



# 2014

## Annual Report

Year ended March 31, 2014

## To Our Shareholders

Let me begin by thanking you for your support over the past fiscal year.

TOYO launched our four-year medium-term business plan—NEXT TOYO 2015—at the beginning of fiscal 2012. Our strategy under the plan has been to differentiate TOYO in the marketplace by maximizing the strengths of our group companies in growth regions around the world. In doing so, we have been guided by the plan's basic policies: 1) integrating our global operations system; 2) expanding our business into the upstream sector and customer value chain; and 3) developing our global human capital.

As of March 31, 2014, two years have passed since the launch of NEXT TOYO 2015. In summary, while our global operations system has newly expanded in Canada, Indonesia and Brazil, I feel that further stepping up management capabilities and earning power of our group companies have become issues.

In fiscal 2013, new orders increased to a record high of ¥365.1 billion. However, TOYO's profitability fell substantially below our original fiscal targets. As the company's CEO, I find these business results truly regrettable, and will strive to improve profitability going forward.

Keeping these issues in mind, in the remaining two years of the plan, I will aim to bring out the true strengths of our group operations, developing TOYO into a global company with competitive and earning power recognized worldwide.

In meeting the challenges of this task, I look forward to the continued support of our shareholders.

August 2014



Katsumoto Ishibashi  
*President and Chief Executive Officer*

### Corporate Philosophy

**Mission:**

**Engineering for Sustainable Growth of the Global Community**

**Vision:**

**Global Leading Engineering Partner**

**Values:**

**Integrity, Creativity, Diversity, Learning, Team**



**Consolidated Five-Year Financial Summary**  
**Toyo Engineering Corporation and Consolidated Subsidiaries** Years ended March 31

	2014	2013	2012	2011
Net sales	¥230,124	¥228,723	¥157,881	¥155,696
Gross profit	25,155	24,200	24,918	26,573
Operating income	455	1,593	5,341	6,815
Income before income taxes	5,673	2,982	4,941	6,917
Net income	967	1,457	3,728	3,773
Total assets	257,480	240,694	222,415	198,387
Total net assets	74,831	71,091	69,265	67,096
Long-term loans payable	33,535	26,477	24,582	15,163
Purchase of property, plant and equipment	756	689	1,595	542
Depreciation and amortization	2,633	2,570	2,524	2,473
Capital stock	18,198	18,198	18,198	18,198
New orders	365,137	290,444	269,188	222,540
Backlog of contracts at end of the year	538,023	410,492	359,120	224,693

**Per share:**

Net income	¥ 5.05	¥ 7.60	¥ 19.43	¥ 19.65
Total net assets	382.61	363.15	349.42	340.43
Cash dividends	3.00	5.00	6.00	5.00

**Net sales by sector (%):**

Chemical fertilizers	19.4%	16.6%	10.0%	6.9%
Petrochemicals	30.3	18.8	15.3	22.8
Refinery	13.0	7.7	11.5	23.8
Energy-related	7.2	27.0	35.2	18.7
General manufacturing facilities and information technology	9.2	16.7	20.3	20.0
Others	20.9	13.2	7.7	7.8
(Overseas sales ratio)	(84)	(81)	(73)	(64)
Number of employees	4,747	4,548	4,494	3,956

\*U.S. dollar amounts are stated at ¥102.88 to U.S.\$1.00, the exchange rate prevailing on March 31, 2014.

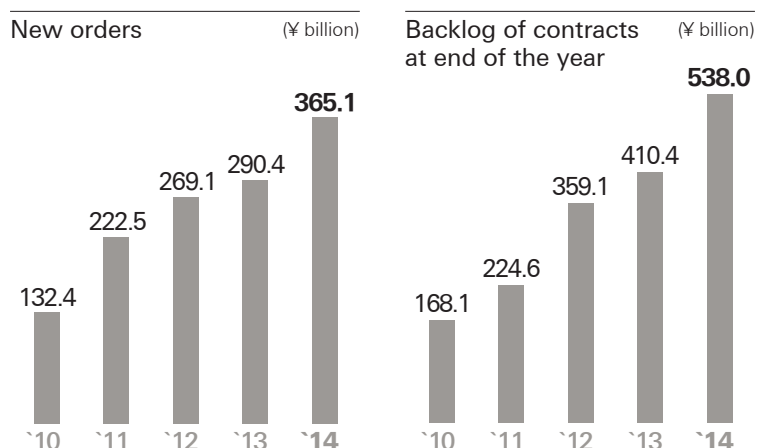
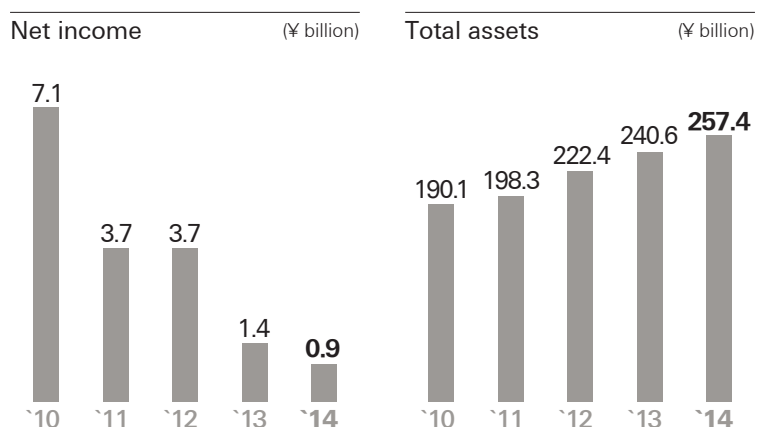
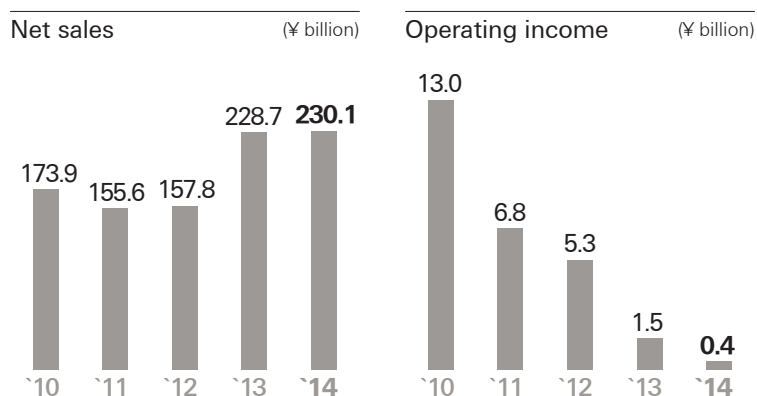
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Millions of yen	Thousands of U.S. dollars*
2010	2014
¥173,943	<b>\$2,236,819</b>
32,983	<b>244,508</b>
13,070	<b>4,422</b>
14,236	<b>55,141</b>
7,131	<b>9,399</b>
190,127	<b>2,502,721</b>
65,295	<b>727,361</b>
21,947	<b>325,962</b>
508	<b>7,348</b>
2,237	<b>25,592</b>
18,198	<b>176,885</b>
132,456	<b>3,549,154</b>
168,179	<b>5,229,617</b>

Yen	U.S. dollars*
¥ 37.12	<b>\$0.04</b>
329.54	<b>3.71</b>
7.00	<b>0.02</b>

14.0%
23.9
27.6
14.4
13.1
7.0
(71)
4,024



**DEFINITION OF TERMS**

Fiscal 2013 means the fiscal year ended March 31, 2014 (April 1, 2013–March 31, 2014).  
 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.

Fiscal 2013 was the second year of TOYO's medium-term business plan NEXT TOYO 2015. During the year under review, TOYO won several large-scale projects in its frontier markets and core business areas. As a result, consolidated new orders reached a record high of ¥365.1 billion. In fiscal 2014, supported by the high global demand for plants, TOYO will work to accelerate its growth by a quick recovery in its earning capacity and by expanding orders.

### Fiscal 2013 Performance Outline (Consolidated)

Net sales	¥ 230.1 billion ( 0.6% up)
Operating income	¥ 455 million (71.4% down)
Ordinary income	¥ 4.9 billion (22.6% up)
Net income	¥ 967 million (33.6% down)
New orders	¥ 365.1 billion (25.7% up)
Cash dividends (annual)	¥ 3.00 per share

In fiscal 2013, ended March 31, 2014, net sales increased 0.6% year on year, to ¥230.1 billion, supported by progress in the execution of such projects as a fertilizer plant in Indonesia, utility facilities for the Complexo Petroquímico do Rio de Janeiro (COMPERJ) in Brazil, and an oil refinery modernization project in Russia. In terms of profitability, TOYO recorded an operating loss of ¥4.4 billion in the first half of fiscal 2013. This result was caused by, among other factors, growing losses at one of our group companies in connection with the fertilizer plant project in Indonesia. However, as we have made various efforts to improve overall profitability, operating income in fiscal 2013 was ¥455 million, a decline of 71.4% year on year. Because of income contributions by affiliates accounted for by the equity method and other non-operating income, ordinary income rose 22.6%, to ¥4.9 billion. Net income fell 33.6%, to ¥967 million. TOYO's management team sincerely regrets the fiscal 2013 business results and intends to work to improve profitability going forward. In consideration of TOYO's financial position, performance, and other business indicators, TOYO decided to forego interim dividends, paying a year-end cash dividend of ¥3.00 per share.

### New Orders in Fiscal 2103

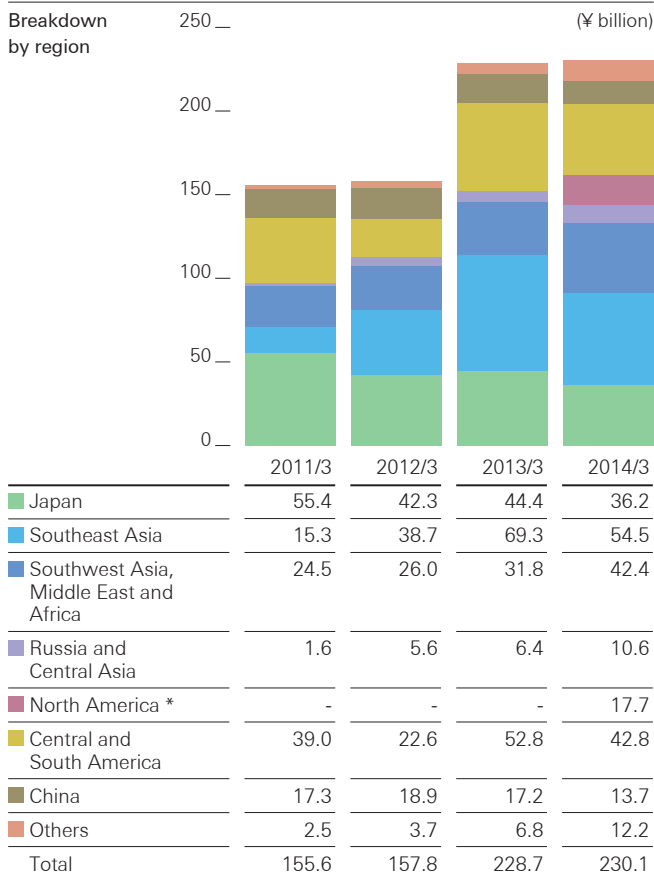
Among new orders received in fiscal 2013 were an ethylene plant expansion project in Indonesia, a polyethylene plant in Egypt, an LNG regasification plant project in India, an ammonia plant project in Brazil, and a large gas chemical complex in Turkmenistan. In addition, TOYO also received a detailed engineering for an ethylene plant and Front End Engineering Design (FEED) for a polyethylene plant in shale gas-related projects in the United States. Our group company Toyo-Canada won a full-scale Engineering, Procurement and Construction (EPC) oil sands steam assisted gravity drainage facility project, which was a goal TOYO had been aiming for since entering the Canadian market. In all of these projects, the orders were won based on the global operations system with TOYO's group companies.

As a result, new orders rose to a record high of ¥365.1 billion, up 25.7% year on year. The backlog of contracts at end of the year also hit a record high of ¥538.0 billion, an increase of 31.0% year on year.

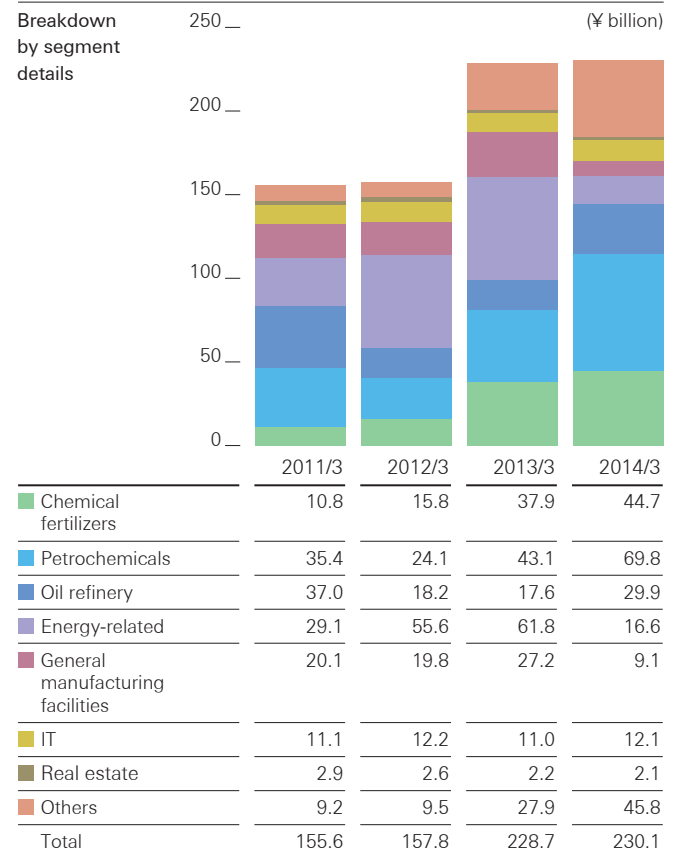
### Fiscal 2013 Performance of Equity Method Affiliates

Equity method investment gain in fiscal 2013 increased because of the income growth of TOYO's joint venture in Singapore. This equity-method affiliate, a 50/50 joint venture with MODEC, Inc., received an order for topsides units for a Floating Production Storage and Offloading (FPSO) system in Brazil. TOYO has another 50/50 joint venture in Brazil (see Topic on page 9). Backlog of contracts at end of the year of these two joint ventures with 50% share amounted to ¥175.6 billion. TOYO has other equity method affiliates, including Toyo-Thai Corporation Public Company Limited, which is listed on the Stock Exchange of Thailand.

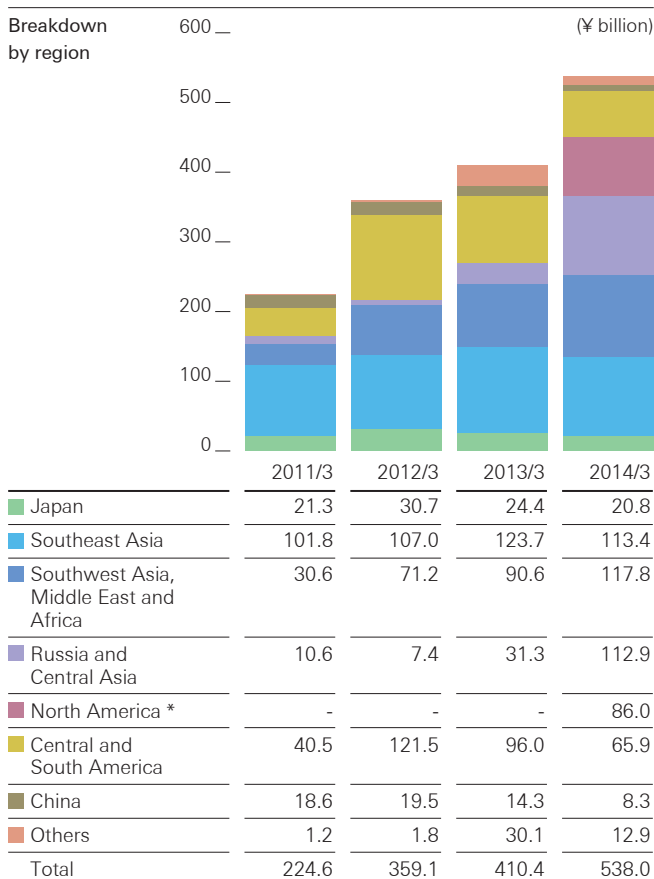
## Net sales



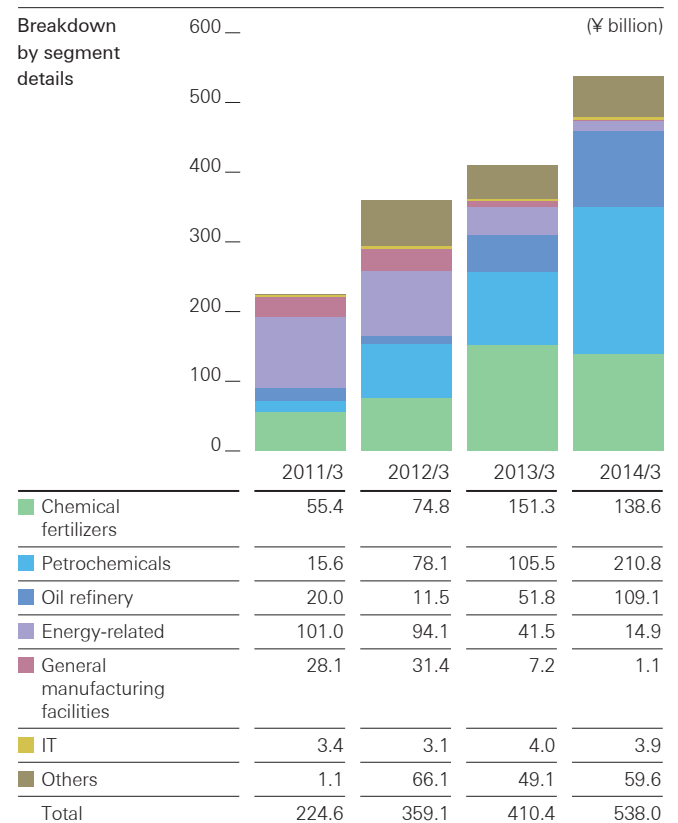
\*We disclosed the region of North America starting from 2014/3.



## Backlog of contracts



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



## Consolidated Performance and Financial Information

### Consolidated Statement of Income Summary

Sales were up while profits were down year on year.

#### Net Sales

Based on progress in the execution of projects in such fields as petrochemical, fertilizer and oil refining, net sales increased 0.6%, to ¥230.1 billion.

#### Operating Income

Despite an operating loss on the fertilizer plant in Indonesia in the first half of the fiscal year, new orders and efforts to improve the profitability of ongoing projects mitigated the decline in operating income, which fell ¥1.1 billion from a year earlier, to ¥455 million.

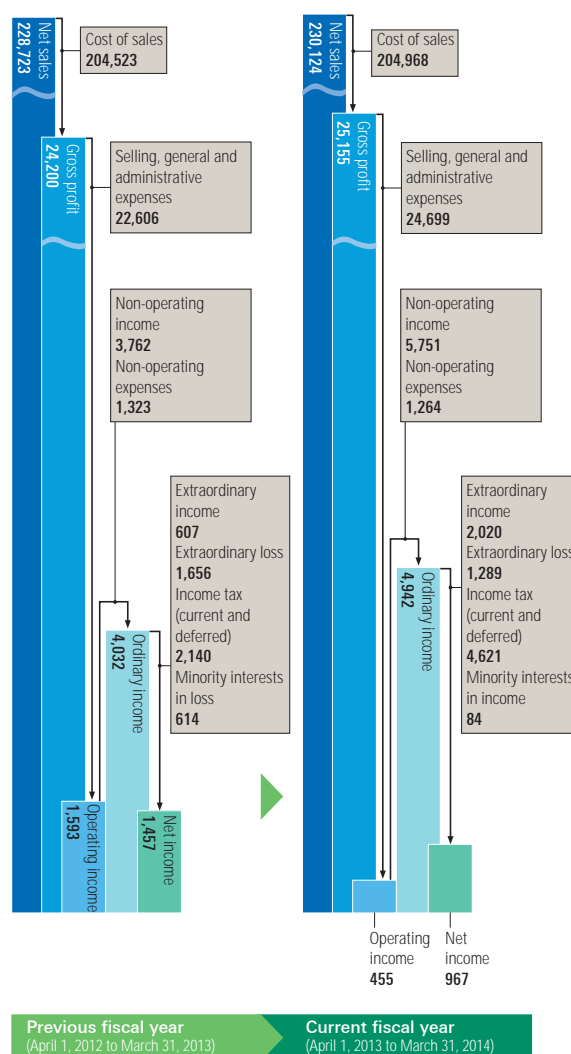
#### Ordinary Income

Ordinary income amounted to ¥4.9 billion, up ¥900 million year on year. Growth in ordinary income can be attributed to a ¥2.0 billion increase in non-operating income, primarily because of equity in earnings of affiliates and a reversal of allowance for doubtful accounts.

#### Net Income

The major components of extraordinary income were a ¥501 million gain on sales of investment securities and a ¥1.5 billion gain on change in equity. The chief component of extraordinary loss was an impairment loss of ¥1.2 billion. After deducting income taxes and making other adjustments, net income amounted to ¥967 million, down ¥490 million from the previous fiscal year.

(Millions of yen)



### Consolidated Statement of Cash Flows Summary

Cash and cash equivalents at end of period increased ¥25.2 billion from the beginning of the period, to ¥96.9 billion.

#### Cash flows from operating activities

Net cash provided by operating activities was ¥21.2 billion. The cash inflow resulted from, among other factors, an increase in advances received on uncompleted construction contracts and the collection of accounts receivable from completed construction contracts.

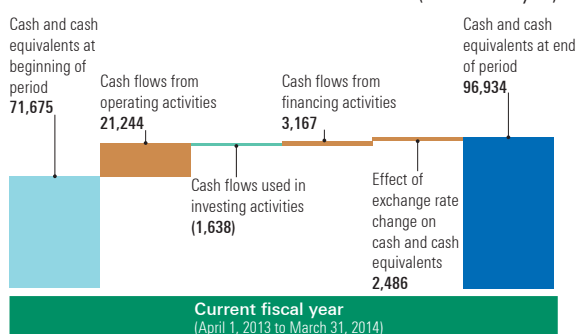
#### Cash flows from investing activities

Net cash used in investing activities amounted to ¥1.6 billion, principally as a result of the purchase of intangible assets, such as investments in IT system development.

#### Cash flows from financing activities

Net cash provided by financing activities amounted to ¥3.1 billion. The net cash inflow comprised proceeds from long-term loans payable of ¥10.8 billion to ensure stable capital reserves less ¥4.5 billion in expenses for repayment of loans payable and ¥959 million in cash dividends paid.

(Millions of yen)





## Consolidated Balance Sheet Summary

Total assets increased ¥16.7 billion year on year, to ¥257.4 billion.

### Total assets: ¥257.4 billion

Overall, total current assets rose ¥13.5 billion from a year earlier. The main factor in the increase was a ¥21.4 billion increase in cash and deposits because of the collection of advances received on uncompleted construction contracts and of notes and accounts receivable. This substantial amount offset the ¥6.0 billion decline in notes receivable, accounts receivable from completed construction contracts. Fixed assets expanded ¥3.2 billion, primarily because of the increase in the valuation of investment securities resulting from income contributions by affiliates accounted for by the equity method.

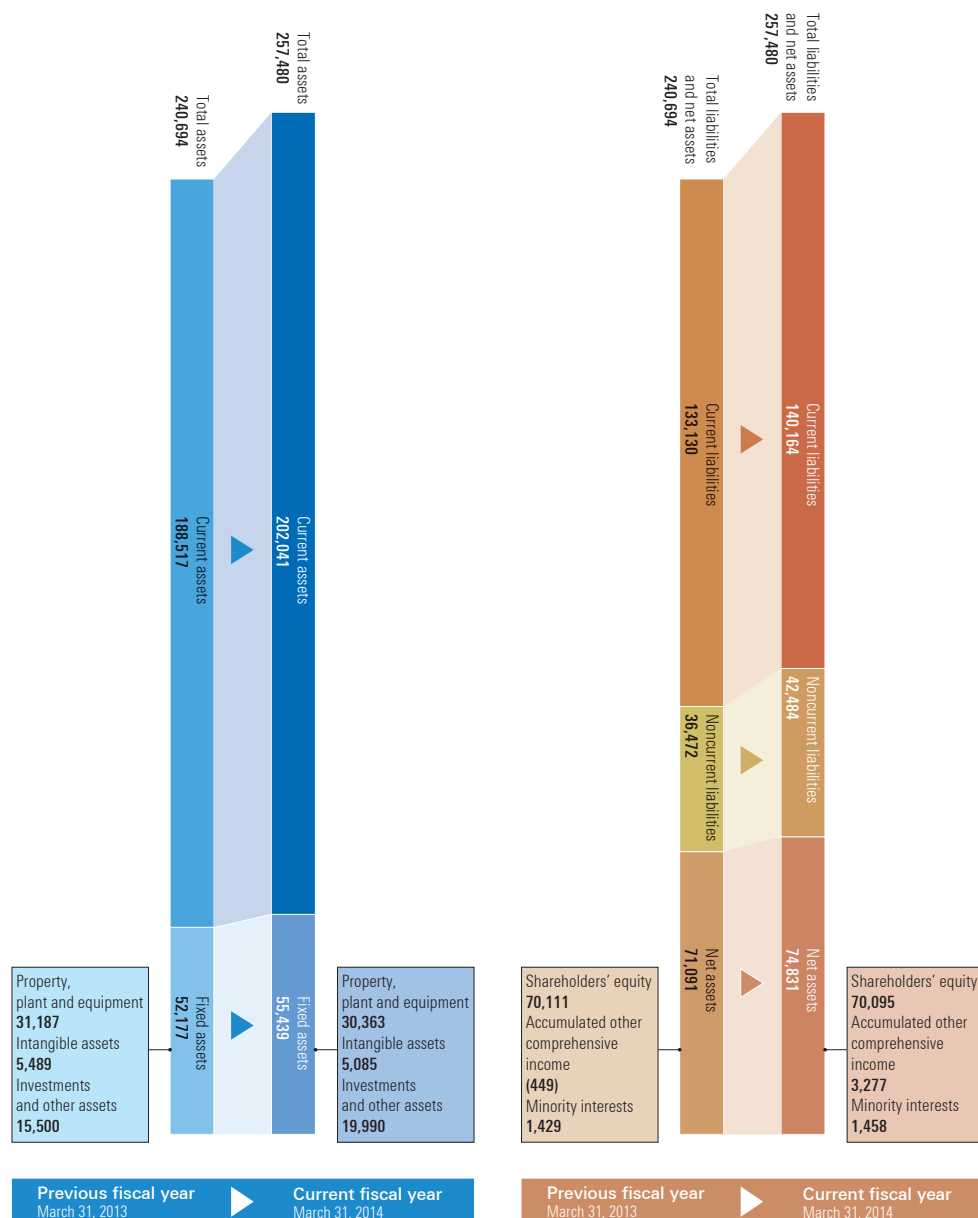
### Total liabilities: ¥182.6 billion

Total current liabilities increased ¥7.0 billion year on year because of the ¥12.0 billion growth in advances received on uncompleted construction contracts. Noncurrent liabilities rose ¥6.0 billion, mainly because of the increase in long-term loans payable. As a result, total liabilities were up ¥13.0 billion from fiscal 2012.

### Total net assets: ¥74.8 billion

Total net assets grew ¥3.7 billion from the previous fiscal year, principally because of an increase in total accumulated other comprehensive income arising from foreign currency translation adjustment related to the depreciation of the yen.

(Millions of yen)



## Fiscal 2014 Performance Forecast Outline (Consolidated)

Net sales	¥ 290.0 billion
Operating income	¥ 7.0 billion
Ordinary income	¥ 10.0 billion
Net income	¥ 6.0 billion
New orders	¥ 330.0 billion
Cash dividends	¥ 8.00 per share (¥4.00 interim and ¥4.00 year-end dividends)

In fiscal 2014, capital investment in TOYO's core plant market is robust. In North America, there are many plant projects based on the use of shale gas and oil being planned in the energy, petrochemical and fertilizer fields. In Brazil, there is ongoing active energy development investment, particularly in offshore oil and gas fields. Strong need for plant construction remains in India, Russia and other CIS countries, and Indonesia and other Southeast Asian countries, to meet expanding demand for energy, materials, food and water. And the Middle East region continues to see high levels of investment against the backdrop of continued high oil prices. Moreover, Iraq is planning large-scale energy development projects.

In general, therefore, business conditions are considered favorable in the global plant market. However, there are many factors in play that require careful monitoring of changes in market conditions. These concerns include European and U.S. sanctions on Russia, unrest in Iraq and the impact of the United States' reduction in quantitative easing on the emerging economies. Furthermore, the full-scale entrance of Chinese engineering contractors into the large-scale petrochemical plant market will further alter the business climate.

In consideration of the above, TOYO has set its goal for new orders in fiscal 2014 at ¥330.0 billion, the same as in the previous fiscal year.

With steady contributions to sales from large-scale projects acquired over the past two years, such as those in Brazil, Egypt, Nigeria and Indonesia, TOYO expects net sales to increase by about ¥60.0 billion compared with fiscal 2013, to ¥290.0 billion. Consequently, we anticipate operating income of ¥7.0 billion, ordinary income of ¥10.0 billion and net income of ¥6.0 billion. Annual cash dividends will total ¥8.00 per share, the sum of interim and year-end dividends of ¥4.00 per share each.

## Specific Strategies Aimed at Profitability and Growth

Based on the results so far and the issues that have emerged, TOYO plans to prioritize the following measures to achieve a rapid return to profitability and growth:

### I. Strengthen Group Operations

We will implement the following measures with a sense of urgency:

1. Establish a seamless project operation system linking Toyo-Japan, its global group companies and project sites.
2. Improve project management on a group-wide basis led by Toyo-Japan.
3. Develop human resources for projects at group companies.

### II. Reinforce Measures to Increase New Orders

1. Focus on frontier markets (North America, Russia/CIS and Iraq)

Robust capital investments are being made in frontier markets in addition to existing prioritized markets, such as Southeast Asia, Latin America, India and the Middle East. We intend to further strengthen our sales activities in frontier markets and work to expand the scope of our business operations with emphasis on the following fields:

- a) North America: Petrochemicals and fertilizer plants using shale gas and oil as feedstock
- b) Russia/CIS: Energy (oil and gas), petrochemicals, fertilizers, electric power generation
- c) Iraq: Energy development

## 2. Expand operations in the energy development field

We will strengthen our ability to respond to market demand for business by expanding TOYO's business alliances with clients and collaborative companies, participating in such projects as oil and gas redevelopment businesses employing enhanced oil recovery technology and other measures. In the FPSO business, we will continue to expand orders and plan business development using the module fabrication and integration yard facilities currently being constructed in Brazil.

## 3. Expand operations in the infrastructure field

In fiscal 2013, TOYO participated in a project to simultaneously construct seven electric power plants at several locations in Thailand and completed them on schedule. Based on the experience and recognition gained from this project, we are globally expanding our sales activities in electric power generation in order to win more projects. Among other infrastructure business areas, we are targeting more large-scale solar power generation projects in Japan by participating in project planning right from the first stage of project formation.

### III. Improving Overall Competitiveness of Core Products (Urea, ethylene and ammonia)

For core products, TOYO is strengthening its services for all stages of its clients' value chains, and is appropriately responding to changes in the business environment, such as the effects of the shale gas revolution. The scope of our core product services extends from initial planning to final operation and management.

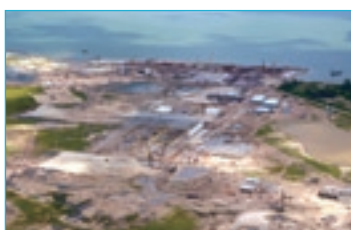
#### Topic: TSPI Expanding Orders in Brazil

In 2012, TOYO established TS Participações e Investimentos S.A. (TSPI) as a 50/50 joint venture with the Brazilian engineering company SOG - Óleo e Gás S.A. (SOG). Since then, two wholly owned group affiliates were established under TSPI: TOYO-SETAL Empreendimentos Ltda. (TSE) and Estaleiros do Brasil Ltda. (EBR). TSE focuses on onshore EPC projects, while EBR mainly targets offshore EPC projects for facilities such as FPSO systems.

Even before establishing TSPI, TOYO was strongly positioned in the Brazilian market because of its extensive record with plant projects that goes back to the 1990s. However, TOYO decided to form a joint venture with a local company because of the growing demand for localization in the Brazilian market.

Both TSE and EBR are off to successful starts, winning several large projects in fiscal 2013, their second year of operations. TSE was awarded a contract by Petróleo Brasileiro S.A. (PETROBRAS) for the construction of hydrogen production facilities. The scope of work on the project encompasses detailed design, procurement of equipment and materials, installation and commissioning support. In a consortium with leading Brazilian engineering firm Engevix, TSE also won a contract for the Belo Monte hydroelectric power station being constructed on a site near a tributary of the Amazon River. The contract covers installation of turbines, penstocks and substation equipment, as well as commissioning assistance. TSE will also participate in the ammonia plant project awarded to TOYO and SOG (see page 10). As for EBR, the company was awarded an engineering, procurement, construction and installation contract from a subsidiary of PETROBRAS to install topsides for an FPSO system. And EBR is constructing yard facilities in the State of Rio Grande do Sul, located in the southernmost part of Brazil, to be used to assemble the modules of the topsides and to integrate them on the hull.

TSPI and its two subsidiaries aim to continue expanding orders in the steadily growing Brazilian market. Endeavoring to smoothly execute projects, the companies plan to further enhance TOYO's record and recognition in Brazil.



EBR yard construction site



TSE gas project construction site

**Orders Over  
¥50 Billion****Large Gas Chemical Complex in Turkmenistan**

TOYO is building a large gas chemical complex for State Concern "Turkmengas" in collaboration with Hyundai Engineering Co., Ltd., Hyundai Engineering & Construction Co., Ltd., and LG International Corporation of Korea. TOYO is responsible for the engineering, procurement and commissioning of the gas separation unit and ethylene and polypropylene production units. For the gas separation unit, TOYO's technology, COREFLUX®, is being used to achieve effective recovery of ethane and liquefied petroleum gas. The complex is scheduled to be completed in 2018.

**Canadian Oil Sands SAGD Facility Project**

Through Toyo-Canada, TOYO received a contract from Japan Canada Oil Sands Limited (JACOS), a Canadian subsidiary of Japan Petroleum Exploration Co., Ltd. (JAPEX), for TOYO's first oil sands project. TOYO is responsible for the engineering, procurement, and construction of a bitumen processing facility using the steam assisted gravity drainage (SAGD) method. Located in Alberta, Canada, it is scheduled for completion in 2016. The initial daily production capacity goal is 20,000 barrels per stream day.

**Orders Over  
¥20 Billion****Ethylene Plant Expansion Project in Indonesia**

TOYO is expanding the production capacity of an existing naphtha cracking plant it built in the 1990s, from the current 600,000 tons per year to 860,000 tons per year. The EPC contract is being executed on a lump-sum turnkey basis for Indonesia's PT. Chandra Asri Petrochemical Tbk. The client awarded TOYO the contract based on its appreciation of TOYO's record in constructing the existing plant and the various proposals during the execution of FEED. The project is scheduled for completion at the end of 2015.

**Polyethylene Plant in Egypt**

Jointly with Egyptian engineering company ENPPI, TOYO is constructing a polyethylene plant in Alexandria, Egypt, for The Egyptian Ethylene and Derivatives Company (ETHYDCO), which is affiliated with Egypt's Ministry of Petroleum.

TOYO and ENPPI are executing the EPC project under a lump-sum turnkey contract. With an annual production capacity of 400,000 tons, the polyethylene plant will be supplied with feedstock by an ethylene plant currently being built by TOYO as part of the same complex. When the polyethylene plant is completed in 2015, it will be the largest polyethylene plant in Egypt.

**Ammonia Plant Project in Brazil**

In cooperation with SOG, a leading Brazilian engineering company, TOYO is constructing an ammonia plant (UFN-5) with a production capacity of 1,500 tons per day for PETROBRAS, the Brazilian state-run oil company. The project scope covers licensing, engineering, procurement of equipment and materials, installation, commissioning and operation assistance. The plant is scheduled to be completed in 2017.

**Other  
Orders****LNG Regasification Plant Project in India**

TOYO won consecutive orders for regasification plants in India: one from Petronet LNG Ltd. to expand LNG receiving capacity from 10 million to 15 million tons per year at Dahej, and another from GSPC LNG Limited to construct a new plant with a receiving capacity of 5 million tons per year at Mundra, both in the State of Gujarat. Toyo-India will take the lead on both projects, from engineering to construction and commissioning. Completion is scheduled for the beginning of 2017 at Dahej, and for the end of 2016 at Mundra.

**Basic Engineering Design for U.S. Polyethylene Plant (FEED)**

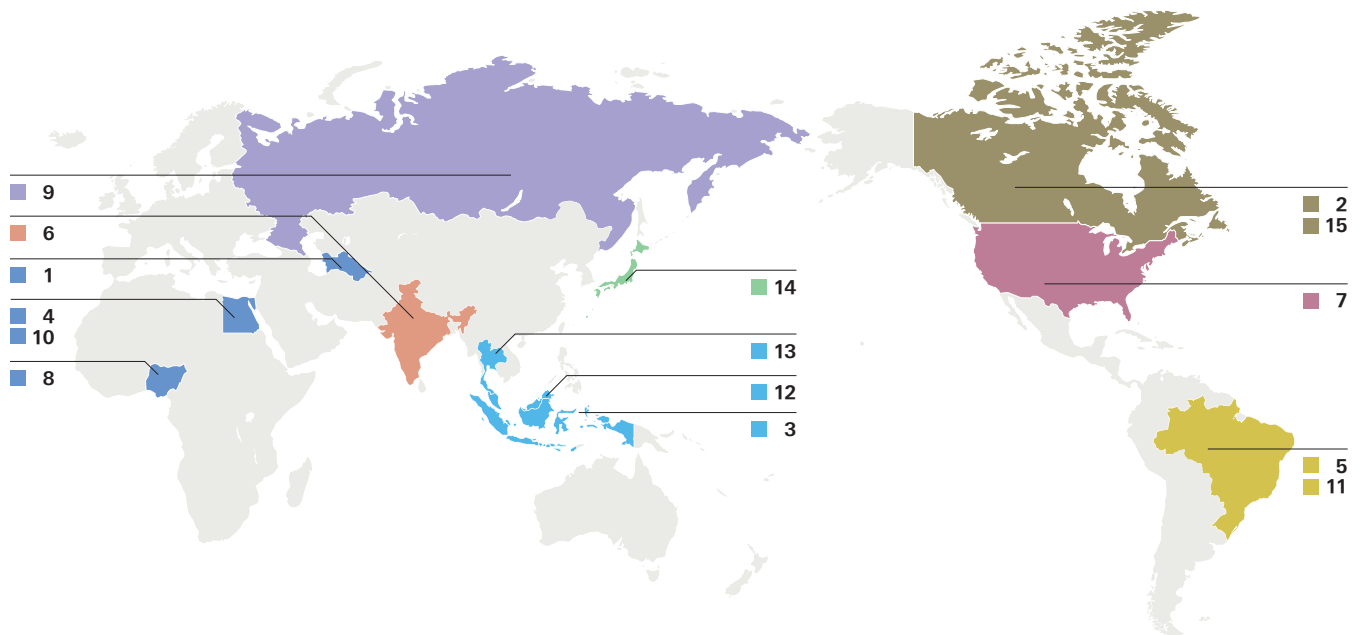
TOYO is providing FEED for a 450,000 ton per

year linear low-density polyethylene plant to be built by Sasol North America, Inc., in the State of Louisiana. The new plant will use the UNIPOL™ PE Process of Univation Technologies, LLC. This project marks the twenty-second project in TOYO's UNIPOL™ PE Process track record.

**Topsides Units for FPSO in Brazil**

MODEC and TOYO Offshore Production Systems Pte. Ltd. (MTOPS), a Singapore joint company and equity-method affiliate of TOYO, was awarded a contract from MODEC, Inc., to install topsides units for an FPSO system with a daily production capacity of 100,000 barrels of oil and 177 million cubic feet of gas. It will be deployed to an offshore oil field south off the coast of Rio de Janeiro, Brazil. This order is MTOPS's fourth FPSO project to be delivered for PETROBRAS.

## Major Projects



## New Orders

Type	Location	Scope
1 Large Gas Chemical Complex	Turkmenistan	EP
2 Oil Sands SAGD Facilities	Canada	EPC
3 Ethylene Plant Expansion Project	Indonesia	EPC
4 Polyethylene Plant	Egypt	EPC
5 Ammonia Plant Project	Brazil	EPC
6 LNG Regasification Plant Project	India	EPC
7 Polyethylene Plant	U.S.A.	FEED

## Ongoing

8 Ammonia and Urea Plant	Nigeria	EP
9 Oil Refinery Modernization Project (Heavy Residue Conversion Complex)	Russia	EP
10 Ethylene Plant and Butadiene Extraction Unit	Egypt	EPC
11 Refinery Utility Complex	Brazil	EPC
12 Gas Processing Plant Rejuvenation Project	Malaysia	EPC

## Completed

13 Small Power Producer Cogeneration Plant (All seven projects completed)	Thailand	EPC
14 Oxychlorination Process of Nr.3.VCM Plant	Japan	EPC
15 Oil Sands Refinery Project (Sulfur Recovery Unit, Light Ends Recovery Unit, Sour Water Stripper Unit and Amine Treatment Unit)	Canada	EDS

EP: Engineering and Procurement  
 EPC: Engineering, Procurement and Construction  
 FEED: Front End Engineering Design  
 EDS: Engineering Design Specification

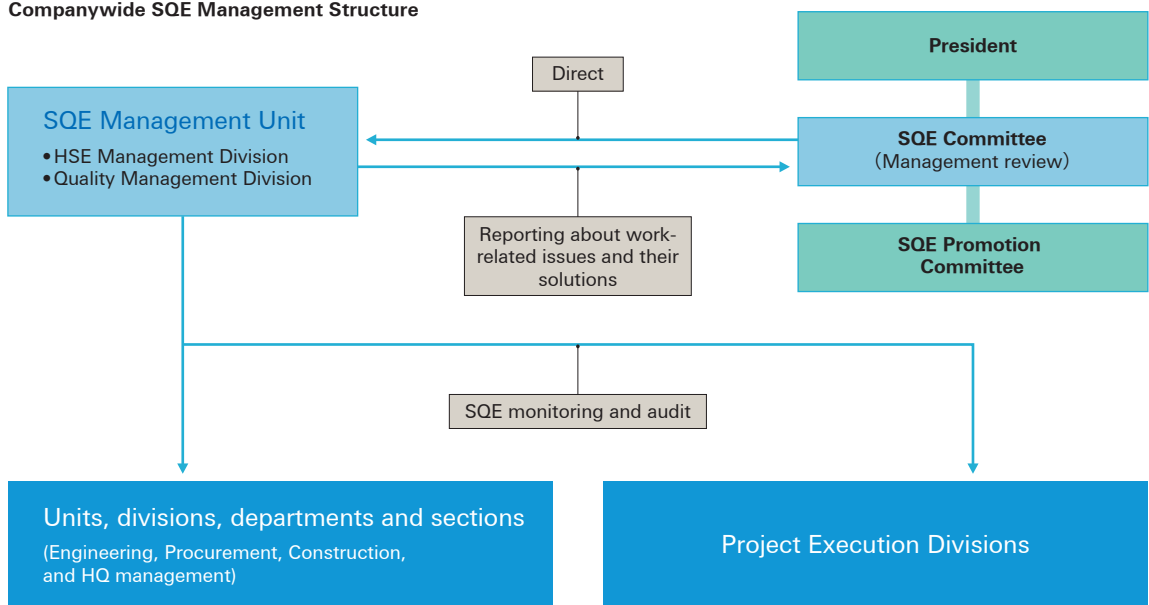
## Commitment to Health, Safety, Security and Environment (HSSE) and Quality

TOYO has stipulated the Basic Policies on Health, Safety, Security and Environment (HSSE) and Quality, which puts safety, quality and environmental management into practice. Through sharing and rigorously implementing these policies, TOYO strives to gain the trust of our clients and society.

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

TOYO has set up the SQE Committee, which report directly to the President, to review companywide SQE management activities. The Committee establishes the operating policies and assesses and approves the results of SQE activities. The SQE Promotion Committee promotes companywide activities in line with the basic policy of the SQE committee, and also promotes specific SQE activities of individual Operating Divisions and individual Project Execution Divisions. The SQE Promotion Committee and the SQE Management Unit cooperate systematically on the axis of the SQE Committee, which is connected directly to the management, to implement the PDCA cycle of the individual Operating Divisions and individual Project Execution Divisions, for continual improvement of the SQE management system and performance.

Companywide SQE Management Structure



### Safety & Environmental Report 2014

TOYO's Safety & Environmental Report 2014 is available on our website. It introduces our various activities on safety and the environment during 2013.



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

In 2013, in terms of TOYO’s safety record as defined by ILO, Lost Time Incident Rate (LTIR) was 0.07 and Total Recordable Incident Rate (TRIR) was 0.22. Although our LTIR is slightly improved from 0.09, our TRIR remains the same as in 2012. 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 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.

### TOYO’s Safety Record over the Past 5 Years (ILO base)

Year (Jan. to Dec.)	Employee- Worked Man-Days (Thousands)	Employee- Worked Man-Hours (A) (Thousands)	Number of Incident					Lost Time Incident Rate (Note 1)	Total Recordable Incident Rate (Note 2)
			Fatalities	Lost Time Incidents	Medical Treatment (No Lost Time)	LTI Total (B)	Recordable (C)		
2009	16,769	164,344	4	9	156	13	169	0.08	1.03
2010	12,012	117,295	1	5	56	6	62	0.05	0.53
2011	8,521	80,783	1	6	12	7	19	0.09	0.24
2012	12,739	120,760	3	8	16	11	27	0.09	0.22
2013	10,790	105,164	0	7	16	7	23	0.07	0.22

Note 1: Lost Time Incident Rate (LTIR) = (B) × 1,000,000 / (A)

Note 2: Total Recordable Incident Rate (TRIR) = (C) × 1,000,000 / (A)

## 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. The FKMS accepts and shares the feedback and knowledge from TOYO group companies. Thereby the feedback and knowledge can be extended and utilized among all TOYO group companies immediately for suggestions and preventive actions in all subsequent projects and proposals.

## ISO Approval

TOYO acquired ISO approval, which is the international standard, and acts for further safety, quality, and environmental management.



ISO 9001 Certificate of Approval



ISO 14001 Certificate of Approval



ISO/IEC 27001 Certificate of Approval

**Internal Control System**

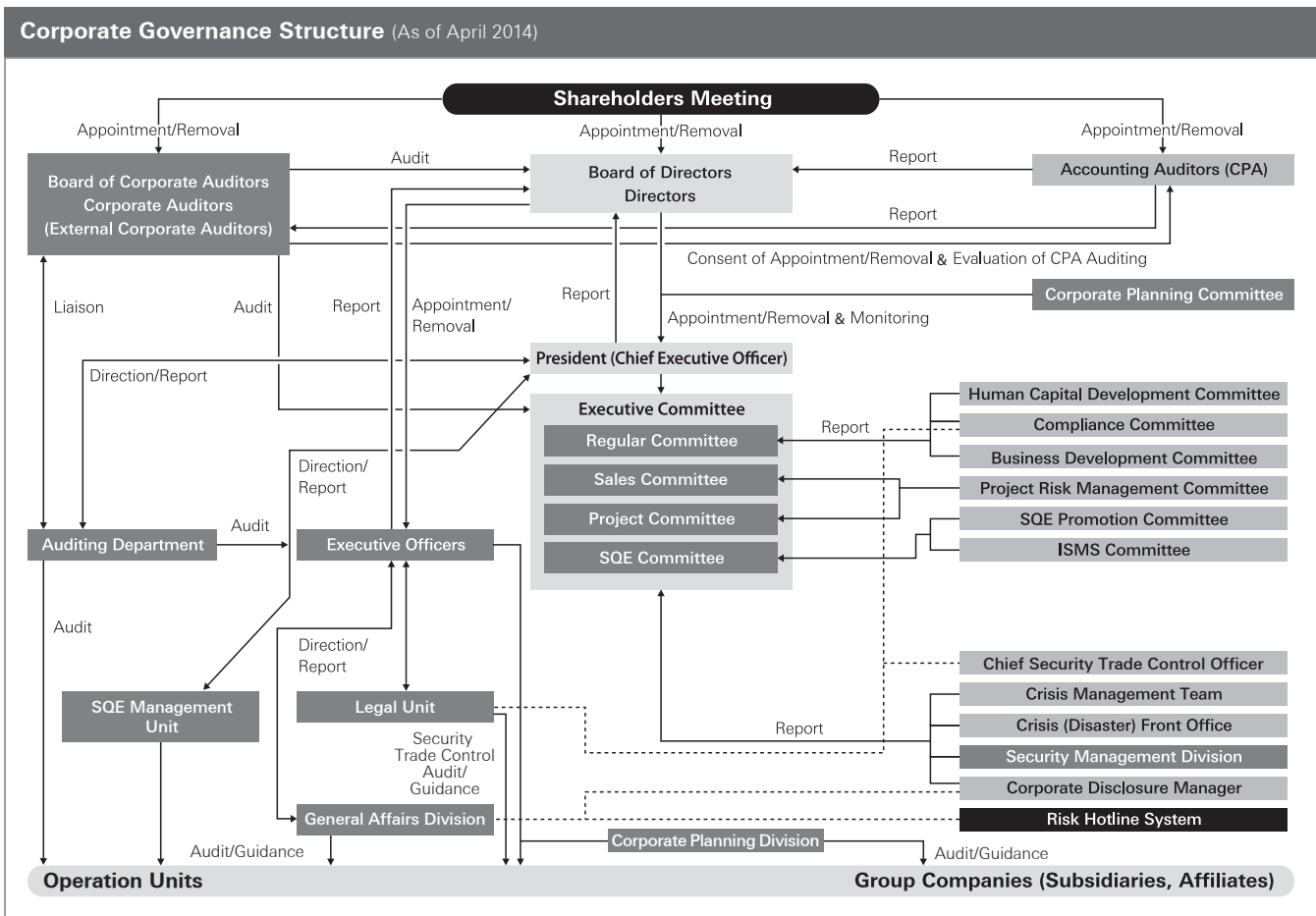
The Auditing Department of TOYO, which is under the direct control of the President, performs audits concerning the execution of business activities by all divisions and verifies the appropriateness and effectiveness of the internal management structure, including compliance and risk management. In addition,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

In order to promote the Internal Control System of the Group, TOYO is making efforts to ensure proper operations across TOYO's 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 the neighboring countries.
- 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.

## Consolidated Balance Sheets

Toyo Engineering Corporation and Consolidated Subsidiaries March 31, 2014 and 2013

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
<b>Current assets:</b>			
Cash and deposits (Note 13)	¥ 73,814	¥ 52,328	\$ 717,476
Notes receivable, accounts receivable from completed construction contracts	48,362	54,423	470,081
Short-term investment securities (Note 16)	25,025	21,376	243,244
Costs on uncompleted construction contracts	34,462	33,308	334,972
Deferred tax assets (Note 19)	2,977	3,010	28,936
Accounts receivable—other	12,931	22,478	125,690
Other	7,434	5,849	72,258
Allowance for doubtful accounts	(2,969)	(4,258)	(28,858)
Total current assets	202,041	188,517	1,963,851
<b>Property, plant and equipment:</b>			
Buildings and structures (Note 4)	26,762	26,525	260,128
Machinery, vehicles, tools, furniture and fixtures (Note 4)	5,708	5,219	55,482
Land (Note 4)	17,506	17,378	170,159
Lease assets	1,824	1,852	17,729
Construction in progress	7	75	68
Accumulated depreciation and impairment loss	(21,447)	(19,864)	(208,466)
Total property, plant and equipment	30,363	31,187	295,130
<b>Intangible assets:</b>			
Goodwill	1,619	2,570	15,736
Other	3,466	2,918	33,689
Total intangible assets	5,085	5,489	49,426
<b>Investments and other assets:</b>			
Investment securities (Notes 3, 16)	16,533	11,642	160,701
Long-term loans receivable	4,576	4,578	44,479
Deferred tax assets (Note 19)	443	1,034	4,305
Other (Note 3)	3,288	3,137	31,959
Allowance for doubtful accounts	(4,851)	(4,892)	(47,152)
Total investments and other assets	19,990	15,500	194,304
Total noncurrent assets	55,439	52,177	538,870
<b>Total assets</b>	<b>¥257,480</b>	<b>¥240,694</b>	<b>\$2,502,721</b>

See notes to consolidated financial statements.

<b>Liabilities and Net Assets</b>	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
<b>Current liabilities:</b>			
Notes payable, accounts payable for construction contracts and other	¥ 55,764	¥ 60,370	\$ 542,029
Short-term loans payable (Note 4)	10,580	12,712	102,838
Income taxes payable	1,164	2,297	11,314
Advances received on uncompleted construction contracts	56,519	44,487	549,368
Provision for bonuses	1,124	1,103	10,925
Provision for warranties for completed construction	79	80	767
Provision for loss on construction contracts	3,497	4,422	33,991
Other	11,433	7,656	111,129
Total current liabilities	140,164	133,130	1,362,402
<b>Noncurrent liabilities:</b>			
Long-term loans payable (Note 4)	33,535	26,477	325,962
Lease obligations	488	670	4,743
Deferred tax liabilities (Note 19)	360	7	3,499
Provision for retirement benefits (Note 18)	—	5,202	—
Net defined benefit liability (Note 18)	3,677	—	35,740
Provision for repairs	808	705	7,853
Other	3,613	3,408	35,118
Total noncurrent liabilities	42,484	36,472	412,947
Total liabilities	182,649	169,603	1,775,359
<b>Net assets:</b>			
<b>Shareholders' equity</b>			
Capital stock (Note 12)	18,198	18,198	176,885
Capital surplus	20,759	20,759	201,778
Retained earnings	31,546	31,537	306,629
Treasury stock	(408)	(383)	(3,965)
Total shareholders' equity	70,095	70,111	681,327
<b>Accumulated other comprehensive income:</b>			
Valuation difference on available-for-sale securities	1,288	665	12,519
Deferred gains or losses on hedges	(1,133)	(647)	(11,012)
Foreign currency translation adjustment	2,427	(468)	23,590
Remeasurements of defined benefit plans	695	—	6,755
Total accumulated other comprehensive income	3,277	(449)	31,852
<b>Minority interests</b>	1,458	1,429	14,171
<b>Total net assets</b>	74,831	71,091	727,361
<b>Contingent liabilities (Note 5)</b>			
<b>Total liabilities and net assets</b>	¥257,480	¥240,694	\$2,502,721

## Consolidated Statements of Income

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
<b>Net sales</b>	<b>¥230,124</b>	<b>¥228,723</b>	<b>\$2,236,819</b>
<b>Cost of sales (Note 7)</b>	<b>204,968</b>	<b>204,523</b>	<b>1,992,301</b>
Gross profit	<b>25,155</b>	24,200	<b>244,508</b>
<b>Selling, general and administrative expenses (Notes 6, 7)</b>	<b>24,699</b>	<b>22,606</b>	<b>240,075</b>
<b>Operating income</b>	<b>455</b>	<b>1,593</b>	<b>4,422</b>
<b>Non-operating income:</b>			
Interest income	<b>824</b>	685	<b>8,009</b>
Dividends income	<b>209</b>	553	<b>2,031</b>
Foreign exchange gains	<b>649</b>	1,297	<b>6,308</b>
Equity in earnings of affiliates	<b>2,232</b>	690	<b>21,695</b>
Reversal of allowance for doubtful accounts	<b>1,398</b>	—	<b>13,588</b>
Miscellaneous income	<b>437</b>	535	<b>4,247</b>
Total non-operating income	<b>5,751</b>	3,762	<b>55,900</b>
<b>Non-operating expenses:</b>			
Interest expenses	<b>1,008</b>	1,110	<b>9,797</b>
Miscellaneous expenses	<b>256</b>	212	<b>2,488</b>
Total non-operating expenses	<b>1,264</b>	1,323	<b>12,286</b>
<b>Ordinary income</b>	<b>4,942</b>	<b>4,032</b>	<b>48,036</b>
<b>Extraordinary income:</b>			
Gain on sales of property, plant and equipment	—	607	—
Gain on sales of investment securities	<b>501</b>	—	<b>4,869</b>
Gain on change in equity	<b>1,518</b>	—	<b>14,755</b>
Total extraordinary income	<b>2,020</b>	607	<b>19,634</b>
<b>Extraordinary loss:</b>			
Impairment loss (Note 10)	<b>1,289</b>	79	<b>12,529</b>
Amortization of goodwill (Note 9)	—	915	—
Loss on valuation of investments securities	—	660	—
Loss on valuation of investments in capital of subsidiaries and affiliates	—	0	—
Total extraordinary loss	<b>1,289</b>	1,656	<b>12,529</b>
<b>Income before income taxes</b>	<b>5,673</b>	<b>2,982</b>	<b>55,141</b>
Income taxes—current	<b>4,439</b>	3,949	<b>43,147</b>
Income taxes—deferred	<b>181</b>	(1,808)	<b>1,759</b>
Total income taxes	<b>4,621</b>	2,140	<b>44,916</b>
<b>Income before minority interests</b>	<b>1,051</b>	<b>842</b>	<b>10,215</b>
Minority interests in income (loss)	<b>84</b>	(614)	<b>816</b>
<b>Net income (Note 23)</b>	<b>¥ 967</b>	<b>¥ 1,457</b>	<b>\$ 9,399</b>

See notes to consolidated financial statements.

## Consolidated Statements of Comprehensive Income

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
<b>Income before minority interests</b>	<b>¥1,051</b>	¥ 842	<b>\$10,215</b>
<b>Other comprehensive income:</b>			
Valuation difference on available-for-sale securities	623	439	6,055
Deferred gains or losses on hedges	463	(601)	4,500
Foreign currency translation adjustment	2,195	2,214	21,335
Share of other comprehensive income of associates accounted for using equity method	(244)	283	(2,371)
Total other comprehensive income	3,036	2,335	29,510
<b>Comprehensive income (Note 11)</b>	<b>¥4,088</b>	¥3,178	<b>\$39,735</b>
<b>Comprehensive income attributable to:</b>			
Owners of the parent	4,000	3,759	38,880
Minority interests	¥ 88	¥ (580)	\$ 855

See notes to consolidated financial statements.

## Consolidated Statements of Changes in Net Assets (Note 12)

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2014 and 2013

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, 2012	¥18,198	¥20,759	¥31,203	¥(363)	¥ 225	¥ (45)	¥(2,931)	¥2,219	¥69,265
Dividends from surplus			(1,151)						(1,151)
Net income			1,457						1,457
Purchase of treasury stock				(21)					(21)
Disposal of treasury stock		(0)		0					0
Change in scope of consolidation			27						27
Net changes of items other than shareholders' equity					440	(601)	2,463	(789)	1,512
Balance at March 31, 2013	¥18,198	¥20,759	¥31,537	¥(383)	¥ 665	¥ (647)	¥ (468)	¥1,429	¥71,091

Millions of yen

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

Thousands of U.S. dollars (Note 1)

	Capital stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Minority interests	Total net assets
Balance at April 1, 2013	\$176,885	\$201,778	\$306,541	\$(3,722)	\$ 6,463	\$ (6,288)	\$ (4,548)	\$ —	\$13,889	\$691,008
Dividends from surplus			(9,321)							(9,321)
Net income			9,399							9,399
Purchase of treasury stock				(233)						(233)
Disposal of treasury stock		0		0						0
Net changes of items other than shareholders' equity					6,055	(4,723)	28,139	6,755	272	36,508
Balance at March 31, 2014	\$176,885	\$201,778	\$306,629	\$(3,965)	\$12,519	\$(11,012)	\$23,590	\$6,755	\$14,171	\$727,361

See notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
<b>Cash flows from operating activities:</b>			
Income before income taxes	¥ 5,673	¥ 2,982	\$ 55,141
Depreciation and amortization	2,633	2,570	25,592
Amortization of goodwill	452	1,572	4,393
Increase (decrease) in allowance for doubtful accounts	(1,347)	625	(13,092)
Impairment loss	1,289	79	12,529
Increase (decrease) in provision for retirement benefits	—	(179)	—
Increase (decrease) in net defined benefit liability	(454)	—	(4,412)
Increase (decrease) in provision for loss on construction contracts	(1,150)	2,918	(11,178)
Interest and dividends income	(1,033)	(1,238)	(10,040)
Interest expenses	1,008	1,110	9,797
Foreign exchange losses (gains)	(85)	34	(826)
Loss (gain) on sales of property, plant and equipment	(242)	(607)	(2,352)
Equity in (earnings) losses of affiliates	(2,232)	(690)	(21,695)
Loss (gain) on change in equity	(1,518)	—	(14,755)
Loss (gain) on sales of investment securities	(501)	(0)	(4,869)
Loss (gain) on valuation of investment securities	1	661	9
Decrease (increase) in notes receivable, accounts receivable from completed construction contracts	7,475	(17,645)	72,657
Decrease (increase) in costs on uncompleted construction contracts	13	(6,469)	126
Decrease (increase) in accounts receivable—other	9,573	(8,319)	93,050
Increase (decrease) in notes and accounts payable—trade	(6,215)	9,492	(60,410)
Increase (decrease) in advances received on uncompleted construction contracts	10,307	(2,584)	100,184
Other, net	2,945	(1,097)	28,625
Subtotal	26,591	(16,785)	258,466
Interest and dividends income received	2,108	1,456	20,489
Interest expenses paid	(1,018)	(1,119)	(9,895)
Income taxes paid	(6,437)	(2,537)	(62,568)
Net cash provided by (used in) operating activities	21,244	(18,986)	206,493
<b>Cash flows from investing activities:</b>			
Net decrease (increase) in time deposits	447	132	4,344
Purchase of property, plant and equipment	(756)	(689)	(7,348)
Proceeds from sales of property, plant and equipment	311	1,185	3,022
Purchase of intangible assets	(1,329)	(1,132)	(12,917)
Purchase of investment securities	(1,193)	(1,854)	(11,596)
Proceeds from sales of investment securities	578	39	5,618
Other, net	302	730	2,935
Net cash provided by (used in) investing activities	(1,638)	(1,587)	(15,921)
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term loans payable	(2,665)	(1,075)	(25,903)
Proceeds from long-term loans payable	10,848	6,331	105,443
Repayment of long-term loans payable	(3,629)	(4,115)	(35,274)
Repayments of finance lease obligations	(339)	(466)	(3,295)
Cash dividends paid	(959)	(1,151)	(9,321)
Other, net	(88)	(54)	(855)
Net cash provided by (used in) financing activities	3,167	(532)	30,783
<b>Effect of exchange rate change on cash and cash equivalents</b>	<b>2,486</b>	<b>2,123</b>	<b>24,164</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>25,259</b>	<b>(18,983)</b>	<b>245,519</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>71,675</b>	<b>90,452</b>	<b>696,685</b>
<b>Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation</b>	<b>—</b>	<b>206</b>	<b>—</b>
<b>Cash and cash equivalents at end of period (Note 13)</b>	<b>¥96,934</b>	<b>¥ 71,675</b>	<b>\$942,204</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 ¥102.88 to U.S.\$1.00 prevailing on March 31, 2014.

### 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, 2014, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 14 and 7, 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) Retirement Benefits**

Net defined benefit liability at year-end is stated based on the fair value of plan assets and the projected benefit obligation. As to calculation of the projected benefit obligation, the expected benefit payments at the year-end have been recorded mainly at the amount calculated based on the straight-line attribution. The difference arising from the adoption of the new standard of accounting of ¥3,695 million (\$35,924 thousand) is amortized over 15 years by the straight-line method. Actuarial gain or loss is amortized by the straight-line method over 9 years within the average of the estimated remaining service years of the employees in the year following the year of recognition. Prior service cost is amortized as incurred over 13 years within the average of the estimated remaining service years when incurred.

**(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 ¥1,425 million (\$13,851 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 ¥3,278 million (\$31,862 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) 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.

**(n) 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.

**(o) 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.

**(p) Consumption Tax**

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

**(q) Consolidated Tax Return**

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

**(r) 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.

**(s) 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.

**(t) 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.

**(u) 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.

**(v) Research and Development Costs**

Research and development costs are charged to income when incurred.

**(w) 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, 2014.

**(Accounting change)**

The Company has applied the "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No. 26 of May 17, 2012) and "Guidance on Accounting standard for Retirement Benefits" (ASBJ Guidance No. 25 of May 17, 2012) since the current fiscal year end (except for the main clause of Article 35 of the standard and the main clause of Article 67 of the guidance).

Under the new standard, pension assets are deducted from retirement benefit obligations and the net amount is recognized as net defined benefit asset/liability, including unrecognized actuarial gains and losses, unrecognized past service cost and obligation at transition.

In accordance with transitional accounting as stipulated in Article 37 of the standard, the effect of the changes on accounting policies arising from initial application is recognized as remeasurements of defined benefit plans in accumulated other comprehensive income at the current fiscal year end.

As a result, a net defined benefit liability was recognized in the amount of ¥3,677 million (\$35,740 thousand) and accumulated other comprehensive income in the consolidated balance sheet has increased by ¥695 million (\$6,755 thousand) at the current fiscal year end.

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

"Accounting Standard for Retirement Benefits" (ASBJ Statement No.26) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25) were revised on May 17, 2012. However, these accounting standards have not yet been adopted as of March 31, 2014.

Under these revised accounting standards, accounting treatment of unrecognized actuarial gain or loss and prior service cost, calculation method of retirement benefit obligations and service cost and disclosures were mainly revised. These revisions were made considering the viewpoint of enhancing financial reporting and international convergence of accounting standards.

The Company and its domestic subsidiaries will adopt these accounting standards effective from April 1, 2014.

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

#### (Changes in Presentation)

(Consolidated Statements of Cash Flow)

Loss (gain) on sales of investment securities, which had previously been included in other under Cash flows from operating activities, is separately presented under Cash flows from operating activities from the fiscal year ended March 31, 2014, because its materiality has increased.

The Cash Flow which had previously been included in other under Cash flows from operating activities as of March 31, 2014, is ¥(0)million.

### 3. INVESTMENTS AND OTHER ASSETS

Among investment securities and other in investment and other assets, the amounts of shares of unconsolidated subsidiaries and affiliates as of March 31, 2014 and 2013 are as follows:

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
<b>Investments and other assets</b>			
Investment securities	¥ 9,577	¥ 5,549	\$ 93,089
Other	552	673	5,365

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

The following assets at March 31, 2014 and 2013 were pledged as collateral principally for long-term loans payable:

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
<b>Collateral</b>			
Buildings	¥ 1,292	¥ 1,135	\$ 12,558
Land	1,150	945	11,178
<b>Total</b>	<b>¥ 2,442</b>	<b>¥ 2,081</b>	<b>\$ 23,736</b>

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
<b>Debts with collateral</b>			
Long-term debts	¥ 323	¥ 488	\$ 3,139
Current portion of long-term debts	161	162	1,564

In the pledged asset, buildings of ¥1,196 million (\$11,625 thousand) and ¥1,034 million, and land ¥1,150 million (\$11,178 thousand) and ¥945 million, as of March 31, 2014 and 2013 were pledged for issuing the performance bonds. There were not any corresponding obligation as of March 31, 2014.

The following schedule shows the maturities of long-term loans payable subsequent to March 31, 2014:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	¥ 3,940	\$ 38,297
2016	5,418	52,663
2017	10,245	99,582
2018	3,952	38,413
2019	10,930	106,240
2020 and thereafter	2,988	29,043

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

Years ended March 31, Commitment Line	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Amount of commitment line contract	¥22,716	¥22,050	\$220,800
Used amount	9,016	4,820	87,636
Balance of unused commitment line	¥13,699	¥17,230	\$133,155

The balances of unused commitment-line based on these contracts at the end of the consolidated reporting periods are ¥13,699 million (\$133,155 thousand) in 2014 and ¥17,230 million in 2013.

## 5. CONTINGENT LIABILITIES

The Company and its subsidiaries were contingently liable as guarantors of loans to others in the aggregate amount of ¥4,116 million (\$40,007 thousand) and ¥393 million at March 31, 2014 and 2013, respectively.

## 6. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The main components of selling, general and administrative expenses for the year ended March 31, 2014 and 2013 are as follows:

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Salaries	¥10,182	¥8,161	\$98,969
Provision for bonuses	451	353	4,383
Retirement benefit expenses	671	675	6,522
Depreciation	632	600	6,143
Research and development costs	912	1,001	8,864
Provision of allowance for doubtful accounts	—	1,141	—

## 7. 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, 2014 and 2013 amounted to ¥912 million (\$8,864 thousand) and ¥1,001 million, respectively.

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

Major components of gain of property, plant and equipment are as follows:

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Building	¥ —	¥ 383	\$ —
Land	—	223	—

## 9. AMORTIZATION OF GOODWILL

In accordance with Section 32 of "Practical Guidelines on Accounting Standard for Capital Consolidation Procedures in Preparing Consolidated Financial Statements" (JICPA Accounting Practice Committee Statement No.7, January 12, 2011), in recognizing a write-down of its investment in an affiliate, the Company recognized a one-time amortization of goodwill of an affiliate for the year ended March 31, 2013.

## 10. IMPAIRMENT LOSS

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

Location	Used States	Category of assets	Millions of yen	Thousands of U.S. dollars
			2014	2014
India	Other	Goodwill	¥695	\$6,755
Chiba, Japan	Rental commercial facilities	Land, Buildings and Other	594	5,773

(2) The recognition of impairment loss

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

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

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

(3) The method of assets grouping

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

(4) The calculation of recoverable amounts

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

## 11. OTHER COMPREHENSIVE INCOME

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Valuation difference on available-for-sale securities:			
Amount arising during the year	¥ 900	¥ 140	\$ 8,748
Reclassification adjustments for gains and losses realized in net income	—	449	—
The amount of valuation on available-for-sale securities before tax effect	900	589	8,748
Tax effect	(277)	(149)	(2,692)
Valuation difference on available-for-sale securities	623	439	6,055
Deferred gains or losses on hedges:			
Amount arising during the year	711	(910)	6,910
Reclassification adjustments for gains and losses realized in net income	—	—	—
The amount of deferred gains or losses on hedges before tax effect:	711	(910)	6,910
Tax effect	(248)	308	(2,410)
Deferred gains or losses on hedges	463	(601)	4,500
Foreign currency translation adjustment:			
Amount arising during the year	2,195	2,214	21,335
Reclassification adjustments for gains and losses realized in net income	—	—	—
The amount of foreign currency translation adjustment before tax effect:	2,195	2,214	21,335
Tax effect	—	—	—
Foreign currency translation adjustment	2,195	2,214	21,335
Share of other comprehensive income of associates accounted for using equity method			
Amount arising during the year	(244)	283	(2,371)
Total other comprehensive income	¥3,036	¥2,335	\$29,510

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

### For the year ended March 31, 2014

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

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

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

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

#### (b) Dividends

##### (b-1) Dividends from surplus

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)	Amount per share (Yen)	Amount per share (U.S. Dollars)	Shareholders' cut-off date	Effective date
June 26, 2013	Annual general meeting of shareholders	Common stock	959	9,321	5.0	0.04	March 31, 2013	June 27, 2013

##### (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 25, 2014	Annual general meeting of shareholders	Common stock	Retained earnings	575	5,589	3.0	0.02	March 31, 2014	June 26, 2014

For the year ended March 31, 2013

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

Type of shares	Number of shares			Balance at end of year
	Balance at beginning of year	Increase in shares during the year	Decrease in shares during the 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	910,542	56,986	1,690	965,838
<b>Total</b>	<b>910,542</b>	<b>56,986</b>	<b>1,690</b>	<b>965,838</b>

Notes: 1. Treasury stock increased by 56,986 shares due to the repurchase of shares less than one unit.

2. Treasury stock decreased by 1,690 shares due to the sale of shares less than one unit.

## (b) Dividends

## (b-1) Dividends from surplus

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount per share (Yen)	Shareholders' cut-off date	Effective date
June 27, 2012	Annual general meeting of shareholders	Common stock	1,151	6.0	March 31, 2012	June 28, 2012

## (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 26, 2013	Annual general meeting of shareholders	Common stock	Retained earnings	959	5.0	March 31, 2013	June 27, 2013

**13. 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, 2014 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Cash and deposits	<b>¥73,814</b>	¥52,328	<b>\$717,476</b>
Time deposits with maturities over three months	<b>(1,572)</b>	(1,651)	<b>(15,279)</b>
Short-term investments with maturities within three months included in securities	<b>24,692</b>	20,998	<b>240,007</b>
Cash and cash equivalents	<b>¥96,934</b>	¥71,675	<b>\$942,204</b>

**14. 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, 2014 and 2013 for noncancelable operating leases are summarized as follows:

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Within one year	<b>¥ 705</b>	¥ 718	<b>\$ 6,852</b>
Over one year	<b>550</b>	1,207	<b>5,346</b>
Total	<b>¥1,256</b>	¥1,925	<b>\$12,208</b>

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

Future minimum lease receivables subsequent to March 31, 2014 and 2013 for noncancelable operating leases are summarized as follows:

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Within one year	¥ 768	¥ 827	\$ 7,465
Over one year	2,424	3,159	23,561
Total	¥3,192	¥3,987	\$31,026

## (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
	2014	2013	2014
Current assets	¥ 37	¥ 80	\$ 359
Investment and other assets	112	48	1,088

## (c-2) Lease Obligations

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Current liabilities	¥ 37	¥ 80	\$ 359
Noncurrent liabilities	112	48	1,088

## 15. FINANCIAL INSTRUMENTS

### For the year ended March 31, 2014

#### 1. Condition of Financial Instruments

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

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

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

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

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

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

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

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



## 2. Fair Value of Financial Instruments

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

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

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

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

At March 31, 2014	Thousands of U.S. dollars		
	Book value	Fair value	Unrealized gain / loss
(1) Cash and deposits	\$ 717,476	\$ 717,476	\$ —
(2) Notes receivable, accounts receivable from completed construction contracts	470,081		
Less: Allowance for doubtful accounts	(3,081)		
Notes receivable, accounts receivable from completed construction contracts, net	467,000	466,854	(136)
(3) Accounts receivable—other	125,690		
Less: Allowance for doubtful accounts	(9)		
Accounts receivable—other, net	125,670	125,670	(0)
(4) Short-term investment securities and investment securities			
Held-to-maturity securities	240,007	240,007	(0)
Available-for-sale securities	52,274	52,274	—
Total of assets	1,602,449	1,602,313	(136)
(1) Notes payable, accounts payable for construction contracts and other	542,029	541,932	(97)
(2) Short-term loans payable	64,541	64,541	—
(3) Long-term loans payable (including current portion)	364,259	366,844	2,585
Total of liabilities	970,839	973,328	2,478
Derivatives			
not designated as hedging instruments	1,312	1,312	—
designated as hedging instruments	(2,284)	(2,284)	—
Total derivatives	\$ (962)	\$ (962)	\$ —

At March 31, 2013	Millions of yen		
	Book value	Fair value	Unrealized gain / loss
(1) Cash and deposits	¥ 52,328	¥ 52,328	¥ —
(2) Notes receivable, accounts receivable from completed construction contracts	54,423		
Less: Allowance for doubtful accounts	(133)		
Notes receivable, accounts receivable from completed construction contracts, net	54,289	54,280	(8)
(3) Accounts receivable—other	22,478		
Less: Allowance for doubtful accounts	(1)		
Accounts receivable—other, net	22,476	22,476	—
(4) Short-term investment securities and investment securities			
Held-to-maturity securities	20,998	20,998	0
Available-for-sale securities	4,552	4,552	—
Total of assets	154,647	154,638	(8)
(1) Notes payable, accounts payable for construction contracts and other	60,370	60,367	(3)
(2) Short-term loans payable	9,081	9,081	—
(3) Long-term loans payable (including current portion)	30,107	30,442	334
Total of liabilities	99,560	99,890	330
Derivatives			
not designated as hedging instruments	34	34	—
designated as hedging instruments	(980)	(980)	—
Total derivatives	¥ (945)	¥ (945)	¥ —

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) 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 "17. DERIVATIVE TRANSACTIONS."

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

Unlisted securities that amounted to ¥2,455 million (\$23,862 thousand) as of March 31, 2014 and ¥2,468 million as of March 31, 2013 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**

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

At March 31, 2014	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	\$ 717,476	\$ —	\$—	\$—
Notes receivable, accounts receivable from completed construction contracts	402,439	67,641	—	—
Accounts receivable—other	125,233	447	—	—
Held-to-maturity securities	240,007	—	—	—
Available-for-sale securities	3,236	—	—	—
Total	\$1,488,423	\$68,098	\$—	\$—

## Millions of yen

At March 31, 2013	Within one year	After one year through five years	After five years through ten years	After ten years
Cash and deposits	¥ 52,328	¥ —	¥—	¥—
Notes receivable, accounts receivable from completed construction contracts	47,665	6,758	—	—
Accounts receivable—other	22,476	1	—	—
Held-to-maturity securities	20,998	—	—	—
Total	¥143,469	¥6,760	¥—	¥—

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

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

**16. INVESTMENT SECURITIES**

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

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

At March 31, 2014	Thousands of U.S. dollars		
	Book Value	Fair Value	Unrealized Gain
Securities whose fair value exceeds their carrying value:			
Government bonds	\$136,071	\$136,071	\$ 0
Securities whose fair value does not exceed their carrying value:			
Government bonds	97,190	97,190	(0)
Other	6,736	6,736	—
Total	\$240,007	\$240,007	\$ (0)

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

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

At March 31, 2014	Thousands of U.S. dollars		
	Book Value	Acquisition Cost	Unrealized Gain
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	\$49,037	\$27,945	\$21,082
Subtotal	\$49,037	\$27,945	\$21,082
Securities whose carrying value does not exceed their acquisition costs:			
Other	\$ 3,236	\$ 3,236	\$ —
Subtotal	3,236	3,236	—
Total	\$52,274	\$31,191	\$21,082

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

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Selling amount	¥577	\$5,608
Gain on sales of securities	501	4,869

The book value, unrealized gain and loss and the related fair value of held-to-maturity securities at March 31, 2013 are summarized as follows:

At March 31, 2013	Millions of yen		
	Book Value	Fair Value	Unrealized Gain
Securities whose fair value exceeds their carrying value:			
Government bonds	¥15,998	¥15,999	¥ 0
Securities whose fair value does not exceed their carrying value:			
Government bonds	4,999	4,999	(0)
Total	¥20,998	¥20,998	¥ 0

The cost, unrealized gain and loss and the related book value of available-for-sale securities with available fair values at March 31, 2013 are summarized as follows:

At March 31, 2013	Millions of yen		
	Book Value	Acquisition Cost	Unrealized Gain
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥ 3,844	¥ 2,478	¥1,365
Subtotal	¥ 3,844	¥ 2,478	¥1,365
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	¥ 330	¥ 397	¥ (67)
Other	378	378	—
Subtotal	708	775	(67)
Total	¥ 4,552	¥ 3,254	¥1,298

## 17. DERIVATIVE TRANSACTIONS

For the year ended March 31, 2014

### 1. Derivatives not designated as hedging instruments

(1) Currency-related

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

	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	\$ 612	\$ —	\$ 19	\$ 19
EUR	12,431	3,703	1,283	1,283
Total	\$13,044	\$3,703	\$1,312	\$1,312

### 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		¥44,449	¥10,257	¥(2,644)	Based on prices offered by the financial institution	
EUR		414	153	(0)		
SGD		391	154	(16)		
CAD	Accounts receivable and accounts payable	1,722	1,106	4		
JPY		256	256	(8)		
Buying						
USD		19,592	2,501	690		
EUR		14,027	440	1,740		
GBP		1	—	0		
Alternative method:						
Foreign exchange forward contracts						
Selling						
USD	Accounts receivable and accounts payable	7,494	—	N/A	Based on forward exchange contract prices	
Buying						
USD		911	—			
EUR		830	—			
SEK		42	—			
Total		¥90,134	¥14,868			

	Thousands of U.S. dollars				Computational method of fair value			
	Main hedged items	All notional amounts	Notional amounts due over one year	Fair value				
Deferral hedge accounting method:								
Foreign exchange forward contracts								
Selling								
USD		\$432,047	\$ 99,698	\$(25,699)	Based on prices offered by the financial institution			
EUR		4,024	1,487	(0)				
SGD	Accounts receivable and accounts payable	3,800	1,496	(155)				
CAD		16,737	10,750	38				
JPY		2,488	2,488	(77)				
Buying								
USD			190,435	24,309		6,706		
EUR		136,343	4,276	16,912				
GBP		9	—	0				
Alternative method:								
Foreign exchange forward contracts								
Selling								
USD	Accounts receivable and accounts payable	72,842	—	N/A	Based on forward exchange contract prices			
Buying								
USD		8,854	—					
EUR		8,067	—					
SEK		408	—					
Total		\$876,108	\$144,517					

## (2) Interest-related

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

	Thousands of U.S. dollars				Computational method of fair value
	Main hedged items	All notional amounts	Notional amounts due over one year	Fair value	
Special method for interest rate swaps:					
Interest swap contracts					
floating-for-fixed rate swap	Long-term loans payable	\$166,699	\$148,425	N/A	Based on prices offered by the financial institution
Total		\$166,699	\$148,425		

For the year ended March 31, 2013

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	¥ 787	¥ —	¥ 0	¥ 0
EUR	0	—	0	0
Buying				
USD	526	—	34	34
EUR	5	—	0	0
Total	¥ 1,319	¥ —	¥ 34	¥34

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	¥16,687	¥ 3,956	¥(1,576)	Based on prices offered by the financial institution			
Buying								
USD		1,944	855	57				
EUR		5,953	3,262	538				
Alternative method:								
Foreign exchange forward contracts								
Selling								
USD		33,565	9,550					
EUR		13	—					
SEK		717	—					
CAD		146	—					
SGD		74	74					
Buying								
USD	Accounts receivable and accounts payable	7,435	173	N/A	Based on forward exchange contract prices			
EUR		5,351	6					
SEK		428	—					
THB		74	—					
BRL		19,301	7,744					
CHF		280	—					
SGD		35	—					
Total			¥92,009			¥25,623	¥ (980)	



## (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	
Special method for interest rate swaps:					
Interest swap contracts					
floating-for-fixed rate swap	Long-term loans payable	¥11,410	¥11,150	N/A	Based on prices offered by the financial institution
<b>Total</b>		<b>¥11,410</b>	<b>¥11,150</b>		

**18. RETIREMENT BENEFITS****For the year ended March 31, 2014**

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

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

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

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

## (1) Changes in defined benefit obligations

	Millions of yen	Thousands of U.S. dollars
	2014	2014
April 1, 2013	¥ 15,735	\$ 152,945
Service cost	776	7,542
Interest cost	366	3,557
Actuarial gains and losses	162	1,574
Benefit paid	(1,330)	(12,927)
Others	11	106
March 31, 2014	¥ 15,721	\$ 152,809

## (2) Changes in plan assets

	Millions of yen	Thousands of U.S. dollars
	2014	2014
April 1, 2013	¥ 11,013	\$ 107,047
Expected return on plan assets	265	2,575
Actuarial gains and losses	550	5,346
Contributions by the employer	1,338	13,005
Benefits paid	(1,123)	(10,915)
March 31, 2014	¥ 12,044	\$ 117,068

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

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

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Funded defined benefit obligations	¥ 14,015	\$ 136,226
Plan assets	(12,044)	(117,068)
Subtotal	1,970	19,148
Unfunded defined benefit obligations	1,706	16,582
Net amount of liabilities and assets recognized in consolidated balance sheet	3,677	35,740
Liabilities (net defined benefit liability)	3,677	35,740
Net amount of liabilities and assets recognized in consolidated balance sheet	3,677	35,740

## (4) Retirement benefit expenses

The retirement benefit expenses for the fiscal year ended March 31, 2014 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Service cost	¥ 776	\$ 7,542
Interest cost	366	3,557
Expected return on plan assets	(265)	(2,575)
Recognition of obligation at transition	246	2,391
Recognition of actuarial gains and losses	151	1,467
Amortization of past service cost	(183)	(1,778)
Others	10	97
Total	¥1,102	\$10,711

## (5) Remeasurements of defined benefit plans

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

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Unrecognized past service cost	¥ 348	\$ 3,382
Obligation at transition	(255)	(2,478)
Unrecognized past service cost	977	9,496
Total	¥1,070	\$10,400

## (6) Major breakdown of plan assets

	2014
Debt securities	43%
Equity securities	31%
Cash and deposits	10%
Others	16%
Total	100%

Expected return rate on plan assets is determined by considering the current and anticipated future portfolio of plan assets and current and anticipated future long-term performance of individual asset classes that comprise the funds' asset mix.

Discount rate	Mainly 2.0%
Expected return rate on plan assets	Mainly 2.0%

#### Defined contribution plan

The amount of contributions for defined contribution plan by the Company and its consolidated subsidiaries is ¥1 million (\$9.7 thousand).

For the year ended March 31, 2013

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) Accrued retirement benefits for employees at March 31, 2013 consisted of the following:

	Millions of yen
	2013
Projected benefit obligation	¥(15,599)
Plan assets	10,858
Unreserved projected benefit obligation	(4,741)
Unrecognized obligation at transition	501
Unrecognized actuarial loss	(432)
Unrecognized prior service cost	(530)
Net projected benefit obligation	(5,202)
Prepaid pension cost	—
Provision for retirement benefits for employees	¥ (5,202)

(2) Net periodic pension cost for the years ended 2013 consisted of the following:

	Millions of yen
	2013
Components of net periodic benefit cost:	
Service cost	¥ 785
Interest cost	298
Expected return on plan assets	(23)
Amortization of unrecognized retirement benefit obligation at transition	246
Amortization of unrecognized actuarial loss	334
Amortization of prior service cost	(187)
Other	103
Net periodic pension cost	1,556
Total	¥ 1,556

(3) Basis of calculation of projected benefit obligation for the years ended 2013.

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 9 years
Amortization period for unrecognized obligation at transition	15 years
Amortization period for unrecognized prior service cost	Mainly 13 years

## 19. INCOME TAXES

The statutory tax rates applicable to the Company and its domestic subsidiaries for the year ended March 31, 2014 and 2013 were approximately 37.8%. 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,	2014	2013
Statutory tax rate in Japan	37.8%	37.8%
Adjustments:		
Permanently nondeductible expenses	4.3	7.8
Permanently nontaxable dividends received	(19.5)	(7.0)
Per capita levy on corporate inhabitant tax	0.5	0.9
Temporary differences excluded from calculation of deferred tax assets	48.7	(26.8)
Amortization of goodwill	9.5	20.0
Tax credit	11.0	(6.7)
Difference in tax rates for foreign subsidiaries	8.8	25.8
Effective tax rate in the past years	0.2	0.8
Difference in tax base between corporate income tax and enterprise tax	0.3	0.6
Operating loss carryforwards for subsidiaries	1.3	16.4
Equity in earnings of affiliates	(13.0)	(2.7)
Gain on change in equity	(10.1)	—
Decrease of deferred tax assets, net of liabilities, at fiscal year-end due to change in statutory tax rate	4.8	—
Other	(3.1)	4.8
Effective tax rate	81.5%	71.7%

(2) Significant components of the deferred income tax assets and liabilities at March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
<b>Deferred tax assets (gross):</b>			
Provision for retirement benefits	¥ —	¥1,666	\$ —
Net defined benefit liability	1,116	—	10,847
Provision for loss on construction contracts	526	846	5,112
Provision of allowance for doubtful accounts	767	1,049	7,455
Provision for bonuses	333	316	3,236
Others	1,794	1,348	17,437
<b>Total deferred tax assets (gross)</b>	<b>4,538</b>	<b>5,227</b>	<b>44,109</b>
<b>Deferred tax liabilities (gross):</b>			
Undistributed earnings of subsidiaries and affiliates	694	627	6,745
Valuation difference on available-for-sale securities	696	418	6,765
Others	96	143	933
<b>Total deferred tax liabilities (gross)</b>	<b>1,487</b>	<b>1,190</b>	<b>14,453</b>
<b>Net deferred tax assets</b>	<b>¥3,050</b>	<b>¥4,037</b>	<b>\$29,649</b>

Note: The Company and its consolidated subsidiaries had temporary differences excluded from calculation of deferred tax assets of ¥11,676 million (\$113,491 thousand) and ¥8,148 million at March 31, 2014 and 2013, respectively, which are available to be offset against future taxable income.

(3) Net deferred tax assets at March 31, 2014 and 2013 are reflected in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
<b>Current assets—deferred tax assets</b>	<b>¥2,977</b>	<b>¥3,010</b>	<b>\$28,936</b>
<b>Investments and other assets—deferred tax assets</b>	<b>443</b>	<b>1,034</b>	<b>4,305</b>
<b>Current liabilities—other</b>	<b>(9)</b>	<b>—</b>	<b>(87)</b>
<b>Noncurrent liabilities—deferred tax liabilities</b>	<b>(360)</b>	<b>(7)</b>	<b>(3,499)</b>
<b>Net deferred tax assets</b>	<b>¥3,050</b>	<b>¥4,037</b>	<b>\$29,649</b>

(4) The “Act for Partial Amendment of the Income Tax Act, etc.” (Act No. 10 of 2014) was promulgated on March 31, 2014 and, as a result, the Company is no longer subject to the Special Reconstruction Corporation Tax effective for fiscal years beginning on or after April 1, 2014. In addition, the “Act for Partial Amendment of the Local Tax Act, etc.” (Act No. 4 of 2014) and the “Act for Partial Amendment of the Local Corporate Tax Act, etc.” (Act No. 11 of 2014) were promulgated on March 31, 2014, and the Company is subject to the amended Local Corporate Tax effective for fiscal years beginning on or after April 1, 2015.

As a result, the effective statutory tax rate used to measure the Company’s deferred tax assets and liabilities was changed from 37.8% to 35.4% for the temporary differences expected to be realized or settled from fiscal years beginning April 1, 2014. The effect of the announced reduction of the effective statutory tax rate was to decrease deferred tax assets after offsetting deferred tax liabilities by ¥270 million (\$2,624 thousand) and increase deferred income taxes by ¥270 million (\$2,624 thousand) as of and for the year ended March 31, 2014.

## 20. RENTAL PROPERTIES

### For the year ended March 31, 2014

The Company and some of its consolidated subsidiaries own their commercial facilities and residences (including land) for rent in Chiba prefecture. For the year ended March 31, 2014, the Company and some of its consolidated subsidiaries recorded ¥720 million (\$6,998 thousand) of rental revenues and ¥594 million (\$5,773 thousand) of impairment loss.

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, 2013	Increase (decrease) in book value	Book value at March 31, 2014	Fair value at March 31, 2014	Book value at March 31, 2013	Increase (decrease) in book value	Book value at March 31, 2014	Fair value at March 31, 2014
¥15,090	¥(976)	¥14,113	¥17,646	\$146,675	\$(9,486)	\$137,179	\$171,520

- Notes: 1. Book value is calculated by deducting accumulated depreciation and accumulated impairment loss from its acquisition cost.
2. The major items in "Increase (decrease) in value" consist of ¥594 million (\$5,773 thousand) of impairment loss of commercial facilities and ¥398 million (\$3,868 thousand) of depreciation of buildings.
3. Computational method of fair value  
Mainly based on Real Estate Appraisal Standards.

For the year ended March 31, 2013

The Company and some of its consolidated subsidiaries own their commercial facilities and residences (including land) for rent in Chiba prefecture. For the year ended March 31, 2013, the Company and some of its consolidated subsidiaries recorded ¥760 million of rental revenues and ¥607 million of gain on sales of property, plant and equipment.

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

Millions of yen			
Book value at March 31, 2012	Increase (decrease) in book value	Book value at March 31, 2013	Fair value at March 31, 2013
¥16,152	¥(1,062)	¥15,090	¥18,430

- 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 ¥534 million of sales of rental offices and ¥435 million of depreciation of buildings.
3. Computational method of fair value  
Mainly based on Real Estate Appraisal Standards.

## 21. SEGMENT INFORMATION

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

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

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

Segment information for the year ended March 31, 2013 has been restated in accordance with such accounting standards for comparative purposes.

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

Thousands of U.S. dollars						
Year ended March 31, 2014	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	\$2,099,494	\$117,243	\$ 20,071	\$2,236,819	\$ –	\$2,236,819
(2) Inter-segment net sales	1,623	1,098	1,749	4,480	(4,480)	–
Total	2,101,117	118,351	21,821	2,241,300	(4,480)	2,236,819
Segment profits	(8,602)	4,403	8,816	4,617	(184)	4,422
<b>II Segment assets</b>	<b>\$2,215,464</b>	<b>\$ 55,579</b>	<b>\$167,204</b>	<b>\$2,438,267</b>	<b>\$64,453</b>	<b>\$2,502,721</b>
<b>III Others</b>						
Depreciation	\$ 14,706	\$ 6,619	\$ 4,121	\$ 25,456	\$ (9)	\$ 25,447
Amortization of goodwill	4,500	–	–	4,500	–	4,500
Amount invested in equity method affiliates	88,481	–	–	88,481	–	88,481
Increase of fixed assets	15,970	6,619	174	22,774	(194)	22,569

- Notes: 1. "Adjustments" for Segment profits and Depreciation represent the elimination of inter-segment transactions.  
2. "Segment profits" represents operating income from Consolidated Statement of Income.  
3. Segment assets adjustments include (¥313) million ((\$3,042) thousand) of inter-segment eliminations and ¥6,944 million (\$67,496 thousand) of non-allocated corporate assets, which is chiefly the Company's investment securities attributed to the administrative department.

Millions of yen

Year ended March 31, 2013	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	¥215,505	¥10,991	¥ 2,226	¥228,723	¥ –	¥228,723
(2) Inter-segment net sales	158	32	231	422	(422)	–
Total	215,664	11,023	2,458	229,146	(422)	228,723
Segment profits	275	344	975	1,596	(2)	1,593
<b>II Segment assets</b>	¥211,554	¥ 4,912	¥18,438	¥234,906	¥5,788	¥240,694
<b>III Others</b>						
Depreciation	¥ 1,300	¥ 713	¥ 465	¥ 2,479	¥ (0)	¥ 2,479
Amortization of goodwill	1,583	–	–	1,583	–	1,583
Amount invested in equity method affiliates	5,190	–	–	5,190	–	5,190
Increase of fixed assets	1,014	602	4	1,620	(2)	1,618

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 (¥293) million of inter-segment eliminations and ¥6,082 million of non-allocated corporate assets, which is chiefly the Company's investment securities attributed to the administrative department.

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

Millions of yen

Year ended March 31, 2014	Japan	Brazil	Indonesia	Other	Total
Net sales	¥36,258	¥34,002	¥39,367	¥120,495	¥230,124

Thousands of U.S. dollars

Year ended March 31, 2014	Japan	Brazil	Indonesia	Other	Total
Net sales	\$352,430	\$330,501	\$382,649	\$1,171,218	\$2,236,819

Millions of yen

Year ended March 31, 2014	Japan	Other	Total
Property, plant and equipment	¥26,148	¥ 4,214	¥30,363

Thousands of U.S. dollars

Year ended March 31, 2014	Japan	Other	Total
Property, plant and equipment	\$254,160	\$ 40,960	\$295,130

Millions of yen

Year ended March 31, 2013	Japan	Brazil	Indonesia	Other	Total
Net sales	¥ 44,414	¥ 35,895	¥ 34,761	¥ 113,651	¥ 228,723

Millions of yen

Year ended March 31, 2013	Japan	Other	Total
Property, plant and equipment	¥ 27,347	¥ 3,840	¥ 31,187



## (2) Information by Major Clients

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

Year ended March 31, 2014	Thousands of U.S. dollars	
	Net Sales	Segment
PETROLEO BRASILEIRO S.A. (PETROBRAS)	\$283,670	EPC
PT Pupuk Kalimantan Timur	228,470	EPC

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

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

Year ended March 31, 2014	Thousands of U.S. dollars					
	EPC Business	IT Business	Real Estate	Total	Adjustments	Consolidated
Impairment loss	\$6,755	\$—	\$5,773	\$12,529	\$—	\$12,529

Year ended March 31, 2013	Millions of yen					
	EPC Business	IT Business	Real Estate	Total	Adjustments	Consolidated
Impairment loss	¥ —	¥—	¥ 79	¥ 79	¥—	¥ 79

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

The following table presents the amortization and balance of goodwill as of and for the years ended March 31, 2014 and 2013 by reportable segments:

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

Year ended March 31, 2014	Thousands of U.S. dollars			
	EPC Business	IT Business	Real Estate	Total
Goodwill				
Amortization of goodwill	\$ 4,500	\$—	\$—	\$ 4,500
Balance at March 31, 2014	15,736	—	—	15,736
Negative goodwill				
Amortization of negative goodwill	97	—	—	97
Balance at March 31, 2014	\$ 1,137	\$—	\$—	\$ 1,137

Year ended March 31, 2013	Millions of yen			
	EPC Business	IT Business	Real Estate	Total
Goodwill				
Amortization of goodwill	¥ 1,583	¥—	¥—	¥ 1,583
Balance at March 31, 2013	2,570	—	—	2,570
Negative goodwill				
Amortization of negative goodwill	10	—	—	10
Balance at March 31, 2013	¥ 128	¥—	¥—	¥ 128

## 22. RELATED PARTY TRANSACTIONS

### Affiliate

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

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		<b>Long-term loans receivable</b>	<b>¥3,707</b>		<b>Long-term loans receivable</b>	<b>\$36,032</b>
Equity ownership percentage:	—			—		
Holding 42% directly						
Relation with related party:						
Loan for operating fund						
Summary of transactions:						
Loan for operating fund						

#### For the year ended March 31, 2013

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			
Relation with related party:			
Loan for operating fund		Long-term loans receivable	¥3,707
Summary of transactions:			
Loan for operating fund			

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

2. The Company reserved ¥3,707 million (\$36,032 thousand) of allowance for doubtful accounts at March 31, 2014, against the loan above.

3. The Company reserved ¥3,707 million of allowance for doubtful accounts at March 31, 2013, against the loan above.

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

Name: TOYO SETAL EMPREENDIMENTOS 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:						
38,904 thousands BRL						
Business:						
Construction	—	<b>Guarantee obligation</b>	<b>¥3,382</b>	—	<b>Guarantee obligation</b>	<b>\$32,873</b>
Equity ownership percentage:						
Holding 50% indirectly						
Relation with related party:						
Guarantee obligation						
Summary of transactions:						
Guarantee obligation						

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

**Significant affiliate**

The significant affiliate were Moeco Thai Oil Development Co., Ltd, TOYO-THAI CORPORATION PUBLIC COMPANY LIMITED and Modec and Toyo Offshore Production Systems Pte. Ltd, whose condensed financial information is as follows:

Years ended March 31,	Millions of yen	Thousands of U.S. dollars
	2014	2014
Total current assets	¥ 59,285	\$ 576,253
Total noncurrent assets	15,174	147,492
Total current liabilities	43,703	424,795
Total noncurrent liabilities	4,073	39,589
Total net assets	26,683	259,360
Net sales	132,302	1,285,983
Income before income taxes	12,421	120,732
Net income	¥ 7,758	\$ 75,408

The significant affiliate was Moeco Thai Oil Development Co., Ltd, whose condensed financial information years ended March 31, 2013 was as follows:

Years ended March 31,	Millions of yen
	2013
Total current assets	¥ 7,868
Total noncurrent assets	5,468
Total current liabilities	1,318
Total noncurrent liabilities	1,280
Total net assets	10,736
Net sales	6,089
Income before income taxes	4,435
Net income	¥ 2,113

**23. AMOUNTS PER SHARE**

Years ended March 31,	Yen		U.S. dollars
	2014	2013	2014
Net income per share	¥ 5.05	¥ 7.60	\$ 0.04
Net assets per share	382.61	363.15	3.71
Dividends per share	3.00	5.00	0.02

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.

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.



Ernst & Young ShinNihon LLC  
Hibiya Kokusai Bldg.  
2-2-3 Uchisaiwai-cho, Chiyoda-ku  
Tokyo, Japan 100-0011

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

## Independent Auditor's Report

The Board of Directors  
Toyo Engineering Corporation

We have audited the accompanying consolidated financial statements of Toyo Engineering Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2014, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

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

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Toyo Engineering Corporation and its consolidated subsidiaries as at March 31, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### *Convenience Translation*

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

*Ernst & Young ShinNihon LLC*

June 25, 2014

## Corporate Data

<b>Corporate Name:</b>	Toyo Engineering Corporation (TOYO)
<b>Founded:</b>	May 1, 1961
<b>Number of Employees:</b>	4,747 (Consolidated, As of March 31, 2014)
<b>Corporate Philosophy:</b>	Mission: Engineering for Sustainable Growth of the Global Community Vision: Global Leading Engineering Partner Values: Integrity, Creativity, Diversity, Learning, Team
<b>Business Activities:</b>	Engineering and Construction for Industrial Facilities <ul style="list-style-type: none"> <li>• R&amp;D support, design, engineering, procurement, construction, commissioning, technical assistance for industrial facilities: oil, gas, oil &amp; gas development, petrochemicals, chemicals, water treatment, transportation systems, power generation, nuclear power, advanced production systems, pharmaceutical, fine chemical, distribution systems, biotechnology, environment and others</li> <li>• IT engineering services and system software supply</li> </ul>

## History

- 1961** • TOYO was established. Capital: 300 million yen
- 1962** • An agreement for engineering service and technical assistance was concluded with Lummus Co. (U.S.A.).
- 1963** • The first overseas contract for a fertilizer plant with The Fertilizer Corporation of India Ltd. was awarded.
- 1964** • The first urea plant contract in the former Soviet Union was awarded.
- 1965** • TOYO was awarded its first ethylene plant contract (Osaka, Japan).
- 1969** • TOYO was awarded the contract for the first ammonia plant in the former Soviet Union.
- 1970** • TOYO was awarded the contract for two ammonia plants in the former East Germany.
- 1972** • International Procurement & Service Corporation (Currently Toyo Engineering Europe, S.r.l.) established.
- 1973** • A contract for a urea plant for China was awarded.
- 1975** • Capital: 1,890 million yen
- 1976** • Toyo Engineering India Limited established.
- 1978** • Capital: 2,970 million yen
- 1980** • Capital: 3,300 million yen
  - TOYO was listed on the second section of the Tokyo Stock Exchange.
- 1982** • Capital: 5,040 million yen
  - TOYO was listed on the first section of the Tokyo Stock Exchange.
- 1985** • Toyo-Thai Corporation Ltd. established.
- 1986** • Toyo U.S.A., Inc. established.
  - Toyo Engineering & Construction Sdn. Bhd. established in Malaysia.
- 1987** • Toyo Engineering Korea Limited established.
- 1989** • Capital: 12,219 million yen
- 1990** • Head Office/Engineering Center (Baytec Building) started operation in Narashino, Chiba.
- 1993** • Capital: 13,017 million yen
- 1994** • TOYO received ISO 9001 registration.
- 1999** • Toyo Business Engineering Corporation established.
- 2004** • TOYO received ISO 14001 registration.
  - Toyo Engineering Corporation, China established.
- 2006** • Capital: 18,198 million yen
- 2007** • Relocation of Tokyo head office.
- 2008** • TOYO invested in Atlatec, S.A. de C.V. in Mexico.
- 2009** • TOYO formulated the Group MVV (Mission, Vision, Values).
- 2010** • TOYO acquired Tri Ocean Engineering Limited in Calgary, Alberta, Canada (Currently Toyo-Canada).
- 2011** • The 50th Anniversary
  - TOYO invested in PT. Inti Karya Persada Teknik (IKPT) in Indonesia.
- 2012** • Medium-Term Business Plan (FY2012–FY2015) started.
  - Katsumoto Ishibashi was elected as President and CEO.
  - TS Participações e Investimentos S.A. established in Brazil.
  - Consolidated Group logo developed.

## Board of Directors, Corporate Auditors and Executive Officers



### Chairman

Makoto Fusayama

### President & CEO

Katsumoto Ishibashi\*1

### Executive Vice President

Takaya Naito\*1

### Directors

Hideki Shiinoki\*1

Keiichi Matsumoto

Kiyoshi Nakao

Masayuki Uchida

Masaaki Yamaguchi\*2

Kenyu Adachi\*3

### Senior Corporate Auditor

Makoto Shimagaki

### Corporate Auditors

Hideaki Kinoshita

Takashi Matsuo\*4

Yoshiyuki Shinohara\*4

### Senior Executive Officers

Akhilesh Kumar

Masaru Takezawa

Tadashi Hori

Hisashi Osone

Shoji Koshikawa

Motoyoshi Kamoshima

Hiroshi Sato

### Executive Officers

Yutaka Kita

Takayoshi Imanishi

Koji Kojima

Itsuya Yanagi

Tomohisa Abe

Masahiko Kita

Haruo Nagamatsu

Eiichi Ide

Hideki Shida

Teruhiko Inoue

Tooru Osanai

Keisuke Ishii

Shinichi Okazaki

\*1 : Representative Director

\*2 : CFO

\*3 : Outside Director

\*4 : Outside Auditor

(As of June 25, 2014)



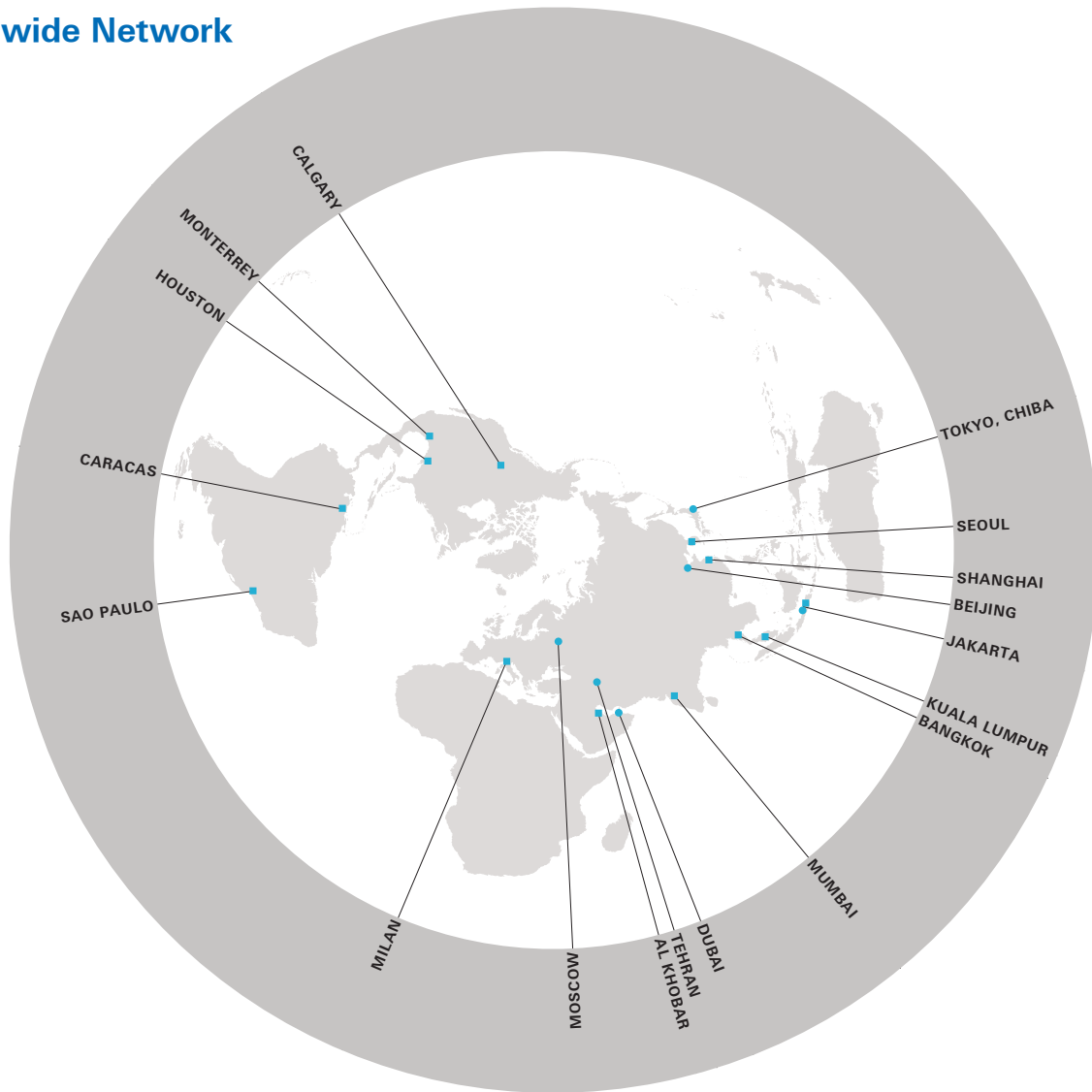
A Makoto Fusayama

B Katsumoto Ishibashi

C Takaya Naito

D Hideki Shiinoki

## Worldwide Network



- **HEAD OFFICE / ENGINEERING CENTER**  
Chiba, Japan

- **TOKYO HEAD OFFICE**  
Tokyo, Japan

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### Overseas Offices

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

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### 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

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### OTHER AFFILIATES

- **TS Participações e Investimentos S.A.**  
Sao Paulo, Brazil
- **Toyo-Thai Corporation Public Company Limited**  
Bangkok, Thailand
- **Atlatic, S.A. de C.V.**  
Monterrey, Mexico

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### DOMESTIC GROUP COMPANIES

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

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

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

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

- **TEC Estate, Ltd.**  
Real estate business

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

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

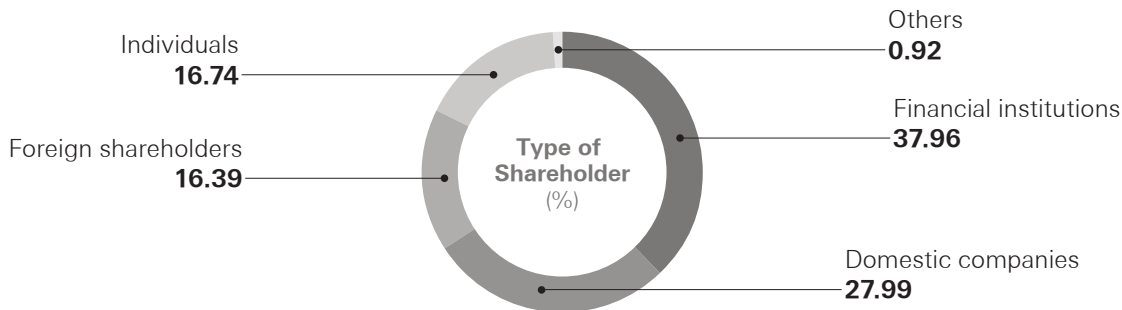


(As of March 31, 2014)

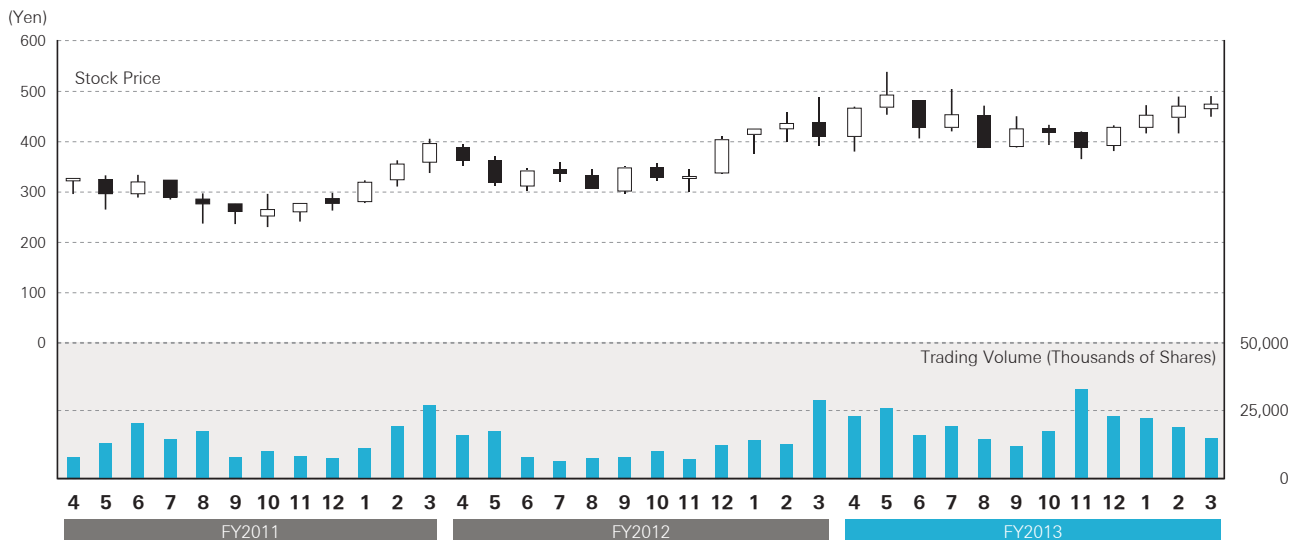
<b>Capital Stock</b>	¥18,198 million
<b>Stock Exchange Listing</b>	Tokyo Stock Exchange
<b>Authorized Shares</b>	500,000,000
<b>Capital Stock Issued</b>	192,792,539
<b>Number of Shareholders</b>	11,960
<b>Administrator of Shareholders' Register</b>	Sumitomo Mitsui Trust Bank, Limited 1-4-1 Marunouchi, 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	17,217	8.93
Taisei Corporation	5,000	2.59
Japan Trustee Services Bank, Ltd. Trust Account	4,623	2.39
JUNIPER	4,490	2.32
Trust and Custody Services Bank, Ltd. Pension Trust Account	3,849	1.99
The Nomura Trust & Banking Co., Ltd. Trust Account	3,194	1.65
EVERGREEN NOMINEES LIMITED	3,123	1.61
Japan Trustee Services Bank, Ltd. Trust Account 9	2,930	1.51



**Stock Chart:**





**Toyo Engineering Corporation**

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