

## CORPORATE PROFILE

Obayashi Corporation numbers among the world's leading general contractors and among the top five in Japan. Obayashi is equipped to implement every phase of any construction project and can act as consultant, systems designer, engineer, or architect. It can conduct feasibility studies, research, and analysis; build virtually any structure; plan and implement civil engineering and heavy construction; plan and execute building renewal projects; and provide post-construction maintenance.

Obayashi has a head office, a main office, nine branches and 71 business offices, a technical research institute, two machinery works, and 19 subsidiaries in Japan. It has 19 offices and 14 subsidiaries overseas.

As of March 31, 1999, Obayashi had 11,584 employees, including 849 architects, 3,316 construction engineers, 1,958 civil engineers, 228 research scientists and technicians, 55 computer systems engineers, 1,748 other technicians, and 3,430 support staff.

Obayashi business:

1. Contracting for construction work
2. Regional, urban, oceanic, and environmental development; other business relating to construction
3. Engineering, managing, and consulting 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. Manufacture, supply, sale, and lease of construction machinery and equipment, and materials and equipment for temporary work
7. 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 building materials
8. Maintenance and care of buildings and related facilities; security and guard services
9. Acquisition, development, licensing for use, and sale of software industrial properties and providing know-how related to the utilization of computers
10. Information processing services; providing information and supply of telecommunication circuits
11. Sale, lease, and maintenance of electronic office machinery and equipment, including computers
12. Management of health, medical, athletic and leisure facilities, hotels and restaurants, and travel agencies
13. Operation of insurance agencies under the Automobile Accident Compensation Security Act and of non-life insurance agencies
14. Landscaping, gardening, and horticulture
15. Loans, guarantees, and other financial activities
16. Activities related to any of the preceding items

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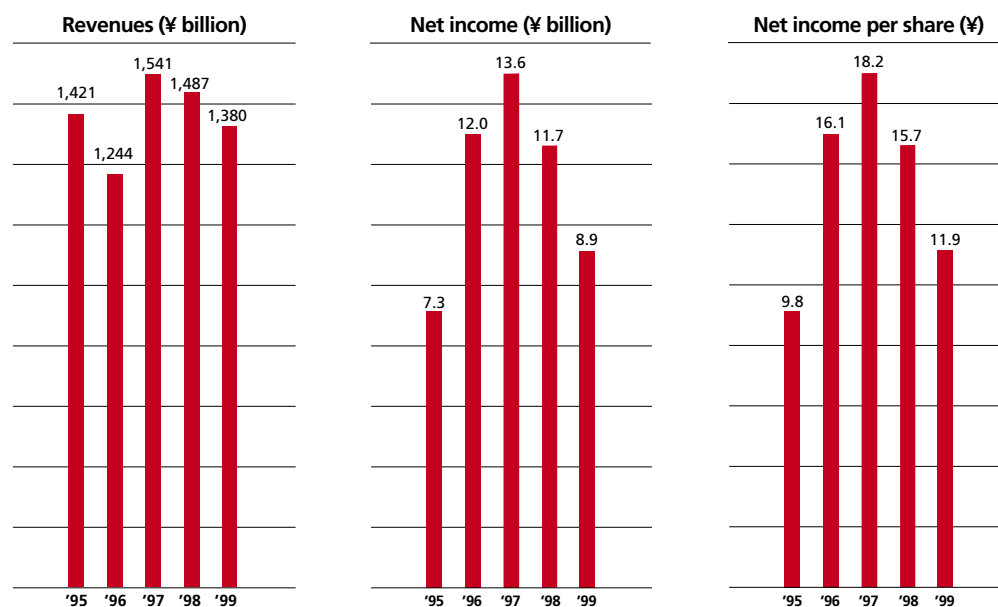
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# FINANCIAL HIGHLIGHTS

	1999	1998	1997	1999
	(millions)			(thousands)
<b>Total revenues</b>	¥ <b>1,379,840</b>	¥ 1,487,495	¥ 1,541,485	<b>\$ 11,498,667</b>
<b>Net income</b>	<b>8,893</b>	11,723	13,622	<b>74,108</b>
<b>Orders received</b>	<b>1,244,829</b>	1,335,399	1,479,963	<b>10,373,580</b>
<b>Backlog at year end*</b>	<b>1,930,250</b>	2,066,214	2,217,429	<b>16,085,417</b>
<b>At year end</b>				
<b>Total assets</b>	<b>2,070,469</b>	2,267,861	2,430,025	<b>17,253,908</b>
<b>Long-term debt</b>	<b>252,049</b>	208,312	194,727	<b>2,100,408</b>
<b>Shareholders' equity</b>	<b>309,670</b>	307,009	301,558	<b>2,580,584</b>
<b>Per share data</b>				
				(unit=1)
<b>Net Income per share</b>	¥ <b>11.93</b>	¥ 15.73	¥ 18.28	<b>\$ 0.10</b>
<b>Cash dividend per share</b>	<b>8.00</b>	8.00	8.00	<b>0.07</b>
<b>Shareholders' equity per share</b>	<b>415.57</b>	412.00	404.68	<b>3.46</b>
<b>Number of common shares outstanding</b>	<b>745,173,544</b>	745,173,544	745,172,442	

Obayashi Corporation and consolidated subsidiaries, years ended March 31, 1997 to 1999. All figures have been translated into US\$, at the rate of ¥120/\$1.00, solely for the convenience of the reader. For details, see the Notes to the Financial Statements. The Obayashi Corporation fiscal year runs from April 1 through March 31. The fiscal year ending March 31, 1999, is referred to as FY1999.

\*Non-consolidated figure.





## TO THE SHAREHOLDERS

Once again, we would like to express our appreciation for the continued support of our shareholders and to present our report for fiscal year 1999, which ended March 31, 1999.

Japan endured another year of rising unemployment and economic uncertainty. The gloomy economic picture continued to depress consumer spending, and lagging corporate earnings resulted in less capital investment in the private sector as well. In other words, Japan's economy remained stagnant.

Reflecting the overall economy, the construction industry saw major declines in orders from the private sector, along with drops in public works orders during the first half of the year. The general lifelessness of the economy created a difficult business environment and hampered our efforts to win new contracts.

In spite of our best efforts to attract new business,

Obayashi ended the fiscal year with ¥1.245 trillion (US\$ 10,374 million) in orders received, a decline of 6.8% compared to the previous fiscal year.

Our revenues for the year totaled ¥1.380 trillion (US\$ 11,499 million), a 7.2% decrease from FY1998. Lower revenues and write-offs to adjust our real estate and securities portfolios to market prices were among the factors that eroded our profits. Net income totaled ¥8.9 billion (US\$ 74.1 million), 24.1% less than in fiscal 1998.

The Board of Directors declared a second semester dividend of ¥4 (US\$0.03) per share of common stock, bringing the year's total dividend to ¥8 (US\$0.07) per share.

In the future, we expect the government's economic stimulation package to take hold, but it will be some time before consumer spending and private in-

*Yoshiro Obayashi, Chairman & CEO*

*Shinji Mukasa, President*



vestment bring the economy back on track. For the time being, we can only expect severe economic conditions to continue.

In the construction industry, we see little likelihood for sudden increases in private capital investment or large increases in public works spending. It will be undoubtedly even more difficult to secure new orders, and we will have to work even harder to maintain our profitability.

Obayashi faces yet another year of difficult economic times. Our success as a company hinges on a concentrated effort by our salespeople, together with our experts in design, architecture, production, and technology, to identify changing trends and create new solutions that meet our customers' rapidly changing needs.

In addition, we must continue to reduce costs wherever possible by developing more efficient construction methods, purchasing materials in larger, more economical lots, and helping our subcontractors reduce costs and boost efficiency. Our own cost-reduction drive will permeate every layer of the company. We will re-evaluate our organizations, our personnel assignments, our handling of information and data, and our indirect expenses, and take every other possible step to make our operations more cost effective. Our goal is ever-greater efficiency that results in ever more profitable operations.

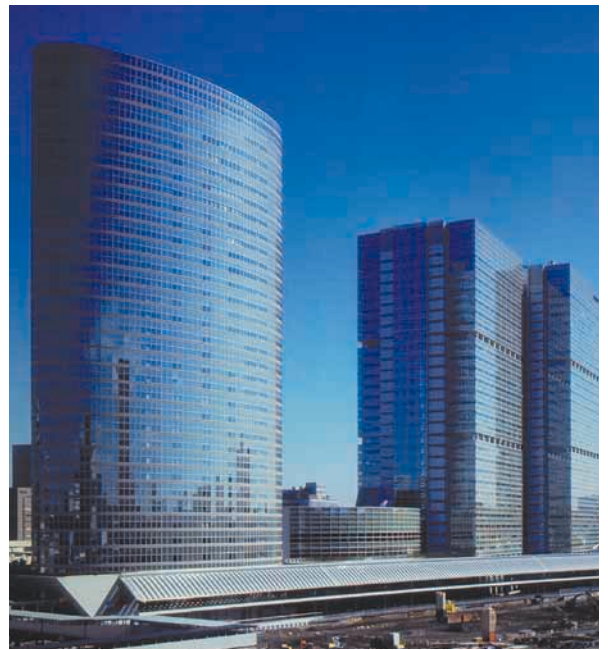
We trust you understand the difficulties our company faces, and we look forward to your continued support.



**Yoshiro Obayashi, Chairman & CEO**



**Shinji Mukasa, President**



*In the 21st century, Shinagawa will be one of the major centers of metropolitan Tokyo. And one of the main axes for business in that area is Shinagawa Intercity, a complex of intelligent buildings located near the east exit of Shinagawa Station and the first redevelopment project completed in the area. In January 1999, Obayashi moved our Tokyo Head Office operations into Shinagawa Intercity's 31-story B Tower.*

*The building is designed to improve informal communications and increase chance meetings among employees, with open spaces that extend both horizontally and vertically. In addition, Obayashi's Tokyo Head Office blends architecture and art by utilizing all elements of the building — floors, walls, ceilings, furniture, interior and exterior lighting, paintings, and sculptures — to create an innovative office environment that is in itself a work of art. In this way, Obayashi aims to create a 21st century office, which demands more than technology alone.*





## CORPORATE STANCE

Our primary *raison d'être* is to improve global standards of living while contributing to the advancement of society and development of the world. In order to do this, we must:

1. Refine our creativity and perceptions; then call on the accumulated technology and wisdom of the company to add new value to the concept of space.
2. Expand our individuality; yet respect human frailties.
3. Stay in harmony with nature; blend in with local societies; and put our hearts into creating a more vibrant, richer culture.

### Management Stance

First, empathize with your customers. Second, strive to be ahead of the times, to discover and develop new demands. Third, become a vigorous, powerful group. Fourth, make a contribution to society.

### Personnel Stance

1. Improve yourself.
2. Meet every challenge.
3. Think with flexibility.
4. Make the most of your creativity and individuality.
5. Be a good citizen — of the country and of the world.



# OBAYASHI BUSINESS



## NEWS BOX

### **Obayashi wins top honors in Misaki Koen Stadium (tentative name) Project proposal contest**

In November 1998, Obayashi, in partnership with Kobe Steel, Ltd., proposed a plan that won top honors in the Misaki Koen Stadium (tentative name) Project proposal contest.

The contest was held to choose the company that would plan, design, build, and operate the stadium, which is to feature a J-League professional soccer pitch and related facilities. Of course the project called for a high level of construction technology, but the client wanted to emphasize business operations and planning capabilities as well. The competition was fierce, but Obayashi was able to bring several leading-edge technologies to the proposal, including GOAL, a money-saving system to maintain the pitch's grass in top condition, and a unique four-piece retractable roof. Our suggestions for implementing multipurpose usage while reducing overall life-cycle costs were also very well received, and played a key role in our winning the competition.

The finished stadium will host World Cup soccer matches in 2002, when extra seating will be installed to accommodate a total of 42,000 fans.

### **Former Tokyo Obayashi Building renewed and renamed the Oak Tokyo Building**



### **Renewal of the old Tokyo Obayashi Building**

The renovation of the old Tokyo Obayashi Building, which served as our Tokyo Head Office until 1998, has been designated a "1998 energy-saving retrofit model project" by the Ministry of International Trade and Industry (MITI). The ministry will pay up to one-third of the cost of making the building more energy efficient. In the past, only partial renovations have qualified for this program, so the Obayashi Building renewal marks the first complete renovation project to receive this MITI designation.

We installed new systems to monitor electricity, gas, and water usage

before starting the renovation project, and adopted conservation methods for construction as well. In addition, the new monitors indicate that the building's conservation systems should reduce overall energy and water consumption by more than 21%.

### **All Obayashi branches receive ISO14001 certification**

On March 31, 1999, seven Obayashi branches received their ISO14001 certifications, completing our drive to get all our branches nationwide certified under the ISO program. Many construction companies achieved certification only for their building and civil engineering operations, but Obayashi's ISO certification covers administration divisions, the Renewal Center, the Obayashi Technical Research Institute, and the company's two machine works as well. In other words, every Obayashi operation in Japan is now ISO 14001 certified. Something few others, even in non-construction industries, can say.

Our goal was not the ISO certification in and of itself. Rather, the certification demonstrates that our basic policy of minimizing the environmental impact of our operations has resulted in development of new systems and technologies that contribute to sustainable development. And we are committed to ongoing improvements in our environmental management systems and policies.

### **Retrofitting the St. Paul's University chapel**

The Great Hanshin-Awaji Earthquake of 1995 brought base isolation systems into sharp focus. In reinforcing the St. Paul's University chapel against earthquakes, we employed the retrofit with seismic isolation, which we use to add base isolation systems to existing structures.

The red-brick chapel, built in 1920, is located on the university's campus in Toshima ward, Tokyo. It is not only a symbolic presence on campus, having served the students for decades, but also a historically valuable landmark. However, it was built with inadequate protection from earthquakes.

Beginning in September 1998,



*Misaki Koen Stadium (tentative name) Project*



Obayashi excavated around the existing foundation, exposing the 22 pillars upon which the chapel stands. We placed laminated steel-rubber base isolators into 13 of the pillars, and steel damper bars in 10 places between the pillars. The entire project took three months to complete. One of the best features of the retrofit with seismic isolation is that it allows us to make buildings with historical value more quake-resistant, without any internal or external above-ground alteration of the original structure.



The retrofit with seismic isolation equips buildings to withstand strong quakes of 6-7 intensity on the Japanese scale. The St. Paul's University Chapel project marked Obayashi's first use of the system. In addition, this was the first time it was used on a prewar brick building in Japan.

### **Sakura Someino receives Minister of Construction award**

In October 1998, Sakura Someino, a housing development in the city of Sakura, Chiba prefecture, received the 18th Green City Award from Japan's Minister of Construction. The award promotes the use of greenery in urban



**Sakura Someino**

development projects, and is awarded to private and public organizations and companies that effectively use trees, flowers, and other greenery to improve the environment and create more pleasant scenery, as well as protect and promote natural greenery.

The Sakura Someino development was highly rated by the ministry for several reasons. It offers ample space and the environment for relaxing, affluent lifestyles that cannot be experienced in a metropolitan area. It is designed and laid out to present pleasant vistas and allow residents to fully appreciate and experience the four seasons. The entire development feels like one large garden. In addition, the development created a residents' organization to care for the greenery and keep it beautiful, graphically demonstrating Obayashi's commitment not only to initial landscaping and preservation of green areas, but also to maintaining and preserving them for posterity.

### **Marunouchi Building order received**

The Marunouchi Building, which opened in 1923 and helped usher in Japan's modern era, is now slated for demolition and replacement. The new Marunouchi Building will have four basement floors and rise 37 stories high. It will stand 180 meters tall, with floor space of 160,000 m<sup>2</sup>, for both offices and commercial establishments. Tokyo's Marunouchi district is one of the city's premier business areas. However, some of the buildings are aging, and simply no longer functional in to-

**Marunouchi Building**



day's global information age. Mitsubishi Estates Co., Ltd., has a master redevelopment plan that calls for improvements in comfort and convenience for the people who work in the area or who come to visit it. At the same time, the plan calls for sustainable coexistence with the natural environment. Redevelopment of the Marunouchi Building is the first project to get under way.

The new Marunouchi Building will exceed earthquake resistance standards by 150%, and will have its own co-generation system to provide emergency power. The three arches that became the symbol of the Marunouchi Building over the decades will be integrated into the new interior design, helping preserve the Marunouchi Building tradition. The building is scheduled for completion in August 2002.

## Tomisato Dam

Tomisato Dam will be the largest gravity dam on the island of Shikoku, standing 111 meters high, 250 meters long, and containing some 510,000 m<sup>3</sup> of concrete. A range of Obayashi-developed technologies is helping to reduce construction time. One of these is the On-Site Automatic Concrete Bucket Transporting System. It uses a rail system to move buckets of



concrete across the entire width of the dam, and automatically pour it in precisely the right place. The entire main dam has been poured, and the floodgates have been closed to test the reservoir. The completed dam will hold some 52 million tons of water for local residential use and to supply paper manufacturing and other industries. Water from the Tomisato Dam should become available in the spring of 2001 to help usher in the new millennium.

## Tsurumi River Onmawashi-Koen Regulating Reservoir flood control tunnel

As the Tsurumi River flows through the suburbs of Tokyo, the surrounding land has very little ability to absorb rainfall or hold water for short periods of time. To control rainwater runoff into the river system, a holding tunnel 17 meters wide and 18.2 meters high, with a cross-sectional area of 254 m<sup>2</sup>, is being bored 25-40 meters underground. Once finished, runoff exceeding the river's capacity will be held in



the tunnel until the river level subsides, after which it will be pumped out. The tunnel will hold about 110,000 m<sup>3</sup> of water, and is being prepared for those once-in-a-decade storms that cause major flooding.

Large tunnels like this have never been dug in such densely populated areas, so Obayashi is employing the latest analysis and measuring technology to provide real-time construction monitoring.

## Yokohama Station West Side Underground Parking

The neighborhood surrounding the west exit of Yokohama Station is one of the most active commercial centers in the Greater Tokyo metropolitan area. To help alleviate the chronic shortage of parking near the west exit, Obayashi was contracted to build two additional basement floors onto an existing underground parking garage and shopping arcade (both built by Obayashi in 1964). The construction had to be done without disrupting operation of the arcade and existing parking garage, so we installed massive jacks to hold up the entire structure as excavation work and construction proceeded. It was a difficult project, but we finished it two months ahead of schedule.

The new third and fourth level



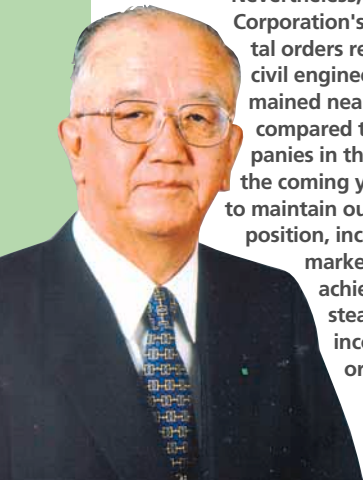
garages combine with the previous facility to provide about 1,000 parking spaces. This will play a key role in revitalizing the surrounding area, making more effective use of underground space, and ensuring a smoother flow of traffic.

Domestic orders received during fiscal year 1999 totalled ¥320.6 billion (US \$2,672 million). Because the previous year's orders received were at such a low level, this year's orders actually represented a 14.1% increase. Nevertheless, the business environment surrounding civil engineering remains quite severe.

Although we secured numerous large orders such as the contract to supply spoil for the land reclamation of the Kansai International Airport Phase II, smaller-scale civil engineering orders were still scarce.

Orders received overseas amounted to ¥34.1 billion (US\$284 million), reflecting continuing recessionary trends and difficult business conditions, particularly throughout Asia.

Nevertheless, Obayashi Corporation's share of total orders received in civil engineering remained near the top compared to other companies in the industry. In the coming year, we plan to maintain our leading position, increasing our market share and achieving a steady flow of incoming orders.



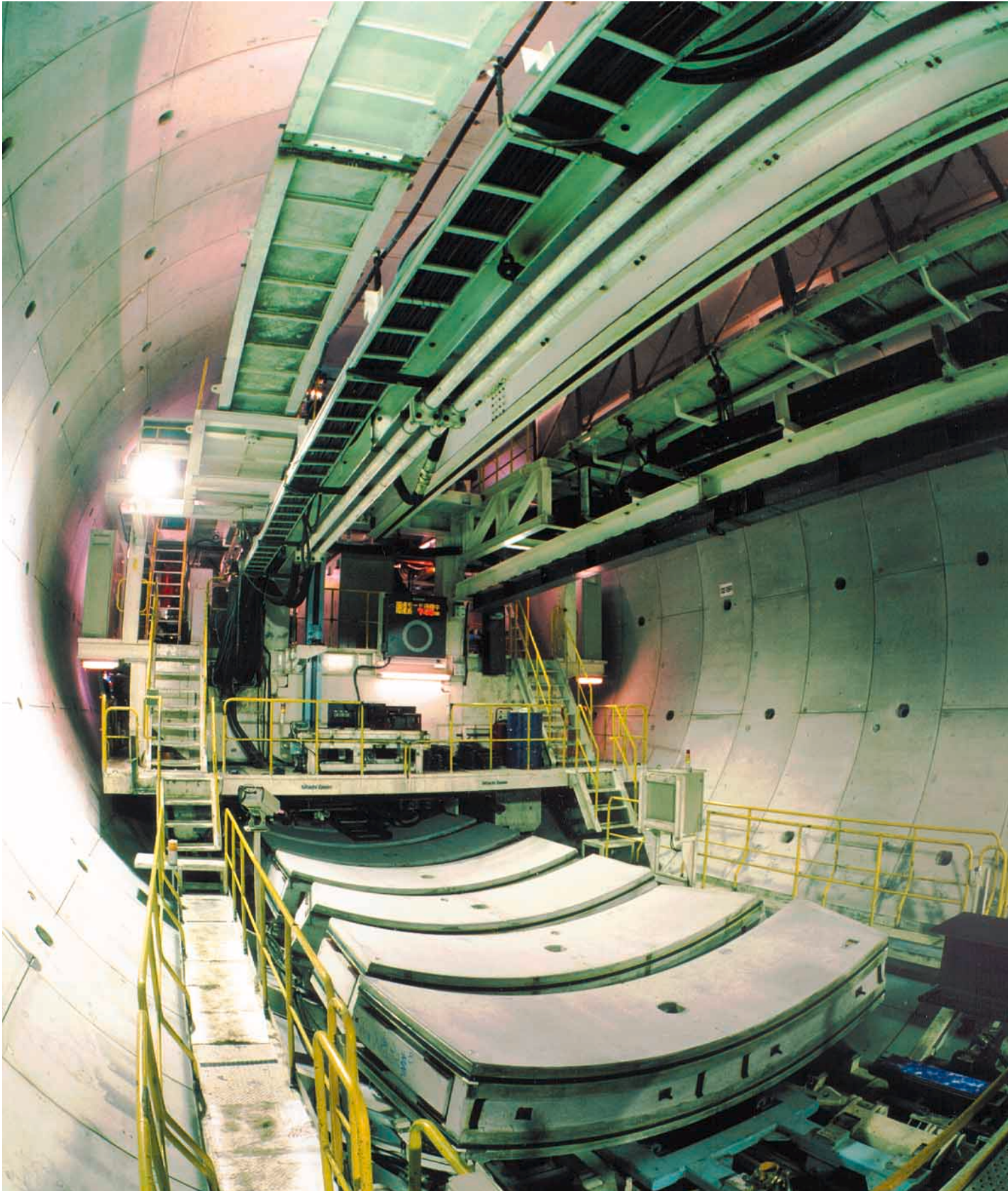
**Toshiteru Arakawa**  
Vice President



### **Tokyo Suburban Flood Control Tunnel, Segment 1**

*A huge flood control tunnel is under construction beneath National Highway No.16 in Saitama prefecture to prevent flooding from the many small rivers that flow through the area. The 6.3 km tunnel is 12 meters in diameter and is being dug 50 meters underground. Obayashi is in charge of a 1.4 km segment.*

*We are excavating the tunnel with a large-diameter slurry shield machine that uses ultra-high water pressure. Unlike conventional tunnels, the segments are not bolted together, but are fastened with horizontal cotter keys. In addition, robots are used to position and secure the segments.*





Orders received during FY1999 for building construction declined 3.4% to ¥798.4 billion (US\$ 6,653 million), including such massive projects as Misaki Koen Stadium (tentative name) and Sakae Park. Revenues for projects completed in fiscal 1999 totalled ¥864.5 billion (US\$ 7,204 million), a 5.5% decrease compared to last year. The largest project completed during the year was Shinagawa Intercity, now home to Obayashi's Tokyo Head Office.

Short- and medium-term prospects for building construction are dim at best. If we are to maintain the necessary volume of projects, we must become even more price-competitive. In one move to improve efficiency, as of June 29, 1999, we combined sales and production operations to create the Building Construction Division. This will bring together sales and project administration in the earliest stages of projects, helping us offer much more competitive prices to prospective clients.



**Norio Wakimura**  
Senior Managing  
Director



### Yokohama Bay Sheraton Hotel & Towers

The area surrounding the west exit of Yokohama Station hums with the undercurrent of excitement created by thronging people. Urban redevelopment of the area is under way, with the goal of blending the conveniences of the city with richer, more relaxing lifestyles. The Yokohama Bay Sheraton Hotel & Towers will play a central role in this renaissance. The third Sheraton Hotel in Japan, it offers 398 guest rooms and seven banquet rooms of varying sizes, not to mention numerous fine dining establishments. And while the ground here is too soft for conventional construction, Obayashi employed our advanced OWS-Sole-tanche Diaphragm Wall Construction system to overcome the problem. We dug 37 meters down to establish the foundations. The extensive underground facilities house a major parking facility and a heating and cooling center that serves the surrounding area as well as the hotel.

### Dojima Avanza

Dojima is one of Osaka's most famous neighborhoods, lying close to the Dojima river and Nakanoshima island. During the Edo Period (1603-1867), the rice market was there, and in modern times it has been mostly a business area served by buildings housing offices and retail outlets.

The new Dojima Avanza building, linked to Osaka Station by an underground passage and fronting the

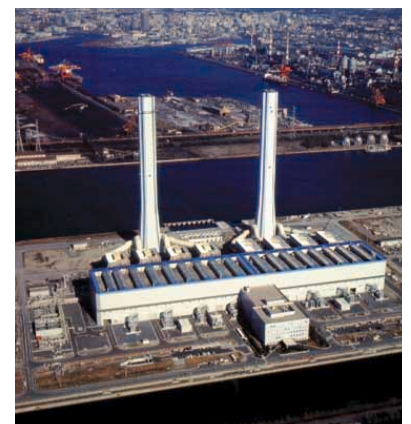
area's main street, features some of Osaka's most spacious, modern rental office space. In addition, the center core layout ensures windows for every room, and the air-conditioning can be controlled to the tenant's desires. The Avanza offers efficient, comfortable office environments.

And almost two-thirds of the building plot is given over to park area, not only allowing local residents a place to relax, but also adding to the wide open feeling of the building. The park was designed to the theme of "Green and Water and Light," with many trees, large and small, and plenty of greenery. The greenery-lined walk approaching the building lets office workers and local people alike relax in an urban oasis.



### Tokyo Electric Power Co., Inc., Chiba Thermal Power Station

When first built, the 600,000-kW station was the largest power plant in Asia. The station has aged, however, and the demand for electric power has burgeoned. So TEPCO decided to build a 2,880,000-kW ACC thermal power





station, fired by liquefied natural gas (LNG).

For the huge roof of the turbine building, Obayashi used the Movable Stage Method of creating movable scaffolding to hoist the big roof trusses into place one after the other. We also pre-assembled large blocks of reinforcing steel for the power train bed. As a result, construction proceeded quickly, without compromising either quality or worker safety. Although as many as 900 workers were on site every day, all doing high-elevation work, Obayashi successfully pushed the number of accident-free working hours to 2.25 million, thanks to our advanced technology and on-the-job safety management.

### Maiko Villa

Since its opening in 1970, Maiko Villa became a popular vacation spot in Kobe. The Great Hanshin Awaji Earthquake of 1995 delayed plans to rebuild the facility, but that hurdle was overcome when it became the first project to take advantage of Kobe's land trust program.



The new Maiko Villa will offer 251 guest rooms, including those in the annex, and a large banquet hall seating up to 1,000 people. It will also feature an auditorium and facilities for either Christian or Shinto wedding ceremonies. The Maiko Villa stands on a 33,900 m<sup>2</sup> plot overlooking the Akashi Straits and the beautiful Akashi Kaikyo Bridge, making it one of the most relaxing spots in Japan.



### Nara Centennial Hall

*Silk Road Town 21 is an urban reconstruction plan aimed at transforming the neighborhood around JR Nara Station, in the ancient capital city of Nara, into an area that befits its status as an international cultural city. The Nara Centennial Hall is central to the Silk Road Town 21 plan.*

*The hall's architects were Arata Isozaki & Associates, chosen through an international competition held in 1992. Centennial Hall was built using the Panta-Dome Construction Method. The roof and exterior walls were assembled on the ground in a folded position, then lifted into place with 64 jacks.*

*To ensure harmony with Nara's traditional architecture, the exterior was finished with a material that resembles the "smoked tiles" used on the roofs of the city's many temples.*

*The Centennial Hall offers a 1,720-seat multipurpose convention hall and a 448-seat glass-enclosed music auditorium for chamber music concerts. Surely the new hall will offer new cultural experiences, adding to the many historical treasures and expansive parklands of the ancient capital.*



## OVERSEAS PROJECTS

Since the 1960s, Obayashi has been involved in overseas construction projects in Asia, North America, Europe, China, Australia, and other regions around the globe. In fiscal 1999, our overseas revenues reached some ¥184.0 billion (US\$1,533 million), or 13.3% of total Obayashi income.

Construction companies are in the business of one-product manufacturing to order. So a reputation for reliability is key to customer relations. There is a great deal of demand for construction in the international market. And with our 40 years of experience, Obayashi has earned an enviable reputation for high technical standards, strict adherence to construction schedules, superior quality, reasonable prices, and a healthy financial position.

Recent trends such as turnkey construction, design and build, total project management, and BOT, promise to change the way construction projects are handled in the future. In these kinds of projects, construction companies must assume one-source responsibility, so their financial credibility and overall stability become even more critical. As we move into the 21st century,

Obayashi offers more than a century of tradition, experience in a wide variety of construction projects, and a well-earned credibility in communities around the world. And in the new century, we hope to contribute to the growth of many more countries through precise, reliable, high-quality construction projects.



**Wakao Oba**  
Senior Managing  
Director

### Menara Great Eastern Life building

Obayashi was contracted to construct a new building for Great Eastern Life Assurance, the oldest such firm in Malaysia with a dominant 32% market share. The new multipurpose building will have five basement floors, and rise 20 stories above ground. Its floor area will total some 150,000 m<sup>2</sup>. In addition to offices, the building will house a multipurpose hall seating 630, a shopping arcade, and sports facilities. When it is finished in 2001, the Menara Great Eastern Life building will take its place as a landmark in one of Kuala Lumpur's most exclusive residential areas, where many countries have their embassies.



### Hospital Selayang

After opening up a 50-acre site in the highlands outside Kuala Lumpur, the capital city of Malaysia, Obayashi recently completed a 1,000-bed national hospital on the plot. The hospital has a floor area of 180,000 m<sup>2</sup>; nevertheless Obayashi completed the project in the very short span of just 30 months, using the fast-track method, which combines production of working drawings with actual on-site work.

The hospital boasts the latest in medical equipment and computerized systems. In fact, the entire world will be eager to see how this paperless intelligent hospital works when actual operations begin.



### Tuas Immersed Tunnel

Obayashi designed and constructed the Tuas Immersed Tunnel during FY1999. It houses high-voltage electrical cables leading from a new power plant under construction on reclaimed land in Tuas to an industrial zone on the opposite shore. This is part of Singapore's ongoing land reclamation project. Successful completion of the project demanded all the ingenuity Obayashi could muster. We employed a segmented box structure, using the Marine Lift system to place the segments. The tunnel work also included a tight 100-meter radius curve.



### Boston Central Artery/Tunnel Project I-93 Tunnel Finish Work (C17AA)

Obayashi's track record with the State of Massachusetts includes such civil engineering projects as expressways, subway tunnels, and water mains. This fiscal year, we received an order for finish work on the 3.6-km Boston Central Artery Tunnel. It is the last portion of the major segments in a US\$7.7 billion project that removes the elevated downtown east-west freeway and replaces it with an eight-lane underground freeway. The six-year project is divided into a great many segments, all of which have to be completed on precise deadlines.





### **Stadium Australia**

*The Stadium Australia, the main venue for the 2000 Sydney Olympic Games, is finished. And its capacity — 110,000 spectators — is the largest in Olympic history. The stadium was built by private money with the build-operate-transfer (BOT) method. And Obayashi, as a shareholder, was in charge of the design and construction. To make it more environmentally friendly, we incorporated power-saving*

*solar cells and systems to recycle rain water from the roof. During construction, strict monitoring helped minimize noise, dust, construction waste water, and spoil that had to be committed to landfills. Obayashi's environmentally friendly construction methods earned high marks not only in the construction industry, but with the local community as well.*



A long bridge being built with a balanced cantilever system.



A medium-sized bridge takes shape span by span.



## PC Bridge Construction Method by Precast Segments

This new method assembles pre-stressed precast concrete segments made in off-site production yards into PC girders for bridge spans. Where the bridge spans are between 30 and 50 meters long, the segments are assembled span by span. For spans exceeding 50 meters in length, we use balanced cantilevers when assembling the segments.

This method speeds up construction, conserves energy, and ensures consistently high quality.

## High-performance diaphragm wall excavation machine (Advanced Hydrofraise HFA-4RC II)

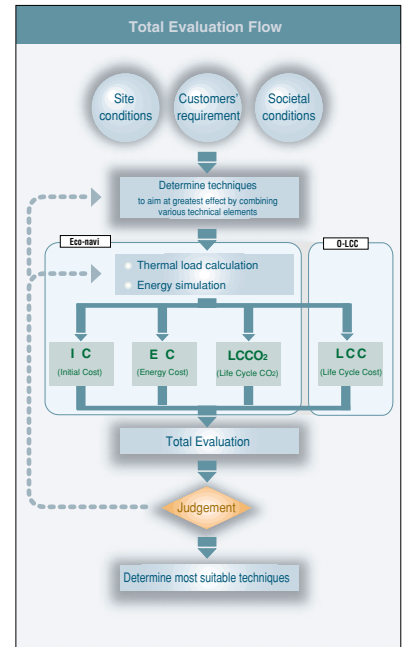
Obayashi developed a new space-saving compact diaphragm wall excavator called the HFA-4RC II. The new machine offers tighter turning radiuses, extendable excavator booms, and improved excavating capabilities for use in tight quarters. The fiber-optical control system allows precise, fully automatic operation, measurably improv-



ing excavation efficiency. The machine can be assembled and dismantled in much less time than larger excavators, boosting efficiency on smaller excavation jobs.

## Energy-Efficient Building Total Evaluation System — Eco-navi

Obayashi developed and launched Eco-navi, a new software package that simulates the effects of energy-efficiency systems designed into any building, and quickly does environmental impact and financial feasibility evaluations. Using conventional methods, such evaluations would take at least three months, but Eco-navi does the job in one week. That means Obayashi engineers and architects can quickly and accurately propose energy-efficient building designs to meet client needs.



## Earth Compacting Control System

Obayashi developed a new Global Positioning Satellite (GPS) surveying system with a self-contained differential beacon receiver to control the compacting of the fill. The new system works well even in mountainous areas where reception of satellite signals can be imperfect. It can monitor and control up to eight rotary compacting machines, displaying their positions and number of compacting runs in real

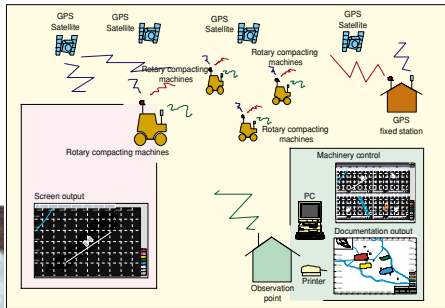
Obayashi recognizes its obligations to customers and society alike, and strives to satisfy them with a wide-ranging R&D program that spans everything from basic research through practical application. Our primary goals, of course, are enhanced technological expertise and improved integration of technologies. Technological development touches many fields — more efficient production methods; improved safety and damage control; environmental protection, renovation, renewal, maintenance, repair of existing structures; and overall lifecycle costs.

The Obayashi Technical Research Institute encompasses many different R&D facilities, all located in the city of Kiyose, a suburb of Tokyo. Our new Dynamics Research Center, which opened this year, is one of Japan's largest facilities dedicated to the study of aseismic technologies and building methods. In addition to in-house projects, Obayashi is broadening the scope of research and development and making it more efficient by conducting joint projects with universities, public research institutes, and other companies.



**Yoshihisa Obayashi**  
Senior Managing Director





time on screens located in front of the drivers and in the control center. What's more, it stores that information in the main computer memory. The system constantly monitors compacting conditions while the heavy machinery is on the job, enabling centralized control and management.

### Earthquake Damage Prediction System (Quake Mapper)

Obayashi developed and markets an earthquake damage prediction system (Quake Mapper) that incorporates a geographic information system (GIS) and enables an operator to quickly estimate local quake damage. The Quake Mapper uses a personal computer that contains mapping information and data on active faults and seismic history. Based on this data, the software can predict distribution of seismic shock when an earthquake occurs, and instantly shows graphic images of estimated quake damage, danger of liquefaction, and so on, on a building-by-building basis.

The program could be invaluable when evaluating earthquake resistance or planning disaster preparedness.



### Big Canopy

*In this era of continuous innovation in construction technology, Obayashi has focused on improving working environments, productivity, and construction quality. One result of this program is Big Canopy, the world's first automated construction system for high-rise reinforced concrete buildings. Big Canopy creates a work environment unaffected by weather through installation of a provisional roof — the canopy — over the building being constructed. It has already been used to construct three apartment buildings in Japan. Overseas, our automated construction technology just finished a 28-story building in Singapore's Chinatown district. Working in the tremendous heat of near-equatorial Singapore, technical staff from Japan and workers from Singapore, Thailand, and India teamed up on this new building. In Singapore, Big Canopy has rightly earned an excellent reputation.*

# THE WORLD OF OBAYASHI

International operations began at Obayashi more than three decades ago. The number of projects and countries increased as our reputation grew until we became Japan's largest general contractor in terms of overseas projects in 1995. Here is a glimpse at the world of Obayashi Corporation.

*Shanghai Senmao International Building (China)*



- 1 Belgium
- 2 Spain
- 3 Palestine
- 4 Iraq
- 5 Kuwait
- 6 Saudi Arabia
- 7 India
- 8 Nepal
- 9 Bangladesh



*New Jericho Hospital (Palestine)*



*Siam Discovery Center and Siam Tower (Thailand)*





Overseas Operation (as of December 1998)

- Representative offices/offices/project offices
- Projects (under construction)
- Projects (past)

- |              |             |               |
|--------------|-------------|---------------|
| 10 Mongolia  | 15 Vietnam  | 20 Perth      |
| 11 Tianjin   | 16 Cambodia | 21 Cairns     |
| 12 Hong Kong | 17 Brunei   | 22 Brisbane   |
| 13 Myanmar   | 18 Taiwan   | 23 Gold Coast |
| 14 Laos      | 19 Guam     | 24 Melbourne  |

Eastern Toll Road (U.S.A.)



Arrowhead Regional Medical Center (U.S.A.)



Expansion of Adam Road — Farrer Road Interchange (Singapore)

25



Hotel Rendezvous (Singapore)

- 25 Fiji
- 26 Portland
- 27 Roseville
- 28 Phoenix
- 29 Colorado
- 30 New Mexico
- 31 Tennessee
- 32 Kentucky
- 33 Boston
- 34 Canada
- 35 Mexico
- 36 Cuba
- 37 Brazil
- 38 Paraguay

## OBAYASHI AT A GLANCE

### 1892

Yoshigoro Ohbayashi opened a small construction shop in Osaka, taking advantage of the first wave of Japanese modernization. In 1898, he and partner Kamezo Shirasugi laid the foundations of today's Obayashi Corporation.



Yoshigoro Ohbayashi

### 1901

Obayashi won its first major contract, to construct the grounds and buildings for Osaka's Fifth National Industry Fair. The Russo-Japanese war brought contracts for hospitals and barracks. In fact, the young Obayashi Corporation built 100 barracks in just three weeks. This feat was recognized with a contract to build one of Tokyo's most enduring landmarks, Tokyo Station. Completed in 1914, the railway station withstood the Great Kanto Earthquake of 1923, testifying to the quality and durability of Obayashi's work.



Tokyo Station

### 1920

In the early 1920s, the G.A. Fuller of the United States invited Obayashi executives to America to study its advanced construction technology. This planted the seeds for technology transfer and international activities that are bearing rich fruit today.

Obayashi constructed three major buildings about this time: the Mainichi Newspaper office, the Merchant Marine Kobe Branch building, and the Sumitomo building.

After the 1923 earthquake and firestorm leveled much of Tokyo, Obayashi clients insisted on fireproof, quake-resistant, reinforced concrete buildings. Thanks to technologies learned from G.A. Fuller, Obayashi was ideally situated to take advantage of the post-quake building boom.

### 1950

While the years following the World War II were slack ones for the construction industry, the onset of the Korean conflict in the early 1950s brought increased demand in both public and private sectors. The company won contracts for the Japan Broadcasting Corporation building and the Tokyo Station annex, as well as the first of 50 major dam projects in Japan and abroad.



Yakuwa Dam

### 1960

The 1960s saw Obayashi step up the pace of technological development. Japan's construction industry lacked R&D facilities. In fact, Obayashi was the first construction company in Japan to establish an internal Technical Research Institute, and among the first in the world to do so.

The OWS-Soletanche Diaphragm Wall Construction Method was one of the first fruits of our Technical Research Institute, a technology that is still a mainstay today. We used it first in construction of the New Osaka building in late 1961, and fine tuned and adapted it to a variety of applications since.

Obayashi's first major overseas civil engineering project began in 1965 as Singapore's massive land reclamation projects got under way. We developed quiet, non-polluting continuous excavation techniques for the project that were used throughout the reclamation scheme, which finally came to a close in 1997 after 1,540 hectares — 2.6% of Singapore's land mass — had been reclaimed from the sea.

Japan's bullet train, the *Shinkansen*, made its first run in 1964, over tracks and through stations built by Obayashi. And we completed Japan's first high-rise building, the 21-story Hotel Empire in Yokohama, in 1965.

Our first overseas office opened in Thailand in 1964, followed quickly by others in Singapore, Indonesia, and Hawaii, U.S.A., as our international presence grew.

### 1970

Osaka's Expo '70, which showcased our roof lift-up method and air-membrane dome construction, launched a decade of technological accomplishments. We adapted high-rise building techniques to Japan's unique conditions, refined our shield tunneling methods, and began planning the main building of our Technical Research Institute. After the oil crises hit in 1973 and 1979, energy efficiency became ever more important. Our energy-efficient technology was highlighted in our own headquarters in Osaka,



### Expo '70 in Osaka



completed in 1973. Today, it is still one of the most energy-efficient high-rise buildings in Japan.

The 1970s saw Japan embark on the massive highway-building program that continues today. Obayashi has played key roles in building every major expressway in Japan, and continues to do so.

Overseas, we established our Indonesian subsidiary in 1972, and became the first Japanese construction company to win a public works project in the United States in 1979.

### 1980

With the 1980s, Obayashi Corporation entered its tenth decade. Our Technical Research Institute — housed in the world's most energy-efficient building — is the most comprehensive in the industry. Its laboratories for concrete and soil experimentation are the largest and best-equipped in Asia.



**Technical  
Research  
Institute**

Thousands of projects were completed during the decade, ranging from the delicate restoration of national cultural treasures like the Katsura Rikyu Detached Palace, to precision testing of giant prestressed concrete containment vessel (PCCV) models for nuclear power projects, to building highways and railways, to playing a major construction role at Tsukuba Expo '85, Japan's stunning showcase of science and technology.

In 1984, we celebrated 20 years in business overseas. With more than a century of experience in building construction and civil engineering, Obayashi has much to offer international clients, partners, and friends.

### 1990

In 1991, Obayashi Corporation celebrated its centennial year. Early in the decade, our OWS-Soletanche Diaphragm Wall Construction Method reached an accumulative record of 3 million m<sup>2</sup>. Robots came into the construction industry as Obayashi perfected its Automated Building Construction System (ABCS) and Big-Canopy method of constructing high-rise steel and reinforced concrete buildings with robots, automated equipment, computer control systems, and prefabricated components.

The decade also saw Obayashi design and build the Osaka Dome multipurpose arena and make a major contribution to the construction of Kansai International Airport, Japan's only 24-hour sky harbor. The final mammoth project of 1990s, the Tokyo Wan Aqua-Line, was completed. The mole we used for the Aqua-Line tunnel was the largest diameter shield machine the world has ever known. Earth balance and slurry shield tunneling are an Obayashi forte. To date, our moles have chewed through hundreds of kilometers of earth to make tunnels for subways, highways, sewer mains, storm drains, runoff storage, and multipurpose utility bores.

Today, Obayashi Corporation faces a whole new range of challenges. Once we were merely builders. But now we are engineering contractors and construction managers. Our people have the experience and skill to initiate, plan, design, construct, market, and even maintain every kind of structure imaginable. We are civil engineers and architects, city planners and urban renewal experts, marketers, consultants . . . and dreamers.

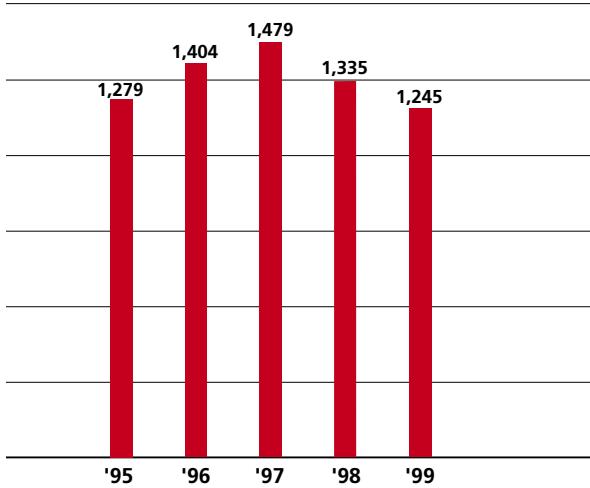
In January 1999, the Tokyo Head Office was moved to the Shinagawa Intercity.



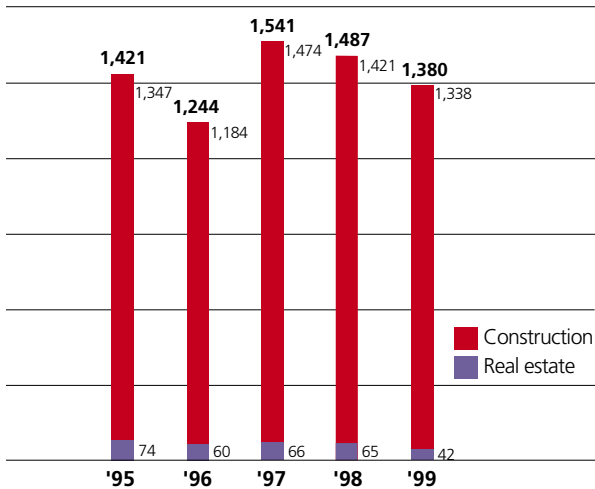
**Tokyo Wan Aqua-Line**

# REVIEW OF OPERATIONS

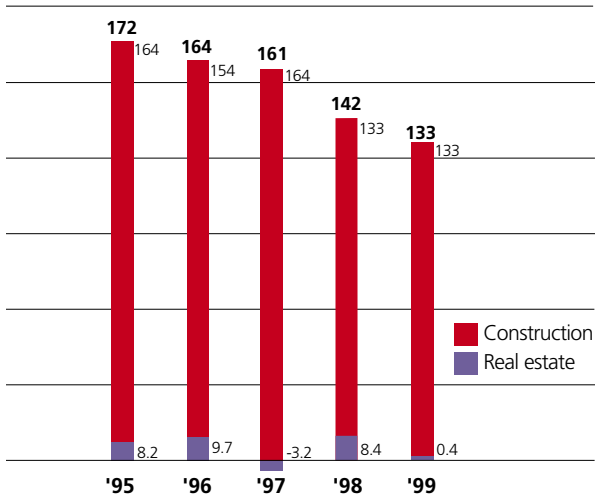
5-year orders received  
(¥ billion)



5-year revenues breakdown  
(¥ billion)



5-year gross profit breakdown  
(¥ billion)



## Results for the Year

Japan's economy shrank considerably during the year as private investment lagged, corporate performance suffered, and consumer spending declined even further, spurred by economic uncertainty and rising unemployment. Needless to say, economic conditions during the year were very severe.

In the construction industry, concern over the economic situation caused massive reductions in private sector capital investment, and public works stagnated during the first half of the fiscal year. Overall, the lackluster economy made it virtually impossible to achieve an increase in new orders.

Despite the adverse economy, Obayashi focused the entire company on winning new orders. However, we were only able to achieve ¥1.245 trillion, a decline of 6.8% from the previous fiscal year.

Revenues for the year totaled ¥1.380 trillion, down 7.2% from fiscal 1998. Of this figure, construction projects accounted for 97.0% and real estate transactions for 3.0%. Revenues from overseas projects amounted to 13.3% of overall construction income.

Lower revenues and write-offs to adjust our real estate and securities portfolios reduced Obayashi's operating profit by 11.1% to about ¥22.1 billion. Net income declined 24.1% to ¥8.9 billion.

## Major orders received

- Marunouchi Building
- Oita Canon Materials 97A
- Misaki-cho Multipurpose Park Site Preparation
- Misaki Koen Stadium (tentative name)
- Sakae Park

## Major projects completed

- Shinagawa Intercity
- Stadium Australia (Australia)
- Eastern Toll Road (U.S.A.)
- Yokohama Bay Sheraton Hotel and Towers
- Yale Yale Building Wing A



## Outlook for FY2000

Some expect the government's economic stimulus measures to take greater effect during fiscal 2000, but it will be some time before consumer spending and private investment rebound to the point where the economy is self-sustaining. In other words, we can expect severe economic conditions to continue in Japan for the near future.

During the coming year, the construction industry can expect only sluggishness in the private sector, and no measurable increases in public works projects. Even more severe competition in a shrinking construction market dictates greater efforts on our part to garner new orders and make our business more profitable.

The most important task facing Obayashi in the coming year will be to win new business by accurately assessing the changing market and using the combined strength of our marketing, design, engineering, production, and technical development divisions to create solutions that meet the needs of our customers precisely. On the job, we must reduce our cost of construction by making our production more efficient, using our total purchasing power to achieve significant reductions in material costs, and educating our subcontractors in new and more efficient ways of doing their jobs. Within our company, we must aim at greater

overall efficiency, review our organizations and personnel assignments, promote the use of information technology, reduce sales expenses, and strengthen our finances. Only then can we count on continued profitability.

Our objectives for FY2000 include revenues of ¥1.26 trillion and operating profit of ¥22 billion.

## Dividends

It has long been our policy to distribute dividends according to our business results, while aiming for stable long-term dividends by strengthening our financial position, developing technology for the future, and retaining earnings to plow back into facilities and equipment.

Although economic conditions remained severe during fiscal 1999, causing net income to decline, Obayashi resolved to give shareholders a fair return on their investment by declaring a dividend of ¥8 per common share for the year (¥4 per semester). The dividend amounts to 67.0% of net income.

Retained earnings will be invested in the technology and equipment necessary to sustain our business in the future.

## SIX-YEAR FINANCIAL SUMMARY

Obayashi Corporation and Consolidated Subsidiaries Years ended March 31, 1999 to 1994.

	1999	1998	1997	1996	1995	1994	1999
<b>Operating results:</b>							
				(millions)			(thousands)
Revenues							
Construction	<b>¥1,338,243</b>	¥1,421,531	¥1,474,970	¥1,184,199	¥1,347,170	¥1,576,184	<b>\$11,152,025</b>
Real estate	<b>41,597</b>	65,964	66,515	60,082	74,808	76,623	<b>346,642</b>
Total	<b>1,379,840</b>	1,487,495	1,541,485	1,244,281	1,421,978	1,652,807	<b>11,498,667</b>
Cost of Sales	<b>1,246,493</b>	1,345,920	1,379,891	1,079,598	1,249,599	1,450,776	<b>10,387,442</b>
Gross profit	<b>133,347</b>	141,575	161,594	164,683	172,379	202,031	<b>1,111,225</b>
Selling, general and administrative expenses	<b>97,626</b>	101,779	117,759	122,769	116,305	118,471	<b>813,550</b>
Operating income	<b>35,721</b>	39,796	43,835	41,914	56,074	83,560	<b>297,675</b>
Interest expenses	<b>(8,028)</b>	(8,619)	(10,681)	(14,900)	(23,657)	(26,505)	<b>(66,900)</b>
Net income	<b>8,893</b>	11,723	13,622	12,013	7,316	10,025	<b>74,108</b>
<b>Financial position:</b>							
Total assets	<b>¥2,070,469</b>	¥2,267,861	¥2,430,025	¥2,468,883	¥2,326,812	¥2,493,896	<b>\$17,253,908</b>
Total liabilities	<b>1,760,799</b>	1,960,852	2,128,467	2,174,698	2,038,419	2,209,703	<b>14,673,324</b>
Shareholders' equity	<b>309,670</b>	307,009	301,558	294,185	288,393	284,193	<b>2,580,584</b>
<b>Per share amounts:</b>							(unit=1)
Net income	<b>¥11.93</b>	¥15.73	¥18.28	¥16.12	¥9.82	¥13.45	<b>\$0.10</b>
Dividends	<b>8.00</b>	8.00	8.00	8.00	8.00	8.00	<b>0.07</b>
Shareholders' equity	<b>415.57</b>	412.00	404.68	394.80	387.03	381.40	<b>3.46</b>
<b>Number of employees</b>	<b>11,584</b>	11,721	12,014	12,204	12,518	12,714	

Notes: 1. Dollar amounts represent translations at of ¥120=US\$1, the rate prevailing on March 31, 1999.

2. Net income and shareholders' equity per share are computed based on the average number of shares outstanding during the period, appropriately adjusted for free stock distributions.

# CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL 1999

## Consolidated Balance Sheets

"OBAYASHI CORPORATION March 31, 1999 and 1998

### ASSETS

	Japanese Yen (millions)		U.S.Dollars (thousands)	
	FY 1999	FY 1998	FY 1999	FY 1998
<b>CURRENT ASSETS:</b>				
Cash and deposits .....	¥ 95,376	¥ 88,718	\$ 794,800	\$ 739,317
Notes and accounts receivable, trade .....	266,975	304,431	2,224,792	2,536,925
Allowance for doubtful receivables (Note 2) .....	(1,417)	(1,756)	(11,808)	(14,633)
Marketable securities(Notes 2 and 4) .....	153,641	214,234	1,280,342	1,785,283
Inventories (Notes 2 and 5) .....	796,388	951,459	6,636,567	7,928,825
Sums due from unconsolidated subsidiaries and affiliates .....	8,135	10,363	67,792	86,358
Other current assets .....	133,154	118,595	1,109,615	988,292
Total current assets .....	¥ 1,452,252	¥ 1,686,044	\$ 12,102,100	\$ 14,050,367
<b>PROPERTY AND EQUIPMENT (Notes 2 and 7):</b>				
Land .....	218,445	209,806	1,820,375	1,748,383
Buildings .....	210,280	196,442	1,752,333	1,637,017
Machinery and equipment .....	66,815	67,999	556,792	566,658
Construction in progress .....	8,223	13,652	68,525	113,767
Accumulated depreciation .....	(119,028)	(112,916)	(991,900)	(940,967)
Net property and equipment .....	¥ 384,735	¥ 374,983	\$ 3,206,125	\$ 3,124,858
<b>INVESTMENT AND OTHER ASSETS:</b>				
Investment securities (Notes 2 and 4) .....	114,895	73,357	957,458	611,308
Investments in unconsolidated subsidiaries and affiliates (Notes 1 and 4) .....	20,584	20,665	171,533	172,208
Long-term loans receivable (Note 7) .....	44,724	60,857	372,700	507,142
Long-term loans to unconsolidated subsidiaries and affiliates .....	3,982	4,019	33,183	33,492
Others .....	73,504	87,832	612,534	731,933
Allowance for doubtful receivables (Notes 2) .....	(24,207)	(39,920)	(201,725)	(332,666)
Total investments and other assets .....	¥ 233,482	¥ 206,810	\$ 1,945,683	\$ 1,723,417
<b>FOREIGN EXCHANGE TRANSLATION ADJUSTMENTS (Note 2) .....</b>	—	24	—	200
	¥ 2,070,469	¥ 2,267,861	\$ 17,253,908	\$ 18,898,842

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.



## LIABILITY AND SHAREHOLDERS' EQUITY

	Japanese Yen (millions)		U.S.Dollars (thousands)	
	FY 1999	FY 1998	FY 1999	FY 1998
<b>CURRENT LIABILITIES:</b>				
Short-term borrowings (Note 6) .....	¥ 343,484	¥ 401,267	\$ 2,862,367	\$ 3,343,891
Current portion of long-term debt (Notes 6 and 7) .....	32,451	41,519	270,425	345,992
Notes and accounts payable, trade .....	388,560	408,350	3,238,000	3,402,917
Accrued income taxes .....	8,860	9,440	73,833	78,667
Advances received on construction projects in progress .....	540,885	690,048	4,507,375	5,750,400
Advances received on real estate for sale .....	1,798	7,215	14,983	60,125
Accrued expenses .....	19,767	20,933	164,725	174,442
Other current liabilities .....	95,132	98,326	792,766	819,383
Total current liabilities .....	¥ 1,430,937	¥ 1,677,098	\$ 11,924,474	\$ 13,975,817
<b>LONG-TERM LIABILITIES:</b>				
Long-term debt (Notes 6 and 7) .....	252,049	208,312	2,100,408	1,735,933
Accrued severance indemnities (Notes 2 and 8) .....	37,856	37,471	315,467	312,258
Other long-term liabilities .....	39,022	37,971	325,183	316,426
Total long-term liabilities .....	¥ 328,927	¥ 283,754	\$ 2,741,058	\$ 2,364,617
<b>FOREIGN EXCHANGE TRANSLATION ADJUSTMENT (Notes 2)</b>				
	935	—	7,792	—
<b>CONTINGENT LIABILITIES (Note 13)</b>				
<b>SHAREHOLDERS' EQUITY:</b>				
Common stock, par value ¥50 per Share (Note 10):				
Authorized; 1,248,000,000 Shares				
Issued; 745,173,544 Shares (1998) .....	—	57,752	—	481,267
745,173,544 Shares (1999) .....	57,752	—	481,267	—
Additional paid-in capital (Note 10) .....	41,694	41,694	347,450	347,450
Retained earnings (Notes 2 and 10) .....	210,228	207,567	1,751,900	1,729,725
Treasury stock .....	(4)	(4)	(33)	(34)
Total shareholders' equity .....	¥ 309,670	¥ 307,009	\$ 2,580,584	\$ 2,558,408
	¥ 2,070,469	¥ 2,267,861	\$ 17,253,908	\$ 18,898,842

The accompanying Notes to the consolidated Financial Statements are an integral part of these statements.

# Consolidated Statements of Income

OBAYASHI CORPORATION For the years ended March 31, 1999 and 1998

	Japanese Yen (millions)		U.S.Dollars (thousands)	
	FY 1999	FY 1998	FY 1999	FY 1998
<b>REVENUES</b> (Notes 2 and 11):				
Completed construction .....	¥ 1,338,243	¥ 1,421,531	\$11,152,025	\$11,846,092
Real estate and other .....	41,597	65,964	346,642	549,700
	<b>1,379,840</b>	1,487,495	<b>11,498,667</b>	12,395,792
<b>COST OF SALES</b> (Note 2):				
Completed construction .....	1,205,332	1,288,362	10,044,433	10,736,350
Real estate and other .....	41,161	57,558	343,009	479,650
	<b>1,246,493</b>	1,345,920	<b>10,387,442</b>	11,216,000
Gross profit .....	<b>133,347</b>	141,575	<b>1,111,225</b>	1,179,792
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b> (Note 2) .....	<b>97,626</b>	101,779	<b>813,550</b>	848,159
Operating income .....	<b>35,721</b>	39,796	<b>297,675</b>	331,633
<b>OTHER INCOME (EXPENSES):</b>				
Interest and dividend income .....	6,311	7,183	52,592	59,858
Interest expenses .....	(8,028)	(8,619)	(66,900)	(71,825)
Equity in earnings of affiliated company .....	82	147	683	1,225
Other, net .....	(13,389)	(9,995)	(111,575)	(83,291)
Total .....	<b>(15,024)</b>	(11,284)	<b>(125,200)</b>	(94,033)
<b>INCOME BEFORE INCOME TAXES</b> .....	<b>20,697</b>	28,512	<b>172,475</b>	237,600
<b>INCOME TAXES</b> (Notes 2 and 9):				
Current .....	11,587	16,817	96,558	140,141
Deferred .....	217	(28)	1,809	(233)
	<b>11,804</b>	16,789	<b>98,367</b>	139,908
<b>NET INCOME</b> .....	¥ <b>8,893</b>	¥ 11,723	\$ <b>74,108</b>	\$ 97,692
<b>PER SHARE DATA</b> (Note 10):				
Net income:				
Assuming no dilution .....	¥ 11.93	¥ 15.73	\$ 0.10	\$ 0.13
Assuming full dilution .....	11.93	15.67	0.10	0.13
Cash dividends .....	8.00	8.00	0.07	0.07

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.



# Consolidated Statements of Shareholders' Equity

OBAYASHI CORPORATION For the years ended March 31, 1999 and 1998

	Japanese Yen (millions)		U.S.Dollars (thousands)	
	FY 1999	FY1998	FY 1999	FY 1998
<b>COMMON STOCK</b> (Note 10):				
Balance at beginning of year .....	¥ 57,752	¥ 57,752	\$ 481,267	\$ 481,267
Conversion of convertible bonds .....	—	0	—	0
Balance at end of year .....	¥ 57,752	¥ 57,752	\$ 481,267	\$ 481,267
<b>ADDITIONAL PAID-IN CAPITAL</b> (Note 10):				
Balance at beginning of year .....	41,694	41,702	347,450	347,517
Conversion of convertible bonds .....	—	0	—	0
Other .....	—	(8)	—	(67)
Balance at end of year .....	¥ 41,694	¥ 41,694	\$ 347,450	\$ 347,450
<b>RETAINED EARNINGS</b> (Notes 2 and 10):				
Balance at beginning of year .....	207,567	202,108	1,729,725	1,684,233
Net income for the year .....	8,893	11,723	74,108	97,692
Cash dividends paid .....	(5,961)	(5,961)	(49,675)	(49,675)
Bonuses to directors and corporate auditors .....	(271)	(303)	(2,258)	(2,525)
Balance at end of year .....	¥ 210,228	¥ 207,567	\$ 1,751,900	\$ 1,729,725
<b>NUMBER OF SHARES:</b>				
	(thousands)			
Balance at beginning of year .....	745,173	745,172		
Conversion of convertible bonds .....	—	1		
Balance at end of year .....	745,173	745,173		

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

# Consolidated Statements of Cash Flows

OBAYASHI CORPORATION For the years ended March 31, 1999 and 1998

	Japanese Yen (millions)		U.S. Dollars (thousands)	
	FY 1999	FY 1998	FY 1999	FY 1998
<b>OPERATING ACTIVITIES:</b>				
Net income .....	¥ 8,893	¥ 11,723	\$ 74,108	\$ 97,692
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization .....	13,220	13,891	110,167	115,758
Allowance for doubtful receivables .....	1,629	6,705	13,575	55,875
Provision for severance indemnities .....	7,427	7,328	61,892	61,067
Loss (Gain) on sales and disposals of property, equipment and marketable and investment securities .....	2,201	880	18,342	7,333
Severance indemnities paid .....	(7,043)	(7,413)	(58,692)	(61,775)
Write down of marketable securities .....	8,158	10,081	67,983	84,008
Deferred income taxes .....	217	(28)	1,808	(233)
Undistributed earnings of affiliate .....	2	(27)	17	(225)
Changes in assets and liabilities:				
Trade receivables .....	33,198	41,713	276,650	347,608
Inventories .....	144,750	92,922	1,206,250	774,349
Other current assets .....	(3,415)	1,490	(28,458)	12,417
Trade payables .....	(19,789)	(77,693)	(164,908)	(647,442)
Accrued income taxes .....	(567)	(2,813)	(4,725)	(23,442)
Advances received on construction projects in progress .....	(151,647)	(45,112)	(1,263,726)	(375,933)
Advances received on real estate for sale .....	(2,933)	(853)	(24,442)	(7,108)
Accrued expenses .....	(1,471)	(2,365)	(12,258)	(19,708)
Other current liabilities .....	(2,825)	(11,061)	(23,542)	(92,175)
Other, net .....	2,337	(1,735)	19,475	(14,458)
<b>Total adjustments .....</b>	<b>23,449</b>	<b>25,910</b>	<b>195,408</b>	<b>215,916</b>
<b>Net cash provided by (used in) operating activities .....</b>	<b>32,342</b>	<b>37,633</b>	<b>269,516</b>	<b>313,608</b>
<b>INVESTING ACTIVITIES:</b>				
Purchase of marketable and investment securities .....	(13,039)	(34,821)	(108,658)	(290,175)
Proceeds from sale of marketable and investment securities .....	13,595	19,922	113,292	166,017
Proceeds from sale of property and equipment .....	2,542	1,533	21,183	12,775
Purchases of property and equipment .....	(16,826)	(16,701)	(140,217)	(139,175)
Proceeds from repayments of loans .....	27,131	10,351	226,092	86,258
Loans advances .....	(10,781)	(6,350)	(89,842)	(52,917)
Others .....	1,083	1,718	9,025	14,317
<b>Net cash provided by (used in) investing activities .....</b>	<b>3,705</b>	<b>(24,348)</b>	<b>30,875</b>	<b>(202,900)</b>
<b>FINANCING ACTIVITIES:</b>				
Proceeds from short-term and long-term debt .....	427,181	357,995	3,559,842	2,983,292
Repayment of short-term and long-term debt .....	(443,190)	(372,518)	(3,693,250)	(3,104,317)
Proceeds from issue of bonds .....	3,470	19,080	28,917	159,000
Redemption of bonds .....	(10,616)	(31,192)	(88,467)	(259,933)
Cash dividends and bonuses to directors and corporate auditors .....	(6,234)	(6,273)	(51,950)	(52,275)
<b>Net cash provided by (used in) financing activities .....</b>	<b>(29,389)</b>	<b>(32,908)</b>	<b>(244,908)</b>	<b>(274,233)</b>
<b>Net increase (decrease) in cash and deposits .....</b>	<b>6,658</b>	<b>(19,623)</b>	<b>55,483</b>	<b>(163,525)</b>
<b>Cash and deposits at beginning of the year .....</b>	<b>88,718</b>	<b>108,341</b>	<b>739,317</b>	<b>902,842</b>
<b>Cash and deposits at end of the year .....</b>	<b>¥ 95,376</b>	<b>¥ 88,718</b>	<b>\$ 794,800</b>	<b>\$ 739,317</b>
<b>SUPPLEMENTAL INFORMATION OF CASH FLOWS:</b>				
Cash paid during the year for:				
Interest .....	¥ 11,317	¥ 14,153	\$ 94,308	\$ 117,942
Income taxes (Note 2) .....	12,154	19,629	101,283	163,575

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.



# Notes to the Consolidated Financial Statements

OBAYASHI CORPORATION For the years ended March 31, 1999 and 1998

## 1. Basis of presenting consolidated financial statements

- (a) OBAYASHI CORPORATION (the "Parent company" or the "Company") and its domestic subsidiaries maintain its accounting records and prepare its financial statements in accordance with accounting principles and practices generally accepted in Japan. Foreign subsidiary maintains its accounting records in conformity with financial accounting standards of the country of its domicile. The accompanying consolidated financial statements have been compiled from the financial statements filed with the Ministry of Finance as required by the Securities and Exchange Law of Japan and include certain additional financial information for the convenience of readers outside Japan. The Parent company has prepared the consolidated statements of shareholders' equity and cash flows for the purpose of inclusion in this report, although such statements are not customarily prepared in Japan.
- (b) The Parent company had 45 majority-owned subsidiaries as of March 31, 1999 (46 as of March 31, 1998). The consolidated financial statements as of and for the years ended March 31, 1999 included the accounts of the Parent company and 9 (9 as of March 31, 1998) of its majority-owned subsidiaries (together "the Companies"). The consolidated subsidiaries are as follows:

	Equity ownership	Paid-in-capital	Financial year-end
		(millions of yen)	
Obayashi Real Estate Corporation .....	100%	¥ 500	31st March
Obayashi Kawanishi Development, Ltd. ....	100%	¥ 1,000	31st March
OC Finance Corporation .....	100%	¥ 200	31st March
Naigai Technos Corporation .....	100%	¥ 150	31st March
Hakuto Real Estate, Ltd. ....	100%	¥ 470	31st March
Hakusei Real Estate, Ltd. ....	100%	¥ 200	31st March
Miyagi Green Co., Ltd. ....	100%	¥ 50	31st March
Mutsuzawa Green Co., Ltd. ....	100%	¥ 50	31st March
		(thousands of guilder)	
Obayashi Finance International (Netherlands) B.V. ....	100%	DGL 3,500	31st December

Combined assets, net sales, retained earnings and net income of unconsolidated subsidiaries in the aggregate are not significant in relation to those of the Companies.

All significant inter-company balances, transactions and unrealized profits have been eliminated on consolidation.

Investments in unconsolidated subsidiaries and affiliates (20 per cent. to 50 per cent. ownership interest) are stated at cost, except for the affiliate (Obayashi Road Corporation) which is accounted for using the equity method.

The ordinance of the Ministry of Finance of Japan, which regulates consolidated financial statements, requires companies to account for investments in unconsolidated subsidiaries and affiliates by the equity method, but such investments are stated at cost, except for Obayashi Road Corporation, as they are not significant in term of consolidated net income.

## 2. Summary of significant accounting policies

### (a) Recognition of revenues and related costs

Revenues from construction contracts of the Company and the related costs are recorded on a completed-contract basis, except for those related to large-scale contracts under which construction commenced subsequent to March 31, 1998 and with long-term construction periods of more than 2 years and contracted amounts in excess of ¥15 billion which are recognized by the percentage-of-completion method.

Effective April 1, 1998, the Company changed its method of accounting for the recognition of revenues and related costs from the completed-contract method for all construction contracts to the above-mentioned method in order to achieve a more appropriate presentation of its results of operations and to reflect the recent increase in large-scale construction projects. This change had no effect on net income for the year ended March 31, 1999.

### (b) Foreign currency translation

Current monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the balance sheet date, and all other assets and liabilities denominated in foreign currencies are translated into yen at the historical exchange rates except for the assets and liabilities having forward exchange contract. Accounts hedged by forward exchange contracts are translated into yen at the contracted rates. All revenues and expenses associated with foreign currencies are translated at the exchange rate prevailing when such transactions are made. The resulting exchange losses and gains are included in income or expense.

The financial statements of a foreign subsidiary are translated into yen at the rate of exchange in effect at the balance sheet date except for the components of shareholder's equity, which are translated at historical rates. Differences arising from translation are shown as "Foreign exchange translation adjustments" in the balance sheet.

### (c) Marketable securities and investment securities

Marketable securities and listed investment securities, other than investment in affiliated company, are predominantly valued at the lower of cost or market value, cost being determined principally by the moving average method.

### (d) 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 on the first-in first-out method.

**(e) Property and equipment**

Property and equipment is stated principally at cost. Depreciation is computed principally by the declining-balance method in accordance with the Corporation Tax Law of Japan. Depreciation of buildings, excluding structures, acquired on or after April 1, 1998, is calculated by the straight-line method in accordance with a recent revision to the Corporation Tax Law. The effect of this change was to increase net income by ¥119 million for the year ended March 31, 1999 from the amount which would have been recorded under the method applied in previous years.

In addition, the Company, in accordance with the revision to the Corporation Tax Law, has adopted revised estimated useful lives for calculating the depreciation of buildings, excluding structures, effective April 1, 1998. The effect of this change in the estimated useful lives applied in previous years decreased income before income taxes by ¥519 million for the year ended March 31, 1999.

**(f) Accrued severance indemnities and pension plan**

Employees who terminate their service with the Parent company and its consolidated domestic subsidiaries are generally entitled to lump-sum severance indemnities determined by reference to current basic rate of pay and length of service. Indemnities awarded in cases of voluntary termination are less than those awarded in cases of involuntary termination or retirement.

The Parent company and its consolidated domestic subsidiaries provide for this liability at 40 per cent. of the amount which would be required to be paid if all employees voluntarily terminated their service at the balance sheet date.

In addition to lump-sum severance indemnities, the Parent company, Naigai Technos Corporation and Obayashi Real Estate, Ltd. have a non-contributory pension plan, respectively, entrusting the pension fund to private life insurance companies and trust banks. These funds cover 50 per cent., 70 per cent. and 90 per cent., respectively, of the amount to be paid if employees with over 20 years' service leave the Parent company, Naigai Technos Corporation and Obayashi Real Estate, Ltd. by retiring at the mandatory retirement age.

The Parent company adopts the accrual basis of accounting for retirement benefits to directors and corporate auditors. The liability for directors' and corporate auditors' retirement benefits is provided based upon the Parent company's internally established criteria.

**(g) Income taxes**

Income taxes are provided on the basis of the amounts currently payable for each year and deferred income taxes are not recognized except for the timing difference arising from the elimination of unrealized inter-company profits. Income taxes comprise corporation tax, inhabitants' taxes and enterprise tax.

**(h) Appropriations of retained earnings**

Appropriations of retained earnings are accounted for and reflected in the accompanying consolidated financial statements when approved by the shareholders.

**(i) Allowance for doubtful receivables**

The allowance for doubtful receivables is provided at an estimated amount of probable bad debts plus the maximum amount, which can be charged to income under the Japanese income tax laws.

**(j) 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.

**(k) Reclassifications**

Certain reclassifications have been made to the prior year's financial statements to conform to the current year's presentation due to the recent revisions of the regulations relating to the Securities and Exchange Law and accounting practices of Japan.

**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 ¥120=\$1, the approximate exchange rate prevailing on March 31, 1999.

**4. Marketable securities and investment securities**

The aggregate market value of marketable securities and quoted investment securities exceeded their aggregate stated value by the following amounts:

	Japanese Yen (millions) March 31		U.S. Dollars (thousands) March 31	
	FY 1999	FY 1998	FY 1999	FY 1998
Marketable securities .....	¥ 45,734	¥ 106,264	\$ 381,116	\$ 885,533
Investment securities .....	121,436	60,577	1,011,967	504,808
	¥ 167,170	¥ 166,841	\$ 1,393,083	\$ 1,390,341



## 5. Inventories

Inventories comprised the following:

	Japanese Yen (millions) March 31		U.S. Dollars (thousands) March 31	
	FY 1999	FY 1998	FY 1999	FY 1998
Construction projects in progress .....	¥ 572,765	¥ 711,642	\$ 4,773,042	\$ 5,930,350
Real estate for sale .....	104,190	147,868	868,250	1,232,233
Development projects in progress .....	116,309	89,283	969,242	744,025
Materials and supplies .....	3,124	2,666	26,033	22,217
	¥ 796,388	¥ 951,459	\$ 6,636,567	\$ 7,928,825

## 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 1.0678 per cent. at March 31, 1999 (1.4600 per cent. at March 31, 1998).

Commercial paper bore interest at the average annual rate of 0.4659 per cent. at March 31, 1999 (1.4151 per cent. at March 31, 1998).

(a) Short-term borrowings comprised the following:

	Japanese Yen (millions) March 31		U.S. Dollars (thousands) March 31	
	FY 1999	FY 1998	FY 1999	FY 1998
Short-term bank loans .....	¥ 283,484	¥ 331,267	\$ 2,362,367	\$ 2,760,558
Commercial paper .....	60,000	70,000	500,000	583,333
	¥ 343,484	¥ 401,267	\$ 2,862,367	\$ 3,343,891

(b) Long-term debt comprised the following:

	Japanese Yen (millions) March 31		U.S. Dollars (thousands) March 31	
	FY 1999	FY 1998	FY 1999	FY 1998
2.55 per cent. bonds due September, 2001 .....	¥ 10,000	¥ 10,000	\$ 83,333	\$ 83,333
2.9 per cent. bonds due September, 2002 .....	10,000	10,000	83,333	83,333
2.1 per cent. convertible bonds due March, 1999 .....	—	1,467	—	12,225
2.1 per cent. convertible bonds due March, 2002 .....	1,443	1,443	12,025	12,025
1.6 per cent. convertible bonds due March, 2001 .....	9,969	9,969	83,075	83,075
1.6 per cent. convertible bonds due March, 2004 .....	9,969	9,969	83,075	83,075
Bonds, due 2000-2005 .....	52,800	58,376	440,000	486,467
0.90440 per cent. to 5.05 per cent. loans from Japanese banks through 2013 .....	74,242	56,205	618,684	468,375
0.97266 per cent. to 7.52 per cent. loans from Japanese insurance companies through 2007 .....	88,812	76,275	740,100	635,625
0.83750 per cent. to 5.85 per cent. loans from other financial institutions through 2016 .....	27,265	16,127	227,208	134,392
	¥ 284,500	¥ 249,831	\$ 2,370,833	\$ 2,081,925
Less: Current portion of long-term debt .....	32,451	41,519	270,425	345,992
	¥ 252,049	¥ 208,312	\$ 2,100,408	\$ 1,735,933

The 2.1 per cent. convertible bonds in the amount of ¥20,000 million due March 31, 1999, which were issued in Japan on December 24, 1986, are convertible into common stock at the option of the holders during the period from February 2, 1987 to March 30, 1999 at ¥906.7(\$7.556) per Share, subject to adjustment in certain circumstances. The bonds have been redeemed in full.

The 2.1 per cent. convertible bonds in the amount of ¥20,000 million due March 29, 2002, which were issued in Japan on December 24, 1986, are convertible into common stock at the option of the holders during the period from February 2, 1987 to March 28, 2002 at ¥906.7(\$7.556) per Share, subject to adjustment in certain circumstances. The company has been restricted from paying dividends as stipulated in the debt covenant agreement until these convertible bonds are fully redeemed.

The 1.6 per cent. convertible bonds in the amount of ¥10,000 million due March 31, 2001, which were issued in Japan on March 31, 1989, are convertible into common stock at the option of the holders during the period from May 1, 1989 to March 29, 2001 at ¥1,865.7 (\$15.548) per Share, subject to adjustment in certain circumstances.

The 1.6 per cent. convertible bonds in the amount of ¥10,000 million due March 31, 2004, which were issued in Japan on March 31, 1989, are convertible into common stock at the option of the holders during the period from May 1, 1989 to March 30, 2004 at ¥1,865.7 (\$15.548) per Share, subject to adjustment in certain circumstances.

The overseas-consolidated subsidiary issued bonds, due 2000-2005, partly at a fixed interest rate, partly at an interest rate linked to the actual London inter-bank offered rate.

The aggregate annual maturities of long-term debt (including current portion) at March 31, 1999 were as follows:

Year Ending March 31,	Japanese Yen (millions)		U.S. Dollars (thousands)	
2000 .....	¥	32,451	\$	270,425
2001 .....		45,664		380,533
2002 .....		45,981		383,175
2003 .....		69,462		578,850
2004 and thereafter .....		90,942		757,850
	¥	284,500	\$	2,370,833

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 the bank and that any collateral so furnished will be applicable to all indebtedness due to that bank.

In addition, the agreements provide that the bank has 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 the bank. Such rights have never been exercised by banks against the Parent company or its consolidated subsidiaries.

## 7. Pledged assets

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

	Japanese Yen (millions)		U.S. Dollars (thousands)	
	March 31		March 31	
	FY 1999	FY 1998	FY 1999	FY 1998
<b>ASSETS PLEDGED AS COLLATERAL:</b>				
Land*	¥ 16,216	¥ 16,216	\$ 135,133	\$ 135,133
Buildings	42,990	44,789	358,250	373,242
Machinery and equipment	1,520	1,604	12,667	13,367
Long-term loans receivable (Real estate convertible loan)	26,305	40,059	219,208	333,825
	¥ 87,031	¥ 102,668	\$ 725,258	\$ 855,567
<b>LIABILITIES SECURED THEREBY:</b>				
Current portion of long-term debt	¥ 1,169	¥ 549	\$ 9,742	\$ 4,575
Long-term debt	¥ 17,896	¥ 19,686	\$ 149,133	\$ 164,050
Long-term debt of Sanyu Building Corporation	¥ 320	¥ 289	\$ 2,667	\$ 2,408

\* Obayashi Real Estate, Ltd. pledged its land in the amount of ¥96 million (\$800 thousand) to secure the long-term debt of Sanyu Building Corporation.

## 8. Accrued severance indemnities and pension expenses

Provision for severance indemnities and pension expenses for the respective years were as follows:

	Japanese Yen (millions)		U.S. Dollars (thousands)	
	March 31		March 31	
	FY 1999	FY 1998	FY 1999	FY 1998
Employees	¥ 12,872	¥ 13,256	\$ 107,267	\$ 110,467
Directors and corporate auditors	404	331	3,367	2,758

## 9. Income taxes

The Parent company and its consolidated domestic subsidiaries were subject to Japanese income taxes at the statutory tax rate of approximately 48 per cent. and 51 per cent. in the fiscal years of 1999 and 1998, respectively. The effective tax rates reflected in the accompanying statements of income for the years ended March 31, 1999 and 1998 differed from the statutory tax rate. The deviation from the statutory rate is due primarily to (1) the accounting policy of not providing for deferred income taxes arising from timing differences between tax and financial reporting, (2) certain expenses which are not deductible for income tax purposes.



## 10. Shareholders' equity and per Share data

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

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

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

The Japanese Commercial Code provides that an amount equivalent to at least 10 per cent. of all appropriation of retained earnings, including dividends and bonuses to directors and corporate auditors, paid with respect to each fiscal year, be appropriated to a legal reserve until such reserve equals 25 per cent. of stated capital.

Semi-annual cash dividends are declared by the Board of Directors after the end of each interim six-month period. Such dividends are payable to shareholders of record at the end of the relevant interim six-month period.

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

The computation of net income per share assuming no dilution is based on the weighted average number of shares of common stock outstanding during each year.

Net income per share assuming full dilution is computed assuming that all convertible bonds were converted at the beginning of the year with appropriate adjustment of the interest expenses, net of income taxes for such convertible bonds.

In accordance with the Commercial Code, proposed appropriations of retained earnings have not been reflected in the financial statements at the end of the fiscal year to which they apply. However, dividends per Share shown in the statements of income are the amount of dividends actually declared by the Company with respect to such fiscal year rather than the fiscal year in which the dividend is paid.

The number of shares used in computing net income per share assuming no dilution and full dilution for the years ended March 31, 1999 and 1998 were as follows:

Year ended March 31,	1999	1998	(thousands)
Assuming no dilution .....	<b>745,169</b>	745,169	
Assuming full dilution .....	<b>748,379</b>	759,065	

## 11. Segment Information

### (a) Business Segments

The Companies are primarily engaged in the following two major industry segments:

Construction                      Building construction, civil engineering, etc.  
Real estate and other              Resale and rental of land, houses and buildings, financing and leasing, etc.

Year ended March 31, 1999	Japanese Yen (millions)				
	Construction	Real estate and other	Total	Adjustments and Eliminations	Consolidated
Revenues:					
From outside customers .....	1,338,206	41,634	1,379,840	—	1,379,840
Intersegment .....	6,590	4,660	11,250	(11,250)	—
Total .....	1,344,796	46,294	1,391,090	(11,250)	1,379,840
Operating expenses .....	1,282,649	50,984	1,333,633	10,486	1,344,119
Operating income (loss) .....	62,147	(4,690)	57,457	(21,736)	35,721
Total Assets .....	1,125,069	688,177	1,813,246	257,223	2,070,469
Depreciation .....	6,131	6,802	12,933	287	13,220
Capital expenditures .....	10,120	7,698	17,818	334	18,152

Year ended March 31, 1998	Japanese Yen (millions)				
	Construction	Real estate and other	Total	Adjustments and Eliminations	Consolidated
Revenues:					
From outside customers .....	1,421,531	65,964	1,487,495	—	1,487,495
Intersegment .....	3,358	4,784	8,142	(8,142)	—
Total .....	1,424,889	70,748	1,495,637	(8,142)	1,487,495
Operating expenses .....	1,365,800	66,758	1,432,558	15,141	1,447,699
Operating income (loss) .....	59,089	3,990	63,079	(23,283)	39,796
Total Assets .....	1,279,220	736,363	2,015,583	252,278	2,267,861
Depreciation .....	8,768	3,963	12,731	27	12,758
Capital expenditures .....	5,039	13,954	18,993	30	19,023

Year ended March 31, 1999	U.S. Dollars (thousands)				
	Construction	Real estate and other	Total	Adjustments and Eliminations	Consolidated
Revenues:					
From outside customers .....	11,151,717	346,950	11,498,667	—	11,498,667
Intersegment .....	54,916	38,833	93,749	(93,749)	—
Total .....	11,206,633	385,783	11,592,416	(93,749)	11,498,667
Operating expenses .....	10,688,742	424,867	11,113,609	87,383	11,200,992
Operating income (loss) .....	517,891	(39,084)	478,807	(181,132)	297,675
Total Assets .....	9,375,575	5,734,808	15,110,383	2,143,525	17,253,908
Depreciation .....	51,092	56,683	107,775	2,392	110,167
Capital expenditures .....	84,333	64,150	148,483	2,783	151,266

Year ended March 31, 1998	U.S. Dollars (thousands)				
	Construction	Real estate and other	Total	Adjustments and Eliminations	Consolidated
Revenues:					
From outside customers .....	11,846,092	549,700	12,395,792	—	12,395,792
Intersegment .....	27,983	39,867	67,850	(67,850)	—
Total .....	11,874,075	589,567	12,463,642	(67,850)	12,395,792
Operating expenses .....	11,381,667	556,317	11,937,984	126,175	12,064,159
Operating income (loss) .....	492,408	33,250	525,658	(194,025)	331,633
Total Assets .....	10,660,167	6,136,358	16,796,525	2,102,317	18,898,842
Depreciation .....	73,067	33,025	106,092	225	106,317
Capital expenditures .....	41,992	116,283	158,275	250	158,525

**(b) Geographic Segments**

Information by geographic segments is not shown as domestic sales and assets exceeded 90 per cent. of all segments for the years ended March 31, 1999 and 1998.

**(c) Sales by region**

Information on sales by region for the year ended March 31, 1999 and 1998 were as follows.

	Japanese Yen (millions)		U.S. Dollars (thousands)	
	FY 1999	FY 1998	FY 1999	FY 1998
Japan .....	<b>¥ 1,195,868</b>	¥ 1,323,008	<b>\$ 9,965,567</b>	\$ 11,025,067
United States .....	<b>52,723</b>	99,176	<b>439,358</b>	826,467
Australia .....	<b>66,484</b>	19,812	<b>554,033</b>	165,100
Other .....	<b>64,765</b>	45,499	<b>539,709</b>	379,158
Total .....	<b>¥ 1,379,840</b>	¥ 1,487,495	<b>\$ 11,498,667</b>	\$ 12,395,792



## 12. Transactions with unconsolidated subsidiaries and affiliates

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

	Japanese Yen (millions)		U.S. Dollars (thousands)	
	FY 1999	FY 1998	FY 1999	FY 1998
Purchases .....	¥ 56,539	¥ 92,312	\$ 471,158	\$ 769,267
Sales .....	2,219	10,662	18,492	88,850

## 13. Commitments and contingent liabilities

### (a) Contingent liabilities

The Companies are contingently liable for the following:

	Japanese Yen (millions) March 31		U.S. Dollars (thousands) March 31	
	FY 1999	FY 1998	FY 1999	FY 1998
Trade notes receivable endorsed .....	¥ —	¥ 4,851	\$ —	\$ 40,425
Guarantees of long-term debt of customers, unconsolidated subsidiaries and affiliates .....	8,847	10,023	73,725	83,525
Guarantee of advances received by other contractor from customer .....	—	1,391	—	11,592
Commitments of guarantees for short-term and long-term debt of customers, unconsolidated subsidiaries and affiliates .....	37,279	45,060	310,658	375,500

### (b) Commitments

Future payments of finance lease with no ownership transaction and those of operating lease as of March 31, 1999 and 1998 were as follows:

	Japanese Yen (millions) March 31		U.S. Dollars (thousands) March 31	
	FY 1999	FY 1998	FY 1999	FY 1998
Finance lease with no ownership transaction				
Due within one year .....	¥ 1,439	¥ 1,215	\$ 11,991	\$ 10,125
Due after one year .....	2,822	2,071	23,517	17,258
Total future payments .....	¥ 4,261	¥ 3,286	\$ 35,508	\$ 27,383
Operating lease				
Due within one year .....	¥ 31	¥ 26	\$ 258	\$ 217
Due after one year .....	43	42	359	350
Total future payments .....	¥ 74	¥ 68	\$ 617	\$ 567

## 14. Subsequent event

On June 29, 1999, the following appropriations of retained earnings were approved at the shareholders' meeting of the Parent company.

	Japanese Yen (millions)	U.S. Dollars (thousands)
Transfer to legal reserve .....	¥ 126	\$ 1,050
Cash dividends .....	2,980	24,833
Bonuses to directors .....	190	1,583

## Report of the Independent Public Accountants



■ Certified Public Accountants ■ Phone: 03 3503-1100  
Hibiya Kokusai Bldg. Fax: 03 3503-1197  
2-2-3, Uchisaiwai-cho  
Chiyoda-ku, Tokyo 100-0011  
C.P.O. Box 1196, Tokyo 100-8641

The Board of Directors  
OBAYASHI CORPORATION

We have examined the consolidated balance sheets of OBAYASHI CORPORATION and consolidated subsidiaries as of March 31, 1999 and 1998 and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. Our examinations were made in accordance with auditing standards generally accepted in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of OBAYASHI CORPORATION and consolidated subsidiaries at March 31, 1999 and 1998 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan applied on a consistent basis, except for the change, with which we concur, in the method of accounting for recognition of revenues and related costs from the completed - contract method for all construction contracts to the percentage-of-completion method for certain construction contracts as described in Note 2(a) to the consolidated financial statements.

The U.S. dollar amounts in the accompanying consolidated financial statements are presented solely for convenience. Our examination 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 to the Consolidated Financial Statements.

June 30, 1999

*Showa Ota & Co.*

# THE BOARD OF DIRECTORS



**CHAIRMAN &  
CHIEF EXECUTIVE OFFICER**  
Yoshiro Obayashi



**VICE CHAIRMAN**  
Takeo Ohbayashi



**PRESIDENT**  
Shinji Mukasa



**EXECUTIVE  
VICE PRESIDENT**  
Masatoshi Inoue



**EXECUTIVE  
VICE PRESIDENT**  
Toshiteru Arakawa



**EXECUTIVE  
VICE PRESIDENT**  
Kenichi Yamashita

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## **SENIOR MANAGING DIRECTORS**

Wakao Oba  
Yoshihisa Obayashi  
Tadashi Uehara  
Norio Wakimura  
Yoshisato Kurata  
Soichiro Abe  
Shoji Kuwahara  
Hiroyuki Sugino  
Masao Ishihara  
Eiji Noma  
Yoshihiko Tamiya  
Norio Iguchi

## **MANAGING DIRECTORS**

Yoshiaki Sugita  
Masatoshi Fujinawa  
Keiji Koizumi  
Yoshio Yamaguchi  
Masaaki Yamamoto  
Tetsuya Mizoguchi  
Takekazu Mizumaki  
Shiro Takagi  
Sumikichi Ito  
Jumpei Morimoto  
Toshikatsu Nishino  
Masazumi Suekane  
Tomoyuki Masuda  
Takashi Hasegawa  
Tsuneo Mitsuta

## **DIRECTORS**

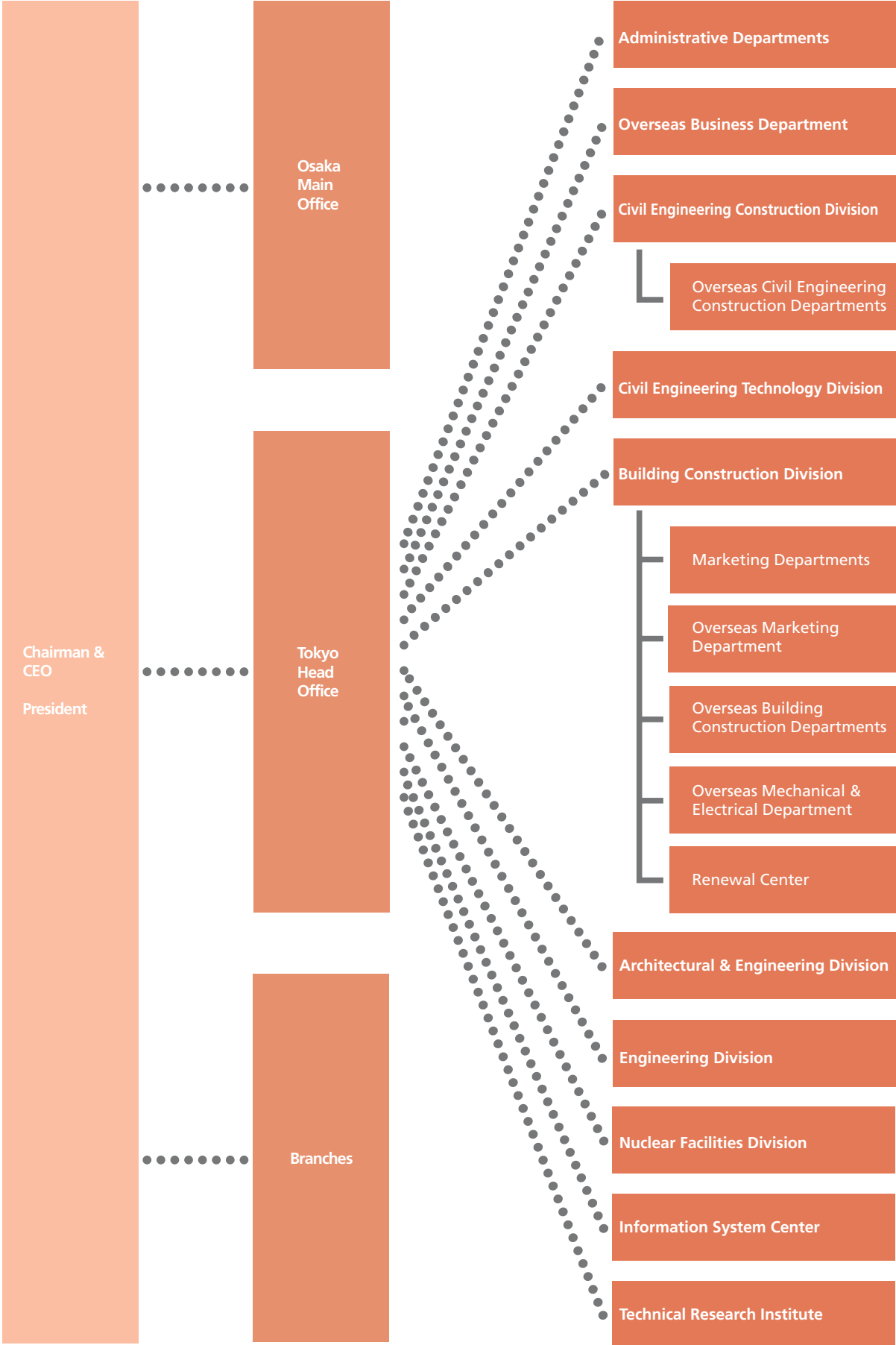
Nobuyuki Saito  
Shudo Nomura  
Shotaro Ito  
Chikafusa Sato  
Akira Nakatani  
Kotaro Hioki  
Reizo Yamaoka  
Kunio Matsumoto  
Shigeru Kumagai  
Yoshitaka Hara  
Yutaro Omote  
Haruo Tsukagoshi  
Hirofumi Inagaki

## **CORPORATE AUDITORS**

Tadashi Nishimura  
Kazuaki Naito  
Hiroaki Kuzuwa  
Teizo Tsuda  
Jitsuji Mori



# ORGANIZATION CHART



# NETWORK OF COMPANIES

## HEAD OFFICE

### TOKYO

Shinagawa Intercity Tower B  
15-2, 2-chome, Konan, Minato-ku, Tokyo 108-8502  
Tel: 81-3-5769-1111, Fax: 81-3-5769-1923

## MAIN OFFICE

### OSAKA

33, 4-chome, Kitahamahigashi, Chuo-ku, Osaka 540-8584  
Tel: 81-6-6946-4400, Fax: 81-6-6946-4755

## BRANCHES

NAGOYA • KYUSHU • TOHOKU • YOKOHAMA • SAPPORO •  
HIROSHIMA • SHIKOKU • KOBE • HOKURIKU

## TECHNICAL RESEARCH INSTITUTE

640, 4-chome, Shimokiyoto, Kiyose-shi, Tokyo 204-8558  
Tel: 81-424-95-1111, Fax: 81-424-95-0901

## SUBSIDIARIES, AFFILIATES

• OBAYASHI ROAD CORPORATION • OBAYASHI REAL ESTATE CORPORATION • TOYO BUILDING SERVICE CORPORATION • OAK BUILDING SERVICE CORPORATION • NAIGAI TECHNOS CORPORATION • NAIGAI KENZAI CO., LTD. • OBAYASHI KAWANISHI DEVELOPMENT, LTD. • HAKUSEI REAL ESTATE, LTD. • FUJIEDA HOUSING DEVELOPMENT, LTD. • OAK ENGINEERS, LTD. • SCHOKBETON-JAPAN CO., LTD. • SANYO GREEN CO., LTD. • MUTSUZAWA GREEN CO., LTD. • MIYAGI GREEN CO., LTD. • OAK ENTERPRISE CO., LTD. • OAK SYSTEM CORPORATION • OBAYASHI SPORTS CO., LTD. • ATELIER G&B CORPORATION • OC FINANCE CORPORATION

## OVERSEAS OFFICES

### BANGKOK

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Tel: 66-2-252-5200, Fax: 66-2-252-5381

### SINGAPORE

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Tel: 65-2203122, Fax: 65-2248425

### KUALA LUMPUR

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Tel: 60-3-2642702, Fax: 60-3-2642762

### JAKARTA

JL. Pancoran Timur II No. 3, Pancoran, Jakarta 12780, Indonesia  
Tel: 62-21-7982223, Fax: 62-21-7973672

### BEIJING

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Tel: 86-10-6590-8546, Fax: 86-10-6590-8545

### SHANGHAI

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### DALIAN

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### MANILA

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Tel: 63-2-811-3045, Fax: 63-2-811-3198

### HANOI

Binh Minh Hotel, Room 226, 27 Ly Thai To Street, Hanoi, Vietnam  
Tel: 84-4-8258475, Fax: 84-4-8258673

### HO CHI MINH

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### LOS ANGELES

420 East Third Street Suite 600, Los Angeles, CA 90013, U.S.A.  
Tel: 1-213-687-0500, Fax: 1-213-687-3700

### SAN FRANCISCO

345 Allerton Avenue, South San Francisco, CA 94080, U.S.A.  
Tel: 1-650-952-4910, Fax: 1-650-589-8384

### HONOLULU

725 Kapiolani Boulevard, 4th Floor, Honolulu, Hawaii 96813, U.S.A.  
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### LONDON

2nd Floor, 25/28 Old Burlington Street, London W1X 1LB, The United Kingdom  
Tel: 44-171-434-9595, Fax: 44-171-494-3249

### AMSTERDAM

2nd Floor Building 4, Holland Office Center, Kruisweg 815A, 2132, NG, Hoofddorp, The Netherlands  
Tel: 31-23-5620220, Fax: 31-23-5620602

### PARIS

Washington Plaza, 44, Rue Washington, 75408 Paris, Cedex 08, France  
Tel: 33-1-49530001, Fax: 33-1-49530013

### SYDNEY

Level 31, AAP Centre, 259 George Street, Sydney N.S.W. 2000, Australia  
Tel: 61-2-9247-7911, Fax: 61-2-9247-7966

### DELHI

New Hizamuddin Bridge Nh-24, New Delhi 110 013, India  
Tel: 91-11-652-3416, Fax: 91-11-652-3415

# OBAYASHI OVERSEAS SUBSIDIARIES

## **Thai Obayashi Corporation Limited**

16th Floor, Thai Obayashi Building, Rajdamri, 161 Rajdamri Road, Bangkok 10330, Thailand  
Tel: 66-2-252-5200, Fax: 66-2-252-5381

Thai Obayashi, in which we hold a 49% share, was founded in 1974 as a joint venture with local companies. Thanks to growth in public and private sectors, the company has become one of Thailand's premier construction firms. Thai Obayashi completed its own office building, the Rajadamri Building, in 1991.

## **Obayashi Singapore Pte. Ltd.**

6 Shenton Way #16-10, DBS Building Tower Two, Singapore 068809, Singapore  
Tel: 65-227-2911, Fax: 65-227-3911

Obayashi operated in Singapore directly for several decades. The wholly owned subsidiary Obayashi Singapore was established in 1990 to strengthen ties with the local community.

## **Obayashi Construction (Malaysia) Sdn. Bhd.**

Peti #5 Wisma Selangor Dredging, Tingkat 7 East Block, 142-B Jalan Ampang, 50450 Kuala Lumpur, Malaysia  
Tel: 60-3-264-2702, Fax: 60-3-264-2762

This wholly owned subsidiary was established in Kuala Lumpur in 1992.

## **P.T. Jaya Obayashi**

JL. Pancoran Timur II No.3, Pancoran, Jakarta 12780, Indonesia  
Tel: 62-21-7982223, Fax: 62-21-7973672

Founded in 1972 as a joint venture with a local Indonesian company, P.T. Jaya Obayashi was our first overseas subsidiary. Over the past quarter century, the firm, 49% owned by Obayashi, has earned an excellent reputation in projects ranging from factories to high-rise office buildings and high-profile infrastructure construction. Lately, it has also worked on industrial parks and golf courses.

## **Taiwan Obayashi Corporation**

6F-2, 57, Fu-Hsing N. Road, Taipei, Taiwan, R.O.C.  
Tel: 886-22-781-4678, Fax: 886-22-771-5368

Obayashi founded this wholly owned subsidiary to handle projects in Taiwan, especially the mass transit project in Taipei.

## **Obayashi Philippines Corporation**

7th Floor, Corinthian Plaza, 121 Paseo de Roxas, Legaspi Village, Makati City, Philippines  
Tel: 63-2-811-3045, Fax: 63-2-811-3198

In 1990, Obayashi established this joint venture with a local company. We hold a 40% interest in the firm, which concentrates on office buildings and factories for Japanese companies moving into the Philippines.

## **E.W. Howell Co., Inc.**

2 Seaview Boulevard, P.O.Box 2000, Port Washington, NY 11050, U.S.A.  
Tel: 1-516-621-1100, Fax: 1-516-621-1192

Obayashi acquired E.W. Howell from its Norwegian parent company in 1989. A wholly owned subsidiary, Howell concentrates on construction projects in the northern and mid-western areas of the United States, where it has built commercial and industrial parks, shopping centers, and health-related facilities.

## **Citadel Corporation**

6525 The Corners Parkway, Suite 400, Norcross, GA 30092, U.S.A.  
Tel: 1-678-533-4433, Fax: 1-678-533-4450

A wholly owned subsidiary founded in 1984, Citadel supervises projects in the southern and southwestern areas of the United States, and offers a complete range of construction services for commercial and industrial projects.

## **OC America Construction, Inc.**

420 East Third Street, Suite 600, Los Angeles, CA 90013, U.S.A.  
Tel: 1-213-687-8700, Fax: 1-213-687-4317

Obayashi organized this wholly owned subsidiary in Los Angeles in 1993 to oversee projects on the U.S. west coast.





**OC Real Estate Management, LLC**

420 East Third Street, Suite 600, Los Angeles, CA 90013, U.S.A.  
Tel: 1-213-687-9700, Fax: 1-213-687-0335

This Los Angeles-based company was set up in 1993 as a wholly owned subsidiary managing development and real estate projects.

**James E. Roberts-Obayashi Corporation**

20 Oak Court, Danville, CA 94526, U.S.A.  
Tel: 1-510-820-0600, Fax: 1-510-820-1993

Founded in 1978 in California with local capital, this joint venture —50% owned by Obayashi — focuses on housing-related public and private projects in the San Francisco area.

**Obayashi Hawaii Corporation**

725 Kapiolani Boulevard, 4th Floor, Honolulu, Hawaii 96813, U.S.A.  
Tel: 1-808-593-0000, Fax: 1-808-593-0777

Obayashi Hawaii was our second overseas subsidiary, established the same year as P.T. Jaya Obayashi in Indonesia. Obayashi Hawaii is a wholly owned subsidiary that concentrates on residential and resort development, including condominiums, vacation homes, and general housing.

**Obayashi Finance International (Netherlands) B.V.\***

2nd Floor Building 4, Holland Office Center,  
Kruisweg 815A, 2132, NG Hoofddorp, The Netherlands  
Tel: 31-23-5620220, Fax: 31-23-5620602

This wholly owned subsidiary was established in Amsterdam in 1989. It manages overseas funding, financing, and bonds; invests in securities and other instruments; handles real estate-related transactions; and acquires and markets technology, know-how, and other intangible assets.

**Obayashi Projektbau GmbH**

Pariser Strasse 42-43 10719 Berlin, Germany  
Tel: 49-30-88-55-0602, Fax: 49-30-88-55-0604

Obayashi founded this wholly owned subsidiary to handle projects in Germany in 1991.

*\* Subsidiaries included in the financial statements are identified with asterisks (\*) after their names.*



