

## MESSAGE FROM THE PRESIDENT

---

The Japanese economy for the fiscal year ending March 31, 2002 continued to sag in the doldrums and gave a sense of deepened uncertainty as the business recession due to deflation worsened. Overall business profits fell despite the measures by government to stimulate the economy, and personal consumption did not show any signs of recovery because of the instability of employment and drop in income.

In the construction industry, public works projects decreased due to the fiscal burden on local governments, investment in plants and equipment in the private sector decreased sharply because of the uncertainty of the economy, and demand for construction as a whole continued to diminish, being particularly affected by inactive investment in housing. Meanwhile, the management environment facing the construction industry remained in a very severe state, in large part because of a further heating up of price competition for survival among companies. Under such circumstances, TOA CORPORATION and its group tried to ensure good quality works and promoted the establishment of a low cost execution system, making efforts to attain high levels of performance by reducing administrative expenses.

### Operating Performance

Non-consolidated orders received totaled ¥220,352 million (US\$1,657 million), a decrease of 32.1% compared with the previous year. The breakdown of the amount of orders received was ¥210,368 million (US\$1,582 million), or a decrease of 34.3%, in the construction business, and ¥9,984 million (US\$75 million) in the development business, representing an increase of 130.2%. In the domestic market, the amount of orders received was ¥199,531 million (US\$1,500 million), a decrease of 17.5%, while the overseas market saw a decrease of 74.7%, or ¥20,821 million (US\$157 million). In the construction business, marine civil engineering work accounted for 57.4%, land civil engineering for 18.6%, and building works for 19.5%, while in terms of the type of customers placing orders, the domestic government sector accounted for 65%, domestic private sector for 25%, and overseas organizations for 10% of all orders received.

Net sales amounted to ¥288,932 million (US\$2,172 million), down 2.0% from the previous year on a consolidated accounting basis. Although there was a valuation loss of stocks in hand, the current-term net profit was ¥2,025 million (US\$15 million), an increase of ¥5,990 million (US\$45 million) compared with the

previous year. Corporate owned properties in land for business use were reevaluated in terms of the current price calculated using the land revaluation method in order to correct the divergence between the book value and current value, thereby eliminating any uncertainty in the balance sheet and enhancing its soundness. ¥158 million (US\$1 million) of the increase in the book value of around ¥380 million (US\$3 million) was posted as a deferred tax in debt, while ¥222 million (US\$17 million) was posted as revaluation excess in capital.

### Financial Situation

The amount of capital increased by ¥7,393 million (US\$56 million) through operating activities in the current year. However, the balance of cash and cash equivalents at the end of the year was ¥41,794 million (US\$314 million), an increase of ¥6,084 million (US\$46 million) compared with the previous year. This is because some ¥7,349 million (US\$55 million) was used for the acquisition of property, plant and equipment and other investment activities, and ¥5,955 million (US\$45 million) was procured by the issuance of commercial paper and other financial operations. While the current-term net income before income tax was ¥5,502 million (US\$41 million), cash flow due to business activity was ¥7,393 million (US\$56 million) after adjustment of depreciation expenses and subtraction of corporate taxes and other payments, and the capital finally decreased by ¥3,774 million (US\$28 million) compared with the previous year.

Cash flow due to investing activities decreased by ¥7,349 million (US\$55 million) as a result of the acquisition of property, plant and equipment, and the capital decreased by ¥3,159 million (US\$24 million) compared with the previous year. Cash flow due to financing activities was ¥5,955 million (US\$45 million) as a result of financing by the issuance of commercial paper, leading to an increase in capital of ¥18,388 million (US\$138 million) compared with the previous year.

### Perspectives

The future economy is expected to bottom out before long after a number of policies adopted by the government in response to changes in the economic and financial state of the economy actually begin to take effect. However, it seems that it will still be some time before the economy begins to recover in full based on an increase in corporate earnings and personal consumption. The construction industry anticipates a promotion of urban redevelopment, which is a priority

measure of the government, and other types of public investment. Basically, however, it seems that the construction market will continue to shrink in the foreseeable future due to a curtailment of public works spending, inactive investment in plant and equipment, and diminishing housing investment. Further, the current state of structural depression combined with more severe price competition is also expected to last for some time to come.

### *New Three-year Management Plan*

To overcome such an increasingly severe management environment, our group replaced the three-year management plan that started in 2000 with a new three-year plan that more closely reflects this present environment. Particular emphasis has been given to addressing the following management problems:

1. Maintenance of the current level of orders and profits by the civil engineering division;
2. Improvement of the low-profit system of the construction division;
3. Expansion of the international business division; and
4. Conversion of the organization into a stronger corporate structure.

The following measures are to be undertaken with respect to orders received:

- (1) Expansion of the fields of business in the categories of renewal, deep water related facilities, medical welfare facilities, halls for ceremonial functions, facilities for HACCP (Hazard Analysis Critical Control Point), etc.;
- (2) Aggressive development of business activity in the fields of urban redevelopment, PFI projects, and projects related to the environment; and
- (3) Entry into new business areas and fields overseas.

The following steps are to be taken to enhance profits:

- (1) Increase profit margins by improving the capability of quantity surveys for construction work and by adopting more efficient construction management methods; and
- (2) Introduce specific measures to improve productivity and implement greater cost controls in order to reduce expenditures and personnel costs.

The following measures have been planned in order to enhance financial strength and improve the efficiency of management:



Masao Watanabe, President

- (1) Reduction of interest-bearing debt and increase financial strength; and
- (2) Systematization of information and establishment of a company-wide, network based database.

The above plans and policy measures have been set forth as the basic strategy of the organization to improve its position and move forward more successfully during the next three years by establishing a sound, tenacious corporate structure to improve corporate performance.

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

June 2002

*Masao Watanabe*  
Masao Watanabe  
President