officers, directors and statutory auditors, the Company has changed to provide for lump-sum severance indemnities on the basis of 100% of the amount required in the event of ordinary retirement at the balance sheet date.

As described in Note (1) (a), effective for the year ended March 31, 2000, TOA CORPORATION has adopted new Japanese accounting standards for preparation of income taxes.

The amounts expressed in U.S. dollars, provided solely for the convenience of the reader, have been translated on the basis set forth in Note (2) to the accompanying non-consolidated financial statements.

Chuo Aoyama Audit Corporation

Tokyo, Japan
June 29, 2000