



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
Current assets:			
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
Property, plant and equipment:			
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
Intangible assets:			
Goodwill	—	1	—
Other	983	956	8,855
Total intangible assets	983	958	8,855
Investments and other assets:			
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
Total assets	¥ 239,694	¥ 251,861	\$ 2,159,405

See notes to consolidated financial statements.

Liabilities and Net Assets:	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Current liabilities:			
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
Non-current liabilities:			
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
Contingent liabilities (Note 5)			
Net assets:			
Shareholders' equity:			
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
Accumulated other comprehensive income:			
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
Non-controlling interests	116	71	1,045
Total net assets	36,357	25,176	327,540
Total liabilities and net assets	¥ 239,694	¥ 251,861	\$ 2,159,405

Consolidated Statements of Operations

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

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

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
Cash flows from operating activities:			
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)
Cash flows from investing activities:			
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
Cash flows from financing activities:			
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
Effect of exchange rate change on cash and cash equivalents	(923)	1,445	(8,315)
Net decrease in cash and cash equivalents	(8,628)	(16,167)	(77,729)
Cash and cash equivalents at beginning of period	106,536	122,703	959,783
Cash and cash equivalents at end of period (Note 15)	¥ 97,907	¥ 106,536	\$ 882,045

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)	¥ —

Thousands of U.S. dollars

At March 31, 2019	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.

Millions of yen

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

(*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

	Millions of yen			
At March 31, 2019	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	¥ —	¥ —

	Thousands of U.S. dollars			
At March 31, 2019	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

		Millions of yen				
	Main hedged items	All notional amounts	Notional amounts due over 1 year	Fair value	Computational method of fair value	
Deferral hedge accounting method:						
Foreign exchange forward contracts						
Selling						
USD		¥ 15,148	¥ 3,324	¥ (895)		
EUR	Accounts receivable and accounts payable	5,840	1,764	323	Based on prices offered by financial institutions	
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			

		Thousands of U.S. dollars				
	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		\$ 136,468	\$ 29,945	\$ (8,063)		
EUR	Accounts receivable and accounts payable	52,612	15,891	2,909	Based on prices offered by financial institutions	
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						
	Transaction type	Main hedged items	All notional amounts	Notional amounts due over 1 year	Fair value	Computational method of fair value
Accounting method:						
Special method for interest rate swap	Interest swap contracts floating for fixed rate swap	Long-term loans payable	¥ 7,800	¥ 7,300	N/A	Based on prices offered by financial institutions
Total			¥ 7,800	¥ 7,300		

Thousands of U.S. dollars						
	Transaction type	Main hedged items	All notional amounts	Notional amounts due over 1 year	Fair value	Computational method of fair value
Accounting method:						
Special method for interest rate swap	Interest swap contracts floating for fixed rate swap	Long-term loans payable	\$ 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				
	All notional amounts	Notional amounts due over 1 year	Fair value	Unrealized gain / (loss)
Non-market transaction:				
Foreign exchange forward contracts				
Selling				
USD	¥ 9,548	¥ 1,683	¥ (347)	¥ (347)
Buying				
USD	4	—	(0)	(0)
EUR	556	—	5	5
Total	¥ 10,109	¥ 1,683	¥ (341)	¥ (341)

2. Derivatives designated as hedging instruments

(1) Currency-related

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

(2) Interest-related

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

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: 15,153 thousands BRL							
Business: Construction	Loan for operating fund	¥ —	Long-term loans receivable	¥ 3,707	\$ —	Long-term loans receivable	\$ 33,396
Equity ownership percentage: 42.5% directly							
Relation with related party: 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: 13,456 thousands BRL				
Business: Construction	Loan for operating fund	¥ —	Long-term loans receivable	¥ 3,707
Equity ownership percentage: 42.5% directly				
Relation with related party: Loan for operating fund				

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

2. The Company reserved ¥3,707 million (\$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: 38,904 thousands BRL							
Business: Construction	Contingent liabilities	¥ 1,601	—	¥ —	\$ 14,423	—	\$ —
Equity ownership percentage: 50% indirectly							
Relation with related party: 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: 38,904 thousands BRL				
Business: Construction	Contingent liabilities	¥ 2,039	—	¥ —
Equity ownership percentage: 50% indirectly				
Relation with related party: 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: 57,749 thousands BRL	Loan for operating fund	¥ —	Short-term loans receivable	¥ 5,432	\$ —	Short-term loans receivable	\$ 48,936
Business: Construction							
Equity ownership percentage: 50% indirectly	Repayment of loan for operating fund	2,986	—	—	26,900	—	—
Relation with related party: 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



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