

2015

Integrated Report Year ended  
March 31, 2015

## Mission

Engineering for Sustainable  
Growth of the Global  
Community

## Vision

Global Leading  
Engineering Partner

## Values

Integrity, Creativity,  
Diversity, Learning, Team

**TOYO's** mission is to exert its best efforts to solve the problems of its clients and to harmonize its plant construction projects with the environment and society. To fulfill this mission and satisfy customers, each individual TOYO staff member is constantly endeavoring to be innovative, improve technologies, and utilize knowledge and creativity to achieve client value enhancement. The Company also seeks to pursue its business with integrity. Overall, TOYO's goal is to be a **"Global Leading Engineering Partner."**





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### Editorial Policy

The TOYO Engineering Group (TOYO) operates its businesses in line with its mission of "Engineering for Sustainable Growth of the Global Community," under the principle of meeting customer needs by providing world-class engineering while contributing to a sustainable global society. To enhance the understanding of our philosophy and activities among all of our stakeholders and to establish a deeper relationship of trust, we have combined our Annual Report and Safety and Environmental Report into a single volume, known as our "Integrated Report." It provides both our financial information (such as our management policies and financial results) and non-financial information (such as the connections between TOYO's businesses and the environment and society).

### CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

This integrated 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.



# To Our Stakeholders

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**In April 2015, TOYO refreshed its management and launched initiatives to revitalize the company. We strive to establish strong management practices and to quickly return to a path of sustainable growth by reforming all areas of our management and business operations. I would like to explain about our efforts to recover profits and our outlook for the future to our shareholders.**

### Summary of Consolidated Financial Results for Fiscal 2014

Amidst a strong plant market, TOYO was able to obtain record high new orders, increasing to ¥470.3 billion with a ¥659.0 billion backlog of contracts. However, deterioration in earnings and increasing expenditures in several projects yielded disappointing results, with an operating loss of ¥7.3 billion, and a net loss of ¥20.9 billion. TOYO has recognized four root causes behind the losses in several projects: 1) we took on some orders with consequently difficult conditions during times when we had a lack of orders, 2) we underestimated risks at the proposal stage, 3) a lack of key personnel caused a decline in work quality with multi-office projects, and 4) there was a problem with management of multi-office project execution. In particular, there were cost increases on an FPSO\* topsides project at our Brazilian equity method affiliate, mainly caused by the delay in the client's decision on design changes and project schedule revisions until February 2015. We overestimated the project management capability of our affiliates, and did not accurately confirm the effectiveness of the governance at our equity method companies.

\*FPSO: Floating production storage and offloading

### Efforts toward a Recovery of Financial Performance (Main points of the Revival Plan)

Following the management change in April, TOYO analyzed the causes of the earnings deterioration, and established a Revival Plan composed of four reforms:

**1** Restructuring of the management system by changing the mindset of our management team, sufficiently discussing issues and risks, reforming the Executive Committee, and thoroughly implementing risk management. We newly set up the Corporate Strategy Unit along with a Group Operation Committee to enhance project risk monitoring at overseas group companies and strengthen their project execution capabilities.

**2** Improvement of management process at proposal stage by establishing an appropriate sales strategy from a long-term standpoint, balancing a fluctuating workload with sales activities to prevent a cycle of fluctuating orders,

improving the management process at the proposal stage to enhance rational decision making and improving the quality of our proposals to prevent any gaps in the project budget after receiving the order.

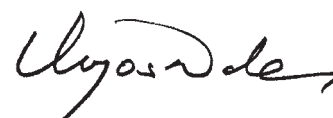
**3** Enhancement of project management capability by further improving our multi-office project execution system with group companies, creating a companywide support system, including the establishment of a project office in Toyo-Japan for mega-projects and developing key project personnel, including passing on technical traditions to prevent loss recurrence.

**4** Change of corporate culture by promoting communication and ensuring openness to enable employees to overcome the gap between organizations and their respective ranks, speaking out, and seeking to improve organizational performance.

### Performance Targets for Fiscal 2015

Our consolidated forecast for fiscal 2015 includes new orders of ¥330.0 billion, net sales of ¥340.0 billion, and net income of ¥3.0 billion. Annual dividends are forecasted as a year-end dividend of ¥4.00. We have already been awarded a U.S. ethylene plant project and an Indonesian railway system project in April 2015. To achieve our performance targets, TOYO will strive to strengthen our proposal and project system, work on a financial recovery through effective project execution and cost reductions, and ensure the soundness of our restructuring plan. TOYO will steadily implement the four reforms of the Revival Plan to stabilize our operations by recovering profitability and improving our financial strength. Furthermore, we will concentrate the collective strength of all our companies and build a corporate group that our stakeholders will trust by sustainably increasing our corporate and shareholder value. We ask for your continued understanding and support of TOYO in our future endeavors.

August 2015



Kiyoshi Nakao  
President and Chief Executive Officer

# Five-Year Highlights

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31

Financial Highlights:	2015	2014	2013	2012
Net sales	<b>¥311,454</b>	¥230,124	¥228,723	¥157,881
Gross profit	<b>17,214</b>	25,155	24,200	24,918
Operating income (loss)	<b>(7,356)</b>	455	1,593	5,341
Income (loss) before income taxes	<b>(21,989)</b>	5,673	2,982	4,941
Net income (loss)	<b>(20,965)</b>	967	1,457	3,728
Total assets	<b>261,609</b>	257,480	240,694	222,415
Total net assets	<b>44,979</b>	74,831	71,091	69,265
Long-term loans payable	<b>23,604</b>	33,535	26,477	24,582
Capital stock	<b>18,198</b>	18,198	18,198	18,198
New orders	<b>470,369</b>	365,137	290,444	269,188
Backlog of contracts at end of the year	<b>659,005</b>	538,023	410,492	359,120

Per share:

Net income (loss)	<b>¥(109.34)</b>	¥ 5.05	¥ 7.60	¥ 19.43
Total net assets	<b>234.20</b>	382.61	363.15	349.42
Cash dividends	<b>4.00</b>	3.00	5.00	6.00

Net sales by sector (%):

Chemical fertilizers	<b>20.5%</b>	19.4%	16.6%	10.0%
Petrochemicals	<b>42.1</b>	30.3	18.8	15.3
Refinery	<b>16.6</b>	13.0	7.7	11.5
Energy-related	<b>5.0</b>	7.2	27.0	35.2
General manufacturing facilities and information technology	<b>4.3</b>	9.2	16.7	20.3
Others	<b>11.5</b>	20.9	13.2	7.7
(Overseas sales ratio)	<b>(87)</b>	(84)	(81)	(73)

Non-financial Highlights:

Number of employees* <sup>1</sup>	<b>4,463</b>	4,747	4,548	4,494
(Number of employees at parent company) <sup>1</sup>	<b>1,084</b>	1,037	1,026	1,055
CO <sub>2</sub> emissions (Tons) <sup>2</sup>	<b>2,760</b>	2,583	2,156	2,166
Crude oil equivalent (Kiloliters) <sup>2</sup>	<b>1,360</b>	1,413	1,411	1,385
Domestic construction waste volumes (Tons) <sup>3</sup>	<b>11,764</b>	666	832	2,222
Overseas construction waste volumes (Tons) <sup>3</sup>	<b>29,500</b>	20,700	9,900	17,300
Lost Time Incident Rate (LTIR) <sup>4</sup>	<b>0.08</b>	0.07	0.09	0.09
Total Recordable Incident Rate (TRIR) <sup>5</sup>	<b>0.22</b>	0.22	0.22	0.24

\*1. Excluding temporary employees

\*2. Applies to quantity of electricity and gas utilities consumed by offices (Head Office / Engineering Center). Taken from regular reports issued to the Ministry of Economy, Trade, and Industry.

\*3. The total construction disposal weight, except construction surplus soil/sludge.

\*4. Lost Time Incident Rate (LTIR) = Total Lost Time Incidents × 1,000,000 / Employee-Worked Man-Hours

\*5. Total Recordable Incident Rate (TRIR) = Number of Recordable Incidents × 1,000,000 / Employee-Worked Man-Hours

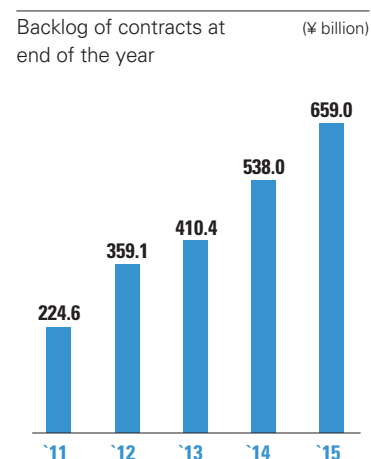
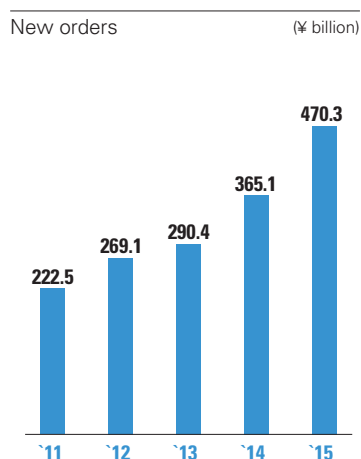
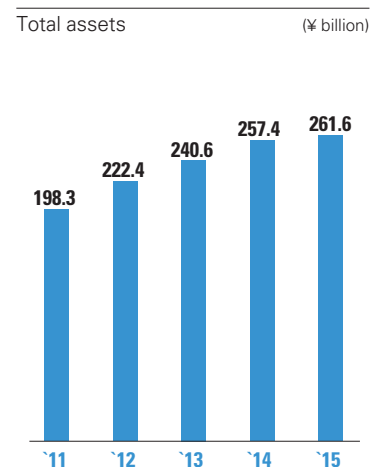
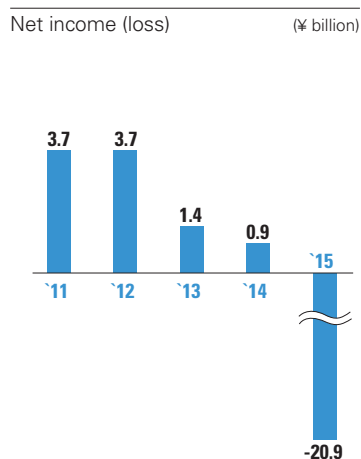
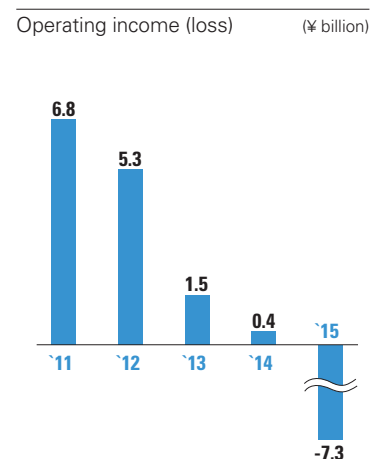
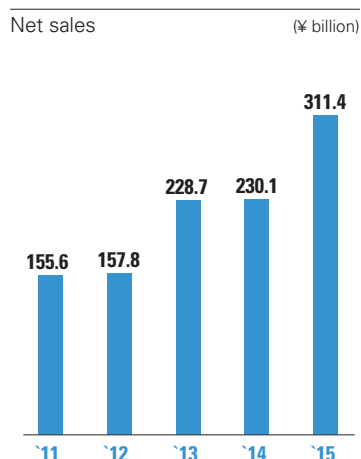
Note: U.S. dollar amounts are stated at ¥120.15 to U.S.\$1.00, the exchange rate prevailing on March 31, 2015.

Millions of yen	Thousands of U.S. dollars (Note)
2011	2015
¥155,696	<b>\$2,592,209</b>
26,573	<b>143,270</b>
6,815	<b>(61,223)</b>
6,917	<b>(183,012)</b>
3,773	<b>(174,490)</b>
198,387	<b>2,177,353</b>
67,096	<b>374,357</b>
15,163	<b>196,454</b>
18,198	<b>151,460</b>
222,540	<b>3,914,848</b>
224,693	<b>5,484,852</b>

Yen	U.S. dollars (Note)
¥ 19.65	<b>\$(0.91)</b>
340.43	<b>1.94</b>
5.00	<b>0.03</b>

6.9%
22.8
23.8
18.7
20.0
7.8
(64)

3,956
1,069
2,610
1,559
846
12,500
0.05
0.53



# Overview

# 1

## Wide-ranging Business Development

Since its foundation in 1961, TOYO has implemented a wide range of projects on the global stage, mainly in the plant engineering field. Our rich experience covers a broad range of fields, such as the hydrocarbon field including oil & gas development and other resources, oil refining and gas processing, petrochemicals and gas chemicals, fertilizers, the infrastructure field including power generation, transportation systems, the effective use of water resources, and industrial plant fields including pharmaceuticals. We execute projects in various countries and regions together with our group companies to provide comprehensive solutions to diverse customer needs and problems.

### Oil & Gas Development Field

We provide services related to the life cycles of oil and gas fields, from planning to construction and operation management, and secondary / tertiary oil recovery, in partnership with our customers. We have provided services and executed projects in Japan as well as in the Middle East, Russia / CIS countries, and Southeast Asia.

\*EOR: Enhanced oil recovery



### Oil & Gas Development Field

Oil / Gas Development |  
EOR\* | FPSO

### Infrastructure Field

The demand for infrastructure projects, such as power generation, transportation systems, and the effective use of water resources, is growing in conjunction with economic development in emerging economies. TOYO uses its project management, design and procurement, and construction management abilities—cultivated in the plant engineering field—to develop infrastructure business that meets customer needs and provides satisfaction.



### Infrastructure Field

Power Generation |  
Transportation Systems |  
Effective Use of  
Water Resources

## TOYO's Proprietary Technologies

### Urea Synthesis Technology ACES21® and Urea Granulation Technology

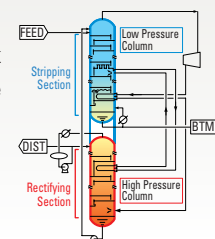
TOYO licenses its ACES21® energy saving urea process and urea granulation technology. ACES21® reduces construction costs by simplifying urea synthesis and reduces operating costs by minimizing the amount of energy needed to produce urea. We also provide our proprietary urea granulation technology, which is highly necessary for large-scale farming.



1,725 t/d ACES21®  
urea plant of  
PT. Pupuk Kujang  
(Indonesia)

### Innovative Energy Saving Distillation System SUPERHIDIC®

Distillation is a key part of the separation process in petrochemicals and oil refining. **SUPERHIDIC®**, developed by TOYO, divides the distillation column into a rectifying section and a stripping section. In between placing a compressor, and producing the heat exchange between the two sections, energy consumption is cut in half. It is the ultimate energy saving distillation system.





# BUSINESS FIELD



## Oil Refining & Gas Processing Field

FCC<sup>\*1</sup> / RFCC<sup>\*2</sup> |  
Catalytic Reforming |  
Hydrocracking | Natural Gas  
Processing | LNG<sup>\*3</sup> | GTL<sup>\*4</sup>

## Oil Refining & Gas Processing Field

TOYO is involved in numerous oil refining projects, from grassroots refineries to hydrodesulphurization, catalytic reforming, hydrocracking, and thermal cracking, as well as natural gas originated production facilities for LPG<sup>\*5</sup>, LNG and GTL, pipelines, facilities for receipt, storage and discharge, and other gas and supply chain-related projects.

- \*1. FCC: Fluid catalytic cracking
- \*2. RFCC: Residue fluid catalytic cracking
- \*3. LNG: Liquefied natural gas
- \*4. GTL: Gas to liquids
- \*5. LPG: Liquefied petroleum gas



## Petrochemical, Chemical & Pharmaceutical Field

Ethylene | EO/EG\*, Urea |  
Ammonia |  
Aromatics, Methanol |  
Bio-pharmaceutical | Containment

## Petrochemical, Chemical & Pharmaceutical Field

Since its founding, TOYO has advanced technology in the petrochemical and fertilizer fields as a licensor and through technological partnerships. We have numerous successes in a wide variety of fields, such as ethylene, propylene, various polymers, aromatics, urea, ammonia, and methanol. In the pharmaceutical field, we are aggressively involved mainly with highly active pharmaceutical and bio-pharmaceutical plants.

\*EO/EG: Ethylene oxide / ethylene glycol

### • Methanol Synthesis Reactor [MRF-Z<sup>®</sup>]

TOYO offers MRF-Z<sup>®</sup>, a multi-stage, indirect cooling, radial flow type synthesis reactor that can meet the large demand for methanol. The MRF-Z<sup>®</sup> is a compact system—a methanol plant with a capacity of 5,000 – 6,000 tons per day can be realized with a single train. This greatly contributes to reducing construction and operating costs.



3,000 t/d methanol plant of Oman Methanol Company L.L.C.

### • High Efficient NGL Recovery Process [COREFLUX<sup>®</sup>]

Natural gas includes ethane, propane, butane, and other gases that are commercially high in value. Commercial gas with a high added value and raw materials for chemicals can be obtained from these gasses. TOYO has developed COREFLUX<sup>®</sup> technology, which achieves a high product recovery rate with low energy consumption, for gas separation and refining.



Gas processing plant of Oil and Natural Gas Corporation

## Global Operations to Increase Customer Value

TOYO's group companies maintain close contact with their countries, regions, and customers while mutually cooperating to build a global network that executes projects based on the optimal formation and with unified standards. Through this network we gather information about the market, human resources and technology. TOYO shares this information throughout the group so as to continue providing solutions to customer needs. Group companies use their experience and previous successes to achieve high quality and HSSE, meet schedules and budgets, and offer effective project execution. We continue striving to even further develop our global operations as we aim to be a corporate group that earns solid customer trust.

### Polyethylene Plant Project for Sasol in the U.S.

Toyo-Korea is in charge of detailed engineering, procurement, module fabrication and construction support services for an LLDPE<sup>\*1</sup> manufacturing facility with a capacity of 450,000 metric tons per year that Sasol Limited is building in the U.S. Toyo-Korea has had great success with polyethylene projects using the UNIPOL™ PE Process of Univation Technologies, LLC. TOYO executed the FEED<sup>\*2</sup> for this facility in 2013.

\*1. LLDPE: Linear low density polyethylene

\*2. FEED: Front end engineering design

#### Toyo-Korea

### Completion of Three Projects for Japanese and Foreign Companies Entering China

Toyo-China has completed a plant for a China-based subsidiary of Daikin Industries, Ltd., in the short delivery time of 19 months. It was one of the largest EPC\* projects handled independently. Also, Toyo-China completed on time a specialty ester manufacturing plant for OXEA and an ethylene tank and related facilities for Lanxess, both European companies.

\*EPC: Engineering, procurement and construction

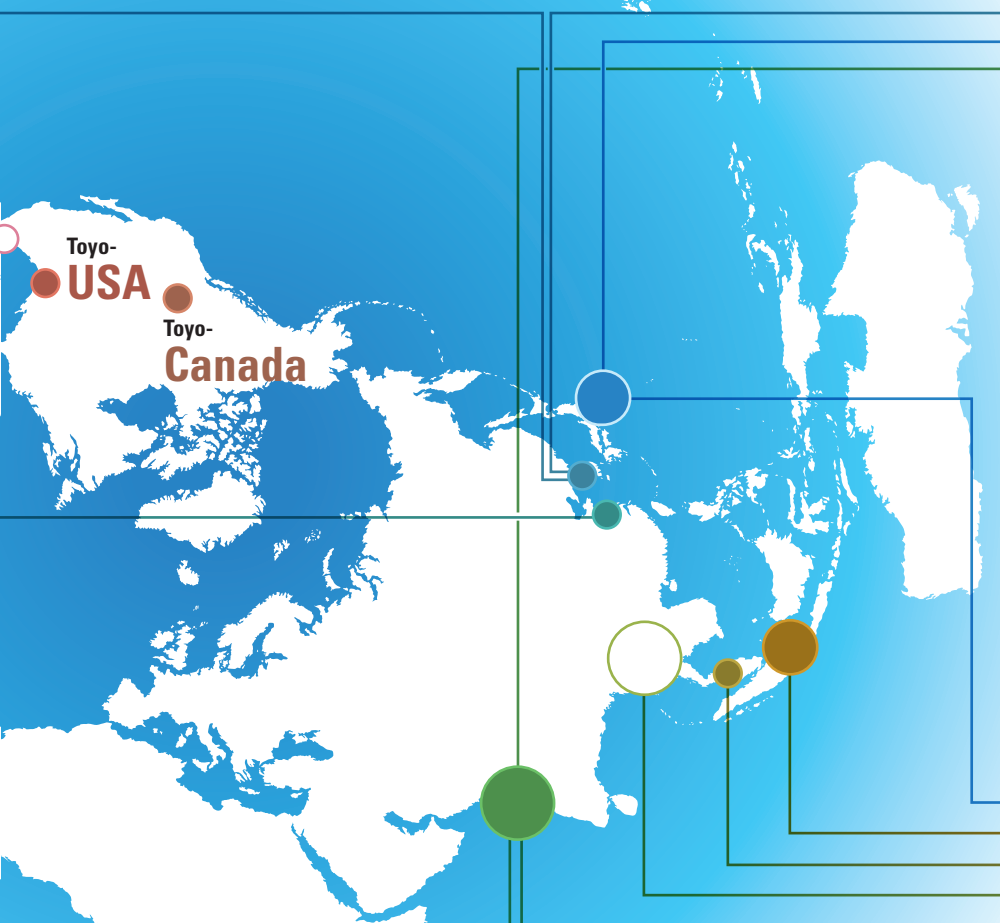
#### Toyo-China

### Regasification Facility Project for Petronet LNG and GSPC LNG in India

Toyo-India and Toyo-Japan collaborated to win orders for two regasification facility projects. The first is for expanding the LNG receiving capacity of a facility of Petronet LNG Limited (India) to 15 million tons per year. The second project is for constructing a regasification facility with a capacity of five million tons per year for GSPC LNG Limited. Toyo-India is currently independently executing the EPC projects, which are scheduled for completion in fiscal 2016.

#### Toyo-India





**Large Gas Chemical Complex for State Concern "Turkmengas," Turkmenistan's national gas corporation**






Led by Toyo-Japan, Toyo-India and Toyo-Korea participated in a large gas chemical complex project consisting of a large gas separation unit, ethylene production unit, polypropylene production unit, and other facilities for Turkmengas. The gas separation facility uses COREFLUX®, which can extract ethane and LPG at high efficiency.

- |                        |                        |
|------------------------|------------------------|
| <b>Toyo-<br/>Japan</b> | <b>Toyo-<br/>Korea</b> |
| <b>Toyo-<br/>India</b> |                        |

**Large-scale Ethylene Complex Project for PETRONAS**

Under the initiative of Toyo-Japan, four TOYO group companies (Toyo-India, Toyo-Malaysia, IKPT, and TTCL) are collaborating on a large-scale EPC project. The project includes an ethylene production plant with a production capacity of 1.29 million tons per annum, as well as a pyrolysis gasoline plant, butadiene extraction plant, benzene extraction plant, and utility and offsite facilities.

- |                        |                           |
|------------------------|---------------------------|
| <b>Toyo-<br/>Japan</b> | <b>Toyo-<br/>Malaysia</b> |
| <b>Toyo-<br/>India</b> | <b>IKPT</b>               |
|                        | <b>TTCL</b>               |

-  Overseas Group Companies
-  Other Affiliates
-  Less than 1,000 people
-  Less than 1,000 – 2,000 people
-  More than 2,000 people

# Major Orders Received in Fiscal 2014

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## Order over ¥200 billion

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### Large-scale Ethylene Complex Project in Malaysia

TOYO has been awarded a contract for a Steam Cracker Complex (SCC) project in Malaysia by PRPC Refinery and Cracker Sdn. Bhd., a subsidiary under the Petroliaam Nasional Berhad (PETRONAS) Group, Malaysia's national oil and gas company. The SCC will be part of PETRONAS' RAPID\* project in Pengerang, Johor, Malaysia. It will feature a 1,290,000 t/y ethylene production plant, a 660,000 t/y pyrolysis gasoline plant, a 185,000 t/y butadiene extraction plant, and a 175,000 t/y benzene extraction plant, as well as utility and offsite facilities. The project is scheduled to be completed in mid-2019. RAPID is part of the bigger PETRONAS Pengerang Integrated Complex development worth an estimated U.S. \$27 billion, which comprises of RAPID and its associated facilities including the Pengerang co-generation plant, re-gasification terminal, air separation unit, raw water supply project, crude and product tanks as well as central and shared utilities and facilities.

\*RAPID: Refinery and petrochemicals integrated development

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## Order over ¥50 billion

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### Japan's Largest Mega Solar Project

Kuni Umi Asset Management Co., Ltd., GE Energy Financial Services and TOYO have invested in Japan's largest solar photovoltaic power plant project. The 231.44 MW plant will be built in Setouchi, Okayama Prefecture, via special purpose company Setouchi Future Creations LLC. Construction commenced in November 2014, and commercial operations are scheduled to start in the spring of 2019. TOYO and Shimizu Corporation will construct the mega solar photovoltaic power plant and related facilities as well as bank reinforcement. Total project costs are expected to be about ¥110 billion. All generated power will be sold to the Chugoku Electric Power Company, Inc. The project's finances, which total about ¥90 billion, are being provided by a syndicate of leading Japanese banks.

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## Orders over ¥10 billion

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### Large-scale Photovoltaic Power Plant Project in Miyazaki

TOYO has been awarded a large-scale photovoltaic power plant project planned in Miyazaki Prefecture, Japan by Pacifico Energy K.K. The plant will have a power generating capacity of 96 MW and is scheduled for completion in the spring of 2018. The power generated will be sold to the Kyushu Electric Power Co., Inc. TOYO is now executing the construction projects in Kumenan City (32 MW) and Mimasaka (42 MW), Okayama Prefecture for Pacifico Energy K.K. Accordingly, TOYO has been awarded large-scale photovoltaic power plant projects totaling 170 MW from Pacifico Energy.

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### Polyethylene Plant Project in the U.S.

Toyo-Korea was awarded a contract from Sasol Limited to provide detailed engineering, procurement, module fabrication, and construction support services for a 450,000 t/y LLDPE\* plant. The plant is part of Sasol's petrochemical complex to be established in Lake Charles, Louisiana, U.S. In 2013, TOYO carried out the Front End Engineering Design (FEED) services for this plant, which is scheduled to be completed in 2017. The UNIPOL™ PE Process of Univation Technologies, LLC is being applied to this project, making it TOYO's 23rd project to feature the UNIPOL™ process.

\*LLDPE: Linear low density polyethylene

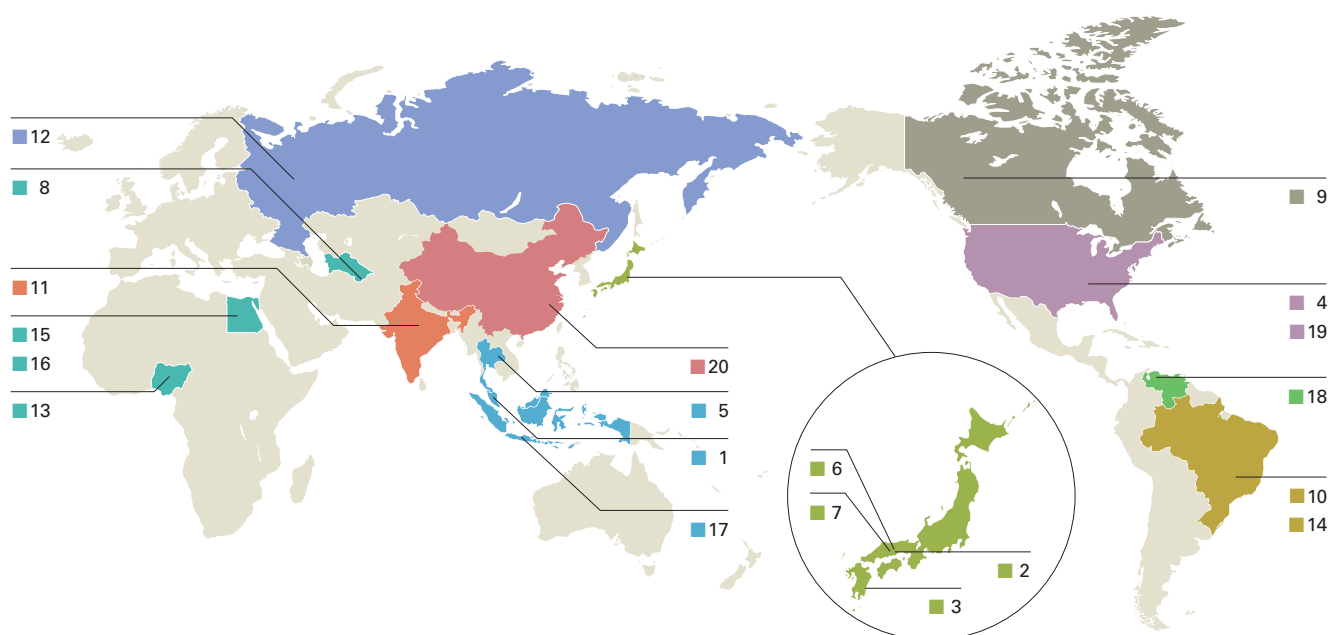
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### Natural Gas-fired Cogeneration Power Plant Projects in Thailand

TOYO entered into the construction and supply contracts for natural gas-fired combined cycle cogeneration power plants with twelve special purpose companies jointly owned by Mitsui & Co., Ltd., and Gulf Energy Development Company Limited. We have received a notice to proceed for the first one of the twelve projects: the Gulf VTP Company Limited Project, which will have a generation capacity of 130 MW. The contracts were for construction of 12 cogeneration power plants (nine 120 MW and three 130 MW, total generation capacity 1,470 MW) in the suburbs of Bangkok. The projects were started subsequently from February 2015, and all 12 plants are scheduled to be completed by July 2019.



## Major Projects



### New Orders

	Type	Location	Scope
1	Large-Scale Ethylene Complex	Malaysia	EPC
2	Photovoltaic Power Generation Plant (Setouchi, Okayama)	Japan	EPC
3	Photovoltaic Power Generation Plant (Hosoe, Miyazaki)	Japan	EPC
4	Polyethylene Plant	U.S.A.	EP
5	Natural Gas Fired Cogeneration Power Plants (1 of 12)	Thailand	EPC
6	Photovoltaic Power Generation Plant (Mimasaka, Okayama)	Japan	EPC
7	Photovoltaic Power Generation Plant (Kumenan, Okayama)	Japan	EPC

### Ongoing

8	Large Gas Chemical Complex	Turkmenistan	EP
9	Oil Sands SAGD Facilities	Canada	EPC
10	Ammonia Plant	Brazil	EPC
11	LNG Regasification Plants (Dahej/Mundra)	India	EPC
12	Oil Refinery Modernization (Heavy Residue Conversion Complex)	Russia	EP
13	Ammonia and Urea Plant	Nigeria	EP
14	Refinery Utility Complex	Brazil	EPC
15	Ethylene and Butadiene Extraction Plants	Egypt	EPC
16	Polyethylene Plant	Egypt	EPC
17	Ethylene Plant Expansion	Indonesia	EPC

### Completed

18	Urea Plant	Venezuela	EPC
19	Ethylene-vinyl Alcohol Copolymer Plant	U.S.A.	EPC
20	Polyvinylidene Fluoride (PVDF) Manufacturing Plant	China	EPC

EP: Engineering and Procurement

EPC: Engineering, Procurement and Construction

# The Future of TOYO



**Kunio Sakaida**

Barclays Securities Japan Limited  
Research Department



**Hirosuke Tai**

Daiwa Securities Co., Ltd.  
Equity Research Department



**Masanori Wakae**

Mizuho Securities Co., Ltd.  
Equity Research Department



**Kiyoshi Nakao**

TOYO Engineering  
President and Chief Executive Officer

## The Future of TOYO——A Discussion with Analysts

TOYO is focusing on restructuring its management system to quickly return the company to a path of sustainable growth. What do industry analysts think of TOYO's initiatives? President Kiyoshi Nakao held a discussion with three senior analysts, from the research departments of Barclays Securities Japan, Daiwa Securities, and Mizuho Securities. They have all been observing the plant engineering field for many years, and were invited to share their frank opinions.

The abilities to coordinate totally and execute the project are critical to reliably generate results. ——— Mr. Wakae

Market disappointment originated from high expectations for TOYO. ——— Mr. Sakaida

### Insightful Viewpoints into the Plant Engineering Field

**Mr. Nakao** Today we have with us three sell side analysts who have worked for many years at securities companies. I would like to ask each of you for your candid opinions about TOYO. First, what points do you especially pay attention to when you are looking at an engineering company?

**Mr. Wakae** I recognize that plant engineering is basically a high-risk field. The abilities to manage various risks, coordinate totally and execute the project are critical to reliably generate results. These are the points I focus on when analyzing engineering companies. I focus more on the substance of their profits than on the size of the business.

**Mr. Sakaida** There are many cases of Japanese engineering companies receiving lump-sum turnkey orders, so you could say that all sales are risks. As Mr. Wakae mentioned, I realize that how a company accurately manages risk is the source of an engineering company's profits. When I look at the plant engineering field and individual companies, I put emphasis on something that cannot be expressed by metrics—a company's way of thinking. This includes such points as what projects they are focusing on, and in which areas.

**Mr. Tai** I also emphasize aspects that can't be expressed by metrics. Project profits and losses can't be figured out from outside the company, so honestly I'm not too interested in how performance forecast numbers look. The most important things are people and the corporate culture. I try to get a sense of management strategies and of what direction a company wants to take through daily communication with the IR personnel and talking with executives at briefings and social gatherings.

**Mr. Nakao** As you have all pointed out, risk evaluation and management are crucial to the destiny of an engineering company. For example, lump-sum turnkey contracts are a sales point of Japanese engineering companies, so they can't simply be abandoned. On the other hand, companies



### Kunio Sakaida

Barclays Securities Japan Limited  
Research Department

After joining Daiwa Securities Co., Ltd., in 1989, Mr. Sakaida worked as an analyst at Credit Suisse Trust Limited, Goldman Sachs Japan Co., Ltd. and others. Since May 2011, he has been working as a shipbuilding and plant engineering analyst at Barclays Securities.

need to raise their profit ratios through “soft” businesses, such as front end engineering design, and licensing, or reduce risk by cooperating with other companies. As for what Mr. Tai mentioned regarding people, at TOYO, in addition to technical quality, we see human quality as an invaluable asset in supporting the growth of the company. We have placed considerable emphasis on the development of human capital—such as cultivating human capital that can build a firm relationship with our customers—and also the creation of a corporate culture of openness, as main initiatives in our current Revival Plan.

### Risk Management and Corporate Culture

**Mr. Sakaida** With fertilizer plants as the driving force, TOYO has increased new orders greatly since around fiscal 2012, reaching a record high in fiscal 2014. The stock market had a positive assessment of TOYO's increased order volume and the anticipated increase in profits. However, there were problems with project execution, exemplified by the fertilizer project for PT Pupuk Kalimantan Timur (Kaltim) in Indonesia. There was major disappointment from institutional investors and the market, but I also think the market disappointment originated from the high expectations for TOYO.

**Mr. Nakao** The root cause of this loss was that we underestimated the risks involved at the proposal stage. Of course, we held a proposal strategy meeting and conducted a prior examination of the project risks, but we

It is important to diversify regions, income sources, and customers, and to aim for balanced growth. — Mr. Sakaida



### Hirosuke Tai

Daiwa Securities Co., Ltd.  
Equity Research Department

Mr. Tai joined the Daiwa Institute of Research Group in 1995.

After working in the OTC stock market (now JASDAQ), the tires and automobile retail sector, he was placed in charge of machinery and shipbuilding & plant engineering in 2000. Currently, he is in charge of the machinery, shipbuilding & plants and industrial electronics sectors at Daiwa Securities.

focused more on discussions regarding how to win the project order. Additionally, though Indonesia is a rapidly changing country, we didn't sufficiently discuss the impacts of such changes on project execution. We were also rather eager to receive an order for a large fertilizer plant. Now, we are thoroughly discussing such risks at the start of this kind of project. It is essential that our review system be effective.

**Mr. Sakaida** I'm sensing that TOYO employees feel great responsibility and are very serious about their work, so they push themselves to the limit in dealing with as much as is possible at their rank. Losses occurred when the situation reached a breaking point. If problems and concerns had been shared at an early stage through good communication, then maybe the losses could have been reduced. The Revival Plan includes the promotion of all-around communication to change corporate culture. I think that is extremely important.

**Mr. Nakao** In executing a project, the PM\* has great authority. However, some PMs keep problems to themselves, thinking, "I'll take care of it somehow," or "If I just get past this part then everything else will work out." If we can become aware of the problem through daily conversations between the PMs and their bosses—the general managers or the project directors—then we can address it quickly and prevent losses.

**Mr. Sakaida** Stimulating communication not only improves risk management, but has other positive effects, such as stimulating discussions between employees regarding how to go about their work, or regarding the

future of the company. Stimulating more conversation both inside and outside the company will be positive for TOYO in the future.

### Expanding Business Fields

**Mr. Tai** Compared to the two other major Japanese engineering companies, TOYO does not seem to have any particularly outstanding features. And the company doesn't have any especially attention-grabbing businesses either. However, I thought it was interesting that at a previous briefing on the fertilizer business held for analysts, you clearly explained the increasing demand for fertilizer and TOYO's position with respect to that demand.

**Mr. Sakaida** Two major companies have been concentrating on LNG plants in recent years, with close to 70% of their orders being LNG-related. LNG has been a hot topic for the past several years, so the spotlight has been on those two companies.

**Mr. Nakao** TOYO's weakness at disseminating information may have also been a factor. Perhaps in order to increase our company's value, we need to call attention to our successes externally, such as the fact that TOYO's ACES21® urea process technology is used in one-third of all fertilizer plants globally, and that we have successfully launched 45 ethylene plants.

**Mr. Wakae** The image of TOYO in the past was one of strength in ethylene, fertilizer, and other downstream businesses, but recently you have developed your business in a wide range of fields, such as solar power generation, transportation systems, and pharmaceuticals. So it has become difficult to form a mental picture of what kind of company Toyo Engineering has become.

**Mr. Nakao** You are right in that TOYO's involvement in a variety of projects, instead of being a specialized company, is viewed poorly by the stock market. But on the plus side, having a variety of products and being active in various regions allows us to be a more dynamic company.

\*PM: Project Manager



You should conduct business in a positive atmosphere so as not to feel hesitant due to deterioration in performance. ——— Mr. Tai

**Mr. Sakaida** Diversifying regions, revenue sources and customers, and aiming for growth from a position of overall balance is a sound way for a company to operate. The stock market chases after hot topics, and in the past two or three years it focused on companies that specialized in LNG. However, concentrating on specialized fields greatly increases volatility. Looking from a management point of view, it is natural to want to decrease volatility in order to make earnings more stable.

### The Road to Restructuring

**Mr. Sakaida** TOYO was established in 1961 when the engineering division of Toyo Koatsu Industries Inc. (currently Mitsui Chemicals) separated and became independent. I believe that TOYO's roots as a manufacturing based engineering company live on in your corporate culture and your employees' ways of thinking.

**Mr. Nakao** Perhaps we feel proud as owners of processes and technology here at TOYO. Many past Presidents came from engineering fields, so I think there is a strong tendency toward contributing to development in the plant engineering field by providing cutting-edge technology. But perhaps valuing technology over other items may lead to a less strong sense of costs and profit. This was pointed out by many during our discussions on business restructuring.

**Mr. Tai** President Nakao, what kind of restructuring do you have in mind for TOYO? I am concerned that, given the deterioration in performance, your employees will feel hesitant and their enthusiasm will decrease. Three consecutive years of downward performance revisions has not been good for your company's image, but the losses themselves are by no means at a level where they are threatening the underlying foundation of the company. There are many hardworking people at TOYO, so I am concerned that they will succumb to outside pressure and lose motivation.

**Mr. Nakao** The major premise of our Revival Plan is that for the next one or two years we



will make every effort to solidify our business base and achieve a financial recovery. So what will we do in particular? While it's important that we develop products and areas that can meet future needs to develop the company, at the moment it would be unwise to focus our capital and resources on new fields. If we can build customer trust by successfully completing projects we are now involved in, then customers will contact us when they are planning their next project. Furthermore, if we can be involved in the customer's product development and investments, then that may result in a new product for us. By increasing our projects in this way, we can find our next product line. The best sales activity is strengthening customer trust.

**Mr. Sakaida** That's true. You can link the successful completion of an underway project to future customer trust. In particular, the successful completion of the mega-projects you received in the previous fiscal year will be important to TOYO's future growth. TOYO's new order target is around ¥350.0 billion. That's a modest benchmark



### Masanori Wakae

Mizuho Securities Co., Ltd.  
Equity Research Department

Mr. Wakae joined Wako Securities Co., Ltd., (later Shinko Securities Co., Ltd., now Mizuho Securities Co., Ltd.) in 1991.

At Shinko Securities, he belonged to the Corporate Research Department.

At Mizuho Securities, he is in charge of the shipbuilding and plant engineering sector.

Rationally assess the strong points and weak points of each overseas group company and create a feasible project execution system. ——— Mr. Nakao

I think you should focus on better disseminating information. ——— Mr. Tai

considering your current sales levels. Even people on the front line of sales should be able to focus on receiving orders from key customers in the next three years, rather than looking to expand sales.

**Mr. Nakao** I believe that, rather than putting emphasis on sales, smoothly executing work that is under way will begin to move the company in the right direction, which will lead to future growth.

**Mr. Tai** Maybe this was because of the management team's strong feelings, but I was bothered by the apologetic tone taken at the financial results briefings. But in an extreme case, if investors don't think there's any hope, then they should sell their stock. The most important subject for a company is to meet the expectations of stakeholders, but it is not good to always be focused on the past. Employees as well think it is better for the president and management team to create a positive atmosphere.

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#### Strengthening Overseas Group Companies

**Mr. Wakae** Toyo Engineering Corporation will continue to turn a profit on a non-consolidated basis, but looking at TOYO on a consolidated basis, the overseas group companies are not always profitable, so the balance of earnings is not favorable. If you can redevelop your group network and choose where to expand and where not to, then TOYO's earnings structure will begin to rebound well, I think.

**Mr. Nakao** That is exactly right. One of our management goals in NEXT TOYO 2015, TOYO's medium-term business plan, is the improvement of the EPC execution capability of each group company. We set our target ratio of consolidated net profit to parent earnings for fiscal 2015 to 2.0. We planned for group companies to independently

handle projects in existing regions in our conventional business fields, such as chemicals and petrochemicals. Meanwhile, Toyo-Japan would focus on mega-projects and new projects. Unfortunately, this ratio was less than 1. Now we need to rationally assess the strong points and weak points of each overseas group company and create a viable project execution system. Our global network and the employees at each overseas group company are major strengths for TOYO, so I want to maximize those strengths.

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#### Expectations for the President

**Mr. Wakae** Many people who become a president when business is good for their company tend to retire when performance deteriorates. On the other hand, many who become a president when performance is at its worst hand over the position to their successor after having improved performance. You may have taken a risk here, but I hope in five years we will hear people say, "It was the right decision to make Mr. Nakao president at that time."

**Mr. Tai** The one request I have of you is to focus on better disseminating information. The stock market is a world all its own, and it is different from the world of corporate management. If you do not proactively disseminate information, then the market will not fully understand the true intentions of your company. If you invigorate the exchange between the market and management, then assessments of TOYO should naturally rise.

**Mr. Nakao** You've given me many valuable opinions. I think they will all prove valuable in TOYO's restructuring. At any rate, this year is absolutely critical for us. We will resolutely concentrate our efforts on returning to a path of continued growth as quickly as possible. Thank you for your time today.

## Fundamental Concept

TOYO's corporate philosophy is to make contributions to our stakeholders, including shareholders and customers, and also to fulfill our responsibilities to society through operating our global engineering and construction business in fields such as energy, oil refining, petrochemicals, chemicals, social infrastructure facilities, industrial facilities of various types, and IT systems. We establish and administer a fair management system to ensure transparency and soundness in management, disclose corporate information in an appropriate and timely manner in order to be properly accountable to our stakeholders, and we work to thoroughly prevent unfair transactions, such as insider trading. Additionally, with regards to management decision making, we give due consideration to general shareholder returns. We strive to fully establish and operate an internal control system—including compliance and risk management, the foundations of corporate governance—as we increase the

efficacy of our management monitoring and observation capabilities. Furthermore, we are currently considering Corporate Governance Codes, and we plan to make a public announcement as soon as preparations are complete.

Governance system chart (As of June 25, 2015)

Structure	Company with Board of Corporate Auditors
Usage of an executive officer system	Yes
Number of Directors	9
Number who are Outside Directors (Independent Officers)	3 (3)
Director term length	1 year
Number of Auditors	4
Number who are Outside Auditors (Independent Officers)	2 (2)
Number of independent officers	5

## Corporate Governance System

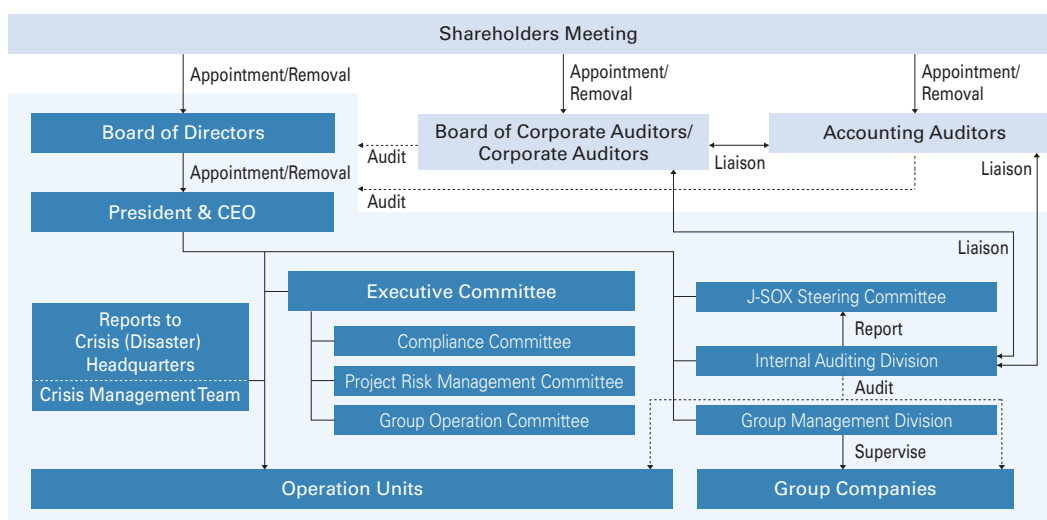
TOYO recognizes that it is essential to gain trust from our stakeholders—including shareholders and customers—and ensure transparency and fairness in management decision making as we fulfill our responsibilities to society. Therefore, we work to properly establish and effectively administer the following corporate governance system.

The Board of Directors is composed of nine Directors, including three Outside Directors; they deliberate and determine all important matters related to management and the execution of business, and also monitor and supervise one another with respect to the execution of Directors' duties. Additionally, TOYO introduces an executive officer system in order to strengthen the Board of Directors' monitoring and supervising capabilities, and to ensure a swift and effective business execution system. Executive Officers (27 members, including concurrent posts of

nine Directors) are appointed by the Board of Directors and, under the CEO's directions, execute the duties they have been delegated. Additionally, as an advisory board for the President and CEO, the Executive Committee consists of Executive Officers with specific roles (Senior Executive Officers or above) and the heads of main divisions. Important matters related to the execution of business are reported and deliberated in the Executive Committee.

The Board of Corporate Auditors consists of four Auditors, including two Outside Auditors; they report and deliberate on the Directors' execution of their duties, the status of developing and operation of internal controls, and internal audit guidelines such as quarterly settlements and end-of-year settlements as well as the contents and results of audits.

Corporate Governance Structure



## Outside Directors and Outside Auditors

TOYO, as a “company with a Board of Corporate Auditors,” has three Outside Directors among nine Directors, and two Outside Auditors among four Corporate Auditors.

TOYO does not have specific rules on independence with regards to the election of outside officers. However, we judge selections using comprehensive evaluations—such as considering the candidates’ background and relation with the Company; paying close attention to ensure independence and neutrality; checking to assure that a dominant influence will not be exerted on TOYO’s management; assessing that conflicts of interest will not occur with ordinary shareholders; and judging whether

we can expect to receive accurate suggestions and opinions from the standpoint of management decisions, specialization, and soundness and transparency in corporate governance.

TOYO believes that by receiving opinions from highly independent outside officers, management executives will be accountable and transparency can be ensured in management. In view of the content and structure of our business, we believe that the current system and its operation are effective in ensuring corporate governance to function properly.

Outside Directors	Reason for election
Kenyu Adachi (Independent Officer)	Having spent many years at Japan’s Ministry of Economy, Trade and Industry, Kenyu Adachi has rich experience and considerable insight into administration throughout the industrial sector, focusing on fields such as natural resources and energy as well as trade. Using these skills, and from a position of independence, he provides TOYO’s management with impartial and accurate suggestions and opinions regarding various issues in the management of the Company, and provides appropriate supervising. He has been elected with expectations that he will continue to perform his duties as an Outside Director appropriately.
Masami Tashiro (Independent Officer)	Possessing extensive international experience at financial institutions as well as rich experience and considerable insight as a manager, Masami Tashiro has been elected with expectations for his accurate suggestions and opinions concerning all aspects of the Company’s management, delivered from a position of independence and with a global perspective.
Yusuke Yamada (Independent Officer)	Possessing specialized knowledge related to securities, finance, and capital markets as well as rich experience and considerable insight as a manager, Yusuke Yamada has been elected with expectations for his accurate suggestions and opinions concerning all aspects of the Company’s management, delivered from a position of independence.
Outside Auditors	Reason for election
Yoshiyuki Funakoshi (Independent Officer)	Having spent many years in the management of a chemical company, Yoshiyuki Funakoshi has wide-ranging experience and high-level insight concerning management. He has been elected with expectations for appropriate auditing from an independent position and viewpoint that utilizes these abilities.
Kiyohito Uchida (Independent Officer)	Possessing knowledge of law and experience as a lawyer, Kiyohito Uchida has been elected with expectations for his impartial monitoring and oversight to the management from an independent position and viewpoint that utilizes these abilities.

## Policies of Compensation for Directors and Corporate Auditors

TOYO’s Directors’ compensation is within limits decided at the Shareholders Meeting, and, with the exception of Outside Directors, is basically determined according to a table by each Director’s job title, with comprehensive consideration to financial results and contributions for the relevant period, including factors such as the performance-based portion of the Company’s results based on current consolidated net income for that fiscal year. With

regards to Outside Directors, with consideration for the independence of these positions, compensation is fixed and is not linked to factors such as financial results.

With regards to Corporate Auditors, in order to ensure the independence and neutrality of Auditors, compensation is set with consideration of the level of Directors’ compensation, full-time or part-time status, and title and rank; it is not linked to financial results.

## Internal Controls

Based on the recognition that internal controls are the foundation of corporate governance, Directors appropriately establish, operate, and assess the system of internal controls. Also, Directors carry out continuous inspection and improvement of internal controls, and periodically revise the Fundamental Policies of Internal Controls System. Additionally, as the Company ensures

the reliability of compliance, risk management, and financial reports through internal controls, we also pay sufficient attention to ensuring work effectiveness and efficiency. TOYO establishes the system so that the Board of Directors will make decisions based on appropriate information and business will be executed according to these decisions.



## Risk Management

### Compliance Risk

As the core principles of Corporate Activities, TOYO has established a Code of Conduct, Compliance Manuals, and related rules in order to comply with laws and regulations as well as social justice and ethics. Also, TOYO has established the Compliance Committee. The Compliance Committee performs compliance-related awareness and promotion activities, and ensures the operation and monitoring of compliance systems. Moreover, compliance-related inspections by the

Internal Auditing Division and Corporate Auditors are carried out regularly, and the compliance system is being continually strengthened. Additionally, TOYO has developed a risk hotline system for compliance as a framework for properly reporting to the Board of Directors and the Board of Auditors, and established internal / external contacts for consultation and reporting. In our internal rules, we prohibit unfair treatment of whistle-blowers on the grounds of the act of reporting.

### Business Risks

To manage business profits and financial risks, TOYO has implemented the following measures:

#### Stage before order is received (Proposal selection and estimation)

TOYO has developed and operates a system in order to formulate reasonable measures for risks through examination of the technology and contents for each proposal, considering the potential severity of impact and likelihood of occurrence and to ensure transparency and checks-and-balance functions in formulating process.

#### Stage after order is received (Project execution)

TOYO has established a project management system in order to maintain and increase profitability of projects through improved project execution planning that incorporates risk countermeasures reflecting risk assessment and preconditions at the proposal stage, proper allocation and utilizing risk contingencies by periodic reporting and monitoring during project execution and the accurate claim and acquisition of changes to orders.

### Management of Group Companies

Through the Group Management Division and Group Operation Committee's set of interrelated activities, we promote strengthening of the project execution capabilities

of group companies and thorough management of consolidated profits targets.

### Other Risk and Crisis Management

According to internal rules for crisis management, TOYO has put in place a crisis management system and its outline as follows. During ordinary times, the Crisis Management Team as a permanent organization detects and understands potential dangers at an early stage and, after the occurrence of a crisis, the Crisis (Disaster) Headquarters which is directly under the President and CEO makes necessary decisions

on all matters concerning crisis response. Also, TOYO has procedures for responding to dangers to executives, employees and related personal overseas, and accidents of plant and equipment concerning TOYO's projects. Also, TOYO has a Business Continuity Plan for responding to risks that should be anticipated as a company's responsibility, such as damage from earthquakes and other disasters.

### Auditing by Internal Auditing Division and Corporate Auditors

TOYO has established an Internal Auditing Division that is directly controlled by the President. As it assesses the legality and rationality of company operations, the Internal Auditing Division provides advice and counsel regarding operational effectiveness and efficiency. Additionally, it independently assesses the maintenance and operation of internal controls related to financial reports, and it reports these results to the J-SOX Steering Committee, which is immediately under the President.

Corporate Auditors audit Directors' execution of duties through attending important meetings, including those of the Board of Directors, and listening to information from Directors, executives, and employees regarding operations

and the execution of duties, and surveying the progress of the Company's operations and finances.

In addition, through actions such as exchanging opinions on various topics—including explanations of observations related to the Company's operations, their respective yearly auditing plans and critical items for auditing, auditing methods, inspection and quality control systems of auditing, and audit results—the Board of Corporate Auditors, Accounting Auditors, and the Internal Auditing Division conduct their auditing in cooperation with one another, striving for close communication while maintaining due concern for independence.

## Responsibility for Safety and Environment

We, TOYO, having set our mission as “Engineering for Sustainable Growth of the Global Community,” aim to realize a global society that is sustainable, contributing to our clients by conserving the environment and harmonizing with human evolution. To accomplish this during the process of performing engineering services, we consider it our Corporate Social Responsibility (CSR) to fulfill provisions regarding quality and HSSE (Health, Safety, Security and Environment).

In particular, we place the highest priority on safety. In the process of providing business solutions to our valued clients, we take the utmost care to prevent the loss of valuable human life. We strive to ensure awareness in every member of the organization that respect for human life takes precedence over any amount of effort, time and expenditure during business operations. We firmly believe that safety is not just relevant to construction site

staff, but should be a foundation for every member of the organization.

While providing specialized services, TOYO is committed to energy saving and natural resources conservation designs. In addition, during construction work, we follow practices that take account of the reduction of environmental impact such as harmlessness, reduction and recycle of waste, and prevention of pollution.

In order to maximize the capability of our overseas group companies and simultaneously integrate our global operations as we move towards the creation of the next generation of the engineering business, we will continue to challenge new frontiers. Thus, we aim to become the most trusted “Global Leading Engineering Partner” for our clients by offering know-how and providing solutions to our client’s needs.

## Safety, Quality and Environment (SQE) Management Structure

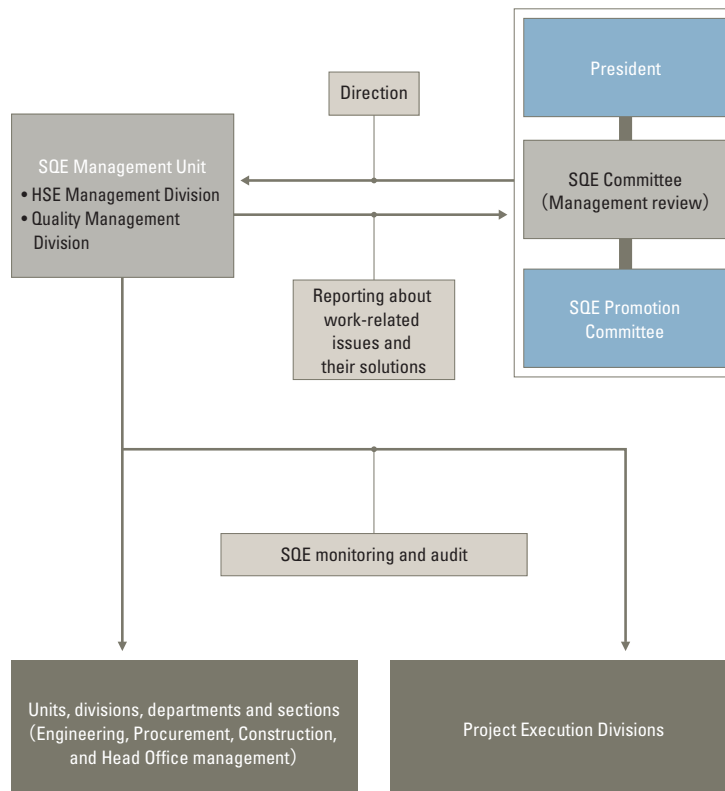
TOYO has set up the SQE Committee, which reports directly to the President, to review companywide SQE management activities. The Committee establishes the operating policies and assesses and approves the results of SQE activities.

The SQE Promotion Committee promotes companywide activities in line with the basic policies of the SQE Committee, and also promotes specific SQE activities of individual Operating Divisions and individual Project Execution Divisions.

The SQE Management Unit monitors the SQE activities performed by individual Operating Divisions and individual Project Execution Divisions, and conducts SQE audits and reports the results to the SQE Promotion Committee and the SQE Committee.

The SQE Promotion Committee and the SQE Management Unit cooperate systematically on the axis of the SQE Committee, which is connected directly to the management, to implement the PDCA cycle of the individual Operating Divisions and individual Project Execution Divisions, for continual improvement of the SQE management system and performance.

SQE Management Structure



An industrial establishment promises foremost to pay attention to safety in the surrounding community and throughout society. TOYO strictly pledges that loss of human life must absolutely be prevented and applies all efforts and initiatives to safety. Time and value dedicated to safety initiatives are given the utmost priority.

“Safety” is a key component of the TOYO brand. In order to boost our brand globally, we actively promote various safety measures and shall actively strive to consolidate a firm safety culture.

## Safety Record

TOYO’s safety record for 2010 to 2014 is as follows:

The Total Recordable Incident Rate (TRIR) shows a continuing downward trend, indicating a decreasing number of incidents. TOYO aims for zero accidents as a safety management objective. Hence our target is to further reduce the Lost Time Incident Rate (LTIR) and the TRIR.

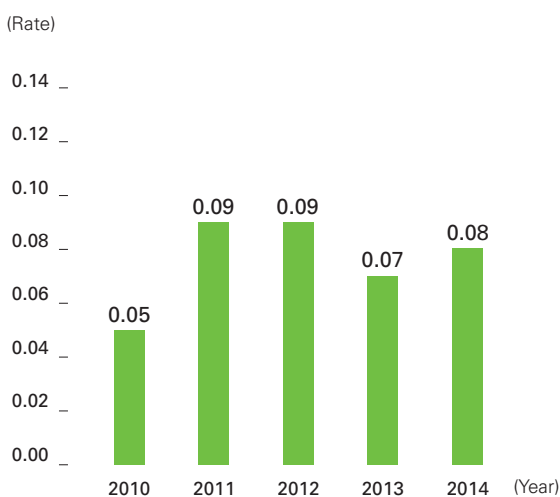
Safety Record over the Past 5 Years (One million hour base)

Year (Jan. to Dec.)	Employee- Worked Man-Days (Thousands)	Employee- Worked Man-Hours (Thousands) (A)	Number of Incidents					LTIR <sup>*1</sup>	TRIR <sup>*2</sup>
			Fatalities	Lost Time Incidents (LTI)	Medical Treatment (No Lost Time)	LTI Total (B)	Recordable (C)		
2010	12,012	117,295	1	5	56	6	62	0.05	0.53
2011	8,521	80,783	1	6	12	7	19	0.09	0.24
2012	12,739	120,760	3	8	16	11	27	0.09	0.22
2013	10,790	105,164	0	7	16	7	23	0.07	0.22
2014	9,201	89,777	1	6	13	7	20	0.08	0.22

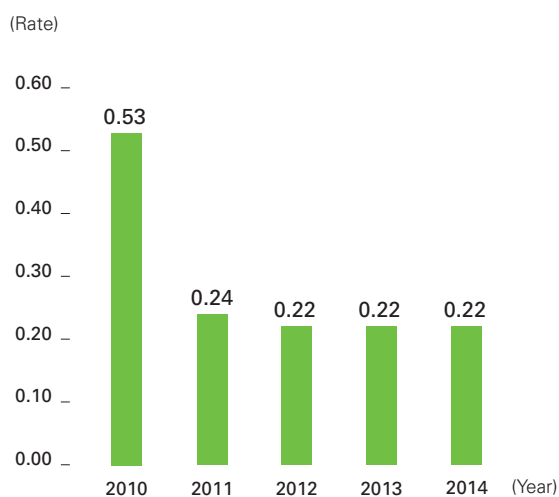
\*1. Lost Time Incident Rate (LTIR) = (B) × 1,000,000 / (A)

\*2. Total Recordable Incident Rate (TRIR) = (C) × 1,000,000 / (A)

Lost Time Incident Rate (LTIR)



Total Recordable Incident Rate (TRIR)



### Safety Management Rules

TOYO has established Global Standards to ensure that safety management is implemented at the same level, irrespective of country and region, throughout TOYO group companies.



### TOYO Group Safety Meeting

The designated heads of HSSE at TOYO group companies conduct periodic meetings at pre-decided locations, exchange experience and ideas, and maintain close communication regarding the improvement of safety management activities.

TOYO group company heads participating in the meeting (Held in 2015 at Toyo-India)

- Toyo-Japan •Toyo-China
- Toyo-India •Toyo-Malaysia
- Toyo-Korea •IKPT (Indonesia)



### Safety Campaign

TOYO holds the Safety Campaign at all its group companies and construction sites. The Campaign calls attention to safety awareness for one month, starting on July 1 every year. Various safety programs take place during this period.

#### Major Campaign Programs

- President Message
- Introduction of site safety
- Lectures on heatstroke
- Safety belt/harness training
- Morning radio exercise
- Introduction of campaigns at group companies
- Display of posters, banners and panels
- Safety awards



Safety mass meeting at site



Safety belt/harness training



Campaign opening ceremony at group company



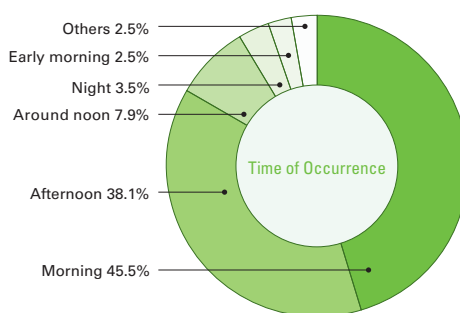
Rescue training at group company



## Near-miss

A “near-miss” is an incident which was prevented just before the occurrence of human or physical damage.

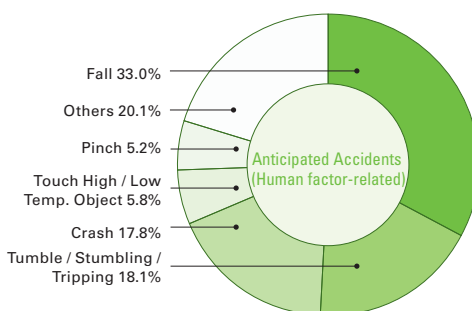
TOYO is proactively collecting the near-miss data at sites, analyzing it, and utilizing the results in our safety management to prevent accidents. Data on 7,390 near-miss occurrences was collected from 2008 to 2014 and analyzed. Major findings are as presented to the right:



Focused on the morning hours:

### Countermeasures

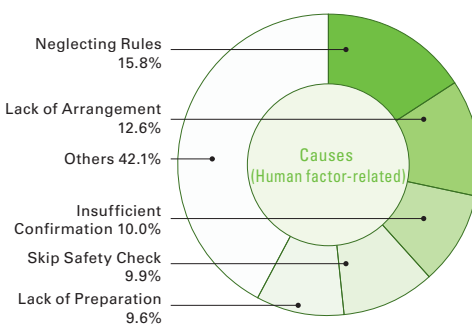
- Ensure conducting the morning meeting, TBM<sup>\*1</sup> and KYK<sup>\*2</sup> before work start.
- Make all workers aware of safety conditions at the workplace before work start.
- Check health conditions before work start.



Focused on fall and tumble:

### Countermeasures

- Ensure using harness and fall protection.
- Maintain a safety access route.
- Don't hurry or run.



Focused on neglecting rules, lack of arrangement

### Countermeasures

- Conduct induction training and re-training.
- Ensure order and clear up of work area.
- Ensure safety patrol and introduce award and penalty system.

\*1. TBM (Tool Box Meeting): Activity to confirm outline, procedure and remarkable matter of work at work place.  
 \*2. KYK (Risk Prediction Activities): Activity to predict latent risks of work and take countermeasures at work place.

## Lessons Learned from Accidents—Falling Down

### Situation

In a substation, during the handling of movable scaffolding for ventilation work, a worker fell from a floor opening in the electrical panels setting area. Though the opening was covered by a plate, it was not fixed and shifted from the opening when the scaffolding hit the plate.

### Causes

- Imperfection of opening cover
- Lack of risk assessment
- Lack of worker training and supervision

### Countermeasures

- Improvement of opening protection
- Ensure risk assessment
- Re-train all persons concerned



Considering that the preservation of the global environment and prevention of global warming are recognized as common issues facing all of humanity, TOYO has established the following philosophy:

- Contribute to sustainable development capable of both environmental protection and the development of mankind.
- Provide engineering services in harmony with the global environment as a global company.

In order to realize this philosophy, TOYO will continue actively resolving the environmental issues of our clients in the future.

## Applying Technology to Preserve the Environment

TOYO, by promoting the development, application and improvement of technologies that contribute to the preservation of the environment, offers the technology that best suits our clients and a variety of solutions that contribute to the preservation of the environment as well as the prevention of pollution.

### Photovoltaic Power Plant

TOYO has enhanced its development and promotion of social infrastructure projects in accordance with its medium-term business plan.

As a result, as of March 2015, we have received orders for four mega solar photovoltaic power plant projects in Japan, which are currently under way.

Photovoltaic power generation produces renewable energy, and is expected to play an increasingly important role from the viewpoint of preserving the global environment. TOYO will continue to work on photovoltaic power plant projects as part of its infrastructure business.

### Overview of Mega Solar Photovoltaic Power Plant Projects

Client	Site	Power Generation (MW)	Scheduled Completion Time
Pacifico Energy Kumenan G.K.	Kumenan City, Kumegun, Okayama Prefecture, Japan	32	Spring of 2016
Pacifico Energy Mimasaka Musashi G.K.	Mimasaka City, Okayama Prefecture, Japan	42	Summer of 2016
Pacifico Energy Hosoe G.K.	Miyazaki City, Miyazaki Prefecture, Japan	96	Spring of 2018
Setouchi Future Creations LLC (Setouchi Kirei Mirai-dukuri)	Setouchi City, Okayama Prefecture, Japan	231	Spring of 2019



Expected view at completion

(Left: Miyazaki City's photovoltaic power generation, Right: Setouchi City's photovoltaic power generation)

## Efforts for Reducing Environmental Load

### Construction Waste Disposal

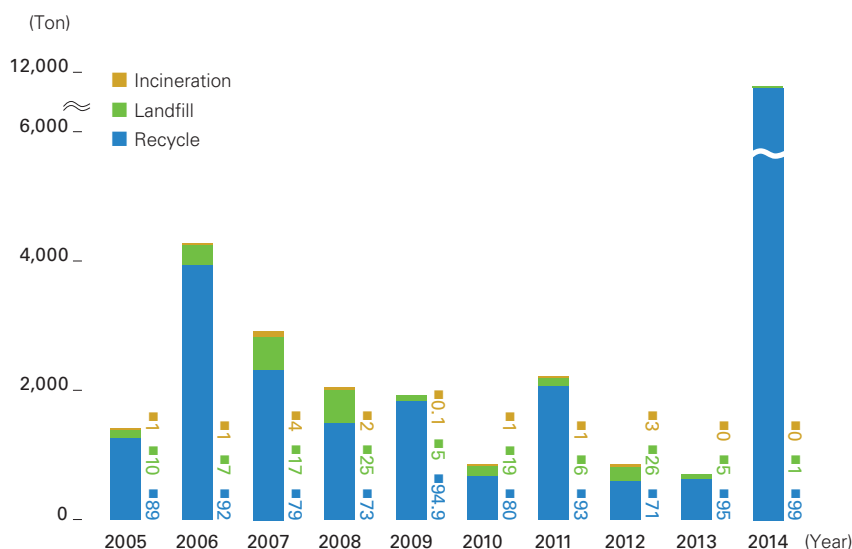
#### Project sites in Japan

The percentage of construction waste by disposal method (recycle, landfill, and incineration) is shown in the figure to the right.

For fiscal 2014, it was 99% recycle, 1% landfill and 0% incineration waste.

Fiscal 2014 saw a marked increase in the amount of recyclable woodchip waste from civil engineering works for photovoltaic power generation, which resulted in a higher recycling rate compared to previous fiscal years.

Percentage of construction waste by disposal method



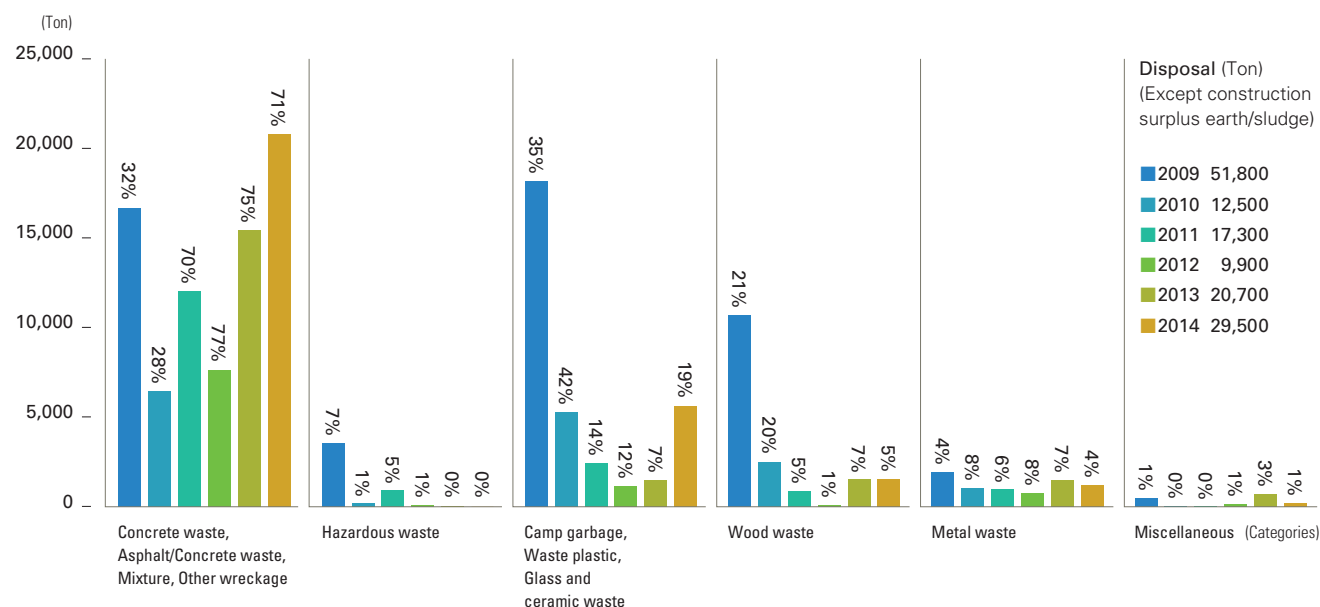
#### Overseas project sites

The total amount of construction waste disposal in calendar year 2014 at overseas project sites, excluding surplus soil/sludge, was 29,500 tons. The increase of project sites caused the increase of overall construction volume, which in turn caused the increase of overall waste amount.

TOYO will continue to summarize construction waste disposal weights to utilize the data for reducing environmental load.

### Weight of construction waste disposal and percentage by category (Overseas project sites)

(Proportions of individual waste categories to the total disposal weight except construction surplus soil/sludge in each year shown as percentage)



# Quality

## ISO Approval

TOYO acts for further quality, environmental, and information security management based on the following ISO certificates, which are international standards.



ISO 9001: Certificate (unified accreditation, including major global subsidiaries)



ISO14001: Certificate



ISO/IEC 27001: Certificate

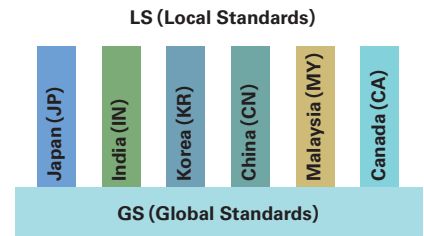


## Feedback Knowledge Management System (FKMS)

As part of continual improvement of the Quality Management System, TOYO has been accumulating examples of problems and best practices for about 30 years from executed projects in the FKMS. The FKMS accepts and shares examples of problems and best practices from TOYO group companies. Thereby, they can be extended and utilized among all TOYO group companies immediately for suggestions and preventive actions in all subsequent projects and proposals.

## TOYO's Standards

TOYO has established unified standards used commonly with global subsidiaries as Global Standards (GS). We have continued to use them, as well as Local Standards (LS) specific to individual overseas group companies and improved TOYO's overall quality management. We will continue to further improve TOYO Standards while providing clients with reliable quality.



## SQE Training

We regularly hold new employee training, TOYO Academy classes for young and mid-level employees, QM (Quality Management) training for mid-level employees, and internal project quality manager training. We use common QM training materials and aim to improve TOYO's overall quality.



QM training



# Contribution to Society

## Working with Local Communities

### TOYO's Social Contribution Activities

TOYO has been engaged in numerous overseas projects ever since winning a fertilizer plant construction contract in India in 1963—shortly after our establishment. As such, we have maintained deep ties with overseas businesses and have implemented various support activities.

#### Consideration for the Neighborhood

We fully explain about the project to people living near the site before starting construction. During the construction period, we give consideration to the environment and to safety by spraying water to keep down dust and by installing protective safety fences. As the traffic volume increases temporarily during construction due to the number of delivery vehicles, we visit schools in the neighborhood to offer traffic safety courses and support education.



#### Seminars for Technology Transfers

In response to requests from other countries, TOYO offers seminars related to project management, environmental technologies and other subject areas. Cooperating mainly with the business courses at the Japan Center of JICA (Japan International Cooperation Agency), we offer three-week technical training courses to approximately 50 trainees from private enterprises in the requesting countries. These courses have been offered in Kazakhstan, Uzbekistan, Malaysia, Vietnam, Indonesia, Myanmar, Mozambique and other countries.



#### Accepting Trainees

TOYO has accepted trainees in various areas in response to requests from governments and public institutions of other countries. The content of the training varies according to the requests. There are long-term courses that include OJT and run for two years, while short-term intensive courses run about two weeks. We have accepted trainees from Russia, Kazakhstan, Uzbekistan, Cambodia, Malaysia, Vietnam, Venezuela and other countries.

In particular, TOYO has accepted 340 trainees from Iraq since 2005 to support reconstruction after the war. Trainees were from a diverse range of organizations, such as the Iraqi Ministry of Oil, oil refining companies, gas distributors, petroleum distributors, engineering companies and more. All attended the courses with dedication and enthusiasm.



#### Localization

With a view towards industrial development and employment stability in each country, we have taken steps to localize industries. Starting with Toyo-India in 1978, we have since established TTCL (Thailand), Toyo-Korea, Toyo-China and Toyo-Malaysia and have employed local engineers and transferred plant engineering technologies.

Our overseas group companies and other affiliates that are engaged in localization have now increased to ten, including those established in the United States, Brazil, Canada, Italy and Indonesia in addition to the above. These companies not only conduct business in their respective areas, but have also grown to conduct businesses in other countries.

## TOYO works to develop our human capital—the source of our value creation.



Hisashi Osone, Senior Executive Officer

To an engineering company, people are not simply human resources. They are precious human capital capable of creating new value. Under this belief, TOYO has long used the term “human capital” instead of “human resources.” High-level specialized skills and knowledge, superior project management capabilities, and the kind of leadership and backgrounds suitable for global business are required for human capital.

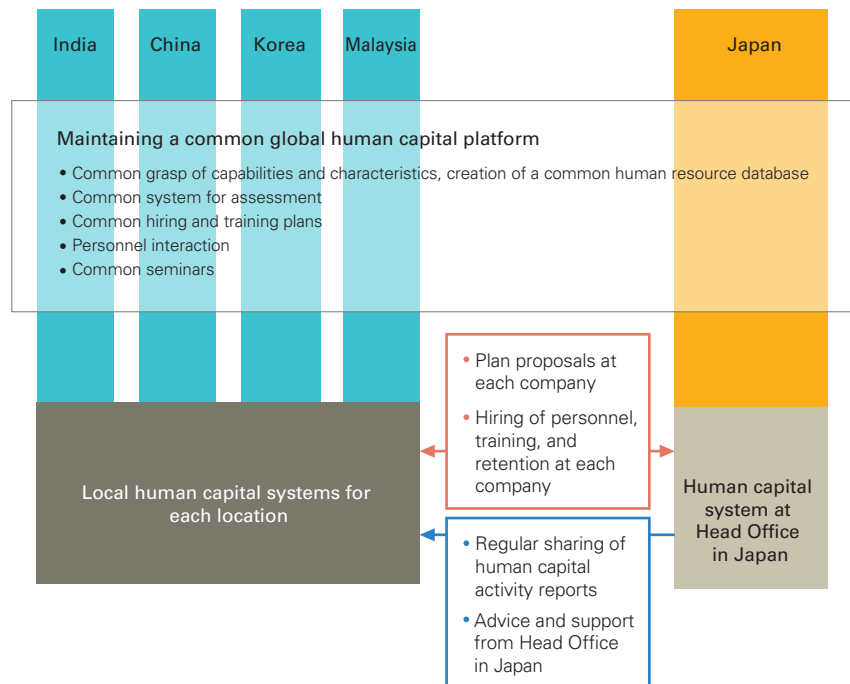
TOYO has thoroughly prepared comprehensive stratified training and development systems in order to cultivate a great deal of talented human capital capable to meet these requirements. We also support the growth of our employees by creating opportunities for them to actively try new things.

For the realization of these initiatives, TOYO has a Human Capital Development Committee directly under the President. It was created in 2003 with three goals: (1) to create a group of human capital who can sophisticate the level of businesses and enhance competitive strength, (2) to realize improvements in employees’ work satisfaction and motivation, and (3) to energize the corporate climate. In the Committee, management policies and companywide issues are taken up in a timely manner, and training subjects that match the direction of our businesses are considered throughout the company.

Human capital at Toyo-Japan has been our primary focus, but moving ahead, we plan to expand this strategy to the entire group, including overseas group companies.

### TOYO’s Human Capital Development

At TOYO, we believe that a combination of classroom learning and practical training, such as OJT (On the Job Training), is the best way to develop human capital. Classroom learning involves business knowledge and management skills and knowledge, taught through stratified training. These trainings include new employees, newly appointed managers, middle managers, and next-generation management candidates. In practical training, we provide training opportunities on the front lines of business, including OJT at our overseas group companies. Additionally, we have various and effective human capital development programs for cultivating the capabilities of our local employees at overseas group companies. These programs include OJT instruction from engineers sent from Toyo-Japan, personnel exchanges with Toyo-Japan and training using texts from TOYO Academy (our company university).



Human capital at local subsidiaries is basically left to each subsidiary, but the Head Office offers aggressive support through activities such as regularly holding human capital division head meetings as well as issuing human capital activity reports.

We must prioritize cultivation of human capital that can flourish locally before utilizing human capital globally.

### TOYO Academy

TOYO Academy has been held as an in-house seminar for roughly 30 years for the development of engineers with world-class technical skills. Most important is the acquisition of practical knowledge and know-how that can't be learned outside the company from in-house instructors who are active in the forefront of the industry. The Academy also serves as a place where senior engineers can pass on their technical skills and know-how to younger engineers.



### OJT at Overseas Sites

Through OJT at overseas sites, young engineers experience fieldwork, such as construction and operations, at plant construction sites overseas. Accepting responsibility and working hands-on there is a valuable opportunity to apply the knowledge gained from work and training in Japan. Additionally, we offer practical OJT at our overseas group companies such as Toyo-Korea and Toyo-India where trainees can acquire detailed engineering skills.




### Promoting Diversity

TOYO's people must all share five values defined as our corporate philosophy, and one of them is diversity (in human capital). At TOYO, we continue to build a work environment where people of different races, nationalities, and genders can work together on good terms. We also support our female employees in demonstrating their abilities according to their individual situation, such as allowing shorter working hours for working mothers or putting career-oriented support staff on a main career track.



Inside the company

Topic	Promotion of Women's Career Building	Interview with a Female Engineer
	<p><b>Tomoko Kitamura</b>   Engineer, Piping and Civil Engineering Division</p> <p>I've gained experience at a number of construction sites overseas since joining the company. My current job is material design for piping engineering—an essential part of plant construction. I do everything from selecting materials for piping, preparing specifications, evaluating vendors for purchasing and so on. A wide variety of HR programs that support women are available at TOYO, including a child care leave system, a family care leave system, and a "Welcome Return" system (temporary absence from work during accompanying one's partner abroad). Another one of TOYO's exceptional points is that the company makes every effort to create a female-friendly work environment, such as being able to speak with superiors about the content of work and the restriction of business trips upon returning to work after giving birth.</p> <p>Under my personal motto "a smile a day," my goals are to offer my skills as a specialist of piping material design in cooperating with engineers from various departments on plants that we can be proud of on a global level. Also, I hope to grow as global human capital, and in the long-term, to work my way up to engage in the management team.</p>	

# Management's Discussion and Analysis

## Business Overview

In fiscal 2014, the year ended March 31, 2015, TOYO received new orders including large-scale projects in energy-related fields, such as power generation, and the petrochemical field, thanks to a favorable plant engineering market. Specifically, these included new orders for an ethylene complex project in Malaysia, natural gas-fired cogeneration power plant projects in Thailand, as well as Japan's largest mega solar project in Setouchi and another mega solar power plant project in Kumenan City.

In terms of project execution, progress was made with projects such as a large-scale fertilizer plant in Nigeria, utility facilities for the COMPERJ refinery in Brazil, an ethylene plant in Egypt, and an oil refinery modernization project in Russia. However, there was deterioration in performance in several projects, such as a polyethylene plant in Egypt, a

fertilizer plant project in Indonesia, and two petrochemical plants in the U.S., as well as the FPSO (Floating Production Storage and Offloading) topsides project in Brazil, which is being executed by Estaleiros do Brasil Ltda. (EBR), a wholly owned subsidiary of our joint venture TS Participações e Investimentos S.A. (TSPI).

The group's performance in fiscal 2014 was much lower than the results that were forecast at the beginning of the fiscal year, and we deeply regret that this is the third consecutive term in which we have made a downward revision. TOYO's management team intends to steadily implement necessary measures to prevent recurrence of losses on projects, and we will strive for recovery of our profitability on a company-wide basis and restore the confidence of all stakeholders as soon as possible.

## Consolidated Financial Results

Net sales	¥311.4 billion (Up 35.3% year on year)
Operating loss	¥7,356 million (Previous fiscal year: Operating income of ¥455 million)
Ordinary loss	¥25.2 billion (Previous fiscal year: Ordinary income of ¥4.9 billion)
Net loss	¥20.9 billion (Previous fiscal year: Net income of ¥967 million)
New orders	¥470.3 billion (Up 28.8% year on year)
Cash dividends	¥4.00 per share (Annual)

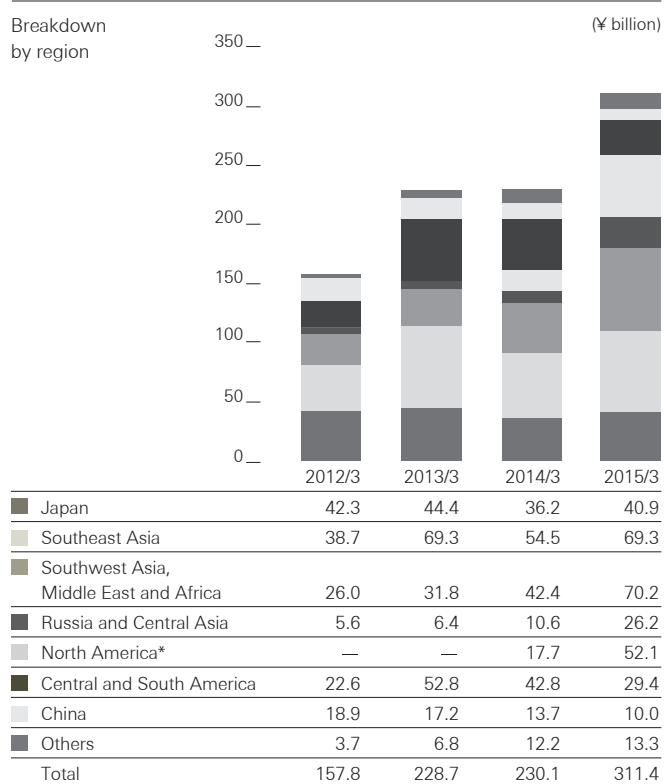
## Fiscal 2014 Performance Outline

In fiscal 2014, net sales were ¥311.4 billion, up 35.3% year on year, but there was an operating loss of ¥7,356 million, compared to an operating income of ¥455 million in the previous fiscal year, due to losses generated by multiple projects and the FPSO topsides project of EBR, TSPI's subsidiary in Brazil. There was an ordinary loss of ¥25.2 billion, compared to an ordinary income of ¥4.9 billion in the previous fiscal year, and net loss of ¥20.9 billion, compared to a net income of ¥967 million in the previous fiscal year. New orders received in fiscal 2014 were a large-

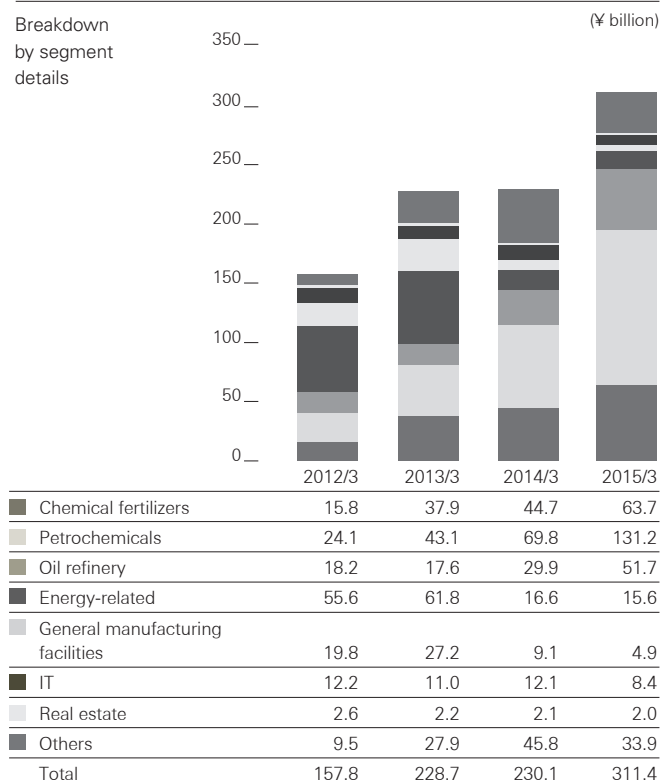
scale ethylene complex project in Malaysia, four mega solar projects (including the largest mega solar project in Japan) and natural gas-fired cogeneration power plants in Thailand. These orders were the result of the enhancement of sales promotions together with TOYO's group companies in the infrastructure field, on which we have focused our efforts. As a result, new orders rose to a record high of ¥470.3 billion (up 28.8% year on year) in fiscal 2014, including orders received independently by the Head Office and domestic and overseas group companies.



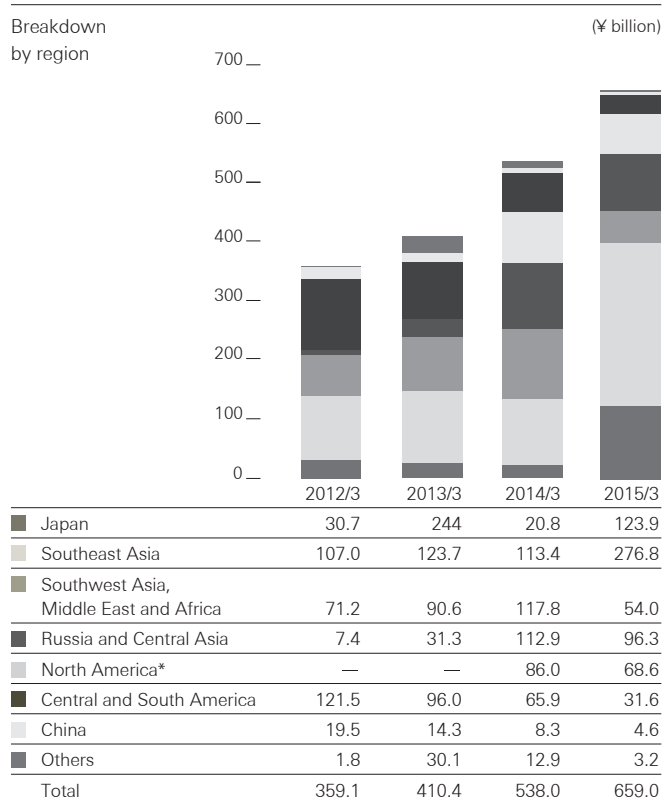
## Net sales



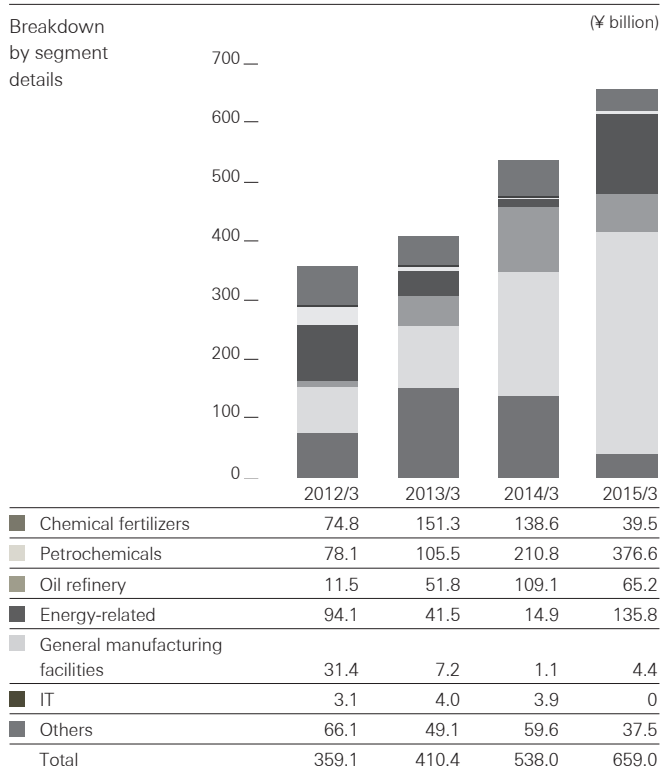
\*We disclosed the region of North America starting from 2014/3.



## Backlog of contracts

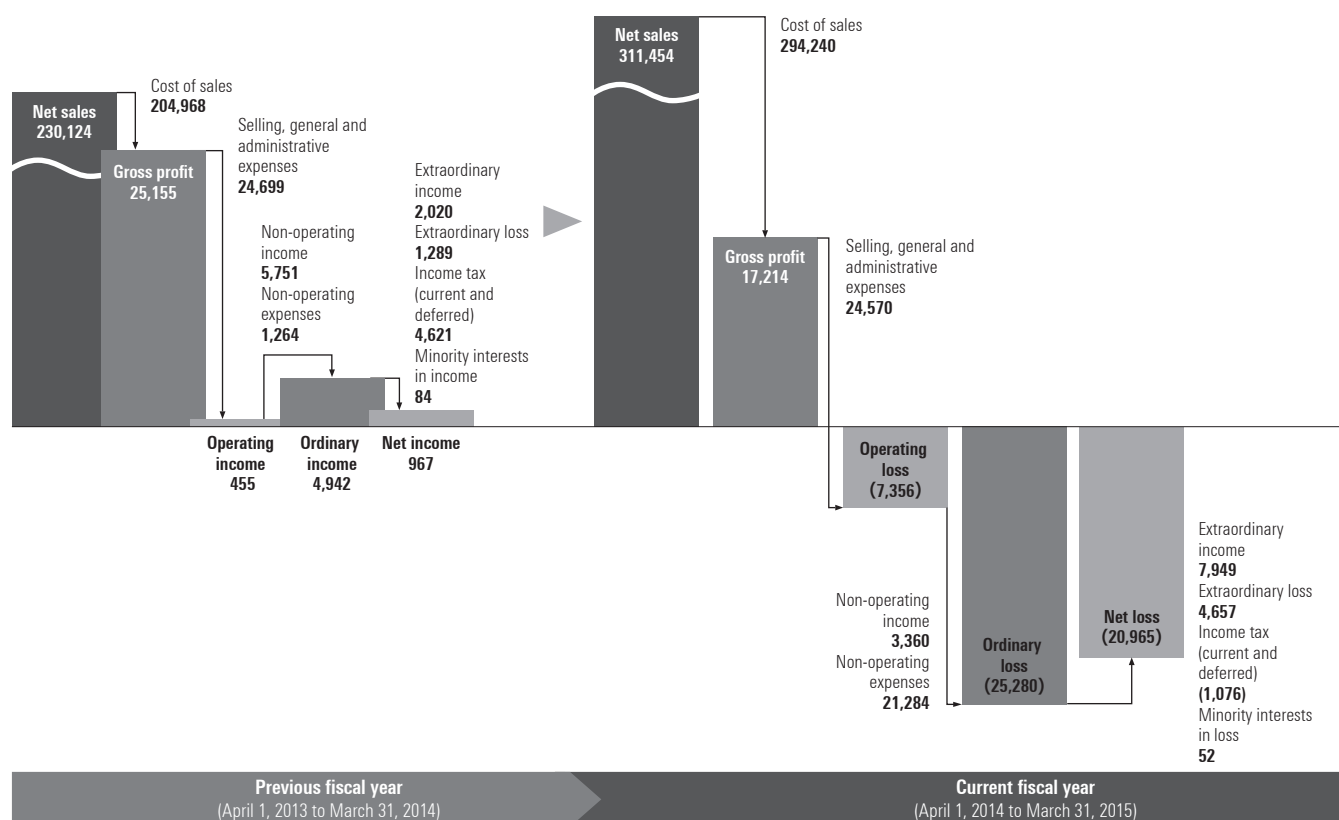


\*We disclosed the region of North America starting from 2014/3.



## Consolidated Statement of Income Summary

(¥ million)



Net cash used in operating activities was ¥4.1 billion, compared to net cash provided by operating activities of ¥21.2 billion in the previous fiscal year. While notes and accounts payable—trade increased to ¥29.3 billion due to an increase in trade payables, the loss was caused by a ¥21.9 billion loss before income taxes (compared to an income before income taxes of ¥5.6 billion in the previous fiscal year), a decrease in notes receivable, accounts receivable from completed construction contracts to a ¥13.9 billion deficit, and a decrease in advances received on uncompleted construction contracts to a ¥14.0 billion deficit.

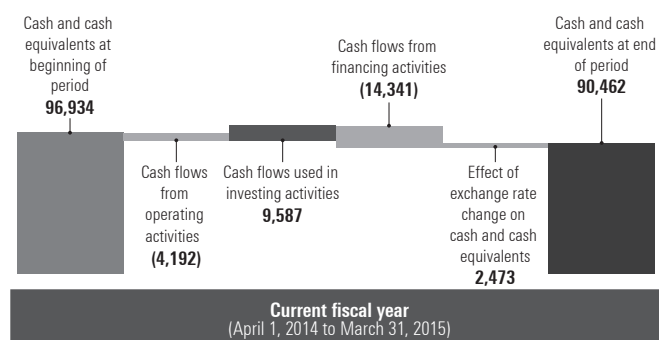
In cash flows from investing activities, there was a net cash provided by investing activities of ¥9.5 billion, compared to a net cash used by investing activities of ¥1.6 billion in the previous fiscal year. The main reason for this was, despite a decrease in short-term loans receivable to ¥5.5 billion, there was an increase to ¥17.0 billion in proceeds from sales of property, plant and equipment.

Net cash used in financing activities was ¥14.3 billion, compared to a net cash provided by financing activities of ¥3.1 billion in the previous fiscal year, due to a ¥12.6 billion decrease in the proceeds and repayment of loans.

As a result, cash and cash equivalents at end of period decreased ¥6.4 billion from the beginning of period, to ¥90.4 billion. This total includes ¥10.1 billion received on deposit from our joint venture construction work project.

## Consolidated Statement of Cash Flows Summary

(¥ million)



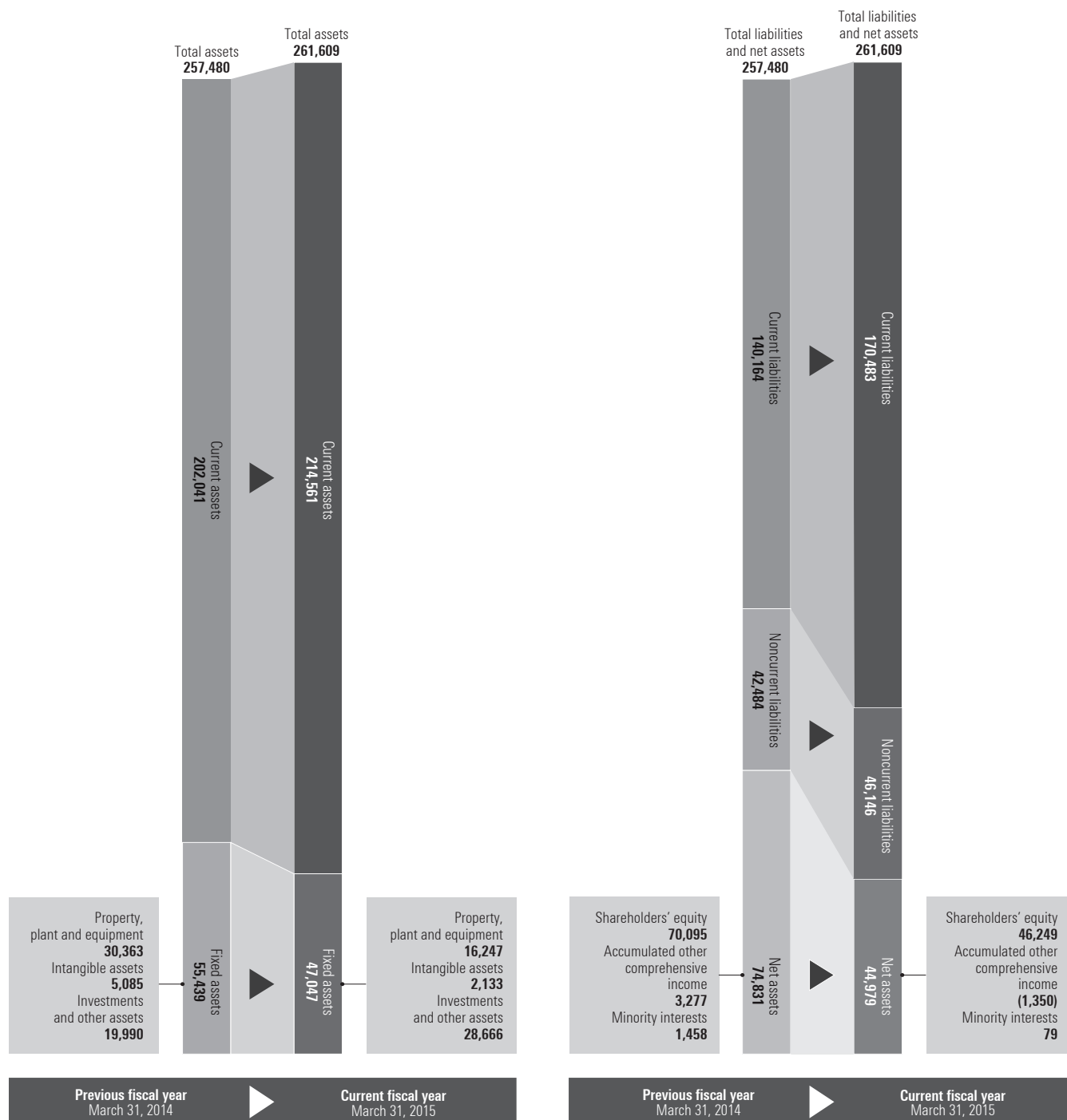
Total assets increased ¥4.1 billion year on year, to ¥261.6 billion. The main cause was, despite a decrease of ¥14.1 billion in total property, plant and equipment due to sales of assets relating to the Real Estate segment, there was a ¥14.1 billion increase of notes receivable, accounts receivable from completed construction contracts as well as an increase of ¥8.6 billion in total investments and other assets, including investment securities and deferred tax assets.

Total liabilities were up ¥33.9 billion year on year to ¥216.6 billion. Despite a decrease of ¥12.2 billion in advances received on uncompleted construction contracts, the increase was caused by an increase of ¥30.2 billion in notes payable, accounts payable for construction contracts and other, as well as ¥15.4 billion in liabilities from application of equity method.

Net assets were down ¥29.8 billion year on year to ¥44.9 billion, due to the net loss of ¥20.9 billion and an ¥8.5 billion increase of deferred losses on hedges.

Consolidated Balance Sheet Summary

(¥ million)



TOYO's dividend policy is to endeavor to distribute profits to shareholders in accordance with operating performance. We also strive to maintain stable dividends from a medium- to long-term perspective while taking into consideration the need for internal reserves that underpin our business base. Our internal reserves are allocated to different reserves for strategic investment in new business fields, for R&D

investment, and in preparation for possible business risk-related losses, and we intend to use these funds effectively to ensure growth going forward. The interim dividend for fiscal 2014 was ¥4.00 per share, but regrettably, due to our current position, we have determined that we must forego the year-end dividend.

### Fiscal 2015 Performance Forecast Outline (Consolidated)

Net sales	¥340.0 billion
Operating income	¥2.5 billion
Ordinary income	¥4.5 billion
Net income	¥3.0 billion
New orders	¥330.0 billion
Cash dividends	¥4.00 per share

### Forecast for Fiscal 2015

In fiscal 2015, in TOYO's core plant market, domestic capital investment is expected in energy-related fields such as power generation. Overseas, the future of energy development and capital investment plans in countries that produce gas and oil remains unclear, due to the sudden drop in the price of crude oil. However, although new development plans for shale gas and oil in North America appear conservative, plans for capital investment in gas-utilizing petrochemical and fertilizer fields are continuing. On the other hand, in India and Southeast Asia, the plunge in the price of crude oil is leading to reduced energy and raw material costs, and is likely to have a favorable effect on stimulating the economy. With a backdrop of increased demand for energy, materials and food supplies accompanying economic development, ongoing demand is anticipated for plant construction in the petrochemical and fertilizer fields and infrastructure development.

In consideration of the above, TOYO has set its goal for new orders in fiscal 2015 at ¥330.0 billion, based on a policy of temporarily slowing our growth strategy in order to focus

on restructuring and emphasizing profitability. Under this strategy, we will seek orders, targeting petrochemical and fertilizer plant projects in emerging economies, as well as infrastructure projects such as power generation and transportation systems. Since April of this year, we have already received orders for an ethylene plant project in the U.S., a railway system project in Indonesia, two natural gas-fired cogeneration power plants in Thailand, and a mega solar project in Japan.

Looking at performance in fiscal 2015, taking into account the progress of projects based on the backlog of contracts at the end of the year, TOYO expects net sales of ¥340.0 billion, operating income of ¥2.5 billion, ordinary income of ¥4.5 billion, and net income of ¥3.0 billion. The annual cash dividend will be a year-end dividend of ¥4.00 per share. In order to achieve these targets, the group intends to thoroughly restructure and will endeavor to strengthen its project proposal system based on revival plans, steadily accomplishing projects and implementing cost reductions to return to profitability.



The following is a list of potential risks associated with the information concerning TOYO's operating results and financial condition in this integrated report that may have

a significant bearing on investors' decisions. This is not intended to be a complete list of these potential risks, but examples recognized by TOYO.

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## Business Risks

In the execution of our business operations, we promote sales activities to obtain new orders for the purpose of ensuring an appropriate amount of work, and have created and maintain various risk management systems to prevent project losses, from the proposal stage until the completion of the project, as part of our corporate governance.

However, we are aware of the possibility that the risks listed below may occur, and may have a negative impact on our operating results and financial condition stemming from a large decrease in order volume or the suspension, termination, or significant decline in project profitability:

1. Emergency situations such as war, civil commotion, riots, revolution, coup d'etat, terrorism, significant security concerns, and force majeure events such as the spread of infectious disease, extraordinary natural phenomena, unusual weather or other acts of nature, in the country or region where a project is carried out.
2. Notable changes in a country's commerce, trade, manufacturing or financial policies, such as license approvals, customs clearance, immigration controls, foreign exchange systems, communications, taxes and others.
3. Remarkable foreign exchange rate fluctuations.
4. Sudden increases in prices of equipment and materials, transportation, construction and others, tightening demand and supply.
5. Concerns over credit risk of main suppliers or contracted partners.
6. Significant or global contraction in capital investment activities in TOYO's business fields, or a sharp decrease in opportunities to obtain new orders due to intensified competition.

To address these risks, TOYO will examine possible countermeasures by carefully gathering information beforehand and working to fully understand the situation. We will strive to mitigate these risks through such measures as enrolling in trade insurance, signing exchange contracts,

setting contract conditions with customers (including diversifying our contracts, setting quotations of contract price, and setting payment conditions and risk sharing conditions with the customer), and decentralizing the suppliers of our equipment and materials, and construction contractors.

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## Compliance Risks

TOYO's business follows a wide range of laws and regulations, including domestic and international labor laws, privacy protection laws, tax laws, import and export control regulations, and unfair competition prevention laws. There is a possibility that changes to these laws, unforeseeable interpretations of these laws, or the like will increase the burden of compliance. By thorough familiarization of TOYO's codes of conduct, compliance manual and other documents, development and operation of an internal

reporting system, and awareness building and promotion activities by the Compliance Committee, TOYO is working diligently to bolster our compliance system. In the case where an act that violates the law or is questionable may occur, it would lead TOYO to confront problems such as an increased burden, an interruption in sales, or a loss of credibility, which may negatively impact business performance.

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## Investment Risks

We strive to reduce the aforementioned risks in the business operations of TOYO's group companies by creating the appropriate collaboration system in which the division that administrates group companies can accurately understand and manage their situation. For our business operations through our Brazilian equity method affiliate, situations

where we cannot receive the corresponding return on investment, or where additional funding is needed due to changes in the political and economic climate of Brazil or trust problems with our business partners may negatively impact TOYO's business performance.

# Financial Section

## Consolidated Balance Sheets

Toyo Engineering Corporation and Consolidated Subsidiaries March 31, 2015 and 2014

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
<b>Current assets:</b>			
Cash and deposits (Note 17)	¥ 90,753	¥ 73,814	\$ 755,330
Notes receivable, accounts receivable from completed construction contracts	62,556	48,362	520,649
Short-term investment securities (Note 20)	2,354	25,025	19,592
Costs on uncompleted construction contracts (Note 7)	33,744	34,462	280,848
Deferred tax assets (Note 23)	2,928	2,977	24,369
Accounts receivable—other	15,474	12,931	128,789
Other	8,738	7,434	72,725
Allowance for doubtful accounts	(1,988)	(2,969)	(16,545)
<b>Total current assets</b>	<b>214,561</b>	<b>202,041</b>	<b>1,785,776</b>
<b>Property, plant and equipment:</b>			
Buildings and structures (Note 4)	16,574	26,762	137,944
Machinery, vehicles, tools, furniture and fixtures	5,680	5,708	47,274
Land (Note 4)	9,398	17,506	78,218
Lease assets	291	1,824	2,421
Construction in progress	8	7	66
Accumulated depreciation and impairment loss	(15,705)	(21,447)	(130,711)
<b>Total property, plant and equipment</b>	<b>16,247</b>	<b>30,363</b>	<b>135,222</b>
<b>Intangible assets:</b>			
Goodwill	6	1,619	49
Other	2,126	3,466	17,694
<b>Total intangible assets</b>	<b>2,133</b>	<b>5,085</b>	<b>17,752</b>
<b>Investments and other assets:</b>			
Investment securities (Notes 3, 20)	18,702	16,533	155,655
Long-term loans receivable	4,580	4,576	38,119
Deferred tax assets (Note 23)	5,559	443	46,267
Other (Note 3)	4,175	3,288	34,748
Allowance for doubtful accounts	(4,351)	(4,851)	(36,213)
<b>Total investments and other assets</b>	<b>28,666</b>	<b>19,990</b>	<b>238,585</b>
<b>Total non-current assets</b>	<b>47,047</b>	<b>55,439</b>	<b>391,568</b>
<b>Total assets</b>	<b>¥261,609</b>	<b>¥257,480</b>	<b>\$2,177,353</b>

See notes to consolidated financial statements.

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
<b>Current liabilities:</b>			
Notes payable, accounts payable for construction contracts and other	¥ 86,007	¥ 55,764	\$ 715,830
Short-term loans payable (Notes 4, 6)	8,233	10,580	68,522
Income taxes payable	472	1,164	3,928
Advances received on uncompleted construction contracts	44,288	56,519	368,605
Provision for bonuses	555	1,124	4,619
Provision for warranties for completed construction	123	79	1,023
Provision for loss on construction contracts (Note 7)	3,924	3,497	32,659
Forward exchange contracts	15,373	1,152	127,948
Other	11,505	10,281	95,755
Total current liabilities	170,483	140,164	1,418,918
<b>Non-current liabilities:</b>			
Long-term loans payable (Notes 4, 6)	23,604	33,535	196,454
Lease obligations	64	488	532
Deferred tax liabilities (Note 23)	9	360	74
Net defined benefit liability (Note 22)	4,693	3,677	39,059
Provision for loss on business of subsidiaries and affiliates	508	—	4,228
Liabilities from application of equity method	15,447	—	128,564
Provision for repairs	—	808	—
Other	1,818	3,613	15,131
Total non-current liabilities	46,146	42,484	384,069
Total liabilities	216,630	182,649	1,802,996
<b>Net assets:</b>			
<b>Shareholders' equity</b>			
Capital stock (Note 16)	18,198	18,198	151,460
Capital surplus	20,759	20,759	172,775
Retained earnings	7,724	31,546	64,286
Treasury stock	(432)	(408)	(3,595)
Total shareholders' equity	46,249	70,095	384,927
<b>Accumulated other comprehensive income:</b>			
Valuation difference on available-for-sale securities	2,299	1,288	19,134
Deferred gains or losses on hedges	(9,717)	(1,133)	(80,873)
Foreign currency translation adjustment	4,759	2,427	39,608
Remeasurements of defined benefit plans	1,308	695	10,886
Total accumulated other comprehensive income	(1,350)	3,277	(11,235)
<b>Minority interests</b>	79	1,458	657
<b>Total net assets</b>	44,979	74,831	374,357
<b>Contingent liabilities (Note 5)</b>			
<b>Total liabilities and net assets</b>	¥261,609	¥257,480	\$2,177,353

## Consolidated Statements of Income

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
<b>Net sales</b>	<b>¥311,454</b>	¥230,124	<b>\$2,592,209</b>
<b>Cost of sales (Notes 9, 10)</b>	<b>294,240</b>	204,968	<b>2,448,938</b>
Gross profit	17,214	25,155	143,270
<b>Selling, general and administrative expenses (Notes 8, 9)</b>	<b>24,570</b>	24,699	<b>204,494</b>
<b>Operating income (loss)</b>	<b>(7,356)</b>	455	<b>(61,223)</b>
<b>Non-operating income:</b>			
Interest income	939	824	7,815
Dividends income	160	209	1,331
Foreign exchange gains	388	649	3,229
Equity in earnings of affiliates	—	2,232	—
Reversal of allowance for doubtful accounts	1,218	1,398	10,137
Miscellaneous income	652	437	5,426
Total non-operating income	3,360	5,751	27,965
<b>Non-operating expenses:</b>			
Interest expenses	740	1,008	6,158
Equity in losses of affiliates	19,712	—	164,061
Miscellaneous expenses	831	256	6,916
Total non-operating expenses	21,284	1,264	177,145
<b>Ordinary income (loss)</b>	<b>(25,280)</b>	4,942	<b>(210,403)</b>
<b>Extraordinary income:</b>			
Gain on sales of property, plant and equipment (Note 11)	6,175	—	51,394
Gain on sales of investment securities	—	501	—
Gain on sales of shares of subsidiaries	908	—	7,557
Gain on sales of investments in capital of subsidiaries and affiliates	98	—	815
Reversal of reserve for repairs	766	—	6,375
Gain on change in equity	—	1,518	—
Total extraordinary income	7,949	2,020	66,158
<b>Extraordinary loss:</b>			
Impairment loss (Note 14)	—	1,289	—
Loss on sales of property, plant and equipment (Note 12)	138	—	1,148
Amortization of goodwill (Note 13)	1,453	—	12,093
Loss on sales of shares of subsidiaries	2,522	—	20,990
Loss on valuation of share of subsidiaries	34	—	282
Provision for loss on business of subsidiaries and affiliates	508	—	4,228
Total extraordinary loss	4,657	1,289	38,759
<b>Income (loss) before income taxes</b>	<b>(21,989)</b>	5,673	<b>(183,012)</b>
Income taxes—current	1,203	4,439	10,012
Income taxes—deferred	(2,279)	181	(18,967)
Total income taxes	(1,076)	4,621	(8,955)
<b>Income (loss) before minority interests</b>	<b>(20,913)</b>	1,051	<b>(174,057)</b>
Minority interests in income	52	84	432
<b>Net income (loss) (Note 27)</b>	<b>¥ (20,965)</b>	¥ 967	<b>\$ (174,490)</b>

See notes to consolidated financial statements.



## Consolidated Statements of Comprehensive Income

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
<b>Income (loss) before minority interests</b>	<b>¥(20,913)</b>	<b>¥1,051</b>	<b>\$(174,057)</b>
<b>Other comprehensive income:</b>			
Valuation difference on available-for-sale securities	1,010	623	8,406
Deferred gains or losses on hedges	(7,660)	463	(63,753)
Foreign currency translation adjustment	1,587	2,195	13,208
Remeasurements of defined benefit plans	613	—	5,101
Share of other comprehensive income of affiliates accounted for using equity method	(172)	(244)	(1,431)
Total other comprehensive income	(4,621)	3,036	(38,460)
<b>Comprehensive income (Note 15)</b>	<b>¥(25,534)</b>	<b>¥4,088</b>	<b>\$(212,517)</b>
<b>Comprehensive income attributable to:</b>			
Owners of the parent	(25,593)	4,000	(213,008)
Minority interests	58	88	482

See notes to consolidated financial statements.

## Consolidated Statements of Changes in Net Assets (Note 16)

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2015 and 2014

Millions of yen

	Capital stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Minority interests	Total net assets
Balance at April 1, 2013	¥18,198	¥20,759	¥31,537	¥(383)	¥ 665	¥ (647)	¥ (468)	¥ —	¥1,429	¥71,091
Dividends from surplus			(959)							(959)
Net income			967							967
Purchase of treasury stock				(24)						(24)
Disposal of treasury stock		0		0						0
Net changes of items other than shareholders' equity					623	(486)	2,895	695	28	3,756
Balance at March 31, 2014	¥18,198	¥20,759	¥31,546	¥(408)	¥1,288	¥(1,133)	¥2,427	¥695	¥1,458	¥74,831

Millions of yen

	Capital stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Minority interests	Total net assets
Balance at April 1, 2014	¥18,198	¥20,759	¥ 31,546	¥(408)	¥1,288	¥(1,133)	¥2,427	¥ 695	¥ 1,458	¥ 74,831
Cumulative effects of changes in accounting policies			(1,514)							(1,514)
Balance at beginning of year applied the change in accounting policies	18,198	20,759	30,032	(408)	1,288	(1,133)	2,427	695	1,458	73,317
Dividends from surplus			(1,342)							(1,342)
Net loss			(20,965)							(20,965)
Purchase of treasury stock				(23)						(23)
Net changes of items other than shareholders' equity					1,010	(8,584)	2,332	613	(1,378)	(6,006)
Balance at March 31, 2015	¥18,198	¥20,759	¥ 7,724	¥(432)	¥2,299	¥(9,717)	¥4,759	¥1,308	¥ 79	¥ 44,979

Thousands of U.S. dollars (Note 1)

	Capital stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Minority interests	Total net assets
Balance at April 1, 2014	\$151,460	\$172,775	\$ 262,555	\$(3,395)	\$10,719	\$ (9,429)	\$ 20,199	\$ 5,784	\$ 12,134	\$ 622,813
Cumulative effects of changes in accounting policies			(12,600)							(12,600)
Balance at beginning of year applied the change in accounting policies	151,460	172,775	249,954	(3,395)	10,719	(9,429)	20,199	5,784	12,134	610,212
Dividends from surplus			(11,169)							(11,169)
Net loss			(174,490)							(174,490)
Purchase of treasury stock				(191)						(191)
Net changes of items other than shareholders' equity					8,406	(71,444)	19,409	5,101	(11,468)	(49,987)
Balance at March 31, 2015	\$151,460	\$172,775	\$ 64,286	\$(3,595)	\$19,134	\$(80,873)	\$39,608	\$10,886	\$ 657	\$ 374,357

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
<b>Cash flows from operating activities:</b>			
Income (loss) before income taxes	¥ (21,989)	¥ 5,673	\$ (183,012)
Depreciation and amortization	2,489	2,633	20,715
Amortization of goodwill	1,686	452	14,032
Increase (decrease) in allowance for doubtful accounts	(1,363)	(1,347)	(11,344)
Impairment loss	—	1,289	—
Increase (decrease) in net defined benefit liability	2,127	(454)	17,702
Increase (decrease) in provision for loss on construction contracts	409	(1,150)	3,404
Interest and dividends income	(1,100)	(1,033)	(9,155)
Interest expenses	740	1,008	6,158
Foreign exchange losses (gains)	584	(85)	4,860
Loss (gain) on sales of property, plant and equipment	(6,157)	(242)	(51,244)
Equity in (earnings) losses of affiliates	19,712	(2,232)	164,061
Loss (gain) on change in equity	—	(1,518)	—
Loss (gain) on sales of investment securities	(20)	(501)	(166)
Loss (gain) on sales of shares of subsidiaries	1,613	—	13,424
Loss (gain) on valuation of investment securities	—	1	—
Loss (gain) on valuation of shares of subsidiaries	34	—	282
Decrease (increase) in notes receivable, accounts receivable from completed construction contracts	(13,986)	7,475	(116,404)
Decrease (increase) in costs on uncompleted construction contracts	529	13	4,402
Decrease (increase) in accounts receivable—other	(1,738)	9,573	(14,465)
Increase (decrease) in notes and accounts payable—trade	29,353	(6,215)	244,302
Increase (decrease) in advances received on uncompleted construction contracts	(14,039)	10,307	(116,845)
Increase (decrease) in reserve for repairs	(685)	103	(5,701)
Increase (decrease) in provision for loss on business of subsidiaries and affiliates	508	—	4,228
Other, net	(2,659)	2,842	(22,130)
Subtotal	(3,952)	26,591	(32,892)
Interest and dividends income received	2,059	2,108	17,136
Interest expenses paid	(767)	(1,018)	(6,383)
Income taxes paid	(1,532)	(6,437)	(12,750)
Net cash provided by (used in) operating activities	(4,192)	21,244	(34,889)
<b>Cash flows from investing activities:</b>			
Net decrease (increase) in time deposits	(528)	447	(4,394)
Purchase of property, plant and equipment	(575)	(756)	(4,785)
Proceeds from sales of property, plant and equipment	17,022	311	141,672
Purchase of intangible assets	(903)	(1,329)	(7,515)
Purchase of investment securities	(274)	(1,193)	(2,280)
Proceeds from sales of investment securities	38	578	316
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(196)	—	(1,631)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	852	—	7,091
Net decrease (increase) in short-term loans receivable	(5,554)	—	(46,225)
Other, net	(291)	302	(2,421)
Net cash provided by (used in) investing activities	9,587	(1,638)	79,791
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term loans payable	(2,608)	(2,665)	(21,706)
Proceeds from long-term loans payable	1,800	10,848	14,981
Repayment of long-term loans payable	(11,877)	(3,629)	(98,851)
Repayments of finance lease obligations	(243)	(339)	(2,022)
Cash dividends paid	(1,342)	(959)	(11,169)
Other, net	(69)	(88)	(574)
Net cash provided by (used in) financing activities	(14,341)	3,167	(119,359)
<b>Effect of exchange rate change on cash and cash equivalents</b>	<b>2,473</b>	<b>2,486</b>	<b>20,582</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(6,472)</b>	<b>25,259</b>	<b>(53,866)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>96,934</b>	<b>71,675</b>	<b>806,774</b>
<b>Cash and cash equivalents at end of period (Note 17)</b>	<b>¥ 90,462</b>	<b>¥96,934</b>	<b>\$ 752,908</b>

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Toyo Engineering Corporation and Consolidated Subsidiaries

## 1. BASIS OF PREPARATION

Toyo Engineering Corporation (the "Company") and its domestic consolidated subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its overseas consolidated subsidiaries maintain their books of account in conformity with those of their respective countries of domicile. The accompanying consolidated financial statements have been compiled from the accounts prepared by the Company in accordance with the provisions set forth in the Financial Instruments and Exchange Law of Japan and with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. Certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan.

For the convenience of 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 ¥120.15 to U.S.\$1.00 prevailing on March 31, 2015.

## 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. As of March 31, 2015, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 13 and 7, respectively. Toyo Engineering Korea Limited, Toyo Engineering Corporation, China and 5 other subsidiaries are consolidated using their financial statements as of their respective fiscal year end, which falls on December 31, and necessary adjustments are made to their financial statements to reflect any significant transactions from January 1 to March 31. 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 within twenty years on a straight-line basis.

### (b) Securities

All debt and equity securities other than equity securities issued by subsidiaries and affiliates are classified into one of three categories: trading, held-to-maturity, or available-for-sale 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 which the Company and its consolidated 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 securities.

Trading 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. Short-term investment securities classified as available-for-sale securities are recorded at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as available-for-sale securities are recorded at cost.

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

### (c) Derivative Financial Instruments

The Company and certain consolidated subsidiaries enter into various derivative transactions in order to manage certain risk arising from adverse fluctuations in foreign currency exchange rates and interest rates. 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 component of net assets.

Deferral hedge accounting is adopted for derivatives which is qualified as hedges, under which unrealized gain or loss is deferred. Hedging instruments are derivative transactions such as foreign exchange forward contract and interest rate swap, and hedged items are primarily forecast sales denominated in foreign currencies, and receivables and payables denominated in foreign currencies. Hedge effectiveness is not assessed if the substantial terms and conditions of the hedging instruments and the hedged forecasted transactions are the same. The Company and its consolidated subsidiaries manages its derivative transactions in accordance with its internal "Policies and Procedures for Risk Management."

### (d) Costs on Uncompleted Construction Contracts

Costs on uncompleted construction contracts is stated at cost, determined by the identified-cost method.

**(e) Depreciation and Amortization**

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

However, buildings and rental properties acquired after April 1, 1998 are depreciated on a straight-line method.

The useful lives of property, plant and equipment are as follows:

Buildings and structures:	3 to 50 years
Machinery, vehicles, tools, furniture and fixtures:	2 to 20 years

Amortization of intangible assets of the Company and its consolidated subsidiaries is calculated principally by straight line method. Software is amortized on a straight-line method over 3 to 5 years of the estimated available period.

**(f) Leases**

Depreciation of assets on finance leases which do not transfer ownership of the leased assets to the lessee are calculated by the straight-line method over the lease period with their residual value zero.

**(g) Allowance for Doubtful Accounts**

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

**(h) Provision for Bonuses**

Provision for bonuses to employees is provided at the expected payment amount for the fiscal year.

**(i) Provision for Warranties for Completed Construction**

Provision for warranties for completed construction is provided based on past experience.

**(j) Provision for Loss on Construction Contracts**

Provision for loss on construction contracts is provided in case the material loss is expected for a certain large-scale contract work.

**(k) Provision for Repairs**

The Company and its consolidated subsidiaries have provided provision for repair at estimated amount for preparing the expenditure for major repairs.

The Company provides a portion of estimated expenditure equally divided to each fiscal term from decision of repair plan to end of repair work.

**(l) Provision for Loss on Business of Subsidiaries and Affiliates**

Provision for loss on business of subsidiaries and affiliates is provided based on the financial position of the subsidiaries and affiliates.

**(m) Retirement Benefits**

Net defined benefit liability at year-end is stated based on the fair value of plan assets and the projected benefit obligation. As to calculation of the projected benefit obligation, the expected benefit payments at the year-end have been recorded mainly at the amount calculated based on benefit formula. The difference arising from the adoption of the new standard of accounting of ¥3,695 million (\$30,753 thousand) is amortized over 15 years by the straight-line method. Actuarial gain or loss is amortized by the straight-line method over 9 years within the average of the estimated remaining service years of the employees in the year following the year of recognition. Prior service cost is amortized as incurred over 13 years within the average of the estimated remaining service years when incurred.

Unamortized actuarial gain or loss, prior service cost and amortization of unrecognized retirement benefit obligation at transition are provided with tax effect at remeasurements of defined benefit plans under total other comprehensive income of net assets.

**(n) Foreign Currency Translation**

Both short-term and long-term receivables and payables in foreign currencies are translated at the rates of exchange in effect at the balance sheet date and differences arising from the translation of the accounts of foreign subsidiaries and affiliates are included in the consolidated statements of income.

The balance sheet accounts of the consolidated foreign subsidiaries are translated at the rates of exchange in effect at the balance sheet date, except for capital stock and capital surplus, which are translated at their historical exchange rates. Revenues, expenses and net income for the year are translated at the rates of exchange in effect at the balance sheet date. Differences arising from translation of the accounts of foreign subsidiaries and affiliates are presented as "Foreign currency translation adjustment" and "Minority interests" in the accompanying consolidated balance sheets.



**(o) Recognition of Revenues**

Revenues and costs of construction contracts of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. The percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost. The completed-contract method continues to be applied for contracts for which the percentage of completion cannot be reliably estimated.

**(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) Consumption Tax**

Transactions subject to consumption tax are recorded at amounts exclusive of consumption taxes.

**(r) Consolidated Tax Return**

The Company files a consolidated tax return with domestic subsidiaries.

**(s) Capitalization of Interest Expenses**

Interest expenses incurred for real estate development projects conducted by certain subsidiaries have been capitalized as a part of the development cost of such projects.

**(t) Advances Received on Uncompleted Construction Contracts**

Advances received on uncompleted construction contracts from customers are shown as a liability, not as a deduction from the amount of costs on uncompleted construction contracts.

**(u) 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. 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.

**(v) Per Share Information**

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.

Total net assets per share is computed based on outstanding shares at the balance sheet date.

**(w) Research and Development Costs**

Research and development costs are charged to income when incurred.

**(x) Impairment of Fixed Assets**

The Company and its consolidated subsidiaries have grouped their fixed assets into each company for EPC Business, each object for Real Estate and Idle Assets.

The recoverable amounts of the asset groups were measured by applying net selling prices which were assessed based on the current market price of land and other salable prices or value in use which was computed by using real-estate appraisal value, etc., for the year ended March 31, 2015.

**(Accounting change)**

The Company has applied the "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No. 26 of May 17, 2012) and "Guidance on Accounting standard for Retirement Benefits" (ASBJ Guidance No. 25 of March 26, 2015) about the main clause of Article 35 of the standard and the main clause of Article 67 of the guidance from the fiscal year ended March 31, 2015. As the calculation method of projected benefit obligation and service cost considered, the period attribution method of the expected amount of retirement benefits changed from straight line attribution to benefit formula, and the method of deciding the discount rate about base bond term also changed from the method based on the expected average remaining service period of the employee to the method using weighted average discount rate reflecting the expected timing and amount of the benefit payments.

In accordance with transitional accounting as stipulated in Article 37 of the standard, the effect of the changes on accounting policies arising from initial application is recognized as retained earnings in accumulated other comprehensive income at the beginning of the fiscal year ended March 31, 2015.

As a result, net defined benefit liability ¥2,222 million (\$18,493 thousand) increased and retained earnings ¥1,514 million (\$12,600 thousand) decreased in the consolidated balance sheet at the beginning of the fiscal year ended March 31, 2015. The effect on the operating loss in the fiscal year ended March 31, 2015, and ordinary loss, and the net loss before income tax is insignificant.

The effects on per share are stated in Note 27.

**(Accounting standards issued but not yet effective)**

"Accounting Standard for Business Combinations" (ASBJ Statement No. 21), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22), "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7), "Accounting Standard for Earnings Per Share" (ASBJ Statement No. 2), "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10) and "Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No. 4) were revised on September 13, 2013. However, these accounting standards have not yet been adopted as of March 31, 2015.

These accounting standards were revised mainly focusing on 1) the treatment of the parent company's changes in interest of its subsidiary while the parent company's control is continuing because of additional acquisition of shares of the subsidiary; 2) the treatment of acquisition-related expenses; 3) the presentation of net income and the change from minority interests to non-controlling interests; and 4) the treatment of provisional accounting.

The Company and its domestic subsidiaries will adopt these accounting standards effective the fiscal year ending March 31, 2016.

At present, the Company is in the process of evaluating the impact on the consolidated financial statements from the adoption of these revised accounting standards.

**(Changes in Presentation)**

(Consolidated Balance Sheets)

Forward exchange contracts, which had previously been included in other under current liabilities is separately presented under current liabilities from the fiscal year ended March 31, 2015, because its materiality has increased.

To conform to the current presentation, the forward exchange contracts of ¥1,152 million, which had been previously included in other under current liabilities is reclassified to forward exchange contracts as of March 31, 2014.

(Consolidated Statements of Cash Flow)

Increase (decrease) in reserve for repairs, which had previously been included in other under Cash flows from operating activities, is separately presented under Cash flows from operating activities from the fiscal year ended March 31, 2015, because its materiality has increased.

To conform to the current presentation, the increase (decrease) in reserve for repairs of ¥103 million, which had been previously included in other under Cash flows from operating activities is reclassified to increase (decrease) in reserve for repairs as of March 31, 2014.

### 3. INVESTMENTS AND OTHER ASSETS

Among investment securities and other in investment and other assets, the amounts of shares of unconsolidated subsidiaries and affiliates as of March 31, 2015 and 2014 are as follows:

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Investments and other assets			
Investment securities	¥10,347	¥ 9,577	\$ 86,117
Other	428	552	3,562

### 4. SHORT-TERM LOANS PAYABLE AND LONG-TERM LOANS PAYABLE

The following assets at March 31, 2015 and 2014 were pledged as collateral:

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Collateral			
Buildings	¥ 1,231	¥ 1,292	\$ 10,245
Land	1,186	1,150	9,870
Total	¥ 2,418	¥ 2,442	\$ 20,124

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Debts with collateral			
Long-term debts	¥ —	¥ 323	\$ —
Current portion of long-term debts	—	161	—
Total	¥ —	¥ 323	\$ —

In the pledged asset, buildings of ¥1,231 million (\$10,245 thousand) and ¥1,196 million, and land ¥1,186 million (\$9,870 thousand) and ¥1,150 million, as of March 31, 2015 and 2014 respectively, were pledged for issuing the performance bonds. There is not any corresponding obligation as of March 31, 2015.

The following schedule shows the maturities of long-term loans payable subsequent to March 31, 2015:

Years ended March 31,	Millions of yen	Thousands of U.S. dollars
2016	¥ 4,760	\$ 39,617
2017	9,750	81,148
2018	5,484	45,642
2019	4,548	37,852
2020	1,685	14,024
2021 and thereafter	2,135	17,769

### 5. CONTINGENT LIABILITIES

The Company and its subsidiaries were contingently liable as guarantors to others in the aggregate amount of ¥2,996 million (\$24,935 thousand) and ¥4,116 million at March 31, 2015 and 2014, respectively.

## 6. COMMITMENT LINE CONTRACTS

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

Years ended March 31, Commitment Line	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Amount of commitment line contract	¥20,011	¥22,716	\$166,550
Used amount	5,604	9,016	46,641
Balance of unused commitment line	¥14,406	¥13,699	\$119,900

## 7. COSTS ON UNCOMPLETED CONSTRUCTION CONTRACTS

Costs on uncompleted construction contracts and provision for loss on construction contracts related to the construction contracts with substantial anticipated losses are not offset as follows:

Years ended March 31, Costs on uncompleted construction contracts	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
	¥2,575	¥1,425	\$21,431

## 8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The main components of selling, general and administrative expenses for the year ended March 31, 2015 and 2014 are as follows:

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Salaries	¥11,048	¥10,182	\$91,951
Provision for bonuses	463	451	3,853
Retirement benefit expenses	874	671	7,274
Depreciation	530	632	4,411
Research and development costs	762	912	6,342

## 9. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in cost of sales and selling, general and administrative expenses for the years ended March 31, 2015 and 2014 amounted to ¥762 million (\$6,342 thousand) and ¥912 million, respectively.

## 10. PROVISION FOR LOSS ON CONSTRUCTION CONTRACTS

Gross amount of increase in provision for loss on construction contracts as of March 31, 2015 and 2014 are as follows:

Years ended March 31, Amount of provision for loss on construction contracts	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
	¥3,389	¥3,278	\$28,206

## 11. GAIN ON SALES OF PROPERTY, PLANT AND EQUIPMENT

Breakdown of gain on sales of property, plant and equipment is as follows:

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Building	¥ 461	¥—	\$ 3,836
Land	5,714	—	47,557
Total	¥6,175	¥—	\$51,394

## 12. LOSS ON SALES OF PROPERTY, PLANT AND EQUIPMENT

Breakdown of loss on sales of property, plant and equipment is as follows:

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Land	¥138	¥—	\$1,148

## 13. AMORTIZATION OF GOODWILL

In accordance with Section 32 of "Practical Guidelines on Accounting Standard for Capital Consolidation Procedures in Preparing Consolidated Financial Statements" (JICPA Accounting Practice Committee Statement No.7, November 28, 2014), as a write-down of its investment in a subsidiary being recognized, the Company recognized the full amortization of goodwill associated with the subsidiary for the year ended March 31, 2015.

## 14. IMPAIRMENT LOSS

(1) Impairment losses on long-lived assets for the fiscal year ended March 31, 2014 for each asset group are as follows:

Location	Used States	Category of assets	Millions of yen
			2014
India	Other	Goodwill	¥695
Chiba, Japan	Rental commercial facilities	Land, Buildings and Other	594

(2) The recognition of impairment loss

The book values of goodwill were reduced to their recoverable amounts and the reduction amounts were recorded as impairment loss in extraordinary loss on consolidated statement of income ended March 31, 2014, because of the lower performance of consolidated subsidiary in India than expected at the additional purchase of the stock.

The book values of land, buildings and other were reduced to their recoverable amounts because of the performance of rental commercial facilities.

The reduction amounts were recorded as impairment loss in extraordinary loss on consolidated statement of income ended March 31, 2014.

(3) The method of assets grouping

Long-lived assets concerning to EPC business are grouped by companies individually and long-lived assets concerning to real estate leasing and management are grouped by properties individually.

(4) The calculation of recoverable amounts

About the recoverable amounts of calculation, the future cash flow of amortization is discounted by 4.7%. Concerning to land, buildings and other, the net sale value is determined by values based on the Japanese Real Estate Appraisal Standards.



## 15. OTHER COMPREHENSIVE INCOME

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Valuation difference on available-for-sale securities:			
Amount arising during the year	¥ 1,387	¥ 900	\$ 11,543
Reclassification adjustments for gains and losses realized in net income	(20)	—	(166)
The amount of valuation on available-for-sale securities before tax effect	1,366	900	11,369
Tax effect	(356)	(277)	(2,962)
Valuation difference on available-for-sale securities	1,010	623	8,406
Deferred gains or losses on hedges:			
Amount arising during the year	(10,871)	711	(90,478)
Reclassification adjustments for gains and losses realized in net income	—	—	—
The amount of deferred gains or losses on hedges before tax effect	(10,871)	711	(90,478)
Tax effect	3,210	(248)	26,716
Deferred gains or losses on hedges	(7,660)	463	(63,753)
Foreign currency translation adjustment:			
Amount arising during the year	1,587	2,195	13,208
Reclassification adjustments for gains and losses realized in net income	—	—	—
The amount of foreign currency translation adjustment before tax effect	1,587	2,195	13,208
Tax effect	—	—	—
Foreign currency translation adjustment	1,587	2,195	13,208
Remeasurements of defined benefit plans adjustment:			
Amount arising during the year	973	—	8,098
Reclassification adjustments for gain and loss realized in net income	(89)	—	(740)
The amount of remeasurements of defined benefit plans adjustment	884	—	7,357
Tax effect	(270)	—	(2,247)
Remeasurements of defined benefit plans adjustment	613	—	5,101
Share of other comprehensive income of associates accounted for using equity method:			
Amount arising during the year	(172)	(244)	(1,431)
Total other comprehensive income	¥ (4,621)	¥3,036	\$(38,460)

## 16. SUPPLEMENTARY INFORMATION FOR CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

### For the year ended March 31, 2015

#### (a) Type and number of outstanding shares

Type of shares	Number of shares			
	Balance at beginning of year	Increase in shares during the year	Decrease in shares during the year	Balance at end of year
Issued stock:				
Common stock	192,792,539	—	—	192,792,539
Total	192,792,539	—	—	192,792,539
Treasury stock:				
Common stock	1,024,116	52,619	—	1,076,735
Total	1,024,116	52,619	—	1,076,735

Note: Treasury stock increased by 52,619 shares due to the repurchase of shares less than one unit.

## (b) Dividends

## (b) Dividends from surplus

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)	Amount per share (Yen)	Amount per share (U.S. Dollars)	Shareholders' cut-off date	Effective date
June 25, 2014	Annual general meeting of shareholders	Common stock	575	4,785	3.0	0.02	March 31, 2014	June 26, 2014
November 13, 2014	Board of directors	Common stock	766	6,375	4.0	0.03	September 30, 2014	December 1, 2014

For the year ended March 31, 2014

## (a) Type and number of outstanding shares

Type of shares	Number of shares			
	Balance at beginning of year	Increase in shares during the year	Decrease in shares during the year	Balance at end of year
<b>Issued stock:</b>				
Common stock	192,792,539	—	—	192,792,539
<b>Total</b>	<b>192,792,539</b>	<b>—</b>	<b>—</b>	<b>192,792,539</b>
<b>Treasury stock:</b>				
Common stock	965,838	58,968	690	1,024,116
<b>Total</b>	<b>965,838</b>	<b>58,968</b>	<b>690</b>	<b>1,024,116</b>

Notes: 1. Treasury stock increased by 58,968 shares due to the repurchase of shares less than one unit.

2. Treasury stock decreased by 690 shares due to the sale of shares less than one unit.

## (b) Dividends

## (b-1) Dividends from surplus

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount per share (Yen)	Shareholders' cut-off date	Effective date
June 26, 2013	Annual general meeting of shareholders	Common stock	959	5.0	March 31, 2013	June 27, 2013

## (b-2) Dividends with a shareholders' cut-off date during the fiscal year ended March 31, 2014 but an effective date subsequent to the fiscal year ended March 31, 2015.

Date of approval	Resolution approved by	Type of shares	Paid from	Amount (Millions of yen)	Amount per share (Yen)	Shareholders' cut-off date	Effective date
June 25, 2014	Annual general meeting of shareholders	Common stock	Retained earnings	575	3.0	March 31, 2014	June 26, 2014

## 17. CONSOLIDATED STATEMENTS OF CASH FLOWS

A reconciliation between the balance of cash and deposits reflected in the accompanying consolidated balance sheets and that of cash and cash equivalents in the accompanying consolidated statements of cash flows as of March 31, 2015 and 2014 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Cash and deposits	<b>¥90,753</b>	¥73,814	<b>\$755,330</b>
Time deposits with maturities over three months	<b>(2,290)</b>	(1,572)	<b>(19,059)</b>
Short-term investments with maturities within three months included in securities	<b>1,999</b>	24,692	<b>16,637</b>
Cash and cash equivalents	<b>¥90,462</b>	¥96,934	<b>\$752,908</b>

The amounts of assets and liabilities of Toyo Business Engineering Corporation, over which the Company lost control during the fiscal year ended March 31, 2015, the total consideration and net cash and cash equivalents received arising from the sales of shares are as follows:

	Millions of yen	Thousands of U.S. dollars
	2015	2015
Current assets	<b>¥ 3,709</b>	<b>\$ 30,869</b>
Non-current assets	<b>1,751</b>	<b>14,573</b>
Current liabilities	<b>(2,629)</b>	<b>(21,880)</b>
Minority interests	<b>(1,387)</b>	<b>(11,543)</b>
Company's interests after losing control	<b>(917)</b>	<b>(7,632)</b>
Gain on sales of shares	<b>908</b>	<b>7,557</b>
Total consideration received	<b>1,435</b>	<b>11,943</b>
Cash and cash equivalents of subsidiary over which control is lost	<b>(583)</b>	<b>(4,852)</b>
Net cash and cash equivalents received	<b>¥ 852</b>	<b>\$ 7,091</b>

The amounts of assets and liabilities of Tec Estate Corporation, over which the Company lost control during the fiscal year ended March 31, 2015, the total consideration and net cash and cash equivalents paid arising from the sales of shares are as follows:

	Millions of yen	Thousands of U.S. dollars
	2015	2015
Current assets	<b>¥ 787</b>	<b>\$ 6,550</b>
Non-current assets	<b>3,029</b>	<b>25,210</b>
Current liabilities	<b>(579)</b>	<b>(4,818)</b>
Non-current liabilities	<b>(292)</b>	<b>(2,430)</b>
Loss on sales of shares	<b>(2,522)</b>	<b>(20,990)</b>
Total consideration received	<b>423</b>	<b>3,520</b>
Cash and cash equivalents of subsidiary over which control is lost	<b>(619)</b>	<b>(5,151)</b>
Net cash and cash equivalents paid	<b>¥ (196)</b>	<b>\$ (1,631)</b>

## 18. LEASES

The Company and its consolidated subsidiaries have adopted "Accounting Standard for Lease Transactions."

### (a) Finance Leases

Finance leases are capitalized, and recorded on the balance sheet based on finance lease contracts.

### (b) Operating Leases

Operating leases are not capitalized. The followings are future minimum lease payments and receivables:

#### (b-1) Operating Leases (as Lessee)

Future minimum lease payments subsequent to March 31, 2015 and 2014 for noncancelable operating leases are summarized as follows:

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Within one year	¥493	¥ 705	\$4,103
Over one year	271	550	2,255
Total	¥765	¥1,256	\$6,367

#### (b-2) Operating Leases (as Lessor)

Future minimum lease receivables subsequent to March 31, 2015 and 2014 for noncancelable operating leases are summarized as follows:

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Within one year	¥—	¥ 768	\$—
Over one year	—	2,424	—
Total	¥—	¥3,192	\$—

### (c) Operating Sub-leases

Future minimum lease payments for noncancelable operating sub-leases are summarized as follows:

#### (c-1) Lease Investment Assets and Lease Receivables

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Current assets	¥0	¥ 37	\$0
Investment and other assets	0	112	0

#### (c-2) Lease Obligations

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Current liabilities	¥0	¥ 37	\$0
Non-current liabilities	0	112	0

## 19. FINANCIAL INSTRUMENTS

### For the year ended March 31, 2015

#### 1. Condition of Financial Instruments

The Company and its consolidated subsidiaries hold their temporary cash surplus through low-risk financial assets and raise funds through borrowing from banks.

Derivative financial instruments are utilized for reducing the risk of exchange rate fluctuations, interest rate fluctuations, and credit. Therefore, there are no derivatives for speculative purpose.

Notes receivable, accounts receivable from completed construction contracts are exposed to credit risks of customers and risks of exchange rate fluctuations. The Company deals with these risks by organizing careful reviews on being awarded contracts, letters of credit, and export credit insurance. The Company minimizes exchange fluctuation risks by organizing their corresponding forward-exchange contracts, in principle.

Short-term investment securities and investment securities are exposed to volatility risks of market price. The Company deals with these risks by periodic monitoring, as they mainly consist of short-term held-to-maturity bonds and stocks of our business partner.

Notes payable, accounts payable for construction contracts and other are mostly due within one year.

Borrowings from banks are raised mainly for capital investment or working capital. For some long-term loans payable, the Company entered into interest swap agreements to minimize risks of interest rate fluctuations.

Regarding derivatives, forward-exchange contracts are used to minimize exchange fluctuation in foreign-currency operations, and interest-swap contracts are used to minimize interest rate fluctuations.

The fair value of financial instruments is based on their quoted market prices, if available, or reasonably estimated amounts if there is no market price. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the notional amounts below are not necessarily indicative of the actual market risk involved in derivative transactions.

## 2. Fair Value of Financial Instruments

Book value, fair value, and net unrealized gain or loss of financial instruments consist of the following:

It does not include items for which it is extremely difficult to determine the fair value.

	Millions of yen		
	Book value	Fair value	Unrealized gain / (loss)
<b>At March 31, 2015</b>			
(1) Cash and deposits	¥ 90,753	¥ 90,753	¥ —
(2) Notes receivable, accounts receivable from completed construction contracts	62,556		
Less: Allowance for doubtful accounts	(98)		
Notes receivable, accounts receivable from completed construction contracts, net	62,457	62,453	(4)
(3) Accounts receivable—other	15,474		
Less: Allowance for doubtful accounts	(71)		
Accounts receivable—other, net	15,403	15,403	(0)
(4) Short-term investment securities and investment securities			
Held-to-maturity securities	1,999	1,999	(0)
Available-for-sale securities	6,748	6,748	—
Total of assets	177,362	177,357	(4)
(1) Notes payable, accounts payable for construction contracts and other	86,007	86,003	(4)
(2) Short-term loans payable	3,473	3,473	—
(3) Long-term loans payable (including current portion)	28,364	28,477	112
Total of liabilities	117,845	117,953	108
Derivatives			
not designated as hedging instruments	(136)	(136)	—
designated as hedging instruments	(11,826)	(11,826)	—
Total derivatives	¥ (11,962)	¥ (11,962)	¥ —

Notes receivable, accounts receivable from completed construction contracts and accounts receivable—other listed above are offset by the corresponding figures of allowance for doubtful accounts listed above. Net receivables and payables derived as a result of derivative transactions are presented. Values in parentheses show contra-asset account, net liabilities and unrealized loss.



Thousands of U.S. dollars

**At March 31, 2015**

	Book value	Fair value	Unrealized gain / (loss)
(1) Cash and deposits	\$ 755,330	\$ 755,330	\$ —
(2) Notes receivable, accounts receivable from completed construction contracts	520,649		
Less: Allowance for doubtful accounts	(815)		
Notes receivable, accounts receivable from completed construction contracts, net	519,825	519,791	(33)
(3) Accounts receivable—other	128,789		
Less: Allowance for doubtful accounts	(590)		
Accounts receivable—other, net	128,198	128,198	(0)
(4) Short-term investment securities and investment securities			
Held-to-maturity securities	16,637	16,637	(0)
Available-for-sale securities	56,163	56,163	—
Total of assets	1,476,171	1,476,129	(33)
(1) Notes payable, accounts payable for construction contracts and other	715,830	715,796	(33)
(2) Short-term loans payable	28,905	28,905	—
(3) Long-term loans payable (including current portion)	236,071	237,012	932
Total of liabilities	980,815	981,714	898
Derivatives			
not designated as hedging instruments	(1,131)	(1,131)	—
designated as hedging instruments	(98,426)	(98,426)	—
Total derivatives	\$ (99,558)	\$ (99,558)	\$ —

Millions of yen

	Book value	Fair value	Unrealized gain / (loss)
At March 31, 2014			
(1) Cash and deposits	¥ 73,814	¥ 73,814	¥ —
(2) Notes receivable, accounts receivable from completed construction contracts	48,362		
Less: Allowance for doubtful accounts	(317)		
Notes receivable, accounts receivable from completed construction contracts, net	48,045	48,030	(14)
(3) Accounts receivable—other	12,931		
Less: Allowance for doubtful accounts	(1)		
Accounts receivable—other, net	12,929	12,929	(0)
(4) Short-term investment securities and investment securities			
Held-to-maturity securities	24,692	24,692	(0)
Available-for-sale securities	5,378	5,378	—
Total of assets	164,860	164,846	(14)
(1) Notes payable, accounts payable for construction contracts and other	55,764	55,754	(10)
(2) Short-term loans payable	6,640	6,640	—
(3) Long-term loans payable (including current portion)	37,475	37,741	266
Total of liabilities	99,880	100,136	255
Derivatives			
not designated as hedging instruments	135	135	—
designated as hedging instruments	(235)	(235)	—
Total derivatives	¥ (99)	¥ (99)	¥ —

Notes receivable, accounts receivable from completed construction contracts and accounts receivable—other listed above are offset by the corresponding figures of allowance for doubtful accounts listed above. Net receivables and payables derived as a result of derivative transactions are presented. Values in parentheses show contra-asset account, net liabilities and unrealized loss.

**(Note 1) Computational method and related issues****Assets****(1) Cash and deposits**

Book values are used as fair values because they are nearly equal to such book values.

**(2) (3) Notes receivable, accounts receivable from completed construction contracts and accounts receivable—other**

Book values for items which are settled in a short-term are used as fair values of these items because they are nearly equal to such book values. Fair values of other items are based on the present value discounted by the proper discount rate coupled with period for settlement and credit risks.

**(4) Short-term investment securities and investment securities**

Fair value of stock items are based on the market prices and bond items are based on the market prices or their price provided by the financial institution.

**Liabilities****(1) Notes payable, accounts payable for construction contracts and other**

Book values for items which are settled in a short-term are used as fair values of these items because they are nearly equal to such book values. Fair values of other items are based on the present value discounted by the proper discount rate coupled with period for settlement and credit risks.

**(2) Short-term loans payable**

Book values are used as fair values because they are nearly equal to such book values.

**(3) Long-term loans payable (including current portion)**

The present values of the principal and total interest, discounted by the rate assumed to be applied to the new borrowings under the same conditions, are used as the fair values.

**Derivative Transactions**

See "21. DERIVATIVE TRANSACTIONS."

**(Note 2) Financial instruments of which it is extremely difficult to determine the fair value**

Unlisted securities that amounted to ¥2,356 million (\$19,608 thousand) as of March 31, 2015 and ¥2,455 million as of March 31, 2014 are excluded from the above table because they are deemed extremely difficult to determine the fair values; they do not have market prices and it is not possible to conduct alternative methods such as the estimation of their future cash flows. For the fiscal year ended March 31, 2015, ¥34 million (\$282 thousand) is recognized as impairment associated with unlisted securities.

**(Note 3) Redemption schedule for monetary assets with maturity date and short-term investment and investment securities**

At March 31, 2015	Millions of yen			
	Within one year	After one year through five years	After five years through ten years	After ten years
Cash and deposits	¥ 90,753	¥ —	¥—	¥—
Notes receivable, accounts receivable from completed construction contracts	56,511	6,045	—	—
Accounts receivable—other	15,350	123	—	—
Held-to-maturity securities	1,999	—	—	—
Available-for-sale securities	354	—	—	—
Total	¥164,969	¥6,169	¥—	¥—

At March 31, 2015	Thousands of U.S. dollars			
	Within one year	After one year through five years	After five years through ten years	After ten years
Cash and deposits	\$ 755,330	\$ —	\$—	\$—
Notes receivable, accounts receivable from completed construction contracts	470,337	50,312	—	—
Accounts receivable—other	127,756	1,023	—	—
Held-to-maturity securities	16,637	—	—	—
Available-for-sale securities	2,946	—	—	—
Total	\$1,373,025	\$51,344	\$—	\$—

At March 31, 2014	Millions of yen			
	Within one year	After one year through five years	After five years through ten years	After ten years
Cash and deposits	¥ 73,814	¥ —	¥—	¥—
Notes receivable, accounts receivable from completed construction contracts	41,403	6,959	—	—
Accounts receivable—other	12,884	46	—	—
Held-to-maturity securities	24,692	—	—	—
Available-for-sale securities	333	—	—	—
Total	¥153,129	¥7,006	¥—	¥—

**(Note 4) Schedule for repayment of bonds and long-term loans payable**

See "4. SHORT-TERM LOANS PAYABLE AND LONG-TERM LOANS PAYABLE."

**20. INVESTMENT SECURITIES**

The book value, unrealized gain and loss and the related fair value of held-to-maturity securities at March 31, 2015 are summarized as follows:

At March 31, 2015	Millions of yen		
	Book Value	Fair Value	Unrealized Gain
Securities whose fair value does not exceed their carrying value:			
Commercial paper	¥1,999	¥1,999	¥(0)
Total	¥1,999	¥1,999	¥(0)

At March 31, 2015	Thousands of U.S. dollars		
	Book Value	Fair Value	Unrealized Gain
Securities whose fair value does not exceed their carrying value:			
Commercial paper	\$16,637	\$16,637	\$(0)
Total	\$16,637	\$16,637	\$(0)

The cost, unrealized gain and loss and the related book value of available-for-sale securities with available fair values at March 31, 2015 are summarized as follows:

At March 31, 2015	Millions of yen		
	Book Value	Acquisition Cost	Unrealized Gain
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥6,393	¥2,863	¥3,530
Subtotal	¥6,393	¥2,863	¥3,530
Securities whose carrying value does not exceed their acquisition costs:			
Other	¥ 354	¥ 354	¥ —
Subtotal	354	354	—
Total	¥6,748	¥3,218	¥3,530

At March 31, 2015	Thousands of U.S. dollars		
	Book Value	Acquisition Cost	Unrealized Gain
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	\$53,208	\$23,828	\$29,379
Subtotal	\$53,208	\$23,828	\$29,379
Securities whose carrying value does not exceed their acquisition costs:			
Other	\$ 2,946	\$ 2,946	\$ —
Subtotal	2,946	2,946	—
Total	\$56,163	\$26,783	\$29,379

Selling amount and gain on sales of securities at March 31, 2015 are as follows:

At March 31, 2015	Millions of yen		
	Sales	Sum of gain on sales	Sum of loss on sales
Equity securities	¥32	¥20	¥-

At March 31, 2015	Thousands of U.S. dollars		
	Sales	Sum of gain on sales	Sum of loss on sales
Equity securities	\$266	\$166	\$-

For the fiscal year ended March 31, 2015, ¥34 million (\$282 thousand) under securities (share of subsidiaries ¥34 million (\$282 thousand), and other of ¥0 million (\$0 thousand)) are recognized as impairment loss associated with unlisted securities.

The book value, unrealized gain and loss and the related fair value of held-to-maturity securities at March 31, 2014 are summarized as follows:

At March 31, 2014	Millions of yen		
	Book Value	Fair Value	Unrealized Gain
Securities whose fair value exceeds their carrying value:			
Government bonds	¥13,999	¥13,999	¥0
Subtotal	¥13,999	¥13,999	¥0
Securities whose fair value does not exceed their carrying value:			
Government bonds	9,999	9,999	(0)
Other	693	693	-
Subtotal	10,693	10,692	(0)
Total	¥24,692	¥24,692	¥(0)

The cost, unrealized gain and loss and the related book value of available-for-sale securities with available fair values at March 31, 2014 are summarized as follows:

At March 31, 2014	Millions of yen		
	Book Value	Acquisition Cost	Unrealized Gain
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥ 5,045	¥ 2,875	¥2,169
Subtotal	¥ 5,045	¥ 2,875	¥2,169
Securities whose carrying value does not exceed their acquisition costs:			
Other	¥ 333	¥ 333	¥ -
Subtotal	333	333	-
Total	¥ 5,378	¥ 3,209	¥2,169

Selling amount and gain on sales of securities at March 31, 2014 are as follows:

At March 31, 2014	Millions of yen		
	Sales	Sum of gain on sales	Sum of loss on sales
Equity securities	¥577	¥501	¥-

## 21. DERIVATIVE TRANSACTIONS

For the year ended March 31, 2015

### 1. Derivatives not designated as hedging instruments

(1) Currency-related

	Millions of yen			
	All notional amounts	Notional amounts due over one year	Fair value	Unrealized gain / (loss)
Non-market transaction:				
Foreign exchange forward contracts				
Selling				
USD	¥10,869	¥ 964	¥ 16	¥ 16
CAD	459	50	(2)	(2)
EUR	2,672	—	124	124
Buying				
USD	402	—	(3)	(3)
EUR	1,833	—	(270)	(270)
Total	¥16,237	¥1,014	¥(136)	¥(136)

	Thousands of U.S. dollars			
	All notional amounts	Notional amounts due over one year	Fair value	Unrealized gain / (loss)
Non-market transaction:				
Foreign exchange forward contracts				
Selling				
USD	\$ 90,461	\$8,023	\$ 133	\$ 133
CAD	3,820	416	(16)	(16)
EUR	22,238	—	1,032	1,032
Buying				
USD	3,345	—	(24)	(24)
EUR	15,255	—	(2,247)	(2,247)
Total	\$135,139	\$8,439	\$(1,131)	\$(1,131)



## 2. Derivatives designated as hedging instruments

### (1) Currency-related

	Main hedged items	All notional amounts	Millions of yen		Computational method of fair values	
			Notional amounts due over one year	Fair value		
Deferral hedge accounting method:						
Foreign exchange forward contracts						
Selling						
USD		¥141,107	¥ 74,854	¥(16,026)	Based on prices offered by the financial institution	
EUR		3,786	2,274	68		
SGD		391	—	(44)		
CAD	Accounts receivable and accounts payable	540	27	(6)		
Buying						
USD		67,370	38,759	6,534		
EUR		24,513	10,377	(1,364)		
SEK		34	—	(0)		
KRW		5,437	1,536	(34)		
JPY		158	—	0		
Alternative method:						
Foreign exchange forward contracts						
Selling						
USD		11,971	—		Based on forward exchange contract prices	
CAD	Accounts receivable and accounts payable	656	610			
Buying						
USD		2,438	—	N/A		
EUR		942	—			
SEK		185	—			
Total		¥259,534	¥128,439			

Thousands of U.S. dollars						
	Main hedged items	All notional amounts	Notional amounts due over one year	Fair value	Computational method of fair value	
<b>Deferral hedge accounting method:</b>						
Foreign exchange forward contracts						
Selling						
USD		\$1,174,423	\$ 623,004	\$(133,383)	Based on prices offered by the financial institution	
EUR		31,510	18,926	565		
SGD		3,254	—	(366)		
CAD		4,494	224	(49)		
Buying						
USD	Accounts receivable and accounts payable	560,715	322,588	54,382		
EUR		204,019	86,367	(11,352)		
SEK		282	—	(0)		
KRW		45,251	12,784	(282)		
JPY		1,315	—	0		
<b>Alternative method:</b>						
Foreign exchange forward contracts						
Selling						
USD		99,633	—		Based on forward exchange contract prices	
CAD	Accounts receivable and accounts payable	5,459	5,076			
Buying						
USD		20,291	—	N/A		
EUR		7,840	—			
SEK		1,539	—			
Total		\$2,160,083	\$1,068,988			

## (2) Interest-related

Millions of yen						
	Transaction type	Main hedged items	All notional amounts	Notional amounts due over one year	Fair value	Computational method of fair value
<b>Accounting method:</b>						
Special method for interest rate swap						
Interest rate swap	Interest swap contracts floating for fixed rate swap	Long-term loans payable	¥9,400	¥8,120	N/A	Based on prices offered by the financial institution
Total			¥9,400	¥8,120		

Thousands of U.S. dollars						
	Transaction type	Main hedged items	All notional amounts	Notional amounts due over one year	Fair value	Computational method of fair value
<b>Accounting method:</b>						
Special method for interest rate swap						
Interest rate swap	Interest swap contracts floating for fixed rate swap	Long-term loans payable	\$78,235	\$67,582	N/A	Based on prices offered by the financial institution
Total			\$78,235	\$67,582		

For the year ended March 31, 2014

1. Derivatives not designated as hedging instruments

(1) Currency-related

	Millions of yen			
	All notional amounts	Notional amounts due over one year	Fair value	Unrealized gain / loss
<b>Non-market transaction:</b>				
Foreign exchange forward contracts				
Buying				
USD	¥ 63	¥ —	¥ 2	¥ 2
EUR	1,279	381	132	132
Total	¥ 1,342	¥ 381	¥ 135	¥135

2. Derivatives designated as hedging instruments

(1) Currency-related

	Main hedged items	Millions of yen			Computational method of fair values			
		All notional amounts	Notional amounts due over one year	Fair value				
<b>Deferral hedge accounting method:</b>								
Foreign exchange forward contracts								
Selling								
USD	Accounts receivable and accounts payable	¥44,449	¥10,257	¥(2,644)	Based on prices offered by the financial institution			
EUR		414	153	(0)				
SGD		391	154	(16)				
CAD		1,722	1,106	4				
JPY		256	256	(8)				
Buying								
USD		19,592	2,501	690				
EUR		14,027	440	1,740				
GBP		1	—	0				
<b>Alternative method:</b>								
Foreign exchange forward contracts								
Selling								
USD	Accounts receivable and accounts payable	7,494	—	N/A	Based on forward exchange contract prices			
Buying								
USD		911	—					
EUR		830	—					
SEK		42	—					
Total		¥90,134	¥14,868					

(2) Interest-related

	Transaction type	Main hedged items	Millions of yen			Computational method of fair value
			All notional amounts	Notional amounts due over one year	Fair value	
<b>Accounting method:</b>						
Special method for interest rate swap						
	Interest swap contracts floating for fixed rate swap	Long-term loans payable	¥17,150	¥15,270	N/A	Based on prices offered by the financial institution
Total			¥17,150	¥15,270		

## 22. RETIREMENT BENEFITS

The Company and parts of consolidated subsidiaries have either funded or unfunded defined benefit plans and lump-sum payment plans and the defined contribution plans.

The Company and parts of consolidated subsidiaries provide lump-sum or pension which is based on salary and service time in the defined benefit plans and introduce cash balance-style pension plans in a part of defined benefit plans. In this institution, hypothetical individual employee accounts which are equal to the source of deposit and pension by each buyer are established. In this account, the interest credit which is based on the movement of market interest rate and the contribution credit which is based on the salary level are accumulated.

In lump-sum payments plans, the lump-sum based on the salary and service time as retirement benefits is provided.

Defined contribution plans and lump-sum payments for parts of consolidated subsidiaries adopt the simplified method which calculates retirement benefit liabilities and retirement benefit expenses.

### (1) Changes in defined obligations

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
April 1	¥15,721	¥15,735	\$130,844
Cumulative effects of changes in accounting policies	2,222	—	18,493
Balance at beginning of year applied the change in accounting policies	17,944	15,735	149,346
Service cost	985	776	8,198
Interest cost	319	366	2,655
Actuarial gains and losses	322	162	2,679
Benefit paid	(1,394)	(1,330)	(11,602)
Other	283	11	2,355
March 31	¥18,461	15,721	\$153,649

### (2) Changes in plan assets

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
April 1	¥12,044	¥11,013	\$100,241
Expected return on plan assets	307	265	2,555
Actuarial gains and losses	1,011	550	8,414
Contributions by the employer	1,408	1,338	11,718
Benefit paid	(1,163)	(1,123)	(9,679)
Other	159	—	1,323
March 31	¥13,767	¥12,044	\$114,581

### (3) Reconciliation of defined benefit obligations and plan assets to net defined benefit liability

The reconciliation of the defined benefit obligations and plan assets to net defined benefit liability recognized in the consolidated balance sheets as of March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Funded defined benefit obligations	¥ 16,507	¥ 14,015	\$ 137,386
Plan assets	(13,767)	(12,044)	(114,581)
Subtotal	2,739	1,970	22,796
Unfunded defined benefit obligations	1,953	1,706	16,254
Net amount of liabilities and assets recognized in consolidated balance sheets	4,693	3,677	39,059
Liabilities (net defined benefit liability)	4,693	3,677	39,059
Net amount of liabilities and assets recognized in consolidated balance sheets	4,693	3,677	39,059

## (4) Retirement of benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Service cost	¥ 985	¥ 776	\$ 8,198
Interest cost	319	366	2,655
Expected return on plan assets	(307)	(265)	(2,555)
Amortization of retirement benefit obligation at transition	246	246	2,047
Amortization of actuarial loss	126	151	1,048
Amortization of past service cost	(177)	(183)	(1,473)
Other	4	10	33
Net periodic pension cost	¥1,198	¥1,102	\$ 9,970

## (5) Remeasurements of defined benefit plans

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Past service cost	¥(180)	¥ —	\$(1,498)
Transition obligations	246	—	2,047
Actuarial loss	818	—	6,808
Total	¥ 884	¥ —	\$ 7,357

## (6) Accumulated remeasurements of defined benefit plans

The unrecognized past service cost, transition obligation and unrecognized actuarial gains and losses recognized in accumulated other comprehensive income (amount before income tax effect) for the fiscal year ended March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Unrecognized past service cost	¥ 167	¥ 348	\$ 1,389
Transition obligations	(8)	(255)	(66)
Unrecognized actuarial loss	1,796	977	14,947
Total	¥1,955	¥1,070	\$16,271

## (7) Major breakdown of plan assets

	2015	2014
Components of net periodic benefit cost		
Securities	41 %	43 %
Stocks	31 %	31 %
Cash and deposits	12 %	10 %
Other	16 %	16 %
Total	100 %	100 %

## (8) Basis of actuarial calculation

Basis of calculation of projected benefit obligation for the years ended 2015 and 2014 are as follows:

	2015	2014
Discount rate	Mainly 0.9 %	Mainly 2.0 %
Expected rate of return on plan assets	Mainly 2.0 %	Mainly 2.0 %
Expected salary increase rate	Mainly 3.2 %	Mainly 3.2 %

## Defined Contribution

The amounts of defined contribution of the Company and subsidiaries are ¥404 million (\$3,362 thousand), ¥100 million at March 31, 2015 and 2014 respectively.



## 23. INCOME TAXES

The statutory tax rates applicable to the Company and its domestic subsidiaries for the year ended March 31, 2015 and 2014 were approximately 35.4%. Income taxes of the foreign subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

(1) Significant components of the deferred income tax assets and liabilities

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Deferred tax assets (gross):			
Operating loss carryforwards	¥ 3,293	¥ —	\$ 27,407
Deferred gains or losses on hedges	3,264	84	27,166
Net defined benefit liability	1,307	1,116	10,878
Provision for loss on construction contracts	902	526	7,507
Provision of allowance for doubtful accounts	548	767	4,560
Provision for bonuses	127	333	1,057
Other	1,305	1,709	10,861
Total deferred tax assets (gross)	¥10,748	¥ 4,538	\$ 89,454
Deferred tax assets-Deferred tax liabilities	(2,259)	(1,117)	(18,801)
Total deferred tax assets	¥ 8,488	¥ 3,421	\$ 70,645
Deferred tax liabilities (gross):			
Undistributed earnings of subsidiaries and affiliates	976	694	8,123
Valuation difference on available-for-sale securities	1,052	696	8,755
Other	240	96	1,997
Total deferred tax liabilities (gross)	2,269	1,487	18,884
Deferred tax assets-Deferred tax liabilities	(2,259)	(1,117)	(18,801)
Deferred tax liabilities	(9)	370	(74)
Net deferred tax assets	¥ 8,479	¥ 3,050	\$ 70,570

Note: The Company and its consolidated subsidiaries had temporary differences excluded from calculation of deferred tax assets of ¥5,250 million (\$43,695 thousand) and ¥11,676 million at March 31, 2015 and 2014, respectively, which are available to be offset against future taxable income.

(Changes in Presentation)

Tax consequence associated with deferred gains or losses on hedges, which had previously been included in other under deferred tax assets, deferred gains or losses on hedges is presented separately under deferred tax assets because its materiality has increased.

To conform to the current presentation, the deferred gains or losses on hedges of ¥84 million, which had been previously included in other under deferred tax assets is reclassified to deferred gains or losses on hedges as of March 31, 2014.

(2) The effective tax rates on income before income taxes in the accompanying consolidated statements of income are not equal to the above-mentioned statutory tax rate for the following reasons:

Year ended March 31,	2015	2014
Statutory tax rate in Japan	*	37.8%
Adjustments:		
Permanently nondeductible expenses		4.3
Permanently nontaxable dividends received		(19.5)
Per capita levy on corporate inhabitant tax		0.5
Temporary differences excluded from calculation of deferred tax assets		48.7
Amortization of goodwill		9.5
Tax credit		11.0
Difference in tax rates for foreign subsidiaries		8.8
Adjustment of tax in prior years		0.2
Difference in tax base between corporate income tax and enterprise tax		0.3
Operating loss carryforwards for subsidiaries		1.3
Equity in earnings of affiliates		(13.0)
Gain on change in equity		(10.1)
Decrease in deferred tax assets, net of liabilities, at fiscal year-end due to change in statutory tax rate		4.8
Other		(3.1)
Effective tax rate		81.5%

\*As net loss before tax income is provided, the amount is abbreviated.

(3) The modification of deferred tax assets and deferred tax liabilities by tax rate changes

As the "Act for Partial Amendment of the Income Tax Act" and "Act for Partial Amendment of the Local Tax Act" took effect from March 31, 2015, the effective statutory tax rates, which are used to measure deferred tax assets and deferred tax liabilities, have been changed from 35.4% to 32.8% (from April 1, 2015 to March 31, 2016) and to 32.1% (after April 1, 2016).

As a result, net deferred tax assets decreased by ¥423 million (\$3,520 thousand), and corresponding to this movement, deferred income tax increased by ¥305 million (\$2,538 thousand), valuation difference on available-for-sale securities increased by ¥79 million (\$657 thousand), remeasurements of defined benefit plans increased by ¥48 million (\$399 thousand), deferred gains or losses on hedges decreased by ¥246 million (\$2,047 thousand) as of March 31, 2015.

## 24. RENTAL PROPERTIES

For the year ended March 31, 2014

The Company and some of its consolidated subsidiaries own their commercial facilities and residences (including land) for rent in Chiba prefecture. For the year ended March 31, 2014, the Company and some of its consolidated subsidiaries recorded ¥720 million of rental revenues and ¥594 million of impairment loss.

Book value, increase (decrease) in value, and fair value of rental properties are listed below.

Millions of yen			
Book value at March 31, 2013	Increase (decrease) in book value	Book value at March 31, 2014	Fair value at March 31, 2014
¥15,090	¥(976)	¥14,113	¥17,646

Notes: 1. Book value is calculated by deducting accumulated depreciation and accumulated impairment loss from its acquisition cost.

2. The major items in "Increase (decrease) in value" consist of ¥594 million of impairment loss of commercial facilities and ¥398 million of depreciation of buildings.

3. Computational method of fair value

Mainly based on Real Estate Appraisal Standards.

## 25. SEGMENT INFORMATION

The operating segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the Executive Committee to make decisions about resource allocation and to assess performance.

The Companies' reportable operating segments consist of the following three business groups:

- EPC Business— Research and development, design, engineering, procurement, and construction of a variety of plants, such as oil, gas, petrochemical, and general chemical.
- IT Business— Solution business based on other companies' ERP package products and product business based on our subsidiary ERP package products, etc.
- Real Estate— Rent of commercial facilities and residences, and administration.

The Company partially sold the shares of Toyo Business Engineering on December 19, 2014, which was in the "IT business" segment. Accordingly, IT business, which consisted of Toyo Business Engineering, was excluded from the scope of consolidation effective December 31, 2014; therefore, the net sales, segment profits, and others in IT business had been stated as the actual performance until December 31, 2014.

The Company sold all shares of Tec Estate Corporation on March 19, 2015, which was in the "Real Estate" segment. Accordingly, Real Estate segment, which mainly consisted of Tec Estate Corporation, was excluded from the scope of consolidation effective March 19, 2015, and the net sales, segment profits, and others had been stated as the actual performance until March 19, 2015.

(The Calculation Method of Net Sales, Gain or Loss, Assets, Liabilities and Other Amounts)

The accounting policies of the segments are substantially the same as those described in the summary of significant accounting policies in Note 2 and intersegment sales are recorded at the market value.

As stated in accounting change of the summary of significant accounting policies in Note 2, the calculation method of project benefit obligation and service cost was changed in the fiscal year ended March 31, 2015. Accordingly, the calculation method of project benefit obligation and service cost in segment information was also changed. The effect on segment profit (losses) are immaterial, as a result of this accounting change.

Year ended March 31, 2015	Millions of yen					
	EPC Business	IT Business	Real Estate	Total	Adjustments	Consolidated
<b>I Net sales and segment profits:</b>						
Net sales						
(1) Net sales to outside customers	¥301,062	¥8,426	¥ 1,966	¥311,454	¥ —	¥311,454
(2) Inter-segment net sales	129	50	179	359	(359)	—
Total	301,191	8,476	2,145	311,813	(359)	311,454
Segment profits (losses)	(8,367)	178	812	(7,376)	19	(7,356)
<b>II Segment assets</b>	¥253,256	¥ —	¥ —	¥253,256	¥8,352	¥261,609
<b>III Others</b>						
Depreciation	¥ 1,549	¥ 476	¥ 445	¥ 2,471	¥ 53	¥ 2,525
Amortization of goodwill	1,697	—	—	1,697	—	1,697
Amount invested in equity method affiliates	9,952	—	—	9,952	—	9,952
Increase in fixed assets	966	463	20	1,450	(5)	1,445

	Thousands of U.S. dollars					
<b>Year ended March 31, 2015</b>	<b>EPC Business</b>	<b>IT Business</b>	<b>Real Estate</b>	<b>Total</b>	<b>Adjustments</b>	<b>Consolidated</b>
<b>I Net sales and segment profits:</b>						
Net sales						
(1) Net sales to outside customers	\$2,505,717	\$70,129	\$ 16,362	\$2,592,209	\$ —	\$2,592,209
(2) Inter-segment net sales	1,073	416	1,489	2,987	(2,987)	—
Total	2,506,791	70,545	17,852	2,595,197	(2,987)	2,592,209
Segment profits (losses)	(69,637)	1,481	6,758	(61,389)	158	(61,223)
<b>II Segment assets</b>	<b>\$2,107,831</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$2,107,831</b>	<b>\$69,513</b>	<b>\$2,177,353</b>
<b>III Others</b>						
Depreciation	\$ 12,892	\$ 3,961	\$ 3,703	\$ 20,565	\$ 441	\$ 21,015
Amortization of goodwill	14,124	—	—	14,124	—	14,124
Amount invested in equity method affiliates	82,829	—	—	82,829	—	82,829
Increase in fixed assets	8,039	3,853	166	12,068	(41)	12,026

- Notes: 1. "Adjustments" for Segment profits and Depreciation represent the elimination of inter-segment transactions.  
2. "Segment profits" represents operating income from Consolidated Statement of Income.  
3. Segment assets adjustments include ¥8,352 million (\$69,513 thousand) of non-allocated corporate assets, which is chiefly the Company's investment securities attributed to the administrative department.  
4. Amortization of goodwill include the amortization of goodwill captured in extraordinary loss.

	Millions of yen					
<b>Year ended March 31, 2014</b>	<b>EPC Business</b>	<b>IT Business</b>	<b>Real Estate</b>	<b>Total</b>	<b>Adjustments</b>	<b>Consolidated</b>
<b>I Net sales and segment profits:</b>						
Net sales						
(1) Net sales to outside customers	¥215,996	¥12,062	¥ 2,065	¥230,124	¥ —	¥230,124
(2) Inter-segment net sales	167	113	180	461	(461)	—
Total	216,163	12,176	2,245	230,585	(461)	230,124
Segment profits (losses)	(885)	453	907	475	(19)	455
<b>II Segment assets</b>	<b>¥227,927</b>	<b>¥ 5,718</b>	<b>¥17,202</b>	<b>¥250,849</b>	<b>¥6,631</b>	<b>¥257,480</b>
<b>III Others</b>						
Depreciation	¥ 1,513	¥ 681	¥ 424	¥ 2,619	¥ (1)	¥ 2,618
Amortization of goodwill	463	—	—	463	—	463
Amount invested in equity method affiliates	9,103	—	—	9,103	—	9,103
Increase in fixed assets	1,643	681	18	2,343	(20)	2,322

- Notes: 1. "Adjustments" for Segment profits and Depreciation represent the elimination of inter-segment transactions.  
2. "Segment profits" represents operating income from Consolidated Statement of Income.  
3. Segment assets adjustments include (¥313) million of inter-segment eliminations and ¥6,944 million of non-allocated corporate assets, which is chiefly the Company's investment securities attributed to the administrative department.

## (1) Information by Geographical Segments Based on the Location of Projects

Year ended March 31, 2015	Millions of yen					Total
	Japan	Brazil	Indonesia	Nigeria	Other	
Net sales	¥40,906	¥20,621	¥40,255	¥32,099	¥177,572	¥311,454

(Changes in presentation)

Nigeria, which had been included in other, is presented separately at the fiscal year ended March 31, 2015, because the amount is above 10 percent of net sales on the consolidated statements of income.

To conform to the current presentation, Nigeria of ¥6,756 million, which had been previously included in other, is reclassified to Nigeria as of March 31, 2014.

Year ended March 31, 2015	Thousands of U.S. dollars					Total
	Japan	Brazil	Indonesia	Nigeria	Other	
Net sales	\$340,457	\$171,627	\$335,039	\$267,157	\$1,477,919	\$2,529,209

Year ended March 31, 2015	Millions of yen			
	Japan	Indonesia	Other	Total
Property, plant and equipment	¥11,630	¥2,944	¥1,672	¥16,247

(Changes in presentation)

Indonesia, which had been included in other, is presented separately at March 31, 2015, because the amount is above 10 percent of net sales on consolidated statements of income.

To conform to the current presentation, Indonesia of ¥2,691 million, which had been previously included in other, is reclassified to Indonesia as of March 31, 2014.

Year ended March 31, 2015	Thousands of U.S. dollars			Total
	Japan	Indonesia	Other	
Property, plant and equipment	\$96,795	\$24,502	\$13,915	\$135,222

Year ended March 31, 2014	Millions of yen					Total
	Japan	Brazil	Indonesia	Nigeria	Other	
Net sales	¥36,258	¥34,002	¥39,367	¥6,756	¥113,738	¥230,124

(Changes in presentation)

Thailand, which had been presented separately is included in other at the fiscal year ended March 31, 2015, because the amount is below 10 percent of net sales on the consolidated statements of income.

To conform to the current presentation, Thailand of ¥28,554 million, which had been previously stated separately, is reclassified to other as of March 31, 2014.

Year ended March 31, 2014	Millions of yen			
	Japan	Indonesia	Other	Total
Property, plant and equipment	¥26,148	¥2,691	¥1,523	¥30,363

## (2) Information by Major Clients

Millions of yen		
Year ended March 31, 2015	Net Sales	Segment
Indorama Eleme Fertilizer & Chemicals Limited	<b>¥32,316</b>	<b>EPC</b>

Thousands of U.S. dollars		
Year ended March 31, 2015	Net Sales	Segment
Indorama Eleme Fertilizer & Chemicals Limited	<b>\$268,963</b>	<b>EPC</b>

Millions of yen		
Year ended March 31, 2014	Net Sales	Segment
PETROLEO BRASILEIRO S.A. (PETROBRAS)	¥29,184	EPC
PT Pupuk Kalimantan Timur	23,505	EPC

## (3) Impairment loss on fixed assets by reportable segment

Millions of yen						
Year ended March 31, 2014	EPC Business	IT Business	Real Estate	Total	Adjustments	Consolidated
Impairment loss	¥695	¥—	¥594	¥1,289	¥—	¥1,289

## (4) Amortization and remaining balance of goodwill by reportable segment

The following table presents the amortization and balance of goodwill as of and for the years ended March 31, 2015 and 2014 by reportable segments:

Millions of yen				
Year ended March 31, 2015	EPC Business	IT Business	Real Estate	Total
<b>Goodwill</b>				
Amortization of goodwill	<b>¥1,697</b>	¥—	¥—	<b>¥1,697</b>
Balance at March 31, 2015	6	—	—	6
<b>Negative goodwill</b>				
Amortization of negative goodwill	10	—	—	10
Balance at March 31, 2015	<b>¥ 106</b>	¥—	¥—	<b>¥ 106</b>

Thousands of U.S. dollars				
Year ended March 31, 2015	EPC Business	IT Business	Real Estate	Total
<b>Goodwill</b>				
Amortization of goodwill	<b>\$14,124</b>	\$—	\$—	<b>\$14,124</b>
Balance at March 31, 2015	49	—	—	49
<b>Negative goodwill</b>				
Amortization of negative goodwill	83	—	—	83
Balance at March 31, 2015	<b>\$ 882</b>	\$—	\$—	<b>\$ 882</b>

Millions of yen				
Year ended March 31, 2014	EPC Business	IT Business	Real Estate	Total
<b>Goodwill</b>				
Amortization of goodwill	¥ 463	¥—	¥—	¥ 463
Balance at March 31, 2014	1,619	—	—	1,619
<b>Negative goodwill</b>				
Amortization of negative goodwill	10	—	—	10
Balance at March 31, 2014	<b>¥ 117</b>	¥—	¥—	<b>¥ 117</b>



## 26. RELATED PARTY TRANSACTIONS

### Affiliate

For the year ended March 31, 2015

Name: NEDL CONSTRUÇOES DE DUTOS DO NORDESTE LTDA.	Summary of transactions	Millions of yen			Thousands of U.S. dollars		
		Transaction amount	Title of account	Account balance	Transaction amount	Title of account	Account balance
Address:							
Brazil							
Capital and investments:							
2,524 thousands BRL							
Business:	<b>Loan for operating fund</b>	<b>¥—</b>	<b>Long-term loans receivable</b>	<b>¥3,707</b>	<b>\$—</b>	<b>Long-term loans receivable</b>	<b>\$30,853</b>
Construction							
Equity ownership percentage:							
Holding 42% directly							
Relation with related party:							
Loan for operating fund							

For the year ended March 31, 2014

Name: NEDL CONSTRUÇOES DE DUTOS DO NORDESTE LTDA.	Summary of transactions	Millions of yen		
		Transaction amount	Title of account	Account balance
Address:				
Brazil				
Capital and investments:				
2,524 thousands BRL				
Business:	<b>Loan for operating fund</b>	<b>¥—</b>	<b>Long-term loans receivable</b>	<b>¥3,707</b>
Construction				
Equity ownership percentage:				
Holding 42% directly				
Relation with related party:				
Loan for operating fund				

Notes: 1. Interest rate on loan is determined by considering effective market rates.

2. The Company reserved ¥3,707 million (\$30,853 thousand) of allowance for doubtful accounts at March 31, 2015, against the loan above.

For the year ended March 31, 2015

Name: TOYO-THAI CORPORATION PUBLIC COMPANY LIMITED*	Summary of transactions	Millions of yen			Thousands of U.S. dollars		
		Transaction amount	Title of account	Account balance	Transaction amount	Title of account	Account balance
Address:							
Thailand							
Capital and investments:							
560,000 thousands TBH							
Business:	<b>Ordering of designing and construction</b>	<b>¥3,247</b>	<b>Account payable</b>	<b>¥3,085</b>	<b>\$27,024</b>	<b>Account payable</b>	<b>\$25,676</b>
Construction							
Equity ownership percentage:							
Holding 22.2% directly							
Relation with related party:							
Ordering of Designing and Construction							

Note: TOYO-THAI CORPORATION PUBLIC COMPANY LIMITED changed its name to TTCL Public Company Limited from April 9, 2015.

**For the year ended March 31, 2015**

Name: TOYO SETAL EMPREENDIMENTOS LTDA.	Summary of transactions	Millions of yen			Thousands of U.S. dollars		
		Transaction amount	Title of account	Account balance	Transaction amount	Title of account	Account balance
Address:							
Brazil							
Capital and investments:							
38,904 thousands BRL							
Business:	<b>Guarantee obligation</b>	<b>¥2,764</b>	—	—	<b>\$23,004</b>	—	—
Construction							
Equity ownership percentage:							
Holding 50% indirectly							
Relation with related party:							
Guarantee obligation							

Note: The Company was responsible for the guarantee obligation in the execution of project at March 31, 2015, against the affiliate above.

**For the year ended March 31, 2014**

Name: TOYO SETAL EMPREENDIMENTOS LTDA.	Summary of transactions	Millions of yen		
		Transaction amount	Title of account	Account balance
Address:				
Brazil				
Capital and investments:				
38,904 thousands BRL				
Business:	<b>Guarantee obligation</b>	<b>¥3,382</b>	—	—
Construction				
Equity ownership percentage:				
Holding 50% indirectly				
Relation with related party:				
Guarantee obligation				

Note: The Company was responsible for the guarantee obligation in the execution of project at March 31, 2014, against the affiliate above.

**For the year ended March 31, 2015**

Name: Estaleiros do Brasil Ltda.	Summary of transactions	Millions of yen			Thousands of U.S. dollars		
		Transaction amount	Title of account	Account balance	Transaction amount	Title of account	Account balance
Address:							
Brazil	<b>Loan for operating fund</b>	<b>¥5,002</b>	<b>Short-term loans*2</b>	<b>¥5,002</b>	<b>\$41,631</b>	<b>Short-term loans*2</b>	<b>\$41,631</b>
Capital and investments:							
57,749 thousands BRL							
Business:	<b>Accrued interest income</b>	<b>38</b>	<b>Other current assets</b>	<b>1</b>	<b>316</b>	<b>Other current assets</b>	<b>8</b>
Construction							
Equity ownership percentage:							
Holding 50% indirectly							
Relation with related party:	<b>Guarantee obligation*1</b>	<b>5,948</b>	—	—	<b>49,504</b>	—	—
Loan for operating fund							

Notes: 1. Guarantee obligation is provided for the bank loan of the affiliate above.

2. On the consolidated financial statements, short-term-loans of ¥5,002 million (\$41,631 thousand) are deducted.

### Significant affiliates

The significant affiliates were Moeco Thai Oil Development Co., Ltd., TOYO-THAI CORPORATION PUBLIC COMPANY LIMITED, Modec and Toyo Offshore Production Systems Pte. Ltd., and TS Participações e Investimentos S.A., whose condensed financial information as of and for the year ended March 31, 2015 is as follows:

Years ended March 31,	Millions of yen	Thousands of U.S. dollars
	2015	2015
Total current assets	¥142,990	\$1,190,095
Total non-current assets	28,106	233,924
Total current liabilities	149,318	1,242,763
Total non-current liabilities	8,943	74,431
Total net assets	12,834	106,816
Net sales	211,300	1,758,635
Loss before income taxes	(7,959)	(66,242)
Net loss	¥ (13,447)	\$ (111,918)

Note: TOYO-THAI CORPORATION PUBLIC COMPANY LIMITED changed its name to TTCL Public Company Limited from April 9, 2015.

The significant affiliates were Moeco Thai Oil Development Co., Ltd., TOYO-THAI CORPORATION PUBLIC COMPANY LIMITED and Modec and Toyo Offshore Production Systems Pte. Ltd., whose condensed financial information as of and for the year ended March 31, 2014 was as follows:

Years ended March 31,	Millions of yen
	2014
Total current assets	¥ 59,285
Total non-current assets	15,174
Total current liabilities	43,703
Total non-current liabilities	4,073
Total net assets	26,683
Net sales	132,302
Income before income taxes	12,421
Net income	¥ 7,758

## 27. AMOUNTS PER SHARE

Years ended March 31,	Yen		U.S. dollars
	2015	2014	2015
Net assets per share	¥ 234.20	¥382.61	\$ 1.94
Net income (loss) per share	(109.34)	5.05	(0.91)

Net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during each year.

Net assets per share are computed based on the number of common stock outstanding and the net assets excluding minority interests at the year end.

As changes in accounting policy states, the Company has applied the "Accounting Standard for Retirement Benefits" in accordance with transitional accounting as stipulated in Article 37 of the Standard.

As a result, net assets per share decreased by ¥7.90 in the fiscal year ended March 31, 2015. The effects on net loss per share and diluted net income per share are immaterial.



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2-2-3 Uchisaiwai-cho, Chiyoda-ku  
Tokyo, Japan 100-0011

Tel: +81 3 3503 1100  
Fax: +81 3 3503 1197  
www.shinnihon.or.jp

## Independent Auditor's Report

The Board of Directors  
Toyo Engineering Corporation

We have audited the accompanying consolidated financial statements of Toyo Engineering Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2015, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Toyo Engineering Corporation and its consolidated subsidiaries as at March 31, 2015, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### *Convenience Translation*

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

*Ernst & Young ShinNihon LLC*

June 25, 2015

# Corporate Data

## Corporate Information

### Corporate Data

Corporate Name: Toyo Engineering Corporation (TOYO)

Founded: May 1, 1961

Number of Employees: 4,463 (Consolidated, As of March 31, 2015)

Corporate Philosophy: Mission: Engineering for Sustainable Growth of the Global Community

Vision: Global Leading Engineering Partner

Values: Integrity, Creativity, Diversity, Learning, Team

Business Activities: Engineering and Construction for Industrial Facilities

- R&D support, design, engineering, procurement, construction, commissioning, technical assistance for industrial facilities: oil, gas, oil & gas development, petrochemicals, chemicals, water treatment, transportation systems, power generation, nuclear power, advanced production systems, pharmaceutical, fine chemical, distribution systems, biotechnology, environment and others
- IT engineering services and system software supply

### History

**1961** • TOYO was established. Capital: 300 million yen

**1962** • An agreement for engineering service and technical assistance was concluded with Lummus Co. (U.S.A.).

**1963** • The first overseas contract for a fertilizer plant with The Fertilizer Corporation of India Ltd. was awarded.

**1964** • The first urea plant contract in the former Soviet Union was awarded.

**1965** • TOYO was awarded its first ethylene plant contract (Osaka, Japan).

**1969** • TOYO was awarded the contract for the first ammonia plant in the former Soviet Union.

**1970** • TOYO was awarded the contract for two ammonia plants in the former East Germany.

**1972** • International Procurement & Service Corporation (Currently Toyo Engineering Europe, S.r.l.) established.

**1973** • A contract for a urea plant for China was awarded.

**1975** • Capital: 1,890 million yen

**1976** • Toyo Engineering India Limited established.

**1978** • Capital: 2,970 million yen

**1980** • Capital: 3,300 million yen

- TOYO was listed on the second section of the Tokyo Stock Exchange.

**1982** • Capital: 5,040 million yen

- TOYO was listed on the first section of the Tokyo Stock Exchange.

**1985** • Toyo-Thai Corporation Ltd. established.

**1986** • Toyo U.S.A., Inc. established.

- Toyo Engineering & Construction Sdn. Bhd. established in Malaysia.

**1987** • Toyo Engineering Korea Limited established.

**1989** • Capital: 12,219 million yen

**1990** • Head Office/Engineering Center (Baytec Building) started operation in Narashino, Chiba.

**1993** • Capital: 13,017 million yen

**1994** • TOYO received ISO 9001 registration.

**1999** • Toyo Business Engineering Corporation established.

**2004** • TOYO received ISO 14001 registration.

- Toyo Engineering Corporation, China established.

**2006** • Capital: 18,198 million yen

**2007** • Relocation of Tokyo head office.

**2008** • TOYO invested in Atlatec, S.A. de C.V. in Mexico.

**2009** • TOYO formulated the Group MVV (Mission, Vision, Values).

**2010** • TOYO acquired Tri Ocean Engineering Limited in Calgary, Alberta, Canada (Currently Toyo-Canada).

**2011** • The 50th Anniversary

- TOYO invested in PT. Inti Karya Persada Tehnik (IKPT) in Indonesia.

**2012** • TS Participações e Investimentos S.A. established in Brazil.

- Consolidated Group logo developed.

**2015** • Kiyoshi Nakao was elected as President and CEO.

## Board of Directors, Corporate Auditors and Executive Officers



### Chairman

Makoto Fusayama <sup>\*1</sup>

### President & CEO

Kiyoshi Nakao <sup>\*1</sup>

### Executive Vice President

Takaya Naito <sup>\*1</sup>

### Directors

Masayuki Yoshizawa

Masayuki Uchida<sup>\*2</sup>

Masaaki Yamaguchi<sup>\*3</sup>

Kenyu Adachi<sup>\*4</sup>

Masami Tashiro<sup>\*4</sup>

Yusuke Yamada<sup>\*4</sup>

### Senior Corporate Auditor

Makoto Shimagaki

### Corporate Auditors

Hiroshi Inoue

Yoshiyuki Funakoshi <sup>\*5</sup>

Kiyohito Uchida <sup>\*5</sup>

### Senior Executive Officers

Keiichi Matsumoto

Akhilesh Kumar

Masaru Takezawa

Tadashi Hori

Hisashi Osone

Shoji Koshikawa

Hiroshi Sato

Tomohisa Abe

Masahiko Kita

### Executive Officers

Motoyoshi Kamoshima

Yutaka Kita

Takayoshi Imanishi

Koji Kojima

Itsuya Yanagi

Haruo Nagamatsu

Eiichi Ide

Hideki Shida

Teruhiko Inoue

Toru Osanai

Keisuke Ishii

Shinichi Okazaki

Eiji Hosoi

**B A C**

A Kiyoshi Nakao

B Makoto Fusayama

C Takaya Naito

<sup>\*1</sup> Representative Director

<sup>\*2</sup> CCO (Chief Compliance Officer) and CTO (Chief Technology Officer)

<sup>\*3</sup> CFO (Chief Financial Officer)

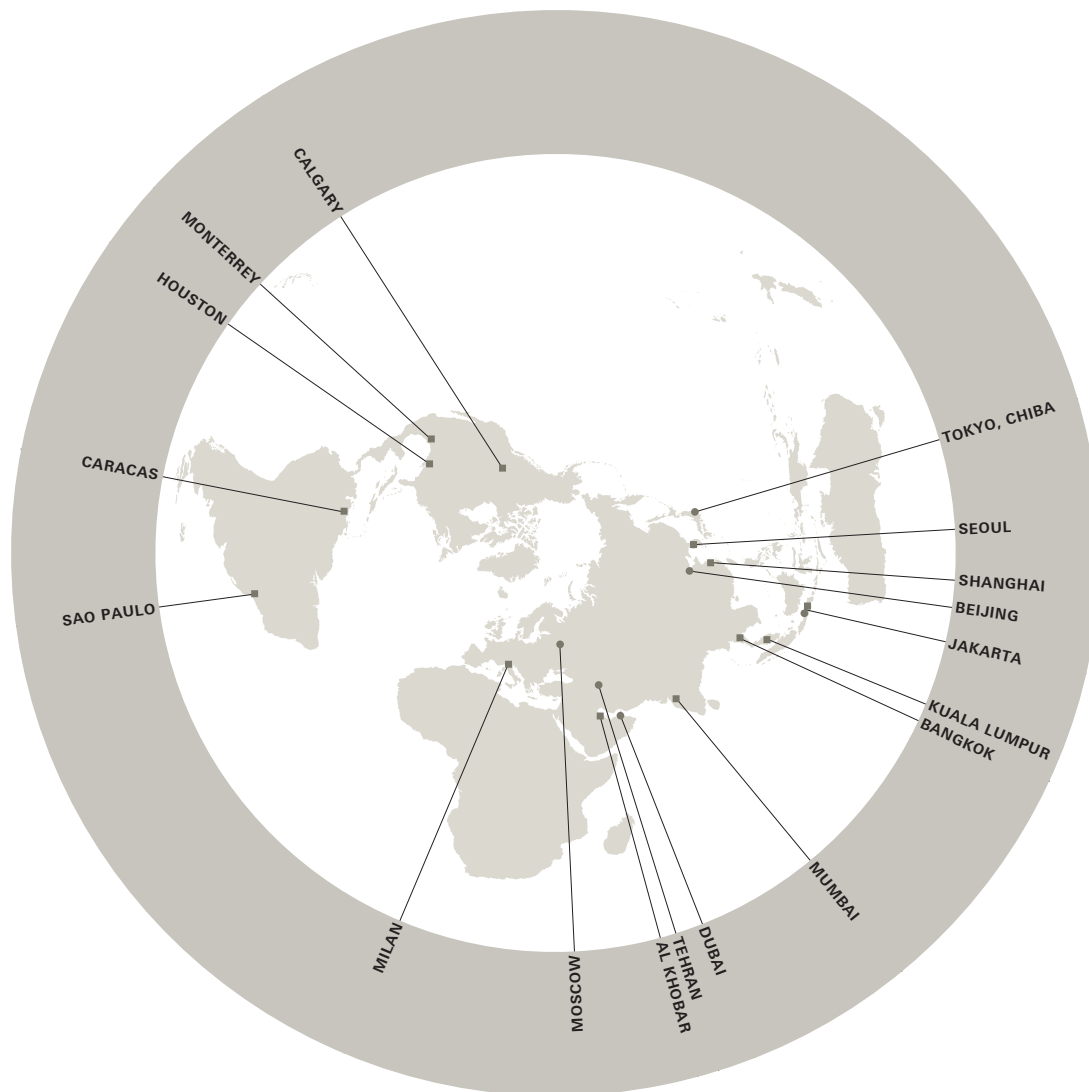
<sup>\*4</sup> Outside Director

<sup>\*5</sup> Outside Auditor

(As of June 25, 2015)



## Worldwide Network



### • HEAD OFFICE / ENGINEERING CENTER

Chiba, Japan

### • TOKYO HEAD OFFICE

Tokyo, Japan

#### Overseas Offices

- Beijing, China
- Jakarta, Indonesia
- Dubai, United Arab Emirates
- Tehran, Iran
- Moscow, Russia

#### OVERSEAS GROUP COMPANIES

- Toyo Engineering Korea Limited  
Seoul, Korea
- Toyo Engineering Corporation (China)  
Shanghai, China
- PT. Inti Karya Persada Teknik (IKPT)  
Jakarta, Indonesia
- Toyo Engineering & Construction Sdn. Bhd.  
Kuala Lumpur, Malaysia

- Toyo Engineering India Private Limited  
Mumbai, India

- Saudi Toyo Engineering Company  
Al Khobar, Saudi Arabia

- Toyo Engineering Europe, S.r.l.  
Milan, Italy

- Toyo Engineering Canada Ltd.  
Calgary, Canada

- Toyo U.S.A., Inc.  
Houston, U.S.A.

- Toyo Ingeniería de Venezuela, C.A.  
Caracas, Venezuela

#### OTHER AFFILIATES

- TS Participações e Investimentos S.A.  
Sao Paulo, Brazil
- TTCL Public Company Limited  
Bangkok, Thailand
- Atlatec, S.A. de C.V.  
Monterrey, Mexico

### DOMESTIC GROUP COMPANIES

**TEC Air Service Corporation**  
Travel and insurance services

**TEC Business Services Corporation**  
Staffing service, contracted business service, translation and interpretation service, facility management service

**TEC Project Services Corporation**  
EPC and maintenance services for plants and facilities, environmental technology

**Chiba Data Center Corporation**  
Data entry, scanning services and commercial printing

**Toyo Business Engineering Corporation**  
System consulting and solutions provider

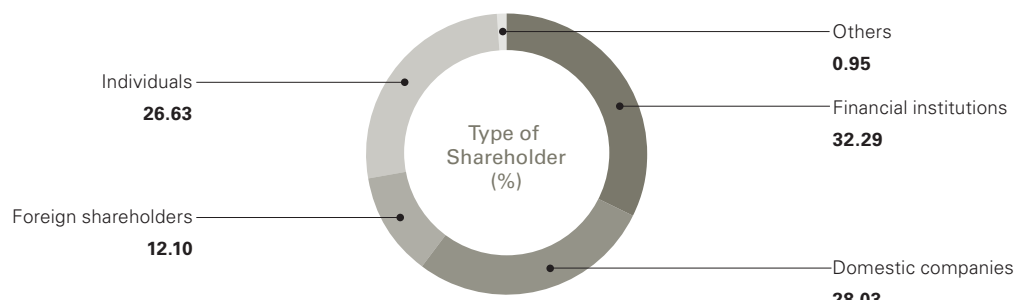
**TEC Accounting & Consulting Ltd.**  
Business support and consulting for accounting and accounting system development

# Stock Information

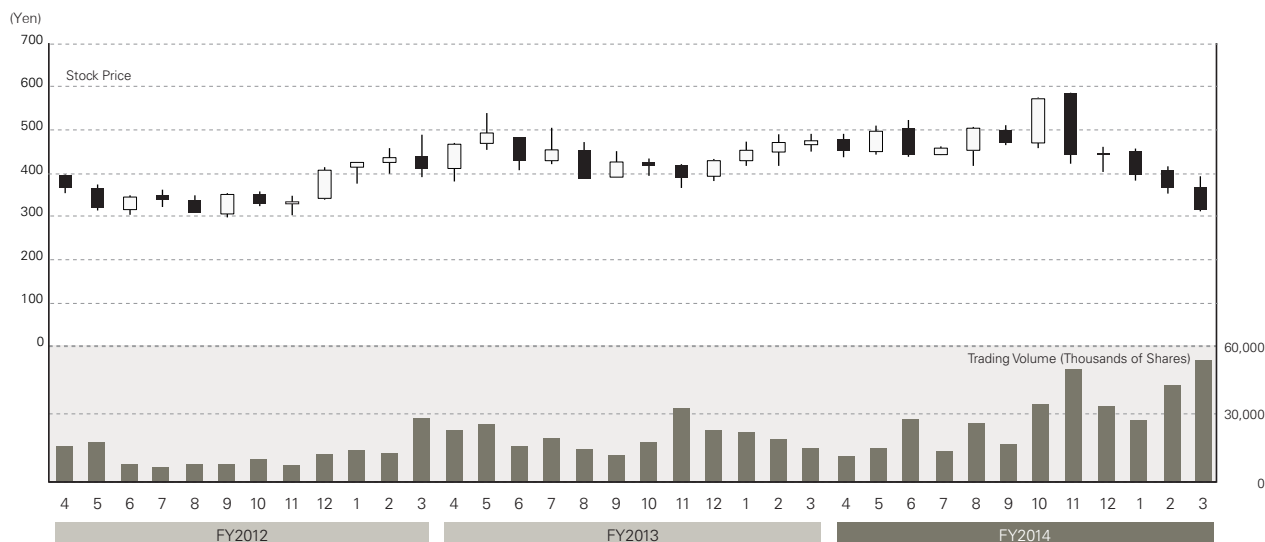
(As of March 31, 2015)

<b>Capital Stock</b>	¥18,198 million
<b>Stock Exchange Listing</b>	Tokyo Stock Exchange
<b>Authorized Shares</b>	500,000,000
<b>Capital Stock Issued</b>	192,792,539
<b>Number of Shareholders</b>	17,032
<b>Administrator of Shareholders' Register</b>	Sumitomo Mitsui Trust Bank, Limited 1-4-1 Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan

<b>Major Shareholders:</b>	Number of shares (thousands)	Percentage of total (%)
Mitsui & Co., Ltd.	43,770	22.83
Japan Trustee Services Bank, Ltd. (Mitsui Chemicals, Inc. Retirement Benefit Trust Account re-entrusted by Chuo Mitsui Asset Trust and Banking Company, Ltd.)	25,703	13.40
The Master Trust Bank of Japan, Ltd. Trust Account	6,532	3.40
Taisei Corporation	5,000	2.60
Japan Trustee Services Bank, Ltd. Trust Account	3,930	2.04
Sumitomo Mitsui Banking Corporation	2,350	1.22
Japan Trustee Services Bank, Ltd. Trust Account 9	2,288	1.19
Japan Trustee Services Bank, Ltd. Trust Account 4	2,125	1.10
Japan Re Fidelity	1,876	0.97
Evergreen	1,580	0.82



## Stock chart





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