To Our Shareholders

Disclosure through the Internet relating to “Notice of the 156th General Meeting of Shareholders”

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(From April 1, 2015 to March 31, 2016)

TAISEI CORPORATION

Note: The items above are provided to our shareholders by posting our website (http://www.taisei.co.jp/) in accordance with laws and regulations, and Article 16 of the Articles of Incorporation of Taisei Corporation.

Important note:
This document is English translation of “Disclosure through the Internet relating to Notice of the 156th General Meeting of Shareholders”.
In the event that any of the information contained in these English translations is inconsistent with the information contained in the Japanese original document, the Japanese original document shall prevail.

Systems and Policies of the Company

In order to secure a system for properly and efficiently executing business and to ensure the reliability of financial reporting, the Company set out its “Fundamental Policy to Enhance Operational Compliance Systems” at the Board as follows:

Fundamental Policy to Enhance Operational Compliance Systems

(1) Systems to ensure that Members of the Board and employees carry out their duties in compliance with laws and regulations and the Articles of Incorporation

(a) Members of the Board shall recognize that compliance is at the core of good management and shall faithfully comply with all compliance-related regulations, including the Action Guidelines for Taisei Personnel and the Taisei Group as a whole.

(b) The Company shall ensure that all officers and employees recognize their compliance-related obligations:

- by implementing programs recommended by the Compliance Committee, such as strict disciplinary punishments for officers and employees found to have violated a law or regulation, enhancement of systems to prevent collusive bidding practices, and ensuring the effective operation of the Corporate Ethics Helpline; and
- by promoting compliance education and encouraging internal audits (self-audits) at the department level.

(c) The General Affairs Department shall guide the compliance-related activities of individual corporate bodies, and the Auditing Department shall ensure the effectiveness of internal audits by working closely with the individual corporate bodies.

(2) Structure to retain and manage information regarding the performance of duties by Members of the Board

(a) The Company shall codify the rules and procedures concerning information and shall develop systems to appropriately manage all information belonging to the Company in order to appropriately record and retain information relating to the performance of the Members of the Board of their duties, to prevent any leakage or unauthorized use of such information, and to effectively use such information.

(3) Risk management rules and measures; and internal system

(a) The Company shall develop systems to appropriately manage primary risks, including those relating to quality, safety, environment, compliance, information and profit and loss, in accordance with the Company's fundamental policy for development of risk management system.

(b) The Company shall develop systems to manage the risks in the event of an emergency or a large disaster, including arrangements to ensure the continuation of business operations.

(c) Each corporate body shall enhance its risk management business unit capacity by providing its members with risk management education and other programs.

(d) The General Affairs Department will promote proper management of company-wide risks, and the Auditing Department will promote endeavors to continually improve the risk management system through internal audits.

(4) Systems to ensure the efficient performance of duties by Members of the Board

(a) The Company shall encourage the swift and efficient management of operations by the Executive Officers by separating the business functions from the corporate decision-making and supervisory functions. In addition, the Company shall also enhance the decision making process of the Board by utilizing the committees within the Board to examine important issues prior to their submission at the meetings of the Board and consulting the External Members of the Board.

(b) The Company shall develop and enhance the rules and procedures regarding the delegation of decision making and other powers to managers, to facilitate more efficient decision making and management processes, including with respect to the execution of duties and responding to changes in the managerial environment.

(5) Systems to ensure proper operation of group companies

(a) The Company shall promote the establishment of rules in each group company regarding reporting requirements to the Company in accordance with the Company's fundamental regulations and operational guidelines concerning group operation.

(b) The Company shall establish a risk management system in each group company, promoting the establishment of internal rules in each group company for its risk management with respect to quality, safety, environment, compliance, information, profit and loss and large-scale disaster and other major risks in accordance with the business characteristics of such group company.
In addition, the Company shall ensure the effectiveness of group company’s risk management system through an internal audit by the Auditing Department and a group liaison meeting held by the Legal Department and other departments of each group company, promotion of risk management education in each group company, and provision of the group helpline amongst other things.

(c) The Company shall assist, advise and collaborate in the business of each group company by clarifying the functions and roles of each company in the group, assisting each such group company to implement an organizational structure appropriate for its business characteristics and size thereof and utilizing the management resources in the group.
In addition, the Company shall hold group management meetings from time to time to facilitate communication among its group companies and promoting mutual understanding and cooperation with respect to issues related to technology, production, marketing and sale, transaction and other issues surrounding the group.

(d) The Company shall share within the group its ideals (ongoing objectives and goals), spirit (respect for the opinions of all officers and employees in our group), and code of conduct (the fundamental principles of conduct for the organization and standards of behavior and decisions criteria which officers and employees in our group shall adopt and strictly comply with), and the Company shall also establish a compliance system, promoting the enhancement of internal rules appropriate for the business characteristics of each group company.
In addition, the Company shall ensure the effective operation of the compliance system of each group company through internal audits conducted by the Auditing Department and group liaison meetings held by the Legal Department and other departments of each group company, including the promotion of compliance education for each group company, and provision of the group helpline.

(6) Systems regarding employee support of the Audit & Supervisory Board Members, the independence of such employees from Members of the Board and ensuring effective instructions from the Audit & Supervisory Board Members to such employees

(a) Audit & Supervisory Board Members and the General Manager of the Personnel Department shall discuss in advance assignments, transfers, evaluations and other issues regarding the staff of the Audit & Supervisory Board Members' Department, whose primary role is to assist the performance of duties by Audit & Supervisory Board Members.

(b) Each department shall properly perform its duties in order to ensure that staff of Audit & Supervisory Board Members shall effectively implement the instruction from the Audit & Supervisory Board.

(7) System for reporting to Audit & Supervisory Board Members and preventing the adverse treatment of persons who make reports

(a) For the purpose of auditing the internal controls of the Company and each group company by Audit & Supervisory Board Members, the Company shall determine the matters that officers and employees of the Company and each group company, or any recipient of a report from such officer or employee of the Company, should report to the Audit & Supervisory Board Members, and shall establish the following systems:

1) A system in which Audit & Supervisory Board Members can receive reports from officers and employees of the Company at any time;
2) A system in which Audit & Supervisory Board Members can receive reports from officers and employees of each group company or a recipient of a report from such officer or employee; and,
3) A system in which the Audit & Supervisory Board Members shall receive reports of any violation of law or regulation by any officer or employee of the Company through the corporate ethics helpline and the group helpline.

(b) The Company shall establish a system to prevent any adverse treatment of a person who makes a report under the preceding paragraph based on the fact that he/she made such report.

(8) Matters concerning policies regarding the allocation of costs arising from the performance of duties by the Audit & Supervisory Board Members and system to ensure that the Audit & Supervisory Board Members can effectively conduct the audit of the Company

(a) If an Audit & Supervisory Board Member claims costs arising from the performance of its duties, Members of the Board shall properly handle such claim in order to ensure the audit is effectively conducted.

(b) Members of the Board representing the Company and Audit & Supervisory Board Members shall facilitate their mutual understanding, through regular meetings, regarding the status of the audits conducted by Audit & Supervisory Board Members, and other important issues.

(c) The relationship among Audit & Supervisory Board Members shall be strengthened by measures such as:

- Audit & Supervisory Board Members and General Manager of the Auditing Department shall exchange documents regarding the cooperation between Audit & Supervisory Board Members and the Auditing Department; and
- The Auditing Department and Accounting Auditor shall have regular meetings with Audit & Supervisory Board Members.

(9) Structure to ensure appropriateness of financial reports

(a) The Company shall develop internal controls sufficient to ensure the appropriateness of all financial reports.

Summary of Our Efforts under the Fundamental Policy to Enhance Operational Compliance Systems

(1) Efforts related to "Systems to ensure that Members of the Board and employees carry out their duties in compliance with laws and regulations and the Articles of Incorporation"

We provide the officers and employees of the Company with the training by e-learning to ensure that they comply with compliance-related regulations, including the Action Guidelines for Taisei Personnel and the Taisei Group as a whole. In addition, we issue Compliance News every month, which covers typical compliance issues, to raise the level of compliance awareness.

Regarding the corporate ethics helpline system, we also make continuous efforts to ensure that officers and employees are aware of and understand the system through Compliance News.

(2) Efforts related to "Structure to retain and manage information regarding the performance of duties by Members of the Board"

We have established the Basic Management Rules for Corporate Information and other regulations and make continuous efforts to ensure that the officers and employees of the Company understand the structure through education of information security by e-learning, and through Compliance News.

(3) Efforts related to "Risk management rules and measures; and internal system"

We have established the Risk Management Policy and other regulations, classify operational risks according to their levels of importance, have established a company-wide risk management system clarifying the departments in charge, and annually review the system. We also make continuous efforts to ensure that the officers and employees of the Company understand risk management rules and measures and internal systems through educational activities such as risk management training by e-learning.

In order to respond to emergencies and large-scale disasters, we have established the Policy on Business Continuity in Times of Disaster and other regulations and annually conduct large-scale disaster drills in accordance with the policy and other regulations.

(4) Efforts related to "Systems to ensure the efficient performance of duties by Members of the Board"

We have enhanced the decision-making process of the Board by utilizing Executive Officers and the committees within the Board.

To enable the Board to have meaningful discussions, the Secretarial Department, which serves as the secretariat of the Board, distributes materials or provides explanations prior to each meeting of the Board. In addition, we decide the date of each meeting of the Board at least six months in advance so that Members of the Board can make sufficient preparations.

(5) **Efforts related to "Systems to ensure proper operation of group companies"**

On the basis of our structure of values and policies including the Taisei Group Philosophy, we have been promoting the establishment of systems for reporting from group companies to the Company, risk management systems, and compliance systems in accordance with fundamental regulations and operational guidelines concerning group operation and other regulations. We have also been promoting assistance, guidance, and cooperation related to the operations of each group company through internal audits, group management meetings, and group liaison meetings.

In addition, through operation of the group helpline, we have been making efforts to ensure that the risk management and compliance systems of each group company are effective.

(6) **Efforts related to "System to ensure that the Audit & Supervisory Board Members can effectively conduct audits of the Company"**

In order to audit internal controls within the Company and each group company, we have established rules concerning matters that should be reported by the officers and employees of the Company, the officers and employees of each group company, and persons receiving reports from these officers and employees to the Audit & Supervisory Board Members. Under these rules, these officers, employees, and persons make reports to the Audit & Supervisory Board Members.

The Members of the Board who are Representative Directors, the Auditing Department, and the Accounting Auditor strive to enhance the effectiveness of audit, having regular meetings with the Audit & Supervisory Board Members to facilitate their mutual understanding.

The Audit & Supervisory Board Members' Department, whose primary role is to assist with the performance of duties by the Audit & Supervisory Board Members, performs duties as instructed by the Audit & Supervisory Board Members.

(7) **Efforts related to "Structure to ensure appropriateness of financial reports"**

Through monitoring on a regular basis, we continuously check and evaluate whether the procedures for reducing risks of false financial reporting are effective.

To ensure that the internal control systems for financial reporting are continuously effective, messages from President and Chief Executive Officer of the Company are provided to the officers and employees of the Company, and educational activities by e-learning are also provided to them.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 Companies Act 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.

1. Significant Accounting Policies

(1) Consolidation

① The number of consolidated subsidiaries 29 companies

Main consolidated subsidiaries	TAISEI YURAKU REAL ESTATE Co., Ltd. TAISEI ROTEC CORPORATION TAISEI U-LEC Co., Ltd.
② Main non-consolidated subsidiaries	TOKYO ACADEMIC SERVICE Co., Ltd. EHIME HOSPITAL PARTNERS Ltd.

(The reason for excluding these subsidiaries from consolidation)

Non-consolidated subsidiaries are excluded from the scope of the consolidation because these companies are small companies and the sums of each of the total assets, sales, net income (equal to share interest) and retained earnings (equal to share interest) of these companies have not had any significant impacts on the consolidated financial statements.

③ Changes of scope of consolidation

YB HAMACHO KAIHATSU TMK. and other 2 companies are included in the scope of consolidation because these companies became more significant on the consolidated financial statements. And also TAISEI MYANMAR Co., Ltd. is included in the scope of consolidation because the company was newly established and became a subsidiary.

(2) Equity method

① The number of companies accounted for using the equity method

Non-consolidated subsidiaries	17 companies
Affiliated companies	43 companies

Main affiliated companies accounted for using the equity method
TAISEI PHILIPPINE CONSTRUCTION, Inc.
P.T. INDOTAISEI INDAH DEVELOPMENT

② Non-consolidated subsidiaries and affiliated companies that have not been accounted for using the equity method

Main non-consolidated subsidiaries that have not been accounted for using the equity method

SESOKO BEACH PROJECT LLC.

Main affiliated companies that are not accounted for using the equity method

NAGOYA FUSHIMI PROJECT LLC.

(The reason for excluding these companies from the scope of equity method)

Non-consolidated subsidiaries and affiliated companies that are not accounted for using the equity method are excluded from the equity method scope because not only each company's net income (equal to share interest) and retained earnings (equal to share interest) but also sums of each of these figures have no significant impact on the consolidated financial statements.

③ Changes of scope of equity method

TOKYO ACADEMIC SERVICE Co., Ltd. and other 49 companies are included in the scope of equity method because PFI business (Private Finance Initiative) became more significant. And also PLUM EAST LLC. and other 1 company are included in the scope of equity method because these companies were newly established and became affiliates.

(3) Summary of accounting policies

① Valuation of significant assets

【Securities】

・Debt securities intended to be held to maturity

Debt securities intended to be held to maturity are stated at amortized cost.

・Securities other than trading securities, held-to-maturity securities, and equity securities issued by subsidiaries and affiliates (hereafter "available-for-sale securities")

Available-for-sale securities with fair market value readily available

Available-for-sale securities with fair market value readily available are stated at fair value as of the balance sheet date, the difference between the acquisition costs and the fair value is not reflected in income, but included directly in the net assets. Cost of available-for-sale securities sold is calculated using the moving-average method.

Available-for-sale securities with no fair market value readily available

Available-for-sale securities with no fair market value readily available are stated at moving-average cost.

【Inventories】

・Cost of uncompleted contracts

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

・Cost of development projects in progress

Cost of development projects in progress is mainly stated at the lower of cost based on the specific-identification cost method or net realizable value.

・Other inventories

Cost of other projects

Cost of other projects is mainly stated at the lower of cost based on the specific-identification cost method or net realizable value.

Raw materials and supplies

Raw materials and supplies are mainly stated at the lower of cost based on the moving-average method or net realizable value.

【Derivative financial instruments】

Derivative financial instruments are stated at fair value.

② Depreciation method of significant depreciable assets

【Buildings】

Buildings are mainly depreciated using the straight-line method.

【Other tangible fixed assets】

Other tangible fixed assets are mainly depreciated using the declining-balance method.

③ Allowance

【Allowance for doubtful accounts】

Allowance for doubtful accounts is provided to reserve 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.

【Allowance for warranties on completed contracts】

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

【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.

【Allowance for loss 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.

【Retirement benefits for directors and corporate auditors】

In the Company's certain consolidated subsidiaries, retirement benefits for directors and corporate auditors are provided as 100% of the amount that would be required to be paid in accordance with relevant internal rules under the assumption that all directors and corporate auditors retired at the balance sheet date.

【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.

【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.

④ Other accounting policies on the consolidated financial statements

【Recognition of 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.

【Revenue recognition of construction】

Contract 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.

【Hedge accounting】

Gains or losses resulting from hedging instruments are deferred until related losses or gains on hedged items are recognized. For an interest rate swap contract which meets certain conditions, a net amount to be paid or received under the contract is added to or deducted from interest on liabilities for which the swap contract has been concluded.

【Amortization of goodwill】

Goodwill, which is the excesses of investment cost over net equity of consolidated subsidiaries and affiliated companies accounted for using the equity method, is amortized over the period less than 20 years for which the goodwill is expected to contribute to consolidated net income, using the straight-line method, or is charged to income in the year incurred if the goodwill is immaterial.

【National consumption tax and local consumption tax】

National consumption tax and local consumption tax are excluded from other accounts in the financial statements.

【Income taxes】

Income taxes are calculated based on the system of consolidated tax returns.

2. Changes in accounting policy

Application of Accounting Standards regarding Business Combinations

Effective from the fiscal year ended March 31, 2016, the Company adopted “Accounting Standard for Business Combinations” (ASBJ Statement No.21, September 13, 2013; hereinafter “Business Combinations Accounting Standard”), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No.22, September 13, 2013; hereinafter “Consolidation Accounting Standard”), “Accounting Standard for Business Divestitures” (ASBJ Statement No.7, September 13, 2013; hereinafter “Business Divestitures Accounting Standard”) and other standards.
Accordingly, the accounting method has been changed such that the differences associated with changes in equity in subsidiaries remaining under the control of the Company are recorded as capital surplus, and acquisition-related costs are recorded as expenses for the fiscal year of incurrence. For business combinations implemented from the beginning of the fiscal year ended March 31, 2016, the accounting method has been changed so as to reflect the adjustments to the allocated amount of acquisition costs on the finalization of provisional accounting treatment in the consolidated financial statements for the year containing the date of combinations. Additionally, presentation method of “net income” was amended and description of “minority interests” was changed to “non-controlling interests”.
The Company has applied the Standards mentioned above from the beginning of the fiscal year ended March 31, 2016, following the transitional treatment prescribed in article 58-2 (4) of the Business Combinations Accounting Standard, article 44-5 (4) of the Consolidation Accounting Standard and article 57-4 (4) of the Business Divestitures Accounting Standard.

3. Consolidated Balance Sheet

(1) Pledged assets and related debt

① Pledged assets

Land	¥ 8,142 Million
Buildings and structures	6,103 Million
Investment securities	2,104 Million
Other assets (Investments and other assets)	1,589 Million
Machinery, vehicles and equipment	20 Million
Total	17,960 Million

② Debt related to the assets

Long-term non-recourse loans payable	¥ 4,550 Million
Long-term borrowings	1,600 Million
Short-term borrowings	630 Million
Non-recourse bonds payable	500 Million
Short-term non-recourse loans payable	100 Million
Total	7,380 Million

There are assets pledged as collateral for borrowings of non-consolidated companies other than above.

(2) Accumulated depreciation of tangible fixed assets ¥ 121,806 Million

(3) Contingent liabilities

① Contingent liabilities due to guarantees made

The Company and its consolidated subsidiaries are contingently liable as the guarantors for borrowings of the following companies that are not consolidated.

KAGA ASCON Co., Ltd.	¥ 579 Million
Housing loans	208 Million
Others (4 companies)	249 Million
Total	1,037 Million

② Additional investment obligations

The Company and its consolidated subsidiaries are contingently liable to invest in the following Special Purpose Companies for their repayment and other obligations of borrowings.

SURUGADAI KAIHATSU TMK. 15, 680 Million

The amounts indicate the Company and its consolidated subsidiaries' shares of the additional investment obligations.

(4) Revaluation reserve for Land

Certain consolidated domestic subsidiaries revaluated their land in accordance with the Act on Revaluation of Land (the "Act"). As a result, differences between book values before and after revaluation, net of income taxes were stated as "Revaluation reserve for land" in the net assets on the consolidated balance sheet.

・Revaluation method

The revaluation was executed in accordance with the method prescribed in the Article 2, Items 3, 4 and 5 of the Act.

・Revaluation date

On November 30, 2001 and March 31, 2002

・Excess amount of the book values of the revaluated land over the fair values as of March 31, 2016 (including the excess amount of ¥-1,004 million related to investment and rental property.) [Negative sign "-" shows unrealized gain.]

¥ 4,815 Million

(5) Cost of uncompleted contracts in relation to

allowance for losses on construction contracts ¥ 14,087 Million

4. Consolidated Statement of Income

(1) Net sales recognized on the percentage-of-completion method ¥ 1,118,785 Million

(2) Allowance for losses on construction contracts included in cost of sales ¥ 3,360 Million

(3) Research and development expenses ¥ 10,998 Million

5. Consolidated Statement of Changes in Net Assets

(1) Number of outstanding shares (in thousands share) 1,171,268

(2) Dividends

① Dividends paid

Resolution	Class of stocks	Total amount of dividends	Dividends per share	Record date	Effective date
June 26, 2015 Annual shareholders' meeting	Common stock	¥ 5,849 Million	¥ 5.00	March 31, 2015	June 29, 2015
November 9, 2015 Board meeting	Common stock	¥ 5,849 Million	¥ 5.00	September 30, 2015	December 2, 2015

② Dividends with the record date in the year ended March 31, 2016 and the effective date in the subsequent fiscal year

The Company will propose to the annual shareholders' meeting on June 29, 2016 that the dividends on the common stocks will be as follows:

- Total amount of dividends ¥ 12,868 Million
- Dividends per share ¥ 11.00
- Record date March 31, 2016
- Effective date June 30, 2016

The dividends will be allocated from retained earnings.

6. Financial Instruments

(1) Policies for using Financial Instruments

The Company and its consolidated subsidiaries restrict investments to the low risk assets such as deposits, and raise the funds by indirect finance such as borrowings from bank as well as by the direct finance such as issuing corporate bonds, commercial papers.
Derivative financial instruments are employed mainly for hedging of the fluctuation of the interest rate and foreign currency exchange, and not used for speculation.

(2) Fair Value of Financial Instruments

Millions of Yen

	Book value	Fair value	Difference
〔ASSETS〕			
① Cash and time deposits	374,192	374,192	−
② Notes and accounts receivable, trade	443,635	443,620	(14)
③ Investment securities			
Debt securities intended to be held to maturity	682	702	20
Available-for-sale securities	249,878	249,878	−
〔LIABILITIES〕			
① Notes and accounts payable, trade	442,758	442,758	−
② Short-term borrowings	108,981	109,391	(410)
③ Short-term non-recourse loans payable	100	162	(62)
④ Straight bonds due within one year	10,000	10,030	(30)
⑤ Deposits received	120,205	120,205	−
⑥ Straight bonds	40,000	40,787	(787)
⑦ Non-recourse bonds payable	500	511	(11)
⑧ Long-term borrowings	90,564	91,627	(1,063)
⑨ Long-term non-recourse loans payable	4,550	4,617	(67)
〔Derivative financial instruments〕(*)	(2)	(2)	−

(*)Note The assets and liabilities are reported as net amount. Any item for which the total becomes a net liability is indicated in parenthesis.

Note1: The calculation method of the fair value of financial instrument and securities, derivative transaction

〔ASSETS〕

① Cash and time deposits

The fair values of these financial instruments are almost equivalent to the book value, due to the short term settlements.

② 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 notes and accounts receivable, trade due over one year are based on the present value of discounted cash flows using the interest rate determined by the factors of the estimated collection terms and credit risks, with respect to each receivable categorized by collection terms.

③ Investment securities

The fair values of the 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.

〔LIABILITIES〕

① Notes and accounts payable, trade and ⑤ Deposits received

The fair values of these financial instruments are almost equivalent to the book value, due to the short term settlements.

② Short-term borrowings

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 borrowings due within one year are based on the same method as that for long-term borrowings.

③ Short-term non-recourse loans payable and ⑦ Non-recourse bonds payable and
⑧ Long-term borrowings and ⑨ Long-term non-recourse loans payable

The fair values of long-term borrowings are based on the present value of discounted cash flows using the interest rate which may be applicable when the same kind borrowings are made.

④ Straight bonds due within one year and ⑥ Straight bonds

The fair values of the marketable bonds are based on the quoted market value, otherwise the fair values of the bonds are the present value of discounted cash flows using the interest rate determined by the factors of the estimated redemption terms and issuer's credit risk.

[Derivative financial instruments]

The fair values of derivative financial instruments are based on the prices calculated by a correspondent financial institution.
The fair values of an interest rate swap contract which meets certain conditions are including in the fair value of its corresponding long-term borrowings (if due within one year, short-term borrowings) since such swap contracts are embedded derivatives which should not be separated from underlying transactions (i.e. borrowings).

Note2: Financial instruments which are difficult to calculate the fair value

Nonmarketable securities (book value amount to ¥70,759 million) are not included in the above〔Asset〕③ Investment securities – Available-for-sale securities; since it is difficult to calculate the fair values because they have no quoted market price and the future cash flows cannot be estimated.

7. Investment and Rental Property

(1) Context of investment and rental property

The Company and certain consolidated subsidiaries hold some office buildings for rent in Tokyo and other areas.

(2) Fair value of investment and rental property

Millions of Yen

Book value	Fair value
61,330	69,219

Note1: Carrying amount is the amount that the accumulated depreciation and impairment losses are deducted from the cost of acquisition.

Note2: The book value includes asset retirement obligations (¥226 million).

Note3: The fair value of investment and rental property as of March 31, 2016 is mainly calculated by the Company according to the appraisal standard of real-estate and is adjusted using official indices.

8. Per Share Data

(1) Net assets per share (in Yen)	￥442.67
(2) Net income per share (in Yen)	￥65.85

9. Others

Revision of deferred income tax assets and liabilities by reduction of taxation rate

On March 29, 2016, amendments to the Japanese tax regulations "Act on Partial Amendment of the Income Tax Act and Others" and "Act on Partial Amendment of the Local Tax Act and Others" were passed in the Diet. As a result of these amendments, the effective statutory tax rates used to measure deferred income tax assets and liabilities (limited to those expected to be eliminated on and after April 1, 2016) were changed from 32.3% to 30.9% for those expected to be eliminated from April 1, 2016 to March 31, 2018 and to 30.6% for those expected to be eliminated on and after April 1, 2018.
Due to these changes in the effective statutory tax rates, amount of deferred income tax assets (net of deferred income tax liabilities) decreased by ¥451 million, deferred income taxes increased by ¥2,474 million, unrealized gains on available-for-sale securities, net of taxes increased by ¥2,084 million and remeasurements of defined benefit plans decreased by ¥60 million. In addition, deferred income tax liabilities for revaluation reserve for land decreased by ¥232 million and revaluation reserve for land increased by ¥232 million.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Basis of Presenting Non-consolidated Financial Statements:

The accompanying Non-consolidated financial statements of Taisei Corporation (the “Company”) has been prepared in accordance with the provisions set forth in the Japanese Companies Act 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.

1. Significant Accounting Policies

(1) Valuation of assets

【Securities】

・Debt securities intended to be held to maturity

Debt securities intended to be held to maturity are stated at amortized cost.

・Equity securities of the Company’s subsidiaries and affiliated companies

Equity securities of the Company’s subsidiaries and affiliated companies are stated at cost based on the moving-average method.

・Securities other than trading securities, held-to-maturity securities, and equity securities issued by subsidiaries and affiliates (hereafter, “available-for-sale securities”)

Available-for-sale securities with fair market value readily available

Available-for-sale securities with fair market value readily available are stated at fair value as of the balance sheet date, the difference between the acquisition costs and the fair value is not reflected in income, but included directly in net assets. Cost of available-for-sale securities sold is calculated using the moving-average method.

Available-for-sale securities with no fair market value readily available

Available-for-sale securities with no fair market value readily available are stated at moving-average cost.

【Inventories】

・Real estates for sale

Real estates for sale are stated at the lower of cost based on the specific-identification cost method or net realizable value.

・Cost of uncompleted contracts

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

・Cost of development projects in progress

Cost of development projects in progress is stated at the lower of cost based on the specific-identification cost method or net realizable value.

・Raw materials and supplies

Raw materials and supplies are stated at the lower of cost based on the moving-average method or net realizable value.

【Derivative financial instruments】

Derivative financial instruments are stated at fair value.

(2) Depreciation method of fixed assets

【Property, plant and equipment】

・Buildings

Buildings are depreciated using the straight-line method.

・Other tangible fixed assets

Other tangible fixed assets are depreciated using the declining-balance method.

(3) Allowance

【Allowance for doubtful accounts】

Allowance for doubtful accounts is provided to reserve 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.

【Allowance for warranties on completed contracts】

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

【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.

【Retirement benefits for employees】

Retirement benefits for employees are provided for their severance and retirement benefits based on estimated amounts of projected benefit obligations and plan assets at the year-end.
Past service costs are amortized using the straight-line method over 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 using the straight-line method over 10 years, which is not longer than an average remaining service period of the employees when the gains and losses are incurred.

【Allowance for losses on investments in subsidiaries and affiliates】

Allowance for losses on investments in subsidiaries and affiliates is provided for estimated losses that exceed amounts of investments and loans to the companies.

【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.

(4) Revenue and cost recognition

【Revenue recognition of construction】

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

(5) National consumption tax and local consumption tax

National consumption tax and local consumption tax are excluded from other accounts in the financial statements.

(6) Other accounting policies on the non-consolidated financial statements

【Retirement benefits for executive officers and employees】

The accounting treatment on unrecognized actuarial gains and losses and unrecognized past service cost with respect to retirement benefits is different from that applied in the consolidated financial statements.

【Hedge accounting】

Gains or losses resulting from hedging instruments are deferred until related losses or gains on hedged items are recognized. For an interest rate swap contract which meets certain conditions, a net amount to be paid or received under the contract is added to or deducted from interest on liabilities for which the swap contract has been concluded.

【Income taxes】

Income taxes are calculated based on the system of consolidated tax returns.

2. Non-consolidated Balance Sheet

(1) Pledged assets and related debt

① Pledged assets

Investments in subsidiaries and affiliates	¥ 1,122 Million
Long-term loans receivable	1,512 Million
Total	2,635 Million

② Debt related to the assets — Million

The assets are pledged as collateral for borrowings of affiliates.

(2) Accumulated depreciation of tangible fixed assets ¥ 49,302 Million

(3) Contingent liabilities

① Contingent liabilities due to guarantees made

The Company is contingently liable as the guarantor for borrowings of the following companies.

TAISEI YURAKU REAL ESTATE Co., Ltd.	¥ 2,450 Million
SYMBOLTOWER DEVELOPMENT Co., Ltd.	504 Million
Others (2 companies)	227 Million
Total	3,181 Million

② Additional investment obligations

The Company is contingently liable to invest in the following Special Purpose Companies for their repayment and other obligations of borrowings.

SURUGADAI KAIHATSU TMK. ¥ 14,240 Million

The amount indicates the Company's shares of the additional investment obligations.

(4) Receivables from and payables to subsidiaries and affiliates

Receivables from subsidiaries and affiliates:

Short-term	¥ 6,204 Million
Long-term	¥ 9,368 Million

Payables to subsidiaries and affiliates

Short-term	¥ 67,520 Million
Long-term	¥ 17 Million

(5) Cost of uncompleted contracts in relation to allowance for losses on construction contracts ¥ 14,035 Million

3. Non-consolidated Statement of Income

(1) Net sales recognized on the percentage-of-completion method	¥ 1,017,297 Million
(2) Sales to subsidiaries and affiliates	¥ 9,054 Million
(3) Purchase from subsidiaries and affiliates included in cost of sales	¥ 57,046 Million
(4) Allowance for losses on construction contracts included in cost of sales	¥ 3,193 Million
(5) Transactions other than operating transactions with subsidiaries and affiliates	¥ 491 Million
(6) Research and development expenses	¥ 10,933 Million

4. Non-consolidated Statement of Changes in Net Assets

Class and number of treasury stock (in thousands share) at the yearend	Common stock 1,370

5. Deferred Income Taxes

Significant components of deferred income tax assets and liabilities

Deferred income tax assets:	
Retirement benefits for employees	¥ 28,317 Million
Inventories	18,658 Million
Investments in subsidiaries and affiliates	12,484 Million
Accrued bonuses	3,404 Million
Bad debt losses and allowance for doubtful accounts	3,398 Million
Others	5,803 Million
Subtotal	72,066 Million
Less valuation allowance	(14,400) Million
Total deferred income tax assets	57,666 Million
Deferred income tax liabilities:	
Unrealized gains on available-for-sale securities	¥ (36,552) Million
Gains on securities contribution to employee retirement benefit trust	(17,710) Million
Others	(650) Million
Total deferred income tax liabilities	(54,914) Million
Net deferred income tax assets	¥ 2,752 Million

6. Related Party Transactions

(1) Related companies - Subsidiaries and affiliates

① Description of transactions

Attribution	Name	Voting right share owing (share owned)	Relationship	Nature of transaction	Amounts of transaction	Accounts	Closing balance
Subsidiary	TAISEI YURAKU REAL ESTATE Co., Ltd.	100%	Guaranties of liabilities	Guaranties of liabilities	¥ 2,450 Million	—	¥ —

② Business conditions and policy of business conditions
Guaranties of liabilities are for the borrowings from financial institutions.

(2) Corporate pension plans for employees

Attribution	Name	Voting right share owing (share owned)	Relationship	Nature of transaction	Amounts of transaction	Accounts	Closing balance
Corporate pension plans	Retirement benefit trust	—	Plan assets at retirement benefit accounting	Return of a part of assets	¥ 21,969 Million	—	¥ —

7. Per Share Data

(1) Net assets per share	¥ 373.40
(2) Net income per share	¥ 50.60

8. Others

Revision of deferred income tax assets and liabilities by reduction of taxation rate

On March 29, 2016, amendments to the Japanese tax regulations "Act on Partial Amendment of the Income Tax Act and Others" and "Act on Partial Amendment of the Local Tax Act and Others" were passed in the Diet. As a result of these amendments, the effective statutory tax rates used to measure deferred income tax assets and liabilities (limited to those expected to be eliminated on and after April 1, 2016) were changed from 32.3% to 30.9% for those expected to be eliminated from April 1, 2016 to March 31, 2018 and to 30.6% for those expected to be eliminated on and after April 1, 2018.
Due to these changes in the effective statutory tax rates, amount of deferred income tax liabilities (net of deferred income tax assets) decreased by ¥24 million, deferred income taxes increased by ¥2,006 million and unrealized gains on available-for-sale securities, net of taxes increased by ¥2,030 million.