



# Financial Report 2019

Year ended March 31, 2019

# Consolidated Financial Statements

## Consolidated Balance Sheets

Toyo Engineering Corporation and Consolidated Subsidiaries As of March 31, 2019 and 2018

| Assets  | Millions of yen  |                  | Thousands of U.S. dollars (Note 1) |
|---|------------------|------------------|------------------------------------|
|   | 2019             | 2018             | 2019                               |
| <b>Current assets:</b>  |                  |                  |                                    |
| Cash and deposits (Note 15)   | ¥ 101,759        | ¥ 111,068        | \$ 916,747                         |
| Notes receivable, accounts receivable from completed construction contracts and other | 68,193           | 62,057           | 614,351                            |
| Short-term investments in securities (Notes 4, 18)                                    | —                | 1,049            | —                                  |
| Costs on uncompleted construction contracts (Note 7)                                  | 26,422           | 31,798           | 238,036                            |
| Accounts receivable-other   | 5,793            | 7,850            | 52,189                             |
| Other   | 11,187           | 8,498            | 100,783                            |
| Allowance for doubtful accounts   | (655)            | (970)            | (5,900)                            |
| Total current assets  | 212,700          | 221,352          | 1,916,216                          |
| <b>Property, plant and equipment:</b>   |                  |                  |                                    |
| Buildings and structures (Note 4)   | 14,581           | 16,013           | 131,360                            |
| Machinery, vehicles, tools, furniture and fixtures                                    | 5,113            | 5,296            | 46,063                             |
| Land (Note 4)   | 6,289            | 6,601            | 56,657                             |
| Leased assets   | 44               | 45               | 396                                |
| Construction in progress  | 36               | 4                | 324                                |
| Accumulated depreciation and impairment loss  | (14,869)         | (15,980)         | (133,954)                          |
| Total property, plant and equipment   | 11,196           | 11,980           | 100,864                            |
| <b>Intangible assets:</b>   |                  |                  |                                    |
| Goodwill  | —                | 1                | —                                  |
| Other   | 983              | 956              | 8,855                              |
| Total intangible assets   | 983              | 958              | 8,855                              |
| <b>Investments and other assets:</b>  |                  |                  |                                    |
| Investments in securities (Notes 3, 18)   | 5,895            | 10,335           | 53,108                             |
| Long-term loans receivable  | 4,572            | 4,572            | 41,189                             |
| Net defined benefit asset (Note 20)   | 635              | 886              | 5,720                              |
| Deferred income taxes (Note 21)   | 828              | 1,305            | 7,459                              |
| Other (Notes 3, 4)  | 7,468            | 5,029            | 67,279                             |
| Allowance for doubtful accounts   | (4,585)          | (4,560)          | (41,306)                           |
| Total investments and other assets  | 14,813           | 17,569           | 133,450                            |
| Total non-current assets  | 26,993           | 30,508           | 243,180                            |
| <b>Total assets</b>   | <b>¥ 239,694</b> | <b>¥ 251,861</b> | <b>\$ 2,159,405</b>                |

See notes to consolidated financial statements.

| Liabilities and Net Assets:  | Millions of yen  |                  | Thousands of U.S. dollars (Note 1) |
|--|------------------|------------------|------------------------------------|
|  | 2019             | 2018             | 2019                               |
| <b>Current liabilities:</b>  |                  |                  |                                    |
| Notes payable, accounts payable for construction contracts and other | ¥ 82,509         | ¥ 104,715        | \$ 743,324                         |
| Short-term loans payable (Notes 4, 6, 8)                             | 13,374           | 7,125            | 120,486                            |
| Income taxes payable   | 701              | 624              | 6,315                              |
| Advances received on uncompleted construction contracts              | 69,296           | 62,492           | 624,288                            |
| Provision for bonuses  | 778              | 407              | 7,009                              |
| Provision for warranties for completed construction                  | 273              | 52               | 2,459                              |
| Provision for loss on construction contracts (Note 11)               | 2,144            | 13,889           | 19,315                             |
| Forward exchange contracts   | 1,647            | 1,808            | 14,837                             |
| Other  | 7,718            | 7,285            | 69,531                             |
| Total current liabilities  | 178,443          | 198,402          | 1,607,594                          |
| <b>Non-current liabilities:</b>                                      |                  |                  |                                    |
| Long-term loans payable (Notes 4, 6, 8)                              | 19,294           | 23,659           | 173,819                            |
| Lease obligations  | 27               | 42               | 243                                |
| Deferred income taxes (Note 21)                                      | 2,238            | 1,555            | 20,162                             |
| Net defined benefit liability (Note 20)                              | 1,200            | 1,323            | 10,810                             |
| Provision for losses on business of subsidiaries and affiliates      | 440              | 123              | 3,963                              |
| Other  | 1,691            | 1,578            | 15,234                             |
| Total non-current liabilities  | 24,893           | 28,282           | 224,261                            |
| Total liabilities  | 203,337          | 226,684          | 1,831,864                          |
| <b>Contingent liabilities (Note 5)</b>                               |                  |                  |                                    |
| <b>Net assets:</b>   |                  |                  |                                    |
| <b>Shareholders' equity:</b>   |                  |                  |                                    |
| Capital stock (Note 14)  | 18,198           | 18,198           | 163,945                            |
| Capital surplus  | 25,749           | 10,749           | 231,972                            |
| Retained deficit   | (8,984)          | (8,165)          | (80,936)                           |
| Treasury stock, at cost  | (445)            | (444)            | (4,009)                            |
| Total shareholders' equity   | 34,519           | 20,338           | 310,981                            |
| <b>Accumulated other comprehensive income:</b>                       |                  |                  |                                    |
| Valuation difference on available-for-sale securities                | (123)            | 8                | (1,108)                            |
| Deferred losses on hedges  | (1,463)          | (801)            | (13,180)                           |
| Foreign currency translation adjustments                             | 2,908            | 4,835            | 26,198                             |
| Remeasurements of defined benefit plans                              | 400              | 725              | 3,603                              |
| Total accumulated other comprehensive income                         | 1,722            | 4,767            | 15,513                             |
| <b>Non-controlling interests</b>                                     | <b>116</b>       | <b>71</b>        | <b>1,045</b>                       |
| <b>Total net assets</b>  | <b>36,357</b>    | <b>25,176</b>    | <b>327,540</b>                     |
| <b>Total liabilities and net assets</b>                              | <b>¥ 239,694</b> | <b>¥ 251,861</b> | <b>\$ 2,159,405</b>                |

## Consolidated Statements of Operations

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2019 and 2018

|   | Millions of yen  |            | Thousands of U.S.<br>dollars (Note 1) |
|---|------------------|------------|---------------------------------------|
|   | 2019             | 2018       | 2019                                  |
| <b>Net sales</b>  | <b>¥ 294,993</b> | ¥ 335,697  | <b>\$ 2,657,594</b>                   |
| <b>Cost of sales (Note 11)</b>                                    | <b>284,356</b>   | 348,219    | <b>2,561,765</b>                      |
| Gross profit (loss)   | <b>10,636</b>    | (12,521)   | <b>95,819</b>                         |
| <b>Selling, general and administrative expenses (Notes 9, 10)</b> | <b>16,250</b>    | 20,429     | <b>146,396</b>                        |
| <b>Operating loss</b>   | <b>(5,613)</b>   | (32,951)   | <b>(50,567)</b>                       |
| <b>Non-operating income:</b>                                      |                  |            |                                       |
| Interest income   | <b>3,714</b>     | 1,039      | <b>33,459</b>                         |
| Dividends income  | <b>190</b>       | 110        | <b>1,711</b>                          |
| Equity in earnings of affiliates                                  | <b>6,408</b>     | 5,909      | <b>57,729</b>                         |
| Reversal of allowance for doubtful accounts                       | <b>280</b>       | 18         | <b>2,522</b>                          |
| Miscellaneous income  | <b>581</b>       | 560        | <b>5,234</b>                          |
| Total non-operating income  | <b>11,175</b>    | 7,638      | <b>100,675</b>                        |
| <b>Non-operating expenses:</b>                                    |                  |            |                                       |
| Interest expenses   | <b>342</b>       | 317        | <b>3,081</b>                          |
| Foreign exchange losses, net                                      | <b>128</b>       | 1,579      | <b>1,153</b>                          |
| Share issuance cost   | <b>839</b>       | —          | <b>7,558</b>                          |
| Miscellaneous expenses  | <b>824</b>       | 611        | <b>7,423</b>                          |
| Total non-operating expenses                                      | <b>2,134</b>     | 2,508      | <b>19,225</b>                         |
| <b>Ordinary income (loss)</b>                                     | <b>3,426</b>     | (27,821)   | <b>30,864</b>                         |
| <b>Extraordinary income:</b>                                      |                  |            |                                       |
| Gain on sales of property, plant and equipment (Note 12)          | <b>83</b>        | 397        | <b>747</b>                            |
| Gain on sales of investments in securities                        | <b>—</b>         | 2,714      | <b>—</b>                              |
| Gain on sales of investments in an affiliate                      | <b>—</b>         | 2,349      | <b>—</b>                              |
| Total extraordinary income  | <b>83</b>        | 5,461      | <b>747</b>                            |
| <b>Profit (loss) before income taxes</b>                          | <b>3,510</b>     | (22,359)   | <b>31,621</b>                         |
| <b>Income taxes (Note 21):</b>                                    |                  |            |                                       |
| Income taxes  | <b>3,101</b>     | 1,931      | <b>27,936</b>                         |
| Income taxes-deferred   | <b>1,180</b>     | 2,500      | <b>10,630</b>                         |
| Total income taxes  | <b>4,281</b>     | 4,431      | <b>38,567</b>                         |
| <b>Net loss</b>   | <b>(771)</b>     | (26,791)   | <b>(6,945)</b>                        |
| <b>Net loss attributable to:</b>                                  |                  |            |                                       |
| Non-controlling interests   | <b>46</b>        | 55         | <b>414</b>                            |
| Owners of parent  | <b>¥ (818)</b>   | ¥ (26,846) | <b>\$ (7,369)</b>                     |

See notes to consolidated financial statements.

## Consolidated Statements of Comprehensive Loss

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2019 and 2018

|  | Millions of yen  |            | Thousands of U.S.<br>dollars (Note 1) |
|--|------------------|------------|---------------------------------------|
|  | 2019             | 2018       | 2019                                  |
| <b>Net loss</b>  | <b>¥ (771)</b>   | ¥ (26,791) | <b>\$ (6,945)</b>                     |
| <b>Other comprehensive (loss) income (Note 13)</b>                                 |                  |            |                                       |
| Valuation difference on available-for-sale securities                              | <b>(131)</b>     | (2,237)    | <b>(1,180)</b>                        |
| Deferred (losses) gains on hedges  | <b>(661)</b>     | 2,049      | <b>(5,954)</b>                        |
| Foreign currency translation adjustments   | <b>(1,458)</b>   | 491        | <b>(13,135)</b>                       |
| Remeasurements of defined benefit plans  | <b>(325)</b>     | 730        | <b>(2,927)</b>                        |
| Share of other comprehensive loss of affiliates accounted for by the equity method | <b>(470)</b>     | (1)        | <b>(4,234)</b>                        |
| Total other comprehensive (loss) income  | <b>(3,047)</b>   | 1,032      | <b>(27,450)</b>                       |
| <b>Comprehensive loss</b>  | <b>¥ (3,818)</b> | ¥ (25,758) | <b>\$ (34,396)</b>                    |
| <b>Comprehensive loss attributable to:</b>   |                  |            |                                       |
| Owners of parent   | <b>(3,863)</b>   | (25,797)   | <b>(34,801)</b>                       |
| Non-controlling interests  | <b>45</b>        | 39         | <b>405</b>                            |

See notes to consolidated financial statements.

## Consolidated Statements of Changes in Net Assets

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2019 and 2018

|  | Millions of yen |                 |                  |                         |                            |   |                           |  |   |  |                           |                  |
|--|-----------------|-----------------|------------------|-------------------------|----------------------------|---|---------------------------|--|---|--|---------------------------|------------------|
|  | Capital stock   | Capital surplus | Retained deficit | Treasury stock, at cost | Total shareholder's equity | Valuation difference on available-for-sale securities | Deferred losses on hedges | Foreign currency translation adjustments | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | Non-controlling 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          |

|  | Millions of yen |                 |                  |                         |                            |   |                           |  |   |  |                           |                  |
|--|-----------------|-----------------|------------------|-------------------------|----------------------------|---|---------------------------|--|---|--|---------------------------|------------------|
|  | Capital stock   | Capital surplus | Retained deficit | Treasury stock, at cost | Total shareholder's equity | Valuation difference on available-for-sale securities | Deferred losses on hedges | Foreign currency translation adjustments | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | Non-controlling interests | Total net assets |
| Balance at April 1, 2018                             | ¥18,198         | ¥10,749         | ¥(8,165)         | ¥(444)                  | ¥20,338                    | ¥8  | ¥(801)                    | ¥4,835                                   | ¥725                                    | ¥4,767                                       | ¥71                       | ¥25,176          |
| Issuance of shares                                   | 7,500           | 7,500           |                  |                         | 15,000                     |   |                           |  |   |  |                           | 15,000           |
| Transfer to capital surplus from capital stock       | (7,500)         | 7,500           |                  |                         |                            |   |                           |  |   |  |                           |                  |
| Loss attributable to owners of parent                |                 |                 | (818)            |                         | (818)                      |   |                           |  |   |  |                           | (818)            |
| Purchase of treasury stock                           |                 |                 |                  | (0)                     | (0)                        |   |                           |  |   |  |                           | (0)              |
| Sale of treasury stock                               |                 | (0)             |                  | 0                       | 0                          |   |                           |  |   |  |                           | 0                |
| Net changes of items other than shareholders' equity |                 |                 |                  |                         |                            | (131)   | (661)                     | (1,927)                                  | (325)                                   | (3,045)                                      | 45                        | (3,000)          |
| Balance at March 31, 2019                            | ¥18,198         | ¥25,749         | ¥(8,984)         | ¥(445)                  | ¥34,519                    | ¥(123)  | ¥(1,463)                  | ¥2,908                                   | ¥400                                    | ¥1,722                                       | ¥116                      | ¥36,357          |

|  | Thousands of U.S. dollars (Note 1) |                 |                  |                         |                            |   |                           |  |   |  |                           |                  |
|--|------------------------------------|-----------------|------------------|-------------------------|----------------------------|---|---------------------------|--|---|--|---------------------------|------------------|
|  | Capital stock                      | Capital surplus | Retained deficit | Treasury stock, at cost | Total shareholder's equity | Valuation difference on available-for-sale securities | Deferred losses on hedges | Foreign currency translation adjustments | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | Non-controlling interests | Total net assets |
| Balance at April 1, 2018                             | \$163,945                          | \$96,837        | \$(73,558)       | \$(4,000)               | \$183,225                  | \$72  | \$(7,216)                 | \$43,558                                 | \$6,531                                 | \$42,945                                     | \$639                     | \$226,810        |
| Issuance of shares                                   | 67,567                             | 67,567          |                  |                         | 135,135                    |   |                           |  |   |  |                           | 135,135          |
| Transfer to capital surplus from capital stock       | (67,567)                           | 67,567          |                  |                         |                            |   |                           |  |   |  |                           |                  |
| Loss attributable to owners of parent                |                                    |                 | (7,369)          |                         | (7,369)                    |   |                           |  |   |  |                           | (7,369)          |
| Purchase of treasury stock                           |                                    |                 |                  | (0)                     | (0)                        |   |                           |  |   |  |                           | (0)              |
| Sale of treasury stock                               |                                    | (0)             |                  | 0                       | 0                          |   |                           |  |   |  |                           | 0                |
| Net changes of items other than shareholders' equity |                                    |                 |                  |                         |                            | (1,180)   | (5,954)                   | (17,360)                                 | (2,927)                                 | (27,432)                                     | 405                       | (27,027)         |
| Balance at March 31, 2019                            | \$163,945                          | \$231,972       | \$(80,936)       | \$(4,009)               | \$310,981                  | \$(1,108)   | \$(13,180)                | \$26,198                                 | \$3,603                                 | \$15,513                                     | \$1,045                   | \$327,540        |

See notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2019 and 2018

|  | Millions of yen |                  | Thousands of U.S. dollars (Note 1) |
|--|-----------------|------------------|------------------------------------|
|  | 2019            | 2018             | 2019                               |
| <b>Cash flows from operating activities:</b>   |                 |                  |                                    |
| Profit (loss) before income taxes  | ¥ 3,510         | ¥ (22,359)       | \$ 31,621                          |
| Depreciation and amortization  | 1,233           | 1,221            | 11,108                             |
| Amortization of goodwill   | (9)             | (9)              | (81)                               |
| Decrease in allowance for doubtful accounts  | (289)           | (18)             | (2,603)                            |
| Decrease in net defined benefit liability  | (324)           | (334)            | (2,918)                            |
| (Decrease) increase in provision for loss on construction contracts                                | (11,739)        | 9,807            | (105,756)                          |
| Interest and dividends income  | (3,904)         | (1,149)          | (35,171)                           |
| Interest expenses  | 342             | 317              | 3,081                              |
| Foreign exchange (gains) losses  | (203)           | 147              | (1,828)                            |
| Gain on sales of property, plant and equipment   | (81)            | (396)            | (729)                              |
| Equity in earnings of affiliates   | (6,408)         | (5,909)          | (57,729)                           |
| Gain on sales of investments in securities   | (0)             | (2,714)          | (0)                                |
| Gain on sales of investments in an affiliate   | —               | (2,349)          | —                                  |
| (Increase) decrease in notes receivable, accounts receivable from completed construction contracts | (7,134)         | 26,202           | (64,270)                           |
| Decrease in costs on uncompleted construction contracts  | 5,091           | 17,716           | 45,864                             |
| Decrease (increase) in accounts receivable-other   | 1,569           | (1,290)          | 14,135                             |
| Decrease in notes and accounts payable-trade   | (21,042)        | (19,511)         | (189,567)                          |
| Increase (decrease) in advances received on uncompleted construction contracts                     | 7,250           | (24,548)         | 65,315                             |
| Other, net   | 2,599           | (251)            | 23,414                             |
| Subtotal   | (29,540)        | (25,429)         | (266,126)                          |
| Interest and dividends income received   | 6,678           | 5,108            | 60,162                             |
| Interest expenses paid   | (335)           | (319)            | (3,018)                            |
| Income taxes paid  | (2,632)         | (2,184)          | (23,711)                           |
| Net cash used in operating activities  | (25,828)        | (22,824)         | (232,684)                          |
| <b>Cash flows from investing activities:</b>   |                 |                  |                                    |
| Net decrease (increase) in time deposits   | 506             | (1,241)          | 4,558                              |
| Purchase of property, plant and equipment  | (561)           | (504)            | (5,054)                            |
| Proceeds from sales of property, plant and equipment   | 637             | 810              | 5,738                              |
| Purchase of intangible assets  | (335)           | (245)            | (3,018)                            |
| Purchase of investments in securities  | —               | (8)              | —                                  |
| Proceeds from sales of investments in securities   | 500             | 2,928            | 4,504                              |
| Proceeds from sales of investments in an affiliate   | —               | 3,837            | —                                  |
| Net (increase) decrease in short-term loans receivable   | (0)             | 1,585            | (0)                                |
| Other, net   | 606             | (773)            | 5,459                              |
| Net cash provided by investing activities  | 1,354           | 6,386            | 12,198                             |
| <b>Cash flows from financing activities:</b>   |                 |                  |                                    |
| Net increase (decrease) in short-term loans payable  | 7,358           | (1,433)          | 66,288                             |
| Proceeds from long-term loans payable  | 1,000           | 7,100            | 9,009                              |
| Repayment of long-term loans payable   | (6,581)         | (6,446)          | (59,288)                           |
| Repayment of finance lease obligations   | (7)             | (7)              | (63)                               |
| Proceeds from issuance of preferred stock  | 15,000          | —                | 135,135                            |
| Cash dividends paid  | —               | (383)            | —                                  |
| Other, net   | (0)             | (4)              | (0)                                |
| Net cash provided by (used in) financing activities  | 16,768          | (1,174)          | 151,063                            |
| <b>Effect of exchange rate change on cash and cash equivalents</b>                                 | <b>(923)</b>    | <b>1,445</b>     | <b>(8,315)</b>                     |
| <b>Net decrease in cash and cash equivalents</b>   | <b>(8,628)</b>  | <b>(16,167)</b>  | <b>(77,729)</b>                    |
| <b>Cash and cash equivalents at beginning of period</b>  | <b>106,536</b>  | <b>122,703</b>   | <b>959,783</b>                     |
| <b>Cash and cash equivalents at end of period (Note 15)</b>  | <b>¥ 97,907</b> | <b>¥ 106,536</b> | <b>\$ 882,045</b>                  |

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Toyo Engineering Corporation and Consolidated Subsidiaries

## 1. BASIS OF PREPARATION

Toyo Engineering Corporation (the "Company") and its domestic consolidated subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its 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 ¥111.00 to U.S.\$1.00 prevailing on March 31, 2019.

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, 2019, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 14 and 5, respectively.

Toyo Engineering Korea Limited, Toyo Engineering Corporation (China) and 6 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 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) Share Issuance Cost**

Share issuance cost is recorded at cost.

**(q) Consumption Taxes**

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

**(r) Consolidated Tax Return**

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

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

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

**(t) Income Taxes**

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

**(u) Research and Development Costs**

Research and development costs are charged to income when incurred.

**(v) 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.

Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries, etc. for Consolidated Financial Statements (ASBJ Practical Issues Task Force ("PITF") No. 18, September 14, 2018)

Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method (ASBJ PITF No. 24, September 14, 2018)

**(1) Overview**

The new practical solutions require a parent company to recognize income or loss from sales and impairment loss on equity instruments measured at fair value booked by foreign subsidiaries and associates as income or loss for the period, when foreign subsidiaries and associates apply "International Financial Reporting Standard ("IFRS") 9, Financial Instruments" and recognize subsequent changes of equity instruments measured at fair value in other comprehensive income.

**(2) Planned date of application**

The above accounting standard is scheduled to be applied from the beginning of the fiscal year ending March 31, 2020.

**(3) Effects of application of the accounting standard**

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

## IFRS 16 Leases

**(1) Overview**

The new accounting standard requires that lessees principally account for all leases on the balance sheet under a single model.

**(2) Planned date of application**

The above accounting standard is scheduled to be applied to overseas consolidated subsidiaries from the beginning of the fiscal year ending March 31, 2020.

**(3) Effects of application of the accounting standard**

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

**(Changes in Presentation)****(Partial amendments to Accounting Standard for Tax Effect Accounting)**

The Company applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) from the beginning of the fiscal year ended March 31, 2019. As such, deferred tax assets and deferred tax liabilities are included within investments and other assets and non-current liabilities, respectively, and related income tax disclosures have been expanded.

As a result, ¥714 million of deferred tax assets which had been included in "Deferred income taxes" of ¥1,836 million under current assets on the consolidated balance sheet as of March 31, 2018 are reclassified and included in "Deferred income taxes" of ¥1,305 million under investments and other assets. Deferred tax liabilities of ¥83 million which had been included in "Other" under current liabilities on the consolidated balance sheet as of March 31, 2018 are reclassified and included in "Deferred income taxes" of ¥1,555 million under non-current liabilities. In addition, deferred tax assets and deferred tax liabilities of the same legal entity have been offset. As a result, total assets in the consolidated balance sheet as of March 31, 2018 decreased by ¥1,121 million compared with that previously presented in the consolidated balance sheet.

Also, "Note 21 Income Taxes" in the notes to consolidated financial statements has been expanded in accordance with Note 8 and Note 9 of Interpretive Notes to Accounting for Tax Effect Accounting. However, comparative information for the year ended March 31, 2018 has not been disclosed in Note 21 in accordance with the transitional provisions set forth in Article 7 of the Partial Amendments.

**(Consolidated Statements of Operations)**

Foreign withholding taxes, which had been presented separately for the year ended March 31, 2018 is included in "Miscellaneous expenses" under non-operating expenses for the year ended March 31, 2019 because its materiality has decreased.

To reflect this change in presentation, foreign withholding taxes of ¥332 million, which had been previously presented separately, was reclassified as "Miscellaneous expenses" under non-operating expenses for the year ended March 31, 2018.

**3. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED 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, 2019 and 2018 are as follows:

| As of March 31,   | Millions of yen |         | Thousands of U.S. dollars |
|---|-----------------|---------|---------------------------|
|   | 2019            | 2018    | 2019                      |
| Investments in unconsolidated subsidiaries and affiliates | ¥ 3,685         | ¥ 7,447 | \$ 33,198                 |
| Other   | 690             | 679     | 6,216                     |

#### 4. PLEDGED ASSETS

The following assets at March 31, 2019 and 2018 were pledged as collateral:

| As of March 31,                      | Millions of yen |         | Thousands of U.S. dollars |
|--------------------------------------|-----------------|---------|---------------------------|
|                                      | 2019            | 2018    | 2019                      |
| Collateral                           |                 |         |                           |
| Short-term investments in securities | ¥ —             | ¥ 1,049 | \$ —                      |
| Buildings                            | 803             | 950     | 7,234                     |
| Land                                 | 969             | 1,112   | 8,729                     |
| Other                                | 99              | 57      | 891                       |
| Total                                | ¥ 1,872         | ¥ 3,170 | \$ 16,864                 |

These assets above were mainly pledged for issuing the performance bonds. The amount of liabilities with corresponding obligation as of March 31, 2019 and 2018 is as follows:

| As of March 31,          | Millions of yen |       | Thousands of U.S. dollars |
|--------------------------|-----------------|-------|---------------------------|
|                          | 2019            | 2018  | 2019                      |
| Liabilities              |                 |       |                           |
| Short-term loans payable | ¥ —             | ¥ 266 | \$ —                      |
| Total                    | ¥ —             | ¥ 266 | \$ —                      |

#### 5. CONTINGENT LIABILITIES

Contingent liabilities as of March 31, 2019 are as follows:

| Guaranteed parties               | Millions of yen | Thousands of U.S. dollars | Details             |
|----------------------------------|-----------------|---------------------------|---------------------|
| Toyo Setal Empreendimentos Ltda. | ¥ 1,601         | \$ 14,423                 | Refund guarantee    |
| Other                            | 175             | 1,576                     | Loan guarantee etc. |
| Total                            | ¥ 1,777         | \$ 16,009                 |                     |

#### 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 9 trading banks. The status of these commitment line contracts as of March 31, 2019 and 2018 is as follows:

| As of March 31,                               | Millions of yen |          | Thousands of U.S. dollars |
|---|-----------------|----------|---------------------------|
|   | 2019            | 2018     | 2019                      |
| Total amount of commitment line contracts     | ¥ 10,000        | ¥ 14,200 | \$ 90,090                 |
| Used amount                                   | 1,000           | 1,300    | 9,009                     |
| Available amount of commitment line contracts | ¥ 9,000         | ¥ 12,900 | \$ 81,081                 |

#### 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, 2019 and 2018 are as follows:

| As of March 31,                             | Millions of yen |       | Thousands of U.S. dollars |
|---|-----------------|-------|---------------------------|
|   | 2019            | 2018  | 2019                      |
| Costs on uncompleted construction contracts | ¥ 110           | ¥ 122 | \$ 990                    |

#### 8. SHORT-TERM AND LONG-TERM DEBT

The average interest rates on the short-term loans payable outstanding as of March 31, 2019 and 2018 are 0.69% and 2.17%, respectively.

The average interest rates on the current portion of long-term loans payable outstanding as of March 31, 2019 and 2018 are 1.56% and 1.26%, respectively.

The average interest rates on the long-term loans payable outstanding as of March 31, 2019 and 2018 are 1.24% and 1.26% respectively.

The following schedule shows the maturities of long-term loans payable subsequent to March 31, 2019:

| Years ended March 31, | Millions of yen | Thousands of U.S. dollars |
|-----------------------|-----------------|---------------------------|
| 2020                  | ¥ 5,474         | \$ 49,315                 |
| 2021                  | 10,030          | 90,360                    |
| 2022                  | 4,270           | 38,468                    |
| 2023                  | 4,452           | 40,108                    |
| 2024                  | 540             | 4,864                     |
| 2025 and thereafter   | —               | —                         |

The following schedule shows the maturities of lease obligations subsequent to March 31, 2019:

| Years ended March 31, | Millions of yen | Thousands of U.S. dollars |
|-----------------------|-----------------|---------------------------|
| 2020                  | ¥ 13            | \$ 117                    |
| 2021                  | 11              | 99                        |
| 2022                  | 9               | 81                        |
| 2023                  | 5               | 45                        |
| 2024                  | 0               | 0                         |

As of March 31, 2019 and 2018, short-term loans payable and long-term loans payable with financial covenants concerning the financial condition or business results of the Company and its consolidated subsidiaries and affiliates amounted to ¥11,240 million (\$101,261 thousand) and ¥13,677 million, respectively.

#### 9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The main components of selling, general and administrative expenses for the years ended March 31, 2019 and 2018 are as follows:

| Years ended March 31,          | Millions of yen |         | Thousands of U.S. dollars |
|--------------------------------|-----------------|---------|---------------------------|
|                                | 2019            | 2018    | 2019                      |
| Salaries                       | ¥ 7,241         | ¥ 9,952 | \$ 65,234                 |
| Provision for bonuses          | 312             | 82      | 2,810                     |
| Retirement benefit expenses    | 994             | 708     | 8,954                     |
| Depreciation                   | 308             | 324     | 2,774                     |
| Research and development costs | 798             | 689     | 7,189                     |

#### 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, 2019 and 2018 amounted to ¥798 million (\$7,189 thousand) and ¥689 million, respectively.

#### 11. PROVISION FOR LOSS ON CONSTRUCTION CONTRACTS

The amount of gross 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, 2019 and 2018 are as follows:

| Years ended March 31,                                  | Millions of yen |          | Thousands of U.S. dollars |
|--|-----------------|----------|---------------------------|
|  | 2019            | 2018     | 2019                      |
| Amount of provision for loss on construction contracts | ¥ 2,126         | ¥ 13,833 | \$ 19,153                 |

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

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

| Years ended March 31,                              | Millions of yen |       | Thousands of U.S. dollars |
|--|-----------------|-------|---------------------------|
|  | 2019            | 2018  | 2019                      |
| Buildings and structures                           | ¥ 44            | ¥ 147 | \$ 396                    |
| Machinery, vehicles, tools, furniture and fixtures | 3               | 4     | 27                        |
| Land   | 35              | 221   | 315                       |
| Other  | —               | 23    | —                         |
| Total  | ¥ 83            | ¥ 397 | \$ 747                    |

### 13. OTHER COMPREHENSIVE INCOME

| Years ended March 31,   | Millions of yen |         | Thousands of U.S. dollars |
|---|-----------------|---------|---------------------------|
|   | 2019            | 2018    | 2019                      |
| Valuation difference on available-for-sale securities:                                |                 |         |                           |
| Amount arising during the year  | ¥ (178)         | ¥ (77)  | \$ (1,603)                |
| Reclassification adjustments for gains and losses realized in profit or loss          | —               | (3,060) | —                         |
| Valuation difference on available-for-sale securities before tax effect               | (178)           | (3,137) | (1,603)                   |
| Tax effect  | 46              | 899     | 414                       |
| Valuation difference on available-for-sale securities                                 | (131)           | (2,237) | (1,180)                   |
| Deferred (losses) gains on hedges:  |                 |         |                           |
| Amount arising during the year  | (426)           | (251)   | (3,837)                   |
| Reclassification adjustments for gains and losses realized in profit or loss          | (234)           | 3,252   | (2,108)                   |
| Deferred (losses) gains on hedges before tax effect                                   | (660)           | 3,000   | (5,945)                   |
| Tax effect  | (0)             | (951)   | (0)                       |
| Deferred (losses) gains on hedges   | (661)           | 2,049   | (5,954)                   |
| Foreign currency translation adjustments:   |                 |         |                           |
| Amount arising during the year  | (1,458)         | 491     | (13,135)                  |
| Foreign currency translation adjustments before tax effect                            | (1,458)         | 491     | (13,135)                  |
| Foreign currency translation adjustments  | (1,458)         | 491     | (13,135)                  |
| Remeasurements of defined benefit plans:  |                 |         |                           |
| Amount arising during the year  | (194)           | 1,057   | (1,747)                   |
| Reclassification adjustments for gains and losses realized in profit or loss          | (258)           | (26)    | (2,324)                   |
| Remeasurements of defined benefit plans before tax effect                             | (452)           | 1,030   | (4,072)                   |
| Tax effect  | 127             | (299)   | 1,144                     |
| Remeasurements of defined benefit plans   | (325)           | 730     | (2,927)                   |
| Share of other comprehensive losses of affiliates accounted for by the equity method: |                 |         |                           |
| Amount arising during the year  | (470)           | (1)     | (4,234)                   |
| Total other comprehensive (loss) income   | ¥ (3,047)       | ¥ 1,032 | \$ (27,450)               |

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

#### For the year ended March 31, 2019

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

| Type of shares          | Number of shares             |                                    |                                    | Balance at end of year |
|-------------------------|------------------------------|------------------------------------|------------------------------------|------------------------|
|                         | Balance at beginning of year | Increase in shares during the year | Decrease in shares during the year |                        |
| Issued stock:           |                              |                                    |                                    |                        |
| Common stock            | 38,558,507                   | —                                  | —                                  | 38,558,507             |
| Class A preferred stock | —                            | 20,270,300                         | —                                  | 20,270,300             |
| Total                   | 38,558,507                   | 20,270,300                         | —                                  | 58,828,807             |
| Treasury stock:         |                              |                                    |                                    |                        |
| Common stock            | 223,648                      | 1,035                              | 3                                  | 224,680                |
| Total                   | 223,648                      | 1,035                              | 3                                  | 224,680                |

Note: Issued stock increased by 20,270,300 shares due to the issuance of Class A preferred stock.

Treasury stock increased by 1,035 shares due to the purchase of shares less than one unit.

Treasury stock decreased by 3 shares due to the sale of shares less than one unit.

For the year ended March 31, 2018

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

| Type of shares  | Number of shares             |                                    |                                    | Balance at end of year |
|-----------------|------------------------------|------------------------------------|------------------------------------|------------------------|
|                 | Balance at beginning of year | Increase in shares during the year | Decrease in shares during the year |                        |
| 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 per share (Yen) | Shareholders' cut-off date | Effective date |
|------------------|--|----------------|--------------------------|------------------------|----------------------------|----------------|
| June 27, 2017    | Annual general meeting of shareholders | 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, 2019 and 2018 are summarized as follows:

| As of March 31,                             | Millions of yen |           | Thousands of U.S. dollars |
|---|-----------------|-----------|---------------------------|
|   | 2019            | 2018      | 2019                      |
| Cash and deposits                           | ¥ 101,759       | ¥ 111,068 | \$ 916,747                |
| Time deposits with maturities over 3 months | (3,852)         | (4,532)   | (34,702)                  |
| Cash and cash equivalents                   | ¥ 97,907        | ¥ 106,536 | \$ 882,045                |

### 16. LEASES

#### (a) Finance Leases

Future minimum lease payments subsequent to March 31, 2019 for finance leases are omitted as being immaterial.

#### (b) Operating Leases

Operating Leases (as Lessee)

Future minimum lease payments subsequent to March 31, 2019 for noncancelable operating leases are summarized as follows:

| As of March 31, | Millions of yen | Thousands of U.S. dollars |
|-----------------|-----------------|---------------------------|
|                 | 2019            | 2019                      |
| Within 1 year   | ¥ 571           | \$ 5,144                  |
| Over 1 year     | 496             | 4,468                     |
| Total           | ¥ 1,068         | \$ 9,621                  |



## 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.

| At March 31, 2019  | Millions of yen |            |                          |
|--|-----------------|------------|--------------------------|
|  | Book Value      | Fair Value | Unrealized gain / (loss) |
| (1)Cash and deposits   | ¥ 101,759       | ¥ 101,759  | ¥ —                      |
| (2)Notes receivable, accounts receivable from completed construction contracts   | 68,193          |            |                          |
| Less: Allowance for doubtful accounts (*1)                                       | (648)           |            |                          |
| Notes receivable, accounts receivable from completed construction contracts, net | 67,545          | 67,546     | 0                        |
| (3)Accounts receivables-other  | 5,793           |            |                          |
| Less: Allowance for doubtful accounts (*1)                                       | (1)             |            |                          |
| Accounts receivable-other, net   | 5,791           | 5,793      | 2                        |
| (4)Investments in securities   |                 |            |                          |
| Available-for-sale securities  | 906             | 906        | —                        |
| Total of assets  | 176,003         | 176,006    | 3                        |
| (1)Notes and accounts payable for construction contracts and other               | 82,509          | 82,513     | 3                        |
| (2)Short-term loans payable  | 7,900           | 7,900      | —                        |
| (3)Long-term loans payable (including current portion)                           | 24,768          | 24,831     | 62                       |
| Total of liabilities   | 115,177         | 115,244    | 66                       |
| Derivatives (*2)   |                 |            |                          |
| not designated as hedging instruments  | (88)            | (88)       | —                        |
| designated as hedging instruments  | (1,462)         | (1,462)    | —                        |
| Total derivatives  | ¥ (1,551)       | ¥ (1,551)  | ¥ —                      |

| At March 31, 2019  | Thousands of U.S. dollars |             |                          |
|--|---------------------------|-------------|--------------------------|
|  | Book Value                | Fair Value  | Unrealized gain / (loss) |
| (1)Cash and deposits   | \$ 916,747                | \$ 916,747  | \$ —                     |
| (2)Notes receivable, accounts receivable from completed construction contracts   | 614,351                   |             |                          |
| Less: Allowance for doubtful accounts (*1)                                       | (5,837)                   |             |                          |
| Notes receivable, accounts receivable from completed construction contracts, net | 608,513                   | 608,522     | 0                        |
| (3)Accounts receivables-other  | 52,189                    |             |                          |
| Less: Allowance for doubtful accounts (*1)                                       | (9)                       |             |                          |
| Accounts receivable-other, net   | 52,171                    | 52,189      | 18                       |
| (4)Investments in securities   |                           |             |                          |
| Available-for-sale securities  | 8,162                     | 8,162       | —                        |
| Total of assets  | 1,585,612                 | 1,585,639   | 27                       |
| (1)Notes and accounts payable for construction contracts and other               | 743,324                   | 743,360     | 27                       |
| (2)Short-term loans payable  | 71,171                    | 71,171      | —                        |
| (3)Long-term loans payable (including current portion)                           | 223,135                   | 223,702     | 558                      |
| Total of liabilities   | 1,037,630                 | 1,038,234   | 594                      |
| Derivatives (*2)   |                           |             |                          |
| not designated as hedging instruments  | (792)                     | (792)       | —                        |
| designated as hedging instruments  | (13,171)                  | (13,171)    | —                        |
| Total derivatives  | \$ (13,972)               | \$ (13,972) | \$ —                     |

(\*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, 2018  | Millions of yen |            |                          |
|--|-----------------|------------|--------------------------|
|  | 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)  | ¥ —                      |

(\*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 investments in securities and investments in 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 ¥1,673 million (\$15,072 thousand) as of March 31, 2019 and ¥2,195 million as of March 31, 2018 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**

| At March 31, 2019   | Millions of yen |                              |                                |                |
|---|-----------------|------------------------------|--------------------------------|----------------|
|   | Within 1 year   | After 1 year through 5 years | After 5 years through 10 years | After 10 years |
| Cash and deposits   | ¥ 101,759       | ¥ —                          | ¥ —                            | ¥ —            |
| Notes and accounts receivable from completed construction contracts | 67,594          | 599                          | —                              | —              |
| Accounts receivable-other   | 5,105           | 688                          | —                              | —              |
| Total   | ¥ 174,459       | ¥ 1,287                      | ¥ —                            | ¥ —            |

| At March 31, 2019   | Thousands of U.S. dollars |                              |                                |                |
|---|---------------------------|------------------------------|--------------------------------|----------------|
|   | Within 1 year             | After 1 year through 5 years | After 5 years through 10 years | After 10 years |
| Cash and deposits   | \$ 916,747                | \$ —                         | \$ —                           | \$ —           |
| Notes and accounts receivable from completed construction contracts | 608,954                   | 5,396                        | —                              | —              |
| Accounts receivable-other   | 45,990                    | 6,198                        | —                              | —              |
| Total   | \$ 1,571,702              | \$ 11,594                    | \$ —                           | \$ —           |

| At March 31, 2018   | Millions of yen |                              |                                |                |
|---|-----------------|------------------------------|--------------------------------|----------------|
|   | 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                      | ¥ —                            | ¥ —            |

**(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, 2019 are summarized as follows:

| At March 31, 2019  | Millions of yen |                  |                 |
|--|-----------------|------------------|-----------------|
|  | Book value      | Acquisition cost | Unrealized gain |
| Securities whose carrying value exceeds their acquisition costs: |                 |                  |                 |
| Equity securities  | ¥ 906           | ¥ 529            | ¥ 376           |
| Total  | ¥ 906           | ¥ 529            | ¥ 376           |

| At March 31, 2019  | Thousands of U.S. dollars |                  |                 |
|--|---------------------------|------------------|-----------------|
|  | Book value                | Acquisition cost | Unrealized gain |
| Securities whose carrying value exceeds their acquisition costs: |                           |                  |                 |
| Equity securities  | \$ 8,162                  | \$ 4,765         | \$ 3,387        |
| Total  | \$ 8,162                  | \$ 4,765         | \$ 3,387        |

Proceeds from and gain on sales of securities for the year ended March 31, 2019 are as follows:

| At March 31, 2019 | Millions of yen |               |               |
|-------------------|-----------------|---------------|---------------|
|                   | Proceeds        | Gain on sales | Loss on sales |
| Equity securities | ¥ 500           | ¥ 0           | ¥ —           |

| At March 31, 2019 | Thousands of U.S. dollars |               |               |
|-------------------|---------------------------|---------------|---------------|
|                   | Proceeds                  | Gain on sales | Loss on sales |
| Equity securities | \$ 4,504                  | \$ 0          | \$ —          |

**Impairment of investments in securities**

For the year ended March 31, 2019, the Company recognized ¥13 million (\$117 thousand) of impairment loss on unconsolidated subsidiaries.

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:

| At March 31, 2018  | Millions of yen |                  |                 |
|--|-----------------|------------------|-----------------|
|  | 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           |

Proceeds from and gain on sales of securities for the year ended March 31, 2018 are as follows:

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

## 19. DERIVATIVE TRANSACTIONS

For the year ended March 31, 2019

### 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                                | ¥ 2,827              | ¥ —                              | ¥ 47       | ¥ 47                     |
| MYR                                | 5,147                | —                                | (123)      | (123)                    |
| Buying                             |                      |                                  |            |                          |
| USD                                | 863                  | 7                                | (6)        | (6)                      |
| EUR                                | 123                  | 23                               | (5)        | (5)                      |
| JPY                                | 84                   | —                                | (1)        | (1)                      |
| Total                              | ¥ 9,046              | ¥ 31                             | ¥ (88)     | ¥ (88)                   |

|                                    | 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                                | \$ 25,468                 | \$ —                             | \$ 423     | \$ 423                   |
| MYR                                | 46,369                    | —                                | (1,108)    | (1,108)                  |
| Buying                             |                           |                                  |            |                          |
| USD                                | 7,774                     | 63                               | (54)       | (54)                     |
| EUR                                | 1,108                     | 207                              | (45)       | (45)                     |
| JPY                                | 756                       | —                                | (9)        | (9)                      |
| Total                              | \$ 81,495                 | \$ 279                           | \$ (792)   | \$ (792)                 |

## 2. Derivatives designated as hedging instruments

(1) Currency-related

|                                    | Main hedged items                        | Millions of yen      |                                  |            | Computational method of fair value                |  |
|------------------------------------|--|----------------------|----------------------------------|------------|---|--|
|                                    |  | All notional amounts | Notional amounts due over 1 year | Fair value |   |  |
| Deferral hedge accounting method:  |  |                      |                                  |            |   |  |
| Foreign exchange forward contracts |  |                      |                                  |            |   |  |
| Selling                            |  |                      |                                  |            |   |  |
| USD                                |  | ¥ 15,148             | ¥ 3,324                          | ¥ (895)    | Based on prices offered by financial institutions |  |
| EUR                                | Accounts receivable and accounts payable | 5,840                | 1,764                            | 323        |   |  |
| Buying                             |  |                      |                                  |            |   |  |
| USD                                |  | 39,642               | 15,734                           | 164        |   |  |
| EUR                                |  | 23,321               | 11,428                           | (1,030)    |   |  |
| SEK                                |  | 204                  | —                                | (25)       |   |  |
| SGD                                |  | 51                   | 2                                | 0          |   |  |
| Alternative method:                |  |                      |                                  |            |   |  |
| Foreign exchange forward contracts |  |                      |                                  |            |   |  |
| Selling                            |  |                      |                                  |            |   |  |
| USD                                | Accounts receivable and accounts payable | 10,188               | —                                |            | Based on forward exchange contract prices         |  |
| EUR                                |  | 252                  | —                                |            |   |  |
| SEK                                |  | 16                   | —                                |            |   |  |
| Buying                             |  |                      |                                  |            |   |  |
| USD                                |  | 1,873                | 173                              |            |   |  |
| EUR                                |  | 678                  | —                                |            |   |  |
| Total                              |  | ¥ 97,218             | ¥ 32,428                         |            |   |  |

|                                    | Main hedged items                        | Thousands of U.S. dollars |                                  |            | Computational method of fair value                |  |
|------------------------------------|--|---------------------------|----------------------------------|------------|---|--|
|                                    |  | All notional amounts      | Notional amounts due over 1 year | Fair value |   |  |
| Deferral hedge accounting method:  |  |                           |                                  |            |   |  |
| Foreign exchange forward contracts |  |                           |                                  |            |   |  |
| Selling                            |  |                           |                                  |            |   |  |
| USD                                |  | \$ 136,468                | \$ 29,945                        | \$ (8,063) | Based on prices offered by financial institutions |  |
| EUR                                | Accounts receivable and accounts payable | 52,612                    | 15,891                           | 2,909      |   |  |
| Buying                             |  |                           |                                  |            |   |  |
| USD                                |  | 357,135                   | 141,747                          | 1,477      |   |  |
| EUR                                |  | 210,099                   | 102,954                          | (9,279)    |   |  |
| SEK                                |  | 1,837                     | —                                | (225)      |   |  |
| SGD                                |  | 459                       | 18                               | 0          |   |  |
| Alternative method:                |  |                           |                                  |            |   |  |
| Foreign exchange forward contracts |  |                           |                                  |            |   |  |
| Selling                            |  |                           |                                  |            |   |  |
| USD                                | Accounts receivable and accounts payable | 91,783                    | —                                |            | Based on forward exchange contract prices         |  |
| EUR                                |  | 2,270                     | —                                |            |   |  |
| SEK                                |  | 144                       | —                                |            |   |  |
| Buying                             |  |                           |                                  |            |   |  |
| USD                                |  | 16,873                    | 1,558                            |            |   |  |
| EUR                                |  | 6,108                     | —                                |            |   |  |
| Total                              |  | \$ 875,837                | \$ 292,144                       |            |   |  |

## (2) Interest-related

| Millions of yen                       |  |                         |                      |                                  |            |   |
|---------------------------------------|--|-------------------------|----------------------|----------------------------------|------------|---|
| Accounting method:                    | Transaction type                                     | Main hedged items       | All notional amounts | Notional amounts due over 1 year | Fair value | Computational method of fair value                |
| Special method for interest rate swap | Interest swap contracts floating for fixed rate swap | Long-term loans payable | ¥ 7,800              | ¥ 7,300                          | N/A        | Based on prices offered by financial institutions |
| Total                                 |  |                         | ¥ 7,800              | ¥ 7,300                          |            |   |
| Thousands of U.S. dollars             |  |                         |                      |                                  |            |   |
| Accounting method:                    | Transaction type                                     | Main hedged items       | All notional amounts | Notional amounts due over 1 year | Fair value | Computational method of fair value                |
| Special method for interest rate swap | Interest swap contracts floating for fixed rate swap | Long-term loans payable | \$ 70,270            | \$ 65,765                        | N/A        | Based on prices offered by financial institutions |
| Total                                 |  |                         | \$ 70,270            | \$ 65,765                        |            |   |

For the year ended March 31, 2018

## 1. Derivatives not designated as hedging instruments

## (1) Currency-related

| Millions of yen                    |                      |                                  |            |                          |  |
|------------------------------------|----------------------|----------------------------------|------------|--------------------------|--|
| Non-market transaction:            | All notional amounts | Notional amounts due over 1 year | Fair value | Unrealized gain / (loss) |  |
| 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)                  |  |

## 2. Derivatives designated as hedging instruments

## (1) Currency-related

| Millions of yen                    |                  |  |                      |                                  |            |   |
|------------------------------------|------------------|--|----------------------|----------------------------------|------------|---|
| Accounting method:                 | Transaction type | 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                            |                  |  |                      |                                  |            |   |
| USD                                |                  |  | ¥ 18,305             | ¥ 2,520                          | ¥ (117)    |   |
| EUR                                |                  |  | 2,378                | 1,776                            | (1)        |   |
| SEK                                |                  | Accounts receivable and accounts payable | 410                  | —                                | 29         | Based on prices offered by financial institutions |
| 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                            |                  |  |                      |                                  |            |   |
| USD                                |                  |  | 11,049               | 4,187                            |            |   |
| EUR                                |                  | Accounts receivable and accounts payable | 167                  | —                                |            | Based on forward exchange contract prices         |
| Buying                             |                  |  |                      |                                  |            |   |
| USD                                |                  |  | 336                  | —                                |            | N/A   |
| EUR                                |                  |  | 670                  | —                                |            |   |
| KRW                                |                  |  | 190                  | —                                |            |   |
| Total                              |                  |  | ¥ 62,271             | ¥ 13,038                         |            |   |

## (2) Interest-related

| Millions of yen                       |  |                         |                      |                                  |            |   |
|---------------------------------------|--|-------------------------|----------------------|----------------------------------|------------|---|
| Accounting method:                    | Transaction type                                     | Main hedged items       | All notional amounts | Notional amounts due over 1 year | Fair value | Computational method of fair value                |
| 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                          |            |   |

## 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 |
|------------------------------|-----------------|----------|---------------------------|
|                              | 2019            | 2018     | 2019                      |
| April 1                      | ¥ 19,441        | ¥ 19,734 | \$ 175,144                |
| Balance at beginning of year | 19,441          | 19,734   | 175,144                   |
| Service cost                 | 1,004           | 1,078    | 9,045                     |
| Interest cost                | 222             | 218      | 2,000                     |
| Actuarial gains and losses   | (510)           | (359)    | (4,594)                   |
| Benefit paid                 | (1,173)         | (1,309)  | (10,567)                  |
| Other                        | (220)           | 78       | (1,981)                   |
| March 31                     | ¥ 18,764        | ¥ 19,441 | \$ 169,045                |

### (2) Changes in plan assets

|                                | Millions of yen |          | Thousands of U.S. dollars |
|--------------------------------|-----------------|----------|---------------------------|
|                                | 2019            | 2018     | 2019                      |
| April 1                        | ¥ 19,004        | ¥ 17,932 | \$ 171,207                |
| Expected return on plan assets | 540             | 415      | 4,864                     |
| Actuarial gains and losses     | (721)           | 1,064    | (6,495)                   |
| Contributions by the employer  | 602             | 619      | 5,423                     |
| Benefit paid                   | (1,089)         | (1,142)  | (9,810)                   |
| Other                          | (138)           | 115      | (1,243)                   |
| March 31                       | ¥ 18,198        | ¥ 19,004 | \$ 163,945                |

### (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, 2019 and 2018 are as follows:

|   | Millions of yen |          | Thousands of U.S. dollars |
|---|-----------------|----------|---------------------------|
|   | 2019            | 2018     | 2019                      |
| Funded defined benefit obligations  | ¥ 17,608        | ¥ 18,214 | \$ 158,630                |
| Plan assets   | (18,198)        | (19,004) | (163,945)                 |
| Subtotal  | (589)           | (789)    | (5,306)                   |
| Unfunded defined benefit obligations  | 1,155           | 1,226    | 10,405                    |
| Net amount of liability and asset recognized in consolidated balance sheets | 565             | 437      | 5,090                     |
| Liabilities (net defined benefit liability)                                 | 1,200           | 1,323    | 10,810                    |
| Assets (net defined benefit asset)  | (635)           | (886)    | (5,720)                   |
| Net amount of liability and asset recognized in consolidated balance sheets | ¥ 565           | ¥ 437    | \$ 5,090                  |

### (4) Retirement benefit expenses

|  | Millions of yen |         | Thousands of U.S. dollars |
|--|-----------------|---------|---------------------------|
|  | 2019            | 2018    | 2019                      |
| Service cost                               | ¥ 1,004         | ¥ 1,078 | \$ 9,045                  |
| Interest cost                              | 222             | 218     | 2,000                     |
| Expected return on plan assets             | (540)           | (415)   | (4,864)                   |
| Amortization of actuarial gains and losses | (241)           | (392)   | (2,171)                   |
| Other                                      | (72)            | (8)     | (648)                     |
| Total                                      | ¥ 372           | ¥ 480   | \$ 3,351                  |

### (5) Remeasurements of defined benefit plans

|                          | Millions of yen |         | Thousands of U.S. dollars |
|--------------------------|-----------------|---------|---------------------------|
|                          | 2019            | 2018    | 2019                      |
| Actuarial (losses) gains | ¥ (452)         | ¥ 1,030 | \$ (4,072)                |
| Total                    | ¥ (452)         | ¥ 1,030 | \$ (4,072)                |

### (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, 2019 and 2018 are as follows:

|   | Millions of yen |         | Thousands of U.S. dollars |
|---|-----------------|---------|---------------------------|
|   | 2019            | 2018    | 2019                      |
| Unrecognized actuarial gains and losses | ¥ 570           | ¥ 1,023 | \$ 5,135                  |
| Total                                   | ¥ 570           | ¥ 1,023 | \$ 5,135                  |

### (7) Major breakdown of plan assets

|                           | 2019 | 2018 |
|---------------------------|------|------|
| Components of plan assets |      |      |
| Securities                | 26%  | 27%  |
| Stocks                    | 46%  | 47%  |
| Cash and deposits         | 11%  | 10%  |
| Other                     | 17%  | 16%  |
| Total                     | 100% | 100% |

20% and 23% of total plan assets as of March 31, 2019 and 2018, 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, 2019 and 2018 are as follows:

|  | 2019         | 2018         |
|--|--------------|--------------|
| Discount rate                          | Mainly 0.08% | Mainly 0.08% |
| Expected rate of return on plan assets | Mainly 2.5%  | Mainly 2.0%  |
| Expected salary increase rate          | Mainly 3.1%  | Mainly 3.4%  |

### Defined contribution plans

The contributions by the Company and subsidiaries to the defined contribution plans were ¥280 million (\$2,522 thousand) and ¥235 million for the years ended March 31, 2019 and 2018, respectively.

## 21. INCOME TAXES

The statutory tax rate applicable to the Company and its domestic subsidiaries for the year ended March 31, 2019 was approximately 30.5%. 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

| As of March 31,  | Millions of yen |          | Thousands of U.S. dollars |
|--|-----------------|----------|---------------------------|
|  | 2019            | 2018     | 2019                      |
| Deferred tax assets (gross):                                   |                 |          |                           |
| Net operating loss carry forwards (*2)                         | ¥ 14,665        | ¥ 6,666  | \$ 132,117                |
| Accounts payable for construction contracts                    | 3,112           | 3,782    | 28,036                    |
| Provision of allowance for doubtful accounts                   | 2,220           | 2,248    | 20,000                    |
| Net defined benefit liability                                  | 1,307           | 1,457    | 11,774                    |
| Interest income receivable                                     | 660             | 630      | 5,945                     |
| Provision for loss on construction contracts                   | 626             | 4,154    | 5,639                     |
| Deferred losses on hedges                                      | 436             | 241      | 3,927                     |
| Other  | 2,275           | 2,897    | 20,495                    |
| Total deferred tax assets (gross)                              | 25,304          | 22,078   | 227,963                   |
| Valuation allowance for net operating loss carry forwards (*2) | (14,657)        | —        | (132,045)                 |
| Valuation allowance for deductible temporary differences       | (8,051)         | —        | (72,531)                  |
| Total valuation allowance (*1)                                 | (22,708)        | (19,204) | (204,576)                 |
| Total deferred tax assets (gross)                              | 2,596           | 2,874    | 23,387                    |
| Deferred tax assets-Deferred tax liabilities                   | (1,767)         | (1,568)  | (15,918)                  |
| Total deferred tax assets                                      | 828             | 1,305    | 7,459                     |
| Deferred tax liabilities (gross):                              |                 |          |                           |
| Undistributed earnings of subsidiaries and affiliates          | 2,202           | 1,452    | 19,837                    |
| Valuation difference on available-for-sale securities          | 115             | 162      | 1,036                     |
| Gain on securities contribution to retirement benefits trust   | 660             | 644      | 5,945                     |
| Other  | 1,027           | 864      | 9,252                     |
| Total deferred tax liabilities (gross)                         | 4,006           | 3,123    | 36,090                    |
| Deferred tax assets-Deferred tax liabilities                   | (1,767)         | (1,568)  | (15,918)                  |
| Deferred tax liabilities                                       | 2,238           | 1,555    | 20,162                    |
| Net deferred tax liabilities                                   | ¥ (1,409)       | ¥ (249)  | \$ (12,693)               |

(\*1) Deductible temporary differences from provision for loss on construction contracts and other have decreased due to the progress of US ethylene project. Net operating loss carry forwards increased due to the cost increase of US ethylene project.

(\*2) A breakdown of net operating loss carry forwards and valuation allowance by expiry date as of March 31, 2019 is as follows:

| Years ended March 31, | Millions of yen                   |                     |                     |
|-----------------------|-----------------------------------|---------------------|---------------------|
|                       | Net operating loss carry forwards | Valuation allowance | Deferred tax assets |
| 2020                  | ¥ —                               | ¥ —                 | ¥ —                 |
| 2021                  | 18                                | 10                  | 8                   |
| 2022                  | —                                 | —                   | —                   |
| 2023                  | —                                 | —                   | —                   |
| 2024                  | 445                               | 445                 | —                   |
| 2025 and thereafter   | 14,201                            | 14,201              | —                   |
| Total                 | ¥ 14,665                          | ¥ 14,657            | ¥ 8                 |

| Years ended March 31, | Millions of U.S. dollars          |                     |                     |
|-----------------------|-----------------------------------|---------------------|---------------------|
|                       | Net operating loss carry forwards | Valuation allowance | Deferred tax assets |
| 2020                  | \$ —                              | \$ —                | \$ —                |
| 2021                  | 162                               | 90                  | 72                  |
| 2022                  | —                                 | —                   | —                   |
| 2023                  | —                                 | —                   | —                   |
| 2024                  | 4,009                             | 4,009               | —                   |
| 2025 and thereafter   | 127,936                           | 127,936             | —                   |
| Total                 | \$ 132,117                        | \$ 132,045          | \$ 72               |

(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, 2019.

| Year ended March 31,   | 2019     |
|--|----------|
| Statutory tax rate in Japan  | 30.5%    |
| Adjustments:   |          |
| Permanently nondeductible expenses                                     | 3.5%     |
| Permanently nontaxable income  | (1.2%)   |
| Per capita levy on corporate inhabitant tax                            | 0.4%     |
| Temporary differences excluded from calculation of deferred tax assets | (132.6%) |
| Difference in tax rates for foreign subsidiaries                       | (1.1%)   |
| Difference in tax base between corporate income tax and enterprise tax | (11.2%)  |
| Net operating loss carry forwards etc.                                 | 253.3%   |
| Equity in earnings of affiliates                                       | (55.6%)  |
| Adjustment of tax in prior years                                       | 1.4%     |
| Non-income based tax in foreign countries                              | 10.2%    |
| Undistributed earnings of subsidiaries and affiliates                  | 21.4%    |
| Other  | 3.0%     |
| Effective tax rate   | 122.0%   |

As loss before income taxes was 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

| Year ended March 31, 2019 | Millions of yen |          |           |          |          |          |          | Total     |
|---------------------------|-----------------|----------|-----------|----------|----------|----------|----------|-----------|
|                           | Japan           | USA      | Indonesia | Malaysia | India    | Thailand | Other    |           |
| Net Sales                 | ¥ 50,086        | ¥ 49,030 | ¥ 48,859  | ¥ 41,168 | ¥ 40,524 | ¥ 37,765 | ¥ 27,558 | ¥ 294,993 |

| Year ended March 31, 2019 | Thousands of U.S. dollars |            |            |            |            |            |            | Total        |
|---------------------------|---------------------------|------------|------------|------------|------------|------------|------------|--------------|
|                           | Japan                     | USA        | Indonesia  | Malaysia   | India      | Thailand   | Other      |              |
| Net Sales                 | \$ 451,225                | \$ 441,711 | \$ 440,171 | \$ 370,882 | \$ 365,081 | \$ 340,225 | \$ 248,270 | \$ 2,657,594 |

| Year ended March 31, 2019     | Millions of yen |           |         |          |
|-------------------------------|-----------------|-----------|---------|----------|
|                               | Japan           | Indonesia | Other   | Total    |
| Property, plant and equipment | ¥ 8,003         | ¥ 2,089   | ¥ 1,104 | ¥ 11,196 |

| Year ended March 31, 2019     | Thousands of U.S. dollars |           |          |            |
|-------------------------------|---------------------------|-----------|----------|------------|
|                               | Japan                     | Indonesia | Other    | Total      |
| Property, plant and equipment | \$ 72,099                 | \$ 18,819 | \$ 9,945 | \$ 100,864 |

| Year ended March 31, 2018 | Millions of yen |          |           |          |          |          |          | Total     |
|---------------------------|-----------------|----------|-----------|----------|----------|----------|----------|-----------|
|                           | Japan           | USA      | Indonesia | Malaysia | India    | Thailand | Other    |           |
| Net Sales                 | ¥ 68,542        | ¥ 40,224 | ¥ 27,258  | ¥ 73,151 | ¥ 42,946 | ¥ 55,596 | ¥ 27,977 | ¥ 335,697 |

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

(Changes in presentation)

Indonesia, which had been included in "Other" for the year ended March 31, 2018, is presented separately for the year ended March 31, 2019 because the corresponding amount exceeded 10% of net sales on the consolidated statement of operations for the year ended March 31, 2019.

To reflect this change in presentation, ¥27,258 million attributable to Indonesia for the year ended March 31, 2018, which had been previously included in "Other," was reclassified and presented separately.

## (2) Information by major clients

| Year ended March 31, 2019           | Millions of yen |         |
|-------------------------------------|-----------------|---------|
|                                     | Net Sales       | Segment |
| Shintech Louisiana, LLC             | ¥ 45,607        | EPC     |
| PRPC REFINERY AND CRACKER SDN. BHD. | ¥ 37,610        | EPC     |

| Year ended March 31, 2019           | Thousands of U.S. dollars |         |
|-------------------------------------|---------------------------|---------|
|                                     | Net Sales                 | Segment |
| Shintech Louisiana, LLC             | \$ 410,873                | EPC     |
| PRPC REFINERY AND CRACKER SDN. BHD. | \$ 338,828                | EPC     |

| Year ended March 31, 2018                 | Millions of yen |         |
|---|-----------------|---------|
|   | 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     |

**23. RELATED PARTY INFORMATION****1. Related Party Transactions****For the year ended March 31, 2019**

| Name: NEDL-CONSTRUÇOES DE DUTOS DO NORDESTE LTDA.       | Summary of transactions | Millions of yen    |                            |                 | Thousands of U.S. dollars |                            |                 |
|---|-------------------------|--------------------|----------------------------|-----------------|---------------------------|----------------------------|-----------------|
|   |                         | Transaction amount | Title of account           | Account balance | Transaction amount        | Title of account           | Account balance |
| Category: Affiliate                                     |                         |                    |                            |                 |                           |                            |                 |
| Address: Brazil   |                         |                    |                            |                 |                           |                            |                 |
| Capital and investments:<br>15,153 thousands BRL        | Loan for operating fund | ¥ —                | Long-term loans receivable | ¥ 3,707         | \$ —                      | Long-term loans receivable | \$ 33,396       |
| Business: Construction                                  |                         |                    |                            |                 |                           |                            |                 |
| Equity ownership percentage:<br>42.5% directly          |                         |                    |                            |                 |                           |                            |                 |
| Relation with related party:<br>Loan for operating fund |                         |                    |                            |                 |                           |                            |                 |

## For the year ended March 31, 2018

| Name: NEDL-CONSTRUÇOES DE DUTOS DO NORDESTE LTDA.       | Summary of transactions | Millions of yen    |                            |                 |
|---|-------------------------|--------------------|----------------------------|-----------------|
|   |                         | Transaction amount | Title of account           | Account balance |
| Category: Affiliate                                     |                         |                    |                            |                 |
| Address: Brazil   |                         |                    |                            |                 |
| Capital and investments:<br>13,456 thousands BRL        | Loan for operating fund | ¥ —                | Long-term loans receivable | ¥ 3,707         |
| Business: Construction                                  |                         |                    |                            |                 |
| Equity ownership percentage:<br>42.5% directly          |                         |                    |                            |                 |
| Relation with related party:<br>Loan for operating fund |                         |                    |                            |                 |

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

2. The Company reserved ¥3,707 million (\$33,396 thousand) of allowance for doubtful accounts at March 31, 2019, against the loan above.

3. The Company reserved ¥3,707 million of allowance for doubtful accounts at March 31, 2018, against the loan above.

**For the year ended March 31, 2019**

| Name: Toyo Setal Empreendimentos Ltda.                 | Summary of transactions | Millions of yen    |                  |                 | Thousands of U.S. dollars |                  |                 |
|--|-------------------------|--------------------|------------------|-----------------|---------------------------|------------------|-----------------|
|  |                         | Transaction amount | Title of account | Account balance | Transaction amount        | Title of account | Account balance |
| Category: Affiliate                                    |                         |                    |                  |                 |                           |                  |                 |
| Address: Brazil  |                         |                    |                  |                 |                           |                  |                 |
| Capital and investments:<br>38,904 thousands BRL       | Contingent liabilities  | ¥ 1,601            | —                | ¥ —             | \$ 14,423                 | —                | \$ —            |
| Business: Construction                                 |                         |                    |                  |                 |                           |                  |                 |
| Equity ownership percentage:<br>50% indirectly         |                         |                    |                  |                 |                           |                  |                 |
| Relation with related party:<br>Contingent liabilities |                         |                    |                  |                 |                           |                  |                 |

## For the year ended March 31, 2018

| Name: Toyo Setal Empreendimentos Ltda.                 | Summary of transactions | Millions of yen    |                  |                 |
|--|-------------------------|--------------------|------------------|-----------------|
|  |                         | Transaction amount | Title of account | Account balance |
| Category: Affiliate                                    |                         |                    |                  |                 |
| Address: Brazil  |                         |                    |                  |                 |
| Capital and investments:<br>38,904 thousands BRL       | Contingent liabilities  | ¥ 2,039            | —                | ¥ —             |
| Business: Construction                                 |                         |                    |                  |                 |
| Equity ownership percentage:<br>50% indirectly         |                         |                    |                  |                 |
| Relation with related party:<br>Contingent liabilities |                         |                    |                  |                 |

Note: 1. Contingent liabilities are provided for refund guarantee etc. of Toyo Setal Empreendimentos Ltda.

**For the year ended March 31, 2019**

| Name: Estaleiros do Brasil Ltda.                        | Summary of transactions              | Millions of yen    |                             |                 | Thousands of U.S. dollars |                             |                 |
|---|--------------------------------------|--------------------|-----------------------------|-----------------|---------------------------|-----------------------------|-----------------|
|   |                                      | Transaction amount | Title of account            | Account balance | Transaction amount        | Title of account            | Account balance |
| Category: Affiliate                                     |                                      |                    |                             |                 |                           |                             |                 |
| Address: Brazil   |                                      |                    |                             |                 |                           |                             |                 |
| Capital and investments:<br>57,749 thousands BRL        | Loan for operating fund              | ¥ —                | Short-term loans receivable | ¥ 5,432         | \$ —                      | Short-term loans receivable | \$ 48,936       |
| Business: Construction                                  | Repayment of loan for operating fund | 2,986              | —                           | —               | 26,900                    | —                           | —               |
| Equity ownership percentage:<br>50% indirectly          |                                      |                    |                             |                 |                           |                             |                 |
| Relation with related party:<br>Loan for operating fund | Accrued interest income              | 688                |                             |                 | 6,198                     |                             |                 |

For the year ended March 31, 2018

| Name: Estaleiros do Brasil Ltda.                     | Summary of transactions              | Millions of yen    |                             |                 |
|--|--------------------------------------|--------------------|-----------------------------|-----------------|
|  |                                      | Transaction amount | Title of account            | Account balance |
| Category: Affiliate                                  |                                      |                    |                             |                 |
| Address: Brazil                                      | Loan for operating fund              | ¥ 543              | Short-term loans receivable | ¥ 3,902         |
| Capital and investments: 57,749 thousands BRL        |                                      |                    |                             |                 |
| Business: Construction                               | Repayment of loan for operating fund | 4,027              | —                           | —               |
| Equity ownership percentage: 50% indirectly          |                                      |                    |                             |                 |
| Relation with related party: Loan for operating fund | Accrued interest income              | 442                |                             |                 |

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, 2019 and 2018, 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:

| As of and for the years ended March 31, | Millions of yen |           | Thousands of U.S. dollars |
|---|-----------------|-----------|---------------------------|
|   | 2019            | 2018      | 2019                      |
| Total current assets                    | ¥ 26,178        | ¥ 40,885  | \$ 235,837                |
| Total non-current assets                | 11,172          | 13,208    | 100,648                   |
| Total current liabilities               | 36,646          | 57,089    | 330,144                   |
| Total non-current liabilities           | 5,057           | 4,732     | 45,558                    |
| Total net asset deficiencies            | ¥ (4,351)       | ¥ (7,728) | \$ (39,198)               |
| Net sales                               | ¥ 10,461        | ¥ 24,247  | \$ 94,243                 |
| Profit before income tax                | 9,598           | 11,388    | 86,468                    |
| Profit                                  | ¥ 7,209         | ¥ 10,833  | \$ 64,945                 |

## 24. AMOUNTS PER SHARE

| As of and for the years ended March 31,         | Yen      |          | U.S. dollars |
|---|----------|----------|--------------|
|   | 2019     | 2018     | 2019         |
| Net assets per share                            | ¥ 554.11 | ¥ 654.91 | \$ 4.99      |
| Loss attributable to owners of parent per share | (20.51)  | (700.30) | (0.18)       |

Loss attributable to owners of parent per share is computed based on the loss 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.

For the calculation of "Net assets per share", residual assets attributable to Class A preferred stock are deducted from total net assets.

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.

## 25. SIGNIFICANT SUBSEQUENT EVENTS

At the Board of Directors' meeting held on June 13, 2019, the Company determined to negotiate the transfer of all shares of Setouchi Future Creations LLC ("Setouchi") based on the agreement of other investors in Setouchi. On June 21, 2019, the Company agreed on the transfer of all the shares of Setouchi and entered into a transfer contract. As a result of the transfer, the Company will record approximately ¥1,700 million (\$15,315 thousand) of gain on sales of investments in securities as extraordinary income in the consolidated statement of operations for the year ending March 31, 2020.

The Company was awarded EPC work for the Setouchi mega solar power plant from Setouchi and completed its transfer for the year ended March 31, 2019.

## 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, 2019, and the consolidated statements of operations, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

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

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Toyo Engineering Corporation and its consolidated subsidiaries as at March 31, 2019, 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, 2019





**TOYO ENGINEERING CORPORATION**

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