

OBAYASHI CORPORATION

NON-CONSOLIDATED FINANCIAL STATEMENTS 2006

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Report of Independent Auditors

The Board of Directors
OBAYASHI CORPORATION

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

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

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

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

June 30, 2006

Ernst & Young ShinNihon

Non-Consolidated Balance Sheets

OBUYASHI CORPORATION
March 31, 2006 and 2005

ASSETS

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2006	FY 2005	FY 2006	FY 2005
CURRENT ASSETS:				
Cash and deposits (Note 10).....	¥ 66,450	¥ 87,873	\$ 565,675	\$ 748,044
Trade receivables:				
Notes.....	27,487	29,289	233,992	249,331
Accounts.....	224,019	211,021	1,907,030	1,796,384
Marketable securities.....	1	31	10	264
Inventories (Note 5).....	424,537	447,246	3,614,007	3,807,323
Deferred tax assets (Note 9).....	36,171	34,236	307,920	291,441
Other accounts receivable.....	98,144	101,184	835,479	861,364
Other current assets (Note 7).....	18,558	14,648	157,979	124,697
Allowance for doubtful receivables.....	(620)	(633)	(5,278)	(5,389)
Total current assets.....	894,747	924,895	7,616,814	7,873,459
PROPERTY AND EQUIPMENT:				
Land.....	188,101	195,060	1,601,265	1,660,507
Buildings and structures.....	112,736	115,277	959,703	981,333
Machinery, equipment and vehicles.....	50,934	50,355	433,594	428,666
Construction in progress.....	1,107	625	9,423	5,316
Accumulated depreciation.....	(101,496)	(100,389)	(864,019)	(854,593)
Net property and equipment.....	251,382	260,928	2,139,966	2,221,229
INVESTMENTS AND OTHER ASSETS:				
Investment securities.....	493,495	330,813	4,201,029	2,816,149
Investments in subsidiaries and affiliates (Note 4).....	11,619	10,391	98,911	88,456
Long-term loans receivable (Note 7).....	24,312	24,511	206,960	208,656
Long-term loans receivable from subsidiaries and affiliates.....	22,626	15,684	192,613	133,517
Deferred tax assets (Note 9).....	-	1,341	-	11,423
Other.....	30,184	31,613	256,955	269,102
Allowance for doubtful receivables.....	(18,136)	(14,990)	(154,388)	(127,605)
Total investments and other assets.....	564,100	399,363	4,802,080	3,399,698
TOTAL ASSETS	¥ 1,710,229	¥ 1,585,186	\$ 14,558,860	\$ 13,494,386

LIABILITIES AND SHAREHOLDERS' EQUITY

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2006	FY 2005	FY 2006	FY 2005
CURRENT LIABILITIES:				
Short-term borrowings (Note 6).....	¥ 46,764	¥ 80,721	\$ 398,090	\$ 687,165
Current portion of long-term debt (Notes 6 and 7).....	19,402	10,906	165,166	92,841
Commercial paper (Note 6).....	10,000	-	85,128	-
Trade payables:				
Notes.....	70,499	81,961	600,142	697,721
Accounts.....	383,032	365,920	3,260,678	3,115,009
Income taxes payable.....	14,589	14,590	124,193	124,200
Advances received on uncompleted construction contracts, real estate and other.....	302,059	326,797	2,571,374	2,781,958
Allowance for losses on construction contracts.....	4,366	-	37,167	-
Accrued expenses.....	13,867	13,694	118,049	116,571
Deposits received.....	80,008	88,613	681,090	754,345
Employees' savings deposits.....	26,821	27,997	228,320	238,331
Other current liabilities.....	10,897	12,142	92,774	103,372
Total current liabilities.....	982,304	1,023,341	8,362,171	8,711,513
LONG-TERM LIABILITIES:				
Long-term debt (Notes 6 and 7).....	87,759	105,961	747,076	902,026
Deferred tax liabilities (Note 9).....	64,513	-	549,184	-
Deferred income taxes on reserve for land revaluation (Note 9).....	25,514	21,768	217,199	185,309
Reserve for retirement benefits.....	65,278	62,277	555,703	530,150
Reserve for losses on real estate business.....	7,491	10,871	63,766	92,546
Other long-term liabilities.....	7,184	8,082	61,152	68,794
Total long-term liabilities.....	257,739	208,959	2,194,080	1,778,825
SHAREHOLDERS' EQUITY (Note 11):				
Common stock:				
Authorized; 1,224,335,000 shares				
Issued; 721,509,646 shares.....	57,753	57,753	491,638	491,638
Capital surplus.....	41,694	41,694	354,937	354,937
Retained earnings.....	136,150	116,555	1,159,024	992,213
Reserve for land revaluation.....	33,308	31,981	283,544	272,244
Unrealized holding gains on securities.....	201,921	105,347	1,718,914	896,796
Treasury stock at cost:				
1,385,767 shares in 2006 and				
1,124,497 shares in 2005.....	(640)	(444)	(5,448)	(3,780)
Total shareholders' equity.....	470,186	352,886	4,002,609	3,004,048
CONTINGENT LIABILITIES (Note 14)				
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY.....	¥ 1,710,229	¥ 1,585,186	\$ 14,558,860	\$ 13,494,386

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

Non-Consolidated Statements of Income

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

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2006	FY 2005	FY 2006	FY 2005
REVENUES (Note 12):				
Construction.....	¥ 1,243,071	¥ 1,174,676	\$ 10,582,033	\$ 9,999,794
Real estate and other.....	31,134	38,398	265,034	326,877
	1,274,205	1,213,074	10,847,067	10,326,671
COST OF REVENUES (Note 12):				
Construction.....	1,149,892	1,080,918	9,788,818	9,201,654
Real estate and other.....	21,733	30,547	185,009	260,041
	1,171,625	1,111,465	9,973,827	9,461,695
Gross profit.....	102,580	101,609	873,240	864,976
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 8).....	61,632	62,937	524,659	535,770
Operating profit.....	40,948	38,672	348,581	329,206
OTHER INCOME(EXPENSES):				
Interest and dividend income.....	6,518	5,155	55,490	43,883
Interest expense.....	(2,059)	(2,502)	(17,530)	(21,302)
Gain on sales of marketable and investment securities.....	10,714	10,297	91,208	87,661
Exchange gains, net.....	1,050	336	8,942	2,858
Gain on sales of fixed assets.....	2,033	633	17,304	5,393
Loss on sales of fixed assets.....	(915)	-	(7,787)	-
Impairment loss on fixed assets (Note 16).....	(565)	-	(4,812)	-
Provision for losses on construction contracts.....	(4,366)	-	(37,167)	-
Loss on write-down of real estate for sale.....	(1,786)	(8,711)	(15,207)	(74,152)
Loss on write-down of investments in securities and other investments.....	(584)	(768)	(4,971)	(6,536)
Loss on write-down of investments in and loans from subsidiaries and affiliates.....	-	(1,011)	-	(8,603)
Other, net.....	(3,182)	(3,066)	(27,091)	(26,112)
Total.....	6,858	363	58,379	3,090
INCOME BEFORE INCOME TAXES	47,806	39,035	406,960	332,296
INCOME TAXES (Note 9):				
Current.....	19,191	17,832	163,369	151,801
Deferred.....	238	(1,203)	2,026	(10,240)
Total.....	19,429	16,629	165,395	141,561
NET INCOME	¥ 28,377	¥ 22,406	\$ 241,565	\$ 190,735
PER SHARE DATA: (Note 15)				
Net income:				
Basic.....	¥ 39.40	¥ 31.09	\$ 0.34	\$ 0.26
Diluted.....	-	-	-	-
Cash dividends.....	12.00	8.00	0.10	0.07

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

Non-Consolidated Statements of Shareholders' Equity

OBAYASHI CORPORATION

For the years ended March 31, 2006 and 2005

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2006	FY 2005	FY 2006	FY 2005
COMMON STOCK (Note 11):				
Balance at beginning of year.....	¥ 57,753	¥ 57,753	\$ 491,638	\$ 491,638
Balance at end of year.....	¥ 57,753	¥ 57,753	\$ 491,638	\$ 491,638
CAPITAL SURPLUS (Note 11):				
Balance at beginning of year.....	¥ 41,694	¥ 41,694	\$ 354,937	\$ 354,937
Balance at end of year.....	¥ 41,694	¥ 41,694	\$ 354,937	\$ 354,937
RETAINED EARNINGS (Note 11):				
Balance at beginning of year.....	¥ 116,555	¥ 101,544	\$ 992,213	\$ 864,423
Net income for the year.....	28,377	22,406	241,565	190,735
Cash dividends paid.....	(5,763)	(6,486)	(49,056)	(55,213)
Reversal of reserve for land revaluation.....	(3,019)	(909)	(25,698)	(7,732)
Balance at end of year.....	¥ 136,150	¥ 116,555	\$ 1,159,024	\$ 992,213
RESERVE FOR LAND REVALUATION:				
Balance at beginning of year.....	¥ 31,981	¥ 31,072	\$ 272,244	\$ 264,512
Reversal of reserve for land revaluation.....	3,019	909	25,698	7,732
Increase in valuation allowance for deferred tax assets on reserve for land revaluation.....	(1,692)	—	(14,398)	—
Balance at end of year.....	¥ 33,308	¥ 31,981	\$ 283,544	\$ 272,244
UNREALIZED HOLDING GAINS ON SECURITIES:				
Balance at beginning of year.....	¥ 105,347	¥ 103,817	\$ 896,796	\$ 883,772
Increase.....	96,574	1,530	822,118	13,024
Balance at end of year.....	¥ 201,921	¥ 105,347	\$ 1,718,914	\$ 896,796
TREASURY STOCK:				
Balance at beginning of year.....	¥ (444)	¥ (259)	\$ (3,780)	\$ (2,207)
Purchases of treasury stock.....	(196)	(185)	(1,668)	(1,573)
Balance at end of year.....	¥ (640)	¥ (444)	\$ (5,448)	\$ (3,780)

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

Non-Consolidated Statements of Cash Flows

OBAYASHI CORPORATION

For the years ended March 31, 2006 and 2005

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2006	FY 2005	FY 2006	FY 2005
OPERATING ACTIVITIES:				
Income before income taxes.....	¥ 47,806	¥ 39,035	\$ 406,960	\$ 332,296
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization.....	7,386	7,663	62,875	65,235
Allowance for doubtful receivables.....	3,133	(3,247)	26,673	(27,640)
Provision for losses on construction contracts.....	4,366	-	37,167	-
Reserve for retirement benefits.....	3,002	2,921	25,553	24,868
Net gain on sales and disposal of property and equipment and marketable and investment securities.....	(10,655)	(10,235)	(90,704)	(87,124)
Loss on write-down of investments in securities and other investments.....	584	768	4,971	6,536
Loss on write-down of real estate for sale.....	1,786	8,711	15,207	74,152
Impairment loss on fixed assets.....	565	-	4,812	-
Changes in assets and liabilities:				
Trade receivables.....	(11,196)	(14,709)	(95,307)	(125,212)
Inventories.....	23,955	(9,250)	203,924	(78,740)
Other current assets.....	3,948	423	33,606	3,603
Trade payables.....	5,649	58,286	48,091	496,181
Advances received on uncompleted construction contracts, real estate and other.....	(24,737)	(11,196)	(210,584)	(95,311)
Accrued expenses.....	174	637	1,478	5,422
Other current liabilities.....	(15,858)	(4,275)	(134,992)	(36,394)
Other.....	(7,647)	2,034	(65,098)	17,307
Sub total.....	32,261	67,566	274,632	575,179
Interest and dividend received.....	6,464	5,299	55,026	45,107
Interest paid.....	(2,058)	(2,472)	(17,516)	(21,045)
Income taxes paid.....	(19,192)	(10,723)	(163,376)	(91,283)
Net cash provided by operating activities.....	17,475	59,670	148,766	507,958
INVESTING ACTIVITIES:				
Purchases of marketable and investment securities and investments in subsidiaries and affiliates.....	(9,669)	(4,438)	(82,312)	(37,782)
Proceeds from sales of marketable and investment securities and investments in subsidiaries and affiliates.....	16,488	15,914	140,358	135,476
Proceeds from sales of property and equipment.....	10,497	2,233	89,362	19,010
Purchases of property and equipment.....	(9,719)	(16,722)	(82,736)	(142,351)
Proceeds from collection of loans.....	1,974	6,970	16,803	59,336
Loans receivables made.....	(9,380)	(2,492)	(79,854)	(21,211)
Other.....	12	336	111	2,855
Net cash provided by investing activities.....	203	1,801	1,732	15,333
FINANCING ACTIVITIES:				
Short-term borrowings.....	(33,958)	(42,621)	(289,074)	(362,828)
Commercial paper.....	10,000	-	85,128	-
Proceeds from long-term debt.....	1,200	4,440	10,215	37,797
Repayment of long-term debt.....	(10,906)	(19,438)	(92,841)	(165,472)
Proceeds from issue of bonds.....	-	30,000	-	255,384
Redemption of bonds.....	-	(20,000)	-	(170,256)
Cash dividends.....	(5,763)	(6,486)	(49,055)	(55,213)
Other.....	(195)	(185)	(1,669)	(1,571)
Net cash used in financing activities.....	(39,622)	(54,290)	(337,296)	(462,159)
Effect of exchange rate changes on cash and cash equivalents.....	786	206	6,682	1,754
Net (decrease)/ increase in cash and cash equivalents.....	(21,158)	7,387	(180,116)	62,886
Cash and cash equivalents at beginning of the year.....	87,608	80,221	745,791	682,905
Cash and cash equivalents at end of the year (Note 10).....	¥ 66,450	¥ 87,608	\$ 565,675	\$ 745,791

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

Notes to Non-Consolidated Financial Statements

OBUYASHI CORPORATION

For the years ended March 31, 2006 and 2005

1. Basis of presenting non-consolidated financial statements

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

2. Summary of significant accounting policies

(a) Recognition of revenues and related costs

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

(b) Foreign currency translation

All foreign currency denominated receivables and payables are translated at the rate of exchange in effect at the balance sheet date.

(c) Cash equivalents

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

(d) Marketable securities and investment securities

Securities are classified into two categories: held-to-maturity or other securities.

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

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

(e) Investments in subsidiaries and affiliates

Investments in subsidiaries and affiliates are stated at cost determined based on the moving average method. The Company had 70 subsidiaries and 20 affiliates as of March 31, 2006.

(f) 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.

(g) Property and equipment

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

Buildings and structures: 3 - 50 years

Machinery, equipment and vehicles: 3 - 15 years

(h) Reserve for retirement benefits

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

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

Prior service cost is being amortized by the straight-line method over 10 years which are shorter than the average remaining years of service of the employees.

(i) Income taxes

The Company applies deferred tax accounting for income taxes which requires recognition of income taxes by the asset/liability method.

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

(j) Appropriations of retained earnings

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

(k) Allowance for doubtful receivables

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

(l) 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.

(m) Land revaluation

Pursuant to the "Law Concerning the Revaluation of Land," land used for the business operations was revalued on March 31, 2000.

The excess of the revalued carrying amount over the book value before revaluation has been included in shareholders' equity as reserve for land revaluation, net of applicable income taxes. The revaluation of the land was determined based on the official standard notice prices in accordance with Article 2, paragraph 1 of the "Enforcement Ordinance Concerning Land Revaluation" and the appraisal value made by the certified real estate appraisers in accordance with Article 2, paragraph 5 of the same Ordinance with certain necessary adjustments. The excess of the revalued carrying amount over the market value at March 31, 2006, was ¥12,456 million (\$106,033 thousand).

(n) Derivative financial instruments

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

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

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

(o) Allowance for losses on construction contracts

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

(p) Reserve for losses on real estate business

Reserve for losses on real estate business is provided for the estimated losses to be incurred in restructuring the real estate-related business.

3. United States dollar amounts

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

4. Investment in subsidiaries with fair value

Certain investments in subsidiaries are marketable equity securities, which have carrying value of ¥2,004 million (\$17,061 thousand) and fair value of ¥6,055 million (\$51,546 thousand) at March 31, 2006. The corresponding amounts at March 31, 2005 were ¥2,004 million (\$17,061 thousand) and ¥5,343 million (\$45,482 thousand), respectively.

5. Inventories

Inventories comprised the following:

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2006	FY 2005	FY 2006	FY 2005
Construction projects in progress.....	¥ 354,054	¥ 382,219	\$ 3,013,991	\$ 3,253,756
Real estate for sale.....	58,624	54,582	499,055	464,644
Development projects in progress.....	10,589	9,351	90,151	79,613
Materials and supplies.....	1,270	1,094	10,810	9,310
Total.....	¥ 424,537	¥ 447,246	\$ 3,614,007	\$ 3,807,323

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 Company to banks and overdrafts with banks and bore interest at the average annual rate of 0.58 per cent at March 31, 2006 (0.57 per cent at March 31, 2005).

Long-term loans bore interest at the average annual rate of 1.38 per cent at March 31, 2006 (1.28 per cent at March 31, 2005).

(a) Short-term borrowings comprised the following:

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2006	FY 2005	FY 2006	FY 2005
Short-term borrowings from banks	¥ 46,764	¥ 80,721	\$ 398,090	\$ 687,165
Total.....	¥ 46,764	¥ 80,721	\$ 398,090	\$ 687,165

(b) Long-term debt comprised the following:

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2006	FY 2005	FY 2006	FY 2005
2.03 per cent bond due August, 2006.....	¥ 10,000	¥ 10,000	\$ 85,128	\$ 85,128
0.9 per cent bond due July, 2007.....	10,000	10,000	85,128	85,128
0.49 per cent bond due June, 2008.....	10,000	10,000	85,128	85,128
1.07 per cent bond due June, 2013.....	10,000	10,000	85,128	85,128
1.48 per cent bond due November, 2010.....	10,000	10,000	85,128	85,128
0.85 per cent bond due June, 2009.....	10,000	10,000	85,128	85,128
0.89 per cent bond due October, 2009.....	10,000	10,000	85,128	85,128
1.34 per cent bond due October, 2011.....	10,000	10,000	85,128	85,128
Loans from Japanese banks.....	13,827	19,337	117,707	164,613
Loans from Japanese insurance companies.....	12,784	16,680	108,828	141,994
Loans from other financial institutions.....	550	850	4,683	7,236
	107,161	116,867	912,242	994,867
Less: Current portion of long-term debt.....	(19,402)	(10,906)	(165,166)	(92,841)
Total.....	¥ 87,759	¥ 105,961	\$ 747,076	\$ 902,026

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

Year ending March 31,	Japanese Yen (million)	U.S. Dollars (thousand)
2007.....	¥ 19,402	\$ 165,166
2008.....	18,616	158,475
2009.....	14,827	126,219
2010.....	21,658	184,370
2011 and thereafter.....	32,658	278,012
Total.....	¥ 107,161	\$ 912,242

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

(c) Commercial paper

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

7. Pledged assets

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

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2006	FY 2005	FY 2006	FY 2005
ASSETS PLEDGED AS COLLATERAL:				
Short-term loans receivable				
(Real estate convertible loan).....	¥ 48	¥ 293	\$ 409	\$ 2,494
Long-term loans receivable				
(Real estate convertible loan).....	24,206	24,254	206,060	206,469
Total.....	¥ 24,254	¥ 24,547	\$ 206,469	\$ 208,963
LIABILITIES SECURED THEREBY:				
Current portion of long-term debt.....	¥ 544	¥ 544	\$ 4,631	\$ 4,631
Long-term debt.....	3,510	4,054	29,880	34,511
Total.....	¥ 4,054	¥ 4,598	\$ 34,511	\$ 39,142

8. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2006 and 2005 amounted to ¥6,921 million (\$58,920 thousand) and ¥7,634 million (\$64,987 thousand), respectively.

9. Income taxes

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

(a) Reconciliation between the statutory tax rate and the effective tax rate for the year ended March 31, 2005 is summarized as follows:

	FY 2005
Statutory tax rate.....	40.5 %
Reconciliation:	
Permanent non-deductible items.....	3.9
Permanent non-taxable items.....	(1.9)
Other.....	0.1
Effective tax rate.....	42.6 %

Since the difference between the statutory tax rate and the Company's effective tax rate for the year ended March 31, 2006 was immaterial, the information for 2006 was not shown.

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

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2006	FY 2005	FY 2006	FY 2005
Deferred tax assets:				
Impairment loss on fixed assets.....	¥ 29,386	¥ 30,325	\$ 250,161	\$ 258,148
Reserve for retirement benefits.....	26,437	23,394	225,053	199,149
Loss on revaluation of real estate for sale.....	16,654	18,960	141,776	161,401
Allowance for doubtful receivables.....	10,029	10,324	85,375	87,886
Reserve for losses on real estate business.....	3,034	4,403	25,828	37,482
Provision for losses on construction contracts.....	1,768	—	15,051	—
Loss on revaluation of investments in and receivables from subsidiaries and affiliated companies.....	1,249	1,267	10,633	10,786
Other.....	21,288	19,309	181,210	164,381
Total deferred tax assets.....	¥ 109,845	¥ 107,982	\$ 935,087	\$ 919,233
Deferred tax liabilities:				
Unrealized holding gains on securities.....	¥ (137,442)	¥ (71,707)	\$ (1,170,017)	\$ (610,424)
Deferred gain on property for tax purposes.....	(488)	(331)	(4,155)	(2,821)
Other.....	(257)	(367)	(2,179)	(3,124)
Total deferred tax liabilities.....	¥ (138,187)	¥ (72,405)	\$ (1,176,351)	\$ (616,369)
Net deferred tax (liabilities)/ assets.....	¥ (28,342)	¥ 35,577	\$ (241,264)	\$ 302,864

In addition to the above, the Company recognized a deferred tax liability of ¥25,514 million (\$217,199 thousand) and ¥21,768 million (\$185,309 thousand) related to reserve for land revaluation at March 31, 2006 and 2005, respectively.

10. Supplementary cash flow information

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

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2006	FY 2005	FY 2006	FY 2005
Cash and deposits.....	¥ 66,450	¥ 87,873	\$ 565,675	\$ 748,044
Time deposits with a maturity of more than three months.....	—	(265)	—	(2,253)
Cash and cash equivalents.....	¥ 66,450	¥ 87,608	\$ 565,675	\$ 745,791

11. Shareholders' equity

Retained earnings include a legal reserve provided in accordance with the Japanese Commercial Code (the "JCC"). The JCC requires that an amount equal to at least 10% of cash dividends and other distributions, including directors' and statutory auditors' bonuses, from retained earnings paid by the Company be appropriated as a legal reserve to the extent that the total amount of additional paid-in capital and the legal reserve equals 25% of the common stock. The legal reserve amounted to ¥14,438 million (\$122,909 thousand) at March 31, 2006. The JCC provides that neither capital surplus nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of shareholders or may be transferred to common stock by resolution of the Board of Directors. The JCC also provides that to the extent that the sum of the additional paid-in capital and the legal reserve exceed 25% of the common stock, the amount of the excess, if any, is available for appropriations by the resolution of the shareholders prescribed by the JCC.

12. Transactions with subsidiaries and affiliates

Purchases from and sales to subsidiaries and affiliates for the years ended March 31, 2006 and 2005 were as follows:

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2006	FY 2005	FY 2006	FY 2005
Purchases.....	¥ 107,755	¥ 144,830	\$ 917,300	\$ 1,232,913
Sales.....	27,015	17,808	229,977	151,600

13. Lease transactions

Lessee's accounting

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

FY2006	Japanese Yen (million)			U.S. Dollars (thousand)		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Machinery, equipment and vehicles.....	¥ 628	¥ 483	¥ 145	\$ 5,345	\$ 4,100	\$ 1,245
Other.....	2	1	1	14	13	1
Total.....	¥ 630	¥ 484	¥ 146	\$ 5,359	\$ 4,113	\$ 1,246
FY2005	Japanese Yen (million)			U.S. Dollars (thousand)		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Machinery, equipment and vehicles.....	¥ 2,426	¥ 1,876	¥ 550	\$ 20,653	\$ 15,965	\$ 4,688
Other.....	20	15	5	172	130	42
Total.....	¥ 2,446	¥ 1,891	¥ 555	\$ 20,825	\$ 16,095	\$ 4,730

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

Year ended March 31,	Japanese Yen (million)		U.S. Dollars (thousand)	
	Finance leases	Operating leases	Finance leases	Operating leases
2007.....	¥ 97	¥ 49	\$ 825	\$ 416
2008 and thereafter.....	49	154	421	1,309
Total.....	¥ 146	¥ 203	\$ 1,246	\$ 1,725

Lease payments relating to finance leases accounted for as operating leases in the accompanying non-consolidated financial statements amounted to ¥420 million (\$3,577 thousand) and ¥1,017 million (\$8,657 thousand) for the years ended March 31, 2006 and 2005, respectively. Depreciation of the leased assets computed by the straight-line method over the respective lease terms with no residual value for the years ended March 31, 2006 and 2005 were ¥420 million (\$3,577 thousand) and ¥1,017 million (\$8,657 thousand), respectively. The figures shown above include the portion of interest.

14. Contingent liabilities

The Company is contingently liable for the following:

	Japanese Yen (million)		U.S. Dollars (thousand)	
	FY 2006	FY 2005	FY 2006	FY 2005
Guarantees of long-term debt of customers and employees.....	¥ 4,828	¥ 5,224	\$ 41,101	\$ 44,474
Commitments of guarantees for short-term and long-term debt of customers, subsidiaries and affiliates.....	72,854	96,333	620,192	820,062

15. Amounts per share

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

	Japanese Yen		U.S. Dollars	
	FY 2006	FY 2005	FY 2006	FY 2005
Net income per share of common stock				
Basic.....	¥ 39.40	¥ 31.09	\$ 0.34	\$ 0.26
Diluted.....	-	-	-	-
Net assets per share of common stock.....	652.92	489.86	5.56	4.17

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

	Year ended March 31, 2006		Year ended March 31, 2005	
	(Millions of yen, except share)	(Thousands of U.S.dollar, except share)	(Millions of yen, except share)	(Thousands of U.S.dollar, except share)
Net income available to shareholders of common stock (numerator)				
Net income.....	¥ 28,377	¥ 241,565	\$ 22,406	\$ 190,735
Less: appropriation of bonuses to directors and statutory auditors.....	-	-	-	-
	¥ 28,377	¥ 241,565	\$ 22,406	\$ 190,735
Weighted average shares of common stock outstanding (denominator).....	720,261		720,565	

16. Impairment loss on fixed assets

For the year ended March 31, 2006, the Company recognized a loss on the impairment of certain unused lands and land for sale currently but for use originally. For the assessment of the impairment on these assets, each asset is deemed as separate group.

As a result of a recent unexpected decline in real estate value, the carrying value of the above assets has been reduced to their recoverable amounts. Accordingly, an impairment loss of ¥565 million (\$4,812 thousand) was recognized.

The recoverable amount utilized in the calculation was the net selling price. The net selling price is mainly the appraisal value less the costs of disposal.

17. Subsequent event

(a) Cash dividends

On June 29, 2006, the following appropriation of retained earnings was approved at the shareholders' meeting of the Company.

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

(b) Sales and lease back of Osaka Obayashi Building

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

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

Proceed from the sale was as follows:

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



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