

# Message from the Management

## Management Policy

Based on the business principle of “creating a vibrant living environment for all members of society,” Taisei Corporation (“The Company”) is focusing on melding people and nature and is working to become a company that is trusted by society for its contributions to the formation of both social and industrial infrastructure.

Taisei Corporation and its consolidated subsidiaries (“Taisei Corporation Group”) is also contributing to society by providing superior quality and service at a reasonable price and solving customers’ various problems based on its vision of a corporate group that can create new value with technology and know-how with customer satisfaction as the basic motto.

## Results

Overall the Japanese economy was on a firm recovery track. While private-sector construction was firm in terms of construction investment, public-sector investment continued to decline as a result of spending reductions. In addition, there continues to be price competition because of excessive supply in the construction market.

Under these conditions, Taisei Corporation Group worked to “expand orders,” “increase profitability,” and “improve work process” based on its medium-term business plan, and was able to record the following results.

Orders fell 1.7% year on year, to ¥1,773.9 billion, mainly as a result of a decline in real estate development business. However, sales increased 2.1% year on year, to ¥1,743.9 billion, on account of growth in the construction business.

Operating income increased 12.7% year on year to ¥55.1 billion, because of an increase in the gross margin and reduction in selling, general and administrative expenses. In addition, recurring income increased 48.5% year on year to ¥55.3 billion as a result of an increase in operating income and a substantial improvement in non-operating income due to various factors including betterment of financial account balance. Net income rose 48.5% year on year, to ¥28.3 billion.

## Outlook

The Japanese economy is expected to continue to grow in fiscal 2006. The construction market is expected to remain firm, particularly for private-sector construction investment by capital expenditures and other factors. However, public-sector investment will likely to continue to decline, and it is anticipated that the overall market will contract.

Taking into consideration these difficult conditions, for fiscal 2006 (April 1, 2006 – March 31, 2007), the Company expects consolidated sales to reach ¥1,750.0 billion, recurring income to total ¥55.0 billion, and net income to be ¥25.0 billion. The Company also forecasts that new orders will total ¥1,750.0 billion.

## Medium- and Long-term Business Strategy

The present medium-term business plan raises seven issues – “orders”, “profit”, “quality”, “technology”, “financial position”, “governance”, and “employees/organization” – and The Company is working to implement policies and meet targets related to these issues.

In particular, in markets where competition is becoming fiercer, there is a greater need to be able to expand orders and increase profitability. In the construction division, which is becoming busier as orders increase, the important point is to improve the working environment. Particular issues and measures are discussed below.

## Issues and Measures

### Issue 1- Expand orders

In the domestic market, although private-sector investment is firm on account of strong capital expenditure, there is a continuing decline in public-sector investment. On the other hand, overseas, there is strong construction investment in oil-producing countries that have an abundance of funds as a result of high oil prices.



Osamu Hirashima, *Chairman*

**Measure: strengthen the ability to expand orders**

- The Company will clarify how it selects projects and fields that it should be working in and increase the effectiveness of winning orders. Domestically, for real estate development projects, which the Company is particularly strong in, aggressive efforts are being made related to both PFI projects and real estate securitization projects, in addition to urban redevelopment projects and public-private sector cooperative projects. Furthermore, the Company will increase orders for production, distribution, and commercial facilities, for which the motivation for investment is strong, as the economy and consumption recover.
- Overseas, the Company is making use of its technology and aiming to win major projects mainly in oil-producing countries.
- The Company will strengthen its integrated power, which include those related to proposals, planning, and technology. Taisei Corporation will increase orders by receiving praise for not only its prices but also the added value the Company provides to customers.
- The Company is also concentrating its introduction of sales staff to expanding markets, including those for the metropolitan Tokyo area and overseas.



Kanji Hayama, *President & CEO*

**Issue 2: Ensuring profits under fierce price competition**

Price competition as a result of excessive supply in the construction industry has been a major factor limiting profit growth.

**Measures: Increasing profitability**

- In addition to reducing costs during actual construction, the Company is improving profitability when winning contracts through various efforts taken before contracts are actually won.
- While promoting the streamlining of the branches and headquarters' organization through more efficient operations, the Company is reducing all costs, including selling, general and administrative expenses.

**Issue 3: Response to increasing construction**

As orders and sales increase, there are demands for greater productivity, particularly in the construction division.

**Measures: Improve work process**

- The Company is substantially reviewing and simplifying its operations.
- The Company is clarifying the roles of workers, including comprehensive staff, specialists, and reemployed persons, and increasing business efficiency.
- The Company is also shifting workers to the construction division following an increase in orders, and is establishing a system to support construction overseas which has recorded a sudden increase in orders.
- While improving the abilities of subcontractors, Taisei Corporation is clarifying the roles of both the Company and the subcontractors.

**Issue 4: Thorough system of compliance**

In March 2006, there was a summary indictment of a sales person for obstructing competitive bidding on a construction project for Defense Facilities Administration Agency facilities. We consider it necessary to implement countermeasures to ensure this does not occur again.

**Measures: strengthening compliance.**

- The Company will establish a compliance committee that includes independent academics and specialists.
- The Company will continually examine the development and operation of its compliance system, and if there is a need for improvements, measures will be immediately implemented.
- The Company will also further strengthen its system to ensure that the work of employees adheres to laws and ordinances by working to thoroughly educate employees on compliance issue.

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Osamu Hirashima  
*Chairman*

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Kanji Hayama  
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