



Annual Report Year ended March 31, 2012  
2012

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## DEFINITION OF TERMS

- Fiscal 2011 means the fiscal year ended March 31, 2012 (April 1, 2011–March 31, 2012).
- The word, mark, logo or any sign with a symbol "TM" means that it is a registered trademark of Toyo Engineering Corporation in Japan.

## CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

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

## Corporate Profile

Toyo Engineering Corporation (TOYO) is one of the world's leading contractors. Since its foundation in 1961, TOYO has actively deployed Engineering, Procurement, and Construction (EPC) business, and has successfully delivered large and complex projects in more than 50 countries. TOYO's engineering business focuses on the segments of Energy, Oil Refining, Petrochemicals & Chemicals, Oil & Gas Development, Infrastructure, Environment, and other manufacturing facilities.

We have a globally networked organization which makes us capable of executing work based on common work standards in close cooperation with our overseas group companies as well as in an optimal formation. Under the mission entitled "Engineering for Sustainable Growth of the Global Community," our overseas group companies maintain and strengthen TOYO's reliability and assure clients that projects will be delivered safely, to a high-quality standard, and on schedule.



## To Our Shareholders



As of June 27, 2012, I was appointed as President and CEO of Toyo Engineering Corporation. Succeeding to this post from former President Yutaka Yamada, I will, under a new organization, continue our course toward TOYO's goal of becoming a "Global Leading Engineering Partner." By taking an aggressive management approach to achieving new growth, I will endeavor to reach our management goals and to further enhance TOYO's corporate value.

TOYO's current business environment presents opportunities for growth. In emerging countries, capital investment is increasing to meet the demand for basic materials due to growing populations and progressive urbanization. I also believe we will see an expansion of investment for social infrastructure and fertilizer plants. In addition, we can expect growth in investment for energy infrastructure due to the increase of unconventional oil and gas from shale and oil sands. Amid these trends, our business scope is expanding from downstream to upstream. On the other hand, we expect competition will further intensify with contractors in Europe and Korea, which are expanding their scale of operations.

To survive these changes in our markets and achieve sustained growth, TOYO will further refine its strengths and establish a firm base on them to differentiate itself from others in the market. At the same time, I believe it is essential to develop new products and business models. With these factors in mind, we kicked off our new medium-term business plan, NEXT TOYO 2015, in April 2012. We are committing all of our resources and capabilities to attaining the goals of this plan and to further strengthening the global operation system that we have been building up to now. We will steadily expand new products, business models, and operating regions and take on a challenge to build new growth for TOYO.

We have designed a new symbol logo for TOYO commonly applied in the group and introduced it in July 2012. The new logo keeps the motif of the previous logo while inspiring the impression of a leap forward into the future. The logo's emphasis of the letters of TOYO symbolizes the entire group collaborating to achieve new growth. As we work to fulfill the symbolism of the logo, I look forward to the continued support of our shareholders.



August 2012

A handwritten signature in black ink, which appears to read "Katsumoto Ishibashi".

*Katsumoto Ishibashi*  
President and Chief Executive Officer

## Consolidated Five-Year Financial Summary

## Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31

	2012	2011	2010	2009
Net sales	¥ 157,881	¥ 155,696	¥ 173,943	¥ 326,248
Gross profit	24,918	26,573	32,983	34,751
Operating income	5,341	6,815	13,070	15,167
Income before income taxes	4,941	6,917	14,236	13,036
Net income	3,728	3,773	7,131	6,515
Total assets	222,415	198,387	190,127	199,412
Total net assets	69,265	67,096	65,295	58,509
Long-term loans payable	24,582	15,163	21,947	19,916
Purchase of property, plant and equipment	1,595	542	508	513
Depreciation and amortization	2,524	2,473	2,237	2,366
Capital stock	18,198	18,198	18,198	18,198
New orders	269,188	222,540	132,456	119,265
Backlog of contracts at end of the year	359,120	224,693	168,179	224,415

## Per share:

Net income	¥ 19.43	¥ 19.65	¥ 37.12	¥ 33.91
Total net assets	349.42	340.43	329.54	294.71
Cash dividends	6.00	5.00	7.00	7.00

## Net sales by sector (%):

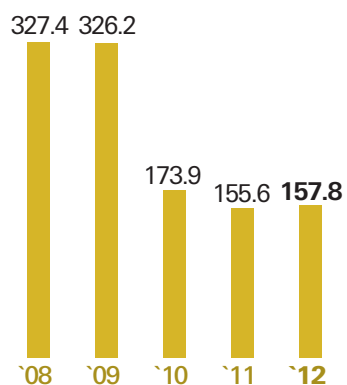
Chemical fertilizers	10.0%	6.9%	14.0%	6.9%
Petrochemicals	15.3	22.8	23.9	29.2
Refinery	11.5	23.8	27.6	14.0
Energy-related	35.2	18.7	14.4	35.1
General manufacturing facilities and information technology	20.3	20.0	13.1	10.6
Others	7.7	7.8	7.0	4.2
(Overseas sales ratio)	(73)	(64)	(71)	(78)
Number of employees	4,494	3,956	4,024	3,769

\*U.S. dollar amounts are stated at ¥82.13 to U.S.\$1.00, the exchange rate prevailing on March 31, 2012.

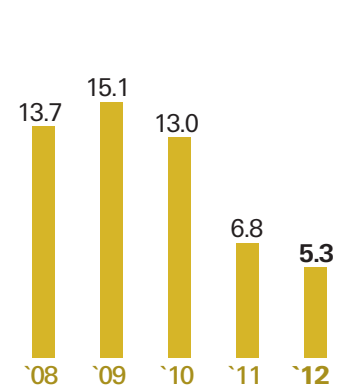
Millions of yen	Thousands of U.S. dollars*
<b>2008</b>	<b>2012</b>
¥ 327,413	\$ 1,922,338
34,423	303,402
13,741	65,034
14,908	60,172
8,029	45,399
280,138	2,708,092
57,331	843,369
22,038	299,317
830	19,427
2,511	30,742
18,198	221,587
268,692	3,277,590
444,433	4,372,583
Yen	U.S. dollars*
¥ 41.76	\$ 0.23
283.98	4.25
6.00	0.07

1.9%
28.7
8.8
43.7
11.8
5.1
(78)
3,527

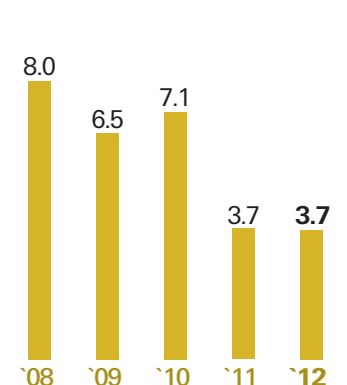
Net sales (¥ billion)



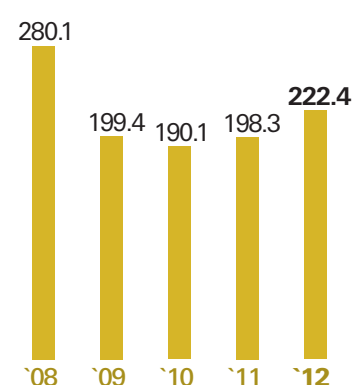
Operating income (¥ billion)



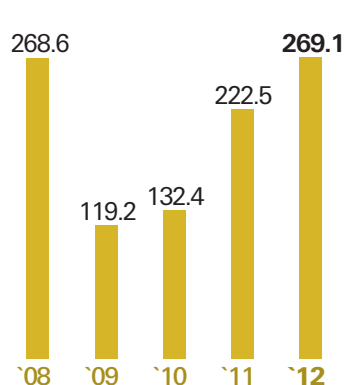
Net income (¥ billion)



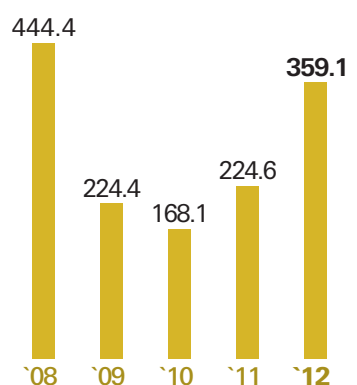
Total assets (¥ billion)



New orders (¥ billion)



Backlog of contracts at end of the year (¥ billion)





**President  
Katsumoto Ishibashi  
talks about  
the new medium-term  
business plan,  
NEXT TOYO 2015**

# Focusing on New Growth with TOYO's Consolidated Efforts



I would like to begin our annual report by explaining NEXT TOYO 2015. I will explain its background and targets, basic policies and its major initiatives as well as TOYO's divided policy. It is my hope that this will assist shareholders and investors in more thoroughly understanding TOYO's activities.

### Summary of Previous Medium-Term Business Plans

Under its previous medium-term business plans, TOYO made substantial progress in establishing an integrated global operation system.

Before going into the details of NEXT TOYO 2015, I would like to review the previous two business plans, implemented from fiscal 2006 to fiscal 2011, which provided the base for the new plan.

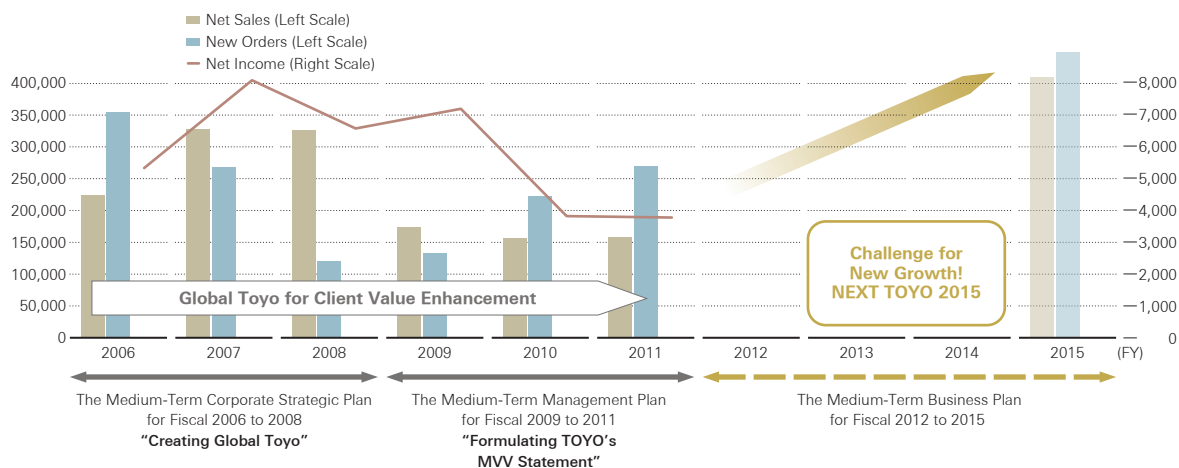
In 1976, TOYO established Toyo Engineering India Limited. Since then, TOYO has worked to build and expand a global network that provides a comprehensive global business platform and EPC (Engineering, Procurement, and Construction) functions. Under the catchphrase of "Global Toyo" promoted by the medium-term business plan from fiscal 2006 to fiscal 2008, TOYO transformed overseas group companies in India, Korea, China, Malaysia, and other countries into independent profit centers. TOYO developed an integrated global operation system where Toyo-Japan and overseas group companies collaborate closely to promote business.

The three-year medium-term business plan from fiscal 2009 to fiscal 2011 focused on three basic policies: respond to changes in business type and field, advance Global Toyo, and

enhance human resources. To further develop global management, we formulated TOYO's Mission, Vision, and Values (MVV) statement that defined shared values for all TOYO employees. TOYO strived for a goal defined as the Group vision to become a "Global Leading Engineering Partner."

During the six-year period of these two medium-term business plans, TOYO's business environment changed at a rapid pace. TOYO faced sudden changes in its business climate, including the global financial crisis initiated by the Lehman Brothers collapse, the rise of emerging countries, the prolonged sovereign debt crisis in Europe, the record high exchange rates for the yen against the US dollar and the euro, and the Great East Japan Earthquake and nuclear plant incident thereafter. During this period, TOYO's management team tenaciously continued efforts to achieve the goals of its medium-term business plans. As a result, TOYO strengthened its integrated global operation system, increased orders for service-type projects, enhanced its efforts in the oil & gas development field, expanded business in the social infrastructure field, and developed new products, such as the small- to medium-scale Gas to Liquids (Micro-GTL) and mid-scale LNG plants. In terms of a growth

**Challenge for New Growth** (Millions of yen)



strategy, TOYO has been able to build the business foundation for a future leap forward. During the same period, TOYO also increased the number of employees at its existing overseas group companies, brought new engineering companies in Canada (Toyo-Canada) and Indonesia (PT. Inti Karya Persada Teknik) into TOYO, and also invested in Atlatec, a water infrastructure project integration company in Mexico. TOYO's global operations have become much more stable, and international division of work has expanded. This progress, in turn, has led to an improvement in TOYO's cost competitiveness.

### Background and Targets of the New Medium-Term Business Plan

TOYO has positioned the next four years as a stage to strive for new growth.

Currently, the global economy is showing real signs of recovery, such as the economic growth in Asia's emerging countries. Several concerns still remain however, such as heightened anxiety regarding the financial system in Europe. Nevertheless, the consumer product markets in emerging countries are growing sharply against the background of population growth and urbanization. In line with this growth, robust investment sentiment continues, particularly in basic materials, fertilizers, and social infrastructures. In addition, there is vigorous new energy resource development of unconventional oil and gas as well as other forms of energy on a global scale.

With this business environment in mind, we formulated NEXT TOYO 2015, a medium-term



business plan that will cover the four-year period starting in fiscal 2012. TOYO will pursue the following management goals, taking its first step toward the next growth stage.

Starting with a numerical goal, TOYO is targeting consolidated net income of ¥12 billion in fiscal 2015, the fiscal year ending March 31, 2016. As we aim to build a framework that can earn half of this target through overseas group companies, we have set the consolidation ratio of net income at 2.0. The premise to achieve this target is imaged as consolidated orders of ¥450 billion, consolidated net sales of ¥420 billion, both on an EPC basis, and consolidated operating income of ¥20 billion or more. The plan targets to perform new orders and net sales at a level more than ¥10 billion more than TOYO's record consolidated performances to date.

In order to reach these targets, we must restructure Toyo-Japan's operations, expand the business scope of overseas group companies and improve their earnings capacity as well as business productivity. By enhancing the EPC execution capabilities of its overseas group companies, TOYO will achieve steady growth and pursue maximization of its corporate value at the same time by further pushing forward with integration of its global operation system.

Leveraging TOYO's advanced technology and project execution capability, we will refine TOYO's inherent strengths and follow a differentiation strategy in which we aim to become the company to be selected by clients.

### Basic Policies

The following are TOYO's three basic policies for achieving the goals of the new business plan.

#### Management Targets

Targets  
for the fiscal year  
ending  
March 31, 2016

Consolidated net income:  
**¥12 billion**  
(Consolidation ratio of  
net income: 2.0)

Dividend payout ratio:

**25%**



## “Global Toyo” to “TOYO”

Integration of Global Operation System

## More toward Upstream

Upstream Sector & Customer Value Chain

## Worthwhile Working Place

Development of Global Human Capital

The first basic policy is “Global Toyo to TOYO.” Our strategy is to further enhance an integrated global operation system, which underpins TOYO’s leadership in the market. We will turn the whole group organization, including Toyo-Japan, into a single TOYO. With that branding, TOYO expands its orders and sales by providing TOYO’s highly trusted quality to clients around the world.

TOYO’s second basic policy is “More toward Upstream.” Targeting growth by Toyo-Japan, TOYO plans to expand its business to the upstream sector and concentrate on upstream work. There are two meanings of “upstream” in this policy. One meaning is to expand TOYO’s range of business from the hydrocarbon EPC downstream sector to the upstream sector, including oil and gas development. The other meaning signifies TOYO’s participation in clients’ project planning right from the first stage of project formation.

“Worthwhile Working Place” is TOYO’s third business policy, which aims to develop and strengthen global human capital. Engineering companies depend on the capability of each employee and the collaborative power of teamwork. We recognize that the value created by human capital is TOYO’s source of growth. TOYO will develop a corporate culture that attracts human capital from around the world and to upgrade its human resource management system.

### Regional Strategy

Prioritized and frontier markets—aiming to develop new regions and expand TOYO’s market presence.

### Prioritized Markets

TOYO’s prioritized markets include Japan, East Asia, Southeast Asia, Latin America, India, and the Middle East. These are regions where TOYO has accumulated a strong record of successful projects. TOYO has overseas group companies with EPC functions well-rooted there. These companies not only cooperate with Toyo-Japan, but also independently strive to win orders. In February 2012, we further expanded our EPC network by investing in PT. Inti Karya Persada Tehnik (IKPT), a leading engineering company in Indonesia. Moreover, in Brazil, we established a joint venture company with a leading local engineering company to mutually target onshore and offshore EPC projects. TOYO is actively trying to capture orders in prioritized markets with growth potential, based on the relationship of trust built with clients and partners over the years through the many projects.



PT. Inti Karya  
Persada Tehnik  
(IKPT)

### Frontier Markets

TOYO’s frontier markets are Russia and other Commonwealth of Independent States (CIS) countries, North America, Iraq, and Sub-Saharan Africa. These are regions where TOYO is seeking to develop or more intensely cultivate markets. In North America, TOYO expects that there will be opportunities on unconventional energy-related projects, such as shale gas and oil sands projects. Led by our local companies in the United States and Canada, we intend to aggressively continue to target new projects. With their abundant natural resources, Russia, Iraq, and Sub-Saharan Africa are regions that can expect high growth. Therefore, we are rapidly ramping up activities to be able to meet their increasing capital investment needs.

## Product Strategy

Maintaining the profits of existing businesses, TOYO is concentrating on expanding the enhancing and fostering business areas.

### Core Business Areas

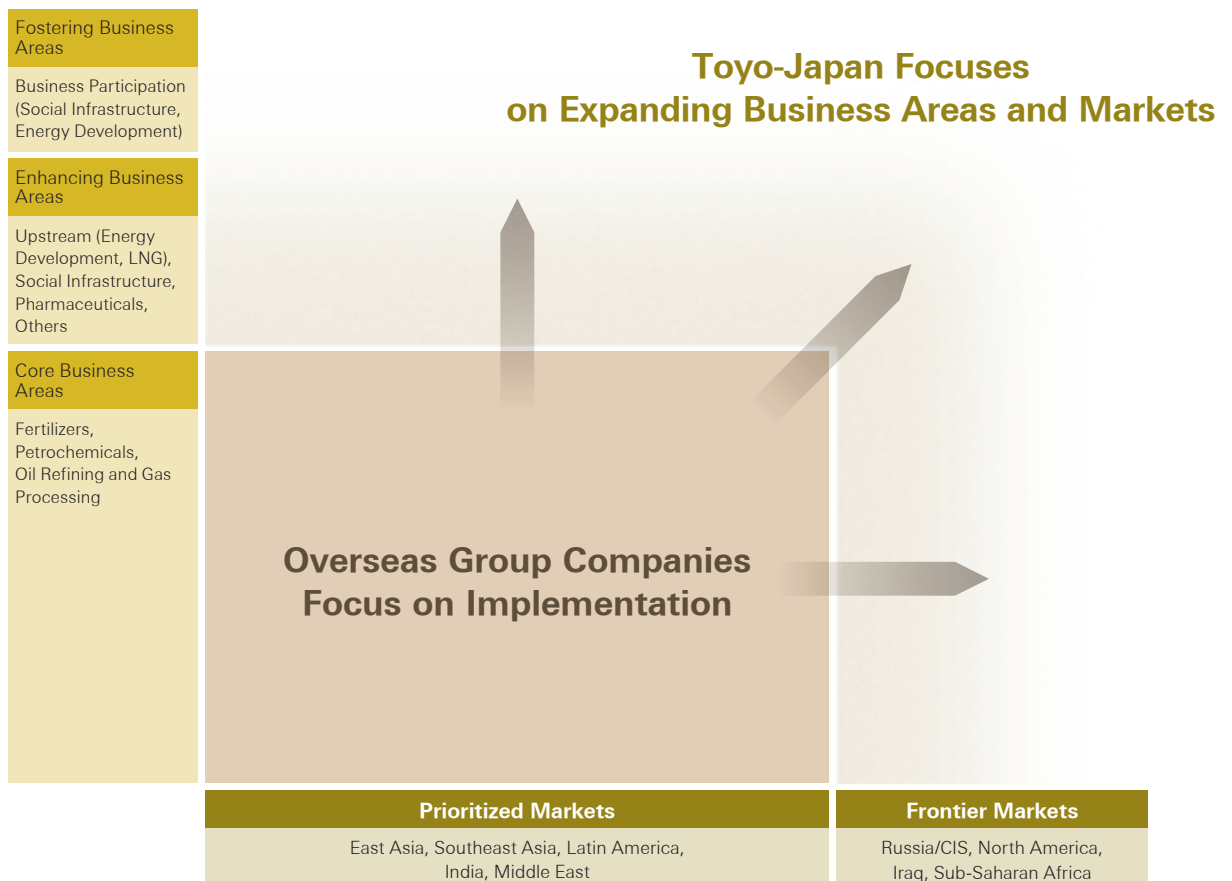
In TOYO's core business areas, where TOYO can fully utilize its overseas group companies to exercise cost competitiveness, TOYO is working to keep its volume of orders. These areas cover various businesses in the downstream segment, including fertilizers, petrochemicals, and oil refining and gas processing. With converting inexpensive gas into high-value added products like fertilizers representing an option in the gas market, fertilizer plant projects are emerging one after the other. As one of the three major companies in the world holding urea manufacturing technology, TOYO sees this trend is an opportunity to expand orders. TOYO is targeting an increase in its global share

of urea technology licensing and using that market position to win orders for EPC projects. In the petrochemicals field, TOYO views the recent move towards new investment in mega petrochemical complexes in Asia and other regions as a business opportunity. In the field of oil refining and gas processing, TOYO has expectations of new capital investments by countries with oil and gas resources and consuming countries. Therefore, we are continuing to target further orders in this field.

### Enhancing Business Areas

TOYO's enhancing business areas focus on such fields as natural resource and energy development, social infrastructure, and pharmaceuticals in Japan. In the natural resources and energy development field, TOYO is working to comprehend the intensifying competition among countries to acquire natural resource rights and pursuing active involvement in related value chains. In April 2012, TOYO concluded

## Business Areas & Markets in Focus



a general engineering service agreement for oil development with South Oil Company, a state-owned oil company responsible for the southern region of Iraq. In other areas, TOYO was awarded six Floating Production Storage and Offloading (FPSO) topsides projects jointly with MODEC, Inc. Also, the Company is currently conducting a verification test of a Micro-GTL plant which can be mounted on an FPSO vessel. TOYO's activities in the LNG field include executing Front End Engineering Design (FEED) for a mid-scale electric-motor-driven LNG plant in Australia. Recently, TOYO also participated in a bid for a floating LNG project. In the social infrastructure segment, TOYO is concentrating on the projects related to electric power, water treatment, and transportation. In the power generation field, TOYO is currently executing gas-fired combined cycle electric power plant projects in Thailand and Azerbaijan. Our plans in the water treatment field center on entering the market for projects that combine EPC or Operation and Maintenance (O&M) contracts with direct investment in the project. Our focus for such projects will be mainly on emerging countries.



Energy Development Facilities

### Fostering Business Areas

Drawing on TOYO's knowledge in such conventional business fields as providing FEED and EPC projects, we are developing a new business model where TOYO participates in operations to the extent of investing in the business in some cases. In other words, we are expanding our business domain from providing "output" to clients, such as design documents and plant facilities, to involvement in the overall operations, covering



asset management including production facilities, and production and maintenance. We will share in the "outcome" of the business, including risks and rewards.

### Basic Policy for Profit Distribution

TOYO aims to achieve a dividend payout ratio of 25% and annual dividends of ¥15 per share for fiscal 2015.

TOYO considers distributing profits to shareholders as one of its top management issues. Taking into consideration the need to replenish internal reserves, which are our source of capital for achieving sustained growth, we endeavor to maintain stable dividends from a medium- to long-term perspective. Under the NEXT TOYO 2015 plan there will be no change in this policy. Our basic goal will be to achieve a dividend payout ratio of 25%, while steadily increasing dividends in line with the growth in our consolidated net income. Specifically, in fiscal 2015, the last year of the NEXT TOYO 2015 plan, we plan to pay an annual dividend of ¥15 per share if the targeted consolidated net income of ¥12 billion is achieved.

Since joining TOYO in 1977, I have steadily gained experience and knowledge of the business over the years. I joined the management of TOYO in 2009 as an executive officer. I intend to fully devote the leadership and enthusiasm developed during my career to the execution of the NEXT TOYO 2015 plan, and aim to achieve TOYO's expansion and the sustainable growth of our corporate value. In meeting this challenge, I look forward to the continued support of our shareholders and investors.

**“Safety First” is not simply a slogan.  
“Safety” is an integral part of the TOYO brand.**

In 2011, in terms of TOYO’s safety record as defined by ILO, Lost Time Incident Rate (LTIR) was 0.09 and Total Recordable Incident Rate (TRIR) was 0.24. Although our TRIR is much improved from 0.53 in 2010, our LTIR is higher than 0.05 in 2010. We are not satisfied with this result, and shall strive to complete all jobs with no accidents and no harm to people.

We are aware that humans make mistakes, therefore it is important to enhance the quality of safety training to facilitate proactive safety actions and to raise sensitivity toward risk and hazards that might lead to accidents. With the recognition that “Safety takes priority over everything else,” we continuously implement safety training programs to foster the safety culture.

TOYO’s overseas group companies have applied unified standards for safety management and moreover, through promoting standardization, TOYO is making its best effort to maintain and improve quality as well as safety.

Loss of valuable human life must absolutely be prevented by all means in the process of TOYO’s business solutions, such as plant construction. Our efforts, time and expenses spent to respect human life must take precedence over all other things.

### Safety & Environmental Report 2012

TOYO’s Safety & Environmental Report 2012 is available on our website. It introduces our various activities on safety and the environment during 2011.



### Corporate Safety Training

In order to spread the culture of “safety is the first priority” among our employees, we carried out safety training for all corporate members in fiscal 2006. The training was aimed at all employees, not only employees at construction sites. Only employees trained by the Corporate Safety Training Program are allowed to enter our construction sites.

In fiscal 2011, we also carried out renewal safety training for all corporate members to maintain and foster safety culture and knowledge.



### Leadership of Site Management

Our main goal is to hand over superior facilities to our clients through engineering, procurement, construction and commissioning work without any accident or injuries. For this purpose, especially strong safety leadership of site management, Project Managers (PM), Field Managers (FM) and Construction Managers (CM) is extremely important.



### Project SQE (Safety, Quality, and Environment) Management Department

The Project SQE Management Department, established in April 2010 for the improvement of SQE management function in TOYO's executed projects, has been training personnel for performing PQM (Project Quality Manager) and HSSEM (Health, Safety, Security and Environment Manager) roles.

For this purpose, the department also facilitates the accumulation and improvement of SQE related know-how, which can be applied in all following projects and proposals.

### Feedback Knowledge Management System (FKMS)

As part of the continual improvement of the Quality Management System, TOYO has been accumulating feedback and knowledge for about 30 years from executed projects in the FKMS. Recently, FKMS has been reconfigured to accept and share the feedback and knowledge from TOYO's overseas group companies, thereby the feedback and knowledge can be extended and utilized among all TOYO's overseas group companies immediately for suggestions and preventive actions in all following projects and proposals.

### TOYO's Standards

TOYO holds its own standards, which have been established on cumulative knowledge and experience gained from a number of projects TOYO has accomplished around the world. With TOYO's Standards consisting of TOYO-Group Standards (TGS) and the Local Standards (LS) of each overseas group company, along with due care of clients' requirements, TOYO guarantees to always provide high-quality products and services.



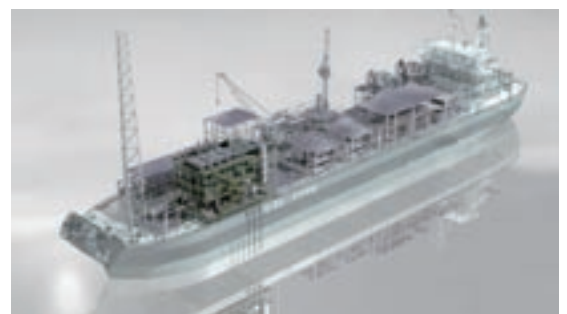
## Environment

### Micro Gas to Liquids (Micro-GTL)

TOYO has been developing a compact, cost efficient Micro-GTL process jointly with Velocys, Inc., and MODEC, Inc.

The main feature of Micro-GTL technology is the use of micro-channel reactors, for which Velocys, Inc. holds the master patent. TOYO integrates micro-channel reactors with other facilities such as equipment, piping, electrical and instrument, etc., resulting in a compact plant. A compact plant enables modulation and makes small- and medium-sized GTL facilities more economical. Therefore, Micro-GTL plants can be installed not only onshore, but also offshore, onboard a ship (FPSO).

The development of Micro-GTL is reaching the final stage and TOYO is aiming to achieve commercialization by 2013.



Computer Graphic of GTL Facilities on a Ship

**Internal Control System**

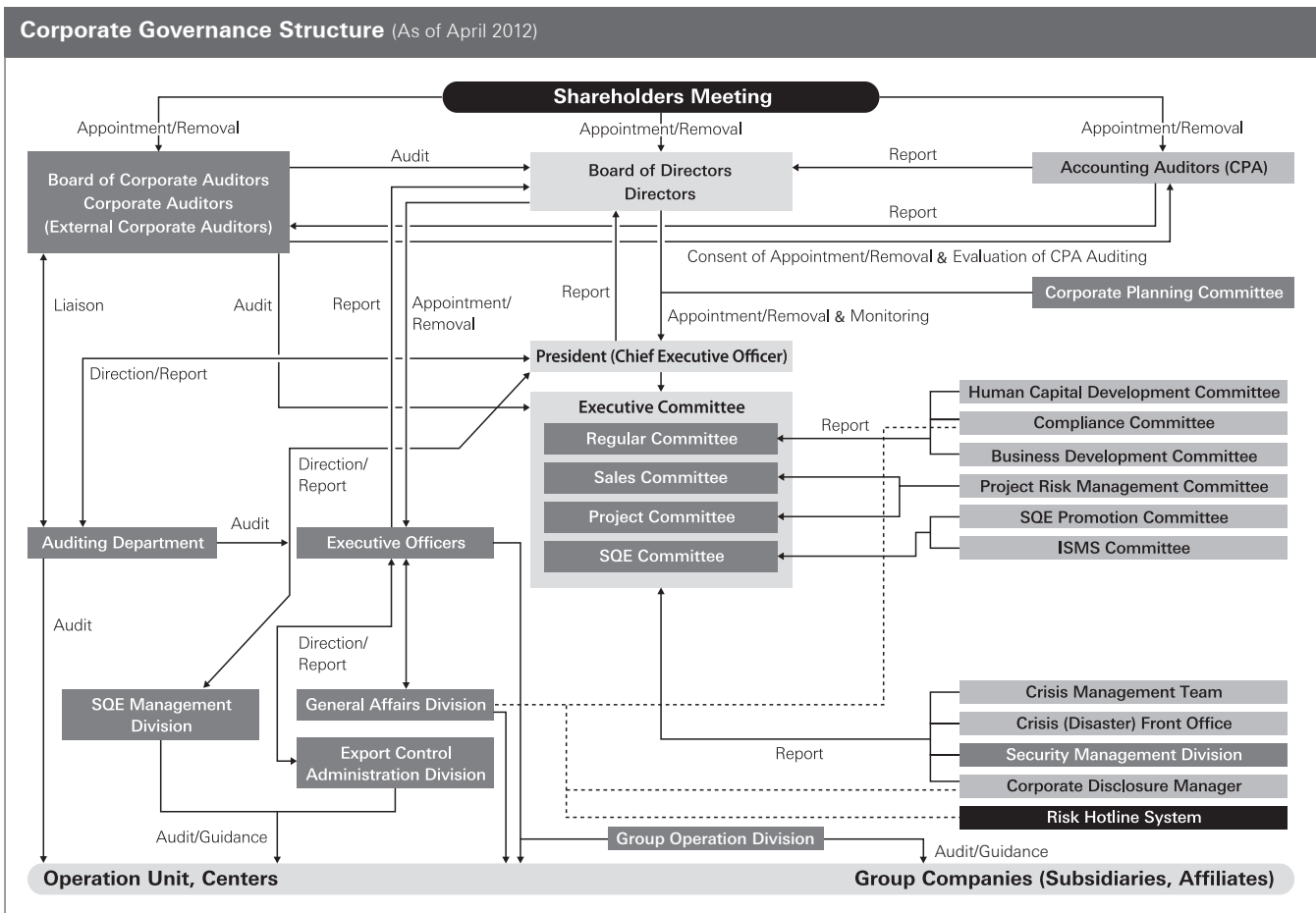
The Auditing Department of TOYO, which is under the direct control of the President, performs audits concerning the execution of business activities by all divisions and verifies the appropriateness and effectiveness of the internal management structure, including compliance and risk management. In addition, there are specialized units to perform other internal audits, such as the SQE (Safety, Quality and Environment) Management Division and the Export Control Administration Division.

In order to promote the Internal Control System of the Group, TOYO is making efforts to ensure proper operations across TOYO's overseas group companies by establishing corporate procedures to strengthen the corporate administrative functions of each company.

**Risk Management System**

For risk management concerning project profitability and financial matters within TOYO, all business operations are constantly monitored and supervised, and reports are submitted to the Board of Directors, the Executive Committee, and the Board of Corporate Auditors. In addition, matters of particular importance concerning individual bidding and projects undergo a risk analysis overseen by the Project Risk Management Committee, and reports are submitted to the Executive Committee.

TOYO has drawn up the Crisis Management Policy to clearly set forth risk management procedures to forestall serious risks (crises) that have the potential to seriously affect the operations of the Company. The Crisis Management Team is constantly prepared for potential crises.





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

#### **Business risk**

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

- War, civil commotion, riots, revolutions, coup d'état, terrorism and other unusual events in the country where the project is carried out or in a neighboring country.
- Regional risks that occur particularly in an area near a project site, such as a surge of political unrest and a serious outbreak of an epidemic disease.
- Extraordinary natural phenomenon, such as earthquakes, floods, typhoons and other storms as well as unusual weather, such as extreme heat or cold.
- Notable changes in a country's commerce, trade, manufacturing, and financial policies, such as license approvals, customs clearance, export and export controls, foreign exchange systems, communications, and taxes.
- A major and global contraction in capital investment activities in the Company's business fields or a sharp decrease in opportunities to win orders due to intensified competition.

#### **Foreign exchange fluctuation**

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

#### **Sudden increases in prices of equipment, materials and construction**

In turnkey lump-sum contracts, the possibility exists of sudden and steep rises in the cost of equipment and materials, transportation, construction, labor and other items associated with a project, or of problems caused by tight demand and supplies of these items, due to rapid change in the international situation. The possibility also exists of cost increase caused by a supplier becoming insolvent or failure of quality control or delivery schedule delay by suppliers/sub-contractors. These events may deteriorate the profitability of a project affected by soaring cost, delivery delay and other problems. Such events may therefore have a detrimental effect on our operating results and financial condition. To reduce our exposure to these risks, we, developing our accountability system to clients and project management system in project execution, utilize our experience to enter into contracts that incorporate measures to offset these risks and gather information on market trends. To avoid an undue reliance on a particular supplier, we work on placing orders with a large number of suppliers and stringently monitor the financial condition of suppliers. We also diversify contract conditions such as cost reimbursable basis to reduce our risks.

In fiscal 2011, the overall Japanese economy remained sluggish despite signs of an upturn in some areas, such as demand for recovery in the aftermath of the Great East Japan Earthquake. Overall, growing uncertainty about corporate environment put downward pressure on the economy. In the global economy, concerns about the risk of a downturn brought on by the sovereign debt crisis in Europe could not be dispelled. However, robust economic activities and business investments have continued in emerging countries.

Under this environment, TOYO actively conducted detailed marketing activities to capture orders in markets with strong potential. Domestically, we aimed to win orders for support services for clients in the O&M market, and projects in the pharmaceutical and industrial systems markets. Overseas, firm capital investments have continued in resource-rich countries supported by the high price of oil. Against the backdrop of economic development and population growth, the expansion of domestic demand drove robust capital investments in emerging countries, such as Brazil, China, and India.

However, fierce competition became common during fiscal 2011 because Korean, Chinese, and other contractors stepped up their aggressive sales efforts not only in the Middle East, but also in Asia and other regions.

In response, TOYO placed strategic emphasis on emerging markets, aggressively working to win orders in the energy, hydrocarbon, and social infrastructure fields. In addition, we strengthened our efforts to win upstream oil & gas development projects and expanded our service-type businesses in response to business transformations. At the same time, TOYO concentrated on exploiting projects in new regions, such as Iraq and Sub-Saharan Africa. TOYO also has taken steps to expand orders and improve profitability by meeting demand for Engineering, Procurement, and Construction (EPC) services in emerging markets.

We expanded our global operations system, under which our overseas group companies independently and consistently manage all operations, from marketing to EPC services. Moreover, we have made progress in sharing marketing information among overseas group companies, integrated marketing activities, and sharing project management systems. TOYO also initiated measures to improve quality, safety and environmental management.

#### Performance Outline (Consolidated)

Net sales	¥ 157.8 billion (1% up)
Operating income	¥ 5.3 billion (22% down)
Net income	¥ 3.7 billion (1% down)
New orders	¥ 269.1 billion (21% up)
Cash dividends (annual)	¥ 6.00

#### Fiscal 2011 Business Results

In fiscal 2011, consolidated net sales increased ¥2.1 billion year on year, to ¥157.8 billion (\$1,922 million). TOYO strove to achieve steady progress in implementing projects during fiscal 2011 such as power plants in Thailand and Azerbaijan, fertilizer plants in Venezuela, topsides of Floating Production Storage and Offloading (FPSO) in Brazil (MV23 Project), a Gas to Liquids (GTL) liquid processing unit in Qatar. However, operating income decreased ¥1.4 billion to ¥5.3 billion (\$65 million) because of a decrease in the number of projects on a cost reimbursable basis and soft services. Net income totaled ¥3.7 billion (\$45 million), about the same level as in fiscal 2010.

New orders in fiscal 2011 increased ¥46.6 billion to ¥269.1 billion (\$3,277 million), expanding largely our backlog of contracts at end of the year by ¥134.4 billion to ¥359.1 billion (\$4,372 million). TOYO focused on winning EPC orders on a lump-sum turnkey basis, particularly energy-related orders. We strengthened marketing collaborations among our overseas group companies and conducted marketing activities targeting service-type businesses in response to the business transformations of our clients. Major orders acquired overseas during fiscal 2011 are mentioned below. In Japan, TOYO provided support services for clients to enter the overseas market and won projects from various new clients in the pharmaceutical and industrial systems market.

Cash from operating activities was ¥5.7 billion (\$69 million). The principal source of cash was income before income taxes and increase in advances received on uncompleted construction contracts.

Cash used for investing activities was ¥2.4 billion (\$29 million). This mainly represented expenditure on purchase of property, plant, equipment and investments in subsidiaries. Cash from financing activities was ¥102 million (\$1.2 million), reflecting the redemption of bonds and proceeds from long-term loans payable. The result of the above cash flows was a net increase of ¥3.1 billion (\$37 million) in cash and cash equivalents.

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 which form our business base. Fiscal 2011 dividends were ¥6.00, consisted of ¥5.00 per share as a common dividend and ¥1.00 as a commemorative dividend for our 50th anniversary.

### **Fiscal 2011 New Orders**

At ¥269.1 billion, consolidated new orders nearly reached TOYO's original target of ¥280 billion. The following are the major projects won in fiscal 2011.

- **Utility Facilities for Brazilian Large-Scale Petrochemical Complex**

TOYO is building the utility facilities for the COMPERJ large-scale petrochemical complex in Rio de Janeiro. The facilities consist of water treatment facilities, a 260 MW power plant, and a steam supply facility, and are constructed by a three-company consortium consisting of TOYO, Brazilian UTC, and Odebrecht.

- **Ethylene Plant in Egypt**

Jointly with local engineering company ENPPI, TOYO is constructing a 460,000 t/y ethylene plant and a 20,000 t/y butadiene extraction unit. This is the second and the largest ethylene plant that TOYO has built in Egypt. The Company completed the first 300,000 t/y ethylene plant in 2001.

- **Two FPSO Topsides for Brazil**

TOYO built two FPSO topsides, for OSX and Petrobras, to be used in the pre-salt layer located offshore Brazil. The Singapore joint venture of MODEC and TOYO (MTOPS) received the order from MODEC's Singapore subsidiary. These orders bring the total number of topsides TOYO was awarded to six.

- **Energy Optimization of Ammonia Project in Saudi Arabia**

TOYO is replacing and renovating equipment to optimize energy use at an existing ammonia plant and package boilers in Saudi Arabia.

- **Large-Scale Synthetic Rubber Plant in India**

TOYO is building a large-scale 120,000 t/y synthetic rubber plant in India. The plant is being constructed for Indian Synthetic Rubber Limited and this project is the largest EPC order ever received by Toyo-India.

- **Butadiene Plant in Indonesia**

TOYO is building Indonesia's first 100,000 t/y butadiene plant. The plant is being constructed to meet the expansion of demand for synthetic rubber and its raw material butadiene to meet the growing demand for automotive tires in emerging countries.

- **PMC Contract for Venezuelan Large-Scale Heavy Oil Upgrading**

TOYO is handling the Project Management Consultant (PMC) work with local engineering company Y&V for a heavy oil upgrading project at the Puerto La Cruz Refinery in Venezuela. The heavy oil comes from the Orinoco Oil Belt.

- **Caprolactam Plant in China**

TOYO is constructing a 200,000 t/y caprolactam plant in Nanjing, China, for DSM Nanjing Chemical Company Ltd., a joint venture between DSM and Sinopec Group. TOYO is providing Engineering, Procurement services and Construction management (EPsCm) for the project.

### Fiscal 2012 Performance Forecast (Consolidated)

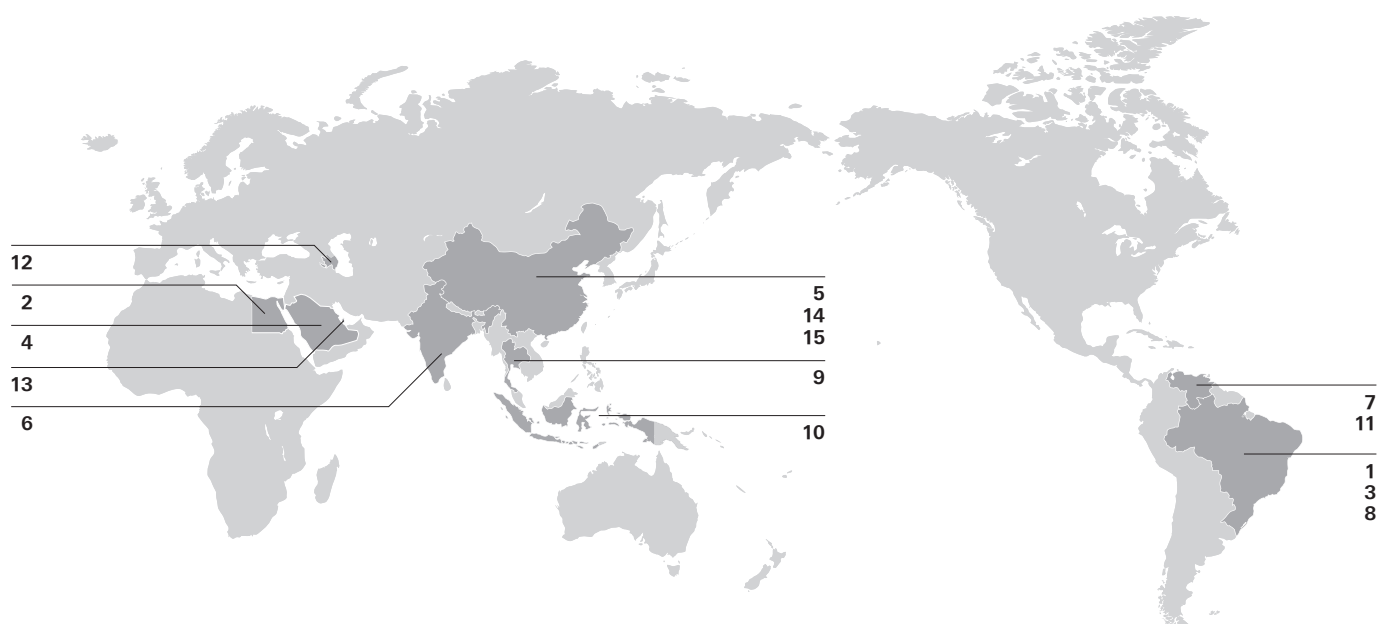
Net sales	¥ 300.0 billion
Operating income	¥ 8.5 billion
Net income	¥ 3.5 billion
New orders	¥ 310.0 billion
Cash dividends (annual)	¥ 5.00

### Fiscal 2012 Performance Forecast (Consolidated)

TOYO forecasts that there will continue to be expansion in capital investment in emerging countries, primarily in the natural resources and energy fields. This view is based on their strong economic activity and population growth. On the other hand, TOYO predicts that competition will further intensify in all markets around the world. We now must compete not only with U.S. and European companies, but also with Korean companies, which are expanding their business scopes and increasing their presence in the global market. At the same time, the structure of the global economy is rapidly changing to one driven by emerging countries. Amid this trend, TOYO believes that, more than ever, it is necessary to quickly and accurately adapt to the business transformations in its markets. Based on this business environment, we have set the goal for new orders and the performance forecast for fiscal 2012 indicated above.

In 2012, TOYO's goal for new orders exceeds that in fiscal 2011. There are several reasons for this positive outlook. The economies of emerging countries in regions that TOYO has positioned as prioritized markets, such as China, India, Asia, and Brazil, are expected to expand. In addition, we now have well-established local EPC companies in these regions. We expect that economies in regions that we have positioned as frontier markets, such as Africa, Iraq, and Russia and other CIS countries, will continue to grow. In fiscal 2012, we will be particularly targeting winning fertilizer-related orders in Asia, India, Sub-Saharan Africa, Russia, and other regions. We expect fertilizer-related projects to increase by the population growth and the diversification in the uses of natural gas. In the infrastructure field, we will concentrate our efforts on winning orders in Asia, Australia, and other regions. Our focus in the upstream field will be on winning contracts in the Middle East, Russia, Canada, and Brazil.

Looking at sales forecasts, TOYO expects that net sales in fiscal 2012 will increase year on year because of a significant build up in our backlog of contracts. Although gross profit will increase along with sales growth, we forecast that the gross profit margin will decline compared with fiscal 2011. We have tried to win EPC orders under the fierce competition, while service-type projects are forecast to decline from fiscal 2011 relatively. Moreover, few large-scale projects will be completed in fiscal 2012 because of the decrease of orders in the two years after the Lehman Brothers crisis. However, TOYO's stock of projects will increase because of the recent recovery in new orders. Completion of those projects is scheduled for 2013 and later.



### New Orders

	Name of Client	Type	Location	Scope
1	Petróleo Brasileiro S.A. (PETROBRAS)	Refinery Utility Complex	Brazil	EPC
2	Egyptian Ethylene and Derivatives Company (ETHYDCO)	Ethylene Plant and Butadiene Extraction Unit	Egypt	EPC
3	OSX / MODEC, Inc.	FPSO Topsides	Brazil	EPC
4	Al-Jubail Fertilizer Company (Albayroni)	Energy Optimization Project for Existing Ammonia Plant	Saudi Arabia	EPC
5	DSM Nanjing Chemical Company Ltd.	Caprolactam Plant	China	EPsCm
6	Indian Synthetic Rubber Limited (ISRL)	Styrene-Butadiene Rubber (SBR) Plant	India	EPC
7	Petróleos de Venezuela, S.A. (PDVSA)	Heavy Oil Upgrading Units	Venezuela	PMC
8	PETROBRAS / MODEC, Inc.	FPSO Topsides	Brazil	EPC

### Ongoing

9	GULF JP COMPANY LIMITED	Small Power Producer Cogeneration Plant (7 projects)	Thailand	EPC
10	PT Pupuk Kalimantan Timur (Kaltim)	Ammonia and Urea Plants	Indonesia	EPC
11	Petroquímica de Venezuela, S.A. (Pequiven)	Ammonia and Urea Granulation Plants	Venezuela	EPC
12	Azerenerji Joint Stock Company	Gas Combined Cycle Power Plant	Azerbaijan	EP

### Completed

13	Qatar Shell GTL Limited	Liquid Processing Unit of GTL Plant	Qatar	EPC
14	Lingyou Engineering-Plastics (Shanghai) Co., Ltd.	Polycarbonate Plant	China	EPC
15	Dalian Sumika Jingang Chemicals Co., Ltd.	Nutritional Feed Additive Manufacturing Facilities	China	EPsCm

EPC: Engineering, Procurement and Construction

EPsCm: Engineering, Procurement service and Construction management

PMC: Project Management Contract

## Consolidated Balance Sheets

Toyo Engineering Corporation and Consolidated Subsidiaries March 31, 2012 and 2011

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
<b>Current assets:</b>			
Cash and deposits (Note 12)	¥ 48,041	¥ 45,069	\$ 584,939
Notes receivable, accounts receivable from completed construction contracts	35,832	30,737	436,284
Short-term investment securities (Note 15)	44,499	43,992	541,818
Costs on uncompleted construction contracts	26,370	18,763	321,076
Deferred tax assets (Note 18)	1,655	1,111	20,154
Accounts receivable—other	14,472	8,400	176,215
Other	3,503	2,989	42,663
Allowance for doubtful accounts	(3,530)	(2,372)	(42,981)
Total current assets	170,844	148,693	2,080,171
<b>Property, plant and equipment:</b>			
Buildings and structures (Note 5)	28,078	29,478	341,884
Machinery, vehicles, tools, furniture and fixtures (Note 5)	4,577	3,896	55,739
Land (Note 5)	17,608	16,805	214,395
Lease assets	1,890	2,107	23,024
Construction in progress	4	119	60
Accumulated depreciation	(19,996)	(20,850)	(243,475)
Total property, plant and equipment	32,164	31,557	391,627
<b>Intangible assets:</b>			
Goodwill	3,322	1,860	40,451
Other	3,081	2,856	37,516
Total intangible assets	6,403	4,717	77,967
<b>Investments and other assets:</b>			
Investment securities (Notes 4, 15)	9,551	9,572	116,299
Long-term loans receivable	4,575	4,588	55,707
Deferred tax assets (Note 18)	361	470	4,398
Other (Note 4)	3,510	4,013	42,739
Allowance for doubtful accounts	(4,995)	(5,226)	(60,819)
Total investments and other assets	13,003	13,419	158,325
<b>Total assets</b>	<b>¥222,415</b>	<b>¥198,387</b>	<b>\$2,708,092</b>

See notes to consolidated financial statements.



Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
<b>Current liabilities:</b>			
Notes payable, accounts payable for construction contracts and other	¥ 50,096	¥ 40,811	\$ 609,967
Short-term loans payable (Note 5)	12,983	18,774	158,088
Current portion of bonds (Note 5)	—	1,000	—
Income taxes payable	355	533	4,323
Advances received on uncompleted construction contracts	46,164	33,951	562,085
Provision for bonuses	998	1,053	12,163
Provision for warranties for completed construction	596	1,892	7,257
Provision for loss on construction contracts	1,489	677	18,134
Provision for loss on disaster	—	95	—
Other	5,263	6,472	64,091
Total current liabilities	117,947	105,261	1,436,110
<b>Noncurrent liabilities:</b>			
Long-term loans payable (Note 5)	24,582	15,163	299,317
Lease obligations	913	1,281	11,121
Deferred tax liabilities (Note 18)	5	5	69
Provision for retirement benefits (Note 17)	5,314	4,971	64,713
Provision for repairs	913	842	11,124
Other	3,471	3,764	42,265
Total noncurrent liabilities	35,201	26,029	428,613
Total liabilities	153,149	131,290	1,864,723
<b>Net assets:</b>			
<b>Shareholders' equity</b>			
Capital stock (Note 11)	18,198	18,198	221,587
Capital surplus	20,759	20,759	252,759
Retained earnings	31,203	28,434	379,929
Treasury stock	(363)	(347)	(4,425)
Total shareholders' equity	69,798	67,045	849,850
<b>Accumulated other comprehensive income:</b>			
Valuation difference on available-for-sale securities	225	471	2,749
Deferred gains or losses on hedges	(45)	(18)	(552)
Foreign currency translation adjustment	(2,931)	(2,157)	(35,699)
Total accumulated other comprehensive income	(2,751)	(1,705)	(33,502)
<b>Minority interests</b>	2,219	1,756	27,020
<b>Total net assets</b>	69,265	67,096	843,369
<b>Contingent liabilities (Note 6)</b>			
<b>Total liabilities and net assets</b>	¥222,415	¥198,387	\$2,708,092

## Consolidated Statements of Income

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
<b>Net sales</b>	<b>¥157,881</b>	¥155,696	<b>\$1,922,338</b>
<b>Cost of sales (Note 8)</b>	<b>132,963</b>	129,123	<b>1,618,935</b>
Gross profit	<b>24,918</b>	26,573	<b>303,402</b>
<b>Selling, general and administrative expenses (Notes 7, 8)</b>	<b>19,577</b>	19,758	<b>238,368</b>
<b>Operating income</b>	<b>5,341</b>	6,815	<b>65,034</b>
<b>Non-operating income:</b>			
Interest income	<b>414</b>	427	<b>5,048</b>
Dividends income	<b>160</b>	104	<b>1,959</b>
Equity in earnings of affiliates	<b>543</b>	608	<b>6,615</b>
Miscellaneous income	<b>347</b>	214	<b>4,236</b>
Total non-operating income	<b>1,466</b>	1,354	<b>17,860</b>
<b>Non-operating expenses:</b>			
Interest expenses	<b>1,064</b>	771	<b>12,956</b>
Foreign exchange losses	<b>151</b>	175	<b>1,847</b>
Miscellaneous expenses	<b>490</b>	209	<b>5,966</b>
Total non-operating expenses	<b>1,705</b>	1,156	<b>20,770</b>
<b>Ordinary income</b>	<b>5,102</b>	7,012	<b>62,124</b>
<b>Extraordinary loss:</b>			
Loss on valuation of investments in capital of subsidiaries and affiliates	<b>160</b>	—	<b>1,951</b>
Provision for loss on disaster	<b>—</b>	95	<b>—</b>
Total extraordinary loss	<b>160</b>	95	<b>1,951</b>
<b>Income before income taxes</b>	<b>4,941</b>	6,917	<b>60,172</b>
Income taxes—current	<b>1,454</b>	3,768	<b>17,708</b>
Income taxes—deferred	<b>(255)</b>	(506)	<b>(3,109)</b>
Total income taxes	<b>1,198</b>	3,262	<b>14,598</b>
<b>Income before minority interests</b>	<b>3,743</b>	3,654	<b>45,574</b>
Minority interests in income (loss)	<b>14</b>	(118)	<b>174</b>
<b>Net income (Note 22)</b>	<b>¥ 3,728</b>	¥ 3,773	<b>\$ 45,399</b>

See notes to consolidated financial statements.

## Consolidated Statements of Comprehensive Income

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
<b>Income before minority interests</b>	<b>¥ 3,743</b>	<b>¥3,654</b>	<b>\$ 45,574</b>
<b>Other comprehensive income:</b>			
Valuation difference on available-for-sale securities	(245)	(147)	(2,986)
Deferred gains or losses on hedges	(26)	6	(326)
Foreign currency translation adjustment	(784)	(743)	(9,556)
Share of other comprehensive income of associates accounted for using equity method	(88)	(19)	(1,082)
Total other comprehensive income	(1,145)	(903)	(13,951)
<b>Comprehensive income (Note 10)</b>	<b>¥ 2,597</b>	<b>¥2,751</b>	<b>\$ 31,622</b>
<b>Comprehensive income attributable to:</b>			
Owners of the parent	2,682	2,949	32,661
Minority interests	¥ (85)	¥ (198)	\$ (1,038)

See notes to consolidated financial statements.

## Consolidated Statements of Changes in Net Assets (Note 11)

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2012 and 2011

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	Minority interests	Total net assets
Balance at April 1, 2010	¥18,198	¥20,759	¥25,525	¥(315)	¥ 618	¥(25)	¥(1,475)	¥2,009	¥65,295
Dividends from surplus			(864)						(864)
Net income			3,773						3,773
Purchase of treasury stock				(32)					(32)
Disposal of treasury stock		(0)		0					0
Net changes of items other than shareholders' equity					(147)	6	(682)	(252)	(1,075)
Balance at March 31, 2011	¥18,198	¥20,759	¥28,434	¥(347)	¥ 471	¥(18)	¥(2,157)	¥1,756	¥67,096
Balance at April 1, 2011	¥18,198	¥20,759	¥28,434	¥(347)	¥ 471	¥(18)	¥(2,157)	¥1,756	¥67,096
Dividends from surplus			(959)						(959)
Net income			3,728						3,728
Purchase of treasury stock				(16)					(16)
Disposal of treasury stock		(0)		0					0
Net changes of items other than shareholders' equity					(245)	(26)	(774)	462	(583)
Balance at March 31, 2012	¥18,198	¥20,759	¥31,203	¥(363)	¥ 225	¥(45)	¥(2,931)	¥2,219	¥69,265

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	Minority interests	Total net assets
Balance at April 1, 2011	\$221,587	\$252,761	\$346,214	\$(4,234)	\$5,735	\$(225)	\$(26,273)	\$21,391	\$816,957
Dividends from surplus			(11,684)						(11,684)
Net income			45,399						45,399
Purchase of treasury stock				(201)					(201)
Disposal of treasury stock		(2)		9					6
Net changes of items other than shareholders' equity					(2,986)	(326)	(9,425)	5,629	(7,108)
Balance at March 31, 2012	\$221,587	\$252,759	\$379,929	\$(4,425)	\$2,749	\$(552)	\$(35,699)	\$27,020	\$843,369

See notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
<b>Cash flows from operating activities:</b>			
Income before income taxes	¥ 4,941	¥ 6,917	\$ 60,172
Depreciation and amortization	2,524	2,473	30,742
Increase (decrease) in allowance for doubtful accounts	926	(76)	11,280
Increase (decrease) in provision for retirement benefits	(209)	162	(2,549)
Increase (decrease) in provision for loss on construction contracts	812	(227)	9,888
Increase (decrease) in provision for loss on disaster	(95)	95	(1,160)
Interest and dividends income	(575)	(531)	(7,008)
Interest expenses	1,064	771	12,956
Foreign exchange losses (gains)	(43)	11	(531)
Equity in (earnings) losses of affiliates	(543)	(608)	(6,615)
Loss (gain) on valuation of investment securities	174	5	2,121
Decrease (increase) in notes receivable, accounts receivable from completed construction contracts	(3,848)	(4,013)	(46,861)
Decrease (increase) in costs on uncompleted construction contracts	(6,923)	2,950	(84,304)
Decrease (increase) in accounts receivable—other	(5,784)	3,722	(70,426)
Increase (decrease) in notes and accounts payable—trade	7,835	6,064	95,404
Increase (decrease) in advances received on uncompleted construction contracts	9,892	(1,512)	120,447
Other, net	(2,385)	(1,069)	(29,043)
Subtotal	7,762	15,135	94,514
Interest and dividends income received	1,035	1,032	12,612
Interest expenses paid	(1,043)	(781)	(12,701)
Income taxes paid	(2,044)	(4,081)	(24,897)
Net cash provided by (used in) operating activities	5,710	11,305	69,527
<b>Cash flows from investing activities:</b>			
Net decrease (increase) in time deposits	940	(841)	11,446
Purchase of property, plant and equipment	(1,595)	(542)	(19,427)
Proceeds from sales of property, plant and equipment	980	87	11,933
Purchase of intangible assets	(1,048)	(1,157)	(12,762)
Purchase of investment securities	(397)	(305)	(4,836)
Proceeds from sales of investment securities	33	6	403
Purchase of investments in subsidiaries	(1,737)	(2,562)	(21,157)
Collection of short-term loans receivable	—	4,042	—
Other, net	407	(97)	4,967
Net cash provided by (used in) investing activities	(2,417)	(1,371)	(29,433)
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term loans payable	3,557	2,426	43,316
Proceeds from long-term loans payable	13,200	7,600	160,720
Repayment of long-term loans payable	(14,063)	(4,673)	(171,233)
Redemption of bonds	(1,000)	—	(12,175)
Repayments of finance lease obligations	(565)	(580)	(6,882)
Cash dividends paid	(959)	(864)	(11,684)
Other, net	(66)	(85)	(813)
Net cash provided by (used in) financing activities	102	3,822	1,246
<b>Effect of exchange rate change on cash and cash equivalents</b>	<b>(280)</b>	<b>(374)</b>	<b>(3,409)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>3,115</b>	<b>13,383</b>	<b>37,930</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>87,337</b>	<b>73,954</b>	<b>1,063,405</b>
<b>Cash and cash equivalents at end of period (Note 12)</b>	<b>¥ 90,452</b>	<b>¥87,337</b>	<b>\$1,101,336</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 ¥82.13 to U.S.\$1.00 prevailing on March 31, 2012.

### 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, 2012, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 14 and 3, respectively. Toyo Engineering Korea Limited, Toyo Engineering Corporation, China and 4 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 qualify 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 hedge instruments and the hedged forecasted transactions are the same. The Company and its consolidated 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.

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 Retirement Benefits**

The provision for retirement benefits at the year-end are stated in accordance with the projected plan assets and the projected benefit obligation. The difference arising from the adoption of the new standard of accounting of ¥3,695 million (\$45,000 thousand) is amortized over 15 years by the straight-line method. Actuarial gain or loss is amortized by the straight-line method over nine 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.

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

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

The amounts of loss on costs on uncompleted construction contracts of ¥747 million (\$9,097 thousand) is included in provision for loss on construction contracts and shown as a liability, not as a deduction from the amount of costs on uncompleted construction contracts.

The amount of provision for loss on construction contracts included in cost of sales is ¥1,077 million (\$13,118 thousand).

**(l) 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.

**(m) Provision for Loss on Disaster**

The Company and its consolidated subsidiaries have provided Provision for loss on disaster at estimated amount for preparing the expenditure to recover from the Great East Japan Earthquake.

**(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 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 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 certain 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, 2012.

**3. ACCOUNTING CHANGES**

There are no significant accounting changes for the year ending March 31, 2012.

**4. 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, 2012 and 2011 are as follows:

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Investments and other assets			
Investment securities	¥3,583	¥3,348	\$43,631
Other	951	967	11,580

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

At March 31, 2012 and 2011, short-term loans payable and long-term loans payable consisted of the followings:

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Short-term loans payable			
Loans payable with collateral			
Loans from banks and other financial institutions	¥ 2,709	¥ 1,099	\$ 32,992
Loans payable without collateral			
Loans from banks and other financial institutions	10,274	17,675	125,095
Bonds, due 2012	—	1,000	—
Current portion of long-term loans payable	3,260	14,383	39,701
	12,983	19,774	158,088
Long-term loans payable			
Loans payable with collateral			
Loans from banks and other financial institutions	—	743	—
Loans payable without collateral			
Loans from banks and other financial institutions	27,843	27,803	339,019
Bonds, due 2012	—	1,000	—
	27,843	29,547	339,019
Less: Current portion	3,260	14,383	39,701
	24,582	15,163	299,317
Total	¥37,566	¥34,937	\$457,405

The following assets at March 31, 2012 and 2011 were pledged as collateral principally for long-term loans payable:

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Cash and deposits	¥2,924	¥ 831	\$35,609
Short-term investment securities	177	—	2,160
Buildings, net of accumulated depreciation	1,049	834	12,782
Land	938	20	11,430
Total	¥5,090	¥1,686	\$61,982

The following schedule shows the maturities of long-term loans payable subsequent to March 31, 2012:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2013	¥3,260	\$39,701
2014	3,588	43,689
2015	3,876	47,199
2016	3,676	44,764
2017	5,614	68,363
2018 and thereafter	7,827	95,301

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

The balances of unused commitment-line based on these contracts at the end of the consolidated reporting periods are ¥9,500 million (\$115,670 thousand) in 2012 and ¥11,000 million in 2011.

## 6. CONTINGENT LIABILITIES

The Company and its subsidiaries were contingently liable as guarantors of loans to others in the aggregate amount of ¥541 million (\$6,587 thousand) and ¥529 million at March 31, 2012 and 2011, respectively.

## 7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The main components of selling, general and administrative expenses for the year ended March 31, 2012 and 2011 are as follows:

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Salaries	<b>¥8,001</b>	¥8,133	<b>\$97,418</b>
Provision for bonuses	<b>432</b>	381	<b>5,261</b>
Retirement benefit expenses	<b>428</b>	457	<b>5,219</b>
Depreciation	<b>415</b>	279	<b>5,062</b>
Research and development costs	<b>825</b>	1,277	<b>10,053</b>

## 8. 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, 2012 and 2011 amounted to ¥825 million (\$10,053 thousand) and ¥1,277 million, respectively.

## 9. IMPAIRMENT OF FIXED ASSETS

The Company and its consolidated subsidiaries adopted the accounting standard for impairment of fixed assets. There were no material impairments of fixed assets for the years ended March 31, 2012 and 2011.

## 10. OTHER COMPREHENSIVE INCOME

Years ended March 31,	Millions of yen	Thousands of U.S. dollars
	2012	2012
Valuation difference on available-for-sale securities:		
Amount arising during the year	<b>¥ (438)</b>	<b>\$ (5,337)</b>
Reclassification adjustments for gains and losses realized in net income	<b>2</b>	<b>32</b>
The amount of valuation on available-for-sale securities before tax effect	<b>(435)</b>	<b>(5,304)</b>
Tax effect	<b>190</b>	<b>2,318</b>
Valuation difference on available-for-sale securities	<b>(245)</b>	<b>(2,986)</b>
Deferred gains or losses on hedges:		
Amount arising during the year	<b>(51)</b>	<b>(631)</b>
Reclassification adjustments for gains and losses realized in net income	<b>—</b>	<b>—</b>
The amount of deferred gains or losses on hedges before tax effect:	<b>(51)</b>	<b>(631)</b>
Tax effect	<b>25</b>	<b>304</b>
Deferred gains or losses on hedges	<b>(26)</b>	<b>(326)</b>
Foreign currency translation adjustment:		
Amount arising during the year	<b>(784)</b>	<b>(9,556)</b>
Reclassification adjustments for gains and losses realized in net income	<b>—</b>	<b>—</b>
The amount of foreign currency translation adjustment before tax effect:	<b>(784)</b>	<b>(9,556)</b>
Tax effect	<b>—</b>	<b>—</b>
Foreign currency translation adjustment	<b>(784)</b>	<b>(9,556)</b>
Share of other comprehensive income of associates accounted for using equity method		
Amount arising during the year	<b>(88)</b>	<b>(1,082)</b>
Total other comprehensive income	<b>¥(1,145)</b>	<b>\$(13,951)</b>

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

### For the year ended March 31, 2012

#### (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	858,030	54,462	1,950	910,542
<b>Total</b>	<b>858,030</b>	<b>54,462</b>	<b>1,950</b>	<b>910,542</b>

Notes: 1. Treasury stock increased by 54,462 shares due to the repurchase of shares less than one unit.

2. Treasury stock decreased by 1,950 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 (Thousands of U.S. dollars)	Amount per share (Yen)	Amount per share (U.S. Dollars)	Shareholders' cut-off date	Effective date
June 23, 2011	Annual general meeting of shareholders	Common stock	959	11,684	5.0	0.06	March 31, 2011	June 24, 2011

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

Date of approval	Resolution approved by	Type of shares	Paid from	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 27, 2012	Annual general meeting of shareholders	Common stock	Retained earnings	1,151	14,017	6.0	0.07	March 31, 2012	June 28, 2012

For the year ended March 31, 2011

#### (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	751,115	108,176	1,261	858,030
<b>Total</b>	<b>751,115</b>	<b>108,176</b>	<b>1,261</b>	<b>858,030</b>

Notes: 1. Treasury stock increased by 108,176 shares due to the repurchase of shares less than one unit.

2. Treasury stock decreased by 1,261 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 23, 2010	Annual general meeting of shareholders	Common stock	864	4.5	March 31, 2010	June 24, 2010

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

Date of approval	Resolution approved by	Type of shares	Paid from	Amount (Millions of yen)	Amount per share (Yen)	Shareholders' cut-off date	Effective date
June 23, 2011	Annual general meeting of shareholders	Common stock	Retained earnings	959	5.0	March 31, 2011	June 24, 2011

**12. 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, 2012 and 2011 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Cash and deposits	¥48,041	¥45,069	\$ 584,939
Time deposits with maturities over three months	(1,582)	(1,725)	(19,267)
Short-term investments with maturities within three months included in securities	43,994	43,992	535,664
Cash and cash equivalents	¥90,452	¥87,337	\$1,101,336

**13. 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, but future minimum lease payments and receivables are as follows:

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

Future minimum lease payments subsequent to March 31, 2012 and 2011 for noncancelable operating leases are summarized as follows:

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Within one year	¥182	¥310	\$2,216
Over one year	260	404	3,174
Total	¥442	¥715	\$5,390



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

Future minimum lease receivables subsequent to March 31, 2012 and 2011 for noncancelable operating leases are summarized as follows:

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Within one year	¥ 894	¥ 897	\$10,889
Over one year	4,454	5,491	54,234
Total	¥5,348	¥6,389	\$65,123

## (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
	2012	2011	2012
Current assets	¥216	¥302	\$2,633
Investment and other assets	67	282	818

## (c-2) Lease Obligations

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Current liabilities	¥216	¥302	\$2,632
Noncurrent liabilities	67	282	818

**14. FINANCIAL INSTRUMENTS****For the year ended March 31, 2012****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 and issuing corporate bonds.

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

Notes receivable, accounts receivable from completed construction contracts are exposed to credit risks of customers and risks of exchange fluctuations. The Company deals with these risks by organizing careful reviews on awarding 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 and corporate bonds 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.

At March 31, 2012	Millions of yen		
	Book value	Fair value	Unrealized gain / loss
(1) Cash and deposits	¥ 48,041	¥ 48,041	¥ —
(2) Notes receivable, accounts receivable from completed construction contracts	35,832		
Less: Allowance for doubtful accounts	(525)		
Notes receivable, accounts receivable from completed construction contracts, net	35,306	35,286	(20)
(3) Accounts receivable—other	14,472		
Less: Allowance for doubtful accounts	(1)		
Accounts receivable—other, net	14,470	14,470	—
(4) Short-term investment securities and investment securities			
Held-to-maturity securities	43,994	43,993	(0)
Available-for-sale securities	4,665	4,665	—
Total of assets	146,478	146,457	(20)
(1) Notes payable, accounts payable for construction contracts and other	50,096	50,093	(2)
(2) Short-term loans payable	9,723	9,723	—
(3) Long-term loans payable (including current portion)	27,843	28,028	185
Total of liabilities	87,663	87,845	182
Derivatives			
not designated as hedging instruments	1	1	—
designated as hedging instruments	(69)	(69)	—
Total derivatives	¥ (68)	¥ (68)	¥ —

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, 2012	Book value	Fair value	Unrealized gain / loss
(1) Cash and deposits	\$ 584,939	\$ 584,939	\$ —
(2) Notes receivable, accounts receivable from completed construction contracts	436,284		
Less: Allowance for doubtful accounts	(6,397)		
Notes receivable, accounts receivable from completed construction contracts, net	429,886	429,641	(244)
(3) Accounts receivable—other	176,215		
Less: Allowance for doubtful accounts	(24)		
Accounts receivable—other, net	176,191	176,191	—
(4) Short-term investment securities and investment securities			
Held-to-maturity securities	535,664	535,659	(5)
Available-for-sale securities	56,807	56,807	—
Total of assets	1,783,489	1,783,239	(250)
(1) Notes payable, accounts payable for construction contracts and other	609,967	609,932	(34)
(2) Short-term loans payable	118,386	118,386	—
(3) Long-term loans payable (including current portion)	339,019	341,272	2,252
Total of liabilities	1,067,373	1,069,591	2,218
Derivatives			
not designated as hedging instruments	12	12	—
designated as hedging instruments	(847)	(847)	—
Total derivatives	\$ (835)	\$ (835)	\$ —

**(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 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 "16. DERIVATIVE TRANSACTIONS."

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

Unlisted securities that amounted to ¥2,606 million (\$31,737 thousand) as of March 31, 2012 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.

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

	Millions of yen			
	Within one year	After one year through five years	After five years through ten years	After ten years
Cash and deposits	¥ 48,041	¥ —	¥—	¥—
Notes receivable, accounts receivable from completed construction contracts	29,075	6,756	—	—
Accounts receivable—other	14,470	1	—	—
Held-to-maturity securities	43,994	—	—	—
Total	¥135,581	¥6,758	¥—	¥—

	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	\$ 584,939	\$ —	\$—	\$—
Notes receivable, accounts receivable from completed construction contracts	354,019	82,265	—	—
Accounts receivable—other	176,191	24	—	—
Held-to-maturity securities	535,664	—	—	—
Total	\$1,650,814	\$82,289	\$—	\$—

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

See "5. SHORT-TERM LOANS PAYABLE AND LONG-TERM LOANS PAYABLE."

For the year ended March 31, 2011

**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 and issuing corporate bonds.

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

Notes receivable, accounts receivable from completed construction contracts are exposed to credit risks of customers and risks of exchange fluctuations. The Company deals with these risks by organizing careful reviews on awarding 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 and corporate bonds 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.

At March 31, 2011	Millions of yen		
	Book value	Fair value	Unrealized gain / loss
(1) Cash and deposits	¥ 45,069	¥ 45,069	¥ —
(2) Notes receivable, accounts receivable from completed construction contracts	30,737		
Less: Allowance for doubtful accounts	(409)		
Notes receivable, accounts receivable from completed construction contracts, net	30,327	30,326	(0)
(3) Accounts receivable—other	8,400		
Less: Allowance for doubtful accounts	(1)		
Accounts receivable—other, net	8,398	8,398	—
(4) Short-term investment securities and investment securities			
Held-to-maturity securities	43,992	43,992	0
Available-for-sale securities	4,329	4,329	—
Total of assets	132,118	132,117	(0)
(1) Notes payable, accounts payable for construction contracts and other	40,811	40,808	(2)
(2) Short-term loans payable	5,390	5,390	—
(3) Current portion of bonds	1,000	1,009	9
(4) Long-term loans payable (including current portion)	28,547	28,791	244
Total of liabilities	75,749	76,000	251
Derivatives			
not designated as hedging instruments	9	9	—
designated as hedging instruments	(17)	(17)	—
Total derivatives	¥ (8)	¥ (8)	¥ —

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 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) Current portion of bonds**

Fair values are shown as the present value discounted by the proper discount rate coupled with period for settlement and credit risks.

**(4) 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 "16. DERIVATIVE TRANSACTIONS."

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

Unlisted securities that amounted to ¥2,436 million as of March 31, 2011 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.

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

	Millions of yen			
	Within one year	After one year through five years	After five years through ten years	After ten years
Cash and deposits	¥ 45,069	¥ —	¥—	¥—
Notes receivable, accounts receivable from completed construction contracts	29,716	611	—	—
Accounts receivable—other	8,398	1	—	—
Held-to-maturity securities	43,992	—	—	—
Total	¥127,177	¥613	¥—	¥—

**15. INVESTMENT SECURITIES**

The book value, unrealized gain and loss and the related fair value of held-to-maturity securities at March 31, 2012 are summarized as follows:

At March 31, 2012	Millions of yen		
	Book Value	Fair Value	Unrealized Gain
Securities whose fair value exceeds their carrying value:			
Government bonds	¥26,996	¥26,996	¥ 0
Securities whose fair value does not exceed their carrying value:			
Government bonds	16,997	16,996	(0)
Total	¥43,994	¥43,993	¥(0)

At March 31, 2012	Thousands of U.S. dollars		
	Book Value	Fair Value	Unrealized Gain
Securities whose fair value exceeds their carrying value:			
Government bonds	\$328,703	\$328,707	\$ 4
Securities whose fair value does not exceed their carrying value:			
Government bonds	206,960	206,951	(9)
Total	\$535,664	\$535,659	\$(5)

The cost, unrealized gain and loss and the related book value of available-for-sale securities with available fair values at March 31, 2012 are summarized as follows:

At March 31, 2012	Millions of yen		
	Book Value	Acquisition Cost	Unrealized Gain
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥3,644	¥2,790	¥853
Other	177	155	21
Subtotal	¥3,821	¥2,946	¥875
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	¥ 515	¥ 534	¥ (18)
Other	328	328	—
Subtotal	843	862	(18)
Total	¥4,665	¥3,808	¥856

At March 31, 2012	Thousands of U.S. dollars		
	Book Value	Acquisition Cost	Unrealized Gain
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	\$44,375	\$33,981	\$10,394
Other	2,160	1,899	261
Subtotal	\$46,535	\$35,880	\$10,655
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	\$ 6,277	\$ 6,502	\$ (224)
Other	3,993	3,993	—
Subtotal	10,271	10,496	(224)
Total	\$56,807	\$46,376	\$10,431

The book value, unrealized gain and loss and the related fair value of held-to-maturity securities at March 31, 2011 are summarized as follows:

At March 31, 2011	Millions of yen		
	Book Value	Fair Value	Unrealized Gain
Securities whose fair value exceeds their carrying value:			
Government bonds	¥26,995	¥26,996	¥ 0
Securities whose fair value does not exceed their carrying value:			
Government bonds	16,997	16,996	(0)
Total	¥43,992	¥43,992	¥ 0

The cost, unrealized gain and loss and the related book value of available-for-sale securities with available fair values at March 31, 2011 are summarized as follows:

At March 31, 2011	Millions of yen		
	Book Value	Acquisition Cost	Unrealized Gain
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥4,199	¥2,970	¥1,229
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	129	144	(14)
Total	¥4,329	¥3,114	¥1,214



## 16. DERIVATIVE TRANSACTIONS

For the year ended March 31, 2012

### 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				
Buying				
USD	¥ 0	¥ –	¥0	¥0
EUR	51	51	1	1
THB	0	–	0	0
Total	¥51	¥51	¥1	¥1

	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				
Buying				
USD	\$ 1	\$ –	\$ 0	\$ 0
EUR	630	630	12	12
THB	0	–	0	0
Total	\$632	\$630	\$12	\$12

### 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	
Deferral hedge accounting method:					
Foreign exchange forward contracts					
Selling					
USD	Accounts receivable and accounts payable	¥ 5,227	¥1,708	¥(82)	Based on prices offered by the financial institution
Buying					
USD		1,298	127	12	
EUR		1	–	0	
Alternative method:					
Foreign exchange forward contracts					
Selling					
USD		20,368	4,826		
SEK		1,412	825		
Buying					
USD	Accounts receivable and accounts payable	10,816	608	N/A	Based on forward exchange contract prices
EUR		5,031	1,438		
SEK		1,678	–		
THB		2,761	–		
BRL		3,822	–		
CHF		347	–		
SGD		636	–		
Total		¥53,404	¥9,536	¥(69)	

Thousands of U.S. dollars					
	Main hedged items	All notional amounts	Notional amounts due over one year	Fair value	Computational method of fair value
Deferral hedge accounting method:					
Foreign exchange forward contracts					
Selling					
USD	Accounts receivable and accounts payable	\$ 63,654	\$ 20,804	\$ (1,005)	Based on prices offered by the financial institution
Buying					
USD		15,815	1,557	157	
EUR		18	—	0	
Alternative method:					
Foreign exchange forward contracts					
Selling					
USD		248,006	58,765		
SEK		17,200	10,056		
Buying					
USD	Accounts receivable and accounts payable	131,696	7,413	N/A	Based on forward exchange contract prices
EUR		61,262	17,512		
SEK		20,434	—		
THB		33,622	—		
BRL		46,544	—		
CHF		4,235	—		
SGD		7,748	—		
Total		\$650,239	\$116,109	\$ (847)	

## (2) Interest-related

Millions of yen					
	Main hedged items	All notional amounts	Notional amounts due over one year	Fair value	Computational method of fair value
Special method for interest rate swaps:					
Interest swap contracts					
floating-for-fixed rate swap	Long-term loans payable	¥10,242	¥9,910	N/A	Based on prices offered by the financial institution
Total		¥10,242	¥9,910	¥—	

Thousands of U.S. dollars					
	Main hedged items	All notional amounts	Notional amounts due over one year	Fair value	Computational method of fair value
Special method for interest rate swaps:					
Interest swap contracts					
floating-for-fixed rate swap	Long-term loans payable	\$124,710	\$120,662	N/A	Based on prices offered by the financial institution
Total		\$124,710	\$120,662	\$—	

For the year ended March 31, 2011

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	¥421	¥—	¥ 4	¥ 4
Buying				
USD	2	—	(0)	(0)
EUR	47	—	5	5
Total	¥471	¥—	¥ 9	¥ 9

2. Derivatives designated as hedging instruments

(1) Currency-related

	Main hedged items	Millions of yen			Computational method of fair value	
		All notional amounts	Notional amounts due over one year	Fair value		
Deferral hedge accounting method:						
Foreign exchange forward contracts						
Selling						
USD	Accounts receivable and accounts payable	¥ 683	¥ 384	¥(5)	Based on prices offered by the financial institution	
EUR		77	—	(3)		
Buying						
USD		414	246	4		
EUR		153	—	5		
Alternative method:						
Foreign exchange forward contracts						
Selling						
USD	Accounts receivable and accounts payable	6,959	884	N/A	Based on forward exchange contract prices	
EUR		705	—			
SEK		4,682	1,300			
Buying						
USD		11,102	2,487			
EUR		228	51			
SEK		5,981	449			
Total		¥30,989	¥5,804	¥ 2		

## (2) Interest-related

	Main hedged items	All notional amounts	Millions of yen		Computational method of fair value
			Notional amounts due over one year	Fair value	
Deferral hedge accounting method:					
Interest swap contracts					
floating-for-fixed rate swap	Long-term loans payable	¥ 282	¥ 247	¥(19)	Based on prices offered by the financial institution
Special method for interest rate swaps:					
Interest swap contracts					
floating-for-fixed rate swap	Long-term loans payable	10,978	1,467	N/A	Based on prices offered by the financial institution
<b>Total</b>		<b>¥11,260</b>	<b>¥1,714</b>	<b>¥(19)</b>	

**17. RETIREMENT BENEFITS**

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

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

(1) Provision for retirement benefits for employees at March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Projected benefit obligation	<b>¥(15,252)</b>	¥(15,099)	<b>\$(185,715)</b>
Plan assets	<b>9,390</b>	8,865	<b>114,332</b>
Unreserved projected benefit obligation	<b>(5,862)</b>	(6,233)	<b>(71,383)</b>
Unamortized obligation at transition	<b>747</b>	994	<b>9,105</b>
Unamortized actuarial loss	<b>545</b>	1,257	<b>6,642</b>
Unrecognized prior service cost	<b>(714)</b>	(939)	<b>(8,697)</b>
Net projected benefit obligation	<b>(5,283)</b>	(4,922)	<b>(64,334)</b>
Prepaid pension cost	<b>31</b>	49	<b>379</b>
Provision for retirement benefits for employees	<b>¥ (5,314)</b>	¥ (4,971)	<b>\$ (64,713)</b>

(2) Net periodic pension cost for the years ended March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Components of net periodic benefit cost:			
Service cost	¥ 599	¥ 594	\$ 7,303
Interest cost	301	310	3,676
Expected return on plan assets	(18)	(20)	(228)
Amortization of unrecognized retirement benefit obligation at transition	246	246	3,000
Amortization of unrecognized actuarial loss	488	727	5,950
Amortization of prior service cost	(187)	(187)	(2,289)
Other	107	111	1,311
Net periodic pension cost	1,537	1,782	18,724
Total	¥1,537	¥1,782	\$18,724

(3) Basis of calculation of projected benefit obligation for the years ended 2012 and 2011, respectively.

Method of allocation of estimated pension cost	Straight-line method
Discount rate	Mainly 2.0%
Expected rate of return on plan assets	Mainly 0.0%
Amortization period for unrecognized actuarial loss	Mainly nine years
Amortization period for unrecognized obligation at transition	15 years
Amortization period for unrecognized prior service cost	Mainly 13 years

## 18. INCOME TAXES

The statutory tax rates applicable to the Company and its domestic subsidiaries for the year ended March 31, 2012 and 2011 were approximately 40.4%. Income taxes of the foreign subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

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

Year ended March 31,	2012	2011
Statutory tax rate in Japan	40.4%	40.4%
Adjustments:		
Permanently nondeductible expenses	3.1	2.3
Permanently nontaxable dividends received	(3.0)	(2.3)
Per capita levy on corporate inhabitant tax	0.5	0.3
Temporary differences excluded from calculation of deferred tax assets	(23.9)	9.4
Difference in tax rates for foreign subsidiaries	1.4	(0.9)
Effective tax rate in the past years	2.8	4.5
Difference in tax base between corporate income tax and enterprise tax	(1.6)	(1.8)
Amendment of statutory tax rate	4.4	—
Other	0.2	(4.7)
Effective tax rate	24.3%	47.2%

(2) Significant components of the deferred income tax assets and liabilities at March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deferred tax assets (gross):			
Provision for retirement benefits	¥1,372	¥1,261	\$16,708
Provision for warranties for completed construction	164	497	2,008
Provision for bonuses	212	192	2,592
Others	1,213	860	14,779
Total deferred tax assets (gross)	2,963	2,811	36,088
Deferred tax liabilities (gross):			
Undistributed earnings of subsidiaries and affiliates	562	669	6,849
Valuation difference on available-for-sale securities	269	459	3,281
Others	121	106	1,481
Total deferred tax liabilities (gross)	953	1,235	11,611
Net deferred tax assets	¥2,010	¥1,576	\$24,484

Note: The Company and its consolidated subsidiaries had temporary differences excluded from calculation of deferred tax assets of ¥8,689 million (\$105,798 thousand) and ¥13,085 million at March 31, 2012 and 2011, respectively, which are available to be offset against future taxable income.

(3) Net deferred tax assets at March 31, 2012 and 2011 are reflected in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Current assets—deferred tax assets	¥1,655	¥1,111	\$20,154
Investments and other assets—deferred tax assets	361	470	4,398
Current liabilities—other	(0)	(0)	(6)
Noncurrent liabilities—deferred tax liabilities	(5)	(5)	(69)
Net deferred tax assets	¥2,010	¥1,576	\$24,484

The “Act for Partial Revision of the Income Tax Act etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures” (Act No. 114 of 2011) and the “Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake” (Act No. 117 of 2011) were promulgated on December 2, 2011 and the staged reduction of the national corporate tax rate and a special reconstruction corporate tax will apply to corporate taxes effective fiscal years beginning on or after April 1, 2012.

As a result, the effective corporate tax rate used to measure the Company’s deferred tax assets and liabilities was changed from 40.4% to 37.8% for the temporary differences expected to be utilized in fiscal years beginning April 1, 2012 to March 31, 2014 and from 37.8% to 35.4% for temporary differences expected to be utilized from fiscal years beginning April 1, 2015. The effect of the announced reduction of the effective corporate tax rate was to decrease deferred tax assets, net by ¥147 million (\$1,792 thousand) and increase deferred income taxes by ¥215 million (\$2,622 thousand).

## 19. RENTAL PROPERTIES

### For the year ended March 31, 2012

The Company and some of its consolidated subsidiaries own their commercial facilities, residences and office buildings (including land) for rent in Chiba prefecture and the other areas. For the year ended March 31, 2012, the Company and some of its consolidated subsidiaries recorded ¥792 million (\$9,647 thousand) of rental revenues.

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

Millions of yen				Thousands of U.S. dollars			
Book value at March 31, 2011	Increase (decrease) in book value	Book value at March 31, 2012	Fair value at March 31, 2012	Book value at March 31, 2011	Increase (decrease) in book value	Book value at March 31, 2012	Fair value at March 31, 2012
<b>¥17,615</b>	<b>¥(1,462)</b>	<b>¥16,152</b>	<b>¥22,430</b>	<b>\$214,485</b>	<b>\$(17,810)</b>	<b>\$196,674</b>	<b>\$273,105</b>

- 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 ¥946 million (\$11,522 thousand) of sales of rental offices and ¥489 million (\$5,960 thousand) of depreciation of buildings.
3. Computational method of fair value  
Mainly based on Real Estate Appraisal Standards.

For the year ended March 31, 2011

The Company and some of its consolidated subsidiaries own their commercial facilities, residences and office buildings (including land) for rent in Chiba prefecture and the other areas. For the year ended March 31, 2011, the Company and some of its consolidated subsidiaries recorded ¥992 million of rental revenues.

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

Millions of yen			
Book value at March 31, 2010	Increase (decrease) in book value	Book value at March 31, 2011	Fair value at March 31, 2011
<b>¥18,154</b>	<b>¥(538)</b>	<b>¥17,615</b>	<b>¥23,102</b>

- Notes: 1. Book value is calculated by deducting accumulated depreciation and accumulated impairment loss from its acquisition cost.
2. Major item in "Increase (decrease) in value" consists of depreciation expense.
3. Computational method of fair value  
Mainly based on Real Estate Appraisal Standards.

## 20. SEGMENT INFORMATION

Effective the fiscal year ended March 31, 2012, the Company has adopted new accounting standards for disclosures about segments of an enterprise and related information. Segment information for the year ended March 31, 2011 has been restated in accordance with such accounting standards for comparative purposes.

### (1) Operating Segments

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.



Millions of yen						
<b>Year ended March 31, 2012</b>	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	¥143,017	¥12,228	¥ 2,635	¥157,881	¥ –	¥157,881
(2) Inter-segment net sales	239	25	230	495	(495)	–
Total	143,256	12,253	2,866	158,376	(495)	157,881
Segment profits	4,121	318	897	5,337	3	5,341
<b>II Segment assets</b>	<b>¥191,198</b>	<b>¥ 6,257</b>	<b>¥19,468</b>	<b>¥216,924</b>	<b>¥5,491</b>	<b>¥222,415</b>
<b>III Others</b>						
Depreciation	¥ 1,203	¥ 764	¥ 541	¥ 2,509	¥ (0)	¥ 2,508
Amortization of goodwill	179	–	–	179	–	179
Amount invested in equity method affiliates	2,974	–	–	2,974	–	2,974
Increase of fixed assets	2,124	500	13	2,637	–	2,637

Thousands of U.S. dollars						
<b>Year ended March 31, 2012</b>	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	\$1,741,353	\$148,893	\$ 32,091	\$1,922,338	\$ –	\$1,922,338
(2) Inter-segment net sales	2,915	304	2,807	6,027	(6,027)	–
Total	1,744,268	149,198	34,898	1,928,365	(6,027)	1,922,338
Segment profits	50,186	3,880	10,926	64,993	41	65,034
<b>II Segment assets</b>	<b>\$2,328,000</b>	<b>\$ 76,186</b>	<b>\$237,042</b>	<b>\$2,641,229</b>	<b>\$66,863</b>	<b>\$2,708,092</b>
<b>III Others</b>						
Depreciation	\$ 14,652	\$ 9,303	\$ 6,596	\$ 30,552	\$ (9)	\$ 30,542
Amortization of goodwill	2,191	–	–	2,191	–	2,191
Amount invested in equity method affiliates	36,221	–	–	36,221	–	36,221
Increase of fixed assets	25,861	6,088	164	32,114	–	32,114

- 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 (¥466) million ((\$5,678) thousand) of inter-segment eliminations and ¥5,957 million (\$72,541 thousand) of non-allocated corporate assets, which is chiefly the Company's investment securities attributed to the administrative department.

Year ended March 31, 2011	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	¥141,728	¥11,061	¥ 2,907	¥155,696	¥ –	¥155,696
(2) Inter-segment net sales	203	50	242	496	(496)	–
Total	141,931	11,112	3,149	156,193	(496)	155,696
Segment profits	5,561	225	1,025	6,813	1	6,815
<b>II Segment assets</b>	<b>¥164,208</b>	<b>¥ 7,096</b>	<b>¥21,390</b>	<b>¥192,695</b>	<b>¥5,692</b>	<b>¥198,387</b>
<b>III Others</b>						
Depreciation	¥ 1,112	¥ 742	¥ 583	¥ 2,438	¥ (0)	¥ 2,437
Amortization of goodwill	1	–	–	1	–	1
Amount invested in equity method affiliates	3,005	–	–	3,005	–	3,005
Increase of fixed assets	984	676	23	1,684	–	1,684

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 (¥475) million of inter-segment eliminations and ¥6,167 million of non-allocated corporate assets, which is chiefly the Company's investment securities attributed to the administrative department.

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

Year ended March 31, 2012	Millions of yen					
	Japan	Thailand	China	India	Other	Total
Net sales	¥42,327	¥28,011	¥18,890	¥15,849	¥52,804	¥157,881

Year ended March 31, 2012	Thousands of U.S. dollars					
	Japan	Thailand	China	India	Other	Total
Net sales	\$515,367	\$341,058	\$230,002	\$192,976	\$642,933	\$1,922,338

Year ended March 31, 2012	Millions of yen		
	Japan	Other	Total
Property, plant and equipment	¥28,549	¥3,615	¥32,164

Year ended March 31, 2012	Thousands of U.S. dollars		
	Japan	Other	Total
Property, plant and equipment	\$347,608	\$44,019	\$391,627

Year ended March 31, 2011	Millions of yen					
	Japan	Brazil	India	China	Other	Total
Net sales	¥55,408	¥26,638	¥17,612	¥17,301	¥38,735	¥155,696

Year ended March 31, 2011	Millions of yen		
	Japan	Other	Total
Property, plant and equipment	¥30,324	¥1,233	¥31,557

## (3) Information by Major Customer

## Year ended March 31, 2012

There are no customers which have 10% of our consolidated net sales for the fiscal year ended March 31, 2012.

Year ended March 31, 2011	Millions of yen	
	COMPANHIA DE DESENVOLVIMENTO E MODERNIZAÇÃO DE PLANTAS INDUSTRIAIS S.A.	Related business segment
Net sales	¥16,853	EPC

## 21. RELATED PARTY TRANSACTIONS

### Affiliate

#### For the year ended March 31, 2012

Name: NEDL CONSTRUÇOES DE DUTOS DO NORDESTE LTDA.	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 thousand BRL						
Business:						
Construction						
Equity ownership percentage:						
Holding 42% directly	—	<b>Long-term loans receivable</b>	<b>¥3,707</b>	—	<b>Long-term loans receivable</b>	<b>\$45,146</b>
Relation with related party:						
Loan for operating fund						
Summary of transactions:						
Loan for operating fund						

#### For the year ended March 31, 2011

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

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

The Company reserved ¥3,707 million (\$45,146 thousand) and ¥3,707 million of allowance for doubtful accounts at March 31, 2012 and 2011, against the loan above.

**Other affiliates subsidiary**

For the year ended March 31, 2012	Millions of yen			Thousands of U.S. dollars		
	Transaction amount	Title of account	Account balance	Transaction amount	Title of account	Account balance
Name: MIT-POWER LIMITED						
Address:						
Thailand						
Capital and investments:						
14,019 thousand THB						
Business:						
Construction		<b>Advances received on uncompleted construction contracts</b>	<b>¥5,532</b>		<b>Advances received on uncompleted construction contracts</b>	<b>\$67,365</b>
Equity ownership percentage:						
N/A	<b>¥10,210</b>			<b>\$124,321</b>		
Relation with related party:						
Contract for engineering and construction		<b>Accounts receivable</b>	—		<b>Accounts receivable</b>	—
Summary of transactions:						
Contract for engineering and construction						

For the year ended March 31, 2011	Millions of yen		
	Transaction amount	Title of account	Account balance
Name: MIT-POWER LIMITED			
Address:			
Thailand			
Capital and investments:			
14,019 thousand THB			
Business:			
Construction		Advances received on uncompleted construction contracts	¥3,253
Equity ownership percentage:			
N/A	¥2,829		
Relation with related party:			
Contract for engineering and construction		Accounts receivable	14
Summary of transactions:			
Contract for engineering and construction			

Note: "Contract for engineering and construction" is determined by price negotiation based on market price, which is similar to general transaction. "Transaction amount" does not include consumption tax while "Account balance" includes consumption tax.

**22. AMOUNTS PER SHARE**

Years ended March 31,	Yen		U.S. dollars
	2012	2011	2012
Net income per share	¥ 19.43	¥ 19.65	\$0.23
Net assets per share	349.42	340.43	4.25
Dividends per share	6.00	5.00	0.07

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.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years.

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



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Chiyoda-ku, Tokyo, Japan 100-0011

Tel: +81 3 3503 1100  
Fax: +81 3 3503 1197

## 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, 2012, 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 consolidated subsidiaries at March 31, 2012, 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 Shin Nihon LLC*

June 27, 2012

## Corporate Data

- Corporate Name:** Toyo Engineering Corporation (TOYO)
- Founded:** May 1, 1961
- Number of Employees:** 4,494 (Consolidated, As of March 31, 2012)
- 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.
- 1977** • Construction of the Research Center completed in Mobara, Chiba Prefecture.
- 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.
- 1998** • Toyo do Brasil Consultoria e Construções Industriais Ltda. established.
- 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 TOYO's MVV (Mission, Vision, Values).
- 2010** • TOYO acquired Tri Ocean Engineering Limited in Calgary, Alberta, Canada.
- 2011** • The 50th Anniversary
- TOYO invested in PT. Inti Karya Persada Teknik (IKPT) in Indonesia.
- 2012** • Medium-Term Business Plan (FY2012–FY2015) started.
- Katsumoto Ishibashi was elected as President and CEO.
  - Consolidated group logo developed.



## Board of Directors



### Directors \*Representative Director

#### Chairman

Yushi Nagata

#### Vice Chairman

Kenji Soejima

#### President

Katsumoto Ishibashi\*

#### Directors

Makoto Fusayama\*

Hideki Shiinoki\*

Keiichi Matsumoto

Satoshi Kuwahara

Mitsutoshi Hamamura

Masayuki Uchida

Takaya Naito

### Executive Officers

#### Chief Executive Officer

Katsumoto Ishibashi

#### Executive Vice President

Makoto Fusayama

#### Senior Executive Officers

Hideki Shiinoki

Keiichi Matsumoto

Satoshi Kuwahara

Mitsutoshi Hamamura

Masayuki Uchida

Takaya Naito

Kiyoshi Nakao

Akhilesh Kumar

Tadashi Hori

Masaru Takezawa

Hisashi Osone

#### Executive Officers

Kazuharu Murayama

Motoyoshi Kamoshima

Seiichi Itakura

Yutaka Kita

Masaaki Yamaguchi

Takayoshi Imanishi

Shoji Koshikawa

Hiroshi Sato

Koji Kojima

Masayuki Yoshizawa

Ryuji Oka

Itsuya Yanagi

Tomohisa Abe

(As of June 27, 2012)

### Auditors

#### Senior Corporate Auditor

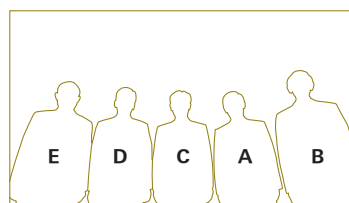
Makoto Shimagaki

#### Corporate Auditors

Hideaki Kinoshita

Shingo Sato (Outside Auditor)

Yoshiyuki Shinohara (Outside Auditor)



**A** Yushi Nagata

**B** Kenji Soejima

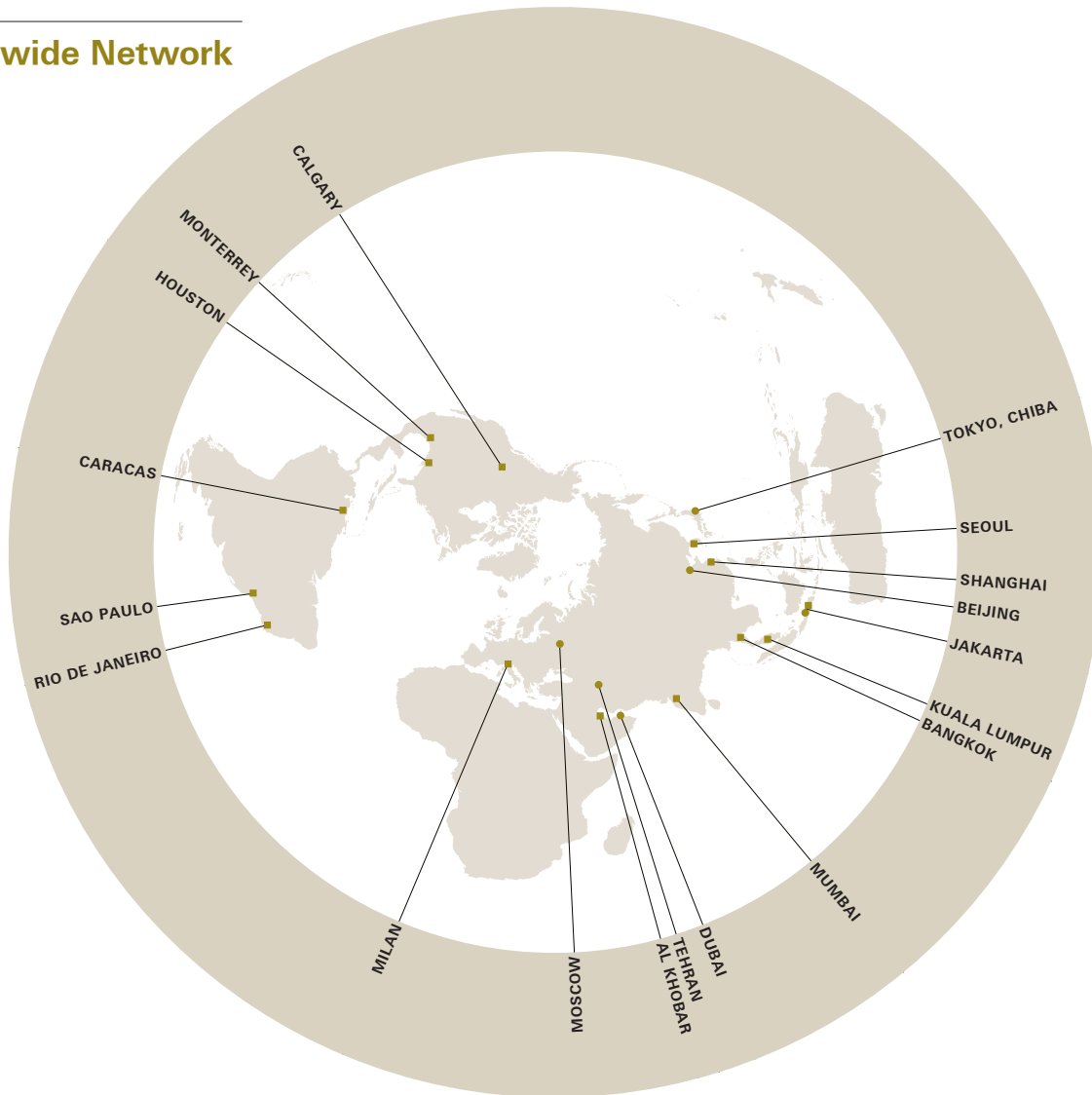
**C** Katsumoto Ishibashi

**D** Makoto Fusayama

**E** Hideki Shiinoki



## 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 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

- **Toyo do Brasil Consultoria e Construções Industriais Ltda.**  
Rio de Janeiro, Brazil

### OTHER AFFILIATES

- **TS Participações e Investimentos S.A.**  
Sao Paulo, Brazil
- **Toyo-Thai Corporation Public Company Limited**  
Bangkok, Thailand
- **Atltec, 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 for plants and facilities

- **Chiba Data Center Corporation**  
Website planning and its production & maintenance, data entry, and commercial printing

- **TEC Estate, Ltd.**  
Property development and real estate business

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

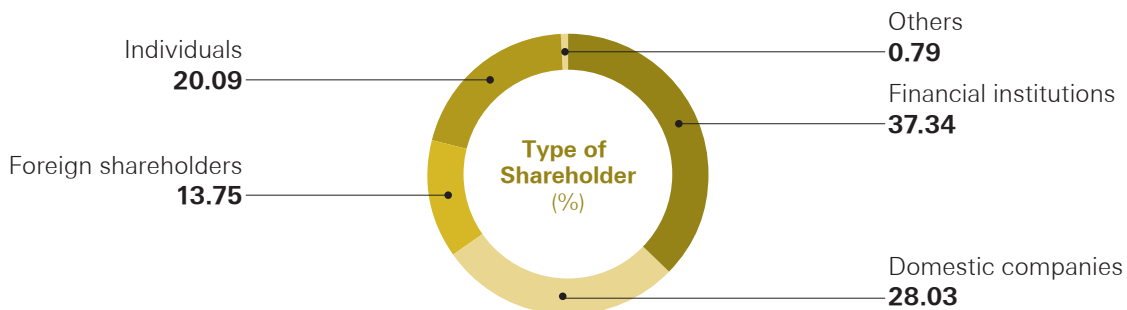
- **TEC Accounting & Consulting Ltd.**  
Business support and consulting for accounting and accounting systems

(As of March 31, 2012)

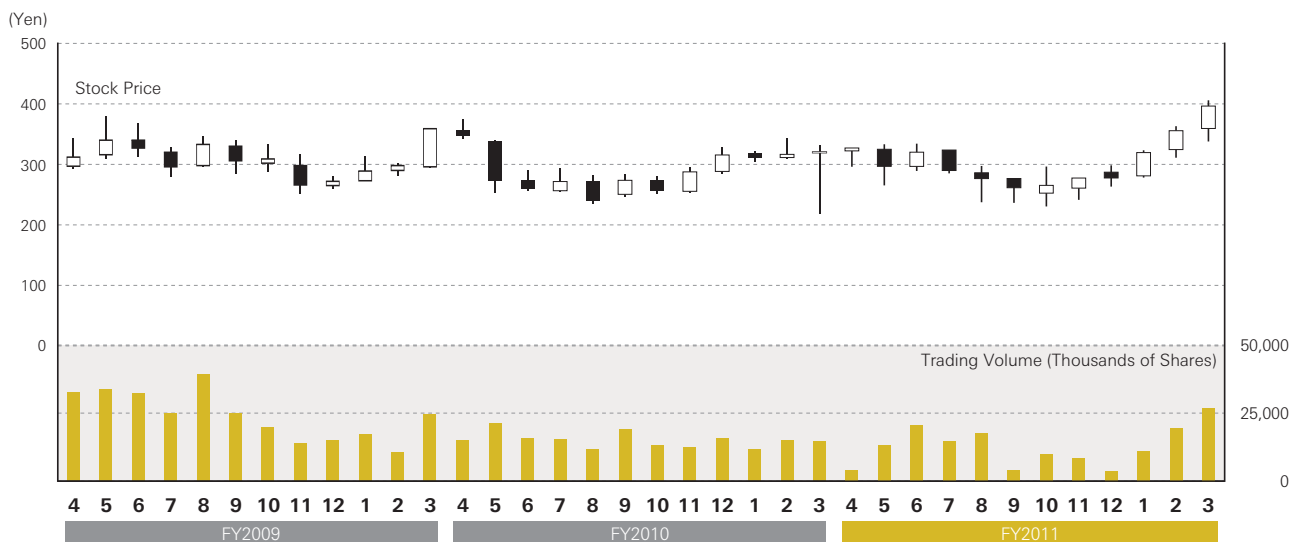
<b>Capital Stock</b>	¥18,198 million
<b>Stock Exchange Listing</b>	Tokyo Stock Exchange
<b>Authorized Shares</b>	500,000,000
<b>Capital Stock Issued</b>	192,792,539
<b>Number of Shareholders</b>	13,875
<b>Administrator of Shareholders' Register</b>	Sumitomo Mitsui Trust Bank, Limited 1-4-1 Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan

## Major Shareholders:

	Number of shares (thousands)	Percentage of total (%)
Mitsui & Co., Ltd.	43,770	22.70
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	13.33
The Master Trust Bank of Japan, Ltd. Trust Account	10,653	5.52
Japan Trustee Services Bank, Ltd. Trust Account	7,043	3.65
The Nomura Trust & Banking Co., Ltd. Trust Account	5,422	2.81
Taisei Corporation	5,000	2.59
Trust and Custody Services Bank, Ltd. Pension Trust Account	4,424	2.29
Japan Trustee Services Bank, Ltd. Trust Account 9	3,335	1.72
Sumitomo Mitsui Banking Corporation	2,350	1.21
The Chase Manhattan Bank, N.A. London S.L. Omnibus Account	1,923	0.99



## Stock Chart:





**Toyo Engineering Corporation**

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