

# Semiannual Report

For the six months ended September 30, 2006



**TOA CORPORATION**

## Message from the President

Japan's economy for the six-month period ended September 30, 2006 showed gradual recovery owing to steady expansion of investment in private plants and equipment which was created by improvement of profits in private corporations, even if there were negative factors including higher price of crude oil.

In the construction industry, the private sector enjoyed expansion thanks to favorable investment in plants and equipment, while the public sector continued to decline in plants and equipment expenditure. Thus, Toa Corporation has suffered from severer management conditions.

Under these environments, we have been wrestling with early achievement of our Three Year Management Strategy in order to establish tenacious organization and system, particularly for expansion of private project oriented operation. In addition, we sought to strengthen price competitiveness, upgrade construction efficiency, and to reduce administration costs thoroughly.

In the conditions that order markets were changed by expansion of general tender and order competition became severe, new order received on non-consolidated basis for the period under review amounted to ¥63,700 million, a 22.2% decline from the same period of the previous fiscal year. Consolidated net sales for the period under review decreased by 13.8% from the same period of the previous fiscal year, amounting to ¥74,995 million. Consolidated net loss was ¥1,576 million, a decrease of ¥959 million from the same period of the previous fiscal year.

The economy for the coming future forecasts continuous recovery supported by domestically high levels of demand in the private sector, while the construction industry is expected to experience more than ever decline in public expenditure. What's more, we have various unstable factors, such as ascent of long-term interest that gives influence on steady investment in the private sector.

Under these even more severe management conditions, we aim at consolidation for cooperation between sales operation, design and construction in order to upgrade competition capability, maintain/expand our market share and secure reasonable profits. We also put every effort into intensification of profits among our group companies by aggressive business operations in the field of PFI, environment, renewal and renovation works, which we are able to create additional synergic effect on construction work.

Furthermore, we are pursuing a variety of corporate social responsibility (CSR) initiatives to ensure rigorous compliance and perfect internal regulation.

We seek for the increased support and cooperation of all shareholders.

December 2006

A handwritten signature in black ink that reads "Y. Suzuki". The signature is written in a cursive, flowing style.

Yukio Suzuki  
President and Representative Director  
President and Chief Executive Officer

## Consolidated Balance Sheets

*TOA CORPORATION and its consolidated subsidiaries*  
*As of September 30, 2006 and 2005*

### ASSETS

	Millions of Japanese Yen 2006	Millions of Japanese Yen 2005	Thousands of U.S. Dollars 2006
<b>Current assets:</b>			
Cash and time deposits . . . . .	¥ 20,317	¥ 24,660	\$ 172,176
Notes and accounts receivable, trade . . . . .	55,680	55,960	471,869
Cost on contracts in progress . . . . .	37,707	49,688	319,549
Other current assets . . . . .	40,067	42,989	339,549
Allowance for doubtful accounts . . . . .	(1,430)	(1,487)	(12,118)
Total current assets . . . . .	<u>152,341</u>	<u>171,810</u>	<u>1,291,025</u>
<b>Investments and other assets . . . . .</b>	<b>32,067</b>	<b>33,324</b>	<b>271,757</b>
<b>Property, plant and equipment, at cost . . . . .</b>	<b>80,373</b>	<b>82,094</b>	<b>681,130</b>
Less accumulated depreciation . . . . .	(36,303)	(36,712)	(307,655)
Property, plant and equipment—net . . . . .	<u>44,070</u>	<u>45,382</u>	<u>373,475</u>
Total . . . . .	<u>¥228,478</u>	<u>¥250,516</u>	<u>\$1,936,257</u>

### LIABILITIES AND SHAREHOLDERS' EQUITY

<b>Current liabilities:</b>			
Short-term borrowings . . . . .	¥ 30,356	¥ 31,154	\$ 257,253
Notes and accounts payable, trade . . . . .	61,464	64,972	520,880
Advances on contracts in progress . . . . .	16,528	30,879	140,065
Other current liabilities . . . . .	34,329	31,314	290,925
Total current liabilities . . . . .	<u>142,677</u>	<u>158,319</u>	<u>1,209,123</u>
<b>Long-term debt . . . . .</b>	<b>18,145</b>	<b>22,097</b>	<b>153,775</b>
<b>Reserve for retirement benefits . . . . .</b>	<b>6,324</b>	<b>10,789</b>	<b>53,596</b>
<b>Reserve for loss on development business . . . . .</b>	<b>6,003</b>	<b>6,423</b>	<b>50,873</b>
<b>Other long-term liabilities . . . . .</b>	<b>5,697</b>	<b>5,679</b>	<b>48,281</b>
Total liabilities . . . . .	<u>178,846</u>	<u>203,307</u>	<u>1,515,648</u>
<b>Shareholders' equity . . . . .</b>	<b>48,227</b>	<b>45,772</b>	<b>408,702</b>
<b>Minority interests . . . . .</b>	<b>1,405</b>	<b>1,437</b>	<b>11,907</b>
Total . . . . .	<u>¥228,478</u>	<u>¥250,516</u>	<u>\$1,936,257</u>

## Consolidated Statements of Operations and Retained Earnings

*TOA CORPORATION and its consolidated subsidiaries*  
*For the six months ended September 30, 2006 and 2005*

	Millions of Japanese Yen 2006	Millions of Japanese Yen 2005	Thousands of U.S. Dollars 2006
<i>Net sales</i> . . . . .	¥ 74,995	¥ 87,018	\$ 635,551
<i>Cost of sales</i> . . . . .	70,497	80,934	597,433
Gross profit . . . . .	4,498	6,084	38,118
<i>Selling, general and administrative expenses</i> . . . . .	6,200	6,487	52,540
Operating loss . . . . .	(1,702)	(403)	(14,422)
<i>Other income (expenses):</i>			
Interest and dividends income . . . . .	366	406	3,104
Interest expenses . . . . .	(454)	(472)	(3,846)
Write-down of marketable securities and investment securities . . . . .	(51)	(2)	(436)
Write-down of real estate for sale . . . . .	(12)	(105)	(102)
Doubtful accounts for long-term receivables . . . . .	(156)	—	(1,323)
Gain from overseas business credit in preceding years . . . . .	120	—	1,016
Other, net . . . . .	(167)	153	(1,412)
	(354)	(20)	(2,999)
<i>Income (loss) before income taxes and minority interests</i> . . . . .	(2,056)	(423)	(17,421)
<i>Income taxes:</i>			
Current . . . . .	118	186	1,000
Deferred . . . . .	(631)	(42)	(5,345)
<i>Minority interests</i> . . . . .	34	51	286
<i>Net income (loss)</i> . . . . .	(¥1,577)	(¥618)	(\$13,362)
<i>Per share data:</i>	Japanese Yen	Japanese Yen	U.S. Dollars
Net income (loss) . . . . .	(¥7.10)	(¥3.05)	(\$0.060)
Shareholders' equity . . . . .	¥217.07	¥214.81	\$1.840

Note: U.S. dollar amounts are given solely for convenience and are translated at the rate of ¥118.00 = US\$1, the approximate effective rate of exchange at September 30, 2006.

## Consolidated Statements of Changes in Net Assets (1)

For the six months from April 1, 2006 to September 30, 2006

(Millions of Japanese Yen)

	Equity capital				
	Common stock	Capital surplus	Earned surplus	Treasury stock	Total equity capital
<b>Balance at the end of previous period.</b> . . . . .	¥ 18,977	¥ 18,085	¥ 10,476	(¥ 475)	¥ 47,063
<b>Changes of items during the period:</b>					
Dividends from surplus. . . . .			(665)		(665)
Bonuses to directors and statutory auditors. . . . .			(0)		(0)
Net income (loss). . . . .			(1,577)		(1,577)
Purchases of treasury stock. . . . .				(0)	(0)
Equity change in consolidated subsidiaries. . . . .				(5)	(5)
Capital changes accrued from reduction in consolidated subsidiaries . . . . .		(6)	(44)	25	(24)
Revaluation of land. . . . .			3		3
Net changes of items other than Shareholders' equity. . . . .					—
Total. . . . .	—	(6)	(2,283)	20	(2,269)
<b>Balance at the end of the current period.</b> . . . . .	<u>¥ 18,977</u>	<u>¥ 18,079</u>	<u>¥ 8,193</u>	<u>(¥ 455)</u>	<u>¥ 44,794</u>

(Thousands of U.S. Dollars)

	Equity capital				
	Common stock	Capital surplus	Earned surplus	Treasury stock	Total equity capital
<b>Balance at the end of previous period.</b> . . . . .	\$160,819	\$153,264	\$ 88,781	(\$4,023)	\$398,842
<b>Changes of items during the period:</b>					
Dividends from surplus. . . . .			(5,633)		(5,633)
Bonuses to directors and statutory auditors. . . . .			(3)		(3)
Net income (loss). . . . .			(13,362)		(13,362)
Purchases of treasury stock. . . . .				(3)	(3)
Equity change in consolidated subsidiaries. . . . .				(46)	(46)
Capital changes accrued from reduction in consolidated subsidiaries . . . . .		(50)	(373)	216	(207)
Revaluation of land. . . . .			28		28
Net changes of items other than Shareholders' equity. . . . .					—
Total. . . . .	—	(50)	(19,343)	168	(19,225)
<b>Balance at the end of the current period.</b> . . . . .	<u>\$160,819</u>	<u>\$153,214</u>	<u>\$ 69,438</u>	<u>(\$3,855)</u>	<u>\$379,616</u>

# Consolidated Statements of Changes in Net Assets (2)

For the six months from April 1, 2006 to September 30, 2006

(Millions of Japanese Yen)

	Valuation and translation adjustments				Minority interests	Total net assets
	Unrealized gains on other marketable securities	Deferred gains or loss on hedges	Revaluation of land	Total Valuation and translation adjustments		
<b>Balance at the end of previous period.</b> . . . . .	¥ 7,205	0	(¥2,853)	¥ 4,352	¥ 1,520	¥ 52,936
<b>Changes of items during the period:</b>						
Dividends from surplus. . . . .						(665)
Bonuses to directors and statutory auditors. . . . .						(0)
Net income (loss). . . . .						(1,577)
Purchases of treasury stock. . . . .						(0)
Equity change in consolidated subsidiaries. . . . .						(5)
Capital changes accrued from reduction in consolidated subsidiaries . . . . .						(24)
Revaluation of land. . . . .						3
Net changes of items other than Shareholders' equity. . . . .	(1,025)	109	(3)	(920)	(115)	(1,035)
Total. . . . .	(1,025)	109	(3)	(920)	(115)	(3,304)
<b>Balance at the end of the current period.</b> . . . . .	¥ 6,180	¥ 109	(¥2,856)	¥ 3,432	¥ 1,405	¥ 49,632

(Thousands of U.S. Dollars)

	Valuation and translation adjustments				Minority interests	Total net assets
	Unrealized gains on other marketable securities	Deferred gains or loss on hedges	Revaluation of land	Total Valuation and translation adjustments		
<b>Balance at the end of previous period.</b> . . . . .	\$ 61,063	0	(\$24,181)	\$ 36,882	\$12,885	\$448,609
<b>Changes of items during the period:</b>						
Dividends from surplus. . . . .						(5,633)
Bonuses to directors and statutory auditors. . . . .						(3)
Net income (loss). . . . .						(13,362)
Purchases of treasury stock. . . . .						(3)
Equity change in consolidated subsidiaries. . . . .						(50)
Capital changes accrued from reduction in consolidated subsidiaries . . . . .						(207)
Revaluation of land. . . . .						28
Net changes of items other than Shareholders' equity. . . . .	(8,692)	923	(28)	(7,797)	(978)	(8,775)
Total. . . . .	(8,692)	923	(28)	(7,797)	(978)	(28,000)
<b>Balance at the end of the current period.</b> . . . . .	\$ 52,371	\$ 923	(\$24,209)	\$ 29,085	\$ 11,907	\$420,609

## Consolidated Statements of Cash Flows

TOA CORPORATION and its consolidated subsidiaries  
For the six months ended September 30, 2006 and 2005

	Millions of Japanese Yen 2006	Millions of Japanese Yen 2005	Thousands of U.S. Dollars 2006
<b>Cash flows from operating activities:</b>			
Income (loss) before income taxes and minority interests . . . . .	(¥2,055)	(¥424)	(\$17,422)
<b>Adjustment to reconcile net income (loss) to net cash provided by operating activities:</b>			
Depreciation and amortization . . . . .	1,103	1,278	9,350
Provision for allowance for doubtful accounts . . . . .	165	(74)	1,399
Reserve for loss on development business . . . . .	(207)	(413)	(1,754)
Write-down of marketable securities and investment securities . . . . .	51	2	436
<b>Changes in:</b>			
Notes and accounts receivables, trade . . . . .	23,805	9,897	201,735
Inventories, principally real estate for sale . . . . .	(45)	1,071	(382)
Cost on contracts in progress . . . . .	(10,316)	(14,659)	(87,422)
Notes and accounts payables, trade . . . . .	(9,994)	(1,780)	(84,692)
Advances on contracts in progress . . . . .	1,819	9,305	15,419
Income taxes paid . . . . .	(767)	(1,651)	(6,504)
Other, net . . . . .	(1,007)	(2,419)	(8,534)
<i>Net cash provided by / (used in) operating activities</i> . . . . .	<u>¥ 2,552</u>	<u>¥ 133</u>	<u>\$ 21,629</u>
<b>Cash flows from investing activities:</b>			
Proceeds from sale of marketable and investment securities . . . . .	¥ 11	¥ 543	\$ 90
Acquisition of P.P. & E . . . . .	(1,057)	(1,113)	(8,954)
Acquisition of investment in securities . . . . .	(139)	(19)	(1,181)
Costs arisen from sale of a consolidated subsidiary . . . . .	(196)	—	(1,664)
Proceeds from sale or disposal of P.P. & E . . . . .	70	23	594
Other, net . . . . .	(1,103)	165	(9,343)
<i>Net cash provided by / (used in) investing activities</i> . . . . .	<u>(¥2,414)</u>	<u>(¥401)</u>	<u>(\$20,458)</u>
<b>Cash flows from financing activities:</b>			
Proceeds from long-term debt . . . . .	¥ 6,281	¥ 4,981	\$ 53,225
Repayment of long-term debt . . . . .	(9,846)	(3,254)	(83,438)
Cash dividends paid . . . . .	(665)	(585)	(5,633)
Other, net . . . . .	(448)	242	(3,801)
<i>Net cash provided by / (used in) financing activities</i> . . . . .	<u>(¥4,678)</u>	<u>¥ 1,384</u>	<u>(\$39,647)</u>
<b>Effect of exchange rate changes on cash and cash equivalents</b> . . . . .	¥ 47	¥ 61	\$ 401
<b>Net increase (decrease) in cash and cash equivalents</b> . . . . .	(4,493)	1,177	(38,075)
<b>Cash and cash equivalents at beginning of year</b> . . . . .	24,738	23,313	209,646
<b>Cash and cash equivalents at end of year</b> . . . . .	<u>¥ 20,245</u>	<u>¥ 24,490</u>	<u>\$ 171,571</u>



# Corporate Data

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## Stock Listing

Tokyo Stock Exchange, 1st section  
Sapporo Securities Exchange

## Share Transfer

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