



CORPORATE PROFILE

The 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 70 business offices, a technical research institute, two machinery works, and 21 subsidiaries in Japan. It has 18 branches and 13 subsidiaries overseas. As of March 31, 1998, Obayashi had 11,721 employees, including 869 architects, 3,434 construction engineers, 1,939 civil engineers, 234 research scientists and technicians, 92 computer systems engineers, 1,649 other technicians, and 3,504 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

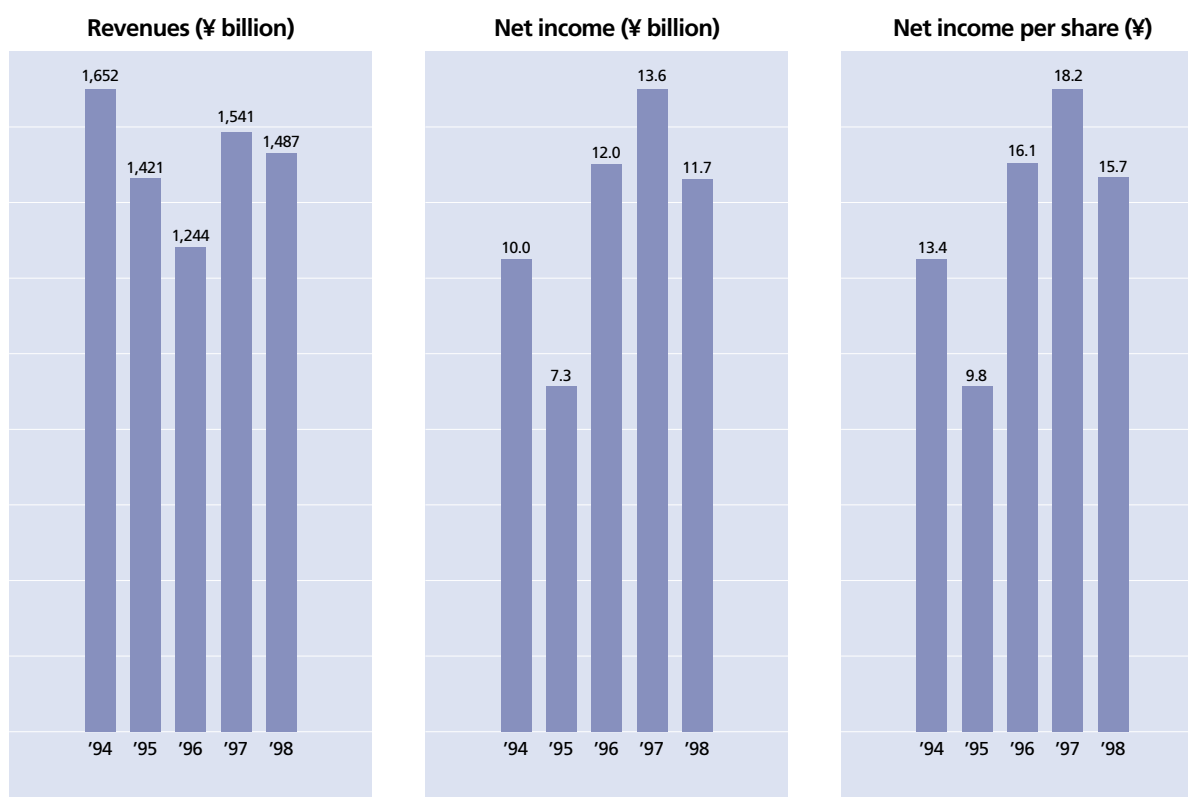
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FINANCIAL HIGHLIGHTS

	1998	1997	1996	1998
	(millions)			(thousands)
Total revenues	¥ 1,487,495	¥ 1,541,485	¥ 1,244,281	\$ 11,268,902
Net income	11,723	13,622	12,013	88,811
Orders received	1,335,399	1,479,963	1,404,362	10,116,659
Backlog at year end*	2,066,214	2,217,429	2,278,399	15,653,136
At year end				
Total assets	2,267,861	2,430,025	2,468,883	17,180,765
Long-term debt	208,312	194,727	231,239	1,578,121
Shareholders' equity	307,009	301,558	294,185	2,325,826
Per share data				
				(unit=1)
Net Income per share	¥ 15.73	¥ 18.28	16.12	\$ 0.12
Cash dividend per share	8.00	8.00	8.00	0.06
Shareholders' equity per share	412.00	404.68	394.80	3.12
Number of common shares outstanding	745,173,544	745,172,442	745,158,113	

Obayashi Corporation and consolidated subsidiaries, years ended March 31, 1998 to 1996. All figures have been translated into US\$, at the rate of ¥132/\$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, 1998, is referred to as FY1998.
*Non-consolidated figure.



TO THE SHAREHOLDERS

First, we would like to express our appreciation for the continued support of our shareholders during fiscal year 1998, and present our report for the year, which ended on March 31, 1998.

The Japanese economy spiraled even faster toward recession during fiscal 1998. A consumption tax increase and the expiration of a special tax relief bill further eroded already shaky consumer confidence. In addition, problems in the financial sector that came to light near the end of calendar 1997 prompted another drop in consumer spending and stopped the slight upward trend in private capital investment.

Business conditions in the construction industry became even more difficult as private capital investment subsided, led by non-manufacturing firms, and the government cut back public works.

Despite the unfavorable business climate, Obayashi focused all its resources on locating

and contracting new construction projects. Our efforts resulted in ¥1.335 trillion (\$10,116 million) in orders received, down 9.8% compared to last fiscal year.

Our revenues totaled ¥1.487 trillion (\$11,269 million), an 3.5% decrease over last year. Profits were hit by lower margins on construction jobs and writeoffs necessitated by declining stock prices. Therefore, our profit before taxes came to ¥25,237 million, a 18.2% decrease compared to fiscal 1997.

Looking at the future of the Japanese economy, we expect the government's latest stimulus package to result in at least a modest upturn. Nevertheless, it will undoubtedly take time for consumer spending and private capital investment to recover. Until then, economic trends will remain lackluster.

In the construction industry, there is little hope for a recovery in private capital investment, and government agencies are keeping a tight rein on public works spending. As a result, we can

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In early 1999, we will move our Tokyo Head Office operations into the Shinagawa Intercity, which is currently under construction. The move will consolidate departments now spread over 13 buildings into a single edifice, which should improve work efficiency. At the same time, it will provide the intelligent infrastructure necessary to cope with the burgeoning information society. The new building will be state-of-the-art in this regard, and we feel it is vital that Obayashi stay at the forefront of the information revolution.

We plan to begin operating from our new headquarters building in January 1999. We are determined to continue our growth and evolution, and we hope all employees share our goals of speeding up our business activities while reducing their costs.



Yoshiro Obayashi, Chairman

Shinji Mukasa, President



expect another year of severe competition for new projects, which will demand continued effort just to maintain current revenues and profits.

Obayashi's survival in this highly competitive environment hinges on maintaining sufficient work in progress levels. This will require concentrated effort by our sales departments, together with our experts in design, architecture, production, and technology, to pinpoint changing market trends and to create solutions to meet our customers' emerging needs.

The current severe business climate will probably become the norm. So we must reduce costs by improving project efficiency, centralizing procurement of materials, and helping our suppliers and subcontractors streamline their operations. In addition, we must assign personnel more effectively, improve our information sys-

tems, reduce our sales overhead, and improve our financial management. All these steps will help improve our efficiency, which is key to maintaining a reasonable level of profit.

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

Yoshiro Obayashi, Chairman

Shinji Mukasa, President

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.

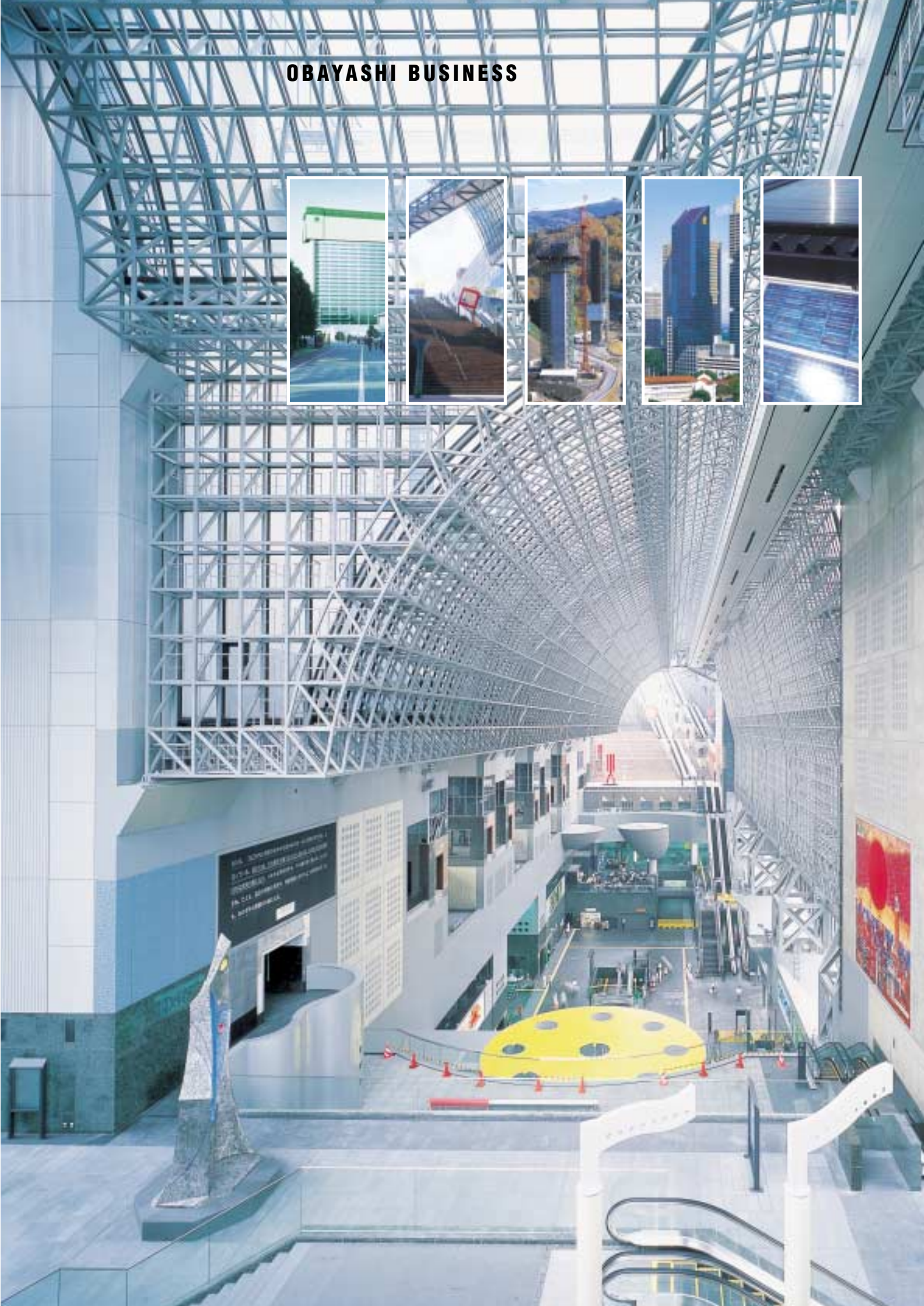
Management Stance

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





Y-O Damper

One-Pass Segments

In a cooperative project, Obayashi helped develop One-Pass Segments — shield tunnel lining segments that require no second pass to tighten installation bolts. Instead, the segments are fitted with wedge-shaped head-lock joint pins that merely slide into place to hold the segments together. The new segments eliminate the need to hand-tighten installation bolts, saving labor and reducing tunnel construction time. More important, the new method enhances safety.

Obayashi Life Cycle Cost Evaluation System

Obayashi developed and launched the Obayashi Life Cycle Cost (O-LCC) evaluation system, which makes quick, easy work of estimating the costs of planning, architecture, construction, operation and maintenance, dismantling, and disposal of any building or structure. This allows us to fine-tune data for the life cycle of a building to ensure the most viable proposal for a new or renewed structure.

Y-O Damper

Obayashi's new Y-O Damper combines Y-shaped damper braces, which can withstand medium-sized earthquakes, and hydraulic dampers, which work well during small tremors. The system was first used in a building constructed by Obayashi. This new system is easily adaptable to all types of buildings, large or small, new or already standing. It offers a new kind of earthquake protection for small-to-medium sized buildings, which was not feasible with previous aseismic systems.

Friction Damper with Coned Disc Springs

Obayashi developed and introduced an earthquake protection and failsafe system that relies on spring-loaded friction discs much like those in automobile clutches. Some of the load placed on the layered rubber vibration absorbers is transferred to the spring-loaded friction disc, which damps the load. This allows us to reduce the size and number of vibration absorbers, cutting the costs of an earthquake protection system by as much as 25%.



Formaldehyde Trapping Material (ALDENON)

Formaldehyde is responsible for many of today's "sick" homes and buildings. But Obayashi has developed a material that uses a chemical reaction to trap formaldehyde. Merely painting a layer of the new formula on paper, fabric, or wood can simply and effectively reduce airborne formaldehyde in a room. It can even be used in wrapping materials or shipping containers. The simple process entails only a chemical powder, so costs are low.

MANAGING DIRECTOR Toshikazu Takeda

Both society and our clients' needs grow more complex and diverse every day. To stay a step ahead of these trends, Obayashi Technical Research Institute strives to conduct superior R&D work, ranging from basic research to development of high-level technologies and processes. In particular, we are concentrating on ways to boost construction productivity and improve project integration. And we are looking for ways to make buildings more comfortable, safer from fires and other disasters, and more environmentally friendly.

Our Technical Research Institute is on a 74,000 m² site in Kiyose, Tokyo. It consists of numerous buildings and laboratories, each dedicated to a specific sector of testing and evaluation. One, for example, houses a supercomputer for simulating and confirming theories and new technologies. To improve the efficiency and effectiveness of its research, the Institute encourages technical exchanges and joint research projects with domestic and overseas universities, and public agencies, as well as companies outside the construction industry.



ABCS

Obayashi's Automated Building Construction System (ABCS) is a world first, and is now being used to construct a new high-rise building for NEC Corporation. The system uses a Super Construction Factory (SCF), which is enclosed on the top and sides, so construction can proceed regardless of weather conditions. Each floor is assembled within the SCF, and as it's completed, the entire structure moves one story higher with a rack-and-pinion self-climbing mechanism. This process continues to the top, where the SCF itself becomes part of the building.

The SCF complete enclosure keeps construction noise from annoying the neighborhood. Prefabrication and unitization of components, along with use of ceiling cranes, enables ABCS to build structures in record time. The latest version of the SCF includes refined self-climbing devices and an improved material and component elevator. These improve efficiency and save even more energy.



Location: Kanagawa, Japan
Client: NEC Corporation
Architects: Nikken Sekkei Ltd.
and Obayashi Corporation
Structure: S and SRC, B2, 26F
Floor area: 79,752 m²
Completion: January 2000





Festivalgate

Festivalgate

In Osaka, a nine-story, one basement building called Festivalgate houses a roller coaster that runs at speeds up to 100 km/h. The track is visible from the outside, giving the building a unique appearance.

The building's A Zone is an urban high-rise amusement park with more than 20 attractions, restaurants, shops, and movie theaters in addition to the roller coaster. Its B Zone offers "Aqua Amusement," including 16 hot baths featuring water from famous spas around the world and a huge swimming pool. Festivalgate heralds a new kind of urban entertainment complex.

San-in Godo Bank new head office building

Obayashi recently completed a new headquarters building for the San-in Godo Bank. As the building stands near a famous tourist attraction, the architects were careful to ensure that its exterior design and color scheme were compatible with the surrounding environment.

During construction, strong winds blowing off the nearby lake often halted work. Nevertheless, the finished building is now the tallest in the San-in district. The top floor observatory overlooking Shinji Lake is open to the public and has become a popular rest area for local citizens.



Omiwa-jinja

Obayashi renovated the *Kito-den*, *Gishiki-den*, and *Sanshu-den* halls of Japan's oldest Shinto shrine, the Omiwa-jinja in Nara prefecture. We built a roof on a steel frame so work could continue regardless of the weather. The renovation was a cooperative effort among traditional *miyadaiku* temple carpenters and Obayashi's architectural division. The result was traditional buildings with modern equipment and facilities.



Super-highrise smokestack

Central Tokyo will soon have a new garbage disposal and incineration center. Bordered on four sides by railways, streets, and highrise buildings, the center contributes to a cleaner atmosphere with Japan's highest reinforced concrete smokestack, which will rise 210 meters above the ground. Obayashi built the huge chimney with the well-known slip-form method, even though the square cross section is the most difficult shape for slip-form. Work is in progress on the disposal and incineration center itself, along with a swimming pool that will utilize heat from the incinerator. The limited urban land available for the center is being used as efficiently as possible with an artificial footing. The project is scheduled for completion in 1999.

VICE PRESIDENT Ryuji Kudo

Fiscal 1998 saw building construction orders received of ¥913.8 billion (US\$6,923 million), a decrease of 8.7% compared to last year.

Reasons for this decline in orders received include a 6.0% drop in orders from the private sector. Although orders from electric machinery and transport equipment manufacturers increased, capital investment by non-manufacturing companies weakened significantly.

In the public sector, national and regional public works orders fell 25.0% from last year, a major factor in the overall decline in orders received. Any improvements in the future hinge on the success of government economic stimulus packages and a resurgence in private sector capital investment.

New orders overseas amounted to ¥86.9 billion (US\$658 million) about 10% of the total.

The Kyoto Station Building pictured at the right was one of the major projects finished this fiscal year, but Obayashi has many others under construction. One example is the redevelopment project in east side of Shinagawa Station, where Obayashi is building its own new Tokyo head office. We will move into our new headquarters in early 1999.



KYOTO STATION BUILDING

It's been just 1,200 years since Japan's ancient capital was moved to Kyoto. Now the city has a new front door, the Kyoto Station Building. Built upon a "Matrix" artificial ground, the building's east-west width extends 470 meters and at 60 meters tall, it is one of the largest station buildings in Japan. Inside, it houses the JR Kyoto Station as well as a department store, a hotel, and various cultural facilities.

A huge atrium, covered by a distinctive curved glass roof, extends to the station in the center of the building. From there, a large, 117-step stairway ascends to the open amphitheater on the west side near the department store. Under the atrium's glass roof, suspended walkways allow customers to traverse between east and west sides of the building. On the east, they find a hotel with 539 guest rooms and 12 event halls, a theater, and a cafe.

The Kyoto Station Building is another popular tourist attraction in a city known for tourism.



Location: Kyoto, Japan
Client: West Japan Railway Company
Architects: Hiroshi Hara + ATELIER Φ
Structure: S and SRC
Hotel: B3, 16F,
539 rooms
Department store : B3, 12F
Floor area: 237,689 m²
Completion: July 1997



Nagano Shinkansen Station



Chiya Dam

Construction of the Nagano Shinkansen Station

Obayashi played a vital role in building additional infrastructure for the Nagano Winter Olympics held in February 1998. Two projects aimed at facilitating access to the Olympics were the Nagano Shinkansen superexpress and the Joshinestu Expressway. Obayashi was directly concerned with construction of the Nagano Shinkansen Station at Tokyo Station. Obayashi built the red-brick Tokyo Station in 1914, and has managed continuing expansion projects ever since. This time, we had to switch over five tracks and build an arrival and departure platform for the Nagano superexpress while 1.8 million people a day, riding some 3,700 trains, continued to use the station. Working day and night for seven years, we completed the switchovers and platforms in time for the October 1997 inauguration of the Nagano Shinkansen superexpress.

Chiya Dam

Obayashi completed a gravity dam at the head of the Takahashi River, which flows through western Okayama prefecture. The dam holds 28 million m³ of water and helps control flooding and water level fluctuations. It will also provide municipal water and some 3,000 kw of electricity from turbines running off its overflow. The dam stands 97.5 meters high and contains 697,000 m³ of concrete. Because of its mammoth size, we used the Roller-Compacted Dam (RCD) process, which relies on very low-slump concrete and vibrating roller compactors. To transport and pour the concrete, we used our proprietary on-site Automatic Concrete Bucket Transporting System. With these two systems, construction of the dam went much

faster and more efficiently than with conventional methods.

Tokyo Wan Aqua-line

In December 1997, the cities of Kawasaki on the Kanagawa side of Tokyo Bay and Kisarazu on the Chiba side were connected by the Tokyo Wan Aqua-line, which consists of a 5 km bridge and 10 km undersea tunnels. Tokyo Wan Aqua-line was a ¥1,440 billion national project that took more than 30 years to complete, counting from the time the first investigations into the possibility of crossing Tokyo Bay with a highway system began. Obayashi was in charge of building the western side of Umihotaru, the manmade island where the bridge and the tunnels connect, and a tunnel that extended toward Kawasaki from



the island. We also constructed the parking area on Umihotaru island. Obayashi's most advanced civil engineering technology was brought to the project as we created the inclined accessway leading into the tunnels, and worked deep beneath the surface of the bay under tremendous pressure with the world's largest slurry shield tunnel-boring machine. When our machine met with its counterpart, which drilled from the opposite side, we used a unique ground-freezing method to connect the two tunnels after breaking through 60 meters beneath Tokyo Bay.

VICE PRESIDENT Toshiteru Arakawa

During fiscal 1998, Obayashi received domestic orders totalling ¥280.9 billion (US\$2,128 million), 21.2% less than last year. Reasons for the decline include major cuts in public works budgets and reduced private sector investment in large civil engineering projects.

New orders from overseas, on the other hand, reached an all-time high of ¥71.4 billion (US\$541 million). Revenues for civil engineering during the year totaled ¥410.9 billion (US\$3,113 million), a 2.5% increase over fiscal 1997. Major projects completed included the Tokyo Wan Aqua-line and the Sydney M2 Toll Road, a BOT project in Australia.

As we seek new civil engineering contracts, we must target transport infrastructure projects such as highways, parking facilities, railways, airports, harbors; energy infrastructure such as nuclear plants and LNG tank farms; and environmental projects such as industrial waste processing facilities and the restoration of polluted lakes, bays, and former industrial sites.

We will strive to obtain information on new projects while they are still in the planning stage, so we can fully utilize the power of our sales organization to ensure that potential customers understand the tremendous storehouse of technology available to them through Obayashi.



YAMAGATA EXPRESSWAY

Obayashi is building the piers for the Koamigawa Bridge of the new Yamagata expressway. The highway winds among steep mountains in this area, and the bridge piers must be built on ancient volcanic ash, which is very prone to landslides. All in all, it's a difficult project.

The piers of the bridge stand 75 meters tall and are composite structures of steel pipe and concrete with PC strands spiraling from bottom to top. This structure exhibits an advantage in terms of shear strength and ductility under destructive seismic loading. Obayashi developed this method in concert with the Japan Highway Public Corporation. The current project uses hybrid slip-forms as molds. Use of steel pipe for the main reinforcement and steel PC strand spirals as the tie hoops conserve labor, offer schedule reduction, and lower costs.

Location: Yamagata, Japan
Client: Japan Highway Public Corporation
Architects: Steel pipe-concrete composite pier: Obayashi Corporation
Other parts: Yachio Engineering Co., Ltd.
Project: Roadbed civil engineering (406m)
Steel pipe-concrete composite pier (bridge length 627m)
Completion: February 1999



OVERSEAS PROJECTS



Nizamuddin Bridge

Nizamuddin Bridge

Rebuilding the Nizamuddin Bridge in New Delhi was Obayashi's first construction project in India. After battling oppressive heat and torrential rains, and adapting advanced Japanese technologies and management methods to India's abundant labor force, we completed the project more quickly than the locals could believe. The bridge represents our first step into a market we believe will grow considerably in coming years.

Bangkok MRTA Initial System Project Underground Structures, North

One of the largest overseas design-and-build contracts Obayashi has ever won came from the Metropolitan Rapid Transit Authority (MRTA) in Bangkok, Thailand. The project — a subway to help alleviate Bangkok's famous traffic congestion. The segment assigned to the Obayashi Group runs north from the Rama IX Station for 11 km. The project will require long-distance shield tunneling beneath heavily trafficked roads and through very soft soil. The difficulty of boring the tunnel, and our track record of shield tunneling projects, were key factors in MRTA's decision to award the contract to the Obayashi Group. We will build nine subway stations as we tunnel along toward the finish date in 2002.

Sydney M2 Toll Road

Obayashi has an impressive track record of BOT projects. Our second such project in Australia was the recently completed Sydney M2 Toll Road. The road is part of the highway-building program of the government of New South Wales, where Sydney is located. The 30 km highway connects Sydney's

commercial and economic center with newly developed residential suburbs to the west and north-west. The toll road is expected to alleviate chronic traffic congestion as well as spur economic growth in the outlying areas. Obayashi handled the lion's share of this massive undertaking, completing a 21 km stretch of the road that included nine interchanges, 28 bridges, and one tunnel.



Komatsu Electronic Metals U.S. Factory

Obayashi recently completed the first overseas plant for Komatsu Electronic Metals Co., one of the world's largest producers of silicon wafers for semiconductors. We built it near Portland, Oregon, where global semiconductor corporations such as Intel, Fujitsu, and Shinetsu Semiconductor already have operations. We took charge of building the clean rooms, water purification facilities, chemical and gas supply equipment, and waste water and flue gas treatment facilities — everything but the wafer production equipment. The project required precision execution, a trademark of Obayashi engineering technology.



SENIOR MANAGING DIRECTOR Wakao Oba



Obayashi's overseas operations began in the aftermath of the Second World War as Japanese reparations projects got under way throughout Southeast Asia. Now, more than three decades later, we have operations in 21 countries. In FY1998, overseas income amounted to ¥139.2 billion (US\$1,054 million), or 9.5% of total consolidated revenues.

Our overseas business grew steadily over the years, but in July 1997, currency crises revealed certain weaknesses in the economies of some Southeast Asian countries. Concerns about the impact of the single European currency also contributed to economic uncertainty. These events underscore the need for today's corporations to gain a deep understanding of overall global economics, develop reliable decision-making skills, and take extraordinary care in their everyday international dealings. We cannot escape the march of economic globalization, which intensifies competition in every nation. Obayashi meets these conditions by developing the best possible local subcontractors, cooperating with reliable local companies, and constantly working to improve the skills of local employees. In addition, we rely on our overseas network to help with international procurement, as part of our continuing efforts to reduce overall construction costs. We are very selective about the overseas projects we undertake, working hard to assure that each one offers a reasonable profit margin. With these systems in place, we feel confident in our foundation for the 21st century.

SIA BUILDING

Singapore Airlines is famous for its great service, and is consistently ranked among the top airlines in the world by international business travelers. Obayashi recently completed the airline's new headquarters building in Singapore. As the picture shows, the building stands among the famous high-rise structures of downtown Singapore. In addition, the building site was very close to the MRT subway (a part of which is being constructed by Obayashi), which required extra care during construction. The high-rise portion of the building features glass curtain walls while the lower stories are faced with marble. It will surely be a landmark of Singapore in the coming years.

Location: Singapore
Client: Singapore Airlines
Architects: SAA Partnership
T.Y. Lin South East Asia
PCR Engineers
Rider Hunt Levett & Bailey
Structure: RC, 35F
Floor area: 46,575 m²
Completion: March 1997





Large wooden structures

Large wooden structures

Building construction releases CO₂ into the atmosphere, a grave issue in urban areas. In search for a solution to this issue, our scientists built a wooden research building on the grounds of the Obayashi Technical Research Institute. We found that a wooden building releases less than half as much life-cycle carbon dioxide (LCCO₂) into the atmosphere as a reinforced concrete structure. While wood is a renewable, environmentally friendly material, its use in large structures presented difficulties, because of the size and strength of the components.

Obayashi solved this problem with a unique method of connecting the beams, which allowed construction of large, pillar-free enclosures made of wood. By using wood to construct gymnasiums and other such structures, we can reduce the burden on the environment.

Refreshing enclosed ocean areas

Coastal cities often build concrete breakwaters that prevent water in harbors from flowing in and out with the tides. The result is often a buildup of suspended matter in the water, causing unpleasant odors and sometimes algae explosions called red tides. The situation is out of control in some areas.

Reasons for these phenomena include deoxygenization of deeper water strata. This is caused by reduced circulation of water and excessive use of oxygen to break down bottom sludge, which results in a layer of oxygen-poor water near the bottom. Obayashi succeeded in planning and implementing a project to improve water quality in Osaka Bay, with dramatic results.

Obayashi plans to use data and know-how accumulated during this project to help design and execute similar projects in other closed harbors around Japan.

BIMA Plant No.1

Obayashi's BIO-MANAHL (BIMA) System generates energy while treating biological waste. The first BIMA plant was completed recently in Kyoto, Japan.

The BIMA digestion tank does not require the materials to be mixed, and it can process highly concentrated waste as well. The plant is entirely self-sufficient, using methane gas produced by the process to generate electricity. In addition, sludge from the process can be dried and used as fertilizer.

The BIMA system places no extra burden on the environment, and it optimizes use of natural resources. We envision many uses for this system in processing everything from animal and food-processing waste to organic and inorganic sludge.



SENIOR MANAGING DIRECTOR

Yoshihisa Obayashi

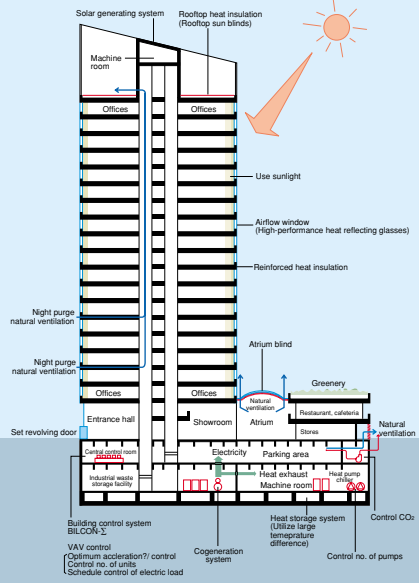
In December 1997, COP3 was held in Kyoto, Japan. Fifteen years earlier, in 1982, Obayashi had already developed an energy-efficient building that used 98 different energy-saving technologies. This building houses the Obayashi Technical Research Institute, and has proven its worth, both in reduced operating costs and in environmental friendliness.

In 1992, we announced the Obayashi Action Plan for Sustainable Development, voluntarily taking on the responsibility to work toward protecting the environment. In February 1997, we established an Environmental Management Department and started preparing our operations for certification under ISO 14000 series standards. Our Tokyo Head Office acquired certification in September 1998.

The time for development at the expense of the environment is past. The issue facing the construction industry in the 21st century is clear — as we create the cities of the future, we must protect the environment and maintain harmony with nature.



ENERGY CONSERVATION PROTOTYPE PROPOSAL



OBAYASHI PROPOSES ENERGY-CONSERVING, LONG-LASTING STRUCTURES

With the 21st century upon us, we can no longer ignore environmental issues. One of the most important is global warming, which may be caused by increased CO₂ and other greenhouse gases in the atmosphere. In Japan, CO₂ accounts for 94.4% of all greenhouse gas emissions. Reducing emissions of CO₂ holds the key to dealing with global warming.

In 1982, Obayashi built an energy-efficient building that incorporated 98 energy-saving technologies. Data compiled in the 15 years since the building's completion show that it emits only 73% as much CO₂ as a conventional structure. This kind of

building costs more to construct, but savings in operating costs pay back that difference in only eight years.

In 1995, Obayashi completed another energy-efficient building, using many of the techniques developed for the original version. We also have a computerized analysis system that evaluates energy-saving programs. We plan to use the system to create the best solutions for various building sizes and locations, as quickly as possible. Obayashi led the world in energy-conserving technology, and today we are seeing our efforts pay off.



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.

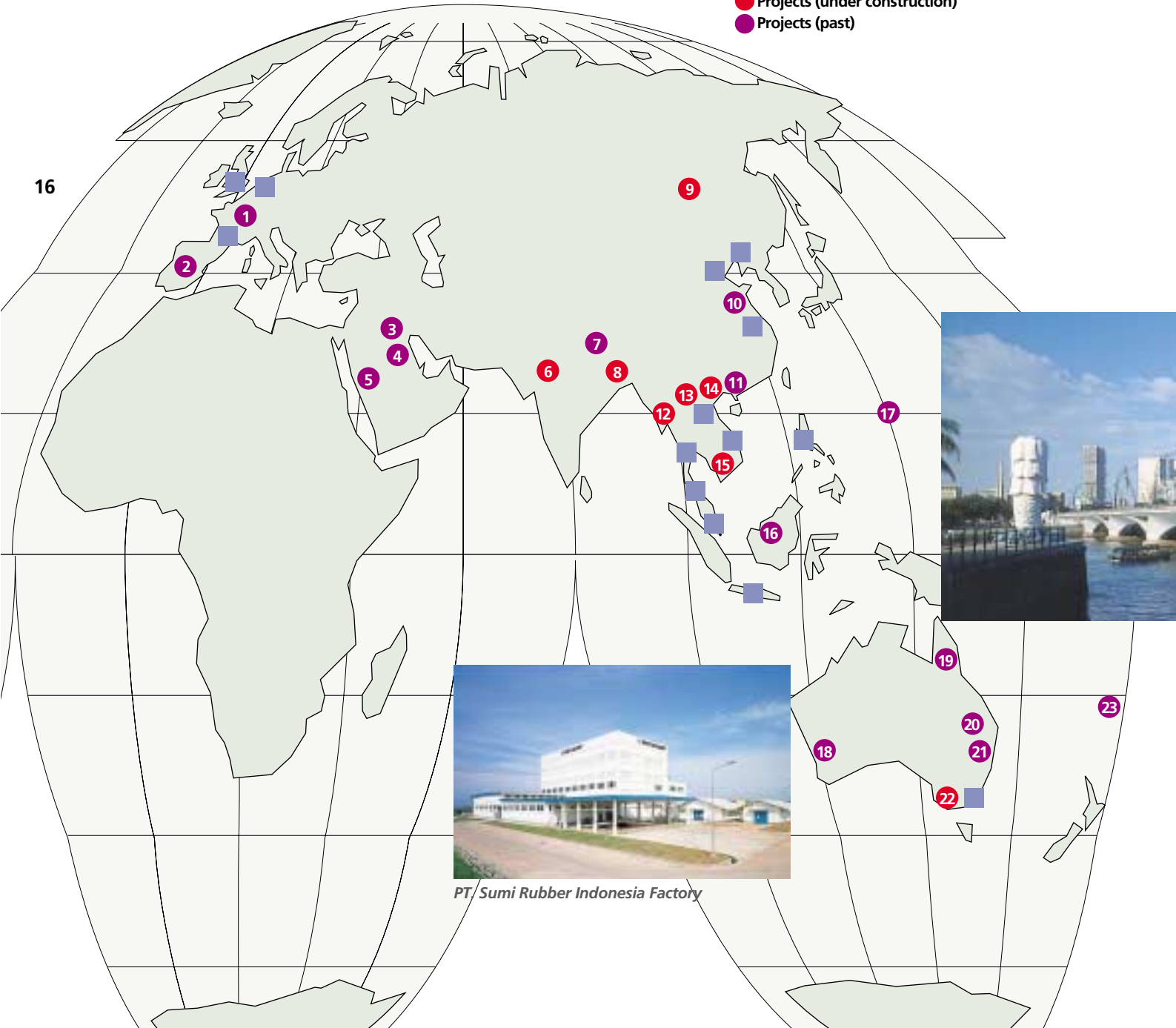
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| 2 Spain | 10 Beijing | 17 Guam |
| 3 Iraq | 11 Hong Kong | 18 Perth |
| 4 Kuwait | 12 Myanmar | 19 Cairns |
| 5 Saudi Arabia | 13 Laos | 20 Brisbane |
| 6 India | 14 Vietnam | 21 Gold Coast |
| 7 Nepal | 15 Cambodia | 22 Melbourne |
| 8 Bangladesh | 23 Fiji | |

Embassy of Japan in Hanoi



- Overseas Operation (as of December 1997)**
- Representative offices/offices/project offices
 - Projects (under construction)
 - Projects (past)

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PT Sumi Rubber Indonesia Factory



Vientiane International Airport
Passenger Terminal in Laos



Bangkok MRTA Initial System Project
Underground Structures — North

Esplanade Bridge in Singapore

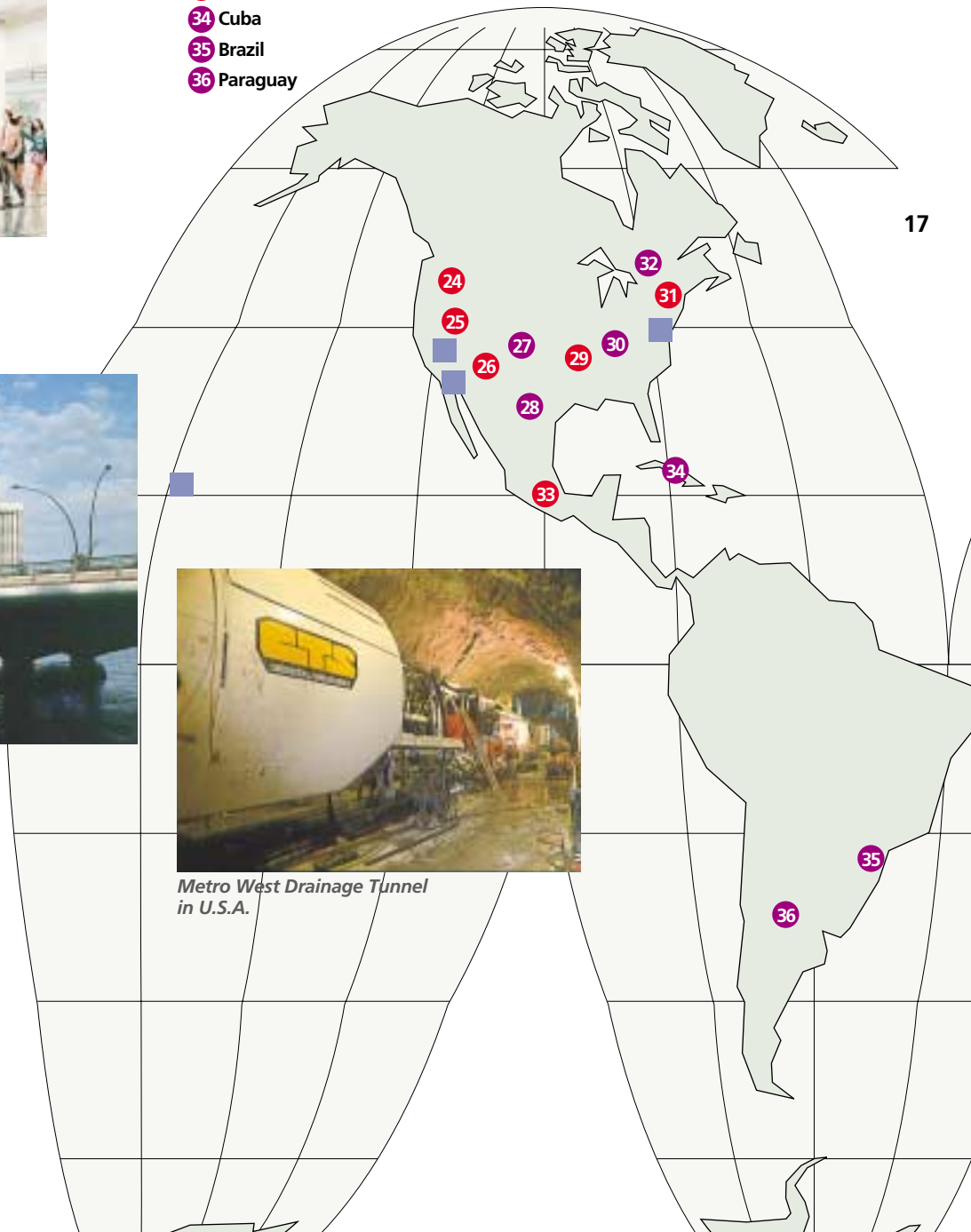


Sydney Olympic Stadium in
Australia

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



Sumitomo Sitix of Phoenix, Inc. in U.S.A.



Metro West Drainage Tunnel
in U.S.A.

OBAYASHI SUBSIDIARIES

A list of consolidated and overseas subsidiaries follow. Those subsidiaries included in the financial statements are identified with asterisks (*) after their names.

OVERSEAS

Thai Obayashi Corporation Limited

A joint venture with local companies, Thai Obayashi was founded in 1974. Thanks to growth in public and private sectors, the company has become one of Thailand's premier construction firms. Thai Obayashi completed its own offices, the Rajadamri Building, in 1991.

Obayashi Singapore Pte. Ltd.

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

Obayashi Construction (Malaysia) Sdn. Bhd.

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

P.T. Jaya Obayashi

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 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

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

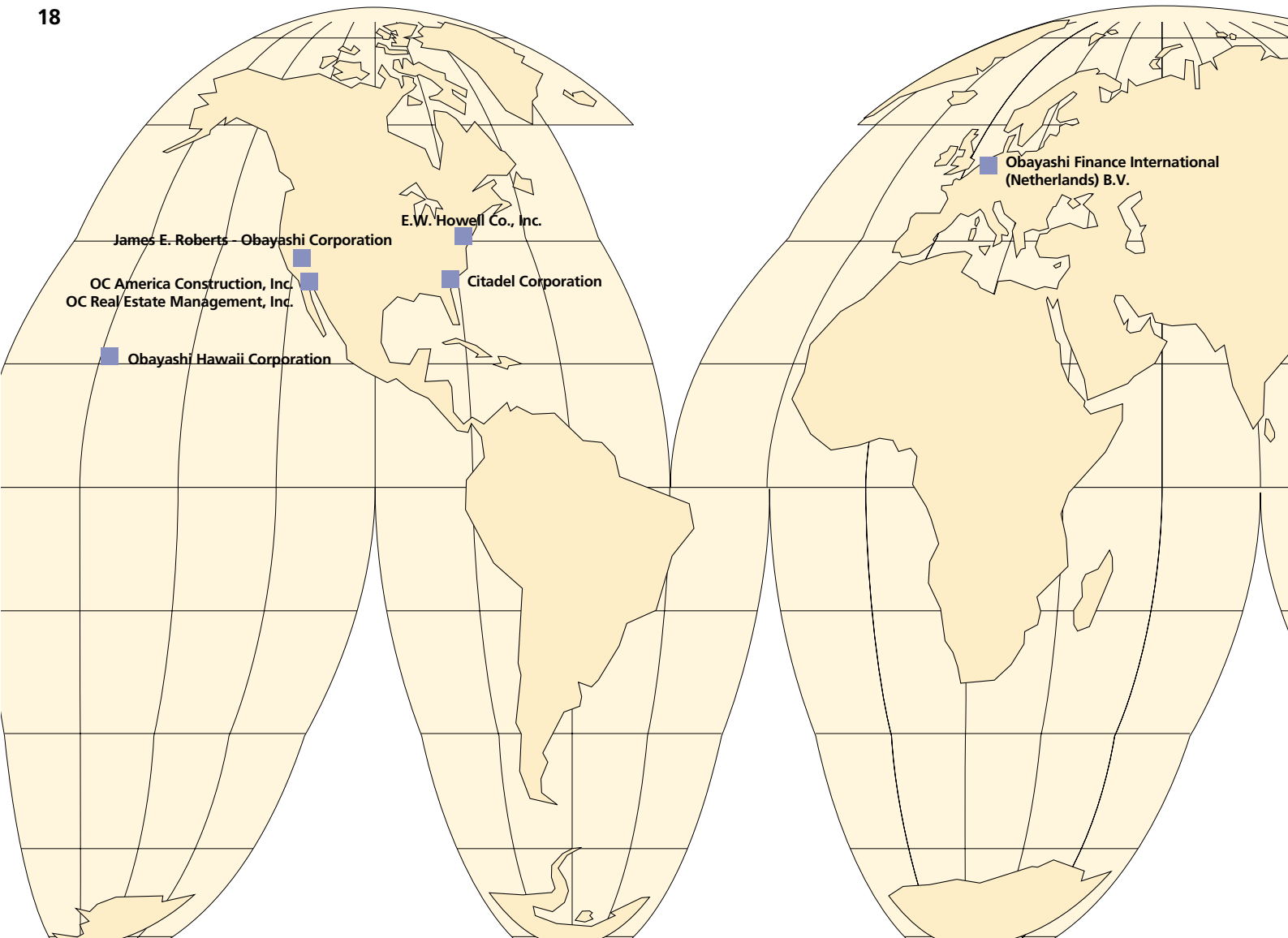
Obayashi Philippines Corporation

In 1990, Obayashi established this joint venture with a local company. The subsidiary concentrates on office buildings and factories for Japanese companies moving into the Philippines.

E.W. Howell Co., Inc.

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

18



Citadel Corporation

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

OC America Construction, Inc.

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

OC Real Estate Management, Inc.

This Los Angeles-based company was set up in 1993 to manage development and real estate projects.

James E. Roberts-Obayashi Corporation

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

Obayashi Hawaii Corporation

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

Obayashi Finance International (Netherlands) B.V.*

This Amsterdam subsidiary, founded in 1989, does overseas funding, financing, and bonding; invests in securities and other instruments; handles real estate-related transactions; and acquires and markets technology, know-how, and other intangible assets.

DOMESTIC

Obayashi Real Estate Corporation*

Obayashi Real Estate began creating residential developments in the late 1960s. Today the company creates and markets residential developments, as well as owning and managing rental office buildings. Its activities concentrate in Tokyo and surrounding area, and in the Kinki area of western Japan.

Obayashi Kawanishi Development, Ltd.*

Obayashi Kawanishi was established in November 1978 to develop the Kawanishi New Town residential project in Kawanishi, Hyogo prefecture. The company named the Takaosan Keyakizaka, connoting its emphasis on harmony with nature. Sales of residences at the development began in 1984 and continue today.

OC Finance Corporation*

Against a background of changing industrial structures, deregulation in the financial industry, and more raising of capital directly from the market prompted the establishment of OC Finance in November 1989. The company is charged with procurement and management of funds for the entire Obayashi group, ensuring a continuing, smooth supply for the group's widely varied operations.

Naigai Technos Corporation*

Founded in 1896, Naigai became one of Japan's premier interior contractors, executing such prestigious projects as the New Imperial Palace, the National Diet Building, and the Kyoto International Convention Center. In commemoration of its centennial year, Naigai changed its corporate name from Naigai Mokuzai Kogyo Co. to Naigai Technos Corporation, to better reflect the true nature of its business.

Hakuto Real Estate, Ltd.*

Hakuto was established in March 1977 to manage rental buildings in and around Tokyo. Today it manages buildings in Tokyo, Sapporo, and other cities, as well as managing parking facilities and dealing in condominiums.

Hakusei Real Estate, Ltd.*

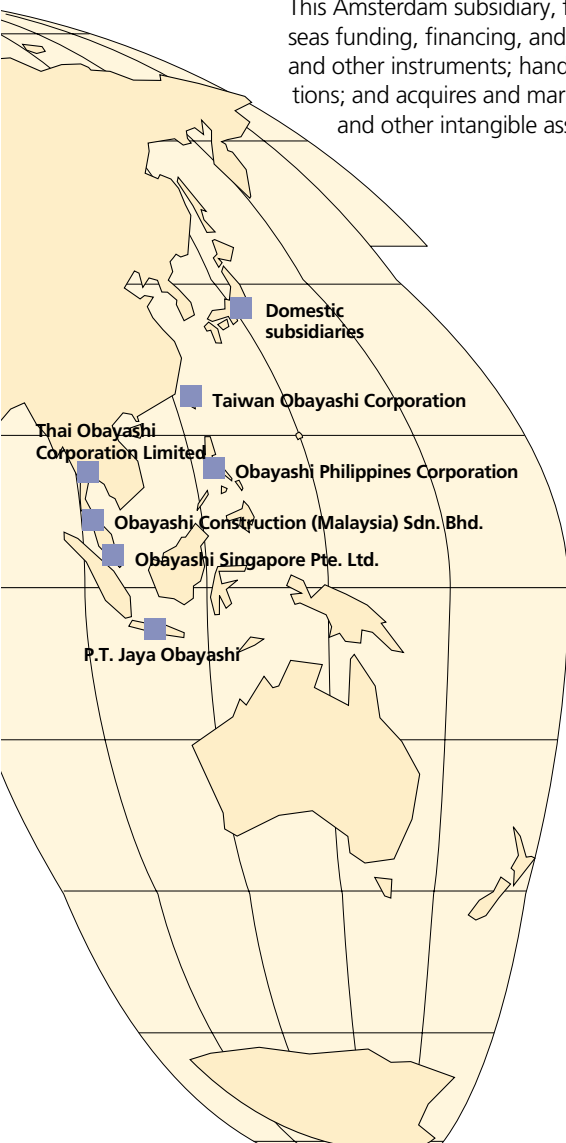
Hakusei was established in March 1977 to manage rental buildings in and around Osaka. Today, it manages the Osaka Obayashi building, among others.

Miyagi Green Co., Ltd.*

Miyagi Green was established in September 1985 to develop and manage a golf course in the city of Natori, Miyagi prefecture. Construction began in June 1989 and the course was completed in March 1992, when memberships to the Natori Golf Club were offered. The course opened in September, and has been managed successfully ever since.

Mutsuzawa Green Co., Ltd.*

Mutsuzawa Green was established in January 1986 to develop a golf course on land owned by Obayashi Corporation in the town of Mutsuzawa, Chiba prefecture. The course was named Daystar Golf Club when construction began in June 1987. It was finished in November 1991 and is currently one of the most popular membership golf clubs in the area.



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 con-



Tokyo Station

tracts 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.

1920

In the early 1920s, the Fluor Company 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 fire-proof, quake-resistant, reinforced concrete buildings. Thanks to technologies learned from Fluor, 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.

Mainichi Newspaper office



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.



Singapore's east coast reclamation project

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, completed in 1978. 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.

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 m². 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.



Kansai International Airport

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 will be moved to the Shinagawa Intercity.

Technical Research Institute



MANAGEMENT'S DISCUSSION OF THE FINANCIAL STATEMENTS

Results of the Year

With a consumption tax increase and the lapsing of special tax reductions, a recessionary mood spread throughout the Japanese economy during fiscal year 1997. Where private capital investments had shown signs of increasing, anxiety about the stability of Japan's financial industry, along with continuing declines in consumer spending, brought that trend to a halt. Toward the end of the fiscal year, the economy's decline gathered considerable speed.

The construction industry saw lackluster demand in the private sector, led by non-manufacturing industries. Public works budgets were trimmed significantly as well. This led to extreme competition for new orders.

In this severe environment, Obayashi made every effort to increase contracts, but orders received dropped by 9.8% to ¥1.335 trillion.

Revenues also declined to ¥1.487 trillion, 3.5% less than last year. Of this amount, 95.6% was in construction work and 4.4% in real estate and other areas. Overseas projects accounted for 11.1% of construction revenues.

Profits suffered as well, due to declining margins and write-offs taken to adjust securities held to market prices. Operating profit was down 19.4% to about ¥24.9 billion, and net profit dropped 13.9% to about ¥11.7 billion.

Significant orders received

- Bangkok MRTA Initial System Project
Underground Structures — North
- Sydney Olympics Multi-use Arena
- Garden City Towers
- NEC Tamagawa Renaissance City
- Shiba 3-chome Kyodo Building

Significant projects completed

- Kyoto Station Building
- Tokyo Wan Aqua-line
- Komatsu Electronic Metals U.S. Factory
- Sydney M2 Toll Road
- Festivalgate

Outlook for FY1999

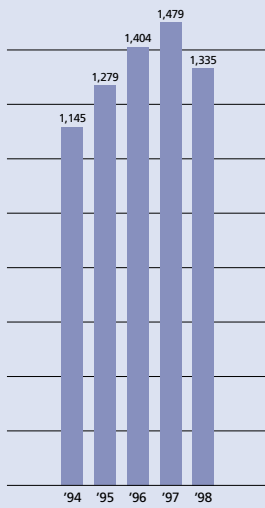
Many expect government economic stimulus programs to take effect during the next year. Nevertheless, we cannot expect sudden rises in consumer spending or capital investment in the private sector. Undoubtedly, the economy will continue lagging for some time.

In the construction industry, we do not foresee a revival of private sector capital investment anytime soon. Public works budgets will also be tightly controlled. These factors will certainly result in increased competition for new orders. This means Obayashi must work even harder to win project bids and make reasonable profits.

To cope with this severe business environment, Obayashi's sales divisions must work very closely with design, production, and technical development divisions to provide construction solutions that meet changing market and customer needs. Winning new orders is the most important challenge facing the company in the coming year. On the other hand, it will also be vital for everyone to understand the severity of current economic conditions and strive to find every way possible to improve production efficiency on site, find better ways of purchasing in larger lots, train subcontractors to be more efficient, and take every other measure necessary to reduce project costs. The entire company is charged with managing more efficiently, taking a hard look at personnel allocation, finding new and better ways to gather and analyze information, and reducing the cost of sales. If we can meet these challenges, we should be able to make a reasonable profit.

Targets for FY1999 are ¥1.38 trillion in revenues, and operating profits of ¥24 billion.

**5-year orders received
(¥ billion)**



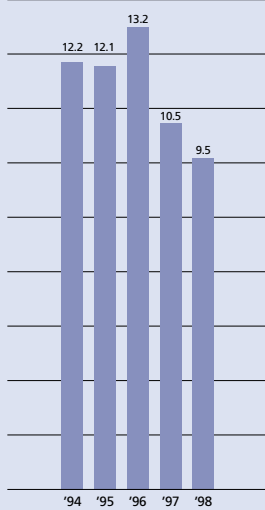
**5-year revenues breakdown
(¥ billion)**



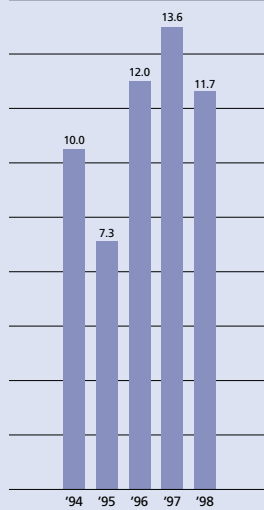
**5-year gross profit breakdown
(¥ billion)**



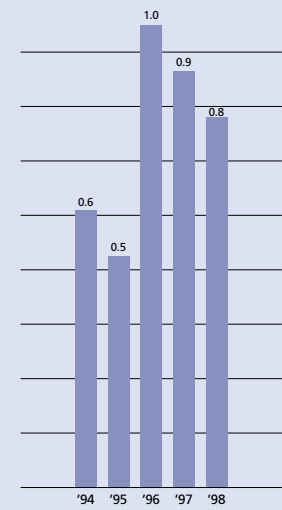
**5-year gross margin ratio
(%)**



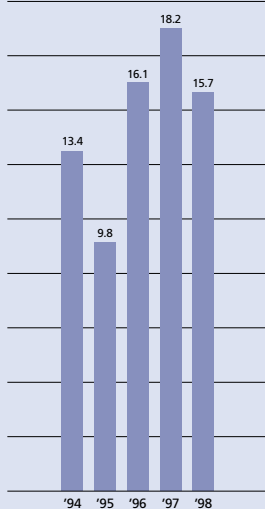
**5-year net income
(¥ billion)**



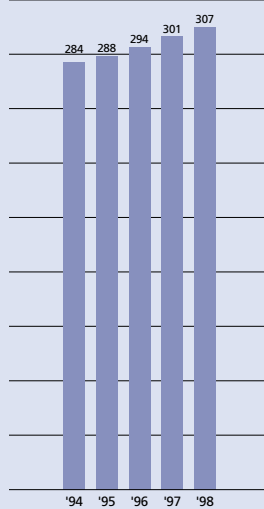
**5-year net income to sales
(%)**



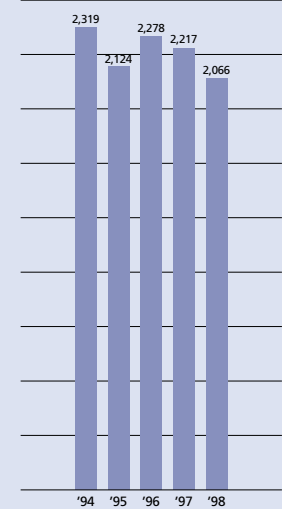
**5-year net income per share
(¥)**



**5-year shareholders' equity
(¥ billion)**



**5-year backlog at year end*
(¥ billion)**



Dividends

It has long been Obayashi's basic policy to assure stable long-term dividends by strengthening the company's financial position, developing technology for the future, and retaining earnings to plow back into facilities and equipment.

Even though revenues declined and the economic situation surrounding the company remains severe, Obayashi resolved to give shareholders a fair return on their investment by declaring a dividend of ¥8 per common share for the year (¥4 paid at mid-term and ¥4 at year-end). The dividend amounts to 55% of net profits.

Profits remaining in shareholders' equity will be invested in technical development and facilities and equipment needed in the future.

FIVE-YEAR FINANCIAL SUMMARY Obayashi Corporation and Consolidated Subsidiaries Years ended March 31, 1998 to 1993.

	1998	1997	1996	1995	1994	1993	1998
Operating results:	(millions)						(thousands)
Revenues							
Construction	¥1,421,531	¥1,474,970	¥1,184,199	¥1,347,170	¥1,576,184	¥1,454,597	\$10,769,174
Real estate	65,964	66,515	60,082	74,808	76,623	83,937	499,728
Total	1,487,495	1,541,485	1,244,281	1,421,978	1,652,807	1,538,534	11,268,902
Cost of Sales	1,345,920	1,379,891	1,079,598	1,249,599	1,450,776	1,362,244	10,196,364
Gross profit	141,575	161,594	164,683	172,379	202,031	176,290	1,072,538
Selling, general and administrative expenses	104,907	117,759	122,769	116,305	118,471	112,729	794,750
Operating income	36,668	43,835	41,914	56,074	83,560	63,561	277,788
Interest expenses	(8,619)	(10,681)	(14,900)	(23,657)	(26,505)	(29,159)	(65,295)
Net income	11,723	13,622	12,013	7,316	10,025	21,004	88,811
Financial position:							
Total assets	¥2,267,861	¥2,430,025	¥2,468,883	¥2,326,812	¥2,493,896	¥2,544,140	\$17,180,765
Total liabilities	1,960,852	2,128,467	2,174,698	2,038,419	2,209,703	2,263,652	14,854,939
Shareholders' equity	307,009	301,558	294,185	288,393	284,193	280,488	2,325,826
Per share amounts:							(unit=1)
Net income	¥15.73	¥18.28	¥16.12	¥9.82	¥13.45	¥28.19	\$0.12
Dividends	8.00	8.00	8.00	8.00	8.00	8.00	0.06
Shareholders' equity	412.00	404.68	394.80	387.03	381.40	376.43	3.12
Number of employees	11,721	12,014	12,204	12,518	12,714	12,157	

Notes: 1. Dollar amounts represent translations at of ¥132=US\$1, the rate prevailing on March 31, 1998.

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 1998

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Consolidated Balance Sheets

OBAYASHI CORPORATION March 31, 1998 and 1997

ASSETS

	Japanese Yen (millions)		U.S. Dollars (thousands)	
	FY 1998	FY 1997	FY 1998	FY 1997
CURRENT ASSETS:				
Cash and deposits	¥ 88,718	¥ 108,341	\$ 672,106	\$ 820,765
Notes and accounts receivable, trade	304,431	357,956	2,306,295	2,711,788
Allowance for doubtful receivables (Note 2)	(1,756)	(1,969)	(13,303)	(14,917)
Marketable securities (Notes 2 and 4)	214,234	209,299	1,622,985	1,585,598
Inventories (Notes 2 and 5)	951,459	1,047,200	7,208,023	7,933,333
Sums due from unconsolidated subsidiaries and affiliates	10,363	5,882	78,508	44,561
Other current assets	118,595	124,319	898,447	941,811
Total current assets	¥1,686,044	¥1,851,028	\$ 12,773,061	\$ 14,022,939
PROPERTY AND EQUIPMENT (Notes 2 and 7):				
Land	209,806	204,344	1,589,439	1,548,061
Buildings	196,442	188,372	1,488,197	1,427,061
Machinery and equipment	67,999	71,783	515,144	543,810
Construction in progress	13,652	14,222	103,424	107,742
Accumulated depreciation	(112,916)	(106,807)	(855,424)	(809,144)
Total property and equipment	¥ 374,983	¥ 371,914	\$ 2,840,780	\$ 2,817,530
INVESTMENTS AND OTHER ASSETS:				
Investment securities (Notes 2 and 4)	73,357	71,554	555,735	542,076
Investments in unconsolidated subsidiaries and affiliates (Notes 1 and 4)	20,665	21,611	156,553	163,720
Long-term loans receivable (Note 7)	60,857	64,143	461,038	485,932
Long-term loans to unconsolidated subsidiaries and affiliates	4,019	4,113	30,447	31,159
Others	87,832	79,232	665,393	600,242
Allowance for doubtful receivables (Note 2)	(39,920)	(33,571)	(302,424)	(254,326)
Total investments and other assets	¥ 206,810	¥ 207,082	\$ 1,566,742	\$ 1,568,803
Foreign exchange translation adjustments (Note 2)	24	1	182	8
Total assets	¥2,267,861	¥2,430,025	\$ 17,180,765	\$ 18,409,280

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

LIABILITIES AND SHAREHOLDERS' EQUITY

	Japanese Yen (millions)		U.S. Dollars (thousands)	
	FY 1998	FY 1997	FY 1998	FY 1997
CURRENT LIABILITIES:				
Short-term borrowings (Note 6)	¥ 401,267	¥ 416,948	\$ 3,039,901	\$ 3,158,697
Current portion of long-term debt (Notes 6 and 7)	41,519	66,381	314,538	502,886
Notes and accounts payable, trade	408,350	486,043	3,093,561	3,682,144
Accrued income taxes	9,440	12,252	71,515	92,818
Advances received on construction projects in progress (Note 2)	690,048	735,160	5,227,636	5,569,394
Advances received on real estate for sale	7,215	8,068	54,659	61,121
Accrued expenses	20,933	23,248	158,584	176,122
Other current liabilities	98,326	109,365	744,894	828,523
Total current liabilities	¥1,677,098	¥1,857,465	\$ 12,705,288	\$ 14,071,705
LONG-TERM LIABILITIES:				
Long-term debt (Notes 6 and 7)	208,312	194,727	1,578,121	1,475,205
Accrued severance indemnities (Notes 2 and 8)	37,471	37,556	283,872	284,515
Other long-term liabilities	37,971	38,719	287,659	293,325
Total long-term liabilities	¥ 283,754	¥ 271,002	\$ 2,149,652	\$ 2,053,045
CONTINGENT LIABILITIES (Note 13)				
SHAREHOLDERS' EQUITY:				
Common stock, par value ¥50 per Share (Note 10):				
Authorized: 1,248,000,000 Shares				
Issued; 745,172,442 Shares (1997)	—	57,752	—	437,515
745,173,544 Shares (1998)	57,752	—	437,515	—
Additional paid-in capital (Note 10)	41,694	41,702	315,864	315,924
Legal reserve (Note 10)	13,820	13,191	104,697	99,932
Retained earnings (Notes 2 and 10)	193,747	188,917	1,467,780	1,431,189
Treasury stock	(4)	(4)	(30)	(30)
Total shareholders' equity	¥ 307,009	¥ 301,558	\$ 2,325,826	\$ 2,284,530
	¥2,267,861	¥2,430,025	\$ 17,180,766	\$ 18,409,280

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, 1998 and 1997

	Japanese Yen (millions)		U.S. Dollars (thousands)	
	FY 1998	FY 1997	FY 1998	FY 1997
REVENUES (Notes 2 and 11):				
Completed construction	¥1,421,531	¥1,474,970	\$ 10,769,174	\$ 11,174,015
Real estate and other	65,964	66,515	499,728	503,902
	1,487,495	1,541,485	11,268,902	11,677,917
COST OF SALES (Note 2):				
Completed construction	1,288,362	1,310,080	9,760,318	9,924,848
Real estate and other	57,558	69,811	436,046	528,872
	1,345,920	1,379,891	10,196,364	10,453,720
Gross profit	141,575	161,594	1,072,538	1,224,197
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	104,907	117,759	794,750	892,114
Operating income	36,668	43,835	277,788	332,083
OTHER INCOME (EXPENSES):				
Interest and dividend income	7,183	7,346	54,417	55,652
Interest expenses	(8,619)	(10,681)	(65,295)	(80,917)
Other, net	(9,995)	(9,643)	(75,720)	(73,053)
Total	(11,431)	(12,978)	(86,598)	(98,318)
INCOME BEFORE INCOME TAXES	25,237	30,857	191,190	233,765
INCOME TAXES (Notes 2 and 9):				
Current	13,683	17,147	103,659	129,901
Deferred	(22)	290	(167)	2,197
	13,661	17,437	103,492	132,098
EQUITY IN EARNINGS OF AFFILIATED COMPANY	147	202	1,113	1,530
NET INCOME	¥ 11,723	¥ 13,622	\$ 88,811	\$ 103,197
PER SHARE DATA (Note 10):				
Net income				
Assuming no dilution	¥ 15.73	¥ 18.28	\$ 0.12	\$ 0.14
Assuming full dilution	15.67	18.13	0.12	0.14
Cash dividends	8.00	8.00	0.06	0.06

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, 1998 and 1997

	Japanese Yen (millions)		U.S. Dollars (thousands)	
	FY 1998	FY 1997	FY 1998	FY 1997
COMMON STOCK (Note 10):				
Balance at beginning of year	¥ 57,752	¥ 57,745	\$ 437,515	\$ 437,462
Conversion of convertible bonds	0	7	0	53
Balance at end of year	¥ 57,752	¥ 57,752	\$ 437,515	\$ 437,515
ADDITIONAL PAID-IN CAPITAL (Note 10):				
Balance at beginning of year	41,702	41,695	315,924	315,871
Conversion of convertible bonds	0	7	0	53
Other	(8)	—	(60)	—
Balance at end of year	¥ 41,694	¥ 41,702	\$ 315,864	\$ 315,924
LEGAL RESERVE (Note 10):				
Balance at beginning of year	13,191	12,562	99,932	95,167
Transfer from retained earnings	629	629	4,765	4,765
Balance at end of year	¥ 13,820	¥ 13,191	\$ 104,697	\$ 99,932
RETAINED EARNINGS (Notes 2 and 10):				
Balance at beginning of year	188,917	182,189	1,431,189	1,380,220
Net income for the year	11,723	13,622	88,811	103,197
Cash dividends paid	(5,961)	(5,962)	(45,159)	(45,167)
Bonuses to directors and corporate auditors	(303)	(303)	(2,296)	(2,296)
Transfer to legal reserve	(629)	(629)	(4,765)	(4,765)
Balance at end of year	¥ 193,747	¥ 188,917	\$ 1,467,780	\$ 1,431,189
NUMBER OF SHARES:				
	(thousands)			
Balance at beginning of year	745,172	745,158		
Conversion of convertible bonds	1	14		
Balance at end of year	745,173	745,172		

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, 1998 and 1997

	Japanese Yen (millions)		U.S. Dollars (thousands)	
	FY 1998	FY 1997	FY 1998	FY 1997
OPERATING ACTIVITIES:				
Net income	¥ 11,723	¥ 13,622	\$ 88,811	\$ 103,197
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	13,891	14,886	105,235	112,773
Allowance for doubtful receivables	6,705	7,261	50,795	55,007
Provision for severance indemnities	7,328	6,610	55,515	50,076
Loss (Gain) on sales and disposals of property, equipment and marketable and investment securities	880	1,929	6,667	14,614
Severance indemnities paid	(7,413)	(5,504)	(56,159)	(41,697)
Write down of marketable securities	10,081	4,201	76,371	31,826
Deferred income taxes	(61)	369	(462)	2,795
Undistributed earnings of affiliate	(27)	(82)	(205)	(621)
Changes in assets and liabilities:				
Trade receivables	41,713	2,688	316,008	20,364
Inventories	92,922	42,811	703,955	324,326
Other current assets	1,523	(946)	11,538	(7,167)
Trade payables	(77,693)	24,594	(588,583)	186,318
Accrued income taxes	(2,813)	(3,237)	(21,311)	(24,523)
Advances received on construction projects in progress	(45,112)	(21,676)	(341,758)	(164,212)
Advances received on real estate for sale	(853)	(2,484)	(6,462)	(18,818)
Accrued expenses	(2,365)	343	(17,917)	2,598
Other current liabilities	(11,061)	14,284	(83,795)	108,212
Other, net	(1,735)	516	(13,144)	3,909
Total adjustments	25,910	86,563	196,288	655,780
Net cash provided by (used in) operating activities	37,633	100,185	285,099	758,977
INVESTING ACTIVITIES:				
Purchases of marketable and investment securities	(34,821)	(26,308)	(263,795)	(199,303)
Proceeds from sale of marketable and investment securities	19,922	24,127	150,924	182,780
Proceeds from sale of property and equipment	1,533	18	11,614	136
Purchases of property and equipment	(16,701)	(19,372)	(126,523)	(146,757)
Proceeds from repayments of loans	10,351	10,703	78,417	81,083
Loans advances	(6,350)	(21,970)	(48,106)	(166,439)
Others	1,718	2,325	13,015	17,614
Net cash provided by (used in) investing activities	(24,348)	(30,477)	(184,454)	(230,886)
FINANCING ACTIVITIES:				
Proceeds from short-term and long-term debt	357,995	282,950	2,712,083	2,143,561
Repayment of short-term and long-term debt	(372,518)	(341,486)	(2,822,106)	(2,587,015)
Proceeds from issue of bonds	19,080	18,600	144,545	140,909
Redemption of bonds	(31,192)	(19,400)	(236,303)	(146,970)
Cash dividends and bonuses to directors and corporate auditors	(6,273)	(6,273)	(47,523)	(47,523)
Net cash provided by (used in) financing activities	(32,908)	(65,609)	(249,304)	(497,038)
Net increase (decrease) in cash and deposits	(19,623)	4,099	(148,659)	31,053
Cash and deposits at beginning of the year	108,341	104,242	820,765	789,712
Cash and deposits at end of the year	¥ 88,718	¥ 108,341	\$ 672,106	\$ 820,765
SUPPLEMENTAL INFORMATION OF CASH FLOWS:				
Cash paid during the year for:				
Interest	¥ 14,153	¥ 16,831	\$ 107,220	\$ 127,508
Income taxes	15,559	19,778	117,871	149,833

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, 1998 and 1997

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 46 majority-owned subsidiaries as of March 31, 1998 (46 as of March 31, 1997). The consolidated financial statements as of and for the years ended March 31, 1998 included the accounts of the Parent company and 9 (9 as of March 31, 1997) 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%	DGL3,500	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 as they are not significant in term of consolidated net income.

2. Summary of significant accounting policies

- (a) Recognition of revenue and related cost
Revenues from and the related costs of construction contracts are recorded on the completed contract basis. During the construction period, construction projects in progress are included in inventories and advances received on construction projects in progress are included in current liabilities.
- (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 Japanese yen at the historical exchange rates except for the assets and liabilities having forward exchange contract. 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 foreign subsidiary are translated into Japanese 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 are stated principally at cost. Depreciation is computed predominantly by the declining balance method over the estimated useful lives of assets which are prescribed by the Japanese tax laws (Some of the consolidated subsidiaries use the straight line method). The range of useful lives is principally from 3 to 65 years for buildings and from 2 to 15 years for machinery and equipment.

(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 the maximum amount allowed under the Japanese tax laws, which is 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 and prefectural and municipal inhabitants taxes. Enterprise tax is computed on the basis of taxable income and deductible for income tax purposes when paid. It is included in selling, general and administrative expenses in accordance with the accounting principles generally accepted in Japan.

(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.

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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 ¥132=\$1, the approximate exchange rate prevailing on March 31, 1998.

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)		U.S. Dollars (thousands)	
	March 31		March 31	
	FY 1998	FY 1997	FY 1998	FY 1997
Marketable securities	¥ 106,264	¥ 115,861	\$ 805,030	\$ 877,735
Investment securities	60,577	65,597	458,917	496,947
	¥ 166,841	¥ 181,458	\$ 1,263,947	\$ 1,374,682

5. Inventories

Inventories comprised the following:

	Japanese Yen (millions)		U.S. Dollars (thousands)	
	March 31		March 31	
	FY 1998	FY 1997	FY 1998	FY 1997
Construction projects in progress	¥ 711,642	¥ 749,826	\$ 5,391,227	\$ 5,680,500
Real estate for sale	147,868	170,424	1,120,212	1,291,091
Development projects in progress	89,283	124,069	676,387	939,917
Materials and supplies	2,666	2,881	20,197	21,825
	¥ 951,459	¥ 1,047,200	\$ 7,208,023	\$ 7,933,333

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 1.4600 per cent. at March 31, 1998 (0.9961 per cent. at March 31, 1997).

Commercial paper bore interest at the average annual rate of 1.4151 per cent. at March 31, 1998 (0.5521 per cent. at March 31, 1997).

(a) Short-term borrowings comprised the following:

	Japanese Yen (millions) March 31		U.S. Dollars (thousands) March 31	
	FY 1998	FY 1997	FY 1998	FY 1997
Short-term bank loans.....	¥ 331,267	¥ 366,948	\$ 2,509,598	\$ 2,779,909
Commercial paper.....	70,000	50,000	530,303	378,788
	¥ 401,267	¥ 416,948	\$ 3,039,901	\$ 3,158,697

(b) Long-term debt comprised the following:

	Japanese Yen (millions) March 31		U.S. Dollars (thousands) March 31	
	FY 1998	FY 1997	FY 1998	FY 1997
6.8 per cent. bonds due September, 1997.....	¥ —	¥ —	\$ —	\$ —
6.5 per cent. bonds due October, 1997.....	—	—	—	—
2.55 per cent. bonds due September, 2001.....	10,000	10,000	75,758	75,758
2.9 per cent. bonds due September, 2002.....	10,000	10,000	75,758	75,758
2.1 per cent. convertible bonds due March, 1999.....	1,467	1,468	11,113	11,121
2.1 per cent. convertible bonds due March, 2002.....	1,443	1,443	10,932	10,932
1.5 per cent. convertible bonds due March, 1998.....	—	10,000	—	75,758
1.6 per cent. convertible bonds due March, 2001.....	9,969	9,969	75,523	75,523
1.6 per cent. convertible bonds due March, 2004.....	9,969	9,969	75,523	75,523
Bonds, due 1998-2005.....	58,376	60,696	442,242	459,818
0.90440 per cent. to 5.05 per cent. loans from Japanese banks through 2013.....	56,205	65,972	425,795	499,787
0.97266 per cent. to 7.52 per cent. loans from Japanese insurance companies through 2007.....	76,275	64,520	577,841	488,788
0.83750 per cent. to 5.85 per cent. loans from other financial institutions through 2016.....	16,127	17,071	122,174	129,325
	249,831	261,108	1,892,659	1,978,091
Less: Current portion of long-term debt.....	41,519	66,381	314,538	502,886
	¥ 208,312	¥ 194,727	\$ 1,578,121	\$ 1,475,205

As to the 6.8 per cent. bonds due September, 1997 and 6.5 per cent. bonds due October, 1997 which were transferred to a bank under the "debt assumption" agreements, and resulting contingent liabilities, see Note 13.

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 (\$6.869) per Share, subject to adjustment in certain circumstances.

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 (\$6.869) per Share, subject to adjustment in certain circumstances.

The 1.5 per cent. convertible bonds in the amount of ¥10,000 million due March 31, 1998, 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, 1998 at ¥1,865.7 (\$14.134) per Share, subject to adjustment in certain circumstances. The bonds have been redeemed in full.

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 (\$14.134) 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 (\$14.134) per Share, subject to adjustment in certain circumstances.

The overseas consolidated subsidiary issued bonds, due 1998-2005, partly at a fixed interest rate, partly at an interest rate linked to the actual London inter-bank offered rate and Japan long-term prime rate.

The aggregate annual maturities of long-term debt (including current portion) at March 31, 1998 were as follows:

Year Ending March 31,	Japanese Yen (millions)	U.S. Dollars (thousands)
1999	¥ 41,519	\$ 314,538
2000	23,744	179,879
2001	37,380	283,182
2002	33,697	255,280
2003 and thereafter	113,491	859,780
	¥ 249,831	\$ 1,892,659

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 1998	FY 1997	FY 1998	FY 1997
ASSETS PLEDGED AS COLLATERAL:				
Land*	¥ 16,216	¥ 16,216	\$ 122,848	\$ 122,848
Buildings	44,789	46,431	339,311	351,750
Machinery and equipment	1,604	1,691	12,152	12,811
Long-term loans receivable (Real estate convertible loan)	40,059	41,200	303,477	312,121
	¥ 102,668	¥ 105,538	\$ 777,788	\$ 799,530
LIABILITIES SECURED THEREBY:				
Current portion of long-term debt	¥ 549	¥ —	\$ 4,159	\$ —
Long-term debt	¥ 19,686	¥ 21,404	\$ 149,136	\$ 162,152
Long-term debt of Sanyu Building Corporation*	¥ 289	¥ 275	\$ 2,189	\$ 2,083

* Obayashi Real Estate, Ltd. pledged its land in the amount of ¥96 million (\$727 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)	
	FY 1998	FY 1997	FY 1998	FY 1997
Employees	¥ 13,256	¥ 12,991	\$ 100,424	\$ 98,417
Directors and corporate auditors	331	336	2,508	2,545

9. Income taxes

The Parent company and its consolidated domestic subsidiaries were subject to Japanese corporate and inhabitants taxes, based on income, at a combined normal statutory tax rate of approximately 45 per cent. in the year 1997 to 1998. The effective tax rates reflected in the accompanying statements of income for the years ended March 31, 1998 and 1997 differed from the normal statutory tax rate. The deviation from the normal 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, 1997 and 1998 were as follows:

Year ended March 31,	1998	1997	(thousands)
Assuming no dilution	745,169	745,165	
Assuming full dilution	759,065	764,424	

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, 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	1,368,622	67,064	1,435,686	15,141	1,450,827
Operating income	56,267	3,684	59,951	(23,283)	36,668
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, 1997	Japanese Yen (millions)				
	Construction	Real estate and other	Total	Adjustments and Eliminations	Consolidated
Revenues:					
From outside customers	1,474,970	66,515	1,541,485	—	1,541,485
Intersegment	2,200	4,230	6,430	(6,430)	—
Total	1,477,170	70,745	1,547,915	(6,430)	1,541,485
Operating expenses	1,390,557	82,576	1,473,133	24,517	1,497,650
Operating income (loss)	86,613	(11,831)	74,782	(30,947)	43,835
Total Assets	1,429,360	741,952	2,171,312	258,713	2,430,025
Depreciation	7,287	6,234	13,521	37	13,558
Capital expenditures	15,138	4,098	19,236	206	19,442

Year ended March 31, 1998	U.S. Dollars (thousands)				
	Construction	Real estate and other	Total	Adjustments and Eliminations	Consolidated
Revenues:					
From outside customers	10,769,174	499,727	11,268,901	—	11,268,902
Intersegment	25,439	36,243	61,682	(61,682)	—
Total	10,794,613	535,970	11,330,583	(61,682)	11,268,902
Operating expenses	10,368,348	508,061	10,876,409	114,705	10,991,114
Operating income	426,265	27,909	454,174	(176,387)	277,788
Total Assets	9,691,061	5,578,507	15,269,568	1,911,197	17,180,765
Depreciation	66,424	30,023	96,447	205	96,652
Capital expenditures	38,174	105,712	143,886	227	144,113

Year ended March 31, 1997	U.S. Dollars (thousands)				
	Construction	Real estate and other	Total	Adjustments and Eliminations	Consolidated
Revenues:					
From outside customers	11,174,015	503,902	11,677,917	—	11,677,917
Intersegment	16,667	32,045	48,712	(48,712)	—
Total	11,190,682	535,947	11,726,629	(48,712)	11,677,917
Operating expenses	10,534,523	625,576	11,160,099	185,735	11,345,834
Operating income (loss)	656,159	(89,629)	566,530	(234,447)	332,083
Total Assets	10,828,485	5,620,848	16,449,333	1,959,947	18,409,280
Depreciation	55,205	47,227	102,432	280	102,712
Capital expenditures	114,682	31,045	145,727	1,561	147,288

(b) Geographic Segments

Information by geographic segments is not shown as domestic sales and assets exceeded 90% of all segments for the years ended March 31, 1997 and 1998

(c) Sales by region

Sales by region is not shown as domestic sales exceeded 90% of all segments for the year ended March 31, 1997. Information on sales by region for the year ended March 31, 1998 is as follows.

	Japanese Yen (Millions)	U.S. Dollars (Thousands)
Japan	¥1,323,008	\$10,022,788
United States	99,176	751,333
Other	65,311	494,781
Total	¥1,487,495	\$11,268,902

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 1998	FY 1997	FY 1998	FY 1997
Purchases	¥ 92,312	¥ 46,146	\$ 699,333	\$ 349,591
Sales	10,662	2,287	80,773	17,326

13. Commitments and contingent liabilities

(a) Contingent liabilities

The Companies are contingently liable for the following:

	Japanese Yen (millions)		U.S. Dollars (thousands)	
	FY 1998	FY 1997	FY 1998	FY 1997
Trade notes receivable:				
Endorsed	¥ 4,851	¥ —	\$ 36,750	\$ —
Guarantees of long-term debt of customers, unconsolidated subsidiaries and affiliates	10,023	8,115	75,932	61,477
Guarantee of advances received by other contractor from customer	1,391	3,090	10,538	23,409
Bonds under debt assumption agreement	—	9,000	—	68,182

Contingent liabilities for "Bonds under debt assumption agreement" of the Parent company at March 31, 1997 consisted of the following:

	Japanese Yen (millions) March 31		U.S. Dollars (thousands) March 31	
	FY 1998	FY 1997	FY 1998	FY 1997
6.8 per cent. bonds due September 1997	¥ —	¥ 4,500	\$ —	\$ 34,091
6.5 per cent. bonds due October 1997	—	4,500	—	34,091
	¥ —	¥ 9,000	\$ —	\$ 68,182

Bonds under debt assumption agreement are redeemed and corresponding liability for the in-substance defeasance is eliminated for the year ended March 31, 1998.

At March 31, 1998, the Companies have commitments to guarantees of short-term and long-term debt of customers, subsidiaries and affiliates, amounted to ¥45,060 million (\$341,364).

(b) Commitments

Information on lease transactions is required starting 1998.

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

	Japanese Yen (Millions)		U.S. dollar (Thousands)	
Finance lease with no ownership transaction				
Due within one year	¥ 1,215		\$ 9,205	
Due after one year	2,071		15,689	
Total future payments	¥ 3,286		\$ 24,894	
Operating lease				
Due within one year	¥ 26		\$ 197	
Due after one year	42		318	
Total future payments	¥ 68		\$ 515	

14. Subsequent event

On June 26, 1998, 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	¥ 322	\$ 2,439
Cash dividends	2,980	22,576
Bonuses to directors	230	1,742

Report of the Independent Public Accountants



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The Board of Directors
OBAYASHI CORPORATION

We have examined the consolidated balance sheets of OBAYASHI CORPORATION and consolidated subsidiaries as of March 31, 1998 and 1997 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, 1998 and 1997 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.

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.

Showa Ota & Co.

Showa Ota & Co.

Tokyo, Japan
June 29, 1998

THE BOARD OF DIRECTORS



**CHAIRMAN &
CHIEF EXECUTIVE OFFICER**
Yoshiro Obayashi



VICE CHAIRMAN
Takao Tsumuro



VICE CHAIRMAN
Takeo Ohbayashi



PRESIDENT
Shinji Mukasa



**EXECUTIVE
VICE PRESIDENT**
Masatoshi Inoue



**EXECUTIVE
VICE PRESIDENT**
Ryuji Kudo



**EXECUTIVE
VICE PRESIDENT**
Toshiteru Arakawa



**EXECUTIVE
VICE PRESIDENT**
Kenichi Yamashita

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Chiaki Goto
Taro Ozasa
Hidenobu Ikeda
Katsuaki Horikita
Yoshihisa Obayashi
Tadashi Uehara
Norio Wakimura

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Toshikazu Takeda
Kiminari Kawada
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Yoshiaki Sugita
Soichiro Abe
Masatoshi Fujinawa
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Masaaki Yamamoto
Shoji Kuwahara
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Eiji Noma
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