Annual Report 2007

Year ended March 31, 2007

Toyo Engineering Corporation

Toyo Engineering Corporation (TOYO) is a plant engineering contractor founded in 1961. Since its inception, TOYO has deployed Engineering, Procurement and Construction (EPC) solution businesses actively and successfully implemented projects in many countries. Consequently, TOYO is now recognized as a leading world-class engineering contractor.

TOYO performs comprehensive engineering businesses with information technology (IT) and other cutting-edge technologies added to and integrated with its reliable engineering proficiency and project management capabilities. TOYO's major activities comprise overseas and domestic EPC solutions and business solutions, which solve the complex problems of clients.

Our corporate philosophy is "providing total solutions that ensure the satisfaction and success of our clients". We provide total solutions with five strengths: (1) comprehensive engineering technology based on experience accumulated worldwide; (2) project management capabilities promising safety, quality and delivery schedule; (3) cutting-edge technology application capabilities in various product fields; (4) advanced global response capabilities connecting our hubs in the worldwide networks; and (5) alliance formation capabilities creating an optimal structure of collaboration with world partners.

The Toyo Group consists of TOYO and 27 subsidiaries and 11 affiliates, holding 5,500 people, forming Global Toyo. Under the Global Toyo structure, we would like to maintain and strengthen the high reliability in the "Toyo Brand", which assures clients that projects are completed with safety and high quality on schedule.

Contents

DEFINITION OF TERMS

- Fiscal 2006 means the fiscal year ended March 31, 2007 (April 1, 2006-March 31, 2007).
- The word, mark, logo or any sign with a symbol "TM" means that it is a registered trademark of Toyo Engineering Corporation in Japan.

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

This annual report includes certain "forward-looking statements". These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ due to changes in economic, business, competitive, technological, regulatory and other factors.

Financial Summary

Years ended March 31,	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars* 2007
Net sales	**¥223,844**	¥195,584	**$1,895,536**
New orders	**354,984**	257,840	**3,006,045**
Backlog of contracts at end of the year	**499,237**	373,518	**4,227,597**
Net income	**5,294**	3,350	**44,828**
Total assets	**282,814**	202,662	**2,394,905**
Total net assets	**51,559**	35,649	**436,610**
Per share data (in yen and U.S. dollars):			
Net income	**¥ 27.90**	¥ 19.11	**$ 0.24**
Cash dividends	**3.00**	3.00	**0.03**

* U.S. dollar amounts are stated at ¥118.09 to $1, the exchange rate prevailing on March 31, 2007.

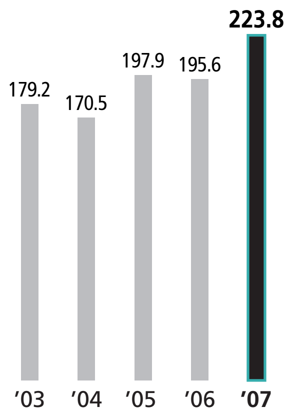
Operational Summary

Net income marked a record high. Revenues and earnings increased compared with the previous fiscal year, and targets were cleared.

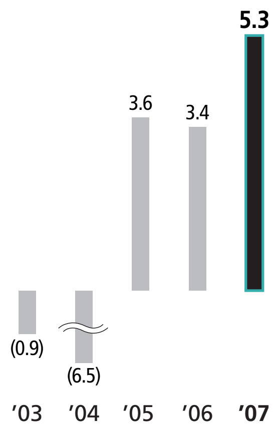
New orders reached ¥355.0 billion, the highest level in the past two fiscal years.

Zero net debt was achieved. (Cash and cash equivalents are more than adequate to cover interest-bearing debt.)

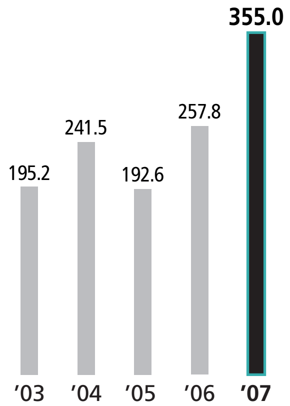
Net sales
(¥ billion)



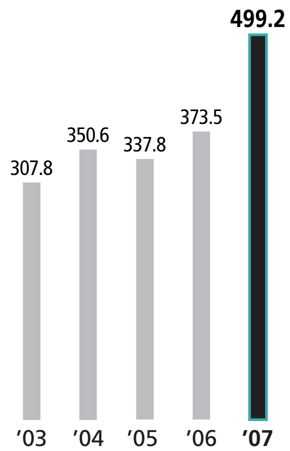
Net income (loss)
(¥ billion)



New orders
(¥ billion)



Backlog of contracts
(¥ billion)



In fiscal 2006, the Toyo Group recorded its highest profitability since it began reporting consolidated financial statements. The group recorded increased revenue and earnings compared with the previous year and achieved the initial targets for sales and profit for the whole year. We received new orders of the highest-ever amount, renewing the record for the second consecutive year on a consolidated basis. Our consistent efforts to reduce debt resulted in zero net debt as of March 2007. In April 2006, we launched a new three-year medium-term corporate strategic plan under our corporate vision "Global Toyo for Client Value Enhancement". Our achievements for the first year exceeded the initial targets.

Furthermore, we determined to advance toward the goal of the plan. As part of our efforts, we carried out safety training for all employees and management, including myself. The Toyo Group will implement all projects by putting the first priority on safety and will make efforts to boost its corporate value, capitalizing on its total engineering proficiency and project management skills.

August 2007

Yutaka Yamada
President and Chief Executive Officer

Operating Environment and Results in Fiscal 2006

The Toyo Group achieved its third consecutive year of profitability and received a record-high amount of new orders.

Operating Environment

Japan's economy remained robust, supported by a healthy performance by corporations, high levels of exports, machinery orders and production, as well as active capital investment despite soaring prices of crude oil and other materials and a drop in personal consumption. Outside Japan, the EU economy was on a recovery track, China and India maintained high growth, and Southeast Asian countries also enjoyed favorable economic conditions while the U.S. economy decelerated slightly. The Middle East enjoyed a continued active economy due to high-level petroleum revenue and skyrocketing world energy prices. In Central and South America, some nations enjoyed favorable conditions.

On the basis of the worldwide increase in demand for energy and materials as well as the increase in capital investment backed by clients' earnings recovery, the plant market showed a continuous high demand level. Although the operating environment surrounding the Toyo Group generally improved, the plant engineering industry faced such negative factors as price hikes and shortages of steel material and nonferrous metals and worldwide tightness in the workforce supply. In addition, we had to cope with such adverse elements as the prolonged uncertainty in the Middle East and new contractors.

Revenues and Earnings

Net sales increased 14.4% year on year to ¥223.8 billion, comprising ¥146.7 billion in overseas sales and ¥77.1 billion in domestic sales. Operating income and net income increased to ¥6.9 billion (64.2% year on year) and ¥5.3 billion (58.0% year on year), respectively. The Toyo Group achieved its third consecutive year of profitability and zero net debt. Interest-bearing debt as measured by the debt-equity ratio fell to 0.8 times, from 1.4 times in the previous year.

New Orders

New orders totaled ¥355.0 billion, comprising ¥286.8 billion in overseas orders and ¥68.2 billion in domestic orders. This was a record high, 61.4% higher than our initial target. Major new orders included such overseas projects as a gas to liquid (GTL) / liquid processing unit plant in Qatar, ethylene plants in India, Thailand and Singapore, and chemical plants for Japan-based and U.S.-based corporations in China, as well as many domestic projects awarded mainly by petroleum and petrochemical producers. New orders covered a wide range of product categories and regions, including the Middle East, Asia and South America. As of March 31, 2007, the Toyo Group had a backlog of orders amounting to ¥499.2 billion.

Medium-Term Corporate Strategic Plan for Fiscal 2006 to 2008

The results we achieved for fiscal 2006 exceeded the initial targets. We will advance toward the achievement of the medium-term corporate strategic plan with firm determination.

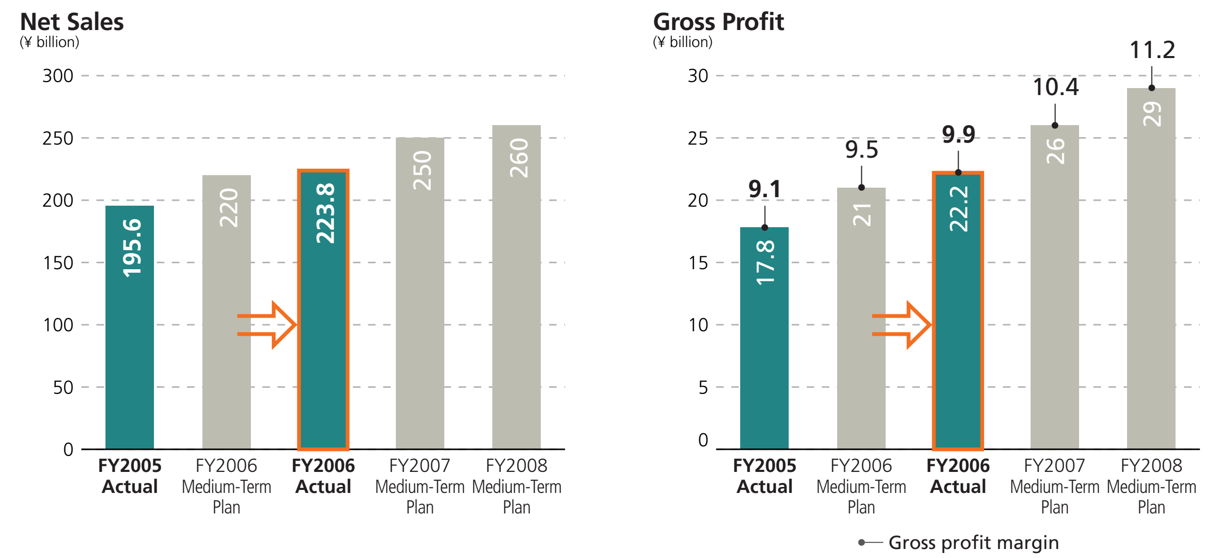
The Toyo Group initiated on April 1, 2006, a new medium-term corporate strategic plan under the new corporate vision "Global Toyo for Client Value Enhancement". The concept underpinning "Client Value Enhancement" is to promote projects with clients to create new value for them. Global Toyo is a structure in which the group companies worldwide work autonomously as profit centers and develop business collaboratively within the Toyo Group.

Financial Targets

We will work over the next two years to achieve the medium-term corporate strategic plan. Results of fiscal 2006 were ¥223.8 billion in net sales, above the target. For fiscal 2007, net sales are expected to rise to ¥330 billion, achieving the target in the plan.

The result in fiscal 2006 was ¥22.2 billion in gross profit, clearing the target, with a gross profit margin of 9.9%. For fiscal 2007, gross profit is expected to achieve the target in the plan.

Steady According to the Medium-Term Plan



Key Initiatives

The Toyo Group implements the following five key initiatives to ensure its sustainable growth by improving profitability and stabilizing the operating performance.

1. We will strengthen our business development ability and global marketing network to intensify the relationship with clients and our existence in regions we are focusing on as well as to develop key products.

2. We will build the Global Toyo structure in which TOYO, as the core company of the group, will focus on large-scale and complex projects and social infrastructure projects and our overseas operating bases will take leading roles in all tasks for medium-sized EPC projects.

3. To achieve client satisfaction, we will place an emphasis on HSSE as well as the three core goals of each project—quality, delivery schedule and cost.

4. We will reinforce our human capital in both quantity and quality. Human resources are undoubtedly the most valuable capital for an engineering contractor.

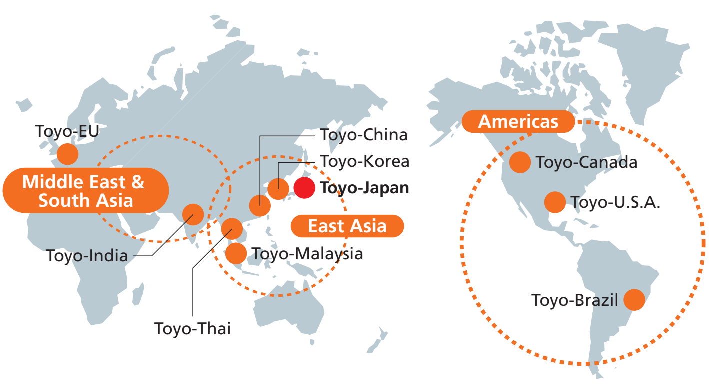
5. Along with these actions, we will upgrade and enlarge our infrastructure, including information technology (IT), to ensure smooth execution of the Global Toyo operations.

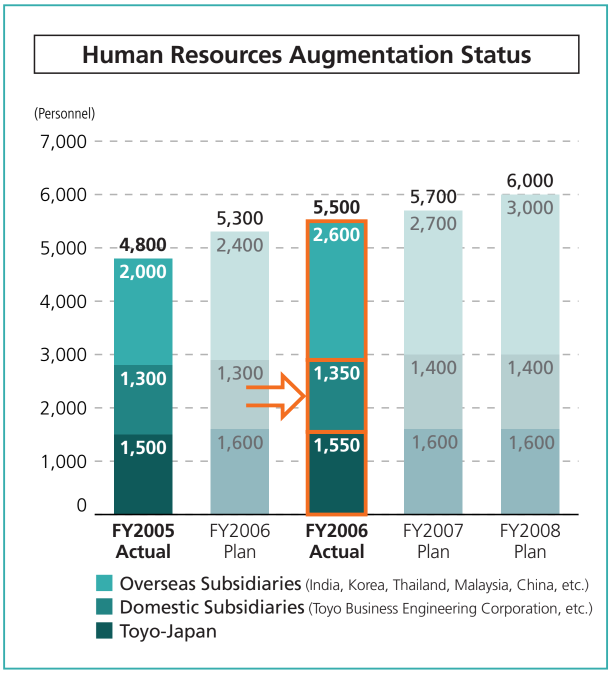
The Global Toyo Structure

In fiscal 2006, the first year of the new medium-term corporate strategic plan, the framework of Global Toyo was established. A manpower mobilization simulation was carried out at the time of proposal planning, and, as a result, three ethylene projects for India, Thailand and Singapore and a Polyethylene project in Thailand were awarded under the Global Toyo structure.

Several measures are being implemented for the technology transfer, such as reappraisal of the Global Toyo manuals and standards and common implementation procedures for projects and proposals, which enable smooth sales promotion and project execution.

The Global Toyo Network





We are now reinforcing the staff of the Global Toyo companies in accordance with the plan. As of March 31, 2007, our overseas group companies have 2,600 employees, achieving the target ahead of the plan as compared with March 31, 2006. Our plan is to raise the overseas group companies' workforce to 3,000 and the total group workforce to 6,000 by March 31, 2009, when the plan is to be finished.

Outlook for Fiscal 2007

The Toyo Group aims to ensure achieving the targeted profits for the next term to make its profit structure sustainable.

Challenges for the Toyo Group

For the next term, which is the second year of the medium-term corporate strategic plan and is defined as the "step-up year", we will focus on the three points described below to step up to a higher level.

1. We will implement ongoing projects, mitigating risk and problems. We will endeavor to successfully manage increasing risks caused by growth of scale and complexity of plants, steel and nonferrous material price hikes, delivery delay of equipment and materials and shortage of manpower. Management will continue to take a role in individual project execution. We will reinforce our project management system and improve the interaction among information systems to locate risks and take actions as early as possible to ensure profitability.

2. We will advance into new fields. Our efforts will be focused on business development in social infrastructure fields, such as power generation, water and transportation; on technology development in energy fields, such as GTL, dimethyl ether (DME) and heavy oil upgrading; and on deepening of project management skills.

3. We will strengthen the foundation of the Global Toyo structure. The Global Toyo structure, where individual bases in India, Korea, Thailand, Malaysia, China and other countries autonomously work as profit centers and perform business in concert with others, will be promoted in a more definite form. In order that we will be able to continuously develop, we should establish the business methodology of Global Toyo. Furthermore, the Toyo Group will intensify its governance structure.

Prospects for New Orders

Active investments are expected to continue, associated with the ongoing growth in global demand for energy and basic materials. We anticipate the demand for energy and basic materials will continue because countries with large populations, such as China and India, are in the process of economic growth. Substantial investments are also foreseen in Japan in the next term, in spite of past stagnation in capital investment. We should continue to pay close attention to the price hikes in special metals and other raw materials and to the management of equipment delivery in connection with the shortage of materials. In addition, we will continue to shield our earnings from foreign exchange rate volatility by maintaining our policy of hedging foreign currency exposure.

Outlook for Revenue and Earnings

In view of the orders we received in fiscal 2006, we aim to achieve ¥330 billion in net sales for the next term. We are also targeting operating income of ¥10.5 billion and net income of ¥6 billion for the year ending March 2008. All of these targets are higher than the figures achieved in fiscal 2006 and the goals of the second year of the plan. As the Toyo Group received the highest-ever amount of new orders during fiscal 2006, we will focus on successful implementation of the projects.

We expect to receive new orders totaling ¥240 billion in fiscal 2007, and aim to achieve the targeted profits and make our profit structure sustainable.

Corporate Governance

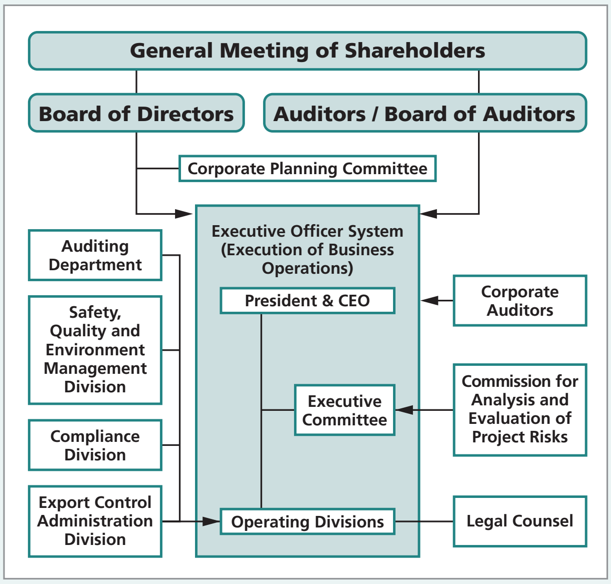
TOYO is dedicated to contributing to shareholders, clients and all other stakeholders as well as to fulfilling its social obligations in Japan and worldwide. For this purpose, measures are taken to heighten management transparency from the standpoints of investors and the public. TOYO places importance on building a fair management system and ensuring the proper operation of that system as well as the suitable disclosure of information.

Status of the Internal Control System

The Auditing Department of TOYO, which is under the direct control of the president, performs audits concerning the execution of business activities by all divisions as well as verification of appropriateness and effectiveness of the internal management structure, including compliance and risk management. In addition, there are specialized units to perform other internal audits. The Safety, Quality and Environment Management Division performs audits concerning safety, quality and environmental protection, and the Export Control Administration Division carries out export control to verify that no prohibited materials are being exported.

In fiscal 2006, TOYO established the Compliance Division and enacted a "Detailed Code of Conduct". Compliance education was carried out for all employees.

Corporate Governance Structure



Status of the Risk Management System

For risk management concerning project profitability and financial matters in TOYO, all business operations are constantly monitored and supervised and reports are submitted to the Board of Directors, the Executive Committee and the Board of Auditors. In addition, matters of particular importance concerning individual bidding and projects undergo a risk analysis overseen by the Commission for Analysis and Evaluation of Project Risks, and reports are submitted to the Executive Committee. TOYO has drawn up the Crisis Management Rule to clearly set forth risk management procedures to forestall important risks (crises) that have the potential to seriously affect the continuation of the Company, and the Crisis Management Task Team, under the Crisis Management Headquarters, is always working to prepare for potential crises.

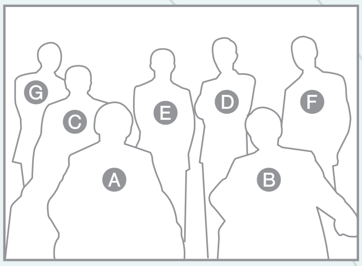
Promoting the Governance Structure for Global Toyo

TOYO, a core company of the Toyo Group, is making efforts to ensure proper operations across the companies within the Toyo Group by establishing the corporate procedures to strengthen the corporate administrative functions of each company.

We are determined to build an internal control system fit for the new business execution structure step-by-step as well as to adjust to the local laws and situations for five companies in the countries, including India, Korea, Thailand, Malaysia and China where EPC business is to be enhanced.

As for the corporate administration within the group, our Affiliate Administration Division works in concert with the Auditing Department, auditors and Accounting Division to enforce the structure through systematic audit.

Management



A Yushi Nagata
B Yutaka Yamada
C Kazuhisa Marukawa
D Yoshitaka Ogata
E Takuichi Murachi
F Kazuomi Nishihara
G Kenji Soejima

Directors

*Representative Director

Chairman

Yushi Nagata

President

Yutaka Yamada*

Directors

Kazuhisa Marukawa*
Yoshitaka Ogata*
Takuichi Murachi*
Kazuomi Nishihara*
Kenji Soejima*
Kuniaki Tsuyada
Hisashi Saigo
Makoto Fusayama
Isao Ichikawa
Keiichi Matsumoto

Auditors

Senior Corporate Auditor

Kunimichi Gamo

Corporate Auditors

Keiji Suda
Masato Shiode
Koichi Sano

Executive Officers

Chief Executive Officer

Yutaka Yamada

Executive Vice Presidents

Kazuhisa Marukawa
Yoshitaka Ogata

Senior Executive Officers

Takuichi Murachi
Kazuomi Nishihara
Kenji Soejima
Ken Wakazuki
Kuniaki Tsuyada
Hisashi Saigo
Makoto Fusayama
Isao Ichikawa
Keiichi Matsumoto
Komei Ohta
Masahiro Suzuki
Yoshiaki Mizoguchi
Osamu Kawanobe

Executive Officers

Osamu Okura
Shuji Ueki
Akhilesh Kumar
Hidetsugu Fujii
Kiyoshi Nakao
Kenji Niwa
Makoto Shimagaki
Tatsuo Yasunaga
Kazundo Hayashi
Masaru Takezawa
Mitsutoshi Hamamura

(As of June 26, 2007)

HSSE + Quality

"Safety first" is not simply a slogan. Safety takes priority over everything else.

In 2006, TOYO's incidence rate for lost time injuries and illnesses (LTI), as defined by the ILO, was 0.26. Although this rate is an improvement from 0.35 in 2005, we are not satisfied with this result and would like to strive to improve it toward the ultimate target of zero.

We are aware that people make mistakes, therefore it is important to enhance the quality of safety training to introduce safety practices, to facilitate their pro-active safety actions and to raise sensitivity on risk and hazards that might lead to accidents.

TOYO developed a touch panel computer system for easy access to collect all information on "near misses" from site members and will apply it as a tool for safety training and sharing of information among all site members. From fiscal 2007, this system will be applied at domestic construction sites and will also be available at overseas construction sites.

TOYO will extend the unified construction HSSE standard to the group companies. In addition, TOYO is developing such a standardization of work procedures across the group companies. In this manner, the Toyo Group makes its best effort, through the promotion of standardization, to maintain and improve quality in addition to safety.

Safety training in the office

In order to spread the philosophy of "safety is the first priority" among our employees, we carried out safety training for all employees in fiscal 2006. The training is aimed at all the employees—not only construction site workers but also head office staff, including management.

TOYO plans to promote a safety campaign in fiscal 2007 to enhance its safety-oriented culture and thoroughly implement the safety criteria throughout the group.

Safety training at the site

At each project site of the Toyo Group, we carry out, under the command of a field manager, undertakings including the formation of a health and safety committee, a daily toolbox meeting in the morning, the implementation of safety and health standards, safety patrols, safety meetings, the making of safety reports, the giving of work permission, prognostication activities against unsafe conditions and responses to the occurrence of accidents.

Award ceremony

TOYO has set up an institution to give awards to those groups and/or individuals who have committed to safety and accident prevention and shown remarkable achievements in the promotion of safety and health activities. In fiscal 2006, the members of the Saudi Arabia JUEG2 project received the award.

Standards of Global Toyo

Standardization of work procedures provides the basis of product and service quality. TOYO is taking the initiative of developing the Global Toyo standards. Its conceptual structure is shown above.

Vegetation at a pipeline project in Brazil

Separate collection of waste at a construction site

Safety education at an elementary school in the vicinity of the site

The Toyo Group runs its projects with due consideration for the environment. Examples of its activities include water-sprinkling for dust prevention and the separate collection of waste material disposed from construction, to name just a few. In each pipeline construction project, the site is covered with vegetation after the pipeline has been laid underground to prevent disfigurement. We also hold presentation meetings for residents living in the vicinity of our projects and make efforts to gain their improved understanding of the project execution in which extra consideration to the environment has been given.

EPC

EPC Solutions >>> OVERSEAS

In fiscal 2006, TOYO achieved major sales and received orders in the Middle East, the BRICs and Southeast Asia in oil, gas and other energy-related fields as well as in basic chemicals, high-performance resins and other petrochemical fields. In connection with the worldwide economic boom, active investments in the Middle East, the BRICs and Southeast Asia are expected to continue.

Results of Operations

As a result of steady progress in projects in the Middle East and the BRICs in fiscal 2006, the Toyo Group achieved net sales of ¥146.5 billion, an increase of ¥14.3 billion or 10.8% from the ¥132.2 billion achieved in fiscal 2005.

Major projects contributing to net sales were the LNG project for Sakhalin Energy Investment Company Ltd. in Russia; the ethylene oxide and ethylene glycol (EO / EG) plant project for Saudi Basic Industries Corporation (SABIC) in Saudi Arabia; the natural gas pipeline project for Petróleo Brasileiro S.A. (PETROBRAS) in Brazil; the gas processing facility project for Petropars Limited in Iran; the ethylene project for PTT Polyethylene Company Ltd. (PTTPE) in Thailand; the oil refinery project for PETROBRAS; the FPSO topside processing unit project for BHP Billiton Petroleum Pty Ltd and MODEC, INC. in Australia; and the styrene-butadiene rubber manufacturing facility for Bridgestone (Huizhou) Synthetic Rubber Co., Ltd. in China.

Installation of the EO / EG washtower for SABIC

The signing ceremony for the ethylene project for PTTPE

New orders received in fiscal 2006 amounted to ¥286.7 billion, an increase of ¥103.1 billion or 56.1% from the ¥183.6 billion received in fiscal 2005. Major new orders included an ethylene plant for Indian Oil Corporation Limited in India; a GTL / liquid processing unit plant for Qatar Shell GTL Limited in Qatar; a chlorosilane plant for Dow Corning (Zhangjiagang) Co., Ltd. in China; a chemical fertilizer complex for MAN Ferrostaal Aktiengesellschaft in Trinidad and Tobago; an ethylene plant for Shell Eastern Petroleum (Pte) Ltd. in Singapore; and an ethylene plant and a linear low density polyethylene (LLDPE) plant for PTTPE.

Initiatives in the Overseas EPC Field

The Toyo Group will put an emphasis on alternative energy to oil and large-scale gas development in response to the worldwide active demand for energy and the continuing high price of crude oil. We will also focus on the petrochemical market, which has been booming due to the growing demand for basic chemicals worldwide. In addition, the Toyo Group aims to respond to rising needs in the social infrastructure field, such as for water, electric power and transportation, and other, backed by demand not only in oil-producing or developing countries but also in developed countries for replacing aging facilities. Regarding assistance for clients shifting to overseas locations, TOYO will continue to concentrate on China while, at the same time, preparing for the "Post-China" era of overseas investments by Japanese companies. Under the Global Toyo structure, TOYO and the group companies, such as Toyo-India, Toyo-Korea and Toyo-Thai, will take the leading position in EPC projects in experienced fields, such as energy, fertilizers, petrochemicals and others. Through this process, TOYO intends to increase its awards for large-scale and complex EPC projects as well as social infrastructure projects. Through the Toyo Group's dedication to achieving excellence in safety, quality, delivery schedule and cost in implementing projects, potential problems will be quickly identified beforehand, so that proper responses can be taken immediately. We will achieve reliable Global Toyo operations by reinforcing our management system, developing our human resources systematically, establishing a global resource management system and improving our global IT infrastructure.

Major Projects (New Orders)

Location	Name of Client	Type	Scope
Qatar	Qatar Shell GTL Limited	GTL / Liquid Processing Unit	E.P.C.
India	Indian Oil Corporation Limited	Ethylene	E.P.C.
Thailand	PTT Polyethylene Company Ltd.	Ethylene	E.P.C.
Singapore	Shell Eastern Petroleum (Pte) Ltd.	Ethylene	E.Ps.Cm.
China	Dow Corning (Zhangjiagang) Co., Ltd.	Chlorosilane	E.Ps.Cm.
Trinidad and Tobago	MAN Ferrostaal Aktiengesellschaft	Urea	L.E.P.

E: Engineering P: Procurement C: Construction Ps: Procurement service Cm: Construction management L: Licensing

EPC

EPC Solutions >>> DOMESTIC

The domestic market is witnessing robust investment activity in production facilities for overall optimization through oil refining and petrochemical integration and fluctuation in demand. The Toyo Group achieved net sales exceeding the amount of the previous term and also received a high level of new orders. Active investment by manufacturing industries is expected to continue in fiscal 2007.

Results of Operations

Net sales achieved in Japan in fiscal 2006 were ¥50.6 billion, exceeding the previous term by 23.2%. The increase in net sales was due to the successful progress in projects in the petrochemical and oil refining fields. Major completed projects included the Aniline Ⅱ project for Tosoh Corporation in the petrochemical category; the propylene splitter project for Nippon Petroleum Refining Co., Ltd. and naphtha desulfurization projects for TonenGeneral Sekiyu K.K. and Kyokuto Petroleum Industries, Ltd. in the oil refining category; and the active pharmaceutical ingredient (API) project for Shiratori Pharmaceutical Co., Ltd. in the industrial plant category.

New orders received in Japan amounted to ¥46.3 billion in fiscal 2006, continuing at a high level. Major new orders included the revamp project of an ethyl benzene unit by liquid-phase alkylation using zeolite catalyst and the packinox heat exchanger installation project for Idemitsu Kosan Co., Ltd.; the utility and fire protection facility project and reinjec-

The Chiba Plant of Shiratori Pharmaceutical Co., Ltd.

The naphtha desulfurization unit for Kyokuto Petroleum Industries, Ltd.

tion project for Japan Petroleum Exploration Co., Ltd.; the gas processing and treatment revamp project for Japex Offshore Ltd.; the ethylene cracking heater project for Maruzen Petrochemical Co., Ltd.; the FCC expander turbine installation project for TonenGeneral Sekiyu K.K.; the polylactic acid chemical recycle demonstration facility for Musashino Chemical Laboratory, Ltd.; and the 300-mm wafer expansion project for MEMC Japan Ltd.

Initiatives in the Domestic EPC Field

The Toyo Group covers a wide range of fields, including hydrocarbon, nuclear and electric power development, O&M, R&D and system integration. By having a team comprising experts from various fields and responding flexibly to the demands from clients, we have steadily increased the number of new orders. Continuously, in the oil refining and petrochemical fields, the Toyo Group will make efforts to increase new orders received. In the industrial plant field, we will focus on expanding business with clients who consistently place orders with us and on raising the number of those clients. In the nuclear and electric power field, engineering services will remain the primary activity as the Toyo Group explores possibilities for EPC projects in the future. We will also aim to create new business models that encompass R&D and O&M. The Toyo Group will set out to become a diversified player in terms of products and regions and to build trusted relationships with clients. Based on its "Co-Creative" way of doing business, the Toyo Group is dedicated to integrating its ideas with those of its clients. This process will make it possible to build production facilities of the highest quality.

Major Projects (New Orders)

Name of Client	Type	Scope
Idemitsu Kosan Co., Ltd.	Ethyl Benzene unit by Liquid-Phase Alkylation using Zeolite Catalyst	E.P.C.
Japan Petroleum Exploration Co., Ltd.	Reinjection	E.P.C.
Japex Offshore Ltd.	Gas Processing and Treatment Revamp	E.P.C.
Tosoh Corporation	Aniline Ⅱ	E.P.C.
Maruzen Petrochemical Co., Ltd.	Ethylene Cracking Heater	E.P.C.
TonenGeneral Sekiyu K.K.	FCC Expander Turbine	E.P.C.
Musashino Chemical Laboratory, Ltd.	Polylactic Acid Chemical Recycle Demonstration Facility	E.P.C.

E: Engineering P: Procurement C: Construction

Business

Business Solutions

Backed by the favorable conditions in Japan's economy, the information technology (IT) sector enjoyed growth in both new orders and sales in fiscal 2006. TOYO and Toyo Business Engineering Corporation (B-EN-G), a Toyo Group company, received an increased amount of new orders mainly in the supply chain management and maintenance fields and in the core operation system (ERP) field for manufacturing industries, respectively.

Results of Operations

In fiscal 2006, there was an 18.1% increase in sales in the IT sector to ¥23.7 billion and new orders surged 48.0% to ¥22.1 billion, mainly due to the completion of the Okegawa Logistics Center of Tohan Corporation, a large logistics center for books. TOYO implemented the installation of facilities and systems for the distribution of books and the collection of proceeds, connecting 4,000 publishers and 16,000 bookstores across Japan. In the maintenance field, TOYO provided assistance to a nuclear power station in planning of maintenance and preparation data-related maintenance with staff of the power station. As above, in response to clients' needs to improve productivity and quality, TOYO identifies problems through consulting, proposes solutions and assists the clients with integrated solutions. Our comprehensive

Ikata visitors' center of Shikoku Electric Power Co., Inc.

The completion ceremony of the newest Tamamura plant of TAIYO YUDEN Co.,Ltd.

engineering capabilities are highly evaluated for their support of clients' corporate reformation.

B-EN-G deployed its business activities mainly in the field of ERP for manufacturing industries. It focused on the sale of MCFrame, its own ERP, in addition to system integration of SAP's and Oracles's ERP software. B-EN-G received orders increasingly from leading pharmaceutical companies, such as Takeda Pharmaceutical Company Limited and Daiichi-Sankyo Company Limited.

TOYO and B-EN-G have formed an alliance aimed at increasing sales and profits.

Initiatives in Business Solution Sales and Operations

The Toyo Group will continue to concentrate on offering identification of problems and specific comprehensive solutions through consulting. We will make efforts to demonstrate the Toyo Group's capabilities in the field of construction of ERP and in the field of other system integration. We will also promote joint research with universities and research institutes to enhance our technological capabilities.

Major Projects (New Orders)

Name of Client	Type	Scope
TOPPAN PRINTING CO., LTD.	Production Scheduling System (KOMEI™ 7)	E.
Tohan Corporation	Book Logistics & Distribution Center	E.P.C.
NITTO DENKO CORPORATION	Design, Supply and Installation of Production Line	E.P.C.
The Tokyo Electric Power Co., Inc.	New Maintenance Consultation	E.
Shikoku Electric Power Co., Inc.	Visitor's House Renewal	E.P.C.
Mitsui Chemicals, Inc.	Knowledge Management System (Knowledge Bank™)	E.

E: Engineering P: Procurement C: Construction

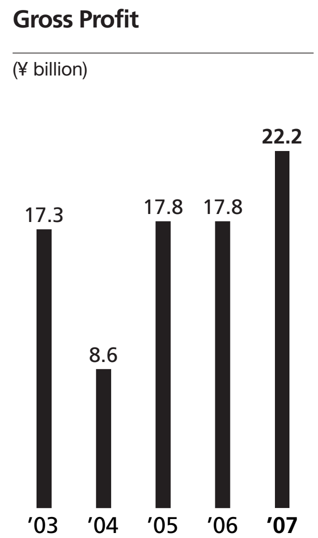
Consolidated Five-Year Summary

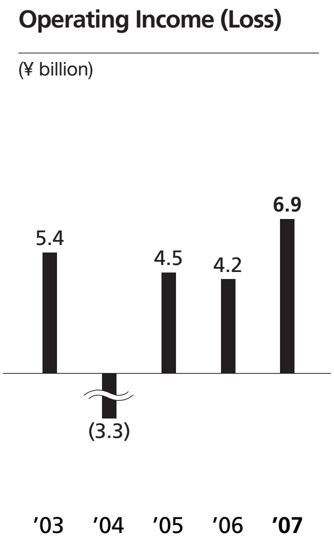
Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31

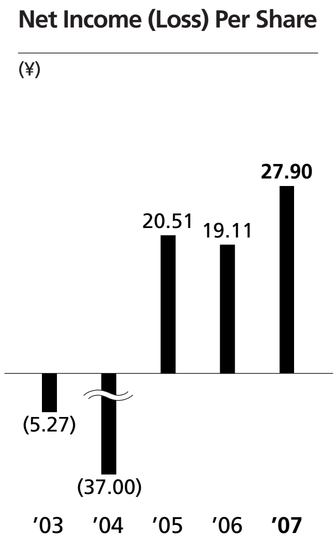
	Millions of yen					Thousands of U.S. dollars (Note 1)
	2007	2006	2005	2004	2003	**2007**
Net sales	**¥223,844**	¥195,584	¥197,945	¥170,529	¥179,168	**$1,895,536**
Gross profit	**22,236**	17,825	17,770	8,640	17,291	**188,293**
Operating income (loss)	**6,890**	4,195	4,540	(3,257)	5,424	**58,342**
Income (loss) before income taxes and minority interest	**7,372**	4,360	3,698	(3,714)	657	**62,431**
Net income (loss)	**5,294**	3,350	3,598	(6,491)	(923)	**44,828**
Total assets	**282,814**	202,662	209,564	201,133	199,494	**2,394,905**
Total net assets	**51,559**	35,649	28,442	24,724	29,694	**436,610**
Long-term debt	**26,981**	19,990	36,454	39,691	41,840	**228,476**
Purchases of property, plant and equipment	**2,752**	3,455	2,096	241	282	**23,304**
Depreciation and amortization	**1,995**	1,701	1,453	1,315	1,347	**16,891**
Common stock	**18,199**	13,018	13,018	13,018	13,018	**154,111**
New orders	**354,984**	257,840	192,600	241,528	195,160	**3,006,045**
Backlog of contracts at end of the year	**499,237**	373,518	337,760	350,574	307,817	**4,227,597**

	Yen					U.S. dollars (Note 1)
Per share:						
Net income (loss)	**¥27.90**	¥19.11	¥20.51	¥(37.00)	¥(5.27)	**$ 0.24**
Cash dividends	**3.00**	3.00	3.00	—	—	**0.03**

"Total net assets" is newly provided section to conform to Japanese accounting standard revisions. The figures until the year ended March 31, 2005 have been stated as "Total shareholders' equity" under the previous standards.



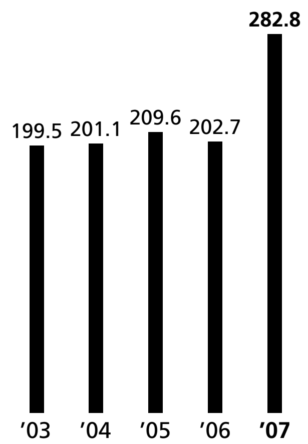




	2007	2006	2005	2004	2003
Net sales by sector (%):					
Chemical fertilizers	**2.9%**	7.8%	15.8%	9.3%	7.1%
Petrochemicals	**25.6**	24.9	27.4	30.8	32.9
Refinery	**12.3**	3.0	7.7	13.3	21.3
Energy-related	**36.9**	44.2	29.5	27.3	19.2
General manufacturing facilities and information technology	**15.2**	14.9	14.7	11.5	12.2
Others	**7.1**	5.2	4.9	7.8	7.3
(Overseas sales)	**(66)**	(68)	(72)	(78)	(79)
Number of employees	**3,126**	2,668	2,376	2,310	2,146

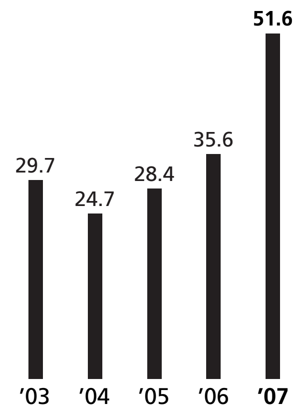
Total Assets

(¥ billion)



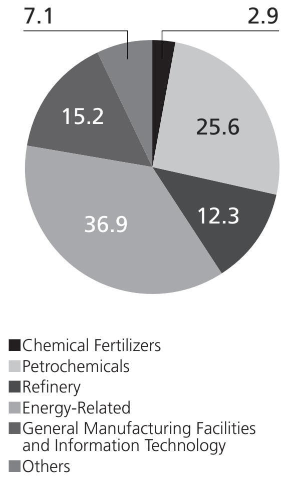
Total Net Assets

(¥ billion)



Composition of Net Sales by Sector (FY2006)

(%)



In fiscal 2006, the Toyo Group enjoyed increases in both net sales and earnings. In particular, net income increased 58.0%. New orders reached the highest level with a 37.7% increase. The following items are particularly noteworthy achievements of the fiscal year under review.

1. New orders far above our target

New orders received for the year totaled ¥355.0 billion ($3,006 million), a reflection of overseas orders for oil refineries, petrochemical plants and other large-scale projects. The backlog of contracts at the end of March 2007 was ¥499.2 billion ($4,228 million), which equates to about two years of net sales. This provides an adequate backlog of contracts to give the Toyo Group a stable base of operations.

2. Substantial improvement in operating cash flow and reduction in interest-bearing debt

Interest-bearing debt declined ¥8.3 billion compared with the previous fiscal year-end to ¥39.1 billion ($331 million) as the Toyo Group actively made loan repayments, with consistently improved operating cash flow.

Sales and Earnings

Net sales increased ¥28.3 billion to ¥223.8 billion ($1,896 million) as a result of successful progress of projects. Operating income increased ¥2.7 billion to ¥6.9 billion ($58 million). Net income was ¥5.3 billion ($45 million), which was ¥1.9 billion more than that achieved in the previous year.

Cash Flows

Cash from operating activities was ¥51.0 billion ($432 million). The principal source of cash was income before income taxes and minority interest of ¥7.4 billion ($62 million) and increase in advance receipts on uncompleted contracts of ¥51.6 billion ($437million). Cash used for investing activities was ¥5.4 billion ($46 million). This mainly represented expenditure on real estate for rent. Cash from financing activities was ¥1.5 billion ($12 million), reflecting dividend payments, continued repayment of interest-bearing debt based on the debt reduction plan and a capital increase by a third-party allocation of shares. The result of the above cash flows was a net increase of ¥47.4 billion in cash and cash equivalents compared with one year earlier to ¥75.7 billion ($641 million). This figure includes ¥9.6 billion ($81 million) of deposits received in conjunction with joint venture projects.

The following is a list of potential risks associated with the information concerning the Toyo Group's operating results and financial condition in this annual report that may have a significant bearing on investors' decisions. This is not intended to be a complete list of these potential risks.

1. Business risk

The nature of our business activities, which mainly involve conducting projects outside Japan, is exposed to the risks listed below. Any interruption or suspension in work due to these risks could have an adverse effect on our operating results and financial condition. We are aware of the possibility that these risks may occur and taking actions to reduce exposure to these risks by using export credit insurance, maintaining a risk management system and taking other steps.

(1) War, civil commotion, riots, revolutions, coup d'état, terrorism and other unusual events in the country where the project is carried out or in a neighboring country. (2) Regional risks that occur particularly in an area near a project site, such as a surge of political unrest and a serious outbreak of a epidemic disease. (3) Extraordinary natural phenomenon, such as earthquakes, floods, typhoons and other storms as well as unusual weather, such as extreme heat or cold. (4) Drastic changes in industrial or financial policies in the host country affecting the permission, laws and regulations involving import duties, immigration, foreign exchange, telecommunications, taxation and other items. (5) A sudden and substantial reduction of investments globally in business fields where we are active.

2. Foreign exchange fluctuation

For overseas plant construction contracts denominated in foreign currencies, the appreciation of the yen relative to the applicable foreign currency causes a reduction in the yen equivalent amount received. In addition, the yen's appreciation makes TOYO less price competitive when competing for new orders in foreign currencies. This could have an adverse effect on our operating results and financial condition. In response, the group uses foreign exchange forward contracts, procures materials and equipment in foreign currencies, utilizes the resources of its overseas bases and takes all other possible steps to minimize exposure to foreign exchange risk.

3. Sudden increases in prices of equipment and materials

A large share of contracts signed with clients involves turnkey lump-sum projects. Therefore, the possibility exists of sudden and steep rises in the cost of equipment and materials, transportation, labor and other items associated with a project, or of problems caused by tight demand and supplies of these items, due to rapid change in the international situation. The possibility also exists of a supplier becoming insolvent. These events may deteriorate the profitability of a project affected by soaring cost, delivery delay and other problems. Such events may therefore have a detrimental effect on our operating results and financial condition. To reduce our exposure to these risks, we utilize our experience to enter into contracts that incorporate measures to offset these risks and gather information on market trends. To avoid an undue reliance on a particular supplier, we work on placing orders with a large number of suppliers and stringently monitor the financial condition of suppliers.

Consolidated Balance Sheets

Toyo Engineering Corporation and Consolidated Subsidiaries March 31, 2007 and 2006

Assets	Millions of yen 2007	2006	Thousands of U.S. dollars (Note 1) 2007
Current assets:			
Cash and deposits	**¥ 43,225**	¥ 28,884	**$ 366,032**
Marketable securities (Note 12)	**32,976**	—	**279,245**
Notes and accounts receivable (Note 3)	**31,823**	29,229	**269,483**
Less: Allowance for doubtful receivables	**(3,545)**	(2,735)	**(30,019)**
	28,278	26,494	**239,464**
Contract work in progress	**92,123**	74,090	**780,109**
Prepaid expenses and other current assets (Note 4)	**30,699**	19,250	**259,959**
Total current assets	**227,301**	148,718	**1,924,809**
Investments:			
Investment securities (Note 12)	**9,705**	7,437	**82,179**
Investments in unconsolidated subsidiaries and affiliates (Note 12)	**3,311**	5,149	**28,039**
Long-term loans	**141**	214	**1,197**
Other	**3,910**	5,378	**33,112**
Less: Allowance for doubtful receivables	**(789)**	(2,072)	**(6,681)**
Total investments	**16,278**	16,106	**137,846**
Property, plant and equipment, at cost:			
Land (Note 3)	**18,543**	18,528	**157,023**
Buildings and structures (Note 3)	**31,653**	26,628	**268,045**
Tools, furniture and fixtures	**3,771**	3,573	**31,934**
Construction in progress	**136**	3,085	**1,152**
Total	**54,103**	51,814	**458,154**
Less: Accumulated depreciation (Note 3)	**(17,130)**	(16,190)	**(145,056)**
Property, plant and equipment, net	**36,973**	35,624	**313,098**
Other assets (Note 4)	**2,262**	2,214	**19,152**
Total assets	**¥282,814**	¥202,662	**$2,394,905**

See notes to consolidated financial statements.

Liabilities and Net Assets	Millions of yen 2007	2006	Thousands of U.S. dollars (Note 1) 2007
Current liabilities:			
Short-term borrowings	**¥ 2,398**	¥ 4,205	**$ 20,307**
Current portion of long-term debt (Note 3)	**7,719**	22,178	**65,362**
Bonds due within one year (Note 3)	**2,000**	1,000	**16,936**
Notes and accounts payable	**38,006**	22,679	**321,842**
Income taxes payable	**1,229**	693	**10,411**
Advance receipts on uncompleted contracts	**134,511**	82,894	**1,139,051**
Reserve for anticipated loss on contract work	**1,457**	1,135	**12,340**
Other current liabilities	**11,176**	6,847	**94,637**
Total current liabilities	**198,496**	141,631	**1,680,886**
Long-term liabilities:			
Long-term debt (Note 3)	**26,981**	19,990	**228,476**
Accrued retirement benefits (Note 5)	**2,953**	2,727	**25,007**
Other long-term liabilities (Note 4)	**2,825**	2,665	**23,926**
Total long-term liabilities	**32,759**	25,382	**277,409**
Total liabilities	**231,255**	167,013	**1,958,295**
Contingent liabilities (Note 7)			
Net assets:			
Shareholders' equity (Note 6)			
Common stock			
Authorized: 500,000,000 shares in 2007 and 2006			
Issued: 192,792,539 shares in 2007 and 175,692,539 shares in 2006	**18,199**	13,018	**154,111**
Capital surplus	**20,761**	15,595	**175,806**
Retained earnings	**6,983**	2,218	**59,134**
Treasury stock: 474,172 shares in 2007 and 403,553 shares in 2006	**(159)**	(118)	**(1,346)**
Total shareholders' equity	**45,784**	30,713	**387,705**
Valuation and translation adjustments			
Net unrealized gain on securities	**3,324**	3,062	**28,144**
Deferred hedge loss	**(220)**	—	**(1,860)**
Foreign currency translation adjustments	**249**	(167)	**2,112**
Total valuation and translation adjustments	**3,353**	2,895	**28,396**
Minority interest	**2,422**	2,041	**20,509**
Total net assets	**51,559**	35,649	**436,610**
Total liabilities and net assets	**¥282,814**	¥202,662	**$2,394,905**

Consolidated Statements of Income

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
Net sales (Note 8)	**¥223,844**	¥195,584	**$1,895,536**
Cost of sales	**201,608**	177,759	**1,707,243**
Gross profit	**22,236**	17,825	**188,293**
Selling, general and administrative expenses (Note 9)	**15,346**	13,630	**129,951**
Operating income	**6,890**	4,195	**58,342**
Other income:			
Interest and dividend income	**1,892**	1,301	**16,020**
Gain on sales of investment securities	**348**	880	**2,949**
Gain on sales of fixed assets	**55**	—	**467**
Gain on sales of memberships	**54**	—	**456**
Other	**341**	328	**2,894**
	2,690	2,509	**22,786**
Other expenses:			
Interest expense	**986**	1,192	**8,354**
Foreign exchange loss	**255**	204	**2,158**
Loss on valuation of investment securities	**4**	31	**34**
Loss on impairment of fixed assets	**221**	616	**1,872**
Other (Note 10)	**742**	301	**6,279**
	2,208	2,344	**18,697**
Income before income taxes and minority interest	**7,372**	4,360	**62,431**
Income taxes (Note 4):			
Current	**1,714**	786	**14,513**
Deferred	**74**	76	**631**
	1,788	862	**15,144**
Minority interest income	**(290)**	(148)	**(2,459)**
Net income	**¥ 5,294**	¥ 3,350	**$ 44,828**

	Yen		U.S. dollars (Note 1)
Per share of common stock:			
Net income	**¥ 27.90**	¥ 19.11	**$ 0.24**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets (Note 15)

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31,2007 and 2006

	Millions of yen								
	Common stock	Capital surplus	Retained earnings (Note 6)	Treasury stock	Net unrealized gain on securities	Deferred hedge loss	Foreign currency translation adjustments	Minority interest	Total
Balance at March 31,2005	¥13,018	¥15,594	¥ (606)	¥ (59)	¥1,133	¥ —	¥(638)	¥1,881	¥30,323
Dividends paid to shareholders			(526)						(526)
Net income			3,350						3,350
Purchase of treasury stock				(59)					(59)
Sale of treasury stock		1							1
Changes of items other than shareholders' equity					1,929		471	160	2,560
Balance at March 31,2006	**13,018**	**15,595**	**2,218**	**(118)**	**3,062**	**—**	**(167)**	**2,041**	**35,649**
Common stock issued	**5,181**	**5,164**							**10,345**
Dividends paid to shareholders			**(526)**						**(526)**
Bonus paid to directors			**(3)**						**(3)**
Net income			**5,294**						**5,294**
Purchase of treasury stock				**(43)**					**(43)**
Sale of treasury stock		**2**		**2**					**4**
Changes of items other than shareholders' equity					**262**	**(220)**	**416**	**381**	**839**
Balance at March 31,2007	**¥18,199**	**¥20,761**	**¥6,983**	**¥(159)**	**¥3,324**	**¥(220)**	**¥249**	**¥2,422**	**¥51,559**

	Thousands of U.S. dollars (Note 1)								
	Common stock	Capital surplus	Retained earnings (Note 6)	Treasury stock	Net unrealized gain on securities	Deferred hedge loss	Foreign currency translation adjustments	Minority interest	Total
Balance at March 31,2006	**$110,235**	**$132,060**	**$18,785**	**$(1,003)**	**$25,934**	**$ —**	**$(1,412)**	**$17,281**	**$301,880**
Common stock issued	**43,876**	**43,731**							**87,607**
Dividends paid to shareholders			**(4,453)**						**(4,453)**
Bonus paid to directors			**(26)**						**(26)**
Net income			**44,828**						**44,828**
Purchase of treasury stock				**(361)**					**(361)**
Sale of treasury stock		**15**		**18**					**33**
Changes of items other than shareholders' equity					**2,210**	**(1,860)**	**3,524**	**3,228**	**7,102**
Balance at March 31,2007	**$154,111**	**$175,806**	**$59,134**	**$(1,346)**	**$28,144**	**$(1,860)**	**$2,112**	**$20,509**	**$436,610**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
Cash flows from operating activities:			
Income before income taxes and minority interest	**¥ 7,372**	¥ 4,360	**$ 62,431**
Adjustments to reconcile income before income taxes and minority interest to cash from operating activities:			
Depreciation and amortization	**1,995**	1,701	**16,891**
Loss on impairment of fixed assets	**221**	616	**1,872**
Gain on sales of marketable and investment securities, net	**(353)**	(880)	**(2,993)**
Loss on valuation of investment securities	**38**	31	**324**
Changes in allowance for doubtful receivables	**(475)**	(2,488)	**(4,022)**
Changes in allowance for anticipated loss on contract work	**322**	(492)	**2,725**
Equity in earnings of affiliated companies	**(163)**	(85)	**(1,379)**
Changes in accrued retirement benefits	**267**	237	**2,258**
Interest and dividends received	**2,044**	1,443	**17,307**
Interest and dividend income	**(1,892)**	(1,301)	**(16,020)**
Interest expense	**986**	1,192	**8,354**
Interest paid	**(1,000)**	(1,192)	**(8,467)**
Income taxes paid	**(1,400)**	(277)	**(11,856)**
Other, net	**(3,508)**	(6,564)	**(29,709)**
Changes in operating assets and liabilities:			
(Increase) decrease in notes and accounts receivable	**(2,371)**	11,354	**(20,075)**
(Increase) decrease in contract work in progress	**(17,856)**	(11,794)	**(151,206)**
Increase (decrease) in notes and accounts payable	**15,159**	(9,359)	**128,367**
Increase (decrease) in advance receipts on uncompleted contracts	**51,594**	7,964	**436,904**
Cash from (used for) operating activities	**50,980**	(5,534)	**431,706**
Cash flows from investing activities:			
Purchases of property, plant and equipment	**(2,752)**	(3,455)	**(23,304)**
Purchases of other assets	**(789)**	(787)	**(6,681)**
Purchases of investment securities	**(34)**	(5)	**(288)**
Proceeds from sales of marketable securities and investment securities	**505**	1,331	**4,280**
(Increase) decrease in loans, net	**(3,139)**	(2,007)	**(26,579)**
Other, net	**765**	353	**6,474**
Cash used for investing activities	**(5,444)**	(4,570)	**(46,098)**
Cash flows from financing activities:			
Decrease in short-term borrowings, net	**(1,807)**	(2,309)	**(15,302)**
Proceeds from long-term debt	**16,407**	8,151	**138,938**
Repayment of long-term debt	**(22,863)**	(12,713)	**(193,610)**
Issuance of corporate bonds	**1,000**	—	**8,468**
Redemption of corporate bonds	**(1,000)**	—	**(8,468)**
Issuance of common stock	**10,345**	—	**87,606**
Cash dividends paid	**(526)**	(526)	**(4,453)**
Other	**(95)**	(127)	**(806)**
Cash from (used for) financing activities	**1,461**	(7,524)	**12,373**
Effect of exchange rate changes on cash and cash equivalents	**353**	487	**2,987**
Net increase (decrease) in cash and cash equivalents	**47,350**	(17,141)	**400,968**
Cash and cash equivalents, beginning of the year	**28,306**	45,447	**239,695**
Cash and cash equivalents, end of the year	**¥75,656**	¥28,306	**$640,663**

See notes to consolidated financial statements.

1 BASIS OF PREPARATION

The accompanying consolidated financial statements of Toyo Engineering Corporation (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

For the convenience of the readers, the accompanying consolidated financial statements and the relevant notes have also been presented in U.S. dollars by translating all Japanese yen amounts at the exchange rate of ¥118.09 to U.S.$1.00 prevailing on March 31, 2007.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. Investment in significant affiliates is accounted for by the equity method. Intercompany accounts and transactions are eliminated in consolidation. The difference between the acquisition cost and the equity in the net assets at the time of acquisition is amortized in principle over twenty years on a straight-line basis.

(b) Securities

All debt and equity securities are classified into one of three categories: trading, available-for-sale or held-to-maturity securities. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those securities in which the Company and its domestic subsidiaries have the ability and intent to hold until maturity. All securities not included in trading or held-to-maturity are classified as available-for-sale.

Trading and available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accumulation of premiums or discounts. Unrealized gains or losses on trading securities are included in earnings. Unrealized gains or losses on available-for-sale securities are excluded from earnings and are reported, net of the related tax effect, as a separate component of net assets.

Cost of securities sold is determined by the moving average-method.

(c) Contract Work in Progress

Contract work in progress is stated at cost, determined by the identified-cost method.

(d) Depreciation

Depreciation of property, plant and equipment is principally computed by the declining-balance method based on the estimated useful lives of the assets.

(e) Leases

Noncancelable leases are primarily accounted for as operating leases except that leases which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

(f) Allowance for Doubtful Receivables

The Company and its domestic subsidiaries have provided an allowance for doubtful receivables principally at an estimated amount of probable and reasonably possible bad debts plus an estimated amount computed on the actual percentage of credit losses.

(g) Advance Receipts on Uncompleted Contracts

Advance receipts on uncompleted contracts from customers are shown as a liability, not as a deduction from the amount of contract work in progress.

(h) Reserve for Anticipated Loss on Contract Work

Reserve for anticipated loss on contract work is provided in case the material loss is forecasted for a certain large-scale contract work.

(i) Accrued Retirement Benefits

The accrued retirement benefits at the year-end are stated in accordance with the projected plan assets and the projected retirement benefit obligation. The difference arising from the adoption of the new standard of accounting of ¥3,696 million ($31,297 thousand) is amortized over fifteen years on a straight-line basis. Actuarial loss is amortized over mainly fifteen years starting following the year of recognition. Prior service cost is amortized over fifteen years.

(j) Derivative Financial Instruments

Derivative financial instruments are carried at fair value with changes in unrealized gain or loss charged or credited to operations, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as a separate component of net assets. Receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding foreign exchange contract rates.

Deferred hedge gain or loss is excluded from earnings and is reported, net of the related tax effect, as a separate component of net assets.

(k) Foreign Currency Translation

Both short-term and long-term receivables in foreign currencies are translated at the exchange rates at the balance sheet date. The balance sheet accounts of the consolidated foreign subsidiaries are translated at the rate of exchange in effect at the balance sheet date, except for common stock and capital surplus, which are translated at their historical exchange rates. Revenues, expenses and net income for the year are translated at the rate of exchange in effect at the balance sheet date.

Differences arising from translation are presented as "Foreign currency translation adjustments" in the accompanying consolidated balance sheets.

(l) Recognition of Revenues

Revenues are recognized on the completion of construction work and acceptance by the client, except for the following contracts.

For contracts with prices equal to or in excess of ¥5 billion ($42 million) and construction periods in excess of eighteen months, revenues are recognized by the percentage-of-completion method. According to this method, the revenue is computed by multiplying the contract price by the ratio of costs incurred at the balance sheet date to the total estimated cost.

Effective from April 1, 2005, the company changed its scope of contracts whose revenues are recognized by the percentage-of-completion method with respect to the construction period from exceeding two years to exceeding eighteen months.

The company made this change in accounting policy in order to achieve appropriate recognition of periodic accounting profit and loss, in light of the recent trend that large construction contracts with short-term periods are increasing. (and in accordance with the international accounting standards).

As a result of this change, net sales increased by ¥790 million ($6,694 thousands) in 2006. Operating income and income before income taxes and minority interest increased by ¥96 million ($820 thousands) in 2006, compared with the amounts which would have been recognized under the previous method of accounting.

(m) Net Income per Share

Net income per share is computed based on the weighted average number of shares outstanding during each year. Diluted net income per share is not presented since there was no potential for dilution by the issuance of common stock in 2007 or 2006.

(n) Income Taxes

Deferred tax assets and liabilities are determined based on the differences between carrying amounts of existing assets and liabilities in the financial statements and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates and laws which will be in effect when the differences are expected to be reversed.

(o) Consolidated Tax Return

The Company files a consolidated tax return with certain domestic subsidiaries.

(p) Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, the Company and its consolidated subsidiaries consider all highly liquid investments with insignificant risk of changes in value purchased with an original maturity of three months or less to be cash equivalents.

(q) Impairment of Fixed Assets

Effective from April 1, 2005, the Company and its consolidated subsidiaries adopted the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No.6 issued by the Accounting Standard Board of Japan on October 31, 2003). As a result, income before income taxes decreased by ¥616 million ($5,215 thousands) in 2006, compared with the amounts which would have been recognized under previous methods of accounting. Accumulated losses are included in the accumulated depreciation.

(r) Accounting Standard for Presentation of Net Assets in the Balance Sheet

Effective the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries have adopted new accounting standards, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" ("Statement No.5" issued by the Accounting Standards Board of Japan, hereinafter ASBJ, on December 9, 2005), and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" ("Guidance No.8" issued by ASBJ on December 9, 2005).

The balance sheet is divided into "Assets", "Liabilities", and "Net Assets" section. "Net Assets" section is divided into "Shareholders' equity", "Valuation and translation adjustments", and "Minority interest". "Shareholders' equity" is divided into "Common stock", "Capital surplus", "Retained earnings" and "Treasury stock". "Valuation and translation adjustments" is divided into "Net unrealized gain on securities", "Deferred hedge loss" and "Foreign currency translation adjustments".

In addition, effective the year ended March 31, 2007, the Company is required to prepare consolidated statements of changes in net assets instead of consolidated statements of shareholders' equity. In this connection, the previously reported consolidated balance sheets as of March 31, 2006 and the consolidated statements of shareholders' equity for the years ended March 31, 2006 and 2005 have been restated to conform to the presentation and disclosure of the consolidated financial statements for the year ended March 31, 2007.

The adoption of standards above had no effect on the statements of income for the year ended March 31, 2007.

In addition, the amount corresponding to shareholders' equity for the year ended March 31, 2007 and 2006 under the previous standards were ¥49,357 million ($417,962 thousand) and ¥33,608 million, respectively.

(s) Accounting Standard for Directors' Bonus

Effective the year ended March 31, 2007, the company and domestic consolidated subsidiaries have adopted "Accounting Standard for Directors' Bonus" ("Statement No.4" issued by ASBJ, on November 29, 2005).

The standard requires that directors' bonuses be accounted for as an expense of the accounting period in which such bonuses were accrued. Accordingly, "Operating income" and "Income before income taxes and minority interest" were decreased by ¥10 million ($85 thousand) compared to the previous method.

(t) Accounting Standard for Business Combinations

Effective the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries have adopted "Accounting Standard for Business Combinations" (issued by Business Accounting Council on October 31, 2003) and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" ("Guidance No.10" issued by ASBJ on December 22, 2006).

3 LONG-TERM DEBT

Long-term debt at March 31, 2007 and 2006 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31,	**2007**	2006	**2007**
Secured Loans	**¥11,438**	¥19,149	**$ 96,859**
Unsecured Loans	**22,261**	21,019	**188,512**
1.080% bonds, due 2007	**—**	1,000	**—**
1.470% bonds, due 2007	**2,000**	2,000	**16,936**
1.450% bonds, due 2012	**1,000**	—	**8,468**
Total long-term debt	**36,699**	43,168	**310,775**
Less: Current portion	**9,718**	23,178	**82,299**
	¥26,981	¥19,990	**$228,476**

The following assets at March 31, 2007 and 2006 were pledged as collateral principally for long-term debt:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31,	**2007**	2006	**2007**
Notes and accounts receivable	**¥ 1,962**	¥ 4,430	**$ 16,616**
Land and buildings, net of accumulated depreciation	**18,574**	22,238	**157,282**
	¥20,536	¥26,668	**$173,898**

The following schedule shows the maturities of long-term debt subsequent to March 31, 2007:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2008	¥ 9,718	$ 82,299
2009	5,463	46,259
2010	2,098	17,766
2011	2,096	17,754
2012	13,047	110,480
2013 and thereafter	4,277	36,217
	¥36,699	$310,775

In order to maintain access to a stable and effective source of operating capital, the company has entered into commitment-line contracts with seven trading banks.

The balance of unused commitment-line based on these contracts at the end of the consolidated reporting period is ¥5,000 million ($42,341 thousand) in 2007 and ¥11,960 million in 2006.

4 INCOME TAXES

The statutory tax rates applicable to the Company and its domestic subsidiaries for the year ended March 31, 2007 and 2006 were approximately 40.4%. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

(1) The effective tax rates on income before income taxes in the accompanying consolidated statements of operations differed from the above-mentioned statutory tax rate for the following reasons:

Year ended March 31, 2007	
Statutory tax rate in Japan	40.4%
Adjustments:	
Permanently nondeductible expenses	3.7
Permanently nontaxable dividends received	(0.6)
Effect on operating loss carryforwards, etc.	(20.5)
Other	1.3
Effective tax rate	24.3%

Year ended March 31, 2006	
Statutory tax rate in Japan	40.4%
Adjustments:	
Permanently nondeductible expenses	6.1
Permanently nontaxable dividends received	(0.7)
Effect on operating loss carryforwards, etc.	(28.0)
Other	2.0
Effective tax rate	19.8%

(2) Significant components of the deferred income tax assets and liabilities at March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Deferred tax assets:			
Allowance for doubtful receivables	**¥ 365**	¥ 379	**$ 3,094**
Accrued retirement benefits	**995**	998	**8,429**
Provision for anticipated loss on contract work	**527**	410	**4,461**
Other	**2,520**	2,067	**21,338**
Total deferred tax assets	**4,407**	3,854	**37,322**
Deferred tax liabilities offset to deferred tax assets:			
Difference in net unrealized gain on securities	**(2,060)**	(1,894)	**(17,447)**
Undistributed earnings of foreign subsidiaries	**(372)**	—	**(3,151)**
Reserve for overseas investment losses	**—**	(1)	**—**
Depreciation expense	**(92)**	(111)	**(779)**
Other	**(199)**	(60)	**(1,688)**
Total deferred tax liabilities	**(2,723)**	(2,066)	**(23,065)**
Net deferred tax assets	**¥1,684**	¥1,788	**$14,257**

Note: The Company and its subsidiaries had operating loss carryforwards equivalent to unrecognized tax assets of ¥2,493 million ($21,109 thousand) and ¥4,053 million at March 31, 2007 and 2006, respectively, which are available to be offset against future taxable income.

(3) Net deferred tax assets at March 31, 2007 and 2006 are included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Current assets–prepaid expenses and other current assets	**¥1,524**	¥1,767	**$12,902**
Other assets	**318**	193	**2,695**
Other long-term liabilities	**(158)**	(172)	**(1,340)**
Net deferred tax assets	**¥1,684**	¥1,788	**$14,257**

5 RETIREMENT BENEFITS

The Company and certain subsidiaries have defined benefit pension plans which provide for pension annuity payments or lump-sum payments to eligible employees upon retirement.

The Company also has defined contribution pension plan, which was transferred from a portion of defined benefit pension plan in May, 2003.

(1) Accrued retirement benefits for employees at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Projected benefit obligation	**¥(16,366)**	¥(15,611)	**$(138,591)**
Plan assets	**9,628**	9,193	**81,532**
Unreserved projected benefit obligation	**(6,738)**	(6,418)	**(57,059)**
Unamortized obligation at transition	**1,980**	2,226	**16,765**
Unamortized actuarial loss	**3,634**	3,491	**30,772**
Unrecognized prior service cost	**(1,692)**	(1,845)	**(14,328)**
Accrued retirement benefits for employees	**¥ (2,816)**	¥ (2,546)	**$ (23,850)**

The consolidated balance sheet includes directors' and statutory auditors' retirement allowances of ¥137 million ($1,157 thousand) and ¥181 million at March 31, 2007 and 2006, respectively, in addition to the accrued retirement benefits for employees presented above. The retirement benefit plan for directors and statutory auditors had been terminated at June 28, 2005. The balance of reserves recorded as of March 31, 2007 are the cumulative amounts up to the period for the above termination of retirement benefit plan.

(2) Net periodic pension cost for the year ended March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Components of net periodic benefit cost:			
Service cost	**¥ 832**	¥ 646	**$ 7,046**
Interest cost	**294**	293	**2,492**
Expected return on plan assets	**(230)**	(205)	**(1,945)**
Amortization of unrecognized retirement benefit obligation at transition	**247**	246	**2,087**
Amortization of unrecognized actuarial loss	**332**	368	**2,808**
Amortization of prior service cost	**(153)**	(153)	**(1,293)**
Other	**122**	121	**1,030**
Net periodic pension cost	**1,444**	1,316	**12,225**
Payments of special retirement benefits	**—**	98	**—**
Total	**¥1,444**	¥1,414	**$12,225**

(3) Basis of calculation of projected benefit obligation for the year ended 2007 and 2006, respectively.

Method of allocation of estimated pension cost	Straight-line method
Discount rate	Mainly 2.0%
Expected rate of return on plan assets	Mainly 2.5%
Amortization period for unrecognized actuarial loss	Mainly 15 years
Amortization period for unrecognized obligation at transition	15 years
Amortization period for unrecognized prior service cost	15 years

6 SHAREHOLDERS' EQUITY

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. The Law provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the common stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

7 CONTINGENT LIABILITIES

The Company and its subsidiaries were contingently liable as guarantors of loans to others in the aggregate amount of ¥4,157 million ($35,198 thousand) and ¥4,576 million at March 31, 2007 and 2006, respectively.

8 NET SALES

Net sales include revenues recognized by the percentage-of-completion method as described in Note 2 (l).
The following table shows net sales recognized by the percentage-of-completion method:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31,	**2007**	2006	**2007**
	¥136,612	¥121,575	**$1,156,846**

9 RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2007 and 2006 amounted to ¥706 million ($5,980 thousand) and ¥550 million, respectively.

10 OTHER EXPENSES

"Other" in "Other expenses" for the years ended March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31,	**2007**	2006	**2007**
Taxes and dues	**¥255**	¥ —	**$2,156**
Loss on valuation of memberships	**76**	—	**646**
Payments of special retirement benefits	**—**	98	**—**
Other	**411**	203	**3,477**
Total	**¥742**	¥301	**$6,279**

11 LEASES

(a) Finance Leases

(a-1) Finance Leases (as Lessee)

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased property as of March 31, 2007 and 2006 which would have been reflected in the balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31,	**2007**	2006	**2007**
Acquisition costs:			
Tools, furniture and fixtures	**¥2,115**	¥659	**$17,909**
Accumulated depreciation:			
Tools, furniture and fixtures	**407**	347	**3,449**
Net book value:			
Tools, furniture and fixtures	**1,708**	312	**14,460**

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2007 and 2006 for finance leases accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31,	**2007**	2006	**2007**
Within one year	**¥ 557**	¥154	**$ 4,717**
Over one year	**2,904**	181	**24,589**
Total	**¥3,461**	¥335	**$29,306**

Lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2007 and 2006 amounted to ¥260 million ($2,205 thousand) and ¥176 million, respectively, which were equal to the depreciation expense of the leased assets computed by the straight-line method over the respective lease terms.

(a-2) Finance Leases (as Lessor)

Future minimum lease receivables (including the interest portion thereon) subsequent to March 31, 2007 and 2006 for finance leases accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31,	**2007**	2006	**2007**
Within one year	**¥ 296**	¥18	**$ 2,507**
Over one year	**1,458**	6	**12,343**
Total	**¥1,754**	¥24	**$14,850**

All the above lease receivables were derived from the subleasing business. As every subleased property was leased to third parties through the Company's subsidiary on approximately the same terms, approximately the same amount of future lease receivables as those presented above are included in Table (a-1) as the amount of the future sublease payments.

(b) Operating Leases

(b-1) Operating Leases (as Lessee)

Future minimum lease payments subsequent to March 31, 2007 and 2006 for noncancelable operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31,	**2007**	2006	**2007**
Within one year	**¥13**	¥2	**$105**
Over one year	**13**	3	**112**
Total	**¥26**	¥5	**$217**

(b-2) Operating Leases (as Lessor)

Future minimum lease receivables subsequent to March 31, 2007 and 2006 for noncancelable operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31,	**2007**	2006	**2007**
Within one year	**¥ 1,127**	¥ 1,142	**$ 9,541**
Over one year	**9,812**	11,594	**83,088**
Total	**¥10,939**	¥12,736	**$92,629**

12 INVESTMENT SECURITIES

The book value, unrealized gain and loss and the related fair value of held-to-maturity securities at March 31, 2007 are summarized as follows:

	Millions of yen			
At March 31, 2007	Book Value	Unrealized Gain	Unrealized Loss	Fair Value
Government bonds	¥20,984	¥1	¥ (0)	¥20,985
Corporate bonds	11,992	—	(0)	11,992

The cost, unrealized gain and loss and the related book value of available-for-sale securities with available fair values at March 31, 2007 are summarized as follows:

	Millions of yen			
At March 31, 2007	Cost	Unrealized Gain	Unrealized Loss	Book Value
Equity securities	¥5,160	¥5,532	¥ (2)	¥10,690
Debt securities	304	—	(101)	203

The contractual maturities of debt securities classified as available-for-sale and held-to-maturity were as follows:

At March 31, 2007	Millions of yen	Thousands of U.S. dollars
Due within one year	¥32,976	$279,245
Due after one year through five years	—	—
Due after five years through ten years	—	—
Due after ten years	203	1,721
Total	¥33,179	$280,966

The cost, unrealized gain and loss and the related book value of available-for-sale securities with available fair values at March 31, 2006 are summarized as follows:

	Millions of yen			
At March 31, 2006	Cost	Unrealized Gain	Unrealized Loss	Book Value
Equity securities	¥5,171	¥4,861	¥(14)	¥10,018
Debt securities	412	249	(93)	568

The contractual maturities of debt securities classified as available-for-sale were as follows:

At March 31, 2006	Millions of yen	Thousands of U.S. dollars
Due within one year	¥ 2	$ 15
Due after one year through five years	46	393
Due after five years through ten years	107	906
Due after ten years	413	3,492
Total	¥568	$4,806

13 DERIVATIVE TRANSACTIONS

The Company operates internationally in circumstances which give rise to exposure to market risks from fluctuations in foreign currency exchange rates and interest rates. In order to limit those risks, the Company enters into forward foreign exchange contracts, currency swaps and interest rate swaps, etc. in accordance with the Company's own internal risk control rules. The Company does not have derivative positions for speculative trading purposes. The Company is subject to credit risk incurred by the default of counter parties to the derivatives. As the Company enters into such agreement only with credible counter parties, the risk of any such default is deemed negligible. The Company's Finance Division is in charge of entering into and monitoring the Company's derivative positions in order to ensure risk control.

Forward foreign exchange contracts

The Company has entered into forward foreign exchange contracts to reduce its exposure to adverse fluctuations in foreign exchange rates relating to receivables and payables denominated in foreign currencies. The contract amounts and the related market values of those contracts without firm commitments related to receivables or payables at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
At March 31,	**2007**	2006	**2007**
Forward foreign exchange contracts to buy U.S. dollars:			
Contract amounts	**¥147**	¥38	**$1,242**
Related market value	**151**	38	**1,275**
Net gain	**¥ 4**	¥ 0	**$ 33**

The contract and related market value amounts above exclude forward foreign exchange contracts designated as hedges on forecasted transactions with a firm commitment to the hedged items since such contracts are accounted for in the financial statements in conjunction with the computation of foreign exchange gain and loss by the deferral of gain and loss.

The contract and related market value amounts above do not directly indicate the level of market risk or credit risk incurred, as these amounts do not indicate the potential risk of the forward foreign exchange contracts.

Interest rate swaps

The Company has entered into interest rate swap agreements to reduce its interest expense or its exposure to adverse fluctuations in interest rates relating to loans payable. The total notional amounts and related market value of these interest rate swap agreements at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
At March 31,	**2007**	2006	**2007**
Notional amounts	**¥400**	¥600	**$3,387**
Related market value	**0**	1	**4**
Net gain	**¥ 0**	¥ 1	**$ 4**

The notional amounts and related market value amounts above exclude interest rate swaps agreements designated as hedges on forecasted transactions with a firm commitment to the hedged items since such agreements are or will be accounted for in the financial statements as interest on borrowings allocated periodically based on fixed rate.

Credit derivative swaps

The Company had entered into credit derivative swap agreement to reduce its credit exposure relating to collection of receivables. The total notional amounts and related market value of credit derivative swap agreements at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
At March 31,	**2007**	2006	**2007**
Notional amounts	**¥—**	¥940	**$—**
Related market value	**—**	1	**—**
Net loss	**¥—**	¥ (6)	**$—**

In 2006, the Company terminated credit derivative swap agreement.

14 SEGMENT INFORMATION

(1) Business Segments

	Millions of yen				
Year ended March 31, 2007	EPC Business	Real Estate	Total	Eliminations and Other	Consolidated
I Net sales and operating income:					
Net sales					
(1) Net sales to outside customers	**¥220,856**	**¥ 2,988**	**¥223,844**	**¥ —**	**¥223,844**
(2) Inter-segment net sales	**15**	**321**	**336**	**(336)**	**—**
Total	**220,871**	**3,309**	**224,180**	**(336)**	**223,844**
Operating expenses	**215,081**	**2,224**	**217,305**	**(351)**	**216,954**
Operating income	**5,790**	**1,085**	**6,875**	**15**	**6,890**
II Assets, depreciation and capital expenditures:					
Assets	**¥250,968**	**¥20,443**	**¥271,411**	**¥11,403**	**¥282,814**
Depreciation	**1,416**	**580**	**1,996**	**(1)**	**1,995**
Capital expenditures	**1,593**	**1,948**	**3,541**	**—**	**3,541**

Year ended March 31, 2006	EPC Business	Real Estate	Total	Eliminations and Other	Consolidated
	Millions of yen				
I Net sales and operating income:					
Net sales					
(1) Net sales to outside customers	¥193,418	¥ 2,166	¥195,584	¥ —	¥195,584
(2) Inter-segment net sales	3	322	325	(325)	—
Total	193,421	2,488	195,909	(325)	195,584
Operating expenses	190,297	1,394	191,691	(302)	191,389
Operating income	3,124	1,094	4,218	(23)	4,195
II Assets, depreciation and capital expenditures:					
Assets	¥173,826	¥18,327	¥192,153	¥10,509	¥202,662
Depreciation	1,284	418	1,702	(1)	1,701
Capital expenditures	1,448	2,794	4,242	(0)	4,242

Notes: 1. The classification of the business segments adopted is based on the Company segmentation which is determined by the similarity of each business.

2. The Companies' reportable operating segments consist of the following two business groups:
EPC Business — Engineering, procurement and construction for chemical fertilizer, petrochemical and refinery plants, energy-related businesses, general manufacturing facilities and information technology
Real Estate — Rent and administration of real estate

3. All administrative department expenses of the Company and consolidated subsidiaries are allocated to the corresponding business segments.

4. Assets included in "Eliminations and Other" for the years ended March 31, 2007 and 2006 totaling ¥11,583 million ($98,082 thousand) and ¥10,923 million primarily consisted of investment in securities.

5. The impairment losses recorded in EPC Business for the years ended March 31, 2007 and 2006 were ¥56 million ($476 thousand) and ¥445 million, in Real estate were ¥165 million ($1,396 thousand) and ¥171 million, respectively.

(2) Geographic Segments

Year ended March 31, 2007	Japan	Others	Total	Eliminations and Other	Consolidated
	Millions of yen				
I Net sales and operating income:					
Net sales					
(1) Net sales to outside customers	**¥210,865**	**¥12,979**	**¥223,844**	**¥ —**	**¥223,844**
(2) Inter-segment net sales	**31**	**18,068**	**18,099**	**(18,099)**	**—**
Total	**210,896**	**31,047**	**241,943**	**(18,099)**	**223,844**
Operating expenses	**205,328**	**29,439**	**234,767**	**(17,813)**	**216,954**
Operating income	**5,568**	**1,608**	**7,176**	**(286)**	**6,890**
II Assets:					
Assets	**¥264,355**	**¥34,824**	**¥299,179**	**¥(16,365)**	**¥282,814**

Year ended March 31, 2006	Japan	Others	Total	Eliminations and Other	Consolidated
	Millions of yen				
I Net sales and operating income:					
Net sales					
(1) Net sales to outside customers	¥181,837	¥13,747	¥195,584	¥ —	¥195,584
(2) Inter-segment net sales	425	10,212	10,637	(10,637)	—
Total	182,262	23,959	206,221	(10,637)	195,584
Operating expenses	178,598	23,529	202,127	(10,738)	191,389
Operating income	3,664	430	4,094	101	4,195
II Assets:					
Assets	¥190,327	¥17,714	¥208,041	¥ (5,379)	¥202,662

Notes: 1. Geographic segmentation is according to geographic proximity.
2. Countries included in Others: Korea, Malaysia, India, Luxembourg, U.S.A. and PR China
3. Net sales and Assets included in "Eliminations and Other" are mainly due to inter-segment transaction.

(3) Sales to Foreign Customers

Year ended March 31, 2007	Southeast Asia	Southwest Asia, Middle East and Africa	Russia and Central Asia	Central and South America	Others	Total
	Millions of yen					
Overseas sales (A)	**¥10,517**	**¥52,506**	**¥36,034**	**¥25,114**	**¥22,514**	**¥146,685**
Consolidated sales (B)						**223,844**
Overseas sales ratio (A/B)	**4.7%**	**23.5%**	**16.1%**	**11.2%**	**10.0%**	**65.5%**

Year ended March 31, 2006	Southeast Asia	Southwest Asia, Middle East and Africa	Russia and Central Asia	Central and South America	Others	Total
	Millions of yen					
Overseas sales (A)	¥8,420	¥54,717	¥44,890	¥8,115	¥16,340	¥132,482
Consolidated sales (B)						195,584
Overseas sales ratio (A/B)	4.3%	28.0%	23.0%	4.1%	8.3%	67.7%

Each area represents the following countries:

Southeast Asia: Thailand, Singapore, Indonesia and Malaysia
Southwest Asia, Middle East and Africa: Saudi Arabia, Iran and India
Russia and Central Asia: Russia
Central and South America: Brazil
Others: PR China, Australia, U.S.A., Korea and European countries

15 Supplementary Information for Consolidated Statements of Changes in Net Assets

(a) Type and number of outstanding shares

Type of shares	Balance at beginning of year	Increase in shares during the year	Decrease in shares during the year	Balance at end of year
	Year ended March 31, 2007			
	Number of shares			
Issued stock:				
Common stock	175,692,539	17,100,000	—	192,792,539
Total	175,692,539	17,100,000	—	192,792,539
Treasury stock:				
Common stock	403,553	77,366	6,747	474,172
Total	403,553	77,366	6,747	474,172

Notes: 1. Issued stock increased by 17,100,000 shares due to issue of new ordinary shares to third parties.
2. Treasury stock increased by 77,366 shares due to the repurchase of shares less than one unit.
3. Treasury stock decreased by 6,747 shares due to the sale of shares less than one unit.

(b) Dividends

(b-1) Dividends paid to shareholders

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount (Thousands of U.S. Dollars (Note 1))	Amount per share (Yen)	Amount per share (U.S. Dollars (Note 1))	Shareholders' cut-off date	Effective date
June 28, 2006	Annual general meeting of shareholders	Common stock	526	4,453	3	0.03	March 31, 2006	June 28, 2006

(b-2) Dividends with a shareholders' cut-off date during the current fiscal year but an effective date subsequent to the current fiscal year

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount (Thousands of U.S. Dollars (Note 1))	Paid from	Amount per share (Yen)	Amount per share (U.S. Dollars (Note 1))	Shareholders' cut-off date	Effective date
June 26, 2007	Annual general meeting of shareholders	Common stock	577	4,886	Retained earnings	3	0.03	March 31, 2007	June 27, 2007

ERNST & YOUNG SHINNIHON

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Report of Independent Auditors

The Board of Directors
Toyo Engineering Corporation

We have audited the accompanying consolidated balance sheets of Toyo Engineering Corporation and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Toyo Engineering Corporation and consolidated subsidiaries at March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

1. As described in Note 2 to the consolidated financial statements, the Company changed the scope of contracts whose revenues are recognized by the percentage-of-the completion method in fiscal year ended March 31, 2006.
2. As described in Note 2 to the consolidated financial statements, the Company adopted a new accounting standard for impairment of fixed assets in fiscal year ended March 31, 2006.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

Ernst & Young ShinNihon

June 26, 2007

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MAJOR SUBSIDIARIES AND AFFILIATED COMPANIES

Domestic

● TEC Estate, Ltd.
Property development and real estate business
2-6-3 Akanehama, Narashino-shi,
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Tel: 81-47-408-2171
Fax: 81-47-453-3250

● Suntec Corporation
Real estate and building maintenance
2-6-3 Akanehama, Narashino-shi,
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Fax: 81-47-454-1842
【HEAD OFFICE】
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Chiba 273-0005, Japan
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Fax: 81-47-433-4593

● TEC Software & Technical Services Corporation
Staffing services, job placement services
and translation / interpretation
7-11-5 Honcho, Funabashi-shi,
Chiba 273-0005, Japan
Tel: 81-47-425-8461
Fax: 81-47-425-8464

● Tecno Frontier Co., Ltd.
Environmental engineering and
construction of facilities
2-8-1 Akanehama, Narashino-shi,
Chiba 275-0024, Japan
Tel: 81-47-454-1178
Fax: 81-47-454-1550
【HEAD OFFICE】
2-2-7 Honcho, Funabashi-shi,
Chiba 273-0005, Japan
Tel: 81-47-433-7234

● TEC Air Service Corporation
Travel and insurance services
2-6-7 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel: 81-3-3564-0130
Fax: 81-3-3564-0530

● Toyo Business Engineering Corporation
System consulting and solutions provider
17th / 20th Fl., KDDI Otemachi Bldg.,
1-8-1 Otemachi, Chiyoda-ku,
Tokyo 100-0004, Japan
Tel: 81-3-3510-1600
Fax: 81-3-3510-1624

● Chiba Data Center Corporation
Data input service, documentation using
word processors and printing
6-5-3 Tendai, Inage-ku, Chiba-shi,
Chiba 263-0016, Japan
Tel: 81-43-284-3611
Fax: 81-43-284-3533

● TEC Accounting & Consulting Ltd.
Business support and consulting for
accounting and accounting system
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Fax: 1-281-599-9337

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Botafogo, 22250-906, Rio de Janeiro-RJ, Brazil
Tel: 55-21-2551-1829
Fax: 55-21-2551-2048

(As of August 1, 2007)

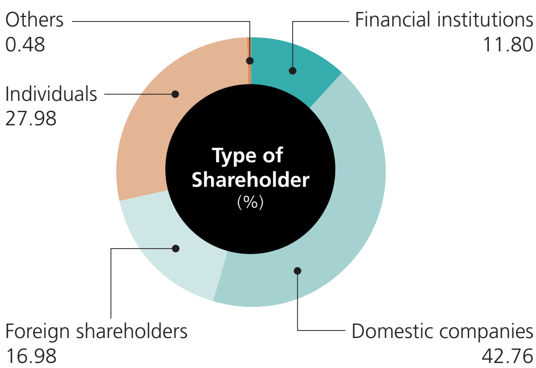
(As of March 31, 2007)

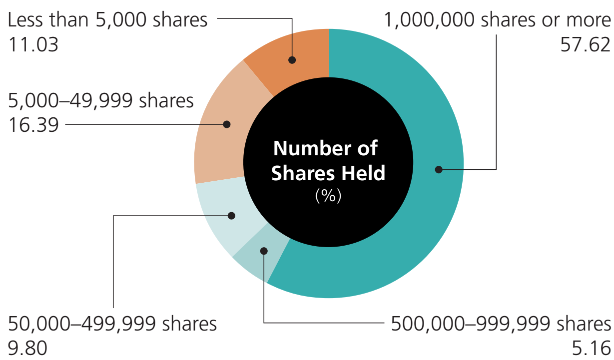
Founded:	May 1, 1961
Common Stock:	¥18,199 million
Number of Employees:	1,045
Stock Exchange Listing:	Tokyo Stock Exchange
Authorized Shares:	500,000,000
Capital Stock Issued:	192,792,539
Number of Shareholders:	18,997
Administrator of Shareholders' Register:	The Chuo Mitsui Trust and Banking Co., Ltd. 3-33-1 Shiba, Minato-ku, Tokyo 105-8574, Japan

Major Shareholders:

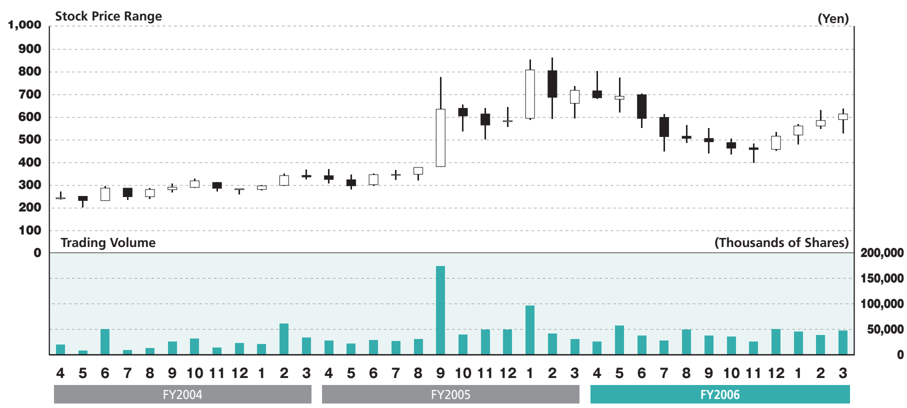
	Number of shares (thousands)	Percentage of total (%)
Mitsui & Co., Ltd.	43,770	22.70
Mitsui Chemicals, Inc.	25,343	13.14
Bank of New York, GCM Client Accounts EISG	8,626	4.47
Taisei Corporation	4,000	2.07
Kanto Natural Gas Development Co., Ltd.	3,956	2.05
HSBC Bank Plc-Clients Nontax Treaty	3,500	1.81
Goldman Sachs International	3,317	1.72
Japan Trustee Services Bank, Ltd.	2,966	1.53
Morgan Stanley & Co. Incorporated	2,456	1.27
Sumitomo Mitsui Banking Corporation	2,350	1.21

Note: On May 31, 2006, the Company increased its capital through a private placement of 17.1 million shares with Mitsui & Co., Ltd.





Stock Price:



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