

Message from the Management

Basic Management Policy

The Taisei Group shares among its directors and employees a common set of three core values referred to as the Taisei Spirit, guided by its Group Ideal to create a vibrant environment for all members of society. With a commitment to openness, the creation of value and the evolution of traditions, The Taisei Group works diligently to create safe and attractive spaces as well as work and living environments of exceptional value with the aim of providing products and services that are in harmony with nature. The Taisei Group also strives to support the creation of a wholesome global society that will benefit all of humanity and be filled with hopes and dreams for the next generation.

Operating Results

In fiscal 2010, the fiscal year ended March 31, 2011, economic growth in newly emerging nations was generally firm. Developed countries, on the other hand, failed to achieve a self-sustaining recovery with the overall pace of expansion considered moderate. On the domestic front, the Japanese economy continued to experience a mild recovery. This positive upswing, however, lacked power and depth.

The scale of Japan's construction market contracted throughout the fiscal year under review. This was attributable to a variety of factors including the slump in domestic economic activity and the value of the yen which continued to hover at a high level. Weak operating conditions were exacerbated by cutbacks in corporate-sector capital expenditure and the persistent downturn in public-sector works. Overseas, construction markets were robust reflecting domestic demand growth in China and India and generally firm economic conditions throughout Asia and other regions.

Under these circumstances, the Taisei Group continued to pursue its medium-term business plan, which covers the three-year period from fiscal 2009 to fiscal 2011. In tackling the basic business issue of "securing profits in a shrinking market", the Taisei Group recorded operating results for fiscal 2010 as follows.

Orders and Net Sales

In the fiscal year under review, orders were mainly supported by growth in Taisei Corporation's civil engineering projects. As a result, the level recorded by the Taisei Group edged up 0.8% compared with the previous fiscal year to ¥1,254.0 billion. Net sales, on the other hand, fell across all business segments contracting in overall terms 15.5% year on year to ¥1,218.1 billion.

Operating Income, Recurring Income and Net Income

From an operating income perspective, results were impacted by the drop in gross profit reflecting the decline in net sales. Despite this downturn, operating income climbed 1.9% compared with the previous fiscal year to ¥36.2 billion. This was largely attributable to successful efforts to reduce costs, which led to lower selling, general and administrative expenses. Turning to recurring income, results were affected by an increase in exchange losses. Taking into consideration the deterioration in other expenses, recurring income contracted 13.3% year on year to ¥24.0 billion.

In the fiscal year under review, net income dropped 48.7% compared with the previous fiscal year to ¥10.8 billion. This was mainly due to the decline in gains on sale of investment securities as well as the absence of the gains on negative goodwill recorded in the previous fiscal year.

Outlook

In fiscal 2011, the fiscal year ending March 31, 2012, potential exists for the Japanese economy to enter a period of negative growth. This is attributable to the residual effects of a temporary stoppage in certain production activities and a drop in overall consumer confidence both due to the Great East Japan Earthquake.

The domestic construction market is expected to benefit from reconstruction demand following the recent earthquake. In overall terms, however, demand is forecast to remain weak owing to the difficult conditions that continue to permeate the Japanese economy.

Despite the large number of uncertainties that cloud the European and U.S. economies, the overseas construction market is anticipated to remain firm on the back of sound economic performance by China and other newly emerging nations. Based on the aforementioned, the Company is expected to witness several new order opportunities.

Under these circumstances, consolidated net sales, operating income, recurring income and net income are forecast to total ¥1,340.0 billion, ¥37.0 billion, ¥27.0 billion and ¥12.0 billion, respectively, in the fiscal year ending March 31, 2012. Orders received are estimated to reach ¥1,370.0 billion.

Medium-term Business Plan

Taisei Corporation and the Taisei Group have positioned efforts to "secure profits in a shrinking market" as their principal business issue. In this context, steps were taken to formulate and implement a medium-term business plan, which covers the three-year period from fiscal 2009 to fiscal 2011.

Taking into consideration the very real prospect that construction demand will continue to contract, the Company readdressed its most pressing issues as of February 2010 and identified efforts to "increase profitability" and "improve its financial strength" as matters of immediate concern.

Business Issues

In its medium-term business plan formulated in May 2009, the Taisei Group identified the following five business issues: (1) To restructure overseas business operations; (2) To thoroughly identify, assess and prioritize project risks in a pre-contract stage; (3) To select business fields and focus corporate resources on priority fields; (4) To upgrade project production system; and (5) To improve financial strength. In reconfirming its immediate priorities amid current operating conditions, the Taisei Group has consolidated business issues one to four under the overarching goal of "increasing profitability." While pursuing this increase in profitability, every effort will also be directed toward to "improving financial strength."

Increasing Profitability

1. To restructure overseas business operations
 - Secure and increase earnings from existing construction projects in progress
 - Establish a new profit management structure and system
2. To adhere strictly to risk management on an individual project basis
 - Tighten credit exposure management and project risk screening at the order stage
 - Bolster the project management function
3. To enhance price competitiveness by increasing productivity and reducing costs
 - Further reinforce procurement and purchasing capabilities
 - Reduce fixed costs including personnel expenses
4. To allocate management resources on a priority basis to key fields (overseas, engineering, nuclear power and the environment) and to nurture human resources

Improving Financial Strength

1. To promote asset liquidity aimed at enhancing capital efficiency
2. To improve the balance of construction funding
3. To reduce interest-bearing liabilities

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