

MESSAGE FROM THE MANAGEMENT

Japan's economy for the fiscal year ended March 31, 2001 started to show a sign of economic recovery by improvement of earnings in corporations and the Government measures. However, economy turned down to a phase of deflation in the midst of autonomous recovery in the serious conditions such as severe labor situations, sluggish personal consumption, increased bad debt owned by financial institutes and slow-down of US economy.

Severe Management Environment

The construction industry experienced extremely serious situations, including depressed public works reflected by financial stringency in the central and local governments, inactive private capital investment though partial expansion in the limited industries, slight decline in investment in housing construction and keen price competition.

Results for the Fiscal Period

In the midst of the management condition, TOA CORPORATION and its consolidated subsidiaries put every effort into maintaining sales by the strategies such as consolidation of domestic sales system to cope with a new age and aggressive sales activities overseas. In addition, we push on ahead to strengthening financial structure and maintaining earnings through a low-cost construction system. As a result, consolidated net sales totaled ¥294,693 million (US\$2,377 million), an increase of 10.5% compared to the previous fiscal year.

Operating Performance

Looking at a breakdown of new orders received on a non-consolidated basis, construction projects in the year under review were ¥320,101 million (US\$2,581 million), an increase of 37.3% from the previous year, while development projects were ¥4,337 million (US\$35 million), a 5.8% increase from the previous year. Among orders by regional market, domestic orders received increased by 1.7% amounting to ¥237,702 million (US\$1,917 million), and orders in the overseas project summed up to ¥82,398 million (US\$665 million), a sharp expansion over the previous year which suffered from foreign exchange transaction.

Broken down by field of construction, 61.3% was in marine civil engineering, 15.7% in land civil engineering and 21.7% in building works. Broken down by source of order, 53% was in the Japanese public sector, 22% in

the Japanese private sector and 25% for the overseas sector.

Looking at a breakdown of consolidated sales, revenue from construction projects came to ¥284,733 million (US\$2,296 million), up 13.5% over the previous year, and revenue from real estate business and development operation totaled to ¥9,960 million (US\$80 million), a 51.4% decline from the previous year.

In earnings, shortage of reserve for retirement benefits for the previous fiscal year was refunded completely due to introduction of the accounting for reserve for retirement benefits, resulting in net loss of ¥3,965 million (US\$32 million) for the year under review.

Cash flow provided by operating activities totaled ¥11,167 million (US\$90 million), with the net loss before income taxes and other items of ¥5,783 million (US\$47 million). However, expenditure of funds covering debt created by time difference by change in accrued severance indemnities were exempt from payment.

Cash flow from investing activities totaled ¥4,190 million (US\$34 million), mainly by acquisition of property, plant and equipment, while cash flow from financing activities declined to ¥12,433 million (US\$100 million), partially by repayment of borrowings.

As a result, cash and cash equivalent at end of the year totaled ¥35,710 million (US\$288 million), a decrease of ¥5,197 million (US\$42 million) compared to the previous fiscal year.

With its corporate principle, "We complete our social responsibility by sound management with high level of technology to advance our operations", TOA continues to win the competition with its steady strategic management, establishing everlasting creditability based on its sincere operations, meeting customers' reliability and expectations, and advance together towards the 21st century.

Medium-term Management Plan

With an aim to establish a strong corporate function and stable management foundation in order to overcome severe competition, TOA and its group companies have established their basic strategies, entitled "2010 Vision" in March 2000, and have launched a three-year plan to realize this business vision, starting from the year 2000.

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 strategy on profits and corporate structural consolidation 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.
- (4) To curtail expenses on Research & Development and operations by effectively developing and possessing technology for mechanical operations and vessels under the unified group strategy.
- (5) To expand consolidated earnings by strategic group activities to aim for independent management by each group company.
- (6) To raise asset efficiency and reduce liabilities with interest.
- (7) To promote efficiencies throughout operations by exploiting information technologies.

Forecast for the Coming Year

Japan's economy is expected to turn out of the bottom by Governmental measures to stimulate itself and upgrade structural reformation. However, it will take time to achieve autonomic recovery because of the slowdown in US economy and sluggish personal consumption and private investment in plants and equipment.

In the construction industry, central and local governments engaged in financial restructuring by tight financial measures offer public works at fewer level of orders, while private capital investment and housing investment are forecast to reduce to certain level because of cloudy markets. Therefore, we predict that competition for receiving new orders will intensify



Masao Watanabe, President

further. As a result, both public and private projects are requested to be lower in costs, remaining sales environment severe.

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

June 2001

Masao Watanabe

Masao Watanabe
President