



ANNUAL REPORT 2006

Year Ended March 31, 2006

Pursuing the
Highest Standards of
Integrity and
Quality



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Financial Highlights

Obayashi Corporation and Consolidated Subsidiaries

Years Ended March 31, 2004 to 2006

	Japanese Yen (million)			U.S. Dollars (thousand)		
	FY 2006	FY 2005	FY 2004	FY 2006	FY 2005	FY 2004
Revenues	¥ 1,476,425	¥ 1,404,640	¥ 1,346,298	\$ 12,568,526	\$ 13,079,805	\$ 12,738,176
Operating income	46,658	43,356	37,975	397,191	403,725	359,302
Net income	34,489	25,077	21,194	293,602	233,510	200,527
Orders received	1,533,216	1,478,252	1,269,559	13,051,976	13,765,268	12,012,103
Total assets	1,977,295	1,842,262	1,821,884	16,832,343	17,154,875	17,237,994
Total liabilities	1,471,124	1,458,502	1,458,890	12,523,403	13,581,359	13,803,485
Shareholders' equity	486,017	364,301	344,273	4,137,376	3,392,319	3,257,390

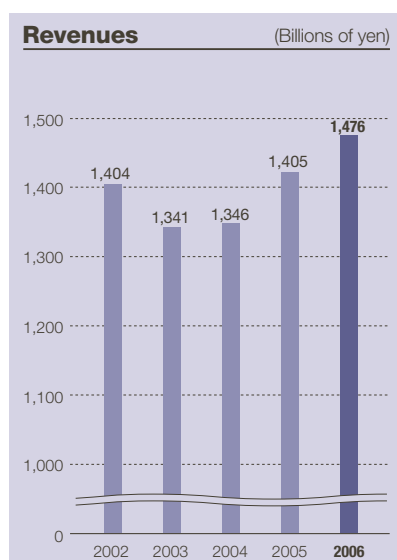
Per share data (Yen and U.S. Dollars)

Net income per share	¥ 47.89	¥ 34.81	¥ 29.42	\$ 0.41	\$ 0.32	\$ 0.28
Shareholders' equity per share	674.94	505.81	477.80	5.75	4.71	4.52

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the approximate exchange rate at the close of the fiscal year: US\$1=¥117.47 for 2006, ¥107.39 for 2005, and ¥105.69 for 2004.

2. Basic net income per share has been computed based on the weighted average number of shares of common stock outstanding during the year.

Business Performance



Message to the Stakeholders

Below is an overview of our operations for the fiscal year beginning April 1, 2005 and ending March 31, 2006.

Despite an ongoing decline in public sector investment, domestic construction investment continued to increase as private sector capital investment increased, not only in the manufacturing sector, but in the non-manufacturing sector as well.

Under these conditions, the Obayashi Group took advantage of all available resources to secure orders. As a result, orders received increased 3.7%, to ¥1,533,216 million, compared to the previous term.

Revenues increased 5.1%, to ¥1,476,425 million compared to the previous term while, on the earnings front, an increase in gross profit on real estate business, a decrease in selling, general, and administrative expenses, and other factors pushed operating income up 7.6%, to ¥46,658 million.

To more efficiently manage total assets, we moved forward with sales of shares no longer meaningful for our operations. This resulted in a higher gain on sales of marketable securities and pushed net income up 37.5%, to ¥34,489 million.

Regarding dividends, we considered the dividend payout ratio in light of the significant increase in net income and decided to add an extra dividend of ¥4 per share to a year-end ordinary dividend of ¥4 per share. Combined with the interim dividend of ¥4 per share, we achieved dividend payments of ¥12 per share for the year.

Looking ahead, domestic construction investment will likely benefit from a continuing recovery in private sector capital investment. However, with weakness in public sector investment expected to continue, we remain cautious about the future and forecast that the heated competition for orders will continue.

To address the demands of the severe business conditions at hand, the Obayashi Group has set more robust profitability and ongoing growth as management objectives and will work to develop business in growth areas like PFI projects, urban development, large-scale overseas projects, environmental and renewal projects, and other areas in which we can exercise our technical prowess.

PFI (Private Finance Initiative)

To date, orders have been placed for approximately 200 domestic PFI projects in Japan worth upwards of ¥2 trillion. As of the end of 2005, the Obayashi Group has garnered 26 of these, representing total investments of about ¥400,000 million. We have been engaged to perform more PFI projects than any other Japanese company. Going forward, as public works projects

adopt PFI schemes, the market for this work is expected to expand further and the Obayashi Group will apply the networks and expertise we have accumulated in proactively and continuously working to develop this part of our business.

Urban Development

In the area of urban development, we proactively involve ourselves in projects from their initial stages, applying sophisticated approaches like early recruitment of tenants and investors and securitization, together with the Obayashi Group's experience and expertise, to not only take charge of construction, but also secure profits as a developer.

Major Overseas Construction Projects

Concerning major overseas construction projects, our civil engineering business is on track and constantly improving its performance. We, therefore, plan to continue this business, with a focus on the US, Taiwan, Southeast Asia, and the Middle and Near East. Regarding building construction, we will continue to work through our local affiliates in the US, Taiwan, Southeast Asia and other areas, applying our outstanding technical prowess and financial strength to develop activities that are firmly rooted in each area. To further expand our earnings base, we have embarked on surveys of the Middle and Near East, and India.

Environmental and Renewal

In the area of environmental and renewal-related projects, we are aggressively developing business focusing on rooftop greening and other technologies to address the heat island effect. Meanwhile, in the area of renewal work, there is growing demand for stronger earthquake resistance. Driving this growth in demand are the frequency of earthquakes as well as the implementation of the Revised Law for the Promotion of Earthquake Resistance Refurbishment, which have given more businesses reasons to consider risks to their survival, develop Business Continuity Plans and take steps to minimize damage to their facilities in case of an earthquake. Our renewal business is also seeing increasing demand for energy efficiency measures to lower building management running costs. In addressing all of these needs, the Obayashi Group will strive to gain more orders for renewal work by actively proposing the adoption of our own new technologies.

The Obayashi Group aims to achieve its fiscal 2007 target of ¥50,000 million in consolidated operating income by actively addressing demand in areas like those discussed above.

We appreciate your ongoing understanding and support.



Executive Vice President
Yoshitaka Hara

Executive Vice President
Tadashi Uehara

Executive Vice President & CFO
Eiji Noma

President & COO
Norio Wakimura

Chairman & CEO
Takeo Obayashi

Board of Directors

Chairman & CEO

Takeo Obayashi

President & COO

Norio Wakimura

Executive Vice President

Tadashi Uehara

Executive Vice President & CFO

Eiji Noma

Executive Vice President

Yoshitaka Hara

Senior Managing Directors

Yoshihisa Obayashi

Shiro Takagi

Sumikichi Ito

Akira Nakatani

Shuhei Tabo

Shigeyoshi Cho

Corporate Auditors

Tadashi Nishimura

Shunroku Yasui

Teizo Tsuda

Masakazu Matsuo

Masayuki Matsushita

Executive Officers

Senior Managing Officers

Takekazu Mizumaki

Kunio Matsumoto

Masashi Honjo

Yuji Nakamura

Managing Officers

Yutaro Omote

Haruo Tsukagoshi

Hirofumi Inagaki

Akinori Furusho

Toru Shiraiishi

Ryuichi Irahara

Shiro Tamura

Shigeo Morii

Yuro Nishikawa

Ryuhei Funano

Takashi Matsuura

Takehiko Totsuka

Hirofumi Uchida

Hiroshi Sakamoto

Hideo Goto

Tadahiko Noguchi

Hitoshi Tobuchi

Executive Officers

Hirofumi Tanaka

Masanobu Hidehira

Yuji Inoue

Kazuyoshi Uehara

Hiroki Umehara

Kunihiro Kagami

Shigehisa Kage

Makoto Kanai

Makoto Kishida

Kenichi Shibata

Yasuji Tomohiro

Takashi Nishiyama

Hiroshi Hasegawa

Yutaka Hachinohe

Masahito Hayashi

Shozo Harada

Tsukasa Matsumoto

Akihisa Miwa

Toshimitsu Morioka

Hisateru Yamatori

Mitsuyasu Kaihara

Ikuo Koyanagi

Kunikazu Takagi

Kozo Miyata

Kazuo Yagi

(as of July 1, 2006)

Corporate Governance / Compliance

Basic Ideas on Corporate Governance

Obayashi believes that achieving higher levels of managerial soundness and transparency are critical for being a company society at large can rely on. We are working to enhance our corporate governance with that in mind.

In addition to the General Meeting of Shareholders, and meetings of the Board of Directors, Audit Committee, our outside accounting firm, and other institutions performing legally mandated functions, we hold ad hoc management meetings led by directors to make detailed decisions in a timely manner. To enhance the independence of the Audit Committee, we have designated three of the five auditors for appointment from outside the company. This and other measures have strengthened the audit function and thus boosted the effectiveness of internal controls.

Management Structure Reform

With the passage of a proposal at the June 2005 General Meeting of Shareholders, Obayashi introduced an operating officer system. The purpose of this system is to further enhance corporate governance. Through its introduction, we have created a system capable of swift, highly strategic management decision-making, and improved the speed and efficiency of execution.

In March 2005, prior to the introduction of our operating officer system, we established a Recommendation Committee and Compensation Committee to clarify matters like the executive decision process.

Information Disclosure and Communication

Based on company management focused on the long term, Obayashi aims to increase its corporate value by improving management efficiency and profitability. Furthermore, by achieving these aims, we intend to manage our businesses in ways that meet the trust and expectations of shareholders, customers, suppliers, employees, local communities and all

other stakeholders. We recognize that increased management transparency is critical for our efforts in this regard, and we are therefore actively working to disclose information to all of our stakeholders in a manner that is timely and appropriate.

Survey to Gather Shareholder Views

In December 2004, Obayashi fielded its second shareholder survey. We field these surveys based on our belief in the importance of deepening communications with all shareholders and reflecting shareholder opinions in the way we manage our operations. Going forward, we will continue to consider all our shareholders' valued opinions and wishes in the management of our operations.

Distribution of an Email Magazine to Shareholders

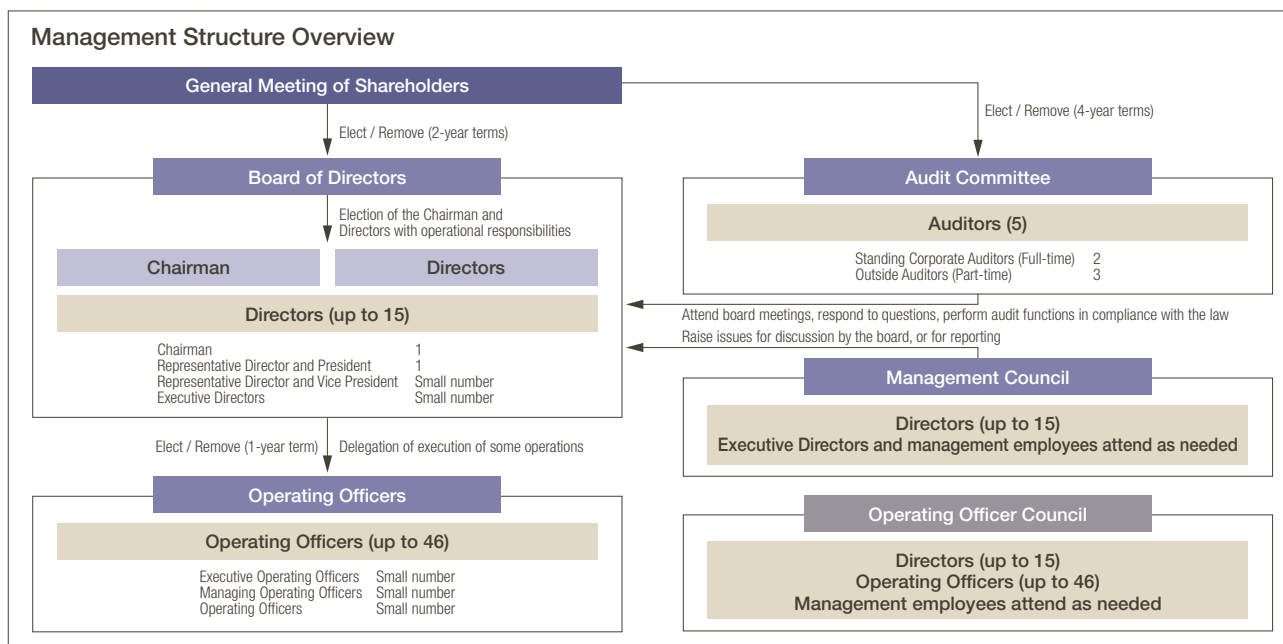
Obayashi provides shareholders with timely information on its business activities through an email magazine called OBAYASHI TSUSHIN. As of June 2006, more than two years after we inaugurated this service, we have delivered 36 issues to approximately 800 readers.

Use of the Company Newsletter as an Internal Communications Tool

In our company newsletter, we have set up a dialog between the company president and employees. So far, the president has reviewed upwards of 200 questions from employees and responded with his views to each one.

Construction of a Compliance System

As a business, the Obayashi Group must comply with the law. But, it is also necessary to cultivate the ethical sensibilities of every employee and pursue sensible business activities based on a high sense of ethics. We have developed various measures toward that end.



1 Holding of Corporate Ethics Committee Meetings

The Corporate Ethics Committee, which sponsors activities for teaching corporate ethics to our employees, works to build a strong sense of corporate ethics among them by meeting regularly to perform legal and ethical reviews of all business activities, and taking steps to educate and ensure that employees thoroughly understand our Corporate Code of Conduct, which sets forth rules of behavior for all employees.

The Corporate Ethics Committee was originally chaired by the company's president and consisted of seven directors and one outside auditor. However, the membership was revised to include an accomplished person from outside the company and the head of the employees' union.

2 Performance of Internal Audits

The Internal Audit Office audits the operations of each division, independently of the Standing Corporate Auditors and the outside auditors.

3 Establishment and Teaching of Internal Rules (Education)

We have established the Obayashi Corporate Code of Conduct, a set of rules to govern the actions of our employees. We have also established Rules for the Prevention of Insider Trading, a Personal Information Protection Compliance Program, and other rules and provisions to ensure legal compliance, and are promoting awareness through employee education and training.

4 Establishment of the Corporate Ethics Reporting System (Internal Reporting System)

Obayashi has created an internal system that allows any employee of the Obayashi Group or company working on an Obayashi project to directly report possible violations of laws or our bylaws.

This system clearly states to those reporting possible violations that nothing will be done to put them in a disadvantageous position.

5 Submission of Pledges to Abide by the Antimonopoly Act

Regretting past bid-rigging incidents, Obayashi requires all employees at the level of division manager and above to submit a pledge stating that they will not engage in activity that violates the Antimonopoly Act or the criminal code to help ensure compliance with these laws. Those who submit pledges will be punished for violations of their pledges by themselves or their subordinates.

6 Holding of Crisis Management Committee Meetings

Obayashi has systems to prevent crises. When necessary, we hold meetings of the Crisis Management Committee, chaired by the president, in order to enable rapid, appropriate responses to crises when they arise.

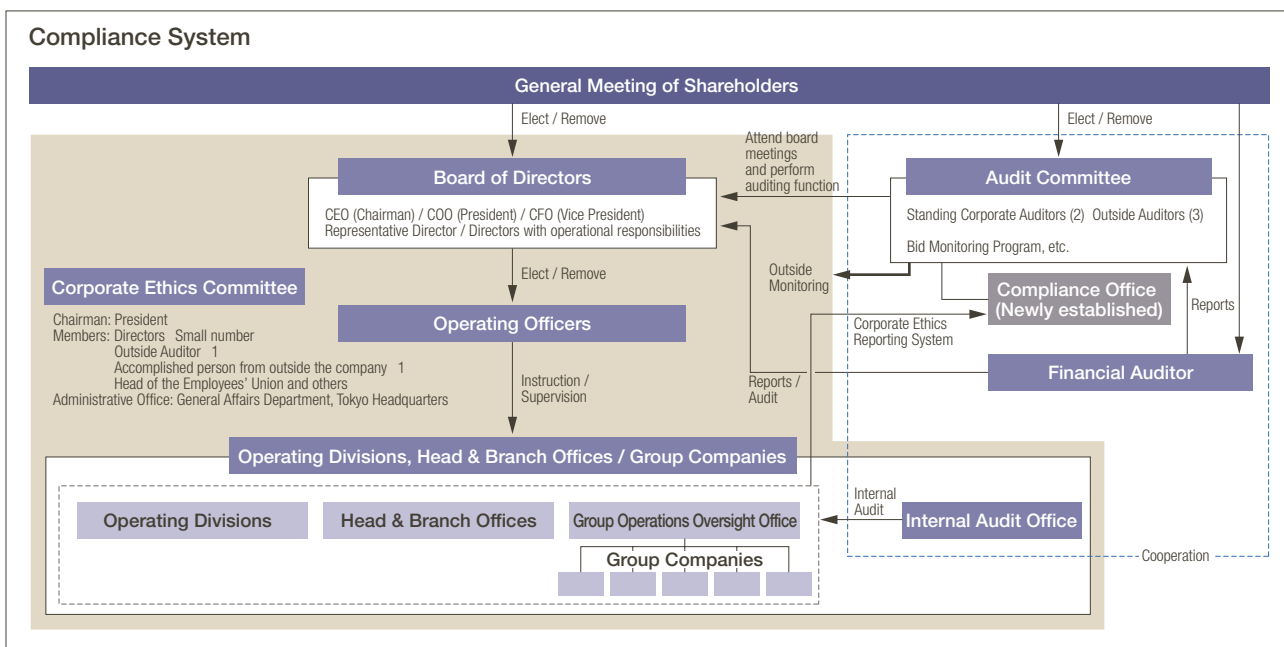
7 Ensuring Proper Operations at Group Companies

The Group Operations Oversight Office has been established within Obayashi to provide guidance for, and manage all operations of Obayashi Group companies.

In principle, Obayashi places one of its employees in each Group Company, where they serve as a director, operating officer, or auditor.

8 Establishment of the Compliance Office

As a part of our efforts to strengthen the functions of the Audit Committee and auditors, we have established the Compliance Office and placed it under the control of the Audit Committee. This Office is independent of the operating divisions and, as a division supporting the work of the Audit Committee and auditors, it specializes in activities like monitoring legal compliance.



Building Construction

Providing High-Quality Buildings to Fulfill Customers' Diverse Needs

Obayashi Corporation responds to the diverse needs of its customers through a comprehensive approach coordinating sales, construction, and technology development. We build factories that facilitate productivity, offices that conserve energy and are gentle on the environment, as well as hospitals and schools that incorporate earthquake resistance and disaster prevention technologies. We also provide advanced techniques for preserving and restoring cultural assets. We have developed a unique project structure that integrates sales, design, facilities, purchasing, construction, and technology development functions, and brings our departments together with our customers and subcontractors through a concurrent approach. This unparalleled system makes it possible for Obayashi Corporation to execute high value-added projects swiftly and efficiently.



OMOTESANDO HILLS

Location: Tokyo

Harajuku and Omotesando are where the cutting edge of Japanese fashion, music, art, and culture are broadcast to the world. This area was long symbolized by the beloved the Dojunkai Aoyama Apartment complex, which, with a design by Tadao Ando Architect & Associates, Mori Building joint design entity, and construction work by Obayashi, have now been reborn as Omotesando Hills, a new symbol for this area. More than a commercial facility, Omotesando Hills functions as a medium for social interaction, bringing people into the community, and connecting the community to the world. Omotesando Hills makes this area an even more attractive part of Tokyo.



Namba Parks
Location: Osaka



Kyoto State Guest House
Location: Kyoto



Hall (front, far left), North Tower (right)
**NEC Corporation
Tamagawa Renaissance City
North Tower / Hall**
Location: Kanagawa



Onomichi Disaster Control Center
Location: Hiroshima



Elpida Memory, E300 New Line
Location: Hiroshima

Civil Engineering

Creating Social Infrastructure with Our Vast Experience and Technological Strengths

Obayashi Corporation applies its technological capabilities to implement a wide variety of civil engineering projects, including tunnels, bridges, dams, riparian works, and social infrastructure redevelopment. We are also actively engaged in the environmental field, and have built up a proven track record of numerous projects, including soil remediation and the construction of Japan's largest waste processing plant. We respond to our customers' civil engineering needs by advancing solution-based technology marketing that links our research, sales, and construction departments in an integrated approach.



Tokaido Shinkansen, Shinagawa Station

Location: Tokyo

The opening of Shinagawa Station on the Tokaido Shinkansen Line has further improved access from the Tokyo metropolitan area to the Osaka and Nagoya regions. The transit passage that directly connects existing lines with the new station provides convenience for changing trains and is being used by many business travelers. The East-West Passage features a 30-meter high atrium with abundant natural lighting that creates a bright, open environment.





Yomasari Dam
Location: Aomori



Usuki City Disposal Factory
Location: Oita



Kansai International Airport, 2nd-phase Airport Island
Location: Osaka



The Second Tomei Expressway Sarutagawa-bridge and Tomoegawa-bridge
Location: Shizuoka



Otai Reservoir Tunnel
Location: Aichi

Overseas Business

Advancing Projects Using Exceptional Technologies and a Wealth of Experience Worldwide

Obayashi Corporation's earthquake engineering, shield construction, and other technologies are acclaimed worldwide, resulting in contracts for major projects across the globe. Recent international projects we are involved in include the Taiwan High Speed Rail, Bangkok's second international airport, and the Dubai Urban Rail Transit. Ever since we advanced into Asia some forty years ago, Obayashi Corporation has pursued technologies and gained credibility by implementing construction works as a local industry firmly rooted in the local society. While adopting construction methods and technologies that suit the indigenous conditions, Obayashi Corporation fosters networks of personal contacts and relationships of trust in every country where it is present.



SIAM PARAGON

Location: Bangkok, Thailand

Contractor: THAI OBAYASHI CORPORATION LIMITED

In Bangkok, the capital of Thailand - a country that continues to see its economic fortunes rise - a massive multipurpose commercial facility with over 420,000m² of space has opened directly across from Siam Square, one of the city's trendiest areas. Siam Paragon offers not only department stores but also approximately 250 domestic and overseas brand boutiques, a 20,000m²-plus multi-purpose hall, movie theaters, an opera house and, below ground level, one of the largest aquariums in East Asia. Siam Paragon also features a park incorporating water and greenery, which has become a popular oasis for Bangkok residents.





Taiwan High Speed Rail
 Location: Taipei City and Taoyuan County, Taiwan



New York Botanical Garden Visitor's Center
 Location: New York City, USA
 Contractor: E.W. HOWELL CO., INC



MSP LRT Tunnel and Station
 Location: Minnesota, USA



CANON VIETNAM CO., LTD. QUE VO FACTORY
 Location: Bac Ninh, Vietnam



President International Tower
 Location: Taipei City, Taiwan

Real Estate Development

Applying Rich Experience and a Proven Track Record to Provide High-quality, Comfortable Urban Settings and Living Spaces

The Obayashi Group has been involved in the construction and sale of a large number of residential land and condominium projects, as well as urban development projects. Along the way, we have developed and accumulated considerable expertise

and technology in these areas. We deliver high-quality, comfortable neighborhoods and living spaces, which harmonize the local environment with that of the surrounding city.

Sales of Residential Land and Detached Homes

The Obayashi Group works to develop livable, beautiful neighborhoods based on the idea that neighborhoods should solidly retain their value over generations. We aim to help

achieve harmony among nature, neighborhoods, homes and people, and thereby create communities that are relaxing, and loved by their residents.



TOYOSATODAI

Utsunomiya, Tochigi Prefecture
Approx. 1,600-unit residential development

Toyosatodai is an expansive 730,000m² project we developed, taking advantage of the land's natural contours and south-facing slope. One of the most beautiful urban areas of the Tokyo metropolitan region, Toyosatodai is acclaimed for its attractive features, and cultural and academic offerings.



SAKURA SOMEINO

Sakura, Chiba Prefecture
Approx. 1,100-unit residential development

Sakura Someino is a community surrounded by rich, vibrant greenery. Designed to look like a garden, Sakura Someino has won rave reviews as one of metropolitan Tokyo's most desirable premium residential areas.



FUJIEDA KIYOSATO

Fujieda, Shizuoka Prefecture
Approx. 740-unit residential development

Obayashi applied the full range of its civil engineering technology to make Kiyosato, which was formerly undeveloped countryside, into a highly earthquake-resistant residential area. Fujieda Kiyosato is one of the most beautiful residential areas in Shizuoka Prefecture.



Urban Development Business

Obayashi has been aggressively pursuing redevelopment projects nationwide, including numerous large-scale development projects in the Tokyo metropolitan area, enabling us to establish our track record as a business partner and specified business representative. Social circumstances surrounding urban area redevelopment projects involve private trusts designed to encourage participation by private enterprises, commercial development through SPC (Special Purpose Company) and securitization of real estate. Through these measures, large-scale redevelopment projects are being actively promoted.

Obayashi is also actively involved in the securitization of

development-oriented real estate, in which we undertake large-scale development businesses on our own initiative, based on expertise in structuring SPCs, procuring financing for businesses and providing risk analysis accumulated through our PFI business. We work to minimize risk and achieve commercialization as expeditiously as possible by handling regulatory compliance, working with local landowners, ensuring due consideration for the surrounding environment, and constructing a business plan that includes investors and financiers. We strive to provide excellent development opportunities that are most likely to meet investor expectations for major stock funding.

Shinagawa Grand Commons

The former freight yard of the Japanese National Railways was transformed into a complex facility comprising offices, condominiums, shops, restaurants and hotels.



Urawa Station East Exit Area Redevelopment Project

A development-oriented securitization plan was adopted for the first time in Japan.



Private Finance Initiative (PFI) Business

Pursuing VFM (Value for Money) as One of Japan's Leading PFI Project Implementers

Private Finance Initiative (PFI) is a method for building, managing and maintaining public facilities by utilizing the capital, technology and expertise of the private sector to achieve higher efficiency and improved quality in public services. This market has been expanding every year amid a growing need to reduce public-works spending.

Obayashi was among the first to participate in overseas PFI projects, such as the Sydney Olympic Stadium, before PFI was introduced into Japan. This experience enabled us to accumulate the broad range of expertise required to undertake this business. We have already won a market-leading 26 orders for PFI projects in Japan. Obayashi also assumed the role of representative in 25 of the 26 projects, and has taken the

initiative in maximizing Value for Money (VFM).

As an early PFI participant, we have build up an extensive network to maximize VFM spanning diverse industrial sectors in various operational areas, enabling us to organize ideal consortiums for specific project objectives. We are also highly regarded for our knowledge and techniques in project finance and risk hedging organized by the Special Purpose Company (SPC), the main functional body for the project. We fully apply our comprehensive expertise and skills, as well as our solid financial foundation to advance the PFI business.

Looking ahead, we will improve our management expertise toward establishing an unshakable position within the PFI market.

Kanagawa University of Human Services

(BTO [Build-Transfer-Operate] Scheme)

This is Japan's first large-scale PFI project to utilize project financing. We designed and constructed this building, which, with its large and impressive roof, is a fitting landmark in the navy town of Yokosuka, and we will handle maintenance and management for a period of 30 years. Obayashi is not only performing all management operations, but is also an investor in the special purpose company (SPC) and the builder of this project.



Suginami Koukaidou Reconstruction, Management and Operation Project

(BTO [Build-Transfer-Operate] Scheme)

The reconstruction, management and operation of the Suginami Koukaidou, which was originally built in 1957, represents the first PFI project for a concert hall in Japan. The reconstructed Suginami Koukaidou features a large concert hall with excellent acoustics and stage characteristics, a multipurpose small concert hall, and several types of studios. Over the 30 years of its contract, the PFI project aims to manage and operate Suginami Koukaidou in a manner that allows it to provide excellent service as both a center of Suginami Ward cultural activities for the 21st Century, and the home of the Japan Philharmonic Orchestra. As part of a complex project scheme, a special purpose company (SPC) owns Suginami Koukaidou and bears operating risk.

Obayashi's participation in this project includes performance of all management operations, investment in the SPC and facility construction.



Omihachiman City Hospital

(BTO [Build-Transfer-Operate] Scheme)

With Obayashi performing everything from design and construction to operation and maintenance, this was Japan's first genuine hospital PFI project. The aim of this project is to use a public-private partnership to deliver hospital management that provides better, even more efficient patient service than before. The special purpose company (SPC) will perform facility management and medical support services for a period of 30 years after construction. Obayashi serves as the overall project coordinator, but it is also an SPC investor, and designed and built the hospital.



Nagaoka Prefectural Indoor Pool Construction and Operation Project

(BTO [Build-Transfer-Operate] Scheme)

This is Niigata Prefecture's first large-scale PFI project and a symbol of recovery from the Niigata-Chuetsu Earthquake of 2004. This facility will be the main venue for the swimming competition in the 2009 National Sports Festival and afterward will serve as the prefecture's main sports facility for promoting physical fitness through swimming. Operation and management will span a period of 15 years. Obayashi's participation includes overall management as well as investment in the special purpose company (SPC) and construction of the facility.



New Members' Office Building for the House of Representatives

(BTO [Build-Transfer-Operate] Scheme)

With a budget of ¥110,000 million, this is one of the largest construction projects underway in Japan. This PFI project covers design, construction, operation and management, and spans a period of 15 years. This project is particularly challenging because it involves reconstruction of the current members' office building as it is being used. As the lead company, Obayashi will perform overall coordination, including the arrangements for one of the Japan's largest PFI projects, and provide management services to the end of the project.



Renewal Business

Turning Buildings into Higher-Quality Properties from the Perspective of Life Cycle Management

Today, real estate is valued on the basis of revenues generated by buildings, which therefore requires that the property's functions correspond with the times, and meet expectations for safety and durability. Moreover, a building must be considered as a long-term quality product, from both economic and environmental viewpoints.

In addition to this, Obayashi analyzes building functions and other conditions from the perspective of Life Cycle Management,

which takes into account the entire lifespan of a building. Based on this analysis, we present renewal proposals that both extend the operational life of a building and enhance its asset value. For example, proposals include transforming buildings into energy-efficient facilities, meeting environmental requirements, providing anti-seismic retrofitting, countering degradation, repurposing buildings, providing infrastructure for new information technologies and improving the corporate image.

Dai-Hanshin Building

The project involves conducting renewal work while maintaining the daily business operations of the Hanshin Department Store. In addition to completely renovating the exterior facade, we illuminate the building at night to display a simple yet luxurious presence as a symbol of the gateway to Osaka.



Engineering Business

The Total Capability to Meet Increasingly Sophisticated, Complex Customer Needs

In line with current social and economic changes, customers are beginning to face an increasingly diverse array of issues.

Obayashi provides total capabilities beyond its core businesses of civil engineering and construction to respond to their underlying needs from the early stages of project proposal and planning, by fully deploying our construction and engineering technologies as well as our wealth of human resources. For example, for manufacturing and logistics facilities, we use engineering technologies developed in each field of our expertise

to develop a plan that considers the building and system as a single unit to construct the most efficient system possible.

We are also engaged in the formation of a recycling-oriented economy and society that is safe and secure, and together with our customers we are working on building telecommunications and security control systems, on business plans for medical and social welfare facilities, on procurement plans for medical equipment and furniture, and on plans for hospital meal facilities.

Sincere Miki Co., Ltd. Tosu Factory

GMP*-compliant cosmetics factory. This plant makes safe, high-quality products in a sanitary environment similar to that for the manufacture of pharmaceuticals. It also features a guided plant tour, which permits visitors an overview of all production lines, and gives them an understanding of how sophisticated it is. Also, the factory is surrounded by beautiful flowers and greenery.



*Good Manufacturing Practice

The Kyoto Eco-Energy Research Center

This facility employs unused organic material obtained from food processing plants to produce biogas from methane fermentation, which it uses to generate electricity. This research center was constructed as part of the Kyoto Eco-Energy Project, one of the New Energy and Industrial Technology Development Organization's demonstrative projects for the regional power grid that use various new energy sources.



R Research & Development

Active R&D to Meet Current Needs Led by Technical Research Institute

Established in 1965, our Technical Research Institute has carried out high-level R&D, and has aimed to find practical applications that meet current needs of the world.

The Technical Research Institute consists of the Super Energy-Conservation Main Building, the first seismically isolated office building to be built in Japan, and a number of facilities for carrying out research and experiments.

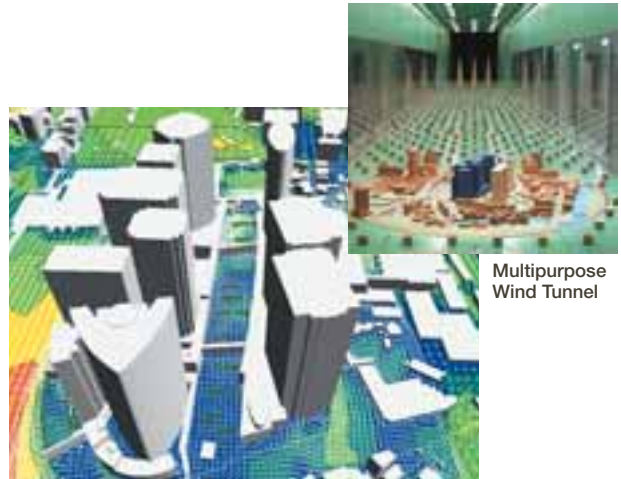
In particular, the tri-axial shaking table for anti-seismic

technologies in building and civil engineering is the largest in Japan; and the geo-technical centrifuge system is the largest in the world. There is also a fire protection laboratory, which has the most advanced fire resistance and experiment facilities in Japan.

Obayashi will continue to take full advantage of these high-level facilities to conduct R&D and technical development that contributes to society.



The Main Building (The Super Energy-Conservation Building)

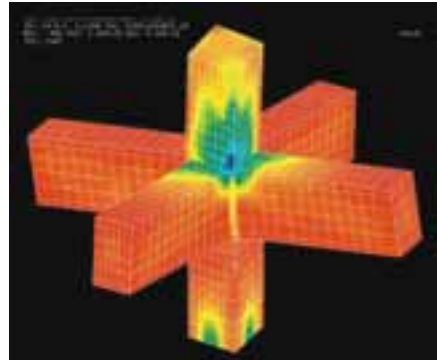


Numerical Simulator for Wind Environment
Predicts wind environments around a building complex

Multipurpose Wind Tunnel



Tri-axial Shaking Table
Capable of simulating earthquakes twice the magnitude of the 1995 Kobe Earthquake



Reinforced Concrete Structure Analysis Software "FINAL"
Verifies responses of reinforced concrete structures to external forces such as earthquakes and heat



Geotechnical Centrifuge System
Experimentally simulates ground movement using a scale model



Fire Protection Engineering Laboratory



Japan's Largest Multipurpose Fire Resistance Test Furnace

Automated Building Construction System (ABCS)

Shorter Construction Periods, Safer Working Conditions and Greater Savings for High-Rise Projects

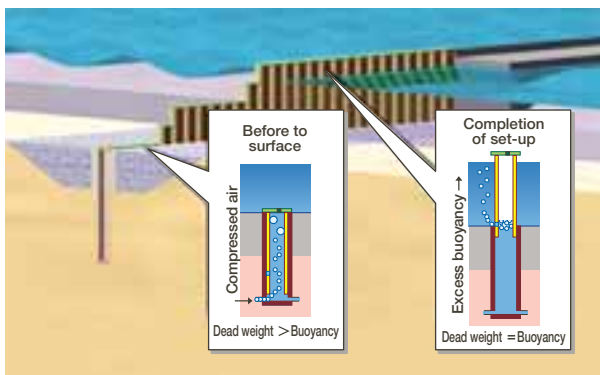
ABCS is an all-weather, automated construction system for highrise buildings, and represents a world-leading achievement by Obayashi. The purpose of the system is to shorten construction periods, and improve the safety and productivity of the construction process by applying factory automation concepts to the construction site, including automation, mechanization and computerization. It has been successfully applied to the construction of high-rise buildings and plants.



Buoyancy-Driven Vertical Piling Breakwater

Securing Ports by Shutting out Tsunamis and High Waves Using Breakwaters that are Only Deployed in Times of Disaster

Collaborating with another company, Obayashi developed an innovative “Buoyancy-Driven Vertical Piling Breakwater” that surfaces at a moment’s notice during tsunami and high wave warnings. This method enables construction of breakwaters along ship routes where it was previously considered impossible to construct breakwaters, resulting in significantly enhanced port security in times of disaster.

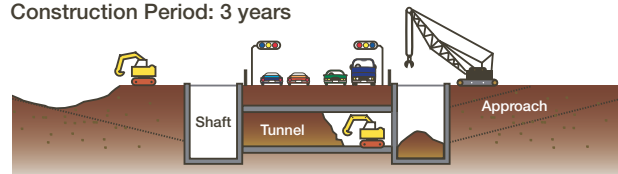


Ultra-Rapid Underpass (URUP) Method

Realizing Rapid Construction of Road and Railway Underpasses to Resolve Traffic Congestion in Urban Areas

Obayashi developed the URUP method, which enables smooth construction of underpasses for roads and railways in urban areas within a shorter construction period. Our advanced technology, which has been applied for the first time in the world, cuts the construction period to one-third the time required by conventional methods, and significantly reduces traffic congestion and noise generated by the construction work. We have already completed demonstration experiments at our Technical Research Institute.

Conventional Construction Method Construction Period: 3 years



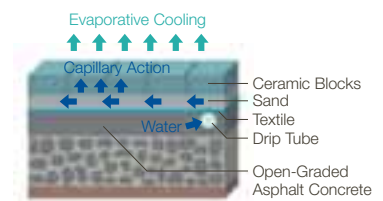
URUP Method Construction Period: 10 months



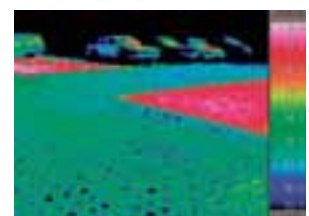
Watered Pavement [Uchimizu Pave]

Continuous Cooling of Hot Summer Streets by Evaporation

The heat island phenomenon caused by the elevated temperatures of road surfaces is a problem in metropolitan areas. Watered Pavements cool road surfaces by continuously supplying water from under the ground. In midsummer, Watered Pavements can reduce road surface temperatures by up to 20°C, compared to nearby non-irrigated asphalt.



Watered Pavement combined with grass



This image was taken with a thermal camera at noon on a summer day

Environmental Preservation Activities

Promoting Company-wide Environmental Preservation Activities as a Responsible Enterprise Moving forward in this Century of the Environment

With “Harmony with Nature” as a fundamental corporate policy, Obayashi established the Global Environment Department in 1990. Since the formulation of our “Action Plan for Sustainable Development” in 1992, we have set new environmental goals for each fiscal year. We also instituted the “Obayashi Corporation Environmental Policy” in November 1997. As a responsible enterprise moving forward in this century of the environment, and a participant in the construction industry that comes into close contact with the global environment through infrastructure projects and the

construction of industrial facilities, we are taking every possible action to preserve the environment. In order to continuously and systematically promote these activities, all Obayashi branches and organizations acquired ISO14001 certification in 1999. From top management to individual employees, we are building and promoting an Environmental Management System (EMS), under which every corporate activity is pursued as a further contribution toward achieving a resource sustainable society.

Obayashi Corporation Environmental Policy

Principles

We, OBAYASHI CORPORATION, regard our active involvement in environmental matters and continual improvement in relation to such involvement as an integral part of our management, and in all our undertakings, we will fully take account of the environmental impact of our activities and make efforts to preserve the environment, and thus, we will contribute to building society through sustainable development.

Five Priority Issues and Activities

Measures to Prevent Global Warming

Measures for Construction Waste

Measure for Chemical Substances

Ecosystem preservation

Green Purchasing

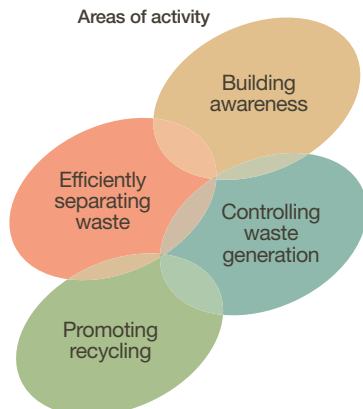
Zero Emissions Activities

Awarded the Prime Minister’s Award for Zero Emissions at Building Sites

Obayashi intends to achieve “Zero Emissions*” with regard to waste generated by construction. In fiscal 2003, we became the first in the construction industry to declare our Zero Emissions activities, and in that same year, we were awarded the Prime Minister’s Award, the highest of the Awards for Achievement in Promoting “Reduce, Reuse, Recycle” Activities (3R Awards), for our innovative measures and efforts.

*Zero Emissions

Zero Emissions means recycling 100% of the waste generated by an industry and reducing to zero the amount of such waste destined for landfills in the final stage of disposal. Obayashi is pursuing these activities under the principles of shared awareness, reduced waste, efficient sorting, and recycling.



Activities for the Marunouchi Building



We preserved coexistence with the environment at this building from the demolition stage, and pursued thorough recycling in cooperation with the client. Even pine pilings that had served as the foundation of the former Marunouchi Building for over 80 years were repurposed into benches and envelopes.



We cooperated in the recycling of 5,443 pine foundation pilings, measuring approximately 14m to 15m each, from the former Marunouchi Building.

Environmental Business

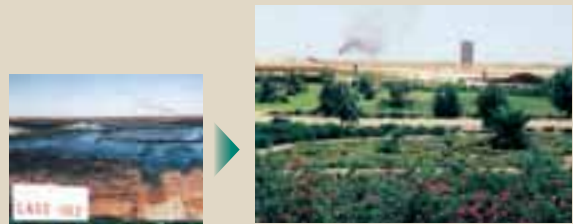
Total Provision of a Wide Variety of Environmental Technologies Based on Our Strong Track Record

In the environmental business, which faces rising public expectations, Obayashi is developing technologies and construction projects in the following areas:

- Countermeasures for soil and underground water contamination
- Water recovery and sludge treatment
- Construction of waste landfill
- Recycling of organic waste
- Countermeasures for the heat island phenomenon
- Energy-efficient buildings
- Ecosystem preservation, etc.

These environmental businesses require a broad array of technology and experience in problem solving. Obayashi has successfully gathered experienced engineers by envisioning the total process from planning, research and diagnosis, analysis and implementation of countermeasures, to managing maintenance and assessment. We quickly and precisely respond to customers' needs and provide comprehensive solutions.

The Bioremediation of Oil-Contaminated Soil



During the 1990-91 Gulf War, over 600 oil wells were destroyed in Kuwait, releasing a massive outflow of oil that contaminated as much as 20,000,000m³ of soil. Between 1994 and 1999, Obayashi conducted surveys and verification experiments for bioremediation (recovery through living organisms) as part of the joint research undertaken by the Kuwait Institute for Scientific Research and the Petroleum Energy Center. As a result, we purified approximately 15,000m³ of contaminated soil and successfully revived the soil to the point of supporting steady plant growth.

*From 2001, operations related to this program have been transferred to the Japan Cooperation Center, Petroleum.

Countermeasures for Soil and Underground Water Contamination

Responding to All Types of Toxic Substances and Soil Conditions

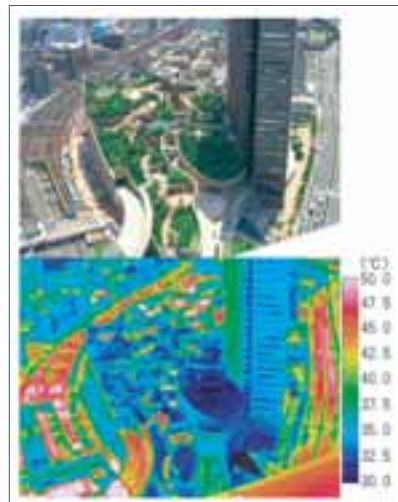
Obayashi has quickly developed wide-ranging technological countermeasures for purifying contaminated soil, a concern that is attracting considerable interest in the context of environment-related businesses since the enactment of the Soil Contamination Countermeasures Law. We have already established a track record of implementing countermeasures for a total area exceeding 3,140,000m³, including on-site plant treatment and in-situ treatment.

Toxic waste	Purification through excavation	In-situ purification
Heavy metals	High-precision immobilization treatment Classification and washing	In-situ immobilization treatment
Volatile organic compounds	Mixing and volatilization Biological treatment	In-situ soil washing and biological treatment Chemical treatment (Fenton Treatment)
Oil	Biological treatment Thermal treatment	Biological treatment Air sparging
Dioxins	Dehalogenation treatment	

Countermeasures for the Urban Heat Island Effect

Greening through Rooftop Gardens Provides a Dramatic Cooling Effect

Rooftop greening in major cities is an effective method for countering the urban heat island effect and creating pleasant townscapes. Namba Parks, which we constructed on the site of the former Osaka Stadium, features Japan's largest rooftop greenery. In midsummer, the rooftop green area was up to approximately 25°C cooler than asphalt surfaces.



Thermo camera image of temperature measurements at noon in mid-summer

Social Contribution Activities

Contributing to the Advancement of Society through Means Like Cultural Projects and Support for Academic Research

In addition to construction-oriented contributions to society, infrastructure development, projects that help to create beautiful cities and other activities, Obayashi is engaged in various initiatives aimed at communicating the role and cultural contributions of construction.

Cultural Projects

Provision of a Forum for Considering the Possibilities for Cities and Architecture

Obayashi has been running the TN Probe cultural project since 1995. TN Probe addresses topics related to construction in formats like symposia, exhibitions and



Architect, Rem Koolhaas, giving a lecture

publications. In doing so, it provides opportunities to think about cities and architecture with the aim of constructing better social environments and developing the culture of construction.

Support for Academic Research

Support for Academic Research on Cities

Well-balanced city development is essential for people to live rich lives, and research on the development of cities will play an increasingly important role as time goes on. Obayashi supports academic research by providing personnel and financial assistance to the Obayashi Foundation, which supports research on problems facing cities. In one of its



Recipient of the Third Obayashi Prize (2004), Mr. Germain Viatte

projects, the Obayashi Foundation presents the Obayashi Prize to researchers who have made significant contributions to the resolution of such problems.



A commemorative prize-giving symposium attended by 300 people

Dispatching Executives to Lecture at Universities

Obayashi assigns its executives to work as university lecturers to provide students - tomorrow's leaders - with information on matters like construction industry initiatives and the latest construction technologies. These lectures have become very



A workshop in the civil and environmental engineering department at Stanford University

popular among students because they provide opportunities to hear real world experience by experts in building



construction, civil engineering and other fields.

Promotion of Sports Activities

Leading Sponsor of Table Tennis Tournaments Organized by the Japan Table Tennis Association

As a symbol of our agreement with the goals of the Japan Table Tennis Association - contributing to the sound development of youths through sport and promoting competitive table tennis - we sponsor the Obayashi Cup, Japan Top 12 Table Tennis Tournament. We support the maintenance and promotion of sound minds and bodies through table tennis, a sport loved by young and old alike.



Japan's top 12 players competing to be number one in the Obayashi Cup, Japan Top 12 Table Tennis Tournament

Regional Coexistence

Technical Research Institute Tours

We hold tours of our Technical Research Institute to give local primary school students an opportunity to have fun while learning about the construction technology that helps everyone to get through each day safely. By experiencing the effects of anti-seismic technology, strong winds, and other phenomena in the latest experimentation facilities, students gain a deeper understanding of construction.



Experiencing wind speeds of 15m/s in the Multipurpose wind tunnel

Opportunities to See Up Close the Construction of Infrastructure Essential for Daily Life

To deepen understanding of construction activities, we allow local residents to see projects that cannot be accessed after completion. We hold tours of tunnels as they are being bored, subway systems before they come into service and other projects, all of which represent the cutting edge in construction. Participants in these tours have praised them as opportunities to see up close the construction of infrastructure essential for daily life.



450 parents and children visiting Sarutagawa Bridge



Local residents visiting a subway station prior to its opening



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Review of Operations

Six-Year Financial Summary

Obayashi Corporation and Consolidated Subsidiaries Years Ended March 31, 2001 to 2006

	Japanese Yen (million)					U.S. Dollars (thousand)	
	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2006
Operating results:							
Revenues							
Construction	¥ 1,261,468	¥ 1,353,654	¥ 1,284,031	¥ 1,296,121	¥ 1,349,384	¥ 1,427,493	\$ 12,151,975
Real Estate and Other Businesses	51,880	50,018	56,972	50,177	55,256	48,932	416,551
Total	1,313,348	1,403,671	1,341,004	1,346,298	1,404,640	1,476,425	12,568,526
Cost of revenues	1,189,235	1,303,802	1,232,114	1,227,666	1,285,377	1,354,716	11,532,442
Gross profit	124,113	99,870	108,889	118,632	119,263	121,709	1,036,084
Selling, general and administrative expenses	88,799	82,247	80,398	80,657	75,907	75,051	638,893
Operating income	35,313	17,622	28,492	37,975	43,356	46,658	397,191
Interest expense (Including CP interest)	(6,619)	(5,411)	(4,801)	(4,232)	(3,439)	(2,838)	(24,161)
Net income	(6,466)	(74,079)	3,124	21,194	25,077	34,489	293,602
Financial position:							
Assets	¥ 2,197,081	¥ 2,044,654	¥ 1,948,578	¥ 1,821,884	¥ 1,842,262	¥ 1,977,295	\$ 16,832,343
Liabilities & minority equity	1,791,759	1,754,294	1,688,219	1,477,610	1,477,961	1,491,278	12,694,967
Capital	405,322	290,360	260,360	344,273	364,301	486,017	4,137,376
Per share amounts (Yen and U.S.Dollars):							
Net income per share	¥ (8.78)	¥ (102.43)	¥ 4.27	¥ 29.42	¥ 34.81	¥ 47.89	\$ 0.41
Dividends	8.00	8.00	6.00	8.00	8.00	12.00	0.10
Shareholders' equity per share	556.91	403.44	361.47	477.80	505.81	674.94	5.75

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the approximate exchange rate at the close of the fiscal year: US\$1=¥117.47.

2. Basic net income per share has been computed based on the weighted average number of shares of common stock outstanding during the year.

Cash Flow Indicators

Obayashi Corporation and Consolidated Subsidiaries Years Ended March 31, 2001 to 2006

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Equity ratio	18.4%	14.2%	13.4%	18.9%	19.8%	24.6%
Capital adequacy ratio based on market value	16.0%	13.2%	10.6%	22.5%	25.8%	34.9%
Years to debt retirement	7.3	13.8	25.8	9.8	6.3	15.7
Interest coverage ratio	10.9	6.2	3.4	9.2	15.0	5.5

Notes: 1. Equity ratio: Total capital/Total assets

2. Capital adequacy ratio based on actual values: Total market capitalization/Total assets

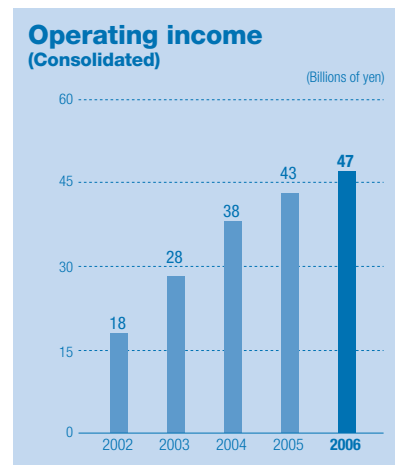
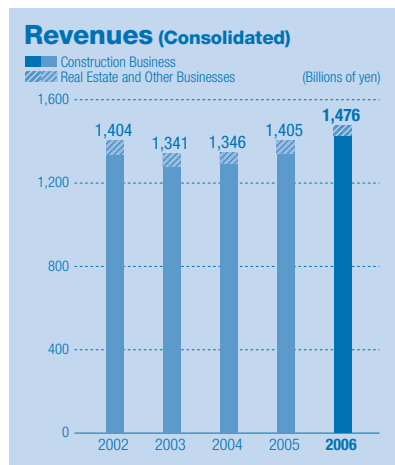
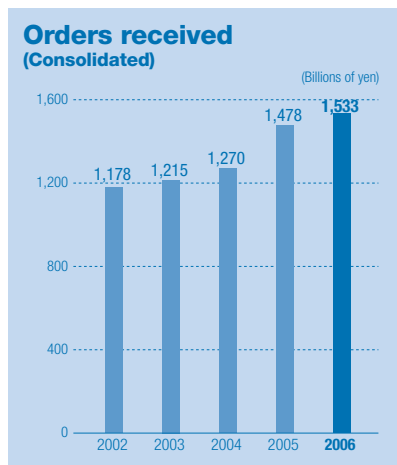
3. Years to debt retirement: Interest-bearing debt/Operating cash flow

4. Interest coverage ratio: Operating cash flow/Interest payments

* Indicators were calculated using consolidated financial figures.

* Market value is equal to the share price at the end of the fiscal year X the number of issued and outstanding shares at the end of the fiscal year (after subtracting treasury shares).

* "Operating cash flow" is the figure for "Net cash provided by operating activities" on the Consolidated Statements of Cash Flow. "Interest payments" is the figure for "Interest paid" on the Consolidated Statements of Cash Flow.



Overview

During the year under review the Japanese economy, despite an ongoing reduction in public sector investment, was in a recovery trend. This trend was supported by two factors: 1) rising private sector capital investment fueled by improving corporate earnings and 2) a mild increase in personal consumption supported by improving employment conditions.

The construction industry also continued to enjoy improving conditions, despite an ongoing reduction in public sector orders, as rising demand for capital investment resulted in private sector construction orders.

1. Financial Condition

As of the end of the consolidated fiscal year, total assets had increased ¥135,033 million (7.3%) compared to the end of the previous consolidated fiscal year, to ¥1,977,295 million. The principal reason for this increase was the effect of valuation gains for investment securities.

Total liabilities as of the end of the consolidated fiscal year increased ¥12,622 million (0.9%) compared to the end of the previous consolidated fiscal year, to ¥1,471,124 million because of factors like higher deferred tax liabilities accompanying investment security valuation gains, and despite steady progress in reducing interest-bearing liabilities.

Shareholders' equity as of the end of the consolidated fiscal year increased ¥121,716 million (33.4%) compared to the end of the previous consolidated fiscal year, to ¥486,017 million. Driving this increase were an increase in retained earnings due to higher net income and greater unrealized holding gains on securities resulting from valuation gains on investment securities. As a result of the increase in shareholders' equity, the equity ratio as of the end of the consolidated fiscal year rose 4.8 points, to 24.6%.

Consolidated cash flow from operating activities came to ¥17,794 million while consolidated cash flow from investing activities came to ¥25,437 million due largely to sales of investment securities and other factors.

2. Business Performance

As of the end of the consolidated fiscal year, revenues from construction increased ¥78,109 million (5.8%) compared to the end of the previous fiscal year, to ¥1,427,493 million, while revenues from real estate and other businesses decreased ¥6,324 million (11.4%), to ¥48,932 million. Construction accounted for 96.7% of total revenues, and real estate and other businesses, 3.3%. Total revenues increased ¥71,785 million (5.1%) compared to the end of the previous fiscal year, to ¥1,476,425 million.

On the earnings front, factors like higher gross profit on our real estate business and lower selling, general, and administrative expenses increased operating income 7.6%

compared to the end of the previous fiscal year, to ¥46,658 million. Regarding net income, we moved forward with sales of shares no longer meaningful to our operations, so that we can more efficiently manage our total assets. This resulted in higher gains on sales of marketable securities and increased net income 37.5% compared to the end of the previous fiscal year, to ¥34,489 million.

On a non-consolidated basis, orders received increased 0.4% compared to the end of the previous fiscal year, to ¥1,299,400 million. Construction accounted for 97.8% of the total, and real estate and other businesses, 2.2%. By type, 25% of construction orders were for civil engineering projects and 75% for building construction. Overseas projects accounted for 12.9% of total construction orders received. Revenues increased 5.0%, to ¥1,274,205 million, with 97.6% coming from construction and 2.4% coming from real estate and other businesses. By source, 23.4% of construction revenues were from civil engineering projects and 76.6% from building construction. Overseas projects provided 10.1% of total construction revenues. As for earnings, operating income increased 5.9%, to ¥40,948 million, and net income increased 26.6%, to ¥28,377 million.

Outlook for the Coming Fiscal Year

Over the coming fiscal year, economic conditions in Japan are expected to remain in a recovery trend based on continuing improvement in personal consumption and increases in sustainable private sector capital investment.

In the construction industry, the recovery in private sector projects is expected to continue, but public sector orders are forecast to remain at low levels. The heated competition for orders, therefore, will likely persist, leaving no room to relax.

Regarding our consolidated performance for the fiscal year ending March 2007, we expect to record revenues of ¥1,560,000 million and net income of ¥38,000 million.

On a non-consolidated basis, we are expecting to record orders received totaling 1,250,000 million (¥20,000 million from real estate and other businesses), revenues of ¥1,320,000 million (¥40,000 million from real estate and other businesses), and net income of ¥31,000 million.

Consolidated Balance Sheets

OBAYASHI CORPORATION March 31, 2006 and 2005

ASSETS

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2006	FY 2005	FY 2006	FY 2005
CURRENT ASSETS:				
Cash and deposits (Notes 6 and 11)	¥ 101,529	¥ 111,586	\$ 864,305	\$ 949,909
Notes and accounts receivable, trade (Note 6)	335,463	313,259	2,855,740	2,666,719
Marketable securities (Note 4)	1	8,031	10	68,366
Inventories (Notes 5, 6 and 15)	459,352	470,572	3,910,380	4,005,891
Deferred tax assets (Note 10)	40,471	39,211	344,522	333,799
Other current assets (Note 7)	125,154	131,042	1,065,401	1,115,534
Allowance for doubtful receivables	(864)	(1,184)	(7,357)	(10,082)
Total current assets	1,061,106	1,072,517	9,033,001	9,130,136
PROPERTY AND EQUIPMENT:				
Land (Notes 7 and 19)	245,318	250,334	2,088,353	2,131,050
Buildings and structures (Notes 6, 7 and 19)	201,884	216,746	1,718,601	1,845,112
Machinery, equipment and vehicles (Notes 6 and 19)	72,158	71,313	614,270	607,078
Construction in progress (Note 6)	1,513	3,583	12,869	30,503
Accumulated depreciation	(163,712)	(171,215)	(1,393,647)	(1,457,526)
Net property and equipment	357,161	370,761	3,040,446	3,156,217
INVESTMENTS AND OTHER ASSETS:				
Investment securities (Note 4)	499,848	337,066	4,255,119	2,869,384
Investments in affiliates	2,563	2,246	21,819	19,119
Long-term loans receivable (Note 7)	25,237	25,278	214,846	215,190
Deferred tax assets (Note 10)	3,616	4,561	30,790	38,826
Other	32,309	34,678	275,014	295,209
Allowance for doubtful receivables	(4,545)	(4,845)	(38,692)	(41,251)
Total investments and other assets	559,028	398,984	4,758,896	3,396,477
TOTAL ASSETS	¥ 1,977,295	¥ 1,842,262	\$ 16,832,343	\$ 15,682,830

LIABILITIES AND SHAREHOLDERS' EQUITY

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2006	FY 2005	FY 2006	FY 2005
CURRENT LIABILITIES:				
Short-term borrowings (Note 6)	¥ 70,887	¥ 130,977	\$ 603,448	\$ 1,114,980
Current portion of long-term debt (Notes 6 and 7)	39,795	32,083	338,767	273,115
Current portion of PFI project finance loan (Note 6)	2,910	827	24,775	7,037
Commercial paper (Note 6)	10,000	—	85,128	—
Notes and accounts payable, trade	523,235	504,997	4,454,202	4,298,941
Income taxes payable	15,995	15,462	136,164	131,629
Advances received on uncompleted construction contracts, real estate and other (Note 15)	307,725	328,406	2,619,612	2,795,661
Allowance for losses on construction contracts	4,596	—	39,130	—
Accrued expenses	16,709	17,063	142,237	145,252
Other current liabilities	123,860	134,617	1,054,382	1,145,972
Total current liabilities	1,115,712	1,164,432	9,497,845	9,912,587
LONG-TERM LIABILITIES:				
Long-term debt (Notes 6 and 7)	121,458	141,373	1,033,949	1,203,483
PFI project finance loan (Note 6)	34,716	21,988	295,534	187,180
Deferred tax liabilities (Note 10)	71,678	9,970	610,188	84,875
Deferred income taxes on reserve for land revaluation (Note 10)	30,629	24,716	260,740	210,403
Reserve for retirement benefits (Note 8)	72,260	69,413	615,139	590,903
Other long-term liabilities	24,671	26,610	210,008	226,521
Total long-term liabilities	355,412	294,070	3,025,558	2,503,365
MINORITY INTERESTS	20,154	19,459	171,564	165,649
SHAREHOLDERS' EQUITY (Note 12):				
Common stock:				
Authorized; 1,224,335,000 shares				
Issued; 721,509,646 shares	57,753	57,753	491,638	491,638
Capital surplus	41,738	41,705	355,315	355,030
Retained earnings	151,817	125,872	1,292,385	1,071,523
Reserve for land revaluation	34,205	35,085	291,186	298,675
Unrealized holding gains on securities	202,086	105,370	1,720,317	896,994
Foreign exchange translation adjustments	(927)	(980)	(7,889)	(8,339)
Treasury stock at cost:				
1,425,927 shares in 2006 and				
1,285,378 shares in 2005	(655)	(504)	(5,576)	(4,292)
Total shareholders' equity	486,017	364,301	4,137,376	3,101,229
CONTINGENT LIABILITIES (Note 17)				
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	¥ 1,977,295	¥ 1,842,262	\$ 16,832,343	\$ 15,682,830

The accompanying notes to the consolidated financial statements are an integral part of these statements.
U.S.dollar amounts are translated from yen, for convenience only, at the rate of US\$1=¥117.47.

Consolidated Statements of Income

OBAYASHI CORPORATION For the years ended March 31, 2006 and 2005

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2006	FY 2005	FY 2006	FY 2005
REVENUES (Note 13)	¥ 1,476,425	¥ 1,404,640	\$12,568,526	\$11,957,439
COST OF REVENUES	1,354,716	1,285,377	11,532,442	10,942,171
Gross profit	121,709	119,263	1,036,084	1,015,268
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 9)	75,051	75,907	638,893	646,185
Operating profit	46,658	43,356	397,191	369,083
OTHER INCOME (EXPENSES):				
Interest and dividend income	6,405	5,046	54,527	42,954
Exchange gains, net	1,731	299	14,739	2,549
Interest expense	(2,838)	(3,439)	(24,161)	(29,272)
Gain on sales of investment securities	10,858	10,324	92,440	87,885
Gain on sales or disposal of fixed assets	2,773	683	23,611	5,819
Loss on sales or disposal of fixed assets	(879)	(399)	(7,484)	(3,403)
Loss on write-down of investments in securities	(584)	(768)	(4,980)	(6,542)
Impairment loss on fixed assets (Note 19)	(2,203)	—	(18,760)	—
Loss on write-down of real estate for sale	(1,433)	(9,108)	(12,202)	(77,533)
Provision for losses on construction contracts	(4,596)	—	(39,130)	—
Other, net	(1,765)	(1,946)	(15,016)	(16,565)
Total	7,469	692	63,584	5,892
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	54,127	44,048	460,775	374,975
INCOME TAXES (Note 10):				
Current	21,924	19,314	186,640	164,411
Deferred	(3,443)	(1,364)	(29,315)	(11,608)
Total	18,481	17,950	157,325	152,803
MINORITY INTERESTS	(1,157)	(1,021)	(9,848)	(8,699)
NET INCOME	¥ 34,489	¥ 25,077	\$ 293,602	\$ 213,473
PER SHARE DATA (Note 18):				
Net income:				
Basic	¥ 47.89	¥ 34.81	\$ 0.41	\$ 0.30
Diluted	—	—	—	—

The accompanying notes to the consolidated financial statements are an integral part of these statements.
U.S.dollar amounts are translated from yen, for convenience only, at the rate of US\$1=¥117.47.

Consolidated Statements of Shareholders' Equity

OBYASHI CORPORATION For the years ended March 31, 2006 and 2005

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2006	FY 2005	FY 2006	FY 2005
COMMON STOCK (Note 12):				
Balance at beginning of year	¥ 57,753	¥ 57,753	\$ 491,638	\$ 491,638
Balance at end of year	¥ 57,753	¥ 57,753	\$ 491,638	\$ 491,638
CAPITAL SURPLUS (Note 12):				
Balance at beginning of year	¥ 41,705	¥ 41,705	\$ 355,030	355,030
Gains on sales of treasury stock	33	—	285	—
Balance at end of year	¥ 41,738	¥ 41,705	\$ 355,315	\$ 355,030
RETAINED EARNINGS (Note 12):				
Balance at beginning of year	¥ 125,872	¥ 108,221	\$ 1,071,523	\$ 921,265
Net income for the year	34,489	25,077	293,602	213,473
Cash dividends paid	(5,759)	(6,482)	(49,027)	(55,182)
Bonuses to directors and corporate auditors	(1)	(2)	(10)	(13)
Reversal of reserve for land revaluation	(2,784)	(942)	(23,703)	(8,020)
Balance at end of year	¥ 151,817	¥ 125,872	\$ 1,292,385	\$ 1,071,523
RESERVE FOR LAND REVALUATION:				
Balance at beginning of year	¥ 35,085	¥ 34,143	\$ 298,675	\$ 290,655
Reversal of reserve for land revaluation	2,784	942	23,703	8,020
Increase in valuation allowance for deferred tax assets on reserve for land revaluation	(3,664)	—	(31,192)	—
Balance at end of year	¥ 34,205	¥ 35,085	\$ 291,186	\$ 298,675
UNREALIZED HOLDING GAINS ON SECURITIES:				
Balance at beginning of year	¥ 105,370	¥ 103,866	\$ 896,994	\$ 884,194
Increase	96,716	1,504	823,323	12,800
Balance at end of year	¥ 202,086	¥ 105,370	\$ 1,720,317	\$ 896,994
FOREIGN EXCHANGE TRANSLATION ADJUSTMENTS:				
Balance at beginning of year	¥ (980)	¥ (1,096)	\$ (8,339)	\$ (9,326)
Increase	53	116	450	987
Balance at end of year	¥ (927)	¥ (980)	\$ (7,889)	\$ (8,339)
TREASURY STOCK:				
Balance at beginning of year	¥ (504)	¥ (319)	\$ (4,292)	\$ (2,720)
Purchases of treasury stock	(196)	(185)	(1,669)	(1,571)
Sales of treasury stock	45	—	385	—
Other	—	(0)	—	(1)
Balance at end of year	¥ (655)	¥ (504)	\$ (5,576)	\$ (4,292)

The accompanying notes to the consolidated financial statements are an integral part of these statements.
U.S.dollar amounts are translated from yen, for convenience only, at the rate of US\$1=¥117.47.

Consolidated Statements of Cash Flows

OBAYASHI CORPORATION For the years ended March 31, 2006 and 2005

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2006	FY 2005	FY 2006	FY 2005
OPERATING ACTIVITIES:				
Income before income taxes and minority interests	¥ 54,127	¥ 44,048	\$ 460,775	\$ 374,975
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization	10,517	11,789	89,533	100,356
Allowance for doubtful receivables	(720)	(733)	(6,130)	(6,236)
Provision for losses on construction contracts	4,596	—	39,130	—
Reserve for retirement benefits	2,847	3,348	24,236	28,499
Net gain on sales and disposal of fixed assets and marketable and investment securities	(12,237)	(9,784)	(104,168)	(83,289)
Loss on write-down of investment securities	584	768	4,980	6,542
Loss on write-down of real estate for sale	1,433	9,108	12,202	77,533
Impairment loss on fixed assets	2,203	—	18,760	—
Undistributed earnings of affiliate	(161)	(37)	(1,375)	(318)
Changes in assets and liabilities:				
Trade receivables	(16,279)	(30,427)	(138,587)	(259,016)
Inventories	13,778	(2,556)	117,288	(21,760)
Other current assets	5,102	(3,603)	43,436	(30,672)
Trade payables	13,437	63,041	114,393	536,658
Advances received on uncompleted construction contracts, real estate and other	(22,443)	(20,472)	(191,055)	(174,278)
Accrued expenses	(354)	1,053	(3,015)	8,967
Other current liabilities	(11,572)	(5,367)	(98,511)	(45,691)
Other	(8,800)	2,054	(74,934)	17,483
Sub total	36,058	62,230	306,958	529,753
Interest and dividend received	6,378	5,200	54,300	44,263
Interest paid	(3,221)	(3,472)	(27,426)	(29,560)
Income taxes paid	(21,421)	(11,908)	(182,356)	(101,370)
Net cash provided by operating activities	17,794	52,050	151,476	443,086
INVESTING ACTIVITIES:				
Purchases of marketable and investment securities and investments in affiliates	(8,620)	(4,750)	(73,384)	(40,433)
Proceeds from sales of marketable and investment securities and investments in affiliates	25,417	16,550	216,376	140,886
Proceeds from sales of property and equipment	24,971	2,766	212,580	23,545
Purchases of property and equipment	(16,221)	(22,159)	(138,089)	(188,637)
Proceeds from collection of loans	6,831	21,032	58,155	179,043
Loans receivables made	(7,070)	(3,367)	(60,191)	(28,659)
Net payments for acquisition of subsidiaries	(1,206)	—	(10,271)	—
Net proceeds from acquisition of subsidiaries	724	491	6,169	4,177
Other	611	609	5,198	5,187
Net cash provided by investing activities	25,437	11,172	216,543	95,109
FINANCING ACTIVITIES:				
Short-term borrowings	(61,229)	(52,475)	(521,237)	(446,713)
Commercial paper	10,000	—	85,128	—
Proceeds from long-term debt	21,447	17,020	182,582	144,893
Repayment of long-term debt	(28,891)	(33,943)	(245,946)	(288,950)
Proceeds from issue of bonds	—	30,000	—	255,384
Redemption of bonds	(5,000)	(20,000)	(42,564)	(170,256)
Proceeds from PFI project finance loan debt	16,478	10,641	140,277	90,588
Repayment of PFI project finance loan debt	(780)	(580)	(6,642)	(4,942)
Cash dividends	(5,759)	(6,482)	(49,027)	(55,182)
Other	(262)	(352)	(2,233)	(2,999)
Net cash used in financing activities	(53,996)	(56,171)	(459,662)	(478,177)
Effect of exchange rate changes on cash and cash equivalents	1,511	187	12,868	1,598
Net (decrease) / increase in cash and cash equivalents	(9,254)	7,238	(78,775)	61,616
Cash and cash equivalents at beginning of the year	110,782	103,544	943,062	881,446
Cash and cash equivalents at end of the year (Note 11)	¥ 101,528	¥ 110,782	\$ 864,287	\$ 943,062

The accompanying notes to the consolidated financial statements are an integral part of these statements.
U.S.dollar amounts are translated from yen, for convenience only, at the rate of US\$1=¥117.47.

Notes to Consolidated Financial Statements

OBAYASHI CORPORATION for the years ended March 31, 2006 and 2005

1. Basis of presenting consolidated financial statements

(a) The accompanying consolidated financial statements of OBAYASHI CORPORATION (the "Parent Company" or the "Company") and subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan. For the purposes of this report, certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan. In addition, certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. The Parent company has prepared the consolidated statements of shareholders' equity and certain additional financial information for the purpose of inclusion in this report although such statements and information are not customarily prepared in Japan.

(b) The Parent Company had 70 subsidiaries as of March 31, 2006 (62 as of March 31, 2005). The consolidated financial statements as of and for the years ended March 31, 2006 and 2005 included the accounts of the Parent Company and all subsidiaries (together "the Companies").

All significant intercompany accounts and transactions have been eliminated. Investments in all affiliates (20 companies for 2006, and 20 companies for 2005) are accounted for by the equity method of accounting. Differences between the cost and underlying net equity of investments in consolidated subsidiaries and other companies accounted for by the equity method are charged or credited to income as they occur.

2. Summary of significant accounting policies

(a) Recognition of revenues and related costs

Revenues from construction contracts and the related costs are recorded on a completed-contract basis, except for those related to large-scale contracts with long-term construction periods of 2 years or more and contracted amounts of ¥5 billion or more which are recognized by the percentage-of-completion method.

(b) Foreign currency translation

The balance sheet accounts of the foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except for the components of shareholders' equity which are translated at their historical exchange rates. Revenue and expense accounts are translated at the rates of exchange in effect at the balance sheet date.

(c) Cash equivalents

All highly liquid investments, generally with a maturity of three months or less when purchased, which are readily convertible into known amounts of cash and are so near maturity that they represent only an insignificant risk of any change in value attributable to changes in interest rates, are considered cash equivalents.

(d) Marketable securities and investment securities

Securities are classified into two categories: held-to-maturity and other securities. Held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity.

Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

(e) Inventories

Inventories other than materials and supplies are stated at cost as determined on a specific project basis. Materials and supplies are stated at cost as determined by the first-in first-out method.

(f) Property and equipment

Property and equipment are stated principally at cost. Depreciation is computed principally by the declining-balance method over the estimated useful lives of the respective assets as follows:

Buildings and structures : 3 - 50 years

Machinery, equipment and vehicles : 3 - 15 years

(g) Reserve for retirement benefits

Reserve for retirement benefits for employees is provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets, as adjusted for unrecognized actuarial gain and loss and unrecognized prior service cost.

Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over periods (5 years or 10 years) which are shorter than the average remaining years of service of the employees.

Prior service cost ("PSC") is being amortized by the straight-line method over 10 years which is shorter than the average remaining years of service of the employees, while PSC of certain subsidiaries is expensed as incurred.

(h) Income taxes

The Company and its consolidated subsidiaries apply deferred tax accounting for income taxes which requires recognition of income taxes by the asset/liability method.

Under the asset/liability method, deferred tax assets and liabilities are determined based on the difference between financial reporting basis and the tax basis of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(i) Appropriations of retained earnings

The Company and its consolidated subsidiaries apply deferred tax accounting for income taxes which requires recognition of income taxes by the asset/liability method.

(j) Allowance for doubtful receivables

The allowance for doubtful receivables has been provided based on the Company's and its subsidiaries' historical experience with respect to write-offs and based on an estimate of the amount of specific uncollectible accounts.

(k) Lease

Finance leases other than those which are deemed to transfer the ownership of leased property to lessees are accounted for in the same manner as operating leases.

(l) Land revaluation

Pursuant to the "Law Concerning the Revaluation of Land," land used for the business operations was revalued on March 31, 2000. The excess of the revalued carrying amount over the book value before revaluation has been included in shareholders' equity as reserve for land revaluation, net of applicable income taxes.

The revaluation of the land was determined based on the official standard notice prices in accordance with Article 2, paragraph 1 of the "Enforcement Ordinance Concerning Land Revaluation" and the appraisal value made by the certified real estate appraisers in accordance with Article 2, paragraph 5 of the same Ordinance with certain necessary adjustments.

The excess of the revalued carrying amount over the market value at March 31, 2006, was ¥8,702 million (\$74,076 thousand).

(m) Derivative financial instruments

The Company and certain consolidated subsidiaries have entered into various derivative transactions in order to manage certain risks arising from adverse fluctuations in foreign currency exchange value and interest rates.

Receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding foreign exchange contract rates.

As for interest rate swaps, if principal terms of the interest rate swaps such as notional amount, index of interest rates, date and interval of interest payments, contract period are essentially the same as those of the hedged liability, such interest rate swaps may not be measured at fair value, but the related interests may be adjusted to the interests on the hedged liabilities on an accrual basis.

(n) Allowance for losses on construction contracts

The allowance for losses on construction contracts is provided at the estimated amount for the future losses on contract backlog at the balance sheet date which will be probably incurred and which can be reasonably estimated.

3. United States dollar amounts

The United States dollar amounts included herein are presented solely for convenience. The translations should not be construed as representations that Japanese yen have been, could have been or could in the future be converted into United States dollars. Such dollar amounts have been translated from yen at the exchange rate of ¥117.47=\$1, the approximate exchange rate prevailing on March 31, 2006.

Notes to Consolidated Financial Statements

OBAYASHI CORPORATION for the years ended March 31, 2006 and 2005

4. Securities

(a) Information regarding marketable securities classified as held-to-maturity debt securities and other securities as of March 31, 2006 and 2005 is as follows:

Marketable held-to-maturity debt securities

Year ended March 31, 2006	Japanese Yen (million)			U.S. Dollars (thousand)		
	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities of which fair value exceeds their carrying value:						
Government bonds, Municipal bonds	¥ —	¥ —	¥ —	\$ —	\$ —	\$ —
Subtotal	¥ —	¥ —	¥ —	\$ —	\$ —	\$ —
Securities of which fair value does not exceed their carrying value:						
Government bonds, Municipal bonds	¥ 90	¥ 89	¥ (1)	\$ 768	\$ 756	\$ (12)
Subtotal	¥ 90	¥ 89	¥ (1)	\$ 768	\$ 756	\$ (12)
Total	¥ 90	¥ 89	¥ (1)	\$ 768	\$ 756	\$ (12)

Year ended March 31, 2005

Year ended March 31, 2005	Japanese Yen (million)			U.S. Dollars (thousand)		
	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities of which fair value exceeds their carrying value:						
Government bonds, Municipal bonds	¥ 80	¥ 81	¥ 1	\$ 683	\$ 691	\$ 8
Subtotal	¥ 80	¥ 81	¥ 1	\$ 683	\$ 691	\$ 8
Securities of which fair value does not exceed their carrying value:						
Government bonds, Municipal bonds	¥ —	¥ —	¥ —	\$ —	\$ —	\$ —
Subtotal	¥ —	¥ —	¥ —	\$ —	\$ —	\$ —
Total	¥ 80	¥ 81	¥ 1	\$ 683	\$ 691	\$ 8

Marketable other securities

Year ended March 31, 2006	Japanese Yen (million)			U.S. Dollars (thousand)		
	Acquisition cost	Carrying value	Difference	Acquisition cost	Carrying value	Difference
Securities of which carrying value exceeds their acquisition cost:						
Stock	¥ 135,234	¥ 475,581	¥ 340,347	\$ 1,151,220	\$ 4,048,535	\$ 2,897,314
Bonds	96	103	7	814	872	58
Other	150	186	36	1,283	1,584	301
Subtotal	¥ 135,480	¥ 475,870	¥ 340,390	\$ 1,153,317	\$ 4,050,991	\$ 2,897,673
Securities of which carrying value does not exceed their acquisition cost:						
Stock	¥ 3,238	¥ 3,028	¥ (210)	\$ 27,562	\$ 25,776	\$ (1,786)
Other	14	13	¥ (1)	116	113	\$ (3)
Subtotal	¥ 3,252	¥ 3,041	¥ (211)	\$ 27,678	\$ 25,889	\$ (1,789)
Total	¥ 138,732	¥ 478,911	¥ 340,179	\$ 1,180,995	\$ 4,076,880	\$ 2,895,884

The Companies recognized losses on write-down of ¥106 million (\$898 thousand) on its marketable other securities for the year ended March 31, 2006.

Year ended March 31, 2005

Year ended March 31, 2005	Japanese Yen (million)			U.S. Dollars (thousand)		
	Acquisition cost	Carrying value	Difference	Acquisition cost	Carrying value	Difference
Securities of which carrying value exceeds their acquisition cost:						
Stock	¥ 130,504	¥ 309,258	¥ 178,754	\$ 1,110,954	\$ 2,632,659	\$ 1,521,705
Other	84	112	28	719	956	237
Subtotal	¥ 130,588	¥ 309,370	¥ 178,782	\$ 1,111,673	\$ 2,633,615	\$ 1,521,942
Securities of which carrying value does not exceed their acquisition cost:						
Stock	¥ 5,586	¥ 4,444	¥ (1,142)	\$ 47,552	\$ 37,828	\$ (9,724)
Bonds	94	89	(5)	798	761	(37)
Other	154	152	(2)	1,313	1,288	(25)
Subtotal	¥ 5,834	¥ 4,685	¥ (1,149)	\$ 49,663	\$ 39,877	\$ (9,786)
Total	¥ 136,422	¥ 314,055	¥ 177,633	\$ 1,161,336	\$ 2,673,492	\$ 1,512,156

The Companies recognized losses on write-down of ¥285 million (\$2,657 thousand) on its marketable other securities for the year ended March 31, 2005.

(b) Sales of held-to-maturity debt securities

Year ended March 31, 2006	Japanese Yen (million)			U.S. Dollars (thousand)		
	Acquisition cost	Sales amount	Gain or loss	Acquisition cost	Sales amount	Gain or loss
Government bonds	¥ —	¥ —	¥ —	\$ —	\$ —	\$ —

Year ended March 31, 2005

Year ended March 31, 2005	Japanese Yen (million)			U.S. Dollars (thousand)		
	Acquisition cost	Sales amount	Gain or loss	Acquisition cost	Sales amount	Gain or loss
Government bonds	¥ 5	¥ 5	¥ 0	\$ 43	\$ 43	\$ 0

(c) Sales of securities classified as other securities

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2006	FY 2005	FY 2006	FY 2005
Sales amount	¥ 16,746	¥ 15,273	\$ 142,557	\$ 130,017
Aggregate gain	¥ 10,859	¥ 10,324	\$ 92,440	\$ 87,885
Aggregate loss	¥ 4	¥ 12	\$ 38	\$ 102

(d) In addition to the securities above, the Companies held investment securities with no available market value at March 31, 2006 and 2005 as follows:

Year ended March 31, 2006	Japanese Yen (million)		U.S. Dollars (thousand)	
	Carrying value		Carrying value	
Held-to-maturity securities				
Non-listed foreign bonds	¥	862	\$	7,340
Other securities				
Non-listed stocks		12,986		110,551
Non-listed preferred equity securities		7,000		59,590
Total				
Year ended March 31, 2005	Japanese Yen (million)		U.S. Dollars (thousand)	
	Carrying value		Carrying value	
Held-to-maturity securities				
Non-listed foreign bonds	¥	9,336	\$	79,476
Other securities				
Non-listed stocks		13,223		112,565
Non-listed preferred equity securities		7,000		59,590
Other		1,403		11,944

(e) The redemption schedule for other securities with maturity dates and held-to-maturity debt securities as of March 31, 2006 and 2005 is summarized as follows:

Year ended March 31, 2006	Japanese Yen (million)				U.S. Dollars (thousand)			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Government bonds, Municipal bonds	¥ 30	¥ 120	¥ —	¥ 30	\$ 252	\$ 1,024	\$ —	\$ 255
Other	—	861	—	—	—	7,330	—	—
Total	¥ 30	¥ 981	¥ —	¥ 30	\$ 252	\$ 8,354	\$ —	\$ 255
Year ended March 31, 2005	Japanese Yen (million)				U.S. Dollars (thousand)			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Government bonds, Municipal bonds	¥ 31	¥ 96	¥ —	¥ 30	\$ 264	\$ 816	\$ 0	\$ 255
Other	8,000	1,335	—	—	68,103	11,365	0	0
Total	¥ 8,031	¥ 1,431	¥ —	¥ 30	\$ 68,367	\$ 12,181	\$ 0	\$ 255

5. Inventories

Inventories comprised the following:

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2006	FY 2005	FY 2006	FY 2005
Construction projects in progress	¥ 363,657	¥ 388,242	\$ 3,095,746	\$ 3,305,033
Real estate for sale	55,189	52,103	469,815	443,545
Development projects in progress	19,797	18,717	168,527	159,332
PFI projects	18,254	9,165	155,390	78,018
Materials and supplies	2,455	2,345	20,902	19,963
Total	¥ 459,352	¥ 470,572	\$ 3,910,380	\$ 4,005,891

6. Short-term borrowings and long-term debt

Short-term bank loans are represented generally by 180-day or 365-day notes issued by the Companies to banks and overdrafts with banks and bore interest at the average annual rate of 0.58 per cent. at March 31, 2006 (0.57 per cent. at March 31, 2005). Long-term loans bore interest at the average annual rate of 1.39 per cent. at March 31, 2006 (1.33 per cent. at March 31, 2005).

(a) Short-term borrowings comprised the following:

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2006	FY 2005	FY 2006	FY 2005
Short-term borrowings from banks	¥ 70,887	¥ 130,977	\$ 603,448	\$ 1,114,980
Total	¥ 70,887	¥ 130,977	\$ 603,448	\$ 1,114,980

(b) Long-term debt comprised the following:

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2006	FY 2005	FY 2006	FY 2005
2.03 per cent. bond due August, 2006	¥ 10,000	¥ 10,000	\$ 85,128	\$ 85,128
0.9 per cent. bond due July, 2007	10,000	10,000	85,128	85,128
0.49 per cent. bond due June, 2008	10,000	10,000	85,128	85,128
1.07 per cent. bond due June, 2013	10,000	10,000	85,128	85,128
1.48 per cent. bond due November, 2010	10,000	10,000	85,128	85,128
0.85 per cent. bond due June, 2009	10,000	10,000	85,128	85,128
0.89 per cent. bond due October, 2009	10,000	10,000	85,128	85,128
1.34 per cent. bond due October, 2011	10,000	10,000	85,128	85,128
1.65 per cent. bond due September, 2005	—	5,000	—	42,564
Loans from Japanese banks	36,880	37,664	313,953	320,627
Loans from Japanese insurance companies	41,689	48,215	354,891	410,445
Loans from other financial institutions	2,684	2,577	22,848	21,938
	161,253	173,456	1,372,716	1,476,598
Less: Current portion of long-term debt	(39,795)	(32,083)	(338,767)	(273,115)
Total	¥ 121,458	¥ 141,373	\$ 1,033,949	\$ 1,203,483

Notes to Consolidated Financial Statements

OBAYASHI CORPORATION for the years ended March 31, 2006 and 2005

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

Year ending March 31,	Japanese Yen (million)		U.S. Dollars (thousand)	
2007	¥	39,795	\$	338,767
2008		31,253		266,049
2009		27,063		230,379
2010		25,973		221,103
2011 and thereafter		37,170		316,418
Total	¥	161,253	\$	1,372,716

As is customary in Japan, long-term and short-term bank loans are made under general agreements, which provide that additional security and guarantees for present and future indebtedness will be given under certain circumstances at the request of banks and that any collateral so furnished will be applicable to all indebtedness due to banks. In addition, the agreements provide that banks have the right to offset cash deposited against any long-term and short-term debt that becomes due and, in case of default and certain other specified events, against all other debts payable to banks. Such rights have never been exercised by banks against the Parent company or its consolidated subsidiaries.

(c) Commercial paper

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2006	FY 2005	FY 2006	FY 2005
Commercial paper (which matures within one year)	¥	10,000	\$	85,128
	¥	—	\$	—

(d) PFI project finance loan

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2006	FY 2005	FY 2006	FY 2005
PFI project finance loan	¥	37,626	\$	320,309
	¥	22,815	\$	194,217
Less: current portion		(2,910)		(7,037)
	¥	(827)		(24,775)
Total	¥	34,716	\$	295,534
	¥	21,988	\$	187,180

The PFI project finance loan is a non-recourse loan payable to financial institutions, which consolidated special purpose company issued backed by the related PFI business as collateral.

Assets as collateral for the PFI project finance loan were as follows:

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2006	FY 2005	FY 2006	FY 2005
Cash and deposits	¥	2,486	\$	21,167
	¥	2,049	\$	17,442
Notes and accounts receivable, trade		10,509		89,463
		10,713		91,200
Inventories		18,254		155,390
		9,165		78,018
Buildings and structures		7,194		61,237
		1,608		13,686
Machinery, equipment and vehicles		376		3,200
		102		865
Construction in progress		—		—
		2,796		23,802
Total	¥	38,819	\$	330,457
	¥	26,433	\$	225,013

The aggregate annual maturities of PFI project finance loan subsequent to March 31, 2006 were as follows:

Year ending March 31,	Japanese Yen (million)		U.S. Dollars (thousand)	
2007	¥	2,910	\$	24,775
2008		2,623		22,330
2009		2,691		22,907
2010		2,726		23,209
2011 and thereafter		26,676		227,088
Total	¥	37,626	\$	320,309

7. Pledged assets

Assets pledged as collateral for long-term debt were as follows:

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2006	FY 2005	FY 2006	FY 2005
ASSETS PLEDGED AS COLLATERAL:				
Land	¥	457	\$	3,889
	¥	1,188*	\$	10,113*
Buildings and structures		811		6,900
		1,765		15,023
Short-term loans receivable (Real estate convertible loan) ..		48		409
		293		2,494
Long-term loans receivable (Real estate convertible loan) ..		24,206		206,060
		24,254		206,469
Total	¥	25,521	\$	217,258
	¥	27,500	\$	234,099
LIABILITIES SECURED THEREBY:				
Current portion of long-term debt	¥	555	\$	4,724
	¥	572	\$	4,868
Long-term debt		4,438		37,776
		6,078		51,740
Long-term debt of Sanyu Building Corporation		—		—
		44*		372*
Total	¥	4,993	\$	42,500
	¥	6,693	\$	56,980

* Obayashi Real Estate, Ltd. pledged its land in the amount of ¥499 million (\$4,248 thousand) to secure the long-term debt of Sanyu Building Corporation.

8. Retirement benefit plans

The Company and its domestic subsidiaries have tax-qualified defined benefit pension plans (established as of March 1, 1982) which cover 50% of the total amount of the pension benefits, in addition to lump-sum payments plans covering the remainder. However, these tax-qualified pension plans were terminated and, as a result of a recent amendment to the related laws, "Regulation type corporate pension plans" based on the "Defined Benefit Corporate Pension Law" have been introduced effective April 1, 2004.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets as of March 31, 2006 and 2005 for the Company's and the subsidiaries' defined benefit plans:

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2006	FY 2005	FY 2006	FY 2005
Retirement benefit obligation	¥(163,966)	¥(162,646)	\$ (1,395,811)	\$ (1,384,577)
Plan assets at fair value	86,608	76,761	737,277	653,456
Unfunded retirement benefit obligation	(77,358)	(85,885)	(658,534)	(731,121)
Unrecognized actuarial gain or loss	5,377	16,797	45,777	142,989
Unrecognized prior service cost	(280)	(325)	(2,382)	(2,771)
Reserve for retirement benefits	(72,260)	(69,413)	(615,139)	(590,903)

The components of retirement benefit expenses for the years ended March 31, 2006 and 2005 are outlined as follows:

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2006	FY 2005	FY 2006	FY 2005
Service cost	¥ 5,527	¥ 5,372	\$ 47,050	\$ 45,727
Interest cost	4,003	3,932	34,077	33,474
Expected return on plan assets	(1,896)	(1,810)	(16,139)	(15,408)
Amortization of actuarial gain or loss	2,386	2,341	20,307	19,926
Amortization of prior service cost	(134)	(46)	(1,138)	(389)
Special retirement and severance benefits	175	678	1,489	5,778
Total	¥ 10,061	¥ 10,467	\$ 85,646	\$ 89,108

The assumptions used in accounting for the above plans were as follows:

	FY 2006	FY 2005
Discount rates	1.8% or 2.5%	1.8% or 2.5%
Expected return on assets	1.8% or 2.5%	1.8% or 2.5%

9. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2006 and 2005 amounted to ¥7,206 million (\$61,349 thousand) and ¥7,887 million (\$67,147 thousand), respectively.

10. Income taxes

Income taxes applicable to the Company comprised corporation tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in a statutory tax rate of approximately 40.5% in 2006 and 2005.

Reconciliation between the statutory tax rate and the effective tax rate for the year ended March 31, 2006 is summarized as follows:

	FY 2006
Statutory tax rate	40.5 %
Reconciliation:	
Permanent non-deductible items	3.1
Permanent non-taxable income	(1.9)
Decrease in valuation allowance	(6.3)
Other	(1.3)
Effective tax rate	34.1 %

Since the difference between the statutory tax rate and the Company's effective tax rate for the year ended March 31, 2005 was immaterial, the information for 2005 was not shown.

The major components of deferred tax assets and liabilities as of March 31, 2006 and 2005 are summarized as follows:

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2006	FY 2005	FY 2006	FY 2005
Deferred tax assets:				
Impairment loss on fixed assets	¥ 36,512	¥ 38,529	\$ 310,818	\$ 327,990
Loss on revaluation of real estate for sale	18,219	20,366	155,093	173,372
Reserve for retirement benefits	29,227	26,036	248,801	221,639
Tax loss carryforwards	4,155	5,438	35,372	46,293
Other	30,208	26,312	257,169	223,988
	118,321	116,681	1,007,253	993,282
Valuation allowance	(7,138)	(10,237)	(60,768)	(87,147)
Total deferred tax assets	111,183	106,444	946,485	906,135
Deferred tax liabilities:				
Unrealized holding gains on securities	(137,704)	(71,821)	(1,172,251)	(611,399)
Other	(1,070)	(821)	(9,110)	(6,986)
Total deferred tax liabilities	(138,774)	(72,642)	(1,181,361)	(618,385)
Net deferred tax (liabilities)/assets	¥ (27,591)	¥ 33,802	\$ (234,876)	\$ 287,750

In addition to the above, the Companies recognized a deferred tax liability of ¥30,629 million (\$260,740 thousand) and ¥24,716 million (\$210,403 thousand) related to reserve for land revaluation at March 31, 2006 and 2005, respectively.

11. Supplementary cash flow information

The following table represents a reconciliation of cash and deposits to cash and cash equivalents as of March 31, 2006 and 2005:

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2006	FY 2005	FY 2006	FY 2005
Cash and deposits	¥ 101,529	¥ 111,586	\$ 864,305	\$ 949,909
Time deposits with a maturity of more than three months	(1)	(804)	(18)	(6,847)
Cash and cash equivalents	¥ 101,528	¥ 110,782	\$ 864,287	\$ 943,062

Notes to Consolidated Financial Statements

OBAYASHI CORPORATION for the years ended March 31, 2006 and 2005

12. Shareholders' equity

Retained earnings include a legal reserve provided in accordance with the Japanese Commercial Code (the "JCC"). The JCC requires that an amount equal to at least 10% of cash dividends and other distributions, including directors' and statutory auditors' bonuses, from retained earnings paid by the Company be appropriated as a legal reserve to the extent that the total amount of additional paid-in capital and the legal reserve equals 25% of the common stock. The legal reserve amounted to ¥14,438 million (\$122,908 thousand) at March 31, 2006. The JCC provides that neither capital surplus nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of shareholders or may be transferred to common stock by resolution of the Board of Directors. The JCC also provides that to the extent that the sum of the additional paid-in capital and the legal reserve exceed 25% of the common stock, the amount of the excess, if any, is available for appropriations by the resolution of the shareholders prescribed by the JCC.

13. Segment information

(a) Business segments

The Company and its subsidiaries are engaged in the following industry segments:

Construction: Building construction, civil engineering, etc.
 Real estate: Resale and rental of land, houses and buildings
 Other: Golf club related business, financing lease and PFI*, etc.

*The Private Finance Initiative ("PFI") business is the new business model under which private companies build, maintain and operate public facilities with their own capital, know-how and technical skills.

	Japanese Yen (million)					Consolidated
	Construction	Real estate	Others	Total	Adjustments and Eliminations	
Year ended March 31, 2006						
Revenues:						
From outside customers	¥ 1,427,493	¥ 37,620	¥ 11,312	¥ 1,476,425	¥ —	¥ 1,476,425
Intersegment	24,943	3,583	7,902	36,428	(36,428)	—
Total	1,452,436	41,203	19,214	1,512,853	(36,428)	1,476,425
Operating expenses	1,411,922	32,768	18,910	1,463,600	(33,833)	1,429,767
Operating profit	¥ 40,514	¥ 8,435	¥ 304	¥ 49,253	¥ (2,595)	¥ 46,658
Total Assets	¥ 1,625,782	¥ 285,637	¥ 132,056	¥ 2,043,475	¥ (66,180)	¥ 1,977,295
Depreciation	7,046	3,162	358	10,566	(49)	10,517
Impairment loss on fixed assets	—	2,203	—	2,203	—	2,203
Capital expenditures	6,105	6,896	3,907	16,908	(744)	16,164

	Japanese Yen (million)					Consolidated
	Construction	Real estate	Others	Total	Adjustments and Eliminations	
Year ended March 31, 2005						
Revenues:						
From outside customers	¥ 1,349,384	¥ 45,979	¥ 9,277	¥ 1,404,640	¥ —	¥ 1,404,640
Intersegment	12,552	3,385	8,057	23,994	(23,994)	—
Total	1,361,936	49,364	17,334	1,428,634	(23,994)	1,404,640
Operating expenses	1,324,474	43,237	16,810	1,384,521	(23,237)	1,361,284
Operating profit	¥ 37,462	¥ 6,127	¥ 524	¥ 44,113	¥ (757)	¥ 43,356
Total Assets	¥ 1,495,155	¥ 300,004	¥ 118,425	¥ 1,913,584	¥ (71,322)	¥ 1,842,262
Depreciation	6,603	4,430	638	11,671	(51)	11,620
Capital expenditures	14,453	4,160	3,020	21,633	(1,556)	20,077

	U.S. Dollars (thousand)					Consolidated
	Construction	Real estate	Others	Total	Adjustments and Eliminations	
Year ended March 31, 2006						
Revenues:						
From outside customers	\$12,151,975	\$ 320,254	\$ 96,297	\$12,568,526	\$ —	\$12,568,526
Intersegment	212,334	30,503	67,266	310,103	(310,103)	—
Total	12,364,318	350,757	163,563	12,878,638	(310,103)	12,568,526
Operating expenses	12,019,427	278,947	160,976	12,459,350	(288,015)	12,171,335
Operating profit	\$ 344,882	\$ 71,802	\$ 2,587	\$ 419,279	\$ (22,088)	\$ 397,191
Total Assets	\$13,839,976	\$ 2,431,575	\$ 1,124,167	\$17,395,718	\$ (563,375)	\$16,832,343
Depreciation	59,979	26,919	3,046	89,944	(420)	89,533
Impairment loss on fixed assets	—	18,757	—	18,757	—	18,757
Capital expenditures	51,973	58,707	33,258	143,938	(6,331)	137,598

	U.S. Dollars (thousand)					Consolidated
	Construction	Real estate	Others	Total	Adjustments and Eliminations	
Year ended March 31, 2005						
Revenues:						
From outside customers	\$11,487,052	\$ 391,411	\$ 78,976	\$11,957,439	\$ —	\$11,957,439
Intersegment	106,853	28,816	68,588	204,257	(204,257)	—
Total	11,593,905	420,227	147,564	12,161,696	(204,257)	11,957,439
Operating expenses	11,274,998	368,068	143,102	11,786,168	(197,812)	11,588,356
Operating profit	\$ 318,907	\$ 52,159	\$ 4,462	\$ 375,528	\$ (6,445)	\$ 369,083
Total Assets	\$12,727,973	\$ 2,553,878	\$ 1,008,130	\$16,289,981	\$ (607,151)	\$15,682,830
Depreciation	56,210	37,712	5,431	99,353	(434)	98,919
Capital expenditures	123,036	35,413	25,709	184,158	(13,246)	170,912

(b) Geographic segments

Information by geographic segments is not presented as domestic revenues and assets exceeded 90 percent of all segments for the years ended March 31, 2006 and 2005.

(c) Revenues by region

Information of revenues by region for the years ended March 31, 2006 and 2005 were as follows:

Year ended March 31, 2006	Japanese Yen (million)			Total
	Asia	North America	Other regions	
I Overseas revenues	¥ 92,897	¥ 90,415	¥ 2,449	¥ 185,761
II Consolidated revenues	—	—	—	1,476,425
III Overseas revenues as a percentage of consolidated revenues	6.3%	6.1%	0.2%	12.6%

Year ended March 31, 2006	U.S. Dollars (thousand)			Total
	Asia	North America	Other regions	
I Overseas revenues	\$ 790,815	\$ 769,684	\$ 20,852	\$ 1,581,351
II Consolidated revenues	—	—	—	12,568,526
III Overseas revenues as a percentage of consolidated revenues	6.3%	6.1%	0.2%	12.6%

Year ended March 31, 2005	Japanese Yen (million)			Total
	Asia	North America	Other regions	
I Overseas revenues	¥ 91,289	¥ 49,071	¥ 2,527	¥ 142,887
II Consolidated revenues	—	—	—	1,404,640
III Overseas revenues as a percentage of consolidated revenues	6.5%	3.5%	0.2%	10.2%

Year ended March 31, 2005	U.S. Dollars (thousand)			Total
	Asia	North America	Other regions	
I Overseas revenues	\$ 777,125	\$ 417,732	\$ 21,510	\$ 1,216,367
II Consolidated revenues	—	—	—	11,957,439
III Overseas revenues as a percentage of consolidated revenues	6.5%	3.5%	0.2%	10.2%

1. Countries are classified by the geographical proximity.

2. The above region represents the following countries and regions:

Asia: Thailand, Singapore, Vietnam, Taiwan

North America: USA

Other regions: Britain

3. Overseas revenues represent those in the countries and regions outside Japan by the Parent Company and its subsidiaries.

14. Derivative financial instruments

Because all derivative instruments held by the Company and its subsidiaries at March 31, 2006 and 2005 were for hedging purposes, the related information on their respective market is not presented.

15. Related Party Transactions

Transactions with related party for the years ended March 31, 2006 and 2005 and the respective balances as of March 31, 2006 and 2005 were as follows:

Related party	Nature of transaction	Japanese Yen (million)		U.S. Dollars (thousand)	
		FY 2006	FY 2005	FY 2006	FY 2005
Takeo Obayashi	Housing construction contract	¥ 595	¥ —	\$ 5,071	\$ —
Takeo Obayashi	Accounts	FY 2006	FY 2005	FY 2006	FY 2005
	Construction projects in progress	¥ 148	¥ —	\$ 1,260	\$ —
	Advances received on uncompleted construction contracts, real estate and other	¥ 187	¥ —	\$ 1,592	\$ —

Takeo Obayashi is the chairman of the Company and has 3.68% of the shares of the Company as of March 31, 2006. The above transactions were made on an arm's-length basis.

16. Lease Transactions

Lessee's accounting

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2006 and 2005, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

FY2006	Japanese Yen (million)			U.S. Dollars (thousand)		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Buildings and structures	¥ 6	¥ 4	¥ 2	\$ 52	\$ 35	\$ 16
Machinery, equipment and vehicles	1,842	1,036	806	15,677	8,816	6,861
Other	201	91	110	1,712	773	938
Total	¥ 2,049	¥ 1,131	¥ 918	\$ 17,441	\$ 9,624	\$ 7,815

FY2005	Japanese Yen (million)			U.S. Dollars (thousand)		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Buildings and structures	¥ 6	¥ 3	¥ 3	\$ 52	\$ 27	\$ 25
Machinery, equipment and vehicles	2,863	2,000	863	24,370	17,026	7,344
Other	665	297	368	5,663	2,527	3,136
Total	¥ 3,534	¥ 2,300	¥ 1,234	\$ 30,085	\$ 19,580	\$ 10,505

Future minimum lease payments subsequent to March 31, 2006 on noncancelable operating leases and finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Japanese Yen (million)		U.S. Dollars (thousand)	
	Finance leases	Operating leases	Finance leases	Operating leases
2007	¥ 360	¥ 348	\$ 3,067	\$ 2,963
2008 and thereafter	564	779	4,804	6,631
Total	¥ 925	¥ 1,127	\$ 7,872	\$ 9,594

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥575 million (\$4,898 thousand) and ¥1,067 million (\$9,085 thousand) for the years ended March 31, 2006 and 2005, respectively.

Depreciation of the leased assets computed by the straight-line method over the respective lease terms with no residual value and the interest portion included in lease payments amounted to ¥569 million (\$4,843 thousand) and ¥7 million (\$65 thousand), respectively, for the year ended March 31, 2006, ¥1,062 million (\$9,041 thousand) and ¥6 million (\$54 thousand), respectively, for the year ended March 31, 2005.

Notes to Consolidated Financial Statements

OBAYASHI CORPORATION for the years ended March 31, 2006 and 2005

17. Contingent liabilities

The Company and its subsidiaries are contingently liable for the following:

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2006	FY 2005	FY 2006	FY 2005
Guarantees of long-term debt of customers, affiliates and employees	¥ 4,583	¥ 5,269	\$ 39,011	\$ 44,854

18. Amounts per share

Basic net income per share has been computed based on the weighted average number of shares of common stock outstanding during the year. Diluted net income per share has been computed based on the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of the shares of common stock to be issued upon the conversion of convertible bonds. Net assets per share have been computed based on the number of shares of common stock outstanding at the balance sheet date. Net income and net assets per share for the years ended March 31, 2006 and 2005 are as follows:

	Japanese Yen		U.S. Dollars	
	FY 2006	FY 2005	FY 2006	FY 2005
Net income per share of common stock				
Basic	¥ 47.89	¥ 34.81	\$ 0.41	\$ 0.30
Diluted	—	—	—	—
Net assets per share of common stock	674.94	505.81	5.75	4.31

The following table sets forth the computation of net income per share of common stock for the years ended March 31, 2006 and 2005:

	Year ended March 31, 2006		Year ended March 31, 2005	
	(Millions of yen, except share)	(Thousands of U.S.dollar, except share)	(Millions of yen, except share)	(Thousands of U.S.dollar, except share)
Net income available to shareholders of common stock (numerator)				
Net income	¥ 34,489	\$ 293,602	¥ 25,077	\$ 213,473
Less: appropriation of bonuses to directors and statutory auditors	(1)	(11)	(3)	(25)
	¥ 34,488	\$ 293,591	¥ 25,074	\$ 213,448
Weighted average shares of common stock outstanding (denominator)		72,150		720,404

19. Impairment loss on fixed assets

For the year ended March 31, 2006, the Company and its domestic subsidiaries recognized losses on the impairment of certain buildings and land leased to others, unused buildings and land, and land for sale currently but for use originally. For the assessment of the impairment on these assets, each asset is deemed as separate group. As a result of a recent unexpected decline in real estate value, the carrying value of the above assets has been reduced to their recoverable amounts. Accordingly, an impairment loss of ¥2,203 million (\$18,760 thousand) was recognized which consisted of ¥1,187 million (\$10,106 thousand) on buildings, ¥58 million (\$495 thousand) on structures, ¥18 million (\$153 thousand) on machinery and equipment, and ¥940 million (\$8,006 thousand) on land. The recoverable amount utilized in the calculation was the net selling price.

The net selling price is mainly the appraisal value less the costs of disposal.

20. Subsequent event

(a) On June 29, 2006, the following appropriation of retained earnings was approved at the shareholders' meeting of the Parent company.

	Japanese Yen (million)	U.S. Dollars (thousand)
Cash dividends	¥ 5,761	\$ 49,042

(b) Sales and lease back of Osaka Obayashi Building

As a part of the group-wide effort to improve the efficiency of the total assets in the group, the Company and its subsidiary, Obayashi Real Estate Corporation, in June 2006, sold their all ownership interest in Osaka Obayashi Building to Chelsea Asset TMK Limited, a special purpose company formed by Aetos Capital, LLC (NY U.S.A.).

Proceed from the sale was as follows:

	Japanese Yen (million)	U.S. Dollars (thousand)
The Company	¥ 14,100	\$ 120,030
Obayashi Real Estate Corporation	10,600	90,236
Total	¥ 24,700	\$ 210,266

The Company and its subsidiaries continue to use the building as tenants after the sale for the time being.



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Report of Independent Auditors

The Board of Directors
OBAYASHI CORPORATION

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

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

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

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the years ended March 31, 2006 and 2005 are presented solely for convenience. Our audits also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

June 30, 2006

A MEMBER OF ERNST & YOUNG GLOBAL

History of Obayashi

Since the Beginning, Obayashi Has Demonstrated Creativity and Technological Capability. Here, Obayashi's History Shows a Record of Reliability and Achievement

1892-1945 From Foundation through WWII



Yoshigoro Obayashi

In 1892, Yoshigoro Obayashi won the bid for construction of the Abe Paper Mill, and founded his company. For those times in Osaka, it was a very large project, but Yoshigoro realized that how the job was done would decide the future of his fledgling company, so he put everything he and his

employees had into the construction.

When they finished, the owners were more than satisfied with the results. And Obayashi Corporation made its first powerful step forward.

In 1904, Obayashi opened an office in Tokyo. Then, in 1911, we were awarded the contract to build Tokyo Station, a project that was then the highest steel-frame building ever attempted in Japan. The project was finished in 1914, with such high-quality precision workmanship that there was not a single gap in the entire structure. This cemented Obayashi's reputation as a top-class construction company in Tokyo, and that led to a succession of new orders for construction work.

In the '20s and '30s, Obayashi grew very rapidly, gaining considerable ground over other construction companies and making our way to the top of the industry.

Obayashi built many of the pavilions at Expo '70 in Osaka, where we were able to showcase our technology to the world. An era of surprising growth followed.



Osaka Expo '70

The Obayashi Main Office in Osaka was completed in 1973, the first ultra-highrise building in Western Japan. In 1976, we completed both the U.S. Embassy Office Building and the U.S.S.R. Embassy Building in Tokyo. And in 1982, we displayed our leadership in environmental issues



U.S. Embassy Office Building

with the completion of our Technical Research Institute, which was certified the most energy-conservation building in the world.

The '80s also saw the completion of the Seikan Tunnel between Japan's

main island of Honshu and the northernmost island of Hokkaido, and the start of the North and South Bisan-Seto Bridges, which connect Honshu with the island of Shikoku.

1946-2000 From Post-War Recovery

During Japan's postwar reconstruction, there came a rush to construct dams for hydroelectric power. The first was the Nukabira Dam, followed in quick succession by the Yakuwa, Amagase, and other dams. Reflecting the high pace of the



Nukabira Dam

Japanese economy during these years, we constructed the award-winning National Gymnasium Annex as well as the Hotel Empire, Japan's first real skyscraper. During these years, Obayashi constructed many high-rise office buildings and hotels, at home and abroad.



Yoyogi National Stadium 2nd Gymnasium



Kansai International Airport



Akashi Kaikyo Bridge (Kobe Side Anchorage)



Kyoto Station Building



Tokyo International Forum Glass Building

With the completion of these projects, Japan's main islands were all linked by land transportation routes.

After 1986, Japan's bubble economy heated up and investment in construction grew significantly. Many of the large projects that had been planned, such as urban redevelopment and waterfront

development, were completed during that era. Obayashi participated in construction of the Kansai International Airport, the Tokyo International Forum Glass Building, the Osaka Dome, the Kyoto Station Building, the Tokyo Wan Aqua-Line, the Akashi Straits Bridge, and other large projects.



China Square Central (Marsh & McLennan Centre)

San Francisco, California. We have also participated in numerous large-scale projects in Southeast Asia and Australia, including construction of the Air Traffic Control Tower for the Changi International Airport in Singapore, China Square Central, and the main stadium for the Sydney Olympics in Australia.



Stadium Australia

Overseas Activities

In 1964, we became the first Japanese construction company to open an overseas representative office, in Bangkok, Thailand. Starting in 1970, we aggressively opened representative offices and established local subsidiaries in Southeast Asia and the United States.

In 1979, Obayashi became the first Japanese construction company to successfully bid for a public works project in the United States with the awarding of a waterworks contract in



North Shore Outfalls Consolidation Contract N1 & N2



Changi International Airport, Air Traffic Control Tower

Boldly Moving Forward in the 21st Century

Now, well into the 21st century, Obayashi has continued to participate in some of the largest projects in Japan, including the Marunouchi Building and Roppongi Hills Mori Tower, while pursuing global business development through our involvement in the construction of Suvarnabhumi Airport in Thailand and other projects.



Marunouchi Building



Roppongi Hills Mori Tower

Corporate Profile

Founded: January 1892

Company Established: December 1936

Paid-in Capital: ¥57,752,671,801 (as of March 31, 2006)

Number of Shares Authorized: 1,224,335,000 shares

Total Number of Shares Issued and Outstanding:
721,509,646 shares

Number of Shareholders: 54,166 (as of March 31, 2006)

Employees: 9,474 (as of March 31, 2006)

Obayashi Business

1. Contracting for construction work
2. Regional, urban, oceanic, and environmental development; other business relating to construction
3. Engineering and managing related to the preceding two items, including research, planning, designing, and supervising
4. Housing business
5. Sale, purchase, exchange, lease, brokering, ownership, caretaking and utilization of real estate
6. Planning, construction, maintenance, and management of roads, harbors, waterworks and drainage, government office buildings, educational and cultural facilities, waste disposal facilities, medical facilities, and other public facilities
7. Business related to environmental pollution restoration, such as purification of soils, river, lake, and marsh beds, and collection, shipment, and treatment of general and industrial waste
8. Power generation, and supply of electricity and heat
9. The trading of greenhouse gas emission rights
10. Manufacture, supply, sale, and lease of construction machinery and equipment, and materials and equipment for temporary work
11. Manufacture and sale of concrete products for construction, fireproof or nonflammable building materials, materials for construction, materials for the interior and exterior of buildings, furniture and wooden products for buildings, and sale of civil engineering and buildings materials
12. Maintenance and care of buildings and related facilities; security and guard services
13. Acquisition, development, licensing for use, and sale of software industrial properties and providing know-how related to the utilization of computers
14. Information processing services; providing information and supply of telecommunication circuits
15. Sale, lease, and maintenance of electronic office machinery and equipment, including computers
16. Management of health, medical, athletic and leisure facilities, hotels and restaurants, and travel agencies
17. Sale of Medical Machinery and tools
18. Temporary Personnel Placement Agency Business under the Temporary Personnel Placement Agency Act
19. Consignment of general affairs, personnel, accounting and other operations
20. Operation of insurance agencies under the Automobile Accident Compensation Security Act and of non-life insurance agencies
21. Landscaping, gardening, and horticulture
22. Loans, guarantees, and other financial activities
23. Consulting related to any of the preceding items
24. Activities related to any of the preceding items

Stock Information

Transfer Agent:

Mitsubishi UFJ Trust and Banking Corporation 4-5, Marunouchi, 1-chome Chiyoda-ku, Tokyo 100-8212, Japan

General Meeting of Shareholders: Late June

Listing:

Four stock exchanges: Tokyo, Osaka, Nagoya and Fukuoka

Major shareholders

Shareholders	Holding shares	
	Shares held (Thousand)	Percentage of total
Japan Trustee Services Bank, Ltd. (Trust Account)	77,621	10.76
The Master Trust Bank of Japan, Ltd. (Trust Account)	51,264	7.11
Takeo Obayashi	26,551	3.68
Nippon Life Insurance Company	26,131	3.62
Hakuyo-Kai	18,886	2.62
Japan Trustee Services Bank, Ltd. (Trust Account 4)	16,413	2.27
Obayashi Employee Share-holding Association	11,075	1.54
State Street Bank and Trust Compny 505103	10,467	1.45
State Street Bank and Trust Compny	9,019	1.25
Mitsubishi UFJ Trust and Banking Corporation	6,729	0.93

(as of March 31, 2006)

Network of Companies

● Offices ● Subsidiaries and Affiliates

Domestic Offices

TOKYO HEAD OFFICE

Shinagawa Intercity Tower B, 2-15-2, Konan, Minato-ku, Tokyo 108-8502, Japan
TEL: 81-3-5769-1111 FAX: 81-3-5769-1910

OSAKA MAIN OFFICE

4-33, Kitahamagishi, Chuo-ku, Osaka 540-8584, Japan
TEL: 81-6-6946-4400 FAX: 81-6-6946-4755

BRANCHES

Nagoya • Kyushu • Tohoku • Yokohama • Sapporo • Hiroshima • Shikoku • Kobe • Hokuriku

TECHNICAL RESEARCH INSTITUTE

4-640, Shimokiyoto, Kiyose-shi, Tokyo 204-8558, Japan
TEL: 81-42-495-1111 FAX: 81-42-495-0901

Domestic Subsidiaries and Affiliates

CONSTRUCTION

OBAYASHI ROAD CORPORATION
NAIGAI TECHNOS CORPORATION
NAIGAI KENZAI CO., LTD.
OAK SETSUBI CORPORATION
YORIN CONSTRUCTION CO., LTD.

REAL ESTATE

OBAYASHI REAL ESTATE CORPORATION

BUILDING MAINTENANCE

OBAYASHI FACILITIES CORPORATION

GOLF CLUBS & RESTAURANTS

MUTSUZAWA GREEN CO., LTD.
SANYO GREEN CO., LTD.
IBARAKI GREEN CO., LTD.
HAKUSEN GREEN CO., LTD.
OAK ENTERPRISE CO., LTD.

OTHER

SOMA ENVIRONMENT SERVICE CORPORATION
ATELIER G&B CO., LTD.
OAK L.C.E. CORPORATION
OAK INFORMATION SYSTEM CORPORATION
OC FINANCE CORPORATION
HYATT REGENCY OSAKA CORPORATION
IOT CARBON CORPORATION

Overseas Offices, Subsidiaries, and Affiliates

THAILAND

● THAI OBAYASHI CORPORATION LIMITED

11th Floor, Nantawan Building, 161 Rajdamri Road, Bangkok 10330, Thailand
TEL: 66-2-252-5200 FAX: 66-2-252-5381

● THAILAND OFFICE

*Refer to THAI OBAYASHI CORPORATION LIMITED.

INDONESIA

● PT. JAYA OBAYASHI

JL. Pancoran Timur II No.3, Pancoran, Jakarta 12780, Indonesia
TEL: 62-21-7982223, 7944142 FAX: 62-21-7973672, 7973673

● INDONESIA OFFICE

*Refer to PT. JAYA OBAYASHI.

SINGAPORE

● SINGAPORE OFFICE

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MALAYSIA

● MALAYSIA OFFICE

Suite 10.6, Level 10, Menara Great Eastern No. 303, Jalan Ampang, 50450 Kuala Lumpur, Malaysia
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VIETNAM

● OBAYASHI VIETNAM CORPORATION

Saigon Trade Center, Floor 19, Unit 1906, 37 Ton Duc Thang St., District 1, Ho Chi Minh City, Vietnam
TEL: 84-4-9105523 FAX: 84-4-9105529

● VIETNAM OFFICE

*Refer to OBAYASHI VIETNAM CORPORATION for address.
TEL: 84-8-9105523 FAX: 84-8-9105529

● HANOI OFFICE

Binh Minh Hotel, Room 226, 27 Ly Thai To St., Hoan Kiem District, Hanoi, Vietnam
TEL: 84-4-8258475 FAX: 84-4-8258673

CAMBODIA

● PHNOM PENH OFFICE

#802, Prek Eang Commune, Kean Svay District, Taprum Village, Kandal Province, Cambodia. (Street to Tiger Beer Factory)
TEL: 855-24-39-4055 FAX: 855-24-39-4055

PHILIPPINES

● MANILA OFFICE

10C Chatham House Condominium, 116 Valero Cor. Herrera St., Salcedo Village, Makati City, Metro Manila, Philippines
TEL: 63-2-889-3655 FAX: 63-2-889-3677

CHINA

● OBAYASHI (SHANGHAI) CONSTRUCTION CO., LTD.

Shanghai International Trade Center 1912B, No.2201 Yan-An Road (West), Shanghai, People's Republic of China
TEL: 86-21-6219-2999 FAX: 86-21-6219-2555

● CHINA OFFICE

*Refer to OBAYASHI (SHANGHAI) CONSTRUCTION CO., LTD.

● BEIJING OFFICE

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● DALIAN OFFICE

Senmao Building 1802E, No.147 Zhong-Shan Road, Xi-Gang District, Dalian, People's Republic of China
TEL: 86-411-8360-3087 FAX: 86-411-8360-3076

TAIWAN

● TAIWAN OFFICE

11F-4, 57, Fu-Hsing N. Road, Taipei, Taiwan
TEL: 886-2-2781-4678 FAX: 886-2-2771-5368

● TAIWAN OBAYASHI CORPORATION

*Refer to Taiwan Office.

U.S.A.

● OBAYASHI USA, LLC

420 East Third Street, Suite 906, Los Angeles, California 90013, U.S.A.
TEL: 1-213-687-8700 FAX: 1-213-687-3700

● OBAYASHI USA, LLC (New York Office)

592 Fifth Avenue, 7th Floor, New York, NY 10036, U.S.A.
TEL: 1-212-930-1020 FAX: 1-212-704-9880

● OBAYASHI CONSTRUCTION, INC.

*Refer to OBAYASHI USA, LLC for address.
TEL: 1-213-687-8700 FAX: 1-213-687-3700

● OC REAL ESTATE MANAGEMENT, LLC

*Refer to OBAYASHI USA, LLC for address.
TEL: 1-213-687-9700 FAX: 1-213-687-0335

● JAMES E. ROBERTS-OBAYASHI CORPORATION

20 Oak Court, Danville, California 94526, U.S.A.
TEL: 1-925-820-0600 FAX: 1-925-820-1195

● SAN FRANCISCO OFFICE

5000 Shoreline Court, Suite 201 South, San Francisco, California 94080, U.S.A.
TEL: 1-650-952-4910 FAX: 1-650-589-8384

● E.W. HOWELL CO., INC.

113 Crossways Park Drive Woodbury, NY 11797, U.S.A.
TEL: 1-516-921-7100 FAX: 1-516-921-0119

● JOHN S. CLARK COMPANY, LLC

210 Airport Road, Mt. Airy North Carolina 27030
TEL: 1-336-789-1000 FAX: 1-336-789-7609

● U.S. HAWAII OFFICE

Suite C403, 725 Kapiolani Blvd., Honolulu, Hawaii 96813, U.S.A.
TEL: 1-808-593-0000 FAX: 1-808-593-0777

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● EUROPE OFFICE

Bracken House, One Friday Street, London EC4M 9JA, U.K.
TEL: 44-20-7236-8338 FAX: 44-20-7236-8337

OBAYASHI CORPORATION

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