

MESSAGE FROM THE PRESIDENT

Japan's economy for the fiscal year ended March 31, 2003 continued to be inactive despite the sign of partial and gradual recovery, generally due to the unclear global conditions including the war in Iraq. It has also suffered from sluggish personal consumption because of severe income and employment conditions, and the situation is difficult to turn itself into autonomic recovery even if the Governmental counter-measures were put in operation under the prolonged depression, featuring deflation.

In the construction industry, public works formed the keynote of decreases due to financial restrictions on central and local governments while private capital investment sharply declined because of the fear of overinvestment in plants and equipment and the sharp drop of stock prices in the future. The whole market of construction industry tending to reduction became severe in competition to receive orders, leading itself to reorganization and selection in the industry as well as its bewilderment in management situations.

Under these conditions, TOA CORPORATION and its consolidated subsidiaries put their best effort to upgrade their profitability, ensure good quality works and to maintain operational results through the reduction of execution costs and administrative expenses.

However, the Company has suffered from the most severe environment for its management, resulting in a decline of 21.6% from the previous fiscal year, amounting to ¥172,713 million (US\$1,439 million) in new orders received for the fiscal year under review.

The breakdown of the amount of orders received was ¥167,118 million (US\$ 1,393 million), or a decrease of 20.6% in the construction business, and ¥5,595 million (US\$ 47 million) in the development business, representing a decrease of 44.0%. In the domestic market, the amount of orders received was ¥159,311 million (US\$ 1,328 million), a decrease of 20.2%, while the overseas market saw a decrease of 35.5%, amounting to ¥13,402 million (US\$ 112 million). In the construction business, marine civil engineering work accounted for 46%, 24% for land civil engineering, and 29% for architecture. In terms of orders placed by customers, the domestic government sector accounted for 62%, 30% for domestic private sector, and 8% for overseas organizations.

Net sales amounted to ¥237,923 million (US\$1,983 million), down 17.1% from the previous year on a consolidated accounting basis. As for earnings on a

consolidated basis, gross profit for the fiscal year under review declined due to the decrease in net sales and the completion of partially unprofitable projects. This gave a result in decline of 49.2% in operating income amounting to ¥4,327 million (US\$ 36 million). Special income amounting ¥3,008 million (US\$ 25 million) was added due to the transfer of the partial execution of Welfare Pension Fund that was approved in March 2003. This was offset by special loss amounting ¥5,115 million (US\$ 43 million), including special expenses of ¥2,795 million (US\$ 23 million) arising out of advertisement for retirement, and ¥1,078 million (US\$ 9 million) for revaluation loss of owned stocks. As a result, net income for the year under review amounted to ¥229 million (US\$ 2 million), a decline of ¥1,795 million (US\$ 15 million) compared to the previous fiscal year.

Financial Situation

The amount of capital decreased by ¥13,642 million (US\$ 114 million) through operating activities in the current year. This is because payment of notes and accounts payable that should be paid at the end (holiday) of the previous fiscal year increased in amount, and the payment of retirement benefits arose out of staff reduction increase too.

Cash flow due to investing activities decreased by ¥4,055 million (US\$ 34 million) as a result of the acquisition of property, plant and equipment, and investment in securities. Cash flow due to financing activities was ¥1,960 million (US\$ 16 million) as a result of financing by the issuance of commercial paper. As a result, cash and cash equivalent at the end of year decreased by ¥15,935 million (US\$ 133 million) to ¥25,859 million (US\$ 215 million).

Economy in the coming years is forecasted that a certain amount of time is required to achieve full-fledged recovery, even if the Government continues to wrestle to stabilize financial and monetary markets and overcome deflation. This is due to the expectation of uncertain and unclear economy, inactive personal consumption, and difficulty in early growth of capital investment.

The construction industry is forecasted to be generally sluggish due to severe financial conditions of central and local governments, and the low level of capital and housing investment that has arisen from worsened economy. This is strongly expected to bring an early effect on urban revitalizing projects and rural activation works based on expanding demands in the private sector.

New Three-year Management Plan

To overcome such an increasingly severe management environment, our group replaced the three-year management plan that started in 2002 with a new three-year plan that closely reflects this present environment. Particular emphasis has been given to address 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 in the architecture 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 restoration, deep water related facilities, medical welfare facilities, halls for ceremonial occasions, facilities for HACCP (Hazard Analysis Critical Control Point), etc.;
- (2) Aggressive development of business activity in the fields of urban revitalizing business, PFI projects, and projects related to the environment; and
- (3) Launch 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:

- (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 advance more successfully during the next



Masao Watanabe, President and Representative Director
President and Chief Executive Officer

three years establishing a sound, tenacious corporate structure to improve corporate performance.

On September 19, 2002, the Company has exchanged an operational agreement with ANDO Corporation in mutual cooperation in their owned technology, partnership of research and development, mutual utilization of cooperative companies, cooperative procurement of machinery and materials, cooperation of new businesses including eco-business, and mutual exchange of staff. The contract promotion committee of both companies started their activities, aiming to improve their operations in the future.

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

June 2003

A handwritten signature in black ink that reads "Masao Watanabe".

Masao Watanabe
President and Representative Director
President and Chief Executive Officer