

MESSAGE FROM THE PRESIDENT



President and Chief Executive Officer

M. Matsuo

As a result of improvements in exports due to corrections in the value of the yen, and supported by the effects of various economic measures, the last-minute demand resulting from the increase in the consumption tax rate, and other factors, the Japanese economy continued its gradual recovery for the fiscal year ended March 31, 2014.

In the domestic construction market, public investment showed steady improvement due to demand fueled by reconstruction projects from the earthquake-related disaster and the implementation of the large supplementary budget. There were signs

that investments in the private sector were recovering, as such indicators as corporate profits were improving. However, the rising costs for materials and equipment and chronically increasing labor costs due to the shortage of construction workers have caused the profitability of construction to decline, and the management environment to remain harsh.

Performance for FY2013

Amidst such harsh circumstances, the Toa Corporation Group carried forward in the

first fiscal year of its Mid-term Business Plan (from FY2013 to FY2015), various measures to strengthen its management foundation, based on the basic principles of “maintaining the scale of the business,” “improving profitability,” and “becoming more customer-oriented.”

With regard to the consolidated results for the Toa Corporation Group for the fiscal year just ended, as a result of an increase in the amount of orders received, net sales increased 19.6% over the previous consolidated fiscal year to ¥192,607 million. Although there was a decrease in selling, general and administrative costs, the

deterioration of profitability of a portion of overseas construction projects resulted in a decrease of 10.2% in operating income from the previous consolidated fiscal year to ¥2,201 million, and an increase of 291.2% in net income over the previous consolidated fiscal year to ¥819 million.

Results of the Segments of the Toa Corporation Group

[Domestic Civil Engineering Business]

The core business is in the field of marine civil engineering. Efforts are being carried out to further deepen technologies in disaster damage prevention, disaster damage reduction, and recycling, which are areas where the needs of society are very high. In addition, efforts continue to be focused on restoring the areas that suffered earthquake-related damage. For the consolidated fiscal year just ended, net sales increased 17.2% over the previous consolidated fiscal year to ¥93,618 million, and segment profit (operating income) increased 76.5% over the previous consolidated fiscal year to ¥6,870 million.

[Domestic Construction Business]

Improvements are being made to profitability through such efforts as reducing costs by

integrating the functions of the organization, securing the targeted volume of projects with priority placed on profitability, and expanding design and construction projects and negotiation contract projects. Although net sales for the consolidated fiscal year just ended increased 10.5% over the previous consolidated fiscal year to ¥47,698 million, a portion of unprofitable projects from the previous consolidated fiscal year was carried forward, resulting in segment loss (operating loss) of ¥1,403 million.

[Overseas Business]

Making Southeast Asia the base, the aim is to continue the gradual expansion of business operations, with marine civil engineering construction and construction of thermal power plants and other plants as the core of the business. Due to advances made in construction work in progress and the effect of yen depreciation, net sales for the consolidated fiscal year just ended increased 36.9% over the previous consolidated fiscal year to ¥39,097 million. However, the effect of such factors as carrying over reserves for loss on construction works related to a portion of unprofitable projects from the previous consolidated fiscal year resulted in segment loss (operating loss) of ¥1,158 million.

[Others]

Net sales for the consolidated fiscal year just ended increased 30.2% over the previous consolidated fiscal year to ¥12,193 million, with segment profit (operating profit) increasing 61.1% over the previous consolidated fiscal year to ¥687 million.

Furthermore, PFI Saijyou Administration Co., Ltd., Morioka No. 2 Consolidated Government Office Buildings Administration Co., Ltd., and PFI Ichinomiya Saijyou Co., Ltd. are included within the scope of consolidation from the consolidated fiscal year just ended.

Outlook for the next Fiscal Year

In the domestic construction industry, it is anticipated that measures to deal with the deterioration of public facilities, roads, tunnels, bridges, and other structures will be promoted in line with plans advocated by the Japanese government to strengthen the nation's land, and various infrastructure will be developed in the Tokyo Metropolitan Area related to the Tokyo 2020 Olympics and Paralympics. On the other hand, various issues are also foreseen, such as increases in costs for mechanical

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equipment and materials and increases in unit labor costs, and the delay in construction due to the shortage of labor. In the overseas construction industry, it is expected that the development of infrastructure, such as making improvements to large-scale container terminals and the construction of plants, will continue, primarily in emerging countries that are enjoying remarkable development. On March 30, 2014, an accident occurred on Okinotori Island in which a floating pier that was under construction overturned. The cause of the accident is currently under investigation, and due to the difficulty in making a rational estimate of the impact this accident could have on the business results for the next fiscal year, it has not been included in the forecast for the next fiscal year. Should any information related to this incident come to light that should be disclosed, it shall be promptly disclosed.

Fundamental Management Policy Regarding Distribution of Profits and Dividends for the Fiscal Year Just Ended and Next Fiscal Year

With regard to dividends, it is the fundamental policy to return profits based on the results of the Company's performance, on condition that stable

dividends can be continuously provided, and to maintain internal reserves for use in improving the Company's financial standing in order to strengthen the management base and enable the Company to meet the challenges of the harsh business environment in the future.

Based on the scale of the net income for the fiscal year just ended, the cash dividend for shareholders for the fiscal year just ended is ¥2 per share. Furthermore, it is anticipated that a dividend of ¥2 per share will be distributed for the next fiscal year.

Management Policies

■ The Company's Basic Principles of Management

The Company's mission statement is "Expand the Company's business operations with its high level of technology, and fulfill its social responsibility through sound management." For the Company, the management philosophy is embodied in successfully competing through thorough corporate planning, and building long-lasting trust by carrying out work conscientiously and with integrity, meeting the expectations and justifying the trust of customers, and developing and growing

together with the customers.

■ Mid- and Long-term Company Management Strategies and Issues That Should be Addressed

In the three-year Mid-term Business Plan, which was formulated by the Company and started its first year in 2013, it is stated as its basic principles that the Company will firmly maintain the scale of business, endeavor to increase profitability, and thoroughly enhance its customer-oriented approach.

The strategies of the divisions to realize the basic principles include "secure stable profits" for the domestic civil engineering division; "increase profitability" for the domestic construction division; "expand and improve the volume of its business operations" for the overseas construction division; and "strengthen the Group's management and financial structure" for the management and administration division. The divisions are steadily implementing their strategies in response to the issues described below.

(1) Issues for FY2014

From FY2013, the Company has been promoting the Mid-term Business Plan, which is based on the propositions to "redistribute management resources,

strengthen the management base, and accomplish its social responsibilities.” However, although the amount of orders received in the first year of the Mid-term Business Plan exceeded plan, the issue of increasing construction profitability was still left. Based on these results, the divisions of the Company have put forward the priority measures described below.

(2) Regarding Measures for Business Segments

(Domestic civil engineering business)

*Expand the volume of orders received by grasping and analyzing information at an early stage projects that arise

*Secure stability in orders received from the private sector by strengthening relationships with existing private-sector customers and acquiring new customers

*Undertake efforts to develop technologies that meet the needs of market trends, and engage in research and development in the field of renewable energy

(Domestic construction business)

*Secure profits by strengthening efforts for projects through the consolidation of the sales and construction divisions and by expanding the volume of orders received from negotiation contract

projects and design and construction projects

*Ensure high quality that meets the demands of the customers

*Optimize human resources of divisions directly and indirectly related to the domestic construction business

(Overseas construction business)

*Strengthen sales capabilities and improve capabilities to make cost estimates by consolidating the sales and construction divisions

*Strengthen the risk management system and undertake thorough cost management

*Strengthen efforts for EPC (Engineering, Procurement, Construction) projects, such as plant construction, etc.

(Areas of management and administration)

*Build an organizational structure that is appropriate for the scale of the business

*Make improvements to measures related to making use of human resources, regarding such matters as placement, treatment, and training

*Maintain and strengthen the soundness of the financial structure

*As early as possible, gain an understanding of the risks at the

workplace and implement corrective measures

Efforts will be made to resolve management issues through the sharing of the abovementioned management philosophy by the executives of the Toa Corporation Group, and the steady implementation of various measures based on medium-term management strategies. In addition, we will accomplish a broad range of corporate social responsibilities, including earthquake recovery efforts and preservation of the environment, and form a safe and secure workplace environment based on a thorough awareness of “safety must have priority over all else,” and aim to achieve sustainable growth as a fair and highly-trusted corporation.

We would be very grateful for the further understanding and support of all of our shareholders.

June 2014

President and Chief Executive Officer
Masaomi Matsuo