

# MESSAGE FROM THE MANAGEMENT

---

In the fiscal year ended May 31, 2000, the gradual permeation of the government's various policy measures combined with the trend towards recovery in the other Asian economies and the Japanese economy showed small signs of improvement as the financial system gained stability and share prices rallied, but the job market remains sluggish and both personal consumption and private-sector capital investment give little impression that the recovery was yet in fact on track.

In the construction industry, public works maintained a constant level due to government outlays, and although housing construction was strong in the private sector, there was a large slump in non-housing construction and the sales environment was harsher than ever as price competition intensified.

## *Operating Performance*

---

In these severe circumstances, TOA and its consolidated subsidiaries both made efforts to secure profitable orders through a unification of sales and engineering activities and worked to maintain business performance by implementing a low-cost construction system and making reductions in indirect costs. As a result, domestic orders received grew from the previous year, but due to delayed orders in major projects overseas and the appreciation of yen, overall orders received on a non-consolidated basis amounted to ¥237,268 million (US\$ 2,238 million), down 0.6% from the previous year. Due to the inclusion of Shinko Corporation and eight other companies as consolidated subsidiaries in accordance with revisions to financial statement regulations, consolidated sales in the year under review amounted to ¥266,807 million (US\$2,517,043 million), up 3.6% from the previous year.

Below we report on performance in a non-consolidated basis for the year under review in individual sectors.

Looking at a breakdown of orders received on a non-consolidated basis, construction projects in the year under review were ¥233,169 million (US\$ 2,200 million), down 0.3% from the previous year, and development projects ¥4,099 million (US\$ 39 million), down 15.9% from the previous year; domestic projects were ¥237,900 million (US\$ 2,244 million), up 6.7% from the previous year, projects in overseas after foreign exchange adjustment minus ¥600 million (US\$ 5.6 million), down 104.1% from the previous year. Broken down by field of construction, 50% was in marine civil engineering, 23% in land civil engineering and 25% in building works. Broken down by source of order, 72% was in the Japanese public sector and 28% in the Japanese private sector.

Looking at a breakdown of consolidated sales, construction revenue came to ¥246,314 million (US\$ 2,324 million), up 0.9% from the previous year; development revenue ¥8,664 million (US\$ 82 million), up 16.5% from the previous year; and real estate revenue ¥11,827 million (US\$ 112 million), up 90.9% from the previous year.

Turning to earnings, operating income reached ¥11,205 million (US\$ 105,710 thousand), up 178.5% from the previous year. With improvements in construction profitability and income of ¥1,896 million (US\$ 17,883 thousand) from the sale of stock, but due to an extraordinary loss of ¥2,829 million (US\$ 26,684 thousand) as a valuation loss for real estate held for sale and revaluation loss of ¥748 million (US\$ 7,052 thousand) for a marketable and investment securities, consolidated net income in the period under review amounted to ¥2,221 million (US\$ 20,957 thousand).

As a result of conformance with tax effect accounting as of this fiscal year, unappropriated earnings include a total prior-year tax-effect adjustment of ¥7,758 million (US\$ 73,188 thousand).

---

## *Dividend Payment Policy*

---

We place great importance on the continuation of stable dividend payments to our shareholders, and it is our fundamental policy to make dividend payments in line with our operating performance.

For the period under review, we have increased the dividend per share by ¥2 from the previous year to ¥5. We intend to use retained earnings to shore up our finances with the objective of consolidating our management base for the continuing severity of the business environment.

## *Forecast for the Coming Year*

---

There is a strong expectation that private-sector demand will take over from government policies that have underpinned the economy in recent years, leading to a self-sustained recovery, but since it will take some time for employment and income conditions to become favorable again due to ongoing corporate restructurings, it remains difficult to specify the timing of a full-fledged recovery.

In the construction industry, tight government finances, both national and local, offer little hope for an expansion in public works, and although private-sector demand shows promise in information technology and some other sectors, since the sales environment remains severe, with no perceptible change in corporate capital investment plans, and requests for price cuts are insistent, we forecast that competition will intensify further.

In this severe operating environment, TOA policy is to consolidate with urgency our organization to adapt to a new era and continue as a healthy corporation in the 21st century. We have drawn up a medium-term management plan, entitled "2010 Vision" and in 2000 launched a three-year plan.

### **Our sales strategy consists of:**

- (1) Consolidating our total engineering functions and expand our opportunities to participate in major projects over the medium and long term.
- (2) Enhancing our sales organization to work closely with local governments in an environment of decentralization.
- (3) Active participation in the environmental sector and PFI projects.
- (4) Aggressive entry into new fields, in addition to marine civil engineering, overseas.

### **Our profits strategy consists of:**

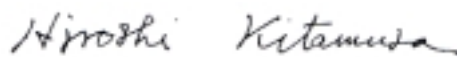
- (1) More thorough target management to establish our low-cost structure as a permanent feature.
- (2) Improving earnings by architectural division to raise their contribution to operating performance.
- (3) Pursuit of further reductions in indirect expenses and the establishment of a profit-generating organization.

### **Our strategies to shore up our finances and make management efficient are:**

- (1) To raise asset efficiency and reduce liabilities with interest.
- (2) To promote efficiencies throughout operations by exploiting information technologies.

With these priority tasks, we intend to create a solid and vital corporate structure.

In these endeavors we ask our shareholders for their continued warm support and cooperation.



June 2000

Hiroshi Kitamura  
President



Hiroshi Kitamura, President