TOYO ENGINEERING

CHANGE!

Challenge to Change

2018 Integrated Report

Year ended March 31, 2018

Challenge to CHANGE

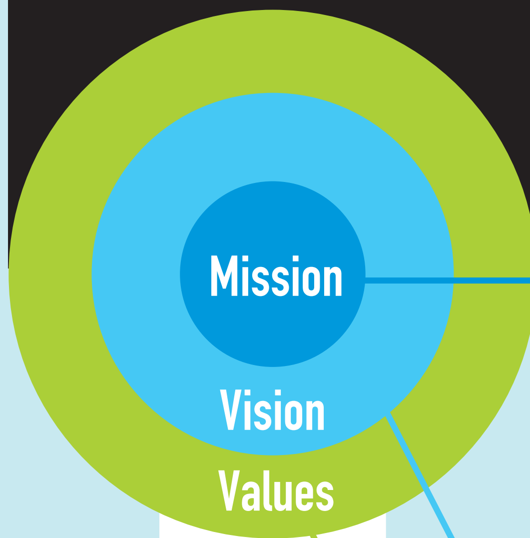
TOYO draws on its unwavering resolve to change itself. This is essential for TOYO to break away from a prolonged period of sluggish earnings.

The President and a number of TOYO employees intend to express to our stakeholders about TOYO's plans for rebuilding the Company and achieving growth through this integrated report. We, all members of TOYO, are eager to steadily convert these plans into action.

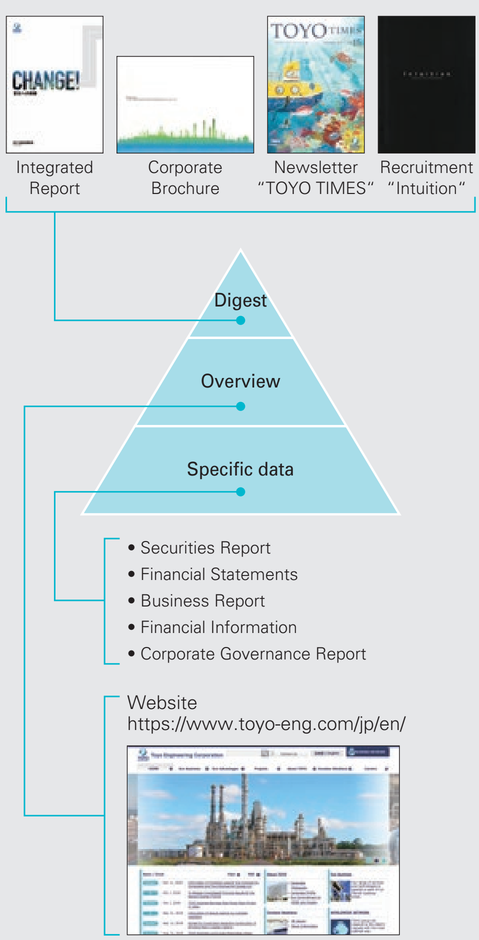
We hereby declare our commitment to instigating CHANGE at TOYO.

TOYO's MVV

Mission, Vision, Values



Tool System



Contents

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

Mission:
Engineering for Sustainable Growth of the Global Community

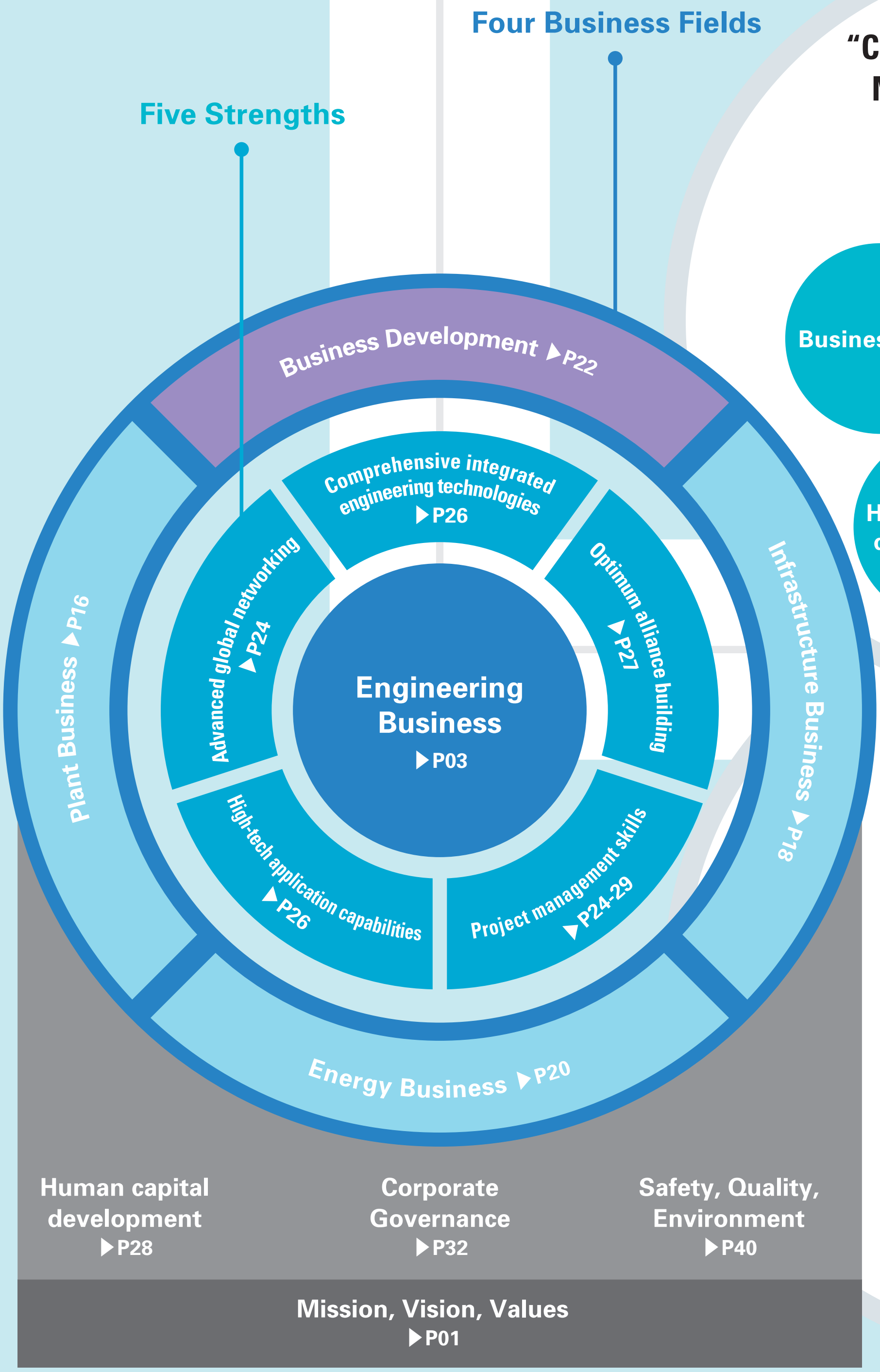
Vision:
Global Leading Engineering Partner

Values:
Integrity, Creativity, Diversity, Learning, Team

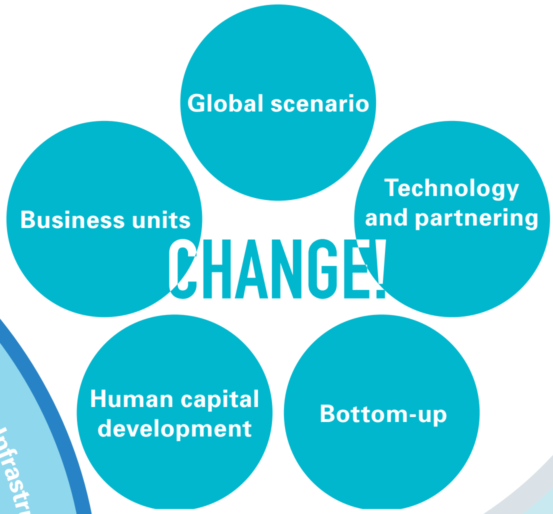
Editorial Policy
To enhance the understanding of our philosophy and activities among all of our stakeholders and to establish a deeper relationship of trust, we have published this "Integrated Report". It provides both our financial information (such as our management policies and financial results) and non-financial information (such as the connections between TOYO's businesses and the environment and society).

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

Global Leading Engineering Partner



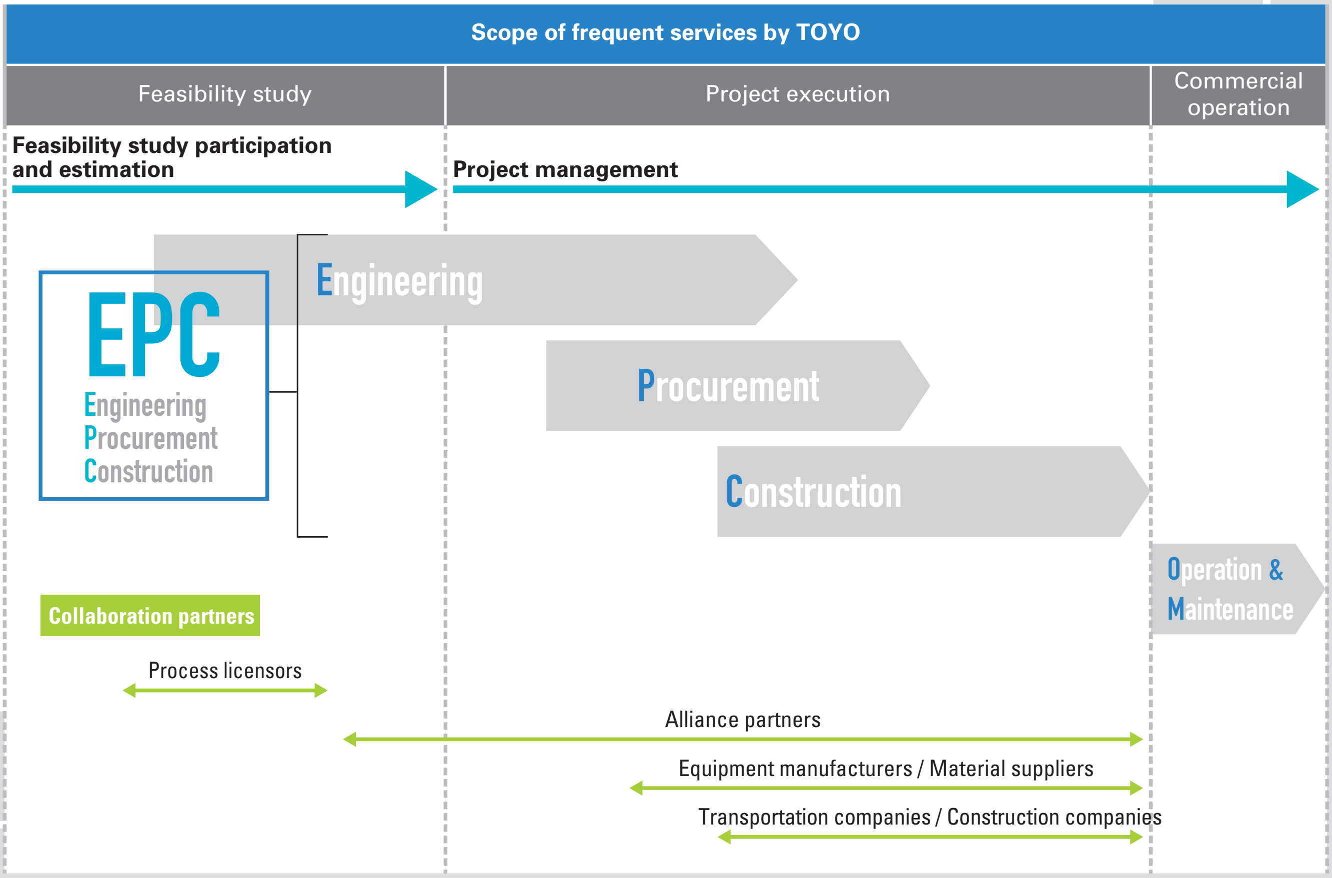
CHANGES to Achieve “Collaborative Value Creation Management” TOYO Aims



Achieving the Sustainable Development Goals (SDGs)

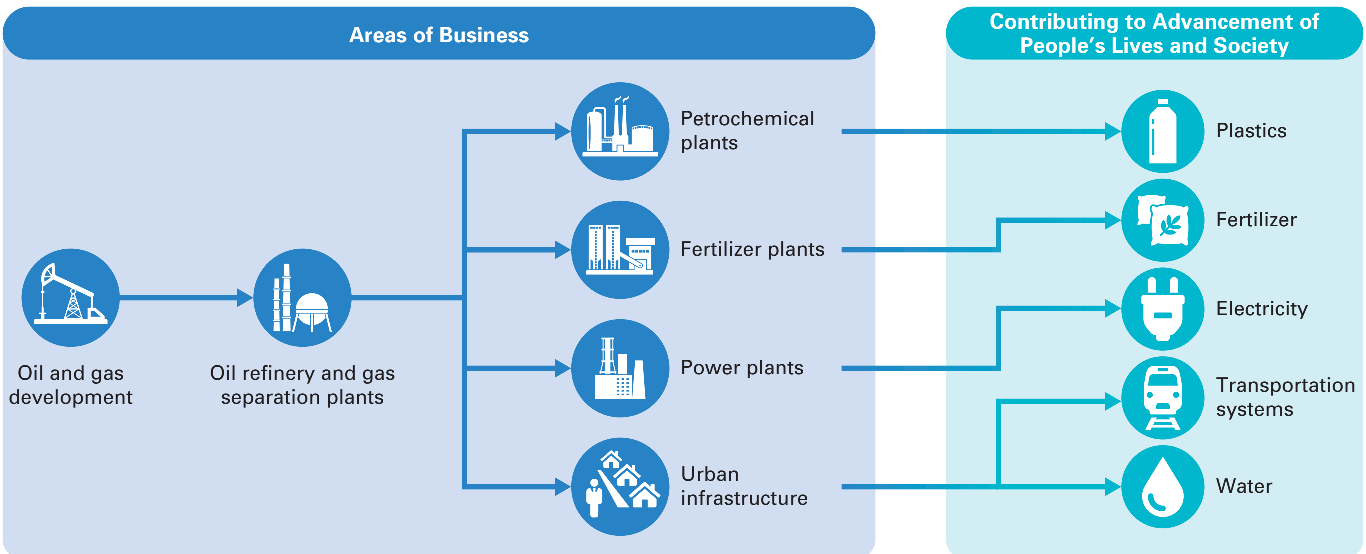
Engineering Business

As an engineering company that organizes plant construction projects, TOYO works with various global partners to deliver finely-tuned engineering services to meet customer needs, from the planning stage right through to plant construction, operation support, and maintenance management.



Connection Between TOYO's Business and Society

TOYO contributes to the development of people's lives and society through its engineering business relevant to energy development, plant construction and infrastructure building.



TOYO's Strengths

We further enhance these five strengths and deliver optimal solutions to address the diverse and personalized issues of our customers.

TOYO Our Advantages | Search

https://www.toyo-eng.com/jp/en/advantage/

Five Strengths

Project Management Skills

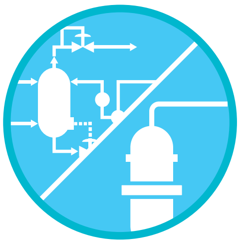
Our project management skills meet the customer needs of safety, quality, and schedule.

High-tech Application Capabilities

We have the high-tech application capabilities to apply the latest cutting-edge technologies in various product fields.

Optimum Alliance Building

We have the capacity to set up the most optimal collaborative structure with multiple global partners.



Comprehensive Integrated Engineering Technologies

Our comprehensive engineering know-how is based on a track record of numerous EPC projects.

Advanced Global Networking

Our advanced global reach is driven by our global network of overseas group companies.

TOYO's Business Expansion

With our mainstay operations in the areas of plant, infrastructure, and energy development, we aim to further develop new businesses which can be our core businesses in the future.

Four Pillars of Business Fields

Plant Business

Infrastructure Business

Energy Business

Business Development

TOYO's Global Network

In aiming to meet the needs of our customers,
we leverage our global network to provide worldwide support.

11 Companies

Toyo-Japan
Chiba, Japan
Established: 1961
EPC company

TPS
Chiba, Japan
Established: 1987
EPC company

Toyo-Canada
Calgary, Canada
Established: 1976 / Acquired: 2010
EPC company

Toyo-USA
Houston, U.S.A.
Established: 1986
EPC company

TSPI
Sao Paulo, Brazil
Established: 2012
EPC company

Toyo-Korea
Seoul, Korea
Established: 1987
EPC company

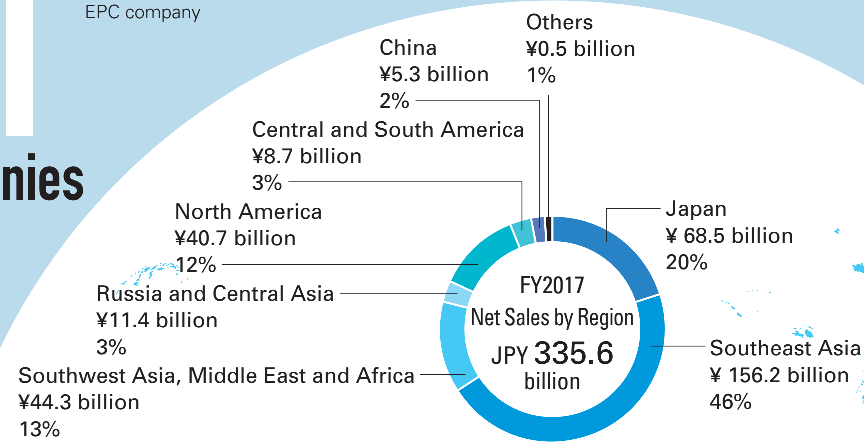
Toyo-China
Shanghai, China
Established: 2004
EPC company

IKPT
Jakarta, Indonesia
Established: 1982 / Acquired: 2011
EPC company

Toyo-Malaysia
Kuala Lumpur, Malaysia
Established: 1986
EPC company

Toyo-India
Mumbai, India
Established: 1976
EPC company

Toyo-Europe
Milan, Italy
Established: 1972
Procurement office



5,500 Employees

TOYO's Timeline

1960s | 1970s | 1980s | 1990s

Chemicals/Fertilizer


India
Fertilizer


Indonesia
Fertilizer


Trinidad and Tobago
Methanol


China
Ammonia

Petrochemicals


Japan
Ethylene


Iran
Aromatics


Thai
Ethylene


Korea
Hydrogen

Oil & Gas


Japan
Naphtha Reforming


Germany
Residue Upgrading


Turkey
EOR

Infrastructure


Brunei
Gas-fired Power plant


Indonesia
Coal-fired power plant

Pharmaceutical

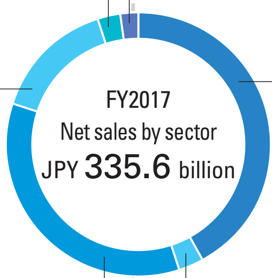

Japan
Pharmaceutical

Environment


Japan
Water Treatment Facility

10
Own Technologies

More than
70
Product Lines



- Toyo-Japan
- Toyo-Europe
- Toyo-India
- Toyo-Malaysia
- Toyo-USA
- Toyo-Korea
- TPS

- EOEG: Ethylene Oxide/Ethylene Glycol
- EOR: Enhanced Oil Recovery
- FPSO: Floating Production Storage and Offloading
- GTL: Gas to Liquids
- PCB Detox Treatment: Polychlorinated Biphenyl

2000s

2010s

Venezuela
Fertilizer

Nigeria
Fertilizer

Saudi Arabia
EOEG

Egypt
Ethylene/ Polyethylene

Qatar
GTL

Brazil
FPSO

Thai
Gas-fired Power plant

Japan
Photovoltaic Power Plant

Japan
Pharmaceutical Ingredients

Japan
Pharmaceutical Ingredients

Japan
PCB Detox Treatment

Japan
SUPERHIDIC®

- Toyo-Brazil
- Toyo-China
- Toyo-Canada
- IKPT

CHANGE!

Challenge to Change

TOYO Our Business | Search

https://www.toyo-eng.com/jp/en/products/

TOYO Projects | Search

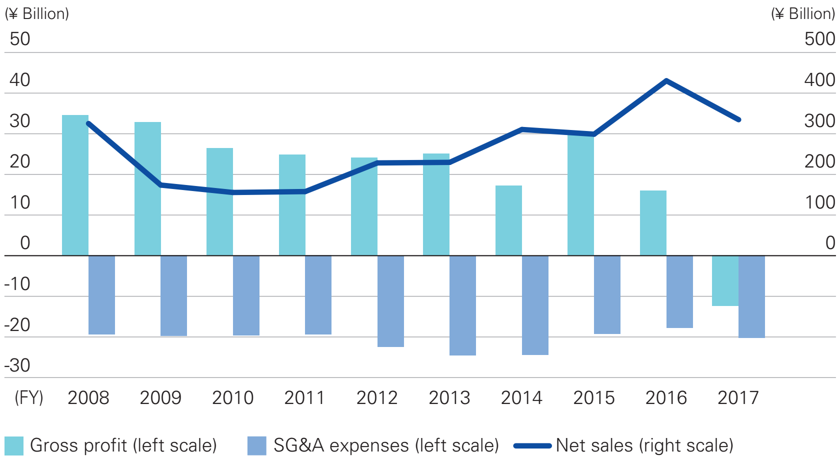
https://www.toyo-eng.com/jp/en/projects/

Financial and Non-Financial Highlights

Financial Highlights

After the collapse of Lehman Brothers, the favorable conditions of seller's market driven by the upward momentum in crude oil prices serving as a tail wind, we set the expansion of operations as a goal in the medium-term management plan started from fiscal 2012. Accordingly, we had promoted the proactive sales activities and expanded our global group companies. The rapid expansion, however, had resulted in inadequate risk management and execution systems, and led to the deterioration of revenues in multiple projects. Despite pushing ahead with earnings recovery measures in the Revival Plan from fiscal 2015, we were unable to prevent cost increase incurred by US ethylene project, of which we had accepted an order beforehand. Under the current management setup in fiscal 2018, we are currently aiming to stabilize earnings and pursue future growth as quickly as possible through structural reforms and the accumulation of new orders that guarantee appropriate margins.

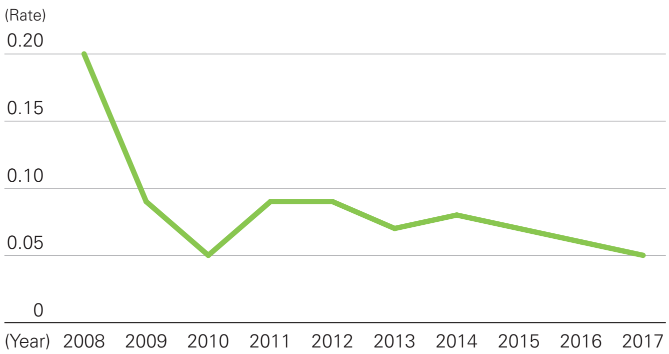
Net Sales, Gross Profit, and SG&A Expenses (consolidated)



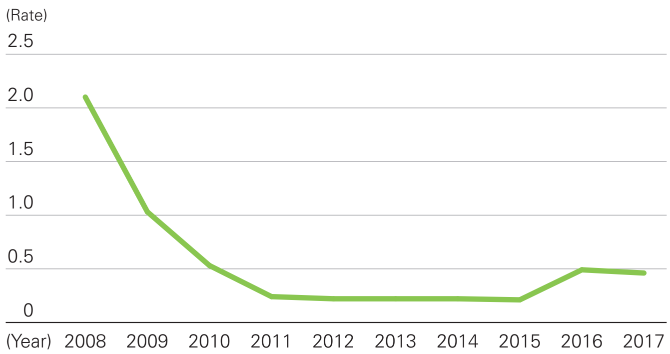
Even though net sales dipped below ¥200 billion after fiscal 2009, we maintained a high gross profit margin thanks to new orders with favorable conditions. The expansion of operations included in the medium-term management plan started from fiscal 2012 raised the level of SG&A (Selling, General and Administrative) expenses to ¥22.0 -25.0 billion from ¥20.0. On the other hand, gross profit was not enough to cover the increased SG&A expenses due to the cost increase incurred by multiple projects, which resulted in the deterioration of earnings. In fiscal 2015, significant improvement was made to the operating balance owing to the strengthening of corporate governance including the examination before order is received, a measure included in the Revival Plan, the control of SG&A expenses, and the steady progress of awarded projects. The deterioration of revenue at the US ethylene project after fiscal 2016, however, resulted in a gross loss of ¥12.5 billion in fiscal 2017.

Non-Financial Highlights

Lost-Time Incident Rate (LTIR)*1 (consolidated)



Total Recordable Incident Rate (TRIR)*2 (consolidated)

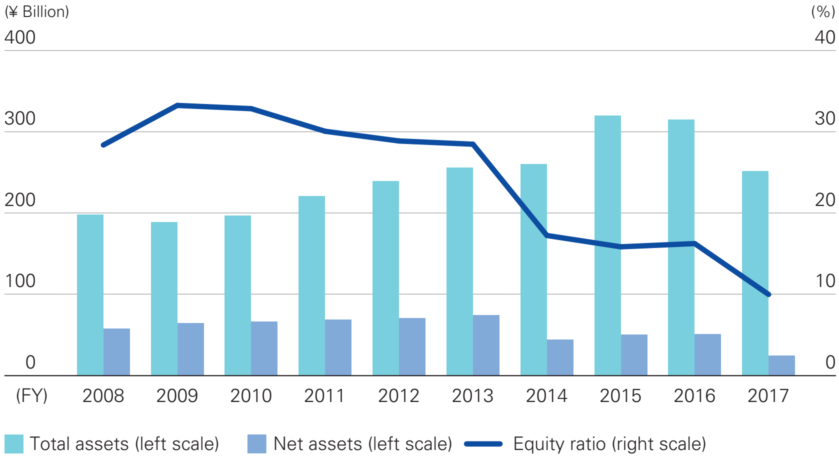


In aiming for zero occupational accidents, TOYO continues to step up its efforts on improving safety. For nine consecutive years since 2009 we have achieved our safety management KPI of 0.10 or lower for LTIR at all TOYO group companies.

*1. Lost Time Incident Rate (LTIR) = Total Lost Time Incidents × 1,000,000 / Employee-Worked Man-Hours
*2. Total Recordable Incident Rate (TRIR) = Number of Recordable Incidents × 1,000,000 / Employee-Worked Man-Hours

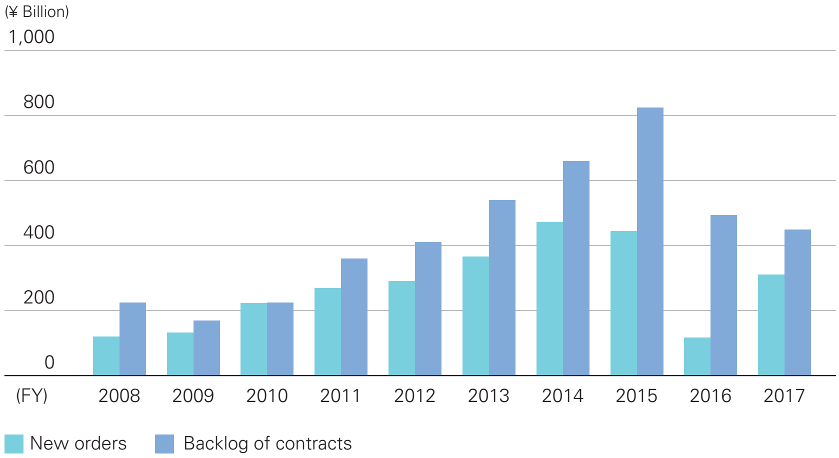
Please go to the Six-Year Financial and Non-Financial Highlights on P.46 for more information.

Total Assets, Net Assets, and Equity Ratio (consolidated)



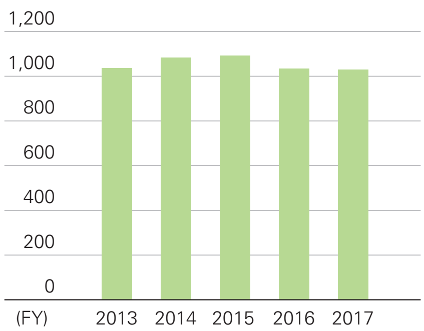
Shareholders' equity was damaged considerably due to the booking of large net losses of ¥20.9 billion in fiscal 2014 and ¥26.8 billion in fiscal 2017. TOYO's equity ratio dropped to 9.9% at end-fiscal 2017. Our cash reserves are unlikely to negatively affect our business activities for the time being, but we recognize that the capital measures are a key management issue from a perspective of risk preparedness.

New Orders, Backlog of Contracts (consolidated)

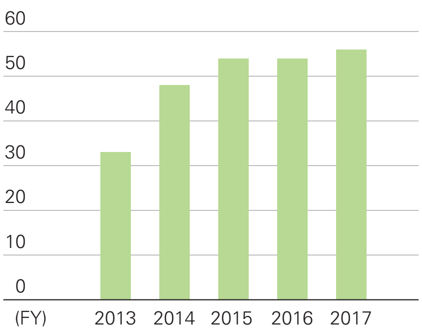


Under our strategy for the expansion of operations implemented from fiscal 2012, orders surged to ¥365.1 billion in fiscal 2013, ¥470.3 billion in fiscal 2014, and ¥443.5 billion in fiscal 2015, while the backlog of contracts rose to a record-high ¥823.0 billion in fiscal 2015. The growth of new orders stayed flat in fiscal 2016 due to a deterioration in plant market triggered by plummeting crude oil prices started at end-fiscal 2014. Although the backlog of contracts has been declining, plant market have begun to recover since fiscal 2017. On the other hand, all projects secured after fiscal 2015, the year in which we enhanced our corporate governance, meet our prescribed margin level, therefore we expect to turn business around by steadily executing those projects. We anticipate annual orders of around ¥300 billion for the near term.

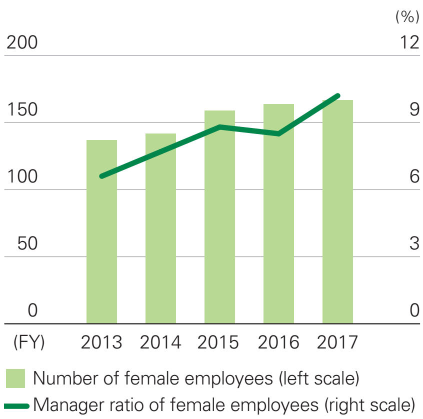
Number of Employees*3 (non-consolidated)



Number of Foreign National Employees*3 (non-consolidated)



Number of Female Employees/ Manager Ratio of Female Employees*3 (non-consolidated)



TOYO encourages diversity in its workforce and as a result, the number of foreign employees working at the Head Office is increasing.
We pursue merit-based promotion of executives and employees irrespective of gender and currently more than 10% of our female employees are in managerial positions.

*3. Excluding temporary employees

President's Message

CHANGE!

Challenge to Change

The theme of this integrated report is "CHANGE!", which speaks of our commitment to achieving our initial goals this fiscal year and implementing "TOYO's CHANGE" that lead to the enhancement of our corporate value.
We are striving to stress the importance of dialogue with our stakeholders in aiming to implement "collaborative value creation management".

Haruo Nagamatsu
President and Chief Executive Officer

To Our Stakeholders

In fiscal 2017 we were unable to prevent losses arose from cost increase at US ethylene project that started in fiscal 2016. As a result of downward revision of earnings estimates for two straight quarters beginning in 3Q, we booked a net loss of ¥26.8 billion. I seriously take to heart the fact that after making a course correction on the growth policy in our medium-term management plan that commenced in fiscal 2012, we often betrayed the expectations of our stakeholders who believed in TOYO's recovery based on our Revival Plan implemented from fiscal 2015. Even though recovering the trust of our stakeholders will not be easy, we keep in mind that the only way to do so is by continuing to demonstrate TOYO's growth potential and meaning of existence by steadily achieving results. I declare my commitment to thoroughly execute action plans of our Revival Plan that have been effective thus far as well as make TOYO change by setting a goal of transforming TOYO into a profitable company.

We will tirelessly implement company-wide initiatives to make "CHANGE" happen and rebuild TOYO by practicing "collaborative value creation management". We are striving to stress the importance of dialogue as we recover the trust of all our stakeholders.

Summary of Revival Plan (FY2015-2017)

Since April 2015, TOYO has pursued a Revival Plan to realize "Restructuring of management system", "Improvement of management process at proposal stage", "Enhancement of project management capacity" and "Change of corporate culture" as four pillars of management policy.

In order to restructure management system, we will strive to enhance corporate governance. For management process at proposal stage and project management capacity, we ensure fair profit from new orders by going back to practicing core competence as a global EPC contractor, and maintain profitability without fail by strengthening our project execution system. Some results of these initiatives can be seen in the difference in profitability between orders taken before we set our Revival Plan in motion and those received after. In fiscal 2018 and in the future we will continue instilling these initiatives as central to our corporate governance system with the aim that they contribute to change our corporate culture.

As for the US ethylene project that has generated unprecedented cost increase and is the cause for recent significant earnings deterioration, we sincerely reflect on the reality that our risk management at the proposal stage was insufficient and that construction management at the time of project implementation was inadequate. We will never fail to leverage these shortcomings to our management efforts to make TOYO change from now on.

Haruo Nagamatsu PROFILE

Joined TOYO in April 1981. Took charge of an overseas gas plant project as a mechanical engineer. Also possesses experience with projects in non-hydrocarbon plant fields, including industrial facilities and monorails in Southeast Asia, the US, and elsewhere. Served as President of Toyo-Malaysia for four years starting in 2000 and helped develop the company's capability to undertake lump-sum EPC contract. After returning to Japan, worked in business development of power generation and transportation systems in the predecessor division of the Infrastructure Business Unit. Served as project manager of a Floating Production, Storage and Offloading (FPSO) topside project from 2009 and also has experience working at collaborator's overseas office in Singapore and other locations which makes more than 20 years of overseas experience all up. Appointed Executive Officer in 2013 and contributed to the success of projects as General Manager of the Infrastructure Project Division. Appointed Senior Executive Officer and Unit Director of the Infrastructure Business Unit in April 2016. Assumed office as Director in June 2017. Appointed Representative Director, President and Chief Executive Officer in April 2018.

(¥ Billion)

	2018/3 Result	2019/3 Forecast
Net sales	335.6	300.0
Gross profit	(12.5)	21.0
Gross profit margin (%)	(3.7)	7.0
SG&A expenses	20.4	19.0
Operating income	(32.9)	2.0
Non-operating income and expenses	5.1	0.5
Ordinary income	(27.8)	2.5
Profit attributable to owners of parent	(26.8)	1.0
New orders	309.3	300.0

Challenges Today

My first message to our employees when I assumed office as President in February 2018 was that we must make every effort to complete US ethylene project. Since construction work continues on this project together with our customers and construction firms, I, as President of the Company, recognize that my responsibility in priority to others is to lead TOYO toward completion of this project. My message about making every effort to complete US ethylene project came from the thought that it is vital for all employees to uniform their mind and offer their support to members working hard at the construction site. I believe the more difficult projects lead to more valuable project knowledge of TOYO in the future because of the experiences learned companywide, not just on-site, and present TOYO the opportunity to become a truly competitive contractor.

From the perspective of recovery of corporate performance, it is vital that we gradually replace our project backlog with projects that yield fair profit, so in this sense, I think it is my role to constantly demonstrate tenacity towards securing profits. In taking the initiative to eliminate ineffective operations and reduce excessive costs, I strive to raise the awareness so that the entire TOYO Group sticks to generating profits in its day-to-day operations.

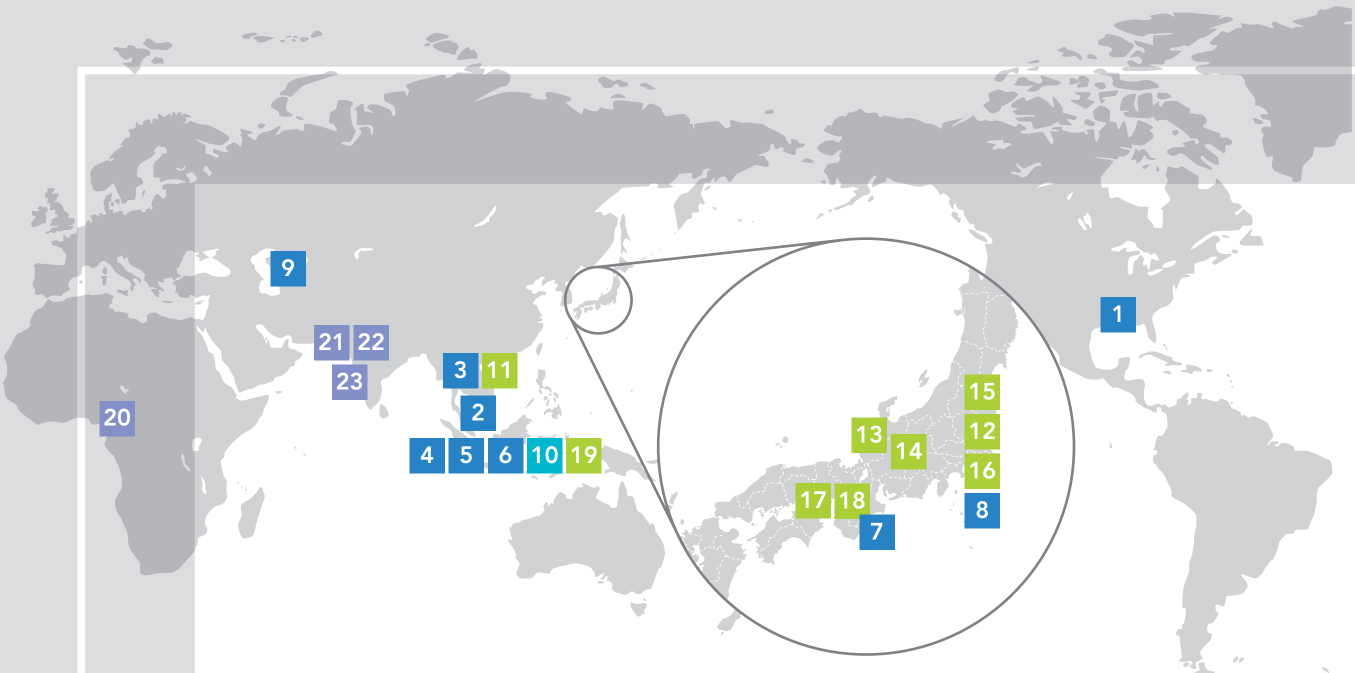
We will also cast a finer net over progress management of new orders and revenue forecasts and ensure more thorough management operations with a view to recover TOYO's performance.

For what purpose are we instigating "CHANGE" ?

Engineering business has an inherent feature of global, future-oriented, and knowledge-intensive industry. In this industry, companies must leverage the so-called "soft" skills of analytical, conceptual, and human capabilities to solve various issues, including those concerning the environment, despite the constraints of area and time. The needs of customers also continue to change as the "fourth industrial revolution" rapidly transforms socioeconomic and business structures. TOYO must pick up on such changes at an early stage and promote to make "CHANGE" happen with a view to generating business opportunities from these turning points. I believe consistent determination by management to carry out reforms is essential to achieving this. We must stick to the idea of learning from our past mistakes and strive to improve quality and strengthen our comprehensive capabilities. By incorporating digital technology into our engineering know-how and project management methods, we can not only dramatically enhance productivity, but create new services. We can maximize our competitiveness by making best use of human resources with rich diversity at our global group companies. Based on our comprehensive collaboration with Nippon Steel & Sumikin Engineering, we can expand our business portfolio into non-traditional EPC fields and non-EPC businesses. We will push ahead with these initiatives for "CHANGE" in order to stabilize earnings and set ourselves up for the next phase of TOYO's growth.

I look forward to the continued support and encouragement from all our stakeholders.

Major Ongoing Projects (As of end-September 2018)



Sector	Name		Place	Scope
Petrochemicals	1	Ethylene production facility	United States	EPCC
	2	Ethylene complex	Malaysia	EPCC
	3	Ethylene production facility	Thailand	EP
	4	Polyethylene production facility	Indonesia	EPCC
	5	Synthetic rubber production facility	Indonesia	EPC
	6	Butene-1 and MTBE production facility	Indonesia	EPCC
	7	Expansion of naphtha cracking furnace	Japan	EPCC
	8	Expansion of naphtha cracking furnace	Japan	EPC
	9	Gas chemical complex	Turkmenistan	EP
Oil and gas	10	Gas processing facility	Indonesia	EPCC
Power generation, transportation systems	11	Five of 12 natural gas-fired cogeneration power plants (7 already completed)	Thailand	EPCC
	12	Kamisu biomass-fired power plant	Japan	EPCC
	13	Toyama biomass-fired power plant	Japan	EPCC
	14	Minami large-scale photovoltaic power plant	Japan	EPCC
	15	Iwaki large-scale photovoltaic power plant	Japan	EPCC
	16	Katsuura large-scale photovoltaic power plant	Japan	EPCC
	17	Setouchi large-scale photovoltaic power plant	Japan	EPCC
	18	Yumesaki large-scale photovoltaic power plant	Japan	EPCC
	19	Integrated railway system and trackwork	Indonesia	EPCC
Chemicals and fertilizers	20	Chemical fertilizer production facility	Nigeria	Licensing and EP
	21	Chemical fertilizer production facility	India	Licensing and EPCC
	22	Chemical fertilizer production facility	India	Licensing and EPCC
	23	Ammonia production facility	India	EPCC

EP: Engineering and Procurement
EPC: Engineering, Procurement and Construction
EPCC: Engineering, Procurement, Construction and Commissioning

SPECIAL FEATURE 1

CHANGE! COLLABORATIVE VALUE CREATION MANAGEMENT PROJECT LAUNCH

Why "Collaborative Value Creation"?

TOYO's financial results over the last few years indicate that we have failed to live up to the expectations of our stakeholders. Accordingly, achieving an earnings turnaround is our most pressing issue. On the other hand, we understand that the goals we should be aiming for should be much higher. In order for TOYO to form a sustainable base for business operations and make steady progress in returning to a growth track, I believe we must first establish a clear management stance that everyone can rely on. We must also constantly develop human capitals indispensable to the planning and execution of growth strategies based on this management stance and also aim to realize a corporate culture where our employees can work vibrantly. That said, corporate stance and culture are not the things can be achieved as soon as the goals are set, which is why it is essential that all executives and employees should be habitually aware of them on a day-to-day basis and incorporate them into their daily operations. Given that our day-to-day operations are at times susceptible to near-sighted interests and our own internal logic, in order for us to constantly look at ourselves from an external perspective, we are learning from the "Guidance for Collaborative Value Creation" released by the Ministry of Economy, Trade, and Industry (METI) in 2017 for the purpose of improving the quality of dialogue between companies and investors. We have set the ball rolling on discussing "collaborative value creation", a process in which employees participate. The challenge of getting the Company back on a growth trajectory starts with the penetration of "collaborative value creation" awareness throughout the entire TOYO Group.

Operation of Collaborative Value Creation Management Project

The President put out a call for "collaborative value creation management" project participants in April 2018 and around 30 employees between in one's 20s and 40s were assigned from across the Company. The heads of Business Units, the CTO, and CDO were named as observers, while the project is managed by the Head of the Corporate Strategy Division.

With a focus on the six categories (values, business model, sustainability/growth, strategy, performance and KPIs, and governance) that comprise the framework of the Guidance for Collaborative Value Creation, this fiscal year we are regularly

Shinji Yoshimura
General Manager of Corporate Strategy Division

engaging in intensive debate of individual key topics such as TOYO's core competence, business model, and business strategies. The participation of members not affiliated with any of our Business Units brings multi-faceted perspectives to our discussions on Business Units' strategies and greatly stimulates awareness about "value creation" among participants. Going forward, we hope the participation of many more executives and employees will deepen discussions from the view points of both management and stakeholders and serve as a foundation for business strategy for the TOYO Group as a whole.

Project Objective

The objective of the project this fiscal year is to inform all of our stakeholders about TOYO's stance on the challenge to change. Through this integrated report, we intend to inform our stakeholders about the following six goals that encompass the six categories that make up the framework of the Guidance for Collaborative Value Creation.

- Reforming our four Business Units
- Strengthening our global operations
- Growth strategies leveraging technology and partnering
- Human capital development embracing diversity and flexibility
- Bottom-up changes to corporate culture
- Enhancing effectiveness of corporate governance

We also want to share the message with our 5,500-diverse and talented workforce that "TOYO will change".

We will continue to implement this project up ahead to ensure we always keep in mind what lies beyond our business operations, such as society, the markets, the environment, and people. We are standing at the starting point of continual change at TOYO. We will keep our stakeholders up to date on the progress of TOYO's management reforms through the integrated reports.

TOYO's Business Expansion

Plant Business

Since its establishment as an EPC contractor of Japanese quality, TOYO has continued to deliver various services with roots in local communities around the world mainly in the field of petrochemical, chemical and fertilizer plants.

Business Overview

Since TOYO's founding in 1961, the Company has built up a wealth of experience and know-how in the construction of mainly petrochemical and fertilizer plants. We have developed multiple advanced technologies for petrochemical plants in specialized product areas such as ethylene, propylene, different types of polymers, and aromatics, while for chemical and fertilizer plants we have done the same in the areas of urea, ammonia, and methanol.

Owing to our technological tie-up with Lummus Technology in USA, which commands a leading share in the market, we have thus far constructed over 40 ethylene plants. In addition, based on our robust relationship with ammonia licensor KBR in USA, we now boast a track record of more than 100 fertilizer plant construction projects utilizing our own urea license as our advantage.

SWOT Analysis of Plant Business

Strengths

- Japanese-quality EPC execution capabilities of overseas group companies
- Extensive track record in ethylene and fertilizer fields
- Proprietary technologies
- Application capabilities of cutting-edge technology

Weakness (Issues)

- Strengthening project risk management
- Boosting competitiveness by optimizing EPC formation

Opportunities

- Increased demand for petrochemical products driven by global economic growth
- Increased production of fertilizers owing to greater demand for food
- Addressing environmental conservation

Threats

- Fluctuations in plant market
- Chain of protectionist economic policies
- Geopolitical risks
- Natural disasters

Basic Policy

Acquisition of new orders in regions such as Asia, Russia, and Central Asia

Participation from the business planning stage of the projects

Providing Value

1 NO POVERTY · 2 ZERO HUNGER · 3 GOOD HEALTH AND WELL-BEING · 8 DECENT WORK AND ECONOMIC GROWTH · 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Contributing to the construction of plants that yield high-quality products

- EPC for fertilizer production facilities (increased crop production)
- EPC for petrochemical production facilities (supplying raw materials for plastics)
- EPC for refineries (heavy oil processing)
- EPC for methanol manufacturing facilities (supplying raw materials for chemicals)
- Provision of various licensed technologies

Tomohisa Abe
Unit Director of Plant Business Unit

Market Environment

Growing demand for petrochemical products and fertilizers spurred by global economic growth and population increase

Demand is steadily growing for petrochemical products owing to global economic growth and population increase mainly in emerging markets. Fertilizer projects are also on the rise due to the need to solve food demands in Asia and Africa as populations in these regions continue to swell. It is expected that these demands will continue to grow constantly over the medium- to long-term. The market environment has become more desirable to customer's decision on investment in petrochemical and fertilizer plants because the prices of crude oil and gas, the raw materials of petrochemical products and fertilizers, have stabilized since last year.

That said, the impact of protectionist economic policies and the political situation in the Middle East remain still uncertain. At the same time, companies will likely need to do more to protect the environment from issues such as plastic waste.

Business Strategy

Avoiding price competition and expanding orders by leveraging our expert proposal capabilities

With a focus on ethylene, its derivative products, and fertilizers, areas in which there is a strong potential demand over the medium- to long-term, and where TOYO possesses a competitive technological edge, we aim to expand new orders by fully demonstrating our strengths in Japanese-quality EPC project execution at our overseas group companies. By geographical region, we see our main markets to be in Southeast Asia and India, where there is remarkable economic growth, and resource-rich Russia, Central Asia and others. However, owing to trends in protectionist movement and heightened geopolitical risks, we are employing marketing and sales activities with high sensitivity, without limiting our focus to any particular region.

Moreover, to avoid price competition with contractors from other countries, we are endeavoring to participate in projects from the customer's business planning stage by proposing services only TOYO can deliver, such as high-temperature/pressure-resistant and anti-corrosive engineering services requiring advanced technological know-how, proprietary technology and highly knowledgeable license design, total optimization with downstream facilities, and flexibility of facilities to meet diverse customer needs. In addition, in an effort to secure more appropriate margins, we are working to improve the accuracy of our risk analyses by further strengthening our rigorous screening process before getting new orders.

CHANGE! Future Initiatives

Driven by seamless collaboration with overseas group companies, TOYO will continue to build an optimal EPC execution structure for the Group as a whole and further refine its services to become a provider of high-quality and cost-competitive solutions. To achieve this, our top priority is to increase our human capitals with the skills to undertake increasingly large and complex projects, and further bolster our EPC execution capabilities at overseas group companies. This is why we intend to give employees at all overseas group companies and construction sites the opportunity to acquire project management know-how and technical knowledge when they are dispatched to sites from the start of a project through to its completion. More specifically, we will focus on nurturing our young and mid-level employees – the drivers of future growth at TOYO – by changing the scheme of intensive office-based courses to the one which implements the courses at construction sites so employees can master the necessary skills on-site.

TOYO's Business Expansion

Infrastructure Business

Drawing on its many years of plant construction experience, the TOYO Group is working to expand its operations in social infrastructure fields such as power generation, transportation systems, and effective utilization of water resources.

Business Overview

For many years TOYO has worked on power generation and water treatment facilities as part of oil refinery and petrochemical plant construction projects. Beginning with the order for the construction of a large-scale coal-fired power plant in Indonesia in the 1990s, we utilized our experiences to make a full-fledged entry into the business of building infrastructure essential to people's livelihoods. In 2013 we established the Infrastructure Business Unit. In addition to fossil fuels, we now have a wealth of experience in photovoltaic generation facilities, and we can also accommodate the need for new sources of power generation, such as biomass-fired. We also deal with businesses related to decommissioning of reactors at nuclear power plants. In the area of water treatment facilities, we are working to establish 24/7 water supply in Myanmar, while for transportation systems, we are undertaking a project in Jakarta aimed at easing traffic congestion.

SWOT Analysis of Infrastructure Business

Strengths

- Power generation and water treatment technology and know-how accumulated from plant construction projects
- Strong alliances with power generation equipment manufacturers
- Sophisticated system integration capabilities for transportation systems

Weakness (Issues)

- Development of engineers at group companies
- Enhancement of cost competitiveness
- Expanding O&M (operation and maintenance) support business

Opportunities

- Increased demand for power generation in Southeast Asia
- Increased demand for renewable energy in Japan and overseas
- Exports of infrastructure systems backed by the Japanese government

Threats

- Population decline in Japan
- Excessive price competition

Basic Policy

Focus on creating and securing projects in the brisk renewable energy market

Accommodate demand for power generation in Southeast Asia

Support safe, reliable, and environmentally friendly Japanese infrastructure exports and participate in related projects

Providing Value

3 GOOD HEALTH AND WELL-BEING 6 CLEAN WATER AND SANITATION 7 AFFORDABLE AND CLEAN ENERGY 11 SUSTAINABLE CITIES AND COMMUNITIES 13 CLIMATE ACTION

Contributing to affluent lives of people toward "TOYO as Contractor of Infrastructure"

- Gas-fired power generation EPC (development of infrastructure for regional economies)
- Thermal power generation EPC for emerging countries (assisting regional economic development and nation-building)
- Large-scale photovoltaic power generation, biomass power generation, and geothermal power generation EPC (reduction of CO_2 emissions)
- Nuclear power-related safety facility engineering, reactor decommissioning engineering, and facility EPC (assisting national policies)
- Transportation infrastructure EPC (assisting regional economic development and improving living standards)
- Helping secure water for domestic use (assisting regional economic development and improving living standards)
- Supporting urban development with the goal of regional revitalization (assisting regional economic development and improving living standards)

Shinichi Okazaki
Unit Director of Infrastructure Business Unit

Market Environment

Anticipating steady growth, but market needs are changing considerably

The development of infrastructure in mainly emerging economies has progressed rapidly since the year 2000 and even now investment in power generation facilities is increasing in Southeast Asia and other regions. Moreover, with the backing of the Japanese government, Japanese infrastructure for transportation and water supply systems has gained global recognition. These developments present a multitude of business opportunities. At the same time, the needs of the market are changing considerably. In Japan, new companies entered the power generation business when the retail electricity industry was deregulated in 2016, and the use of renewable energy is being promoted with the aim of reducing CO_2 emissions. Subsequently, the industry is shifting away from large-scale intensive power generation towards distributed power sources and VPPs (virtual power plants). While we expect to see new investment in the fields of power generation, transportation systems, and the effective utilization of water resources in Japan and overseas, competition to secure orders is also heating up.

Business Strategy

Aiming to avoid excessive price competition, expand orders in various fields, and maximize project revenue

In the power generation field, we are looking to win orders while also avoiding excessive price competition by leveraging our alliances with partners such as US-based GE, which supplies more than half of the world's gas turbines for power generation. We also aim to maximize project revenue by thoroughly controlling costs and strengthening our capabilities to execute safe and high-quality EPC services after receiving orders. In addition to projects in Japan, we are focused on winning contracts in Indonesia, where TOYO has a group company, and the Philippines, where we expect to see an increase in projects up ahead. Over the medium- to long-term, we also set our sights on expanding into Sub-Saharan Africa. In addition, we have created a specialized project team for nuclear power-related business in Japan to focus on meeting demand for reactor decommissioning, as well as new standards enforced by Japan's Nuclear Regulation Authority.

In the field of transportation systems, we are actively engaged in proposing solutions for exporting railway infrastructure in light of the growing problem of traffic congestion mainly in Asia.

In the area of water treatment, we are currently undertaking a non-revenue water (leakage) reduction project in Myanmar's capital Yangon together with TSS, a partner company of the Tokyo Metropolitan Government's Bureau of Waterworks. Leveraging our experience with such landmark projects, we plan on expanding our business areas by addressing the growing need to improve living standards in the cities of emerging countries.

CHANGE! Future Initiatives

Global initiatives to protect the environment are gaining considerable momentum and we see business opportunities in turning points such as the adoption of renewable energy as a main power source for electricity and the growing need for new forms of urban transportation to alleviate traffic congestion. Going forward, we will focus on nurturing and strengthening the skills of our group company engineers to assist the exporting of Japanese world-class infrastructure that is safe, secure, and environmentally friendly. We will also strive to raise the level of our technology across the entire TOYO Group and bolster our cost competitiveness. Furthermore, we will harness our partnership with Nippon Steel & Sumikin Engineering to not only strengthen our traditional EPC services, but also proactively address O&M and investment in business with a view to stabilizing earnings.

TOYO's Business Expansion

Energy Business

TOYO offers highly specialized services to provide solutions as one of only a handful of owner's engineering companies worldwide in the development of oil and gas fields.

Business Overview

Through its involvement in oil and natural gas drilling projects since the 1980s, TOYO's advanced technical support system and capabilities to provide solutions have received high recognition which led to establish longstanding relationships of trust with holders of ownership interest and governments of oil-producing nations. On top of this, as one of only a handful of owner's engineering companies worldwide, TOYO has signed GESAs* with more than 20 oil majors and national oil companies. Based on GESAs, we facilitate business to provide specialized service by drafting optimal production and facility renovating plans from the standpoint of owners and managing projects. In particular, a major strength of TOYO's service is "the integration of above ground and subsurface" which makes it possible to develop a plan not only for production facilities above ground, but for subsurface facilities by monitoring carefully the ever-changing nature of oil and gas fields together with our partners, who possess technology and know-how relating to subsurface analysis.

*GESA: General engineering service agreement

SWOT Analysis of Energy Business

Strengths

- Relationships of trust with resource owners and governments of oil-producing nations
- Capabilities to provide solutions by integrating above ground and subsurface
- Collaboration with prominent partners

Weakness (Issues)

- Expanding operating revenue
- Securing stable earnings over the longer term
- Pursuing new elemental technologies

Opportunities

- Demand for renovation at existing oil and gas fields
- Growing interest in offshore resource development
- Non-conventional resource development in line with national policies

Threats

- Decline in resource investment due to economic or market downturn
- Geopolitical risks
- Natural disasters
- Shift away from fossil fuels for prevention of global warming

Basic Policy

Conclude more GESAs based on relationships of trust with customers

Expand specialized services to provide solutions for efficient production and maximized use of resources

Realize synergy effects through partnering

Providing Value

7 AFFORDABLE AND CLEAN ENERGY | 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE | 17 PARTNERSHIPS FOR THE GOALS

Contributing to worldwide stable supply of energy and highly efficient and productive resource development

- Promoting the use of secondary and tertiary enhanced oil recovery methods to extract remaining oil from oilfields
- Developing offshore oil and gas fields (opening up new markets with technological innovation)
- Forming equal partnerships with oil-producing nations (strengthening friendly relations between countries)
- Participating in the government project for methane hydrate production (contributing to national policies on energy revolution)
- Aiding Iraq's reconstruction (contributing to international community)

Hiroshi Sato
Unit Director of Energy Business Unit

Market Environment

Firm market conditions sparking recovery in appetite to invest in existing oil and gas fields

Operations and development plans at oil and gas fields around the world came to a halt in succession after the price of crude oil rapidly plummeted at the end of 2014 in response to the shale revolution in the US. Oil prices recovered thereafter thanks to an OPEC-led coordinated production cut, and seeking a balanced market for shale oil and gas production in the US, the price of crude since 2017 has held firm at around $US70/bbl and LNG at roughly $US11/MMBtu. Accordingly, momentum is growing for renovating activity at existing oil and gas fields in addition to new developments. Furthermore, requests for assistance in maximizing the value of oil and gas produced are increasing. On the other hand, for Japan, whose energy resources heavily depend on imports, the development of methane hydrate deposits off its coast line is attracting much attention as a national policy to secure its own energy resources.

Business Strategy

Exerting our unique strengths and promoting technological support services for existing oil and gas fields

In the energy business, we aim to enter into more GESAs (general engineering service agreements) by focusing on customer needs such as maximized recovery of reserves from existing oil and gas fields, development of non-conventional resources, and maximized use of oil and gas produced.

To achieve maximum recovery of oil and gas from existing fields where output has diminished, we propose the use of secondary and tertiary enhanced oil recovery methods to improve oil recovery rates with the injection of water, gas, or chemicals.

For offshore resource development, we adopt a unique approach that integrates subsurface analysis with planning of above ground facilities. In 2015, TOYO started a collaboration with US-based major subsurface analysis service provider Baker Hughes and Norway's Aker Solutions, a leading offshore production facilities manufacturer. We are also considering to materialize collaboration in offshore structures and pipeline business with Nippon Steel & Sumikin Engineering with whom we concluded a comprehensive collaboration agreement in 2017. Based on these robust alliances, we intend to boost synergies through the fusion of expertise, proprietary technology, and know-how of each company.

Moreover, we will strive to pick up on the respective needs of producer and consumer countries and maximize added value of oil and gas produced.

CHANGE! Future Initiatives

By promoting owner's engineering and further accumulating knowledge of oil and gas fields, we will continue to offer planning that delivers satisfaction to all of our customers. TOYO will endeavor to renew GESAs and enter into new ones by leveraging its expertise in secondary and tertiary enhanced oil recovery methods, as well as the advantages of working with partner firms. In aiming to secure stable earnings over the longer term, we will also focus on business investments in existing oil and gas fields and generate new business opportunities starting with GESAs.

TOYO's Business Expansion

Business Development

We focus on developing stock-type businesses to secure stable earnings by leveraging TOYO's proprietary energy-saving technology and the digital transformation that continues to evolve with the rapid spread of IoT and AI.

Business Overview

The Business Development Division, which we established in April 2017, is distinctly different from our EPC business in that it aims to create a stock-type business model to constantly secure stable profits. Specific initiatives include the joint development of digital solutions for the fertilizer and petrochemicals industries based on a memorandum signed with US-based General Electric (GE) in 2016. We also continue to solicit orders for ***SUPERHIDIC***®, our proprietary technology that is used widely in the distillation process at oil refinery and petrochemical plants to realize considerable energy savings. In addition, we are endeavoring to generate new services in step with the times, utilizing our accumulated knowledge, technology, and experience.

SWOT Analysis of Business Development

Strengths	Weakness (Issues)
• Knowledge of processes • Engineering know-how • Energy-saving technology	• Pursuing a stock-type business model • Addressing distributed power systems • Matching market needs with technology
Opportunities	**Threats**
• Digital technology innovation, including IoT and AI • Diversification of energy sources • Addressing environmental conservation	• Obsolescence of existing technology

Basic Policy

Promote innovation and build new business models

Further deploy Digital Plant DX-PLANT™ services

Providing Value

7 AFFORDABLE AND CLEAN ENERGY
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
11 SUSTAINABLE CITIES AND COMMUNITIES
13 CLIMATE ACTION

Guiding customers improve plant profitability and realizing low-carbon societies by drawing fully on the strengths of our energy-saving and digital technologies

• Supporting the realization of low-carbon societies (reduction of CO_2 emissions)

• Assisting emerging countries and regional economies through the transference of technology

• Creation of value from non-EPC engineering services

Ikuo Kasama
General Manager of Business Development Division

Market Environment

Innovation is urging transformation of business models

Driven by leading-edge digital technologies like IoT and AI, the digital transformation of business models has evolved considerably recent years even in our plant, infrastructure, and energy businesses. In contrast, environmental conservation issues are in the global spotlight and a shift away from the fossil fuels of oil, gas, and coal toward renewable sources of energy is encouraged in an effort to realize low-carbon societies. In Japan, the government is rapidly considering infrastructure improvement for decentralized and levelized power distribution with the use of storage battery systems. The changing needs of society and digital innovation evolving offer engineering companies like TOYO new business opportunities.

Business Strategy

Promoting sales activities for DX-PLANT™ and *SUPERHIDIC*® as new business

TOYO developed a cloud platform-based system called DX-PLANT™/Fertilizer to improve fertilizer plant operating rates and make operation and maintenance more efficient by collecting and visualizing plant operating data. The system was first implemented in 2017 at a plant operated by an Indonesian state-owned fertilizer company. The system will be gradually rolled out to more than 100 fertilizer plants that operate under TOYO's licenses. The DX-PLANT™ system will also be expanded for application at ethylene and other petrochemical plants. In addition, we will expand our O&M (operation and maintenance) business and generate consulting services to guide customers boost profitability by establishing a digital solutions center that connects multiple plants via IoT networking.

Furthermore, commercial operations of our proprietary *SUPERHIDIC*® energy-saving distillation system commenced in 2016, which realizes more than 50% energy saving compared to conventional distillation towers. We aim to extend this groundbreaking system to potential users in Japan and overseas to serve as a stepping stone to plant environmental measures for lowering carbon footprints in society. We also plan on building a performance fee-based business model, included in our expansion into the ESCO (energy service company)* business.

In other areas, we will look at ways to address the shift to distributed power sources in the wake of the deregulation of the retail electricity market. We will also actively seek to operate an electric power business centering on renewable energies such as solar power, develop a storage battery system and utilize applications, and participate in the biomass power generation value chain from fuel manufacturing through to supply.

*ESCO (energy service company): Business model to receive a value based on the realized cost reduction performance through provided services related to energy-saving

CHANGE! Future Initiatives

We will continue to pursue a stock-type business model for locking in steady revenue streams and push ahead with changes to how TOYO does business in step with the times. Accordingly, we aim to collaborate with teams tasked with the digitalization of EPC operations under the direction of the Chief Digital Officer (CDO) and take the lead on IoT- and AI-driven business development.

Strengthening Competitiveness through TOYO's Unique Global Operations

1 Global Operations

Toyo-Japan × Group companies

Ethylene complex (Malaysia)

Under the leadership of Toyo-Japan, this project is the largest ever for the TOYO Group. Detailed engineering is carried out by Toyo-India, IKPT, and Toyo-Malaysia, while group companies including Toyo-India, Toyo-Korea, Toyo-China, Toyo-Europe, and Toyo-USA provide assistance on procuring equipment and materials from suppliers in their respective regions. It is certainly an all-TOYO Group project.

Examples of other projects

- **Gas chemical complex (Turkmenistan):** Engineering and procurement for the ethylene plant is being led by Toyo-India, while the same for the gas processing plant and polypropylene plant is being executed by Toyo-Korea. Toyo-Japan is leading the project management and procurement of main equipment of whole project
- **Fertilizer production facilities (India, Nigeria):** Project management and basic engineering is being delivered by Toyo-Japan and detailed engineering and procurement by Toyo-India.
- **Synthetic rubber production facility (Indonesia):** Toyo-Japan is leading the project management, while IKPT is in charge of executing engineering, procurement and construction.

2 Global Operations

Group companies × Group companies

Butadiene production facility expansion (Indonesia)

Toyo-Korea and IKPT was awarded this project in 2017 and are executing engineering, procurement, and construction.

Examples of other projects

- **Polyethylene production facility (US):** Toyo-Korea was awarded the contract to provide engineering, procurement, module manufacturing, and construction support, while Toyo-Europe and others provided assistance in the area of procurement.
- **Petrochemical production facilities (Malaysia):** This project falls within the framework of the comprehensive engineering partner agreement for the Asian region TOYO has concluded with BASF of Germany. Toyo-India was primarily in charge of engineering and overseas procurement, while Toyo-Malaysia carried out local procurement in Malaysia and construction management. This project was completed ahead of schedule. Another ongoing project continues to be implemented.

3 Local Operations

Group companies (solo)

LNG regasification facilities (India)

Toyo-India individually took charge of engineering, procurement, construction and commissioning for this project, which was completed in 2017 ahead of schedule. Toyo-India is the leading company in India, which has handled four regasification facilities.

Examples of other projects

- **Domestic projects of overseas companies:** Toyo-India, IKPT, Toyo-Korea, Toyo-Malaysia, and Toyo-China are contributing to TOYO's consolidated income by winning and fulfilling individual domestic projects from receiving orders to the completion of the projects.
- **Domestic business in Japan:** The domestic EPC business is handled by TEC Project Services Corporation (TPS). In addition to petrochemical plants, another mainstay business for TPS is pharmaceutical plants, in which it has a strong track record.

Meticulous transfer of technology from Toyo-Japan has underpinned the evolution of TOYO's EPC group companies

Khoo Kai Siang
General Manager of
Group Operation Department,
Corporate Strategy Division

In 1963 TOYO was awarded its first overseas contract for a fertilizer plant in India, merely two years after the Company was founded. TOYO's unwavering resolve to challenge the unknown laid the foundation for the Company's expansion. TOYO continued to execute projects in various locations around the world and in 1976 established Toyo-India, its first overseas EPC subsidiary. Since then, the Company has set up business locations in countries where projects are ongoing and has now grown into a global contractor with nine EPC group companies in and outside of Japan.

In the early days of their establishment, local operations were limited to basic function of project base, but through the accumulation of project experience, the group companies came to shoulder greater responsibilities as subcontractor for Toyo-Japan. They now promote from sales activities to execution of EPC individually. Group companies like Toyo-India and IKPT have the capacity to fulfill projects worth tens of billions of yen on their own and thus contribute significantly to boosting the TOYO Group's consolidated income.

The evolution of TOYO's EPC group companies was underpinned by the meticulous transfer of technology from Toyo-Japan. Highly experienced Japanese engineers were continuously dispatched as instructors to overseas group companies, while local engineers were assigned to Toyo-Japan to acquire technical skills. So that TOYO could guarantee the same high-quality engineering services at any of its group companies, we established an environment for seamless business execution to ensure the complete penetration of TOYO standards (TOYO's project execution criteria), share IT platforms, and exchange human capital and information throughout the TOYO Group.

In the midst of rapid and significant changes in the business environment, TOYO is also endeavoring to "CHANGE" its group operations in response to its transformation. Toyo-Japan will promote a shift to a system devoted to develop high-value-added business and technologies, in addition to its efforts to pass on the know-how of existing EPC functions to group companies.

Expanding Our Businesses by Enhancing High-tech Application Capabilities and Accelerating External Collaboration

Continuing to meet the dynamic demands of times with persistent efforts for technological innovation

Keisuke Ishii
Chief Technology Officer (CTO)

For many years TOYO worked closely with world-class technology partners such as ethylene licensor Lummus Technology and ammonia licensor KBR to support economic development in the 20th century by contributing to increased production of plastic and fertilizer. Now in the 21st century, global environmental protection is very much a serious issue for society. We must realize that modern society is in need of solutions to such issues as the dumping of plastic waste that has arisen in line with economic growth and the reduction of greenhouse gases pointed out in the Paris Agreement. As CTO, I think it is my mission to generate new business opportunities so that TOYO, as an engineering contractor to construct industrial plant, can lend its support to solve these societal issues.

One example of our initiatives in this area is our IoT- and AI-driven plant operation support service named “DX-PLANT™”. This system facilitates highly efficient and environmentally friendly plant operations, as well as highly economical maintenance planning by combining real-time plant operating data with TOYO’s unique process technology expertise. TOYO will further enhance its accumulated expert knowledge and innovation in proprietary technologies to constantly meet the demands of changing times at high levels by leveraging cutting-edge technology in related fields.

Integrating engineering know-how and digital technology to create new service value

The dramatic advancement of digital technology is leading the way to whole new worlds in lifestyle and business. TOYO is harnessing its innovative technologies to further enhance its competitiveness from the two standpoints of “work restructuring” and “delivering new value to customers”.

Regarding work restructuring, we are improving productivity by incorporating digital technologies and restructuring our work, and aim to achieve a shift away from labor-intensive work to those that create value under a knowledge-intensive model which demonstrates TOYO’s true value as an engineering company. In executing EPC engineering work, we are boosting productivity from a total-optimization point of view by stepping up the integrated digitalization of business processes, already implemented for the engineering stage, into the procurement, equipment & materials management, construction management, and project management stages.

As for delivering new value to customers, we are extending the application of our IoT systems “DX-PLANT™/Fertilizer” beyond fertilizer plants to petrochemical plants and at the same time aim to generate services to utilize data.

TOYO is endeavoring to enhance its competitiveness and create unprecedented service value by integrating digital technology into the engineering know-how it has polished thus far.

Masahiko Kita
Chief Digital Officer (CDO)

Comprehensive Collaboration with Nippon Steel & Sumikin Engineering

In December 2017, TOYO and Nippon Steel & Sumikin Engineering Co., Ltd. (NSENGI) signed a comprehensive collaboration agreement with the aim of cooperating on developing their respective businesses. Both companies will promote collaboration on a broad-range of businesses and projects expected to enhance their respective corporate values through mutual provision of business resources, including business collaboration in and outside of Japan, new business development, cooperation in areas of procurement, sharing of engineering know-how, and utilization of human capital.

The business resources of both companies can be mutually complemented because of the differences in business domains and fields of expertise. For example, NSENGI's main business fields are in steel plants, waste-to-energy plants, energy solutions services, offshore oil and gas development, building construction and steel structures, and pipelines. In contrast, TOYO's main business fields are petroleum and petrochemical plants, fertilizer plants, social infrastructure projects such as power plants, water facilities, and transportation systems, as well as energy resource development consulting. Geographically, NSENGI has established a robust business platform centered on its domestic operations, while 70-80% of TOYO's business lies in overseas markets. Moreover, TOYO is primarily engaged in EPC businesses but NSENGI, on the other hand, has built an earnings based in non-EPC businesses, such as O&M (operation and maintenance).

A steering committee headed by the presidents of both companies has been set up to promote company-wide initiatives on specific collaborative projects. It was also decided at the committee that the two companies would cooperate in the area of IoT as well.

Six areas for greater collaboration

- Domestic joint operations
- Overseas joint operations
- New business development
- Procurement work
- Reciprocal disclosure and sharing of engineering know-how
- Human capital utilization, training and other areas of cooperation to enhance respective corporate value

Promoting activities with the aim of enhancing corporate value at both companies

More than six months have already passed since I came to TOYO from NSENGI to assume a role in promoting collaboration. I have gained a fresh sense of the sophisticated process technologies and plant engineering know-how TOYO has accumulated primarily at ethylene and fertilizer plants, its EPC project execution capabilities across different fields, countries, and regions, and its solid client base built up over many years. I also feel that the promotion of global operations by TOYO group companies in Japan and overseas and the depth of global human capitals that underpins these operations are what sustains the Company's strength.

Given that NSENGI's origins lie in the manufacturing industry, it possesses a strong commitment to plant facilities and manufacturing technology, evidenced by its active development and improvement of products and technologies. In the O&M business, it values on-the-ground work diligently and has steadily implemented various improvements. I think that these are just some areas to be of reference to TOYO.

Under our comprehensive collaboration, we are working together in an effort to enhance the corporate value of each company by complementing each other's business domains and resources. I hope that "CHANGE" at TOYO can be facilitated by the creation of new values owing to the integration of both companies' strengths, such as the varied experiences and backgrounds of human capital, process and facility technologies, and the ability to execute EPC projects and implement O&M.

Takashi Suzuki
Deputy Unit Director of Plant Business Unit

Promoting Change through Human Capital Development, Leveraging Diversity and Flexibility

No exaggeration to say diverse human capital and technology are our assets

Masayuki Yoshizawa
Representative Director,
Senior Executine Officer

TOYO is currently undertaking 23 major projects in eight countries. With nine EPC (Engineering, Procurement, and Construction) group companies across the globe, roughly 5,500 (consolidated basis) employees are engaged in the engineering businesses. About 1,700 are Japanese, which means that approximately 70% of the TOYO Group's workforce comprises non-Japanese employees. I think we can say that TOYO is a diverse global corporation given that most of the projects it undertakes outside of Japan are done in collaboration with its overseas group companies.

The work done at plant construction sites fosters the knowledge that becomes the bedrock of our competitiveness as an engineering company. Through construction site work experience, employees can appreciate the quality of engineering, gain opportunities to sharpen their project management skills, and acquire project execution capabilities as a result of collaboration within the TOYO Group. The important thing for an engineering company undertaking increasingly complex large-scale plant construction projects is to cultivate personnel with attractive personality capable of embodying leadership in order to drive projects forward. Our goal is to have all employees in the TOYO Group possess the human qualities that form the core of trusting relationships with our customers and business partners.

It is no exaggeration to say that people and technology are our only inherent assets because TOYO is an engineering company without stores, factories, products, nor inventory. For this very reason we see the development/nurturing of human capital and intergenerational improvement of skills derived from technological inheritance as our top priorities in order to achieve sustainable development and growth in our mainstay business of plant engineering. In particular, we spare no pains to ensure that senior members of the Company are constantly aware of nurturing mid-level and younger employees based on the common understanding that 90% of the responsibilities of a division head is to nurture their subordinates. I think it is the duty of all executives and employees to pass on TOYO's spirit, technology, and methods to subordinates and junior employees for the benefit of the next generation.

As part of off-the-job training (Off-JT) for employees, we have development programs of human capitals in place, including the TOYO Academy and on-site trainings. In addition, we have commenced exchange of personnel with Nippon Steel & Sumikin Engineering Co., Ltd. (NSENGI), with whom we concluded a comprehensive collaboration agreement. Moreover, we send several young employees to our major shareholders, Mitsui Co., Ltd. and Taisei Corporation, so they have the chance to enhance their experiences and knowledge of different business environments and accumulate experiences exposed to the creation of innovation.

That said, there are still many issues for us to address if we are to become a truly global corporation. It was only this fiscal year that Toyo-Japan finally appointed its first female head of department. The appointment of Ms. Dong Benli as President of Toyo-China in April 2013 became pioneer in TOYO group, however, we understand that we are still behind the times in terms of female promotion. Through our approach to merit-based promotion irrespective of gender, we aim to actively improve our working environment by streamlining various rules and regulations aimed and implementing remote working by utilization of ICT tools, among other initiatives, in order to make TOYO a rewarding place to work.

We will continue to make constant improvements and changes with a view to making TOYO a company where all employees are proud to work. We hope to gain the trust of our stakeholders and develop TOYO into a much-loved company.

TOYO's human capital development

To facilitate human capital development and cultivation collaborating within the TOYO Group, global HR meetings with attendance of HR division heads from each group company are held on a regular basis.

We continue to promote the development of human capital capable to work globally by deepening exchange of people across the TOYO Group. We are also working on further expanding our common training program within the Group by utilizing ICT tools.

Pursuing the development of global human capital

- **Human capital that can demonstrate management skills and leadership and deliver results in a highly diverse (values, interests) work environment.**
- **Human capital that has the ability to put issues of sophisticated and complex work into specific action piece by piece and get things done.**

Human capital system

- Promoting various career paths
- Promotion by selection of young and mid-level employees
- Developing the next-generation with a combination of junior and senior employees
- Change of generation in general managers' position to invigorate organizations and encourage agility
- Promoting human capital diversity in accordance with one of the TOYO Values, "Diversity"
- Promoting respect on work-life balance
- Visualizing role models through the presentation of Global Awards

Human capital development initiatives

- Further utilization of OJT opportunities, including trainings at construction sites, group companies, and training outside the company
- Job rotation and exchanges of people (including programs between overseas group companies)
- Implementation of TOYO Academy commonly within TOYO group.
- Definition of common qualification for qualities and abilities
- Common Group seminars (TOYO Global Leaders Seminar)
- Off-JT at group companies (language and presentation skills training, etc.)

Development and acquisition of fundamental skills

- **Technical skills (professional skills for work performance)**
- **Human skills (interpersonal skills)**
- **Conceptual skills (problem-solving skills)**

Respecting diversity and creating a rewarding place to work

As an engineering company, TOYO's only assets are its human capital.

We value diversity among our employees in accordance with one of the TOYO Values, "Diversity". We are striving to create a rewarding workplace environment that respects work-life balance and as a place our employees can be proud of in front of family members and friends.

(Persons)

	FY2013	FY2014	FY2015	FY2016	**FY2017**
No. of employees*1	1,037	1,084	1,092	1,035	**1,030**
No. of female employees*1	137	142	159	164	**167**
No. of female engineers	24	28	34	36	**42**
No. of female managers*2	9	11	14	14	**17**
No. of disabled persons hired*3	22	22	22	24	**22**
No. of persons re-employed	108	115	112	104	**102**
No. of foreign employees	33	48	54	54	**56**
No. of male employees taking childcare leave	0	0	0	0	**1**
(No. of female employees taking childcare leave) and percentage of returnees*4	(4) 100%	(3) 100%	(7) 100%	(4) 100%	**(4) 100%**
No. of persons taking paternity leave	11	25	28	18	**14**
No. of persons working shorter hours for childcare reasons*5	23	18	17	17	**21**
No. of persons working shorter hours for nursing care reasons	1	1	1	1	**1**
No. of persons taking family care leave*6	64	66	70	75	**94**
No. of persons taking nursing care leave	1	0	0	0	**0**
Percentage of annual leave used*7	49.3%	51.4%	50.5%	55.1%	**58.3%**
No. of persons with overseas work experience*8	435	409	482	501	**440**
No. of persons working from home*9	—	—	—	—	**71**

*1 Excludes temporary employees.
*2 Equivalent to Team Manager or General Manager.
*3 Includes subsidiaries in Japan.
*4 Excludes employees currently taking childcare leave.
*5 Includes employees applying for the exemption from overtime work.
*6 Scope of family in TOYO's internal rules includes children, spouses, parents, parents-in-law, grandparents, siblings, and grandchildren.
*7 Excludes employees on long-term assignments overseas, employees on temporary assignment, mid-year recruits, employees on long-term sick leave, and employees on extended leave.
*8 The number of employees embarking on overseas assignments in that year.
*9 Implemented on a trial basis since FY2017.
(non-consolidated data)

SPECIAL FEATURE 2 CHANGE!

CHANGING TOYO WITH EMPLOYEE INITIATIVES

In order to effect change at TOYO, we are promoting bottom-up initiatives driven by individual employees.
In April 2017, a working group (WG) on changing mindsets, improving communication, and enhancing productivity was set up by 26 willing employees to address four separate topics with the goal of changing corporate culture. The WG, which mostly comprises young, mid-level employees of different ages and divisions, is demonstrating leadership by coming up with initiatives to be implemented company-wide, focusing on the topics of changing mindsets, improving internal communication, and enhancing productivity. In April 2018 the TOYO Future Architect Department was established within the Corporate Strategy Division, which made the WG into a formal organization of the Company. The WG is now focusing on seven topics and its 47 members also work concurrently in the TOYO Future Architect Department.
Here, each WG leader discusses the enthusiasm they have for changing TOYO, as well as their respective initiatives.

WG on reaffirming TOYO's MVV

Hisashi Muramatsu, Energy Project Division

Our WG's first issue was the question of whether rethinking of the Company's corporate philosophy, known as the "MVV (Mission, Vision, Values)", will really lead to change. We have held workshops where participants could discuss the interpretations of the words in the MVV, which was composed in English so it could be shared with overseas group companies, as well as talk about work experiences that came to mind from the MVV. As a result of gradually expanding these workshops to willing employees, whole departments and divisions, the entire Head Office, overseas group companies, and project sites, more than 2,500 employees took part last year. While we received many responses from employees saying that the workshops made them realize the importance of sharing with their workmates the significance of working at TOYO, we also discovered some areas for improvement how to penetrate employee's mind with MVV. We are yet to find a definitive answer to our initial query after one year and a half. Even still, we continue to carry out our activities based on the belief that TOYO can change.

WG on TOYO's brand

Iwao Shimizu, Infrastructure Project Division

As a result of delivering TOYO's services to our stakeholders including clients, they hold a corporate image which they expect on us, and we define this corporate image of their expectations as our brand. I think the very process of aligning this corporate image of TOYO with the type of company TOYO strives to be is crucial to brand building. Our first initiative is to create a corporate slogan, that symbolizes TOYO with only a few words, by employees themselves. We sought the opinions of clients and many other business partners, and held discussions with more than 100 employees, from new employees to the Executives. During the creation process we will combine the opinions of our employees into a single goal and we now look forward to the day we can unveil TOYO's corporate slogan, which we think will truly represent their thoughts.

WG on reusing resources –Plug away from the small things–

Chika Suzuki, Project Division

This WG was formed by 12 members wanting to know how they could contribute to changing TOYO's corporate culture. We came up with the idea of making effective use of office supplies left in drawers or around the office. Once we make an internal announcement, various supplies come pouring in, such as stationery no longer being used, or work clothes for construction site work. We divide the work amongst us, clean up these items during our spare time, and place them in a designated reuse corner of the office. It has become common practice at TOYO for employees to check the reuse corner before buying something new. Although the cost reduction effects are only minimal, I think our initiative made employees change the way they think about office expenses. We too are proud that we are playing a role in changing the Company's corporate culture. Our team hopes to continue plugging away from the small things.

COMIT TOYO WG — **Shoki Homma,** Material and Analysis Technology Division

COMIT TOYO is a slogan of our commitment to TOYO's work-style reforms through communication and IT as well as the name of WG. By utilizing ICT tools we aim to enhance operational efficiency and realize smoother communication. Utilizing the feature that this WG is made up of mostly younger employees, we are learning about the business processes of each department and division, and at the same time, replacing hidden inefficiencies with mainly IT tools. We have noticed that in many cases, operational efficiency can be dramatically improved with a little bit of ingenuity regardless of whether you are a newcomer or a veteran with lots of experience. That said, going beyond makeshift measures for improving business, changing the Company's system and mindset is also important, which I strongly believe will lead to IT-driven workstyle reforms in the true sense. In committing to this ambitious task, all members of the WG will draw upon the support of employees to come up with reasonable solutions.

WG on video screenings for employees — **Akinobu Hanihara,** Construction Planning Department

This WG was launched to plan and operate in-house video screening in the hope of building a sense of unity within the TOYO Group by bringing Head Office employees closer to what is happening at overseas group companies and to their fellow employees working hard at construction sites in and outside Japan. Video content includes the progress of construction sites in various countries, seasonal greetings from overseas group companies, and information about the activities and events within the Company.
The programs are shown on monitors in the staff canteen at lunchtime and in staff lounges. We hope, the benefits of lateral deployment of in-house examples of operational reform and the fostering of mutual understanding owing to shared content with overseas group companies, will help further boost motivation of TOYO Group members.

WG on work innovation — **Shigeya Kawada,** Energy Project Division

From a viewpoint to identify and review in-house practices having some room for improvement, this WG set to work on investigating and streamlining internal reports and enhancing the effectiveness of employee performance appraisal. We surveyed and proceeded to streamline practices prevalent within the Company that were hindering productivity, including the continued drafting of reports that follow the same habitual, but inexplicable practices, and the excessive time taken to write reports, which was eating into time that should otherwise be prioritized for other tasks. Furthermore, the addition to the WG of a member from the Human Capital Development Department led to improvements in the performance appraisal process, which was consuming too much time on the part of both evaluators and the employees being evaluated. We hope to make changes at TOYO even if it is just one step at a time, by raising awareness among all employees about what can be improved, highlighting the calls for change, and as an organization, transforming words into action.

WG on collaboration with NSENGI — **Osamu Suematsu,** Human Capital Development Department

Through comprehensive collaboration with Nippon Steel & Sumikin Engineering Co., Ltd. (NSENGI), the activities of this WG are aimed at contributing to the enhancement of corporate value of both companies. Just after the announcement of the collaboration in December 2017, there were many young and mid-level employees at both companies with a keen interest in the collaboration, and I too held a strong desire to contribute. The catalyst for our activities was highly-driven members of both companies coming together and expressing a mutual interest. Armed with open-mindedness, the ability to act quickly, and above all things, energetic voluntary initiative, our WG engages in discussion on a weekly basis. We are making every effort to ensure that the youthful resonance between both companies generates results from specific collaborative projects in the near future. While our activities are clearly distinct from the collaboration discussions led by top management, we would intend to that the outcome of the comprehensive collaboration rests on the shoulders of our WG as we seek to deliver results from our cooperative activities.

MVV workshop

Reuse corner

Workshop at overseas group company

Message from the Chairman

Corporate Governance Initiatives Implemented

In complying with Japan's Corporate Governance Code brought by the Tokyo Stock Exchange, we have established internal guidelines, and streamlined and operated the related scheme and systems. I think we have made a certain degree of progress in making the necessary improvements to our corporate governance framework.

Looking at the things we have changed in terms of corporate governance since launching our Revival Plan, firstly, we have increased Outside Directors , which have made discussions at Board of Directors meetings more activated. Only one Outside Director on the Board in 2014, but now three of eight Directors hail from outside the Company. Together with the two Outside Auditors, these Independent Officers possess knowledge derived from backgrounds different to those of internal Directors and Audit & Supervisory Board Members, and their diversified opinions & suggestions are reflected in the Board's decision making.

Secondly, we have strengthened the decision-making process that leads to project orders. After reflecting decision process up to award about the unprofitable projects in the past, we have revised the process to require the agreement by all top four directors including the President and the CFO, when final conditions of the contracts are offered to our customers. We have also successfully bolstered our overall risk analysis process about new orders and are proud to say that unprofitable projects can be prevented since our Revival Plan was set in motion. Moreover, from fiscal 2018, for orders above a certain size, our risk management are reinforced by making it a condition that the Board of Directors gives its approval of strategies and conditions at two stages during proposal activities to obtain new orders.

Corporate Governance Future Issues to Address

Given that our corporate governance framework is now mostly settled, our first task as challenges for the future is to further improve its effectiveness. With respect to the Board of Directors, I think it is significant that we further encourage fundamental debate in order to realize enhancement of corporate value over the medium- to long-term, and raise our level of decision making. To this end, we will step up our efforts on swiftly advancement of deliberations on important issues in light of the results of the periodic assessment on the effectiveness of the Board of Directors. On the premise of it, we will also endeavor to enhance information and others to Outside Directors and Outside Auditors.

Our second task is to continuously make sure of appropriate information disclosure and transparency. We will continue to focus on appropriately disclosing not only financial information, but non-financial information such as management issues, policies, risks, and countermeasures.

Thirdly, if we are to further consolidate our global network, which is our greatest strength, we must always act with the intent of maintaining good governance as a corporate group. As such, the Board of Directors will work together with operation units and strive to gain an understanding of situations quickly and accurately and make the necessary decisions on matters concerning the TOYO Group's consolidated management.

M. Yamaguchi

Masaaki Yamaguchi
Chairman

Corporate Governance

Basic Approach

TOYO's corporate philosophy is to make contributions to our stakeholders, including shareholders and customers, and also to fulfill our corporate social responsibilities by conducting our global engineering and construction business in fields such as energy, oil refining, petrochemicals, general chemicals, social infrastructure facilities, and various industrial facilities. We have established and maintain a fair and open management system to ensure transparent and sound management, we disclose corporate information in an appropriate and timely manner to ensure we are accountable to our stakeholders, and we make sure to prevent unfair transactions, such as insider trading. Management decision making also takes into full consideration the interests of general shareholders. We strive to establish and properly maintain an internal control system—including compliance and risk management, the foundations of corporate governance—in an effort to increase the effectiveness of our management monitoring and supervisory functions. Our basic framework and approach to corporate governance, including our response to Japan's Corporate Governance Code, are described in detail in our Corporate Governance Guidelines available on our website.

TOYO Corporate Governance | Search

https://www.toyo-eng.com/jp/en/company/policy/governance/

Corporate Governance Structure (as of July 1, 2018)

Form of organization	Company with Audit & Supervisory Board
Adoption of executive officer system	Yes
Number of Directors Of which, Outside Directors (Independent Officers)	8 3 (3)
Term of Directors	1 year
Number of Audit & Supervisory Board Members Of which, Outside Audit & Supervisory Board Members (Independent Officers)	4 2 (2)
Number of Board of Directors meetings (FY2017) Average attendance ratio of Outside Directors Average attendance ratio of Outside Audit & Supervisory Board Members	19 94.7% 97.3%
Number of Audit & Supervisory Board meetings (FY2017) Average attendance ratio of Outside Audit & Supervisory Board Members	19 100%
Voluntary committee of the Board of Directors	Nomination and Remuneration Advisory Committee
Remuneration for Directors and Audit & Supervisory Board Members	Directors (excl. Outside Directors): fixed remuneration and performance-linked remuneration Outside Directors and Audit & Supervisory Board Members: fixed amount
Audit firm	Ernst & Young ShinNihon

Past Initiatives to Strengthen Corporate Governance

Year 2003
Adoption of executive officer system

Year 2006
Establishment of Code of Conduct and compliance program

Year 2008
Establishment of Compliance Committee

Year 2014
Appointment of one Outside Director

Year 2015
Appointment of Chief Compliance Officer

Appointment of three Outside Directors (increased from one to three)

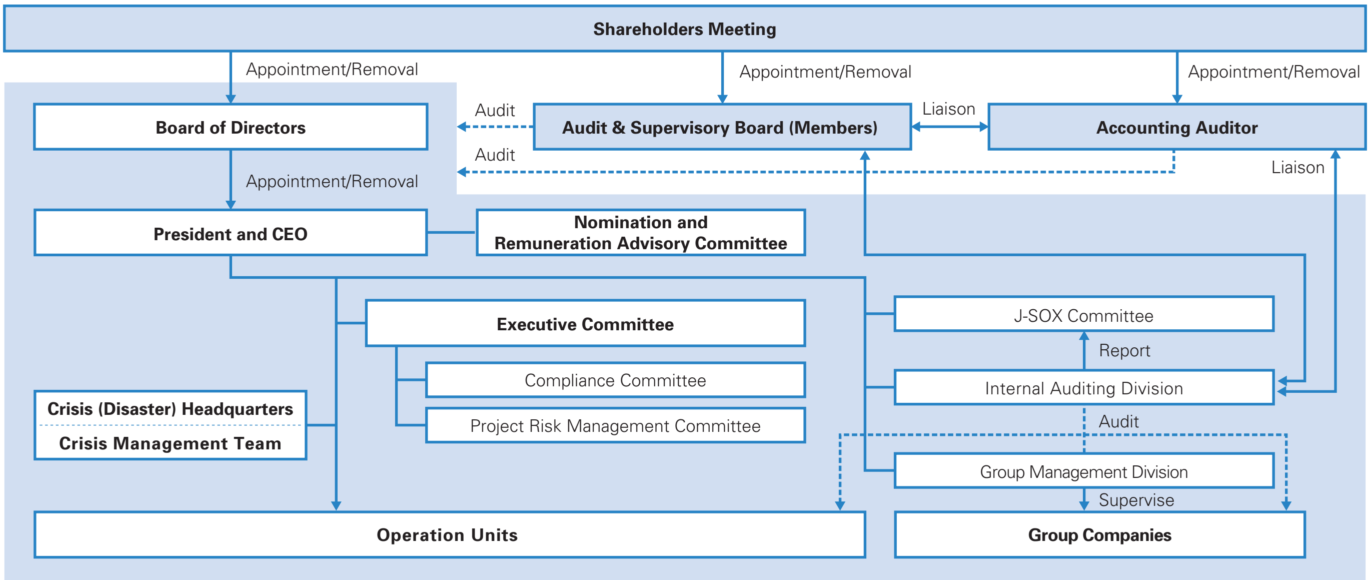
Year 2017
Establishment of Nomination and Remuneration Advisory Committee

Corporate Governance System

TOYO recognizes the importance of gaining the trust of its stakeholders, including shareholders and customers, and ensuring transparency and fairness in management decision making as we fulfill our corporate social responsibilities. To this end, we have established and endeavor to properly maintain the following corporate governance system.

The Board of Directors comprises eight Directors, including three Outside Directors, who deliberate and determine all important matters related to management and execution of operation, and also monitor and supervise one another with respect to the execution of duties. We also employ an executive officer system for the purpose of guaranteeing a swift and efficient business execution system. Executive Officers are appointed by the Board of Directors and, under the CEO's directions, execute the duties they have been delegated. The Executive Committee serves as an advisory body to the President & CEO and consists of Executive Officers with specific roles (Senior Executive Officers or above) and the heads of key divisions. The Executive Committee reports on and deliberates important matters related to the execution of operation. The Nomination and Remuneration Advisory Committee also serves as an advisory body to the President & CEO—its members comprising the President & CEO and Outside Officers. The Committee serves to ensure fair and transparent officer appointments and remuneration by providing opinions to the President & CEO.

The Audit & Supervisory Board consists of four members, two of which are Outside Auditors. They report and deliberate on the execution of duties by Directors, the establishment and implementation of internal controls, internal audit guidelines for quarterly and year-end results, and the details and results of audits.



Evaluation of Effectiveness of the Board of Directors

An evaluation of the Board of Directors by each Director is conducted every year in order to ensure the effectiveness and appropriateness of decision making and supervision by the Board of Directors and in an effort to improve such functions. Discussions are made on the understandings of current status and the areas that require improvement in relation to the effectiveness of the Board of Directors overall.

For fiscal 2017, an anonymous questionnaire was completed in December 2017 by all Directors and Audit & Supervisory Board Members that comprise the Board of Directors. The results of the questionnaire were then reported to the Board of Directors by the Director in charge of the evaluation of effectiveness of the Board of Directors and in January 2018 the details were analyzed, discussed, and evaluated at the regular Board of Directors meeting.

The responses from the questionnaire regarding the size, composition, and administration of the Board of Directors were mostly positive, as was the case last year, which confirmed that the Board's decision making and supervisory functions with respect to the execution of operation are working appropriately. These results provided reasonable assurance of the effectiveness of the Board of Directors overall.

Meanwhile, regarding the suggestion put forward in last year's evaluation that the Board's composition and methods of deliberation need to be examined in light of the Board's role, the Directors voiced the opinion that there remains room for improvement from the perspective of strengthening the Board's supervisory function and shared an awareness that they must work on further improving the Board's functions and invigorating discussions.

Based on the results of this effectiveness evaluation, TOYO's Board of Directors will continue to work on enhancing its functions by properly examining the issues and addressing them swiftly.

Outside Directors and Outside Audit & Supervisory Board Members (Outside Auditors)

TOYO appoints Outside Officers with no conflicts of interest with general shareholders pursuant to the independence criteria prescribed by the Tokyo Stock Exchange.

In addition to the requirement that Outside Directors must be independent of the TOYO Group's management, we appoint candidates that possess considerable knowledge and ample experience in areas such as corporate management, risk management, legal compliance, and global management practices, and who can express objective and practical opinions and give advice from the standpoint of various stakeholders in view of TOYO's overall management. We also appoint Outside Audit & Supervisory Board Members that possess considerable knowledge and ample experience in various disciplines and who can suitably undertake audits with respect to the appropriateness of the execution of duties and operation by Directors in view of TOYO's overall management.

We believe obtaining opinions of highly independent Outside Officers fulfills management's accountability and ensures management transparency. We also think the current system and its implementation is allowing our corporate governance to function effectively, considering the nature and structure of our business.

Name	Reasons for Appointment	Attendance (FY2017)	
		Board of Directors	Audit & Supervisory Board
Hirokazu Hayashi (Outside Director)	Having worked in Japan's Ministry of Economy, Trade and Industry, Hirokazu Hayashi possesses ample experience and knowledge of public administration mainly in the areas of trade promotion and policy. In addition, he possesses outstanding experience and knowledge concerning corporate executive. He has expressed fair and accurate suggestions and opinions about various managerial issues from an independent standpoint and has appropriately supervised TOYO's management. He has been elected based on the expectation he will continue to appropriately perform his duties as an Outside Director.	17/19 (89.5%)	—
Masami Tashiro (Outside Director)	Masami Tashiro has extensive international experience working at financial institutions and possesses ample experience and knowledge as a corporate executive. He has expressed accurate suggestions and opinions based on a global perspective about the Company's overall management from an independent standpoint and has appropriately supervised TOYO's management. He has been elected based on the expectation he will continue to appropriately perform his duties as an Outside Director.	18/19 (94.7%)	—
Yusuke Yamada (Outside Director)	Yusuke Yamada has knowledge and experience of securities, financial, and capital markets and possesses ample experience and knowledge as a corporate executive. He has expressed accurate comments and opinions about the Company's overall management from an independent standpoint and has appropriately supervised TOYO's management. He has been elected based on the expectation he will continue to appropriately perform his duties as an Outside Director.	19/19 (100%)	—
Yoshiyuki Funakoshi (Outside Audit & Supervisory Board Member)	Having spent many years in corporate management in the chemicals industry, which is closely related to our business, Yoshiyuki Funakoshi has wide-ranging experience and high-level insight concerning management. He has been elected as an Outside Audit & Supervisory Board Member based on the expectation he will leverage his experience to appropriately engage in auditing from an independent standpoint.	19/19 (100%)	19/19 (100%)
Kiyohito Uchida (Outside Audit & Supervisory Board Member)	Kiyohito Uchida has been elected as an Outside Audit & Supervisory Board Member on the expectation he will engage in fair monitoring and oversight of TOYO's management from an independent standpoint based on his knowledge and experience gained as a lawyer. Despite not possessing any direct experience in corporate management, owing to the aforementioned reasons, we believe he can appropriately execute his duties as an Outside Audit & Supervisory Board Member.	18/19 (94.7%)	19/19 (100%)

Policies on Remuneration Amounts and Determining Calculation Methods for Directors and Audit & Supervisory Board Members

Remuneration for TOYO's Directors (excluding Outside Directors) comprises a fixed portion—determined in according to each Director's position—and a performance-linked portion. The performance-linked remuneration is calculated on the basis of current net profit attributable to owners of the parent and determined by the President & CEO according to the level of contribution of each Director.

Furthermore, in order to set appropriate remuneration levels for Directors and Audit & Supervisory Board Members and strengthen accountability, the ratios for both fixed and performance-linked remunerations, as well as the calculation formula for performance-linked remuneration shall be decided by the Board of Directors based on the results of discussions between the President & CEO and Outside Officers.

Remuneration for Outside Directors and Audit & Supervisory Board Members is fixed and not linked to business performance in light of their roles and independence.

Officer Classification	Total Remuneration by Type (¥ million)						Number of Eligible Officers
	Total Remuneration (¥ million)	Base Remuneration	Stock Options	Bonus	Retirement Benefit		
Directors (excluding Outside Directors)	163	163	—	—	—		8
Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members)	39	39	—	—	—		2
Outside Officers	30	30	—	—	—		5

Risk Management Initiatives and Business Risks

Corporate Ethics, Compliance, and Risk Management

TOYO has established a Code of Conduct, compliance manuals, and other related rules in order to abide by laws and regulations at the root of our corporate activities, as well as social justice and ethics. We also have in place a Compliance Committee chaired by the Chief Compliance Officer (CCO) and in April 2018 we newly created a Compliance Department. We boost awareness about compliance with certain promotion activities and strengthen the management and oversight of our compliance system through regular compliance-related audits performed by the internal auditing division and Audit & Supervisory Board Members. We are also working to enhance and expand our program for preventing the bribery of foreign public officials.

To facilitate the proper and serious handling of reporting on compliance matters, we have established an internal reporting system, as well as both internal and external hotlines for consultation and reporting.

Compliance e-Learning participants in FY2017 (for new recruits and employees yet to complete the program)

51

Mini compliance test total participants in FY2017

640

Internal reporting/ consultations in FY2017

8

(legal violations/corruption 0, power harassment 5, sexual harassment 0, labor/employment/moral-related 3)

Serious information security incidents in FY2017

0

Auditing by Internal Auditing Division and Audit & Supervisory Board Members

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

Audit & Supervisory Board Members audit Directors' execution of duties through attending important meetings, including those of the Board of Directors, interviewing Directors, Executive Officers, and employees on the status of operations and the execution of duties, and investigating the progress of the Company's operations and finances.

The Audit & Supervisory Board, Accounting Auditors, and the Internal Auditing Division conduct their auditing in cooperation, while giving full consideration to the independence of one another. Auditing is implemented through close communication such as explaining the observations related to the Company's operations, and exchanging opinions on various topics including their respective yearly auditing plans and critical audit items, auditing methods, inspection and quality control systems, and audit results.

Internal Controls

Based on the recognition that internal controls serve as the foundation of corporate governance, the Directors establish, maintain, and evaluate an appropriate internal control system. They conduct ongoing inspections and make improvements to the system and periodically review their basic policy for internal controls. Given that internal controls ensure the reliability of compliance, risk management, and financial reports, we also pay sufficient attention to the effectiveness and efficiency of operations. The establishment of this system enables the Board of Directors to make decisions based on appropriate information and subsequently, the execution of business.

Engineering Business Risks

In the execution of our business operations, we engage in sales activities for the purpose of ensuring an appropriate amount of work, and as part of our corporate governance, we have created and maintain various risk management systems to prevent project losses, from the proposal stage through to project completion. However, there exists the possibility that the risks listed to the right may occur and have a negative impact on the results and financial condition of the Group stemming from large decreases in order volume, postponement or cancellation of projects, or significant decline in project profitability.

To address these risks, the TOYO Group examines possible countermeasures by carefully gathering information beforehand and endeavoring to fully understand situations. We strive to mitigate these risks through possible measures such as taking out trade insurance, utilizing forward exchange contracts, setting contract conditions with customers (including diversification of contract types, setting contracted prices and payment conditions, and risk contribution clauses with customers), and utilizing an even spread of equipment/material suppliers and construction contractors.

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

Compliance Risks

TOYO's business must abide by a wide range of laws and regulations, including domestic and international labor laws, personal information protection systems, tax laws, import and export controls, and unfair competition prevention laws. There is a possibility that changes to these laws or unforeseeable interpretations thereof will place a greater burden on our compliance measures. The TOYO Group is working diligently to bolster its compliance system by making sure employees have a thorough understanding of our Code of Conduct and compliance manuals, developing and maintaining a single internal reporting system for the TOYO Group, and having the Compliance Committee chaired by the CCO take the initiative to implement compliance awareness activities. Any violation, or potential violation, of the law will likely place greater burdens on the TOYO Group, cause a cessation in sales activities and damage the Group's credibility, and negatively impact the Group's earnings.

Investment Risks

We strive to mitigate the aforementioned risks with respect to the business operations of the group companies we invest in by establishing a collaborative system whereby our group management division accurately understands and manages the situations of each group company. For business operations conducted through our Brazilian equity method affiliate, situations in which we are unable to guarantee corresponding returns on investment, or where additional funding is needed due to changes in the political and economic climate of Brazil or credit problems with our business partners may negatively impact the earnings of the TOYO Group.

Directors, Audit & Supervisory Board Members, and Executive Officers

Front (L–R)
Tomohisa Abe, Masaaki Yamaguchi, Haruo Nagamatsu, Masayuki Yoshizawa, Kensuke Waki

Back (L–R)
Yusuke Yamada, Masami Tashiro, Hirokazu Hayashi, Masayuki Uchida, Hiroshi Inoue, Yoshiyuki Funakoshi, Kiyohito Uchida

Directors

Chairman

Masaaki Yamaguchi

1977 Joined the Company
2009 Deputy General Manager, Finance & Accounting Unit
2010 Executive Officer; General Manager, Finance & Accounting Unit
2013 Director; Senior Executive Officer; Chief Financial Officer;
General Manager, Finance & Accounting Unit
2014 Division Director of General Affairs & Human Capital Development Unit and Finance & Accounting Unit
2015 Division Director of Finance & Accounting Unit and Project Management & Control Unit
2016 Division Director of Auditing Division, Safety, Quality & Environment Management Unit, Finance & Accounting Unit and Procurement Division
2017 Chairman (current)

Representative Director,
President & Chief Executive Officer

Haruo Nagamatsu

1981 Joined the Company
2000 Managing Director, Toyo Engineering & Construction Sdn.Bhd.
2013 Executive Officer; Deputy Unit Director, Infrastructure Business Unit; General Manager, Infrastructure Project Division
2016 Senior Executive Officer; Unit Director, Infrastructure Business Unit
2017 Director
2018 Representative Director; President & Chief Executive Officer(current)

Representative Director,
Senior Executive Officer

Masayuki Yoshizawa

1982 Joined MITSUI & CO., LTD.
2006 President & CEO, Mitsui Gas e Energia do Brasil Ltda.
2011 Executive Officer; Deputy General Manager, Corporate Planning Unit of the Company
2014 Senior Deputy General Manager, Osaka Office MITSUI & CO., LTD.
2015 Director; Senior Executive Officer(current); Division Director of Corporate Strategy Unit and Corporate Administration Unit of the Company
2016 Representative Director (current); Chief Compliance Officer; Division Director of IT Management & Control Division, Corporate Strategy Unit and Corporate Administration Unit
2017 Division Director of Corporate Strategy Unit and Corporate Administration Unit
2018 Division Director of Corporate Strategy Division and Business Development Division (current)

Director, Senior Executive Officer

Tomohisa Abe

1979 Joined the Company
2009 Group Manager, Asian & Pacific Marketing Department, Marketing Division 1
2012 Executive Officer; General Manager, Plant Sales & Marketing Division, International Sales & Marketing Unit
2015 Senior Executive Officer (current); Unit Director, Plant Sales & Marketing Unit
2016 Director (current); Unit Director, Plant Sales & Marketing Unit
2017 Unit Director, Plant Business Unit 2
2018 Unit Director, Plant Business Unit (current); Division Director of Project Control & Sales Coordination Division, Construction Division, Procurement Division, Business Development Strategy of TOYO Group (current)

Director, Senior Executive Officer

Kensuke Waki

1983 Joined the Company
2007 General Manager, Accounting Division, Finance & Accounting Unit
2014 General Manager, Finance & Accounting Unit
2016 Executive Officer
2017 Chief Financial Officer (current)
2018 Director (current); Senior Executive Officer (current); Division Director of Finance & Accounting Division (current)

Outside Director
Hirokazu Hayashi

1971 Entered the Ministry of International Trade and Industry
1996 Executive Secretary to the Prime Minister
2001 Director-General, Trade and Economic Cooperation Bureau, Ministry of Economy, Trade and Industry (METI)
2002 Director-General, Commerce and Information Policy Bureau, METI
2003 Director-General, Trade Policy Bureau, METI (Retired from office in September 2005)
2008 Senior Executive Officer and Chief Executive of Regional Development Marketing Div., TOKYO GAS Co., Ltd.
2010 Executive Vice President, TOKYO GAS Co., Ltd.
2013 Outside Corporate Auditor, Kamigumi Co., Ltd.; President, The Distribution Systems Research Institute (current)
2016 Outside Director of the Company (current)

Outside Director
Masami Tashiro

1976 Joined Mitsui Bank, Ltd.
2001 General Manager, International Credit Dept., Sumitomo Mitsui Banking Corporation
2002 General Manager, Singapore Branch, Sumitomo Mitsui Banking Corporation
2003 Executive Officer; General Manager, Singapore Branch, Sumitomo Mitsui Banking Corporation
2006 Member of the Board, Taiyo Oil Company, Limited
2010 Vice President, SMBC International Business Co., Ltd.
2012 President and Representative Director, SMBC International Business Co., Ltd.
2013 Outside Auditor, ACKG Limited
2015 Outside Director of the Company (current)
2016 Outside Director, ACKG Limited (current)

Outside Director
Yusuke Yamada

1977 Joined Nomura Securities Co., Ltd.
1999 Director, Nomura Securities Co., Ltd.
2003 Managing Director, Senior Executive Managing Director, Nomura Securities Co., Ltd.; Executive Managing Director, Nomura Holdings, Inc.
2009 Managing Director, Managing Executive Officer, JAFCO Co., Ltd.
2013 Executive Managing Director, JAFCO Co., Ltd.
2014 Full-time Corporate Auditor, UUUM Inc.
2015 Outside Director of the Company (current); Outside Director (Audit and Supervisory Committee Member), UUUM Inc. (current)

Audit & Supervisory Board Members

Senior Audit & Supervisory Board Member
Masayuki Uchida

Audit & Supervisory Board Member
Hiroshi Inoue

Outside Audit & Supervisory Board Member
Yoshiyuki Funakoshi

Outside Audit & Supervisory Board Member
Kiyohito Uchida

Executive Officers

President & Chief Executive Officer
Haruo Nagamatsu

Senior Executive Officer
Masayuki Yoshizawa
Division Director of Corporate Strategy Division and Business Development Division

Senior Executive Officer
Tomohisa Abe
Unit Director, Plant Business Unit; Division Director of Project Control & Sales Coordination Division, Construction Division, Procurement Division, Business Development Strategy of TOYO Group

Senior Executive Officer
Kensuke Waki
Chief Financial Officer, Division Director of Finance & Accounting Division

Senior Executive Officer
Hiroshi Sato
Unit Director of Energy Business Unit

Senior Executive Officer
Teruhiko Inoue
Chief Compliance Officer; Division Director of Auditing Department, Safety, Quality and Environment Management Division, Security Management Department, and Corporate Administration Division

Senior Executive Officer
Toru Osanai
President, Toyo Engineering Korea Ltd.

Senior Executive Officer
Shinichi Okazaki
Unit Director of Infrastructure Business Unit

Senior Executive Officer
Eiji Hosoi
Deputy Unit Director of Plant Business Unit General Manager of Project Division

Executive Officer
Koji Kojima
President, Toyo do Brasil Consultoria e Construcoes Industriais Ltda.; President & CEO, TS Participacoes e Investimentos S.A

Executive Officer
Itsuya Yanagi
Chairman & Managing Director, Toyo Engineering India Private Limited

Executive Officer
Keisuke Ishii
Chief Technology Officer

Executive Officer
Hiroshi Fujita
Unit Director of Engineering and Technology Unit

Executive Officer
Takashi Iguchi
Project Manager, RAPID Project

Executive Officer
Keiji Morino
Deputy Unit Director of Infrastructure Business Unit General Manager of Infrastructure Sales and Marketing Division

Executive Officer
Casey Matsumuro
Deputy Unit Director of Plant Business Unit

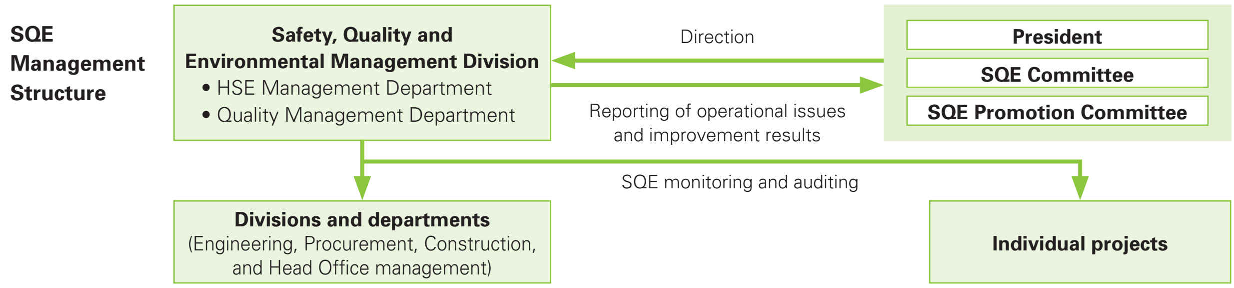
Executive Officer
Eiichiro Fukuhara
Project Manager, SECP Project

Safety, Quality, Environment

Safety, Quality, and Environment (SQE) Management Structure

TOYO has established an SQE Committee that reports directly to the President. The Committee formulates operating policies regarding safety, quality, and the environment, and assesses and approves the results of SQE activities. Based on the basic policies of the SQE Committee, the SQE Promotion Committee, which is subordinate organization of SQE Committee, provides support to the SQE activities of divisions, departments, and sections, as well as individual projects. Accordingly, with the management-linked SQE Committee at the center of the SQE management structure, collaboration between the SQE Promotion Committee and the Safety, Quality and Environment Management Division ensures that a PDCA cycle for SQE in each division or individual project is implemented and that ongoing improvements are carried out.

All employees also take SQE training course to enhance their knowledge and awareness of these matters.



Safety

"Safety is fundamentals to our corporate activities".
Based on this belief and to address three challenges listed in the right that are indispensable to safety management, we diligently implement a number of safety initiatives in order to achieve zero casualties on our work execution.

- **Strengthening of safety management leadership**
- **Fostering a safety culture**
- **Maintaining and complying with safety standards**

Safety Record

The TOYO Group's safety record over the last 10 years is as follows. In aiming to achieve zero occupational injury, we continue to step up our efforts on improving safety. We have therefore adopted the management indicators of lost-time incident rate (LTIR) and total recordable incident rate (TRIR). For nine consecutive years since 2009 we have achieved our KPI of 0.10 or lower for LTIR.

Safety Record (TOYO Group total)

(ILO basis: Incidence rate per million hours worked)

Year (Jan-Dec)	Man-hours (A)	Number of incidents					LTIR*1	TRIR*2
		Fatalities	Lost-time incidents (LTI)	Medical treatment (no lost time)	Total fatalities and lost-time incidents (B)	Recordable (C)		
2008	130,287,133	5	21	247	26	273	0.20	2.10
2009	164,344,003	4	9	156	13	169	0.08	1.03
2010	117,295,032	1	5	56	6	62	0.05	0.53
2011	80,782,919	1	6	12	7	19	0.09	0.24
2012	120,760,052	3	8	16	11	27	0.09	0.22
2013	105,164,018	0	7	16	7	23	0.07	0.22
2014	89,777,237	1	6	13	7	20	0.08	0.22
2015	67,308,769	1	4	9	5	14	0.07	0.21
2016	52,540,748	0	3	23	3	26	0.06	0.49
2017	**76,493,784**	**2**	**2**	**31**	**4**	**35**	**0.05**	**0.46**

*1 Lost-time incident rate (LTIR) = (B) x 1,000,000 / (A)
*2 Total recordable incident rate (TRIR) = (C) x 1,000,000 / (A)
(B) = fatalities + lost-time incidents
(C) = (B) + medical treatment (no lost time)

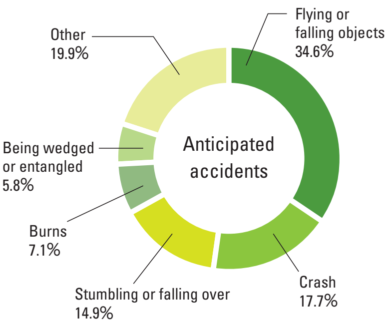
Site Inspections by Managers

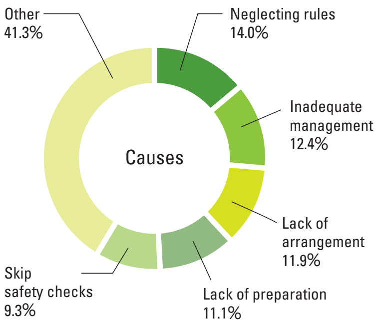
Site inspections (Japan)

Site inspections (Thailand)

Safety management is not viable without strong leadership. At TOYO's construction sites, we rigidly enforce site inspections by managers.

Near Misses





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

TOYO is proactively collecting the near-miss data at sites, analyzing it, and utilizing the results in our safety management to prevent accidents. Data on 14,228 near-miss occurrences were collected from 2008 to December 2017 and analyzed. Major findings are as presented:

Safety Campaign

Safety belt and harness hanging experience

A safety campaign is carried out every year in July at all TOYO group companies for the purpose of raising safety awareness among all employees working at construction sites and offices.

2018 Campaign Program:

1. President's message
2. Drills of safety status confirmation by Internet for the time of disaster
3. Voluntary drill by in-house fire-fighting crew
4. Lecture on amendments to the Japanese law relating the safety harness, and safety belt/harness hanging experiences
5. Seminar on cancer control for working generation
6. Safety notices from Security Management Department
7. Introduction of campaigns at group companies
8. Display of posters, banners, and panels
9. Safety awards

TOYO Group Safety Meeting

Safety managers from overseas group companies meet to build a consensus and promote safety improvements through active communication.

The following TOYO group companies participated in the 2017 meeting, hosted by Toyo-China:

- Toyo-Japan
- Toyo-India
- IKPT
- Toyo-Korea
- Toyo-Malaysia
- Toyo-China

Quality

Toward zero quality-related losses

In line with our "Basic Policies on HSSE, Quality and Information Security", TOYO has thus far delivered high quality products and services that meet the requirements of our customers and society by establishing a quality management system for all group companies and implementing the PDCA cycle.

Based on the belief that we will never compromise on quality in our end products, additional costs sometimes arise in connection with quality assurance. These additional costs have tended to be rather high in recent years as projects have become much larger and more complex. Accordingly, we worked to reinforce our quality management system last fiscal year, by engaging in thorough discussions and drafting a total of 35 action items relating to organizational issues of business execution, human capital issues, strengthening feedback activities, and individual issues within the organizations. As an example, our engineering divisions are strengthening their policies on new technologies, while the procurement divisions revised their supplier evaluation systems. Moreover, the construction divisions are identifying areas at construction sites that require quality improvement and the Head Office is periodically checking the status of operations at individual sites.

These actions will be implemented this fiscal year with the aim of yielding results. The Safety, Quality and Environment Management Division is taking overall responsibility for this initiative by setting the goal of zero quality-related losses for the Company as a whole, monitoring the steady implementation of action items by each division, and assessing the state of quality-related losses during the quarterly management review of project execution divisions.

Circumstances surrounding the plant business are changing daily. The digitalization of operations is also continuing to further advance. In this environment, the action items we have implemented so far will not be enough to solve all our issues. We constantly front up to new challenges and are required to deal with them appropriately and swiftly. Up ahead, not only would I like to see all employees always cognizant of the PDCA cycle for all operations, but I hope to implement training courses and a system to equip workers with the ability to keenly sense changes in the environment and minimize risks.

Toshihiko Nemura
General Manager of Safety, Quality and Environment Management Division

Feedback Knowledge Management System (FKMS)

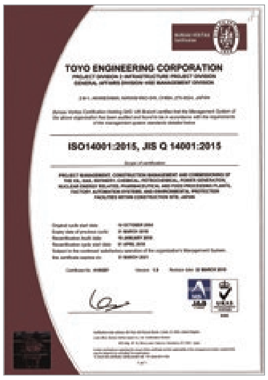
As one initiative to constantly improve our quality management system, TOYO utilizes the FKMS to build a database of feedback from projects implemented for more than 30 years. The FKMS is operated and utilized by all TOYO group companies as a reference for project execution and helps prevent the reoccurrence of similar troubles.

ISO Certification

Based on international-standard ISO certifications, TOYO endeavors to further strengthen its safety, quality, environmental, and information security management.

*Assessed and issued by a third-party certification body attesting that the activities of the TOYO Group are carried out in accordance with a standardized quality management system and meet the international standard.

ISO9001: 2015 Certificate
Multi-sites certification* that includes major overseas group companies



ISO14001: 2015 Certificate

ISO27001: 2013 Certificate

Environment

Basic philosophy regarding the environment

TOYO has established the following basic philosophy with respect to the environment and actively addresses environmental protection issues together with customers to achieve its stated goals.

(1) TOYO's corporate activities in the engineering business are deeply connected to not only regional communities, but the global environment at large, and therefore must contribute to sustainable development capable of both environmental protection and the development of mankind.

(2) TOYO shall strive to actively protect the environment by providing engineering services in harmony with the global environment as a global company.

Reducing adverse environmental impact at construction sites

We make extra sure that pollutants never leave our domestic and overseas construction sites and since acquiring ISO14001 in 2004 we have constantly achieved our goal of zero environmental disasters. In addition, our construction sites periodically send reports on industrial waste volume to the Head Office and monitor trends in how much is being produced, including the status of waste segregation and the volume of hazardous material.

Reducing environmental impact at Head Office

Under TOYO's internal environmental management framework, we have established an energy & resource saving council and a so-called green meeting headed by supervising officers. In these meetings we advance the discussion regarding the environmental matters at the Head Office, confirm industrial waste volumes, check trends in recycling rates, monitor whether any leakage accidents have occurred, and examine causes and countermeasures changes in energy consumption. We are committed to carefully saving energy and resources on a daily basis through the efforts such as replacing with LED lighting, encouraging a paperless office, turning off lights at lunchtime, opening/closing window blinds, and remembering to shut down computers.

Environmental data

	Unit	FY2013	FY2014	FY2015	FY2016	FY2017
Ratio of industrial waste recycled (domestic construction sites)	%	95	99	96	96	**96**
No. of toxic material leaks (domestic/overseas sites)	Cases	0	0	0	0	**0**
Amount of energy consumed (Head Office)	crude oil equivalent (kl)	1,413	1,373	1,384	1,381	**1,305**
Ratio of copier paper compliant with Japan's so-called Act on Promoting Green Procurement (Head Office)	%	100	100	100	100	**100**
Amount of electricity used (Head Office)	MWh	4,648	4,533	4,562	4,445	**4,264**
Volume of water used (Head Office)	1,000m^3	33.2	36.2	37.5	34.8	**30.2**
Volume of disposed waste (Head Office)	1,000kg	160	138	166	148	**141**
Waste recycling rate (Head Office)	%	71.2	65.7	68.8	63.7	**63.9**

Environment

SUPERHIDIC® Collects Multiple Awards

Owing to the fact that the distillation process utilized widely in industrial fields consumes a considerable amount of heat energy, a number of different energy-saving technologies have been proposed thus far. With the cooperation of the National Institute of Advanced Industrial Science and Technology, TOYO developed an advanced heat integrated distillation column (HIDiC) called *SUPERHIDIC*®, which functions as an energy-saving distillation system. Needless to say, the biggest selling point of *SUPERHIDIC*® is its ability to greatly reduce energy consumption. The system reduces the amount of heat energy consumed when heating the reboiler at the bottom of the distillation column and when the condenser at the top is used for cooling. As a result, the system not only contributes to energy-saving but also reduces greenhouse gas emissions because it emits less CO_2.

The first commercial operation of *SUPERHIDIC*® was for a distillation column at Maruzen Petrochemical's alcohol ketone production unit in fiscal 2016. The system has reduced the amount of energy consumed at this facility by more than 50%. Since then, *SUPERHIDIC*® has received a number of accolades, including the METI Minister's Prize for Energy Conservation, the SCEJ Award for Outstanding Technological Development, and the Japan Petroleum Institute Award for Technological Progress.

Following the success of this project, TOYO intends to further expand *SUPERHIDIC*® applications and contribute to the reduction of oil refinery and petrochemical plant operating costs, realize energy savings, and further mitigate global environmental impacts.

Providing 24/7 Water Supply

In Myanmar's capital Yangon, TOYO is using a grant from the Japanese government to undertake a non-revenue water reduction project. Non-revenue water is water that has been supplied but "lost" before it reaches the consumers, either through leaks, theft, or metering inaccuracies. Together with TSS, the administrative body of the Tokyo Metropolitan Government's Bureau of Waterworks, TOYO is working to supply homes in the designated project zone (population of around 130,000) with 24/7 running water by inspecting water pipes and water flow, replacing pipes and upgrading meters, and repairing leaks. The project aims to improve the living environment in local communities, reduce wasted resources, and support the establishment of an environmentally friendly water supply system.

Environmental and Biodiversity Conservation

Setouchi Future Creations LLC, a special-purpose joint venture company established by TOYO, Kuni Umi Asset Management, GE Energy Financial Services, and Chudenko Corporation, completed the construction of Japan's largest photovoltaic power plant having a power generating capacity of 235MW on the former Kinkai Salt Field in Setouchi, Okayama Prefecture.

The construction site was formerly a salt marsh where rainwater mixes with seawater and thus harbors a unique ecosystem home to some rare species of plants and animals. With the aim of coexisting with nature by protecting the environment as much as possible and limiting the impact on the plants and animals that live in the area, the Setouchi large-scale photovoltaic power plant project established the Kinkai Habitat on a roughly 16ha salt marsh conservation zone. In order to especially protect the sources of food for rare birds of prey, the project has left the reed beds untouched and leverages the existing woodlands and creeks so that biodiversity in the area can be sustained.

By pursuing a harmonious relationship between its business activities and environmental conservation, TOYO will continue to actively work towards realizing a sustainable society.

Social Responsibility

Contributions to Global Community

Technical Cooperation Projects

As part of technical cooperation projects with organizations such as the Japan International Cooperation Agency (JICA), Japan Cooperation Center Petroleum (JCCP) and others, TOYO has drawn up various master plans, undertaken feasibility studies, and dispatched experts to a number of countries including Mozambique, Iraq, Tanzania, Iran, and Cabo Verde. Since 2000 we have participated in more than 30 projects in over 10 countries. Currently we are providing assistance to the Tanzanian government on a part of the Project for Domestic Natural Gas Promotion and Supply System in Tanzania.

Acceptance of Trainees

In response to requests from foreign governments and public agencies like JICA and JCCP, we host technical seminars on such topics as project management skills, environmental technology, and petrochemical technology. Since 2000 we have welcomed more than 50 trainee groups. We can accommodate varied requests for short training courses that last around two weeks or longer OJT-type programs that take two years. Thus far we have accepted trainees from Russia, Kazakhstan, Uzbekistan, Cambodia, Malaysia, Vietnam, Venezuela, and Iran. We have also taken in approximately 370 trainees from Iraq since 2005 in an effort to assist the country's post-war reconstruction. Hailing from a broad range of government agencies and corporations, including Iraq's Ministry of Oil, oil refineries, gas and oil wholesalers, and engineering companies, the trainee engineers are extremely enthusiastic about learning new skills.

Internship Program at Toyo-Malaysia

Since fiscal 2008 we have worked with the National Institute of Technology (also known as Kosen) in Japan to run an overseas internship program for technical school students at Toyo-Malaysia. This program contributes to Kosen's goal of nurturing students with a global outlook through the understanding of foreign cultures and the development of communication skills. The internship also contributes to the technological advancement of the international community by assisting engineers with the desire to work abroad. A total of 18 Kosen students have gone through the program so far and two more are scheduled to join this fiscal year. During the three-week internship, the students communicate consistently in English. The training program begins with an understanding of business operations and then shifts to practical training and construction site visits tailored to each student's field of specialization. It is customary for the students to deliver a final presentation of what they have gained through the internship program in English on the last day. Seeing the students proudly deliver their presentations in English, we feel how much they have grown by the end of the internship and their unlimited potential to play an active role in the international community in the future. TOYO will continue to accept internship students and nurture human capital as a way of contributing to the advancement of the international community.

Six-Year Financial and Non-Financial Highlights

Toyo Engineering Corporation and Consolidated Subsidiaries
Years ended March 31

Millions of yen

	2013	2014	2015	2016	2017	**2018**
Financial Highlights:						
Net sales	228,723	230,124	311,454	299,813	431,917	**335,697**
Gross profit (loss)	24,200	25,155	17,214	30,513	15,971	**(12,521)**
Gross profit margin (%)	10.6	10.9	5.5	10.2	3.7	**(3.7)**
SG&A expenses	22,606	24,699	24,570	19,426	17,980	**20,429**
Operating income (loss)	1,593	455	(7,356)	11,087	(2,009)	**(32,951)**
Operating income margin (%)	0.7	0.2	(2.4)	3.7	(0.5)	**(9.8)**
Ordinary income (loss)	4,032	4,942	(25,280)	3,873	1,603	**(27,821)**
Profit attributable to owners of parent (loss)	1,457	967	(20,965)	3,038	1,472	**(26,846)**
Comprehensive income	3,178	4,088	(25,534)	8,492	1,066	**(25,758)**
Interest bearing debt	40,087	44,797	31,918	32,645	31,844	**30,841**
Interest bearing debt ratio (%)	16.7	17.4	12.2	10.1	10.0	**12.2**
Net debt	(31,588)	(52,137)	(58,543)	(91,480)	(90,858)	**(75,694)**
Debt equity ratio (times)	0.58	0.61	0.71	0.64	0.62	**1.23**
Equity ratio (%)	28.9	28.5	17.2	15.8	16.2	**9.9**
Operating activities cash flows	(18,986)	21,244	(4,192)	46,376	18,984	**(22,824)**
Investing activities cash flows	(1,587)	(1,638)	9,587	(11,776)	(16,650)	**6,386**
Financing activities cash flows	(532)	3,167	(14,341)	1,099	(1,548)	**(1,174)**
New orders	290,444	365,137	470,369	443,537	116,790	**309,325**
Backlog of contracts	410,492	538,023	659,005	823,066	492,682	**448,629**
Dividends per share (annual) (yen)	5.0	3.0	4.0	4.0	2.0	**0.0**

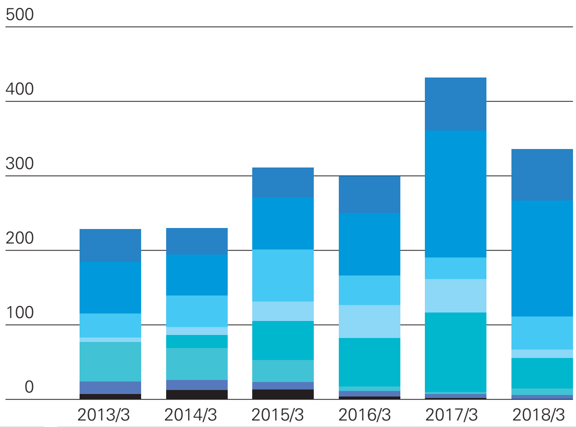
Non-financial Highlights:						
Number of employees*1	4,548	4,747	4,463	4,397	4,287	**4,085**
(Number of employees in Toyo-Japan)	1,026	1,037	1,084	1,092	1,035	**1,030**
(Number of female managers in Toyo-Japan)	7	9	11	14	14	**17**
CO_2 emissions (Chiba Head Office) (Tons)	2,576	2,867	2,808	2,716	2,685	**2,538**
Energy consumption (Chiba Head Office) (Crude oil equivalent in kiloliters)	1,411	1,413	1,373	1,384	1,381	**1,305**
Industrial waste recycling rate (Domestic construction sites)	71	95	99	96	96	**96**
Number of harmful substance leak accidents (Domestic/overseas construction sites)	0	0	0	0	0	**0**
Lost Time Incident Rate (LTIR)*2	0.09	0.07	0.08	0.07	0.06	**0.05**
Total Recordable Incident Rate (TRIR)*3	0.22	0.22	0.22	0.21	0.49	**0.46**

*1. Excluding temporary employees
*2. Lost Time Incident Rate (LTIR) = Total Lost Time Incidents × 1,000,000 / Employee-Worked Man-Hours
*3. Total Recordable Incident Rate (TRIR) = Number of Recordable Incidents × 1,000,000 / Employee-Worked Man-Hours

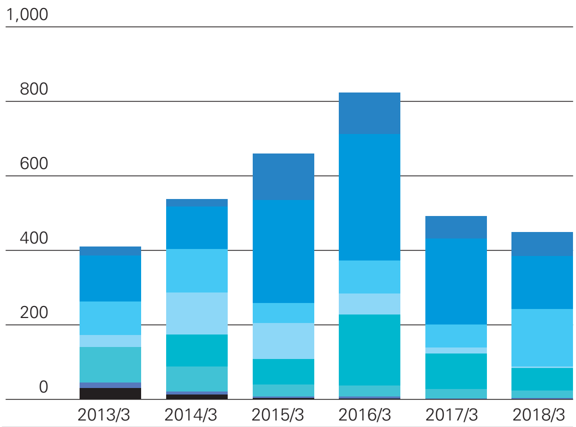
Net Sales, Backlog of Contracts (Breakdown by Region/Segment Details)

Breakdown by Region

Net Sales (¥ Billion)



Backlog of Contracts (¥ Billion)

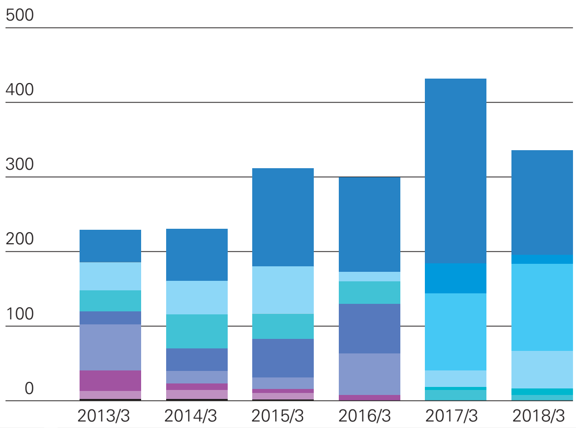


	Net Sales 2013/3	2014/3	2015/3	2016/3	2017/3	2018/3	Backlog 2013/3	2014/3	2015/3	2016/3	2017/3	2018/3
Japan	44.4	36.2	40.9	49.9	71.0	68.5	24.4	20.8	123.9	111.6	61.2	64.1
Southeast Asia	69.3	54.5	69.3	84.0	170.8	156.2	123.7	113.4	276.8	338.4	230.3	142.6
Southwest Asia, Middle East and Africa	31.8	42.4	70.2	39.6	28.4	44.3	90.6	117.8	54.0	89.2	62.1	153.7
Russia and Central Asia	6.4	10.6	26.2	44.2	45.6	11.4	31.3	112.9	96.3	56.7	16.1	4.4
North America	—	17.7	52.1	65.3	106.3	40.7	—	86.0	68.6	190.1	95.4	61.1
Central and South America	52.8	42.8	29.4	5.4	3.0	8.7	96.0	65.9	31.6	29.2	25.0	19.2
China	17.2	13.7	10.0	8.0	5.1	5.3	14.3	8.3	4.6	5.9	1.8	3.3
Others	6.8	12.2	13.3	3.4	1.7	0.5	30.1	12.9	3.2	1.9	0.7	0.2
Total	228.7	230.1	311.4	299.8	431.9	335.6	410.4	538.0	659.0	823.0	492.6	448.6

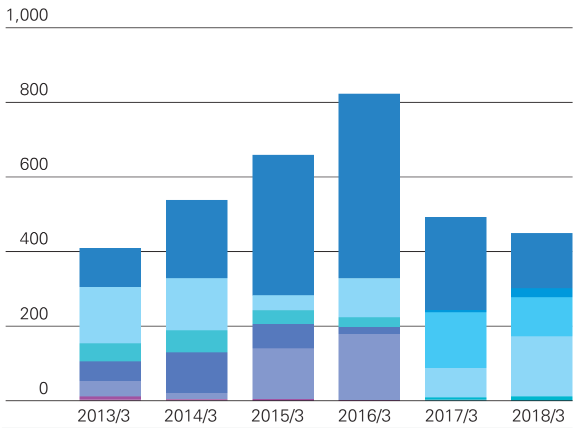
Note: North America has been stated since fiscal 2013.

Breakdown by Segment Details

Net Sales (¥ Billion)



Backlog of Contracts (¥ Billion)



	Net Sales 2013/3	2014/3	2015/3	2016/3	2017/3	2018/3	Backlog 2013/3	2014/3	2015/3	2016/3	2017/3	2018/3
Petrochemicals	43.1	69.8	131.2	127.1	247.8	140.2	105.5	210.8	376.6	494.7	249.4	147.4
Oil & Gas	—	—	—	—	40.2	12.1	—	—	—	—	6.8	24.1
Power/Railways etc.	—	—	—	—	103.2	116.4	—	—	—	—	148.5	105.2
Chemicals/Fertilizers	37.9	44.7	63.7	13.0	22.3	50.2	151.3	138.6	39.5	105.1	79.2	161.6
Pharmaceuticals etc.	—	—	—	—	4.3	9.2	—	—	—	—	4.2	9.5
Others	27.9	45.8	33.9	30.2	14.1	7.5	49.1	59.6	37.5	25.4	4.5	0.8
Oil refinery	17.6	29.9	51.7	66.5	—	—	51.8	109.1	65.2	18.7	—	—
Energy-related	61.8	16.6	15.6	55.3	—	—	41.5	14.9	135.8	177.4	—	—
General manufacturing facilities	27.2	9.1	4.9	7.7	—	—	7.2	1.1	4.4	1.7	—	—
IT	11.0	12.1	8.4	—	—	—	4.0	3.9	—	—	—	—
Real estate	2.2	2.1	2.0	—	—	—	—	—	—	—	—	—
Total	228.7	230.1	311.4	299.8	431.9	335.6	410.4	538.0	659.0	823.0	492.6	448.6

Note: New segmentation applied from fiscal 2017 are also used for fiscal 2016.

Financial Section Consolidated Financial Statements

Consolidated Balance Sheets

Toyo Engineering Corporation and Consolidated Subsidiaries As of March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**2018**	2017	**2018**
Current assets:			
Cash and deposits (Note 15)	**¥ 111,068**	¥ 126,042	**$ 1,045,345**
Notes receivables, accounts receivable from completed construction contracts	**62,057**	88,394	**584,065**
Short-term investments in securities (Notes 4, 18)	**1,049**	1,175	**9,872**
Costs on uncompleted construction contracts (Note 7)	**31,798**	49,536	**299,275**
Deferred income taxes (Note 21)	**1,836**	3,020	**17,280**
Accounts receivable-other	**7,850**	6,730	**73,882**
Other	**8,498**	7,958	**79,981**
Allowance for doubtful accounts	**(970)**	(1,074)	**(9,129)**
Total current assets	**223,189**	281,784	**2,100,602**
Property, plant and equipment:			
Buildings and structures (Note 4)	**16,013**	16,297	**150,710**
Machinery, vehicles, tools, furniture and fixtures	**5,296**	4,999	**49,844**
Land (Note 4)	**6,601**	6,898	**62,127**
Leased assets	**45**	74	**423**
Construction in progress	**4**	5	**37**
Accumulated depreciation and impairment loss	**(15,980)**	(15,658)	**(150,400)**
Total property, plant and equipment	**11,980**	12,615	**112,752**
Intangible assets:			
Goodwill	**1**	3	**9**
Other	**956**	1,408	**8,997**
Total intangible assets	**958**	1,412	**9,016**
Investments and other assets:			
Investments in securities (Notes 3, 18)	**10,335**	16,071	**97,270**
Long-term loans receivable	**4,572**	4,576	**43,030**
Net defined benefit asset (Note 20)	**886**	—	**8,338**
Deferred income taxes (Note 21)	**590**	1,123	**5,552**
Other (Notes 3, 4)	**5,029**	3,981	**47,331**
Allowance for doubtful accounts	**(4,560)**	(4,474)	**(42,917)**
Total investments and other assets	**16,855**	21,277	**158,635**
Total non-current assets	**29,793**	35,305	**280,404**
Total assets	**¥ 252,982**	¥ 317,089	**$ 2,381,007**

See notes to consolidated financial statements.

Liabilities and Net Assets:	Millions of yen 2018	2017	Thousands of U.S. dollars (Note 1) 2018
Current liabilities:			
Notes payable, accounts payable for construction contracts and other	**¥ 104,715**	¥ 123,444	**$ 985,552**
Short-term loans payable (Notes 4, 6, 8)	**7,125**	8,415	**67,058**
Income taxes payable	**624**	761	**5,872**
Advances received on uncompleted construction contracts	**62,492**	87,116	**588,160**
Provision for bonuses	**407**	654	**3,830**
Provision for warranties for completed construction	**52**	209	**489**
Provision for loss on construction contracts (Note 11)	**13,889**	4,085	**130,720**
Forward exchange contracts	**1,808**	4,995	**17,016**
Other	**7,368**	7,468	**69,345**
Total current liabilities	**198,485**	237,149	**1,868,094**
Non-current liabilities:			
Long-term loans payable (Notes 4, 6, 8)	**23,659**	23,373	**222,672**
Lease obligations	**42**	40	**395**
Deferred income taxes (Note 21)	**2,593**	1,459	**24,404**
Net defined benefit liability (Note 20)	**1,323**	1,802	**12,451**
Provision for losses on business of subsidiaries and affiliates	**123**	140	**1,157**
Other	**1,578**	1,792	**14,851**
Total non-current liabilities	**29,320**	28,608	**275,952**
Total liabilities	**227,806**	265,758	**2,144,056**
Contingent liabilities (Note 5)			
Net assets:			
Shareholders' equity:			
Capital stock (Note 14)	**18,198**	18,198	**171,275**
Capital surplus	**10,749**	10,732	**101,167**
Retained (deficit) earnings	**(8,165)**	19,064	**(76,847)**
Treasury stock, at cost	**(444)**	(440)	**(4,178)**
Total shareholders' equity	**20,338**	47,554	**191,416**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	**8**	2,246	**75**
Deferred losses on hedges	**(801)**	(2,842)	**(7,538)**
Foreign currency translation adjustments	**4,835**	4,319	**45,505**
Remeasurements of defined benefit plans	**725**	(5)	**6,823**
Total accumulated other comprehensive income	**4,767**	3,718	**44,865**
Non-controlling interests	**71**	58	**668**
Total net assets	**25,176**	51,331	**236,950**
Total liabilities and net assets	**¥ 252,982**	¥ 317,089	**$ 2,381,007**

Consolidated Statements of Operations

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Net sales	**¥ 335,697**	¥ 431,917	**$ 3,159,501**
Cost of sales (Note 11)	**348,219**	415,945	**3,277,355**
Gross (loss) profit	**(12,521)**	15,971	**(117,844)**
Selling, general and administrative expenses (Notes 9, 10)	**20,429**	17,980	**192,272**
Operating loss	**(32,951)**	(2,009)	**(310,127)**
Non-operating income:			
Interest income	**1,039**	934	**9,778**
Dividends income	**110**	535	**1,035**
Foreign exchange gains, net	**—**	1,311	**—**
Equity in earnings of affiliates	**5,909**	15	**55,614**
Reversal of allowance for doubtful accounts	**18**	680	**169**
Miscellaneous income	**560**	1,039	**5,270**
Total non-operating income	**7,638**	4,517	**71,887**
Non-operating expenses:			
Interest expenses	**317**	375	**2,983**
Loss on valuation of investments in capital of subsidiaries and affiliates	**—**	274	**—**
Foreign exchange losses, net	**1,579**	—	**14,861**
Foreign withholding taxes	**332**	126	**3,124**
Miscellaneous expenses	**278**	127	**2,616**
Total non-operating expenses	**2,508**	903	**23,604**
Ordinary (loss) income	**(27,821)**	1,603	**(261,844)**
Extraordinary income:			
Gain on sales of property, plant and equipment (Note 12)	**397**	310	**3,736**
Gain on sales of investments in securities	**2,714**	1,289	**25,543**
Gain on sales of investments in an affiliate	**2,349**	—	**22,108**
Gain on securities contribution to retirement benefits trust	**—**	2,625	**—**
Total extraordinary income	**5,461**	4,224	**51,397**
(Loss) profit before income taxes	**(22,359)**	5,828	**(210,437)**
Income taxes (Note 21):			
Income taxes	**1,931**	3,384	**18,174**
Income taxes-deferred	**2,500**	973	**23,529**
Total income taxes	**4,431**	4,357	**41,703**
Net (loss) profit	**(26,791)**	1,471	**(252,150)**
Net (loss) profit attributable to :			
Non-controlling interests	**55**	(1)	**517**
Owners of parent	**¥ (26,846)**	¥ 1,472	**$ (252,668)**

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income (Loss)

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Net (loss) profit	**¥ (26,791)**	¥ 1,471	**$ (252,150)**
Other comprehensive (loss) income (Note 13)			
Valuation difference on available-for-sale securities	**(2,237)**	(1,616)	**(21,054)**
Deferred gains (losses) on hedges	**2,049**	1,928	**19,284**
Foreign currency translation adjustments	**491**	(516)	**4,621**
Remeasurements of defined benefit plans	**730**	(92)	**6,870**
Share of other comprehensive loss of affiliates accounted for by the equity method	**(1)**	(107)	**(9)**
Total other comprehensive (loss) income	**1,032**	(405)	**9,712**
Comprehensive (loss) income	**¥ (25,758)**	¥ 1,066	**$ (242,428)**
Comprehensive (loss) income attributable to :			
Owners of parent	**(25,797)**	1,066	**(242,795)**
Non-controlling interests	**39**	(0)	**367**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2018 and 2017

	Millions of yen											
	Capital stock	Capital surplus	Retained (deficit) earnings	Treasury stock, at cost	Total sharehold-er's equity	Valuation difference on available-for-sale securities	Deferred losses on hedges	Foreign currency translation adjust-ments	Remea-surements of defined benefit plans	Total accu-mulated other compre-hensive income	Non-con-trolling interests	Total net assets
Balance at April 1, 2016	¥18,198	¥17,656	¥11,433	¥(436)	¥46,852	¥3,862	¥(4,761)	¥4,936	¥87	¥4,124	¥58	¥51,036
Cash dividends		(766)			(766)							(766)
Reversal of capital surplus		(6,157)	6,157		—							—
Profit attributable to owners of parent			1,472		1,472							1,472
Purchase of treasury stock				(4)	(4)							(4)
Sale of treasury stock		(0)		0	0							0
Net changes of items other than shareholders' equity					—	(1,616)	1,919	(616)	(92)	(406)	(0)	(406)
Balance at March 31, 2017	¥18,198	¥10,732	¥19,064	¥(440)	¥47,554	¥2,246	¥(2,842)	¥4,319	¥(5)	¥3,718	¥58	¥51,331

	Millions of yen											
	Capital stock	Capital surplus	Retained (deficit) earnings	Treasury stock, at cost	Total sharehold-er's equity	Valuation difference on available-for-sale securities	Deferred losses on hedges	Foreign currency translation adjust-ments	Remea-surements of defined benefit plans	Total accu-mulated other compre-hensive income	Non-con-trolling interests	Total net assets
Balance at April 1, 2017	**¥18,198**	**¥10,732**	**¥19,064**	**¥(440)**	**¥47,554**	**¥2,246**	**¥(2,842)**	**¥4,319**	**¥(5)**	**¥3,718**	**¥58**	**¥51,331**
Cash dividends			**(383)**		**(383)**							**(383)**
Loss attributable to owners of parent			**(26,846)**		**(26,846)**							**(26,846)**
Purchase of treasury stock				**(4)**	**(4)**							**(4)**
Sale of treasury stock		**(0)**		**0**	**0**							**0**
Purchase of shares of consolidated subsidiary		**17**			**17**							**17**
Net changes of items other than shareholders' equity					**—**	**(2,237)**	**2,040**	**516**	**730**	**1,049**	**12**	**1,061**
Balance at March 31, 2018	**¥18,198**	**¥10,749**	**¥(8,165)**	**¥(444)**	**¥20,338**	**¥8**	**¥(801)**	**¥4,835**	**¥725**	**¥4,767**	**¥71**	**¥25,176**

	Thousands of U.S. dollars (Note 1)											
	Capital stock	Capital surplus	Retained (deficit) earnings	Treasury stock, at cost	Total sharehold-er's equity	Valuation difference on available-for-sale securities	Deferred losses on hedges	Foreign currency translation adjust-ments	Remea-surements of defined benefit plans	Total accu-mulated other compre-hensive income	Non-con-trolling interests	Total net assets
Balance at April 1, 2017	**$171,275**	**$101,007**	**$179,425**	**$(4,141)**	**$447,567**	**$21,138**	**$(26,748)**	**$40,649**	**$(47)**	**$34,992**	**$545**	**$483,115**
Cash dividends			**(3,604)**		**(3,604)**							**(3,604)**
Loss attributable to owners of parent			**(252,668)**		**(252,668)**							**(252,668)**
Purchase of treasury stock				**(37)**	**(37)**							**(37)**
Sale of treasury stock		**(0)**		**0**	**0**							**0**
Purchase of shares of consolidated subsidiary		**160**			**160**							**160**
Net changes of items other than shareholders' equity					**—**	**(21,054)**	**19,200**	**4,856**	**6,870**	**9,872**	**112**	**9,985**
Balance at March 31, 2018	**$171,275**	**$101,167**	**$(76,847)**	**$(4,178)**	**$191,416**	**$75**	**$(7,538)**	**$45,505**	**$6,823**	**$44,865**	**$668**	**$236,950**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Cash flows from operating activities:			
(Loss) profit before income taxes	**¥ (22,359)**	¥ 5,828	**$ (210,437)**
Depreciation and amortization	**1,221**	1,293	**11,491**
Amortization of goodwill	**(9)**	(9)	**(84)**
Decrease in allowance for doubtful accounts	**(18)**	(706)	**(169)**
Decrease in net defined benefit liability	**(334)**	(1,435)	**(3,143)**
Increase in provision for loss on construction contracts	**9,807**	2,697	**92,301**
Interest and dividends income	**(1,149)**	(1,470)	**(10,814)**
Interest expenses	**317**	375	**2,983**
Foreign exchange losses	**147**	424	**1,383**
Gain on sales of property, plant and equipment	**(396)**	(297)	**(3,727)**
Equity in earnings of affiliates	**(5,909)**	(15)	**(55,614)**
Gain on sales of investments in securities	**(2,714)**	(1,289)	**(25,543)**
Gain on sales of investments in an affiliate	**(2,349)**	—	**(22,108)**
Loss on valuation of investments in capital of subsidiaries and affiliates	**—**	274	**—**
Gain on securities contribution to retirement benefits trust	**—**	(2,625)	**—**
Decrease (increase) in notes receivable, accounts receivable from completed construction contracts	**26,202**	(10,381)	**246,607**
Decrease in costs on uncompleted construction contracts	**17,716**	4,344	**166,738**
(Increase) decrease in accounts receivable-other	**(1,290)**	6,305	**(12,141)**
(Decrease) increase in notes and accounts payable-trade	**(19,511)**	38,231	**(183,632)**
Decrease in advances received on uncompleted construction contracts	**(24,548)**	(23,933)	**(231,040)**
Other, net	**(251)**	1,248	**(2,362)**
Subtotal	**(25,429)**	18,860	**(239,331)**
Interest and dividends income received	**5,108**	4,768	**48,075**
Interest expenses paid	**(319)**	(359)	**(3,002)**
Income taxes paid	**(2,184)**	(4,285)	**(20,555)**
Net cash (used in) provided by operating activities	**(22,824)**	18,984	**(214,814)**
Cash flows from investing activities:			
Net increase in time deposits	**(1,241)**	(700)	**(11,680)**
Purchase of property, plant and equipment	**(504)**	(555)	**(4,743)**
Proceeds from sales of property, plant and equipment	**810**	337	**7,623**
Purchase of intangible assets	**(245)**	(246)	**(2,305)**
Purchase of investments in securities	**(8)**	(54)	**(75)**
Proceeds from sales of investments in securities	**2,928**	1,418	**27,557**
Proceeds from sales of investments in an affiliate	**3,837**	—	**36,112**
Net decrease (increase) in short-term loans receivable	**1,585**	(16,234)	**14,917**
Other, net	**(773)**	(614)	**(7,275)**
Net cash provided by (used in) investing activities	**6,386**	(16,650)	**60,103**
Cash flows from financing activities:			
Net decrease in short-term loans payable	**(1,433)**	(2,000)	**(13,487)**
Proceeds from long-term loans payable	**7,100**	11,025	**66,823**
Repayment of long-term loans payable	**(6,446)**	(9,784)	**(60,668)**
Repayments of finance lease obligations	**(7)**	(18)	**(65)**
Cash dividends paid	**(383)**	(766)	**(3,604)**
Other, net	**(4)**	(4)	**(37)**
Net cash used in financing activities	**(1,174)**	(1,548)	**(11,049)**
Effect of exchange rate change on cash and cash equivalents	**1,445**	(2,207)	**13,600**
Net decrease in cash and cash equivalents	**(16,167)**	(1,422)	**(152,160)**
Cash and cash equivalents at beginning of period	**122,703**	124,125	**1,154,851**
Cash and cash equivalents at end of period (Note 15)	**¥ 106,536**	¥ 122,703	**$ 1,002,691**

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 foreign 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.

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 ¥106.25 to U.S.$1.00 prevailing on March 31, 2018.

As permitted, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both yen and in U.S. dollars) do not necessarily agree with the sum of the individual amounts.

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. Investments in significant affiliates are accounted for by the equity method. As of March 31, 2018, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 13 and 5, respectively.

Toyo Engineering Korea Limited, Toyo Engineering Corporation (China) and 5 other subsidiaries are consolidated using their financial statements as of their respective fiscal year end, which falls on December 31, and necessary adjustments are made to their financial statements to reflect any significant transactions from January 1 to March 31. Intercompany accounts and transactions are eliminated in consolidation. The difference between the acquisition cost and the equity in the net assets at the time of acquisition is amortized in principle within 20 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. Other 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 for hedge accounting, under which unrealized gain or loss is deferred. Hedging instruments are derivative transactions such as foreign exchange forward contract, currency option, currency swap and interest rate swap, and hedged items are primarily forecast sales and costs denominated in foreign currencies, and receivables and payables denominated in foreign currencies. Hedge effectiveness is not assessed if the substantial terms and conditions of the hedging instruments and the hedged forecasted transactions are the same. The Company and its consolidated subsidiaries manage derivative transactions in accordance with their internal "Policies and Procedures for Risk Management".

(d) Costs on Uncompleted Construction Contracts

Costs on uncompleted construction contracts are 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 acquired on or after April 1, 1998, and facilities attached to buildings and structures acquired on or after April 1, 2016 are depreciated on a straight-line method.

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

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

Amortization of intangible assets of the Company and its consolidated subsidiaries is calculated principally by straight-line method. Software for internal use is amortized on a straight-line method 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 estimated at zero.

(g) Allowance for Doubtful Accounts

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

(h) Provision for Bonuses

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

(i) Provision for Warranties for Completed Construction

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

(j) Provision for Loss on Construction Contracts

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

(k) Provision for Losses on Business of Subsidiaries and Affiliates

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

(l) Retirement Benefits

Net defined benefit liability at year-end is stated based on the fair value of plan assets and the projected benefit obligation.

As to calculation of the projected benefit obligation, the expected benefit payments at the year-end have been recorded mainly at the amount calculated based on benefit formula.

Actuarial gain or loss is amortized by the straight-line method within the average of the estimated remaining service years of the employees (over 9 years) in the year following the year of recognition.

Unamortized actuarial gain or loss is provided with tax effect as a component of remeasurements of defined benefit plans under accumulated other comprehensive income of net assets.

(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 of the these accounts are credited or charged to profit or loss.

The balance sheet accounts of the consolidated foreign subsidiaries are translated at the rates of exchange in effect at the balance sheet date, except for capital stock and capital surplus, which are translated at their historical exchange rates. Revenues, expenses and net income for the year are translated at the rates of exchange in effect at the balance sheet date. Differences arising from translation of the accounts of foreign subsidiaries and affiliates are presented as "Foreign currency translation adjustments" and "Non-controlling 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 3 months or less to be cash equivalents.

(p) Consumption Taxes

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

(q) Consolidated Tax Return

The Company files a consolidated tax return with domestic fully-owned subsidiaries.

(r) 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.

(s) 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.

(t) Research and Development Costs

Research and development costs are charged to income when incurred.

(u) Additional Information

(Accounting Standards Issued But Not Yet Effective)

Accounting Standard for Revenue Recognition (The Accounting Standards Board of Japan ("ASBJ") Statement No. 29, March 30, 2018)
Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018)

(1) Overview

The accounting standard and implementation guidance mainly focus on the recognition of revenue and cash flows arising from contracts with customers. Revenue is recognized by applying the following five-step model.
Step 1: Identify the contract
Step 2: Identify performance obligations
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to performance obligations
Step 5: Recognize revenue based on progress of performance obligations

(2) Effective date

The above accounting standard and implementation guidance are scheduled to be applied from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of application of the accounting standard and the implementation guidance

At present, the Company is in the process of evaluating the impact on the consolidated financial statements from the adoption of the accounting standard and implementation guidance.

(Changes in Presentation)

(Consolidated Statements of Operations)

Foreign withholding tax, which had been included in "Other" under non-operating expenses for the year ended March 31, 2017, is presented separately for the year ended March 31, 2018 because its materiality has increased.

Income taxes for prior periods, which had been presented separately for the year ended March 31, 2017, is included in "Income taxes" for the year ended March 31, 2018 because its materiality has decreased.

To reflect these changes in presentation, foreign withholding tax of ¥126 million, which had been previously included in "Other" under non-operating expenses, was reclassified as "Foreign withholding tax," and income taxes for prior periods of ¥825 million, which had been previously presented separately, was reclassified as "Income taxes" for the year ended March 31, 2017.

(Consolidated Statements of Cash Flow)

Increase (decrease) in provision for loss on business of subsidiaries and affiliates, which had been presented separately for the year ended March 31, 2017, is included in "Other" under cash flows from operating activities for the year ended March 31, 2018 because its materiality has decreased.

To reflect this change in presentation, increase (decrease) in provision for loss on business of subsidiaries and affiliates of ¥(317) million, which had been previously presented separately, was reclassified as "Other" for the year ended March 31, 2017.

3. INVESTMENTS IN AND ADVANCES TO UNCOSOLIDATED SUBSIDIARIES AND AFFILIATES

Investments in and advances to unconsolidated subsidiaries and affiliates included in investments in securities and other in the consolidated balance sheets as of March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31,	**2018**	2017	**2018**
Investments in unconsolidated subsidiaries and affiliates	**¥ 7,447**	¥ 9,585	**$ 70,089**
Other	**679**	624	**6,390**

4. PLEDGED ASSETS

The following assets at March 31, 2018 and 2017 were pledged as collateral:

	Millions of yen		Thousands of U.S. dollars
As of March 31,	**2018**	2017	**2018**
Collateral			
Short-term investments in securities	**¥ 1,049**	¥ 1,001	**$ 9,872**
Buildings	**950**	1,043	**8,941**
Land	**1,112**	1,146	**10,465**
Other	**57**	—	**536**
Total	**¥ 3,170**	¥ 3,192	**$ 29,835**

These assets above were mainly pledged for issuing the performance bonds. The amount of liabilities with corresponding obligation as of March 31, 2018 and 2017 is as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31,	**2018**	2017	**2018**
Liabilities			
Short-term loan payable	**¥ 266**	—	**$ 2,503**
Total	**¥ 266**	—	**$ 2,503**

5. CONTINGENT LIABILITIES

Contingent liabilities as of March 31, 2018 are as follows:

Guaranteed parties	Millions of yen	Thousands of U.S. dollars	Details
Toyo Setal Empreendimentos Ltda.	¥ 2,039	$ 19,190	Refund guarantee etc.
Other	65	611	Loan guarantee etc.
Total	¥ 2,104	$ 19,802	

6. COMMITMENT LINE CONTRACTS

In order to maintain access to a stable and effective sources of operating capital, the Company has entered into commitment-line contracts with 10 trading banks. The status of these commitment-line contracts as of March 31, 2018 and 2017 is as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31,	**2018**	2017	**2018**
Total amount of commitment line contracts	**¥ 14,200**	¥ 19,200	**$ 133,647**
Used amount	**1,300**	9,200	**12,235**
Available amount of commitment line contracts	**¥ 12,900**	¥ 10,000	**$ 121,411**

7. COSTS ON UNCOMPLETED CONSTRUCTION CONTRACTS

Costs on uncompleted construction contracts and provision for loss on construction contracts related to the construction contracts with substantial anticipated losses are not offset. Costs on uncompleted construction contracts corresponding to provision for loss on construction contracts as of March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31,	**2018**	2017	**2018**
Costs on uncompleted construction contracts	**¥ 122**	¥ 141	**$ 1,148**

8. SHORT-TERM AND LONG-TERM DEBT

The average interest rates on the short-term loans outstanding as of March 31, 2018 and 2017 are 2.17% and 0.39%, respectively.

The average interest rates on the current portion long-term loans payable outstanding as of March 31, 2018 and 2017 are 1.26% and 1.16%, respectively.

The average interest rates of the long-term loans payable outstanding as of March 31, 2018 and 2017 are 1.26% and 1.21%, respectively.

The following schedule shows the maturities of long-term loans payable subsequent to March 31, 2018:

Years ended March 31,	Millions of yen	Thousands of U.S. dollars
2019	¥ 6,558	$ 61,722
2020	5,036	47,397
2021	9,901	93,185
2022	4,242	39,924
2023	4,438	41,769
2024 and thereafter	40	376

The following schedule shows the maturities of lease obligations subsequent to March 31, 2018:

Years ended March 31,	Millions of yen	Thousands of U.S. dollars
2019	¥ 14	$ 131
2020	13	122
2021	12	112
2022	9	84
2023	6	56

As of March 31, 2018, short-term loans payable and long-term loans payable with financial covenants concerning financial condition or business result of the Company and its consolidated subsidiaries and affiliates are amounted to ¥13,677 million ($128,724 thousand).

9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The main components of selling, general and administrative expenses for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31,	**2018**	2017	**2018**
Salaries	**¥ 9,952**	¥ 8,949	**$ 93,665**
Provision for bonuses	**82**	161	**771**
Retirement benefit expenses	**708**	598	**6,663**
Depreciation	**324**	373	**3,049**
Research and development costs	**689**	493	**6,484**

10. 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, 2018 and 2017 amounted to ¥689 million ($6,484 thousand) and ¥493 million, respectively.

11. PROVISION FOR LOSS ON CONSTRUCTION CONTRACTS

Gross amount of increase in provision for loss on construction contracts included in cost of sales in the consolidated statements of operations for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31,	**2018**	2017	**2018**
Amount of provision for loss on construction contracts	**¥ 13,833**	¥ 3,907	**$ 130,192**

12. GAIN ON SALES OF PROPERTY, PLANT AND EQUIPMENT

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

	Millions of yen		Thousands of U.S. dollars
Years ended March 31,	**2018**	2017	**2018**
Buildings and structures	**¥ 147**	¥ 310	**$ 1,383**
Machinery, vehicles, tools, furniture and fixtures	**4**	—	**37**
Land	**221**	—	**2,080**
Other	**23**	—	**216**
Total	**¥ 397**	¥ 310	**$ 3,736**

13. OTHER COMPREHENSIVE INCOME

	Millions of yen		Thousands of U.S. dollars
Years ended March 31,	**2018**	2017	**2018**
Valuation difference on available-for-sale securities:			
Amount arising during the year	**¥ (77)**	¥ 1,664	**$ (724)**
Reclassification adjustments for gains and losses realized in profit or loss	**(3,060)**	(3,914)	**(28,800)**
Valuation difference on available-for-sale securities before tax effect	**(3,137)**	(2,249)	**(29,524)**
Tax effect	**899**	632	**8,461**
Valuation difference on available-for-sale securities	**(2,237)**	(1,616)	**(21,054)**
Deferred gains (losses) on hedges:			
Amount arising during the year	**(251)**	1,901	**(2,362)**
Reclassification adjustments for gains and losses realized in profit or loss	**3,252**	777	**30,607**
Deferred gains (losses) on hedges before tax effect	**3,000**	2,679	**28,235**
Tax effect	**(951)**	(750)	**(8,950)**
Deferred gains (losses) on hedges	**2,049**	1,928	**19,284**
Foreign currency translation adjustments:			
Amount arising during the year	**491**	(516)	**4,621**
The amount of foreign currency translation adjustments before tax effect	**491**	(516)	**4,621**
Foreign currency translation adjustments	**491**	(516)	**4,621**
Remeasurements of defined benefit plans:			
Amount arising during the year	**1,057**	(173)	**9,948**
Reclassification adjustments for gains and losses realized in profit or loss	**(26)**	43	**(244)**
Remeasurements of defined benefit plans before tax effect	**1,030**	(129)	**9,694**
Tax effect	**(299)**	37	**(2,814)**
Remeasurements of defined benefit plans	**730**	(92)	**6,870**
Share of other comprehensive losses of affiliates accounted for by the equity method:			
Amount arising during the year	**(1)**	(107)	**(9)**
Total other comprehensive income (loss)	**¥ 1,032**	¥ (405)	**$ 9,712**

14. SUPPLEMENTARY INFORMATION FOR CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the year ended March 31, 2018

(a) Type and number of outstanding shares

	Number of shares			
Type of shares	Balance at beginning of year	Increase in shares during the year	Decrease in shares during the year	Balance at end of year
Issued stock:				
Common stock	**192,792,539**	**—**	**154,234,032**	**38,558,507**
Total	**192,792,539**	**—**	**154,234,032**	**38,558,507**
Treasury stock:				
Common stock	**1,103,172**	**8,738**	**888,262**	**223,648**
Total	**1,103,172**	**8,738**	**888,262**	**223,648**

Note: Issued stock decreased by 154,234,032 shares due to the one-for-five reverse stock split of the Company's shares effective October 1, 2017.
Treasury stock increased by 8,738 shares due to the purchase of shares less than one unit.
Treasury stock decreased by 886,647 shares due to the one-for-five reverse stock split of the Company's shares effective October 1, 2017, and by 1,615 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 27, 2017	**Annual general meeting of shareholders**	**Common stock**	**383**	**3,604**	**2.0**	**0.01**	**March 31, 2017**	**June 28, 2017**

For the year ended March 31, 2017

(a) Type and number of outstanding shares

	Number of shares			
Type of shares	Balance at beginning of year	Increase in shares during the year	Decrease in shares during the year	Balance at end of year
Issued stock:				
Common stock	192,792,539	—	—	192,792,539
Total	192,792,539	—	—	192,792,539
Treasury stock:				
Common stock	1,089,256	14,076	160	1,103,172
Total	1,089,256	14,076	160	1,103,172

Note: Treasury stock increased by 14,076 shares due to the purchase of shares less than one unit.
Treasury stock decreased by 160 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 29, 2016	Annual general meeting of shareholders	Common stock	766	4.0	March 31, 2016	June 30, 2016

(b-2) Dividends with a shareholders' cut-off date during the fiscal year ended March 31, 2017 but an effective date in the fiscal year ended March 31, 2018

Date of approval	Resolution approved by	Paid from	Type of shares	Amount (Millions of yen)	Amount per share (Yen)	Shareholders' cut-off date	Effective date
June 27, 2017	Annual general meeting of shareholders	Retained earnings	Common stock	383	2.0	March 31, 2017	June 28, 2017

15. 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, 2018 and 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31,	**2018**	2017	**2018**
Cash and deposits	**¥ 111,068**	¥ 126,042	**$ 1,045,345**
Time deposits with maturities over 3 months	**(4,532)**	(3,338)	**(42,654)**
Cash and cash equivalents	**¥ 106,536**	¥ 122,703	**$ 1,002,691**

16. LEASES

(a) Finance Leases

Future minimum lease payments subsequent to March 31, 2018 for finance leases are omitted as being immaterial.

(b) Operating Leases

Operating Leases (as Lessee)

Future minimum lease payments subsequent to March 31, 2018 for noncancelable operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
As of March 31,	**2018**	**2018**
Within 1 year	**¥ 631**	**$ 5,938**
Over 1 year	**968**	**9,110**
Total	**¥ 1,600**	**$ 15,058**

17. FINANCIAL INSTRUMENTS

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 borrowings 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 purposes.

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 awarded contracts, letters of credit, and export credit insurance. The Company minimizes exchange fluctuation risks by entering into corresponding forward-exchange contracts, in principle.

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

Notes payable, accounts payable for construction contracts and other are mostly due within 1 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:
The following does not include items for which it is extremely difficult to determine the fair value.

	Millions of yen		
At March 31, 2018	Book Value	Fair Value	Unrealized gain / (loss)
(1)Cash and deposits	**¥ 111,068**	**¥ 111,068**	**¥ —**
(2)Notes receivable, accounts receivable from completed construction contracts	**62,057**		
Less: Allowance for doubtful accounts (*1)	**(956)**		
Notes receivable, accounts receivable from completed construction contracts, net	**61,100**	**61,119**	**18**
(3)Accounts receivables-other	**7,850**		
Less: Allowance for doubtful accounts (*1)	**(1)**		
Accounts receivable-other, net	**7,848**	**7,848**	**0**
(4)Short-term investments in securities and investments in securities			
Available-for-sale securities	**2,126**	**2,126**	**—**
Total of assets	**182,144**	**182,163**	**19**
(1)Notes and accounts payable for construction contracts and other	**104,715**	**104,724**	**8**
(2)Short-term loans payable	**566**	**566**	**—**
(3)Long-term loans payable (including current portion)	**30,217**	**30,248**	**30**
Total of liabilities	**135,500**	**135,539**	**39**
Derivatives (*2)			
not designated as hedging instruments	**(341)**	**(341)**	**—**
designated as hedging instruments	**(802)**	**(802)**	**—**
Total derivatives	**¥ (1,144)**	**¥ (1,144)**	**¥ —**

	Thousands of U.S. dollars		
At March 31, 2018	Book Value	Fair Value	Unrealized gain / (loss)
(1)Cash and deposits	**$ 1,045,345**	**$ 1,045,345**	**$ —**
(2)Notes receivable, accounts receivable from completed construction contracts	**584,065**		
Less: Allowance for doubtful accounts (*1)	**(8,997)**		
Notes receivable, accounts receivable from completed construction contracts, net	**575,058**	**575,237**	**169**
(3)Accounts receivables-other	**73,882**		
Less: Allowance for doubtful accounts (*1)	**(9)**		
Accounts receivable-other, net	**73,863**	**73,863**	**0**
(4)Short-term investments in securities and investments in securities			
Available-for-sale securities	**20,009**	**20,009**	**—**
Total of assets	**1,714,296**	**1,714,475**	**178**
(1)Notes and accounts payable for construction contracts and other	**985,552**	**985,637**	**75**
(2)Short-term loans payable	**5,327**	**5,327**	**—**
(3)Long-term loans payable (including current portion)	**284,395**	**284,687**	**282**
Total of liabilities	**1,275,294**	**1,275,661**	**367**
Derivatives (*2)			
not designated as hedging instruments	**(3,209)**	**(3,209)**	**—**
designated as hedging instruments	**(7,548)**	**(7,548)**	**—**
Total derivatives	**$ (10,767)**	**$ (10,767)**	**$ —**

(*1) 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.

(*2) 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, 2017	Book Value	Fair Value	Unrealized gain / (loss)
	Millions of yen		
(1)Cash and deposits	¥ 126,042	¥ 126,042	¥ —
(2)Notes receivable, accounts receivable from completed construction contracts	88,394		
Less: Allowance for doubtful accounts (*1)	(855)		
Notes receivable, accounts receivable from completed construction contracts, net	87,538	87,562	23
(3)Accounts receivables-other	6,730		
Less: Allowance for doubtful accounts (*1)	(67)		
Accounts receivable-other, net	6,662	6,662	—
(4)Short-term investments in securities and investments in securities			
Available-for-sale securities	5,835	5,835	—
Total of assets	226,078	226,102	23
(1)Notes and accounts payable for construction contracts and other	123,444	123,444	0
(2)Short-term loans payable	2,000	2,000	—
(3)Long-term loans payable (including current portion)	29,788	29,838	50
Total of liabilities	155,232	155,283	51
Derivatives (*2)			
not designated as hedging instruments	(189)	(189)	—
designated as hedging instruments	(3,803)	(3,803)	—
Total derivatives	¥ (3,992)	¥ (3,992)	¥ —

(*1) 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.

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

Book values for items which are settled in a short-term are used as fair values of these items because they are nearly equal to such book values. Fair values of other items are based on the present value discounted by an appropriate discount rate coupled with the remaining maturity 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 financial institutions.

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 an appropriate discount rate coupled with the remaining maturity 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 “19. DERIVATIVE TRANSACTIONS“.

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

Unlisted securities that amounted to ¥2,195 million ($20,658 thousand) as of March 31, 2018 and ¥2,210 million as of March 31, 2017 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, and short-term investments and investment securities with maturities

	Millions of yen			
At March 31, 2018	Within 1 year	After 1 year through 5 years	After 5 years through 10 years	After 10 years
Cash and deposits	**¥ 111,068**	**¥ —**	**¥ —**	**¥ —**
Notes and accounts receivable from completed construction contracts	**54,188**	**7,868**	**—**	**—**
Accounts receivable-other	**7,682**	**167**	**—**	**—**
Available-for-sale securities	**1,049**	**—**	**—**	**—**
Total	**¥ 173,990**	**¥ 8,035**	**¥ —**	**¥ —**

	Thousands of U.S. dollars			
At March 31, 2018	Within 1 year	After 1 year through 5 years	After 5 years through 10 years	After 10 years
Cash and deposits	**$ 1,045,345**	**$ —**	**$ —**	**$ —**
Notes and accounts receivable from completed construction contracts	**510,004**	**74,051**	**—**	**—**
Accounts receivable-other	**72,301**	**1,571**	**—**	**—**
Available-for-sale securities	**9,872**	**—**	**—**	**—**
Total	**$ 1,637,552**	**$ 75,623**	**$ —**	**$ —**

	Millions of yen			
At March 31, 2017	Within 1 year	After 1 year through 5 years	After 5 years through 10 years	After 10 years
Cash and deposits	¥ 126,042	¥ —	¥ —	¥ —
Notes and accounts receivable from completed construction contracts	81,718	6,675	—	—
Accounts receivable-other	6,662	67	—	—
Available-for-sale securities	1,175	—	—	—
Total	¥ 215,599	¥ 6,743	¥ —	¥ —

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

See "8. SHORT-TERM AND LONG-TERM DEBT".

18. SHORT-TERM INVESTMENTS IN SECURITIES AND INVESTMENTS IN SECURITIES

The acquisition cost, unrealized gain and loss and the related book value of available-for-sale securities with available fair values at March 31, 2018 are summarized as follows:

	Millions of yen		
At March 31, 2018	Book value	Acquisition cost	Unrealized gain
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	**¥ 1,076**	**¥ 529**	**¥ 547**
Subtotal	**¥ 1,076**	**¥ 529**	**¥ 547**
Securities whose carrying value does not exceed their acquisition costs:			
Debt securities	**¥ 1,049**	**¥ 1,049**	**¥ —**
Subtotal	**¥ 1,049**	**¥ 1,049**	**¥ —**
Total	**¥ 2,126**	**¥ 1,579**	**¥ 547**

	Thousands of U.S. dollars		
At March 31, 2018	Book value	Acquisition cost	Unrealized gain
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	**$ 10,127**	**$ 4,978**	**$ 5,148**
Subtotal	**$ 10,127**	**$ 4,978**	**$ 5,148**
Securities whose carrying value does not exceed their acquisition costs:			
Debt securities	**$ 9,872**	**$ 9,872**	**$ —**
Subtotal	**$ 9,872**	**$ 9,872**	**$ —**
Total	**$ 20,009**	**$ 14,861**	**$ 5,148**

Proceeds from and gain on sales of securities at March 31, 2018 are as follows:

	Millions of yen		
At March 31, 2018	Proceeds	Gain on sales	Loss on sales
Equity securities	**¥ 3,738**	**¥ 3,060**	**¥ —**

	Thousands of U.S. dollars		
At March 31, 2018	Proceeds	Gain on sales	Loss on sales
Equity securities	**$ 35,181**	**$ 28,800**	**$ —**

The acquisition cost, unrealized gain and loss and the related book value of available-for-sale securities with available fair values at March 31, 2017 are summarized as follows:

	Millions of yen		
At March 31, 2017	Book value	Acquisition cost	Unrealized gain
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥ 4,659	¥ 987	¥ 3,672
Subtotal	¥ 4,659	¥ 987	¥ 3,672
Securities whose carrying value does not exceed their acquisition costs:			
Debt securities	¥ 1,175	¥ 1,175	¥ —
Subtotal	¥ 1,175	¥ 1,175	¥ —
Total	¥ 5,835	¥ 2,163	¥ 3,672

Proceeds from and gain on sales of securities at March 31, 2017 are as follows:

	Millions of yen		
At March 31, 2017	Proceeds	Gain on sales	Loss on sales
Equity securities	¥ 1,532	¥ 1,309	¥ —

19. DERIVATIVE TRANSACTIONS

For the year ended March 31, 2018

1. Derivatives not designated as hedging instruments

(1) Currency-related

	Millions of yen			
	All notional amounts	Notional amounts due over 1 year	Fair value	Unrealized gain / (loss)
Non-market transaction:				
Foreign exchange forward contracts				
Selling				
USD	**¥ 9,548**	**¥ 1,683**	**¥ (347)**	**¥ (347)**
Buying				
USD	**4**	**—**	**(0)**	**(0)**
EUR	**556**	**—**	**5**	**5**
Total	**¥ 10,109**	**¥ 1,683**	**¥ (341)**	**¥ (341)**

	Thousands of U.S. dollars			
	All notional amounts	Notional amounts due over 1 year	Fair value	Unrealized gain / (loss)
Non-market transaction:				
Foreign exchange forward contracts				
Selling				
USD	**$ 89,863**	**$ 15,840**	**$ (3,265)**	**$ (3,265)**
Buying				
USD	**37**	**—**	**(0)**	**(0)**
EUR	**5,232**	**—**	**47**	**47**
Total	**$ 95,143**	**$ 15,840**	**$ (3,209)**	**$ (3,209)**

2. Derivatives designated as hedging instruments

(1) Currency-related

	Millions of yen				
	Main hedged items	All notional amounts	Notional amounts due over 1 year	Fair value	Computational method of fair value
Deferral hedge accounting method:					
Foreign exchange forward contracts					
Selling	Accounts receivable and accounts payable				Based on prices offered by financial institutions
USD		**¥ 18,305**	**¥ 2,520**	**¥ (117)**	
EUR		**2,378**	**1,776**	**(1)**	
SEK		**410**	**—**	**29**	
THB		**2,277**	**—**	**(155)**	
Buying					
USD		**22,365**	**3,555**	**(507)**	
EUR		**3,360**	**734**	**(3)**	
SEK		**759**	**263**	**(46)**	
Alternative method:					
Foreign exchange forward contracts					
Selling	Accounts receivable and accounts payable			N/A	Based on forward exchange contract prices
USD		**11,049**	**4,187**		
EUR		**167**	**—**		
Buying					
USD		**336**	**—**		
EUR		**670**	**—**		
KRW		**190**	**—**		
Total		**¥ 62,271**	**¥ 13,038**		

	Main hedged items	All notional amounts	Notional amounts due over 1 year	Fair value	Computational method of fair value
	Thousands of U.S. dollars				
Deferral hedge accounting method:					
Foreign exchange forward contracts					
Selling	Accounts receivable and accounts payable				Based on prices offered by financial institutions
USD		**$ 172,282**	**$ 23,717**	**$ (1,101)**	
EUR		**22,381**	**16,715**	**(9)**	
SEK		**3,858**	**—**	**272**	
THB		**21,430**	**—**	**(1,458)**	
Buying					
USD		**210,494**	**33,458**	**(4,771)**	
EUR		**31,623**	**6,908**	**(28)**	
SEK		**7,143**	**2,475**	**(432)**	
Alternative method:					
Foreign exchange forward contracts					
Selling	Accounts receivable and accounts payable			N/A	Based on forward exchange contract prices
USD		**103,990**	**39,407**		
EUR		**1,571**	**—**		
Buying					
USD		**3,162**	**—**		
EUR		**6,305**	**—**		
KRW		**1,788**	**—**		
Total		**$ 586,080**	**$ 122,710**		

(2) Interest-related

	Transaction type	Main hedged items	All notional amounts	Notional amounts due over 1 year	Fair value	Computational method of fair value
	Millions of yen					
Accounting method:						
Special method for interest rate swap	Interest swap contracts floating for fixed rate swap	Long-term loans payable	**¥ 10,420**	**¥ 7,900**	N/A	Based on prices offered by financial institutions
Total			**¥ 10,420**	**¥ 7,900**		

	Transaction type	Main hedged items	All notional amounts	Notional amounts due over 1 year	Fair value	Computational method of fair value
	Thousands of U.S. dollars					
Accounting method:						
Special method for interest rate swap	Interest swap contracts floating for fixed rate swap	Long-term loans payable	**$ 98,070**	**$ 74,352**	N/A	Based on prices offered by financial institutions
Total			**$ 98,070**	**$ 74,352**		

For the year ended March 31, 2017

1. Derivatives not designated as hedging instruments

(1) Currency-related

	Millions of yen			
	All notional amounts	Notional amounts due over 1 year	Fair value	Unrealized gain / (loss)
Non-market transaction:				
Foreign exchange forward contracts				
Selling				
USD	¥ 2,993	¥ 85	¥ (163)	¥ (163)
EUR	440	—	(0)	(0)
Buying				
USD	28	—	(0)	(0)
EUR	630	23	(23)	(23)
JPY	51	—	(1)	(1)
Total	¥ 4,143	¥ 108	¥ (189)	¥ (189)

2. Derivatives designated as hedging instruments

(1) Currency-related

	Millions of yen				
	Main hedged items	All notional amounts	Notional amounts due over 1 year	Fair value	Computational method of fair value
Deferral hedge accounting method:					
Foreign exchange forward contracts					
Selling	Accounts receivable and accounts payable				Based on prices offered by financial institutions
USD		¥ 50,504	¥ 19,436	¥ (4,329)	
EUR		1,272	181	96	
SEK		6,808	128	406	
THB		2,018	747	(26)	
Buying					
USD		53,259	14,416	562	
EUR		6,607	459	(304)	
SEK		4,453	583	(178)	
KRW		518	179	(29)	
Alternative method:					
Foreign exchange forward contracts					
Selling	Accounts receivable and accounts payable			N/A	Based on forward exchange contract prices
USD		15,736	2,065		
EUR		477	—		
Buying					
USD		1,297	—		
EUR		868	52		
CAD		165	—		
KRW		265	—		
Total		¥ 144,255	¥ 38,251		

(2) Interest-related

	Millions of yen					
	Transaction type	Main hedged items	All notional amounts	Notional amounts due over 1 year	Fair value	Computational method of fair value
Accounting method:						
Special method for interest rate swap	Interest swap contracts floating for fixed rate swap	Long-term loans payable	¥ 11,940	¥ 11,040	N/A	Based on prices offered by financial institutions
Total			¥ 11,940	¥ 11,040		

20. RETIREMENT BENEFITS

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

The Company and certain consolidated subsidiaries provide lump-sum or pension which is based on salary and service time in the defined benefit plans and introduce cash balance-style pension plans in a part of defined benefit plans. In this institution, hypothetical individual employee accounts which are equal to the source of deposit and pension by each buyer are established. In these accounts, 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 a part of defined benefit plans, etc., retirement benefit trust is established.

In lump-sum payments plans (part of which becomes funded as a result of benefit trust although the system is unfunded), the lump-sum based on the salary and service time as retirement benefits is provided.

Defined contribution plans and lump-sum payments for certain consolidated subsidiaries are accounted for using the simplified method in which calculates retirement benefit liabilities and retirement benefit expenses.

(1) Changes in defined benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
April 1	**¥ 19,734**	¥ 19,833	**$ 185,731**
Balance at beginning of year	**19,734**	19,833	**185,731**
Service cost	**1,078**	1,076	**10,145**
Interest cost	**218**	221	**2,051**
Actuarial gains and losses	**(359)**	44	**(3,378)**
Benefit paid	**(1,309)**	(1,327)	**(12,320)**
Other	**78**	(114)	**734**
March 31	**¥ 19,441**	¥ 19,734	**$ 182,974**

(2) Changes in plan assets

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
April 1	**¥ 17,932**	¥ 14,100	**$ 168,771**
Expected return on plan assets	**415**	336	**3,905**
Actuarial gains and losses	**1,064**	16	**10,014**
Contributions by the employer	**619**	778	**5,825**
Amount of establishment retirement benefit trust	**—**	3,862	**—**
Benefit paid	**(1,142)**	(1,067)	**(10,748)**
Other	**115**	(95)	**1,082**
March 31	**¥ 19,004**	¥ 17,932	**$ 178,861**

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

The reconciliation of the defined benefit obligations and plan assets to net defined benefit liability and asset recognized in the consolidated balance sheets as of March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Funded defined benefit obligations	**¥ 18,214**	¥ 18,613	**$ 171,425**
Plan assets	**(19,004)**	(17,932)	**(178,861)**
Subtotal	**(789)**	681	**(7,425)**
Unfunded defined benefit obligations	**1,226**	1,120	**11,538**
Net amount of liability and asset recognized in consolidated balance sheets	**437**	1,802	**4,112**
Liabilities (net defined benefit liability)	**1,323**	1,802	**12,451**
Assets (net defined benefit asset)	**(886)**	—	**(8,338)**
Net amount of liability and asset recognized in consolidated balance sheets	**¥ 437**	¥ 1,802	**$ 4,112**

(4) Retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Service cost	**¥ 1,078**	¥ 1,076	**$ 10,145**
Interest cost	**218**	221	**2,051**
Expected return on plan assets	**(415)**	(336)	**(3,905)**
Amortization of actuarial gains and losses	**(392)**	(101)	**(3,689)**
Other	**(8)**	—	**(75)**
Total	**¥ 480**	¥ 860	**$ 4,517**

(5) Remeasurements of defined benefit plans

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Actuarial gains (losses)	**¥ 1,030**	¥ (129)	**$ 9,694**
Total	**¥ 1,030**	¥ (129)	**$ 9,694**

(6) Accumulated remeasurements of defined benefit plans

The unrecognized actuarial gains and losses recognized in accumulated other comprehensive income (amount before income tax effect) as of March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Unrecognized actuarial gains and losses	**¥ 1,023**	¥ (7)	**$ 9,628**
Total	**¥ 1,023**	¥ (7)	**$ 9,628**

(7) Major breakdown of plan assets

	2018	2017
Components of net periodic benefit cost		
Securities	**27%**	31%
Stocks	**47%**	44%
Cash and deposits	**10%**	10%
Other	**16%**	15%
Total	**100%**	100%

23% and 21% of total plan assets as of March 31, 2018 and 2017, respectively, are included in the retirement benefit trust.

(8) Basis of actuarial calculation

Basis of calculation of projected benefit obligation for the years ended March 31, 2018 and 2017 are as follows:

	2018	2017
Discount rate	**Mainly 0.08%**	Mainly 0.08%
Expected rate of return on plan assets	**Mainly 2.0%**	Mainly 2.0%
Expected salary increase rate	**Mainly 3.4%**	Mainly 3.4%

Defined contribution plans

The contributions by the Company and subsidiaries to the defined contribution plans were ¥235 million ($2,211 thousand) and ¥579 million for the years ended March 31, 2018 and 2017, respectively.

21. INCOME TAXES

The statutory tax rate applicable to the Company and its domestic subsidiaries for the year ended March 31, 2018 and 2017 was approximately 30.7%. Income taxes of the foreign subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

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

	Millions of yen		Thousands of U.S. dollars
As of March 31,	**2018**	2017	**2018**
Deferred tax assets (gross):			
Net defined benefit liability	**¥ 82**	¥ 1,483	**$ 771**
Deferred losses on hedges	**—**	941	**—**
Operating loss carry forwards	**71**	492	**668**
Tax adjustment of sales by percentage of completion method	**55**	269	**517**
Provision for loss on construction contracts	**1,394**	1,112	**13,120**
Provision for bonuses	**29**	136	**272**
Accounts payable for construction contracts	**747**	874	**7,030**
Other	**494**	1,212	**4,649**
Total deferred tax assets (gross)	**2,874**	6,524	**27,049**
Deferred tax assets-Deferred tax liabilities	**(447)**	(2,380)	**(4,207)**
Total deferred tax assets	**2,427**	4,144	**22,842**
Deferred tax liabilities (gross):			
Undistributed earnings of subsidiaries and affiliates	**1,452**	1,341	**13,665**
Valuation difference on available-for-sale securities	**162**	1,062	**1,524**
Gain on securities contribution to retirement benefits trust	**644**	638	**6,061**
Other	**864**	940	**8,131**
Total deferred tax liabilities (gross)	**3,123**	3,982	**29,392**
Deferred tax assets-Deferred tax liabilities	**(447)**	(2,380)	**(4,207)**
Deferred tax liabilities	**2,676**	1,602	**25,185**
Net deferred tax (liabilities) assets	**¥ (249)**	¥ 2,542	**$ (2,343)**

Note: The Company and its consolidated subsidiaries had temporary differences excluded from calculation of deferred tax assets of ¥13,271 million ($124,903 thousand) and ¥6,335 million at March 31, 2018 and 2017, respectively, which are available to be offset against future taxable income.

(2) The effective tax rate on income before income taxes in the accompanying consolidated statements of operations was not equal to the above-mentioned statutory tax rate for the following reasons for the year ended March 31, 2017.

Year ended March 31,	2017
Statutory tax rate in Japan	30.7%
Adjustments:	
Permanently nondeductible expenses	3.9
Permanently nontaxable etc.	(0.3)
Per capita levy on corporate inhabitant tax	0.2
Temporary differences excluded from calculation of deferred tax assets	8.2
Difference in tax rates for foreign subsidiaries	(8.3)
Difference in tax base between corporate income tax and enterprise tax	(0.7)
Operating loss carry forwards etc.	12.8
Equity in earnings of affiliates	(0.1)
Adjustment of tax in prior years	14.4
Non-income based tax in foreign countries	8.8
Other	5.2
Effective tax rate	74.8

As loss before income taxes is recorded, the reconciliation of the difference between the statutory tax rate for and the effective tax rate for the year ended March 31, 2018 was omitted.

22. SEGMENT INFORMATION

(1) Information by geographical segment based on the locations of projects

	Millions of yen						
Year ended March 31, 2018	Japan	Malaysia	USA	Thailand	India	Other	Total
Net Sales	**¥ 68,542**	**¥ 73,151**	**¥ 40,224**	**¥ 55,596**	**¥ 42,946**	**¥ 55,236**	**¥ 335,697**

	Thousands of U.S. dollars						
Year ended March 31, 2018	Japan	Malaysia	USA	Thailand	India	Other	Total
Net Sales	**$ 645,101**	**$ 688,480**	**$ 378,578**	**$ 523,256**	**$ 404,197**	**$ 519,868**	**$ 3,159,501**

	Millions of yen			
Year ended March 31, 2018	Japan	Indonesia	Other	Total
Property, plant and equipment	**¥ 8,915**	**¥ 2,159**	**¥ 905**	**¥ 11,980**

	Thousands of U.S. dollars			
Year ended March 31, 2018	Japan	Indonesia	Other	Total
Property, plant and equipment	**$ 83,905**	**$ 20,320**	**$ 8,517**	**$ 112,752**

	Millions of yen						
Year ended March 31, 2017	Japan	Malaysia	USA	Thailand	India	Other	Total
Net Sales	¥ 71,032	¥ 96,663	¥ 80,714	¥ 52,198	¥ 17,186	¥ 114,120	¥ 431,917

	Millions of yen			
Year ended March 31, 2017	Japan	Indonesia	Other	Total
Property, plant and equipment	¥ 8,905	¥ 2,671	¥ 1,038	¥ 12,615

(Changes in presentation)

India, which had been included in "Other" for the year ended March 31, 2017, is presented separately for the year ended March 31, 2018 because the corresponding amount exceeded 10% of net sales on the consolidated statement of operations for the year.

To reflect this change in presentation, ¥17,186 million attributable to India for the year ended March 31, 2017, which had been previously included in "Other," was reclassified and presented separately.

(2) Information by major clients

	Millions of yen	
Year ended March 31, 2018	Net Sales	Segment
PRPC REFINERY AND CRACKER SDN. BHD.	**¥ 71,501**	**EPC**
Chambal Fertilisers and Chemicals Limited	**¥ 40,643**	**EPC**
Setouchi Future Creations, LLC	**¥ 34,436**	**EPC**
Shintech Louisiana, LLC	**¥ 33,817**	**EPC**

	Thousands of U.S. dollars	
Year ended March 31, 2018	Net Sales	Segment
PRPC REFINERY AND CRACKER SDN. BHD.	**$ 672,950**	**EPC**
Chambal Fertilisers and Chemicals Limited	**$ 382,522**	**EPC**
Setouchi Future Creations, LLC	**$ 324,103**	**EPC**
Shintech Louisiana, LLC	**$ 318,277**	**EPC**

	Millions of yen	
Year ended March 31, 2017	Net Sales	Segment
PRPC REFINERY AND CRACKER SDN. BHD.	¥ 95,216	EPC
Shintech Louisiana, LLC	¥ 62,733	EPC

23. RELATED PARTY INFORMATION

1. Related Party Transactions

For the year ended March 31, 2018

Name: NEDL-CONSTRUCOES DE DUTOS DO NORDESTE LTDA.	Summary of transactions	Millions of yen Transaction amount	Millions of yen Title of account	Millions of yen Account balance	Thousands of U.S. dollars Transaction amount	Thousands of U.S. dollars Title of account	Thousands of U.S. dollars Account balance
Category: Affiliate Address: Brazil Capital and investments: 13,456 thousands BRL Business: Construction Equity ownership percentage: 42% directly Relation with related party: Loan for operating fund	**Loan for operating fund**	**¥ —**	**Long-term loans receivable**	**¥ 3,707**	**$ —**	**Long-term loans receivable**	**$ 34,889**

For the year ended March 31, 2017

Name: NEDL-CONSTRUCOES DE DUTOS DO NORDESTE LTDA.	Summary of transactions	Millions of yen Transaction amount	Millions of yen Title of account	Millions of yen Account balance
Category: Affiliate Address: Brazil Capital and investments: 12,000 thousands BRL Business: Construction Equity ownership percentage: 42% directly Relation with related party: Loan for operating fund	Loan for operating fund	¥ —	Long-term loans receivable	¥ 3,707

Notes: 1. Interest rate on loan is determined by considering effective market rates.
2. The Company reserved ¥3,707 million ($34,889 thousand) of allowance for doubtful accounts at March 31, 2018, against the loan above.
3. The Company reserved ¥3,707 million of allowance for doubtful accounts at March 31, 2017, against the loan above.

For the year ended March 31, 2018

Name: Toyo Setal Empreendimentos Ltda.	Summary of transactions	Millions of yen Transaction amount	Millions of yen Title of account	Millions of yen Account balance	Thousands of U.S. dollars Transaction amount	Thousands of U.S. dollars Title of account	Thousands of U.S. dollars Account balance
Category: Affiliate Address: Brazil Capital and investments: 38,904 thousands BRL Business: Construction Equity ownership percentage: 50% indirectly Relation with related party: Contingent liabilities	**Contingent liabilities**	**¥ 2,039**	**—**	**¥ —**	**$ 19,190**	**—**	**$ —**

Notes: 1. Interest rate on loan is determined by considering effective market rates
2. Contingent liabilities are provided for refund guarantee etc. of Toyo Setal Empreendimentos Ltda..

For the year ended March 31, 2018

Name: Estaleiros do Brasil Ltda.	Summary of transactions	Millions of yen: Transaction amount	Millions of yen: Title of account	Millions of yen: Account balance	Thousands of U.S. dollars: Transaction amount	Thousands of U.S. dollars: Title of account	Thousands of U.S. dollars: Account balance
Category: Affiliate Address: Brazil Capital and investments: 57,749 thousands BRL	**Loan for operating fund**	**¥ 543**	**Short-term loans receivable**	**¥ 3,902**	**$ 5,110**	**Short-term loans receivable**	**$ 36,724**
Business: Construction Equity ownership percentage: 50% indirectly	**Repayment of loan for operating fund**	**4,027**	**—**	**—**	**37,901**	**—**	**—**
Relation with related party: Loan for operating fund	**Accured interst income**	**442**			**4,160**		

For the year ended March 31, 2017

Name: Estaleiros do Brasil Ltda.	Summary of transactions	Millions of yen: Transaction amount	Millions of yen: Title of account	Millions of yen: Account balance
Category: Affiliate Address: Brazil Capital and investments: 57,749 thousands BRL	Loan for operating fund	¥ 16,244	Short-term loans receivable	¥ 2,775
Business: Construction Equity ownership percentage: 50% indirectly	Repayment of loan for operating fund	2,267	—	—
Relation with related party: Loan for operating fund	Accured interst income	204		

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

2. Summary of Financial Statements of Significant Affiliates

For the years ended March 31, 2018 and 2017, the significant affiliates were Moeco Thai Oil Development Co.,Ltd., MODEC and Toyo Offshore Production Systems Pte.Ltd. and TS Participações e Investimentos S.A. Their condensed financial information is as follows:

	Millions of yen		Thousands of U.S. dollars
As of and for the years ended March 31,	**2018**	2017	**2018**
Total current assets	**¥ 40,885**	¥ 61,981	**$ 384,800**
Total non-current assets	**13,208**	15,168	**124,310**
Total current liabilities	**57,089**	85,613	**537,308**
Total non-current liabilities	**4,732**	4,144	**44,536**
Total net asset deficiencies	**¥ (7,728)**	¥ (12,607)	**$ (72,734)**
Net sales	**¥ 24,247**	¥ 44,100	**$ 228,207**
Profit before income tax	**11,388**	3,651	**107,181**
Profit	**¥ 10,833**	¥ 2,122	**$ 101,957**

24. AMOUNTS PER SHARE

	Yen		U.S. dollars
As of and for the years ended March 31,	**2018**	2017	**2018**
Net assets per share	**¥ 654.91**	¥ 1,337.40	**$ 6.16**
(Loss) profit attributable to owners of parent per share	**(700.30)**	38.42	**(6.59)**

(Loss) profit attributable to owners of parent per share is computed based on the (loss) profit available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during each year.

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

The Company conducted a one-for-five reverse stock split of common shares effective October 1, 2017. The corresponding figures shown here have been calculated on the assumption that the reverse stock split had been conducted at the beginning of the previous fiscal year.

EY
Building a better working world

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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, 2018, and the consolidated statements of operations, comprehensive income (loss), 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, 2018, 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 28, 2018

A member firm of Ernst & Young Global Limited

Corporate Information

Corporate Data

Corporate Name:	Toyo Engineering Corporation
Founded:	May 1, 1961
Number of Employees:	4,085 (Consolidated, as of March 31, 2018)
Corporate Philosophy:	**Mission** **Engineering for Sustainable Growth of the Global Community** **Vision** **Global Leading Engineering Partner** **Values** **Integrity, Creativity, Diversity, Learning, Team**
Business Activities:	**Engineering and Construction for Industrial Facilities** R&D support, design, engineering, procurement, construction, commissioning, technical assistance for industrial facilities: oil, gas, oil & gas development, petrochemicals, chemicals, water treatment, transportation systems, power generation, nuclear power, advanced production systems, pharmaceutical, fine chemical, distribution systems, biotechnology, environment and others

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.

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.

2004 TOYO received ISO 14001 registration.
Toyo Engineering Corporation ,China established.

2006 Capital: 18,198 million yen

2007 Relocation of Tokyo head office.

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

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

2011 The 50th Anniversary
TOYO invested in PT. Inti Karya Persada Tehnik (IKPT) in Indonesia.

2012 TS Participações e Investimentos S.A. established in Brazil.
Consolidated Group logo developed.

2018 Haruo Nagamatsu was elected as President and CEO.

Worldwide Network

HEAD OFFICE

•Head Office/Engineering Center
Chiba, Japan

•Tokyo Head Office
Tokyo, Japan

OVERSEAS OFFICE

•Jakarta, Indonesia
•Tehran, Iran
•Moscow, Russia

OVERSEAS GROUP COMPANIES

•Toyo Engineering Korea Limited
Seoul, Korea

•Toyo Engineering Corporation (China)
Shanghai, China

•PT. Inti Karya Persada Tehnik (IKPT)
Jakarta, Indonesia

•Toyo Engineering & Construction Sdn. Bhd.
Kuala Lumpur, Malaysia

•Toyo Engineering India Private Limited
Mumbai, India

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

•Toyo Engineering Canada Ltd.
Calgary, Canada

•Toyo U.S.A., Inc.
Houston, U.S.A.

•TS Participações e Investimentos S.A.
Sao Paulo, Brazil

DOMESTIC GROUP COMPANIES

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

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

•TEC Air Service Corporation
Travel and insurance services

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

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

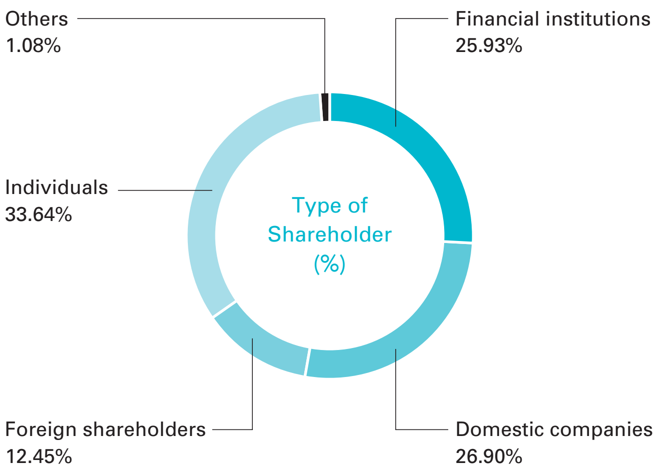
Stock Information (As of March 31, 2018)

Capital Stock	¥18,198 million
Stock Exchange Listing	Tokyo Stock Exchange
Authorized Shares	100,000,000
Capital Stock Issued	38,558,507
Number of Shareholders	17,650
Administrator of Shareholders' Register	Sumitomo Mitsui Trust Bank, Limited 1-4-1 Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan

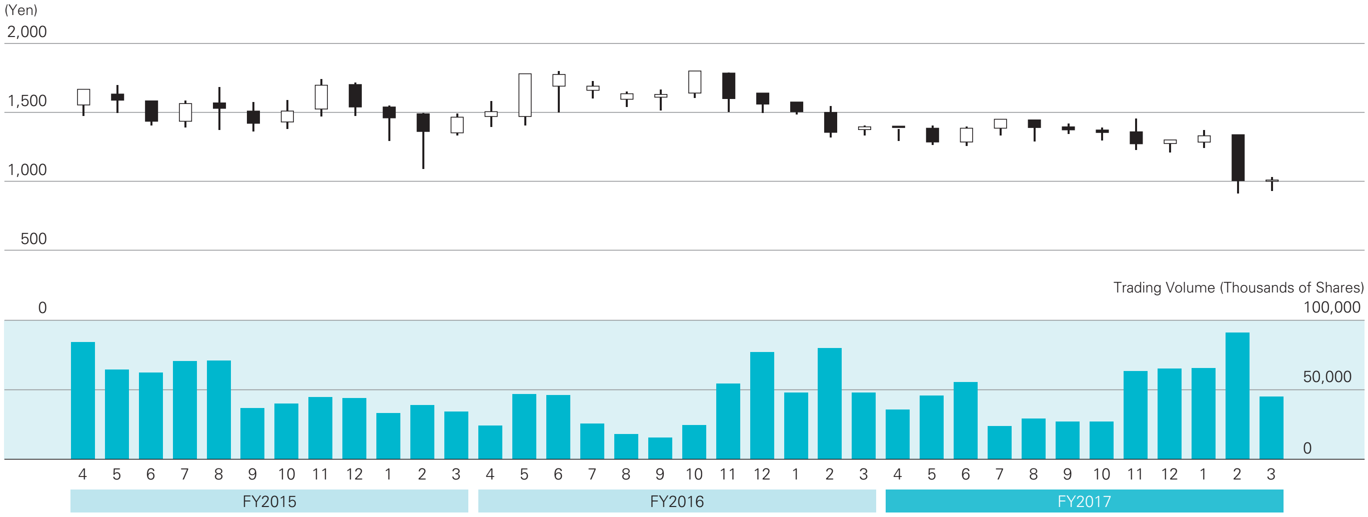
Major Shareholders

	Number of shares (thousands)	Percentage of total (%)
Mitsui & Co., Ltd.	8,754	22.70
Japan Trustee Services Bank, Ltd. (Sumitomo Mitsui Trust Bank, Limited Re-trust Account, Mitsui Chemicals, Inc. Pension Trust Account)	5,140	13.33
The Bank of New York, Non-Treaty Jasdec Account	1,669	4.33
Taisei Corporation	1,000	2.59
State Street Bank And Trust Company	922	2.39
Japan Trustee Services Bank, Ltd. Trust Account 9	598	1.55
The Master Trust Bank of Japan, Ltd. Trust Account	525	1.36
Japan Trustee Services Bank, Ltd. Trust Account 5	502	1.30
Sumitomo Mitsui Banking Corporation	470	1.21
Japan Trustee Services Bank, Ltd. Trust Account	419	1.08

Types of Shareholder



Stock Chart



*Stock prices are converted taking into account the impact of share consolidation.

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