

# Explanation and Analysis of Business Results

TAISEI CORPORATION and Consolidated Subsidiaries  
Years ended March 31, 2013 and 2014

	Millions of Yen (except for per share figures)		Thousands of U.S. Dollars*	Change (%)
	2013	2014	2014 (except for per share figures)	
<b>Contract backlog at the beginning of the year</b>	¥ 1,663,459	¥ 1,651,370	\$16,045,181	(0.7) %
<b>New orders received during the year</b>	1,404,407	1,645,895	15,991,984	17.2
<b>Net sales</b>	1,416,496	1,533,473	14,899,660	8.3
<b>Contract backlog at the end of the year</b>	¥ 1,651,370	¥ 1,763,792	\$17,137,505	6.8 %
<b>Net income</b>	¥ 20,051	¥ 32,089	\$ 311,786	60.0 %
Per share (in yen and dollars)	17.60	28.17	0.274	60.1
<b>Cash dividends applicable to the year</b>	5,698	6,834	66,401	19.9
Per share (in yen and dollars)	5.00	6.00	0.058	20.0
<b>Net assets</b>	343,300	384,166	3,732,666	11.9
Per share (in yen and dollars)	299.84	335.42	3.259	11.9
<b>Total assets</b>	1,543,095	1,599,065	15,536,970	3.6

\* U.S. dollar amounts above and elsewhere in this Annual Report were translated from yen, for convenience only, at the rate of US \$1 = ¥102.92, the approximate exchange rate at March 31, 2014.

## Status of Results

In this financial year the Japanese economy has seen an improvement in production and consumption due to financial and fiscal measures having a certain amount of effect, and there are signs of recovery such as recovery in capital investment.

In the domestic construction market, demand has been strong due to the recovery in the non-manufacturing sector, as well as demand associated with a last-minute rush before the increase in consumption tax.

Under these circumstances, the business results of our Group was as follows.

New orders received increased by 17.2% compared with the previous consolidated financial year to 1.6458 trillion yen, and sales increased by 8.3% year on year to 1.5334 trillion yen.

Regarding profitability, operating income increased by 51.0% compared with the previous consolidated financial year to 53.7 billion yen, ordinary income increased by 61.9% year on year to 56.7 billion yen, and net income for this term increased by 60.0% year on year to 32 billion yen.

### Major new orders received during FY ended March 2014:

Client	Project
Roppongi 3-chome East Area Urban Land Redevelopment Association	Roppongi 3-chome East Area 1 <sup>st</sup> Type Urban Land Redevelopment New Construction of Building Facilities and Public Facilities
Land Transport Authority of Singapore	Contract T226 Construction of Marina Bay Station and Tunnels for Thomson Line
Ministry of the Environment	FY2013 litate-mura Radioactive Decontamination Work (NO.2)
Japanese Red Cross Society	New Construction of Saitama Red Cross Hospital
Tokyo Metropolitan Government	Construction work for the new Toyosu market (tentative name) seafood wholesale building and other facilities NO.2

### Major projects completed during FY ended March 2014

Client	Project
Miyagi Prefecture	Disaster-related waste management (Kesenuma area of Kesenuma Block)
Kitasato Daiichi Sankyo Vaccine Co., Ltd.	Construction of New Vaccine Research Production Building (P23)
MM Development Tokutei Mokuteki Kaisha	(Tentative Name) MM21 34 <sup>th</sup> Town Area Commercial Facilities Development Plan (MM is Minatomirai) (P23)
Land Transport Authority of Singapore	Contract 907 Construction and Completion of Landmark Station Including Associated Tunnels for Downtown Line (P19)
SHOWA UNIVERSITY	(Tentative Name) Construction of SHOWA UNIVERSITY New Toyosu Hospital (P23)

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, sales increased for the company and consolidated subsidiaries, increasing by 17.6% compared with the previous consolidated financial year to 448.1 billion yen. Also, operating income increased by 236.4% year on year to 32.5 billion yen, due to the increase in sales and an improvement in the gross profit margin.

### 2 Building Construction

Although sales in the Group were similar to the previous consolidated financial year at 956 billion yen, due to a worsening in gross profit margin an operating loss of 8.9 billion yen was recorded (previous consolidated financial year profit of 19.2 billion yen).

### 3 Real Estate Development

In the real estate sales market, in the condominium market the business environment is solid as the contract rate remains high due to the low interest rates and improvement in business confidence, although the trend towards higher construction costs continues. Also, in the real estate rental market, the vacancy rates in office buildings has improved, and there is a trend towards higher rents in some buildings, so signs of recovery can be seen.

In our Group, sales have increased by 35.5% compared with the previous consolidated financial year to 188.4 billion yen, due to the yield on large scale projects, and operating income has increased by 391.4% year on year to 27.9 billion yen.

### 4 Others

Sales in our Group was broadly similar to the previous consolidated financial year at 11.9 billion yen, with operating income increased by 21.6% year on year to 500 million yen.

#### ■ [Consolidated] Results for Orders Received

Units: million yen

Name of reporting segment, etc.	Previous consolidated financial year (1 <sup>st</sup> April 2012 to 31 <sup>st</sup> March 2013)	This consolidated financial year (1 <sup>st</sup> April 2013 to 31 <sup>st</sup> March 2014)
Civil engineering	391,828	485,492
Building Construction	867,719	967,867
Real estate development	135,150	182,581
Others	9,707	9,953
Total	1,404,406	1,645,895

#### ■ [Consolidated] Results for Sales

Units: million yen

Name of reporting segment, etc.	Previous consolidated financial year (1 <sup>st</sup> April 2012 to 31 <sup>st</sup> March 2013)	This consolidated financial year (1 <sup>st</sup> April 2013 to 31 <sup>st</sup> March 2014)
Civil engineering	358,327	418,526
Building Construction	915,470	922,647
Real estate development	132,990	182,346
Others	9,707	9,953
Total	1,416,495	1,533,473

## Financial Status, Business Results and Analysis

### 1 Overview

The business results for this consolidated financial year achieved the predictions at the beginning of the financial year for all items: orders received, sales, operating income, normal income, and current net income.

In addition to the current net income, net assets increased to 384.1 billion yen due to effects such as the rise in the stock market, so the ratio of capital to assets increased by 1.8% compared with the previous consolidated financial year to 23.9%. Also, interest-bearing loans associated with procurement of finance reduced by 62.5 billion yen to 316.4 billion yen, so the D/E ratio improved by 0.2 points to 0.8.

### 2 Financial Status

#### (1) Status of Assets

As a result of an increase in cash deposits, etc., total assets increased by 3.6% or 55.9 billion yen compared with the previous consolidated financial year to 1.599 trillion yen.

#### (2) Status of Liabilities

Although there was a reduction in interest-bearing loans associated with procurement of finance, total liabilities increased by 1.3% or 15.1 billion yen to 1.2148 trillion yen, due to an increase in deposits and an increase in amounts received for construction in progress, etc.

The balance of interest-bearing loans associated with procurement of finance at the end of this consolidated financial year was 316.4 billion yen.

#### (3) Status of Net Assets

Net assets have increased by 11.9% or 40.8 billion yen to 384.1 billion yen compared with the previous consolidated financial year, as a result of an increase in valuation difference on available-for-sale securities due to the rise in the stock market, in addition to recording a current net income.

### 3 Operating Results

#### (1) New Orders and Net Sales

Orders received have increased in all segments, increasing by 17.2% to 1.6458 trillion yen compared with the previous consolidated financial year.

Also, sales increased in all segments, increasing by 8.3% to 1.5334 trillion yen compared with the previous consolidated financial year.

#### (2) Operating Income and Ordinary Income

Although operating income was reduced in the building segment due to poor gross margins in some large scale projects, profit was increased due to the increase in revenue associated with real estate development and the increase in the gross margin rates in the civil engineering segment. Sales costs and general management costs were generally the same as the previous year, so operating income increased by 51.0% compared with the previous consolidated financial year to 53.7 billion yen.

Ordinary income increased by 61.9% compared with the previous consolidated financial year to 56.7 billion yen, due to an improvement in non-operating profit and loss from foreign currency gain.

#### (3) Net Income

Net income increased by 60.0% compared with the previous financial year to 32 billion yen, due to the increase in ordinary income, although extraordinary losses for the increase in losses on sales of fixed assets increased.

## Dividend Policy

The company has a fundamental long term stable dividend policy, enhancing retained earnings in preparation for future business development, and issuing special dividends when results are good, etc., to return the profits to the shareholders.

Taking into consideration that circumstances have been prepared to enable a stable current net income to be earned as a result of the good progress of the Mid-term Business Plan (FY 2012 to FY 2014), it has been decided to increase the dividend by 1 yen compared with the previous term, or a dividend of 6 yen per year per ordinary share is allocated (of which 2.50 yen is allocated as an interim dividend).

The Articles of Association of the company permit an interim dividend to be allocated, in accordance with Article 454-5 of the Companies Act, with dividends allocated twice every year, at the middle and at the end of the financial year. These dividends are decided by the shareholders meeting for the end of term and the Board of Directors' Meeting for the interim dividend.

Also, it is the policy to utilize retained earnings to further strengthen the company's financial standing.

### Total Dividend Amount and Dividend Per Share

Resolution meeting date	Total dividend amount (million yen)	Dividend per share (yen)
Board of Directors Meeting 12 <sup>th</sup> November 2013	2,847	2.50
Shareholders Meeting 27 <sup>th</sup> June 2014	3,986	3.50

**Note:** The dividends on surplus earnings at the criterion date of this term are as shown above.

## Cash Flows

### 1 Cash Flows from Sales Activities

A net income before tax of 46.5 billion yen was earned this term, resulting in excess revenue of 138.7 billion yen (excess revenue in previous consolidated financial year was 73 billion yen).

### 2 Cash Flows from Investment Activities

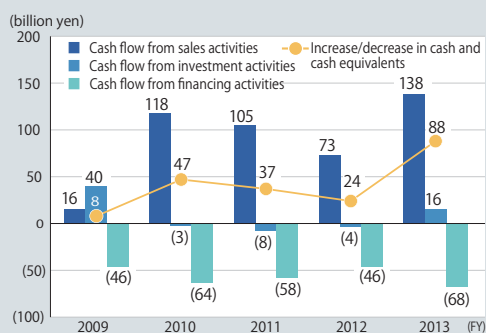
An excess revenue of 16 billion yen was achieved from the sale of investment securities, etc. (expenditure of 4.7 billion yen in previous consolidated financial year).

### 3 Cash Flows from Financing Activities

An expenditure of 68.8 billion yen was incurred for repayment of interest-bearing loans, etc., associated with procurement of finance (expenditure of 46.5 billion yen in previous consolidated financial year).

As a result of the above, cash and cash equivalents at the end of this consolidated financial year was 354.3 billion yen (an increase of 88.5 billion yen compared with the previous consolidated financial year), and the balance of interest-bearing loans associated with procurement of finance was 316.4 billion yen (a reduction of 62.5 billion yen year on year).

### Cash Flows Status



## Medium Term Company Management Strategy and Issues to be dealt with

Mainly as a result of the progress in reconstruction projects after the Great East Japan Earthquake and growing demand in the private sector due to expectations for economic recovery, the market is expected to remain strong in the future. However, taking into account the impact of steep price increases for construction materials, as well as demand trends after the Tokyo Olympics, the business environment may continue to be harsh in the years to come.

Recognizing these circumstances, the Company and the Affiliated Companies have formulated strategies for each business segment and specific measures in accordance with the medium-term business plan, which started in FY 2012, and are working toward achieving our management goals listed below.

### Summary of Medium-term Business Plan (FY 2012–2014)

#### Basic Policy

1. Fulfillment of social responsibilities on the construction industry
2. Establishment of business structure for the creation of high-added value

#### Business Issues

- (1) Construction business: Strengthening of the core business
- (2) Development/improvement of social infrastructure and Contribution to post-earthquake reconstruction
- (3) Overseas business: Establishment of an earnings structure
- (4) Strengthening of initiatives and expansion of business fields to create high-added value
- (5) Development/improvement of robust business foundations

The Company and the Affiliated Companies recognize the six items listed below as important issues to be addressed and will strive to achieve the business plan by tackling these issues.

#### ① Contributing to the development of social infrastructures

The Company and the Affiliated Companies will continue to tackle projects for recovery from the Great East Japan Earthquake and problems of deteriorating infrastructures with whole power of our group, and thus contributing to the future development and improvement of Japanese social infrastructure.

#### ② Improving production capacity

As there is concern about lack of engineers as a result of the growing demand for construction, the Company and the Affiliated Companies will improve its productivity through the appropriate allocation of engineers and technological innovation, and promote the active hiring of capable technical personnel as required. By doing this, the Company and the Affiliated Companies will increase its production capacity and maintain the high quality of its products and services.

#### ③ Enhancing cost-competitiveness and procurement capabilities

Under current circumstances where the labor market has become tight and the prices of construction materials and machinery have soared, the Company and the Affiliated Companies will strive to maintain and improve the profitability by making further efforts to strengthen the procurement functions and enhance its cost-competitiveness.

#### ④ Securing consistent profits in overseas business

In operations outside Japan, the Company and the Affiliated Companies will make every effort to maintain steady profits and achieve sound growth in the future by focusing on the specific regions and business sectors where we can make the most of our strengths, and reinforcing our profit management system and construction management systems.

#### ⑤ Increasing the Affiliated Companies' profit-making capabilities

The Company will ensure integrated management of the Affiliated Companies and will increase the Affiliated Companies' profit-making capabilities by allocating the Affiliated Companies' managerial resources appropriately, reinforcing the governance of the Affiliated Companies, and establishing closer cooperation among the Affiliated Companies.

#### ⑥ Strengthening financial structure

By improving its profitability and operating cash flow, the Company and the Affiliated Companies aim to achieve the goal of reducing interest-bearing debt (to less than 300 billion yen on a consolidated basis) under the medium-term business plan and further increase its internal reserves.