

OBAYASHI CORPORATE REPORT 2018

Fiscal Year Ended March 31, 2018



Shaping the Times with Care

Construction companies shape
the world like no one else can,
creating unique and timeless
spaces that bridge the past,
the present, and the future.

As Obayashi professionals, we are each
determined to bring sincerity, courtesy, mindfulness,
and enthusiasm to everything we do.

In every construction process,
and in every business practice,
we carry a strong sense of responsibility.

Purpose of Publication	The Obayashi Corporate Report is published for readers to understand the overall business activities of Obayashi and the Obayashi Group. In it, we disclose our management strategy, financial information, and non-financial information in an integrated format.
Reporting Period	Fiscal year ended March 31, 2018 (FY2018.3) and including some activities in fiscal year ending March 31, 2019 (FY2019.3)
Caution Regarding Forward-Looking Statements	The Obayashi Corporate Report contains predictions and forecasts regarding the future plans, strategies, and performance of Obayashi and the Obayashi Group. These are forward-looking statements based on assumptions and opinions made in light of information available to the Company at the time of writing. Such statements are subject to risks and uncertainties related to economic trends, market demand, currency exchange rates, taxation, and various other systems. Actual results may therefore differ materially from forecasts.

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Obayashi is a participant in the UN Global Compact, a global framework for realizing a sustainable international society.

Information Disclosure System

The Obayashi Corporate Report concentrates on the key information needed to understand Obayashi. More detailed information is available on our website.

Obayashi also discloses financial information in its annual and quarterly financial statements.

Financial Information

Obayashi Corporate Report

Investor Relations Website
<https://www.obayashi.co.jp/en/ir/>

Non-Financial Information

Sustainability Website
<https://www.obayashi.co.jp/en/sustainability/>

OUR HISTORY

Yoshigoro Obayashi founded the predecessor of Obayashi Corporation in 1892. Members of the Group have handed down its DNA of honest craftsmanship and technology and relied on that DNA to complete buildings and infrastructure emblematic of their eras.

Here is an album of representative buildings and infrastructure constructed by Obayashi.

The First 100 Years

Obayashi helped modernize industry in Japan. We constructed factories and offices for all types of industries as well as ports, railroads, and other infrastructure. In the post-war reconstruction period, we endeavored urgently to rebuild necessary facilities like government offices, schools, and hospitals. We were involved in several dam construction projects that pioneered electric power development. Over time, we introduced new materials and construction methods, and in the 1960s, we undertook our first overseas project. We were also involved in numerous major projects in Japan as we developed into one of the nation's leading construction companies.

1914



Obayashi constructed Tokyo Central Station (currently Tokyo Station), then the largest steel-framed building in Japan. We have continued contributing to the modernization of infrastructure construction projects, like ports and railroads, and in other genres.

1924



Japan's first full-fledged baseball venue was Hanshin Koshien Stadium, which we completed in just four and a half months.

1931



The Main Tower of Osaka Castle was rebuilt to mark the enthronement of the Emperor Showa.

1964



Yoyogi National Stadium 2nd Gymnasium, constructed for the Tokyo Olympics. The curving roof, suspended from cables, is exemplary of Japanese modernist architecture.

1965



The Musi River Bridge in Indonesia was a pioneering project for us outside Japan.

1970



The Big Roof of the Japan World Exposition (Theme Pavilion) used a liftup construction method of an unprecedented scale.

1972



The Minato Bridge on Hanshin Expressway Route 5 Bayshore Line had the longest span of any truss road bridge in Japan when it was completed.

On the Way to Our 150th Anniversary

Obayashi continued to participate in numerous major projects in Japan and overseas after our centennial year of 1992. During this time, we have also been involved in construction of urban landmarks. We began to undertake aggressive overseas development, widening the range of our operations to the world stage. We have also worked on urban development projects throughout Japan.

Society's construction needs are increasingly diverse and include reducing environmental impact and preventing, mitigating, and recovering from disaster. We will continue to go beyond the conventional boundaries of a construction company to meet these needs.

1994



Kansai International Airport: Creation of Airport Island and Passenger Terminal

1997



Tokyo Bay Aqua-Line

1998



Shinjwa Intercity

1999



Stadium Australia

2003



Roppongi Hills Mori Tower

2006



Taiwan High Speed Rail

2008



Golden Gate Bridge seismic retrofit

2009



Onogawa Bridge on Kyushu Shinkansen

2011



Dubai Metro Project

2012



TOKYO SKYTREE®

2016



Onoyama Viaduct

2016



JR SHINJUKU MIRAINA TOWER & Shinjuku Expressway Bus Terminal

KEY BUSINESS PERFORMANCE

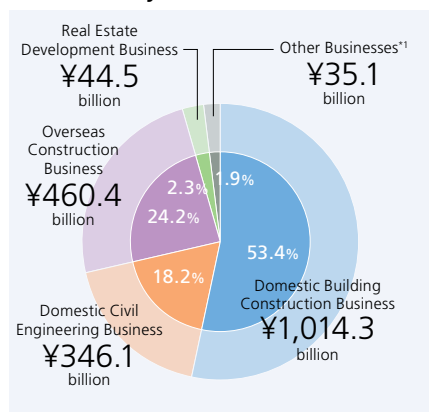
Consolidated Financial Highlights

Net Sales (FY2018.3)

¥1,900.6 billion

Up ¥27.9 billion (+1.5%) year on year

Net Sales by Business

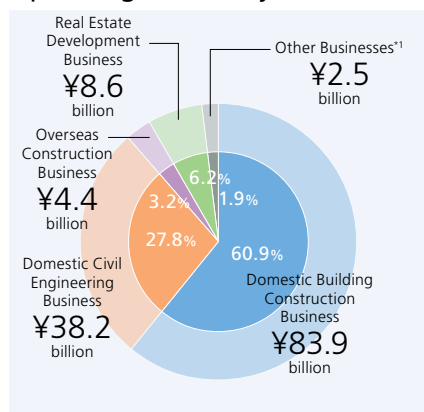


Operating Income (FY2018.3)

¥137.8 billion

Up ¥4.0 billion (+3.0%) year on year

Operating Income by Business

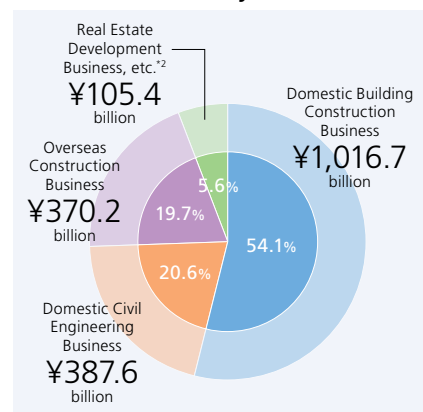


Orders Received (FY2018.3)

¥1,880.1 billion

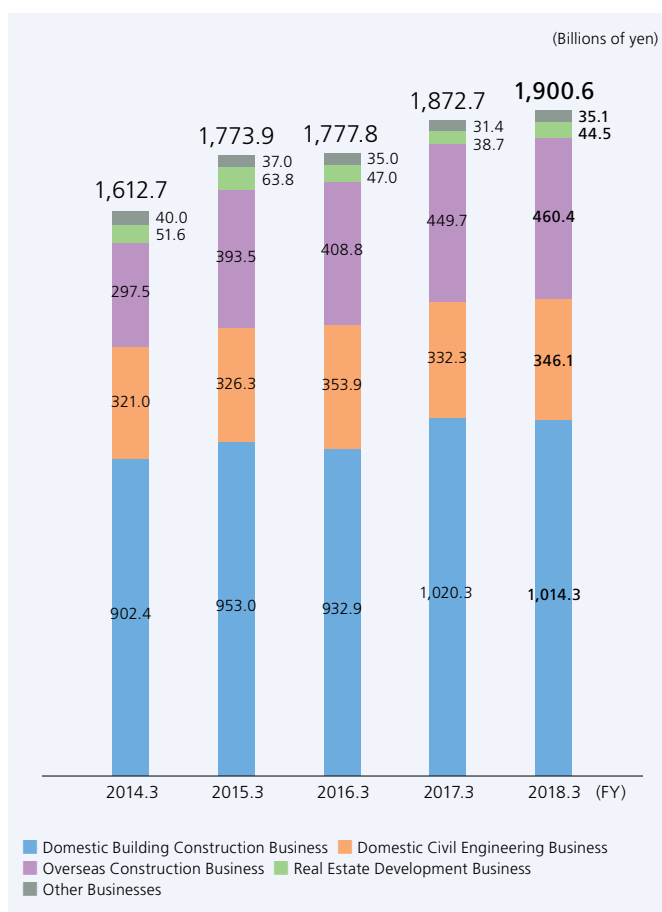
Down ¥265.1 billion (-12.4%) year on year

Orders Received by Business

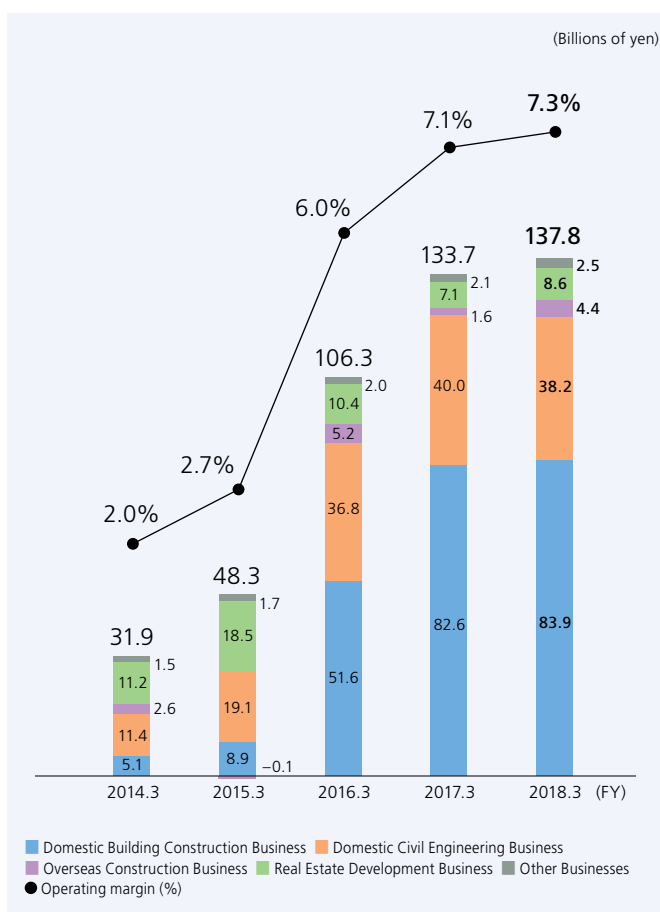


*1, *2 Includes new businesses and others

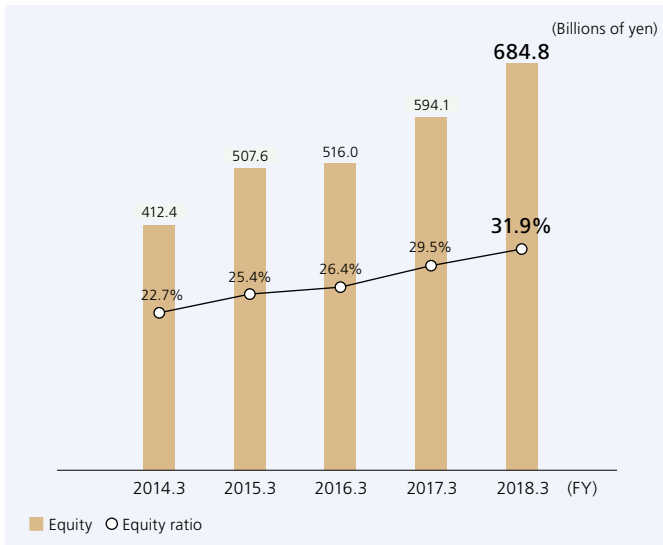
Trends in Net Sales



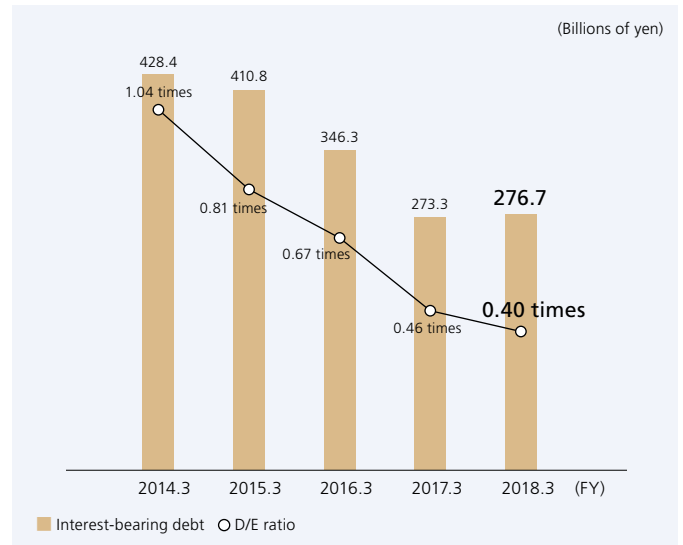
Trends in Operating Income and Operating Margin



Equity / Equity Ratio



Interest-Bearing Debt / Debt-Equity Ratio



Capital Expenditure Plan Based on Medium-Term Business Plan 2017 (Progress During FY2018.3–FY2022.3)

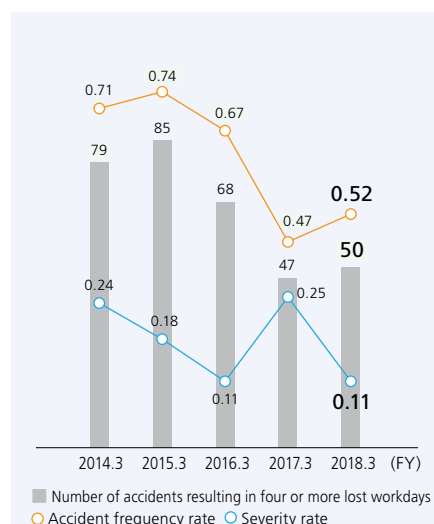


Non-Financial Highlights

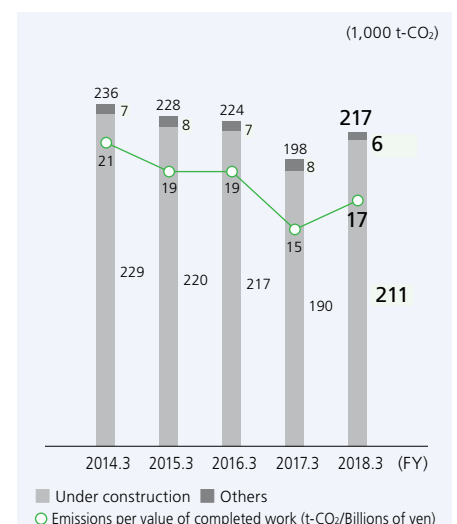
Employees



Occupational Accidents *Including skilled workers on construction sites



CO₂ Emissions



* Accident frequency rate: The number of work-related injuries or deaths recorded for every 1 million work hours
Severity rate: The number of workdays lost to workplace accidents recorded for every 1,000 work hours

PRESIDENT'S MESSAGE

Greeting



Representative Director
President **Kenji Hasuwa**

Members of the Obayashi Group are working as a team to advance our initiatives to rebuild trust in our business. Under our new management structure, we are improving compliance and faithfully carrying out our Medium-Term Business Plan 2017.

We will continue to work earnestly to solve social challenges and meet the expectations of our customers, shareholders, investors, and other stakeholders. We will continue striving to realize a sustainable society and enhance our corporate value.

Rebuilding Trust

In March 2018, the Japan Fair Trade Commission filed criminal charges against Obayashi Corporation. The case involved an investigation into a suspected violation of the Antimonopoly Act in bidding related to constructing the Chuo Shinkansen maglev line. We were subsequently indicted by the Tokyo District Public Prosecutors Office. It is regrettable that this situation happened. I apologize deeply for the great concern this has caused our stakeholders.

After earlier legal violations, Obayashi Corporation established a Corporate Ethics Program and Antimonopoly Act Compliance Program in 2006. Since then, we have endeavored to cultivate a healthy corporate culture and maintain excellent corporate ethics. However, the recent incident happened nonetheless, and we take it very seriously. In response, we have adopted a new management structure, which I myself am heading up. We are closely examining the facts and overhauling our compliance system to prevent a recurrence.

Specifically, in FY2019.3, our existing compliance measures will be joined by several others to prevent recurrence. These will include stronger rules concerning contacts with industry peers and promoting correct understanding of the Antimonopoly Act. We will be working to eliminate the psychological factors that cause people to commit violations or overlook them. We will be enhancing monitoring, among other measures. Going forward, we will be closely watching the progress of our criminal trial. We will set up a third-party committee consisting of outside experts. We will investigate the causes behind the incident based on objective study results. Then, we will examine effective recurrence prevention measures accordingly and implement them.

Our efforts will raise employees' awareness about compliance and ensure that they act with the highest ethics. This will be at the foundation of our corporate culture. We will promote solid business operations that put the highest priority on compliance. The entire Obayashi team will work to rebuild the trust of stakeholders and society.

Aiming for Sustained Growth

■ Long-Term Vision for Growth

A look at the business environment facing the Obayashi Group shows that there is increasing uncertainty ahead. Although the Japanese economy is robust, there are growing geopolitical risks. These include problems on the Korean Peninsula and strains in the Middle East situation. Protectionist policies in industrialized nations and monetary policies of European and American central banks are a cause for concern. Thus, global political and economic

trends demand continued vigilance. Furthermore, with technological innovation accelerating quickly in a number of fields, we need to evolve and grow constantly beyond the scope of our existing businesses.

In this situation, we will summon all our strength to maintain and expand on our current record-high earnings. We see changes in the business environment as a chance to grow. To prepare the way to the future, we formulated Medium-Term Business Plan 2017 last year, a year ahead of schedule. We started initiatives under that plan during the fiscal year ended March 31, 2018 (FY2018.3).

To establish Medium-Term Business Plan 2017, we began to scrutinize our business from several angles. We analyzed the various markets and enterprises regardless of industry sector or location in or outside of Japan. A number of working groups composed of younger employees studied our strengths and weaknesses and the external environment we face. We had lively discussions on future directions and new business models.

One result reflects our desire to realize a sustainable society, as called for in the Obayashi Philosophy. Specifically, participants drafted a "Vision for the Future," which we will strive to achieve 25 years after 2017. They then distilled a strategy for reaching that future into a long-term vision. Medium-Term Business Plan 2017 is in part based on the long-term vision. It sets targets and measures to take in the first five years of the road map to realizing the vision.

■ Vision for the Future

Our Vision for the Future aims for the long-term growth of the Obayashi Group. Under this vision, we will respond to the changing business environment and the needs of the age. Our response will be rooted in the construction business, where we have highest-level technology and productivity. To this, we will add new business domains and not limit ourselves to the role of general contractor. Thus, we will be a corporate group flexible enough to grow continually.

We will enhance productivity dramatically by harnessing IoT, AI, and robotics in next-generation production systems. We will maintain and expand our leading business scale and profitability in the Japanese construction market. We will further strengthen the four existing pillars of our business: building construction, civil engineering, real estate development, and new businesses. Meanwhile, we will strategically deepen and expand our business domains. This will include enriching engineering functions and using our technologies and expertise to create new sources of earnings. Moreover, we will use technology to build up our international competitiveness and accelerate global business development.

PRESIDENT’S MESSAGE

“Vision for the Future,” Obayashi’s Long-Term Vision

The leader at the forefront of technology and productivity

+

A corporate group moving forward as it creates diverse earnings sources

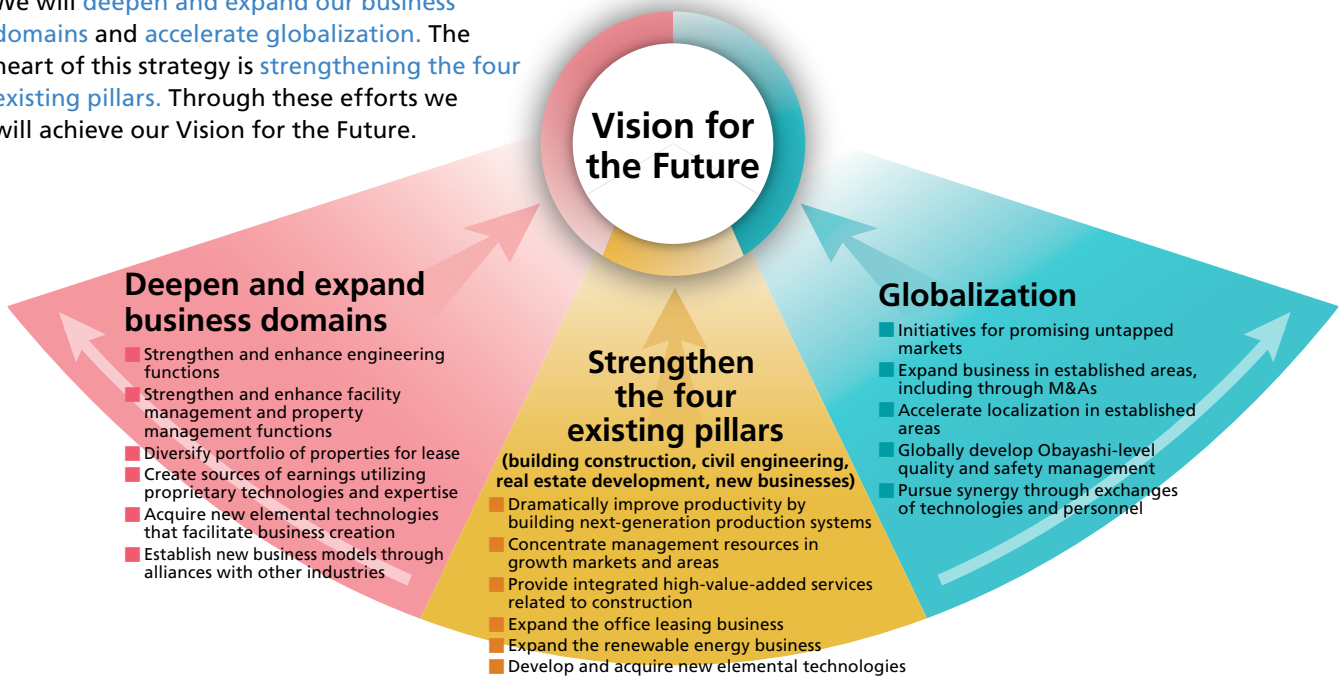
Targets to be achieved and measures to be implemented in the first five years

Medium-Term Business Plan 2017

The five-year process of Preparing the Way for the Future will determine **whether we successfully achieve** our Vision for the Future

Strategy for Realizing our Vision for the Future

We will **deepen and expand our business domains** and **accelerate globalization**. The heart of this strategy is **strengthening the four existing pillars**. Through these efforts we will achieve our Vision for the Future.



Progress on Medium-Term Business Plan 2017

(1) Performance in FY2018.3

Japanese businesses are enjoying improved earnings and stepping up private-sector capital expenditure. As a result, the nation’s economy continues its gradual recovery. Construction orders are strong: the Japanese market features solid demand from both the public and private sectors.

Thus, consolidated net sales rose ¥27.9 billion (1.5%) year on year to ¥1,900.6 billion in FY2018.3. This was another

record-breaking year for us and kept us at the top of the industry in Japan a fifth consecutive year. Factors included rising construction business sales at subsidiaries. Earnings set records for the third consecutive year. Operating income rose ¥4.0 billion (3.0%) to ¥137.8 billion, while ordinary income was up ¥3.8 billion (2.7%) to ¥143.9 billion. Earnings benefited from growing net sales in the construction business and rising gross profit on completed construction contracts. Profit attributable to owners of parent, however, was down ¥1.8 billion (1.9%) to ¥92.6 billion. The figure includes the posting of a loss on construction projects in relation to the Antimonopoly Act. This affected both Obayashi Corporation and subsidiaries.

(2) Preparing the way for the future

Medium-Term Business Plan 2017's basic policies are "building a strong management foundation" and "preparing the way for the future." These are the first steps in realizing our Vision for the Future.

"Preparing the way for the future" will happen over five years in Medium-Term Business Plan 2017. This step will determine whether our Vision for the Future succeeds. Thus, we are making strong efforts that include strategic R&D investment for meeting the targets listed in the business plan.

In 2017, an Obayashi open innovation project team established a base in Silicon Valley in the U.S. This is where so much information about leading-edge technology comes together. There, the team has started "next-generation production system R&D" with American research institutes. This is a bold project that we are pursuing with a sense of urgency. It will vastly transform production systems in future and make us more competitive in terms of quality, delivery, and price.

We also plan an experimental study to manufacture, transport, and sell CO₂-free hydrogen. This partnership with a New Zealand firm will use geothermal energy as a power source. With Obayashi technology and a local partner, we are looking to realize this innovation in an eco-friendly clean energy business.

(3) Business strategy initiatives

With a favorable business environment, the **domestic construction business** remains brisk for both construction and civil engineering. Under these circumstances, our highest priority is raising productivity.

Big data, IoT, and AI are impacting all types of industries. These new trends encourage competition across different industry sectors and are utterly transforming the infrastructural foundation that everyone depends on. The Obayashi Group is mindful of the big changes taking place today. We are responding with technology, unique in Japan, that can interface with BIM/CIM. This compiles our unique design and construction site management expertise and strengths into big data. As the basis for new technological innovation, this capacity will ensure unparalleled productivity and create added value. To achieve this, Medium-Term Business Plan 2017 raises construction technology R&D investment to an average of ¥20 billion annually. That is a 50% increase. We are stepping up this initiative as it is our most important strategy for enhancing future competitiveness.

Another pressing issue is promoting work style reform while ensuring we still honor quality, safety, and delivery in construction. In 2017, we launched a Work Style Reform Project Team, under the direct control of the President. Its aims are to secure workers for the construction industry

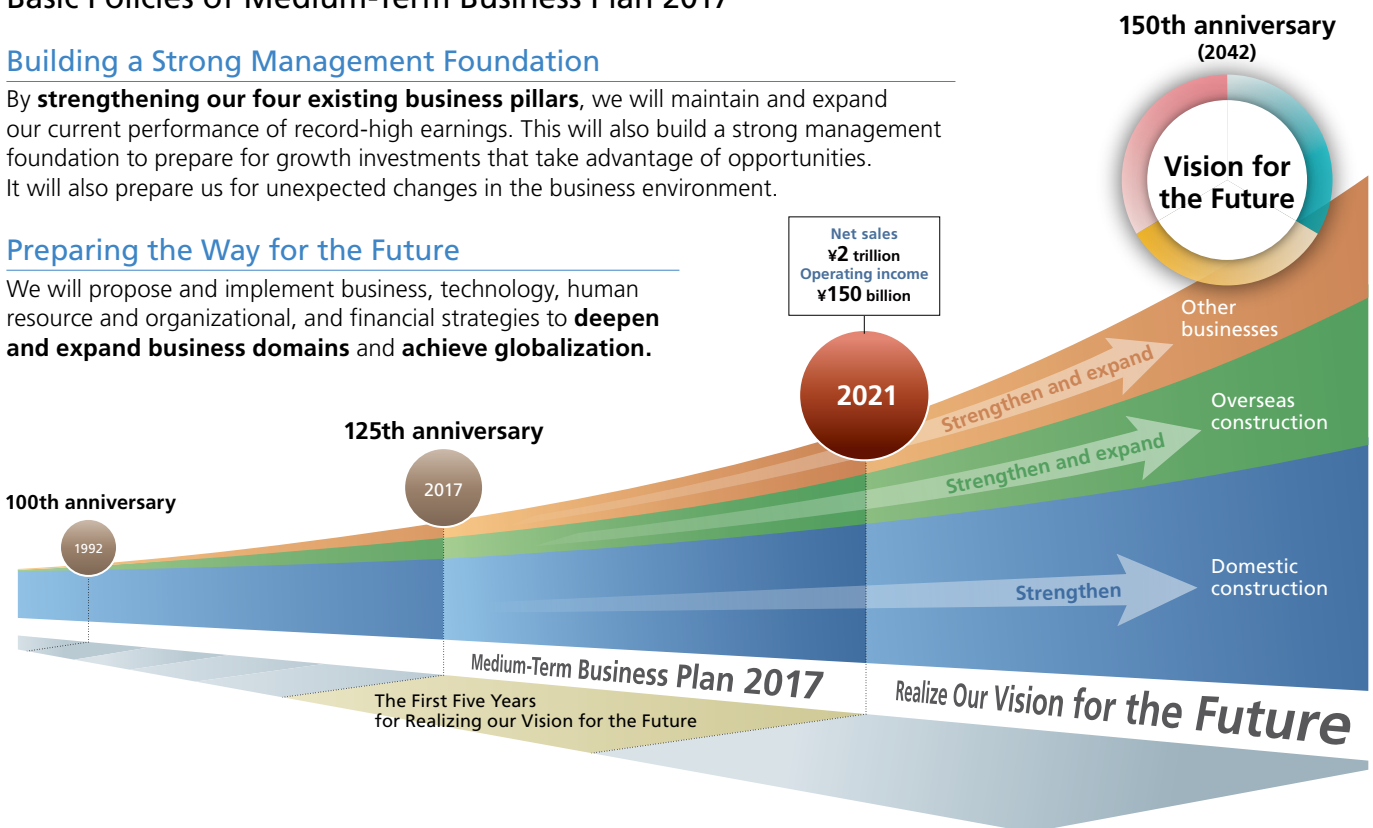
Basic Policies of Medium-Term Business Plan 2017

Building a Strong Management Foundation

By **strengthening our four existing business pillars**, we will maintain and expand our current performance of record-high earnings. This will also build a strong management foundation to prepare for growth investments that take advantage of opportunities. It will also prepare us for unexpected changes in the business environment.

Preparing the Way for the Future

We will propose and implement business, technology, human resource and organizational, and financial strategies to **deepen and expand business domains** and **achieve globalization**.



PRESIDENT'S MESSAGE

and the healthy development of that industry. Objectives include reducing long work hours and ensuring more days off for workers. This will apply not only to Obayashi but also the partner companies that supply us. We have instituted a Work Style Reform Action Plan taking effect from FY2019.3. The plan is meant to ensure that these reforms take root in our business management. This involves radical changes that get beyond the customs and conventional wisdom of the past. We will be overhauling and streamlining work processes, for example using ICT to make work more efficient.

We will continue initiatives to raise productivity and reform work styles. By so doing, we will help make the construction industry more appealing to its future workers.

Though construction investment is robust in Japan today, Obayashi aims to maintain and strengthen its competitiveness in future. This will require not only productivity gains. It will take our collective strength at offering optimal solutions to solve problems for our customers and society. Specifically, we aim to integrate our entire construction value chain, from planning and design to construction, maintenance, and management.

This will build a business model that offers services with high added value meeting the wide range of customer needs. We are now focusing on our engineering business above all to make this a reality. We are strengthening our engineering business functions and acquiring new ones. This will deepen and expand Obayashi Group business domains in the fields of next-generation medical care, the environment, and more.

We entered the **overseas construction business** in Southeast Asia half a century ago. In North America we have boosted this sector through M&A, such as our acquisition of Webcor 10 years ago. As a result, overseas construction has grown to account for a steady 25% of all construction business net sales. Overseas projects, however, tend to be large and, if unprofitable, could significantly impact profitability in the business overall. Therefore, we are making our estimates more precise and lowering construction and contract risk, thereby constantly practicing profit control. In regions like Southeast Asia where we already do business, we are promoting localization and increasingly collaborating with local partners. By strengthening ties in

Business Performance (Consolidated)

(Billions of yen)

			FY2017.3 result	Plan	Medium-Term Business Plan 2017		
					FY2018.3 result (a)	FY2019.3 forecast (b)	Difference (b)-(a)
Net sales	Construction business	Domestic	1,352.7	Around ¥2 trillion	1,360.4	1,409.0	48.5
		Overseas	449.7		460.4	464.0	3.5
		Subtotal	1,802.5		1,820.9	1,873.0	52.0
	Real estate development business	38.7	44.5		51.5	6.9	
	New businesses and others	31.4	35.1		45.5	10.3	
Total			1,872.7		1,900.6	1,970.0	69.3
Operating income	Construction business	Domestic	122.6	Around ¥150 billion	122.2	120.0	(2.2)
		Overseas	1.6		4.4	6.0	1.5
		Subtotal	124.3		126.6	126.0	(0.6)
	Real estate development business	7.1	8.6		10.0	1.3	
	New businesses and others	2.1	2.5		3.0	0.4	
Total			133.7		137.8	139.0	1.1
Ordinary income			140.1	—	143.9	144.5	0.5
Profit attributable to owners of parent			94.5	Around ¥100 billion	92.6	98.0	5.3
Equity			594.1	¥900 billion	684.8		
Equity ratio			29.5%	40%	31.9%		
Net interest-bearing debt			78.7	0	86.6		

Capital Expenditure Plan and Result (Consolidated)

(Billions of yen) (Reference: FY2013.3–FY2017.3 investment record) (Billions of yen)

	FY2018.3 result	FY2019.3 plan	Medium-Term Business Plan 2017		FY2013.3–FY2017.3 Result (cumulative)	FY2013.3–FY2017.3 Average per year
			Average per year	FY2018.3–FY2022.3 plan		
R&D of construction technologies	19.1	25.0	20.0	100.0	68.2	13.6
Construction machinery and business facilities	8.1	15.0	10.0	50.0	43.0	8.6
Real estate leasing business	59.8	20.0	20.0	100.0	141.9	28.3
Renewable energy business, and others	14.3	15.0	20.0	100.0	42.5	8.5
M&As and others	25.5	5.0	10.0	50.0		
Total	127.1	80.0	80.0	400.0	295.7	59.1

* New investment in real estate for lease (excluding real estate for sale)

Japan and abroad, we are strengthening marketing to global enterprises. Steps like these improve our earning capacity.

Oceania is a promising market where we aim to expand our business. In 2017, we got a major order for a 39-story mixed-use building in a joint venture with an Australian company. We also have a track record in civil engineering in Oceania, including an order to upgrade sewer works. We will continue promoting development of our global business. We are studying and analyzing the market, economy, and laws and regulations of each country. We likewise monitor how our competitors are doing. In countries where we already have a presence, we aim to expand business. Elsewhere, we are developing scenarios for entering the market. We are also working actively to develop business in fields other than construction. This includes looking at partnerships with enterprises outside Japan.

Our **real estate development business** has grown into a stable source of revenue. We have continuously invested in the leasing business. Today, the total area of properties for lease is 380,000 m², up from 270,000 m² just five years ago. In FY2018.3, we invested ¥59.8 billion in the property leasing business. This included acquiring a share of Akasaka Intercity AIR, a large lease-office building we built in central Tokyo. In FY2019.3 again we plan to open new offices for lease in central Tokyo. However, rising real estate prices in urban areas are making it harder to acquire excellent new properties. Thus, we are working to create new revenue by, for example, participating in partnership with other companies in redevelopment projects. Outside Japan, we are performing a large-scale renovation of an office building we own in London to enhance its value. Our subsidiary Thai Obayashi has acquired a site in Bangkok that it is developing into a high-rise office building. Moves like these diversify our portfolio and let us respond flexibly to changing real estate markets.

We are expanding housing sales, especially in the Tokyo metropolitan area and Kansai region, providing housing for wide-ranging needs. We also develop smart cities, which will help achieve a low-carbon society and make our communities more sustainable.

Obayashi is steadily expanding **new businesses**, which have mainly consisted of renewable energy projects up to now. It has been five years since we entered the solar power generation business. In May 2017, we opened our largest power generation facility, in Hyuga City, Miyazaki Prefecture. With that, all 28 of the power generation facilities we had planned have begun operating. In November of the same year, our first onshore wind power station began operating, in Mitane Town, Akita Prefecture. The biomass power generation business will start its first facility in Otsuki City,

Yamanashi Prefecture in August 2018. A second project is beginning in Kamisu City, Ibaraki Prefecture.

While Obayashi has expanded solar power and to some extent onshore wind and biomass power, our next endeavor will be offshore wind power. The scale of investment in the offshore wind power generation business is much larger than that in other renewable energy. It requires exceptional technology and coordination skills, in construction, maintenance and management systems, and stabilizing of the power we generate. But Obayashi is committed to taking on what is a new field for us. The Group is making an all-out effort to groom this into a major pillar of our future renewable energy business.

Moreover, as a general contractor with the capacity to generate CO₂-free electricity on a large scale, we have a unique opportunity. Specifically, we are building a new business model in fields like smart cities and compact cities. In this way we are further expanding our business domains and diversifying our revenue base.

(4) A stronger management foundation

Obayashi Group will vigorously promote our business strategy in each field during the time frame of Medium-Term Business Plan 2017. We must, however, consistently advance and grow the foundation that supports our businesses, without getting stuck in our existing framework.

Maintaining and expanding our current record-high earnings will not be easy. With the collective strength of the Group, however, we can steadily produce profits. We will build a solid management foundation to support the realization of our Vision for the Future.

The competitiveness that supports our building construction, civil engineering, real estate development, and new businesses stems from our technology. And it is human resources that create our technological expertise and build on it.

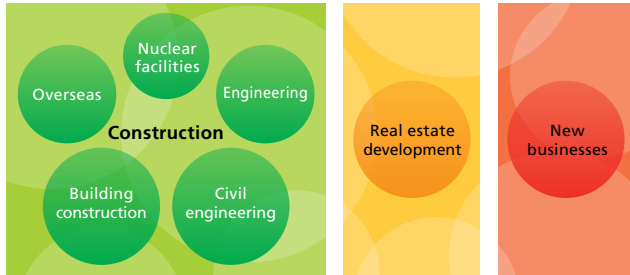
Our technological development includes work with other firms on systems for remote construction with construction machinery. A 5G next-generation mobile communications system would transmit vast amounts of data at high speeds. Another component would be a 4K 3D monitor, which shows high-definition images in 3D. Also, we have established a technique for automatically detecting cracks in concrete surfaces of viaducts, tunnels, and the like. It uses AI-based image analysis technology to detect cracks quickly and with high precision. By further developing technologies that use IoT and AI to enhance productivity, we will make construction more efficient. Beyond that, we will achieve new levels of safety and quality.

Of course, our human resources and organizations will have to respond flexibly to diversification in our business domains. Therefore, we are instituting new personnel and organizational programs that will encourage employees to

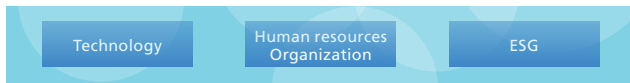
PRESIDENT'S MESSAGE

Strategies of Medium-Term Business Plan 2017

Business strategy



Management Foundation Strategy



try to meet their personal targets. Our construction sites and design departments support Obayashi's production activities, but both continue to face a personnel shortage. However, taking a medium- to long-term perspective, we continually bring human resources into our engineering business and new businesses. We are also preparing for further globalization in Japan and abroad. We systematically transfer employees working abroad and promote exchanges of personnel with overseas subsidiaries. We will continue to acquire and foster diverse personnel to support our global development. They will also be instrumental in advancing our business strategy in new businesses and other areas.

Obayashi workplaces let employees, with their various types of experience and knowledge, make full use of their unique character and talents. In these environments, employees find their work worthwhile and fulfilling. We also ensure that women are an active part of the workplace. Our goal is to bring more vitality and appeal to the construction industry. Women occupied 8.0% of managerial positions at Obayashi Corporation as of March 31, 2018. This makes us a leader in the Japanese construction industry. By March 31, 2025, moreover, we aim to lift the ratio to 10%. We also seek to raise the ratio of female engineers to about 10% by the same date. At the same time, we are stepping up efforts to make the work environment better for women. We are improving facilities at construction sites and enhancing measures to support work-life balance. Among other things, this means a system of shortened working hours for child-rearing and a child-rearing leave system.

While vigorously promoting Medium-Term Business Plan 2017, Obayashi management is focusing on ESG (Environment, Social, and Governance) issues. This approach helps us track changes in social conditions and respond flexibly to the expectations and demands of society. We are mitigating the construction business's environmental footprint and fostering an environmentally responsible

society through our renewable energy business. We are contributing to people's lives and society by offering safe and secure high-quality buildings and infrastructure and preparing for disasters. We are raising the level of governance with an emphasis on compliance.

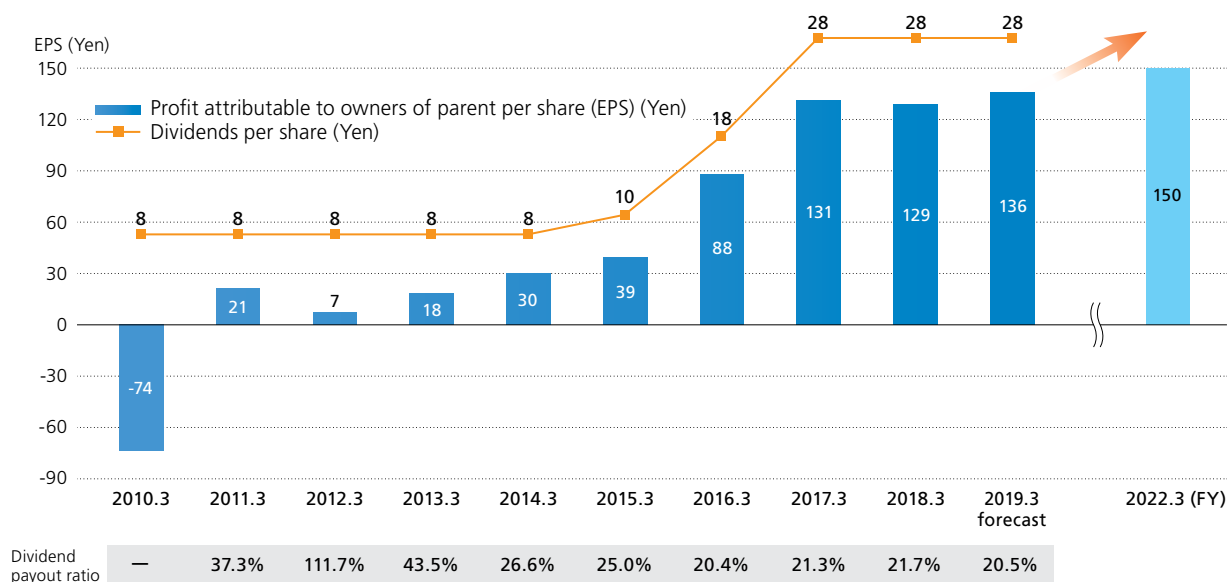
Currently, our focus is on our Vision for the Future outlined in Medium-Term Business Plan 2017. We are evaluating society's concern for ESG issues pertaining to the Obayashi Group and their impact on us. We are identifying priority ESG issues for the Group to take on proactively. Hereafter, we will inform the broader community of how we are addressing the issues through our business. The Obayashi Philosophy call on us to contribute to the realization of a sustainable society. Thus we are working steadily to solve ESG issues and help build a society that is safe, secure, and rich in every sense. As an added benefit, we aim to lift our corporate value over the medium- to long-term.

At the same time, the United Nations General Assembly adopted its Sustainable Development Goals (SDGs) at a summit in 2015. The plan of action for people, planet, and prosperity sets out 17 goals with 169 specific targets. It calls on enterprises to make proactive efforts to achieve these. Several of the SDGs are goals that the construction industry should actively adopt as their mission. These include building resilient infrastructure, creating safe and sustainable communities, and responding to climate change. The Obayashi Group understands that these SDGs directly concern our very business. They and the ESG issues are important challenges we need to meet for the sustained growth of our business.



Consolidated Dividend Payout Ratio Target: 20% to 30% Range

Profit Attributable to Owners of Parent Per Share (EPS) and Dividends per Share



(5) Policy on shareholder returns

Our basic profit allocation policy is, first, to try to sustain stable dividend payouts over the long term. We aim to provide shareholders with returns commensurate with the Group's performance, including purchases of treasury stock. When we set shareholder returns, we also consider the need to enhance internal reserves. Such reserves help us further improve our financial base and develop technologies and make capital expenditures for the future. In line with our commitment to stable dividend payouts to shareholders, we will endeavor to maintain a dividend payout ratio of 20% to 30%.

Our dividends for FY2018.3 reflected this policy. Like the previous year, we paid an annual dividend of ¥28 per share (consolidated dividend payout ratio of 21.7%). It was decided considering profit attributable to owners of parent per share (¥129.09) and the medium-term business performance outlook. For FY2019.3, we expect to pay ¥14 per share both for the midterm and year-end dividends. This would make a total annual dividend of ¥28 per share (consolidated dividend payout ratio of 20.5%).

Obayashi hopes to enhance internal reserves, raise our corporate value, and more effectively use our assets while providing stable dividends. By so doing, we look to return profits in a manner that makes sense to shareholders and investors.

Realizing a Sustainable Society

Since its founding, the Obayashi Group has held to the spirit of Obayashi Three Pledges: Quality, Value, and Efficiency. We have continually sharpened the technology and know-how we have earned by experience. We have created new value through honest craftsmanship. We have always aimed through these efforts to be an enterprise widely trusted by society. This spirit is at the heart of the Obayashi Group. In every era, it lets us absorb the latest technology and knowledge and mobilize our collective strength to constantly improve. It guides us to respond to society's changing demands and expectations.

In that spirit, we will continue to create safe, secure, high-quality buildings and infrastructure. We will develop quality communities and foster an environmentally responsible society. We will endeavor to be an enterprise that values all people. Through these actions, we aim to steadily achieve new growth and help society become sustainable.

I respectfully ask you for your continued support of the Obayashi Group.

Kenji Hasuwa

Kenji Hasuwa
Representative Director
President

CORPORATE GOVERNANCE

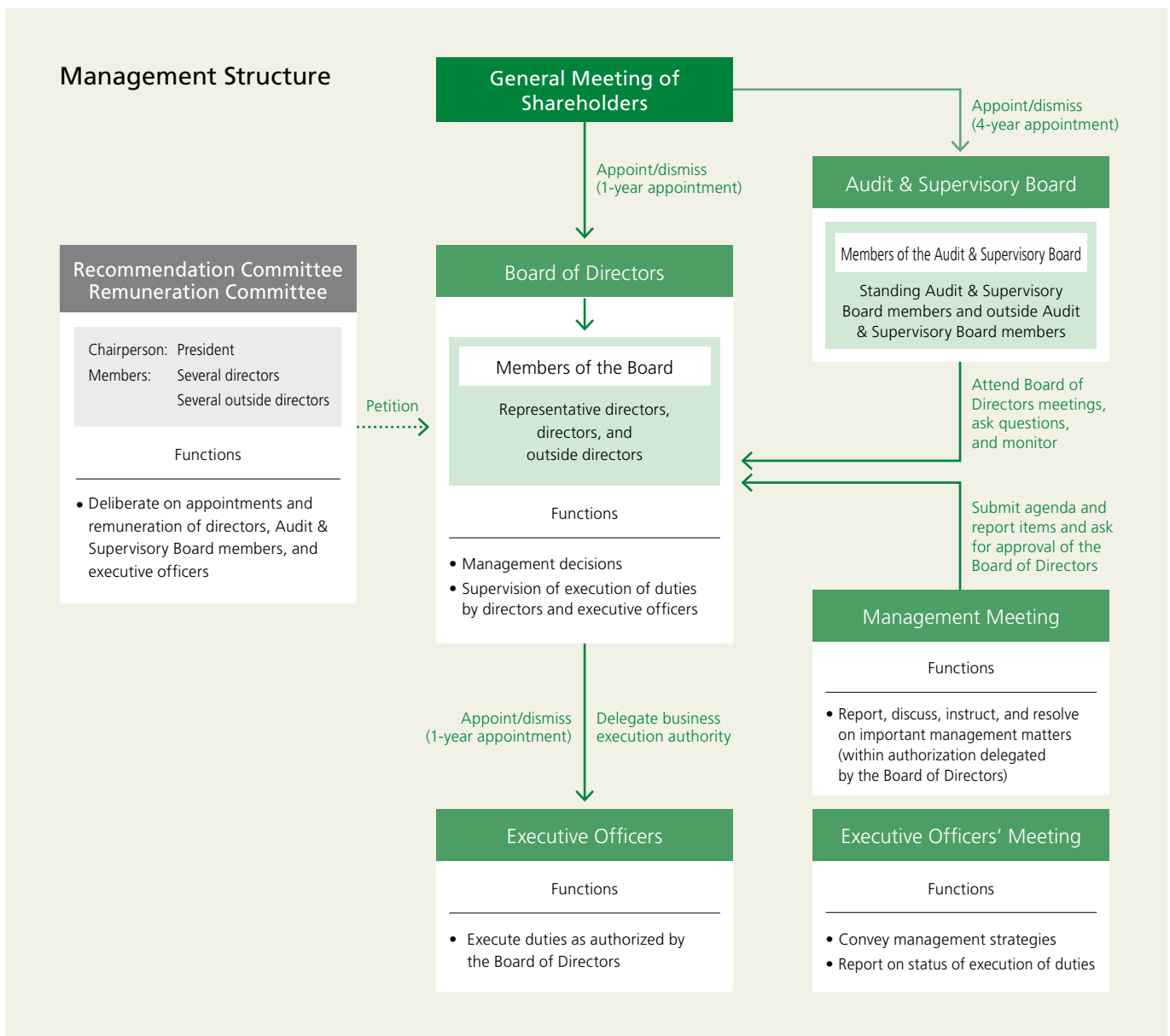
Basic Policy

Obayashi believes that transparency and sound management, along with a strong corporate governance framework, are critical to maintaining society’s trust.

We enhance corporate governance also to achieve sustainable growth and greater corporate value over the medium- to long-term. Specific initiatives include transparent, fair, rapid, and resolute decision-making. Such decision-making is always based on the principles of Japan’s Corporate Governance Code set out by the Tokyo Stock Exchange.

Management Structure

Obayashi has a General Meeting of Shareholders, Board of Directors, Audit & Supervisory Board, independent auditor, and other statutory bodies. Additionally, we have established systems for making management decisions and conducting appropriate audits. We practice precise and swift decision-making through our executive officer system and Management Meeting. The latter is composed of members appointed from among the directors and executive officers.



■ Board of Directors

The Board of Directors consists of up to 15 directors, who are responsible for management decision-making and business execution. They also supervise the execution of duties by other directors, executive officers, and employees. The tenure for directors is one year, which enables us to respond dynamically to changes in the business environment. It also clarifies management responsibilities for each business year.

The effectiveness of the Board of Directors as a whole is subject to analysis and evaluation. These are based on the assessments and opinions of individual directors and Audit & Supervisory Board members. The process takes place under the advice of an external legal office. Based on evaluation results, we judge the Board of Directors to be effective. We will improve the status and operating methods of the Board of Directors as needed. Any improvements will be based on the opinions of the directors and the Audit & Supervisory Board members.

■ Audit & Supervisory Board

The Audit & Supervisory Board comprises a maximum of five members, of which a majority must be outside members. Audit & Supervisory Board members are independent from the directors. From this position, they conduct audits that follow the “Obayashi Audit Guidelines for Audit & Supervisory Board Members.” Audits ensure that directors, executive officers, and employees are conducting business in compliance with the law and the Articles of Incorporation. To ensure Company financial statements are appropriate, the Audit & Supervisory Board members perform accounting audits.

■ Management Meeting

The Management Meeting is composed of members appointed from among the directors and executive officers. It is held to report, discuss, instruct, and resolve on important management matters and ensure precise and swift decision-making.

■ Executive Officers

Executive officers receive authority from the Board of Directors to execute business operations. By concentrating on their executive duties, the executive officers achieve efficient business execution.

■ Executive Officers' Meeting

The Executive Officers' Meeting is comprised of directors and executive officers. The meeting is held to convey management strategies and report on the status of business execution.

■ Recommendation Committee and Remuneration Committee

The Recommendation Committee and Remuneration Committee (both chaired by the president) include outside directors in their membership. The Recommendation Committee deliberates on the selection process for directors, Audit & Supervisory Board members, and executive officers. The Remuneration Committee deliberates on remuneration for these persons. The results are submitted to the Board of Directors. This is intended to clarify the selection and remuneration decision processes, while ensuring transparency and objectivity.

Overview of the Corporate Governance Framework (As of June 26, 2018)

Form of organization		Company with Audit & Supervisory Board	
Members of the Board	Number of directors provided in Articles of Incorporation	15	
	Number	10	
	Of which, outside directors	3	
	Appointment term	1 year	
	Remuneration	Basic remuneration and stock remuneration in line with contribution to performance	
Audit & Supervisory Board members	Number	5	
	Of which, outside Audit & Supervisory Board members	3	
Number of independent directors/auditors		6	
Executive officer system		Yes	
Independent auditor		Ernst & Young ShinNihon LLC	
Discretionary committees		Recommendation Committee regarding directors, Audit & Supervisory Board members, and executive officers Remuneration Committee regarding executive remuneration	

Main Recent Initiatives to Enhance Corporate Governance

	2004	2005	2007	2013	2015	2018
Members of the Board	Number of directors	Up to 50 members → Up to 15 members				
	Appointment term	2 years → 1 year				
	Independent outside directors			0 → 1 person	1 person → 2 persons	2 persons → 3 persons
Separation of supervision and business execution	Introduction of the executive officer system					
Outside Audit & Supervisory Board members	2 persons → 3 persons					
Executive remuneration	Introduction of performance-linked stock remuneration system					

CORPORATE GOVERNANCE

Outside Directors and Outside Audit & Supervisory Board Members

We have appointed three outside directors and three outside Audit & Supervisory Board members. Outside directors provide advice on improving management efficiency and supervise all aspects of management from an independent position. Outside Audit and Supervisory Board members are responsible for ensuring effective corporate governance by conducting third-party checks independent of management.

Our standards for appointing outside directors and outside Audit & Supervisory Board members, including standards regarding independence, are as follows:

Requirements for selection as an Outside Director/ Audit & Supervisory Board Member Candidate

- The outside director/Audit & Supervisory Board member candidate ("Candidate") must have capabilities, knowledge, experience, and character suitable for such position at the Corporation. The Candidate must be able to provide directions and opinions to the Corporation's management from an independent and impartial standpoint.
- The Candidate must not be a former director, Audit & Supervisory Board member, or employee of the Corporation or any of its associated companies.
- The Candidate must not currently belong, and must not have belonged in the past, to an Accounting Auditor, law office, or main bank with which the Corporation currently has a contract.
- The Candidate must not currently be, and must not have been in the past, a major shareholder with an ownership stake of 10% or more. The Candidate must not currently belong, and must not have belonged in the past, to an entity that is a major shareholder.
- The Candidate must not currently belong, and must not have belonged in the past, to an entity that has a business relationship with the Corporation in which the annual amount of transactions has exceeded 2% of the net sales of both the Corporation and such entity during the last three fiscal years.
- The Candidate must not currently work, and must not have worked in the past, as an executive at a non-profit organization to which the Corporation has made an annual donation exceeding 20 million yen during the last three fiscal years.
- If the Candidate does not meet the requirements in 3. through 6., at least five years must have passed since the candidate left the relevant entity.
- The Candidate must meet the requirements for an independent director/auditor pursuant to the provisions of the Tokyo Stock Exchange's Securities Listing Regulations.

Outside Director	Reason for Appointment and Activity in FY2018.3	Details of Concurrent Positions Held
Shinichi Otake Senior Advisor, Nippon Telegraph and Telephone WEST Corporation	Mr. Shinichi Otake has considerable experience, excellent capabilities, knowledge, and character gained through many years of involvement in the management of Nippon Telegraph and Telephone WEST Corporation. Since becoming an outside director of the Corporation in 2013, he has provided valuable advice to the Corporation's management. The Corporation nominated him to continue having his considerable experience and extensive knowledge reflected in appropriate decision-making by the Corporation's Board of Directors and in supervision of management. He attended all 15 meetings of the Board of Directors in FY2018.3.	
Shinichi Koizumi Former Executive Vice President and Representative Member of the Board, Toray Industries, Inc.	Mr. Shinichi Koizumi has considerable experience, excellent capabilities, knowledge, and character gained through many years of involvement in the management of Toray Industries, Inc. Since becoming an outside director of the Corporation in 2015, he has provided valuable advice to the Corporation's management. The Corporation nominated him to continue having his considerable experience and extensive knowledge reflected in appropriate decision-making by the Corporation's Board of Directors and in supervision of management. He attended 14 of the 15 meetings of the Board of Directors in FY2018.3 (attendance rate 93%).	Outside Director, Japan Bank for International Cooperation Outside Corporate Auditor, DeNA Co., Ltd.
Naoki Izumiya *Assumed office in June 2018 Chairman and Representative Director, Asahi Group Holdings, Ltd.	Mr. Naoki Izumiya has considerable experience, excellent capabilities, knowledge, and character gained through many years of involvement in the management of the Asahi Group. The Corporation nominated him to make use of his considerable experience and extensive knowledge in appropriate decision-making by the Corporation's Board of Directors and in supervision of management.	Outside Director, New Otani Co., Ltd. Outside Director, Nippon Design Center, Inc. External Board Director, Recruit Holdings Co., Ltd.
Outside Audit & Supervisory Board Member	Reason for Appointment and Activity in FY2018.3	Details of Concurrent Positions Held
Hiroshi Yokokawa President, Japan Association of Athletics Federations	Mr. Hiroshi Yokokawa has experience gained through many years of involvement in economic, trade, and industry administration. After that, he gained experience in corporate management at Osaka Gas Co., Ltd. He furthermore has excellent capabilities, knowledge, and character. The Corporation nominated him to make use of his considerable experience and extensive knowledge. He attended 13 of the 15 meetings of the Board of Directors in FY2018.3 (attendance rate 87%) and 16 of the 17 meetings of the Audit & Supervisory Board in the same period (attendance rate 94%).	Chairman, Association for the Promotion of Electric Vehicles President, SOKEIZAI CENTER
Tetsuo Nakakita *Assumed office in June 2018 Former Deputy Director-General, Ministry of Land, Infrastructure and Transport	Mr. Tetsuo Nakakita has experience gained through many years of involvement in land, infrastructure, and transport administration. After that, he gained experience in corporate management at West Japan Housing Industry Credit Guarantee Inc. He furthermore has excellent capabilities, knowledge, and character. The Corporation nominated him to make use of his considerable experience and extensive knowledge.	
Akihiko Nakamura *Assumed office in June 2018 President, Akihiko Nakamura CPA Office	Mr. Akihiko Nakamura has expertise as an accounting expert (CPA) and considerable corporate accounting experience, excellent capabilities, knowledge, and character. The Corporation nominated him to make use of his considerable experience and extensive knowledge in audits of the Corporation.	

Audit & Supervisory Board Members' Cooperation with Independent Auditor, and Support System

The Audit & Supervisory Board members and independent auditor each conduct audits from their independent standpoints. Audit & Supervisory Board members receive reports and briefings as required from the independent auditor. The two parties also cooperate to raise the effectiveness of audits by sharing information and opinions. Meanwhile, the Business Administration Department is Obayashi's internal audit arm. It is responsible for all audits conducted separately from the Audit & Supervisory Board members and independent auditor. Such audits are performed according to Obayashi's Internal Audit Regulations. The purpose of these audits is to monitor the effectiveness of internal control and the execution of duties by each Company department. The Audit & Supervisory Board members and Business Administration Department also share information and opinions to raise the effectiveness of audits.

Policies for Determining Remuneration

The basic policy on remuneration for each director and executive officer is to determine the amount of basic remuneration and stock remuneration for each fiscal year in accordance with actual contribution to earnings. The purpose is to secure outstanding human resources and provide incentive to each director and executive officer to improve earnings and enhance corporate value.

For basic remuneration, the Board of Directors has set a remuneration table in accordance with title and earnings contribution ranking. At the end of each business term, the Remuneration Committee, headed by the president and including outside directors as members, appraises how much individual directors and executive officers contributed to earnings. This determines their remuneration for the next fiscal year. Such remuneration is capped at ¥60 million per month in keeping with a resolution made at the 101st Ordinary General Meeting of Shareholders on June 29, 2005.

Stock remuneration was introduced from the FY2016.3. With it, the goal is to incentivize contributions to increasing earnings mainly over the medium- to long-term. The system distributes Obayashi shares to directors and executive officers (except for outside directors and persons residing outside Japan) based on the degree of achievement of earnings targets for each business term. The standard for distributing shares is determined in advance by the Board of Directors after deliberation by the Remuneration Committee.

The basic policy on Audit & Supervisory Board member remuneration is to set an amount required to secure outstanding personnel. The ultimate aim thereby is to ensure that corporate governance functions effectively.

Remuneration standards are established in advance through discussions by Audit & Supervisory Board members. They are based on such factors as whether the member is full-time or part-time. Remuneration for each member is determined in line with those standards, capped at ¥10 million per month in keeping with a resolution made at the 101st Ordinary General Meeting of Shareholders on June 29, 2005.

Total Remuneration of Members of the Board and Audit & Supervisory Board (FY2018.3)

Position	Total Remuneration and Other Compensation
Directors (12 directors)	¥530 million
Audit & Supervisory Board members (5 members)	¥86 million
Of which, outside directors / Audit & Supervisory Board members (5 members)	¥51 million

Notes: 1. The above includes amounts for one director who left his post as of the conclusion of the 113th Ordinary General Meeting of Shareholders on June 29, 2017 and one director who left his post as of January 23, 2018.
2. The above includes a performance-linked stock remuneration expense of ¥300,000 recorded for 8 of the directors (excluding outside directors) who were in office as of March 31, 2018.

Matters Pertaining to the Independent Auditor (FY2018.3)

Category	Compensation Paid for Audit Certification Activities	Compensation Paid for Non-Audit Activities
Obayashi Corporation	¥106 million	¥8 million
Consolidated subsidiaries	¥79 million	—
Total	¥186 million	¥8 million

Name of the independent auditor: Ernst & Young ShinNihon LLC

Establishment and Implementation of Internal Control System

We have established and implemented an internal control system per the Companies Act and Ordinance for Enforcement of the Companies Act. The purpose of the system is to ensure appropriate business operations throughout the Group.

Constructive Dialogue with Shareholders

We consider the General Meeting of Shareholders to be an important forum for dialogue with shareholders. At the meeting, the president's business report and explanations, Q&A sessions with directors, and so on enable constructive shareholder dialogue. We also hold financial results briefings for second-quarter and annual financial results. Results briefings for the first- and third-quarter results are by conference call. Other opportunities include construction site tours, participation in securities companies' investment conferences, small meetings, and other such activities.

IR Activities

Activity	Number of Times in FY2018.3	Description
Financial results briefings and telephone conferences for analysts	4	Financial results briefings given by the president and the management team (May, November) and conference calls (August, February)
Individual meetings for institutional investors	85 (meetings with 109 companies in total)	Held individual meetings with institutional investors after financial results announcement
Small meetings	3	Held meetings on specific themes
Investment conferences	4 (meetings with 34 companies in total)	Participated in investment conferences held by securities companies and held meetings with overseas institutional investors
Overseas IR activities	1	The president and assigned directors visited and met with overseas institutional investors
Construction site tours	2 (NIPPON LIFE HAMAMATSU CHO CREA TOWER, Metropolitan Expressway Higashi-Shinagawa)	Held construction site tours for institutional investors and securities analysts

CORPORATE GOVERNANCE

Members of the Board



From left: Naoki Izumiya, Yasuo Kotera, Shinichi Koizumi, Kenji Hasuwa, Shinichi Otake, Takeo Obayashi, Takehito Sato, Shingo Ura, Toshimi Sato, and Toshihiko Murata

Takeo Obayashi
Chairman
Representative Director

Kenji Hasuwa
Representative Director

Shingo Ura
Representative Director

Yasuo Kotera
Director

Toshihiko Murata
Director

Takehito Sato
Director

Toshimi Sato
Director

Shinichi Otake
Director*

Shinichi Koizumi
Director*

Naoki Izumiya
Director*

* Outside Director
As of June 26, 2018

Members of the Audit & Supervisory Board



Front row from left: Tetsuo Nakakita, Hiroshi Yokokawa, and Akihiko Nakamura; back row from left: Hikaru Ueno and Tadashi Utashiro

Hikaru Ueno
Standing Audit &
Supervisory Board Member

Tadashi Utashiro
Standing Audit &
Supervisory Board Member

Hiroshi Yokokawa
Audit & Supervisory
Board Member*

Tetsuo Nakakita
Audit & Supervisory
Board Member*

Akihiko Nakamura
Audit & Supervisory
Board Member*

* Outside Audit & Supervisory
Board Member

Executive Officers

President Kenji Hasuwa

Executive Vice President Shingo Ura
Overall building construction

Senior Managing Executive Officers	Yasuo Kotera Overall administration	Isamu Kakeno General Manager, Osaka Main Office	Yoshiharu Nakamura General Manager, Overseas Business Division	Chiaki Kobayashi General Manager, Tokyo Main Office and General Manager, Building Construction Division, Tokyo Main Office		
	Toshihiko Murata General Manager, Building Construction Division	Takehito Sato Overall civil engineering construction and General Manager, Civil Engineering Construction Division	Jiro Otsuka General Manager, Real Estate Development Division			
Managing Executive Officers	Atsuteru Kiriya Deputy General Manager, Building Construction Division, Tokyo Main Office (in charge of sales)	Mamoru Hikida General Manager, Kyusyu Branch	Makoto Hidetaka General Manager, Hiroshima Branch	Naoki Kajita General Manager, Technical Division and General Manager, Nuclear Facilities Division, Information System		
	Sompong Chintawongvanich Representative Director, President, Thai Obayashi Corporation Limited	Koji Murakami General Manager, Nagoya Branch	Hirokazu Onozaki General Manager, North American Regional Headquarters, Overseas Business Division			
	Shin Matsumoto General Manager, Civil Engineering Technology Division	Katsuyoshi Okawa Senior Project Manager, Marunouchi 1-3 JV Project, Tokyo Main Office	Yoshimi Sekoguchi Deputy General Manager, Building Construction Division, Tokyo Main Office (in charge of sales)			
	Yuichi Yamamoto General Manager, Technology Business Development Division	Koji Kunieda Deputy General Manager, Building Construction Division, Tokyo Main Office (in charge of mechanical & electrical, renovation)	Hitoshi Hasegawa Deputy General Manager, Building Construction Division, Tokyo Main Office (in charge of sales)			
Executive Officers	Masatsugu Higashitani	Moriyuki Hanawa	Takashi Takeuchi	Hitoshi Tomoto	Mitsuru Kawasaki	Nozomu Taoda
	Susumu Kawaguchi	Toshiro Kiyomi	Masahiro Saito	Akinobu Nohira	Kazunari Nomura	Nobuyuki Wakuni
	Hideo Katsumata	Hironobu Kawakami	Yoshihito Sasaki	Toshimi Sato	Seiji Nagai	Akihiro Higashide
	Kyoji Ikeda	Hirimitsu Kato	Goichi Kamochi	Kazuyuki Goto	Hiroshi Saito	Kimihiko Sato
	Isao Sano	Futoshi Takahashi	Yutaka Taneda	Kojiro Nitta	Yasuo Morita	Motoi Yano

As of June 26, 2018

CORPORATE GOVERNANCE

Comments from Outside Directors and Outside Audit & Supervisory Board Members

■ Outside Director

Shinichi Otake

Directors are provided the necessary information in advance of meetings of the Board of Directors of Obayashi Corporation. During the meetings themselves, we have adequate time for discussion. In deliberating individual issues, we have wide-ranging discussions that consider world trends and compatibility with Obayashi's background business policies. Outside directors assert their opinions and assigned directors give suitable explanations in response. There is also a process of revising motions to reflect opinions from outside directors if necessary. All of this makes Board of Directors meetings effective.

I intend to offer input from a risk management perspective at Board of Directors meetings, especially concerning long-term projects.

Shinichi Koizumi

Every Board of Directors meeting has some intense debates. Each director and Audit & Supervisory Board member evaluates the effectiveness of the Board of Directors. Evaluations are fair and objective. The results of evaluation are reported and the Board makes an ongoing effort to ensure and enhance its effectiveness.

I actively express my opinion at Board of Directors meetings. My perspectives include measures for improving the profit structure of the overseas construction business and optimal risk control in new businesses. Other priorities are dramatically enhancing productivity in our domestic construction business and strengthening corporate governance.

Naoki Izumiya

(New appointment)

Directors are given certain responsibilities from shareholders and are accountable to them as well. Fulfilling that mission requires that the information they exchange with shareholders be symmetrical and free of conflicts of interest. My hope is that the Board of Directors will practice rapid and resolute decision-making that is highly transparent and objective. We can do this if we have plenty of information and examine it from many angles.

The role of outside directors is to debate the issues from varied perspectives, using previously acquired knowledge and experience. I will be actively taking on this role.

■ Outside Audit & Supervisory Board Member

Hiroshi Yokokawa

I am always preaching about the importance of looking at things from different angles and the need for multi-faceted thinking. I believe this is fundamental to our role as outside Audit & Supervisory Board members. A company is basically a group of professionals. That makes an awareness of common sense all the more important. We must constantly ask ourselves if the organization's "common sense" matches society's common sense. It is vital for organizations to keep up their sensitivity to compliance and risk within a powerful corporate governance framework.

Tetsuo Nakakita

(New appointment)

Employees of Obayashi Corporation can see the buildings and structures the company has worked on over the years. I think it is wonderful that they share a sense of pride over what they have given the world.

Today we can get instant feedback from many directions on all sorts of things we do. You could say that an enterprise is nothing until it has the acclaim of outsiders.

I have always tried to think from three perspectives: myself, the other party, and society. Since my appointment as an Audit & Supervisory Board member, I try to think with one foot inside the Corporation and one foot outside. I hope to play a role for the healthy and sustained development of Obayashi.

Akihiko Nakamura

(New appointment)

Society is demanding stronger corporate governance in recent years. Stakeholders today believe that this is a prerequisite for addressing a management issue like enhancing corporate value. Managing and executing sincerely and establishing and running an effective corporate governance framework are essential to healthy corporate governance. The auditors' auditing function has an important role to play in that. As a CPA, I have knowledge and experience from many years of system audits on global enterprises and other organizations. As an outside Audit & Supervisory Board member, I am independent. I will work in that capacity with the standing members to provide highly effective auditing.

Message from the Chairman of the Board



Chairman
Representative Director **Takeo Obayashi**

We are building an effective corporate governance framework to increase the transparency and soundness of management.

■ Aiming to Be a Trusted Enterprise

Building an effective corporate governance framework and increasing management transparency and soundness are critical to maintaining the trust of society.

Obayashi was recently involved in investigations being performed by the Tokyo District Public Prosecutor's Office and the Japan Fair Trade Commission due to suspicion of a violation of the Antimonopoly Act in bidding related to constructing the Chuo Shinkansen maglev line. Obayashi has reformed its management structure in light of this development. This includes a change of President as of March 1, 2018. This is the start of efforts to prevent recurrence of such an incident. Under this new structure, we are working sincerely to rebuild society's trust in us.

We have selection standards for outside directors and outside Audit & Supervisory Board members, including standards regarding independence. The purpose is to ensure that our corporate governance functions effectively. Outside directors and outside Audit & Supervisory Board members bring ample experience and knowledge to the job and are independent of the company. They offer advice on improving management efficiency, supervise management in general, and check on management objectively. By so doing, they fulfill their duty of ensuring management transparency and fairness. Starting in 2018, we have increased the number of outside directors by one. Three of the 10 directors are outside directors. Moreover, six of the 15 members of the Board of Directors, including Audit & Supervisory Board members, are outside personnel. These shifts are making corporate governance stronger.

We analyze and evaluate the effectiveness of the Board of Directors as a whole based on assessments and opinions of the directors. Analysis and evaluation follow the principles of Japan's Corporate Governance Code as set out by the Tokyo Stock Exchange. The purpose is to ensure the continuous growth of the Group and further increase its corporate value. Based on evaluation results, we judge the Board of Directors to be effective. However, we will continue working to further enhance its efficacy by improving its structure and operating methods.

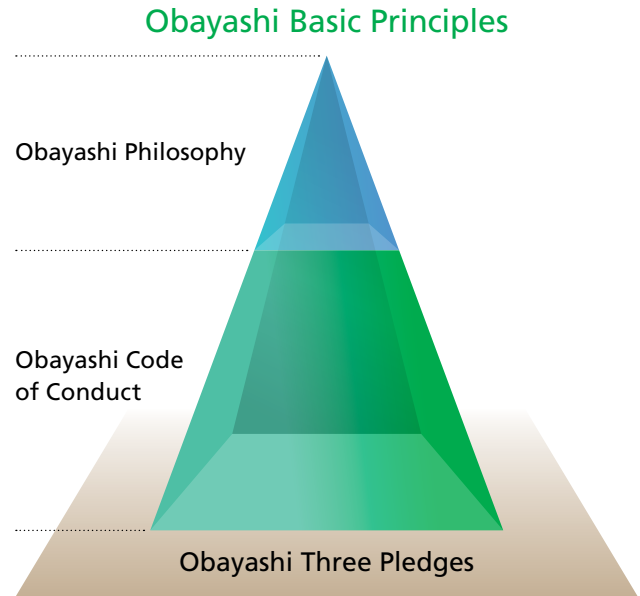
This process is enhancing corporate governance and helping achieve transparent, fair, rapid, and resolute decision-making. Through it, we aim to meet the expectations of all stakeholders and win their trust in us as an enterprise.

OUR VISION AND MISSION IN SOCIETY

The Obayashi Basic Principles consist of the Obayashi Philosophy, Obayashi Code of Conduct, and Obayashi Three Pledges. Together, they guide the actions of all Group officers and employees.

Following the Obayashi Basic Principles, we aim to be a leading sustainability company. We will attain this through business activities that solve social challenges, always taking the environment into consideration. Another important tool is honest craftsmanship powered by superior technologies.

To practice the Obayashi Basic Principles is to conduct our business. We aim to continue earning the trust of all stakeholders, including customers, shareholders and investors, suppliers, local communities, and employees. To that end, we will step up initiatives to realize a sustainable society.



Obayashi Basic Principles

Obayashi Philosophy

Obayashi's Vision and Mission in Society

A Leading Sustainability Company

1. Exercise honest craftsmanship with superior technologies and create new value in every space.
2. Care for the global environment and create solutions to social challenges as a good corporate citizen.
3. Value each person with a stake in our business.

By keeping these promises, Obayashi Corporation contributes to realizing a sustainable society.

Obayashi Three Pledges

The spirit that has guided us since our founding

Quality, Value, and Efficiency

Obayashi Code of Conduct

These guidelines help us realize the Obayashi Philosophy and continue being an enterprise trusted by all stakeholders

- **Fulfill our social mission**
 - (1) Provide high-quality buildings, infrastructure, and services
 - (2) Foster an environmentally responsible society
 - (3) Value every one of our associates
 - (4) Build stronger mutual trust with suppliers
 - (5) Build good relationships with communities
- **Ensure strict adherence to corporate ethics**
 - (1) Comply with laws and regulations and take a sensible course of action
 - (2) Promote fair and free competition
 - (3) Maintain appropriate relationships with stakeholders
 - (4) Avoid all contact with antisocial forces
 - (5) Ensure appropriate information disclosure and transparency of management

ESG-Focused Management

Upon the start of Medium-Term Business Plan 2017, Obayashi set its sights on Vision for the Future. Inspired by it, we are better clarifying and promoting initiatives to solve social challenges and realize a sustainable society.

Referring to international guidelines and the Sustainable Development Goals (SDGs), we identified about 300 specific ESG challenges. In FY2018.3, we distilled these down to 22 challenges relevant to the Obayashi Group (see table below).

Going forward, we intend to evaluate these challenges in terms of the impact on society and on the Group. We will identify our ESG Priority Challenges and steadily work on them.

Working to Achieve SDGs

The SDGs are targets adopted at a United Nations summit in 2015 for the international community to achieve by 2030. At the Obayashi Group, we link our ESG challenges to the SDGs and are working to help achieve those targets.



ESG Challenges Relevant to the Obayashi Group (E: environment; S: society; G: governance)

ESG Challenges Relevant to the Obayashi Group	Initiatives to Solve Challenges	Main relevant SDGs	Learn more at
<ul style="list-style-type: none"> Technological innovation Safety and security against disasters Creating attractive communities Partnerships with outside organizations 	<p>Accurately grasp increasingly diverse customer and social needs as the structure of society changes. Provide buildings, infrastructure, and services with high quality and high added value by using reliable technology. Offer society safety and security by preparing for frequent disasters. Develop disaster prevention and mitigation technologies. Provide rapid recovery support when disasters hit.</p>		p.31
<ul style="list-style-type: none"> Response to climate change Efficient energy operation Waste processing and management Life cycle management of buildings and infrastructure Responsible water resource management Maintaining and protecting biodiversity and ecosystems 	<p>Take various initiatives to realize a low-carbon, recirculating society that respects nature. Particularly consider that enterprises need to take steps against global warming today. Work to reduce CO₂ emissions from business activities and expand renewable energy business.</p>		p.33
<ul style="list-style-type: none"> Respect for human rights Comfortable workplaces and diversity Human resource development Enhancing occupational safety and health 	<p>Respect human rights and diversity. Create workplaces and programs that make work rewarding. Ensure the health and safety of all employees and workers. Develop a variety of training programs to support enterprise growth and nurture competitive human resources.</p>		p.35
<ul style="list-style-type: none"> Sustainable supply chains and procurement management 	<p>Recognize the importance of supply chain management. Set CSR procurement policies and practice responsible procurement. Conduct a variety of trainings for suppliers, including complying with laws and regulations, human rights, safety, and eco-friendly practices. Also, take various initiatives to eliminate the shortage of skilled workers.</p>		p.39
<ul style="list-style-type: none"> Contributing to local communities 	<p>Through business activities and employee efforts, work actively to contribute to society as a good corporate citizen. Work for the global environment, disaster prevention, recovery and restoration from disasters, good citizenship in local communities, nurturing the next generation, etc.</p>		p.41
<ul style="list-style-type: none"> Compliance Corporate governance Overseas business risk management Response to stronger regulation Fair tax payment Information security 	<p>Make compliance the highest priority in all business operations. Build systems for ensuring thorough corporate ethics. Ensure management transparency by properly disclosing enterprise information.</p>		p.43

FEATURE 1 | TECHNOLOGICAL DEVELOPMENT INITIATIVES TO SOLVE SOCIAL CHALLENGES

Obayashi accurately grasps the needs of our increasingly diverse society. We practice technological innovation to achieve a society good for people and the environment.

■ Technological Development Strategy

1 Pursue technologies that will be vital for society in the future. Promote technological innovation to spur new demand in a society where IoT and AI will be a common foundation.

2 Conduct R&D with constant attention to grasping customer needs, developing business models, and making achievements.

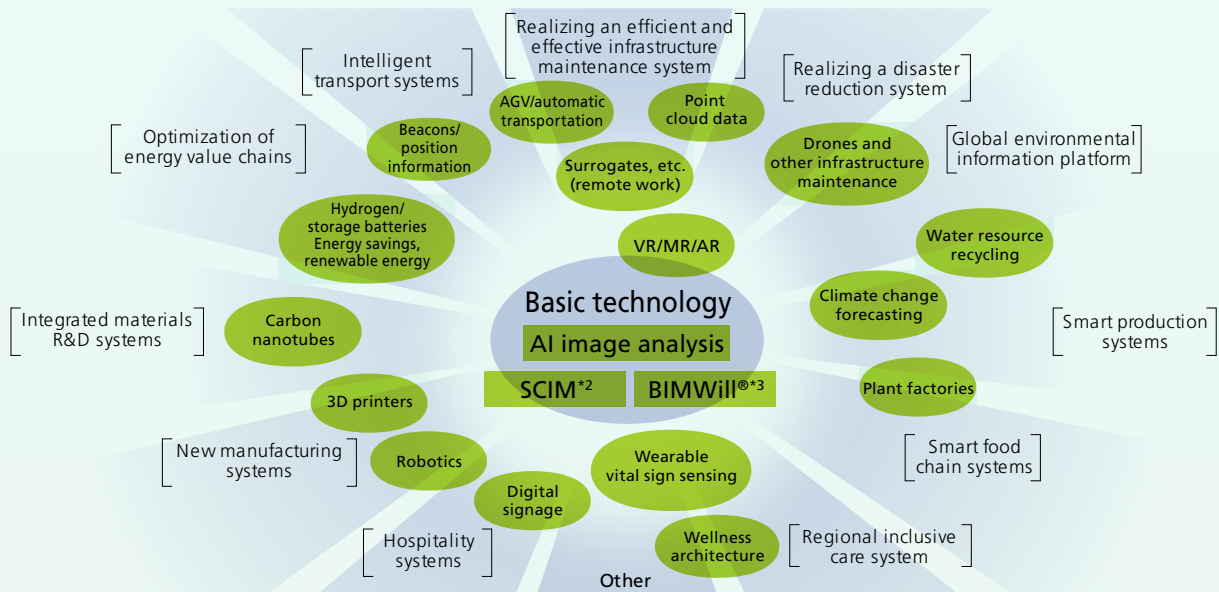
3 Develop advanced technology utilizing IoT, AI, and robotics to enhance quality and productivity, reduce costs, and improve the work environment. Bolster competitiveness in the global market.

4 Research and develop technologies to contribute to the environment, energy, safety and security, renovation, etc. In so doing, realize a sustainable, resilient society.

5 Research and develop new technologies that create business opportunities. Research and develop technologies that contribute to society, and which a future society that is good for people and the environment will need.

Relationships between major technologies developed by Obayashi and 11 fields aiming for Society 5.0^{*1}

[] : 11 systems for achieving Society 5.0



*1 The Japanese government's vision of a future society to be achieved through innovation. In November 2017, Keidanren (the Japan Business Federation) revised its Charter of Corporate Behavior. In this version, realizing Society 5.0 is treated as a key to achieving the SDGs.

*2 Smart City Information Modeling. A system developed by Obayashi to fully reproduce cities on computer and centrally manage services and information such as energy usage

*3 A building integration platform, developed by Obayashi, that uses a BIM model to collaborate with various systems. It makes maintenance and inspection of buildings, facilities, and equipment more efficient and advanced.

TOPICS | Technical Research Institute Is Creating the Future

The Technical Research Institute in Kiyose City, Tokyo, opened in 1965 as an Obayashi Corporation technological development center. Its role is to give society reliable, field-tested technology.

Renovated between 2010 and 2014 to expand its functions, it is powering research and development of leading-edge future-oriented technologies.

Features include Techno-Station (the main building) and Smart Energy Project Center. These tap numerous technologies developed by Obayashi. They and the institute as a whole provide a venue for presenting Obayashi technologies.



Techno-Station, the main building at Technical Research Institute
About 4,000–5,000 customers, students, and others visit annually.

■ Technical Topics

Safety and security / Increasing productivity

Enhancing Safety and Economy of Tunnel Construction

<AI Working Face Evaluation with Deep Learning>

Constructing mountain tunnels has long required evaluation of the working face by experts. This takes time and labor. Obayashi developed a tunnel face evaluation system using deep learning. The system offers fast, precise evaluations of geological conditions based on images of the working face.

<RockfallFinder detects early signs of working face collapse>

Workers on tunnel construction projects must be constantly careful about rockfalls since they work so close to the working face. Obayashi developed RockfallFinder with image recognition technology to instantly detect early signs that the working face might collapse. Warning lamps and buzzers tell skilled workers working in the area to leave.

A video camera picks up the working face image, which is repeatedly compared to its image 0.1 seconds earlier. It can recognize early signs of rockfall far more precisely than the conventional way of monitoring with the human eye. As such, it dramatically enhances safety.

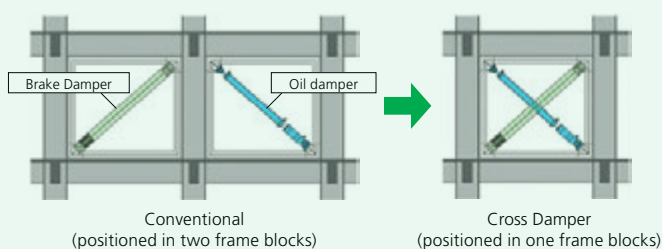
Safety and security / High performance and quality

Cross Damper for seismic resistance and vibration-reducing effects against different earthquakes

The technology combines a Brake Damper with an oil damper for seismic reinforcement of buildings. This offers vibration-reducing effects and better seismic resistance against earthquakes of various magnitudes. An oil damper controls tremors during small and medium earthquakes. In larger ones, the Brake Damper works in tandem with the oil damper to absorb more of the earthquake's energy and control tremors. Equipment needs to be installed in half as many places as conventional technology. That makes deep cost savings and faster deliveries possible.



Cross Dampers installed in Kumamoto Castle Main Tower as part of its restoration (installed image)



Create new businesses

Carbon Nanotube (CNT) Space Experiment for Realizing Space Elevator Construction Concept

We have recovered and are verifying samples of CNTs that have been in space since April 2015. The samples have been part of an experiment to test CNT durability in space exposure.

CNTs are advanced materials with numerous excellent properties. They are lightweight and have high strength, current density, and thermal conductivity. The samples were exposed in Kibo, the science module of the International Space Station (ISS) provided by Japan. The results correlated strongly with tests on the ground. The latter tests were shown to be effective at analogizing the damage CNTs would sustain in the compound environment of space.

Going forward, we will do detailed analysis with measurements of radiated light and investigate damage mechanisms at the atomic level. From there, we will develop technology to increase CNT durability in space. Our aim is ultimately to be able to construct space infrastructure.



Part of Kibo where space exposure experiment was performed

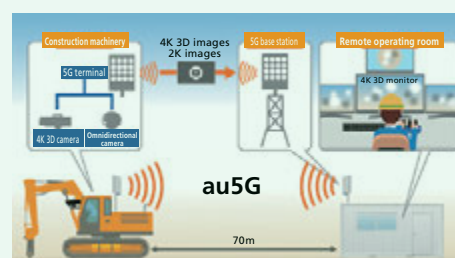
Safety and security

Remote construction with 5G next-generation mobile communications system and high-definition 3D images*4

We have been performing remote construction proving tests at our Tokyo Machinery Factory (Kawagoe City, Saitama Prefecture). The construction machinery uses a 5G next-generation mobile communications system capable of transmitting vast amounts of data at high speeds. Another component is a 4K 3D monitor, which shows high-definition images in 3D.

The merit of 5G is its high-speed transmission of large amounts of data. High-definition images are transmitted with little delay. With more data coming in, the operator can operate better. Tests have shown a 15%–25% improvement in remote operation work efficiency compared to conventional means. The result is that even delicate operation is possible remotely. This means recovery work can be done safely and quickly at disaster scenes where humans cannot enter.

*4 Conducted jointly with KDDI Corporation and NEC Corporation as part of the Ministry of Internal Affairs and Communications' engineering test program.



Overview of proving tests

FEATURE 1 | TECHNOLOGICAL DEVELOPMENT INITIATIVES TO SOLVE SOCIAL CHALLENGES

Environment / Safety and security

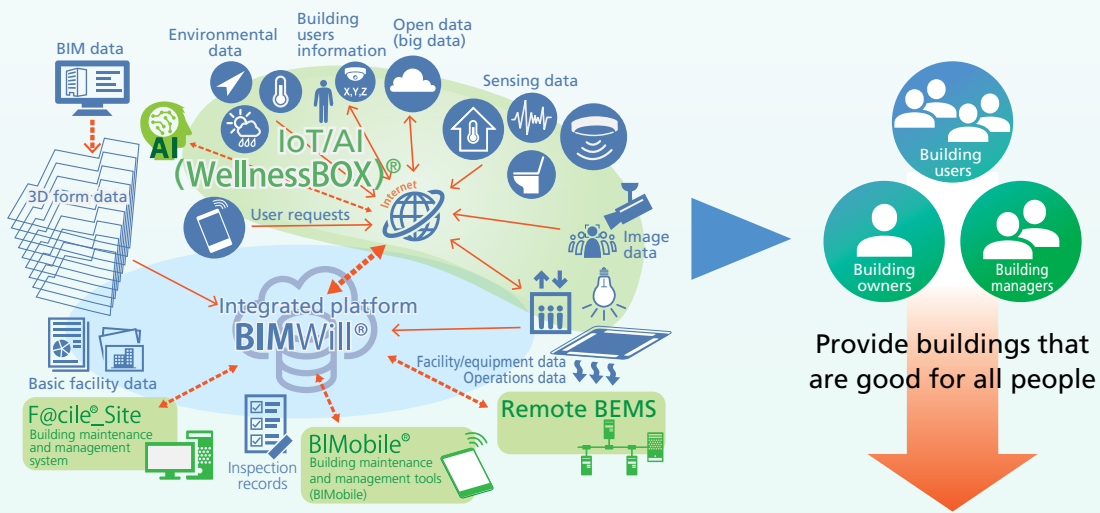
IoT and AI in Office Buildings

The oak kanda kaji-chou building, an office building completed in August 2017, brings together much Obayashi Group technology and expertise.

The building was built under the concept “smart buildings that are good for all people.” To make it, we incorporate IoT and AI to realize “wellness architecture.”**1

The WellnessBOX® smart building management system developed by Obayashi uses IoT to collect information from around facility users in real time. The same information is analyzed by AI. The information is additionally incorporated into the BIMWill® building integration platform. There, it is combined with Obayashi’s own information. With this, the system provides an environment tailored for the individual facility user’s comfort, health, convenience, safety, and security. Building owners and managers get building management and preventive maintenance information.

*1 Architectural planning, operations, and management techniques that encourage building users to engage in health-promoting and eco-friendly activities. The techniques additionally help achieve comfort, health, safety, and security for users.



Services offered

Comfort

- **Temperature and light suited to individual preferences**
The system gets information by IoT when the individual reports his/her sense of what temperature/brightness level is comfortable. The AI component learns those preferences so the environment can automatically set the comfortable temperature and brightness at all times.
- **Always-comfortable indoor temperature (at start of work)**

Wellness

- **Maintenance of health of building users**
- **Actively taking in natural light**
Illuminance sensors on the roof can determine the sunlight status outdoors.

Convenience

- **Checking whether lavatories are vacant**
Sensors are placed in lavatory stalls. With them, building users at their desks can tell if the lavatories are being used or being cleaned.
- **Shorter elevator waiting times**
- **Energy consumption visualized**
Energy consumption can be visualized, e.g., by comparing to past use and target use. Helps to eliminate energy waste.
- **Automatic collection of preventive maintenance information**

Security

- **Detection of suspicious behavior**
Surveillance cameras provide images from roof and the front of the entrance on the ground floor. If suspicious behavior is detected, an alert goes out to the building managers.
- **Estimation of building damage immediately following earthquakes**
The extent of building damage is automatically estimated immediately after earthquakes, providing safety and security to building managers, owners, and users.



Brightness reporting/Illuminance distribution display screen



Energy consumption visualization



Detecting suspicious behavior from surveillance camera images



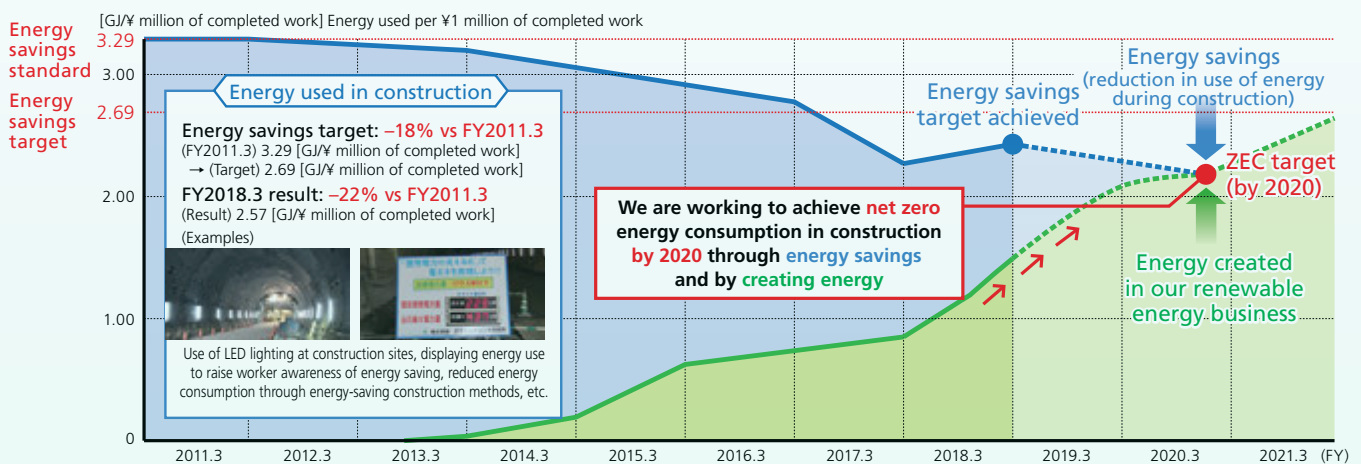
System screen giving immediate estimate of building damage following earthquakes

FEATURE 2 | REALIZING A LOW-CARBON SOCIETY

Global warming and air pollution are among the many environmental problems getting worse all the time. Helping to protect the environment and build a more livable society are important issues for enterprises. We adopted medium- to long-term environmental vision “Obayashi Green Vision 2050” to solve such problems and build a sustainable society. Now we are promoting various action plans to achieve this Vision.

■ Promoting Net Zero Energy Construction (ZEC)

We are working to achieve net zero energy consumption in building and civil engineering construction in Japan by 2020. This is to be accomplished by using energy-saving methods and creating energy in the renewable energy business.



■ Obayashi Group Power Generation Business

Obayashi Clean Energy Corporation began its renewable energy generation business upon its founding in 2012. Currently it has solar power stations operating in 28 locations across Japan. In November 2017, it opened Mitanehamada Wind Power Station (Mitane Town, Akita Prefecture). This was its first venture in the terrestrial wind power generation business. The total generating capacity of these facilities is 135 MW, equivalent to the power consumption of about 40,000 households. We are also pursuing a biomass power generation business in two locations.

Electricity generated in FY2018.3

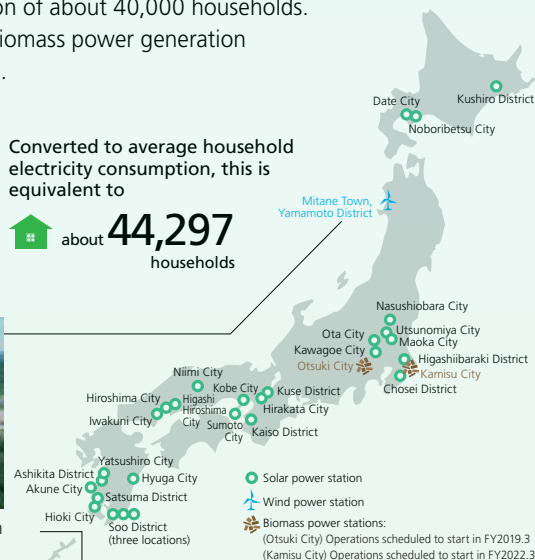
161,686 MWh

Converted to average household electricity consumption, this is equivalent to

about 44,297 households



Mitanehamada Wind Power Station
Rated output: 1,990kW×3
Business: Obayashi Wind Power Mitane Corporation



TOPICS | Working with CO₂-Free Hydrogen

Beyond solar, wind, and biomass, Obayashi is taking initiatives relating to CO₂-free hydrogen. We are building a hydrogen energy system at our Technical Research Institute to produce CO₂-free hydrogen from renewable energy. This is just one of our technological development efforts to use hydrogen in the future.

In April 2016, we signed a cooperative geothermal energy agreement with the New Zealand geothermal survey firm MB Century Ltd. We also signed a collaborative research memorandum with its parent company, Tuaropaki Trust, which also has a geothermal power subsidiary. The research under that agreement concerns production, storage, and transportation of CO₂-free hydrogen using geothermal power.

Through joint research, we are gaining expertise to take part in CO₂-free hydrogen projects in Japan and abroad. We will use that expertise to help realize a low-carbon society.



A geothermal power plant operated by Tuaropaki Trust

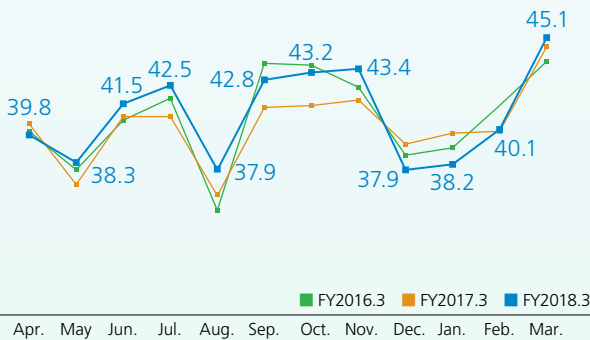
FEATURE 3 | WORK STYLE REFORM FOR THE FUTURE OF THE CONSTRUCTION INDUSTRY

The Japanese government has been promoting work style reform. In fact, reducing total working hours and improving productivity are pressing challenges Obayashi Corporation needs to solve. In September 2017, we launched a Work Style Reform Project Team. Members of the cross-sectional organization have debated what kind of work styles we need for the future. Based on those discussions, Obayashi has formulated targets for the future and action plans to achieve them.

■ Obayashi Working Time Conditions by the Numbers

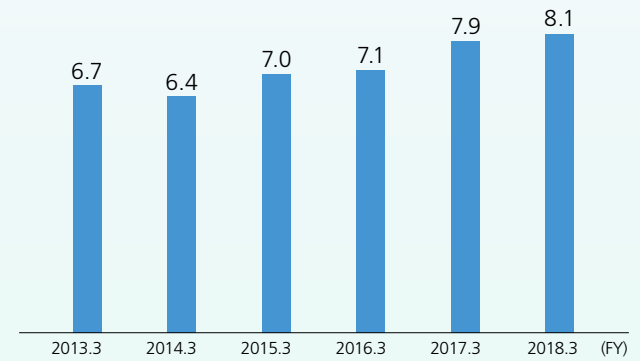
Average overtime hours*1 (overall)

(hours)



Average days of yearly paid vacation taken*2

(days)



*1 Average overtime hours: The average of (1) hours worked in excess of 7.75 hours per weekday + (2) hours on the job on weekends and holidays (not deducting for compensatory days off or breaks taken when staying up overnight)

*2 From FY2016.3, includes paternity leave

■ Targets and Action Plan

	Targets	Action Plan												
Correcting long work hours	<p>Target for upper limit on overtime hours</p> <table border="1"> <thead> <tr> <th></th> <th>By FY2022.3</th> <th>By FY2024.3</th> </tr> </thead> <tbody> <tr> <td>Yearly limit</td> <td>No more than 960 hours/year</td> <td>No more than 840 hours/year</td> </tr> <tr> <td>Multiple-month limit*3</td> <td>No more than 80 hours on average over 6 months</td> <td>No more than 80 hours on average over 4, 5, or 6 months</td> </tr> <tr> <td>Single-month limit*3</td> <td>Less than 100 hours</td> <td>Less than 100 hours</td> </tr> </tbody> </table> <p>*3 Includes work on days off</p>		By FY2022.3	By FY2024.3	Yearly limit	No more than 960 hours/year	No more than 840 hours/year	Multiple-month limit*3	No more than 80 hours on average over 6 months	No more than 80 hours on average over 4, 5, or 6 months	Single-month limit*3	Less than 100 hours	Less than 100 hours	<ul style="list-style-type: none"> Practice thorough and appropriate attendance management Use ICT to make business processes more efficient Workplaces and individuals work to reduce overtime hours Even out busy workloads Use contract employees, senior-citizen workers Give careful explanations to customers
	By FY2022.3	By FY2024.3												
Yearly limit	No more than 960 hours/year	No more than 840 hours/year												
Multiple-month limit*3	No more than 80 hours on average over 6 months	No more than 80 hours on average over 4, 5, or 6 months												
Single-month limit*3	Less than 100 hours	Less than 100 hours												
Encouraging employees to take yearly paid vacation	<p>By FY2022.3, increase yearly average number of yearly paid vacation days taken to 10 or more (Reference) Average yearly paid vacation days taken in FY2018.3: 8.1</p>	<ul style="list-style-type: none"> Encourage employees to take yearly paid vacation days systematically by using charts showing schedule of planned days off Encourage employees to take yearly paid vacation days during the autumn consecutive-holidays season Set simultaneous yearly paid vacation days 												
Promoting flexible work styles	<ul style="list-style-type: none"> Introduce telecommuting program in first half of FY2019.3 Further enhance childcare leave/home nursing care leave programs in FY2019.3 	<ul style="list-style-type: none"> Introduce telecommuting program Further enhance childcare leave/home nursing care leave programs 												

■ Major Initiatives for Meeting Targets

Aiming to Close Construction Sites 8 Days Every 4-Week Period

The construction industry's ultimate goal in work style reform is to secure workers and ensure the industry's healthy development. Obayashi is pursuing that by focusing on ensuring a two-day weekend for employees (closing construction sites eight days out of every four-week period).

We recommend that employees take compensatory days off if they work on regular days off. Starting in FY2019.3, in cases where the employee's schedule includes weekend work, we encourage them to take days off in anticipation. We also set a target quitting time for each individual and target closing time for each workplace. In this manner we are working to reduce overtime work.

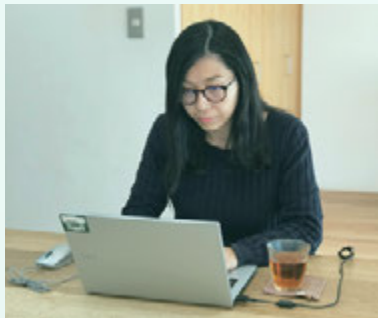
Closing construction sites eight days out of every four-week period requires setting appropriate deliveries. That, in turn, requires understanding on the part of the customer. We carefully explain the situation to customers using tools like a pamphlet produced by the Japan Federation of Construction Contractors.

Telecommuting Trial

In February-March 2018, we ran a telecommuting trial. About 100 Head Office employees of different job types and ages telecommuted once a week. The work they were assigned was the same as they would do at the office. It included a variety of tasks like preparing proposals and checking drawings on screen. Employees used internal systems to perform the tasks.

After the trial's end, we gave questionnaires to participants and their superiors to verify the advantages and challenges of telecommuting.

Now we are preparing for full-scale implementation.



An employee participating in the telecommuting trial

Expanded Child Care Support System

Since introducing our childcare leave program in 1992, we have improved a range of programs. Examples include a system of shortened work hours, paternity leave, and a system of financial aid. In FY2018.3, we empowered employees to take five days off annually apart from ordinary paid leave. The intention was to provide time off for school events and other parenting situations. We also extended the period covered by child care leave, from age 2 to age 3. This applies when the child is not able to get into nursery school.

Balancing Work and Home Nursing Care

To ensure our employees have peace of mind in dealing with home nursing care issues, we are enhancing programs such as home nursing care leave and shortened work hours.

Balancing work with other sides of employees' lives requires not just programs but the understanding and cooperation of others. A video we produced deepens employee understanding of home nursing care. The picture, entitled "Preparing for Home Nursing Care." It encourages workplaces where people feel like a team and help each other.



From the video offering a simple explanation of necessary information, including available programs

TOPICS | First in Japan to Get WELL Certification

Techno-Station, the main building at Technical Research Institute, has earned Gold level WELL Building Standard® certification (commonly called WELL Certification). Built environments that are candidates for WELL Certification undergo evaluation based on medical evidence. This includes the relationship between air quality and productivity and that between indoor light and user health risks and mental concentration. The system has gained attention for maintaining and improving employee health and increasing productivity.

Obayashi uses its expertise in this area to propose workplaces that are more comfortable for their users.

WELL Building Standard®
Gold level certification logo

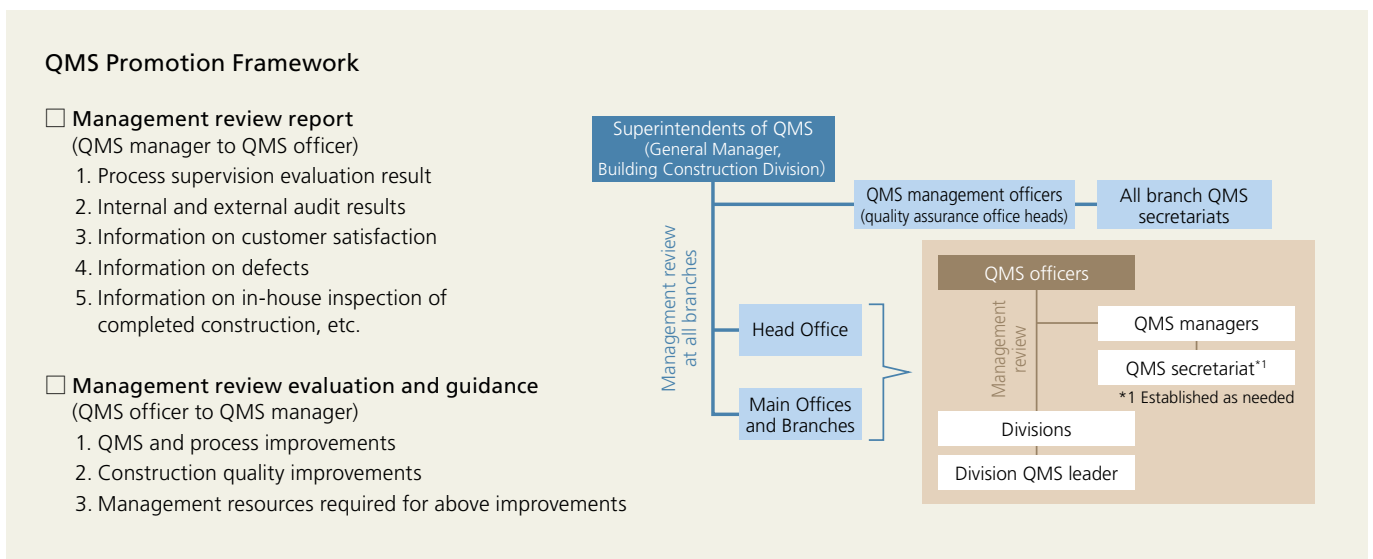


PROVIDING HIGH-QUALITY BUILDINGS, INFRASTRUCTURE, AND SERVICES

We earn the trust of customers by providing safe, secure, high-quality buildings, infrastructure, and services, exercising honest craftsmanship, and employing innovative technologies.

Quality Policy and Management System

Following our quality policy, we have implemented a Quality Management System (QMS) conforming to ISO 9001, under which we practice integrated quality management with a commitment to continuous quality improvement, at all stages from planning to design, construction, and after-sales service. Further, we are constantly sharing information and engaging in an array of training for higher quality and technology.



Ensuring Customer Satisfaction

Our objective is to provide construction that customers can use with confidence, satisfaction, and trust. We use leading-edge technologies like IoT, AI, and other forms of ICT to ensure this.

Enriching After-Sales Service

Starting at the construction stage, various building data is shared by staff at the construction site, clients, and architects. These include construction drawings, 3D design models, and electrical equipment specifications. This data is exchanged over the cloud through a dedicated server.

It is centrally managed in a building record system. The system likewise manages post-delivery information on defects or warranty construction after building completion, regular inspection records, long-term repair plans, and more.

It also contains a history of past inquiries from the customer. This lets us provide exacting after-sales service that includes smooth information transfers.

Customer BCP Support

We are implementing a system to relay damage reports via mobile phone during earthquakes. Thanks to a GPS function, nearby construction projects are displayed on mobile phones when there is an earthquake. Cameras can be used to record the damage status and immediately report to the response force. Based on the reports, we put together a recovery support framework suited to the state of damage and we support customer BCP.

To offer recovery support we need to cooperate with partner companies. Thus, we periodically hold trainings with partners to check that our systems are ready. Our training in August 2017 drew participation from 1,009 companies.

■ Developing Human Resources

We conduct training programs to increase our engineers' construction management capabilities so customers get high-quality buildings and infrastructure.

Various Training Programs

At the Fuji Education Training Center,*2 we train new recruits with hands-on construction site work. The training is designed to teach actual procedures and the difficulty of the work and enhance recruits' skills. Trainees learn by directly performing operations like measuring, assembling rebar and concrete forms, and inspecting materials.

Annual technical training is also conducted for employees through their fourth year. This consists primarily of group work. Trainees learn construction planning techniques and specialized knowledge in civil engineering, architecture, facilities, and mechanical and electrical work.

For mid-career employees, a variety of programs are offered, including live exercise-based technical training and teaching of the latest technologies. These are designed to foster a high level of quality and construction site management skills.

*2 A training facility for construction engineers and skilled workers

Quality Training with VR

Obayashi developed training software that uses virtual reality (VR) technology for a simulated experience of the construction site. Trainees put on a head-mounted display (HMD), which reproduces the scene. The "rebar fault training software" is used for quality training. Trainees practice checking whether rebar is assembled as shown on plans displayed on a tablet, looking for any faults.

We are using this software to give training all over Japan. One advantage is that trainees can take the training without directly going to a specific facility. There is also no need to operate an actual mock construction site.



Wearing a head-mounted display (HMD) and using VRiel*3

*3 VR interactive e-Learning: A training system using VR technology developed by Obayashi



Examples of using VR to confirm plans (left) and measure with a tape measure (right)

Working to Raise Technical Standards

Group company Thai Obayashi's technical training center, opened in 2015, trains young and mid-level employees. Trainings are also given for members of partner companies and university students aiming for careers as engineers.

In FY2018.3, the center's facilities and training programs underwent evaluation by Thailand's occupational development authorities. It became the first construction technology training facility to win the authorities' certification. It has also earned certification from the Engineering Institute of Thailand. This means that trainees working to get their engineer's qualifications can earn points by studying at the Training Center.

The Obayashi Group is working as a whole to train personnel and raise the standards of construction technology.



Trainees learning at the Training Center

DATA | Support for Earning National Qualifications

Professional Engineer: 1,061
Class 1 Architect: 1,988
**Class 1 Civil Engineering/
 Construction Management Technician:** 4,121

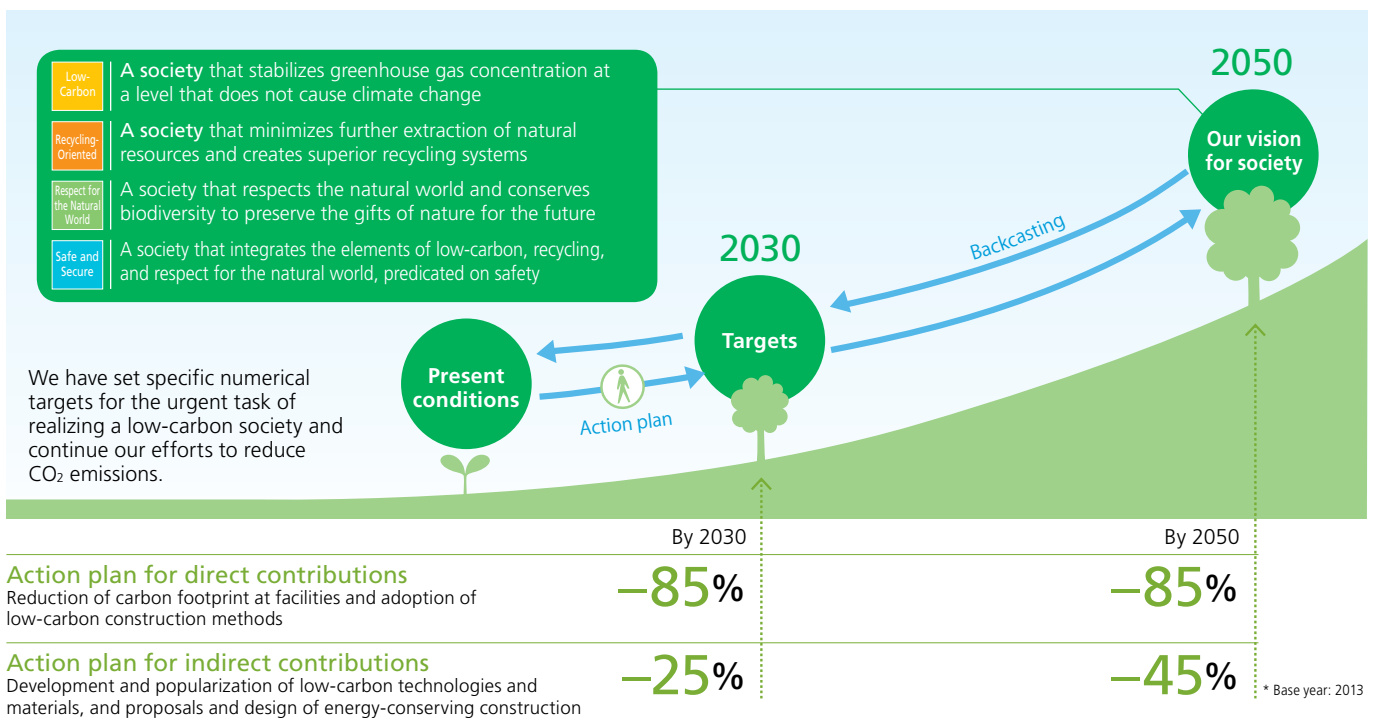
Obayashi gives quality training suited to each person's occupational category and years of experience and supports those seeking national qualifications. Employees with specialized skills offer high-quality services.

FOSTERING AN ENVIRONMENTALLY RESPONSIBLE SOCIETY

We are promoting Obayashi Green Vision 2050, a medium- to long-term vision for achieving a sustainable society, and working to protect the environment.

Obayashi Green Vision 2050

In February 2011, we established the Obayashi Green Vision 2050, a medium- to long-term vision for achieving a sustainable society. Our vision for society in 2050 is what we call a “3+1 Society.” It integrates the elements of low-carbon, recycling-oriented and respect for the natural world, predicated on safety and security. To achieve that, we have established a concrete action plan and are moving forward with various initiatives.



Action Plan and Main Initiatives in FY2018.3

Business areas	Action plan	Main initiatives in FY2018.3	Relevance to the “3+1 Society”			
			Low-Carbon	Recycling-Oriented	Respect for the Natural World	Safe and Secure
Building and urban construction	Promote environmentally responsible real estate development projects	Proposed, examined, and carried out Group development projects	○	○	○	○
	Realize smart cities	Participated in thermoelectric supply system proving test and project	◎	○	△	○
	Promote ZEB ^{*1}	Deployed energy-saving and energy-creating methods in construction projects	◎	△	—	○
	Promote the soil and groundwater remediation business	Advanced remediation business for soil contaminated with VOCs, heavy metals, or other substances	△	◎	○	○
	Reduce impact on ecosystems	Utilized technology to assess impact during development when considering projects	—	△	◎	○
	Implement initiatives to invigorate communities mainly in the power generation business	Considered business that invigorates communities	◎	◎	○	○
Infrastructure construction	Promote the renewable energy business	Renewable energy generated: 161.69 million kWh/year	◎	○	○	○
	Renew and extend the life of infrastructure	Developed, demonstrated, and applied technology to rehabilitate and extend the life of infrastructure	△	◎	○	◎
Provision of services	Implement initiatives in hydrogen energy services	Considered proving tests and projects in cogeneration supply systems for urban areas	◎	○	—	○
Initiatives towards reducing CO ₂ emissions	Promote the conservation of energy at the construction stage	Reduced the amount of primary energy used in construction by 21.8% vs FY2011.3	◎	—	—	○
	Promote eco-friendly concrete use	Used about 30,000 m ³ of Clean-Crete ^{*2} in building and civil engineering construction	◎	—	—	○

*1 Net Zero Energy Buildings: buildings designed to consume net zero energy in operation through energy conservation and the generation of renewable energy
 *2 Low-carbon concrete that results in up to 80% lower emissions of CO₂ than ordinary concrete. Much of the cement is replaced with industrial by-products like finely crushed blast furnace slag.

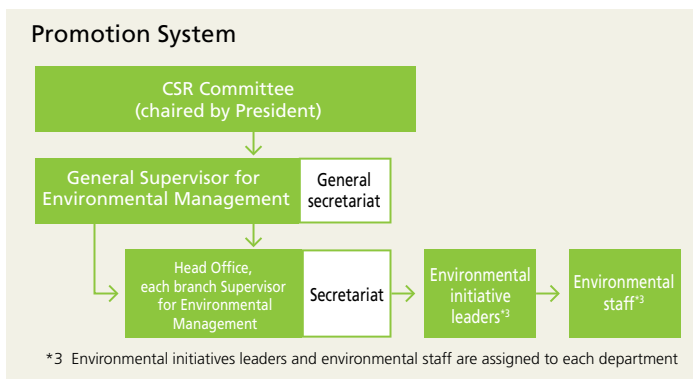
Relevance △ ○ ◎
 Low ← → High

Environmental Management System (EMS)

Promoting the Environmental Management System

Our environmental initiatives aim to achieve our vision for society in 2050 as outlined in Obayashi Green Vision 2050. We are also endeavoring to lower the environmental impact of our business activities. To that end, we built and are operating a company-wide environmental management system (EMS).

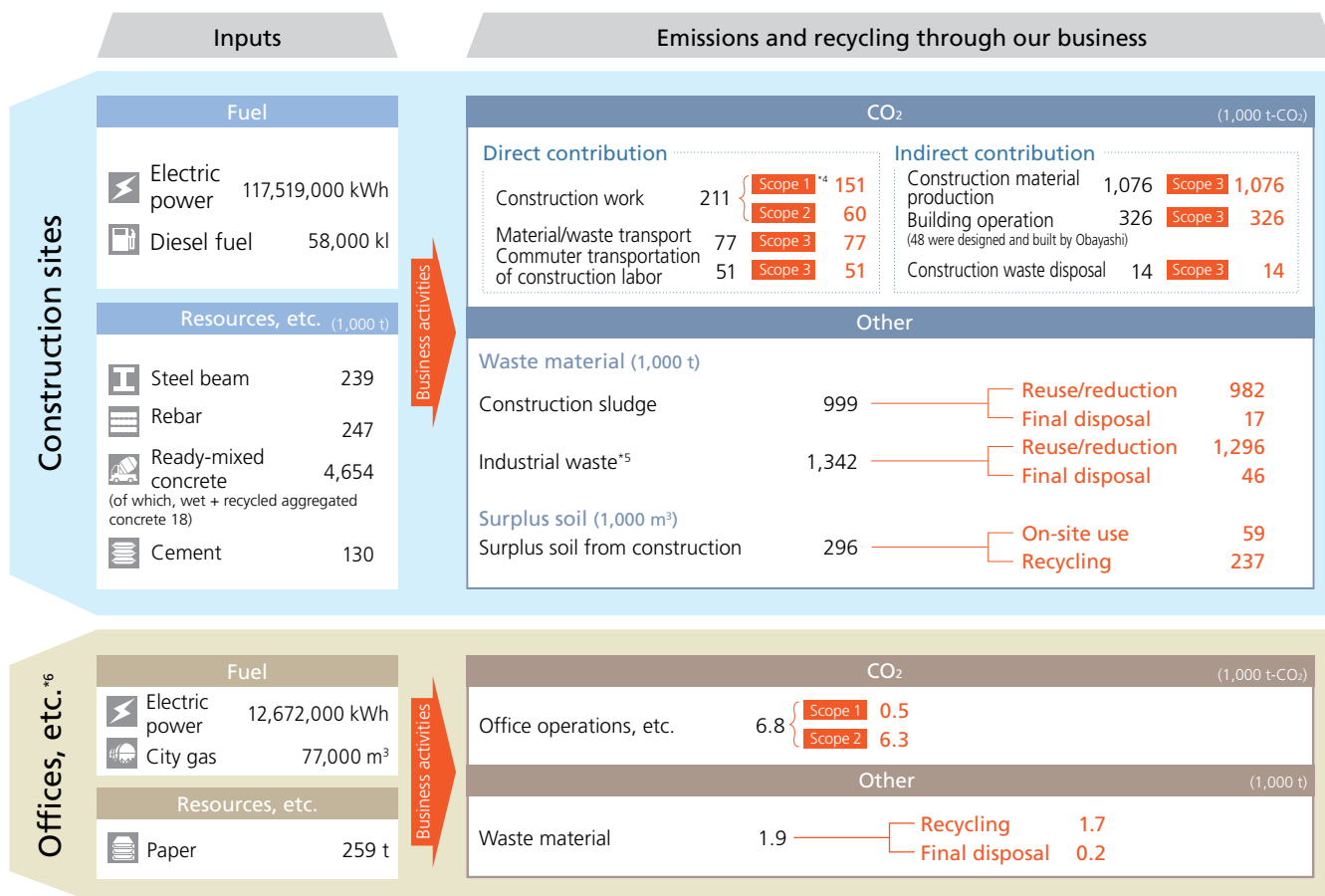
The EMS earned ISO 14001 certification for all organizations by 1999.



Material Flow (FY2018.3)

Our business activities at construction sites require certain inputs, like electricity and fuel to power construction machinery and vehicles. Other inputs at these sites are the materials that make up buildings and infrastructure. These inputs result in emissions, including CO₂ and waste. The use of electric power and paper in our offices likewise results in emissions. The operation of buildings and the production of construction materials also account for a large share of indirect emissions.

Obayashi endeavors to monitor these inputs as part of mitigating the environmental impact of all our business activities. Approaches include proposing energy-saving designs and renovations and popularizing and expanding low-carbon materials. We also use fuel-efficient equipment and recycle and effectively use wastes and surplus soil.



*4 Scopes are categories of GHG emissions prescribed by the GHG Protocol. (The GHG Protocol was developed as an international standard for calculating and reporting GHG emissions)

Scope 1: Direct emissions from business activities

Scope 2: Indirect emissions associated with the use of energy (electric power, heat, etc.) in business activities

Scope 3: Other indirect emissions caused by supplier activities, product use, etc.

*5 Excludes ordinary waste, construction sludge, specially controlled industrial waste, and waste containing asbestos.

*6 Applicable facilities are the Head Office, Tokyo Main Office, Osaka Main Office, branch offices, machinery plants, material/equipment centers, the Obayashi Technical Research Institute, etc.

VALUING EVERY ONE OF OUR ASSOCIATES

We ensure the health and safety of all employees and workers in a work environment where they can exercise their unique character and talents and feel motivated.

Human Resources Initiatives

■ Respect for Human Rights

In June 2011, we established the Obayashi Statement on Human Rights. Based on the Universal Declaration on Human Rights, this statement sets out our commitments. We commit to respecting fundamental human rights. We commit to not discriminating based on race, gender, age, nationality, religion, social origin, disability, and the like. (This applies to all employees or businesses with which we are associated.) We commit to respecting international rules including International Labor Organization (ILO) agreements. We commit to prohibiting the use of forced labor or child labor. We commit to complying with all applicable laws and regulations in the nations and regions where we operate.

Obayashi has a Human Rights Awareness Promotion Committee chaired by the executive officer responsible for human resources. It meets regularly to promote the recognition of human rights in keeping with our statement.

All employees must refrain from any form of discrimination. They must have a correct human rights awareness that respects people's diversity. Thus we train all staff on human rights issues like racism, harassment, normalization, sexual orientation, and gender identity. We have established internal and external points of contact for harassment concerns. These are available for employees of Obayashi and its suppliers and personnel from partner companies to use.

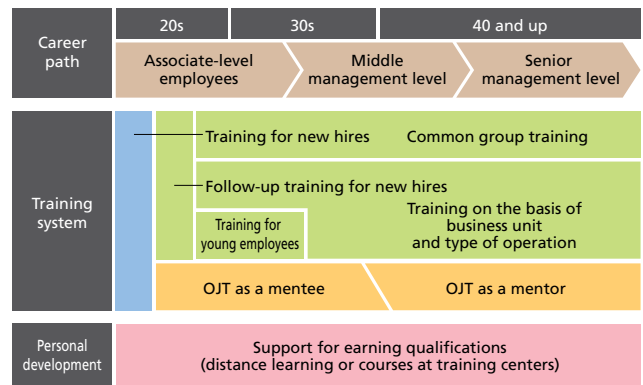
Group companies also conduct training tailored to their business activities and regional characteristics and perform human rights due diligence. These efforts are based on policies determined by the Obayashi Human Rights Awareness Promotion Committee.

■ Nurturing Human Resources

We offer in-house training systems to pass on to future generations the DNA of honest craftsmanship carried on from our founding. Programs include a mentor system where senior employees guide their younger colleagues. Also available is a system where employees can express the position that they wish to work in. We provide level-specific training and specialist training for specific roles. There is also training on the basis of business unit and type of operation.

Employees are also encouraged to acquire national and public qualifications related to their work. We support their skills development by providing subsidies and incentives.

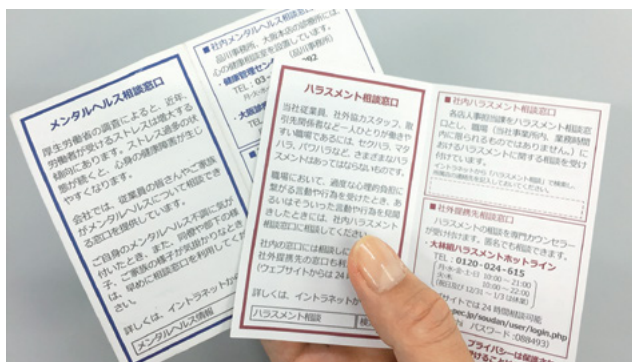
Obayashi's Training Systems



Nurturing global human resources who will expand our area of activity in Japan and abroad is another priority for Obayashi. We act on this by having employees study abroad, take postings abroad, and learn foreign languages. Another program fosters understanding of the business customs in various countries and teaches risk management skills. Around 30 mostly younger employees join the program each year.

We offer a hands-on training program for locally hired staff at overseas Group companies. This program enables locally hired staff to learn our construction technologies and safety management measures.

In FY2018.3, a total of 23 staff came to Japan for this program. They were from Thailand, Indonesia, Vietnam, Taiwan, Singapore, and the U.S.A.



Notices distributed to all employees with information on harassment and mental health points of contact. Counseling is available to employees 24 hours a day.

Promoting Diversity

At Obayashi, we understand it is the strength of each individual employee that supports our enterprise. For that reason, we establish workplaces in which diverse personnel can play an active role. Obayashi workplaces seek to respect the humanity of each employee and enable them to make the most of their talents.

Appropriate Personnel Evaluations

Obayashi treats people appropriately in all aspects of hiring, promotion, and so on based on fair personnel evaluations. This is fundamental to our personnel system. We do not discriminate on the basis of race, gender, nationality, and the like. Factors like these have nothing to do with the person’s capabilities or work performance.

Superiors and subordinates meet every half-year to talk in depth about the employee’s targets and results. The employee can look up results of his or her ultimate evaluation. This ensures that evaluations are transparent and convincing.

Hiring of People with Disabilities

Our special subsidiary Oak Friendly Service Corporation, established in 2001, employs persons with intellectual and mental disabilities. Employees work at 11 offices around Japan. Job coaches with specialized knowledge guide employees, who perform jobs that take account of the nature of their disability. The aim is to provide opportunities for independence and a place in society.

We also periodically host students from special-needs schools as workplace trainees, thereby supporting education for social inclusion.

Rehiring Retirees to Pass down Technology

Our rehiring system for persons who have reached the mandatory retirement age gives them new employment opportunities. Younger employees learn from the experience and specialized knowledge the veterans have from their long years in so many fields.

Obayashi works to pass on the DNA of honest craftsmanship and technological capabilities we have maintained since our founding.



Employees work to the best of their talents, regardless of gender and nationality.

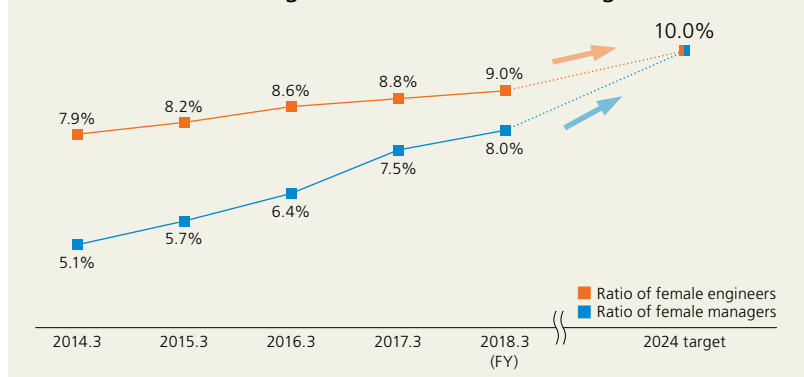
DATA Opportunities for Female Employees

Ratio of female managers: 8.0%
Ratio of female engineers: 9.0%

In 2003, we were one of the first in the construction industry to eliminate employee classifications. Since then, we promote hiring based on personal qualities and place the right people in the right jobs.

Our employment targets for women are inspired by Japan’s Act on Promotion of Women’s Participation and Advancement in the Workplace. Specifically, we aim to raise both our ratio of female managers and ratio of female engineers to about 10% by 2024.

Ratio of Female Managers and Ratio of Female Engineers



VALUING EVERY ONE OF OUR ASSOCIATES

Health and Safety Initiatives

Health and Safety Principles and Policies

The Obayashi Philosophy assert that we value everyone we come in contact with in our business. We therefore make the safety of our construction sites, where so many people work, a top priority. We also practice health and safety day to day under our Health and Safety Principles.

- 1 Comply with the Industrial Safety and Health Act, other relevant laws, and Obayashi Corporation’s internal rules
- 2 Appropriately implement and use Obayashi’s Occupational Health and Safety Management System
- 3 Help improve the independent health and safety management efforts of suppliers

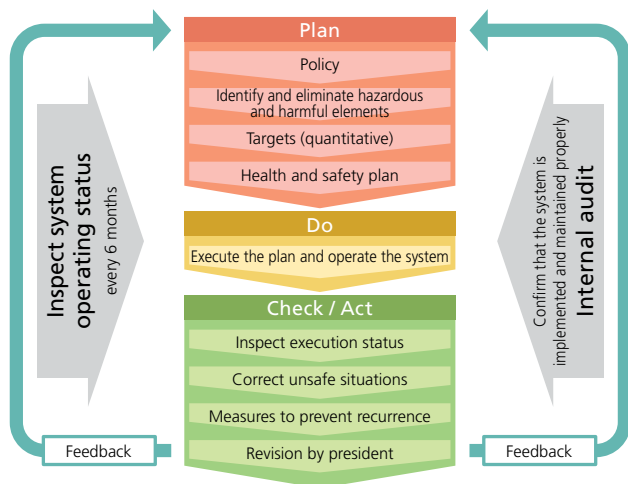
Occupational Health and Safety Management System

Our Occupational Health and Safety Management System is designed to eliminate the risk of accidents at our workplaces.

Under this system, we set health and safety policies and targets each year. Then, we use a Plan, Do, Check, Act (PDCA) cycle to eliminate or reduce the latent risk of workplace accidents. We also share expertise and take measures to foster an organizational culture that prioritizes safety.

A central officer for health and safety promotes the system Company-wide. Officers in charge of health and safety (or general managers) do so at the head office and branches. Project managers play the same role at construction sites.

Occupational Health and Safety Management System



Targets and Priority Measures

Each year we set targets and formulate priority measures for achieving them. Obayashi actively endeavors to prevent workplace accidents. Our approaches are intended to eliminate human error-caused accidents and repeat accidents in the work place.

- FY2018.3 target: Zero fatal accidents**
<Priority Measures>
- 1 Prevent occupational accidents under the leadership of the project manager
 - 2 Prevent machinery accidents
 - 3 Prevent accidents resulting in falls
 - 4 Increase health and safety management capabilities
 - 5 Promote creation of healthy work environments
 - 6 Prevent damage to third parties due to accidents

<Prevention of Workplace Accidents>

Initiative for Enhancing On-Site Inspections

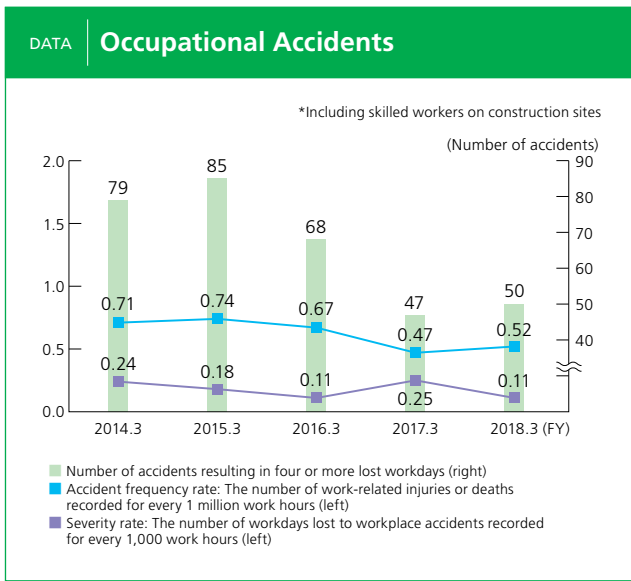
Our employees and supplier supervisors check directly on the implementation of safety measures at worksites. Any faults are corrected on the spot. On-site inspections also prioritize finding unsafe behavior on the part of workers and appropriately posting credentialed workers.

Initiative to Encourage Calling Out

Workers who see someone doing something unsafe are required to verbally caution them. We strive to make an environment where people can call out to each other freely.

ATKY Initiative

Before starting work, employees determine how to eliminate or minimize potential work hazards. The elements of the practice are safety, inspection, checks, and hazard prediction. (“ATKY” is an acronym for the equivalent terms in Japanese).



Safety Training

We provide training for employees and suppliers to prevent workplace accidents, raise health and safety awareness, and deepen understanding of safety-related laws and regulations.

All employees working at construction sites take e-learning courses on a variety of themes several times a year. In FY2018.3, we gave training on the theme of “Learning from past accidents.”

We created a mock construction site at the Osaka Machinery Plant along with equipment for experiencing hazardous work. Here, we give hands-on safety training for young Obayashi employees and our suppliers’ skilled workers. The point of experience-based training is to enhance trainees’ sensitivity to danger. Ultimately, this will raise their safety awareness and safety management skills.

We also cooperate with the Obayashi Accident Prevention Association, which is organized by our suppliers. Together we created an educational DVD on preventing accidents caused by human factors and accidents with loading truck cranes.



A mock construction site at Osaka Machinery Plant. Hands-on safety training is given to young Obayashi employees and our suppliers’ skilled workers.

Safety Patrols

All branches conduct regular patrols of construction sites to verify health and safety management conditions.

Apart from daily patrols, the central officer in charge of health and safety and secondary officer in charge conduct special patrols four times a year. We also run patrols to verify dust hazard prevention efforts at tunnel construction sites and so forth.

Health and Safety Information

Construction personnel, including those of our suppliers, receive a publication called Safety Information each month. Here we share information about safety topics and health and safety law and regulation changes. The goal is to thoroughly familiarize construction personnel with safety concerns.

We also produce digests that concisely summarize health and safety laws and regulations and Obayashi’s internal standards. Workers carry these along and use them when creating construction plans and performing day-to-day construction site patrols.

Such information is also posted to our intranet and distributed via tablets, as well as shared with suppliers.



Publishing information like situations that lead to accidents is meant to keep readers alert and raise their safety awareness.

EARNING TRUST FROM SUPPLIERS

We conduct fair transactions with suppliers and build stronger mutual trust with them as partners who can grow with us.

Obayashi Group CSR Procurement Guidelines

In 2011, we established the Obayashi Group CSR Procurement Guidelines. Following these, we work with our suppliers to achieve a sustainable society. The guidelines set out nine areas of concern. They include compliance with laws and regulations, respect for human rights, ensuring safety and health, and concern for the environment. Besides seeking improvements from suppliers and strengthening CSR initiatives, we are encouraging adoption of these guidelines throughout our supply chain.

We also have green procurement guidelines for materials. We monitor supplier factories by direct inspection to ensure that procurement is appropriate.

Obayashi Rin-yu-kai

Obayashi Rin-yu-kai, comprised of suppliers around Japan, counts about 1,100 member companies doing various types of work. Obayashi periodically monitors member companies to ensure their soundness.

The corporate members of Obayashi Rin-yu-kai hold liaison meetings regularly. They share information about revisions to safety laws and regulations and how to deal with legal welfare expenses. Among other issues they discuss is hosting foreign technical trainees, a practice that is growing.

Obayashi Rin-yu-kai is an important stakeholder for us. As such, we are building trusting relationships with its members by conducting interviews and encouraging communication.

Various Types of Training

The Rin-yu-kai and Obayashi Accident Prevention Association hold various trainings on topics like quality, health and safety, and compliance. We send Obayashi employees to serve as instructors for these.

We also hold joint training every year for newly recruited employees from Rin-yu-kai member companies. This supports the training of young skilled workers.



A training for members of Obayashi Rin-yu-kai

DATA

Number of Certified Excellent Site Supervisors and Excellent Operators

427 (in 2018, of which, 30 Excellent Operators)

In recent years in Japan, the construction industry has been confronted with problems related to a shortage of skilled workers. This is due to the aging workforce, a decline in the number of younger recruits, and low retention rates.

Our response is the Obayashi Excellent Site Supervisor and Excellent Operator Certification Program. It aims to get more people into the construction industry and help pass on expert skills. Under the system, we began certifying, and raising the pay of, exceptional supervisors^{*1} and crane operators.

Begun in 2011^{*2} the program is getting new content every year. We added young skilled workers to its target audience and have also increased the pay boost that successful candidates receive.

Obayashi Excellent Site Supervisors and Excellent Operators (number of persons)



*1 A skilled worker who provides instructions to subordinates at construction work sites
*2 The Excellent Operator Certification Program was introduced in 2016

Obayashi Rin-yu-kai Vocational Training School

In 2014, we opened a vocational training school^{*3} to nurture skilled workers and pass on expert skills to future generations.

The school offers three courses for developing young workers: scaffolding, ferro-concrete reinforcement, and formwork. Employees of Obayashi and its suppliers serve as instructors. Trainees spend about a month and a half acquiring the knowledge and technical skills needed at construction sites. These include construction tasks, safety management, and computer-assisted design (CAD).

We have also set up a short course focusing on CAD skills. The two courses combined have produced 105 graduates (as of March 31, 2018), who are now working at construction sites.

*3 Obayashi Rin-yu-kai Vocational Training School is a wide-area occupational training organization utilizing a program of the Ministry of Health, Labour and Welfare.



Students learn form assembly by doing the actual work.



In addition to practical skills, trainees also learn about safety and health regulations.

Supporting Recruiting Activities

Promoting recruitment of skilled workers who will lead future generations and passing on techniques is not just up to suppliers. It is a matter in which Obayashi can play an important role. We work together with our suppliers to convey the appeal of the construction industry.

Joint Company Introduction Seminars

Since FY2015.3, we have been holding company introduction seminars jointly with Obayashi Rin-yu-kai. These events are open to high school career counselors.

We held 13 such events in FY2018.3. Personnel from 75 schools participated in seminars in six locations: Sapporo, Tohoku, Nagoya, Osaka, Hiroshima, and Kyushu.



A joint company introduction seminar

Hands-On Occupational Construction Site Tours

Hands-on occupational construction site tours are held for high school and vocational school students.

Students get hands-on experience in multiple areas, including rebar, gas pressure welding, plastering, and painting. This way, they can learn the differences between various kinds of work and get a sense of their own aptitudes. Another objective is to let them imagine themselves working in construction.



Senior high school students learn how to assemble iron reinforcing bar.

BUILDING GOOD RELATIONSHIPS WITH COMMUNITIES

We respect local cultures and customs wherever we work and promote harmony with society as a good corporate citizen.

Under the Obayashi Social Responsibility Policy, the entire Group uses management resources to contribute to the community.

Obayashi Social Responsibility Policy: Our Commitments

- We take a global perspective on everything we do to fulfill our social responsibilities, making the most of all the resources available to us around the world. Our business itself contributes solutions to address global issues, and we also undertake special initiatives that go beyond the reach of our business.
- We coordinate our work to address social issues with local communities, non-profits, NGOs, governments and other key actors, capitalizing on the unique strengths of every entity and every person involved.
- We work hard to ensure that our approach to social responsibility is clearly understood and that our efforts to build a better society are widely known.

Supporting Special Olympics Nippon

Special Olympics is an international sports organization aiming to improve the quality of life for people with intellectual disabilities through sports.

We support their activities as an official sponsor of Special Olympics Nippon.



Donations in Bangladesh

Obayashi is working on bridge construction projects in Dhaka, Bangladesh. There, employees from Obayashi and our partner companies volunteered to donate second-hand clothing and blankets in an impoverished area.

Obayashi independently runs volunteer programs at each of its construction sites around the country to contribute to the community.

Obayashi Foundation Scholarship Program

The Obayashi Foundation offers assistance for urban planning research and international conferences. It also operates an award program for researchers in the field. In addition, the foundation provides scholarships to students studying to become urban planning professionals or researchers. In FY2018.3, we gave scholarships to 21 students.

Parent and Child Woodworking Classes

Group company Naigai Technos holds woodworking classes for parents and children when the children are on summer vacation.

Participants build chairs, despite having little or no experience handling tools like saws and hammers. Through the class, children learn how to use such tools and how much fun woodworking can be.

DATA

Employee Participation Rate in Matching Gift Program

FY2018.3: **12.5%**

Obayashi introduced the Matching Gift Program in October 2014, inviting our directors and employees to participate.

Donations are given in the categories of disaster support, environment, and social initiatives (including local communities and fostering young people). The CSR Committee selects the recipients, with donations totaling about 111 million yen going to 23 groups so far.

In FY2018.3, we donated about 29 million yen total for relief from heavy rain damage in northern Kyushu in July 2017. The donations went particularly to heavily damaged Asakura City and Toho Village in Fukuoka Prefecture and Hita City in Oita Prefecture.

(Photo, left) Shunsuke Morita, Mayor of Asakura City, Fukuoka Prefecture



Public Tours and Education Concerning Road Restoration Project

After three years and seven months of work, Obayashi recently completed the National Route 45 Yoshihama-Kamaishi Road Construction project. We built three tunnels and two bridges (superstructure and substructure) on a 3.2 km section of the Iwate Prefecture road. The project was to build part of an automobile highway planned for the Sanriku coastline between Sendai and Hachinohe. This area was hit hard by the Great East Japan Earthquake.

Obayashi is committed to contributing to society through our business. Therefore, we value communication with local communities. Here we introduce the social initiatives of reconstruction project sites that have inspired hope in the community.



About 1,000 people toured the road over the 3 years and 7 months of the project. The tours expressed the appeal of building things and the attractiveness of the construction industry.



We work with educational programs of universities and others. Tours targeted at university students majoring in technical fields included technical explanations of viaduct construction techniques.



At "young people's talks," young employees told tour participants how they felt about the reconstruction effort.



Elementary school students experience a virtual drive on the completed road using a simulator. Various tools were used to make the construction techniques and image of the completed road easy to understand.



Working with local non-profits and others, we planted 30 weeping cherry trees close to construction sites. Plantings are done in cooperation with local governments, unions, area businesses, and so on.



Directing local traffic and cleaning up around construction sites are part of our day-to-day work. At construction sites around Japan, we direct traffic and run patrols daily. Our goal is to ensure the safety of local residents.



For three straight years, we have worked with local elementary school children to release juvenile fish in the Katagishi River. The river is directly below a construction site. At Obayashi, we plan so that the original river and natural world will remain after construction is finished.



We invited local elementary school students, residents, and the chamber of commerce and industry to the tunnel breakthrough ceremony. During the three years of the project, we kept close to the community.

ENSURE STRICT ADHERENCE TO CORPORATE ETHICS

In light of the suspicion of the violation of the Antimonopoly Act, our business operations will firmly put the highest priority on compliance. The Obayashi Group will work to rebuild the trust of our shareholders and other stakeholders.

Policy

Obayashi’s Articles of Incorporation express our strong determination to stay aware of compliance issues, including corporate ethics. They likewise commit us to complying with laws and regulations to create a sound corporate culture. The Obayashi Code of Conduct moreover stipulates thorough adherence to corporate ethics throughout the Company. Top management leads the effort for corporate ethics.

Obayashi Corporation’s Articles of Incorporation, Article 3
(Compliance and Sensible Course of Action)

In the Corporation each employee and board member shall observe laws and regulations, and maintain high ethical standards in their business activity. Particularly in regard to contracts for construction works, they should not take any action that would harm the equity and fairness of the tender, such as actions that violate the Penal Code and the Antimonopoly Act (Act on Prohibition of Private Monopolization and Maintenance of Fair Trade).

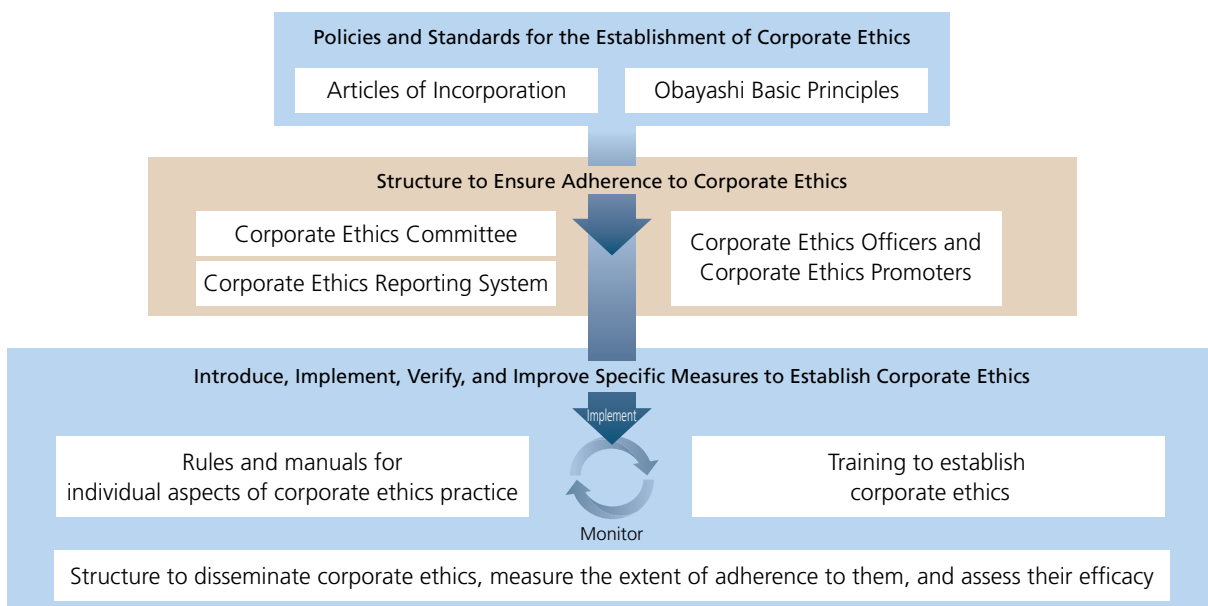
Obayashi Code of Conduct
(Ensure Strict Adherence to Corporate Ethics)

1. Comply with laws and regulations and take a sensible course of action
2. Promote fair and free competition
3. Maintain appropriate relationships with stakeholders
4. Avoid all contact with antisocial forces
5. Ensure appropriate information disclosure and transparency of management

Corporate Ethics Program

The Corporate Ethics Program was created to establish corporate ethics and ensure adherence.

In the program, we have set out policies and standards, established a structure, and introduced specific measures, which we are rigorously implementing. The program incorporates a Plan, Do, Check, Act (PDCA) cycle which includes regularly reviewing the implementation status of each measure.



■ For More Thorough Compliance

Based on our Corporate Ethics Program, we have set forth and abide by rules and manuals for individual aspects of corporate ethics practice. These include the Antimonopoly Act Compliance Program, Antisocial Forces Exclusion Program, and Obayashi Group Anti-Bribery Program. Others are the Occupational Health and Safety Manual and Quality Manual.

After the recent investigation of suspected violation of the Antimonopoly Act, we revised the Antimonopoly Act Compliance Program in June 2018. Under the revised program, we are taking steps to prevent recurrence of such a situation.

Established October 31, 2006

Last Revised June 1, 2018

(Revisions made prior to this day are omitted)

Antimonopoly Act Compliance Program

Classification *1	Specific Initiatives
<p>Creating “an atmosphere that does not tolerate collusion” (control environment)</p>	<ol style="list-style-type: none"> 1. Stipulate in the Articles of Incorporation that “each employee and board member shall observe laws and regulations, and maintain high ethical standards in their business activity.” 2. At every opportunity, top management shall issue statements and declarations* on Antimonopoly Act compliance (creating a system that will be inherited by the next-generation management team) <ul style="list-style-type: none"> * • Legal and regulatory compliance will be prioritized in all business activities, and the Corporation will not seek any orders received whatsoever through fraudulent activities • There is no reason that can serve as self-justification for legal and regulatory violations • Even the instructions of a superior do not excuse legal and regulatory violations, etc. 3. Implement strict internal disciplinary actions in the event of violation 4. Disclose in a timely manner the required information such as the declaration of a determination by top management and information related to internal disciplinary actions 5. An “Obayashi Code of Conduct” for performing our business activities shall be established and added to the “Obayashi Basic Principles” and posted on the home page of the Corporation’s intranet 6. Create an open corporate culture where impropriety can be pointed out <ul style="list-style-type: none"> • We will add “proactively provides opinions to superiors” to the evaluation items in personnel evaluations and will work to create awareness through regular training so that there will be a common awareness within the Corporation that an atmosphere allowing people to express their opinions proactively and point out mistakes, even to their superiors, helps to prevent crises and boost corporate value
<p>Risk assessment and response</p>	<ol style="list-style-type: none"> 1. Produce a manual about managing Antimonopoly Act violation risks <ol style="list-style-type: none"> (1) After gauging the level and details of the risks of Antimonopoly Act violations, identify violation risks in the Corporation’s business activities (2) Make sure that a specific action plan is established for each division 2. Establish a consultation office to advise on the Antimonopoly Act (Legal Department)
<p>Creating the “framework to prevent collusion” (control activities)</p>	<ol style="list-style-type: none"> 1. Create an action plan and improve the system for thorough Antimonopoly Act compliance <ol style="list-style-type: none"> (1) Formulate and revise the “Obayashi Basic Principles” (2) Establish and operate a Corporate Ethics Committee (Chairman: President, Secretariat: General Administration Department of Head Office) <ul style="list-style-type: none"> • Hold around four Corporate Ethics Committee meetings each year, and where necessary, report on the committee’s activities to the Board of Directors • Establish a branch corporate ethics committee at each branch, and conduct independent corporate ethics promotion activities (3) Establish a corporate ethics promotion system <ul style="list-style-type: none"> • Corporate Ethics Leaders: assigned Executive Officers and general managers of branches • Corporate Ethics Promoters: Department Heads • Division in Charge of Corporate Ethics Promotion: General Administration Department in Head Office (4) Promote the entrenchment of corporate ethics initiatives at Group companies <ul style="list-style-type: none"> • Horizontal development of the Corporation’s initiatives at Group companies

ENSURE STRICT ADHERENCE TO CORPORATE ETHICS

Classification *1	Specific Initiatives
Creating the "framework to prevent collusion" (control activities)	<ol style="list-style-type: none"> 2. Assure the circulation of Antimonopoly Act compliance manuals* and monitor their implementation <ul style="list-style-type: none"> * These manuals provide focused explanations of sales activity-related matters that are easily misunderstood and difficult to judge correctly 3. Create thorough awareness of the action program for actions to take when confronted with acts of collusion, etc. 4. Conduct regular and continuous education and training for officers and employees <ol style="list-style-type: none"> (1) Corporate Ethics Leaders (assigned Executive Officers and general managers of branches) will implement regular training for Corporate Ethics Promoters (Department Heads) (2) Corporate Ethics Promoters (Department Heads) will implement on-the-job ethics training sessions <ul style="list-style-type: none"> • In addition to lecture-style training sessions based on training materials, we will hold on-the-job, discussion-style sessions based on case studies posing the question "Could it happen at my own place of work?" • The Corporate Ethics Promoters will collect signatures from the training session participants at their workplace stating they have completed the training and submit them to the General Administration Department in Head Office (3) After the completion of the on-the-job ethics training sessions given by the Corporate Ethics Promoters, e-learning will be implemented for all employees and officers to measure the effectiveness of the training (4) Antimonopoly Act compliance training will be implemented by employee class and for persons in charge of sales and persons in charge of technical divisions <ul style="list-style-type: none"> • The divisions in charge of the training will collect signatures from the participants stating they have completed the training (5) The Compliance Officer will visit each branch to provide guidance <ul style="list-style-type: none"> • The Compliance Officer will hold hearings and provide guidance through individual interviews with the management of each branch 5. Implement individual specific controls and management <ol style="list-style-type: none"> (1) A written pledge that they will "comply with the Antimonopoly Act and in no way engage in acts that violate the Antimonopoly Act" will be collected from the General Manager class of every division, and from the employees of the sales divisions and sales support divisions (In addition to the violators themselves, where a subordinate commits a violation, his or her superior will also be strictly disciplined) (2) All meetings, etc. (including telephone calls and e-mail) with industry peers must be reported to and approved by a superior (3) Excluding official events held by industry associations, technical associations, and clients, in principle, participation in receptions also attended by industry peers is prohibited (4) Create an "Antimonopoly Act Compliance Pledge Field" in the internal approval documents used for project bidding (The person responsible for the bid will constantly check that there are no acts of collusion in the entire project bidding process, from the calculation of the estimated bid amount to the decision on the bid amount, and affix their seal in the appropriate field) (5) When a consortium is formed to participate in bidding, written pledges of legal compliance will be exchanged among the constituent members (6) When joining external groups, their regulations will be checked by the division in charge to ensure that there are no issues in terms of the Antimonopoly Act (7) When dining with individuals covered by the National Public Service Ethics Act (national public officers, local public officers, and de-facto public officers), a written report will be provided

Classification *1	Specific Initiatives
Timely and accurate transmission of information (information and communication)	<ol style="list-style-type: none"> 1. Create and spread awareness of a system for the timely and accurate transmission of information <ol style="list-style-type: none"> (1) Create a Corporate Ethics Reporting System as internal notification system (establish an internal point of contact at the Secretariat of the Corporate Ethics Committee and an external point of contact at an external legal office) (2) Promote the use of the Corporate Ethics Reporting System by notifying all employees and officers of the system twice a year, and by providing the following explanations <ul style="list-style-type: none"> • Using the internal reporting system to prevent violations from occurring helps not only the Corporation, but also, ultimately, those engaged in attempted misconduct • There will be no disadvantageous treatment whatsoever for using the internal reporting system • When an individual is aware that wrongdoing has occurred or deems that there is the risk of it occurring, regardless of the individual's involvement, it is mandatory for the person to report it through the office organization or via the internal reporting system • Regarding conduct in violation of the Antimonopoly Act involving unfair bidding or conduct entailing such risks, even when an individual is temporarily involved, leniency in internal disciplinary action for the individual who made the internal report is stipulated
Oversight and improvement (monitoring)	<ol style="list-style-type: none"> 1. Practice regular, continuous monitoring from the standpoint of Antimonopoly Act compliance <ol style="list-style-type: none"> (1) Monitoring by Audit & Supervisory Board members, Audit & Supervisory Board, and Audit Department based on the "Bid-Rigging Monitoring Program" (2) Monitoring from a third-party perspective by the Corporate Ethics Committee members including external experts and the head of the employees' union (3) The content of e-mails whose recipients or senders are industry peers will be checked by the Internal Audit Department 2. Self-inspections will be implemented by the Corporate Ethics Leaders and Corporate Ethics Promoters <ol style="list-style-type: none"> (1) The Corporate Ethics Promoters will implement regular self-inspections of their own divisions (2) Corporate Ethics Leaders will gauge the state of implementation of on-the-job ethics training sessions and self-inspections conducted by the Corporate Ethics Promoters (3) The division in charge of corporate ethics promotion (General Administration Department in Head Office) will implement an annual self-check of each item in this program, and in addition to reporting to the Corporate Ethics Committee, will perform revisions as necessary 3. Self-checks and monitoring using the J-SOX method <ol style="list-style-type: none"> (1) The sales and other divisions will implement self-checks in accordance with the RCM (risk control matrix) corresponding to control methods for the latent risk of acts of collusion in the various operational processes and for their prevention in advance (2) The Business Administration Department will monitor the state of operations control at the sales divisions, etc., separately from the self-checks implemented by the sales divisions, etc. (3) The Business Administration Department will implement walk-through audits of bidding projects by each branch (public works projects and private projects) as a sampling survey

*1 Obayashi uses the COSO model to categorize initiatives taken so far to make the Antimonopoly Act Compliance Program function effectively. The COSO model is the de facto world-standard tool for evaluating the effectiveness of internal control systems. Under the model, the objectives of an enterprise's internal control fall into three categories: 1) effectiveness and efficiency of operations, 2) reliability of financial reporting, and 3) compliance with applicable laws and regulations. To achieve these, five elements are incorporated into day-to-day work processes for each objective: 1) control environment, 2) risk assessment and response, 3) control activities, 4) information and communication, and 5) monitoring. These five elements have to function effectively.

INTRODUCTION TO BUSINESS FIELDS



Avex Building (Minato City, Tokyo)



Primetree Akaike (Nisshin City, Aichi Prefecture)



TAIYO LIFE NIHONBASHI BUILDING (Chuo City, Tokyo)



National Route 45 Yoshihama-Kamaishi Road (Kamaishi City, Iwate Prefecture)



Route 357 Tokyo Port Tunnel Project, Phase 2 (Shinagawa City, Tokyo)



Metropolis Phase I (California, U.S.)



Waterview Connection Tunnels and Great North Road Interchange (Auckland, New Zealand)



Ropponmatsu 421, SJR Ropponmatsu (Fukuoka City)



oak meguro (Shinagawa City, Tokyo)



Plané-Superior Nishinomiya Nigawa (Nishinomiya City, Hyogo Prefecture)



Shin-Meishin Expressway Inagawa West Project (Kawabe District, Hyogo Prefecture)



Hyugahichiya Solar Power Station (Hyuga City and Kadogawa Town, Miyazaki Prefecture)



Odawara Central Factory, Nippon Shinyaku Co., Ltd. (Odawara City, Kanagawa Prefecture)



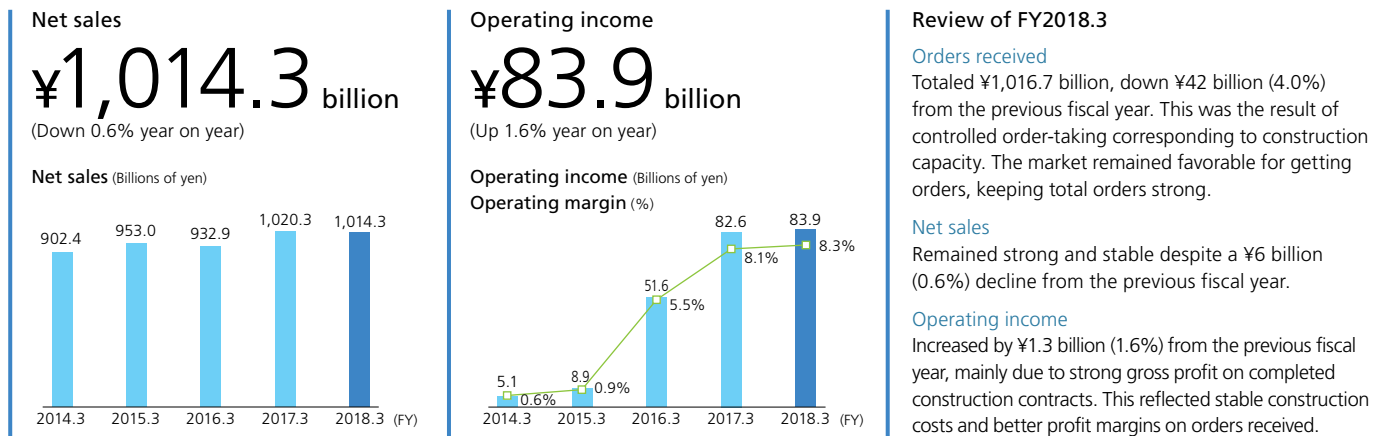
Mitanehamada Wind Power Station (Mitane Town, Akita Prefecture)

DOMESTIC BUILDING CONSTRUCTION BUSINESS

Leveraging our network in Japan and abroad, Obayashi is quick to incorporate leading-edge technology that enhances innovation. This is one way we boost productivity and reform work styles.

By responding flexibly to changes in the market, we make stable earnings.

Segment overview



Review of FY2018.3

Orders received

Totaled ¥1,016.7 billion, down ¥42 billion (4.0%) from the previous fiscal year. This was the result of controlled order-taking corresponding to construction capacity. The market remained favorable for getting orders, keeping total orders strong.

Net sales

Remained strong and stable despite a ¥6 billion (0.6%) decline from the previous fiscal year.

Operating income

Increased by ¥1.3 billion (1.6%) from the previous fiscal year, mainly due to strong gross profit on completed construction contracts. This reflected stable construction costs and better profit margins on orders received.

Business Policy

- Realize stable earnings by enhancing competitive advantages in growth markets and areas and providing integrated high-value-added services for buildings. Center these efforts on leveraging the Group's total capabilities and global network
- Improve productivity by building next-generation production systems utilizing IoT, AI, and robotics, transforming business processes by basing them on BIM (Building Information Modeling), developing labor-saving construction methods, etc.
- Secure production capacity by improving the work environment at construction sites, training employees systematically, securing skilled workers, providing educational support, etc.
- Eradicate serious injuries and quality and construction defects by implementing diverse education programs and rigorously managing quality and safety by ICT

Business Strategies

Technological innovations in IoT, AI, robotics, and big data are rocking the industry. Companies are looking for ways to develop business in the near future given these trends. Going forward, we foresee even greater changes as businesses reorganize and business domains expand. Our approach is to closely follow the trends and respond flexibly to changes in the market. Doing this and offering services with high added value, we will make stable earnings.

We are keeping an eye on the years that will follow the Olympic and Paralympic Games Tokyo 2020. During this time, we will step up initiatives in planning of integrated resorts and the PPP Business*. We will partner with customers to take action in growth markets. These include smart factories, next-generation data centers, and high-function logistics facilities. We will also work to increase orders by offering more powerful ideas for projects of area development. These include redevelopments and smart cities

in growing areas such as the Tokyo metropolitan area and compact cities in other areas.

One challenge we face is that skilled workers are growing older and fewer in number. To prepare for that, we are developing and expanding next-generation production systems. Examples include labor-saving and quick-build construction techniques that harness IoT, AI, and robotics to increase productivity. We are making working environment improvements like shorter work hours and closing all construction sites on Saturdays. By making the construction industry more attractive, these will encourage young people to enter and help secure the future workforce.

We will pass down to a new generation the spirit of honest craftsmanship that has guided us since our founding. And grounded by our great technical strength, we will offer buildings that make society safe and secure.

* Public-private Partnership (PPP): An arrangement where public and private entities work together to provide public services.

Developing Next-Generation Production Systems Harnessing IoT, AI, and Robotics

Onsite Robotic Welding

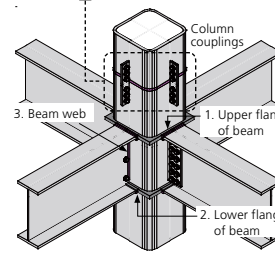
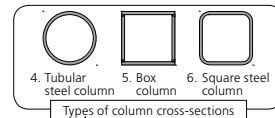
Automating every steel column and beam welding task

Onsite robotic welding automates every steel column and beam welding task at construction sites.

A single worker operating two robots simultaneously can weld about 50% more per hour than a human welder alone.

Another advantage of these robots is the reproducibility of their work. This means consistently high welding quality. The quality is likewise high in difficult areas where complex mechanical control is required.

The industry faces a deepening shortage of highly skilled welders. Robotic welding helps to save labor and enhance the quality of onsite welding while boosting productivity.



Onsite robots can weld all six welding points: a beam's upper and lower flanges and web, tubular steel column couplings, box column couplings, and square steel column couplings.



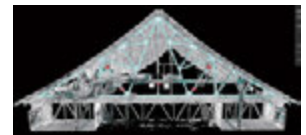
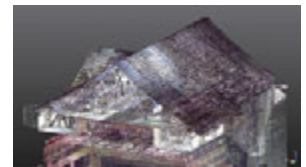
Historic Building Renovation with Point Cloud Data and BIM

Renovating old buildings is a challenge because there are often no drawings left of the building. Even if drawings exist, they may not be accurate. However, a laser scanner can get point cloud data for structures like these. This makes it possible to quickly and accurately understand the state of the building as is. As a result, we can plan elaborate renovations and use the same data for subsequent maintenance.

Obayashi took charge of a seismic upgrade of Kyoto Minami-za Theatre, a registered tangible cultural property of Japan. We used point cloud data for parts beneath the existing roof to plan the new steel truss frame. The extremely high-precision task took advantage of BIM.



Exterior of Kyoto Minami-za Theatre



(Top) Existing structure's point cloud data
(Bottom) Planning the new steel truss frame based on point cloud data of existing structure

Open Innovation through a Global Network

Obayashi opened the Silicon Valley Ventures & Laboratory in November 2017 in the U.S. Here, we pursue joint research with research institutes and startups that have innovative technology.

The laboratory holds the Obayashi Challenge, a technical competition to recruit open innovation partners. Our partners may have a different corporate culture and sense of speed than we do. However, the laboratory works like a "gear" that helps Obayashi Group mesh perfectly with these partners.



Collaboration Office

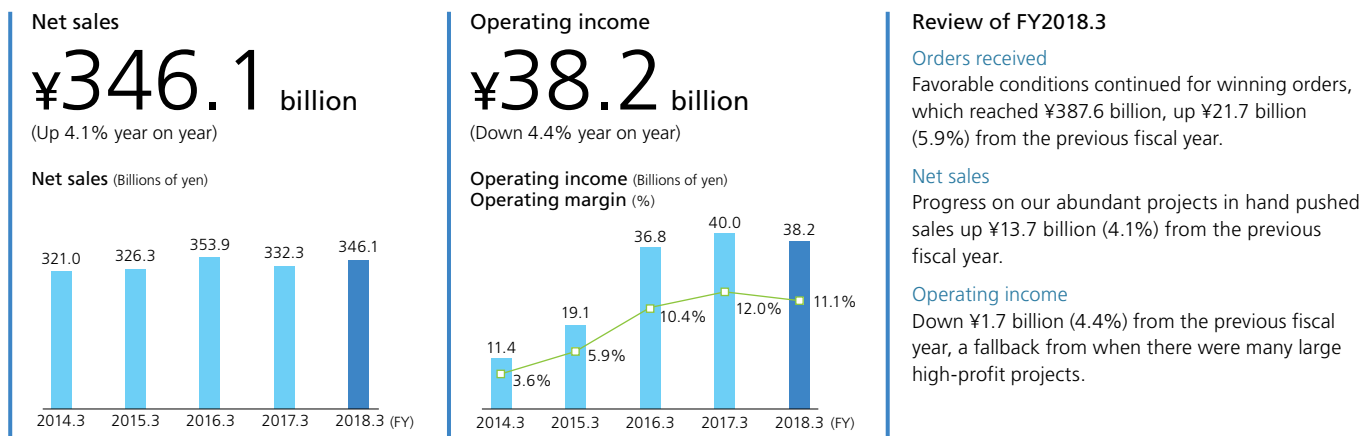


A terminal under development superimposes BIM on real-life images at high definition.

DOMESTIC CIVIL ENGINEERING BUSINESS

We will contribute to the development of safe and secure infrastructure through our business activities. As we do so, our focus will be on projects that require advanced technologies. We aim to save labor by using more precast units for construction structures. We also seek to improve productivity by utilizing ICT to increase the efficiency of production systems.

Segment overview



Business Policy

- Strategically acquire orders to construct, renew, and extend the life of infrastructure that contributes to the safety and security of the public as well as Japan's economic development
- Work to acquire orders for energy-related projects that respond to social and environmental change
- Expand design-build projects using labor-saving technology and ICT, and further increase productivity and construction safety using IoT and AI
- Diversify earnings base by expanding into upstream and downstream sectors in the civil engineering business
- Secure employees and skilled workers by improving the work environment on construction sites. Secure production capacity by supporting development of these staff, and so forth

Business Strategies

Society needs businesses like ours to build safe and secure communities and update aging infrastructure. Our response is to strategically aim for orders where we can utilize our advanced technologies. Examples include new infrastructure construction, existing infrastructure renovation, and disaster prevention and mitigation measures.

Aspects of Japan's energy markets in recent years include the full deregulation of retail electric power and gas. Energy companies are getting into each other's markets, and enterprises in other sectors and foreign businesses are joining the competition. Our response to these market changes is to step up our technical and marketing strengths to win more orders.

Obayashi and our suppliers are close to our constructing capacity now because of abundant construction demand currently. Thus, we aim to further raise productivity. We are strengthening development of and using leading-edge technologies including labor-saving technology and ICT. We

are actively rolling these out at construction sites.

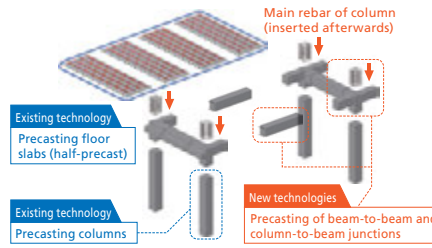
Obayashi is proactively entering peripheral fields that will help build our marketing muscle. Our aim is to be more competitive by identifying customer needs more quickly and responding precisely.

Changes in the population makeup mean there are fewer skilled workers. Moreover, society is demanding a fix to the practice of long work hours. We are responding by streamlining construction, for example by using precast units and ICT. We are working toward closing each construction site eight days out of every four-week period. These initiatives will reduce total work hours for both employees and skilled workers. We are also working with our suppliers to share information on problems and solutions. Supporting skilled worker development and skill-building also enhances productivity, enabling us to pay appropriate wages. Finally, we will realize a comfortable work environment that will contribute to securing construction industry workers.

Minimizing Onsite Work: Precast (LRV) Construction

LRV construction was developed as a way of using precast units to build reinforced concrete structures. The remarkable technology uses precast materials not just for columns and beams but also the junctions between them.

This technology can be used not only in conventional building construction, but also in civil engineering projects. It can greatly enhance onsite productivity and significantly shorten deliveries.



Hokuriku Shinkansen Fukui Development Viaduct construction project
This is the first use of precast units on a Shinkansen rigid-frame viaduct (under construction).

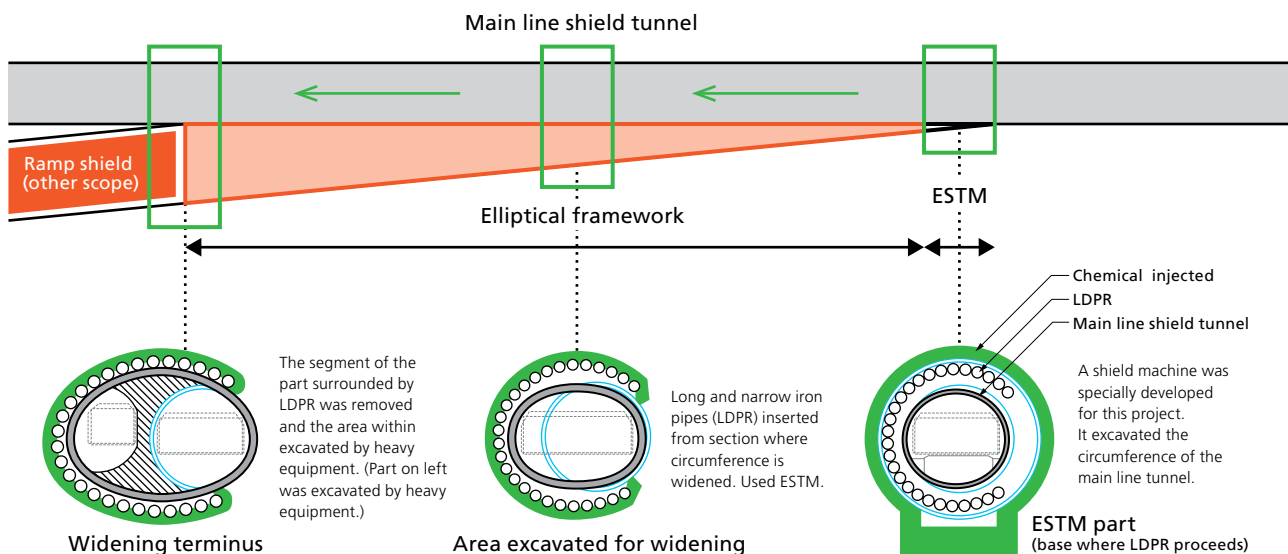
Widening of Large-Section Shield Tunnel

Metropolitan Expressway Yokohama North Line is an expressway stretching 8.2 km. It improves logistics access from the Shin-Yokohama area to Haneda Airport. Measures were taken to protect the surrounding environment. Specifically, a shield tunnel design was used for the tunnels, which make up 70% of the route.

Obayashi Corporation built about 5.5 km of the main line where the large-section tunnel reaches 12.5 m in outer diameter. We also built the bifurcation junctions to the on/off ramps. At the bifurcation junctions, we used an Enlargement Shield Tunnelling Machine (ESTM) and Large Diameter Pipe Roofing (LDPR). Working from underground and without excavating from the surface, we widened the tunnel into an elliptical form.



Metropolitan Expressway Yokohama North Line tunnel main line (right) and exit (left) bifurcation junction

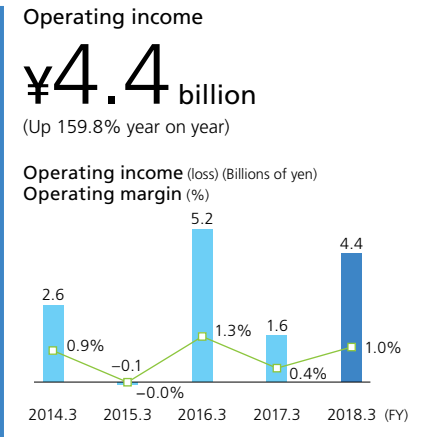
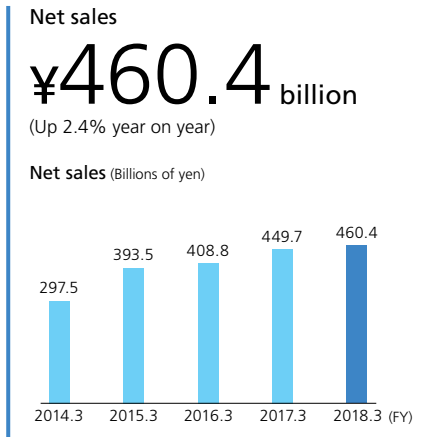


This technology has earned praise for its contribution to establishing new tunnel building techniques. Obayashi became the first Japanese recipient of a technology development award at the 2017 awards of the International Tunnelling and Underground Space Association. It also received a technology award at the 2016 JSCE Awards from the Japan Society of Civil Engineers.

OVERSEAS CONSTRUCTION BUSINESS

As our business goes increasingly global, we aim to expand our business domains and build a stronger earnings base. We collaborate with local partners and develop human resources in each region to deepen and grow our overseas construction business.

Segment overview



Review of FY2018.3

Orders received

Down ¥257.3 billion (41.0%) to ¥370.2 billion from the previous fiscal year. The reason was fallback from orders taken for large projects the previous year at North American Group companies.

Net sales

Up ¥10.6 billion (2.4%) from the previous fiscal year. North American Group companies boosted sales with their large number of projects in hand.

Operating income

Rose ¥2.7 billion (159.8%) from the previous fiscal year. Factors included a rebound following unprofitable overseas civil engineering projects completed the previous year.

Business Policy

- Seek to maximize profits by promoting further localization in areas where Obayashi is established, improving quality and safety management using ICT, and exchanging technology and personnel
- Strengthen business platform and build organization to further global development of construction business and diversify earnings sources at overseas bases
- Overseas Building Construction—Strengthen earnings capacity and expand business domains by collaborating with local partners and developing global human resources
- Overseas Civil Engineering—Stabilize business earnings by promoting business strategies tailored to regional characteristics and strengthening coordination between Japan and overseas

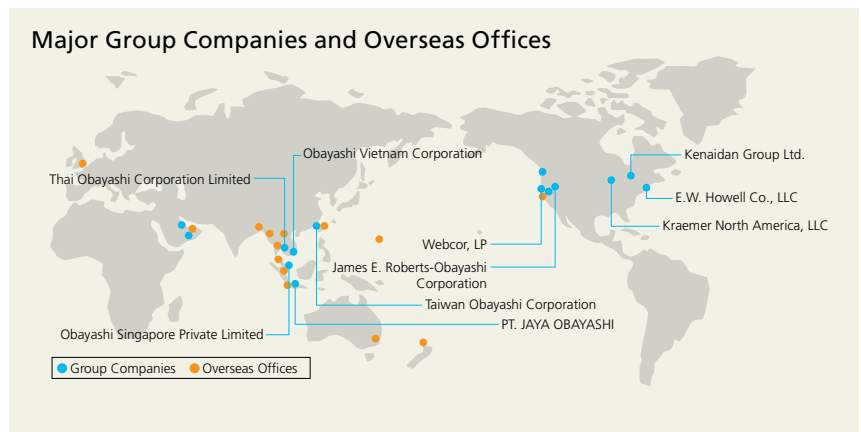
Business Strategies

We will use the network, trust, and reputation developed over the years, especially in the U.S. and Southeast Asia. We will further localize in areas where we are established, in ways tailored to local characteristics. By these means, we will work to win more orders and increase earnings. We will work to develop business in countries and regions we are newly entering. We will ascertain the business viability of such places, considering market scale, laws and regulations, etc.

In the building construction business, we will further strengthen the networks we have established in the nations of Southeast Asia. We will aim to expand sales by marketing to non-Japanese global enterprises and prominent local firms. We will diversify the earnings base of local Group companies in North America. Also, we will partner with local firms in Oceania to actively seek orders and expand our business scale.

In the civil engineering business, we will aim to further expand the scale of business. In areas

where we are established (North America, Asia, Oceania, etc.), we will partner with Group companies and other firms based locally. In these places, we will bring Obayashi’s reliability, technology, and management expertise, especially to infrastructure projects requiring advanced technology. We will additionally take initiatives in the infrastructure exporting business in projects where the public and private sectors work together.



Orders Taken for Two Large Projects in Australia

Oceania is one area we are targeting to expand our Overseas Construction Business. Thus, we have re-entered the Australian market, where we previously built projects like Sydney’s Olympic Stadium.

As a first step toward developing a full-fledged business in the region, we concluded a business cooperation agreement with Built Pty Limited. We signed with the company in November 2016, knowing its extensive construction track record and knowledge in Australia.

The agreement has borne fruit. In September 2017, Built and Obayashi jointly won an order to build 4 Parramatta Square. The large mixed-use facility will house offices and shops. The partnership won a follow-up order in February 2018 to build 3 Parramatta Square.



4 Parramatta Square
(illustration upon completion)



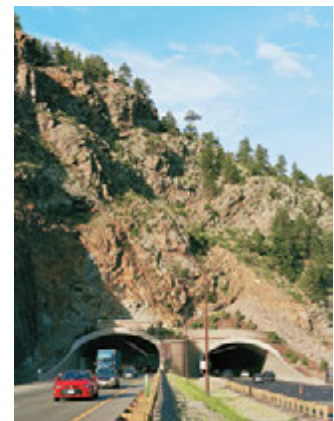
3 Parramatta Square
(illustration upon completion)

Projects of Obayashi Group U.S. Companies among ENR’s “Best of the Best Projects”

ENR named projects by U.S.-based Group companies Webcor, LP and Kraemer North America, LLC as “Best of the Best Projects.” The U.S. construction technology periodical chose Webcor’s “San Francisco Museum of Modern Art Expansion” and Kraemer’s “I-70 Twin Tunnels Expansion.”

The influential award goes to projects that demonstrate significant challenge, contribution to local industry, safety, design, and more. Each year about 700 projects are entered, but only one is chosen in each of 20 categories.

The two winning projects have earned high praise in the U.S. for safety, quality, and other factors.



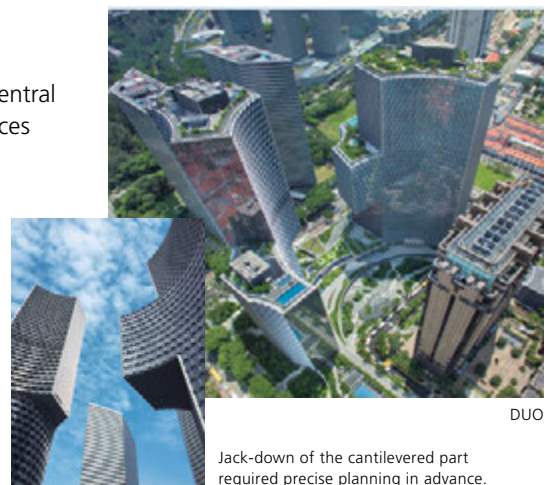
I-70 Twin Tunnels

Major Urban Development Project Finished in Singapore

Obayashi Singapore Private Limited completed construction of DUO in central Singapore. The mixed-use complex, containing a commercial tower (offices and hotel) and 660-unit residential tower, began construction in 2013.

The most distinctive aspect is portions of the buildings that cantilever out as far as 19 meters from the footprint. Those parts required special temporary supports during construction.

The Head Office Structural Design Department collaborated with Obayashi Singapore on the task of complex load deformation analysis and study of the jack-down plan. This was another example of the Group using its collective strength to finish a project successfully.



DUO

Jack-down of the cantilevered part required precise planning in advance.

ENGINEERING BUSINESS / NUCLEAR FACILITIES BUSINESS

Our endeavor is to strengthen and further expand our engineering and nuclear facilities businesses. In these areas, technological capabilities are fundamental to our business.

Engineering Business

Business Policy

- Strengthen business platform for growth and expansion of the engineering business
- Increase earnings capacity by strengthening competitive advantage and harnessing powerful synergies with the building construction and civil engineering businesses
- Expand businesses leveraging advanced, specialized technological capabilities to generate high added value

Business Strategies

We will offer the latest engineering technology and optimal cost-performance to meet our customers' varying needs. Our solutions include production facilities, environmental facilities including renewable energy, facilities using ICT, and soil and water pollution countermeasures. Moreover, as a general contractor, we can leverage our total capabilities. These strengthen our engineering business overall, from project planning to design, procurement, construction, commissioning, management, and maintenance.

Major Initiative Fields

Production facilities:	pharmaceutical, chemical, food product, electronics, and other factories and research labs
Environmental facilities:	facilities for renewable energy such as onshore and offshore wind power, biomass energy, and geothermal power
Information fields:	introducing information system implementation that is integrated with building construction; proposing solutions using ICT for high added value
Soil environment:	soil pollution surveys and countermeasures, waste disposal sites, interim storage facilities

Nuclear Facilities Business

Business Policy

- Take measures to increase safety of nuclear power installations and promote environmental restoration construction following the Fukushima accident
- Participate in new nuclear power plant construction in and outside Japan. Participate in projects on decommissioning reactors and disposing of radioactive waste

Business Strategies

We will develop technologies to build facilities enhancing nuclear power plant safety and facilities for interim storage of radioactive waste. We will strengthen the marketing of these technologies to win orders. We will continue initiatives to participate in new nuclear power plant construction, decommissioning projects, and projects to construct underground radioactive waste disposal facilities.

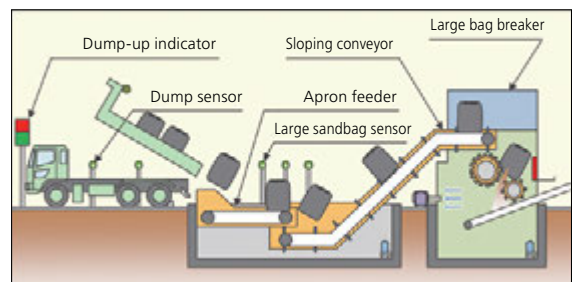
Topics

Environmental Restoration after Fukushima Daiichi Nuclear Power Station Accident Unmanned Continuous Processing Technology

Obayashi has built an interim storage facility in Okuma, Fukushima Prefecture for nuclear waste. The facility receives, sorts, and stores waste from the cleanup following the Fukushima Daiichi Nuclear Power Station accident.

Among the technologies used, the receiving and sorting facility will include a fully automatic waste unloading and transporting system. Another system, a large bag breaker, rips open sandbags filled with waste, all automatically.

The facility began operating in 2018. Continuous unmanned processing from receiving to storage will ensure worker safety and a clean, high-efficiency interim storage facility.



(Above) Facility overview
Every task between dump-up indicator and large bag breaker is unmanned.
(Right) Separating equipment within sorting facility



REAL ESTATE DEVELOPMENT BUSINESS

We aim to strengthen our stable earnings base in real estate development. We continue to invest in the office leasing business, diversify our leasing portfolio, and pursue the property sales business. We actively participate in urban redevelopment and eco-friendly development projects. These contribute to the creation of sustainable, attractive communities.

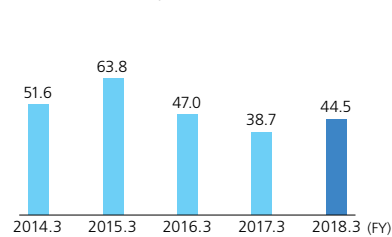
Segment overview

Net sales

¥44.5 billion

(Up 14.9% year on year)

Net sales (Billions of yen)

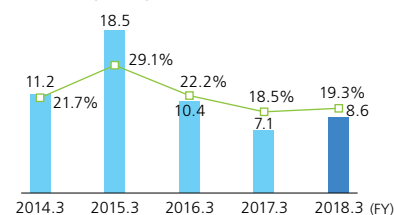


Operating income

¥8.6 billion

(Up 19.8% year on year)

Operating income (Billions of yen)
Operating margin (%)



Review of FY2018.3

Net sales and operating income

Among positive factors, the number of buildings sold by Group companies increased. Net sales rose ¥5.7 billion (14.9%) and operating income ¥1.4 billion (19.8%) from the previous fiscal year as a result.

Status of investment

We are investing with a particular focus on central Tokyo. We are also starting a real estate development business outside Japan. Total investment in FY2018.3 was ¥59.8 billion. Investments in new office buildings include Akasaka Intercity AIR (completed August 2017). Others were Shintora-dori CORE (planned completion in September 2018) and Thai Obayashi NANA Project.

Business Policy

- Strengthen stable earnings base through further investment in the leasing business (mainly office leasing, with focus on central Tokyo)
- Continue to develop business selling detached housing and condominiums in the Tokyo metropolitan area and major cities in the Kansai region
- Diversify leasing portfolio
- Contribute to creation of a low-carbon society and sustainable communities by promoting environmentally responsible real estate development projects
- Promote facility management leveraging innovation such as IoT and AI

Business Strategies

In the leasing business, we are actively acquiring new properties, especially offices in central Tokyo. This is an area where we believe we can maintain our competitiveness into the future. We will also participate in redevelopment projects with other companies. These steps will create new leasing earnings. Another effort is in leasing properties such as logistics facilities to diversify our leasing portfolio.

In the housing business, Group company Obayashi-Shinseiwa Real Estate Corporation will continue selling detached housing and condominiums. Sales will be in the Tokyo and Kansai regions. We will provide housing that meets diverse needs. We will develop smart cities that contribute to a low-carbon society, with the aim of building sustainable communities.

oak kanda kaji-chou

Location: Chiyoda-ku, Tokyo
Overview: Steel construction, vibration control system, 9 floors above ground, 1 floor below ground, floor area 8,168 m²
Completed: August 2017
Project owner: Obayashi-Shinseiwa Real Estate Corporation



Topics

High-Grade Building Directly Connected to Station at Important Tokyo Transit Terminal

NIPPON LIFE HAMAMATSUCHO CREA TOWER will open in autumn 2018 close to Hamamatsucho Station, one of the capital's foremost terminals. The high-grade building in Minato-City, Tokyo uses leading-edge technology. A mixed-use office building, it will have 29 floors above ground and floor area of about 100,000 m². Features will include conference facilities as an international meeting place and various commercial facilities. There will also be a place for people to shelter if disaster keeps them from returning home. This will help the local area be better prepared for disaster.

We are participating as project owner in this large-scale multi-use development.

NIPPON LIFE HAMAMATSUCHO
CREA TOWER



NEW BUSINESSES

We aim to diversify our earnings base by entering new business fields like renewable energy, PPP, and agriculture. We are creating new business models with Obayashi Group technology and know-how. These will ensure stable supplies of energy and help establish and operate infrastructure and public facilities.

Business Policy

- Expand the renewable energy business and develop peripheral businesses
- Expand earnings by redoubling efforts in PPP projects
- Establish new business models and create earnings sources utilizing proprietary technologies and expertise

Business Strategies

Diversifying the makeup of the power supply is the aim in the renewable energy field. Offshore wind power is making inroads in Europe and is expected to become a major power source in Japan. Obayashi Group is targeting this as a business area to go with our solar, biomass, and onshore wind power businesses. We aim also to get into peripheral businesses like selling electricity to corporations from the Group’s power stations. We target businesses that we can sustain after the end of electricity sales under the feed-in-tariff (FIT) system.

In the PPP field, we are forging alliances in line with customer needs to undertake projects. We will also strive to grow earnings through Group participation in maintenance, management, and operation of public facilities.

In the agriculture field, we continue to produce cherry tomatoes grown in sunlight-powered plant factories. To this we are adding a business in plant factories using artificial light.

Topics
Obayashi Group’s First
Woody Biomass Power Plant

In addition to other power sources, Obayashi is targeting biomass power as a renewable energy generation business. In Otsuki City, Yamanashi Prefecture, we are building a biomass power plant fueled by wood chips. The launch of commercial operation is set for summer 2018.

The plant’s generating capacity of 14,500 kw will make it the largest biomass power plant using Japanese-grown wood. The fuel will include fine chips from untapped thinned wood and trimmings from the greater Kanto Region, especially Yamanashi Prefecture. About 150,000 tons of such chips will be used annually.




Otsuki Biomass Power Plant

Topics
Developing a Hub for Prosperity and Networking
Nara Prefecture Convention Facility

This is a PPP business creating a new place to encourage overnight tourism and networking in Nara City, Nara Prefecture. It will include establishing and operating a convention facility, tourism promotion center, and more. We are working with nearby hotels and an NHK Broadcasting Hall to develop this project.

Obayashi Corporation is serving as the representative business for the special purpose company (SPC). As such, we have taken charge of project management, design, and construction. The target opening is spring 2020.



Nara Prefecture convention facility development and management project (illustration upon completion)

MAJOR AWARDS AND COMMENDATIONS

DETAILS OF AWARDS

https://www.obayashi.co.jp/solution_technology/research/awards.html

58th BCS Prize

Award sponsor: Japan Federation of Construction Contractors
Award-winning object/party: Toranomon Hills* ① *Award shared with Mori Building Co., Ltd. and NIHON SEKKEI, INC.

27th BELCA Awards, Best Reform Category

Award sponsor: Building and Equipment Long-life Cycle Association
Award-winning object/party: ROHM Theatre Kyoto (Kyoto Kaikan) ②

Good Design Award 2017

Award sponsor: Japan Institute of Design Promotion
Award-winning object/party: Glovison Kudan Studio ③, Taisho University Building #15, Institute of Regional Development ④, DAIKO Electric Co., Ltd., DAIKO Technical Research Institute ⑤

Build America Awards of the Associated General Contractors

Award sponsor: Associated General Contractors
Award-winning object/party: Franklin Bridge Rehabilitation ⑥

2017AIA New York State Design Awards

Award sponsor: American Institute of Architects (AIA)
Award-winning object/party: Josai-House Dormitory (Josai International University's dormitory for international students) ⑦

JSCCE Awards Fiscal 2016: Outstanding Civil Engineering Achievement (OCEA) Award

Award sponsor: Japan Society of Civil Engineers
Award-winning object/party: Large pneumatic caisson construction with world's first simultaneous immersion of two caissons (Senju Sekiya pump plant project), construction of lane diverge and merge points using new shield tunnel widening technique (construction of Yokohama North Line tunnel Baba ramp diverge and merge points) ⑧

19th Infrastructure Technology Development Awards 2017, Selected

Award sponsor: Japan Institute of Country-ology and Engineering Coastal Development Institute of Technology
Award-winning object/party: Friction damper with disc springs increasing seismic resistance of bridge (bridge Brake Damper)

37th Engineering Commendation Award

Award sponsor: Engineering Advancement Association of Japan
Award-winning object/party: Engineering advancement: Senboku LNG Terminal I No. 5 pre-stressed concrete (PC) LNG tank rapid construction project team* ⑨ *Award shared with Osaka Gas Co., Ltd.
International contribution: Jakarta, Indonesia Tanjung Priok Access Road (E2A) construction project team ⑩

2017 Japan Concrete Institute Awards, Technology Award

Award sponsor: Japan Concrete Institute
Award-winning object/party: Use of thinner components and construction of various concrete components in construction of one of world's largest underground LNG tanks*
*Award shared with Toho Gas Co., Ltd.

International Tunnelling and Underground Space Association 2017 ITA Tunnelling Awards

Award sponsor: International Tunnelling Association
Award-winning object/party: Underground widening technique in Yokohama Kanjo Expressway North Route shield tunnel construction ⑪

18th Awards of the Japan Society of Seismic Isolation: Technology Award

Award sponsor: Japan Society of Seismic Isolation
Award-winning object/party: Development of "Brake Damper," high-performance friction damper using spring discs and brake technology

FY2017 Awards for Excellent Architecture/Contributors in Seismic Retrofitting, Ministry of Land, Infrastructure, Transport and Tourism Award, Award for Excellent Contributor to Seismic Retrofitting

Award sponsor: Japan Building Disaster Prevention Association
Award-winning object/party: Kasugataisha Shrine Museum, Kasugataisha Shrine ⑫
*Award shared with Tosio Yada Architect, Shirota Architects Office Co., Ltd., Ohno Japan, and P. T. Morimura & Associates, Ltd.

7th Monodzukuri Nippon Grand Awards, Prime Minister's Prize

Award sponsor: Ministry of Economy, Trade and Industry, Ministry of Land, Infrastructure, Transport and Tourism, Ministry of Health, Labour and Welfare, Ministry of Education, Culture, Sports, Science and Technology
Award-winning object/party: SLIM-crete method using ultra-high-strength fiber-reinforced concrete cured at normal temperature

FY2017 3Rs (Reduce, Reuse, and Recycle) Promotion Awards

Award sponsor: 3Rs Promotion Council
Award-winning object/party: Ministry of Land, Infrastructure, Transport and Tourism's Prize for recycling of debris in area affected by tsunami during Great East Japan Earthquake and eco-friendly large-scale earthworks construction
3Rs Promotion Council Chairman's Award for Furukawa pump plant JV construction works office

16th Rooftop-Green Wall Technology Competition, Wall/Special Greening Division, Minister of Land, Infrastructure, Transport and Tourism's Prize

Award sponsor: Organization for Landscape and Urban Green Infrastructure
Award-winning object/party: Toyosu Foresia* ⑬
*Award shared with Mitsubishi Jisho Sekkei Inc., IBIDEN Greentec Co., Ltd., IHI Corporation, Mitsubishi Estate Co., Ltd.

28th Institute of Electrical Installation Engineers of Japan Awards: Technical Division Facilities Incentive Award

Award sponsor: The Institute of Electrical Installation Engineers of Japan
Award-winning object/party: Obayashi Technical Research Institute's Smart Energy System*
* Award shared with Oak Setsubi Corporation, Sumitomo Densetsu Co., Ltd., NEC Corporation, Mitsubishi Electric Corporation, Sumitomo Electric Industries, Ltd., Mikuni Kikai Kogyo Co., Ltd., Sanyo Denki Co., Ltd.

2017 Labour Minister's Awards for excellent workplaces, organizations, and persons who contributed to occupational safety and health

Award sponsor: Ministry of Health, Labour and Welfare
Award-winning object/party: Toyosu 5 chome Construction Works Office (Tokyo Main Office), LEGOLAND Construction Works Office (Nagoya Branch)



CONSOLIDATED FINANCIAL SUMMARY

Obayashi Group: Consolidated Financial Results

Fiscal years ended March 31	2008	2009	2010	2011
Orders received	¥1,513,380	¥1,494,508	¥1,282,334	¥1,180,639
Orders received (construction business)	1,431,271	1,438,365	1,214,745	1,108,348
Net sales	1,691,635	1,682,462	1,341,456	1,131,864
Gross profit	106,956	106,881	14,569	99,716
Gross profit margin (%)	6.3	6.4	1.1	8.8
Selling, general and administrative expenses	78,289	79,518	77,103	76,542
Operating income (loss)	28,667	27,363	(62,534)	23,174
Operating margin (%)	1.7	1.6	(4.7)	2.0
Ordinary income (loss)	32,312	31,829	(59,608)	22,207
Profit (loss) attributable to owners of parent* ¹	18,595	10,966	(53,354)	15,423
Profit (loss) attributable to owners of parent per share (EPS) (yen/U.S. dollars)	25.83	15.24	(74.21)	21.46
Net assets	477,504	395,809	367,618	351,287
Equity (net assets less non-controlling interests)	449,876	371,069	342,227	325,936
Retained earnings	198,507	202,941	139,176	151,684
[The ratio of retained earnings to equity]	[44.1%]	[54.7%]	[40.7%]	[46.5%]
Total assets	1,854,071	1,725,645	1,590,667	1,505,697
Property, plant and equipment	341,044	329,415	319,373	360,209
Investment securities	374,454	238,245	296,589	251,196
[Sales result of investment securities]	[9,477]	[12,645]	[3,056]	[12,358]
Net assets per share (BPS) (yen/U.S. dollars)	625.06	516.06	476.12	453.52
Equity ratio (%)	24.3	21.5	21.5	21.6
Return on equity (ROE) (%) ^{*2}	3.7	2.7	–	4.6
Price-earnings ratio (PER) (times) ^{*2}	16.2	31.4	–	17.2
Dividends per share (yen/U.S. dollars)	8	8	8	8
Dividend payout ratio (%) ^{*2}	31.0	52.5	–	37.3
Net cash provided by (used in) operating activities ^{*3}	(47,631)	(39,610)	16,156	1,096
Net cash provided by (used in) investing activities ^{*3}	(18,924)	1,699	(12,746)	(33,134)
Net cash provided by (used in) financing activities ^{*3}	54,804	62,427	(15,733)	10,611
Cash and cash equivalents at end of period	128,537	143,821	132,425	108,999
Number of personnel	15,088	15,150	14,476	14,639
[Average number of temporary personnel not included in the above] ^{*4}				
Interest-bearing debt (except nonrecourse loans)	242,448	314,165	309,706	321,375
Nonrecourse loans	85,373	84,649	81,343	87,885
Total amount of interest-bearing debt and nonrecourse loans	327,822	398,814	391,050	409,260
Debt-equity ratio (times)	0.73	1.07	1.14	1.26
Financial balance	5,631	4,384	2,445	2,650
Capital expenditure	38,959	16,028	9,876	49,043
Research and development expense	6,947	7,269	8,018	8,561
Depreciation	10,462	10,956	10,534	11,394

*1. Since the year ended March 31, 2016, the line item "Net income (loss)" has been changed to "Profit (loss) attributable to owners of parent"

*2. Return on equity (ROE), the price-earnings ratio (PER), and the dividend payout ratio for the year ended March 31, 2010 were omitted due to a net loss posted that year

*3. In the consolidated statements of cash flows, figures in parentheses represent a decrease in cash and cash equivalents

*4. Average headcount of temporary employees for each fiscal year is recorded separately in parentheses. This is because the importance of temporary employees in average headcount rose following a revision in the boundary between employees and temporary employees starting in the year ended March 31, 2012

*5. U.S. dollar amounts are provided solely for the convenience of the reader, translated on the basis of ¥106.24 to US\$1, the prevailing exchange rate on March 31, 2018

						Millions of yen	Thousands of U.S. dollars*5
2012	2013	2014	2015	2016	2017	2018	2018
¥1,362,702	¥1,449,567	¥1,653,005	¥1,900,517	¥1,951,943	¥2,145,256	¥1,880,155	\$17,697,248
1,289,779	1,372,658	1,580,900	1,797,441	1,862,140	2,052,504	1,774,745	16,705,062
1,245,772	1,448,305	1,612,756	1,773,981	1,777,834	1,872,721	1,900,655	17,890,206
110,678	114,687	112,059	131,707	193,052	224,933	234,303	2,205,417
8.9	7.9	6.9	7.4	10.9	12.0	12.3	–
79,532	79,534	80,067	83,318	86,671	91,191	96,502	908,348
31,145	35,153	31,991	48,388	106,380	133,742	137,800	1,297,069
2.5	2.4	2.0	2.7	6.0	7.1	7.3	–
35,241	44,690	40,135	59,913	111,208	140,106	143,951	1,354,969
5,142	13,195	21,627	28,695	63,437	94,501	92,662	872,203
7.16	18.37	30.11	39.96	88.36	131.66	129.09	1.21
365,492	414,650	448,108	549,483	561,658	644,076	711,525	6,697,339
340,463	384,730	412,456	507,670	516,098	594,160	684,836	6,446,126
152,278	161,666	178,665	199,296	255,750	334,957	404,840	3,810,622
[44.7%]	[42.0%]	[43.3%]	[39.3%]	[49.6%]	[56.4%]	[59.1%]	–
1,618,748	1,656,289	1,818,886	1,996,193	1,951,907	2,015,996	2,148,861	20,226,485
358,186	376,489	415,089	408,848	441,604	459,597	526,270	4,953,602
264,365	317,386	323,858	415,541	342,021	346,245	372,308	3,504,408
[14,427]	[9,066]	[12,089]	[4,541]	[4,497]	[4,495]	[8,710]	[81,985]
474.01	535.67	574.32	706.94	719.01	827.77	954.05	8.98
21.0	23.2	22.7	25.4	26.4	29.5	31.9	–
1.5	3.6	5.4	6.2	12.4	17.0	14.5	–
50.4	24.5	19.3	19.5	12.6	7.9	9.0	–
8	8	8	10	18	28	28	0.26
111.7	43.5	26.6	25.0	20.4	21.3	21.7	–
65,755	31,496	37,962	74,646	124,980	158,892	114,034	1,073,369
(1,919)	(29,151)	(47,328)	(7,442)	(48,029)	(37,884)	(71,289)	(671,020)
(48,949)	(28,977)	27,587	(34,523)	(68,967)	(89,165)	(54,548)	(513,450)
121,682	99,690	121,177	162,607	164,802	194,195	184,783	1,739,302
12,870	12,838	12,856	13,432	13,688	14,094	14,359	–
[2,869]	[3,031]	[3,139]	[3,658]	[4,066]	[4,431]	[4,393]	–
320,798	306,323	351,592	327,802	266,465	200,334	184,724	1,738,745
84,316	81,845	76,851	83,017	79,874	73,024	92,004	866,002
405,115	388,168	428,444	410,820	346,339	273,359	276,728	2,604,747
1.19	1.01	1.04	0.81	0.67	0.46	0.40	–
3,433	4,463	5,587	5,781	6,497	6,415	6,976	65,666
17,017	35,084	69,110	42,308	56,231	31,410	76,383	718,966
9,093	8,742	8,927	9,391	10,081	10,553	10,602	99,794
11,954	10,916	12,103	14,392	14,476	14,981	14,659	137,983

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets

OBAYASHI CORPORATION
At March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 2)	
	2018	2017	2018	2017
Assets				
Current assets				
Cash and deposits (Notes 6 and 12)	¥ 190,055	¥ 194,585	\$ 1,788,923	\$ 1,831,565
Notes and accounts receivable from completed construction contracts and other (Notes 6 and 12)	760,371	720,361	7,157,106	6,780,510
Electronically recorded monetary claims (Notes 6 and 12)	15,531	21,075	146,196	198,374
Short-term investment securities (Notes 12 and 13)	4,615	2,519	43,442	23,712
Real estate for sale	11,682	16,739	109,961	157,562
Costs on uncompleted construction contracts (Note 6)	45,555	39,881	428,801	375,390
Costs on real estate business	25,416	24,200	239,241	227,787
Inventories for PFI and other projects (Note 6)	46,148	42,406	434,376	399,157
Other inventories (Note 6)	10,655	7,872	100,296	74,098
Deferred tax assets (Note 16)	20,381	17,443	191,844	164,186
Accounts receivable—other (Note 12)	79,423	78,009	747,586	734,277
Other	18,695	16,694	175,977	157,139
Allowance for doubtful accounts	(160)	(142)	(1,511)	(1,342)
Total current assets	1,228,372	1,181,645	11,562,244	11,122,419
Noncurrent assets				
Property, plant and equipment, net				
Buildings and structures (Note 6)	103,153	92,587	970,947	871,494
Machinery, vehicles, tools, furniture and fixtures (Note 6)	45,707	29,554	430,232	278,182
Land (Note 6)	351,060	308,241	3,304,405	2,901,365
Leased assets	259	228	2,442	2,146
Construction in progress	26,090	28,986	245,576	272,844
Total property, plant and equipment, net (Note 6)	526,270	459,597	4,953,602	4,326,033
Intangible assets (Note 6)	5,038	6,558	47,425	61,729
Investments and other assets				
Investment securities (Notes 6, 12 and 13)	372,308	346,245	3,504,408	3,259,091
Long-term loans receivable	876	2,024	8,251	19,052
Assets for retirement benefits (Note 15)	24	68	232	643
Deferred tax assets (Note 16)	659	1,987	6,205	18,709
Other (Note 6)	15,542	18,118	146,291	170,540
Allowance for doubtful accounts	(231)	(249)	(2,176)	(2,351)
Total investments and other assets	389,179	368,194	3,663,212	3,465,686
Total noncurrent assets	920,488	834,350	8,664,240	7,853,449
Total assets	¥2,148,861	¥2,015,996	\$20,226,485	\$18,975,869

The accompanying notes to the consolidated financial statements are an integral part of this statement.

	Millions of yen		Thousands of U.S. dollars (Note 2)	
	2018	2017	2018	2017
Liabilities				
Current liabilities				
Notes and accounts payable for construction contracts and other (Notes 6 and 12)	¥ 524,712	¥ 485,408	\$ 4,938,933	\$ 4,568,982
Electronically recorded obligations (Notes 6 and 12)	133,770	150,289	1,259,130	1,414,624
Short-term loans payable (Notes 6, 12 and 24)	88,686	89,498	834,770	842,417
Current portion of nonrecourse loans (Notes 6, 12 and 24)	9,557	6,832	89,959	64,310
Current portion of bonds (Notes 12 and 23)	10,000	25,000	94,126	235,316
Lease obligations (Notes 12 and 24)	90	85	849	802
Income taxes payable	29,695	30,533	279,510	287,402
Deferred tax liabilities (Note 16)	70	402	662	3,790
Advances received on uncompleted construction contracts	110,534	106,541	1,040,420	1,002,835
Deposits received (Note 12)	103,408	102,707	973,347	966,745
Provision for warranties for completed construction	4,114	3,048	38,727	28,691
Provision for loss on construction contracts (Note 6)	5,209	7,751	49,037	72,960
Provision for loss on Antimonopoly Act	10,529	436	99,105	4,104
Other	88,528	70,149	833,287	660,294
Total current liabilities	1,118,905	1,078,684	10,531,870	10,153,277
Noncurrent liabilities				
Bonds payable (Notes 12 and 23)	20,000	30,000	188,253	282,379
Long-term loans payable (Notes 6, 12 and 24)	66,038	55,836	621,594	525,566
Nonrecourse loans (Notes 6, 12 and 24)	82,446	66,192	776,042	623,047
Lease obligations (Notes 12 and 24)	169	126	1,597	1,193
Deferred tax liabilities (Note 16)	54,417	46,956	512,216	441,987
Deferred tax liabilities for land revaluation (Note 16)	19,604	21,091	184,532	198,524
Provision for stock payments for directors	259	301	2,442	2,837
Provision for loss on real estate business and other	993	993	9,346	9,346
Provision for environmental measures	313	616	2,955	5,805
Liability for retirement benefits (Note 15)	49,473	51,029	465,673	480,321
Other	24,713	20,091	232,621	189,110
Total noncurrent liabilities	318,430	293,235	2,997,275	2,760,121
Total liabilities	1,437,336	1,371,919	13,529,146	12,913,399
Net assets				
Shareholders' equity				
Capital stock	57,752	57,752	543,605	543,605
Capital surplus	43,135	41,752	406,016	393,001
Retained earnings	404,840	334,957	3,810,622	3,152,836
Treasury stock	(1,929)	(1,964)	(18,162)	(18,492)
Total shareholders' equity	503,798	432,497	4,742,082	4,070,950
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities	159,159	140,246	1,498,114	1,320,091
Deferred gains (losses) on hedges	(1,643)	(283)	(15,470)	(2,665)
Revaluation reserve for land (Note 6)	19,518	20,435	183,723	192,348
Foreign currency translation adjustments	758	(365)	7,135	(3,440)
Retirement benefit asset and liability adjustments	3,244	1,629	30,541	15,340
Total accumulated other comprehensive income	181,037	161,662	1,704,043	1,521,673
Non-controlling interests	26,688	49,916	251,213	469,845
Total net assets	711,525	644,076	6,697,339	6,062,470
Total liabilities and net assets	¥2,148,861	¥2,015,996	\$20,226,485	\$18,975,869

The accompanying notes to the consolidated financial statements are an integral part of this statement.

Consolidated Statements of Income

OBAYASHI CORPORATION

For the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 2)	
	2018	2017	2018	2017
Net sales				
Construction contracts (Note 7)	¥1,820,947	¥1,802,525	\$17,139,940	\$16,966,546
Real estate business and other	79,708	70,195	750,265	660,727
Total net sales	1,900,655	1,872,721	17,890,206	17,627,273
Cost of sales				
Construction contracts (Note 7)	1,608,353	1,596,705	15,138,868	15,029,231
Real estate business and other	57,998	51,082	545,920	480,820
Total cost of sales	1,666,351	1,647,787	15,684,788	15,510,051
Gross profit				
Construction contracts	212,593	205,820	2,001,072	1,937,315
Real estate business and other	21,709	19,113	204,345	179,906
Total gross profit	234,303	224,933	2,205,417	2,117,221
Selling, general and administrative expenses (Note 7)	96,502	91,191	908,348	858,350
Operating income	137,800	133,742	1,297,069	1,258,871
Other income (expenses)				
Interest and dividend income	9,073	8,857	85,403	83,372
Foreign exchange gains (losses), net	(671)	(462)	(6,324)	(4,349)
Interest expense	(2,097)	(2,442)	(19,743)	(22,989)
Subsidiary stock acquisition-related cost	(472)	—	(4,446)	—
Gain on sales of investment securities	6,120	3,081	57,611	29,005
Gain on sales of noncurrent assets (Note 7)	594	516	5,596	4,858
Loss on sales and disposal of noncurrent assets (Note 7)	(526)	(436)	(4,951)	(4,110)
Provision for loss on Antimonopoly Act	(10,529)	—	(99,105)	—
Impairment loss (Note 7)	(1,769)	(562)	(16,655)	(5,295)
Other, net	(312)	696	(2,944)	6,555
Total other income (expenses)	(590)	9,247	(5,560)	87,046
Profit before income taxes	137,209	142,990	1,291,509	1,345,917
Income taxes (Note 16)				
Income taxes—current	47,290	37,692	445,132	354,783
Income taxes—deferred	(4,966)	4,782	(46,752)	45,019
Total income taxes	42,323	42,475	398,379	399,802
Profit	94,886	100,515	893,129	946,114
Profit attributable to non-controlling interests	2,223	6,013	20,925	56,601
Profit attributable to owners of parent	¥ 92,662	¥ 94,501	\$ 872,203	\$ 889,512

The accompanying notes to the consolidated financial statements are an integral part of this statement.

Consolidated Statements of Comprehensive Income

OBAYASHI CORPORATION

For the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 2)	
	2018	2017	2018	2017
Profit	¥ 94,886	¥100,515	\$ 893,129	\$946,114
Other comprehensive income				
Valuation difference on available-for-sale securities	18,858	(25)	177,511	(240)
Deferred gains (losses) on hedges	(1,356)	(235)	(12,772)	(2,214)
Foreign currency translation adjustments	2,241	(1,783)	21,097	(16,785)
Retirement benefit asset and liability adjustments	1,611	840	15,169	7,912
Share of other comprehensive income of affiliates accounted for by the equity method	33	(4)	311	(44)
Total other comprehensive income (Note 8)	21,387	(1,208)	201,317	(11,372)
Comprehensive income	¥116,274	¥ 99,307	\$1,094,446	\$934,742
Comprehensive income attributable to:				
Owners of parent	¥112,954	¥ 93,865	\$1,063,199	\$883,524
Non-controlling interests	3,319	5,441	31,247	51,217

The accompanying notes to the consolidated financial statements are an integral part of this statement.

Consolidated Statements of Changes in Net Assets

OBAYASHI CORPORATION

For the year ended March 31, 2018

	Millions of yen				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	¥57,752	¥41,752	¥334,957	¥(1,964)	¥432,497
Changes of items during period					
Dividends from surplus			(23,696)		(23,696)
Profit attributable to owners of parent			92,662		92,662
Reversal of revaluation reserve for land			916		916
Purchase of treasury stock				(8)	(8)
Disposal of treasury stock				43	43
Share changes in parent's ownership interests associated with transaction with non-controlling interests		1,382			1,382
Net changes in items other than those in shareholders' equity					
Total changes of items during period	-	1,382	69,883	35	71,300
Balance at the end of current period	¥57,752	¥43,135	¥404,840	¥(1,929)	¥503,798

	Millions of yen							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Retirement benefit asset and liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at the beginning of current period	¥140,246	¥ (283)	¥20,435	¥ (365)	¥1,629	¥161,662	¥ 49,916	¥644,076
Changes of items during period								
Dividends from surplus								(23,696)
Profit attributable to owners of parent								92,662
Reversal of revaluation reserve for land								916
Purchase of treasury stock								(8)
Disposal of treasury stock								43
Share changes in parent's ownership interests associated with transaction with non-controlling interests								1,382
Net changes in items other than those in shareholders' equity	18,913	(1,360)	(916)	1,123	1,615	19,375	(23,227)	(3,852)
Total changes of items during period	18,913	(1,360)	(916)	1,123	1,615	19,375	(23,227)	67,448
Balance at the end of current period	¥159,159	¥(1,643)	¥19,518	¥ 758	¥3,244	¥181,037	¥ 26,688	¥711,525

	Thousands of U.S. dollars (Note 2)				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	\$543,605	\$393,001	\$3,152,836	\$(18,492)	\$4,070,950
Changes of items during period					
Dividends from surplus			(223,043)		(223,043)
Profit attributable to owners of parent			872,203		872,203
Reversal of revaluation reserve for land			8,625		8,625
Purchase of treasury stock				(79)	(79)
Disposal of treasury stock				408	408
Share changes in parent's ownership interests associated with transaction with non-controlling interests			13,015		13,015
Net changes in items other than those in shareholders' equity					
Total changes of items during period	-	13,015	657,785	329	671,131
Balance at the end of current period	\$543,605	\$406,016	\$3,810,622	\$(18,162)	\$4,742,082

	Thousands of U.S. dollars (Note 2)							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Retirement benefit asset and liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at the beginning of current period	\$1,320,091	\$ (2,665)	\$192,348	\$ (3,440)	\$15,340	\$1,521,673	\$ 469,845	\$6,062,470
Changes of items during period								
Dividends from surplus								(223,043)
Profit attributable to owners of parent								872,203
Reversal of revaluation reserve for land								8,625
Purchase of treasury stock								(79)
Disposal of treasury stock								408
Share changes in parent's ownership interests associated with transaction with non-controlling interests								13,015
Net changes in items other than those in shareholders' equity	178,023	(12,805)	(8,625)	10,575	15,201	182,370	(218,631)	(36,261)
Total changes of items during period	178,023	(12,805)	(8,625)	10,575	15,201	182,370	(218,631)	634,869
Balance at the end of current period	\$1,498,114	\$(15,470)	\$183,723	\$ 7,135	\$30,541	\$1,704,043	\$ 251,213	\$6,697,339

The accompanying notes to the consolidated financial statements are an integral part of this statement.

For the year ended March 31, 2017

	Millions of yen				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	¥57,752	¥41,752	¥255,750	¥(1,958)	¥353,297
Changes of items during period					
Dividends from surplus			(15,797)		(15,797)
Profit attributable to owners of parent			94,501		94,501
Reversal of revaluation reserve for land			502		502
Purchase of treasury stock				(6)	(6)
Disposal of treasury stock					-
Share changes in parent's ownership interests associated with transaction with non-controlling interests		(0)			(0)
Net changes in items other than those in shareholders' equity					
Total changes of items during period	-	(0)	79,206	(6)	79,200
Balance at the end of current period	¥57,752	¥41,752	¥334,957	¥(1,964)	¥432,497

	Millions of yen							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Retirement benefit asset and liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at the beginning of current period	¥140,328	¥ (47)	¥20,937	¥ 822	¥ 760	¥162,801	¥45,559	¥561,658
Changes of items during period								
Dividends from surplus								(15,797)
Profit attributable to owners of parent								94,501
Reversal of revaluation reserve for land								502
Purchase of treasury stock								(6)
Disposal of treasury stock								-
Share changes in parent's ownership interests associated with transaction with non-controlling interests								(0)
Net changes in items other than those in shareholders' equity	(81)	(235)	(502)	(1,188)	869	(1,138)	4,356	3,217
Total changes of items during period	(81)	(235)	(502)	(1,188)	869	(1,138)	4,356	82,418
Balance at the end of current period	¥140,246	¥(283)	¥20,435	¥ (365)	¥1,629	¥161,662	¥49,916	¥644,076

	Thousands of U.S. dollars (Note 2)				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	\$543,605	\$393,001	\$2,407,289	\$(18,434)	\$3,325,462
Changes of items during period					
Dividends from surplus			(148,696)		(148,696)
Profit attributable to owners of parent			889,512		889,512
Reversal of revaluation reserve for land			4,731		4,731
Purchase of treasury stock				(58)	(58)
Disposal of treasury stock					-
Share changes in parent's ownership interests associated with transaction with non-controlling interests		(0)			(0)
Net changes in items other than those in shareholders' equity					
Total changes of items during period	-	(0)	745,547	(58)	745,488
Balance at the end of current period	\$543,605	\$393,001	\$3,152,836	\$(18,492)	\$4,070,950

	Thousands of U.S. dollars (Note 2)							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Retirement benefit asset and liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at the beginning of current period	\$1,320,862	\$ (451)	\$197,079	\$ 7,746	\$ 7,156	\$1,532,393	\$428,837	\$5,286,693
Changes of items during period								
Dividends from surplus								(148,696)
Profit attributable to owners of parent								889,512
Reversal of revaluation reserve for land								4,731
Purchase of treasury stock								(58)
Disposal of treasury stock								-
Share changes in parent's ownership interests associated with transaction with non-controlling interests								(0)
Net changes in items other than those in shareholders' equity	(770)	(2,214)	(4,731)	(11,186)	8,183	(10,719)	41,007	30,288
Total changes of items during period	(770)	(2,214)	(4,731)	(11,186)	8,183	(10,719)	41,007	775,776
Balance at the end of current period	\$1,320,091	\$(2,665)	\$192,348	\$ (3,440)	\$15,340	\$1,521,673	\$469,845	\$6,062,470

The accompanying notes to the consolidated financial statements are an integral part of this statement.

Consolidated Statements of Cash Flows

OBAYASHI CORPORATION

For the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 2)	
	2018	2017	2018	2017
Net cash provided by (used in) operating activities				
Profit before income taxes	¥137,209	¥142,990	\$1,291,509	\$1,345,917
Depreciation and amortization	14,659	14,981	137,983	141,019
Impairment loss	1,769	562	16,655	5,295
Increase (decrease) in allowance for doubtful accounts	0	(30)	2	(285)
Increase (decrease) in provision for loss on construction contracts	(2,510)	(5,005)	(23,632)	(47,117)
Increase (decrease) in provision for loss on Antimonopoly Act	10,092	(295)	95,000	(2,781)
Increase (decrease) in liability for retirement benefits	734	160	6,908	1,506
Interest and dividend income	(9,073)	(8,857)	(85,403)	(83,372)
Interest expense	2,097	2,442	19,743	22,989
Loss (gain) on sales of noncurrent assets	(466)	(346)	(4,393)	(3,266)
Loss (gain) on sales of short-term and long-term investment securities	(6,107)	(3,080)	(57,487)	(28,996)
Decrease (increase) in notes and accounts receivable—trade	(36,264)	(20,740)	(341,349)	(195,223)
Decrease (increase) in costs on uncompleted construction contracts	(5,620)	(1,539)	(52,899)	(14,492)
Decrease (increase) in inventories	874	(995)	8,231	(9,374)
Decrease (increase) in inventories for PFI and other projects	(3,727)	3,107	(35,089)	29,249
Decrease (increase) in other assets	413	4,432	3,891	41,717
Increase (decrease) in notes and accounts payable—trade	24,054	29,433	226,414	277,046
Increase (decrease) in advances received on uncompleted construction contracts	4,077	(14,029)	38,378	(132,058)
Increase (decrease) in other liabilities	20,657	34,991	194,443	329,365
Other, net	1,145	180	10,784	1,699
Subtotal	154,015	178,360	1,449,693	1,678,840
Interest and dividend received	9,225	9,041	86,841	85,104
Interest paid	(2,163)	(2,530)	(20,367)	(23,814)
Income taxes (paid) refunded	(47,042)	(25,978)	(442,797)	(244,531)
Net cash provided by (used in) operating activities	114,034	158,892	1,073,369	1,495,599
Net cash provided by (used in) investing activities				
Payments into time deposits	(3,313)	(362)	(31,184)	(3,415)
Purchase of property, plant and equipment and intangible assets	(71,965)	(39,755)	(677,385)	(374,205)
Proceeds from sales of property, plant and equipment and intangible assets	4,629	3,044	43,572	28,652
Purchase of short-term and long-term investment securities	(7,411)	(6,253)	(69,766)	(58,858)
Proceeds from sales and redemption of short-term and long-term investment securities	10,108	5,425	95,151	51,069
Payments of loans receivable	(145)	(362)	(1,365)	(3,407)
Collection of loans receivable	291	379	2,740	3,571
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(3,483)	—	(32,792)	—
Other, net	1	—	10	—
Net cash provided by (used in) investing activities	(71,289)	(37,884)	(671,020)	(356,592)
Net cash provided by (used in) financing activities				
Net increase (decrease) in short-term loans payable	(5,963)	(23,512)	(56,135)	(221,314)
Repayments of lease obligations	(99)	(93)	(932)	(879)
Proceeds from long-term loans payable	31,000	21,700	291,792	204,254
Repayment of long-term loans payable	(17,177)	(53,417)	(161,688)	(502,803)
Proceeds from nonrecourse loans payable	19,066	9	179,461	84
Payment of nonrecourse loans payable	(7,016)	(6,858)	(66,042)	(64,552)
Redemption of bonds	(25,000)	(10,000)	(235,316)	(94,126)
Cash dividends paid	(23,696)	(15,797)	(223,043)	(148,696)
Cash dividends paid to non-controlling interests	(1,100)	(1,188)	(10,359)	(11,189)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(24,552)	—	(231,107)	—
Other, net	(8)	(6)	(79)	(60)
Net cash provided by (used in) financing activities	(54,548)	(89,165)	(513,450)	(839,284)
Effect of exchange rate changes on cash and cash equivalents	2,391	(2,449)	22,507	(23,057)
Net increase (decrease) in cash and cash equivalents	(9,412)	29,392	(88,593)	276,664
Cash and cash equivalents at beginning of period	194,195	164,802	1,827,896	1,551,231
Cash and cash equivalents at end of period (Note 10)	¥184,783	¥194,195	\$1,739,302	\$1,827,896

The accompanying notes to the consolidated financial statements are an integral part of this statement.

Notes to Consolidated Financial Statements

OBAYASHI CORPORATION

For the years ended March 31, 2018 and 2017

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements were prepared based on the accounts maintained by OBAYASHI CORPORATION (the "Company") and its subsidiaries (collectively, the "Companies") in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan. Certain amounts in the prior year's financial statements were reclassified to conform to the changes made for the latest fiscal year.

2. U.S. Dollar Amounts

The accounts of the consolidated financial statements presented herein are expressed in Japanese yen by rounding down to the nearest million. The U.S. dollar amounts shown in the accompanying consolidated financial statements and notes thereto were translated from the original Japanese yen into U.S. dollars on the basis of ¥106.24 to US\$1, the rate of exchange prevailing at March 31, 2018, and were then rounded down to the nearest thousand. These U.S. dollar amounts are not intended to imply that the Japanese yen amounts have been or could be converted, realized or settled in U.S. dollars at this or any other rate.

3. Summary of Significant Accounting Policies

(1) Scope of consolidation and application of the equity method

The Company had 93 subsidiaries at March 31, 2018. The consolidated financial statements as of and for the years ended March 31, 2018 and 2017 included the accounts of the Company and all subsidiaries.

All significant intercompany accounts and transactions are eliminated. Investments in all affiliates (25 companies for 2018) are accounted for by the equity method.

(2) Business year for consolidated subsidiaries

Certain foreign consolidated subsidiaries (33 companies) have a fiscal year that ends on December 31 and a domestic consolidated subsidiary has a fiscal year that ends on January 31. The consolidated financial statements were prepared based on the financial statements as of the same date. Necessary adjustments for consolidation were made on significant transactions that took place during the period between the fiscal year-end of the subsidiaries and that of the Company. Consolidated subsidiaries other than those referred to above have the same business year as the Company, which ends on March 31.

(3) Goodwill

Goodwill is amortized by the straight-line method over a period of 5 years. However, goodwill that is not material is charged to income in the year of acquisition.

Differences between the cost and underlying net equity of investments in affiliates accounted for by the equity method are immaterial and charged or credited to income as they occur.

(4) Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the rate of exchange in effect at the balance sheet date.

The resulting exchange gains and losses from translation are recognized in the consolidated statements of income. The balance sheet accounts of the foreign consolidated subsidiaries are translated into Japanese yen at the rates of exchange in effect at the balance sheet date, except for the components of net assets excluding non-controlling interests which are translated at their historical exchange rates. Revenue and expense accounts are translated at the rates of exchange in effect at the balance sheet date. Differences arising from the translation are presented as foreign currency translation adjustments and non-controlling interests in the consolidated financial statements.

(5) Cash equivalents

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

(6) Short-term investment securities and investment securities

Securities are classified into two categories: held-to-maturity and other securities. Held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

(7) Inventories

Real estate held for sale, costs on uncompleted construction contracts, costs on real estate business, inventories for PFI and other projects and costs on other business are all stated at cost determined by the specific identification method. Raw materials and supplies are stated at cost determined by the first-in first-out method. The net book value of inventories in the consolidated balance sheets is written down if the net realizable value declines.

(8) Property, plant and equipment

The Company and its domestic consolidated subsidiaries mainly calculate depreciation by the declining-balance method, while straight-line method is applied to the buildings excluding building fixtures, acquired on or after April 1, 1998 and facilities attached to buildings and other non-building structures acquired on or after April 1, 2016. Foreign consolidated subsidiaries mainly apply the straight-line method. The useful lives and residual values of depreciable assets are estimated mainly in accordance with the Corporate Tax Law.

(9) Intangible assets

Intangible fixed assets are amortized by the straight-line method. Computer software for internal use is amortized by the straight-line method over the estimated useful life of 5 years.

(10) Leased assets

Depreciation of leased assets under finance leases that do not transfer ownership of the leased assets to the lessee is calculated by the straight-line method over the lease period with a residual value of zero.

(11) Allowance for doubtful accounts

The allowance for doubtful accounts is provided based on the historical experience with respect to write-offs for the Company and its domestic subsidiaries and based on an estimate of the amount for specific uncollectible accounts for the Companies.

(12) Provision for warranties for completed construction

The provision for warranties for completed construction is provided to cover expenses for defects claimed concerning completed work, based on the estimated amount of compensation to be paid in the future for the work completed during the fiscal year.

(13) Provision for loss on construction contracts

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

(14) Provision for loss on Antimonopoly Act

The provision for loss on Antimonopoly Act is provided for the estimated surcharges and other based on the Antimonopoly Act.

(15) Provision for stock payments for directors

The provision for stock payments for directors is provided for stock award debt based on predetermined regulations for awarding stock, which is prepared for future awards of the Company shares to its directors and executive officers.

(16) Provision for loss on real estate business and other

The provision for loss on real estate business and other is provided for the estimated losses to be incurred in liquidating real estate and restructuring the real estate related business.

(17) Provision for environmental measures

The provision for environmental measures is provided based on an estimate of costs for disposal of Polychlorinated Biphenyl (PCB) waste, which the Company and its domestic subsidiaries are obliged to dispose of by the Act on Special Measures Concerning Promotion of Proper Treatment of PCB Waste.

(18) Retirement benefits

In calculating retirement benefits obligations, the benefit formula method is used to allocate expected retirement benefit payments in the period until the end of the current fiscal year.

Actuarial differences are amortized commencing in the following year after the differences is recognized primarily by the straight-line method over periods (5 years to 10 years) which are shorter than the average remaining years of service of the employees.

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

(19) Derivatives and hedge accounting

(a) Method of hedge accounting

Hedging instruments are valued at fair value and accounted for using the deferral method of accounting.

The monetary assets and liabilities denominated in foreign currencies, for which foreign exchange forward contracts are used to hedge the foreign currency fluctuations, are translated at the contracted rate if the foreign exchange forward contracts qualify for hedge accounting.

The interest rate swaps, which qualify for hedge accounting and meet specific matching criteria, are not remeasured at market value, but the differential paid or received under the swap agreements is charged to income (short-cut method).

(b) Hedging instruments and hedged items

To hedge foreign exchange risks related to the monetary assets and liabilities denominated in foreign currencies and projected future foreign currency transactions, foreign exchange forward contracts and non-deliverable foreign exchange forward contracts are employed as hedging instruments. To hedge the interest-rate risks related to loans payable, interest rate swaps are employed as hedging instruments.

(c) Hedging policy

The Companies utilize derivative financial instruments only for the purpose of hedging future risks of fluctuation of foreign currency exchange rates or interest rates in accordance with internal rules.

(d) Assessment of hedge effectiveness

Hedge effectiveness is not assessed when substantial terms and conditions of the hedging instruments and the hedged transactions are the same.

The evaluation of hedge effectiveness is omitted for interest rate swaps as they meet certain criteria under the short-cut method.

(20) Recognizing revenues and costs of construction contracts

Revenues and costs of construction contracts of which the percentage of completion can be reliably estimated are recognized by the percentage-of-completion method. The percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost. The completed-contract method continues to be applied for contracts for which the percentage of completion cannot be reliably estimated.

Revenues from construction contracts and the related costs of the overseas subsidiaries are mainly recorded on the percentage-of-completion method.

(21) Revenues and expenses associated with finance lease transactions

Sales and cost of sales are recognized upon receipt of lease payment.

(22) Consumption taxes

Consumption tax and local consumption tax are accounted for under the tax-exclusive method.

(23) Income taxes

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

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

(24) Consolidated taxation system

The Companies adopted the consolidated taxation system.

4. Standards Issued But Not Yet Effective

Accounting Standard and Implementation Guidance on Revenue Recognition

On March 30, 2018, the ASBJ issued "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30).

(1) Overview

This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from customers:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

(2) Scheduled date of adoption

The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

(3) Impact of the adoption of accounting standard and implementation guidance

The Company is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its consolidated financial statements.

5. Additional Information

Performance-linked stock compensation plan for directors and executive officers

(1) Transaction summary

The Company introduced a performance-linked stock compensation plan as an incentive plan for its directors and executive officers (the "Directors") from the fiscal year ended March 31, 2016. The plan is highly transparent and objective and closely linked with the Company's performance for the Directors, with the goal of increasing awareness of the importance of contributing to further enhancing the corporate value and performance over the medium- to long-term.

The Company's shares are acquired through the Board Incentive Plan Trust ("the BIP Trust") and awarded to the Directors in accordance with performance targets achieved.

(2) The Company's own stock in the BIP Trust

The Company's own stock in the BIP Trust is recorded in "Treasury stock" under net assets based on the book value in the BIP Trust (excluding ancillary expenses). The book value and the number of these treasury shares in the BIP Trust as of March 31, 2018 and 2017 were ¥251 million (US\$2,366 thousand) and 239,603 shares and ¥294 million (US\$2,775 thousand) and 281,000 shares, respectively.

6. Notes to Consolidated Balance Sheets

(1) Breakdown of "Inventories for PFI and other projects"

At March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Costs on PFI business	¥46,148	¥42,406	\$434,376	\$399,157

(2) Breakdown of "Other inventories"

At March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Costs on other business	¥ 4,233	¥3,083	\$ 39,846	\$29,025
Raw materials and supplies	6,422	4,788	60,449	45,072
Total	¥10,655	¥7,872	\$100,296	\$74,098

(3) Accumulated depreciation of property, plant and equipment

At March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
	¥169,013	¥160,027	\$1,590,867	\$1,506,285

(4) Investments in affiliates

At March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
	¥5,572	¥6,781	\$52,451	\$63,827

(5) Revaluation reserve for land

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

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

(6) Pledged assets

Assets pledged as collateral for long-term loans payable and others were as follows:

At March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Assets pledged as collateral				
Cash and deposits	¥ 428	¥ 814	\$ 4,034	\$ 7,666
Buildings and structures	4,652	4,863	43,793	45,782
Machinery, vehicles, tools, furniture and fixtures	44	53	415	506
Land	10,981	10,981	103,365	103,365
Total	¥16,107	¥16,713	\$151,610	\$157,321
Liabilities secured thereby				
Short-term loans payable	¥ 300	¥ 300	\$ 2,823	\$ 2,823
Long-term loans payable	1,200	1,500	11,295	14,118
Total	¥ 1,500	¥ 1,800	\$ 14,118	\$ 16,942

(7) Deposited assets

Assets deposited under the "Law for Execution of Warranty against Housing Defects" and the others were as follows:

At March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Investment securities	¥721	¥717	\$6,787	\$6,750
Investments and other assets—other	128	126	1,204	1,190
Total	¥849	¥843	\$7,992	\$7,940

(8) Contingent liabilities

The Companies were contingently liable for the following:

At March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Guarantees of long-term debt of customers, affiliates and employees	¥97	¥321	\$919	\$3,021

(9) Estimated loss on uncompleted construction contracts

“Costs on uncompleted construction contracts” for which a construction loss is anticipated and “Provision for loss on construction contracts” are presented without being offset. The amounts of “Costs on uncompleted construction contracts,” for which a construction loss is anticipated, matching with “Provision for loss on construction contracts” were as follows:

At March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
	¥-	¥42	\$-	\$402

(10) Matured notes

As financial institutions were closed on March 31, 2018, notes included matured notes.

The matured notes were as follows:

At March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Notes receivable—trade	¥ 279	¥-	\$ 2,632	\$-
Electronically recorded monetary claims	160	-	1,514	-
Notes payable—trade	1,368	-	12,884	-
Electronically recorded obligations	10,312	-	97,065	-

(11) Directly deducted advanced depreciation

Advanced depreciation for tax purposes was charged directly to the following noncurrent assets:

At March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Buildings and structures	¥44	¥ 49	\$419	\$ 469
Machinery, vehicles, tools, furniture and fixtures	10	500	98	4,715
Intangible assets	17	-	160	-
Total	¥72	¥550	\$678	\$5,184

(12) Nonrecourse loans

Nonrecourse loans are nonrecourse loans payable to financial institutions, which are issued to the Company's consolidated special purpose company and are backed by the related PFI business, the real estate business or the renewable energy business as collateral.

Assets as collateral for the nonrecourse loans were as follows:

At March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Cash and deposits	¥ 15,725	¥13,031	\$ 148,014	\$122,659
Notes and accounts receivable from completed construction contracts and other	9,659	9,885	90,923	93,045
Inventories for PFI and other projects	40,896	42,406	384,940	399,157
Buildings and structures	5,838	4,429	54,955	41,696
Machinery, vehicles, tools, furniture and fixtures	25,243	12,608	237,610	118,676
Land	12,198	-	114,820	-
Total	¥109,561	¥82,361	\$1,031,263	\$775,235

(13) Commitment lines

The Company has a commitment line agreement with syndicated financial institutions to ensure timely access to funds in case of emergency. At March 31, 2018 and 2017, there were no outstanding balances under the agreement.

This commitment line agreement includes financial covenants on net assets, ordinary income (loss) and the credit rating of the Company.

The total commitment lines available were as follows:

At March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Contract amount	¥50,000	¥50,000	\$470,632	\$470,632
Outstanding borrowings	–	–	–	–
Available amount	¥50,000	¥50,000	\$470,632	\$470,632

7. Notes to Consolidated Statements of Income**(1) Revenues from construction contracts recognized by the percentage-of-completion method**

For the years ended March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
	¥1,649,064	¥1,633,096	\$15,522,072	\$15,371,769

(2) Provision for loss on construction contracts included in cost of sales of construction contracts

For the years ended March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
	¥2,010	¥898	\$18,920	\$8,457

(3) The major components of "Selling, general and administrative expenses"

For the years ended March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Employees' salaries and allowances	¥41,012	¥36,827	\$386,036	\$346,645
Retirement benefit expenses	1,620	1,487	15,257	13,997
Research and development expense	10,602	10,553	99,794	99,338

(4) Research and development expense included in "Selling, general and administrative expenses"

For the years ended March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
	¥10,602	¥10,553	\$99,794	\$99,338

(5) Breakdown of "Gain on sales of noncurrent assets"

For the years ended March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Buildings and structures	¥446	¥204	\$4,204	\$1,920
Machinery, vehicles, tools, furniture and fixtures	145	61	1,373	582
Others	1	250	17	2,356
Total	¥594	¥516	\$5,596	\$4,858

(6) Breakdown of "Loss on sales and disposal of noncurrent assets"

For the years ended March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Demolition and removal costs	¥351	¥105	\$3,312	\$ 995
Others	174	330	1,638	3,114
Total	¥526	¥436	\$4,951	\$4,110

(7) Impairment loss

The following table summarizes the impairment losses recognized for the years ended March 31, 2018 and 2017.

Classification by purpose

Use	Type of assets	Location	2018	
				Number of assets
Real estate reclassified as "held for sale"	Land, buildings and others	Kanagawa and others		2
Idle real estate and others	Land, buildings and others	Hyogo and others		6

Use	Type of assets	Location	2017	
				Number of assets
Asphalt plant	Buildings and others	Hiroshima		1
Construction equipment	Machinery, equipment and others	Canada		1
Idle real estate	Land	Shiga and others		5

Breakdown by account

Use	Millions of yen		Thousands of U.S. dollars	
	2018		2018	
Real estate reclassified as "held for sale"	¥1,666	(Land 1,300, Building and structures 366)	\$15,685	(Land 12,240, Building and structures 3,445)
Idle real estate and others	102	(Land 86, Building and structures 1, Machinery, vehicles, tools, furniture and fixtures 15, Intangible assets 0)	969	(Land 811, Building and structures 11, Machinery, vehicles, tools, furniture and fixtures 145, Intangible assets 0)

Use	Millions of yen		Thousands of U.S. dollars	
	2017		2017	
Asphalt plant	¥405	(Building and structures 284, Machinery, vehicles, tools, furniture and fixtures 121)	\$3,815	(Building and structures 2,676, Machinery, vehicles, tools, furniture and fixtures 1,139)
Construction equipment	138	(Machinery, vehicles, tools, furniture and fixtures 138)	1,299	(Machinery, vehicles, tools, furniture and fixtures 1,299)
Idle real estate	19	(Land 19)	180	(Land 180)

Valuation method

The Companies recognize impairment losses for individual items classified as: 1) Real estate reclassified as "held for sale," 2) Idle real estate and 3) Others.

Due to the decrease in fair value and profitability of real estate, the Companies reduced the carrying values of these assets to their recoverable amounts and recognized the declines as impairment losses.

The recoverable amounts of the assets were the net realizable values, which were calculated as the selling prices (estimated based on the Japanese Real Estate Appraisal Standards) less applicable sales expenses.

8. Notes to Consolidated Statements of Comprehensive Income

The following table presents reclassification adjustments as amounts reclassified to profit for the years ended March 31, 2018 and 2017 which were recognized in other comprehensive income for the years ended on or before March 31, 2018 and 2017 and tax effect allocated to each component of other comprehensive income for the years ended March 31, 2018 and 2017.

For the years ended March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Valuation difference on available-for-sale securities				
Occurred during the year	¥32,768	¥ 2,812	\$308,442	\$ 26,468
Reclassification adjustments	(5,765)	(2,845)	(54,267)	(26,782)
Valuation difference on available-for-sale securities				
before tax effect	27,003	(33)	254,175	(313)
Tax effect	(8,144)	7	(76,663)	73
Valuation difference on available-for-sale securities	18,858	(25)	177,511	(240)
Deferred gains (losses) on hedges				
Occurred during the year	(888)	(335)	(8,361)	(3,158)
Reclassification adjustments	(427)	89	(4,019)	845
Deferred gains (losses) on hedges before tax effect	(1,315)	(245)	(12,381)	(2,313)
Tax effect	(41)	10	(391)	98
Deferred gains (losses) on hedges	(1,356)	(235)	(12,772)	(2,214)
Foreign currency translation adjustments				
Occurred during the year	2,223	(1,784)	20,930	(16,792)
Reclassification adjustments	17	0	167	7
Foreign currency translation adjustments	2,241	(1,783)	21,097	(16,785)
Retirement benefit asset and liability adjustments				
Occurred during the year	1,847	755	17,392	7,115
Reclassification adjustments	475	455	4,474	4,285
Retirement benefit asset and liability adjustments				
before tax effect	2,323	1,211	21,867	11,401
Tax effect	(711)	(370)	(6,697)	(3,488)
Retirement benefit asset and liability adjustments	1,611	840	15,169	7,912
Share of other comprehensive income of affiliates accounted for by the equity method				
Occurred during the year	(2)	(4)	(18)	(44)
Reclassification adjustments	35	–	329	–
Share of other comprehensive income of affiliates accounted for by the equity method	33	(4)	311	(44)
Total other comprehensive income	¥21,387	¥(1,208)	\$201,317	\$(11,372)

9. Notes to Consolidated Statements of Changes in Net Assets

(1) Type and number of outstanding shares

For the year ended March 31, 2018

Type of shares	Number of shares			
	Balance at beginning of year	Increase in shares during the year	Decrease in shares during the year	Balance at end of year
Issued stock				
Common stock	721,509,646	–	–	721,509,646
Treasury stock				
Common stock	3,724,509	6,440	41,397	3,689,552

Notes: 1. Stocks owned by the BIP Trust are included in "Treasury stock" at beginning and end of year (included amount: 281,000 and 239,603 shares).

2. Treasury stock increased by 6,440 shares due to the repurchase of shares less than one unit.

3. Treasury stock decreased by 41,397 shares due to awarding stocks owned by the BIP Trust.

For the year ended March 31, 2017

Type of shares	Number of shares			
	Balance at beginning of year	Increase in shares during the year	Decrease in shares during the year	Balance at end of year
Issued stock				
Common stock	721,509,646	–	–	721,509,646
Treasury stock				
Common stock	3,718,698	5,811	–	3,724,509

Notes: 1. Stocks owned by the BIP Trust are included in "Treasury stock" at beginning and end of year (included amount: 281,000 shares).
2. Treasury stock increased by 5,811 shares due to the repurchase of shares less than one unit.

(2) Dividends

(a) Dividends paid to shareholders

For the year ended March 31, 2018

Resolution approved by	Type of shares	Amount		Amount per share		Shareholders' cut-off date	Effective date
		Millions of yen	Thousands of U.S. dollars	Yen	U.S. dollars		
Annual General Meeting of Shareholders (June 29, 2017)	Common stock	¥13,643	\$128,419	¥19	\$0.17	March 31, 2017	June 30, 2017
Board of Directors (November 8, 2017)	Common stock	¥10,052	\$94,624	¥14	\$0.13	September 30, 2017	December 4, 2017

Notes: 1. Dividends for shares in the BIP Trust are included in dividends in accordance with the resolution at the Annual General Meeting of Shareholders on June 29, 2017 (included amount: ¥5 million (US\$50 thousand)).
2. Dividends for shares in the BIP Trust are included in dividends in accordance with the resolution at the Board of Directors on November 8, 2017 (included amount: ¥3 million (US\$32 thousand)).

For the year ended March 31, 2017

Resolution approved by	Type of shares	Amount		Amount per share		Shareholders' cut-off date	Effective date
		Millions of yen	Thousands of U.S. dollars	Yen	U.S. dollars		
Annual General Meeting of Shareholders (June 29, 2016)	Common stock	¥9,334	\$87,866	¥13	\$0.12	March 31, 2016	June 30, 2016
Board of Directors (November 8, 2016)	Common stock	¥6,462	\$60,830	¥9	\$0.08	September 30, 2016	December 2, 2016

Notes: 1. Dividends for shares in the BIP Trust are included in dividends in accordance with the resolution at the Annual General Meeting of Shareholders on June 29, 2016 (included amount: ¥3 million (US\$32 thousand)).
2. Dividends for shares in the BIP Trust are included in dividends in accordance with the resolution at the Board of Directors on November 8, 2016 (included amount: ¥2 million (US\$22 thousand)).

(b) Dividends with a shareholders' cut-off date during the fiscal year but an effective date subsequent to the fiscal year

For the year ended March 31, 2018

Resolution approved by	Type of shares	Amount		Amount per share		Shareholders' cut-off date	Effective date	
		Millions of yen	Thousands of U.S. dollars	Paid from	Yen			U.S. dollars
Annual General Meeting of Shareholders (June 26, 2018)	Common stock	¥10,052	\$94,623	Retained earnings	¥14	\$0.13	March 31, 2018	June 27, 2018

Note: Dividends for shares in the BIP Trust are included in dividends in accordance with the resolution at the Annual General Meeting of Shareholders on June 26, 2018 (included amount: ¥3 million (US\$31 thousand)).

For the year ended March 31, 2017

Resolution approved by	Type of shares	Amount		Amount per share		Shareholders' cut-off date	Effective date	
		Millions of yen	Thousands of U.S. dollars	Paid from	Yen			U.S. dollars
Annual General Meeting of Shareholders (June 29, 2017)	Common stock	¥13,643	\$128,419	Retained earnings	¥19	\$0.17	March 31, 2017	June 30, 2017

Note: Dividends for shares in the BIP Trust are included in dividends in accordance with the resolution at the Annual General Meeting of Shareholders on June 29, 2017 (included amount: ¥5 million (US\$50 thousand)).

(3) Shareholders' equity

The Corporation Law of Japan provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than legal capital surplus) and retained earnings (other than legal reserve) be transferred to legal capital surplus or legal reserve, until the sum of legal capital surplus and legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

10. Notes to Consolidated Statements of Cash Flows

The reconciliation between cash and cash equivalents reported in the consolidated statements of cash flows and amounts reported in the consolidated balance sheets is as follows:

At March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Cash and deposits	¥190,055	¥194,585	\$1,788,923	\$1,831,565
Time deposits with a maturity of more than three months	(3,720)	(389)	(35,017)	(3,669)
Bank overdraft	(1,551)	—	(14,603)	—
Cash and cash equivalents at end of period	¥184,783	¥194,195	\$1,739,302	\$1,827,896

11. Lease Transactions**Operating leases****(a) Lessee's accounting**

Future minimum payments under non-cancelable lease contracts at March 31, 2018 and 2017 were as follows:

At March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Within 1 year	¥ 3,506	¥ 3,334	\$ 33,009	\$ 31,382
Over 1 year	8,426	9,870	79,313	92,912
Total	¥11,933	¥13,205	\$112,323	\$124,294

(b) Lessor's accounting

Future minimum receivables under non-cancelable lease contracts at March 31, 2018 and 2017 were as follows:

At March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Within 1 year	¥ 4,649	¥ 4,020	\$ 43,766	\$ 37,839
Over 1 year	46,237	46,705	435,221	439,619
Total	¥50,887	¥50,725	\$478,988	\$477,459

12. Financial Instruments**(1) Overview****(a) Policy for financial instruments**

The Companies raise funds by borrowing from banks and issuing commercial paper or corporate bonds. Also, the Companies restrict temporary excess fund management to highly secure assets, time deposits and other short-term investments. The Companies use derivatives in order to avoid the risks, fluctuations of particular assets and liabilities, and fluctuations of interest rates. The Companies do not use derivative transactions to gain short-term profits or for speculative purposes.

(b) Types of financial instruments related risks and risk management

"Notes and accounts receivable from completed construction contracts and other," "Electronically recorded monetary claims" and "Accounts receivable—other," which are operating receivables, are exposed to the credit risk of customers. In order to mitigate the risk when orders are received, the Companies conduct a strict screening and determine project plans so that potential risks are minimized.

“Short-term investment securities” and “Investment securities” mainly consist of stocks. While “Short-term investment securities” and “Investment securities” are exposed to market risk, the Companies monitor market prices of these securities.

“Notes and accounts payable for construction contracts and other,” “Electronically recorded obligations” and “Deposits received,” which are operating liabilities, are due within one year.

“Short-term loans payable,” “Long-term loans payable,” “Commercial paper” and “Bonds payable” are used for operations or capital investment. “Nonrecourse loans” are used for enterprise funds related to particular PFI projects and other. The floating rate loans are exposed to fluctuation in interest rates. In order to hedge against the interest rate risks and fix the payment of interest, the Companies utilize derivative transactions (interest rate swaps) for each contract of certain long-term loans payable. Regarding the evaluation of hedge effectiveness, it is omitted by the judgement of the short-cut method because the interest rate swaps meet the certain criteria under the short-cut method.

The transactions of derivative financial instruments are carried out in accordance with the Companies’ internal rules, and the status of the transactions is reported regularly to the Board of Directors. The Companies trade derivative transactions with major financial institutions and therefore consider there is no credit risk underlying those transactions. While operating debt and borrowings are exposed to liquidity risk, the Companies manage the risk mainly by preparing quarterly and monthly cash management plans.

(c) Supplementary explanation of fair values of financial instruments

Notional amounts of derivative transactions, disclosed in “(2) Fair value of financial instruments,” do not indicate market risk in derivative transactions.

(2) Fair value of financial instruments

The following table shows the carrying values and fair values of financial instruments as of March 31, and any differences. Certain financial instruments for which it is extremely difficult to determine the fair value are not included (see Note 2 below).

	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
At March 31, 2018						
Assets						
Cash and deposits	¥ 190,055	¥ 190,055	¥ –	\$ 1,788,923	\$ 1,788,923	\$ –
Notes and accounts receivable from completed construction contracts and other	760,371	760,356	(14)	7,157,106	7,156,965	(140)
Electronically recorded monetary claims	15,531	15,531	–	146,196	146,196	–
Short-term investment securities and investment securities	355,629	355,650	20	3,347,417	3,347,610	193
Accounts receivable—other	79,423	79,423	–	747,586	747,586	–
Total	¥1,401,011	¥1,401,017	¥ 5	\$13,187,231	\$13,187,283	\$ 52
Liabilities						
Notes and accounts payable for construction contracts and other	¥ 524,712	¥ 524,712	¥ –	\$ 4,938,933	\$ 4,938,933	\$ –
Electronically recorded obligations	133,770	133,770	–	1,259,130	1,259,130	–
Short-term loans payable	88,686	88,686	–	834,770	834,770	–
Current portion of nonrecourse loans	9,557	9,557	–	89,959	89,959	–
Current portion of bonds	10,000	10,000	–	94,126	94,126	–
Deposits received	103,408	103,408	–	973,347	973,347	–
Bonds payable	20,000	20,495	495	188,253	192,915	4,662
Long-term loans payable	66,038	66,123	85	621,594	622,398	803
Nonrecourse loans	82,446	86,076	3,630	776,042	810,210	34,168
Total	¥1,038,619	¥1,042,829	¥4,210	\$ 9,776,158	\$ 9,815,792	\$39,633
Derivative transactions*	¥ (1,596)	¥ (1,596)	¥ –	\$ (15,030)	\$ (15,030)	\$ –

* Assets and liabilities arising from derivative transactions are shown at net value, with the amount in parentheses representing net liability position.

At March 31, 2017	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Assets						
Cash and deposits	¥ 194,585	¥ 194,585	¥ –	\$ 1,831,565	\$ 1,831,565	\$ –
Notes and accounts receivable from completed construction contracts and other	720,361	720,463	102	6,780,510	6,781,474	964
Electronically recorded monetary claims	21,075	21,075	–	198,374	198,374	–
Short-term investment securities and investment securities	328,464	328,491	27	3,091,719	3,091,975	255
Accounts receivable—other	78,009	78,009	–	734,277	734,277	–
Total	¥1,342,496	¥1,342,625	¥ 129	\$12,636,447	\$12,637,667	\$ 1,219
Liabilities						
Notes and accounts payable for construction contracts and other	¥ 485,408	¥ 485,408	¥ –	\$ 4,568,982	\$ 4,568,982	\$ –
Electronically recorded obligations	150,289	150,289	–	1,414,624	1,414,624	–
Short-term loans payable	89,498	89,498	–	842,417	842,417	–
Current portion of nonrecourse loans	6,832	6,832	–	64,310	64,310	–
Current portion of bonds	25,000	25,000	–	235,316	235,316	–
Deposits received	102,707	102,707	–	966,745	966,745	–
Bonds payable	30,000	30,783	783	282,379	289,755	7,376
Long-term loans payable	55,836	55,919	83	525,566	526,348	782
Nonrecourse loans	66,192	70,416	4,224	623,047	662,809	39,761
Total	¥1,011,764	¥1,016,855	¥5,090	\$ 9,523,389	\$ 9,571,309	\$47,919
Derivative transactions*	¥ (281)	¥ (281)	¥ –	\$ (2,649)	\$ (2,649)	\$ –

* Assets and liabilities arising from derivative transactions are shown at net value, with the amount in parentheses representing net liability position.

Note 1. Method to determine the fair values of financial instruments, and other information related to marketable securities and derivatives

Assets

Cash and deposits

Since deposits are settled in a short period of time, the carrying value approximates fair value. The carrying value is the same as fair value.

Notes and accounts receivable from completed construction contracts and other and Electronically recorded monetary claims

The carrying value of the items that will be settled within a year approximates fair value. The carrying value is the same as fair value.

The items that will be settled later than a year are determined based on the present value of carrying value, grouped by term of settlement, discounted at an interest rate determined taking into account the remaining period of those and credit risk.

Short-term investment securities and investment securities

The fair value of stocks is determined based on quoted market price and the fair value of debt securities is determined based on either quoted market price or prices provided by financial institutions making markets in these securities.

Information on securities classified by holding purpose is disclosed in Note 13 "Securities."

Accounts receivable—other

Since "Accounts receivable—other" is settled in a short period of time, the carrying value approximates fair value. The carrying value is the same as fair value.

Liabilities

Notes and accounts payable for construction contracts and other, Electronically recorded obligations, Short-term loans payable, Current portion of nonrecourse loans, Current portion of bonds and Deposits received

Since these accounts are settled in a short period of time, the carrying value approximates fair value. The carrying value is the same as fair value.

Bonds payable

The fair value of bonds issued by the Company is based on the present value of the total principal and interest discounted by an interest rate determined taking into account the remaining period of bond and current credit risk.

Long-term loans payable and Nonrecourse loans

For fixed rate loans, the fair value is based on the present value of the total principal and interest discounted by an interest rate to be applied if similar new loans were entered into. For floating rate loans, since the market interest rate is reflected in the interest rate set within a short period of time, the carrying value is the same as the fair value.

The fair value of loans qualifying for special hedge accounting treatment of interest rate swaps is based on the present value of the total principal and interest hedged by interest rate swaps, which is discounted by an interest rate to be applied if similar new loans were entered into.

Derivatives

See Note 14 "Derivative Transactions."

Note 2. Financial instruments for which it is extremely difficult to determine the fair value

	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
At March 31				
Non-listed stocks and other	¥15,721	¥13,519	\$147,981	\$127,257
Stocks of affiliates	5,572	4,178	52,451	39,326
Investments in capital of affiliates	—	2,603	—	24,501
Total	¥21,293	¥20,300	\$200,432	\$191,085

It is extremely difficult to determine the fair values for these securities, since they have no quoted market prices available. Thus, they are not included in "Short-term investment securities and investment securities" above.

Note 3. Redemption schedule for monetary claims and securities with maturities at March 31

	Millions of yen			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
At March 31, 2018				
Cash and deposits				
Deposits	¥ 189,906	¥ —	¥ —	¥ —
Notes and accounts receivable from completed construction contracts and other	716,142	40,534	1,846	1,846
Electronically recorded monetary claims	15,531	—	—	—
Short-term investment securities and investment securities				
Held-to-maturity securities				
Government bonds and municipal bonds	30	487	203	—
Corporate bonds	—	10	—	180
Accounts receivable—other	79,423	—	—	—
Total	¥1,001,035	¥41,032	¥2,050	¥2,026

	Thousands of U.S. dollars			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
At March 31, 2018				
Cash and deposits				
Deposits	\$1,787,528	\$ —	\$ —	\$ —
Notes and accounts receivable from completed construction contracts and other	6,740,799	381,537	17,385	17,385
Electronically recorded monetary claims	146,196	—	—	—
Short-term investment securities and investment securities				
Held-to-maturity securities				
Government bonds and municipal bonds	282	4,593	1,918	—
Corporate bonds	—	94	—	1,694
Accounts receivable—other	747,586	—	—	—
Total	\$9,422,393	\$386,224	\$19,303	\$19,079

	Millions of yen			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
At March 31, 2017				
Cash and deposits				
Deposits	¥194,162	¥ –	¥ –	¥ –
Notes and accounts receivable from completed construction contracts and other	662,164	54,116	1,846	2,233
Electronically recorded monetary claims	21,075	–	–	–
Short-term investment securities and investment securities				
Held-to-maturity securities				
Government bonds and municipal bonds	–	426	291	–
Corporate bonds	36	10	–	180
Accounts receivable—other	78,009	–	–	–
Total	¥955,447	¥54,553	¥2,138	¥2,413

	Thousands of U.S. dollars			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
At March 31, 2017				
Cash and deposits				
Deposits	\$1,827,584	\$ –	\$ –	\$ –
Notes and accounts receivable from completed construction contracts and other	6,232,720	509,384	17,385	21,021
Electronically recorded monetary claims	198,374	–	–	–
Short-term investment securities and investment securities				
Held-to-maturity securities				
Government bonds and municipal bonds	–	4,015	2,743	–
Corporate bonds	341	94	–	1,694
Accounts receivable—other	734,277	–	–	–
Total	\$8,993,297	\$513,494	\$20,128	\$22,715

Note 4. Redemption schedule for bonds, long-term loans payable, lease obligations and other interest-bearing debts subsequent to March 31

	Millions of yen					
	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
At March 31, 2018						
Short-term loans payable	¥ 68,055	¥ –	¥ –	¥ –	¥ –	¥ –
Bonds payable	10,000	10,000	–	–	–	10,000
Long-term loans payable	20,630	16,421	13,442	10,074	9,461	16,639
Nonrecourse loans	9,557	9,333	7,102	6,912	6,550	52,547
Lease obligations	90	66	48	26	14	13
Total	¥108,333	¥35,820	¥20,593	¥17,013	¥16,026	¥79,200

	Thousands of U.S. dollars					
	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
At March 31, 2018						
Short-term loans payable	\$ 640,581	\$ –	\$ –	\$ –	\$ –	\$ –
Bonds payable	94,126	94,126	–	–	–	94,126
Long-term loans payable	194,189	154,565	126,529	94,823	89,057	156,619
Nonrecourse loans	89,959	87,855	66,855	65,066	61,655	494,610
Lease obligations	849	622	452	253	139	128
Total	\$1,019,706	\$337,169	\$193,837	\$160,143	\$150,851	\$745,484

	Millions of yen					
	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
At March 31, 2017						
Short-term loans payable	¥ 72,789	¥ –	¥ –	¥ –	¥ –	¥ –
Bonds payable	25,000	10,000	10,000	–	–	10,000
Long-term loans payable	16,708	17,672	11,970	8,870	2,760	14,562
Nonrecourse loans	6,832	6,043	6,092	6,252	6,082	41,722
Lease obligations	85	59	38	22	5	0
Total	¥121,416	¥33,775	¥28,102	¥15,145	¥8,848	¥66,284

	Thousands of U.S. dollars					
	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
At March 31, 2017						
Short-term loans payable	\$ 685,144	\$ –	\$ –	\$ –	\$ –	\$ –
Bonds payable	235,316	94,126	94,126	–	–	94,126
Long-term loans payable	157,272	166,348	112,672	83,493	25,982	137,069
Nonrecourse loans	64,310	56,882	57,349	58,849	57,249	392,716
Lease obligations	802	560	365	211	53	2
Total	\$1,142,846	\$317,917	\$264,514	\$142,554	\$83,285	\$623,915

13. Securities

(a) Held-to-maturity debt securities

	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)
At March 31, 2018						
Securities whose fair values exceed their carrying values						
Government bonds and municipal bonds	¥721	¥742	¥20	\$6,794	\$6,988	\$193
Securities whose fair values do not exceed their carrying values						
Corporate bonds	190	190	–	1,788	1,788	–
Total	¥911	¥932	¥20	\$8,582	\$8,776	\$193

	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)
At March 31, 2017						
Securities whose fair values exceed their carrying values						
Government bonds and municipal bonds	¥718	¥745	¥27	\$6,759	\$7,014	\$255
Securities whose fair values do not exceed their carrying values						
Corporate bonds	226	226	–	2,129	2,129	–
Total	¥944	¥971	¥27	\$8,888	\$9,144	\$255

(b) Other securities

	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
At March 31, 2018						
Securities whose carrying values exceed their acquisition costs						
Stock	¥339,524	¥108,752	¥230,771	\$3,195,823	\$1,023,648	\$2,172,175
Other	–	–	–	–	–	–
Subtotal	339,524	108,752	230,771	3,195,823	1,023,648	2,172,175
Securities whose carrying values do not exceed their acquisition costs						
Stock	10,608	12,193	(1,585)	99,851	114,772	(14,921)
Other	4,585	4,585	–	43,159	43,159	–
Subtotal	15,193	16,778	(1,585)	143,010	157,932	(14,921)
Total	¥354,717	¥125,531	¥229,186	\$3,338,834	\$1,181,580	\$2,157,254

It is extremely difficult to determine the fair values for non-listed stocks and other (carrying value ¥15,721 million (US\$147,981 thousand)), since they have no quoted market prices available. Thus, they are not included in "Other" above.

	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
At March 31, 2017						
Securities whose carrying values exceed their acquisition costs						
Stock	¥310,668	¥107,187	¥203,480	\$2,924,210	\$1,008,922	\$1,915,287
Other	214	212	2	2,022	1,998	23
Subtotal	310,882	107,400	203,482	2,926,232	1,010,921	1,915,311
Securities whose carrying values do not exceed their acquisition costs						
Stock	14,368	15,785	(1,417)	135,247	148,585	(13,337)
Other	2,268	2,268	–	21,349	21,349	–
Subtotal	16,636	18,053	(1,417)	156,597	169,935	(13,337)
Total	¥327,519	¥125,454	¥202,065	\$3,082,830	\$1,180,857	\$1,901,973

It is extremely difficult to determine the fair values for non-listed stocks and other (carrying value ¥13,519 million (US\$127,257 thousand)), since they have no quoted market prices available. Thus, they are not included in "Other" above.

(c) Sales of securities classified as other securities

	Millions of yen			Thousands of U.S. dollars		
	Sales proceeds	Aggregate gain	Aggregate loss	Sales proceeds	Aggregate gain	Aggregate loss
For the year ended March 31, 2018						
Stock	¥ 8,710	¥6,117	¥ –	\$81,985	\$57,577	\$ –
Other	1,408	3	13	13,259	34	124
Total	¥10,118	¥6,120	¥13	\$95,244	\$57,611	\$124

Non-listed stocks, for which fair values were extremely difficult to determine, are included in "Stock" above. (Sales proceeds: ¥856 million (US\$8,061 thousand), aggregate gain: ¥351 million (US\$3,310 thousand)).

	Millions of yen			Thousands of U.S. dollars		
	Sales proceeds	Aggregate gain	Aggregate loss	Sales proceeds	Aggregate gain	Aggregate loss
For the year ended March 31, 2017						
Stock	¥4,495	¥3,047	¥0	\$42,317	\$28,680	\$8
Other	940	34	–	8,855	324	–
Total	¥5,436	¥3,081	¥0	\$51,172	\$29,005	\$8

Non-listed stocks, for which fair values were extremely difficult to determine, are included in "Stock" above. (Sales proceeds: ¥271 million (US\$2,557 thousand), aggregate gain: ¥200 million (US\$1,888 thousand)).

(d) Write down of securities

	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
For the years ended March 31				
"Stock" of other securities	¥3	¥11	\$29	\$109
Non-listed stocks included in "Stock" of other securities" above	3	11	29	109

Fair values of non-listed stocks were extremely difficult to determine.

14. Derivative Transactions

(1) Derivative transactions to which the hedge accounting method is not applied

Currency-related transactions

At March 31, 2018 and 2017

None.

(2) Derivative transactions to which the hedge accounting method is applied

Currency-related transactions

At March 31, 2018	Hedged item	Millions of yen			Thousands of U.S. dollars		
		Contract amount	Contract amount of more than 1 year	Estimated fair value	Contract amount	Contract amount of more than 1 year	Estimated fair value
Deferral method							
Foreign exchange forward contract (Buy US\$)	Imports of materials (Forecasted transaction) . . .	¥37,237	¥36,660	¥(1,657)	\$350,502	\$345,069	\$(15,605)
Foreign exchange forward contract (Buy EURO)	Imports of materials (Forecasted transaction) . . .	159	10	(1)	1,497	99	(17)
Foreign exchange forward contract (Buy GBP)	Purchases of properties (Forecasted transaction) . . .	1,548	–	149	14,574	–	1,407
Total		¥38,944	¥36,670	¥(1,510)	\$366,574	\$345,168	\$(14,215)

At March 31, 2017	Hedged item	Millions of yen			Thousands of U.S. dollars		
		Contract amount	Contract amount of more than 1 year	Estimated fair value	Contract amount	Contract amount of more than 1 year	Estimated fair value
Deferral method							
Foreign exchange forward contract (Buy US\$)	Imports of materials (Forecasted transaction) . . .	¥1,236	¥206	¥ 72	\$11,642	\$1,941	\$ 685
Foreign exchange forward contract (Buy EURO)	Imports of materials (Forecasted transaction) . . .	698	177	(55)	6,571	1,672	(524)
Translated at the contracted rate							
Foreign exchange forward contract (Sell S\$)	Accounts receivable from completed construction contracts	22	–	[*1]	207	–	[*1]
Total		¥1,957	¥383	¥ 17	\$18,421	\$3,614	\$ 160

Note: Estimated fair value was provided by the correspondent financial institution.

[*1] Since the foreign exchange forward contract, which is translated at the contract amount, is treated with accounts receivable from completed construction contracts, the fair value of the contract is included in the fair value of accounts receivable from completed construction contracts presented in Note 12 "Financial Instruments (2) Fair value of financial instruments."

Interest-related transactions

At March 31, 2018	Hedged item	Millions of yen			Thousands of U.S. dollars		
		Contract amount	Contract amount of more than 1 year	Estimated fair value	Contract amount	Contract amount of more than 1 year	Estimated fair value
Deferral method							
Interest rate swaps Payment fixed/Receive floating	Nonrecourse loans (Forecasted transaction) . . .	¥ 6,300	¥ 6,300	¥(86)	\$ 59,299	\$ 59,299	\$(815)
Short-cut method							
Interest rate swaps Payment fixed/Receive floating	Long-term loans payable . . .	11,947	10,341	[*2]	112,452	97,344	[*2]
Interest rate swaps Payment fixed/Receive floating	Nonrecourse loans	35,274	32,571	[*2]	332,030	306,583	[*2]
Total		¥53,521	¥49,213	¥(86)	\$503,783	\$463,227	\$(815)

At March 31, 2017	Hedged item	Millions of yen			Thousands of U.S. dollars		
		Contract amount	Contract amount of more than 1 year	Estimated fair value	Contract amount	Contract amount of more than 1 year	Estimated fair value
Deferral method							
Interest rate swaps							
Payment fixed/	Nonrecourse loans						
Receive floating	(Forecasted transaction) . . .	¥11,561	¥11,561	¥(298)	\$108,819	\$108,819	\$(2,809)
Short-cut method							
Interest rate swaps	Long-term loans payable . . .	3,000	2,607	[*2]	28,237	24,546	[*2]
Payment fixed/							
Receive floating	Nonrecourse loans	23,431	21,313	[*2]	220,556	200,620	[*2]
Total		¥37,992	¥35,482	¥(298)	\$357,613	\$333,987	\$(2,809)

Note: Estimated fair value was provided by the correspondent financial institution.

[*2] Since these interest rate swaps, which are not remeasured at market value but the differential paid or received under the swap agreements is charged to income, are treated with long-term loans payable or nonrecourse loans, the fair values of the contracts are included in the fair value of long-term loans payable or nonrecourse loans presented in Note 12 "Financial Instruments (2) Fair value of financial instruments."

15. Retirement Benefit Plans

The Company and its subsidiaries have defined benefit pension plans (cash balance plan in the Company and its certain subsidiaries), in addition to lump-sum payments covering the remainder. The Company and certain subsidiaries have defined contribution pension plans.

The following tables show the funded and the amounts recognized in the consolidated balance sheets at March 31, 2018 and 2017 of the Company and its subsidiaries.

(1) Defined benefit pension plans

The changes in the projected benefit obligation for the years ended March 31, 2018 and 2017 are as follows:

For the years ended March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
At the beginning of current period	¥105,058	¥107,816	\$988,877	\$1,014,841
Service cost	4,904	4,841	46,162	45,571
Interest cost	633	650	5,967	6,125
Actuarial gain	60	216	565	2,040
Retirement benefit paid	(7,724)	(8,450)	(72,705)	(79,537)
Other	40	(17)	379	(164)
At the end of current period	¥102,972	¥105,058	\$969,247	\$ 988,877

Certain consolidated subsidiaries adopted a simplified method to compute their projected benefit obligations.

The changes in plan assets for the years ended March 31, 2018 and 2017 are as follows:

For the years ended March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
At the beginning of current period	¥54,097	¥55,758	\$509,200	\$524,833
Expected return on plan assets	1,309	1,353	12,321	12,738
Actuarial gain	1,870	972	17,602	9,153
Contributions by the Companies	1,551	1,651	14,604	15,542
Retirement benefits paid	(5,303)	(5,637)	(49,922)	(53,068)
At the end of current period	¥53,524	¥54,097	\$503,806	\$509,200

Certain consolidated subsidiaries adopted a simplified method.

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2018 and 2017 for the Company's and the consolidated subsidiaries' defined benefit plans:

At March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Retirement benefit obligation under the funded plans	¥ 52,519	¥ 55,519	\$ 494,345	\$ 522,587
Plan assets at fair value	(53,524)	(54,097)	(503,806)	(509,200)
	(1,005)	1,422	(9,461)	13,387
Retirement benefit obligation under the unfunded plans	50,453	49,538	474,902	466,290
Net liability for retirement benefits in the balance sheets	¥ 49,448	¥ 50,960	\$ 465,441	\$ 479,677
Liability for retirement benefits	¥ 49,473	¥ 51,029	\$ 465,673	\$ 480,321
Asset for retirement benefits	(24)	(68)	(232)	(643)
Net liability for retirement benefits in the balance sheets	¥ 49,448	¥ 50,960	\$ 465,441	\$ 479,677

The components of retirement benefit expense for the years ended March 31, 2018 and 2017 are as follows:

For the years ended March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Service cost	¥ 4,904	¥ 4,841	\$ 46,162	\$ 45,571
Interest cost	633	650	5,967	6,125
Expected return on plan assets	(1,309)	(1,353)	(12,321)	(12,738)
Amortization of actuarial loss	511	455	4,816	4,285
Amortization of prior service cost	5	0	51	0
Retirement benefit expense	¥ 4,746	¥ 4,594	\$ 44,675	\$ 43,244

Certain consolidated subsidiaries adopted a simplified method.

Prior service cost and actuarial loss included in other comprehensive income (before tax effect) for the years ended March 31, 2018 and 2017 are as follows:

For the years ended March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Prior service cost	¥ (0)	¥ (0)	\$ (7)	\$ (1)
Actuarial gain (loss)	(2,322)	(1,211)	(21,859)	(11,399)
Total	¥(2,323)	¥(1,211)	\$(21,867)	\$(11,401)

Unrecognized prior service cost and unrecognized actuarial loss included in accumulated other comprehensive income (before tax effect) as of March 31, 2018 and 2017 are as follows:

At March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Unrecognized prior service cost	¥ 20	¥ 21	\$ 193	\$ 201
Unrecognized actuarial loss	(4,818)	(2,495)	(45,350)	(23,491)
Total	¥(4,797)	¥(2,474)	\$(45,157)	\$(23,289)

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2018 and 2017 are as follows:

At March 31	2018		2017	
General accounts	28.2%		27.3%	
Stocks	23.2		23.4	
Bonds	23.5		26.0	
Cash on hand and in banks	10.8		10.0	
Other	14.3		13.3	
Total	100.0%		100.0%	

The expected return on plan assets has been estimated based on the present and anticipated allocation to each asset class and the expected long-term returns on asset held in each category.

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

For the years ended March 31	2018	2017
Discount rates	0.6% or 0.8%	0.6% or 0.8%
Expected rates of return on plan assets	1.8% or 2.5%	1.8% or 2.5%

(2) Defined contribution pension plans

For the years ended March 31, 2018 and 2017, pension expenses for defined contribution plans by the Company and consolidated subsidiaries were ¥4,397 million (US\$41,393 thousand) and ¥4,163 million (US\$39,189 thousand), respectively, including the expense for small and medium enterprises retirement benefit mutual aid schemes and multi-employer pension plans of foreign subsidiaries.

16. Deferred Tax Accounting

The major components of deferred tax assets and liabilities at March 31, 2018 and 2017 are summarized as follows:

At March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Deferred tax assets				
Liability for retirement benefits	¥ 15,179	¥ 15,677	\$ 142,881	\$ 147,564
Impairment loss	11,108	11,140	104,561	104,860
Costs on uncompleted construction contracts	7,227	5,004	68,033	47,107
Accrued expenses (bonus)	5,032	3,968	47,370	37,349
Unrealized gain on noncurrent assets	2,681	2,433	25,243	22,906
Accrued enterprise tax	1,677	1,664	15,785	15,663
Assets traded within the Group	1,562	1,734	14,708	16,327
Other	11,085	11,377	104,344	107,093
	55,556	53,000	522,929	498,872
Valuation allowance	(16,224)	(16,613)	(152,714)	(156,376)
Total deferred tax assets	39,331	36,386	370,215	342,495
Deferred tax liabilities				
Valuation difference on available-for-sale securities	(69,759)	(61,612)	(656,619)	(579,937)
Reserve for advanced depreciation of noncurrent assets	(1,259)	(1,328)	(11,850)	(12,506)
Other	(1,760)	(1,374)	(16,574)	(12,934)
Total deferred tax liabilities	(72,779)	(64,315)	(685,044)	(605,378)
Net deferred tax assets	¥(33,447)	¥(27,928)	\$(314,829)	\$(262,882)

The net deferred tax assets are included in the following items on the consolidated balance sheets:

At March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Current assets—Deferred tax assets	¥ 20,381	¥ 17,443	\$ 191,844	\$ 164,186
Noncurrent assets—Deferred tax assets	659	1,987	6,205	18,709
Current liabilities—Deferred tax liabilities	(70)	(402)	(662)	(3,790)
Noncurrent liabilities—Deferred tax liabilities	(54,417)	(46,956)	(512,216)	(441,987)

In addition to the above, the Companies recognized deferred tax liabilities related to reserve for land revaluation on the consolidated balance sheets:

At March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
	¥(19,604)	¥(21,091)	\$(184,532)	\$(198,524)

Reconciliations between the statutory tax rates and the effective tax rates for the years ended March 31, 2018 and 2017 are not disclosed, because the differences are not more than 5% of the statutory tax rates.

17. Business Combinations

Transactions under common control

The Company acquired the common shares of Obayashi Road Corporation (the "Target Company"), which is listed on the First Section of the Tokyo Stock Exchange under the securities code 1896, through a tender offer (the "Tender Offer") from May 11, 2017 to June 21, 2017 pursuant to the resolution at the Board of Directors meeting held on May 10, 2017. The number of shares and the ratio of voting rights to be obtained by the Tender Offer were as follows:

	Number of shares	Ratio of voting rights
Before the Tender Offer	18,746,521	41.67%
To be obtained by the Tender Offer	21,693,435	48.22%
After the Tender Offer	40,439,956	89.89%

As of September 20, 2017, the Company had made the Target Company its wholly owned subsidiary through a reverse stock split and other procedures subsequent to the Tender Offer.

(1) Summary of transactions

(a) Purposes of the Tender Offer

The Company concluded that making the Target Company its wholly owned subsidiary will enable the Group to "prepare the way for the future." It's considered that the transaction will contribute to an increase in the degree of freedom in Group management through factors including: avoiding future conflicts of interest among the parent company and minority shareholders that may be caused by listing both the parent and the subsidiary, speeding up decision-making regarding the Group's management strategy, and enabling further enhancement of compliance at the Target Company through measures including the development and operation of a more effective compliance system under the initiative of the Company. Also, it is considered that the transaction will be extremely beneficial for increasing the Target Company's corporate value through enhancement of the management base and improvement of business efficiency throughout the entire Group. This will enable the Company to share know-how, promote technological development, increase production capacity, enhance competitiveness through the centralization of sales-related information, and effectively allocate human, financial and management resources within the Group, among others.

(b) Legal method of the Tender Offer

Acquisition of shares for cash consideration by the Company

(2) Outline of accounting treatment applied

The Company applied the following accounting treatments stipulated by the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, September 13, 2013) and accounted for the business combination as a transaction with non-controlling shareholders under common control.

(3) Acquisition cost of share exchange

	Millions of yen	Thousands of U.S. dollars
Cash	¥24,668	\$232,195
Total	¥24,668	\$232,195

(4) Change in equity related to transactions with non-controlling shareholders

Increase in capital surplus from transactions with non-controlling shareholders is ¥2,041 million (US\$19,129 thousand).

18. Asset Retirement Obligations

Asset retirement obligations recognized by the Companies are mainly obligations to restore rental properties for business use under real estate lease contracts at the time the lease agreement is terminated. Instead of recording asset retirement obligations, the Companies have estimated total unrefundable deposits on lease contracts and expensed the current portion.

Estimated total unrefundable deposits and periods of use of the rental properties are as follows:

(1) Estimated total unrefundable deposits

At March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
	¥4,394	¥4,394	\$41,359	\$41,359

(2) Estimated period of use

At March 31	2018	2017
	15–38 years from the initial day of the contract	15–38 years from the initial day of the contract

19. Investment and Rental Properties

The Company and certain of its subsidiaries hold office buildings (including land), lands for redevelopment projects, etc., mainly in Tokyo and Osaka.

Profit and impairment loss from these real estate properties for the year ended March 31, 2018 were ¥9,926 million (US\$93,438 thousand) and ¥16 million (US\$157 thousand), respectively. Profit and impairment loss from these real estate properties for the year ended March 31, 2017 were ¥10,008 million (US\$94,202 thousand) and ¥19 million (US\$180 thousand), respectively. Sales and costs on real estate are recorded as “Net sales on real estate business and other” and “Cost of sales on real estate business and other,” respectively. Impairment loss is included in “Other income (expenses).”

Carrying value in the consolidated balance sheets and fair value of those real estate properties are as follows:

For the years ended March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Carrying value				
At the beginning of current period	¥289,385	¥286,794	\$2,723,885	\$2,699,493
Increase (decrease)—net	56,256	2,591	529,519	24,392
At the end of current period	345,641	289,385	3,253,405	2,723,885
Fair value at the end of current period	487,172	407,789	4,585,582	3,838,384

- The carrying value represents the acquisition cost less the accumulated depreciation.
- “Increase (decrease)—net” for the year ended March 31, 2018 mainly consists of: increase in purchase of office buildings for lease (including land) and other in the amount of ¥47,899 million (US\$450,863 thousand) and decrease in sale of office buildings for lease (including land) and other in the amount of ¥3,855 million (US\$36,292 thousand) and depreciation cost in the amount of ¥3,569 million (US\$33,594 thousand).
“Increase (decrease)—net” for the year ended March 31, 2017 mainly consists of: increase in purchase of office buildings for lease (including land) and other in the amount of ¥6,538 million (US\$61,542 thousand) and decrease in depreciation cost in the amount of ¥2,873 million (US\$27,050 thousand).
- Fair value at March 31, 2018 and 2017 was estimated in accordance with the “Real estate evaluation standards,” and was adjusted using official indices.

20. Segment Information

(1) Segment information

(a) Overview of reportable segments

The reportable segments of the Companies are components for which discrete financial information is available and whose operating results are regularly reviewed by the Executive Committee to make decisions about resource allocation and to assess performance.

The Building Construction, Civil Engineering and Real Estate Development divisions at the Company are responsible for strategic planning and business development of the building construction, civil engineering and real estate development businesses, respectively. Business operations of the building construction and civil engineering divisions are classified geographically with headquarters and each branch as separate operating units and evaluated individually. The Company's subsidiaries are also evaluated on an individual basis. The building construction and civil engineering businesses are segmented based on domestic and overseas areas.

The Companies therefore have five reportable segments: "domestic building construction," "overseas building construction," "domestic civil engineering," "overseas civil engineering" and "real estate."

The overview of each reportable segment is as follows:

Domestic building construction:	Execution of building construction contracts and related businesses within Japan
Overseas building construction:	Execution of building construction contracts and related businesses outside Japan
Domestic civil engineering:	Execution of civil engineering construction contracts and related businesses within Japan
Overseas civil engineering:	Execution of civil engineering construction contracts and related businesses outside Japan
Real estate:	Purchase, sale and rent of real estate properties, development of land parcels and related businesses

(b) Accounting treatment for net sales, income (loss), assets, liabilities and others by each segment

The accounting methods of the segment are substantially the same as those described in "3. Summary of Significant Accounting Policies." Segment performance is evaluated based on operating income or loss.

Intersegment sales are recorded at the same prices used in transactions with third parties.

(c) Reportable segment information (net sales and income (loss))

	Reporting segment						Others (Note 1)	Total
	Domestic building construction	Overseas building construction	Domestic civil engineering	Overseas civil engineering	Real estate	Subtotal		
Millions of yen								
For the year ended March 31, 2018								
Net sales								
Sales to third parties	¥1,014,371	¥383,995	¥346,119	¥76,461	¥44,566	¥1,865,513	¥35,141	¥1,900,655
Intersegment sales and transfers	53,074	950	16,097	–	1,131	71,253	8,017	79,270
Segment sales	¥1,067,445	¥384,945	¥362,216	¥76,461	¥45,697	¥1,936,766	¥43,159	¥1,979,925
Operating income								
Operating income from sales to third parties (Note 2)	¥ 83,944	¥ 2,964	¥ 38,283	¥ 1,446	¥ 8,600	¥ 135,239	¥ 2,561	¥ 137,800
Intersegment operating income and transfers	2,658	(21)	4	(1)	(0)	2,639	(80)	2,559
Segment income	¥ 86,602	¥ 2,943	¥ 38,288	¥ 1,444	¥ 8,599	¥ 137,878	¥ 2,480	¥ 140,359

	Thousands of U.S. dollars								
	Reporting segment							Others (Note 1)	Total
	Domestic building construction	Overseas building construction	Domestic civil engineering	Overseas civil engineering	Real estate	Subtotal			
For the year ended March 31, 2018									
Net sales									
Sales to third parties	\$ 9,547,923	\$ 3,614,416	\$ 3,257,897	\$ 719,703	\$ 419,487	\$ 17,559,428	\$ 330,778	\$ 17,890,206	
Intersegment sales and transfers	499,569	8,944	151,517	–	10,650	670,681	75,462	746,144	
Segment sales	\$ 10,047,492	\$ 3,623,360	\$ 3,409,414	\$ 719,703	\$ 430,137	\$ 18,230,109	\$ 406,241	\$ 18,636,350	
Operating income									
Operating income from sales to third parties (Note 2)	\$ 790,138	\$ 27,907	\$ 360,351	\$ 13,613	\$ 80,948	\$ 1,272,959	\$ 24,110	\$ 1,297,069	
Intersegment operating income and transfers	25,022	(198)	46	(15)	(8)	24,846	(757)	24,089	
Segment income	\$ 815,161	\$ 27,708	\$ 360,397	\$ 13,598	\$ 80,940	\$ 1,297,806	\$ 23,352	\$ 1,321,159	

- Notes: 1. Businesses that cannot be classified into the reportable segments are shown as "Others." This includes PFI (Private Finance Initiative), renewable energy, finance, operation of golf courses and other businesses.
2. "Operating income from sales to third parties" was computed by subtracting "Intersegment operating income and transfers" from "Segment income." The total "Operating income from sales to third parties" equals to "Operating income" as shown in the consolidated statements of income.
3. The amounts of the assets are not shown since the assets are not divided by the segments.

	Millions of yen								
	Reporting segment							Others (Note 1)	Total
	Domestic building construction	Overseas building construction	Domestic civil engineering	Overseas civil engineering	Real estate	Subtotal			
For the year ended March 31, 2017									
Net sales									
Sales to third parties	¥1,020,378	¥367,980	¥332,374	¥81,792	¥38,795	¥1,841,321	¥31,400	¥1,872,721	
Intersegment sales and transfers	39,709	47	21,309	–	1,156	62,222	7,443	69,665	
Segment sales	¥1,060,088	¥368,027	¥353,683	¥81,792	¥39,951	¥1,903,543	¥38,843	¥1,942,387	
Operating income (loss)									
Operating income (loss) from sales to third parties (Note 2)	¥ 82,633	¥ 4,880	¥ 40,033	¥ (3,182)	¥ 7,180	¥ 131,546	¥ 2,196	¥ 133,742	
Intersegment operating income and transfers	792	(23)	859	(3)	(0)	1,623	(89)	1,533	
Segment income (loss)	¥ 83,425	¥ 4,856	¥ 40,893	¥ (3,185)	¥ 7,179	¥ 133,169	¥ 2,106	¥ 135,276	

	Thousands of U.S. dollars								
	Reporting segment							Others (Note 1)	Total
	Domestic building construction	Overseas building construction	Domestic civil engineering	Overseas civil engineering	Real estate	Subtotal			
For the year ended March 31, 2017									
Net sales									
Sales to third parties	\$ 9,604,469	\$ 3,463,668	\$ 3,128,524	\$ 769,884	\$ 365,168	\$ 17,331,714	\$ 295,559	\$ 17,627,273	
Intersegment sales and transfers	373,772	446	200,575	–	10,884	585,678	70,060	655,738	
Segment sales	\$ 9,978,241	\$ 3,464,114	\$ 3,329,099	\$ 769,884	\$ 376,052	\$ 17,917,392	\$ 365,619	\$ 18,283,011	
Operating income (loss)									
Operating income (loss) from sales to third parties (Note 2)	\$ 777,799	\$ 45,939	\$ 376,825	\$ (29,955)	\$ 67,589	\$ 1,238,197	\$ 20,673	\$ 1,258,871	
Intersegment operating income and transfers	7,457	(225)	8,092	(32)	(8)	15,283	(845)	14,437	
Segment income (loss)	\$ 785,257	\$ 45,713	\$ 384,917	\$ (29,988)	\$ 67,580	\$ 1,253,480	\$ 19,827	\$ 1,273,308	

- Notes: 1. Businesses that cannot be classified into the reportable segments are shown as "Others." This includes PFI (Private Finance Initiative), renewable energy, finance, operation of golf courses and other businesses.
2. "Operating income (loss) from sales to third parties" was computed by subtracting "Intersegment operating income and transfers" from "Segment income (loss)." The total "Operating income (loss) from sales to third parties" equals to "Operating income" as shown in the consolidated statements of income.
3. The amounts of the assets are not shown since the assets are not divided by the segments.

(d) Reconciliation of difference between total reportable segment income and operating income as shown in the consolidated statements of income

For the year ended March 31, 2018	Millions of yen	Thousands of U.S. dollars
Net sales		
Total reportable segment	¥1,936,766	\$18,230,109
Sales from "Others"	43,159	406,241
Elimination of Intersegment transactions	(79,270)	(746,144)
Sales in the statements of income	¥1,900,655	\$17,890,206
Operating income		
Total reportable segment	¥ 137,878	\$ 1,297,806
Income from "Others"	2,480	23,352
Elimination of Intersegment transactions	(2,559)	(24,089)
Operating income in the statements of income	¥ 137,800	\$ 1,297,069

For the year ended March 31, 2017	Millions of yen	Thousands of U.S. dollars
Net sales		
Total reportable segment	¥1,903,543	\$17,917,392
Sales from "Others"	38,843	365,619
Elimination of Intersegment transactions	(69,665)	(655,738)
Sales in the statements of income	¥1,872,721	\$17,627,273
Operating income		
Total reportable segment	¥ 133,169	\$ 1,253,480
Income from "Others"	2,106	19,827
Elimination of Intersegment transactions	(1,533)	(14,437)
Operating income in the statements of income	¥ 133,742	\$ 1,258,871

(2) Related information

(a) Information by product or service

As the same information is disclosed in "(1) Segment information," this information has not been presented.

(b) Information by region

Net sales by region

For the year ended March 31, 2018

Millions of yen					Thousands of U.S. dollars				
Japan	North America (Note)	Asia	Others	Total	Japan	North America (Note)	Asia	Others	Total
¥1,438,542	¥329,741	¥128,096	¥4,274	¥1,900,655	\$13,540,500	\$3,103,742	\$1,205,726	\$40,237	\$17,890,206

Note: Net sales in the United States is ¥315,133 million (US\$2,966,243 thousand).

For the year ended March 31, 2017

Millions of yen					Thousands of U.S. dollars				
Japan	North America	Asia	Others	Total	Japan	North America	Asia	Others	Total
¥1,420,571	¥297,387	¥148,446	¥6,316	¥1,872,721	\$13,371,340	\$2,799,204	\$1,397,272	\$59,455	\$17,627,273

Tangible assets by region

As Japan-based tangible assets account for over 90% of total tangible assets at March 31, 2018 and 2017, this information has not been presented.

(c) Information by major customers

Of sales to external customers, sales to a specific customer account for less than 10% of net sales in the consolidated financial statements, and therefore this information has not been presented for the years ended March 31, 2018 and 2017.

(3) Impairment loss on noncurrent assets by reportable segment

							Millions of yen
	Domestic building construction	Overseas building construction	Domestic civil engineering	Overseas civil engineering	Real estate	Others (Note)	Total
For the year ended March 31, 2018	¥-	¥-	¥70	¥15	¥391	¥1,291	¥1,769

							Thousands of U.S. dollars
	Domestic building construction	Overseas building construction	Domestic civil engineering	Overseas civil engineering	Real estate	Others (Note)	Total
For the year ended March 31, 2018	\$-	\$-	\$665	\$145	\$3,685	\$12,159	\$16,655

Note: Impairment loss of real estate reclassified as "held for sale" and other in the amount of ¥1,291 million (US\$12,159 thousand), which is not divided by reporting segment, is included in "Others."

							Millions of yen
	Domestic building construction	Overseas building construction	Domestic civil engineering	Overseas civil engineering	Real estate	Others	Total
For the year ended March 31, 2017	¥-	¥-	¥406	¥138	¥17	¥-	¥562

							Thousands of U.S. dollars
	Domestic building construction	Overseas building construction	Domestic civil engineering	Overseas civil engineering	Real estate	Others	Total
For the year ended March 31, 2017	\$-	\$-	\$3,830	\$1,299	\$165	\$-	\$5,295

(4) Amortization and balance of goodwill by reportable segment

							Millions of yen
	Domestic building construction	Overseas building construction	Domestic civil engineering	Overseas civil engineering	Real estate	Others (Note)	Total
For the year ended March 31, 2018	¥-	¥-	¥-	¥13	¥-	¥62	¥76
Amortization amount	-	-	-	228	-	125	354
Balance							

							Thousands of U.S. dollars
	Domestic building construction	Overseas building construction	Domestic civil engineering	Overseas civil engineering	Real estate	Others (Note)	Total
For the year ended March 31, 2018	\$-	\$-	\$-	\$123	\$-	\$592	\$715
Amortization amount	-	-	-	2,150	-	1,184	3,335
Balance							

							Millions of yen
	Domestic building construction	Overseas building construction	Domestic civil engineering	Overseas civil engineering	Real estate	Others (Note)	Total
For the year ended March 31, 2017	¥-	¥-	¥-	¥157	¥-	¥62	¥219
Amortization amount	-	-	-	392	-	188	581
Balance							

							Thousands of U.S. dollars
	Domestic building construction	Overseas building construction	Domestic civil engineering	Overseas civil engineering	Real estate	Others (Note)	Total
For the year ended March 31, 2017	\$-	\$-	\$-	\$1,478	\$-	\$592	\$2,070
Amortization amount	-	-	-	3,695	-	1,777	5,472
Balance							

Note: Amortization amount and balance of goodwill in "Others" are those of renewable energy business and other.

(5) Amount of gain on negative goodwill by reportable segment

None.

21. Related Party Transactions

None.

22. Amounts per Share

Basic profit attributable to owners of parent per share was computed based on the weighted average number of shares of common stock outstanding during the year.

Net assets per share was computed based on the number of shares of common stock outstanding at the balance sheet date.

Net assets and profit per share for the years ended March 31, 2018 and 2017 were as follows:

For the years ended March 31	Yen		U.S. dollars	
	2018	2017	2018	2017
Net assets per share	¥954.05	¥827.77	\$8.98	\$7.79
Basic profit attributable to owners of parent per share	129.09	131.66	1.21	1.23

(1) Diluted profit attributable to owners of parent was not presented for the years ended March 31, 2018 and 2017 because the Company had no potentially dilutive shares outstanding as of these balance sheet dates.

(2) Net assets per share

At March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Net assets	¥711,525	¥644,076	\$6,697,339	\$6,062,470
Amounts deducted from net assets (Non-controlling interests)	26,688	49,916	251,213	469,845
Net assets applicable to shareholders of common stock	684,836	594,160	6,446,126	5,592,624
Number of shares of common stock at the year-end (Thousands of shares)	717,820	717,785	717,820	717,785

Shares in the BIP Trust are included in "Treasury stock" which are deducted from the number of shares of common stock in calculating net assets per share. The numbers of the treasury shares at March 31, 2018 and 2017 were 3,689 thousand and 3,724 thousand, including 239 thousand and 281 thousand shares in the BIP Trust, respectively.

(3) Basic profit attributable to owners of parent per share

For the years ended March 31	Millions of yen		Thousands of U.S. dollars	
	2018	2017	2018	2017
Basic profit attributable to owners of parent	¥ 92,662	¥ 94,501	\$872,203	\$889,512
Profit attributable to owners of parent not attributable to shareholders of common stock	—	—	—	—
Profit attributable to owners of parent attributable to shareholders of common stock	92,662	94,501	872,203	889,512
Average number of shares issued and outstanding during the period (Thousands of shares)	717,805	717,788	717,805	717,788

Shares in the BIP Trust are included in "Treasury stock" which are deducted from the number of shares of common stock in calculating basic profit attributable to owners of parent per share. The average number of shares issued and outstanding during the years ended March 31, 2018 and 2017 were 3,704 thousand and 3,721 thousand, including 257 thousand and 281 thousand shares in the BIP Trust, respectively.

23. Corporate Bonds

At March 31			Millions of yen		Thousands of U.S. dollars		Interest rate (%)	Collateral	Maturity
Issued by	Issue type	Issue date	2018	2017	2018	2017			
Obayashi Corp.	16th unsecured straight bond	October 26, 2010	¥ –	¥ 15,000 (15,000)	\$ –	\$ 141,189 (141,189)	0.96	None	October 26, 2017
Obayashi Corp.	18th unsecured straight bond	May 9, 2012	–	10,000 (10,000)	–	94,126 (94,126)	0.588	None	May 9, 2017
Obayashi Corp.	19th unsecured straight bond	May 9, 2013	10,000 (10,000)	10,000	94,126 (94,126)	94,126	0.440	None	May 9, 2018
Obayashi Corp.	20th unsecured straight bond	May 9, 2013	10,000	10,000	94,126	94,126	0.970	None	May 9, 2023
Obayashi Corp.	21st unsecured straight bond	May 7, 2014	10,000	10,000	94,126	94,126	0.344	None	May 7, 2019
Total			¥ 30,000 (10,000)	¥ 55,000 (25,000)	\$ 282,379 (94,126)	\$ 517,695 (235,316)			

- The figures in parentheses at March 31, 2018 indicate the amount as “Current portion of bonds” in the consolidated balance sheets because they will be redeemed within a year.
- The annual redemption schedule of corporate bonds subsequent to March 31, 2018 is as follows:

	Millions of yen	Thousands of U.S. dollars
Less than 1 year	¥10,000	\$94,126
Over 1 year less than 2 years	10,000	94,126
Over 2 years less than 3 years	–	–
Over 3 years less than 4 years	–	–
Over 4 years less than 5 years	–	–

24. Loans

At March 31	Millions of yen		Thousands of U.S. dollars		Average interest rate (%)	Maturity
	2018	2017	2018	2017		
Short-term loans payable	¥ 68,055	¥ 72,789	\$ 640,581	\$ 685,144	0.67	–
Current portion of long-term loans payable	20,630	16,708	194,189	157,272	0.40	–
Current portion of nonrecourse loans	9,557	6,832	89,959	64,310	1.48	–
Current portion of lease obligations	90	85	849	802	–	–
Long-term loans payable (excluding current portion)	66,038	55,836	621,594	525,566	0.42	2019–2038
Nonrecourse loans (excluding current portion)	82,446	66,192	776,042	623,047	1.66	2019–2037
Lease obligations (excluding current portion)	169	126	1,597	1,193	–	2021–2025
Total	¥246,988	¥218,571	\$2,324,814	\$2,057,337		

- The “Average interest rate” is the weighted average interest rate for the average balance of loans during the given fiscal year.

2. The annual repayment schedule of long-term loans payable, nonrecourse loans and lease obligations subsequent to March 31, 2018 is as follows:

	Millions of yen	Thousands of U.S. dollars
Long-term loans payable		
Over 1 year less than 2 years	¥16,421	\$154,565
Over 2 years less than 3 years	13,442	126,529
Over 3 years less than 4 years	10,074	94,823
Over 4 years less than 5 years	9,461	89,057
Nonrecourse loans		
Over 1 year less than 2 years	¥ 9,333	\$ 87,855
Over 2 years less than 3 years	7,102	66,855
Over 3 years less than 4 years	6,912	65,066
Over 4 years less than 5 years	6,550	61,655
Lease obligations		
Over 1 year less than 2 years	¥ 66	\$ 622
Over 2 years less than 3 years	48	452
Over 3 years less than 4 years	26	253
Over 4 years less than 5 years	14	139

3. The "Average interest rate" columns for the "Current portion of lease obligations" and the "Lease obligations (excluding current portion)" are left blank, as the lease obligations stated on the consolidated balance sheets include the interest portion of the lease payments.

25. Subsequent Event

None.

Independent Auditor's Report



Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho, Chiyoda-ku
Tokyo 100-0011, Japan

Tel: +81 3 3503 1100
Fax: +81 3 3503 1197
www.shinnihon.or.jp

Independent Auditor's Report

The Board of Directors
OBAYASHI CORPORATION

We have audited the accompanying consolidated financial statements of OBAYASHI CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2018, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of OBAYASHI CORPORATION and its consolidated subsidiaries as at March 31, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

Ernst & Young ShinNihon LLC

June 27, 2018
Tokyo, Japan

CORPORATE INFORMATION / STOCK INFORMATION

Corporate Profile

Company Name: OBAYASHI CORPORATION
 Founded : January 1892
 Established : December 1936
 President : Kenji Hasuwa
 Head Office : Shinagawa Intercity Tower B,
 2-15-2, Konan, Minato-ku, Tokyo, Japan
 Capital : 57,752 million yen
 Employees : 8,609 (as of March 31, 2018)
 Construction Business Permission : Government Permit (Toku/Han-26) 3000,
 (Toku-30) 3000
 Real Estate Business License : Government License (14) 791
 Business Activities : Construction work in and outside Japan,
 regional development, urban development,
 and other construction-related businesses,
 including contracted engineering, management,
 consulting services, real estate development, etc.

Major Business Offices

Head Office: 2-15-2, Konan, Minato-ku, Tokyo
 Sapporo Branch, Tohoku Branch (Sendai City), Tokyo Main Office,
 Yokohama Branch, Hokuriku Branch (Niigata City), Nagoya Branch,
 Kyoto Branch, Osaka Main Office, Kobe Branch, Hiroshima Branch,
 Shikoku Branch (Takamatsu City), Kyushu Branch (Fukuoka City),
 Overseas Business Division (Tokyo)

Research Institute

Technical Research Institute (Tokyo)

Overseas Offices

London, San Francisco, Auckland, Sydney, Guam, Taipei, Jakarta,
 Hanoi, Phnom Penh, Singapore, Kuala Lumpur, Bangkok, Yangon,
 Dahka, Dubai

Stock Information (As of March 31, 2018)

Number of Shares : 1,224,335,000 shares
 Authorized (No change from the end of the previous
 fiscal year)
 Total Number of Shares Issued : 721,509,646 shares
 and Outstanding (No change from the end of the previous
 fiscal year)
 Number of Shareholders : 55,507
 Transfer Agent : Mitsubishi UFJ Trust and Banking Corporation
 1-4-5, Marunouchi, Chiyoda-ku, Tokyo, Japan
 Ordinary General Meeting of Shareholders : June
 Stock Listings : Tokyo and Fukuoka

Major Shareholders (As of March 31, 2018)

	Shareholdings	
	Shares Held (Thousands)	Shareholding Ratio (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	56,252	7.83
The Master Trust Bank of Japan, Ltd. (Trust Account)	50,740	7.07
Nippon Life Insurance Company	20,905	2.91
Takeo Obayashi	16,944	2.36
STATE STREET BANK WEST CLIENT – TREATY 505234	14,593	2.03
Japan Trustee Services Bank, Ltd. (Trust Account 7)	12,904	1.80
Japan Trustee Services Bank, Ltd. (Trust Account 5)	12,840	1.79
Government of Norway	9,851	1.37
Obayashi Group Employee Shareholding Association	9,594	1.34
Japan Trustee Services Bank, Ltd. (Trust Account 1)	9,551	1.33

Note: Shareholding ratios exclude treasury stock (3,449,949 shares).

Major Group Companies

Domestic Building Construction Business	Naigai Technos Corporation Interior, building construction, and sales of materials and equipment for construction	Obayashi Facilities Corporation Overall property management, building and M&E construction, and contracted operations	Oak Setsubi Corporation M&E design and construction (including air conditioning, ventilation, drainage, sanitary, and electricity)
Domestic Civil Engineering Business	Obayashi Road Corporation Paving construction and civil engineering construction		
Overseas Building Construction Business	E.W. Howell Co., LLC (NY, U.S.A.) James E. Roberts-Obayashi Corporation (CA, U.S.A.) Thai Obayashi Corporation Limited (Bangkok, Thailand) Obayashi Singapore Private Limited (Singapore) * E.W. Howell Co., LLC, Webcor, LP, and James E. Roberts-Obayashi Corporation are consolidated subsidiaries of Obayashi USA, LLC.	Webcor, LP (CA, U.S.A.) PT. JAYA OBAYASHI (Jakarta, Indonesia) Taiwan Obayashi Corporation (Taipei, Taiwan) Obayashi Vietnam Corporation (Ho Chi Minh City, Vietnam)	
Overseas Civil Engineering Business	Kenaidan Group Ltd. (Ontario, Canada) Kraemer North America, LLC (Wisconsin, U.S.A.) * Kenaidan Group Ltd. and Kraemer North America, LLC are consolidated subsidiaries of Obayashi Canada Holdings Ltd. and Obayashi USA, LLC, respectively.		
Real Estate Development Business	Obayashi-Shinseiwa Real Estate Corporation		
Other	Obayashi Clean Energy Corporation Renewable power generation business	Oak Information System Corporation Development and sales of computer software and sales and lease of electronic equipment	OC Finance Corporation Finance-related services
	Ibaraki Green Co., Ltd. Old Orchard Golf Club, Daystar Golf Club	31 PFI Subsidiaries PFI-related services	

OBAYASHI CORPORATION

Shinagawa Intercity Tower B,
2-15-2, Konan, Minato-ku, Tokyo 108-8502, Japan
TEL +81-3-5769-1324 (Corporate Social Responsibility Dept.)

<https://www.obayashi.co.jp/en/>



- This publication is printed on FSC™-certified paper.
- It uses environmentally sensitive plant-based ink.
- The printing method is water-free and involves no discharge of harmful effluents.

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