

TAISEI

ANNUAL REPORT 2018



To Create a Vibrant Environment for All Members of Society

The Taisei Group creates “safe, secure, and attractive spaces” and “high value” in harmony with the nature, and strives to build a global society filled with dreams and hopes for the next generation.

The Taisei Group is rich in active, diverse human resources working at various sites. At the site of (tentative name) Toranomon 2-10 Project of Tokyo Office, Hotel Okura Tokyo Building Reconstruction Project, we engage in the “Kensetsu Komachi” initiative, which is promoted by the Japan Federation of Construction Contractors, for different activities intended to create a “comfortable workplace” through the synergy of both men and women working at the same workplace. In recognition of such efforts, we won the 3rd Kensetsu-komachi Empowerment Award of Excellence sponsored by the Japan Federation of Construction Contractors in 2017.



Hotel Okura Tokyo Main Building Reconstruction Project / (Tentative Name) Toranomon 2-10 Project

Taisei has been constructing two buildings for the Okura Tokyo, a high-rise building (41st floor) and a middle-level building (17th floor), on the former site where the main building of the Hotel Okura Tokyo on the 10 ground floors was dismantled.

As for the office floors in the high-rise building, we set up a special purpose company (SPC) jointly with Hotel Okura Co., Ltd., and others to promote the office leasing business through the SPC.

The buildings are scheduled to open in 2019. We aim to promote the project by leveraging the know-how of office building development. In this way, we can achieve an office that is highly evaluated by customers and the smooth operation of complex facilities centered on representative luxury hotels in Japan.

Client: Hotel Okura Co., Ltd.
Location: Toranomon, Minato-ku, Tokyo
Designer: (Tentative Name) Toranomon 2-10 Planning Design JV
(Taisei Corporation – TANIGUCHI and ASSOCIATES – KANKO KIKAKU SEKKEISHA – NIHON SEKKEI, INC. – P.T. Morimura & Associates, LTD. – NTT FACILITIES, INC. JV)

Supervision: Mitsubishi Jisho Sekkei Inc.
Scheduled completion: June 2019

Taisei Group Philosophy

To Create a Vibrant Environment for All Members of Society

Objectives to be pursued by the Taisei Group (Goals)

Action Guidelines for Taisei Personnel and the Taisei Group as a Whole

Taisei Group Philosophy

Taisei Spirit

Overall Principles of Conduct

Overall Management Perspective

Taisei Spirit

Active and Transparent Culture/ Value Creation/Evolution of Tradition

Key concepts that all Taisei Group officers and personnel must adhere to in order to pursue and realize the Taisei Group Philosophy

Medium-term Business Plan (FY2018-2020)

Please visit our official website for the Action Guidelines for Taisei Personnel and the Taisei Group as a Whole and Policies of Taisei Corporation.

Clients/End-Users

Shareholders/Investors

Suppliers

Employees

Local Communities etc.



Women engineers and men engineers from Taiwan. At the site of (tentative name) Toranomori 2-10 Project of Tokyo Office, Hotel Okura Tokyo Main Building Reconstruction Project.

Editorial Policy

This report is intended to help readers better understand the creation of our corporate value as a whole, such as corporate activities, financial statements, and management tasks in line with Taisei Groups Philosophy and Action Guidelines for Taisei Personnel and the Taisei Group as a Whole.

The 2018 issue features the President's talks, and messages and dialogues with the External Members of the Board, combined with important ESG information, which provides clues to the interviews and dialogues, to disclose inclusive and brief corporate information. Further details about the initiatives related to ESG and sustainability are available in the "CSR" section on Taisei Corporation's official website.



WEB <http://www.taisei.co.jp/english/csr>

<Supplementary Note on Employees>

"Employee" refers to employees of Taisei Corporation. "Personnel" refers to personnel working at Taisei Corporation, including dispatched and seconded personnel.

Period of Coverage

- The main subject of this report is the actual results for the fiscal year ended March 2018 (April 1, 2017 – March 31, 2018). Some contents concern the data for the previous fiscal year or the most recent activities.

Scope of Coverage

- In principle this report covers the activities of Taisei Corporation and the Taisei Group companies (consolidated subsidiaries) as of March 31, 2018, unless otherwise noted.

Guidelines on Non-Financial Information Disclosure

- United Nations Global Compact
- GRI Sustainability Reporting Standards
- ISO26000: 2010 (International Organization for Standardization)
- Integrated Reporting Framework (International Integrated Reporting Council: IIRC)
- Environmental Reporting Guidelines (2012)
- Guidance for Collaborative Value Creation (METI)

Third-Party Opinions and Third-Party Assurance on This Report

- Kanji Tanimoto, DBA, Professor, School of Commerce, Waseda University
- "Independent Assurance Report" on the environment data and indices by Ernst & Young ShinNihon LLC

Date of Issue

- September 2018

Note Regarding Forward-Looking Statements

Opinions and predictions, etc., expressed in this report are based on the judgment of the Company at the time of preparation of this document. Therefore, please be aware that there is a possibility that the results of the actual target values, etc., could be different from the stated future estimates, due to changes in various factors.

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To Our Stakeholders

村田 誉之

Yoshiyuki Murata

President and Chief Executive Officer,
Representative Director



Review of Previous Medium-term Business Plan (FY2015–2017)

During the three years of the previous Medium-term Business Plan, we made collective efforts in management Goals such as “Undertaking strategic approaches regarding focused projects” “Actively contributing to improving infrastructures” and “Promoting the development of next-generation technologies” under the basic policy of “Deep cultivation of our primary business of construction.”

As a result, we have achieved record-high profits for three consecutive years and further stability in terms of our financial standing in the fiscal year 2017.

On the other hand, we were indicted on suspicion of violating the Anti-Monopoly Act in association with the Chuo Shinkansen Project. We extend our deepest apology to all of our stakeholders, including our shareholders, for

the considerable trouble we caused. In the belief that the charged facts do not constitute a violation of the Anti-Monopoly Act, we will make a plea in the proceedings. Nevertheless, we take this charge very seriously and will implement measures such as tightening the rules on contacts with competitors.

In addition, TAISEI ROTEC CORPORATION, one of our subsidiaries received punishment for violating the Anti-Monopoly Act including a surcharge payment order. We deliberated this matter in the Compliance Committee and the Board meetings to set the Rule for Application for Leniency and develop the in-house leniency system, in order to prevent similar incidents in the future.

Market Environment Surrounding the Construction Industry

Domestic construction demand should remain strong until 2020. However, with a steady decrease in the Japanese population, we cannot expect construction demand to grow. Instead, any changes in the economic environment in Japan or overseas might trigger a sharp decrease in domestic construction demand due to financial constraints. For this reason, we need to change our corporate structure to one that can resist and survive a time of fierce shakeout/selection within the industry as we had before, if it returns.

Based on a recognition of these challenges, we have launched the Medium-term Business Plan (FY2018–2020).

Medium-term Business Plan (FY2018–2020)

Under the new Medium-term Business Plan, our basic policy is “to establish the foundation for growth with the construction business at the core.”

We will ensure the highest levels of safety and quality and pursue customer satisfaction and solid performance both at the same time, while being committed to “work style reform” and “productivity improvement” in an integrated manner, as a leading company in the industry.

- The market environment in Japan is uncertain after the Tokyo 2020 Olympics and Paralympics. Based on the belief that we need to expand our business scale and project areas in order for the Taisei Group to ensure sustainable growth in such context, we target a business scale of ¥2.0 trillion.
- For the expansion of our business scale and project areas, the sustainable growth of our overseas business is essential, given the future of the domestic market. In light of setbacks we experienced in the past, we believe now, especially when we have an enhanced structure in place to generate profits in the overseas business, is the perfect time to build it into an engine of growth.
- We will make investments for growth of ¥300 billion in total in order to increase added value and profit opportunities in the construction and peripheral businesses in Japan and overseas.

To Create a Vibrant Environment for All Members of Society

The Taisei Group has set its philosophy: “To Create a Vibrant Environment for All Members of Society.” It is also a group goal to be constantly pursued by all the officers and personnel of the Taisei Group in daily operations.

To achieve the group philosophy, we need to fulfill a mission as a company operating not only in Japan but also in the world, through innovation, in reaction to the movements toward solutions to universal social issues, such as the Paris Agreement and sustainable development goals (SDGs).

In the new Medium-term Business Plan, we have identified eight ESG tasks (Materiality) that are considered to be particularly important for the Taisei Group.

Our initiative for this materiality is to secure the achievement of SDGs through the Taisei Group’s core businesses: civil engineering, building construction, and real estate development.

Our officers and personnel will work toward the achievement of our goals to gain the trust of all our stakeholders. They will do this by positively executing the management tasks and key measures laid down in the Plan in a bid to increase the value of the Taisei Group to society, and, to strengthen returns to shareholders and our financial foundation simultaneously.

We would appreciate your high hopes as well as continued support for our efforts toward further growth.

The Taisei Group Corporate History

Carrying the modernization of Japan, as well as the post-war reconstruction and development of new-born Japan

Foundation–1959



1 Kihachiro Okura



2 Ginza Restoration Project



3 Lake Biwa Lock and Tunnel



4 Rokumeikan building



5 Tokyo Underground Railroad (Ueno –Asakusa)

Founder Kihachiro Okura

The history of Taisei Corporation began when Kihachiro Okura (1) established Okura Gumi Shokai in 1873.

Okura delivered one successful project after another, including the Ginza Renga Gai project to resurrect Ginza, which was burned down by a major fire, as an unburnable brick-cladded district (2); the lock and tunnel at Lake Biwa, which became a pioneer modernistic civil engineering work (3); and Rokumeikan, a building for entertaining foreign guests and diplomats in its heyday during the Meiji era (4).

In 1927, he also engaged in the construction of the first subway in the East, 2.2 km between Ueno and Asakusa (the current Ginza Line) (5).

Birth of Taisei Corporation

Okura Gumi had difficulty surviving when designated as a target of the dissolution of zaibatsu (industrial group) but started over again under a new name, Taisei Corporation in 1946. Introducing an employee shareholder program, Taisei Corporation became a non-family firm, which is rare among Japanese construction companies.

Involving in numerous national projects and accommodating diversifying construction needs with total power/collective strengths

1960–2009



6 Hotel Indonesia



7 New Kuala Lumpur International Airport, Malaysia



9 Kao Ping Hsi Cable Stay Bridge, Taiwan R.O.C.



8 Bangkok Ring Road Cable-stayed Bridge



10 Djibouti Palace Kempinski Hotel

New Kuala Lumpur International Airport, Malaysia (7)

The modern form and functional design was carried out by the late Japanese architect, Kisho Kurokawa. The Company constructed the main terminal.

Completed Construction of Hotel Indonesia (6)

This was our first post-war overseas project. At the time this was the only international class hotel in Indonesia, so 30 years later in 1993 it was declared to be a historical asset of Jakarta City.

Djibouti Palace Kempinski Hotel (10)

This remarkable project was the design and construction of a high-class five-star hotel in just nine months.

Since the foundation of Okura Gumi Shokai by the Founder Kihachiro Okura in 1873, Taisei Corporation has contributed to the development of society through building safe and comfortable living environments. Here is a story nurtured with dreams and passions over a period of 145 years and to be handed down to the colorful future.

Promoting technology innovation to respond to social changes and their incidental challenges, with the aim of creating future values

2010–Present



12 Almas Tower, Dubai



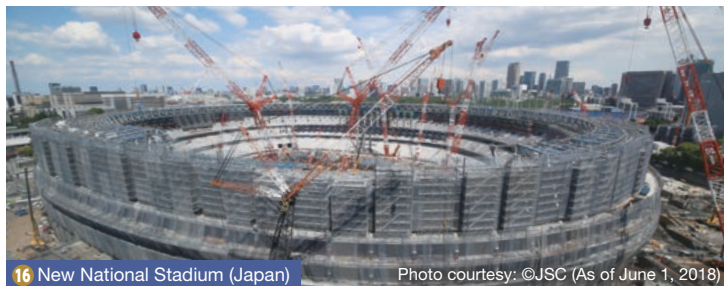
13 Bosphorus Strait Crossing Railway Tunnel (Turkey)



14 Hamad International Airport (Qatar)



15 No.2 Terminal Building, Noi Bai International Airport (Vietnam)



16 New National Stadium (Japan)

Photo courtesy: ©JSC (As of June 1, 2018)

Serving World Infrastructure Businesses

In 2013 Taisei Corporation completed the construction of Bosphorus Strait Crossing Railway Tunnel, which connects Europe and Asia via railroad tunnels (13). The installation of a tunnel on the 60-meter deep bottom of the sea, the world-record depth for a submerged tunnel, was very challenging work. Nevertheless, we finally realized the Turkish people's long-cherished dream with our collective best technologies. In addition, a long list of our achievements in the construction of domestic and international airports was acknowledged in the world, which brought us orders for Hamad International Airport in Qatar (14) and No.2 Terminal Building at Noi Bai International Airport, a construction of the largest scale in North Vietnam (15). Taisei Corporation will link the know-how accumulated in these track records to its next airport projects worldwide.

The Stadium in a 100-Year Old Forest

With an eye on 100 years from now, New National Stadium will open to the public and in accord with Jingu no Mori (Jingu Forest) (16). With the accumulated technologies and know-how applied, the project is currently under way to construct a solid stadium that can be used for many years, by making it highly durable, long lasting, easy-to-maintain, and natural energy-supported and limiting the available are according to the size of events; completion is expected in November 2019.

*The name after completion is "National Stadium."

About Origin of Corporate Name and Corporate Emblem

Origin of Corporate Name

Derived from the Dharma name (posthumous Buddhist name) of the founder Kihachiro Okura. "Taisei" is taken from a line in the Chinese classic texts, "Mencius." It has a meaning of the "corpus" of people's virtues, which can be associated with accomplishing something, or gathering many pieces to build up something. As such, it was chosen as the most suitable for our company name.

"Kensetsu" is a translation of the English word "construction," and it represents the fields of both civil engineering and building construction. We were the first construction company that adopted in its corporate name in Japan, and many other companies followed suit.

Corporate Emblem

It represents the corporate philosophy of Taisei Corporation, which pursues higher, deeper, and wider operations in harmony with nature. The orange color stands for a bright future, the blue for advanced technologies, and the green for abundant nature. An image of a natural environment on the irreplaceable earth—land, sea, and sun—, and us, human beings, with Taisei Corporation continuing to conduct activities higher, deeper, and wider than ever while maintaining a balance with the natural environment is depicted with energy and dynamics.

Taisei Corporation adopted this symbol mark in April 1990, as a new corporate signature for the VI (visual identity) campaign, and officially adopted as its corporate emblem on April 1, 2003.



Taisei Group's Now/Present

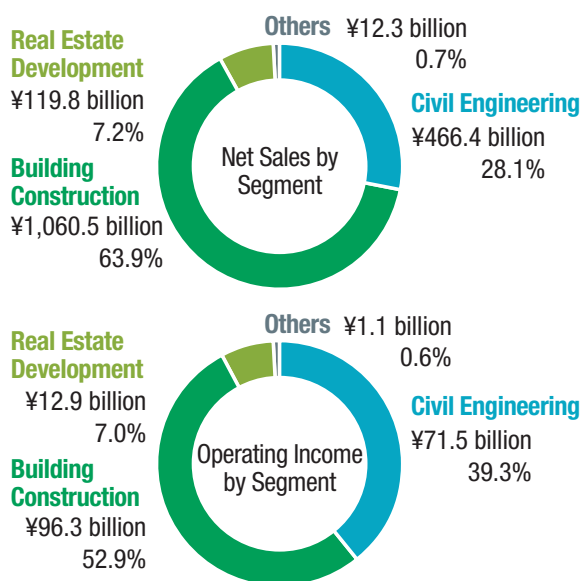
Using its high-level technology developed over many years, the Taisei Group operates various businesses centered on Civil Engineering, Building Construction, and Real Estate Development. It contributes to the sustainable development of society through building safe and comfortable living environments and aims to improve its corporate value across the group.

FY2017 Data

Orders received	¥1,743.4 billion (up 5.3% YoY)
Net sales	¥1,585.4 billion (up 6.6% YoY)
Operating income	¥181.8 billion (up 29.1% YoY)
Net income attributable to owners of parent	¥126.7 billion (up 40.0% YoY)
Net assets	¥669.0 billion (up 17.2% YoY)
Return on equity (ROE)	20.5% (up 3.8 points YoY)
Number of personnel (including Non-Japanese)	14,032 710
Male	11,718
Female	2,314

(As of March 31, 2018)

Composition by Segment



● Net sales and operating income include intersegment transaction.
Composition percentages are figures calculated from simple sum totals.

Civil Engineering

Through the construction of facilities and structures that support people's lives and industries and accord with the environment, we work for social capital improvements. In recent years, we have built our own CIM system in which ICT and 3D data are integrated in an effort to improve the quality and productivity of construction at a number of civil engineering sites.

■ p.36 Commitment of Chief of Civil Engineering Division

Building Construction

By accommodating various needs for R&D activities and engineering technologies to deal with environmental and energy issues, improved antiseismic and disaster prevention systems for business continuity purposes in case of disaster, etc., we provide safe, secure, and comfortable environments and highly convenient buildings.

We have been involved in a number of constructions that symbolize an era, inside and outside Japan.

■ p.37 Commitment of Chief of Building Construction Division

Real Estate Development

We study buildings comprehensively throughout their entire life cycle and build an optimized consensus in order to support the promotion of large development projects, and actively engage in projects as a developer.

Our efforts help improve not only the efficiency of public works and services, but also public finances.

■ p.38 Commitment of Chief of Urban Development Division

Others

Main Domestic Subsidiaries

Pavement and civil engineering	TAISEI ROTEC CORPORATION
Real estate development and facility management	Taisei-Yuraku Real Estate Co., Ltd.
Construction of housing complexes	TAISEI U-LEC CO., LTD.
General building services construction	TAISEI SETSUBI CO., LTD.
Order-made individual housing construction	TAISEI HOUSING CORPORATION
General engineering including foundation works	SEIWA RENEWAL WORKS CO., LTD.

Lines of Business

Tunnels, bridges, roads, dams, and decontamination, maintenance preservation, and builds social infrastructure



Renewal Project of Ebisu Sewage Treatment Plant in Osaka City

Site Preparation for Promotion of Collective Relocation for Disaster Prevention and Development Project of Public Restoration Housing, Kesennuma City

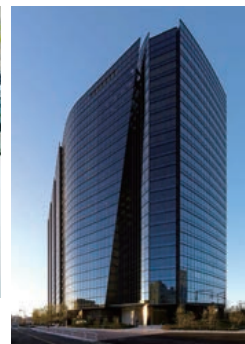


Lines of Business

Airports, office buildings, commercial facilities, factories, hospitals, and the housing business, renovation, demolition



Tokyo International Airport Terminal 2 Construction Work of International Facilities



Nishi-Shinagawa 1-chome Area 1st Type Urban Land Redevelopment New Construction of Building Facilities and Public Facilities (Block A)

Lines of Business

Redevelopment, PFI*, property management, and condominium sales projects



(Tentative Name) Vinata Towers Project (Vietnam)



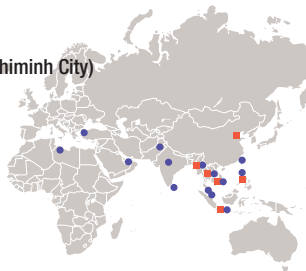
Meguro Station Front Area 1st Type Urban Land Redevelopment New Construction of Building Facilities

Lines of Business

Contract research, technology provision, and environmental measurements

Overseas Business Offices

- | | |
|----------------------|----------------------------------|
| ■ Taipei | ■ Vietnam (Hanoi/Hochiminh City) |
| ■ Middle East (Doha) | ■ Thailand |
| ■ Singapore | ■ Philippine |
| ■ Kuala Lumpur | ■ Myanmar |
| ■ Jakarta | ■ Sri Lanka |
| ■ India | ■ North Africa |
| ■ Pakistan | ■ Istanbul |



Overseas Subsidiaries/Affiliated Companies

- PT. TAISEI PULAUJANTAN CONSTRUCTION INTERNATIONAL (Indonesia)
- TAISEI (THAILAND) CO., LTD.
- VINATA INTERNATIONAL CO., LTD. (Hanoi/Hochiminh City)
- CSCEC-TAISEI CONSTRUCTION, LTD. (Beijing/Shanghai)
- TAISEI PHILIPPINE CONSTRUCTION INCORPORATED
- PT. INDOTAISEI INDAH DEVELOPMENT (Indonesia)
- TAISEI MYANMAR CO., LTD.

*PFI: Stands for Private Finance Initiative and describes a method to enhance public capital such as public facilities by utilizing private funds, management methods and technical capabilities.

11-Year Financial and Non-Financial Summary

TAISEI CORPORATION and Consolidated Subsidiaries
Years ended March 31, 2008 through 2018

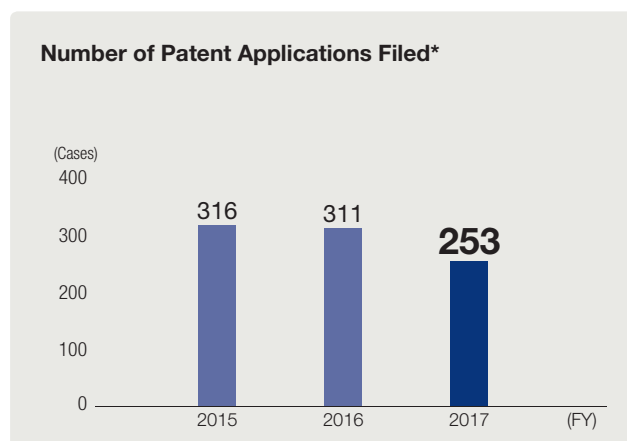
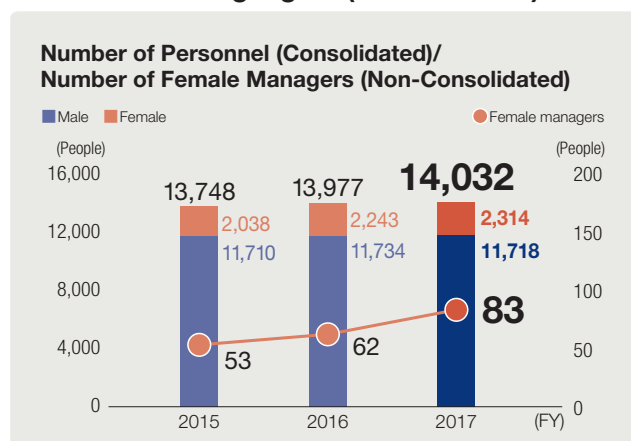
Financial Highlights (Consolidated)

	Millions of Yen (except for per share figures)				
	March 31, 2008	March 31, 2009	March 31, 2010	March 31, 2011	March 31, 2012
Revenue:					
Net sales:					
Construction contracts	¥1,517,770	¥1,467,070	¥1,289,809	¥1,079,139	¥1,171,927
Real estate development and other	193,944	174,112	152,166	138,980	151,577
Total	1,711,714	1,641,182	1,441,975	1,218,119	1,323,504
% change from previous year	(8.6)%	(4.1)%	(12.1)%	(15.5)%	8.7%
Costs and expenses:					
Cost of sales	1,567,091	1,545,918	1,318,593	1,100,022	1,206,014
Selling, general and administrative expenses	95,767	95,920	87,755	81,803	81,004
Total	1,662,858	1,641,838	1,406,348	1,181,825	1,287,018
Operating income (loss)	48,856	(656)	35,627	36,294	36,486
Income (loss) before income taxes	42,172	(38,449)	35,516	19,374	16,673
Income taxes	13,878	(9,404)	14,462	8,514	15,480
Net income (loss) attributable to owners of parent	¥ 24,447	¥ (24,401)	¥ 21,222	¥ 10,883	¥ 1,181
Per share data of common stock (in yen and dollars):					
Net assets	¥ 318.12	¥ 239.87	¥ 262.15	¥ 253.94	¥ 255.60
Net income (loss) attributable to owners of parent	22.97	(22.93)	19.74	9.58	1.04
Cash dividends	6.00	5.00	5.00	5.00	5.00
Financial ratios:					
Net income (loss) attributable to owners of parent as a percentage of total revenue	1.4%	(1.5)%	1.5%	0.9%	0.1%
Total costs and expenses as a percentage of total revenue	97.1%	100.0%	97.5%	97.0%	97.2%
Dividends paid as a percentage of net income	26.1%	—%	25.3%	52.2%	482.3%
Financial position data:					
Current assets	¥1,120,798	¥1,082,037	¥ 912,895	¥ 847,467	¥ 982,931
Current liabilities	1,003,741	1,074,229	894,026	808,052	921,196
Net property, plant and equipment	244,594	236,705	238,534	232,000	212,639
Long-term liabilities	291,550	248,400	250,083	235,607	219,101
Shareholders' equity	283,135	252,905	274,779	290,282	284,714
Net assets	373,988	284,713	297,179	290,598	292,602
Other data:					
New orders received during the year	¥1,753,692	¥1,524,578	¥1,244,439	¥1,254,095	¥1,379,572
Contract backlog at the end of year	1,885,554	1,768,950	1,571,414	1,607,390	1,663,459
Shares issued (thousands)	1,064,803	1,064,803	1,090,622	1,140,269	1,140,269

*1 U.S. dollar amounts were translated from yen, for convenience only, at the rate of U.S. \$ 1 = ¥106.24

*2 The net assets per share and the net income per share are calculated assuming that the consolidation of shares took place at the beginning of the year, because the consolidation of shares, at the ratio of 1 share for 5 shares, was implemented on October 1, 2017.

Non-Financial Highlights (Consolidated)



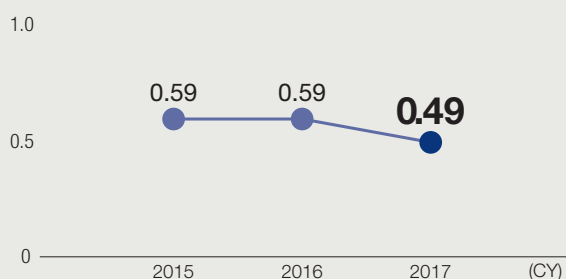
* The totals for Taisei Corporation and our 6 major Group companies.

Millions of Yen (except for per share figures)						Thousands of U.S. Dollars* ¹ (except for per share figures)	
March 31, 2013	March 31, 2014	March 31, 2015	March 31, 2016	March 31, 2017	March 31, 2018	March 31, 2018	March 31, 2018
¥ 1,254,291	¥ 1,321,289	¥ 1,404,530	¥ 1,394,677	¥ 1,342,455	¥ 1,445,277	\$ 13,603,887	
162,205	212,184	168,740	151,212	144,798	140,221	1,319,851	
1,416,496	1,533,473	1,573,270	1,545,889	1,487,253	1,585,498	14,923,739	
7.0%	8.3%	2.6%	(1.7%)	(3.8%)	(6.6%)		
1,304,677	1,402,446	1,425,295	1,348,302	1,260,968	1,318,880	12,414,157	
76,213	77,254	77,558	80,119	85,462	84,758	797,797	
1,380,890	1,479,700	1,502,853	1,428,421	1,346,430	1,403,638	13,211,954	
35,606	53,773	70,417	117,468	140,823	181,860	1,711,785	
32,828	46,593	66,980	117,797	135,190	182,297	1,715,898	
12,399	14,120	28,755	40,996	44,793	55,508	522,478	
¥ 20,051	¥ 32,089	¥ 38,177	¥ 77,045	¥ 90,566	¥ 126,788	\$ 1,193,411	
¥ 299.84	¥ 335.42	¥ 418.61	¥ 442.67	¥ 496.60	¥ 2,975.02* ²	\$ 28.003* ²	
17.60	28.17	33.52	65.85	78.57	561.36* ²	5.284* ²	
5.00	6.00	8.00	16.00	20.00	85.00* ³	0.800* ³	
1.4%	2.1%	2.4%	5.0%	6.1%	8.0%		
97.5%	96.5%	95.5%	92.4%	90.5%	88.5%		
28.4%	21.3%	23.9%	24.3%	25.5%	22.3%		
¥ 1,012,639	¥ 1,076,213	¥ 1,136,497	¥ 1,112,305	¥ 1,223,572	¥ 1,352,263	\$ 12,728,379	
907,281	946,097	984,762	927,777	986,994	1,022,626	9,625,620	
206,076	181,051	169,973	177,529	175,983	188,397	1,773,315	
292,514	268,802	258,373	211,767	202,271	239,179	2,251,309	
299,336	327,067	370,140	437,533	485,396	563,913	5,307,916	
343,300	384,166	492,114	521,278	570,814	669,020	6,297,252	
¥ 1,404,407	¥ 1,645,896	¥ 1,765,743	¥ 1,671,061	¥ 1,655,036	¥ 1,743,498	\$ 16,410,938	
1,651,370	1,763,793	1,956,266	2,081,438	2,249,221	2,407,221	22,658,330	
1,140,269	1,140,269	1,171,269	1,171,269	1,146,753	224,541		

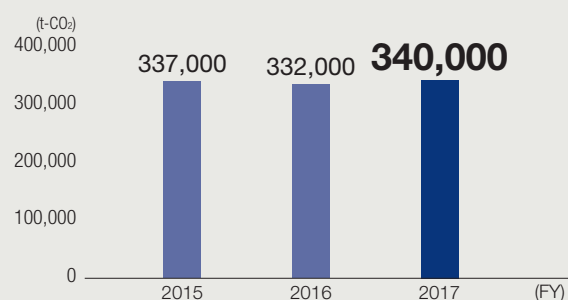
*3 Total annual dividends per share as of March 31, 2018 is ¥85.00 (U.S. \$0.8), which is the sum of the interim dividend per share of ¥10.00 (U.S. \$0.1) and the year-end dividend per share of ¥75.00 (U.S. \$0.7). Due to the consolidation of shares at the ratio of 1 share for 5 shares implemented on October 1, 2017, the year-end dividend per share of ¥75.00 reflects this consolidation, while the interim dividend per share of ¥10.00 does not. If the interim dividend per share is calculated based on the consolidation of shares, it would be ¥50.00 (U.S. \$0.5), making the total annual dividends per share ¥125.00 (U.S. \$1.2).

Frequency Rates (at Least 4 Days off Work)*^{1*2}

Frequent rates are the number of fatalities and injuries at worksites per one million cumulative working hours, which represents the frequency of occurrence of occupational accidents.



Total CO₂ Emissions*³



*¹ The targets of frequency rates are set on the basis of all accidents entailing days off work including a small and medium sized employers and self-employed workers.

*² The totals for Taisei Corporation and our 6 major Group companies.

*³ The totals for Taisei Corporation and our 7 major Group companies.

Value Creation Process

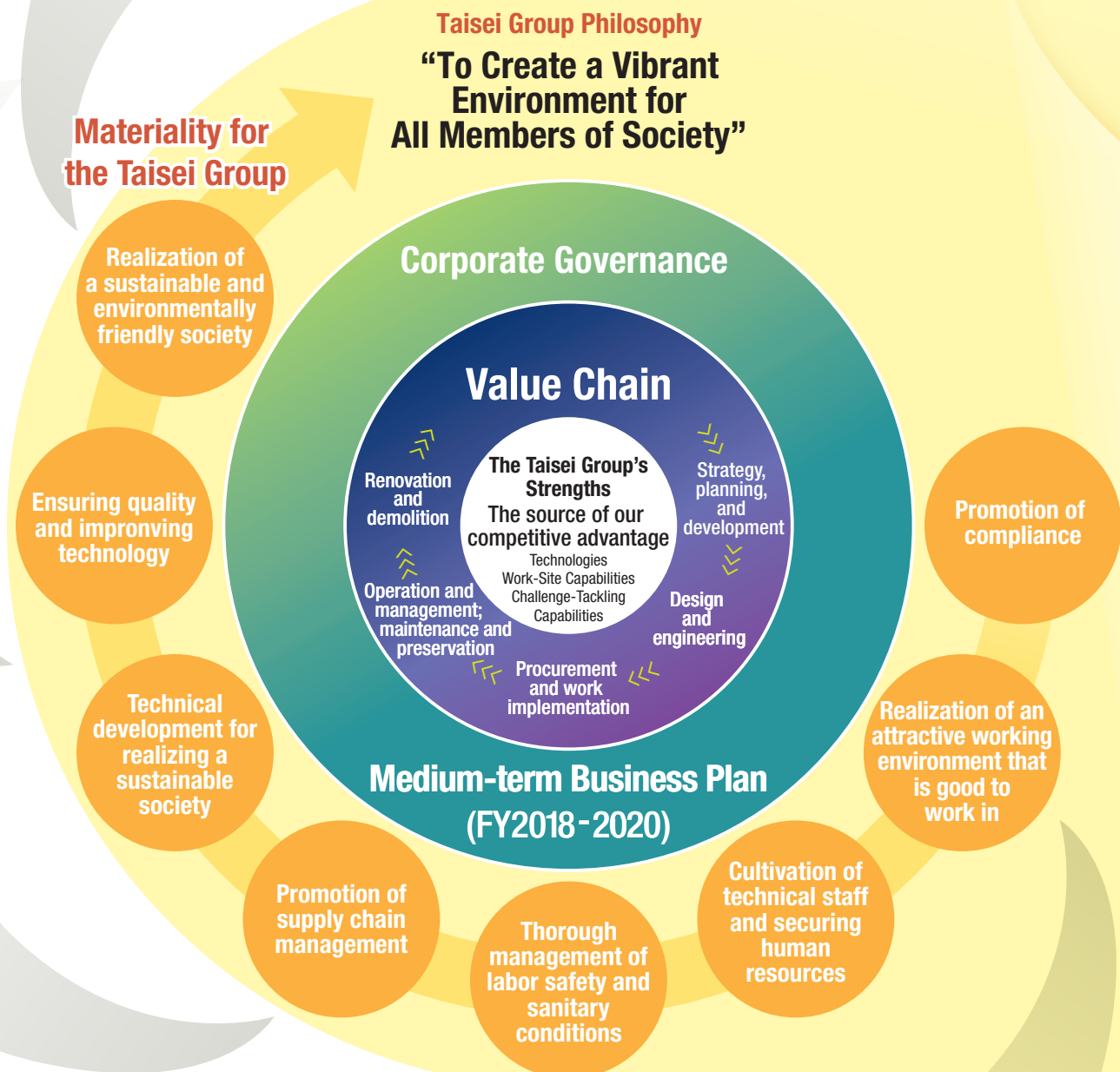
The Taisei Group strives to maximize the value created through dialogue with stakeholders, and aims to achieve sustainable development together with society by proactively getting involved in social challenges which the Group needs to resolve through its businesses.

Materiality refers to an important task to be addressed by the Taisei Group.

It is considered to connect global tasks, such as SDGs, and the Taisei Group's structure of values and policies.

Changes in External Environment / Risks and Opportunities

Climate changes, increasing energy demand,
growing world population, aging society,
aging infrastructure,
decreasing productive-age population in Japan



Contributing to Solving Global Challenges

Specific social challenges, such as Sustainable Development Goals (SDGs) and the Paris Agreement have been set out as global common goals to be achieved. The Taisei Group will contribute to realization of a sustainable and better world to resolve these challenges.



Sustainable Development through Value Creation

Objectives to be Pursued by the Taisei Group

By seeking to achieve the Taisei Group Philosophy, the Taisei Group will create safe, secure and attractive spaces, and high value in harmony with the nature, as well as strive to build a global society filled with dreams and hopes for the next generation.



TAISEI GROUP OF COMPANIES

For a Lively World

Creating Value through Dialogue with Stakeholders

Clients/
End-Users

Shareholders/
Investors

Suppliers

Employees

Recognition of Tasks and Medium- and Long-Term Goals

Recognition of the Business Environment (Risks and Opportunities)

















After the 2020 Tokyo Olympics and Paralympics Games are held, it is anticipated that we will face the risk of a sharp decline in construction demand and a recurrence of a period of severe shakeout. The following table summarizes our forecasts of the business environment after 2020 in terms of risks and opportunities.

		Present	2020 Onwards
Market environment	Public works	<ul style="list-style-type: none"> Measures against aging of social infrastructure and infrastructure development to strengthen international competitiveness are urgent tasks Expansion of the scope of general contractors' business as a result of spread of concessions 	<ul style="list-style-type: none"> As a result of continuation of infrastructure development, a constant level of public works investment will be maintained Important public works infrastructure concession projects will become established as part of the general contractor business segment
	Private sector	<ul style="list-style-type: none"> A high level of work contract volume will continue up to 2020 Projects will materialize from 2020 onwards 	<ul style="list-style-type: none"> Although there is much latent demand, such as urban redevelopment, research and production facilities, renewal of buildings from the period of high economic growth rate, etc., the sense of lack of clarity in the long term cannot be brushed away
	Overseas	<ul style="list-style-type: none"> Strong construction investment in newly developing countries Accelerating overseas penetration by Japanese developers Large-scale exports of infrastructure led by government 	<ul style="list-style-type: none"> Overall expansion of the construction market overseas The Japanese growth strategy of infrastructure exports continues
Worldwide Trends	Work style reform	<ul style="list-style-type: none"> Dealing corrections of long working hours Work style reform and shortages of staff will be factors for productivity improvement and optimization of tender prices 	<ul style="list-style-type: none"> The amended Labor Standards Act will also apply to the construction industry The result of work style reform will affect the growth of company
	Productivity improvement	<ul style="list-style-type: none"> Development of technologies to contribute to productivity improvement is an urgent task Activities are required with specialist contractors 	<ul style="list-style-type: none"> Staff shortages actualize, and productivity improvements, and ensuring supply capability will have a great effect on the growth of company
	Competitive trends	<ul style="list-style-type: none"> Moves to strengthen and expand business areas other than the domestic construction industry (overseas, energy, real estate, etc.) Start of competition for introduction of advanced technology 	<ul style="list-style-type: none"> The strategy for growth by specialization of each company will become clear There will be increasing importance of accumulation of technical capability and know how in response to diversifying and advanced customer needs Potential for unexpected new participants (high tech, IT related, ventures, etc.)

Important ESG Tasks for the Taisei Group (Materiality)

On the basis of social challenges such as SDGs and by referring to experts' opinions, we have identified eight materiality that are particularly important and to be dealt with by the Taisei Group, in terms of their importance for society and for management of the Taisei Group.

■ p.41 Materiality

ESG	Materiality	SDGs
Environment	Realization of a sustainable and environmentally friendly society	  etc.
Social	Ensuring quality and improving technology	  etc.
	Technical development for realizing a sustainable society	  etc.
	Promotion of supply chain management	  etc.
	Thorough management of labor safety and sanitary conditions	  etc.
	Cultivation of technical staff and securing human resources	  etc.
	Realization of an attractive working environment that is good to work in	  etc.
Governance	Promotion of compliance	  etc.

Medium-term Business Plan (2018–2020)

[Basic Policies]

To establish the foundation for growth with the construction business at the core

Summary of Basic Policies

- Sustainable growth of overseas business, and conversion to a corporate structure that is genuinely suitable for the overseas market
- Investment for growth will be carried out in order to expand added value and opportunities for revenue in the construction and peripheral businesses both in Japan and overseas, to construct the basis for sustainable growth in the Taisei Group
- As a leader in the construction industry we will set an example by the public and private sectors of unified initiatives for work style reform and productivity improvement for growth in the construction industry
- We re-acknowledge that improving customer satisfaction by ensuring safety and quality is a major precondition for companies to be selected by customers, and is a source of growth

[Management Tasks]

- 1** Sustainable growth of overseas business ▶ p.17
- 2** Strategic input of management resources into target fields ▶ p.17
- 3** Innovative construction production systems (productivity improvement) — “TAISEI i-Innovation” — ▶ p.18
- 4** Realizing an attractive working environment (work style reform) — “TAISEI Lively Plan” — ▶ p.18
- 5** Pursuit of safety and quality — “TAISEI QUALITY” — ▶ p.18
- 6** Strengthening management infrastructure ▶ p.18

[Management Numerical Targets]

- In the peak busy period until 2020 the highest level of safety and quality will be maintained, and both customer satisfaction and business results will be achieved
- Our financial standing will be further strengthened by permanently maintaining substantially debt-free operation, increasing our equity capital ratio, etc.

		Medium-term Business Plan (FY2018-2020)
		FY2020 Target
Consolidated	(Billions of Yen)	
	FY2017 Actual	
	Net sales	1,585.5
	Operating income	181.9
	Net income attribute to owners of parent	126.8
	ROE	20.5%
	Dividend ratio	22.3%
	Interest-bearing debt	247.3
	Net interest-bearing debt*	(440.1)
	Equity ratio	34.6%

*Net interest-bearing debt = interest-bearing debt - cash and deposits

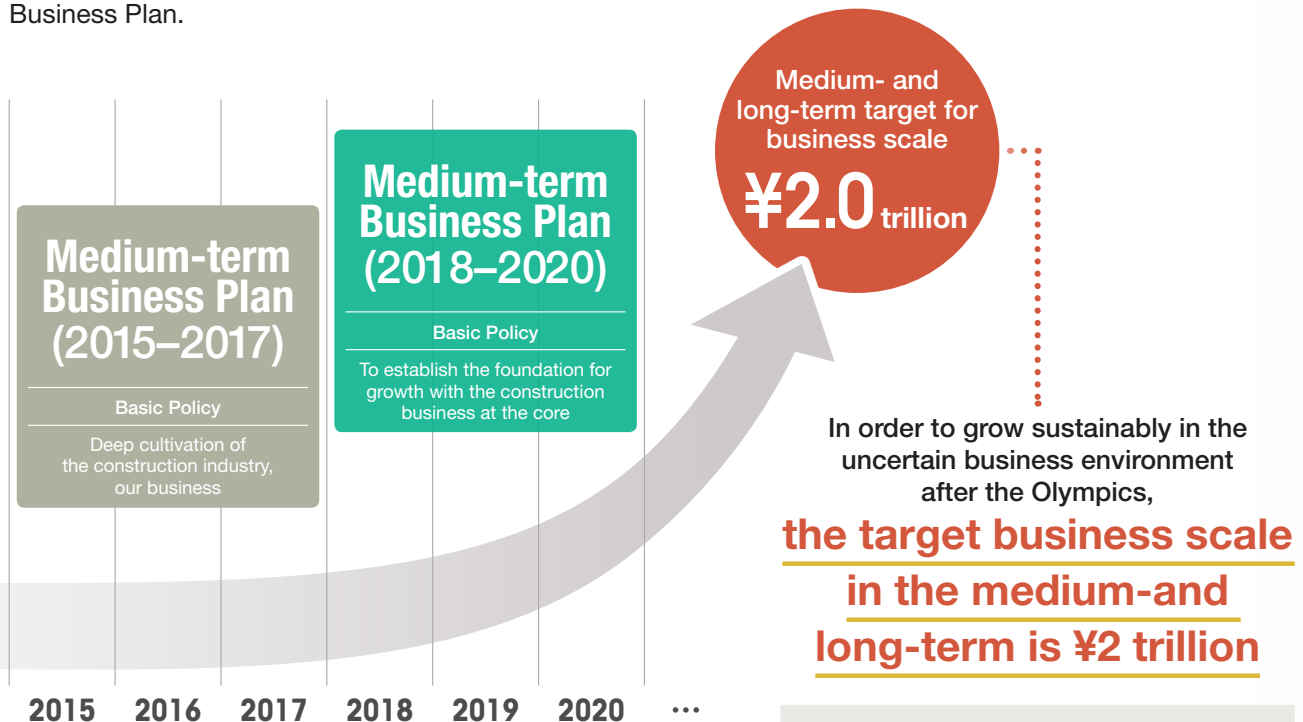
In order to grow sustainably in the uncertain business environment after the Olympics,
the target business scale in the medium-and long-term is ¥2 trillion.

Medium-term Business Plan (2018–2020)

1 Review of the previous Medium-term Business Plan and overview of the new Medium-term Business Plan

The Taisei Group launched a new “Taisei Group Medium-term Business Plan (FY2018–2020)” starting from the fiscal year 2018. Under the new Medium-term Business Plan, the most important tasks are the sustainable growth of overseas business and conversion to a corporate structure that is genuinely suitable for the overseas market, in preparation for the future.

In this section, we review the past Medium-term Business Plan and explain the goals and management tasks we will pursue under the new Medium-term Business Plan.



In an effort to make steady progress for sustainable development, the Taisei Group achieved the targets under the Medium-term Business Plan (FY2015–2017) in its final fiscal year thanks to the brisk construction market, and the Group’s financial standing was also further stabilized and strengthened.

Meanwhile, we are currently surrounded by various issues, such as uncertainty over the business environment after the Tokyo 2020 Olympics and Paralympics and labor shortage. We thus believe now is the time to deal with “work style reform” and “productivity improvement” simultaneously and integrally.

We will increase the value of the Taisei Group to society and achieve medium- and long-term goals, by breaking down measures for these issues into our strategies and by implementing the management tasks and key measures under the new Plan unflinchingly.

In light of the business environment at home and overseas from 2020 onward, **we will strengthen our efforts in overseas markets where growth is expected.**

We will improve production capability by increasing productivity and workforce, **and will accelerate growth in target fields** by making alliances, having open innovation, etc.

We will implement measures to achieve **a business scale of ¥2.0 trillion** under the Medium-term Business Plan (FY2018–2020), while taking account of the balance of main business segments* including overseas projects and the approaches such as project investments and M&A deals.

*Main business segments

- | | |
|---|---------------------------------------|
| 1. Domestic construction projects | 4. Construction peripheral businesses |
| 2. Overseas construction projects | 5. Group companies |
| 3. Development and real estate projects | |

Investment for Growth

In order to construct the business foundation to enable sustainable growth from 2020 onwards, we aim to increase the added value in the construction and peripheral businesses and to expand opportunities for revenue.

<Funds>

Newly earned cash
during the new Medium-term Business Plan
Accumulated to date
Cash on hand

<Applications>

Return to shareholders
Investment for growth
Sustainable growth and
accelerated growth

Investment for sustainable growth and accelerated growth	Total 300 billion yen
● Strengthening overseas business and targeted fields*	150 billion yen
● Investment in technical development	60 billion yen
● Investment in work style reform and productivity improvement	60 billion yen
● Investment in human resources, development of infrastructure, etc.	30 billion yen

*Target fields: Energy and environment, urban development and PPP, renewal, engineering

Targets for Work Style Reform and Productivity Improvement

In order to respond to the social demand for correction of long working hours and the legal system, (standalone) targets will be set in stages for work style reform and productivity improvement.

<Work Style Reform> *In accordance with the roadmap for correction of long working hours of 2024 —TAISEI Lively Plan—

	FY2018	FY2019	FY2020
Health management Overtime	0 persons 100 hours or more per month	Average 80 hours or less per month	Continue average 80 hours or less per month (Preparation time for average 70 hours or less per month)
Rest days + time off in lieu	Target for all employees 8 rest days per 4 weeks (rest days + time off in lieu) 104 days or more per annum		
Closure of work sites	Work towards uniformly closing sites on Saturdays (2nd Saturday of every month is closed day)	Realization of 6 closed days every 4 weeks for all work sites (excluding sites for which application is difficult)	Work towards realizing 8 closed days every 4 weeks for all work sites by 2021 (excluding sites for which application is difficult)

<Productivity Improvement>

FY2016
Productivity

- Transformation of awareness
- Technical development
- Reduction in work
- Utilization of temporary staff
- Promotion of client understanding, etc.

Medium-term
Business Plan
(FY2018-2020)
Productivity during
this period
10%UP
(compared with
FY2016)

Target for
FY2025
20%UP
(compared with FY2016)

Medium-term Business Plan (2018–2020)

2 Key Measures for Management Tasks

1 Sustainable growth of overseas business

Sustainable growth of overseas business, and conversion to a corporate structure that is genuinely suitable for the overseas market.

(1) Sustainable growth of overseas business

(2) Conversion to a corporate structure that is genuinely suitable for the overseas market

- Explore and expand traditional areas and expand project areas in countries that we have already advanced into
- Explore infrastructure export projects and STEP projects*¹, cultivate new markets/areas such as entry into PPP*² and concession projects
- Enhance construction capability and price competitiveness through the promotion of alliances with global contractors and local partners
- Develop overseas staff by expanding the studying and training abroad programs and by hiring global and local human resources actively

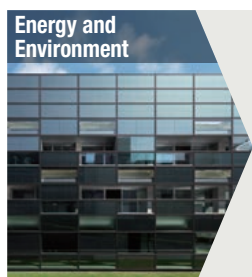
*¹ STEP projects: Stands for Special Terms for Economic Partnership, translated into Japanese as “*honpogijyutsukatsuyojoken*” (terms and conditions on the use of Japanese technologies), a program introduced in July 2002 for the purpose of promoting “aid/support that shows the face” of Japan by using brilliant Japanese technologies and know-how in the transfer of technology to developing countries.

*² PPP: Stands for Public Private Partnership, translated into Japanese as “*kanminrenkei*” (private-public initiative) or “*kanminkyodo*” (government-private sector cooperation), a form of providing efficient and high-quality public services in which public services previously provided by the national government or local municipalities are opened up to the private sector and operated under private-public cooperation.

2 Strategic input of management resources into target fields

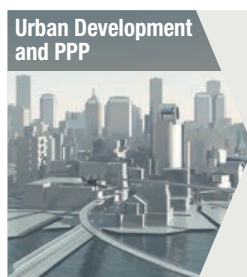
Promotion of higher added value Taisei global business and expansion of opportunities for revenue by deploying management resources (human resources, funds) in the target fields and on technologies for differentiation, with an eye on the medium-and long-term business environment from 2020 onwards.

(1) Bringing higher added value to target fields where our core strengths can be exhibited



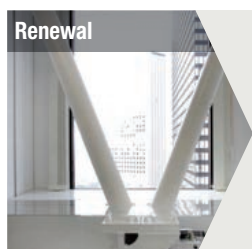
Energy and Environment

- Strengthening the competitiveness to win orders through participation in energy management projects (EM) and energy supply projects (ESP) in the ZEB/Smart communication field
- Strengthening the competitiveness to win orders by constructing design and construction systems in the fields of thermal power and renewable energy
- Support for winning orders through environment-related evaluation technologies and soil decontamination technologies, etc.



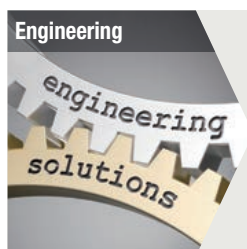
Urban Development and PPP

- Strengthening the competitiveness to win orders by participation in large-scale private sector projects and PPP/PFI*³ projects, and steady promotion of large-scale redevelopment projects
- Participation in important infrastructure concession projects, such as airports, etc.
- Strategic investments in in-house developments and promotion of building operation



Renewal

- Strengthening of proposals and sales for renewal by utilizing the technologies we possess as well as new technologies
- Strengthening the renewal production system by technical development, improvement in procurement capability, etc.
- Promotion of winning orders for large-scale renewal and repair project of aged infrastructure (bridges, tunnels, etc.)



Engineering

- Expansion of business area won in the life sciences field, with pharmaceuticals as the core
- Promotion of upstream sales through consulting and FS*⁴ commissions
- Expansion of orders through proposals differentiated with labor-saving technologies utilizing the IoT, AI, etc.

(2) Research and development into technologies leading to higher added value

- Development of construction technologies leading to differentiation
- Advanced planning technologies
- Promotion of technical developments by open innovation
- Further enhancement of the functions of facilities at the Technology Center by incorporating advanced technologies

(3) Expansion of sales with an eye on the medium- and long-term

- Flexible response to new construction needs in response to changes in society such as low birth rate and high rate of aging
- Creation of business opportunities through alliances in different business areas, etc.
- Strengthening of sales for significantly aged facilities, etc.

*³ PFI: Stands for Private Finance Initiative and describes a method to enhance public capital such as public facilities by utilizing private funds, management methods and technical capabilities.

*⁴ FS: Stands for Feasibility Study and involves examining and assessing the feasibility of the project.


3 Innovative construction production systems (productivity improvement) –“TAISEI i-Innovation”–


Taking advantage of the current busy period to reform the construction production system to improve productivity and overcome the pressure of being fully occupied, by technical development, work efficiency, strengthening relationships with cooperating companies, etc.

(1) Improvement in production capability

- Securing technical staff by appropriate deployment of staff, and utilizing temporary staff
- Improvement of efficiency of site management by organizational procurement, etc.

(2) Development of labor saving and work saving construction technologies

- Utilization of ICT, IoT, big data, AI, etc.  p.35 Special Feature 3
- Development of structural methods and fabrication of members with new shapes using 3D printers

 p.43 Leveraging ICT Strengths to Realize Immediately Effective Productivity Improvements

(3) Strengthening of collaboration with Souyukai members and cooperating companies

- Enhancement of support for Souyukai, such as training for Souyukai members mainly at the Kounosu Training Center
- Strengthening of initiatives to secure and cultivate staff by promotion of the introduction and operation of a construction career advancement system, and continuous instruction on participation in social insurance

 p.45 Popularization and Promotion of Construction Career Up System (CCUS)

4 Realizing an attractive working environment (work style reform) –“TAISEI Lively Plan”–

We aim to realize an attractive working environment by taking the lead in work style reform as a leader in the industry, so that the officers and personnel of the Taisei Group and those involved in the construction industry can work with vitality and cultivate the future leaders.

(1) Corrections of long working hours

 p.45 Initiatives to Correct Long Working Hours

(2) Realization of 2 rest days per week for all work sites

- The number of days per week that work sites are close shall be increased in stages to achieve 8 closed days in 4 weeks for all work sites in FY2021 (excluding work sites for which application is difficult)

(3) Promotion of work style that enable utilization of diverse human resources

- Promotion of creating a working environment to realize flexible work style such as teleworking, childcare support, etc.
- Investigation of a system to enable the capabilities of the elderly to be used, by raising the motivation of the elderly so that they can use their capabilities
- Promotion of diversity (respecting the diversity of human resources) and inclusion (making the most of individual personnel) by promoting the use of women, foreigners, the disabled, and promoting understanding of lesbian, gay, bisexual and transgender (LGBT) issues and others.

 p.46 Diversity and Inclusion

5 Pursuit of safety and quality –“TAISEI QUALITY”–

In this busy time once again we will sincerely face the basics of the construction industry, namely safety and quality, to ensure the highest level of safety and quality.

(1) Elimination of major disasters and accidents

(2) Prevention of major quality problems

6 Strengthening management infrastructure

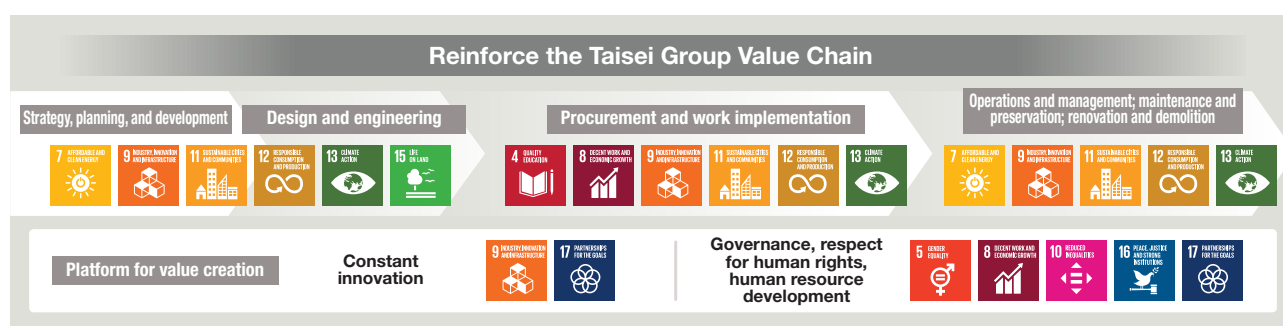
Transforming the management infrastructure in response to the requirements of society and the times, to gain the high trust and evaluation of all our stakeholders.

(1) Training and strengthening human resources

(2) Promotion of Group cooperation

(3) Strengthening the governance and compliance system

(4) Strengthening the ICT infrastructure



*The above value chain is mapped by referring to the “SDG Compass” recommended by the United Nations Global Compact.

Inject soul into the Taisei Group Philosophy: “To Create a Vibrant Environment for All Members of Society,” and fly high in the world

We had an exchange of views on the future of the new Taisei Group, including the new Medium-term Business Plan launched in FY2018 and medium- and long-term goals, with Mr. Megumi Sakuramoto, an analyst specializing in ESG. Regarding our initiatives to improve the value of the Taisei Group to society, Mr. Sakuramoto offered his views from an investor's point of view.

Management Centering on Sustainability

Sakuramoto: I have been in the investment world for so long, and one question about differences between companies that are highly rated by investors and those that are not has always stuck in my mind. In my opinion, the striking differences lie in the adequacy with which top management recognizes issues or has foresight, such as the future outlook.

So today I would like to know about the future of Taisei Corporation or how its future should be, according to President Murata.

First of all, Taisei Corporation has set the eight ESG tasks or Materiality (see table on the right) in the new Medium-term Business Plan. I wonder if you have any given, natural priorities in there.

Murata: Our first priority is “promotion of compliance” in relation to governance. Profits are absolutely necessary for a company to survive, but for that purpose social credibility is important. The lack of social credibility makes it difficult for a company to grow sustainably.

Then “realization of an attractive working environment that is good to work in” in relation to the securing of human resources is also an important theme. By creating a comfortable working environment, we can attract talented people and that will eventually lead to “cultivation of technical staff and securing human resources” and “ensuring quality and improving technologies,” I believe.

Sakuramoto: I agree with you on: what ultimately matters to a company is human resources.

I think how many competent human resources a company can pull in or foster is a key factor in boosting future corporate value.

Murata: As to “cultivation of technical staff and securing human resources,” we will have mass retirement of skilled construction workers in time as they are getting old. Taking actions for this is important too.

We started industry-wide promotion of a “construction career advancement system” this year, to register skilled construction workers' qualifications, their status of social



insurance and such like, in coordination with the Ministry of Land, Infrastructure and Transport.


This system could improve the working conditions of skilled workers. I hope through introducing and promoting

the system we can make the construction industry more attractive and thus see an increasing number of applicants coming knocking on the door.

Important ESG Tasks for the Taisei Group (Materiality)

p.41 Materiality

On the basis of social challenges such as SDGs* and by referring to experts' opinions, we have identified eight materiality that are particularly important and to be dealt with by the Taisei Group, in terms of their importance for society and for management of the Taisei Group.

Issues facing human society	ESG	Materiality
Social challenges such as SDGs and Paris Agreement  17 GOALS TO TRANSFORM OUR WORLD	Environment	Realization of a sustainable and environmentally friendly society
	Social	Ensuring quality and improving technology
		Technical development for realizing a sustainable society
		Promotion of supply chain management
		Thorough management of labor safety and sanitary conditions
		Cultivation of technical staff and securing human resources
		Realization of an attractive working environment that is good to work in
	Governance	Promotion of compliance

*United Nations "Sustainable Development Goals"

Special Feature 1 <Talk> President and Investor

In parallel with the initiative to increase the number of applicants, it is crucial to work on technology development toward higher productivity in construction works. Initiatives to save labor and power such as construction robots using AI and IoT should become major innovations.

Further, creating new business fields by collaborating with people from different industries through alliances and open innovation, this is important to us, too.

My hobbies are mountain hiking and stream fishing, so I have spent plenty of time in nature. As a private individual, I have firsthand knowledge of the significance of harmony with nature.

To recognize the importance of environmental issues and engage in environmental preservation and creation

proactively is the mission of the construction company, and it should lead us to one of the Materiality, “realization of a sustainable and environmentally friendly society,” in the end.

By engaging in these ESG tasks (Materiality), we also should be able to contribute to sustainable development of society, while generating profits for Taisei Corporation.

Sakuramoto: You are managing the company while placing the ESG and SDGs at its core, with future sustainability in your mind.

Murata: That is correct. SDGs are the needs of society in relation to what it should be in 2030. I can see many business opportunities there that we should take in our business strategies and corporate activities.



President and Chief Executive Officer,
Representative Director

Yoshiyuki Murata



Defensive Governance, Offensive Governance

Sakuramoto: As an analyst myself, I watch corporate governance closely, naturally. You mentioned “promotion of compliance” earlier and brought up the importance of defensive governance, so to speak. Now I am curious to know about offensive governance for sustainable growth as well. That’s the investor’s point of view.

Murata: The overseas business was one of the management tasks under the previous Medium-term Business Plan (FY2015–2017), but actually we still haven’t experienced much success. So the new Medium-term Business Plan sets out “sustainable growth of overseas business” and “conversion to a corporate structure that is

genuinely suitable for the overseas market” as the most important tasks, and we will earmark ¥150 billion out of ¥300 billion growth investments for strengthening the overseas business and target fields.* I think that having effective offensive governance based on lessons from past experience is imperative when pursuing corporate growth in overseas markets.

Sakuramoto: Converting corporate structures sounds like a very difficult challenge.

Murata: We will have to invest considerable time in developing the business so that it can be a mainstay at a time of low demand, with an eye on the future outlook for the domestic market. More importantly, we should not

*Target fields: energy and environment; urban development and PPP; renewal; and engineering

measure success or failure in the short term but should continue while making assessments and decisions from a long-term perspective.

Sustainable Growth of Overseas Business

Sakuramoto: What parts or points in this Medium-term Business Plan are typical of Taisei Corporation or are you particular about?

Murata: In the process of developing this plan, we had discussions countless times in the board meetings. Attending External Members of the Board have abundant experience and insight as top management or as diplomats, and they gave us their candid opinion about what Taisei Corporation should be in the future. As the fruit of such efforts, the

setting of the medium- and long-term target business scale of ¥2.0 trillion means a lot to us.

At the same time, declaring internally and externally that “sustainable growth of overseas business” is our top management task is a major thing, in terms of the fact that how we should be in the future is clarified.

As to the outlook for the future business environment, I’m afraid the domestic construction market will be shrinking. Under such circumstances, it is hard to achieve the target “business scale of ¥2.0 trillion” in the domestic market only. I will spearhead and follow through with the plan, together with our officers and personnel.

Sakuramoto: In overseas projects, we have a different difficulty from domestic projects, where orderers



Chief ESG Analyst,
Responsible Investment Dept.
Asset Management One Co., Ltd.

Megumi Sakuramoto

Joined the former Yasuda Trust and Banking Company (current Mizuho Trust & Banking) in 1990 after years with Pacific Consultants International. Moving on to Mizuho Pension Research Institute in 2013, he has been in his current post since 2016. A member of the review meeting for the promotion of reduced supply chain emissions and the review meeting on environmental information and corporate value (under the Ministry of Environment).



(customers) and contractors engage in works based on a tacit understanding. What type of methodology is in your mind for overseas operations that you are passionate about?

Murata: We have been involved in a number of overseas projects, but I have to admit that we are not as good as our peer companies, in terms of project size and profitability. Therefore, in order to catch up with them within the next three years, we need to go into partnership with local general construction companies in various countries and also need to make investments in overseas development projects. Through such investments, I hope we will reach a level in the future where we are ranked among the top contractors in the world as a Japanese general contractor.

Sakuramoto: Indeed, Japanese general contractors are still not so distinguished/recognized in the world.

Murata: The ultimate goal in overseas projects is to satisfy orderers (customers) as well. In overseas projects, we discuss with orderers (customers), construct, complete, and deliver safe and secure buildings in exactly the same way as in domestic projects. I believe we can deliver projects with higher profitability if we take advantage of the lessons we learned before in the overseas business, ensure risk management, and disseminate the merits of the Japanese style (projects), in which we stand close to orderers (customers).

Importance of Information Disclosure Representing Consistency between Value Creation Process and Management

Sakuramoto: Many of the investors are most interested in sustainability regarding the new Medium-term Business Plan. Thus, we pay close attention to the potential of medium- and long-term improvement in corporate value.

You use a phrase “in preparation for the future” in the Medium-term Business Plan too. Achieving the plan would create an image leading to medium- and long-term growth of Taisei Corporation as market participants expect.

My impression from meeting with many top executives is that there is a gap between the value creation process or Materiality and the actual management condition, and that makes quite a few companies look incoherent/inconsistent. Of course, I understand they change from time to time depending on the environment and don't have to go out of their way to stay coherent all the time. Still, I would very much appreciate information disclosure where consistency or coherence can be judged from the outside. If I may ask, what do you think about this?

Murata: To prepare this Medium-term Business Plan, we identified materialities from among social challenges based on the opinions of experts, then applied them in the process of planning specific actions. Social challenges are constantly changing. But I think a system to implement policies/measures responding to such changes

immediately and to transmit that internally and externally in an easy-to-understand way is important.

Sakuramoto: There are some crucial parts to be definitely covered, and as long as they are not missed we can get a specific image of Materiality leading to improvements in corporate value, where consistency/coherence transpires. Materiality is necessary in fact, that is why it was chosen. The actual management condition can't deviate from that.

Murata: Things that we, general contractors, can demonstrate to our stakeholders, different from other industries, are construction results and human resources. Starting with sales representatives, all the staff involved in projects must be trusted by orderers (customers). For example, our TV commercials created by Mr. Makoto Shinkai, an animator, have been on air for a couple of years to help viewers recognize actually us with an image of young employees working abroad in a lively way.

Sakuramoto: TV commercials featuring employees working overseas definitely appeal to young people, and I think the Taisei Corporation brand penetrates into the general public completely.

However, the image of the whole construction industry is somewhat bad, and talented young people tend to choose other industries. In terms of sustainability of society, the construction industry is a very vital necessity. I would like Taisei Corporation to take the initiative in putting in efforts to improve the image of the construction industry. I strongly hope you will do that.



Requirements for the Taisei Group to Be “Chosen”

Sakuramoto: As an ESG analyst, my given duty is to solve issues for the entire market and raise its standard. But it is not easy to raise the standard for every single construction company. I have a feeling that they will be selected and eliminated gradually.

Murata: I think for us “to be chosen” will become increasingly important too. We are chosen by orderers (customers), certainly, but sometimes we are chosen by specialized contractors to work with. Also, for Taisei Corporation to be chosen by students as a company to work for is extremely important.

From that perspective, our Group Philosophy, “To Create a Vibrant Environment for All Members of Society,” has significance. Before anything else, if we don’t work in a lively/vibrant way ourselves then we can’t contribute to society or make other people happy. We can contribute to society through our daily operations. I want this mindset to be shared among all the Taisei Group officers and personnel and specialized contractors.

In addition, we set “Taisei Spirit” within the Taisei Group Philosophy framework (see figure below). Its first line goes “Active and Transparent Culture,” which had been built by our predecessors, and I have felt it myself while building my career with this company. To me this is the best quality, the pride of Taisei Corporation.

Sakuramoto: Indeed. The phrase “we value diversity...” at the top of the description of “Active and Transparent Culture” reveals to me that Taisei Corporation has been committed to promoting diversity since the early stage.

Investors compare and review tons of companies. Among them the “Taisei Spirit” seems to exist with dignity. Just like a gene that makes Taisei Corporation continue to be Taisei Corporation, it has been and will be inherited forcefully even if workers, workplace, and the environment change.

Murata: To prepare for the future, we will inject soul into the phrase, “To Create a Vibrant Environment for All Members of Society,” further. And we will brush up the three Taisei Spirits: “Active and Transparent Culture,” “Value Creation,” and “Evolution of Tradition.” In fact, that should directly link to the sustainable development of Taisei Corporation in a very powerful way.

Now that social challenges, such as the declining birthrate and aging population and environmental issues, require countermeasures, such as SDGs and ESG, or contributions, the time is changing at this very moment, and that seems to make these words take on more meaning.

Sakuramoto: You are right. Please lead the company (pursue management) in line with the view you presented today. Thank you for having me today.

Taisei Spirit

Key concepts that all Taisei Group officers and personnel must adhere to in order to pursue and realize the Taisei Group Philosophy



Active and Transparent Culture

We value diversity and, through open and active communication lines and networks both internal and external to the Taisei Group, seek to cultivate a transparent and active corporate culture in which all of our officers and personnel are able to reach their full potential.

Value Creation

Not limited to our understanding of society at large, we carefully take into account the needs of our clients and using all of the technology and know-how at our disposal, together with our passion for innovation and ingenuity, seek to construct innovative and valuable engineering projects that inspire and impress our clients.

Evolution of Tradition

We aim to instill within the Taisei Group the Japanese tradition of monozukuri (precise, superb craftsmanship) and continually challenge ourselves to provide ever more valuable contributions to society and ensure our continued development and growth as a respected corporate group.

Special Feature **2**

Messages from the External Members of the Board



The External Members of the Board System Strengthens Corporate Governance and Helps Corporate Value Improvement

In recent years, the role played by external members of the board in the company includes functions not only of checking management from an external point of view which leads to enhanced governance, but also of improving corporate value through proactive recommendations for growth strategies based on insights coming from different industries and fields.

Taisei Corporation now has three new External Members of the Board with successful, extensive careers in corporate management or in public affairs. This has been done in an effort to earn the confidence of our stakeholders by exploring future possibilities of the general construction industry and evolving together with society.



Hoping for Growth in Global Markets Leveraging the Characteristics of the Japanese Company

External Member
of the Board
Toru Tsuji

Profile

1961 Joined Marubeni-Iida Co., Ltd. (current Marubeni Corporation)
1999 President and Chief Executive Officer, Representative Director
2003 Chairman of the Board, Representative Director
2008 Corporate Advisor, Member of the Board
2011 Member of the Board, Taisei Corporation (incumbent)

Concurrent positions

June 2008 – June 2012 External Member of the Board, Konica Minolta Holdings, Inc.
June 2008 – June 2013 External Member of the Board, Sekisui Chemical Co., Ltd.

Reason for appointment

Rich experience as top management of a general trading company and a global point of view

What is your impression of the Board?

The Board of Taisei Corporation takes an open-minded stance to outsiders' opinions, and I do feel I can speak actively at a place for free and frank discussions. External Members of the Board are not necessarily familiar with industry knowledge or the company's internal affairs, but management seems willing to revitalize the Board and make it function more organically by respecting our opinion.

Since I assumed my post as External Member of the Board of Taisei Corporation in 2011, the external members of the board system has penetrated into Japanese companies fairly well, and the roles played by them have been expanding as well. In that context, the Board of Taisei Corporation that I have engaged in as an External Member made great progress and the management meetings have evolved into more open and transparent ones in these past seven years. I believe it will move on to the process of further maturity.

How do you apply your experience in the board meetings?

I have been engaged in the management of a general trading company over the years. By applying that experience in order to offer advice from an outsider's point of view, I wish to encourage the Board to increase corporate value.

As a super general contractor, Taisei Corporation shares many things in common with general trading companies such as the fact that most of its businesses are built on a uniquely Japanese model. From that standpoint, there is

much room for me to give productive advice to management, and in fact I have done my part in providing assistance for business decisions and governance, I believe. Especially about overseas expansion, an important theme Taisei Corporation is planning, I have offered recommendations actively on how to deal with country risks or on the importance of human resource development, based on my knowledge gained in a general trading company.

What do you expect for the future of Taisei Corporation?

How will we capture growth opportunities after the Tokyo 2020 Olympics and Paralympics? This is one of the management tasks for the future of Taisei Corporation. That is why focusing on overseas expansion is called for, as I mentioned earlier. In my view, we can expect Taisei Corporation to grow significantly in the global market.

We need to work on the development and recruitment of great talent, which is a key to one of the management tasks under the new Medium-term Business Plan, "sustainable growth of overseas business," over five to ten years based on a long-term perspective. Needless to say, we will have to take larger risks than in the domestic business, inevitably, and that will require us to make business decisions deliberately and precisely.

I hope Taisei Corporation will realize overseas expansion with its sensibility unique to a Japanese company, such as attentive response to clients and suppliers and total power (collective strengths) as a super general contractor.



Establishing a Strong Governance Structure by Developing “Bottom-Up Communication Capability”

External Member
of the Board

Fumio Sudo

Profile

1964 Joined Kawasaki Steel Corporation (Current JFE Steel Corporation)
2001 President and Chief Executive Officer, Representative Director
2002 Member of the Board of JFE Holdings, Inc. (Part-time)
2003 President and Chief Executive Officer,
Representative Director of JFE Steel Corporation
2005 President and Chief Executive Officer,
Representative Director of JFE Holdings, Inc.
2010 Honorary Advisor
2011 Member of the Board of Taisei Corporation (incumbent)

Concurrent positions

June 2010 – June 2016 External Member of the Board, JS Group Corporation
(current LIXIL Group Corporation)
June 2010 – Present External Member of the Board, New Otani Co., Ltd.
April 2011 – May 2012 Chairman of the Management Committee, Japan Broadcasting Corporation
June 2011 – June 2017 External Member of the Board, Takeda Pharmaceutical
Company Limited
June 2012 – March 2014 External Member of the Board, Tokyo Electric Power Company
(current Tokyo Electric Power Company Holdings, Inc.)
April 2014 – June 2017 Chairman of the Board, Tokyo Electric Power Company Holdings, Inc.

Reason for appointment

Rich experience as top management of a number of companies

What is your view on the mission of the External Members of the Board?

The External Members of the Board are outsiders whose appointment is approved through the resolution of the general meeting of shareholders. So, our greatest mission is to fulfill such shareholders' mandate. In fulfilling such duty, we are always asked if we can see things at places like management meetings, including the Board's, from the shareholders' point of view. And we have a role to maintain objectivity based on an outsider's point of view, and to check if business decisions and voting are executed following proper procedures and if accountability is fulfilled.

Management is required to go between shareholders and executive officers (executions) and to build a structure to reward shareholders through profit generation and increases in corporate value. Functioning effectively in order to support such management system is an important responsibility of the External Members of the Board.

How is the Board involved in management?

We now have three External Members of the Board for Taisei Corporation, with an increase of one member when Ms. Nishimura joined us in June 2017. Before that we had been separately lectured by the staff on the agendas of the Board. With the new member, all three of us started to meet on a monthly basis to get lectures and exchange views on the agendas with one another. In addition to an increase in the number of the members, I find our discussions are now more stimulated, with larger synergies generated.

Communication between management and the External Members of the Board has always been smooth and open. The details of these monthly exchanges of views are reported to management without fail. I think corporate governance works soundly.

Do you see any challenges to be addressed in corporate governance?

Even globally operating Japanese companies have still not established effective and global standard-based compliance structures in some cases. As to a gap of perception about peculiarly Japanese business practices between the inside and outside of the construction industry, we need to disseminate compliance awareness that meets the global standards across the board.

The enhancement of governance has been dealt with mainly by Members of the Board, Executive Officers, and the manager level, enthusiastically. What I wish them to focus on going forward is the development of “bottom-up communication capability.” To do this, higher-ups must make efforts to exercise their power of communication and receptiveness to bring out bottom-up communication. I want them to be conscious of this point to build a stronger governance structure. Its realization should lead to improvements in compliance as well as productivity.



Responding to Stakeholders' Confidence, Reinforcing a Platform for the Realization of Further Growth

External Member
of the Board

Atsuko Nishimura

Profile

1979 Joined the Ministry of Foreign Affairs
 1999 Counselor/Minister, Permanent Mission of Japan to the United Nations
 2001 Envoy, Embassy of Japan in Belgium
 2004 Professor, Graduate School of Law, Tohoku University
 2008 Administrator, the Japan Foundation
 2012 Adviser Extraordinary, Japan Oil, Gas and Metals National Corporation
 2014 Ambassador Extraordinary and Plenipotentiary, Embassy of Japan in Luxembourg
 2016 Ambassador Extraordinary and Plenipotentiary, in charge of Women, Human Rights, and Humanitarian Affairs
 2017 External Member of the Board, Taisei Corporation (incumbent)

Concurrent positions

June 2017 – Present External member of the Board, INPEX Corporation

Reason for appointment

A broad range of insights, international sense, and objective point of view based on many years' experience as a diplomat

How do you evaluate the effectiveness of the Board?

For the Board to fulfill its duty as a management supervisory function effectively, it is important to share information related to the agendas appropriately. In that respect, Taisei Corporation allows sufficient time to provide explanations for the External Members of the Board on the agendas and related matters, along with well-prepared materials. It also sets up occasions for an exchange of views with the staff, every time, ahead of the meetings. Also, site inspections, which are an extremely effective way to grasp the actual conditions, are performed.

Thanks to these elaborate forms of support and preparation, we, External Members of the Board, provide frank opinions and recommendations in the Board meetings, from a viewpoint different from the internal members of the Board.

As a result, our deliberations have become stimulated and meaningful, while important decisions are precisely made based on multilateral considerations; I personally give high scores to the effectiveness of the Board.

What is your view on compliance?

Compliance is a major premise for a company to survive and grow in society, and its implementation without fail is required as a corporate responsibility. To respond to such demand of society, we must develop the rules and structures of internal controls on compliance and oversee their effective application at work sites.

I can feel that an eagerness to fully respond to stakeholders' confidence is widely spread among the employees of Taisei Corporation. Going back to the basics that compliance is the first step in responding to their confidence, sharing problem awareness with every single member of the organization, and making company-wide efforts to implement compliance are the important things, in my opinion.

What is your agenda as the External Member of the Board?

Taisei Corporation is now at a crucial stage where it has to envision its future in view of changes in the business environment and step up measures. I am convinced that Taisei Corporation, as a company that continues to support the development of society, will establish a new business platform and achieve its sustainable growth, and I will do everything in my power to realize that, on my part.

A proactive attitude toward universal social challenges, such as initiatives for SDGs in particular, helps incorporate evaluation nowadays. I will offer effective advice using my experience with public organizations such as the United Nations and insight as leverage.

I am also glad to see Taisei Corporation is committed to creating a pleasant working environment for women as the construction industry becomes increasingly interested in the empowerment of women. The realization of a workplace where diverse human resources work actively is imperative for the sustainable growth of companies. In terms of that, I will actively work to promote a more open work.

Special Feature 3 Taisei Corporation's Innovation, toward Its Realization

1 SDGs × Innovation Dialogue

Toward value creation that explores the future of the construction industry

Companies are expected to incorporate sustainable development goals (SDGs) into their businesses and to exert creativity and innovations for business solutions. Under such circumstances, we invited Ms. Mariko Kawaguchi from Daiwa Institute of Research, who has deep knowledge of SDGs, and had a debate about the essence of SDGs and how innovations should be.



Taisei Technology Center
Technology Planning Dept.
Taisei open innovation,
Manager
Takashi Hasebe

Executive Officer
Chief of Taisei Technology
Center
Ichiro Nagashima

Facilitator

Chief Researcher Daiwa
Institute of Research
Mariko Kawaguchi
(Member of the Board, United Nations Global Compact Network Japan; Co-CEO, Japan Sustainable Investment Forum (NPO); Chartered Member of Securities Analysts Association of Japan)

Managing Executive Officer
In charge of Technology;
In charge of Energy &
Environment
Kazuhiko Hombu

(Joined Ministry of International Trade and Industry (current Ministry of Economy, Trade and Industry) in 1977. Engaged in COP as one of the chief negotiators for the Japanese delegation from 2006–2010)

Taisei Technology Center
Technology Planning Dept.
Taisei open innovation,
Manager
Shino Kashiwakura

New Meanings of “SDGs” according to Expert

Kawaguchi: There is a line “Transforming Our World” in the first part of SDGs agenda. This can be read as: to transform our world in order to create a society breaking away from atypical 20th-century mantra that places the economy above anything else is the original purpose. As for myself, I consider SDGs as a “constitution” of all human

beings, based on which, I believe, we should set the direction to head in, pursue themes related to our companies, and achieve goals.

In addition, for SDGs, companies face a question not about how to continue traditional businesses by arranging existing initiatives, but about how to use new innovations in establishing sustainable businesses. To discuss how Taisei

What Does “SDGs” Mean?

- An acronym standing for “Sustainable Development Goals”
- Goals for sustainable development by 2030 adopted at the United Nations summit in September 2015
- Contains 17 global goals and 169 targets
- All the United Nations member states are asked to make efforts; actively promoted in Japan.



Corporation's innovation should be in light of SDGs' perspective, first I would like to know about the innovations that Managing Executive Officer Hombu thinks about.

Hombu: When I was previously involved in the innovation policy, an innovation didn't mean an R&D achievement/outcome but was defined as follows: such achievement/outcome is released on the market as a product, it is widely spread, and then it brings about the transformation of economic society. This idea that a technology doesn't become an innovation until it is widely spread is very important to the present Taisei Corporation, in my opinion.



Also, in order to achieve CO₂ emissions targets for Japan under the Paris Agreement, energy consumption by companies and households must be cut by about 23 million kiloliters in terms of crude oil by 2030. This is hard to achieve unless some radical innovations come up in the construction industry. In this sense, I have hope for Taisei Corporation's open innovation (OI) activities, which are built on cooperative relations with outside companies (see the column below).

Promoting Open Innovation with Society

Kawaguchi: How about innovations in the OI activities?

Hasebe: To me innovation in the OI activities is value creation through an invention on the premise of its permeation/diffusion, as Managing Executive Officer Hombu said. The OI

Team's projects are roughly divided into three groups. The first group is about a scheme of business matching in which we research industry-ready technologies. The second is about establishing an OI promotion structure and its support activities, such as appointing internal OI supporters, in order to materialize ideas to solve medium- and long-term challenges. And the third group is about activities to create a place for conversing with various partners by organizing co-creation sessions in order to search for future challenges and ideas for budding businesses/new business seeds.

There are possibilities for innovations created from new ideas we come up with in the course of setting future goals higher, such as SDGs, and repeating trial and error with a variety of partners to that end. As a place for the creation of such innovations or for fostering innovators, I believe open innovation activities as such are important.

Kashiwakura: In the OI activities, we held co-creation sessions four times with IHI Corporation in 2017. We have had more than 100 participants in total from inside and outside the Company; they are from different industries or entrepreneurs that we have never had a chance to get involved with in our daily operations and have come together in the hope of creating something with us.

I realize that co-creation out of partnership with the most distant outside parties from us trigger the broadening of unexpected ideas and creation of innovations.



Taisei Corporation's Open Innovation (TOI Lab.)

Mission/purpose: To aim to create new values for society by cooperating with unconventional cutting-edge technologies and knowledge in a time of significant change that is unprecedented

Major activities:

- Launched full-scale operations in 2016
- Matched about 150 internal needs for technologies and technology seeds of small and medium-size businesses
- Held four co-creation sessions under the theme of "City and Health" in 2017 jointly with IHI Corporation, and more than 100 people participated in them
- Engaged in the strategy program 2017 sponsored by the Kanto Bureau of Economy, Trade and Industry, METI

Taisei Corporation's Unique/Distinctive Innovation, toward Its Realization

Kawaguchi: One of the most memorable projects of Taisei Corporation to me is "Otemachi Forest" (see the column below). It is a method to make and grow a forest of vegetation suitable for the project site over the three years, at a different site in advance, before replanting. I was moved by your fantastic work and also felt something distinctive about Taisei Corporation when I first saw the forest in front of skyscrapers downtown, a couple of years later.

Let's move on to the next topic. About the Technology Center's projects, about how Taisei Corporation's unique innovation should be led from SDGs' perspective, I would like to know what is on your mind, Technology Center Chief Nagashima.

Nagashima: To us at the Technology Center, innovation means technology development, naturally. For example, our urban ZEBs, "ZEB Demonstration Building" at the Technology Center and JS Hakata Watanabe Building (see pp. 32–34) are one of those projects with the theme of bringing value creation that responds to their own SDGs.

Also, we need innovations in every process of the construction industry, from design to construction, and operation and maintenance. While the mass retirement of aged skilled construction workers is becoming an issue for the construction industry, productivity improvement has become a pressing matter. Currently, we promote productivity improvement and work style reforms under the "TAISEI i-Innovation®" (see p.35), including mechanization and automation at production sites and streamlining with BIM/CIM.

Further, we receive visitors as well as create opportunities to promote exchange by inviting people from different industries and fields at the Technology Center. Going forward, we will further develop the OI activities into a company-wide scale and accelerate technology development

that can lead to higher added values, in coordination with venture companies.

Kawaguchi: Indeed, we are increasingly demanded of "patient capital or a stance to wait and see if there is business growth" or "tolerance toward investing management resources from a long-term perspective," according to the investment world.

Which of the 17 SDGs to be achieved by 2030 do you think are closely associated with Taisei Corporation, Managing Executive Officer Hombu?



SDGs as a Gold Mine of Innovations

Hombu: "7. Affordable and Clean Energy," "11. Sustainable Cities and Communities," and "13. Climate Action" are related to the fields where new values can be created and offered through the things Taisei Corporation produces. In other words, we should realize socioeconomic activities that require less energy, solutions to climate changes with reduced CO₂ emissions, and more disaster-resistant cities through structures and buildings. To provide these new values could be the most important thing we can do.

Hasebe: I consider the gap between the present situation and what is sought by SDGs to be a gold mine of innovations, and we should actively capture the growth opportunities offered by SDGs, too.

We will consider SDGs as a connection to future OI activities and as a project to contribute to the company and the development of society, and consider the OI activities as an activity, not just a method, to have a culture take root, in an effort to spread them inside and outside the company.

Kawaguchi: The key points are: (i) how innovations should be positioned in the company for sustainable growth; and (ii) how SDGs should be rolled out to connect to the transformation of society. They are based on the recognition that it is necessary to achieve SDGs and see the gap between the present situation and SDGs as a great opportunity to make innovations. I hope Taisei Corporation will enjoy continued success.

Urban Redevelopment Project: Otemachi Tower "Otemachi Forest"

- Replanting trees that were grown at a different site from 2010 to 2013 as part of the "pre-forest" method project (upper-right picture)
- Creating a natural forest through enhancement of an urban ecosystem by aligning with the surrounding greenery such as the Imperial Palace. Also functioning as an oasis for people.
- A forest being arranged to face "Plaza," an open ceiling space from the underground to the ground. Realizing a space filled with green and light (bottom-right picture)





JS Hakata Watanabe Building is the first ZEB upgrade tenant office building in Japan. What does it mean to Taisei Corporation?

As energy issues and global warming caused by increasing CO₂ emissions escalate, Taisei Corporation has committed to the penetration of ZEB since its early stage. ZEB, an acronym for Net Zero Energy Building, is a building with zero net energy consumption for the whole building on an annual basis. This is achieved by saving energy while keeping the indoor environment comfortable, combined with creating energy through means such as solar power.

The Strategic Energy Plan approved by the Cabinet meeting in 2014 sets out: “to aim to realize ZEB in new public buildings, etc. by 2020 and in averaged new buildings by 2030.” In accordance with this road map, Taisei Corporation has striven to have ZEB penetrate.

More specifically, we constructed ZEB Demonstration Building in 2014 on the premises of the Taisei Corporation Technology Center to promote the effective combination of technologies and new technology development and completed the renewal of ZEB update Taisei Sapporo Building (Chuo-ku, Sapporo) in 2016.

JS Hakata Watanabe Building (Hakata-ku, Fukuoka), which was recently completed, is a tenant office building where ZEB was initially considered difficult to achieve. However, it has been certified as “ZEB Ready” (energy consumption reduction of 50% or more) and as top rank (five stars) in the Building-Housing Energy-Efficiency Labeling System (BELS) led by the Ministry of Land, Infrastructure, Transport and Tourism, innovative technologies have come to fruition, in a way.

What are the fundamental technologies applied in ZEB?

In JS Hakata Watanabe Building, we applied a mix of general-purpose and our brand-new technologies to minimize initial costs as much as possible; and 52% of the energy consumption is reduced compared to standard buildings.

For example, we limited heat intrusion or loss from windows and outer walls with high heat-shielding Low-E pair glass*¹ and rigid urethane heat insulating material, and we allowed more natural light to be taken in while adopting high-efficiency LED lights in the entire building. Through these methods, we have managed to reduce energy consumption.

We also adopted high-efficiency multi air conditioning systems for buildings and atmosphere treating air conditioning systems with a high-efficiency chiller for air conditioning, as well as elevators using regenerative electric power*² generated when brakes are applied.

Taisei’s original technologies include “T-Zone Saver,” a next-generation human detection system.

This system enables device-by-device lighting control based on information about whether a person is present and air conditioning optimization control based on the

Executive Fellow
In charge of Energy &
Environment
Miyoshi Kato



*¹ Low-E pair glass: Low-E stands for Low Emissivity (low radiation). For two pieces of glass (double-glazed glass), a special metal film is provided on the inner surface portion.

*² Regenerative electric power: Technology to convert surplus energy generated in equipment into electricity and reuse it.

TAISEI Wellness Office

In JS Hakata Watanabe Building we pursue not only ZEB but also higher added-values through the establishment of an environment where people can work healthily and comfortably (wellness). With a focus on functions for working as well as on working style, we are making various working styles possible.



Bright and pleasant office space where natural light reaches the desk work zone through windows



Staff lounge that can be used flexibly according to the work styles and mood



Guest lounge coordinated under the theme of "Japanese style"

conditions of the atmosphere and indoor loads, to reduce energy consumption efficiently.

Also, facility control information is visualized on a real-time basis so that energy data can be collected by BEMS*³ for specialized engineers to manage, allowing energy-saving operations to be supported.

Apart from energy reduction, what other values does ZEB offer?

In a ZEB tenant office building such as JS Hakata Watanabe Building, Taisei Corporation pursues improvements in feasibility through energy cost reduction such as by saving energy, as well as more comfort and higher added values that would erase the notion that energy saving equals endurance.

In the building, we also work to create a comfortable office environment with the emphasis on "wellness" that promotes mental and physical health of workers and increases productivity. Making effective use of shared spaces, we set lounges for guests or for employees to get together. In office rooms, we introduce "T-Light® Blind*⁴," a lighting device to take in natural light even to the back of a

room, and air conditioning systems with latent heat storage material*⁵ to enhance comfort.

Currently, Japanese companies are working on work style reform in various fields. In my view, ZEB should contribute to energy saving as well as health management that is connected with corporate intellectual productivity, by making a place of work more comfortable. I should say, we create new values for office buildings that can promote the health of workers therein and provide a comfortable working environment, by making tenant office buildings, which account for most office buildings, ZEB.

New Definition of ZEB

ZEB₁	Building achieving an energy consumption reduction of 100% or more
Nearly ZEB	Building achieving an energy consumption reduction of 75% or more
ZEB Ready	Building achieving an energy consumption reduction of 50% or more

As the definition of ZEB for its quantitative judgment criteria released by the ANRE on December 17, 2015, the agency specified the following ZEB levels.

Road Map for ZEB Penetration with Government's Target

TAISEI Corporation Road Map for ZEB Penetration

Penetration of marketable ZEB



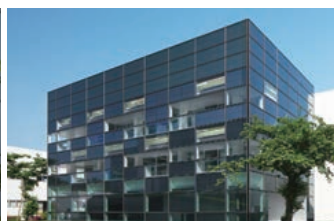
*³ BEMS: Stands for Building Energy Management System. A system to efficiently manage electricity such as building illumination and air conditioning, and energies such as heat

*⁴ T-Light® Blind: A new blind device that simultaneously performs daylighting and light blocking. The lighting device improves comfort and energy saving by leading natural light.

*⁵ Air conditioning systems with latent heat storage material: Air conditioning systems that improve comfort and energy saving by installing latent heat storage material under the OA floor and storing heating heat and outside air cool air.



Aiming for “ZEB Ready” skyscraper: The New Head Office Building of Kinki Sangyo Credit Union (Chuo-ku, Osaka)



The ZEB Demonstration Building (Totsuka-ku, Yokohama)



Japan's top-class ZEB public facilities: Aichi Prefecture Environmental Research Center, Aichi Prefecture Eisei Research Institute (Kita-ku, Nagoya)



ZEB upgrade in renewal: Taisei Sapporo Building (Chuo-ku, Sapporo)

What do you think about the impact that Zeb has on society and its future?

The impact of human activities on the global environment is becoming a great concern. In 2015, in the search for a solution SDGs were adopted at the United Nations, and the Japanese government also drew up the “SDGs Action Plan 2018.” Priority issues are energy saving and renewable energy, for which ZEB is considered to be a major initiative. In addition, the Paris Agreement, which was adopted the same year, sets a greenhouse gas reduction target of 26% by 2030, relative to the 2013 level. ZEB penetration has become a pressing matter.

In fact, the link between the level of energy saving and the value of assets, such as a rent/rental fee structure based on the level of energy saving, has already been recognized overseas as the energy-saving performance indication system for buildings prevails. In Japan, the asset value of real estate with a higher environmental performance is expected to rise as well, and this will be a favorable factor when attracting tenants. Thus, it is

thought that more tenant office buildings will be converted to ZEB.

Following JS Hakata Watanabe Building, we received orders for the New Head Office Building of Kinki Sangyo Credit Union (Chuo-ku, Osaka), a high-rise building intended to become “ZEB Ready,” and for Aichi Prefecture Environmental Research Center, Aichi Prefecture Eisei Research Institute (Kita-ku, Nagoya), public facilities intended to become a ZEB ranked among the best in the nation, in an effort to accelerate the penetration of marketable ZEB.

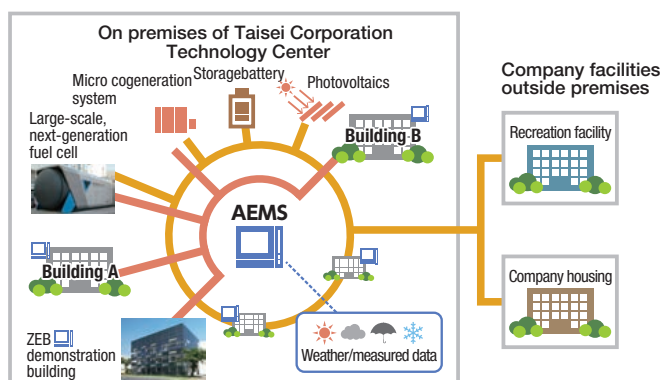
Besides, to respond to the business environment surrounding the energy field or social challenges flexibly and effectively, we are promoting citywide energy efficiency, such as having the ZEB effect applied not to a single separate building, but to a smart community (see the column below).

Taisei Corporation's efforts for ZEB are considered to be those leading up to SDGs achievement. Also, as a prospective field that is expected to become a growth market, we will be totally committed to having ZEB evolve and penetrate.

Application of Large-Scale Fuel Cells to Smart Communities Target

We participated in the YSCP Demonstration Business*. The aim is to make optimized use of area-wide energy and have energy interchange at times of disaster. We demonstrated a system that can use energy efficiently while maintaining comfort at the same time on the premises of the Technology Center in coordination with local energy management systems (jointly with Toshiba Corporation).

With regards to the application of large-scale next-generation fuel cells (SOFC) as an energy supply for smart communities, Japan's first demonstration test has been under way since FY2017 at the Technology Center. We are working to realize smart cities by, for example, making efforts to optimize area-wide energy by developing and introducing area energy management systems (AEMS) and experimenting electric power interchanges to company facilities outside the premises (self-wheeling).



*YSCP Demonstration Business: The Yokohama Smart City Project Demonstration Project, on which Yokohama city has collaborated with private companies. In 2010, the city was selected by the Ministry of Economy, Trade and Industry (METI) as a “Next-Generation Energy and Social System Demonstration Area.”

3 TAISEI i-Innovation®

Next-generation, unmanned construction robots to solve social challenges

Under "TAISEI i-Innovation®," Taisei Corporation is promoting productivity improvement by saving labor and seeking greater efficiency at production sites.

Labor-Saving/High-Efficiency Robots

Automatic reinforcement binding robot

T-iROBO® Rebar

Under development

We are developing an autonomous reinforcement binding robot that fixes crossing reinforcing steel with a wire, etc. in collaboration with the Chiba Institute of Technology. It detects intersections and obstacles using two types of laser sensors and repeats reinforcement binding operations accurately. By robotizing binding work, which accounts for approximately 10–20% of the reinforcement process, we can assign workers to do other tasks. We will further advance the development for greater work efficiency.



Realistic sensation-type remote video image system

T-iROBO® Remote Viewer

In application

We have developed a realistic sensation-type remote video image system that enables heavy equipment to be operated safely and securely from a remote place, even in an off-limits situation, such as in disaster relief work and in a high radiation environment. A wide angle of view in the vicinity shot by a camera set on the side of the heavy equipment is wirelessly transmitted to a head-mounted display (HMD), and its panoramic image is displayed for an operator. It is possible to shorten the working time compared with the conventional method using monitor.



Concrete floor finishing robot

T-iROBO® Slab Finisher

In application

Work to finish a concrete floor takes a toll on workers' bodies with long hours of work in an awkward position. By expanding the functions of remotely controlled "T-iROBO® Slab Finisher," we have developed a semi-autonomous control system (supervised by the University of Tsukuba). The robot starts working automatically once the range and route (of work) are inputted. It alleviates the physical load of workers and increases work efficiency.



Future Robotic Arms

Development of remote control systems that allow a sense of manual dexterity

Under development

The development of a remote-operation system using tactile pressure transmission technology is under way. Work requiring pressure/power adjustment in an off-limits environment can be done via our remote operation system connecting the Internet, and the accumulation and learning of operation data will allow the robot to work autonomously. We expect the system to be introduced at manufacturing facilities, such as food and pharmaceutical factories, and to save labor and improve productivity in production areas, as well as to reduce operational costs for facilities.



Tactile pressure operation side (front); remotely controlled side (back)

Civil Engineering



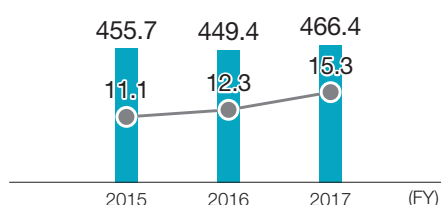
Executive Vice Presidents,
Member of the Board;
Chief of Civil Engineering Division
Shigeyoshi Tanaka

Overview of Segment

● The figures include intersegment transaction.

Sales / Operating margin

■ Sales (Billions of Yen) ● Operating margin (%)



Sales
¥466.4 billion
(Up 3.8% YoY)

Operating income
¥71.5 billion
(Up 29.6% YoY)

▶ **Operating margin**
15.3%

Sales in the Civil Engineering segment increased 3.8% year on year, to ¥466.4 billion reflecting higher sales in the Company and its consolidated subsidiaries. Operating income rose 29.6% to ¥71.5 billion due to an increase in sales and an upturn in gross profit margin.

Business Environment

- Continuation of busy/peak period with high level of work volume on hand
- Intensifying social demands for correcting long hours of work and securing days-off
- Movement to improve the construction industry workers' conditions in order to secure leaders/successors
- Concerns over lower productivity due to a decreasing number of skilled construction workers as they are aging, etc.
- Accelerated overseas operations necessary with an eye on post-2020 sustainable growth
- Increase in the number of projects on nuclear-related facilities and renewable energy
- Increasing demand for highway network development, and for maintenance, repair and renewal of aged infrastructure

Business Strategies

- **Productivity improvement**
 - In cooperation with Group companies and specialized contractors, we will further improve productivity, safety and sanitary levels, and construction quality, by building a new production system using IoT and AI.
 - Work style reforms and productivity improvement are inseparable. By promoting "TAISEI i-Innovation[®]," we will consistently correct long hours of work and secure days off.
- **Restructuring and growth of overseas civil engineering business**
 - To restructure the overseas civil engineering business, we will secure and foster diverse talents systematically.
 - By trying every option available including making alliances or M&A deals with foreign companies in overseas markets, we will grow the overseas business.
- **Nuclear-related facilities, etc.**
 - We will continue our efforts for safety improvement in order to develop interim storage facilities on a full-scale basis and to reopen nuclear power plants.
- **Engagement in operation and management, infrastructure development, etc.**
 - We will engage in the operation and management field such as PPP^{*1} and concessions^{*2} and also actively participate in the energy and environmental field making use of our technologies as leverage.
 - To respond to the development and renewal of infrastructure, we will exert the collective strengths of the Taisei Group.
- **Pursuit of safety and compliance**
 - We will make every effort to achieve "zero fatal accidents / zero serious accidents."
 - We will ensure compliance to realize customer satisfaction and better performance at the same time, and continue to be a partner trusted by our customers.

Awarded MLIT 1st JAPAN Construction International Award

In the 1st JAPAN Construction International Award competition, which was created by the Ministry of Land, Infrastructure and Transport and Tourism (MLIT) in an effort to reinforce Japan's competitiveness and to encourage the overseas expansion of Japanese companies, the two projects of ours, Bosphorus Strait Crossing Railway Project (Turkey) and Hamad International Airport (Qatar), were awarded the MLIT Minister's Award.

In the Bosphorus Strait Crossing Railway Project, our high-level technologies to connect submerged caissons and shield tunnels under the sea in addition to the world-record depth submerged tunneling construction were recognized.

▶ p.5 The Taisei Group Corporate History



Award ceremony (April 11, 2018)

^{*1} PPP: Stands for Public Private Partnership, translated into Japanese as "kanminrenkei" (private-public initiative) or "kanminkyodo" (government-private sector cooperation), a form of providing efficient and high-quality public services in which public services previously provided by the national government or local municipalities are opened up to the private sector and operated under private-public cooperation.

^{*2} Concession: A concession refers to a sale of a right to operate airports, water supply, etc. by public entities, such as governments, to private entities, while keeping their ownership. It reduces the financial burden of maintaining and developing infrastructure on governments and local municipalities and creates business opportunities to operate infrastructure for private companies.

Building Construction

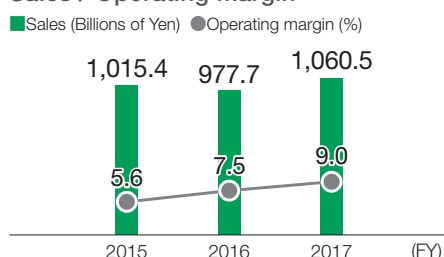


Senior Managing Executive Officer,
Member of the Board;
Chief of Architecture & Engineering
Division (Integrated);
Chief of Building Construction Division
Norihiko Yaguchi

Overview of Segment

● The figures include intersegment transaction.

Sales / Operating margin



Sales
¥1,060.5 billion
(Up 8.5% YoY)

Operating income
¥96.3 billion
(Up 31.4% YoY)

▶ **Operating margin**
9.0%

Sales in the Building Construction segment increased 8.5% year on year, to ¥1,060.5 billion. Operating income rose 31.4% to ¥96.3 billion due to an increase in sales and an upturn in gross profit margin.

Business Environment

- Robust construction demand including national projects for the Tokyo 2020 Olympics and Paralympics and large-scale urban redevelopment projects
- Continuation of busy/peak period with high level of work volume on hand
- Increased demand for renewal of facilities that were constructed during the years of high-speed growth
- Accelerating reforms of construction and production systems using ICT, industry-wide work style reforms for securing and fostering leaders/successors, and environmental improvement in preparation for the revision of the Labor Standards Act relating to the correction of long hours of work

Business Strategies

As we are in for an unprecedented busy/peak time, we will engage in the following strategies unfailingly, with an aim to execute construction works steadily and to achieve a “business scale of ¥2.0 trillion” under the Medium-term Business Plan (FY2018–FY2020), which was launched this year.

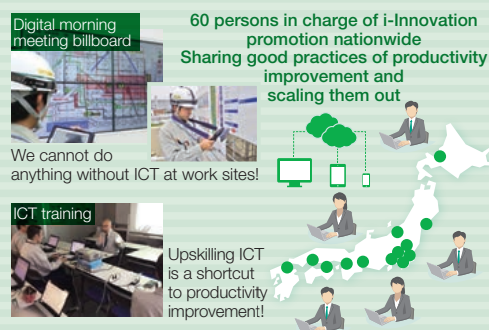
- **Productivity improvement (domestic and overseas business)**
 - We will promote “TAISEI i-Innovation®” by introducing ICT at work sites and utilizing BIM, IoT, and AI, and will strengthen production systems by establishing a support department.
 - In a bid to convert to a corporate structure more suitable for overseas markets, we will establish and strengthen production systems by accelerating the securing and fostering of global talents.
- **Renewal**
 - In the renewal field, we will invest management resources and strengthen production systems by developing technologies, making alliances, and improving procurement capability.
- **Work style reforms and correction of long hours of work**
 - With the central role played by the Work Style Reforms Promotion Section established in April 2018, the head office and construction sites will work together to achieve “eight close downs every four weeks.” We will also aim to achieve the goal by cooperating with member companies of Soyukai, an association of our core subcontractors, and employees’ union, in line with Taisei Corporation’s road map for the correction of long hours of work.
- **Ensuring quality, safety, and compliance**
 - We will pursue 0 (zero) fatal accidents/serious accidents and zero serious quality troubles by ensuring work processes in accordance with the Taisei Occupational Health and Safety Management System, and by disseminating and ensuring quality control standards and procedures.
 - We will make continued efforts for the development of systems to ensure compliance.

Productivity Improvement and Technology Innovation under “TAISEI i-Innovation®”

Under the “TAISEI i-Innovation®,” Taisei Corporation promotes efforts for productivity improvement and technology innovation, for the purpose of exploring the future of the construction industry with advanced ICT.

By rolling out ICT utilization across the board not only at construction sites in Japan and overseas, but also in all the businesses, such as back offices, technology R&D departments, and administration departments that support work sites, we have established a company-wide organization to promote ICT utilization so that the entire company can benefit from its outcome.

▶ p.35 Special Feature 3



Real Estate Development



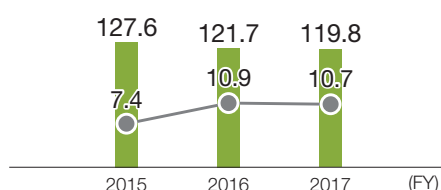
Senior Managing Executive Officer;
Chief of Urban Development Division
Katsuyuki Kanai

Overview of Segment

● The figures include intersegment transaction.

Sales / Operating margin

■ Sales (Billions of Yen) ● Operating margin (%)



Sales
¥119.8 billion
(Down 1.6% YoY)

Operating income
¥12.9 billion
(Down 2.6% YoY)

▶ **Operating margin**
10.7%

Sales in the Real Estate Development segment decreased 1.6% year on year, to ¥119.8 billion. Operating income fell 2.6% to ¥12.9 billion due to lower sales.

Business Environment

- Infrastructure development for the Tokyo 2020 Olympics and Paralympics and active private investment
- Increased utilization of private finance for airports, etc. under the PPP/PFI Promotion Action Plan (formulated by Cabinet Office)
- Active development investments in Southeast Asian countries

Business Strategies

- **Urban redevelopment projects**
 - In the urban redevelopment field, which represents urban renaissance, we are involved in about 20% of nationwide development projects. In large-scale private development projects, such as the “(Tentative Name) Toranomon 2-10 Project, Tokyo Main Building” (see p.1) started in May 2016, we have been promoting them as a project operator.
 - We will continue to operate large-scale development projects, while providing support for the promotion of projects in a number of zones, primarily in the Tokyo metropolitan area and regional core cities, with our accumulated know-how.
- **PPP/PFI projects**
 - We also have a track record in the PPP/PFI projects, which is one of the methods for developing public facilities. We started operating Takamatsu Airport in April 2018 to build up know-how about the airport concession (a right to operate public facilities, etc.). We will take on projects domestically and internationally going forward.
 - To secure stable earnings in the real estate development projects in addition to the PPP/PFI projects, the long-term management of facility operation is essential. Therefore, we will further promote our efforts for the facility operation business.
- **Overseas building construction business**
 - By enhancing the function of our Singapore office, we will strategically operate real estate development projects mainly in Southeast Asia. Following the Vinata Towers Project in Vietnam, we will work to expand development areas in Southeast Asian countries including Taiwan.

Vinata Towers Project, Development Project Phase 1 Opened

It is our first real estate development project in Vietnam that we engage in Hanoi, as a joint project with other Japanese companies.

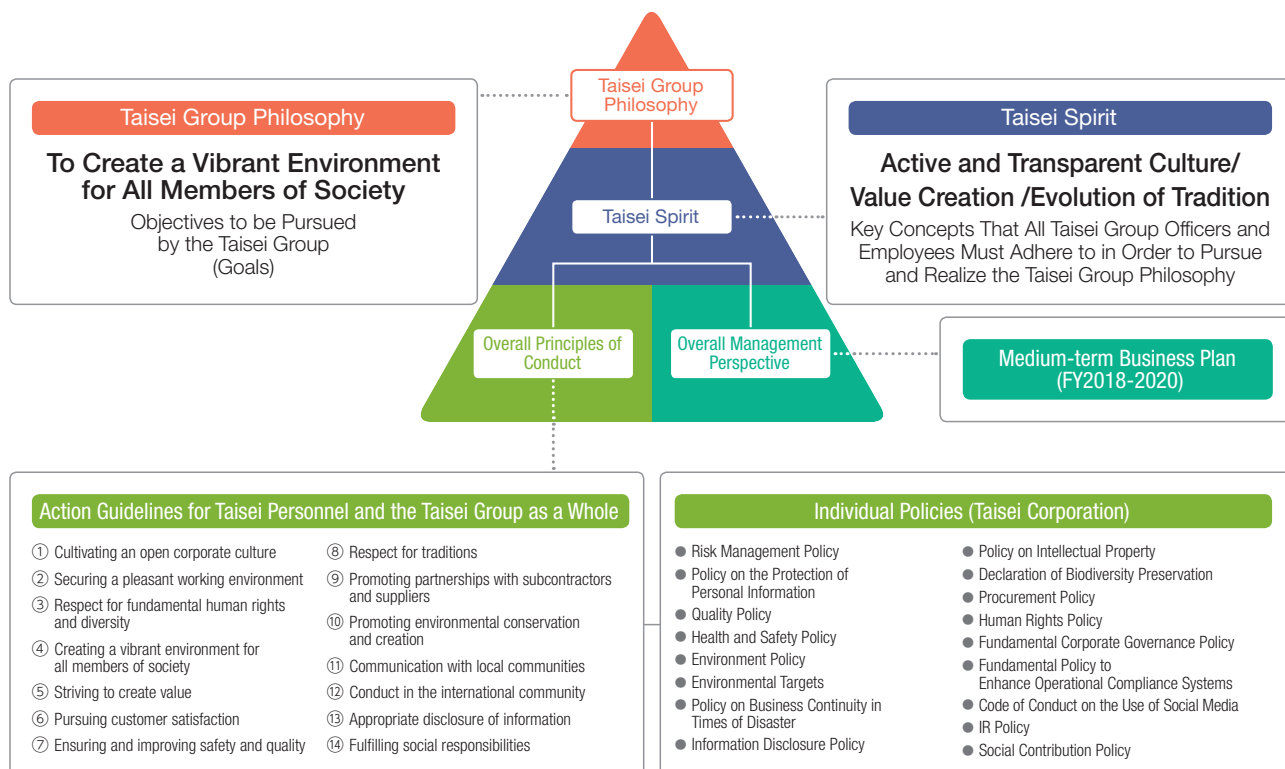
As project phase 1, we completed and opened a 256-unit apartment building with 24 stories above ground and two underground levels in June 2018. The building was designed and constructed by our local subsidiary, Vinata International Co., Ltd.

Taisei Corporation has been involved in obtaining various licenses and permissions, setting up business companies, and drawing up plans for facilities in relation to the project, and will engage in the management of the project as a member of the project operators.



(Tentative name) Vinata Towers Project (Vietnam)

The Taisei Group CSR



CSR Our Structure of Values and Policies

In order to pursue the Group ideal "to create a vibrant environment for all members of society", all officers and employees share the "Taisei Spirit", and carry out corporate actions based on the Group Action Guidelines and Individual Policies "Overall Principles of Conduct" and "Overall Management Perspective" and Medium-term Business Plan. The aim is to create new social value in the course of these actions through the wishes and expectations of our stakeholders, while being aware of the issues of sustainable society and contributing towards their resolution.

To Share Our Philosophy and Values

To spread and consolidate the Group Philosophy among employees while connecting it to social demands and in-house initiatives, we have operated annual trainings about the Group Philosophy based on an e-learning format since FY2011. In FY2017, we held an e-learning session for employees on the theme of the relationship between the Group Philosophy and improvements in corporate value required by the Japan Business Federation's Charter of Corporate Behavior, with a participation rate of 96%.

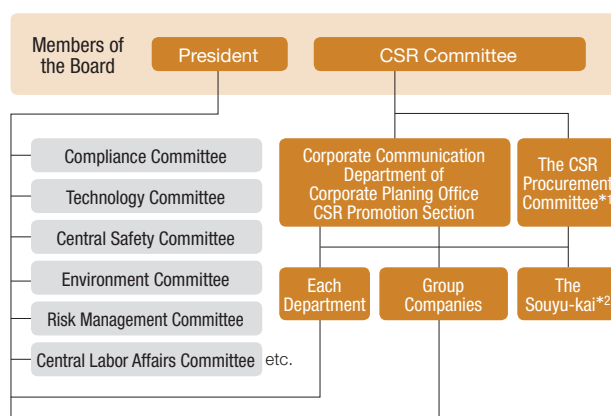
System for Promoting CSR

A CSR Committee (5 board members and officers) has been established in the Taisei Group, with an Executive Vice President, Representative Director (Chief of Business Administration Division) as Chairperson of the Committee, and the CSR Promotion Section of the Corporate Communication Department as the secretariat.

The Committee periodically deliberates and reports on the Group's initiatives regarding non-financial aspects, mainly Environmental, Social, and Governance (ESG).

The CSR Promotion Section provides training and guidance on CSR, and exchanges opinions with the various departments and Group companies to promote CSR activities, for application in day-to-day activities. Also, discussions regarding policies, systems, and mechanisms for promoting CSR activities are carried out at business committees such as the Environment Committee.

Diagram of CSR Promotion System



*1 Composed of the Corporate Planning Office, Safety Administration Division, Building Construction Division, Civil Engineering Division and Procurement Division

*2 The organization of the Taisei Corporation's main cooperating companies

CSR Management

The Taisei Group implements CSR management by identifying CSR issues extracted from our Overall Management Perspective and Overall Principles of Conduct, as well as the core subjects of ISO26000, the international standard for corporate social responsibility at organizations.

In identifying issues and promoting activities, we respect all global initiatives and continually confirm the status of the sharing and progress of issues.

Furthermore, in order to consider CSR from a more global perspective and link it with sustainability-related social issues, we are constantly expanding our CSR activities by pursuing active participation in and cooperation with CSR-related organizations, in line with our CSR management framework such as participation (as a signatory) in the United Nations Global Compact. We publish the status and results of our activities on the CSR page of the Taisei Group official website, while working to improve corporate value by deepening dialog with various stakeholders.

Respect for Global Initiatives

The Universal Declaration of Human Rights	United Nations Global Compact	Sustainable Development Goals (SDGs)
ILO Core Labour Standards	ISO26000	GRI Standards
United Nations Guiding Principles on Business and Human Rights	Charter of Corporate Behavior (the Japan Federation of Construction Contractors)	Integrated Reporting Framework

Participation in CSR-related Groups

Global Compact Network Japan (GCNJ)	Council for Better Corporate Citizenship (CBCC)	CARE International Japan, international NGO
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Communication with Major Stakeholders

Stakeholders	Taisei Group: Responsibility and Approach
Customers	<ul style="list-style-type: none"> We have established our Quality Policy and Health and Safety Policy in an effort to provide good-quality, safe and secure construction products, support for business continuity at times of disaster, and related services. We listen to various opinions and requests through customer satisfaction surveys and take advantage of them to improve quality and increase productivity.
Shareholders/Investors	<ul style="list-style-type: none"> We have established our Fundamental Corporate Governance Policy, Information Disclosure Policy, and IR Policy in an effort to conduct timely and appropriate disclosure of corporate information and constructive dialog aimed at sustainable growth and medium- to long-term improvement of corporate value. In addition to promoting communication through the annual general meeting of shareholders and by issuing the shareholder newsletter, we feed back the opinions and content of our discussions with shareholders to the management ranks. We strive to promote constructive dialog through explanations of our performance and management strategy from the President as well as question-and-answer sessions at results briefings and meetings with overseas institutional investors.
Suppliers	<ul style="list-style-type: none"> We have established our Procurement Policy, carry out CSR procurement activities, and promote partnerships through fair and impartial transactions. In cooperation with the Taisei Health, Safety and Environment Cooperation Association, comprising specialized contractors across Japan, we make efforts to eliminate work-related accidents at workplaces, prevent health problems and environmental accidents, and promote environmental conservation activities.
Employees	<ul style="list-style-type: none"> We strive to realize a pleasant working environment through efforts including respect for employees' human rights and implementation of compliance education and trainings. We comply with labor-related laws and regulations, give due consideration to workplace health and safety, and have established an EAP, various consultation desks for matters including nursing care, a "Corporate ethics helpline" and "Group helpline" to handle issues such as discrimination and sexual harassment, while also implementing personnel satisfaction surveys. We hold regular consultations with the employees union regarding the workplace environment and labor conditions.
Local communities, international society, global environment	<ul style="list-style-type: none"> We have formulated our Social Contribution Policy, Environmental Policy, and Declaration of Biodiversity Preservation, under which we pursue our business activities. In addition to the Taisei Corporation Public Trust of Funds for Natural and Historic Environments, an organization for the preservation of the natural environment, and the Taisei Foundation, which subsidizes new technical fields for the next generation, we make efforts to spread construction culture by lending architecture and paintings by the architect Le Corbusier and through other means. We strive to contribute to resolve social issues through actions based on participation (as a signatory) in the United Nations Global Compact and support for various global initiatives such as SDGs (Sustainable Development Goals).

The Taisei Group CSR

Materiality

In FY2017, we reverified our material issues and KPIs, and identified eight material issues based on 21 factors selected from the perspective of CSR issues and megatrends such as SDGs.

These eight material issues were categorized, and the efforts made in each category were reorganized as KPIs. We will continue to conduct regular reviews of the operating status of KPIs in the CSR Committee, and disclose information in the Integrated Report.

Materiality Reverification Process

1 Selection of Relevant Issues

- Held hearings in the Taisei Group to identify issues based on ISO26000.
- Identified 21 factors that have an impact on medium- to long-term corporate value.

2 Reverifying Importance of Issues

- Ranked 21 factors in order of importance for stakeholders on ESG survey forms and expert surveys.
- Analyzed factors based on medium- to long-term vision of Taisei Corporation and its management departments.
- Narrowed down 21 factors to eight issues by ESG category.

3 Determination of Material Issues

- Confirmed appropriateness of the process through dialogue with experts.
- Confirmed that there were no discrepancies with megatrends such as SDGs, United Nations Global Compact, GRI Standard (sustainability reporting guidelines)
- Final approval by the Board of Directors after deliberations by the CSR Committee.

ESG	8 material issues	KPIs (Key Performance Indicator)	Scope of report	Unit	FY2017 results/targets	FY2018 targets
E	Realization of a sustainable and environmentally friendly society	● At construction stage CO ₂ emissions per construction cost(intensity)	Taisei Corporation	%	28.4/18	25* ¹
		● At construction stage Total CO ₂ emissions	Taisei Corporation	%	48.4/47	51* ¹
		● At building operation stage* ² Design-build estimated CO ₂ * ² emissions	Taisei Corporation	%	48.1/37	38* ¹
		● Promotion of recycling construction waste Final disposal rate	Taisei Corporation	%	3.2/4.0	3.7
		● Implementation of proposals that consider biodiversity Number of proposals	Taisei Corporation	cases	52/30	30
		● Zero environmental accidents	Taisei Corporation	cases	0/0	0
S	Ensuring quality and improving technology	● Customer satisfaction	Taisei Corporation	%	Civil Engineering: 95/100 Construction 90/100	Civil Engineering: 100 Construction 100
		● Productivity (Net sales/number of employees working at construction sites)	Taisei Corporation	—	107/110	110* ³
	Technical development for realizing a sustainable society	● Number of patent rights registered	Taisei Corporation	cases	191/200	180
		● Number of patent applications filed	Taisei Corporation	cases	235/250	230
	Promotion of supply chain management	● Implementation rate of companies where CSR activity survey was conducted	Organization of main cooperating companies of Taisei Corporation	%	—* ⁴	70.0
	Thorough management of labor safety and sanitary conditions	● Number of fatal accidents	Taisei Corporation	projects	4/0* ⁵	0
	Cultivation of technical staff and securing human resources	● Average overtime hours per month	Taisei Corporation	hours	37.5/35.0	35
		● Construction Career Up System Worksite registration rate* ⁶	Taisei Corporation	%	—* ⁶	60% or more* ⁷
		● Number of female engineers	Taisei Corporation	persons	621/610	640
	Realization of an attractive working environment that is good to work in	● Number of female managers	Taisei Corporation	persons	83/70	130
● Turnover rate of employees within 3 years of hiring* ⁸		Taisei Corporation	%	4.3/4.5 or less	4.5 or less	
● Rate of taking childcare leave by males		Taisei Corporation	%	93.8/100	100	
G	Promotion of compliance	● Number of major information security accidents	Taisei Group* ⁹	cases	0/0	0
		● "Corporate ethics helpline" and "Group Helpline" response rate	Taisei Group	%	100/100	100

*1 Target values are compared to FY1990.

*2 Predicted CO₂ emissions at operation stage of design and construction projects (including popularization and promotion of ZEB).

*3 The actual result for FY2016 is set at 100. 110 is the target for the end of FY2020.

*4 Not implemented in FY2017. The actual result for FY2016 was 61.6%.

*5 Actual results from January 2017 to December 2017.

*6 As the registration has not yet begun, actual results are to be reported starting in FY2018.

*7 Applies to worksites of 1.0 billion yen or more, with a remaining construction period of six months or more. 60% or more is the target up to December 2019.

*8 The turnover rate of new graduates in general and expert positions within three years of hiring.

*9 Refers to Taisei Corporation and the eight major Group companies.

Materiality

Realization of a Sustainable and Environmentally Friendly Society



etc.

Promoting Environmental Management

Under the group philosophy “To Create a Vibrant Environment for All Members of Society,” Taisei Corporation, through its construction activities, strives for development of high-quality social infrastructure and improvement of the living environment in harmony with nature.

Moreover, considering the realization of a sustainable society to be the origin of environmental management, Taisei Corporation and its Group companies actively strive for an “environmentally friendly society,” while setting medium- to long-term targets and single-year targets in line with the Environmental Policy and pursuing environmentally friendly activities to achieve those targets.

Single-year environmental targets are set each year on a company-wide scale, based on our medium- to long-term targets.

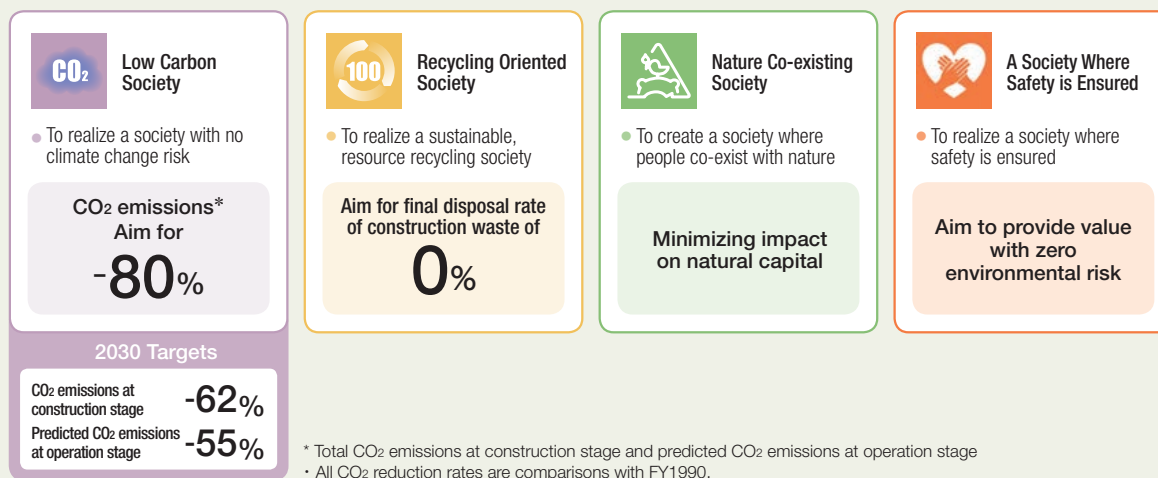
Specifically, Taisei Corporation operates an environmental management system (EMS) in compliance with ISO14001:2015, and identifies risks and opportunities related to environmental problems taking into account compliance with environmental laws and regulations, various issues in the construction business and social demands and expectations related to climate change and other issues. We pursue environmental activities while implementing a PDCA (plan-do-check-act) cycle with a view to achieving our planned environmental targets.

TAISEI Green Target 2050

Taisei Corporation revised its medium- to long-term targets in 2018 in light of the most recent developments such as the effectuation of the Paris Agreement and the adoption of the SDGs, which are attracting keen interest worldwide. Based on our Environmental Policy, we aim to realize a sustainable environmentally friendly society, which is one of the Taisei Group’s material issues (materiality).

p.29 Special Feature 3

TAISEI Green Target 2050 Environmental Targets of Taisei Corporation by 2050



KPIs Impact on Corporate Activities and KPIs (Non-Consolidated)

Negative Impact		Positive Impact	
<ul style="list-style-type: none"> Deterioration of creditworthiness and loss of opportunities to receive orders due to violation of environmental laws and regulations or environmental accidents. Increased costs due to construction suspensions or delays resulting from shortages of raw materials or electricity. 		<ul style="list-style-type: none"> Increased opportunities to receive orders due to development and practical application of environmental technologies. Market expansion due to reinforcement of infrastructure to address climate change. 	
		FY2018 Targets	Department Responsible for Promotion
KPIs	At construction stage CO ₂ emissions per construction cost (intensity)	25%* ¹	Environment Division
	At construction stage Total CO ₂ emissions	51%* ¹	
	At building operation stage Design-build estimated CO ₂ * ² emissions	38%* ¹	
	Promotion of recycling construction waste Final disposal rate	3.7%	
	Implementation of proposals that consider biodiversity Number of proposals	30 cases	
	Zero environmental accidents (Implementation of management procedure based on “Operation Manual for Priority Environmental Issues”)	0 cases	

*¹ Target values are comparisons with FY1990.

*² Predicted CO₂ emissions at operation stage of design and construction projects (including popularization and promotion of ZEB).

Social

Materiality

Ensuring Quality and Improving Technology



etc.

● Provision of High-Quality Construction Products and Related Services

Under the slogan of “ensuring and improving safety and quality” stated in the Group Action Guidelines, Taisei Group formulates the “Quality Policy,” which governs our corporate activities. We obtained ISO 9001 certification in 1996 for the first time in the Japanese construction industry. We operate and establish a quality management system covering from design and construction to after handover in order to provide customers with construction products and after-sales service with safety and comfort.

Additionally, in conjunction with the quality management system, “TAISEI QUALITY” activities have been implemented since 2009 to ensure thorough awareness and application of the quality management standards and procedures within the entire Group. We also conduct customer satisfaction interviews and surveys to ensure proper quality management and eliminate any defects caused by quality, in cooperation with the relevant departments.

● Leveraging ICT Strengths to Realize Immediately Effective Productivity Improvements

Since FY2017, Taisei Corporation has been pursuing an initiative aimed at productivity improvement and technological innovation based on ICT, under the name “TAISEI i-Innovation®.” We are striving to implement this initiative company-wide, with approximately 80 employees responsible for its promotion assigned to the head office and branches.

We are moving ahead with introduction of construction robots at construction sites, and we are working to make maximum use of our ICT strengths as the most immediately effective measure for achieving improvement in production capacity.

We have also developed and established an Internet-based platform, which we have expanded in line with ICT progress and social demands. It is now one of our strengths that an operational style using ICT has been well established at all construction sites. Specifically, we have steadily introduced programs including the “Worksite Net,” an information-sharing network that can be used by both in-house and external parties involved in projects focused on worksite offices, and the “Field Pad,” an app linked to the “Worksite Net” that allows browsing and recording of construction management information even when not in the office.

p.35 TAISEI i-Innovation®

KPIs Impact on Corporate Activities and KPIs (Non-Consolidated)

Negative Impact		Positive Impact	
<ul style="list-style-type: none"> Decline in market competitiveness by losing customer trust. Interruption or suspension of business, loss of opportunities to receive orders, or financial loss due to the occurrence of quality defects. 		<ul style="list-style-type: none"> Continuing business and creation of business opportunities through cooperation and building trusting relationships with customers. Winning clients' trust by providing good-quality, comfortable buildings. 	
		FY2018 Targets	Department Responsible for Promotion
KPIs	Customer satisfaction	Civil Engineering: 100% Building Construction: 100%	Civil Engineering Division Building Construction Division
	Productivity (Net sales/number of employees working at construction sites)	110*	

* 110 is the actual result for FY2016.

Social

Materiality

Technical Development for Realizing a Sustainable Society



etc.

Taisei Corporation was ranked first in the “ranking of patent assets scale for the general contractor industry” by Patent Result Co., Ltd. for five consecutive years from April 2012 to March 2017. With regard to technologies aimed at resolving social issues, staff members of the Taisei Technology Center visit each construction site every year and survey patentable technologies

and acquire patents for them. In FY2017, we acquired patents for a method of detecting specific microorganisms useful in solving environmental problems and a method of decontaminating soil that contains radioactive substances. We will continue to carry out technological development and patent acquisition of technologies to solve social issues.

KPIs Impact on Corporate Activities and KPIs (Non-Consolidated)

Negative Impact		Positive Impact	
<ul style="list-style-type: none"> Decline in market competitiveness and financial loss due to fewer application track records for development of new proprietary technology. 		<ul style="list-style-type: none"> Contribute to solving social issues by improving technological capability through business and increase market competitiveness. 	
		FY2018 Targets	Department Responsible for Promotion
KPIs	Number of patent rights registered	180 cases	Taisei Technology Center (Intellectual Property Department)
	Number of patent applications filed	230 cases	

Materiality

Promotion of Supply Chain Management



etc.

Taisei Corporation adopted Promoting Partnerships with Supply Chains and formulated the "Procurement Policy" as part of the Group Action Guidelines to promote CSR procurement activities with cooperating companies and across the whole supply chain.

Internally, we carry out e-learning for all officers and employees, and hold briefings for executive personnel.

For suppliers, we conduct CSR activity surveys in Japan and overseas. In addition to confirming CSR initiatives at each company, we also hold hearings at companies where initiatives are lacking, and identify points for improvement and confirm challenges for the future.

In future, we will expand the survey to cover building contractors with whom we have constant ongoing transactions, in addition to Souyu-kai member companies (an organization of main cooperating companies), and carry out awareness-raising for a wider range of suppliers.

As for materials suppliers who handle raw materials associated with environmental impact or raw materials from developing countries, we conduct hearing surveys tracing back through distribution channels to check whether there are human rights abuses or illegal acts in the procurement process. Furthermore, in response to the recent increase in foreign technical intern trainees, we visit suppliers and carry out hearing surveys to confirm the working environment and management system for foreign interns employed by our suppliers.



Overseas CSR Procurement Briefing (Singapore)

KPIs Impact on Corporate Activities and KPIs (Non-Consolidated)

Negative Impact		Positive Impact	
<ul style="list-style-type: none"> ● Suspension of raw material supply due to occurrence of procurement risks. ● Increased cost due to interruption or delays in construction resulting from suspension of procurement. ● Decline in reputation owing to occurrence of human rights risks. 		<ul style="list-style-type: none"> ● Sustainable supply of raw materials due to procurement risk management. ● Improved competitiveness as a result of securing good-quality cooperating companies. ● Maintenance of reputation by preventing human rights risks. 	
		FY2018 Targets	Department Responsible for Promotion
KPIs	Implementation rate of companies where CSR activity survey was conducted	70.0%	Corporate Communication Department (CSR Promotion Section)

Materiality

Thorough Management of Labor Safety and Sanitary Conditions



etc.

● Health and Safety Policy and OHSMS System

Based on the ideal of "Safety First," Taisei Corporation works hard to ensure safety in a tangible form day to day in concerted efforts among its employees, group companies and cooperating companies. We are committed to this under the "Health and Safety Policy,"* which the President indicates by systematizing and organizing the "Taisei Occupational Health and Safety Management System" (TAISEI OHSMS), to eliminate accidents and damage and prevent third-party accidents.



The President's patrol



The award ceremony

● Improving Health and Safety Standards

Taisei Corporation's safety record in 2017 was 66 accidents entailing days off work, of which 48 were accidents entailing four or more days off work, and four fatal accidents.

The frequency rate was 0.46. In 2018, we have again set targets of achieving "zero fatal accidents" and "zero serious accidents," and will promote various measures aimed at "shifting from recurrence-prevention safety management to preventive safety management."

KPIs Impact on Corporate Activities and KPIs (Non-Consolidated)

Negative Impact		Positive Impact	
<ul style="list-style-type: none"> ● Decline in customer trust due to occurrence of fatal accidents. ● Lower productivity due to occurrence of work-related accidents. 		<ul style="list-style-type: none"> ● Maintenance of reputation by preventing fatal accidents. ● Improved productivity as a result of achieving a safe workplace environment. 	
		FY2018 Targets	Department Responsible for Promotion
KPIs	Number of fatal accidents	0 projects	Safety Administration Division

Materiality

Cultivation of Technical Staff and Securing Human Resources



etc.

Initiatives to Correct Long Working Hours

In order to correct long working hours, Taisei Corporation has set a target for average overtime hours per month as a KPI each fiscal year. In order to achieve the target, we implement measures that are truly highly effective, reflecting the opinions of employees who work

at construction sites. In addition, with regard to closing construction sites, as a member company of the Japan Federation of Construction Contractors, will work as one with the entire industry.

Roadmap for Correction of Long Working Hours

	Medium-term Business Plan							
	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	
Overtime work	0 employees working 100 hours per month or more	100% achievement			100% achievement			
		Average of 80 hours per month or less 960 hours per year			Average of 70 hours per month or less 840 hours per year			
		Preparation period			Preparation period			
					Application of amendments to Labor Standards Act Average of 45 hours per month in principle Maximum of 720 hours per year			
Holidays + substitute holidays (excluding paid leaves)	Aim for "8 holidays per 4 weeks (holidays + substitute holidays) 104 days per year or more" for all employees							
Construction site closed days	Site closed second Saturday of every month	March 2020: 100%						
	Site closed 6 days per 4 weeks*1		March 2022: 100%					
	Site closed 8 days per 4 weeks*1							

*1 Excluding offices where application is difficult.

Popularization and Promotion of Construction Career Up System*2 (CCUS)

In coordination with cooperating companies, we are promoting the introduction and popularization of CCUS, which registers certifications of skilled construction workers and status of enrollment in social insurance programs.

CCUS, which has been promoted together with the Ministry of

Land, Infrastructure, Transport and Tourism and various construction industry organizations, started as an important infrastructure linked to securing the technicians who will support the industry in the future and improving their working conditions.

*2 Evaluation tool for "visualizing" skills and experience of each skilled worker in a unified framework within the industry.

Promotion of Women's Participation and Advancement in the Workplace Realized by *Kensetsu Komachi*

Kensetsu Komachi, a nickname for women working in the construction industry, was created by the Japan Federation of Construction Contractors based on a firm commitment to "establish efforts related to the promotion of women's participation and advancement in the construction industry as ongoing, established activities." In order for Taisei Corporation to develop further, it is essential that we become a company where women can participate than ever before. We believe we can create new value by actively incorporating women's perspectives within the Company.

p.1-2 To Create a Vibrant Environment for All Members of Society



KPIs Impact on Corporate Activities and KPIs (Non-Consolidated)

Negative Impact		Positive Impact	
<ul style="list-style-type: none"> Lower market competitiveness due to decline in customer trust. Decline in organizational capabilities and loyalty of personnel due to insufficient human resources development and lack of diversity. 		<ul style="list-style-type: none"> Reinforcement of technological capabilities and human resources development through customer needs. Increased organizational capabilities and loyalty of personnel by fostering excellent and diverse human resources. 	
		FY2018 Targets	Department Responsible for Promotion
KPIs	Average overtime hours per month	35 hours	Human Resources Department
	Construction Career Up System Worksite registration rate	60% or more*3	Civil Engineering Division Building Construction Division
	Number of female engineers	640 persons	Human Resources Department

*3 Applies to worksites of 1.0 billion yen or more, with a remaining construction period of six months or more. 60% or more is target for December 2019.

Materiality

Realization of an Attractive Working Environment that is Good to Work in



etc.

Diversity and Inclusion

As one of the issues addressed in the Medium-term Business Plan, we aim to encourage diversity management, focusing on creating a workplace in which employees are able to take the most active possible role, taking advantage of their diversity in terms of sex, nationality, disability, values, the way of working and career.

Promotion of Diversity and Inclusion

Diversity of Human Resources

Female Employees

- Active employment in careers with promotions
- Expanding fields of employment
- Implementation of career development training

Senior Personnel

- Preparation of reemployment system that provides fulfilling work

Diversity of working styles

- "Working style reform" through use of ICT in daily operations
- Enhancement of support framework to balance childcare/ nursing care and work
- Support for male employees' participation in childcare

Non-Japanese Employees

- Establishment of consultation desks
- Creation of handbook for receiving departments

LGBT

- Raising awareness through e-learning for all officers and employees
- Installing restroom signs comfortable for anyone's use

Improving Retention Rate of Young Employees

We strive to eliminate mismatching of employees and jobs through measures such as providing detailed job descriptions during the recruitment screening process and conducting construction site visits. We also work to retain employees by striving to create a pleasant working environment, through holding interviews with young employees after they join the Company, and introducing a mentorship program on a trial basis.

Improved Childcare Leave Usage Rate by Male Employees

We have targeted a childcare leave usage rate by male employees of 100% as one of our work-style reform measures, and are involving the employees' assigned departments and their supervisors in this company-wide effort. In addition to joining the Ikuboss^{*1} Corporate Alliance in April 2017, we have also received the Ikumen Enterprise Award 2016 and recognition based on the Act on Advancement of Measures to Support Raising Next-Generation Children.



A male employee on childcare leave

KPIs Impact on Corporate Activities and KPIs (Non-Consolidated)

Negative Impact		Positive Impact	
<ul style="list-style-type: none"> ● Decline in organizational capabilities and loyalty of personnel due to insufficient human resources development and lack of diversity. ● Deterioration of reputation due to decline in trust from personnel. 		<ul style="list-style-type: none"> ● Increased organizational capabilities and loyalty of personnel by securing and fostering excellent and diverse human resources. ● Maintenance of reputation by preventing human rights risks. 	
		FY2018 Targets	Department Responsible for Promotion
KPIs	Number of female managers	130 persons	Human Resources Department
	Turnover rate of employees within 3 years of hiring ^{*2}	4.5% or less	
	Rate of taking childcare leave by males	100%	

^{*1} Management and superiors who understand and actively support participation in child care by their male employees and subordinates.

^{*2} The turnover rate of new graduates in general and expert positions within three years of hiring.

Governance

Materiality

Promotion of Compliance



etc.

KPIs Impact on the Taisei Group's Corporate Activities and KPIs (Consolidated)

Negative Impact		Positive Impact	
<ul style="list-style-type: none"> ● Interruption or suspension of business due to information security accidents. ● Decline in reputation due to occurrence of human rights or corruption risks. ● Interruption or suspension of business, or loss of opportunities to receive orders, due to disregard for compliance. 		<ul style="list-style-type: none"> ● Maintenance of competitiveness through appropriate information management. ● Continuation of business and creation of business opportunities through appropriate risk management. ● Maintenance and enhancement of corporate value through reinforcement of global compliance system. 	
		FY2018 Targets	Department Responsible for Promotion
KPIs	Number of major information security accidents ^{*3}	0 cases	Information Planning Department
	"Corporate ethics helpline" and "Group helping" response rate ^{*4}	100%	General Affairs Department

^{*3} Number of major security breaches of electronic information related Taisei Group. The scope of calculation includes Taisei Corporation and our 8 major Group companies.


^{*4} Scope of application: the Taisei Group.

p.54-56 Risk Management/Compliance

Members of the Board, Audit & Supervisory Board Members, Chairman and


Members of the Board

Takashi Yamauchi Chairman, Representative Director



1969.06 Joined the Company
1999.06 Executive Officer
2002.04 Managing Executive Officer
2004.06 Senior Managing Executive Officer
2005.06 Senior Managing Executive Officer, Member of the Board
2007.04 President and Chief Executive Officer, Representative Director
2015.04 Chairman, Member of the Board (Representative Director) [Present Position]

Yoshiyuki Murata President, Representative Director



1977.04 Joined the Company
2011.04 Executive Officer
2013.04 Managing Executive Officer
2013.06 Managing Executive Officer, Member of the Board
2015.04 President and Chief Executive Officer (Representative Director) [Present Position]

Kazuhiko Dai Representative Director



1974.04 Joined the Company
2007.04 Executive Officer
2010.04 Managing Executive Officer
2011.04 Senior Managing Executive Officer
2013.06 Senior Managing Executive Officer, Member of the Board
2015.04 Executive Vice President, Representative Director
2017.04 Executive Vice President, Representative Director
Chief of Marketing & Sales Division (Integrated);
Chief of Marketing & Sales (Civil Engineering) Division; and In charge of Safety Administration [Present Position]

Shigeyuki Sakurai Representative Director



1979.04 Joined the Company
2011.04 Executive Officer
2013.04 Managing Executive Officer
2013.06 Managing Executive Officer, Member of the Board
2015.04 Senior Managing Executive Officer, Representative Director
2017.04 Executive Vice President, Representative Director
Chief of Business Administration Division [Present Position]

Masahiro Sakai Director




1977.04 Joined the Company
2012.04 Executive Officer
2013.04 Managing Executive Officer
2013.06 Managing Executive Officer, Member of the Board
2015.04 Senior Managing Executive Officer, Member of the Board
2017.04 Executive Vice President, Member of the Board
Deputy Chief of Marketing & Sales Division (Integrated);
Supervising Marketing & Sales (Building Construction) Divisions [Present Position]

Shigeyoshi Tanaka Director



1979.04 Joined the Company
2011.04 Executive Officer
2013.04 Managing Executive Officer
2015.04 Senior Managing Executive Officer
2015.06 Senior Managing Executive Officer, Member of the Board
2017.04 Executive Vice President, Member of the Board
Chief of Civil Engineering Division [Present Position]

Norihiko Yaguchi Director




1978.04 Joined the Company
2012.04 Executive Officer
2015.04 Managing Executive Officer
2015.06 Managing Executive Officer, Member of the Board
2017.04 Senior Managing Executive Officer, Member of the Board
Chief of Architecture & Engineering Division (Integrated);
Chief of Building Construction Division [Present Position]

Yasushi Yoshinari Director



1979.04 Joined the Company
2011.04 Executive Officer
2015.04 Managing Executive Officer
2015.06 Managing Executive Officer, Member of the Board
2018.04 Managing Executive Officer, Member of the Board
Chief of Medical & Pharmaceutical Business Division [Present Position]

Toru Tsuji External Board Member



1961.04 Joined Marubeni-Iida Co., Ltd.
1999.04 President and Chief Executive Officer, Representative Director
2003.04 Chairman of the Board, Representative Director
2008.04 Corporate Advisor, Member of the Board
2011.06 Member of the Board of Taisei Corporation [Present Position]

Fumio Sudo External Board Member



1964.04 Joined Kawasaki Steel Corporation
2001.06 President and Chief Executive Officer, Representative Director
2002.09 Member of the Board of JFE Holdings, Inc. (Part-time)
2003.04 President and Chief Executive Officer, Representative Director of JFE Steel Corporation
2005.04 President and Chief Executive Officer, Representative Director of JFE Holdings, Inc.
2010.06 Honorary Advisor
2011.06 Member of the Board of Taisei Corporation [Present Position]

Atsuko Nishimura External Board Member



1979.04 Joined Ministry of Foreign Affairs of Japan
1999.08 Minister/Counsellor of Permanent Mission of Japan to the United Nations
2001.06 Minister of Embassy of Japan in Belgium
2004.09 Professor of Tohoku University Graduate School of Law
2008.06 Administrative Vice President of the Japan Foundation
2012.04 Advisor of Japan Oil, Gas and Metals National Corporation
2014.04 Ambassador Extraordinary and Plenipotentiary to Grand Duchy of Luxembourg
2016.07 Ambassador Extraordinary and Plenipotentiary for Women, Human Rights and Humanitarian Affairs
2017.06 Member of the Board of Taisei Corporation [Present Position]

Executive Officers, Executive Fellows (As of August 23, 2018)

Audit & Supervisory Board Members

Misao Akune

Audit & Supervisory Board Member (Full-Time)



1973.04 Joined the Company
2003.07 General Manager of Accounting Dept.,
Business Administration Div.;
Project Manager of Accounting Dept.
Executive Officer
2004.04 Managing Executive Officer
2007.04 Managing Executive Officer, Member of the Board
2007.06 Senior Managing Executive Officer,
Representative Director
2010.04 Executive Vice President, Representative Director
2010.07 Member of the Board
2015.04 Audit & Supervisory Board Member of the Company
2015.06 [Present Position]

Takashi Matsuyama

Audit & Supervisory Board Member (Full-Time)



1975.04 Joined the Company
2008.04 General Manager of Auditing Department
2015.06 Audit & Supervisory Board Member
of the Company [Present Position]

Terunobu Maeda

External Audit & Supervisory Board Member



1968.04 Joined Fuji Bank, Ltd.
1995.06 Director
1997.05 Managing Director
2001.05 Vice-president
2002.01 Director of Mizuho Holdings, Inc.
2002.04 President and
Chief Executive Officer, Director
2003.01 President and Chief Executive Officer of
Mizuho Financial Group
2009.04 President Emeritus
2011.06 Audit & Supervisory Board Member of
Taisei Corporation [Present Position]

Shigeru Morichi

External Audit & Supervisory Board Member



1966.04 Joined Japan National Railways
1987.03 Professor of Civil Engineering, School of Engineering,
Tokyo Institute of Technology
1996.04 Professor of Social Infrastructure Engineering,
Graduate School of Engineering, University of Tokyo
2004.04 Professor,
National Graduate Institute for Policy Studies
2004.04 Vice Chairman, The Institution For Transport Policy Studies
2011.04 President, The Institute For Transport Policy Studies
Director of Policy Research Center of
National Graduate Institute for Policy Studies
[Present Position]
2012.06 Audit & Supervisory Board Member of
Taisei Corporation [Present Position]

Kiwamu Miyakoshi

External Audit & Supervisory Board Member



1977.04 Joined National Police Agency
1987.04 First Secretary, Embassy of Japan in
Germany, Ministry of Foreign Affairs
1998.03 Police Commissioner,
Tokushima Prefectural Police
2004.07 Auditor-Secretary,
Hanshin Expressway Company Limited
2005.09 Police Commissioner,
Ibaraki Prefectural Police
2010.03 Chief of Police, Chugoku District
2011.03 Chief of Police, Kanto District
2012.06 Audit & Supervisory Board Member of
Taisei Corporation [Present Position]

Kunitoshi Saito

External Audit & Supervisory Board Member



1977.04 Joined Board of Audit of Japan
2009.12 Director General of 3rd Bureau,
Board of Audit
2011.05 Director General of 5th Bureau,
Board of Audit
2013.03 Secretary General, Board of Audit
2016.06 Audit & Supervisory Board Member of
Taisei Corporation [Present Position]

Notes 1: Toru Tsuji, Fumio Sudo and Atsuko Nishimura are External Members of the Board as defined by the Companies Act, Article 2-XV.

2: Terunobu Maeda, Shigeru Morichi, Kiwamu Miyakoshi and Kunitoshi Saito are External Audit & Supervisory Board Members as defined by the Companies Act, Article 2-XVI.

3: Toru Tsuji, Fumio Sudo, Atsuko Nishimura, Terunobu Maeda, Shigeru Morichi, Kiwamu Miyakoshi and Kunitoshi Saito are independent officers in accordance with the rules of Tokyo Stock Exchange and Nagoya Stock Exchange.

ESG Section

Chairman

Takashi Yamauchi

Executive Officers

President and Chief Executive Officer

Yoshiyuki Murata

Executive Vice Presidents

Kazuhiko Dai

Chief of Marketing & Sales Division (Integrated);
Chief of Marketing & Sales (Civil Engineering) Division;
In charge of Safety Administration

Shigeyoshi Tanaka

Chief of Civil Engineering Division

Shigeyuki Sakurai

Chief of Business Administration Division

Masahiro Sakai

Deputy Chief of Marketing & Sales Division (Integrated),
Supervising Marketing & Sales (Building Construction)
Divisions

Senior Managing Executive Officers

Yoshinobu Shigeji

In charge of Marketing & Sales (Building Construction),
Marketing & Sales Division (Integrated)

Katsuyuki Kanai

Chief of Urban Development Division

Haruhiko Kono

Chief of Design Division

Shoji Kondo

Chief of Nagoya Branch

Norihiko Yaguchi

Chief of Architecture & Engineering Division (Integrated);
Chief of Building Construction Division

Takao Kanai

Chief of Marketing & Sales (West Japan) Division

Managing Executive Officers

Kazuhiko Hombu

In charge of Technology;
In charge of Energy & Environment

Masahiro Oshima

Chief of Corporate Planning Office

Satoru Tsutae

Deputy, in charge of Civil Engineering, International
Operations Headquarters;
Deputy Chief of International Marketing & Business
Development Division, in charge of Civil Engineering

Yoshitaka Inoue

Chief of International Operations Headquarters

Yasushi Yoshinari

Chief of Medical & Pharmaceutical Business Division

Hiroshi Shirakawa

Chief of Yokohama Branch

Masaharu Okada

Chief of Marketing & Sales (Building Construction)
Division III

Masao Yoshikawa

In charge of Marketing & Sales (Building Construction),
Marketing & Sales Division (Integrated)

Hiroshi Suzuki

Chief of International Marketing & Business Development
Division

Takeshi Kagata

Chief of Kansai Branch

Jirou Taniyama

Deputy Chief of Civil Engineering Division;
General Manager of Civil Engineering Department

Yoshiro Aikawa

Chief of Marketing & Sales (Building Construction)
Division II

Keiji Hirano

Deputy, in charge of Administration, International
Operations Headquarters

Hiroshi Tsuchiya

Chief of Marketing & Sales (Building Construction)
Division I

Susumu Morita

General Manager of Energy Business Strategy Department

Noriaki Kon

Chief of Sapporo Branch

Tetsuya Hanyu

In charge of Marketing & Sales (Building Construction),
Marketing & Sales Division (Integrated)

Nobuyuki Hayashi

General Manager of Design Department, Civil Engineering
Division

Atsushi Yamamoto

Chief of Marketing & Sales Promotion Division

Kyo Murai

Chief of Procurement Division

Hiroshi Kimura

Deputy Chief of Marketing & Sales (Civil Engineering)
Division;
In charge of Olympic Projects

Jo Iwata

Chief of Proposal & Solutions Division;
In charge of Olympic Projects

Fumihiko Sudoh

Chief of Tokyo Branch

Yuichi Kitaguchi

In charge of New National Stadium Project, Tokyo Branch

Yasumitsu Sakurai

Deputy Chief of Architecture & Engineering
Division (Integrated);
General Manager of International Projects Management
Department;
General Manager of Profit Achievement Ratio (PAR)
Management Section

Satoshi Imamura

Chief of Nuclear Facilities Division

Executive Officers

Shimpei Oguchi
Deputy Chief of Marketing & Sales (West Japan) Division,
in charge of Building Construction

Taku Yamamoto
Deputy Chief of International Marketing & Business
Development Division, in charge of Building Construction

Shun Kitano
Chief of Safety Administration Division

Hiroshi Harada
In charge of Civil Engineering Projects, Civil Engineering Division

Atsushi Suzuki
Chief of Mechanical & Electrical Division

Shunichi Sonoda
Deputy Chief of Marketing & Sales (Building Construction)
Division III;
General Manager of Marketing & Sales Department

Makoto Ohta
General Manager of Construction Engineering Department;
General Manager of International Projects Management
Department, Civil Engineering Division

Toru Inaba
Deputy, in charge of Building Construction & Engineering,
International Operations Headquarters

Yasushi Kamezawa
Chief of Environment Division

Yoshihiro Teramoto
Chief of Kyusyu Branch

Shinsaburo Sawa
Deputy Chief of Marketing & Sales (Building Construction)
Division I;
General Manager of Marketing & Sales Department

Shinji Kawamura
Deputy Chief, in charge of Building Construction, Kansai
Branch

Masahiko Okada
General Manager of Secretarial Department

Yoshio Abe
Deputy Chief of Marketing & Sales (Civil Engineering)
Division;
General Manager of Marketing & Sales Department

Akira Ejima
Chief of Chugoku Branch

Iwao Nishioka
Chief of Hokushinetsu Branch

Akira Nakaya
Chief of Shikoku Branch

Yoshihiko Ikeuchi
Deputy Chief of Marketing & Sales (Civil Engineering)
Division;
General Manager of Marketing & Sales Department

Ichiro Nagashima
Chief of Taisei Technology Center

Weiyu Chung
General Manager of Taipei Office;
General Manager of Marketing & Business Development
Department (Taiwan), International Marketing & Business
Development Division

Executive Fellows

Toshihiko Tsuka
In charge of Information Planning, Corporate Planning Office

Hirotooshi Ikeda
Deputy Chief of Architecture & Engineering Division (Integrated);

Miyoshi Kato
In charge of Energy & Environment

Yozo Shinozaki
Deputy Chief of Design Division

Tsuyoshi Maruya
Deputy Chief of Taisei Technology Center;
General Manager of Infrastructure Technology Research
Department

Corporate Governance and Internal Controls

Basic Policy for Governance and Management Systems

Taisei Corporation (the "Company") has established this Fundamental Corporate Governance Policy*1 in order to achieve sustainable development and improvement in the mid- to long-term value of the Company and its subsidiaries and affiliates (collectively, the "Taisei Group") in accordance with the philosophy of the Taisei Group, being "to create a vibrant environment for all members of society" (the "Taisei Group Philosophy") and the so-called "Taisei Spirit", which embodies our commitment to "Active and Transparent Culture", "Value Creation" and "Evolution of Tradition."

In line with the basic policy, the Taisei Corporation's Board gives its undivided attention to important management decisions and the supervision of corporate affairs. The Board is composed of 11 Members of the Board (eight Internal Members of the Board and three External Members of the Board). In order to enhance the effectiveness of the Board, the Company has established several committees of the Board and introduced a system of Executive Officers, in addition to holding meetings solely for External Members of the Board and holding various sessions for exchange of opinions among Members of the Board and Audit & Supervisory Board Members. The External Members of the Board (two men and one woman), who have objective viewpoints based on their experience and insight as corporate managers or a diplomat, bring diversity to the deliberations of the Board while contributing to strengthen supervision of management. In addition, the Audit & Supervisory Board (including four External Audit & Supervisory Board Members), operating independently of the Board and the operating divisions, works in close collaboration with the Accounting Auditors and Auditing Department, the in-house auditing department, to implement independent and effective audits and to strengthen the auditing system across the whole Group.

Effectiveness of Board of Directors

In FY2016, Taisei Corporation conducted an evaluation of the effectiveness of the Board by means of self-evaluation by the Members of the Board and Audit & Supervisory Board Members, followed by deliberations by the Board with reference to an overall evaluation by the External Members of the Board and a third-party opinion from a lawyer.

The results of the evaluation indicated that the Board is functioning effectively overall, that steady efforts are being made to improve its operations by leveraging the Board's

diverse composition, and that this seems to be connected to improved results. A recommendation that the Board should devise a timeframe to allow even fuller discussion of important management strategies was among other opinions noted.

In addition, in response to the FY2016 evaluation, the Company made efforts to invigorate operations of the Board in FY2017 through measures such as holding free debates and exchange of opinion sessions on medium- to long-term themes of the Company, and implementing training and visits to worksites.

The Company aims to further enhance the operation of the Board of Directors based on the FY2017 evaluation.

■ p.25-28 Message from External Members of the Board

Ensuring Credibility of Financial Reporting

Internal controls on financial reporting based on the Financial Instruments and Exchange Act are recognized as one of the most important issues for a corporation. We have set up the internal systems including daily monitoring to ensure the credibility of the financial reporting disclosed to the public. The effectiveness of the system is evaluated by the Audit Department and audited by KPMG AZSA LLC. The results are disclosed in the Internal Control Report and in the Audit Report of Internal Controls. We will fulfill our social responsibility as a corporation by continuing to ensure the effectiveness of these internal controls.

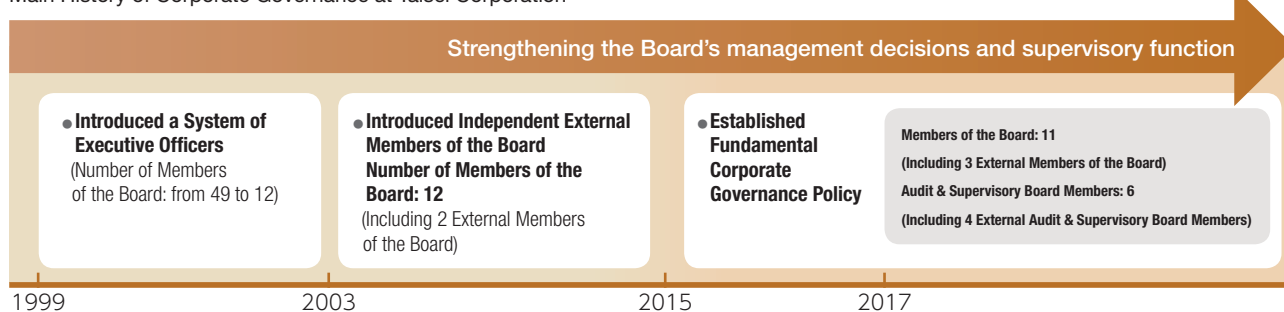
In order to continue to operate the internal control systems relating to financial reporting in a sound manner, we are also publishing messages from the President, implementing e-learning, and other campaigns to raise awareness among officers and employees.

Promotion of Internal Controls

At Taisei Corporation, the Board has established a "Basic Policy for Development of a System for Ensuring Appropriate Business Operations" to ensure the credibility of financial reporting and systems for conducting operations in an appropriate and efficient manner as a Group. Through these systems, we will deliver improved risk management and compliance. The Company implemented a range of measures in FY2017, such as organizing two training sessions led by a lawyer on the topic of "Responsibilities and Roles of Executive Officers."

■ p.54 Risk Management / Compliance

Main History of Corporate Governance at Taisei Corporation

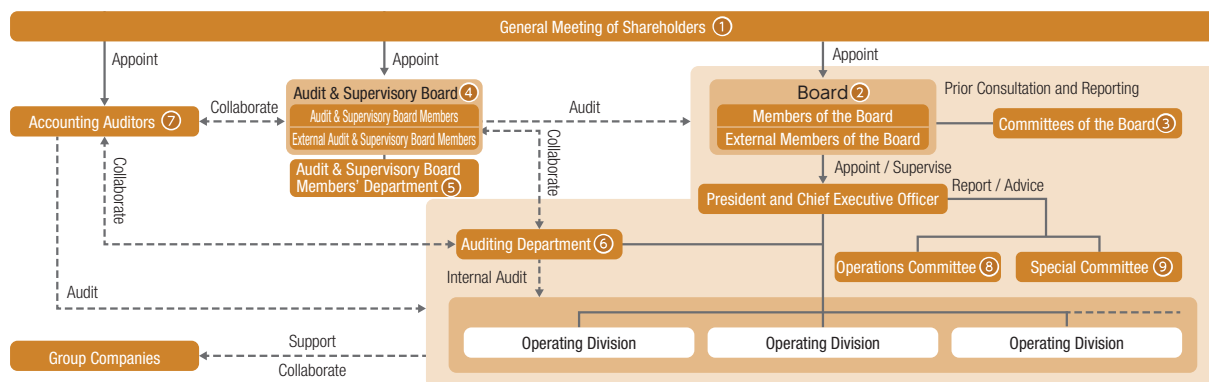


* See our official website for the Taisei Corporation Fundamental Corporate Governance Policy.

WEB http://www.taisei.co.jp/english/profile/corp_policies.html

Governance System

Governance System



① General Meeting of Shareholders (held on June 28, 2018)

The Company shall endeavor to dispatch the convocation notice of its General Meeting of Shareholders at least three weeks prior to the scheduled date of such General Meeting of Shareholders in order to provide its shareholders time to sufficiently consider the agenda of such General Meeting of Shareholders and exercise their voting rights appropriately. In addition, prior to dispatching each notice, the Company shall announce electronically the information relevant to such General Meeting of Shareholders through the TDnet system and its official website.

② Members of the Board/Board (convened 13 times in FY2017)

The Board, entrusted by the shareholders, shall pursue activities for the common benefit of the Company and its shareholders, and shall be responsible for maintaining an efficient and effective corporate governance structure to facilitate the growth of the Company in a sustainable manner and improve its corporate value in the mid- to long-term. For the purpose of fulfilling the responsibility described in the preceding paragraph, the Board shall exercise its supervisory function of the Company's overall operating activities, thus ensuring appropriateness, fairness, and transparency for the management, and shall make decisions regarding the execution of material business decisions as provided for in the laws and regulations, the Articles of Incorporation, the Board Regulations, and the Application Standards for the Board Regulations of the Company.

Nomination of a prospective Member of the Board and election of an Executive Officer shall be determined by the Board after the completion of deliberations by the Executive Personnel Committee established within the Board.

At least two (2) of the Members of the Board shall be Independent External Members of the Board in order to ensure that the independent and objective oversight of the execution of the Board's operations may be effectively carried out.

③ Committees of the Board

For the purpose of expediting deliberations and decision-makings by the Board, the Company has established the following committees within the Board: 1) the Executive Personnel Committee responsible for deliberating on the personnel-related matters of the Members of the Board and Executive Officers; 2) the Remuneration Committee responsible for deliberating on the remuneration of the Members of the Board and Executive Officers; 3) the Finance Committee responsible for deliberating on the potential acquisition and holding of significant assets; 4) the CSR Committee responsible for deliberating on matters to enhance the entire Group's CSR-based business management.

④ Audit & Supervisory Board (convened 14 times in FY2017)

As an entity independent of the Board and the Operating Divisions, and in accordance with the Audit Policy established by

the Audit & Supervisory Board, the Audit & Supervisory Board Members audit the performance of the Member of the Board including attending the meetings of the Board and hearing of reports on business conditions from the Members of the Board.

The Audit & Supervisory Board Members and the Chief Executive Officer, the Auditing Department and the Accounting Auditors hold regular meetings to arrive at mutual understanding and to improve the effectiveness of the audits.

⑤ Audit & Supervisory Board Members' Department

In order to assist the Audit & Supervisory Board Members in the performance of their duties, the Audit & Supervisory Board Members' Department has been set up independently of the Board as a dedicated organization to support the Audit & Supervisory Board Members with the collection of appropriate information and other tasks.

⑥ Auditing Department

Based on the annual auditing plan, the Auditing Department also conducts internal audits of administrative and management systems, as well as the legality and rationality of the management of corporate affairs at all in-house departments and Group companies.

⑦ Accounting Auditors

The Accounting Auditors submit reports on the audit plan and the audit results to the Audit & Supervisory Board, the Auditing Department and other internal control departments as needed.

To ensure the external accounting auditors conduct fair and appropriate audits, the management of the Company, Audit & Supervisory Board Members and the Auditing Department shall have meetings on a regular and as-needed basis, and exchange their opinions with the external accounting auditors. Further, the Board shall respond appropriately if external accounting auditors detect dishonest practices and request that appropriate action be taken, or indicate errors or problems.

⑧ Operations Committee

We have set up a range of operations committees including the Technology Committee, the Central Safety Committee, the Environment Committee, the Risk Management Committee, and the Central Labor Affairs Committee to deliberate matters that involve consultations with the President.

⑨ Special Committee

We have set up the Compliance Committee chaired by an external expert as a Special Committee to respond to consultations with the President and we endeavor to reinforce the promotion of compliance.

Corporate Governance and Internal Controls

Remuneration for Officers

Remuneration for the Members of the Board is determined from a comprehensive perspective that includes the scale, content, and performance of our business, as well as individual job specifications and responsibilities. Based on a resolution passed at the 146th Annual General Meeting of Shareholders on June 27, 2006, the sum total of monthly remuneration for the Members of the Board shall not exceed ¥70 million. Based on a resolution passed at the 134th Annual General Meeting of Shareholders on June 29, 1994, the sum total of monthly remuneration for Audit & Supervisory Board Members shall not exceed ¥12 million.

Further, where remuneration for the Members of the Board is concerned, the system of remuneration shall reflect performance and will be determined by the Board after deliberation by the Remuneration Committee, which carries out preliminary reviews ahead of board meetings, while remuneration for Audit & Supervisory Board Members shall be determined upon consultation with the Audit & Supervisory Board.

Amounts of Remuneration and Others Paid to Members of the Board and Audit & Supervisory Board Member

(Unit : ¥ Million)

Category	External		Total	
	Number of Payees	Amount Paid	Number of Payees	Amount Paid
Member of the Board	3	41	11	696
Audit & Supervisory Board Member	4	55	6	129
Total	7	96	17	825

(Note) All remuneration and others paid to Audit & Supervisory Board Members and Members of the Board are basic remuneration.

Support System for External Members of the Board and External Audit & Supervisory Board Members

The Secretarial Department is responsible for assisting operations of External Members of the Board, and the Audit & Supervisory Board Members' Department, which is independent of Members of the Board, is responsible for assisting operations of External Audit & Supervisory Board Members. The responsible officers and employees of the Secretarial Department distribute materials and provide explanations concerning proposals to External Members of the Board prior to the meetings of the Board held in principle once a month. For External Audit & Supervisory Board Members, the responsible employees of the Audit & Supervisory Board Members' Department provide explanations and distribute materials in advance regarding proposals. Information is also provided in a timely manner to External Members of the Board and External Audit & Supervisory Board Members.

Implementation of Training for Members of the Board and Audit & Supervisory Board Members

The Company holds necessary training seminars for Members of the Board and Audit & Supervisory Board Members in order for them to fulfill their functions to supervise and audit its business. Seminars covering related laws and regulations, the Articles of Incorporation, the Board Regulations, and internal processes for determining important policies of the Company, etc. are provided when officers assume their positions. In addition to this training, the Company continuously provides opportunities for Members of the Board and Audit & Supervisory Board Members to undergo trainings provided by third-party organizations. We also implement measures such as visits to worksites as needed for External Members of the Board and External Audit & Supervisory Board Members to deepen their understanding of the Taisei Group and our business.

Major Activities of External Members of the Board and External Audit & Supervisory Board Members

Classification	Name	Major Activities
Member of the Board	Toru Tsuji	He attended all the board meetings held in the current fiscal year. Based on the deep insights obtained from his experience as a manager in a different industry and from his neutral position and view as an external member of the board, he offered useful opinions to the Company's management in order to establish an internal control system and strengthen corporate governance and a compliance system.
Member of the Board	Fumio Sudo	He attended all the board meetings held during the current fiscal year. Based on the deep insights obtained from his experience as a manager in a different industry and from his neutral position and view as an external member of the board, he offered useful opinions to the Company's management in order to establish an internal control system and strengthen corporate governance and a compliance system.
Member of the Board	Atsuko Nishimura	Since she assumed the position of an external member of the board in the 157th General Meeting of Shareholders held on June 29, 2017, she attended all the board meetings held during the current fiscal year. Based on her abundant international sense obtained from her experience as a diplomat and from her neutral position and view as an external member of the board, she offered useful opinions to the Company's management in order to establish an internal control system and strengthen corporate governance and a compliance system.
Audit & Supervisory Board Member	Terunobu Maeda	He attended all the board meetings held in the current fiscal year and 13 out of a total of 14 audit & supervisory board meetings held during the same period. He offered his opinions as and when appropriate based on his broad knowledge of finance and accounting.
Audit & Supervisory Board Member	Shigeru Morichi	He attended all the board meetings and audit & supervisory board meetings held in the current fiscal year. He offered his opinions as and when appropriate based on the deep insights obtained from his experience as a university professor.
Audit & Supervisory Board Member	Kiwamu Miyakoshi	He attended all the board meetings and audit & supervisory board meetings held during the current fiscal year. He offered his opinions as and when appropriate based on the deep insights obtained from his experience as a police officer.
Audit & Supervisory Board Member	Kunitoshi Saito	He attended all the board meetings and audit & supervisory board meetings held during the current fiscal year. He offered his opinions as and when appropriate based on the deep insights obtained from his experience at the Board of Audit of Japan.

Accountability

Taisei Corporation established the Information Disclosure Policy in 2006, and stated principles for ensuring appropriate information disclosure and transparency in the Fundamental Corporate Governance Policy. These policies form the basis for our practice of timely and appropriate information disclosure. In 2015, the Company established the IR Policy, and strives to promote constructive dialog through discussions with shareholders and investors, IR briefings, and the annual general meeting of shareholders.

We strive for fair information disclosure via the Taisei Corporation official website, where we publish explanatory

material with commentary, summaries of the President's speeches and the main question and answer sessions (Japanese and English) in addition to the Medium-term Business Plan and materials distributed at results briefings. In addition, we disclose information to overseas investors in English in our annual reports and on the Taisei Corporation official English website.

We also report on key business and ESG (Environment, Society, Governance) initiatives on the shareholder newsletter in order to further deepen our shareholders' understanding of our corporate activities.

■ p.40 Communication with Major Stakeholders

Risk Management / Compliance

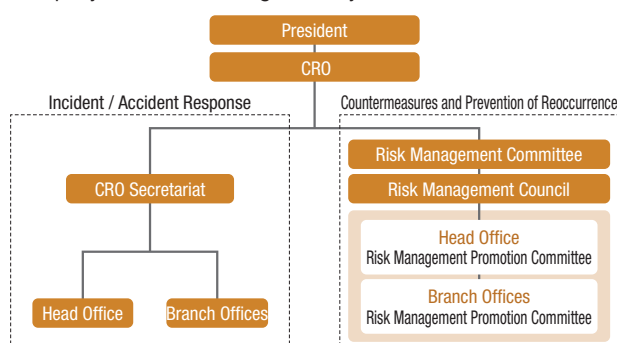
Company-Wide Risk Management

At Taisei Corporation, we have formulated a Risk Management Policy and built systems to implement risk management across the whole company in order to respond to risk escalation following changes in the business environment.

In terms of handling risk management, we identify and select risks that influence business activities every year. Depending on their importance, we classify them into categories such as "important company-wide risk" or "risk within the jurisdiction of head office". As well as preparing countermeasures, we also implement pragmatic risk management by clarifying supervisory roles and jurisdictions among the departments.

Specifically, information on incidents and accidents with the potential to have a serious impact on the management of the corporation is centralized at the CRO Secretariat. We implement effective risk management across the whole company including measures to prevent any reoccurrence by sharing this information with the Risk Management Committee and the Risk Management Council.

Company-Wide Risk Management System



➡ Please refer to the business and other risks in the Securities Report for the main issues that may have a major impact on investor decisions.

Initiatives for Business Continuity Planning (BCP)

Taisei Corporation has established the Policy on Business Continuity in Times of Disaster to meet its responsibilities as a general construction company supporting the infrastructure for economic activities. We aim to become a company earning the trust of society by contributing to business continuity at central and local governments and corporations while maintaining our business functions in time of disaster.

The Company has recently enhanced bases to serve as backup locations in case head and branch offices are damaged in a disaster in order to further ensure solid base functions in time of disaster.

At head office, we strengthened our disaster response capabilities by enhancing our employee dormitory "Premier Hatsudai" "Dormitory Shimura" and other facilities and setting them up as new backup locations for head office.

In addition, we update our Business Continuity Planning (BCP) annually in order to fulfill the duties noted above, including reinforcement of our crisis management system overseas in FY2015, and acquiring new certifications related to the BCP (Certification of Organizations Contributing to National Resilience).

Thanks to these efforts, we were able to swiftly respond to requests for reconstruction and supplies from our business partners during the Kumamoto Earthquake that occurred in April 2016.



Dormitory Shimura



Delivery of supplies after the Kumamoto Earthquake

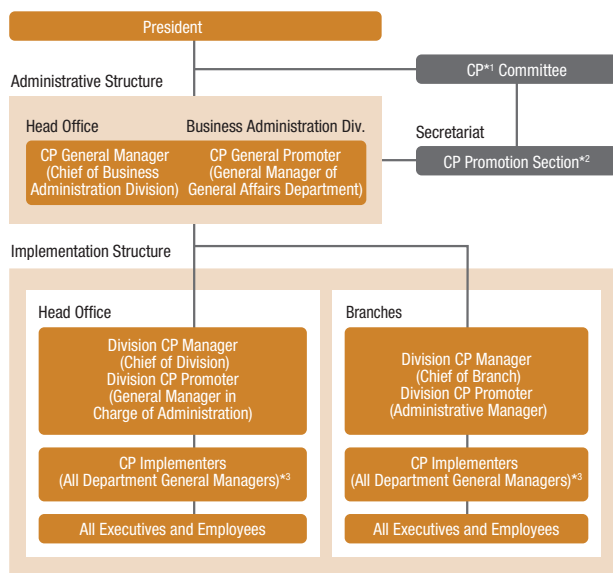
Risk Management/Compliance

Compliance Policy and Systems

The Group Action Guidelines for the Taisei Group state that in order to fulfill its social responsibilities, the Taisei Group shall adhere to laws and regulations, etc. (laws and ordinances, bylaw, administrative guidance, customs and other social rules, and various company rules and regulations). The guidelines also state that the company must act in good faith and fulfill contracts and promises with customers, suppliers, or the local community in all sincerity. This is the basis of compliance for all officers and employees of the Taisei Group.

As indicated in the diagram below, each department at Taisei Corporation has deployed managers, promoters, and implementers to install the in-house compliance promotion system and to strengthen compliance based on the opinions and recommendations of the Compliance Committee.

Compliance Promotion System



*1 CP: abbreviation of compliance

*2 Promotes and embeds compliance awareness among officers and employees. Also functions as a secretariat for the Compliance Committee.

*3 All heads of departments are appointed compliance implementers. The heads of each department educate and inform all officers and employees in their own departments about compliance.

p.52 Governance System

Raising Awareness of Compliance

Taisei Corporation systematically implements education and training to raise awareness of compliance. We strive to establish awareness for compliance among personnel by implementing e-learning and publishing the Compliance newsletter on familiar topics related to compliance, and are expanding these efforts to personnel of Group companies as well.

We also endeavor to strengthen group compliance by organizing periodic conferences for staff who are responsible for legal affairs at the domestic Group companies as a system for information sharing and exchange of opinions regarding issues related to legal affairs.

In addition, we are working to enhance awareness for compliance by holding compliance-related trainings for specialized contractors.

Organization	Description
Personnel	<ul style="list-style-type: none"> ● Publish the Compliance newsletter (once a month) ● Implement e-learning
Group company	<ul style="list-style-type: none"> ● Organize conferences for staff with responsibility for legal affairs at ten Group companies in Japan (once a year) ● Guidance on KPI establishment to six companies in Japan
Specialized contractors / Souyu-kai	<ul style="list-style-type: none"> ● Compliance training at the Safety Conference*4 (once a year / 12 branch offices) ● Compliance training for new employees of Souyu-kai member companies (twice a year) ● Promote CSR procurement <p> p.44 Promotion of Supply Chain Management</p>

*4 A conference that aims to inform specialty contractors about safety management.

In response to violation of the Anti-Monopoly Act at TAISEI ROTEC CORPORATION, a Group company, we engaged in deliberations at the Compliance Committee chaired by an external lawyer and at the Board of Directors meetings throughout FY2017. Based on the recommendations of the Compliance Committee, we established regulations concerning applications for surcharge exemption and an in-house leniency system. Furthermore, with regard to the Linear Chuo Shinkansen construction project, the Company and our counsellor were indicted on suspicion of violation of Anti-Monopoly Act in March 2018. We take this matter very seriously, and are reviewing measures such as further tightening of the rules relating to contacts with competitors which could lead to suspicion of violation of the relevant laws and regulations, and will implement those measures accordingly.

Whistleblowing and Consultation System


At the Taisei Group, we have set up the "Corporate ethics helpline" and "Group helpline", a system for whistleblowing and consultation where acts contravene laws and ordinances or the Group Action Guidelines. We have established consultation desks in-house and at an external organization (a law firm).

Based on the Whistleblower Protection Act, all information about the whistleblower is treated as confidential and any adverse action as a direct result of any whistleblowing is prohibited.

Since April 2016, we are accepting anonymous tips in order to nip a wide range of illegal activities in the bud.

We carry out fact-finding investigations on the whistleblowing reports received, and respond appropriately, including taking corrective measures as needed.

We also take measures to conceal all information on whistleblowers and strive to thoroughly prohibit any adverse treatment of them.

 p.46 KPIs Corporate ethics helpline and Group response rate

Initiatives to Ensure Fair Subcontracts and Eliminate Anti-Social Forces

Taisei Corporation has adopted Promoting Partnerships with Supply Chains in its Group Action Guidelines, and stipulates that relationships of fairness and mutual trust be built with suppliers and that transactions be conducted on an equal footing.

Furthermore, we have set out Measures for Dealing with Anti-Social Forces and Organizations, stipulating that we will take a resolute stance against anti-social forces and will not comply with illegitimate demands. In order to eliminate anti-social forces, we have included a condition in our contracts, including the basic contract for specialized sub-contractors, declaring that the supplier is not an anti-social force and that if revealed otherwise, the contract may be cancelled without notice.

Verification of Compliance with Laws and Regulations (Guidance)

In order to ensure the legitimacy of bids, Taisei Corporation operates an in-house system whereby the heads of branch offices confirm, produce the documents, and keep all bids on file.

Every year, the legal department verifies the legitimacy of bids and checks compliance with the Construction Business Act, Antimonopoly Act and the Subcontractors Protection Act. The results are reported to the in-house Auditing Department.

Practicing Intellectual Property Policy and Intellectual Property Strategy

Taisei Corporation has formulated an Intellectual Property Policy*, based on which we practice our Intellectual Property Strategy. We strategically manage and utilize all intellectual property including patents, copyright, construction and business know-how to promote management that is focused on intellectual property. Regarding management of intellectual property, we intend to improve operational efficiency through building a search function for our own patents and preparing a database for managing patents. We have tightened the handling of classified information and we have established Rules for Handling Intellectual Property Information in order to prevent leaks of technical know-how or other confidential business information. We also take measures to reduce the risk of infringing the intellectual property rights of third parties, such as making technical departments and business departments thoroughly aware of other companies' patent information.

In addition, we conduct training to ensure that employees are fully informed about this policy and utilize intellectual property strategically in order to strengthen our competitiveness and improve our corporate value.

In addition, we conduct training to ensure that employees are fully informed about this policy and utilize intellectual property strategically in order to strengthen our competitiveness and improve our corporate value. In FY2017, we conducted intellectual property courses for technical departments in the head office and operational departments in branch offices, including the utilization of application rights and a series of awareness campaigns about infringement.

 p.43 KPIs Number of patent rights registered / Number of patent applications filed


Information Security Measures

At the Taisei Group, we have formulated policies and action guidelines in order to protect and make appropriate use of company information.

Under the slogan "ICT Safety First!", Taisei Corporation implements a range of information security measures. Together with all Group companies, specialized constructors, and other partner companies, we aim for zero incidents related to information security. We have been promoting a tighter information security environment at overseas business offices and construction sites since FY2016.

We have summarized the minimal rules to be followed in a pamphlet, and conducted education and instruction for all officers and employees as well as specialized constructors and other partner companies.

Taisei Corporation has systematically built rules and regulations concerning company-wide information security systems and information management. We established Taisei-SIRT in order to strengthen the system for responding to security incidents* involving electronic information. We have been actively involved in the Nippon CSIRT Association since joining in March 2013.

 p.46 KPIs Number of major information security accidents

* Electronic information security incidents: Incidents and accidents including information leaks that threaten information security or have an impact on business operation.

Explanation and Analysis of Business Results

TAISEI CORPORATION and Consolidated Subsidiaries
Years ended March 31, 2017 and 2018

	Millions of Yen (except for per share figures)		Thousands of U.S. Dollars*1 (except for per share figures)	
	2017	2018	2018	Change (%)
Contract backlog at the beginning of the year	¥ 2,081,438	¥ 2,249,221	\$ 21,171,131	8.1%
New orders received during the year	1,655,036	1,743,498	16,410,938	5.3
Net sales	1,487,253	1,585,498	14,923,739	6.6
Contract backlog at the end of the year	¥ 2,249,221	¥ 2,407,221	\$ 22,658,330	7.0%
Net income attributable to owners of parent	¥ 90,566	¥ 126,788	\$ 1,193,411	40.0%
Per share (in yen and dollars)	392.87	561.36*2	5.284*2	42.9
Cash dividends applicable to the year	22,907	28,032	263,855	22.4
Per share (in yen and dollars)	20.00	85.00*3	0.800*3	325.0
Net assets	570,814	669,020	6,297,252	17.2
Per share (in yen and dollars)	2483.01	2975.02*2	28.003*2	19.8
Total assets	1,760,079	1,930,825	18,174,181	9.7

*1 U.S. dollar amounts above and elsewhere in this Annual Report were translated from yen, for convenience only, at the rate of U.S. \$ 1 = ¥ 106.24, the approximate exchange rate at March 31, 2018.

*2 The net assets per share and the net income per share are calculated assuming that the consolidation of shares took place at the beginning of the year, because the consolidation of shares, at the ratio of 1 share for 5 shares, was implemented on October 1, 2017.

*3 Total annual dividends per share as of March 31, 2018 is ¥ 85.00 (U.S. \$ 0.8), which is the sum of the interim dividend per share of ¥ 10.00 (U.S. \$ 0.1) and the year-end dividend per share of ¥ 75.00 (U.S. \$ 0.7). Due to the consolidation of shares at the ratio of 1 share for 5 shares implemented on October 1, 2017, the year-end dividend per share of ¥ 75.00 reflects this consolidation, while the interim dividend per share of ¥ 10.00 does not.

If the interim dividend per share is calculated based on the consolidation of shares, it would be ¥ 50.00 (U.S. \$ 0.5), making the total annual dividends per share ¥ 125.00 (U.S. \$ 1.2).

Status of Results

The Japanese economy during this fiscal year moderately recovered overall as capital investment mildly increased in response to strong corporate performance, and consumer spending rebounded with the improvement in the employment and income environment.

In the domestic construction market, both government and private investments in construction moderately increased, allowing the construction industry to maintain a solid business environment.

Under these circumstances, the Company and its affiliated companies reported consolidated results of its operations as follows:

Orders received of ¥ 1,743.4 billion yen, 5.3% increase compared to the previous fiscal year, net sales of ¥ 1,585.4 billion yen, 6.6% increase, operating income of ¥ 181.8 billion yen, 29.1% increase, net income attributable to owners of parent of ¥ 126.7 billion yen, 40.0% increase compared to the previous fiscal year.

Major new orders received during FY ended March 2018

Client	Project	
Japan Airport Terminal Co., Ltd.	Tokyo International Airport Terminal 2 Construction Work of International Facilities	→ p.8
Mitsui Fudosan Co., Ltd.	Toyosu 2nd District 2-1 Project (Tower B)	
Tokyo Metro Co., Ltd.	Improvement Work of Ginza Station of Ginza Line and Other Two Stations (Building Construction, Electric Engineering and Civil Engineering Works)	
Ebie Water Link Co., Ltd.	Renewal Project of Ebie Sewage Treatment Plant in Osaka City	→ p.8
Ministry of the Environment	Interim Storage Facility for (Futaba District 2) Soil Interim Storage Facility Construction for FY 2017	

Major projects completed during FY ended March 2018

Client	Project	
Meguro Station Front Area Urban Land Redevelopment Consortium	Meguro Station Front Area 1st Type Urban Land Redevelopment New Construction of Building Facilities	→ p.8
Nishi-Shinagawa 1-chome Area Urban Land Redevelopment Consortium	Nishi-Shinagawa 1-chome Area 1st Type Urban Land Redevelopment New Construction of Building Facilities and Public Facilities (Block A)	→ p.8
Futamatagawa Station South Area Urban Land Redevelopment Consortium	Futamatagawa Station South Area 1st Type Urban Land Redevelopment New Construction of Building Facilities	
West Nippon Expressway Company Limited	Construction Work of the Shinmeishin Expressway Minoh Tunnel East	
Kesennuma City	Site Preparation for Promotion of Collective Relocation for Disaster Prevention and Development Project of Public Restoration Housing, Kesennuma City	→ p.8

Results according to reporting segment, etc., are as follows (the results for reporting segments include internal transactions between segments).

1. Civil Engineering

In our Group, net sales increased by 3.8% compared with the previous consolidated fiscal year to ¥ 466.4 billion, due to an increase in net sales for both the Company and its consolidated subsidiaries. Also, operating income increased by 29.6% year on year to ¥ 71.5 billion, due to an increase in net sales and an improvement in gross profit margin.

2. Building Construction

In our Group, net sales increased by 8.5% compared with the previous consolidated fiscal year to ¥ 1,060.5 billion, due to an increase in net sales for the Company. Also, operating income increased by 31.4% year on year to ¥ 96.3 billion, due to an increase in net sales and an improvement in gross profit margin.

3. Real Estate Development

As for the real estate industry, the condominium market has shown to be more polarizing as we see that while demand remained strong mainly for properties in central Tokyo with sales prices maintaining high levels, some properties in the suburbs took a long time to sell. Further, the building leasing market remains steady as the rent continued to moderately rise amid strong demand mainly in central Tokyo.

In our Group, net sales decreased by 1.6% compared with the previous consolidated fiscal year to ¥ 119.8 billion, due to a decrease in net sales for the Company. Also, operating income decreased by 2.6% year on year to ¥ 12.9 billion, due to a decrease in net sales.

4. Other

In our Group, net sales decreased by 5.6% compared with the previous consolidated fiscal year to ¥ 12.3 billion, and operating income decreased by 7.2% year on year to ¥ 1.1 billion.

(Consolidated) Orders received

Millions of Yen		
	2017	2018
Name of reporting segment, etc.:		
Civil engineering	¥ 427,594	¥ 520,407
Building construction	1,101,472	1,099,950
Real estate development	115,337	113,411
Others	10,630	9,727
Total	¥ 1,655,035	¥ 1,743,497

(Consolidated) Sales

Millions of Yen		
	2017	2018
Name of reporting segment, etc.:		
Civil engineering	¥ 422,847	¥ 441,269
Building construction	938,548	1,020,765
Real estate development	115,225	113,736
Others	10,630	9,727
Total	¥ 1,487,252	¥ 1,585,497

Notes: 1. In Orders received and Sales, transactions between segments have been eliminated.
2. As it is difficult to define production performance at our Group, "overview of production" is omitted.

Explanation and Analysis of Business Results

TAISEI CORPORATION and Consolidated Subsidiaries
Years ended March 31, 2016 and 2017

Cash Flows

1. Cash Flows from Operating Activities

Income before income taxes of ¥182.2 billion was earned in this term, which, together with other factors, resulted in a balance of excess revenue of ¥ 207.0 billion for this consolidated fiscal year (excess revenue in the previous consolidated fiscal year was ¥ 218.1 billion).

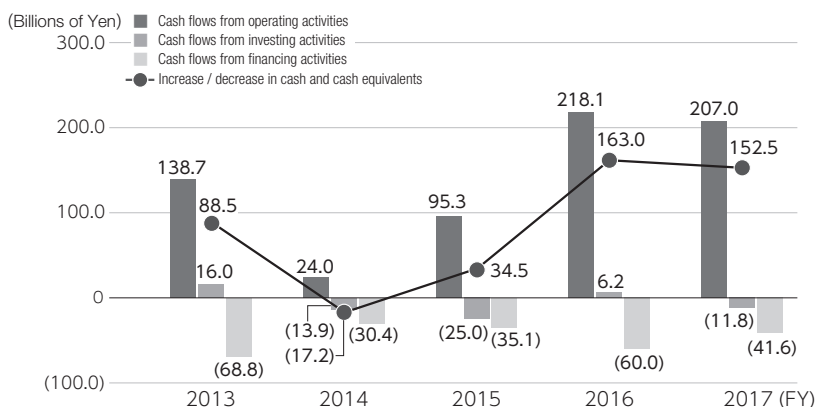
2. Cash Flows from Investing Activities

A balance of expenditure of ¥11.8 billion was incurred in this consolidated fiscal year due to the acquisition of property, plant and equipment, etc. (excess revenue of ¥ 6.2 billion in the previous consolidated fiscal year).

3. Cash Flows from Financing Activities

A balance of expenditure of ¥ 41.6 billion was incurred in this consolidated fiscal year due to the acquisition of treasury stock and cash dividends paid, etc. (expenditure of ¥60.0 billion in the previous consolidated fiscal year).

Cash Flows Status



As a result of the above, cash and cash equivalents at the end of this consolidated fiscal year was ¥ 687.3 billion (an increase of ¥ 152.5 billion compared with the end of the previous consolidated fiscal year), and the balance of interest-bearing loans associated with procurement of finance was ¥ 247.3 billion (an increase of ¥9.2

billion year on year). In addition, of the balance of interest-bearing loans associated with procurement of finance at the end of this consolidated fiscal year, non-recourse loans were ¥ 3.4 billion (a decrease of ¥ 0.1 billion year on year).

Analysis of Financial Position and Business Results

1. Overview

Although the business results for this consolidated fiscal year did not achieve the predictions at the beginning of the fiscal year for net sales, predictions were achieved for orders received, operating income, recurring income, and net income attributable to owners of parent. Also, as net income attributable to owners of parent increased by ¥ 36.2 billion from the previous consolidated fiscal year to ¥ 126.7 billion, ROE (return on equity) increased by 3.8% to 20.5%.

Despite an increase of ¥ 1,261.8 billion in liabilities due to an increase in accounts payable, trade, net assets increased to ¥669.0 billion due to posting of net income attributable to owners of parent, and the ratio of capital to assets increased by 2.3% compared with the end of the previous consolidated fiscal year to 34.6%. Also, the balance of interest-bearing loans associated with procurement of finance increased by ¥ 9.2 billion from the end of the previous consolidated fiscal year to ¥ 247.3 billion (including non-recourse loans of ¥ 3.4 billion, down ¥ 0.1 billion).

2. Financial Position

(1) Assets

As a result of an increase in cash and time deposits, total assets increased by 9.7% or ¥ 170.7 billion compared with the end of the previous consolidated fiscal year to ¥ 1,930.8 billion.

(2) Liabilities

Total liabilities increased by 6.1% or ¥ 72.5 billion compared with the end of the previous consolidated fiscal year to ¥ 1,261.8 billion, due to an increase in accounts payable, trade.

(3) Net Assets

Net assets increased by 17.2% or ¥ 98.2 billion compared with the end of the previous consolidated fiscal year to ¥ 669.0 billion, due to posting of net income attributable to owners of parent, etc., despite carrying out an acquisition and cancellation of treasury stock.

3. Business Results**(1) New Orders and Net Sales**

New orders received have increased in Civil Engineering, increasing overall by 5.3% compared with the previous consolidated fiscal year to ¥ 1,743.4 billion.

Also, net sales increased in Civil Engineering and Building Construction, increasing by 6.6% to ¥ 1,585.4 billion, compared with the previous consolidated fiscal year.

(2) Operating Income

Operating income increased by 29.1% to ¥ 181.8 billion compared with the previous consolidated fiscal year, due to an increase in income resulting from net sales growth in Civil Engineering and Building Construction and an improvement in gross profit margin.

(3) Net Income Attributable to Owners of Parent

Net income attributable to owners of parent increased by 40.0% to ¥ 126.7 billion compared with the previous consolidated fiscal year, due to an improvement in extraordinary loss (income) stemming from reaction to the posting of losses incurred in relation to the Anti-Monopoly Act in the previous term.

Dividend Policy

The Company has made it a basic policy to pay long-term stable dividends to shareholders. The Company tries to reinforce internal reserve for the future business operation, and returns the profit to the shareholders by way of a special dividend and the like when the business performance of the Company is well.

With regard to the dividend at the end of the fiscal year ended March 31, 2018, comprehensively taking into account both achievement of much greater performance than the initial plan, and business surroundings in the future, etc., it has been decided to allocate a dividend of ¥ 75.00 per share.

The Company conducted 1-for-5 consolidation of shares on October 1, 2017. When the share consolidation is not taken into consideration, the total dividend for the fiscal year ended March 31, 2018, including the interim dividend of ¥ 10 is ¥ 25 per share, a ¥ 5 increase compared to the dividend of the previous fiscal year.

The Articles of Incorporation of the Company permit an interim dividend to be allocated, in accordance with Paragraph 5 of Article 454 of the Companies Act, with dividends allocated twice every year, at the middle and at the end of the fiscal year. These dividends are decided at the General Meeting of Shareholders for the end of term and the Board meeting for the interim dividend.

At the Board meeting on May 11, 2018, acquisition of treasury stock, the maximum limitation of which is 8,780 thousand shares (¥36.0 billion), was resolved in order to increase shareholder returns and to improve the capital efficiency.

Total dividend amount and dividend per share

	Millions of Yen	Yen
	Total dividend amount	Dividend per share
Resolution meeting date:		
Board meeting, November 10, 2017	¥ 11,212	¥ 10.00
General Meeting of Shareholders, June 28, 2018	16,818	75.00

Note: The dividends on retained at the record date of this term are as shown above.

* Since the record date falls on September 30, 2017, the dividend per share based on a resolution of the Board meeting held on November 10, 2017 does not take into account the share consolidation (1-for-5 consolidation of shares) as of October 1, 2017.

Consolidated Balance Sheets

TAISEI CORPORATION and Consolidated Subsidiaries
March 31, 2017 and 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2017	2018	2018
Current assets:			
Cash and time deposits (Notes 3 and 4)	¥ 535,592	¥ 687,456	\$ 6,470,783
Notes and accounts receivable, trade (Note 4 and 7)	420,131	441,631	4,156,918
Cost on uncompleted contracts	67,053	50,094	471,517
Cost on development projects in progress	102,743	86,207	811,436
Other inventories	3,462	2,757	25,951
Deferred income tax assets (Note 9)	28,046	24,777	233,217
Other current assets (Note 7)	66,843	59,514	560,185
Allowance for doubtful accounts	(298)	(173)	(1,628)
Total current assets	1,223,572	1,352,263	12,728,379
Fixed assets:			
Property, plant and equipment:			
Buildings and structures (Notes 6, 10 and 21)	123,479	136,975	1,289,298
Machinery, vehicles, tools, furniture and fixtures (Note 6, 10 and 21) ...	55,071	56,173	528,737
Land (Notes 6, 10, 18 and 21)	119,826	119,964	1,129,179
Construction in progress	922	1,523	14,335
	299,298	314,635	2,961,549
Accumulated depreciation	(123,315)	(126,238)	(1,188,234)
Net property, plant and equipment	175,983	188,397	1,773,315
Intangibles (Note 10)	5,085	11,554	108,754
Investments and other assets:			
Investment securities (Notes 4, 5 and 6)	309,015	337,382	3,175,659
Net defined benefit asset (Note 11)	10,778	9,561	89,994
Deferred income tax assets (Note 9)	3,029	2,008	18,901
Other assets (Note 6)	35,082	31,413	295,679
Allowance for doubtful accounts	(2,465)	(1,753)	(16,500)
Total investments and other assets	355,439	378,611	3,563,733
Total fixed assets	536,507	578,562	5,445,802
Total assets	¥ 1,760,079	¥ 1,930,825	\$ 18,174,181

The accompanying notes are an integral part of these balance sheets.

LIABILITIES AND NET ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2018	2018
Current liabilities:			
Notes and accounts payable, trade (Note 4 and 7)	¥ 424,494	¥ 509,576	\$ 4,796,461
Short-term loans (Notes 4, 6 and 8)	71,417	69,304	652,334
Current portion of long-term debt (Notes 4 and 8)	53,554	31,449	296,019
Income taxes payable	31,139	30,843	290,314
Advances received and progress billings on uncompleted contracts (Note 15) ...	175,689	148,516	1,397,929
Deposits received (Note 4)	171,132	182,142	1,714,439
Allowance for warranty on completed contracts	3,391	3,129	29,452
Allowance for losses on construction contracts	15,666	9,394	88,422
Allowance for losses on order received	15	3	28
Other current liabilities(Note 7)	40,497	38,270	360,222
Total current liabilities	986,994	1,022,626	9,625,620
Long- term liabilities:			
Long-term debt (Notes 4, 6 and 8)	113,928	147,321	1,386,681
Deferred income tax liabilities (Note 9)	11,351	21,658	203,859
Deferred income tax liabilities for revaluation of land (Notes 9 and 18)	4,184	3,286	30,930
Retirement benefits for directors and audit & supervisory board members ..	432	391	3,680
Allowance for losses on investments in subsidiaries and affiliates ...	66	40	377
Allowance for environmental spending	90	89	838
Allowance for losses on Anti-Monopoly Act (Note 19)	11,036	10,694	100,659
Net defined benefit liability (Note 11)	41,262	35,787	336,851
Other long-term liabilities	19,922	19,913	187,434
Total long-term liabilities	202,271	239,179	2,251,309
Total liabilities	1,189,265	1,261,805	11,876,929
Net assets (Notes 12 and 22):			
Shareholders' equity:			
Common stock			
Authorized: 440,000,000 shares			
Issued: 224,541,172 shares	122,742	122,742	1,155,328
Capital surplus	85,150	60,199	566,632
Retained earnings	278,614	382,462	3,599,981
Less: Treasury stock, at cost	(1,110)	(1,490)	(14,025)
Total shareholders' equity	485,396	563,913	5,307,916
Accumulated other comprehensive income:			
Unrealized holding gains on securities, net of taxes	82,463	98,579	927,890
Deferred losses on hedging derivatives, net of taxes (Note 14) ...	(158)	(115)	(1,082)
Revaluation reserve for land (Note 18)	773	(1,245)	(11,719)
Foreign currency translation adjustments	(2,969)	(3,058)	(28,784)
Remeasurements of defined benefit plans, net of taxes (Note 11)	3,275	9,079	85,458
Total accumulated other comprehensive income	83,384	103,240	971,763
Non-controlling interests:	2,034	1,867	17,573
Total net assets	570,814	669,020	6,297,252
Total liabilities and net assets	¥ 1,760,079	¥ 1,930,825	\$ 18,174,181

Consolidated Statements of Income

TAISEI CORPORATION and Consolidated Subsidiaries
Years Ended March 31, 2017 and 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2018	2018
Revenue:			
Net sales (Note 16):			
Construction contracts	¥ 1,342,455	¥ 1,445,277	\$ 13,603,888
Real estate development (and other) (Note 10)	144,798	140,221	1,319,851
	1,487,253	1,585,498	14,923,739
Costs and expenses (Note 16):			
Cost of sales (Note 20)	1,260,968	1,318,880	12,414,157
Selling, general and administrative expenses (Note 20)	85,462	84,758	797,797
	1,346,430	1,403,638	13,211,954
Operating income (Note 16)	140,823	181,860	1,711,785
Other income (expenses):			
Interest and dividend income	3,913	4,332	40,776
Interest expenses	(2,157)	(1,684)	(15,851)
Taxes and dues	(758)	(13)	(122)
Litigation settlement	(955)	(15)	(141)
Foreign exchange gains (losses)	2,276	—	—
Investment gain on equity method	1,379	1,004	9,450
Gains on sales of investment securities	2,878	779	7,333
Gains on sales of property and equipment	552	35	329
Reversal of allowance for losses on Anti-Monopoly Act	—	117	1,101
Impairment losses on fixed assets (Note 16 and 21)	(685)	(3,632)	(34,187)
Losses on Anti-Monopoly Act (Note 19)	(11,640)	—	—
Other, net (Note 5)	(436)	(486)	(4,575)
	(5,633)	437	4,113
Income before income taxes	135,190	182,297	1,715,898
Income taxes (Note 9):			
Current	(45,506)	(51,437)	(484,159)
Deferred	713	(4,071)	(38,319)
	(44,793)	(55,508)	(522,478)
Net income	90,397	126,789	1,193,420
Net income (loss) attributable to non-controlling interests	169	(1)	(9)
Net income attributable to owners of parent	¥ 90,566	¥ 126,788	\$ 1,193,411

	Yen	U.S. Dollars (Note 1)
Amounts per share of common stock:		
Net income (Note 22)	¥ 78.57	¥ 561.36 \$ 5.284
Diluted net income (Note 22)	—	—
Cash dividends applicable to the year (Note 12)	20.00	85.00 0.8

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income

TAISEI CORPORATION and Consolidated Subsidiaries
Years Ended March 31, 2017 and 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2018	2018
Net income	¥ 90,397	¥ 126,789	\$ 1,193,420
Other comprehensive income (Note 23):			
Unrealized holding gains on securities, net of taxes	(2,691)	16,112	151,657
Deferred gains (losses) on hedging derivatives, net of taxes ...	2	(7)	(66)
Foreign currency translation adjustments	(404)	(30)	(282)
Remeasurements of defined benefit plans, net of taxes	5,923	5,794	54,537
Share of other comprehensive income of associates accounted for by the equity method ...	(438)	(1)	(10)
Total other comprehensive income	2,392	21,868	205,836
Comprehensive income	¥ 92,789	¥ 148,657	\$ 1,399,256
Comprehensive income attribute to:			
Owners of parent	¥ 93,014	¥ 148,662	\$ 1,399,303
Non-controlling interests	(225)	(5)	(47)

The accompanying notes are an integral part of these statements.

About the Taisei Group

Value Creation Story of the Taisei Group

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Consolidated Statements of Changes in Net Assets

TAISEI CORPORATION and Consolidated Subsidiaries
Years Ended March 31, 2017 and 2018

Millions of Yen

	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at March 31, 2016	¥ 122,742	¥ 104,465	¥ 210,721	¥ (395)	¥ 437,533
Cumulative effect of changes in accounting policies	—	—	12	—	12
Restated balance at beginning of year	122,742	104,465	210,733	(395)	437,545
Dividends	—	—	(22,032)	—	(22,032)
Net income attributable to owners of parent	—	—	90,566	—	90,566
Sale of treasury stock	—	0	—	1	1
Acquisition of treasury stock	—	—	—	(20,031)	(20,031)
Retirement of treasury stock	—	(19,315)	—	19,315	—
Reversal of revaluation reserve for land	—	—	(596)	—	(596)
Changes of scope of consolidation	—	—	14	—	14
Changes of shares from transaction with none-controlling shareholders ...	—	—	—	—	—
Changes of scope of equity method	—	—	(71)	—	(71)
Changes other than shareholders' equity, net	—	—	—	—	—
Balance at March 31, 2017	¥ 122,742	¥ 85,150	¥ 278,614	¥ (1,110)	¥ 485,396
Cumulative effect of changes in accounting policies	—	—	—	—	—
Restated balance at beginning of year	122,742	85,150	278,614	(1,110)	485,396
Dividends	—	—	(24,958)	—	(24,958)
Net income attributable to owners of parent	—	—	126,788	—	126,788
Sale of treasury stock	—	0	—	2	2
Acquisition of treasury stock	—	—	—	(25,047)	(25,047)
Retirement of treasury stock	—	(24,665)	—	24,665	—
Reversal of revaluation reserve for land	—	—	2,018	—	2,018
Changes of scope of consolidation	—	—	—	—	—
Changes of shares from transaction with none-controlling shareholders ...	—	(286)	—	—	(286)
Changes of scope of equity method	—	—	—	—	—
Changes other than shareholders' equity, net	—	—	—	—	—
Balance at March 31, 2018	¥ 122,742	¥ 60,199	¥ 382,462	¥ (1,490)	¥ 563,913

Thousands of U.S. Dollars (Note 1)

	Common Stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at March 31, 2017	\$ 1,155,328	\$ 801,487	\$ 2,622,496	\$ (10,448)	\$ 4,568,863
Cumulative effect of changes in accounting policies	—	—	—	—	—
Restated balance at beginning of year	1,155,328	801,487	2,622,496	(10,448)	4,568,863
Dividends	—	—	(234,921)	—	(234,921)
Net income attributable to owners of parent	—	—	1,193,411	—	1,193,411
Sale of treasury stock	—	0	—	19	19
Acquisition of treasury stock	—	—	—	(235,759)	(235,759)
Retirement of treasury stock	—	(232,163)	—	232,163	—
Reversal of revaluation reserve for land	—	—	18,995	—	18,995
Changes of scope of consolidation	—	—	—	—	—
Changes of shares from transaction with none-controlling shareholders ...	—	(2,692)	—	—	(2,692)
Changes of scope of equity method	—	—	—	—	—
Changes other than shareholders' equity, net	—	—	—	—	—
Balance at March 31, 2018	\$ 1,155,328	\$ 566,632	\$ 3,599,981	\$ (14,025)	\$ 5,307,916

The accompanying notes are an integral part of these statements.

Millions of Yen

Unrealized holding gains on securities, net of taxes	Deferred losses on hedging derivatives, net of taxes	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans, net of taxes	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
¥ 85,161	¥ (214)	¥ 177	¥ (2,158)	¥ (2,624)	¥ 80,342	¥ 3,403	¥ 521,278
—	—	—	—	—	—	—	12
85,161	(214)	177	(2,158)	(2,624)	80,342	3,403	521,290
—	—	—	—	—	—	—	(22,032)
—	—	—	—	—	—	—	90,566
—	—	—	—	—	—	—	1
—	—	—	—	—	—	—	(20,031)
—	—	—	—	—	—	—	—
—	—	596	—	—	596	—	—
—	—	—	—	—	—	—	14
—	—	—	—	—	—	—	—
(2)	—	—	—	—	(2)	—	(73)
(2,696)	56	—	(811)	5,899	2,448	(1,369)	1,079
¥ 82,463	¥ (158)	¥ 773	¥ (2,969)	¥ 3,275	¥ 83,384	¥ 2,034	¥ 570,814
—	—	—	—	—	—	—	—
82,463	(158)	773	¥ (2,969)	3,275	83,384	2,034	570,814
—	—	—	—	—	—	—	(24,958)
—	—	—	—	—	—	—	126,788
—	—	—	—	—	—	—	2
—	—	—	—	—	—	—	(25,047)
—	—	—	—	—	—	—	—
—	—	(2,018)	—	—	(2,018)	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	(286)
—	—	—	—	—	—	—	—
16,116	43	—	(89)	5,804	21,874	(167)	21,707
¥ 98,579	¥ (115)	¥ (1,245)	¥ (3,058)	¥ 9,079	¥ 103,240	¥ 1,867	¥ 669,020

Thousands of U.S. Dollars (Note 1)

Unrealized holding gains on securities, net of taxes	Deferred losses on hedging derivatives, net of taxes	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans, net of taxes	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
\$ 776,195	\$ (1,487)	\$ 7,276	\$ (27,946)	\$ 30,826	\$ 784,864	\$ 19,145	\$ 5,372,872
—	—	—	—	—	—	—	—
776,195	(1,487)	7,276	(27,946)	30,826	784,864	19,145	5,372,872
—	—	—	—	—	—	—	(234,921)
—	—	—	—	—	—	—	1,193,411
—	—	—	—	—	—	—	19
—	—	—	—	—	—	—	(235,759)
—	—	—	—	—	—	—	—
—	—	(18,995)	—	—	(18,995)	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	(2,692)
—	—	—	—	—	—	—	—
151,695	405	—	(838)	54,632	205,894	(1,572)	204,322
\$ 927,890	\$ (1,082)	\$ (11,719)	\$ (28,784)	\$ 85,458	\$ 971,763	\$ 17,573	\$ 6,297,252

Consolidated Statements of Cash Flows

TAISEI CORPORATION and Consolidated Subsidiaries
Years Ended March 31, 2017 and 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2018	2018
Cash flows from operating activities:			
Income before income taxes	¥ 135,190	¥ 182,297	\$ 1,715,898
Depreciation and amortization	6,268	7,050	66,359
Impairment losses on fixed assets	685	3,632	34,187
Increase (decrease) in allowance for doubtful accounts	(854)	(836)	(7,869)
Increase (decrease) in allowance for losses on construction contracts ...	(6,451)	(6,272)	(59,036)
Increase (decrease) in net defined benefit liability	(2,662)	(5,476)	(51,544)
Increase (decrease) in allowance for losses on Anti-Monopoly Act ...	11,036	(342)	(3,219)
Interest and dividend income	(3,913)	(4,332)	(40,776)
Interest expenses	2,156	1,684	15,851
Foreign exchange losses (gains)	(2,276)	145	1,365
Write-down of investment securities	217	4	38
Gain (Loss) on sale of marketable and investment securities ..	(2,787)	(769)	(7,238)
Write-down of cost on development projects in progress	1,371	280	2,635
Losses (gains) on sales of property and equipment	(552)	(35)	(330)
Investment gain on equity method	(1,378)	(1,004)	(9,450)
Decrease (increase) in trade receivables	23,431	(21,538)	(202,730)
Decrease (increase) in cost on uncompleted contract	17,490	16,948	159,526
Decrease (increase) in inventories other than cost on uncompleted contract	3,091	(4,895)	(46,075)
Decrease (increase) in other current assets	3,346	7,442	70,049
Decrease (increase) in net defined benefit asset	167	1,217	11,455
Decrease (increase) in investment and other assets	1,406	3,374	31,758
Increase (decrease) in trade payables	(18,138)	85,141	801,402
Increase (decrease) in advances received and progress billings on uncompleted contracts ...	15,540	(27,146)	(255,516)
Increase (decrease) in deposits received	50,937	11,011	103,643
Increase (decrease) in other current liabilities	4,977	(2,567)	(24,162)
Other, net	13,722	9,930	93,468
	252,019	254,943	2,399,689
Cash received (paid) during the year for:			
Interest and dividend received	8,139	4,792	45,106
Interest paid	(2,338)	(1,684)	(15,851)
Income taxes paid	(39,662)	(51,031)	(480,337)
Net cash provided by (used in) operating activities	218,158	207,020	1,948,607
Cash flows from investing activities:			
Decrease (increase) in time deposits	1,652	705	6,636
Purchase of marketable and investment securities	(2,097)	(6,171)	(58,086)
Proceeds from sale of marketable and investment securities ...	9,912	2,041	19,211
Purchase of property, equipment and intangible assets	(7,227)	(9,354)	(88,046)
Proceeds from sale of property, equipment and intangible assets ...	4,155	591	5,563
Other, net	(99)	336	3,163
Net cash provided by (used in) investing activities	6,296	(11,852)	(111,559)
Cash flows from financing activities:			
Increase (decrease) in short-term loans	17,076	(2,105)	(19,814)
Proceeds from long-term loans	32,950	44,850	422,157
Repayment of long-term loans	(54,975)	(43,404)	(408,547)
Repayment of long-term non-recourse loans payable	(1,600)	(100)	(941)
Issue of bonds	—	19,968	187,952
Redemption of bonds	(10,000)	(10,000)	(94,126)
Acquisition of treasury stock	(20,031)	(25,047)	(235,759)
Cash dividends paid, including those to minority interest	(22,032)	(24,957)	(234,912)
Other, net	(1,449)	(888)	(8,358)
Net cash provided by (used in) financing activities	(60,061)	(41,683)	(392,348)
Effect of exchange rate changes on cash and cash equivalents ...	(1,382)	(925)	(8,706)
Net increase (decrease) in cash and cash equivalents	163,011	152,560	1,435,994
Cash and cash equivalents at beginning of year	371,731	534,787	5,033,763
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	45	—	—
Cash and cash equivalents at end of year (Note 3)	¥ 534,787	¥ 687,347	\$ 6,469,757

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

TAISEI CORPORATION and Consolidated Subsidiaries
Years Ended March 31, 2017 and 2018

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Taisei Corporation (the "Company") and its consolidated subsidiaries (collectively the "Group") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements have been reformatted and translated into English (with some expanded descriptions) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information, included in the statutory Japanese language consolidated financial statements but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2018, which was ¥ 106.24 to U.S. \$ 1. The translations should not be construed as representations of what the Japanese yen amounts have been, could have been, or could in the future be when converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

(a) Consolidation and equity method

The Company prepares the consolidated financial statements including the accounts of the Company and those of its majority-owned subsidiaries, whether directly or indirectly controlled. The consolidated financial statements include the accounts of 31 subsidiaries for the year ended March 31, 2018 (29 subsidiaries for the year ended March 31, 2017). PT. TAISEI PULAUINTAN CONSTRUCTION INTERNATIONAL and other 1 company are included in the scope of consolidation because the companies were newly established.

Exclusion of certain small-scale subsidiaries from the scope of consolidation does not have material impact on the consolidated financial statements.

All significant intercompany transactions, account balances and unrealized gains or losses have been eliminated in consolidation.

The financial statements of non-consolidated subsidiaries, and investments in affiliated companies in which the Group does not have control but has the ability to exercise significant influence, are accounted for by the equity method.

The financial statements in 20 subsidiaries, mainly consist of TOKYO ACADEMIC SERVICE Co., Ltd. and EHIME HOSPITAL PARTNERS Co., Ltd. are accounted for by the equity method for the year ended March 31, 2018. 1 non-consolidated subsidiary newly established is included in the scope of equity method.

Investments in 40 affiliated companies are also accounted for by the equity method for the year ended March 31, 2018 (41 affiliated companies for the year ended March 31, 2017). 1 affiliated company that was newly established is included in the scope of equity method. 2 affiliated companies are excluded from the scope of equity method because the Group sold its shares.

Exclusion of certain small-scale non-consolidated subsidiaries (TAIMEI INDUSTRIES Ltd. and the other) and the affiliated company (NIGIYAKASHI RESIREIT BRIDGE TWO, LLC.) from the scope of equity method does not have material effect on the consolidated financial statements.

All consolidated subsidiaries other than 10 consolidated overseas subsidiaries have the same balance sheet date, March 31, corresponding with that of the Company. As for the 10 consolidated overseas subsidiaries whose fiscal year ends at December 31, their financial statements as of December 31 are used in preparation of the consolidated financial statements. Significant transactions, if any, in the period from January 1 to March 31 have been adjusted in the consolidated financial statements.

(b) Valuation of Assets and Liabilities of Subsidiaries

In the elimination of the investments in subsidiaries, the assets and liabilities of the subsidiaries including the portion allocated to non-controlling interests are recorded based on their fair value at the time the Company acquired control of the respective subsidiaries.

(c) Goodwill

Significant excesses of investment cost over net equity of consolidated subsidiaries and affiliated companies accounted for by the equity method are recognized as goodwill (negative goodwill, if credit balance), and amortized principally over the estimated useful lives or less than twenty years on a straight-line basis. However, immaterial goodwill is charged to income in the year of acquisition. Negative goodwill is credited to income upon occurrence.

(d) Foreign Currency Translation

Receivables and payables denominated in foreign currencies are translated into Japanese yen at year-end exchange rates. The resulting exchange gains and losses are reflected in the consolidated statements of income. All revenues and expenses associated with foreign currencies are translated at rates of exchange prevailing when such transactions are made.

The financial statements of consolidated foreign subsidiaries and affiliated companies under the equity method are translated into Japanese yen at exchange rates prevailing at the respective year-end dates except for shareholders' equity accounts, which are translated at historical rates. The resulting foreign currency translation adjustments are presented in accumulated other comprehensive income in the net assets section of the consolidated balance sheets.

(e) Cash and Cash Equivalents in the Consolidated Statements of Cash Flows

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the date of purchase and with insignificant risks of change in value are considered to be cash and cash equivalents.

(f) Securities

Securities held by the Group are classified into (a) debt securities intended to be held to maturity (hereafter "held-to-maturity debt securities"), (b) equity securities issued by subsidiaries and affiliated companies, and (c) all other securities that are not classified in any of the categories above (hereafter "available-for-sale securities").

Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies that are not consolidated or accounted for by the equity method are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and losses on available-for-sale securities, net of applicable income taxes are reported as a separate component of accumulated other comprehensive income in the net assets section. Realized gains and losses on sales of such securities are computed using moving-average cost. Other securities with no available fair market value are stated at moving-average cost.

Notes to Consolidated Financial Statements (cont.)

TAISEI CORPORATION and Consolidated Subsidiaries
Years Ended March 31, 2017 and 2018

(g) Revenue Recognition of Construction

Revenue associated with construction contracts of which the outcome can be reliably estimated is accounted for by the percentage-of-completion method; otherwise contract revenue is accounted for by the completed-contract method. The percentage of completion at the end of the reporting period is determined by the percentage of the cost incurred to the estimated total costs.

(h) Inventories

The Company and its certain subsidiaries develop real estate projects on their own account. Cost on development projects in progress are mainly stated at the lower of cost based on the specific-identification cost method or net realizable value. For this purpose, the cost includes the purchase cost of land, incidental costs, direct development costs and (in relation to certain developments by one of the subsidiaries) interest expenses.

Cost on uncompleted contracts is mainly stated at cost based on the specific-identification cost method.

(i) Property, plant and Equipment

Property, plant and equipment except for buildings and structures are recorded at cost and depreciated principally by the declining-balance method over the standard useful lives prescribed in the Corporation Tax Law. Buildings and structures are principally depreciated by the straight-line method.

(j) Accounting for Lease Transactions

Finance leases, except for certain immaterial or short-term finance leases in which ownership is not transferred to lessee, are capitalized. Capitalized leased assets whose ownership is transferred to lessee are depreciated by the same method of depreciation applied to property, plant and equipment. Capitalized leased assets whose ownership is not transferred to lessee are depreciated to a residual value of zero by the straight-line method over a useful life period corresponding to the lease contract period.

(k) Derivatives and Hedge Accounting

Derivative financial instruments are stated at fair value and changes in fair value are recognized as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and its consolidated domestic subsidiaries defer recognition of gains or losses resulting from changes in fair value of the derivative financial instruments until related losses or gains on hedged items are recognized.

If interest rate swap contracts are used as hedge and meet certain hedging criteria, net amounts to be paid or received under the interest rate swap contracts are added to or deducted from the interest on liabilities for which the swap contract were executed.

(l) Income Taxes

The Company and its wholly owned domestic subsidiaries apply the system of consolidated tax returns.

(m) Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided to reserve for probable losses from bad debt. It consists of the estimated uncollectible amount of certain identified doubtful receivables and the amount estimated on the basis of the past default ratio for normal receivables.

(n) Allowance for Warranty on Completed Contracts

Allowance for warranty on completed contracts is provided as the amount estimated using an actual ratio of related losses during the past certain periods.

(o) Allowance for Losses on Construction Contracts

Allowance for losses on construction contracts is provided with respect to construction projects for which eventual losses are reasonably estimated.

(p) Allowance for Losses on Order Received

Allowance for losses on order received is provided with respect to orders (excluding construction contracts) for which eventual losses are reasonably estimated.

(q) Retirement Benefits for Directors and Audit & Supervisory Board Members

Retirement benefits for directors and audit & supervisory board members of certain consolidated subsidiaries have been set up in accordance with each company's regulations.

(r) Allowance for Losses on Investments in Subsidiaries and Affiliates

Allowance for losses on investments in subsidiaries and affiliates is provided for estimated losses from certain subsidiaries and affiliates in liquidation.

(s) Allowance for Environmental Spending

Allowance for environmental spending is provided based on estimated costs for disposal of Polychlorinated Biphenyl ("PCB") waste, which is obligated to dispose by the Act on Special Measures Concerning Promotion of Proper Treatment of PCB Waste.

(t) Allowance for Losses on Anti-Monopoly Act

Allowance for losses on Anti-Monopoly Act is provided based on estimated payment for penalties under the Anti-Monopoly Act.

(u) Accounting Method for Retirement Benefit

Net defined benefit liability is provided for severance and retirement benefits for employees and executive officers of the Company's certain consolidated subsidiaries based on estimated amounts of projected benefit obligations and plan assets at the year-end.

In calculating projected benefit obligations, the method of attributing estimated amounts of retirement benefits to the period until this fiscal year is based on the benefit formula basis.

Past service costs are amortized using the straight-line method (some consolidated subsidiaries use the declining-balance method) over 1-10 years, which is not longer than an average remaining service period of the employees when the costs are incurred.

Actuarial gains and losses are amortized from the subsequent fiscal year (some consolidated subsidiaries amortize actuarial gains and losses from the current fiscal year) using the straight line method (some consolidated subsidiaries use the declining balance method) over 1-10 years, which is not longer than an estimated average remaining service period of the employees when the gains or losses are incurred.

(v) Net Income and Cash Dividends per Share

Net income per share is calculated by dividing net income available to common shares by the weighted average number of common shares outstanding during the year. Cash dividends per share shown for each year represent dividends declared as applicable to the respective years.

(w) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications have no impact on previously reported results of operations or retained earnings.

(x) Accounting standard issued but not yet effective

The following standard and guidance were issued but are not yet effective

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29, March 30, 2018)

- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No.30, March 30, 2018)

(1) Overview

The IASB and the FASB jointly developed and issued a converged Standard on the recognition of 'Revenue from Contracts with Customers' (IFRS 15 for IASB and Topic 606 for FASB.) in May, 2014. IFRS 15 will be applied from the fiscal year beginning on or after January 1, 2018 and Topic 606 will be applied from the fiscal year beginning after December 15, 2017. Under these circumstances, the ASBJ developed the converged standard for revenue recognition and issued the "Accounting Standard for Revenue Recognition" along with "Implementation Guidance on Accounting Standard for Revenue Recognition".

In developing the 'Accounting Standard for Revenue Recognition,' the principal policy of the ASBJ is to incorporate the basic concept of IFRS 15 from the perspective of comparability between financial statements, as one way to establish consistency with IFRS 15. The ASBJ will add alternative treatments in the case that there are different accounting treatments prevalent in accounting practices in Japan that require consideration, to the extent that they do not impair comparability.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of the application of the standards

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

3. Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2017 and 2018 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2018	2018
Cash and time deposits	¥ 535,592	¥ 687,456	\$ 6,470,783
Less: Time deposits with maturities exceeding three months	(805)	(109)	(1,026)
Cash and cash equivalents	¥ 534,787	¥ 687,347	\$ 6,469,757

4. Financial Instruments

(1) Policies for using financial instruments

The Group restricts investments to the low risk assets such as deposits, and raise funds by the indirect finance such as loans from bank as well as by the direct finance such as issuing corporate bonds or commercial papers.

Derivative financial instruments are employed mainly for hedging fluctuation in interest rate and foreign currency exchange, and not used to speculate.

Receivables: trade notes and trade accounts are exposed to the credit risks of customers. In order to reduce such risks, the Group conducts strict credit examinations when orders are received, and afterward manage the receivables individually and make effort to detect reduction of credit risks early.

For investment securities which are mainly held-to-maturity debt securities and shares held to keep the relationship with business partners, the Group regularly monitors the fair values or financial positions of the invested companies, and revises the portfolio timely (except for held-to-maturity debt securities) considering the relationship with them.

Debts, trade payables: trade notes and trade accounts are debts mostly due within one year. Loans, commercial papers and bonds are primarily for working capital, and have maturity dates of five years or less. Although the loans or bonds issued at variable rates are exposed to interest rate fluctuation risk, the risk is hedged by derivative transactions (interest rate swap contracts).

The Group primarily utilizes derivative transactions related to interest rates in order to mitigate the fluctuation risk in interest rates or to reduce financing costs, and derivative transactions related to currency in order to mitigate the foreign exchange risk. These transactions are exposed to the fluctuation risk in interest rates and the foreign exchange risk. However, the Group is exposed to limited risk, because most of them are hedged by the corresponding transactions. They consider the credit risk to be low, because they conduct derivative transactions solely with reliable international financial institutions.

The Group executes and manages derivative transactions in accordance with internal rules. Their Finance Departments are responsible for conducting, evaluating transactions and managing related risks.

(2) Fair Value of Financial Instruments

(a) Book values of the financial instruments included in the consolidated balance sheet, the fair values of said items as of March 31, 2017 and 2018, were as follows. Items for which it is extremely difficult to calculate the fair value were not included in the following table (see "Note 2" below).

Notes to Consolidated Financial Statements (cont.)

TAISEI CORPORATION and Consolidated Subsidiaries
Years Ended March 31, 2017 and 2018

	Millions of Yen		
	2017		
	Book Value	Fair Value	Difference
[ASSETS]			
Cash and time deposits	¥ 535,592	¥ 535,592	¥ —
Notes and accounts receivable, trade	420,131	420,131	—
Investment securities			
Debt securities intended to be held to maturity	570	584	14
Available-for-sale securities	243,869	243,869	—
[LIABILITIES]			
Notes and accounts payable, trade	424,494	424,494	—
Short-term loans and long term loans due within one year	114,601	114,859	(258)
Short-term non-recourse loans payable	100	101	(1)
Straight bonds due within one year	10,000	10,109	(109)
Non-recourse bonds due within one year	—	—	—
Deposits received	171,132	171,132	—
Straight bonds	30,000	30,417	(417)
Non-recourse bonds payable	500	508	(8)
Long-term loans	79,995	80,851	(856)
Long-term non-recourse loans payable	2,950	3,000	(50)
[Derivative financial instruments (*)]	22	22	—

	Millions of Yen		
	2018		
	Book Value	Fair Value	Difference
[ASSETS]			
Cash and time deposits	¥ 687,456	¥ 687,456	¥ —
Notes and accounts receivable, trade	441,631	441,627	(4)
Investment securities			
Debt securities intended to be held to maturity	662	678	16
Available-for-sale securities	270,938	270,938	—
[LIABILITIES]			
Notes and accounts payable, trade	509,576	509,576	—
Short-term loans and long term loans due within one year	87,030	87,114	(84)
Short-term non-recourse loans payable	2,950	2,967	(17)
Straight bonds due within one year	10,000	10,012	(12)
Non-recourse bonds due within one year	500	503	(3)
Deposits received	182,142	182,142	—
Straight bonds	40,000	40,309	(309)
Non-recourse bonds payable	—	—	—
Long-term loans	106,900	107,813	(913)
Long-term non-recourse loans payable	—	—	—
[Derivative financial instruments (*)]	(10)	(10)	—

	Thousands of U.S. dollars		
	2018		
	Book Value	Fair Value	Difference
[ASSETS]			
Cash and time deposits	\$ 6,470,783	\$ 6,470,783	\$ —
Notes and accounts receivable, trade	4,156,918	4,156,880	38
Investment securities			
Debt securities intended to be held to maturity	6,231	6,382	(151)
Available-for-sale securities	2,550,245	2,550,245	—
[LIABILITIES]			
Notes and accounts payable, trade	4,796,461	4,796,461	—
Short-term loans and long term loans due within one year	819,183	819,974	(791)
Short-term non-recourse loans payable	27,767	27,927	(160)
Straight bonds due within one year	94,127	94,239	(112)
Non-recourse bonds due within one year	4,706	4,734	28
Deposits received	1,714,439	1,714,439	—
Straight bonds	376,506	379,415	(2,909)
Non-recourse bonds payable	—	—	—
Long-term loans	1,006,212	1,014,806	(8,594)
Long-term non-recourse loans payable	—	—	—
[Derivative financial instruments (*)]	(94)	(94)	—

(*) Note: The assets and liabilities are reported as net amounts. Any items for which the total becomes a net liability are indicated in parentheses.

Note 1: The calculation method of the fair values of financial instrument and securities, derivative transactions

[ASSETS]

· Cash and time deposits and Notes and accounts receivable, trade

The fair values of these financial instruments are almost equivalent to the book value, due to the short term settlements; although, the fair value of receivables due after one year are based on the present values of discounted cash flows reflecting the interest rate, the estimated collection terms and credit risks with respect to each receivables categorized by collection terms.

· Investment securities

The fair values of marketable securities are based on the quoted market value, and bonds are based on the market value, the price indicated by a third party such as broker or the present value of discounted cash flows.

See the notes on "5. Securities" for notes pertaining to securities categorized by the purposes for which they are held.

[LIABILITIES]

· Notes and accounts payable, trade, Short-term loans and Long term loans due within one year and Deposits received

The fair values of these financial instruments are almost equivalent to the book value, due to the short term settlements; although, the fair value of long-term loans due within one year is based on the same method as that for long-term loans.

· Long-term loans

The fair value of long-term loans is based on the present value of discounted cash flows by the interest rate which may be applicable when the same kind of loans is conducted.

· Bonds

The fair value of marketable bonds is based on the quoted market value, otherwise the fair value of nonmarketable bonds is based on the present value of discounted cash flows by the interest rate reflecting the estimated redemption terms and issuer's credit risk.

[Derivative financial instruments]

See the notes on "14. Derivative Transactions".

Note 2: Financial instruments for which it is deemed to be extremely difficult to calculate the fair value

Nonmarketable securities (book value amount to ¥ 64,576 million and ¥ 65,789 million (\$ 619,249 thousand) as of March 31, 2017 and 2018, respectively) are not included in the [Assets] Investment securities–Available-for-sale securities above, as it is extremely difficult to calculate the fair values because they have no quoted market prices and the future cash flows cannot be estimated.

Note 3: Scheduled redemption amounts after the consolidated balance sheet date for monetary claims and securities with period of maturities as of March 31, 2017 and 2018 were as follows:

Millions of Yen			
2017			
	Due within one year	Due after one year but within five years	Due after five years but within ten years
Time deposits	¥ 535,125	¥ —	¥ —
Notes and accounts receivable, trade	420,127	4	—
Investment securities			
Debt securities intended to be held to maturity			
Government bonds	148	178	244
Available-for-sale securities			
Government bonds	26	245	—
Total	¥ 955,426	¥ 427	¥ 244

Millions of Yen			
2018			
	Due within one year	Due after one year but within five years	Due after five years but within ten years
Time deposits	¥ 687,018	¥ —	¥ —
Notes and accounts receivable, trade	440,051	1,580	—
Investment securities			
Debt securities intended to be held to maturity			
Government bonds	45	380	236
Available-for-sale securities			
Government bonds	0	—	—
Total	¥ 1,127,114	¥ 1,960	¥ 236

Notes to Consolidated Financial Statements (cont.)

TAISEI CORPORATION and Consolidated Subsidiaries
Years Ended March 31, 2017 and 2018

Thousands of U.S. Dollars

	2018		
	Due within one year	Due after one year but within five years	Due after five years but within ten years
Time deposits	\$ 6,466,660	\$ —	\$ —
Notes and accounts receivable, trade	4,142,046	14,872	—
Investment securities			
Debt securities intended to be held to maturity			
Government bonds	424	3,577	2,221
Available-for-sale securities			
Government bonds	0	—	—
Total	\$ 10,609,130	\$ 18,449	\$ 2,221

Note 4: See the notes on “8. Short-term Loans and Long-term Debt” for notes pertaining to the aggregate annual maturities of long term debt after the consolidated balance sheet date.

5. Securities

(1) Following tables summarized acquisition costs, book values and fair values of securities with fair values available as of March 31, 2017 and 2018:

(a) Debt securities intended to be held to maturity:

· Securities with fair values exceeding book values

Type	Millions of Yen		
	2017		
	Book value	Fair value	Difference
Government bonds	¥ 570	¥ 584	¥ 14

Type	Millions of Yen			Thousands of U.S. Dollars		
	2018			2018		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Government bonds	¥ 662	¥ 678	¥ 16	\$ 6,231	\$ 6,382	\$ 151

· Securities with fair values not exceeding book values

Type	Millions of Yen		
	2017		
	Book value	Fair value	Difference
Government bonds	¥ —	¥ —	¥ —

Type	Millions of Yen			Thousands of U.S. Dollars		
	2018			2018		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Government bonds	¥ —	¥ —	¥ —	\$ —	\$ —	\$ —

(b) Available-for-sale securities:

· Securities with book values exceeding acquisition costs

Type	Millions of Yen		
	2017		
	Book value	Acquisition cost	Difference
Equity securities	¥ 227,878	¥ 107,689	¥ 120,189
Government bonds	271	264	7
Others	1,045	641	404
Total	¥ 229,194	¥ 108,594	¥ 120,600

Type	Millions of Yen			Thousands of U.S. Dollars		
	2018			2018		
	Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference
Equity securities	¥ 257,429	¥ 113,851	¥ 143,578	\$ 2,423,089	\$ 1,071,640	\$ 1,351,449
Government bonds	—	—	—	—	—	—
Others	975	642	333	9,178	6,043	3,135
Total	¥ 258,404	¥ 114,493	¥ 143,911	\$ 2,432,267	\$ 1,077,683	\$ 1,354,584

· Securities with book values not exceeding acquisition costs

Type	Millions of Yen			Thousands of U.S. Dollars		
	2017			2018		
	Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference
Equity securities	¥ 14,562	¥ 16,328	¥ (1,766)	\$ 116,905	\$ 134,516	\$ (17,611)
Government bonds	0	0	(0)	0	0	(0)
Others	114	114	(0)	1,073	1,073	(0)
Total	¥ 14,676	¥ 16,442	¥ (1,766)	\$ 117,978	\$ 135,589	\$ (17,611)

(2) Total sales of available-for-sale securities and the related gains and losses for the years ended March 31, 2017 and 2018 were as follows:

Type	Millions of Yen			Thousands of U.S. Dollars		
	2017			2018		
	Equity securities	Others	Total	Equity securities	Others	Total
Total amount of available-for-sale securities sold	¥ 6,999	¥ 30	¥ 7,029	\$ 14,411	\$ —	\$ 14,411
Gains on sales of available-for-sale securities	2,878	0	2,878	7,332	—	7,332
Losses on sales of available-for-sale securities	90	—	90	188	—	188

(3) Impairment losses on securities

The Group recognized impairment losses on the following securities for the years ended March 31, 2017 and 2018 were as follows:

Type	Millions of Yen		Thousands of U.S. Dollars
	2017	2018	2018
Write-down of investment securities ...	¥ 217	¥ 4	\$ 38

Notes to Consolidated Financial Statements (cont.)

TAISEI CORPORATION and Consolidated Subsidiaries
Years Ended March 31, 2017 and 2018

6. Pledged Assets

(1) The following assets were pledged as liabilities as of March 31, 2017 and 2018:

Secured liabilities

	Millions of Yen		Thousands of U.S. Dollars
	2017	2018	2018
Long-term non-recourse loans payable	¥ 2,950	¥ —	\$ —
Long-term loans	1,600	—	—
Non-recourse bonds payable	500	—	—
Short-term non-recourse loans payable	100	2,950	27,767
Short-term loans	—	1,600	15,061
Non-recourse bonds due within one year	—	500	4,706
Total	¥ 5,150	¥ 5,050	\$ 47,534

Pledged Assets

	Millions of Yen		Thousands of U.S. Dollars
	2017	2018	2018
Land	¥ 6,311	¥ 6,311	\$ 59,403
Buildings and structures net of accumulated depreciation	1,236	1,182	11,126
Machinery, vehicles, tools, furniture and fixtures, net of accumulated depreciation ...	7	11	104
Total	¥ 7,554	¥ 7,504	\$ 70,633

(2) The following assets were pledged principally as collateral for loans of companies which were not consolidated as of March 31, 2017 and 2018:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2018	2018
Investment securities	¥ 3,173	¥ 2,895	\$ 27,249
Other assets	1,593	1,589	14,957
Total	¥ 4,766	¥ 4,484	\$ 42,206

7. Amount of notes receivable and notes payable with maturity on the balance sheet date (the bank holiday)

Notes receivable and notes payable are processed on the clearing date or the settlement date. As March 31, 2018 was a bank holiday, notes receivable and notes payable maturing on that day could not be settled and were included in the consolidated balance sheets, as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2018	2018
Notes receivable (Trade)	¥ —	¥ 593	\$ 5,582
Electronically recorded monetary claims	—	1,066	10,034
Notes receivable (Other)	—	54	508
Notes payable (Trade)	—	6,606	62,180
Electronically recorded obligations	—	21,628	203,577
Notes payable (Other)	—	8	75

8. Short-term Loans and Long-term Debt

Short-term loans as of March 31, 2017 and 2018 mainly consisted of short-term notes and overdrafts from banks. The weighted average interest rates of short-term loans as of March 31, 2017 and 2018 were 0.5%.

The Group has had no difficulty in renewing such notes and overdraft facility agreements, when they considered such renewal advisable.

Long-term debt as of March 31, 2017 and 2018 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
	2017	2018
Bonds and notes:		
Issued by the Company:		
1.58% yen bonds due in 2017	¥ 10,000	¥ —
1.146% yen bonds due in 2018 (*1)	500	500
0.66% yen bonds due in 2018	10,000	10,000
0.67% yen bonds due in 2020	10,000	10,000
0.14% yen bonds due in 2022	—	10,000
0.527% yen bonds due in 2022	10,000	10,000
0.38% yen bonds due in 2027	—	10,000
Loans, principally from banks and insurance companies:		
Secured loans (*2)	4,650	3,450
Unsecured loans	121,579	124,125
Capital lease	753	695
	167,482	178,770
Amount due within one year	(53,554)	(31,449)
Total long-term debt (due after one year)	¥ 113,928	¥ 147,321

(*) Note 1: This bonds is non-recourse liabilities for the Group.

2: These loans as of March 31, 2017 and 2018 include ¥ 3,050 million and ¥ 2,950 million (\$ 27,767 thousand) of non-recourse loans payable for the Group, respectively.

The annual interest rates applicable to long-term loans due within one year averaged 1.1% and 0.8% as of March 31, 2017 and 2018, respectively, and the annual interest rates applicable to long-term loans due after one year averaged 0.7% and 0.6% as of March 31, 2017 and 2018, respectively.

The aggregate annual maturities of long-term debt (including current portion) as of March 31, 2018 were summarized as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2019	¥ 31,449	\$ 296,019
2020	28,447	267,762
2021	34,537	325,085
2022	16,785	157,991
2023	47,879	450,668
2024 and thereafter	19,673	185,175
Total	¥ 178,770	\$ 1,682,700

The Company had a commitment line contract of up to ¥ 50,000 million to secure financing from several correspondent financial institutions in case of an emergency which was already expired on August 31, 2017.

Notes to Consolidated Financial Statements (cont.)

TAISEI CORPORATION and Consolidated Subsidiaries
Years Ended March 31, 2017 and 2018

9. Income Taxes

Taxes on income consist of corporation, enterprise and inhabitants taxes.

The following table summarized the significant differences between the statutory tax rate and the Company's effective tax rate for financial statement purposes for the year ended March 31, 2017 and 2018.

	2017	2018
Statutory tax rate	30.9%	— %
Permanent differences:		
Non-deductible expenses	3.8	—
Non-taxable income	(0.4)	—
Per capita inhabitant tax and others	0.4	—
Changes in valuation reserve	0.3	—
Effect of enacted changes in tax laws and rates on Japanese tax	0.0	—
Share of profit of entities accounted for using equity method	(0.3)	—
Others	(1.6)	—
Effective tax rate	33.1%	— %

The reconciliations for the year ended March 31, 2018 are not presented because the difference between the statutory tax rate and the effective tax rate was less than or equal to 5% of the statutory tax rate.

Significant components of deferred income taxes at March 31, 2017 and 2018 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2017	2018
Deferred income tax assets:		
Disallowed portion of expenses and losses:		
Net defined benefit liability	¥ 37,312	¥ 35,566
Inventories	15,020	13,023
Accrued bonuses	6,979	7,107
Fixed assets	4,991	2,830
Advances received	2,276	1,173
Others	8,522	7,842
Tax loss carryforward	519	532
Unrealized profits	7,497	7,523
Sub-total	83,116	75,596
Valuation allowance	(3,861)	(4,288)
Total	79,255	71,308
Deferred income tax liabilities:		
Unrealized holding gains on securities	(36,347)	(43,446)
Gains on securities contribution to employee retirement benefit trust ...	(17,711)	(17,711)
Net defined benefit asset	(4,272)	(3,830)
Others	(1,201)	(1,194)
Total	(59,531)	(66,181)
Net total	¥ 19,724	¥ 5,127

In addition to the deferred income taxes shown above, deferred tax liabilities concerning revaluation of land amounting to ¥ 4,184 million as of March 31, 2017 and ¥ 3,286 million (\$ 30,930 thousand) as of March 31, 2018 were included in the consolidated balance sheets, respectively.

10. Investment and Rental Property

(1) The Company and certain consolidated subsidiaries hold some office buildings for rent in Tokyo and other areas. The rental income on office buildings for rent was ¥ 2,708 million and ¥ 2,683 million (\$ 25,254 thousand) at the year ended on March 31, 2017 and 2018, respectively. Rental income is mainly booked in Net sales: Real estate development and other, and rental cost is mainly booked in Cost of sales.

(2) The amounts of investment and rental property which booked in consolidated balance sheets, the amounts of increase or decrease, and fair value as of March 31, 2017 and 2018 were as follows:

Millions of Yen			
2017			
Book value			Fair value
April 1, 2016	Increase (decrease)	March 31, 2017	March 31, 2017
¥ 61,330	¥ (4,637)	¥ 56,693	¥ 63,452

Millions of Yen			
2018			
Book value			Fair value
April 1, 2017	Increase (decrease)	March 31, 2018	March 31, 2018
¥ 56,693	¥ 25,754	¥ 82,447	¥ 100,065

Thousands of U.S. Dollars			
2018			
Book value			Fair value
April 1, 2017	Increase (decrease)	March 31, 2018	March 31, 2018
\$ 533,631	\$ 242,414	\$ 776,045	\$ 941,877

Note 1: The carrying amount is stated at cost of acquisition less accumulated depreciation and impairment losses.

Note 2: The main reason of decrease for the year ended March 31, 2017 was the effect of liquidation of consolidated subsidiary amounting ¥ 2,968 million. The main reasons of increase for the year ended March 31, 2018 was the reclassification from inventories (real estate) amounting ¥ 26,032 million, (\$ 245,030 thousand).

Note 3: The book value as of March 31, 2017 and 2018 included asset retirement obligations of ¥ 219 million and ¥ 206 million (\$ 1,939 thousand), respectively.

Note 4: The fair value of investment and rental property as of March 31, 2017 and 2018 were mainly calculated by the Company according to the appraisal standard of real-estate (including those which were adjusted by the land price index, if any).

11. Employees' Severance and Retirement Benefits

1. The Company and its main consolidated subsidiaries have adopted the defined-benefit pension plans and defined-contribution pension plans. The defined-benefit pension plans adopted consist of defined-benefit corporate pension plans and lump-sum payment plans.

Liabilities and expenses for severance and retirement benefits of the Company and its consolidated domestic subsidiaries are determined based on amounts obtained by actuarial calculations. The Company may also pay additional retirement benefits which are not subject to actuarial calculation.

The Company has established a retirement benefit trust.

2. Defined-benefit pension plans

(1) Movement in retirement benefit obligations

	Millions of Yen		Thousands of U.S. Dollars
	2017	2018	2018
Balance at beginning of the year	¥ 147,980	¥ 145,642	\$ 1,370,877
Current service cost	6,224	6,312	59,413
Interest cost	937	907	8,537
Actuarial loss (gain)	1,561	1,310	12,331
Benefits paid	(11,050)	(10,502)	(98,852)
Past service costs	(122)	(450)	(4,236)
Other	112	161	1,515
Balance at end of the year	¥ 145,642	¥ 143,380	\$ 1,349,585

Some of the consolidated subsidiaries use simplified method for the calculation of retirement benefit obligations.

Retirement benefit expenses in the consolidated subsidiaries applying simplified method are recorded in current service cost.

Notes to Consolidated Financial Statements (cont.)

TAISEI CORPORATION and Consolidated Subsidiaries
Years Ended March 31, 2017 and 2018

(2) Movements in plan assets

	Millions of Yen		Thousands of U.S. Dollars
	2017	2018	2018
Balance at beginning of the year	¥ 114,998	¥ 115,157	\$ 1,083,933
Expected return on plan assets	1,568	1,938	18,242
Actuarial loss (gain)	5,884	6,246	58,791
Contributions paid by the employer	1,039	1,056	9,940
Benefits paid	(6,870)	(6,360)	(59,865)
Other	(1,462)	(883)	(8,311)
Balance at end of the year	¥ 115,157	¥ 117,154	\$ 1,102,730

(3) Reconciliation from retirement benefit obligations and plan assets to net defined benefit liability (asset)

	Millions of Yen		Thousands of U.S. Dollars
	2017	2018	2018
Funded retirement benefit obligations	¥ 142,938	¥ 140,567	\$ 1,323,108
Plan assets	(115,158)	(117,154)	(1,102,730)
	27,780	23,413	220,378
Unfunded retirement benefit obligations	2,704	2,813	26,479
Net total at year-end	30,484	26,226	246,857
Net defined benefit liability	41,262	35,787	336,851
Net defined benefit asset	(10,778)	(9,561)	(89,994)
Net total at year-end	¥ 30,484	¥ 26,226	\$ 246,857

(4) Retirement benefit expenses

	Millions of Yen		Thousands of U.S. Dollars
	2017	2018	2018
Current service cost	¥ 6,225	¥ 6,312	\$ 59,413
Interest cost	937	907	8,537
Expected return on plan assets	(1,568)	(1,938)	(18,242)
Net actuarial loss amortization	5,480	4,238	39,891
Past service costs amortization	(1,393)	(1,288)	(12,123)
Other	53	1	9
Total retirement benefit expenses for the year	¥ 9,734	¥ 8,232	\$ 77,485

(5) Remeasurements of defined benefit plans

Items recorded in remeasurements of defined benefit plans, before tax were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2018	2018
Past service costs	¥ (1,271)	¥ (838)	\$ (7,888)
Actuarial gains and losses	9,803	9,174	86,352
Total balance as of March 31, 2017 and 2018	¥ 8,532	¥ 8,336	\$ 78,464

(6) Accumulated remeasurements of defined benefit plans

Items recorded in accumulated remeasurements of defined benefit plans (before considering tax effect) were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2018	2018
Unrecognized past service costs	¥ (7,205)	¥ (6,368)	\$ (59,940)
Unrecognized actuarial gains and losses	2,414	(6,760)	(63,629)
Total balance as of March 31, 2017 and 2018	¥ (4,791)	¥ (13,128)	\$ (123,569)

(7) Plan assets

	2017	2018
(i) Plan assets comprise:		
Equity securities	45%	48%
Bonds	20	20
General accounts	19	18
Special accounts	3	3
Short-term assets	1	1
Other	12	10
Total	100%	100%

The retirement benefit trust established for corporate pension plans accounted for 36% and 41% of total plan assets, for the fiscal year ended March 31, 2017 and 2018, respectively.

(ii) Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(8) Actuarial assumptions

The principal actuarial assumptions as of March 31, 2017 and 2018 were as follows:

	2017	2018
Discount rate		
The Company and its consolidated domestic subsidiaries	0.5~1.5	0.4~1.5
Consolidated overseas subsidiaries	5.7~8.5	6.3
Long-term expected rate of return	0.8~3.5	1.0~3.0

3. Defined-contribution pension plans

Amount payable for defined-contribution pension plans of the Company and its consolidated subsidiaries were ¥ 2,436 million and ¥ 2,490 million (\$ 23,438 thousand), for the fiscal year ended March 31, 2017 and 2018, respectively.

12. Net assets

Net assets comprise three subsections; which are shareholders' equity, accumulated other comprehensive income and non-controlling interests.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Japanese Corporate Law ("the Law"), when a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, appropriations of legal earnings reserve and additional paid-in capital generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, however, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law.

The number of treasury stock owned by the Company, consolidated subsidiaries and affiliated companies adopting the equity method as of March 31, 2017 and 2018 were 1,408 thousand shares and 290 thousand shares, respectively. The consolidation of shares at the ratio of 1 share for 5 shares was implemented on October 1, 2017.

Total annual dividends per share as of March 31, 2018 is ¥ 85.00 (U.S. \$ 0.8), which is the sum of the interim dividend per share of ¥ 10.00 (U.S. \$ 0.1) and the year-end dividend per share of ¥ 75.00 (U.S. \$ 0.7). Due to the consolidation of shares at the ratio of 1 share for 5 shares implemented on October 1, 2017, the year-end dividend per share of ¥ 75.00 reflects this consolidation, while the interim dividend per share of ¥ 10.00 does not. If the interim dividend per share is calculated based on the consolidation of shares, it would be ¥ 50.00 (U.S. \$ 0.5), making the total annual dividends per share ¥ 125.00 (U.S. \$ 1.2).

Notes to Consolidated Financial Statements (cont.)

TAISEI CORPORATION and Consolidated Subsidiaries
Years Ended March 31, 2017 and 2018

13. Lease Transactions

Operating leases

(a) Lessee

Future minimum lease payments as of March 31, 2017 and 2018 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2018	2018
Due within one year	¥ 4,327	¥ 4,584	\$ 43,148
Due after one year	23,360	21,265	200,160
Total	¥ 27,687	¥ 25,849	\$ 243,308

(b) Lesser

Future minimum lease receipts as of March 31, 2017 and 2018 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2018	2018
Due within one year	¥ 3,913	¥ 3,793	\$ 35,702
Due after one year	20,325	20,168	189,834
Total	¥ 24,238	¥ 23,961	\$ 225,536

14. Derivative Transactions

(1) Derivative transactions of the Company and its consolidated subsidiaries as of March 31, 2017 and 2018 were as follows:

(i) Derivative transactions which were not accounted for by the hedge accounting

· Currency-related transactions

(a) Over-the counter transactions

Corresponding derivative transactions for the year ended March 31, 2018 was not applicable. Information for the year ended March 31, 2017 was as follows:

	Millions of Yen			
	2017			
	Contract amount			
	Total	Due after one year	Fair value	Unrealized gain (loss)
Forward foreign exchange contract (long commitment)				
to buy Qatari Riyal	¥ 6,558	¥ —	¥ 23	¥ 23

Note: Fair value was determined at the quoted price obtained from the counterparty financial institutions.

(ii) Derivative transactions which were accounted for by the hedge accounting as of March 31, 2017 and 2018 were as follows:

· Currency related transactions

Main items hedged by forward foreign exchange contracts are accounts payable for construction contracts.

	Millions of Yen		
	2017		
	Contract amount		
	Total	Due after one year	Fair value
Forward foreign exchange contract (short commitment)			
to sell Euro	¥ 17	¥ —	¥ (0)

	Millions of Yen		
	2018		
	Contract amount		
	Total	Due after one year	Fair value
Forward foreign exchange contract (short commitment)			
to sell U.S. dollars	¥ 395	¥ —	¥ (10)

	Thousands of U.S. Dollars		
	2018		
	Contract amount		
	Total	Due after one year	Fair value
Forward foreign exchange contract (short commitment)			
to sell U.S. dollars	\$ 3,718	\$ —	\$ (94)

Note: Fair value was determined at the quoted price obtained from the counterparty financial institutions.

· Interest Rate-Related Derivatives:

Main items hedged by interest rate swap contracts are long-term debts.

The following interest rate swaps are used as hedges. The net amounts to be paid or received are added to or deducted from interests.

Special treatment of swap

	Millions of Yen		
	2017		
	Contract amount		
	Total	Due after one year	Fair value
Interest rate swaps receive floating rate, pay fixed rate	¥ 64,590	¥ 36,400	¥ —

	Millions of Yen		
	2018		
	Contract amount		
	Total	Due after one year	Fair value
Interest rate swaps receive floating rate, pay fixed rate	¥ 50,540	¥ 43,770	¥ —

	Thousands of U.S. Dollars		
	2018		
	Contract amount		
	Total	Due after one year	Fair value
Interest rate swaps receive floating rate, pay fixed rate	\$ 475,715	\$ 411,992	\$ —

Note: Fair value of interest rate swaps was included in the corresponding hedged long-term debt (long-term debt due within one year was considered as short-term debt) as those interest rate swaps were recorded as an adjustment to the corresponding hedged long-term debt under the special treatment.

15. Related Party Transactions

The Company had no transaction with related individuals, including shareholders and directors, for the year ended March 31, 2017 and 2018.

The Company's consolidated subsidiaries had the following transaction with related individuals, including shareholders and directors, for the year ended March 31, 2017, but no transaction was made for the year ended March 31 2018.

	Millions of yen			
	2017			
	Transactions during the year ended March 31, 2017		Balance at the end of the year	
	Description of transaction	Amount	Account	Amount
(a) Name				
(b) Attribution				
(c) Capital (Million yen)				
(d) Equity ownership percentage of the Company				
(a) Takashi Yamauchi	House renovation work by Taisei Housing Co., Ltd.	¥ 19	—	¥ —
(b) The director of the Corporation				
(c) —				
(d) 0.02%				
(a) Hajime Tanabe	Housing construction by Taisei Housing Co., Ltd.	¥ 66	Advances received and progress billings on uncompleted contracts	¥ 20
(b) Close relative of the director of the Corporation				
(c) —				
(d) —				

Notes 1. Consumption taxes were not included in the transaction amounts.

2. Transaction conditions and policies to decide transaction conditions

(1) The purchase price of land was determined on an arm's length basis considering the market price. The amount of transaction above represents the price on the contract for sales of real estate.

(2) Transaction condition including the contract price was determined properly on an arm's length basis as in the case of other general transactions. The amount of transaction above represents the contract price on the construction contract.

Notes to Consolidated Financial Statements (cont.)

TAISEI CORPORATION and Consolidated Subsidiaries
Years Ended March 31, 2017 and 2018

16. Segment Information

(1) Segment Information

(a) General information on reportable segments

Each reportable segment of the Group is a business unit in the Group, whose discrete financial information is available. Reportable segments are reviewed periodically at the Board of Directors Meeting in order to determine distribution of management resources and evaluate business result of each reportable segment.

The headquarters in the head office are established by the products of construction and the services. Each headquarter proposes comprehensive domestic and overseas strategies with respect to products and services, and operates its business activities.

The Group consists of segments identified by products and services based on the headquarters, and identifies the three segments, "Civil engineering," "Construction contracts," and "Real estate development" as reportable segments: "Civil engineering" delivering construction of civil engineering, etc.; "Construction contracts" delivering construction of building and housing, etc.; "Real estate development" delivering purchase, sale and rental of land and buildings, etc.

(b) Basis of measurement of net sales, profit or loss and other material items on reportable segment

The accounting methods for each reportable segment are the same as that set forth in the "Summary of Significant Accounting Policies".

The profit (loss) of a reportable segment is based on the operating income (loss) before amortization of goodwill in Consolidated Statements of Income. In addition, conditions of intersegment transactions and transfers are determined by considering market prices as in the case of other general transactions.

Assets of the Group are not allocated to the segments. However, the corresponding depreciation expenses are allocated to the segments according to the rational bases such as the usage of assets.

(c) Information of net sales, profit or loss and other material items on reportable segment

Segment information as for the years ended March 31, 2017 and 2018 were as follows:

Millions of Yen							
2017							
	Reportable segments			Others	Total	Adjustments	Consolidated
	Civil engineering	Construction contracts	Real estate development				
Net sales:							
Customers	¥ 422,847	¥ 938,549	¥ 115,226	¥ 10,631	¥ 1,487,253	¥ —	¥ 1,487,253
Intersegment	26,609	39,167	6,540	2,398	74,714	(74,714)	—
Total	449,456	977,716	121,766	13,029	1,561,967	(74,714)	1,487,253
Operating income	¥ 55,200	¥ 73,373	¥ 13,310	¥ 1,201	¥ 143,084	¥ (2,261)	¥ 140,823
Depreciation and amortization	¥ 2,926	¥ 2,305	¥ 1,113	¥ 91	¥ 6,435	¥ (167)	¥ 6,268
Increase (decrease) in allowance for losses on construction contracts	¥ (6,664)	¥ 213	¥ —	¥ —	¥ (6,451)	¥ —	¥ (6,451)

Notes 1. "Others" presented businesses such as incidental business to the construction business, leisure business, and other service businesses, which are not included in reportable segments.

2. Adjustment amount of operating income was ¥ 26 million, which included intersegment elimination.

3. Segment operating income was adjusted against operating income of Consolidated Statement of Income.

Millions of Yen							
2018							
	Reportable segments			Others	Total	Adjustments	Consolidated
	Civil engineering	Construction contracts	Real estate development				
Net sales:							
Customers	¥ 441,270	¥ 1,020,765	¥ 113,736	¥ 9,727	¥ 1,585,498	¥ —	¥ 1,585,498
Intersegment	25,161	39,788	6,095	2,574	73,618	(73,618)	—
Total	466,431	1,060,553	119,831	12,301	1,659,116	(73,618)	1,585,498
Operating income	¥ 71,519	¥ 96,399	¥ 12,966	¥ 1,114	¥ 181,998	¥ (138)	¥ 181,860
Depreciation and amortization	¥ 3,135	¥ 2,895	¥ 1,064	¥ 80	¥ 7,174	¥ (124)	¥ 7,050
Increase (decrease) in allowance for losses on construction contracts....	¥ (2,171)	¥ (4,101)	¥ —	¥ —	¥ (6,272)	¥ —	¥ (6,272)

Thousands of U.S. Dollars

2018							
	Reportable segments				Total	Adjustments	Consolidated
	Civil engineering	Construction contracts	Real estate development	Others			
Net sales:							
Customers	\$ 4,153,520	\$ 9,608,105	\$ 1,070,557	\$ 91,557	\$ 14,923,739	\$ —	\$ 14,923,739
Intersegment	236,832	374,510	57,370	24,228	692,940	(692,940)	—
Total	4,390,352	9,982,615	1,127,927	115,785	15,616,679	(692,940)	14,923,739
Operating income	\$ 673,183	\$ 907,370	\$ 122,045	\$ 10,486	\$ 1,713,084	\$ (1,299)	\$ 1,711,785
Depreciation and amortization	\$ 29,509	\$ 27,249	\$ 10,015	\$ 753	\$ 67,526	\$ (1,167)	\$ 66,359
Increase (decrease) in allowance for losses on construction contracts ...	\$ (20,435)	\$ (38,601)	\$ —	\$ —	\$ (59,036)	\$ —	\$ (59,036)

Notes 1. "Others" presented businesses such as incidental business to the construction business, leisure business, and other service businesses, which are not included in reportable segments.

2. Adjustment amount of operating income was ¥ 138 million (\$ 1,299 thousand), which included intersegment elimination.

3. Segment operating income was adjusted against operating income of Consolidated Statement of Income.

(2) Related Information

(a) Information about products and services

The information about products and services is included in "(c) Information of net sales, profit or loss and other material items on reportable segment" of "(1) Segment Information" for the years ended March 31, 2017 and 2018.

(b) Information about geographic areas

· Net sales

The information about net sales was not presented for the years ended March 31, 2017 and 2018 since sales to unaffiliated customers in Japan accounted for more than 90% of sales of Consolidated Statement of Income.

· Property, plant and equipment

The information about property, plant and equipment was not presented for the years ended March 31, 2017 and 2018 since the amounts of property, plant and equipment that located in Japan accounted for more than 90% of the amounts of property, plant and equipment of Consolidated Balance Sheet.

(c) Information about major customers

The information about major customers was not presented for the years ended March 31, 2017 and 2018 since net sales to any customer were less than 10% of the amounts of sales of Consolidated Statement of Income.

(d) Information about impairment losses on fixed assets of reportable segment for the years ended March 31, 2017 and 2018 were as follows:

Millions of Yen						
2017						
	Reportable segments				Elimination and/or corporate	Total
	Civil engineering	Construction contracts	Real estate development	Others		
Impairment losses on fixed assets	¥ 74	¥ —	¥ 666	¥ —	¥ (55)	¥ 685

Millions of Yen						
2018						
	Reportable segments				Elimination and/or corporate	Total
	Civil engineering	Construction contracts	Real estate development	Others		
Impairment losses on fixed assets	¥ 183	¥ 219	¥ 3,284	¥ —	¥ (55)	¥ 3,631

Thousands of U.S. Dollars						
2018						
	Reportable segments				Elimination and/or corporate	Total
	Civil engineering	Construction contracts	Real estate development	Others		
Impairment losses on fixed assets	\$ 1,723	\$ 2,061	\$ 30,911	\$ —	\$ (518)	\$ 34,177

Notes to Consolidated Financial Statements (cont.)

TAISEI CORPORATION and Consolidated Subsidiaries
Years Ended March 31, 2017 and 2018

(e) Information about amortization and unamortized balance of goodwill of reportable segment
Information about amortization and unamortized balance of goodwill for the years ended March 31, 2017 and 2018 was not applicable.

(f) Information about gains on negative goodwill of reportable segment
Information about gains on negative goodwill for the years ended March 31, 2017 and 2018 was not applicable.

17. Contingent Liabilities

The Group was contingently liable as guarantors for borrowings of the companies, which were not consolidated, with the amount of ¥ 686 million and ¥ 919 million (\$ 8,650 thousand) as of March 31, 2017 and 2018, respectively.

In addition, the Group was contingently liable to invest in the specific purpose company for their repayment and other obligations of borrowings with the amount of ¥ 15,680 million and ¥ 15,680 million (\$ 147,590 thousand) as of March 31, 2017 and 2018, respectively. The amounts indicate their shares of the additional investment obligations.

18. Revaluation Reserve for Land

In the year ended March 31, 2002, certain consolidated domestic subsidiaries executed revaluation of their land for business in accordance with the Law Concerning Revaluation of Land (the "Law").

As a result of this revaluation, deferred income taxes concerning the differences between the amounts after revaluation and the book values before revaluation were stated in the assets and liabilities in the consolidated balance sheets. The differences between these amounts, net of taxes, were stated as "Revaluation reserve for land" in "Accumulated other comprehensive income".

The revaluation was executed in accordance with the method prescribed in the Article 2, Items 3, 4 and 5 of the Law on November 30, 2001 and March 31, 2002.

One of the consolidated subsidiaries, which was merged with another consolidated subsidiary on December 1, 2001, executed the revaluation on November 30, 2001.

Excess amount of the book values of the revaluated land over the fair values as of March 31, 2017 and 2018 was ¥ 3,702 million and ¥ 2,374 million (\$ 22,346 thousand), respectively (including the excess amount of ¥ 26 million and ¥ 1,489 million (\$ 14,015 thousand) related to investment and rental property as of March 31, 2017 and 2018, respectively).

19. Losses on Anti-Monopoly Act

Corresponding Losses on Anti-Monopoly Act for the year ended March 31, 2018 was not applicable.

Losses on Anti-Monopoly Act amounted to ¥ 11,640 million for the year ended March 31, 2017.

The consolidated subsidiary of the company (TAISEI ROTEC CORPORATION) recognized the estimated penalties mentioned above at the fiscal year ended March 31, 2017.

20. Research and Development Expenses

Research and development expenses, which were included in selling, general and administrative expenses and cost of sales, amounted to ¥ 11,165 million and ¥ 11,608 million (\$ 109,262 thousand) for the years ended March 31, 2017 and 2018, respectively.

21. Impairment Losses on Fixed Assets

Impairment losses on fixed assets for the years ended March 31, 2017 and 2018 consisted of the following:

2017		
Use	Type of assets	Location
Assets reclassified from business purpose to trading purpose	Land and Building	Kanagawa and others (5 lots)
Assets for business use	Building, Machinery and equipment and others	Kumamoto and others (6 lots)
Idle assets	Land	Osaka and others (5 lots)
2018		
Use	Type of assets	Location
Assets reclassified from business purpose to trading purpose	Land and others	Tokyo and the other (2 lots)
Assets for business use	Building, Machinery and equipment, Building and, others	Kyoto and others (4 lots)
Idle assets	Land	Miyagi (1 lot)

The Company and its consolidated domestic subsidiaries grouped their fixed assets based on units, for which decisions for investments were made. Book values of the fixed assets listed above were reduced to recoverable amounts and impairment losses were recognized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2018	2018
Assets reclassified from business purpose to trading purpose			
Buildings and structures	¥ 402	¥ 305	\$ 2,871
Land	208	3,222	30,327
Others	—	—	—
Subtotal	610	3,527	33,198
Assets for business use			
Buildings and structures	45	19	179
Land	—	66	621
Machinery and equipment	29	18	170
Others	0	0	0
Subtotal	74	103	970
Idle assets			
Buildings and structures	—	—	—
Land	1	2	19
Others	—	—	—
Subtotal	1	2	19
Total	¥ 685	¥ 3,632	\$ 34,187

The recoverable amount of the fixed assets for the years ended March 31, 2017 and 2018 were their net realizable values mainly based on amounts determined by valuations made in accordance with real estate appraisal standards.

22. Per Share Data

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

	Yen		U.S. Dollars
	2017	2018	2018
Net assets per share	¥ 2,483.01	¥ 2,975.02	\$ 28.00
Net income per share	392.87	561.36	5.284
Diluted net income per share	—	—	—

Diluted net income per share for the years ended March 31, 2017 and 2018 were not presented because the Company had no shares with dilutive effects.

Calculation bases for basic net income per share for the years ended March 31, 2017 and 2018 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2018	2018
Basic net income per share			
Net income attributable to owners of parent	¥ 90,566	¥ 126,788	\$ 1,193,411
Net income not available to common stock holders	—	—	—
Net income attributable to owners of parent available to common stock ...	90,566	126,788	1,193,411
Average common stock outstanding (in thousands share)	230,523	225,859	

The net assets per share and the net income per share are calculated assuming that the consolidation of shares took place at the beginning of the fiscal year, because the consolidation of shares, at the ratio of 1 share for 5 shares, was implemented on October 1, 2017.

23. Comprehensive Income

Recycling adjustments and tax effects for each component of other comprehensive income were as follows:

	Millions of Yen	Millions of Yen	Thousands of U.S. Dollars
	2017	2018	2018
Unrealized holding gains on securities			
Amount incurred	¥ (2,910)	¥23,537	\$ 221,546
Recycling	(959)	(327)	(3,078)
Before Tax	(3,869)	23,210	218,468
Tax effect	1,178	(7,098)	(66,811)
Unrealized holding gains on securities, net of taxes	(2,691)	16,112	151,657
Deferred gains or losses on hedging derivatives			
Amount incurred	(1)	(10)	(94)
Recycling	4	0	0
Before Tax	3	(10)	(94)
Tax effect	(1)	3	28
Unrealized gains or losses on hedging derivatives, net of taxes	2	(7)	(66)
Revaluation reserve for land			
Tax effect	—	—	—
Foreign currency translation adjustments			
Amount incurred	(423)	(45)	(423)
Recycling	19	15	141
Foreign currency translation adjustments, net of taxes	(404)	(30)	(282)
Remeasurements of defined benefit plans			
Amount incurred	4,445	5,386	50,696
Recycling	4,087	2,951	27,777
Before Tax	8,532	8,337	78,473
Tax effect	(2,609)	(2,543)	(23,936)
Remeasurements of defined benefit plans, net of taxes	5,923	5,794	54,537
Share of other comprehensive income of associates accounted for by the equity method			
Amount incurred	(438)	(1)	(10)
Total other comprehensive income	¥ 2,392	¥21,868	\$ 205,836

Notes to Consolidated Financial Statements (cont.)

TAISEI CORPORATION and Consolidated Subsidiaries
Years Ended March 31, 2016 and 2017

24. Subsequent Event

(1) Acquisition of treasury stock

The Company resolved the item related to the acquisition of treasury stock at the board of directors held on May 11, 2018, in accordance with the article 156 of the Japanese Corporate Law (the "Law"), which is applicable as replacement of the article 165, paragraph 3 of the law, as detailed below.

(i) Reason of acquisition of treasury stock

The Company decided to acquire its treasury stock in order to enhance the shareholders' value per share and to improve the capital efficiency.

(ii) Details

(a) Type of stock to be acquired: Common stock of the Company

(b) Number of stocks to be acquired: Up to 8,780,000 stocks (3.92% of the total outstanding stocks excluding treasury stock)

(c) Total cost of acquisition: Up to ¥ 36,000 million (\$ 338,855 thousand)

(d) Period of acquisition: From May 14, 2018 to September 30, 2018

Independent Auditor's Report

Independent Auditor's Report

To the Board of Directors of Taisei Corporation:

We have audited the accompanying consolidated financial statements of Taisei Corporation (a Japanese corporation) and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2018 and 2017, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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 such internal control as management determines is necessary to enable the preparation of 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 audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and 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 our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control 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, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 present fairly, in all material respects, the financial position of Taisei Corporation and its consolidated subsidiaries as at March 31, 2018 and 2017, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.



June 28, 2018

Tokyo, Japan

Third-Party Opinion

Introduction

Starting the current fiscal year, the Taisei Group's annual report has been renamed the "integrated report." At the same time, the Group has reduced the number of pages in the paper version of the report and has provided information such as KPIs and reports on individual management issues related to ISO26000 on its website. Moving detailed data to the website is effective; however, with respect to the composition of the report, I believe there are points that are easy to understand and points that should be improved. I would also like to point out some areas that seem to be issues with regard to compliance-related disclosure.

Issues

Firstly, the connections linking the corporate philosophy, policies, and top message to specific management initiatives, and the connections between the Medium-term Business Plan targets and the value creation process based on ESG, are explained more clearly than they were in the past. In addition, dialogues and interviews occupy many pages of the current report in an effort to convey the Company's message and value creation story. However, the purpose of an integrated report is to disclose what kind of management was carried out during the year and what kind of economic and social outcome was gained as a result, and I believe it would have been better to devote a few more pages to show in detail the results of specific initiatives ("ESG" section, "Data" section).

In addition, compliance-related disclosure should have been emphasized a little more in this report. The misconduct at TAISEI ROTEC was mentioned only in a small box article in the previous fiscal year's report, and the current fiscal year's report also confined itself to simply describing future efforts. A suspension of business due to violation of the Anti-Monopoly Act is serious, and calls for more than just an apology. The Group's report should lay out why such a problem occurred, the circumstances that led up to it, and what measures will be taken in future as a result.

Furthermore, the suspicions related to bid-rigging in connection with the Linear Chuo Shinkansen Project, which became a major problem in the previous fiscal year, are also referred to only in a box article. The Company has not disclosed any official information other than issuing a short press release stating "This is utterly unacceptable" after the Company's counsellor was arrested and indicted. Although the Company may have been unable to comment in detail because the matter was under investigation in the period from April to June when this report was being written, it is questionable whether it was right to make no disclosure at all. On the other hand, the President's New Year's Reflection to employees and the President's Message in this report talk about efforts to thoroughly implement compliance in order to avoid raising this kind of doubt. Moreover, at the same

Kanji Tanimoto

Professor,
Ph.D. in Business Administration
School of Commerce,
Faculty of Commerce,
Waseda University



time, the Compliance Committee and the Board of Directors discussed in detail the Taisei Group's compliance system (in particular, prohibiting interaction with other companies in the industry, in-house leniency, etc.), and stricter rules are being considered as future measures to address bid-rigging suspicions. I believe it would have been better to disclose that process and its contents. Finally, regardless of what the prosecutor decides in the end, I hope that the circumstances surrounding these events will be disclosed in the next fiscal year's report.

Going Forward

In general, it is difficult for individual employees to think about CSR management when engaging in their daily activities unless organizational initiatives and check functions are clearly working. Furthermore, CSR is an area that is evolving year by year, and new standards and terminologies are appearing. While the Company strives to reflect these new developments and to demonstrate its understanding of them in the report, they may not be properly assimilated unless they fit with the actual conditions in the organization. Specific efforts related to CSR, how the message and story presented in this report are connected to daily business activities, are found in individual business activities.

With regard to CSR procurement activities for example, Taisei Corporation continues to carry out steady efforts aimed at Souyukai member companies. In addition to conducting surveys of suppliers, I have heard that CSR officers visit worksites and that individual branch managers strive to communicate CSR in their own words. The accumulation of work such as this is vital.

In conclusion, with regard to CSR initiatives, the Taisei Group set out its philosophy and Action Guidelines in the report, and it must continue efforts to promote the collection and integration of non-financial data for all Group companies going forward. As a foundation of such initiatives, the Group is called upon to continue to thoroughly improve understanding and implement initiatives with regard to CSR in each business division, at the branch office and business office level, as well as in Group companies.

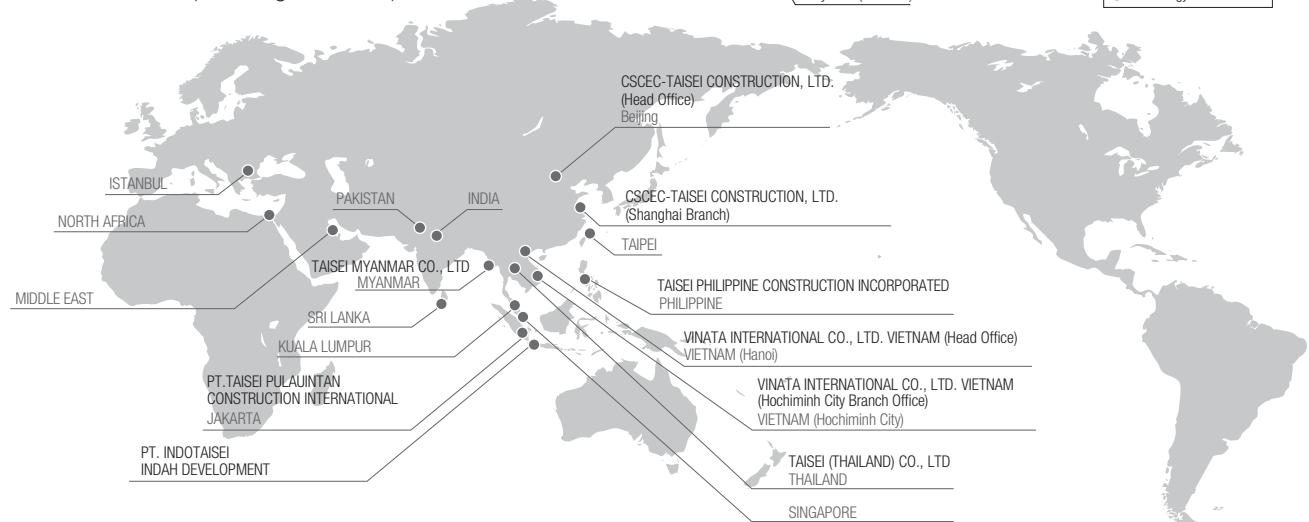
Outline of the Company

Corporate Data (As of March 31, 2018)

Name	TAISEI CORPORATION
Established	December 28, 1917
Paid-in capital	¥122.7 billion
Number of employees	8,501 people (non-consolidated)
Representative	Yoshiyuki Murata, President and Chief Executive Officer
Head office	25-1, Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo, Japan TEL. 81-3-3348-1111 (main number)
Branches	Tokyo, Osaka, Nagoya, Fukuoka, Sapporo, Sendai, Hiroshima, Yokohama, Niigata, Takamatsu, Chiba, Saitama, Kobe, Kyoto

Taisei Technology Center(Yokohama City)

Overseas Network (As of August 1, 2018)



Domestic Network

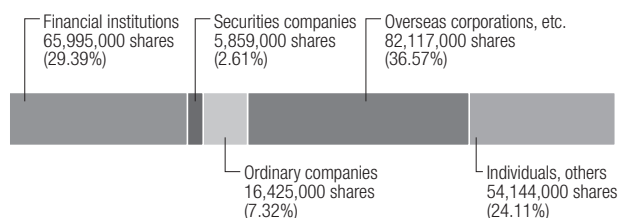


Share Information (As of March 31, 2018)

Status of Shares

Number of Shares Authorized	440,000,000
Number of Shares Issued	224,541,172
Number of Shareholders	79,971

Distribution of shares [Status according to ownership]



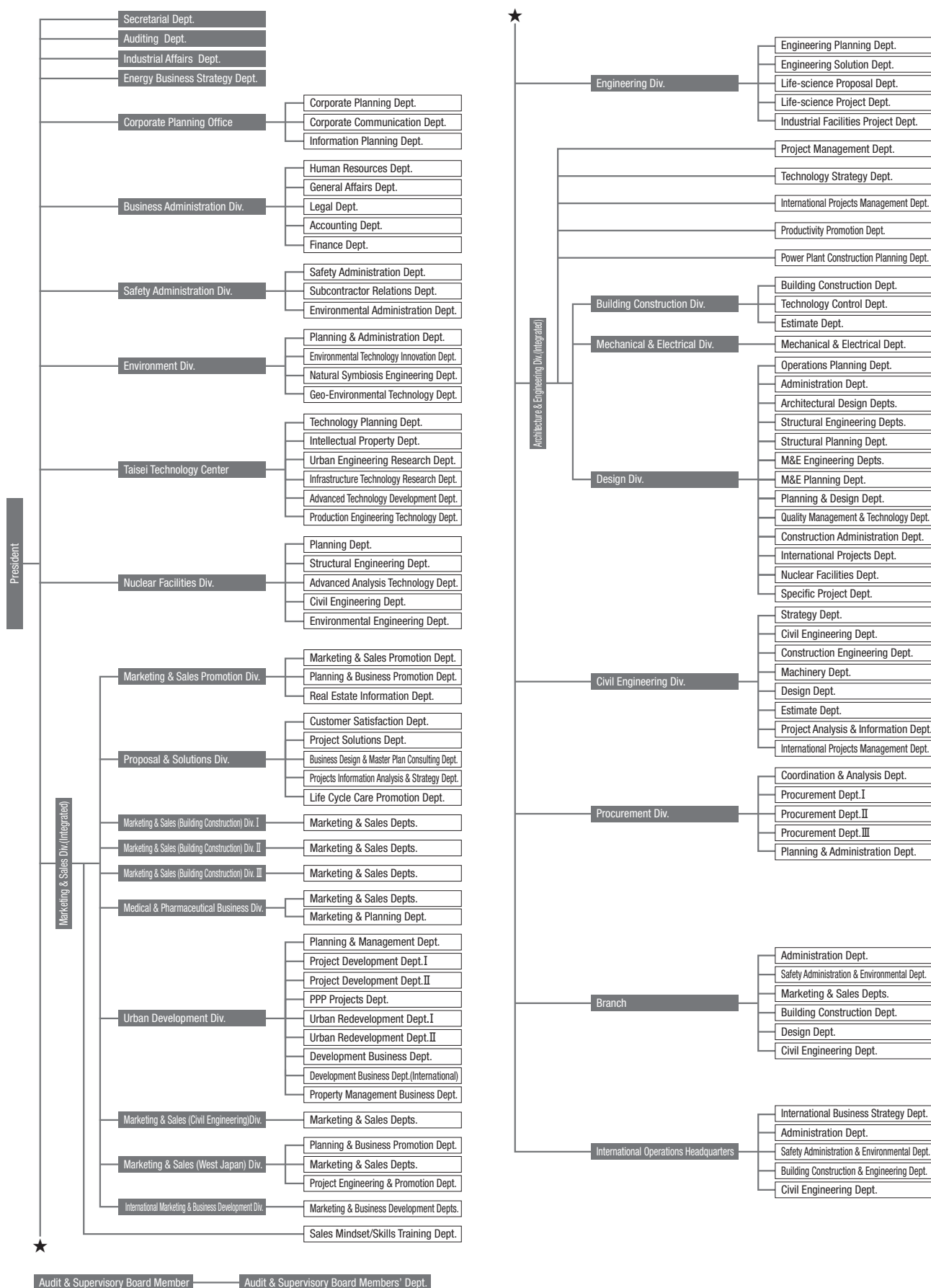
Stock Listings	Tokyo, Nagoya
Code	1801
Transfer Agent	Mizuho Trust & Banking Co., Ltd. 1-2-1, Yaesu, Chuo-ku, Tokyo 103-8670, Japan

Major Shareholders (Top 10):

Name of Shareholder	Number of Shares Held (Unit: Thousand Shares)	Ratio of Shares Held (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	13,164	5.87
Japan Trustee Services Bank, Ltd. (Trust Account)	11,536	5.14
Retirement Benefit Trust in Mizuho Trust (Mizuho Bank, Ltd. Account)	7,857	3.50
Taisei Associates' Shareholding Plan	5,251	2.34
Japan Trustee Services Bank, Ltd. (Trust Account No.5)	4,262	1.90
State Street Bank West Client-Treaty 505234	4,228	1.89
Taisei Employees' Shareholding Plan	3,765	1.68
Japan Trustee Services Bank, Ltd. (Trust Account No.7)	3,564	1.59
GOVERNMENT OF NORWAY	3,199	1.43
Japan Trustee Services Bank, Ltd. (Trust Account No.1)	3,164	1.41

Note: The Company's own shares (289,640-) are excluded in calculating the Ratio of Shares Held.

TAISEI CORPORATION Organization Chart (As of August 1, 2018)



About the Taisei Group

Value Creation Story of the Taisei Group

Special Feature

Business Section

ESG Section

Data Section

Overseas Business Offices

TAIPEI OFFICE Zone B, 6F, No. 16, Sec. 4, Nan-Jing E. Road,
Taipei, Taiwan R. O. C.
TEL. 886-2-2578-5656 FAX. 886-2-2578-3300

MIDDLE EAST OFFICE (Doha) Corner Abdullah Bin Jassim St.
United Bank Bldg. 4th Floor, Facing QNB Bldg, Doha - Qatar, PO
BOX 47366
TEL. 974-4443-4174 FAX. 974-4443-7176

SINGAPORE OFFICE 16 Collyer Quay, Level 21, Singapore,
049318
TEL. 65-6818-9779

KUALA LUMPUR OFFICE 9-3, 9th Floor, Faber Imperial Court,
Jalan Sultan Ismail, 50250 Kuala Lumpur, MALAYSIA
TEL. 60-3-2070-6155 FAX. 60-3-2070-6010

JAKARTA OFFICE PLAZA OLEOS 18th Floor Jl. TB Simatupang
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M.G. Road, Gurgaon, Haryana-122002, India
TEL. 91-124-466-9800 FAX. 91-124-466-9888

PAKISTAN OFFICE Office-A, 5th Floor, Block-A, Saudi Pak
Tower, 61-A, Jinnah Ave., Islamabad, Pakistan
TEL. 92-51-8316620 FAX. 92-51-8316629

VIETNAM OFFICE (Hanoi) 2nd Floor,Block A,Song Da Building
Pham Hung Road,My Dinh1,Nam Tu Liem District Hanoi,
S.R.VIETNAM
TEL. 84-24-3553-5033 FAX. 84-24-3553-5002

VIETNAM OFFICE (Hochiminh City) VIETNAM CHAMBER OF
COMMERCE AND INDUSTRY, Hochiminh City Branch Building
7th FL, 171 Vo Thi Sau St., Ward7, District-3, Hochiminh City,
S.R.VIETNAM
TEL. 84-28-3932-1759 FAX. 84-28-3932-1758

THAILAND OFFICE 9th Floor, Thanapoom Tower, 1550 New
Petchburi Road, Kwaeng Makkasan, Khet Rachtavee, Bangkok
10400, THAILAND
TEL. 66-2-207-0330 FAX. 66-2-207-0332

PHILIPPINE OFFICE 23F Tower 6789, 6789 Ayala Avenue,1227
Makati City, Metro Manila, PHILIPPINES
TEL. 63-2-528-3117 FAX. 63-2-528-3117

MYANMAR OFFICE 2nd Floor, Tokyo Enterprise Building, No.32,
Pyay Road, 61/2 miles, Hlaing Township, Yangon, Myanmar
TEL./FAX. 95-1-654-838

SRI LANKA OFFICE No.177, 3rd Floor, Galle Road, Colombo
03, Sri Lanka
TEL. 94-11-2446194 FAX. 94-11-2446198

NORTH AFRICA OFFICE 25th, Rd. No.10, Station Sqr, Maadi,
Cairo, ARAB REPUBLIC OF EGYPT
TEL. 20-2-2378-3609 FAX. 20-2-2380-1362

ISTANBUL OFFICE Barbaros Mah. Seyit Ahmet Deresi Sok.
Bahar Sitesi Yani, 34662 Altunizade - Uskudar Istanbul, TURKEY
TEL. 90-216-651-8160 FAX. 90-216-651-8180

Overseas Subsidiaries / Affiliated Companies

PT.TAISEI PULAUINTAN CONSTRUCTION INTERNATIONAL
PLAZA OLEOS 18th Floor Jl. TB Simatupang No.53, Pasar
Minggu Jakarta Selatan, 12520, Indonesia
TEL. 62-21-2278-3906 FAX. 62-21-2278-3903

TAISEI (THAILAND) CO., LTD. 9th Floor, Thanapoom Tower,
1550 New Petchburi Road, Kwaeng Makkasan, Khet Rachtavee,
Bangkok 10400, THAILAND
TEL. 66-2-207-0330 FAX. 66-2-207-0332

VINATA INTERNATIONAL CO., LTD. (Head Office)
3rd Floor,Block C,Song Da Building Pham Hung Road,My
Dinh1,Nam Tu Liem District Hanoi, S.R. VIETNAM
TEL. 84-24-3553-3839, -3840 FAX. 84-24-3553-3788

CSCEC-TAISEI CONSTRUCTION, LTD. (Head Office)
4th Floor, Building No. 8, Foreign Culture Creativity Park, 19
Chegongzhuang Xi Road, Haidian District, BEIJING, P.R.C.
100048
TEL. 86-10-6845-1267 FAX. 86-10-6845-1266

(Hochiminh City Branch Office) 7th FL, VIETNAM CHAMBER
OF COMMERCE AND INDUSTRY TOWER,171 Vo Thi Sau St.,
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(Shanghai Branch) 3rd Floor No.6419 SanLuLu, Pudong Xin Qu,
Shanghai, P.R.C. 200120
TEL. 86-21-6209-9757 FAX. 86-21-6209-9758

TAISEI PHILIPPINE CONSTRUCTION INCORPORATED 23rd
Floor, BDO Equitable Bank Tower, Paseo de Roxas, Salcedo
Village, Makati City, PHILIPPINES
TEL. 63-2-886-0670 FAX. 63-2-886-0663

PT. INDOTASEI INDAH DEVELOPMENT
Kawasan Industri Indotaisei, Kota Bukit Indah Sector IA, Block B
Karihurip, Cikampek, Karawan, Jawa Barat, INDONESIA
TEL. 62-264-351-003 FAX. 62-264-351-026

TAISEI MYANMAR CO., LTD. 2nd Floor Tokyo Enterprise
Building, No.32, Pyay Road, 61/2 miles, Hlaing Township, Yangon,
Myanmar
TEL. 95-1-654-838 FAX. 95-1-654-838



I wanted my classmates to know...

Thanks so much for your message!
I'm sorry I can't attend the reunion.
I'm in Singapore helping build
the Thomson-East Coast Line.
It's a subway to connect the island north
to south, and along the coast to the east.
I wish I could see you all right now,
but there's so much to do here.
Winter there would be a nice break
from the heat of this project.
The snow, those beautiful hills,
the fresh-baked smell from the bakery...
I know what I'm missing.
But instead of looking back on our lives,
I get to help young people here
embark on their life journey.



TAISEI

For a Lively World

Directed by Makoto Shinkai

A Graphic Advertisement of the TV CM "Singapore"

The commercial depicts a female engineer engaged in the construction work of the Thomson-East Coast Line, which will run through the north-south corridor of central Singapore, working actively toward the future, while reminiscing about her hometown friends.



[On the Cover]

Bountiful nature and values
generated therein are rendered as
beads of dew/water on a petal.
Also, the geometric pattern
represents the increasingly complex
and diverse roles we are to play.



[Inquiries]

TAISEI CORPORATION

CSR Promotion Section,
Corporate Communication Department,
Corporate Planning Office

E-mail: t-csr@pub.aisei.co.jp URL: <http://www.aisei.co.jp/english/>

