

MESSAGE FROM THE PRESIDENT



President and Chief Executive Officer

M. Matsuo

For the fiscal year just ended on March 31, 2015, although there were signs of some backlash to last-minute demand resulting from the increase in the consumption tax rate, the Japanese economy showed signs of a gradual recovery in anticipation of a virtuous cycle for the economy, backed by improvements to the employment situation and corporate earnings, partly due to the effects of various economic measures.

In the domestic construction industry, 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, and there was a recovery in investments in the private sector as a result

of increases in corporate profits. On the other hand, the prices for materials and equipment keep rising, while labor costs, too, remain high due to the shortage of workers, so conditions surrounding corporate management continue to be unpredictable. The Act for Promoting Quality Assurance in Public Works, the Act for Promoting Proper Tendering and Contracting for Public Works, and the Construction Business Act were revised with the aim of ensuring infrastructure quality and securing workers. The revision of these three laws was one of the bright spots towards resolving the problems faced by the construction industry.

BUSINESS PERFORMANCE OF THE FISCAL YEAR

Amidst this environment, the Toa Corporation Group, comprising Toa Corporation and its consolidated subsidiaries, carried forward various measures, based on its Mid-term Business Plan (from FY2013 to FY2015), in which the basic principles of “firmly maintain the scale of its business,” “endeavor to increase profitability,” and “enhance its customer-oriented approach” are set forth, to strengthen its management base.

With regard to the consolidated results for the Toa Corporation Group for the fiscal year just ended, net sales increased 3.3% over the previous fiscal year to ¥198,884

million as a result of an increase in the amount of orders received. Due to the improved profitability of our domestic construction business, operating income increased 158.7% over the previous fiscal year to ¥5,696 million, in spite of some of our overseas construction business suffering a deterioration in profits. Although there was an additional tax burden due to such factors as the disposal of deferred tax assets because of the law reducing the corporate tax rate, net income increased 153.8% over the previous fiscal year to ¥2,080 million.

RESULTS OF THE SEGMENTS

Domestic Civil Engineering Business

The core business is in the field of marine civil engineering, with efforts focused on restoring the areas that suffered earthquake-related damage, as well as building social capital. For the fiscal year just ended, net sales showed a decrease of 3.9% from the previous consolidated fiscal year to ¥89,981 million. However, the segment profit (operating income) increased 32.3% over the previous fiscal year to ¥9,088 million.

Domestic Architectural Building Business

Efforts are being undertaken to secure profits by increasing the amount of orders received for negotiation contract projects and design and construction projects, and rigorously checking the construction costs.

As a result, net sales for the fiscal year just ended increased 14.8% over the previous consolidated fiscal year to ¥54,754 million. Because of a decrease in unprofitable projects, the segment profit (operating income) was ¥737 million. This amount is a remarkable improvement over the segment loss of ¥1,403 million suffered in the previous fiscal year.

Overseas Business

In making Southeast Asia the base, the aim is to focus efforts on marine civil engineering construction and construction of thermal power plants and other plants. Net sales for the fiscal year just ended increased 4.1% over the previous consolidated fiscal year to ¥40,704 million. However, due to the deterioration of profitability of a portion of construction projects, the segment loss (operating loss) was ¥1,653 million. The segment loss for the previous fiscal year was ¥1,158 million.

Others

Net sales for the consolidated fiscal year just ended increased 10.3% over the previous consolidated fiscal year to ¥13,444 million, while segment profit (operating income) decreased 36.5% from the previous consolidated fiscal year to ¥437 million.

OUTLOOK FOR THE NEXT FISCAL YEAR

In the domestic construction market, initiatives are being carried forward in

such areas as accelerating the recovery from the Great East Japan Earthquake, realizing growth strategies, ensuring safety and security for the Japanese people, and revitalizing local communities. Moreover, looking ahead to the Tokyo Olympic and Paralympic Games in 2020, various projects are envisioned to build up the infrastructure in and around the Tokyo Metropolitan Area. On the other hand, a number of issues remain that can be said to affect the construction industry as a whole, such as the recent trend of rising prices for materials and equipment and increasing unit labor costs, and anticipated labor shortages resulting from skilled workers leaving the work force due to aging.

In the overseas construction market, there continues to be momentum in the demand for construction, primarily in emerging countries, and it is expected that further development of social infrastructure, such as making improvements to large-scale container terminals and the construction of thermal power plants, will move forward.

ANALYSIS OF FINANCIAL CONDITIONS

Status of assets, liabilities, and net assets

Total assets at the end of the consolidated fiscal year just ended increased ¥756 million compared with the end of the previous fiscal year to ¥190,202 million. The increase was due primarily to the increase of notes receivable, accounts receivable from completed construction

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works, and other items, although there was a decrease of cash and bank deposits. Liabilities decreased ¥4,269 million compared with the end of the previous fiscal year to ¥121,197 million, primarily due to a decrease in liabilities for retirement benefits. Net assets increased ¥5,025 million compared with the end of the previous fiscal year to ¥69,004 million, due to the increase of accumulated adjustments for retirement benefits, retained earnings, and other factors. Furthermore, the shareholders equity ratio increased 2.5 percentage points compared with the end of the previous fiscal year to 36.1%.

Status of cash flows

For the fiscal year just ended, cash flows from operating activities showed a decrease of ¥15,419 million in cash (the previous fiscal year saw a decrease of ¥7,298 million in cash) due to an increase in trade receivables and other factors. Cash flows from investing activities showed a decrease of ¥1,388 million in cash (the previous fiscal year saw a decrease of ¥751 million in cash) due to acquisitions of property, plant, and equipment. Cash flows from financial activities showed a decrease of ¥3,563 million in cash (the previous fiscal year saw a decrease of ¥663 million in cash) due to repayment of debt and other factors. As a result of these activities, the balance of cash and cash equivalents at the end of the fiscal year just ended decreased ¥20,105 million compared with the previous fiscal year to ¥22,909 million.

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 abovementioned policy, the cash dividend for shareholders for the fiscal year just ended is expected to be ¥2 per share. Furthermore, it is anticipated that a dividend of ¥2 per share will be distributed for the next fiscal year as well.

MANAGEMENT POLICIES

The Company's Basic Principles of Management

The Company's mission statement is "With its high level of technology, the Company strives to accomplish its social responsibility by expanding its business operations and building sound management to expand our activities." For the Company, the corporate philosophy is embodied in successfully competing through steady management plans, 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 improve profitability, and thoroughly implement 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 enhance the volume of its business" for the overseas construction division; and "strengthen the Group's management and financial structure" for the management and administration division, and each division will steadily implement these strategies.

Issues for 2015

The Toa Corporation Group has been carrying forward its Mid-term Business Plan, which was launched in FY2013. The results of the first year of the Plan were disappointing with regard to improving construction profitability. In FY2014, however, priority measures of each division were faithfully carried out based on those issues, and as a result, the business goals were achieved.

Furthermore, to strengthen competitiveness and improve profitability, organizational change was carried out at the beginning of FY2015, when the civil engineering division and construction division at each branch office were separated and restructured.

In order to achieve the business objectives in FY2015 as well, which is the final fiscal year of the Plan, each division of the Company has put forward its respective priority measures as described below.

Measures of each division

- Domestic civil engineering business
 - *Strengthen such areas as the ability to grasp information at an early stage, as well as the ability to analyze profitability and productivity, and implement strategic initiatives based on their degree of priority, including allocation of personnel.
 - *Promote development of technology that readily responds to market trends, such as in the areas of marine resources development and renewable energy, and feature such technologies to strengthen sales activities.
 - *With regard to the branch office system following the extensive organizational restructuring, establish a collaborative structure in which the head office and the branch offices collaborate to maintain and improve competitiveness in securing orders.
- Domestic construction business
 - *Under the structure in which resources are concentrated at the two construction

branch offices, East Japan Architecture Branch Office and West Japan Architecture Branch Office, efforts are underway with the aim of realizing reform as early as possible, and increase sales and profits.

*Continue selecting work projects that emphasize profitability, and establish a structure that enables it to function autonomously.

*Increase orders received of negotiation contract projects, works planned and proposed by the Company, and works designed and executed by the Company.

*Grasp the trend of Japanese companies that are shifting their facilities overseas, and strengthen efforts for projects the Company is invested in.

- Overseas construction business
 - *Strengthen efforts for EPC (engineering, procurement, and construction) projects, such as energy-related facilities.
 - *Undertake efforts to strengthen sales capabilities and increase estimation capabilities by sharing information and analyzing performance data, putting know-how to use, etc.
 - *Undertake efforts to increase profits by promoting various measures, such as strengthening support of construction work, grasping risk information as early as possible, and responding to such risks as early as possible, etc.
- Business management
 - *Systematically secure and develop human resources required by each division, for each operation, and each position level.

*Maintain and further strengthen the soundness of the financial structure

*Grasp risk information as early as possible, and prevent the situation from worsening by responding to such risks as early as possible

*Thoroughly ensure, once again, safety, quality, and the business environment in order to achieve management goals.

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 continued understanding and support of all of our shareholders.

June 2015
President and Chief Executive Officer
Masaomi Matsuo