

OBAYASHI CORPORATION

Summary of the Third Quarter (cumulative) Financial Results for FY2017 Ending March 2018

Disclaimer: This financial information, a digest of Obayashi Corporation's "Summary of the Third Quarter (cumulative) Financial Results for FY2017 ending March 2018" ("Kessan Tanshin") disclosed at the Tokyo Stock Exchange on February 13, 2018 was translated into English and presented solely for the convenience of non-Japanese speaking users. If there is any discrepancy between Japanese "Kessan Tanshin" and this document, Japanese "Kessan Tanshin" will prevail. This document includes forward-looking statements based on the information available at the time of the release of Japanese "Kessan Tanshin". Due to various factors, the actual results may vary from the forward-looking statements contained herein. Obayashi Corporation (non-consolidated) is called the "Company" hereinafter.

(Rounded down to the nearest million yen)

1. Summary of the Third Quarter (cumulative) Results for FY2017 ending March 2018 (April 1, 2017 - December 31, 2017)

(1) Consolidated Business Results (cumulative)

(% shows the increase (decrease) from the results of the same quarter of the previous FY)

	Net Sales		Operating Income		Ordinary Income		Profit attributable to owners of parent	
	(Unit: million yen)	%	(Unit: million yen)	%	(Unit: million yen)	%	(Unit: million yen)	%
3rd Quarter of FY2017	1,370,802	2.8	98,883	1.8	104,862	2.4	75,763	7.4
3rd Quarter of FY2016	1,333,197	2.8	97,132	31.2	102,433	29.3	70,562	39.3

(Note) Comprehensive income: [3Q/FY2017] 116,406 million yen, 54.7%; [3Q/FY2016] 75,240 million yen, 111.5%

	Profit attributable to owners of parent per share	Profit attributable to owners of parent per share Adjusted for Latent Shares
	(Unit: yen)	(Unit: yen)
3rd Quarter of FY2017	105.55	_____
3rd Quarter of FY2016	98.31	_____

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	(Unit: million yen)	(Unit: million yen)	%
At December 31, 2017	2,184,690	712,006	31.4
At March 31, 2017	2,015,996	644,076	29.5

(For reference) Equity (Net assets less non-controlling interests): [At December 31, 2017] 686,779 million yen, [At March 31, 2017] 594,160 million yen

2. Dividends

	Dividend per share (Unit: yen)				
	End of 1Q	End of 2Q	End of 3Q	End of 4Q	Total
	(Unit: yen)	(Unit: yen)	(Unit: yen)	(Unit: yen)	(Unit: yen)
FY2016 ended Mar. 2017	_____	9.00	_____	19.00	28.00
FY2017 ending Mar. 2018	_____	14.00	_____		
FY2017 ending Mar. 2018 (Forecast)				14.00	28.00

* The consolidated forecasts for the full year were not revised in this third quarter.

* The forecasts above were prepared on the basis of information available at the time of the release of Japanese "Kessan Tanshin."

Due to various factors, the actual result may vary from the forecasts.

3. Consolidated Forecast for FY2017 ending March 2018 (April 1, 2017 - March 31, 2018)

(% shows the increase (decrease) from the previous FY results)

	Net Sales		Operating Income		Ordinary Income		Profit attributable to owners of parent		Profit attributable to owners of parent per share	
	(Unit: million yen)	%	(Unit: million yen)	%	(Unit: million yen)	%	(Unit: million yen)	%	(Unit: yen)	
Full Year	1,915,000	2.3	134,500	0.6	140,000	(0.1)	95,000	0.5		132.35

* The consolidated forecasts were not revised in this third quarter.

* The forecasts above were prepared on the basis of information available at the time of the release of Japanese "Kessan Tanshin."

Due to various factors, the actual result may vary from the forecasts.

Qualitative information on business performance and financial position for the third quarter of FY2017 ending March 2018

1. Overview of consolidated business performance

With regard to consolidated business performance of the Obayashi Group for the third quarter (from April 1, 2017 to December 31, 2017) of this fiscal year, net sales amounted to 1,370.8 billion yen, increased by 37.6 billion yen (2.8%) from the corresponding quarter of the previous fiscal year primarily due to an increase in net sales of the construction business.

On the earnings front, consequent to an increase in gross profit on completed construction contracts, operating income increased by 1.7 billion yen (1.8%) to 98.8 billion yen, ordinary income increased by 2.4 billion yen (2.4%) to 104.8 billion yen, and profit attributable to owners of parent increased by 5.2 billion yen (7.4%) to 75.7 billion yen from the corresponding quarter of the previous fiscal year.

2. Overview of consolidated financial position

Total assets at the end of the third quarter of this fiscal year increased by 168.6 billion yen (8.4%) to 2,184.6 billion yen compared with the balance at the end of the previous fiscal year mainly due to an increase in trade receivables related to construction contracts which is the sum of “Notes and accounts receivable from completed construction contracts and other” and “Electronically recorded monetary claims”, an increase in “Investment securities” as a result of an increase in market value, and an increase in “Buildings and structures” and “Land” as a result of purchase of real estate for business.

Total liabilities at the end of the third quarter of this fiscal year increased by 100.7 billion yen (7.3%) to 1,472.6 billion yen compared with the balance at the end of the previous fiscal year primarily due to a decrease in trade payables related to construction contracts which is the sum of “Notes and accounts payable for construction contracts and other” and “Electronically recorded obligations” while an increase in “Commercial papers” to meet its financial needs.

Consolidated balance of interest-bearing debt at the end of the third quarter of this fiscal year increased by 119.9 billion yen (43.9%) to 393.3 billion yen compared with the balance at the end of the previous fiscal year.

Total net assets at the end of the third quarter of this fiscal year increased by 67.9 billion yen (10.5%) to 712.0 billion yen compared with the balance at the end of the previous fiscal year mainly because “Retained earnings” increased due to the recognition of profit attributable to owners of parent and “Valuation difference on available-for-sale securities” increased while “Non-controlling interests” decreased as a result of making Obayashi Road Corporation the Company’s wholly-owned subsidiary. As a result, equity ratio at the end of the third quarter of this fiscal year was 31.4%, up 1.9 percentage points from the end of the previous fiscal year.

3. Consolidated forecasts

Based on the review at the time of the release of this document, the consolidated forecasts of the financial performance for the fiscal year ending March 2018 were not revised from the ones announced on November 8, 2017 when financial results for the second quarter were presented.

Consolidated quarterly balance sheets

(Unit : million yen)

	March 31, 2017	December 31, 2017
Assets		
Current assets		
Cash and deposits	194,585	187,229
Notes and accounts receivable from completed construction contracts and other	720,361	780,503
Electronically recorded monetary claims	21,075	16,000
Short-term investment securities	2,519	2,242
Real estate for sale	16,739	14,439
Costs on uncompleted construction contracts	39,881	60,908
Costs on real estate business	24,200	27,961
Inventories for PFI and other projects	42,406	41,936
Other inventories	7,872	12,997
Deferred tax assets	17,443	14,863
Accounts receivable-other	78,009	66,736
Other	16,694	42,077
Allowance for doubtful accounts	(142)	(135)
Total current assets	<u>1,181,645</u>	<u>1,267,762</u>
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	92,587	103,085
Machinery, vehicles, tools, furniture and fixtures, net	29,554	44,440
Land	308,241	325,959
Lease assets, net	228	219
Construction in progress	28,986	21,528
Total property, plant and equipment	<u>459,597</u>	<u>495,234</u>
Intangible assets	6,558	4,946
Investments and other assets		
Investment securities	346,245	400,212
Long-term loans receivable	2,024	900
Assets for retirement benefits	68	68
Deferred tax assets	1,987	747
Other	18,118	15,049
Allowance for doubtful accounts	(249)	(230)
Total investments and other assets	<u>368,194</u>	<u>416,747</u>
Total noncurrent assets	<u>834,350</u>	<u>916,927</u>
Total assets	<u>2,015,996</u>	<u>2,184,690</u>

(Unit : million yen)

	March 31, 2017	December 31, 2017
Liabilities		
Current liabilities		
Notes and accounts payable for construction contracts and other	485,408	475,548
Electronically recorded obligations	150,289	133,642
Short-term loans payable	89,498	76,901
Current portion of nonrecourse loans	6,832	7,128
Commercial papers	—	145,000
Current portion of bonds	25,000	10,000
Lease obligations	85	83
Income taxes payable	30,533	10,774
Deferred tax liabilities	402	421
Advances received on uncompleted construction contracts	106,541	109,959
Deposits received	102,707	116,686
Provision for warranties for completed construction	3,048	3,031
Provision for loss on construction contracts	7,751	5,204
Other	70,585	66,022
Total current liabilities	1,078,684	1,160,404
Noncurrent liabilities		
Bonds payable	30,000	20,000
Long-term loans payable	55,836	55,879
Nonrecourse loans	66,192	78,397
Lease obligations	126	130
Deferred tax liabilities	46,956	61,911
Deferred tax liabilities for land revaluation	21,091	19,723
Provision for stock payments for directors	301	267
Provision for loss on real estate business and other	993	993
Provision for environmental measures	616	314
Liability for retirement benefits	51,029	52,214
Other	20,091	22,447
Total noncurrent liabilities	293,235	312,279
Total liabilities	1,371,919	1,472,684
Net assets		
Shareholders' equity		
Capital stock	57,752	57,752
Capital surplus	41,752	43,794
Retained earnings	334,957	387,670
Treasury stock	(1,964)	(1,938)
Total shareholders' equity	432,497	487,279
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	140,246	177,587
Deferred gains (losses) on hedges	(283)	112
Revaluation reserve for land	20,435	19,788
Foreign currency translation adjustments	(365)	128
Retirement benefit asset and liability adjustments	1,629	1,882
Total accumulated other comprehensive income	161,662	199,499
Non-controlling interests	49,916	25,227
Total net assets	644,076	712,006
Total liabilities and net assets	2,015,996	2,184,690

Consolidated quarterly statements of income

(Unit : million yen)

	3Q / FY2016 From April 1, 2016 to December 31, 2016	3Q / FY2017 From April 1, 2017 to December 31, 2017
Net sales		
Net sales of completed construction contracts	1,284,196	1,321,876
Net sales of real estate business and other	49,000	48,926
Total net sales	<u>1,333,197</u>	<u>1,370,802</u>
Cost of sales		
Cost of sales on completed construction contracts	1,136,153	1,167,064
Cost of sales on real estate business and other	34,247	34,118
Total cost of sales	<u>1,170,401</u>	<u>1,201,182</u>
Gross profit		
Gross profit on completed construction contracts	148,043	154,812
Gross profit on real estate business and other	14,752	14,808
Total gross profit	<u>162,796</u>	<u>169,620</u>
Selling, general and administrative expenses	65,663	70,736
Operating income	<u>97,132</u>	<u>98,883</u>
Non-operating income		
Interest income	1,410	1,206
Dividends income	5,636	6,057
Other	604	1,142
Total non-operating income	<u>7,652</u>	<u>8,406</u>
Non-operating expenses		
Interest expenses	1,840	1,581
Subsidiary stock acquisition-related cost	—	472
Foreign exchange losses	298	—
Other	211	373
Total non-operating expenses	<u>2,350</u>	<u>2,427</u>
Ordinary income	<u>102,433</u>	<u>104,862</u>
Extraordinary income		
Gain on sales of investing securities	3,037	3,135
Other	626	585
Total extraordinary income	<u>3,664</u>	<u>3,720</u>
Extraordinary loss		
Impairment loss	0	1,291
Other	235	818
Total extraordinary losses	<u>235</u>	<u>2,109</u>
Profit before income taxes	<u>105,862</u>	<u>106,473</u>
Income taxes-current	22,785	28,291
Income taxes-deferred	8,363	918
Total income taxes	<u>31,148</u>	<u>29,209</u>
Profit	<u>74,713</u>	<u>77,263</u>
Profit attributable to non-controlling interests	4,151	1,500
Profit attributable to owners of parent	<u>70,562</u>	<u>75,763</u>

Consolidated quarterly statements of comprehensive income

(Unit : million yen)

	3Q / FY2016 From April 1, 2016 to December 31, 2016	3Q / FY2017 From April 1, 2017 to December 31, 2017
Profit	74,713	77,263
Other comprehensive income		
Valuation difference on available-for-sale securities	7,518	37,291
Deferred gains (losses) on hedges	67	395
Foreign currency translation adjustment	(7,313)	1,172
Retirement benefit adjustment	265	251
Share of other comprehensive income of associates accounted for using equity method	(11)	32
Total other comprehensive income	526	39,142
Comprehensive income	75,240	116,406
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	73,782	114,246
Comprehensive income attributable to non-controlling interests	1,458	2,159

Segment Information

Reporting segment information (net sales and income (loss))

3Q (cumulative) / FY2016 (April 1, 2016 - December 31, 2016)

(Unit: million yen)

	Reporting Segment						Others (Note 1)	Total
	Domestic building construction	Overseas building construction	Domestic civil engineering	Overseas civil engineering	Real estate development	Subtotal		
Net sales								
Sales to third parties	745,172	239,334	241,998	57,692	27,563	1,311,760	21,436	1,333,197
Intersegment sales or transfers	27,890	29	15,301	—	852	44,074	5,537	49,611
Segment sales	773,062	239,363	257,299	57,692	28,416	1,355,834	26,974	1,382,808
Operating Income (loss)								
Operating Income (loss) from sales to third parties (Note 2)	60,147	3,655	26,464	(872)	6,374	95,768	1,363	97,132
Intersegment operating income or transfers	535	(17)	740	(2)	(0)	1,255	(64)	1,191
Segment income (loss)	60,683	3,637	27,205	(875)	6,373	97,024	1,299	98,324

Note 1: Businesses that cannot be classified into the company's reporting segments are shown as "Others."

This includes PFI (Private Finance Initiative), renewable energy business, finance, operation of golf courses, and other businesses.

Note 2: "Operating income (loss) from sales to third parties" was computed by subtracting "Intersegment operating income or transfers" from "Segment income (loss)."

The total "Operating income (loss) from sales to third parties" equals to "Operating income" as shown in the quarterly consolidated statements of income.

3Q (cumulative) / FY2017 (April 1, 2017 - December 31, 2017)

(Unit: million yen)

	Reporting Segment						Others (Note 1)	Total
	Domestic building construction	Overseas building construction	Domestic civil engineering	Overseas civil engineering	Real estate development	Subtotal		
Net sales								
Sales to third parties	734,479	281,965	248,112	57,318	25,879	1,347,755	23,046	1,370,802
Intersegment sales or transfers	39,788	65	11,508	—	855	52,218	5,897	58,116
Segment sales	774,268	282,031	259,621	57,318	26,735	1,399,974	28,944	1,428,919
Operating Income								
Operating Income from sales to third parties (Note 2)	60,684	2,843	27,578	440	4,789	96,335	2,547	98,883
Intersegment operating income or transfers	2,061	(16)	12	(1)	(0)	2,055	(56)	1,998
Segment income	62,745	2,827	27,591	439	4,788	98,391	2,490	100,882

Note 1: Businesses that cannot be classified into the company's reporting segments are shown as "Others."

This includes PFI (Private Finance Initiative), renewable energy business, finance, operation of golf courses, and other businesses.

Note 2: "Operating income from sales to third parties" was computed by subtracting "Intersegment operating income or transfers" from "Segment income."

The total "Operating income from sales to third parties" equals to "Operating income" as shown in the quarterly consolidated statements of income.