

2017

Integrated Report Year ended
March 31, 2017



TOYO
ENGINEERING

Mission

Engineering for Sustainable
Growth of the Global
Community

Vision

Global Leading
Engineering Partner

Values

Integrity, Creativity,
Diversity, Learning, Team

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





02 Overview 1
TOYO's Engineering Business

04 Overview 2
Globally Locally

06 Five-Year Financial and Non-Financial Highlights

08 To Our Stakeholders

12 The Future of TOYO
Governance Essential for Enhancing TOYO's Corporate Value

17 Corporate Governance

20 Safety, Quality and Environment

21 Safety

24 Quality

25 Environment

27 Contribution to Society / Investor Relations

28 Human Capital

30 Management's Discussion and Analysis

35 Business Risks and Other Risks

36 Financial Section
Consolidated Financial Statements

67 Independent Auditor's Report

68 Corporate Information

71 Stock Information

Editorial Policy

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

Caution Concerning Forward-Looking Statements

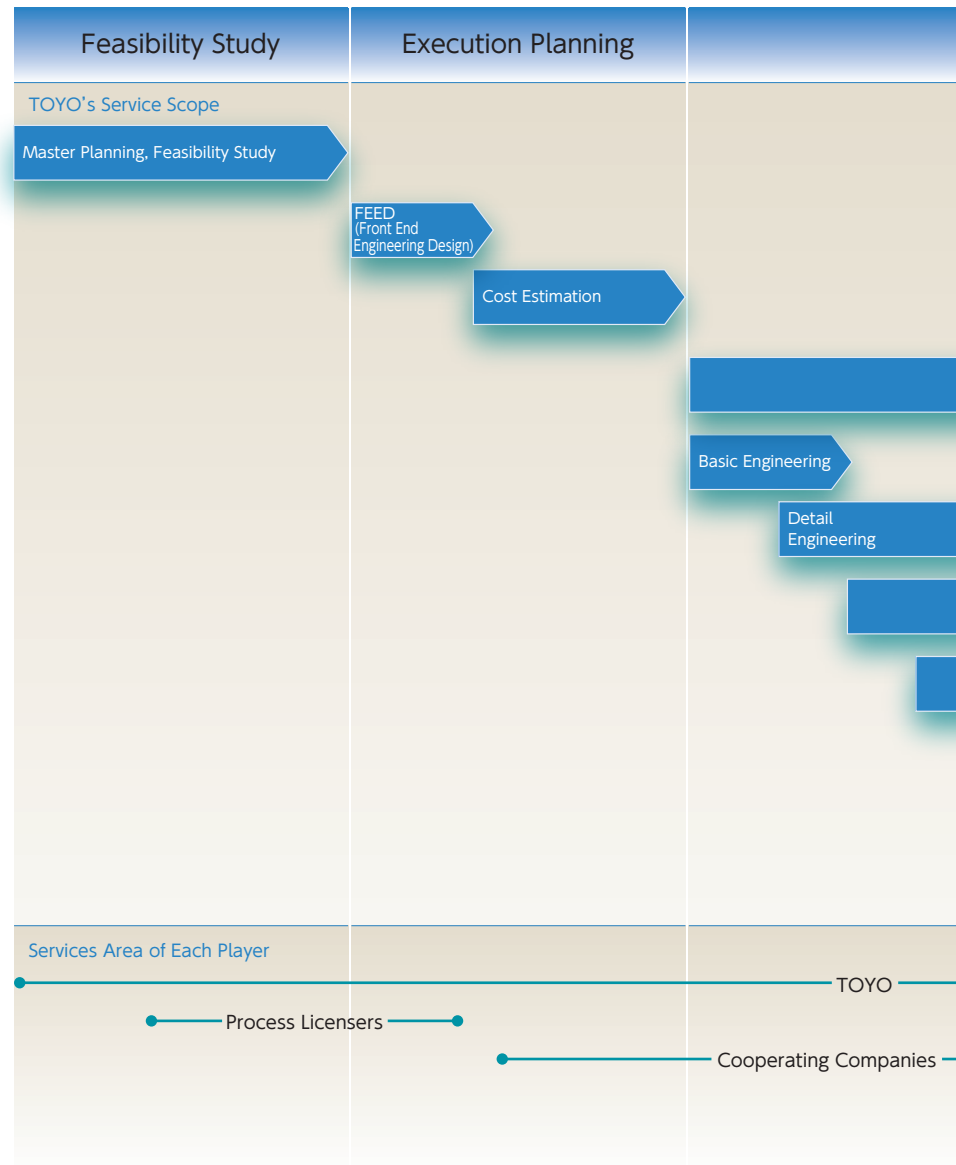
This integrated report includes certain "forward-looking statements." These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ due to changes in economic, business, competitive, technological, regulatory, and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

1

TOYO's Engineering Business

For plant owners, every new investment is a significant undertaking on which the future of their company depends, regardless of whether it relates to new facilities or existing facilities. TOYO's role, as an engineering company, is to organize plant construction projects. TOYO works with the assistance of various professional partners around the world to provide clients with finely-tuned engineering services to fit their needs, from the planning stage to commissioning services and Operation & Maintenance support after plant completion.

Project Roadmap



Partners Supporting TOYO's Engineering Business

Process Licensers

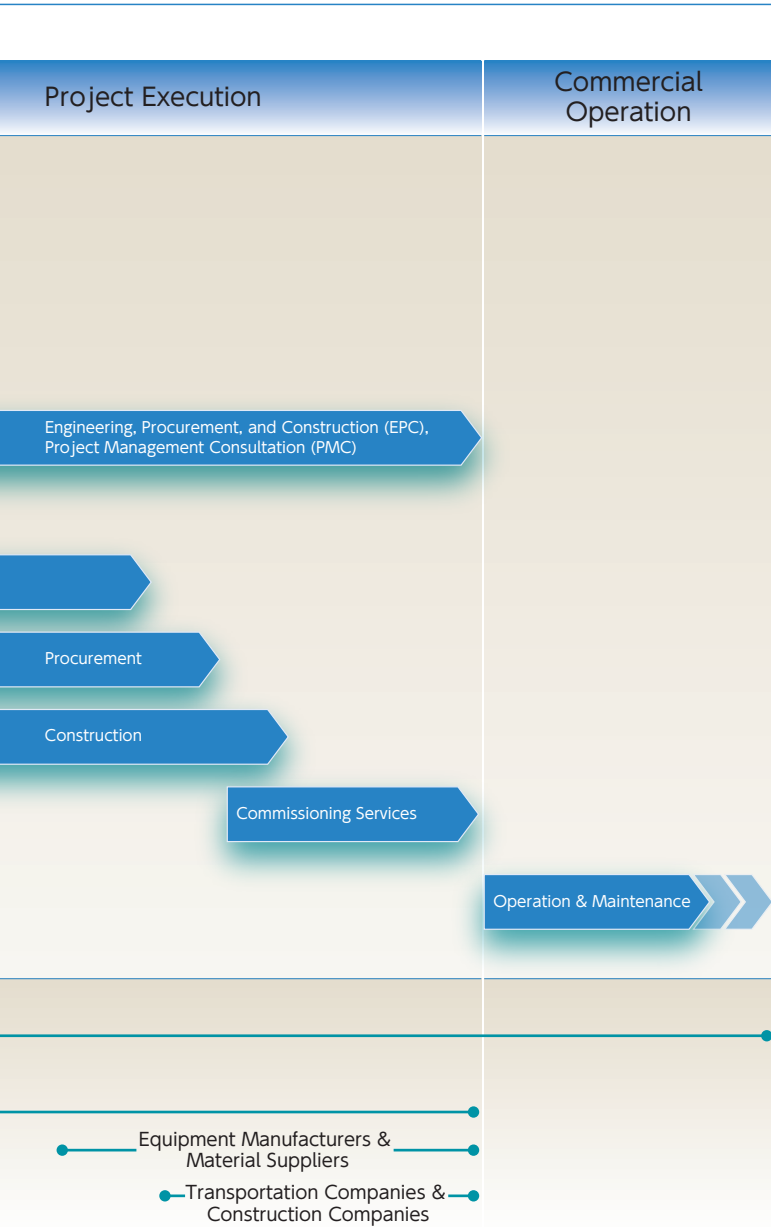
The process licensor holds patents relating to process technology and takes responsibility for the technology that forms the basis of plant construction. Those knowledge and track record of plant construction are differentiation factors for contractors. The foundations of TOYO's engineering services are supported by relationships of trust built over many years with leading licensers around the world, and TOYO's technical expertise, as we hold own technology.



Cooperating Companies

The scale of plants is becoming larger in order to enhance the competitiveness of plant owners. In addition, resource development is spreading to all corners of the earth amid harsh environmental conditions, including extreme cold and offshore conditions. A partner familiar with local conditions is vital for the project to be reliably executed, and appropriate risk sharing as well as the ability to build alliances are the keys to project success.





Engineering for Sustainable Growth of the Global Community

Engineering Company TOYO

The plants in operation all over the world contribute to local communities and their economic development through the consecutive products supply. TOYO believes that as a contractor, we are able to fulfill our mission of "Engineering for Sustainable Growth of the Global Community" by leading our clients' projects to successful completion.

In order to enhance values for clients through TOYO's strong features such as "comprehensive integrated engineering technologies" based on our good track record with many plants completion; our "high-tech application capabilities," where we utilize advanced technology in various product fields; "project management skills," where we ensure requirements are met in regard to safety, quality, schedule and etc., thus satisfying clients' trust; our "advanced global networking" formed by TOYO Global Operation; and our "optimum alliance building" with the optimal structure for cooperation built together with various professional partners around the world, TOYO is going to carry out projects by achieving on time completion.



Equipment Manufacturers & Material Suppliers

Completed plants are the result of an aggregation of a large amount of equipment and materials. Products with a high degree of perfection are needed for each of those items in order for the plant to operate in line with the performance required. Equipment manufacturers and materials suppliers endeavor to improve quality and reduce costs in order to beat global competition, and contribute to TOYO maintaining both quality and competitiveness.



Transportation Companies & Construction Companies

The high-quality work of various partner companies supports TOYO by "prompt delivery of equipment and materials produced around the world to construction sites." For example, transportation planning, customs procedures, transportation and export and import companies, and construction companies that perform installation and construction, etc. at sites. The performance of those partners would be a key element of on-schedule project completion with high quality work.



2

Globally Locally

TOYO operates its businesses on a global basis, with a network of group companies that stretches across the world. We have built a structure for executing EPC projects where each group company maintains close ties with local communities, as we mainly target markets in countries where we have our group companies. In addition, we maintain close relation with clients, utilizing our knowledge, and pursue further business chances. Group companies work together with Toyo-Japan at the center to respond to large projects. Globally. Locally. We always aim to achieve client value enhancement through our unique global operation at TOYO.

Toyo Engineering Corporation (China)
[Toyo-China]
(Shanghai, China)

No. of employees : approx.200
Established: 2004

Toyo Engineering & Construction Sdn. Bhd.
[Toyo-Malaysia]
(Kuala Lumpur, Malaysia)

No. of employees : approx.300
Established: 1986

Toyo Engineering Europe, S.r.l
[Toyo-EU]

Toyo Engineering India Private Limited
[Toyo-India]
(Mumbai, India)

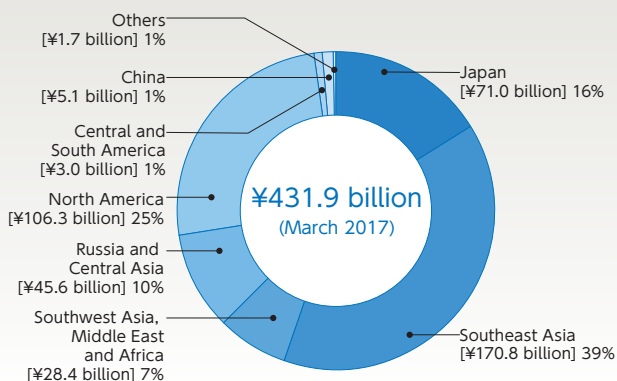
No. of employees : approx.1,800
Established: 1976

PT. Inti Karya Persada Teknik
[IKPT]
(Jakarta, Indonesia)

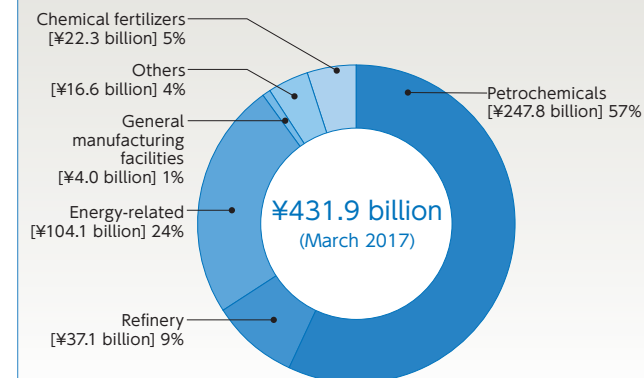
No. of employees : approx.1,100
Acquired: 2011

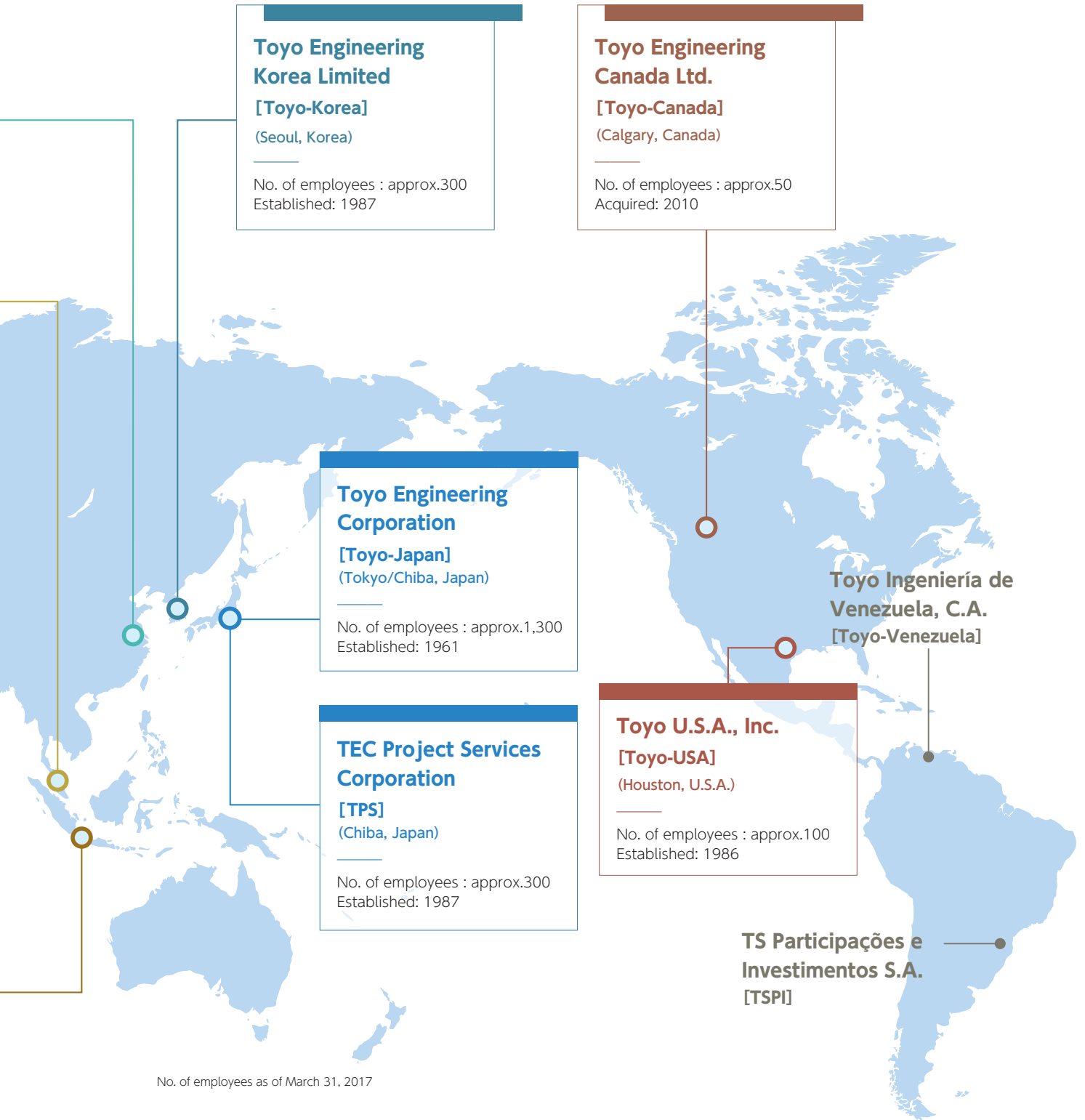


Net sales by region



Net sales by sector





BUSINESS FIELD

TOYO is engaged in wide-ranging projects on the global stage.

- Oil & Gas Development Field
- Oil Refining & Gas Processing Field
- Infrastructure Field
- Petrochemical, Chemical & Pharmaceutical Field



Five-Year Financial and Non-Financial Highlights

Toyo Engineering Corporation and Consolidated Subsidiaries

Years ended March 31

Financial Highlights:	2017	2016	2015	2014
Net sales	431,917	299,813	311,454	230,124
Gross profit	15,971	30,513	17,214	25,155
Operating income (loss)	(2,009)	11,087	(7,356)	455
Income (loss) before income taxes	5,828	8,697	(21,989)	5,673
Net income (loss)	1,472	3,038	(20,965)	967
Total assets	317,089	321,836	261,609	257,480
Total net assets	51,331	51,036	44,979	74,831
Long-term loans payable	23,373	18,764	23,604	33,535
Capital stock	18,198	18,198	18,198	18,198
New orders	116,790	443,537	470,369	365,137
Backlog of contracts at end of the year	492,682	823,066	659,005	538,023

Per share:

Net income (loss)	7.68	15.85	(109.34)	5.05
Total net assets	267.48	265.92	234.20	382.61
Cash dividends	2.00	4.00	4.00	3.00

Net sales by sector (%):

Chemical fertilizers	5.2	4.4	20.5	19.4
Petrochemicals	57.4	42.4	42.1	30.3
Refinery	8.6	22.2	16.6	13.0
Energy-related	24.1	18.4	5.0	7.2
General manufacturing facilities and information technology	0.9	2.6	4.3	9.2
Others	3.8	10.0	11.5	20.9
(Overseas sales ratio)	(84)	(83)	(87)	(84)

Non-financial Highlights:

Number of employees*1	4,287	4,397	4,463	4,747
(Number of employees in Toyo-Japan) *1	1,035	1,092	1,084	1,037
CO ₂ emissions (Tons)*2	2,685	2,716	2,760	2,583
Crude oil equivalent (Kiloliters)*2	1,381	1,384	1,360	1,413
Domestic construction waste volumes (Tons)*3	17,390	16,972	11,764	666
Overseas construction waste volumes (Tons) *3	11,000	10,300	29,500	20,700
Lost Time Incident Rate (LTIR)*4	0.06	0.07	0.08	0.07
Total Recordable Incident Rate (TRIR)*5	0.49	0.21	0.22	0.22

*1. Excluding temporary employees

*2. Applies to quantity of electricity and gas utilities consumed by offices (Head Office / Engineering Center). Taken from regular reports issued to the Ministry of Economy, Trade and Industry

*3. The total construction disposal weight except construction surplus soil/sludge

*4. Lost Time Incident Rate (LTIR) = Total Lost Time Incidents × 1,000,000 / Employee-Worked Man-Hours

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

Note: U.S. dollars amounts are stated at ¥112.19 to U.S.\$1.00, the exchange rate prevailing on March 31, 2017.

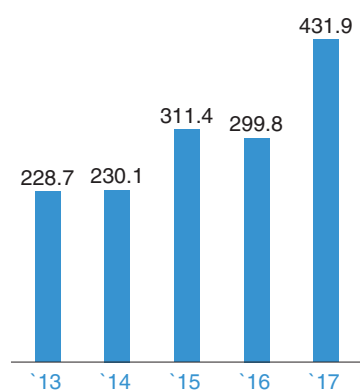
Millions of yen	Thousands of U.S. dollars (Note)
2013	2017
228,723	\$3,849,870
24,200	142,356
1,593	(17,907)
2,982	51,947
1,457	13,120
240,694	2,826,357
71,091	457,536
26,477	208,334
18,198	162,206
290,444	1,041,001
410,492	4,391,496

Yen	U.S. dollars (Note)
7.60	\$0.06
363.15	2.38
5.00	0.01

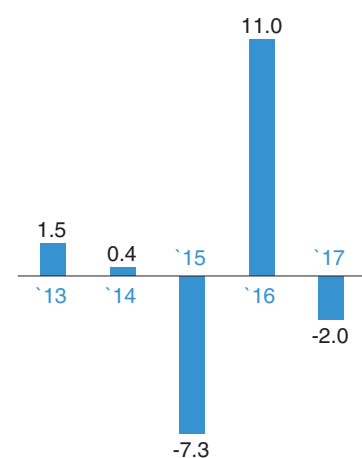
%
16.6
18.8
7.7
27.0
16.7
13.2
(81)

4,548
1,026
2,156
1,411
832
9,900
0.09
0.22

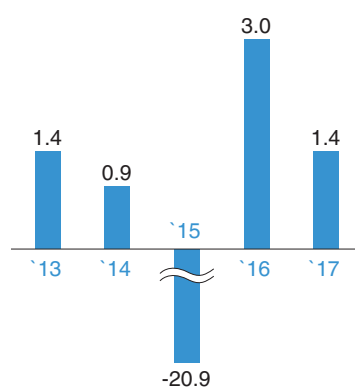
Net sales (¥ billion)



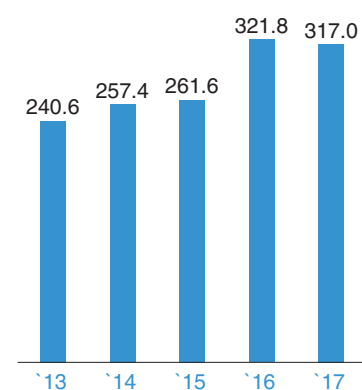
Operating income (loss) (¥ billion)



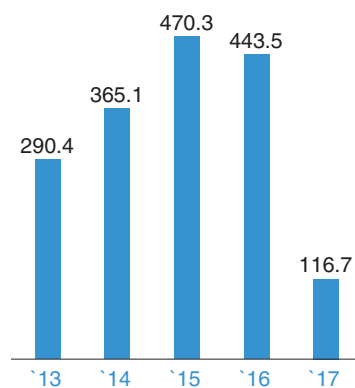
Net income (loss) (¥ billion)



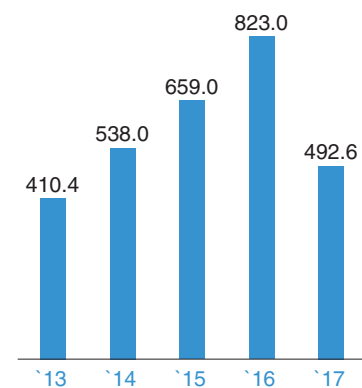
Total assets (¥ billion)



New orders (¥ billion)



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





Toward a Company Appreciated by Clients

In terms of industrial classifications, the plant engineering business that TOYO engages in is defined as “providing services related to planning, engineering, procurement, construction, and construction management for oil refineries, chemical plants, steel mills, power plants and others in the role of contractor.”

TOYO offers multiple services in a wide range of areas with our engineers, who have expertise and knowledge in a broad range of specialized areas. For example, we provide engineering services to clients across the world that include optimal design to create new value by organically combining various elemental technologies, services for developing manufacturing processes that support high value-added manufacturing, and project management for the construction of large plants lasting many years. It is our mission to contribute to the realization of sustainable local communities, by using those services to resolve our clients’ issues in a comprehensive manner and balance the supply of energy, materials and others with environmental protection.

We set forth this corporate philosophy of TOYO as our Mission, Vision, and Values, and everybody working in the TOYO Group holds the same sense of values as we aim to achieve our corporate vision, “to become a trusted and long-time partner for clients around the world,” in other words, a company appreciated by clients.

The Source of TOYO’s Competitiveness

The history of TOYO begins in May 1961, when we became independent from the Engineering Department of Toyo Koatsu Industries Inc. (presently, Mitsui Chemical Inc.), and we have subsequently take on many challenges as we have evolved, with the aspiration to become an engineering company that plays an active role in the global stage. Utilizing our urea production technology as our advantage, which had garnered recognition around the world, we identified opportunities in emerging markets overseas, such as India, the former Soviet Union and various countries in Eastern Europe and so on, and actively entered the fertilizer and petrochemical fields, through alliances with licensors including US-based Lummus on ethylene technology and KBR on ammonia technology. Subsequently, TOYO continued endeavoring to expand the range of services we offer, along with the changing times. We expanded businesses fields to provide our services for various petrochemical products such as polymers and for refineries such as heavy oil upgrading in the 1970s, gas processing, methanol, oil and gas development, pipeline construction and power plants in the 1980s, followed by pharmaceuticals, waste treatment, and support for the installation of industrial systems

and ERP systems in the 1990s. Since 2000, we have made efforts in various areas where we can exercise our engineering capability, while working together with partners around the world, including large gas processing and ethylene facilities, and FPSO topside projects. In addition, since the 1970s, we have established a style in emerging markets, mainly in Asia, where overseas group companies promote EPC businesses independently, and have built a business model in which we develop our business on a global scale as a group through cooperation between group companies and Toyo-Japan, thus creating the source of TOYO’s present competitiveness as a whole.

Progress of Revival Plan

Initiated in April 2015, the Revival Plan aims to solidify the foundations for revival through reforms in four areas, namely restructuring of the management system, improvement of management process at proposal stage, enhancement of project management capability, and change of corporate culture. We have seen a certain level of improvement in regard to the management system, but we significantly regret the fact that we were unable to avoid net operating loss in fiscal 2016, the second year of revival, owing to a significant cost increase in the U.S. project. In addition, we were unable to secure new projects we expected, partly due to stagnant market conditions, and our top priority issue of this year will be to break away from slumping new orders. On the other hand, we are feeling the effects of the Revival Plan when we consider the measures of the Revival Plan as a whole, such as the fact that other projects in progress are advancing as planned, we have thoroughly implemented a process to ensure to avoid unreasonable conditions for new orders, we have controlled selling, general, and administrative expenses across the Company, and been reforming our mindset through active communication.

Prioritized Policy in Fiscal 2017

In fiscal 2017, TOYO will prioritize the review of measures from the Revival Plan that have not had a sufficient effect, and enact measures strengthening these areas. Specifically, we have newly established an independent Business Unit that will focus on managing ethylene projects in Malaysia and the U.S. in order to ensure project profits. We will endeavor to prevent cost increase by utilizing feedback from past projects and thoroughly implementing quality and productivity management. In addition, we have combined sales and projects relating to the plant business into one business unit in order to secure orders. Through those measures, we will strengthen our ability to make proposals that match clients’ needs, in addition to enhancing our technical expertise which we can use for differentiation, pursue

strategic partnerships and thorough cost reductions, and endeavor to strengthen our competitiveness to win orders. We will also enhance corporate value through human capital development and strengthen our corporate foundations by changing our corporate culture. Also a new Business Development Unit was established to improve added value in existing business areas and promote innovation including developing new businesses where we can utilize our strengths.

Three Pillars of Business Domains

At present, TOYO engages in business activities mainly in the areas of plant, infrastructure, and energy development.

The plant business faces difficult market conditions, including the delaying of final investment decisions partly due to stagnant oil prices, but this will be an area where TOYO can continue to make maximum use of its technical expertise, project knowledge, and competitiveness. In TOYO's area of expertise, the downstream sector, which is mainly petrochemicals and fertilizers, a recovery in demand is expected in the U.S., Southeast Asia, India, Russia, Central Asia and other regions. With regard to all-in contracted services such as EPC and PMC type, we shall work more closely with clients than previously, and shall strive to participate from the project planning stage. In addition, we shall propose energy-saving solutions utilizing *SUPERHIDIC*[®], our proprietary new distillation technology, and measures that utilize the Internet of Things (IoT) to enhance competitiveness, as we offer a variety of services to clients.

In the infrastructure business, TOYO is focusing on areas such as power generation, railways, and water related. In Japan, we will respond to demand for power plant construction as a result of the deregulation of electric power, and demand for the construction of renewable energy power plants, such as photovoltaic and biomass plants. In Southeast Asia and elsewhere overseas, amid a backdrop of rapid economic expansion, the development of power plants and transportation infrastructure is little affected by the ups and downs of the economy, and

stable capital investment is expected to continue. TOYO views the demand for these infrastructure development projects as a business opportunity, and we shall focus on environmentally friendly projects, such as biomass power plants and geothermal power plants, in addition to extending our services to cover the entire life-cycle, including O&M, as we further develop the infrastructure field into a solid pillar of our business.

In the energy development business, TOYO mainly provides consulting services, such as planning related to oil and gas development and support for feasibility studies. Although investment in new developments continues to be narrowed down, the desire among owners to invest in secondary and tertiary recovery in existing oil fields, etc. is high, and we shall target opportunities to participate in these projects. In addition, we view this as the timing to create future business opportunities in regard to unconventional energy development such as methane hydrate and subsea energy development, etc. We shall strengthen the ties with clients that we have built over many years, and prepare to expand the scope of this business through, for example, alliances with partners in Japan and overseas.

Aiming to Enhance Corporate Value

In addition to those three businesses, we will also strive to promote innovation by further expanding our diverse portfolio, including new products and services where we can utilize our strengths as an engineering company, such as our unique technical expertise and knowledge. We will demonstrate the true value of TOYO that lies in the DNA of pioneers, built since our founding through the development of in-house technology and cooperation with licensors, to develop a fourth pillar to aim for medium- to long-term profits, and thereby pursue an improvement in our financial foundations and an enhancement in corporate value, as we endeavor to meet the expectations of our stakeholders.

We ask for your understanding and continuous support of TOYO in our future endeavors.

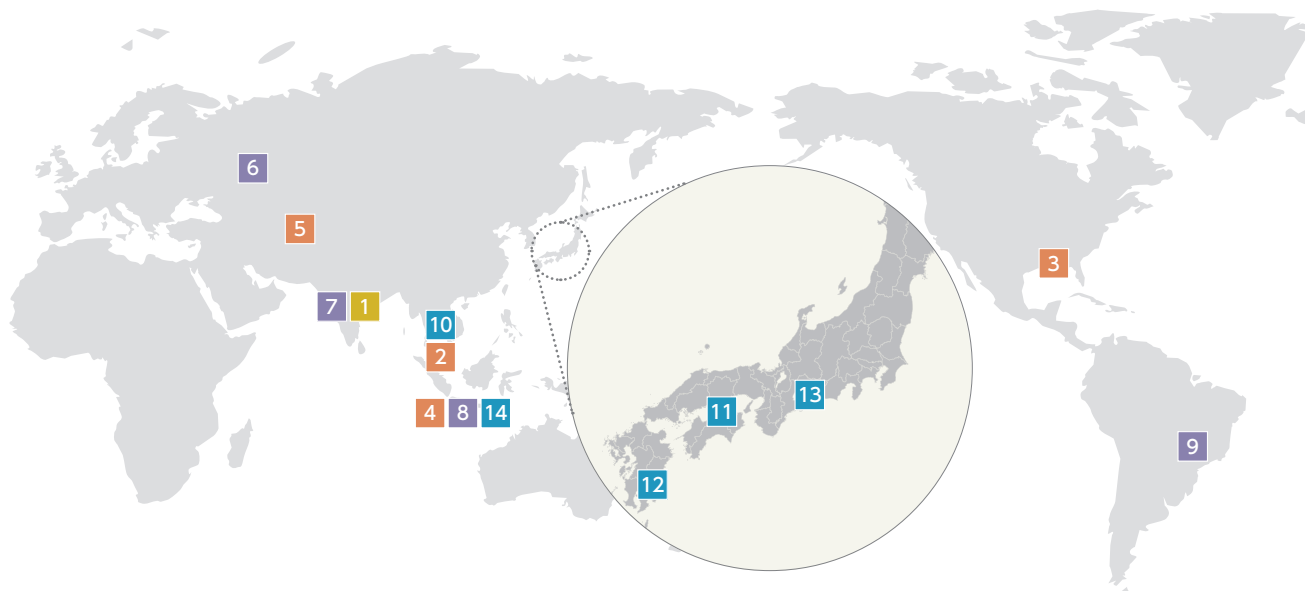


A handwritten signature in black ink, which appears to read 'Kiyoshi Nakao'. The signature is fluid and cursive.

Kiyoshi Nakao
President and Chief Executive Officer

Major Projects

Projects progressing in the world for the development of sustainable society



Sector	Type/Name	Location	Scope
Chemical Fertilizers	1 Chemical Fertilizer Complex	India	License EPC
Petrochemicals	2 Ethylene Complex	Malaysia	EPC
	3 Ethylene Plant	U.S.A.	EPC
	4 Synthetic Rubber Plant	Indonesia	EPC
	5 Gas Chemical Complex	Turkmenistan	EP
Oil and Gas, FPSO	6 Oil Refinery Modernization (Heavy Residue Conversion Complex)	Russia	EPCm
	7 LNG (Liquefied Natural Gas) Receiving Terminal	India	EPC
	8 Natural gas compression facility	Indonesia	EPC
	9 FPSO topside	Brazil	EPC
Power Generation, Transportation Systems	10 Natural Gas Fired Cogeneration Power Plants	Thailand	EPC
	11 Photovoltaic Power Generation Plant (Setouchi, Okayama)	Japan	EPC
	12 Photovoltaic Power Generation Plant (Hosoe, Miyazaki)	Japan	EPC
	13 Coal-fired Power Plant	Japan	EPC
	14 Integrated Railway Systems and Trackwork	Indonesia	EPC

EP: Engineering and Procurement

EPC: Engineering, Procurement and Construction

EPCm: Engineering, Procurement and Construction management



Hirokazu Hayashi
Outside Director

Kiyoshi Nakao
President and
Chief Executive Officer

Masami Tashiro
Outside Director

Yusuke Yamada
Outside Director

Governance Essential for Enhancing TOYO's Corporate Value

Under our corporate philosophy of “providing world-class engineering,” TOYO is focusing on strengthening governance, in order to realize sustainable growth and enhancement in corporate value over the medium- to long-term.

Here, our three Independent Outside Directors, who take responsibility for monitoring and supervising these measures, discussed with President & CEO Nakao TOYO's corporate value, and the roles of governance and Outside Directors in that regard.

I prioritize an objective perspective toward both positive and negative aspects as an Outside Director. …… Mr. Hayashi

For succession planning, it is essential that we provide “position” in a planned manner, and facilitate the accumulation of experience. …… Mr. Yamada

Monitoring and Supervising Management from both Positive and Negative Perspectives

Mr. Nakao: At TOYO, as one of our initiatives to strengthen governance, three of ten Directors are Outside Directors, and two of four Audit & Supervisory Board Members are Outside Auditors, and I would like to thank the Outside Directors gathered here today for regularly providing objective and practical opinions and advice in relation to management. Now, I would like once again to hear your unreserved opinions regarding TOYO’s approach to governance, which is essential for the enhancement of corporate value. First, what do you prioritize from your standpoint as Outside Directors, taking into consideration your abundant career experience and insight regarding corporate management, risk management, compliance and global management?

Mr. Hayashi: I think an Outside Director has three main roles. First, monitoring and supervising for negative aspect of decision-making and corporate behavior that may lead to losses for stakeholders. Second, judgments regarding the approach to investment that will lead to sustainable growth and other matters, and third, supporting the cultivation and reform of corporate culture in order to enhance corporate value, and thus I prioritize an objective perspective toward both positive and negative aspects.

Mr. Tashiro: Taking the stipulations in the “Corporate Governance Code” as our base, how should TOYO strengthen governance, and realize its corporate philosophy of “providing world-class engineering”? I utilize my experience of having engaged in international operations over many years in a financial institution to provide advice relating to matters such as country risk and counterparty risk from a global perspective.

Mr. Yamada: I also take into consideration the balance between our roles and those of Audit & Supervisory Board Members, and am conscious of not just defensive governance, but also proactive governance, to achieve sustainable corporate growth. In addition, in taking into consideration the standpoint of various stakeholders, not just shareholders, I value an “employee’s perspective,” as they will share the same fate as TOYO over the medium- to long-term, and take care to engage in essential discussion.

Prioritizing a Stance that is “Fair” to Stakeholders

Mr. Nakao: So, in relation to the “effectiveness of TOYO’s Corporate Governance Code,” I would like to hear your evaluation of its effectiveness and your opinions in regard to some basic principles in the Code. First, what do you think about “succession planning” in light of TOYO’s guidelines?

Mr. Hayashi: I think the first point required of a successor is a reliable personality. To that end, I think it is also important that we create an organization that can assess a successor’s quality required of a person from an objective perspective.

Mr. Yamada: First, one thing that may be said is that management comes from experience, not study. The members of TOYO’s Board of Directors are relatively the stage of old age, but I think it is essential to do more to provide younger people with “position,” such as management in business divisions and Presidents of local subsidiaries, and prepare a process for those people to accumulate On-Site training in a planned manner.

Mr. Tashiro: I have also had the experience of serving as a representative of a local subsidiary, and in such cases, you are the representative in that region, and there are even times when you must confront



Hirokazu Hayashi

Outside Director

Mr. Hayashi joined the Ministry of International Trade and Industry (currently Ministry of Economy, Trade and Industry) in 1971. He served in positions including Executive Secretary to the Prime Minister, Director-General of the Trade and Economic Cooperation Bureau, and Director-General of the Trade Policy Bureau, and is an expert in the fields of trade promotion and international trade policy. He also possesses abundant experience and knowledge regarding corporate management, including having served as Advisor of Tokio Marine & Nichido Fire Insurance Co., Ltd. and Executive Vice President of Tokyo Gas Co., Ltd. Mr. Hayashi is in his second year as Outside Director of Toyo Engineering Corporation, having served in the position since June 2016.

Obtaining and sharing information and other support systems have become more enriched. …… Mr. Tashiro

Discussions have become more active, and the effectiveness of the Board of Directors has certainly increased. …… Mr. Yamada

important people in government. There is significant value in the experience gained from being forced to make decisions at a position close to the top of management.

Mr. Nakao: I think my experience accumulated as President of Toyo-China is useful. In addition, accumulating experience as a project manager is surely a similar form of training because in that position you must, in a sense, make decisions on everything as the “lord of your domain.” I would like to continue reliably creating career paths that lead to future opportunities. In addition, if I were to put into words the qualities required of a person for succession, I think it is important that he or she is “fair, and not driven by personal interests or personal greed.” As Values forming part of its corporate philosophy, TOYO has set forth Integrity, Creativity, Diversity, Learning, and Team. In order to respect the “individual” that possesses these diverse values and abilities, and thus deliver corporate value, I would like to prioritize evaluation criteria and a corporate culture that are “fair.”

Next, what do you think about an “approach to sharing information,” as a system for supporting Directors as they fulfill their roles and responsibilities?

Mr. Tashiro: This is my third year as an Outside Director, but going into this year, I feel that, thanks to the efforts of the staff, the support systems have become more enriched, including briefings on the agenda of the Board of Directors meetings in advance, and the provision of additional information in response to our requests.

Mr. Yamada: If I were to put forward one issue, perhaps there is a problem with the selection of information. Important information and documents are provided based on the judgment of the secretariat, but sometimes I struggle to “read between the lines.” When making decisions, work

processes and its flow involved are important for making a decision, and it would be appreciated if some kind of mechanism were considered where, in certain cases, we could go collect the information we want ourselves.

Mr. Hayashi: I think there is a limit in sharing the same level of information as they do internally with Outside Directors, so first I would like related divisions to judge “what information is important for the Board of Directors.” In addition, as meetings of the Board of Directors are held once a month in principle, a time lag occurs in when information is obtained. How to balance security with sharing information by e-mail, etc. is probably an issue we should also consider.

Mr. Nakao: In April this year, we undertook a review of information sharing, and we shall strive to make improvements in terms of information, such as sharing information from the Audit & Supervisory Board with Directors. In addition, we aim to find appropriate ways to share information in a timely manner. In that regard, what do you think about the “discussions and operation of the Board of Directors?”

Mr. Yamada: I am also in my third year as an Outside Director, and I think the effectiveness of the Board of Directors has certainly increased with regard to the fact that discussions have become more active, as opinions are more proactively expressed than before by in-house Executive Directors and Audit & Supervisory Board Members, in addition to Outside Directors and Audit & Supervisory Board Members.

Mr. Hayashi: I agree. I feel that, compared with other companies, TOYO’s Board of Directors functions well also with regard to the sense of balance among the opinions of external and internal Directors, and its manner of operation. In future discussions, the next management plan after the Revival Plan will be important. How can we promote essential discussion that look to the future focusing around young



Masami Tashiro

Outside Director

Since joining Mitsui Bank, Ltd. (currently Sumitomo Mitsui Banking Corporation) in 1976, Mr. Tashiro has engaged in international operations over many years by serving in the International Department and General Manager of the Los Angeles Branch, and as General Manager of the International Credit Department and General Manager of the Singapore Branch for Sumitomo Mitsui Banking Corporation. In addition, he has abundant experience and knowledge regarding corporate management, including serving as Director and Representative Director at other companies. Mr. Tashiro is in his third year as Outside Director of Toyo Engineering Corporation, having served in the position since June 2015.

Reliably completing projects leads to an enhancement in corporate value. …… Mr. Nakao

Whether corporate culture is respected by society or not is also an important point. …… Mr. Hayashi

employees? And surely defining an achievable future vision will be an issue for the future.

Aiming to be a Company Appreciated by Clients

Mr. Nakao: Thank you for your valuable opinions. In regard to another important point, the “creation of internal controls and a risk management system,” something that I am aware of as an issue is the gap between headquarters in Japan and overseas group companies in terms of the approach to internal controls and the level of those controls. TOYO’s overseas group companies have roots in local regions and facilitate their businesses to local clients. Therefore I feel it would be difficult for us to implement the same management structure in these companies as in Japan, as is often seen with Japanese companies developing their businesses overseas.

Mr. Hayashi: The internal controls are a complex issue because, if you think about it from a different perspective, they affect the balance between sales divisions and administration divisions, and exist “cross-divisionally” in some way. Surely this is an issue that many Japanese companies struggle with, not just TOYO.

Mr. Tashiro: What I think, having been involved in global businesses over many years, is that although it truly is a slow, steady task, we shall cast a certain preventive net, while understanding and respecting local diversity. I think it comes down to how we operate in local regions while continuing those efforts.

Mr. Nakao: So, continuing effort is essential. Well then, now I would like to hear your opinions on the theme of “governance that contributes to corporate value.” We have engaged in various discussions about TOYO’s vision and corporate value, but

recently I have occasionally used the phrase “a company appreciated by clients,” both internally and externally. The projects that we engage in take a long time until completion, and during that process there are occasions when our opinions conflict with those of clients. It is important, however, that even if our opinions differ, we share the process of heading toward the same goal as our clients while resolving issues one by one, and so I think it comes down to how we can build a relationship where clients can say, “many things happened on the way, but in the end, we are satisfied with the result.” I think of projects as “creating value together with clients” as “a trusted and long-term partner,” which is defined in our Vision. Reliably completing projects leads to an enhancement in our corporate value, and I think profits and an increase in business scale will follow as a result.

Mr. Tashiro: As you say, our corporate philosophy, “providing world-class engineering” must refer to contributing to environmental protection and the creation of a sustainable global community, not just for clients. From that perspective, it is important that we exchange opinions with clients at all levels, from the top level to the level of On-Site staff.

Mr. Yamada: In other words, the essence of our business strategy is “how to solidify and expand our client base” from the perspective of business reproducibility, not just simply increasing new orders. Surely it is by acquiring trust through close contact with clients and expanding our client base in terms of both quality and volume that will lead to sustainable growth.

Mr. Hayashi: On the point of appreciation, I think that whether or not our sense of values, which support our profits at the core of our corporate value, or in other words, our approach to corporate culture is respected by society is an important point. On that



Yusuke Yamada

Outside Director

After joining Nomura Securities Co., Ltd. in 1977 and serving in positions such as Director and Managing Director, Mr. Yamada joined JAFCO Co., Ltd. in March 2009, serving as Managing Executive Officer, Managing Director, and Executive Managing Director. He assumed the position of Outside Director of Toyo Engineering Corporation from June 2015, and is in his third year in the position. Mr. Yamada has abundant knowledge regarding securities, finance, and capital markets, and experience and insight regarding corporate management.

I would like TOYO to aim for medium- to long-term growth, and build a fourth business pillar with an enterprising spirit. …… Mr. Tashiro

point, I would certainly like TOYO to proactively promote initiatives that it is already implementing, such as diversification and consideration for the environment.

The Search for New Business Pillars, Centered on Young Employees

Mr. Nakao: With regard to my management vision for the future of TOYO, we have three business pillars, which at present are the plant business, the infrastructure business, and the energy business, but in order to catch up with the rapidly changing market environment, I believe it is essential that we build a fourth business pillar. In April this year, we established a Business Development Unit, and launched initiatives to find this fourth pillar.

Mr. Tashiro: Surely, it is then that Learning, which is one of TOYO Values, will be a key point. As we look for medium- to long-term growth, I would like TOYO to focus on building a fourth pillar, while learning from new trends in the world, certainly in a humble manner, but also with an enterprising spirit.

Mr. Yamada: It is extremely difficult to imagine our business portfolio in ten or twenty years' time, but I think the key will be how we can gather the knowledge and ideas of the people that will play an active role in ten years, i.e. young people, and bring them into shape.

Mr. Tashiro: Surely initiatives such as “Wai-Gaya TOYO,” an informal meeting for midcareer and young employees to exchange free opinions which the President himself implements, is an extremely significant initiative.

Mr. Nakao: Thank you. Since being appointed President, I have implemented an exchange of opinions at a rate of once every two weeks, centered on middle management employees. Incidentally,

we have now begun two new initiatives to find new business pillars. One is that we have created teams, mainly comprising young employees, under the Business Development Unit, and they are considering new businesses. The second is that, in May of this year, we launched a task team to consider the state of plant engineering in ten years, and how it should be. This team, mainly members in their thirties and forties, has begun the task of creating a “Next-generation Project Execution Model.”

Mr. Hayashi: In future, surely it would be meaningful to gather the opinions of young staff in overseas group companies, taking into consideration the reality that the domestic population will continue to decline. I think that gathering human capital with different nationalities and backgrounds will lead to an enhancement in corporate value in a manner befitting TOYO as a global company.

Mr. Nakao: Thank you for your various valuable opinions. In my third year as President, to what extent can we conclude the Revival Plan in a firm manner, and enhance corporate value from a medium- to long-term perspective? I think the direction of that discussion will truly depend on this year. We shall listen carefully to your opinions, including your stern advices, and make the changes that we must. In order to do so, we shall endeavor to strengthen governance, and firmly ensure management transparency and accountability to stakeholders. I humbly request that you continue to give your opinions and advice regarding the management of TOYO in the future.



Kiyoshi Nakao

President and Chief Executive Officer

After joining Toyo Engineering Corporation in 1977, he took charge as head of the Mechanical Engineering Division in 1999. He assumed the position of Executive Officer in 2004 and contributed to acquisition of new orders as head of the Proposal Division. In 2006 he was assigned as head of the Procurement Division.

Afterwards, he became Senior Executive Officer in 2008 before his assignment to Toyo-China as President in 2009, in which he promoted reforms at Toyo-China in response to the changes in the market. He returned to Japan in April 2013, where he then served as Unit Director of the Plant Project Unit and Director before his current position starting April 2015.

Fundamental Concept

TOYO's corporate philosophy is to make contributions to our stakeholders, including shareholders and customers, and also to fulfill our responsibilities to society through operating our global engineering and construction business in fields such as energy, oil refining, petrochemicals, chemicals, social infrastructure facilities, and industrial facilities of various types. We establish and administer a fair management system to ensure transparency and soundness in management, disclose corporate information in an appropriate and timely manner in order to be properly accountable to our stakeholders, and we work to thoroughly prevent unfair transactions, such as insider trading. Additionally, with regards to management decision making, we give due consideration to general shareholder returns. We strive to fully establish and operate an internal control system—including compliance and risk management, the foundations of corporate governance—as we increase the efficacy of our management monitoring and observation capabilities.

Governance system chart (As of June 27, 2017)

Structure	Company with Audit & Supervisory Board
Usage of an executive officer system	Yes
Number of Directors	10
Number who are Outside Directors (Independent Officers)	3 (3)
Director term length	1 year
Number of Audit & Supervisory Board Members	4
Number who are Outside Auditors (Independent Officers)	2 (2)
Number of independent officers	5

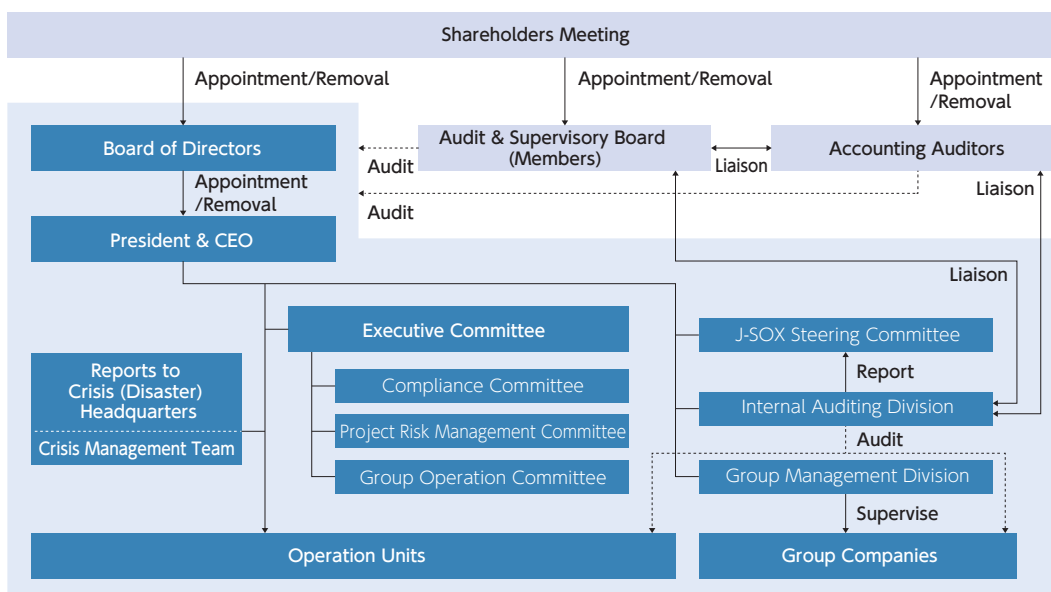
Corporate Governance System

TOYO recognizes that it is essential to gain trust from our stakeholders—including shareholders and customers—and ensure transparency and fairness in management decision making as we fulfill our responsibilities to society. Therefore, we work to properly establish and effectively administer the following corporate governance system. The Board of Directors is composed of 10 Directors, including three Outside Directors; they deliberate and determine all important matters related to management and the execution of business, and also monitor and supervise one another with respect to the execution of Directors' duties. Additionally, TOYO introduces an executive officer system in order to strengthen the Board of Directors' monitoring and supervising capabilities, and to ensure a swift and effective business execution system. Executive Officers are appointed by the Board of Directors

and, under the CEO's directions, execute the duties they have been delegated. Additionally, as an advisory board for the President and CEO, the Executive Committee consists of Executive Officers with specific roles (Senior Executive Officers or above) and the heads of main divisions. Important matters related to the execution of business are reported and deliberated in the Executive Committee.

The Audit & Supervisory Board consists of four Audit & Supervisory Board Members, including two Outside Auditors, they report and deliberate on the Directors' execution of their duties, the status of developing and operation of internal controls, and internal audit guidelines such as quarterly settlements and end-of-year settlements as well as the contents and results of audits.

Corporate Governance Structure



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

TOYO has three Outside Directors among 10 Directors, and two Outside Auditors among four Audit & Supervisory Board Members. TOYO has submitted notifications to the Tokyo Stock Exchange for these directors and two Audit & Supervisory Board Members (Outside Auditors) to serve as Independent Officers. In the course of deciding appointments, TOYO shall evaluate the independence of outside officers pursuant to the independence standards for outside officers as prescribed by the Tokyo Stock Exchange. With regard to qualifications, the Company takes a comprehensive view, determining whether candidates possess significant expertise and experience in fields such as corporate management, risk management, compliance, and global management practices, and are capable of offering objective, practical opinions and advice in overseeing management or have the ability to perform appropriate audits.

In order for these Outside Officers to effectively fulfill their roles and duties, they shall cooperate with Outside Directors and Audit & Supervisory Board Members (including Outside Auditors), hold meetings that facilitate the sharing of information and issues of mutual concern, and outside officers shall hold meetings with the President & CEO to exchange views on the cultivation and nomination of Directors and executives, and related remuneration policies.

TOYO believes that by establishing and administering a framework that complies with the Corporate Governance Guidelines, management executives will be accountable and transparency can be ensured in management. In view of the content and structure of our business, we believe that the current system is effective in ensuring corporate governance to function properly.

Outside Directors	Reason for Election
Hirokazu Hayashi (Independent Officer)	Having served in the Japan's Ministry of Economy, Trade and Industry (METI), Hirokazu Hayashi possesses ample experience and deep insights in public policies mainly of the trade promotion and trade policy. In addition, he possesses outstanding experience and knowledge in corporate management. He has been making fair and precise comments and opinions regarding various managerial issues from an independent standpoint and supervising the Company's management appropriately. He has been elected with expectations that he will continue to appropriately perform his duties.
Masami Tashiro (Independent Officer)	Possessing extensive international experience at financial institutions as well as ample experience and deep insights as a corporate manager, Masami Tashiro has been providing precise comments and opinions about the Company's overall management from an independent standpoint based on a global perspective and supervising the Company's management appropriately. He has been elected with expectations that he will continue to perform his duties appropriately.
Yusuke Yamada (Independent Officer)	Possessing knowledge related to securities, finance, and the capital markets, as well as ample experience and deep insights as a corporate manager, Yusuke Yamada has been providing precise comments and opinions about the Company's overall management from an independent standpoint and supervising the Company's management appropriately. He has been elected with expectations that he will continue to perform his duties appropriately.
Audit & Supervisory Board Members (Outside Auditors)	Reason for Election
Yoshiyuki Funakoshi (Independent Officer)	Having spent many years in the management of a chemical company, Yoshiyuki Funakoshi has wide-ranging experience and high-level insight concerning management. He has been auditing appropriately from an independent position and viewpoint that utilizes these abilities, and elected with expectations that he will continue to perform his duties appropriately.
Kiyohito Uchida (Independent Officer)	Possessing knowledge of law and experience as a lawyer, Kiyohito Uchida has been auditing the management appropriately from an independent position and viewpoint that utilizes these abilities. He has been elected with expectations that he will continue to perform his duties appropriately.

Policies of Remuneration for Directors and Audit & Supervisory Board Members

Remuneration for TOYO's Directors (excluding Outside Directors) composed of the fixed remuneration according to the post and the performance-linked remuneration. The performance-linked remuneration is calculated on the basis of the current net profit attributable to owners of the parent and determined by the President & CEO after reviewing the contribution of each Director. Furthermore, in order to set appropriate remuneration levels for Directors' remuneration and strengthen accountability, the ratio of fixed remuneration and

performance-linked compensation, as well as the calculation formula for performance-linked remuneration shall be decided by the Board of Directors, upon discussions between the President & CEO and outside officers, with any required revision proposals being prepared by the President & CEO.

As for the Outside Directors and Audit & Supervisory Board Members, with consideration for the independence of these positions, remuneration is fixed and is not linked to the business performance.

Internal Controls

Based on the recognition that internal controls are the foundation of corporate governance, Directors appropriately establish, operate, and assess the system of internal controls. Also, Directors carry out continuous inspection and improvement of internal controls, and periodically revise the Fundamental Policies of Internal Controls System. Additionally, as the Company ensures the

reliability of compliance, risk management, and financial reports through internal controls, we also pay sufficient attention to ensuring work effectiveness and efficiency. TOYO establishes the system so that the Board of Directors will make decisions based on appropriate information and business will be executed according to these decisions.

Risk Management

Compliance Risks

As the core principles of Corporate Activities, TOYO has established a Code of Conduct, Compliance Manuals and related rules in order to comply with laws and regulations as well as social justice and ethics. Also, TOYO has established the Compliance Committee headed by Chief Compliance Officer (CCO). The Compliance Committee plans educational campaigns out, and ensures the operation and monitoring of compliance systems. Moreover, compliance-related inspections by the internal

auditing division and Audit & Supervisory Board Members are carried out regularly, and the compliance system is being continually strengthened. Additionally, TOYO has set up a unified contact for consultation and whistle-blowing for all Group companies for compliance as a framework for properly reporting to the Board of Directors and the Audit & Supervisory Board Members. In our internal rules, we prohibit unfair treatment of whistle-blowers on the grounds of the act of reporting.

Business Risks

To manage business profits and financial risks, TOYO has implemented the following measures:

Stage before order is received (Proposal selection and estimation)

TOYO has developed and operates a system in order to formulate reasonable measures for risks through examination of the technology and contents for each proposal, considering the potential severity of impact and likelihood of occurrence and to ensure transparency and checks-and-balance functions in formulating process.

Stage after order is received (Project execution)

TOYO has established and been operating a project management system which manages risks properly through planning and execution of project execution policies that reflect risk assessment and preconditions at the proposal stage in addition to regular reporting and monitoring during project execution.

Management of Group Companies

Through the Group Management Division and Group Operation Committee's set of interrelated activities, we promote strengthening of the project execution

capabilities of group companies and thorough management of consolidated profits targets.

Other Risks and Crisis Management

According to internal rules for crisis management, TOYO has put in place a crisis management system and its outline as follows. During ordinary times, the Crisis Management Team as a permanent organization detects and understands potential dangers at an early stage and, after the occurrence of a crisis, the Crisis (Disaster) Headquarters which is directly under the President and CEO makes necessary decisions on all matters concerning

crisis response. Also, TOYO has procedures for responding to dangers to executives, employees and related personal overseas, and accidents of plant and equipment concerning TOYO's projects. Also, TOYO has a Business Continuity Plan for responding to risks that should be anticipated as a company's responsibility, such as damage from earthquakes and other disasters.

Auditing by Internal Auditing and Audit & Supervisory Board Members

TOYO has established an Auditing Division that is directly controlled by the President & CEO. As it assesses the legality and rationality of company operations, the Auditing Division provides advice and counsel regarding operational effectiveness and efficiency. Additionally, it independently assesses the maintenance and operation of internal controls related to financial reports and it reports these results to the J-SOX Steering Committee, which is immediately under the President & CEO.

Audit & Supervisory Board Members audit Directors' execution of duties through attending important meetings, including those of the Board of Directors and listening to information from Directors, executives and

employees regarding operations and the execution of duties, and surveying the progress of the Company's operations and finances.

In addition, through actions such as exchanging opinions on various topics—including explanations of observations related to the Company's operations, their respective yearly auditing plans and critical items for auditing, auditing methods, inspection and quality control systems of auditing, and audit results—the Audit & Supervisory Board, Accounting Auditors, and the Auditing Division conduct their auditing in cooperation with one another, striving for close communication while maintaining due concern for independence.

Responsibility for Safety, Quality and Environment

TOYO has established its mission as “Engineering for Sustainable Growth of the Global Community,” and aims to develop a sustainable society and contribute to its clients.

In addition, our vision is to become a “Global Leading Engineering Partner,” and by maximizing the capability of our group companies, we will further develop our global operations, and strive to become the most trusted

company for our clients, while continuing to endeavor toward the creation of the next generation of the engineering business.

In this respect, it is essential that we ensure safety, quality, and environmental preservation in the processes of our business execution, and we consider it our Corporate Social Responsibility to do so.

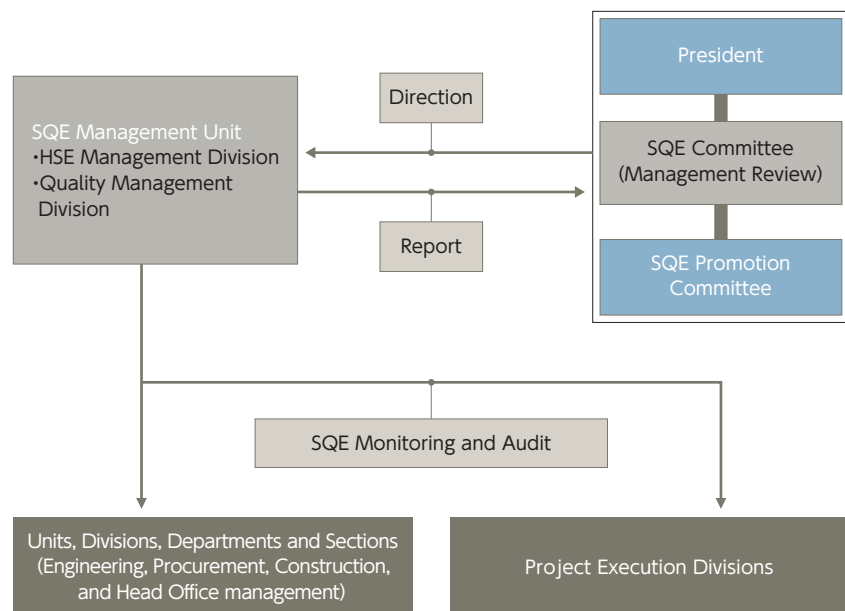
Safety, Quality and Environment (SQE) Management Structure

TOYO has set up the SQE Committee, which reports directly to the President, to review companywide SQE management activities. The Committee establishes the operating policies and assesses and approves the results of SQE activities.

The SQE Promotion Committee promotes companywide activities in line with the basic policies of the SQE Committee, and also promotes specific SQE activities of individual Operating Divisions and individual Project Execution Divisions.

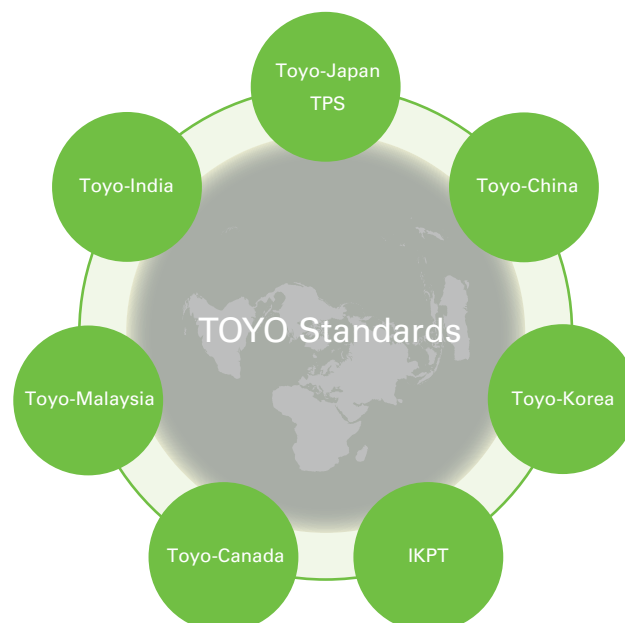
The SQE Promotion Committee and SQE Management Unit cooperate systematically on the axis of the SQE Committee, which is connected directly to the management, to implement the PDCA cycle of the individual Operating Divisions and individual Project Execution Divisions, for continual improvement of the SQE management system and performance.

SQE Management Structure



TOYO Standards

TOYO has established unified standards used commonly with global subsidiaries as Global Standards (GS). We have used these as well as Local Standards (LS) specific to individual group companies to improve TOYO's overall SQE activities. We will continue to further improve TOYO Standards while providing clients with reliable quality.



“Safety is fundamental for our corporate activities.”

Based on this belief, we at TOYO has established the basic principles below, which are indispensable for safety management, and we steadily implement multiple initiatives that contribute to safety, as we aim for zero casualties in our operations.

- Reinforce management leadership
- Foster a safety culture
- Maintain and comply with safety standards

We focus on maintaining and complying with safety standards.

As part of those efforts, we have set forth unified standards that apply to all construction sites where TOYO is responsible for safety management, and are working to ensure thorough awareness and familiarization with them through education, audits and other methods.

Safety Record

TOYO’s safety record for 2007 to 2016 is as follows:

TOYO aims for zero accidents as a safety management objective. Hence our target is to further reduce the LTIR and the TRIR.

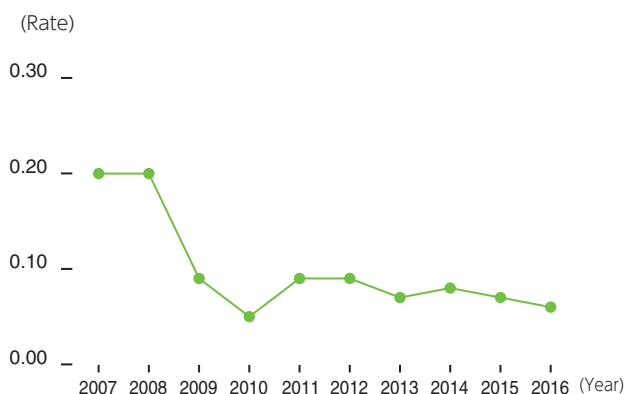
Safety Record over the Past 10 Years (One million hour base)

Year (Jan. to Dec.)	Employee- Worked Man-Days (Thousands)	Employee- Worked Man-Hours (Thousands) (A)	Number of Incidents					LTIR ^{*1}	TRIR ^{*2}
			Fatalities	Lost Time Incidents (LTI)	Medical Treatment (No Lost Time)	LTI Total (B)	Recordable (C)		
2007	10,559	103,424	1	20	341	21	362	0.20	3.50
2008	13,106	130,287	5	21	247	26	273	0.20	2.10
2009	16,769	164,344	4	9	156	13	169	0.09	1.03
2010	12,012	117,295	1	5	56	6	62	0.05	0.53
2011	8,521	80,783	1	6	12	7	19	0.09	0.24
2012	12,739	120,760	3	8	16	11	27	0.09	0.22
2013	10,790	105,164	0	7	16	7	23	0.07	0.22
2014	9,201	89,777	1	6	13	7	20	0.08	0.22
2015	6,968	67,309	1	4	9	5	14	0.07	0.21
2016	5,280	52,541	0	3	23	3	26	0.06	0.49

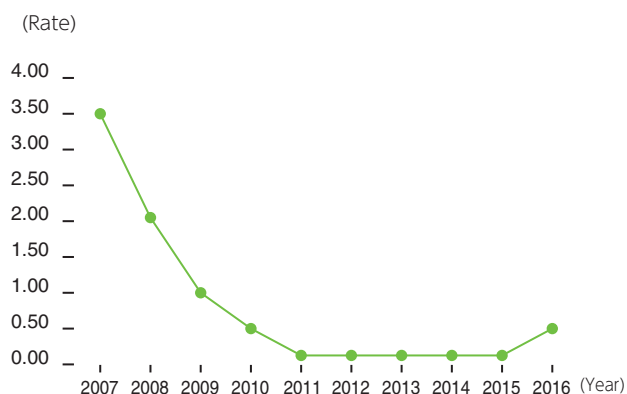
*1. Lost Time Incident Rate (LTIR) = (B) × 1,000,000 / (A)

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

Lost Time Incident Rate (LTIR)



Total Recordable Incident Rate (TRIR)



Site Inspections

Safety management requires strong leadership. At TOYO construction sites, we encourage site inspections by managers.



Site inspection by managers (Japan)



Site inspection by managers (Thailand)

Safety Campaign

TOYO holds the Safety Campaign at all its group companies and construction sites. The Campaign calls attention to safety awareness for one month, starting on July 1 every year. Various safety programs take place during this period.



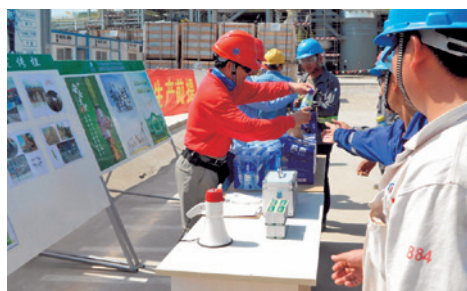
Earthquake simulation experience by earthquake simulation vehicle



Safety meeting



Evacuation drill



On-Site measures to combat heatstroke

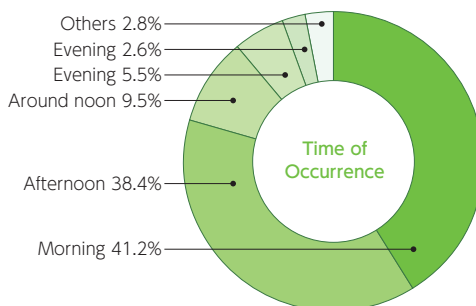
Major Campaign Programs

1. President Message
2. Earthquake simulation experience by earthquake simulation vehicle
3. Voluntary in-house firefighting unit drills
4. Safety confirmation training
5. Distribution of security information
6. Lecture relating to high blood pressure prevention
7. Introduction of campaigns at group companies
8. Display of posters, banners and panels
9. Safety awards

Near-miss

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

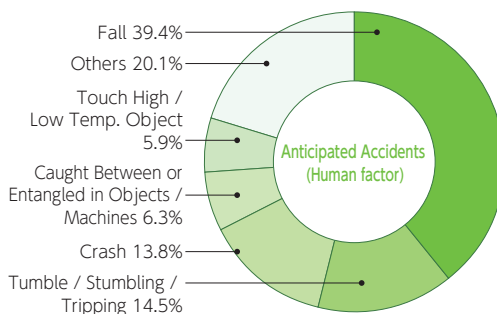
TOYO is proactively collecting the near-miss data at sites, analyzing it, and utilizing the results in our safety management to prevent accidents. Data on 11,692 near-miss occurrences were collected from 2008 to December 2016 and analyzed. Major findings are as presented:



Focused on the morning hours:

Countermeasures

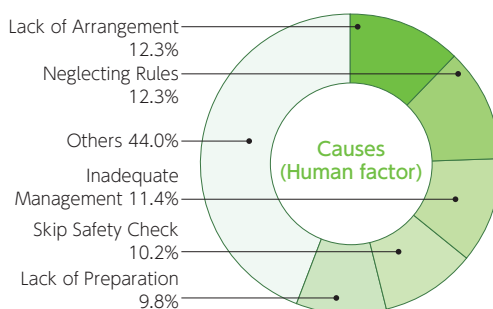
- Ensure conducting the morning meeting, TBM*1 and KYK*2 before work start.
- Make all workers aware of safety conditions at the workplace before work start.
- Check health conditions before work start.



Focused on fall and tumble:

Countermeasures

- Ensure using harness and fall protection.
- Maintain a safety access route.
- Don't hurry or run.



Focused on neglecting rules, lack of arrangement:

Countermeasures

- Conduct induction training and re-training.
- Ensure order and clear up of work area.
- Ensure safety patrol and introduce award and penalty system.

*1. TBM (Tool Box Meeting): Activity to confirm outline, procedure and remarkable matter of work at work place.

*2. KYK (Risk Prediction Activities): Activity to predict latent risks of work and take countermeasures at work place.

TOYO Safety Meeting

At the TOYO Group, the designated heads of HSSE conduct periodic meetings at pre-decided locations, exchange experience and ideas, and maintain close communication regarding the improvement of safety management activities.

TOYO group companies participating in the meeting

- Toyo-Japan
- Toyo-China
- Toyo-India
- Toyo-Malaysia
- Toyo-Korea
- IKPT (Indonesia)



TOYO conducts business operations in many regions and countries, and in order to fulfill our social responsibility, we are aware that ensuring the quality of our products and services is an important prerequisite, in addition to ensuring safety and health as well as considering the environment. In order to do so, TOYO has set forth the following quality policies and shares the policies with its clients.

1. Provide high-quality products and services that take care of HSSE (Health, Safety, Security and Environment) and meet the requirements of our clients and society.
2. Comply with TOYO rules, and make maximum use of our high-tech application capabilities and engineering technologies.

ISO Approval

TOYO acts for further safety, quality, environmental, and information security management based on the following ISO certificates, which are international standards.



ISO9001:2015 Certificate
Unified accreditation, including major group companies



ISO14001:2015 Certificate



ISO27001:2013 Certificate

*Certificates issued by a third-party certification body following an assessment of the fact that the activities of the TOYO Group are executed based on a unified Quality Management System, and in accordance with international standards.

Feedback Knowledge Management System (FKMS)

As part of continual improvement of the Quality Management System, TOYO has been accumulating examples of problems and best practices for about 30 years from executed projects in the FKMS. The FKMS accepts and shares examples of problems and best practices from TOYO group companies. Thereby, they can be extended and utilized among all TOYO group companies immediately for suggestions and preventive actions in all subsequent projects and proposals.

Safety, Quality and Environment (SQE) Training

Through TOYO Academy classes for young and mid-level employees and safety training for all employees, we aim to increase knowledge and raise awareness of safety, quality and the environment.



SQE training

The preservation of the global environment, including the prevention of global warming, is a common issue facing all of humanity.

TOYO has established the following philosophy regarding the environment, and in order to realize the philosophy, we will actively focus on environmental protection together with our clients.

- Realize sustainable development capable of both environmental protection and the development of mankind.
- Provide engineering services in harmony with the global environment as a global company.

Technology to Contribute to the Environment

TOYO promotes the development, application and improvement of technologies that contribute to the environment, and by selecting the technology that best suits our clients, offers plants designed to save energy and conserve natural resources, and provides a variety of solutions that contribute to the preservation of the environment as well as the prevention of pollution.

Energy Saving Distillation System *SUPERHIDIC*[®]

Distillation is a unit operation regarded as a relatively proven technology, and is widely used in industrial fields.

On the other hand, it is a typical heat energy-intensive operation, and there is a need for energy saving technology in the area. Many types of energy saving technologies have been proposed. Among them, Heat Integrated Distillation Column (HIDiC) has been proposed as an ultimate form of energy distillation technology. TOYO, together with the National Institute of Advanced Industrial Science and Technology, has developed *SUPERHIDIC*[®], an advanced form of HIDiC, which is expected to significantly cut energy consumption by over 50%. The unique feature of HIDiC system is that it saves energy consumption at the reboiler by heat-integrating internally between the rectifying and stripping sections with the assistance of compressor power which is installed between two sections.

TOYO radically optimizes the internal heat integration manner of conventional HIDiC in *SUPERHIDIC*[®].

TOYO received the order for the first plant of *SUPERHIDIC*[®] from Maruzen Petrochemical Co., Ltd. in 2014 (for commercial production), designed, procured, constructed, and assisted with commissioning of the plant, and achieved an energy saving of more than 50%.

With the success of this project, TOYO is planning to expand the business of *SUPERHIDIC*[®], and aims to contribute to saving energy at oil refining and petrochemical plants, lowering operating expenses, and further reducing the burden on the earth's environment.

SUPERHIDIC[®] is a trademark of Toyo Engineering Corporation registered in Japan (Registered Number: 5488562).



The first *SUPERHIDIC*[®] plant

Biodiversity Initiative

In the construction of Setouchi Kirei Mega Solar Power Plant, TOYO is constructing the plant in a way that considers that natural environment, based on the Nature Preservation Agreement concluded between the clients, Setouchi Future Creations LLC, Okayama Prefecture and Setouchi City. From the perspective of preserving the natural environment, of the approximately 495 hectares of the area to be developed, the salt marsh outside of the solar power plant site will be preserved as a natural environment conservation zone, and "Kinkai Habitat" has been created on 16 hectares. In particular, in the Kinkai Habitat, we have prevented drying out of the marsh while utilizing the original form of the land as much as possible, and further preserved biodiversity, based on the concept of "people create the half, and nature creates the remaining half." TOYO will create harmony between its business activities and the preservation of the earth's environment, and will continue to proactively implement initiatives to realize a sustainable society.



Kinkai Habitat

Efforts for Reducing Environmental Load

Construction Waste Disposal

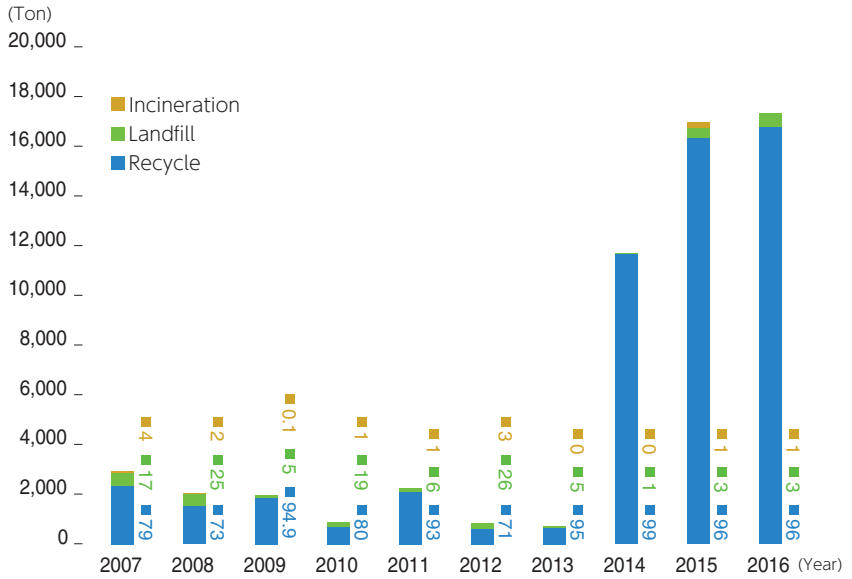
Project sites in Japan

The percentage of construction waste by disposal method (recycle, landfill, and incineration) is shown in the figure.

For fiscal 2016, it was 96% recycle, 3% landfill and 1% incineration waste.

Recycled waste was concrete waste and asphalt/concrete waste from civil construction works for photovoltaic power generation.

Percentage of construction waste by disposal method



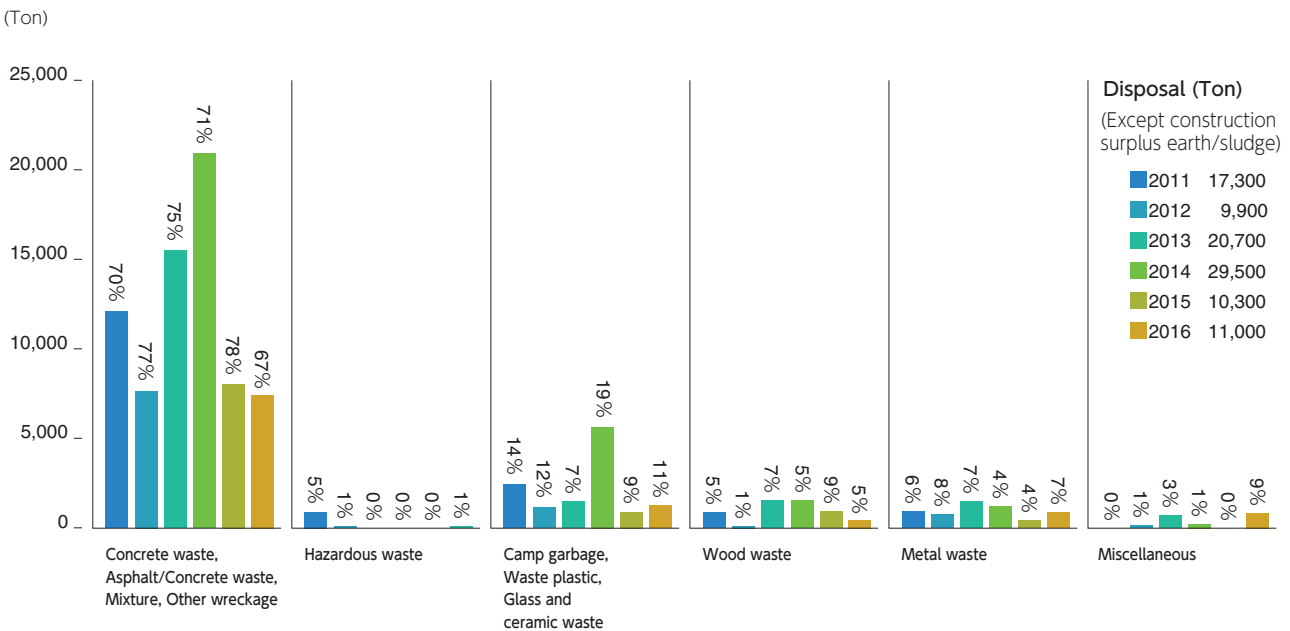
Overseas project sites

The total amount of construction waste disposal in calendar year 2016 (from January to December 2016) at overseas project sites, excluding surplus soil/sludge, was 11,000 tons. Total waste disposal increased in line with the progress of constructions.

TOYO will continue to summarize construction waste disposal weights to utilize the data for reducing environmental load.

Weight of construction waste disposal and percentage by category (Overseas project sites)

(Proportions of individual waste categories to the total disposal weight except construction surplus soil/sludge in each year shown as percentage)



Contribution to Society

TOYO has been engaged in numerous projects in various countries around the world ever since winning a contract to construct a fertilizer plant in India in 1963 shortly after our establishment. As such, we have maintained deep ties with the international community and have implemented various support activities.

Overseas Seminars for Technology Transfers

In response to requests from various countries overseas, TOYO offers seminars related to project management, environmental technologies and other subjects. Cooperating mainly with the business courses at the Japan Center of JICA (Japan International Cooperation Agency), we offer technical training courses which run about three weeks to approximately 50 trainees from private enterprises in the requesting countries.

These courses have been offered in Kazakhstan, Uzbekistan, Malaysia, Vietnam, Indonesia, and other countries. Furthermore, in developing countries such as Myanmar, Mozambique, and Tanzania, we hold technical seminars in order to familiarize people with petrochemical technologies.



Accepting Overseas Trainees

TOYO has accepted trainees in various areas in response to requests from governments and public institutions of other countries. The content of the training varies according to the requests. There are long-term courses that include OJT and run for two years, while short-term intensive courses run about two weeks. We have accepted trainees from Russia, Kazakhstan, Uzbekistan, Cambodia, Malaysia, Vietnam, Venezuela and other countries.

TOYO has accepted about 370 trainees from Iraq since 2005 to support reconstruction after the war. Trainees were from a diverse range of organizations, such as the Iraqi Ministry of Oil, oil refining companies, gas distributors, petroleum distributors, engineering companies and more. All attended the courses with dedication and enthusiasm. Additionally, TOYO has accepted trainees in the HSE field from Iran since the lifting of the U.S. economic sanctions.



Investor Relations

We work to ensure effective communication with analysts and institutional investors and promote IR activities that reflect opinions of these participants in management.

IR activities for the fiscal year ended March 2017 are as follows.

● Financial Results Briefing [Twice a year]

Meetings in May and November to explain financial results, performance forecasts, and management policies to analysts and institutional investors (Speakers: President and the CFO)

● Business Meeting (held by Securities Company) [Once a year]

A meeting in which the President explained the status of our business and management policies to analysts and institutional investors

● Briefing [90 times a year]

Individual briefings for analysts and institutional investors

● Published IR information on homepage [Updated as necessary]

Updates of financial statements, financial information, securities reports, integrated reports and other information.



TOYO works to develop our human capital—the source of our value creation.



Norihiro Takahashi
General Manager
Human Capital Development Division

TOYO has defined “strengthening our corporate foundations” as one of the measures of our Revival Plan, and have currently positioned the cultivation of human capital to increase corporate value and the continuing change of corporate culture as priority issues. Based on the recognition that, as an engineering company, “TOYO’s value lies in its Human Capital,” we are focusing on developing human capital with a high level of specialist knowledge and skills that are valuable on a global level. In particular, as recent projects have become larger and more complex, and clients have come to require increasingly advanced value, it is necessary to develop project managers and technical professionals with a wider range of specialist knowledge and skills than before, in a planned manner.

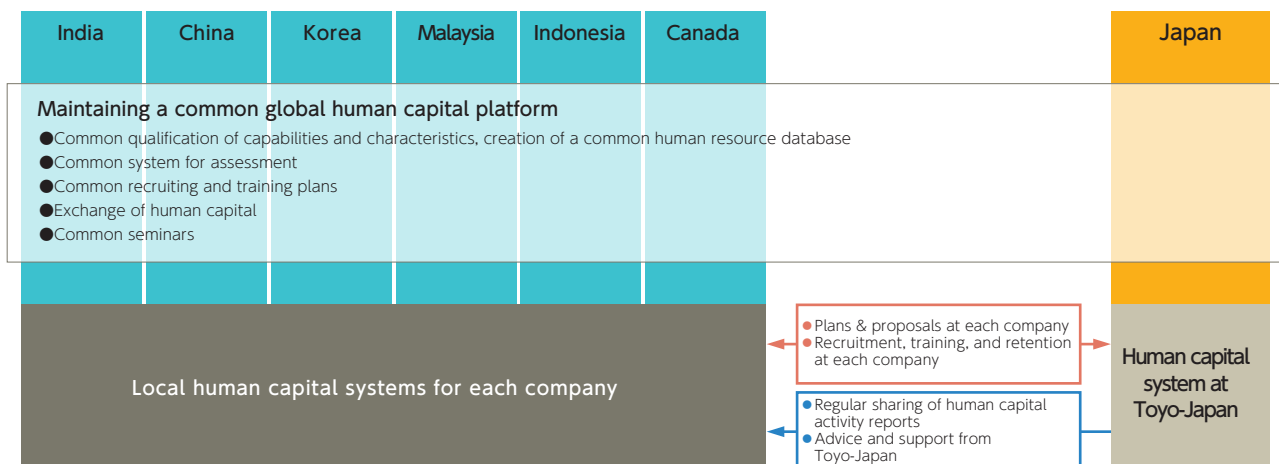
We believe that the role of human capital development has become more and more important, including cultivating wide-range of human abilities that can leverage excellent leadership and communication skills, etc., fostering an innovative way of thinking that can respond flexibly to changes in the business environment, and initiatives for the transition between generations, including the transfer of technology.

In order to do so, TOYO has redefined the vision of human capital that is required as “human capital comprising “full of human ability” equipped with the ‘ability to contemplate the real nature of things’ and the ‘ability to get things done,’” and are reforming our human capital development measures and personnel systems. We shall develop human capital with the ability to always contemplate the real nature of issues, even when facing various changes such as changes in the environment and business models, the flexibility to change approaches when risks are foreseen, the sense of duty to get tasks done in a thorough manner without giving up, even when facing difficulties, and the comprehensive ability to manage teams comprising many different nationalities in a skillful manner. We aim to use human capital development to build a strong company that can survive in these times of rapid changes and tough competition.

Human Capital Development Measures

- Promote varied career paths, not solely in specialized fields
- Support the acquisition of job knowledge and management skills through stratified training
- Develop the next generation by the selection of exceptional young and midcareer employees and through collaboration with veteran employees
- Transition between generations of Line Managers for organizational invigoration and the promotion of mobility
- Further utilize opportunities for OJT, prioritizing actual sites and objects
- Develop human capital through personnel exchange between global offices

TOYO’s Human Capital Development



TOYO aggressively supports each local company by Toyo-Japan through activities such as human capital division head meetings as well as human capital activity reports.

We continue to develop human capital with a global leadership through the more frequent exchange of human capital in the entire group.

Hiring of Overseas University Graduates

In expansion of the global business, it is quite essential to globalize the human capital itself. TOYO has recruited new graduates from overseas universities such as in India and China since 2014. In order to realize one of our corporate Values, "Diversity", we have hired a number of students with a broad range of perspectives, who can excel globally. We address the improvement of the environment in order for these employees to realize their desired career development with respect to the diversified cultural backgrounds and to contribute to our business.

On-Site training

We implement On-Site training and a job double assignment system so that employees acquire experiences On-Site in the early stage of their career in TOYO. Specifically, we implement "On-Site training" for employees up to their third year, where they experience fieldwork such as construction and commissioning at plant construction sites overseas in fiscal 2016, 28 young employees completed three months of On-Site training. Through the On-Site training, they bring an "on-site" perspective to their commissioning after returning to offices, thus contributing to the implementation of engineering in thorough consideration of constructability*1 and operability/maintainability*2. In addition, in fiscal 2016, 16 young employees utilized the "Job Double Assignment System" to acquire experience under the instruction of their senior employees in exposure to different stimuli from their office work at overseas group companies or at sites.

*1 Constructability: the workability of construction and installation

*2 Operability/maintainability: the ease of operation/maintenance



Overseas OFF-JT (Off the Job Training)

In addition to On-Site training, TOYO also implements overseas OFF-JT, which deepens operational understanding through opportunities including participation in seminars overseas and visits to foreign partners in the U.S. Specifically, we provide opportunities for young employees to visit the OTC (Offshore Technology Conference) held in Houston in the U.S. in order to get acquainted with the latest technology and knowledge relating to offshore oilfield development. They also visited our alliance partner Baker Hughes Incorporated to acquire further knowledge relating to offshore resource development facilities, and to make a significant contribution to the cultivation of a favorable relationship with our partner.



column

IKPT in Indonesia prepared internal childcare facilities in June 2016 for the two weeks before-and-after the Lebaran holiday, an important event in Islam, to help female employees keep working while raising children. During this period, there is custom that family care givers and babysitters also take long holidays, but it is common sense for corporate operations to be conducted as normal. By building a support system, we reduced employees' burdens and created an environment that is easy to work in, thus promoting a win-win relationship for both the Company and employees. IKPT shall continue proactively implementing initiatives to create a favorable work environment where it is easier for employees to work and demonstrate results.



Business Overview

Despite demand for capital expenditure bottoming out in areas such as petrochemicals and chemical fertilizers, conditions are difficult in the plant business, owing partly to final investment decisions being delayed as a result of stagnant oil prices and other factors. Meanwhile in the infrastructure business, which includes power plants, stable capital expenditure is expected in Japan and overseas. Amid these conditions, concerning orders booked, new orders fell 73.7% year on year, as the market cooled down

in the plant business, although we received new orders for projects such as natural gas-fired cogeneration power plants in Thailand in the infrastructure business.

On the other hand, with regard to project execution, progress was made in projects including an ethylene complex in Malaysia, an ethylene plant in the U.S., natural gas-fired cogeneration power plants in Thailand, and a photovoltaic power generation plant in Setouchi.

Consolidated Financial Results

Net sales	¥431.9 billion	(Up 44.1% year on year)
Operating loss	¥2.0 billion	(Previous fiscal year: Operating income of ¥11.0 billion)
Ordinary income	¥1.6 billion	(Down 58.6% year on year)
Profit attributable to owners of parent	¥1.4 billion	(Down 51.5% year on year)
New orders	¥116.7 billion	(Down 73.7% year on year)
Cash dividends	¥2.00 per share	(Year-end)

Fiscal 2016 Performance Outline

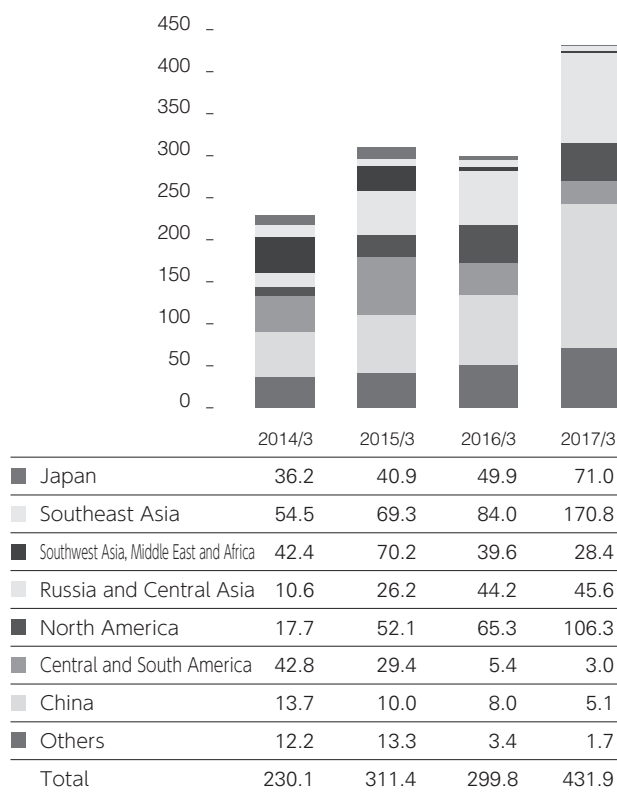
In fiscal 2016, net sales were ¥431.9 billion, up 44.1% year on year; operating loss was ¥2.0 billion, compared to operating income of ¥11.0 billion in the previous fiscal year, as a result of higher cost of sales due to a significant increase in construction costs for the U.S. ethylene plant project, despite a ¥1.4 billion decline in selling, general and administrative expenses. However, due to the recording of ¥4.5 billion in non-operating income in areas including ¥1.3 billion in foreign exchange gains and ¥0.6 billion in reversal of allowance for doubtful accounts, ordinary income was ¥1.6 billion, down 58.6%

year on year. Additionally, due to extraordinary income of ¥4.2 billion including ¥2.6 billion in gain on securities contribution to retirement benefits trust and ¥1.2 billion in gain on sales of investment securities, profit attributable to owners of parent was ¥1.4 billion, down 51.5% year on year, after the elimination of income taxes. New orders received were ¥116.7 billion, down 73.7% year on year and significantly lower than the target of ¥250.0 billion, with a backlog of contracts of ¥492.6 billion, down 40.1% year on year in fiscal 2016.

Net sales

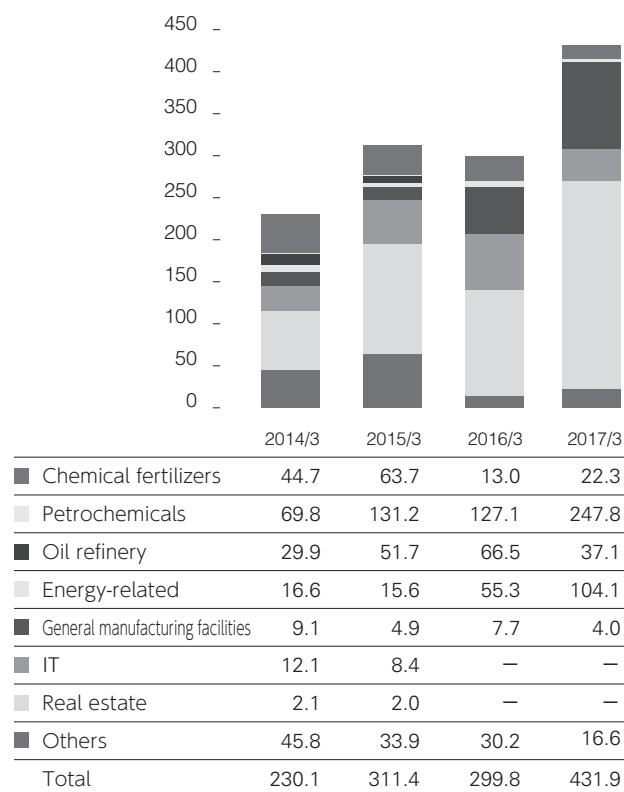
Breakdown by region

(¥ billion)



Breakdown by segment details

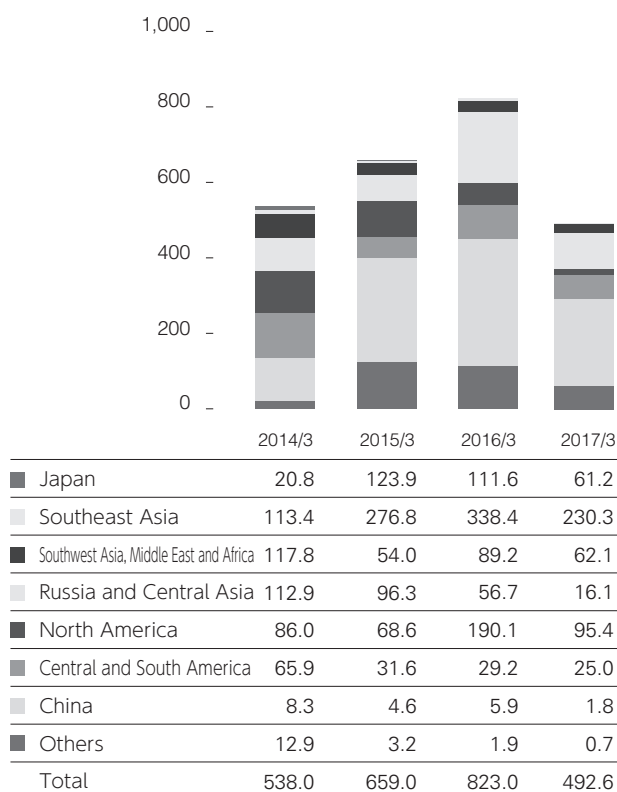
(¥ billion)



Backlog of contracts

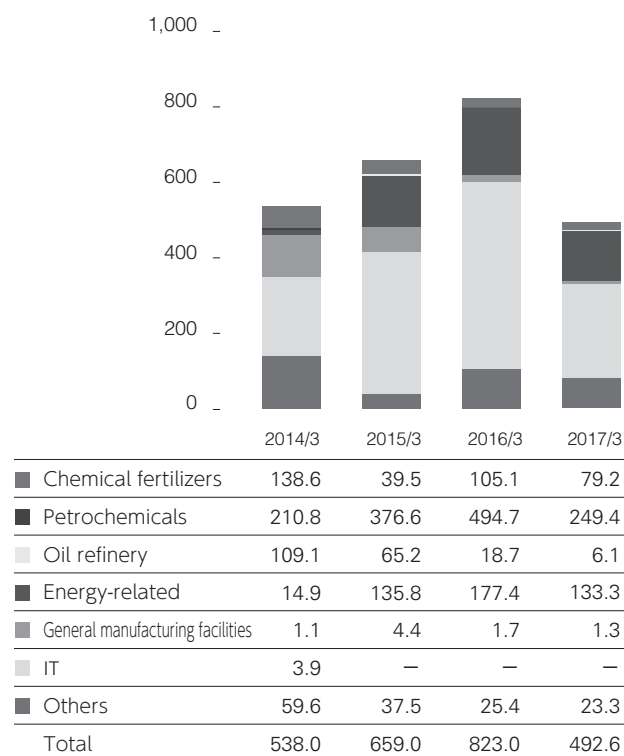
Breakdown by region

(¥ billion)



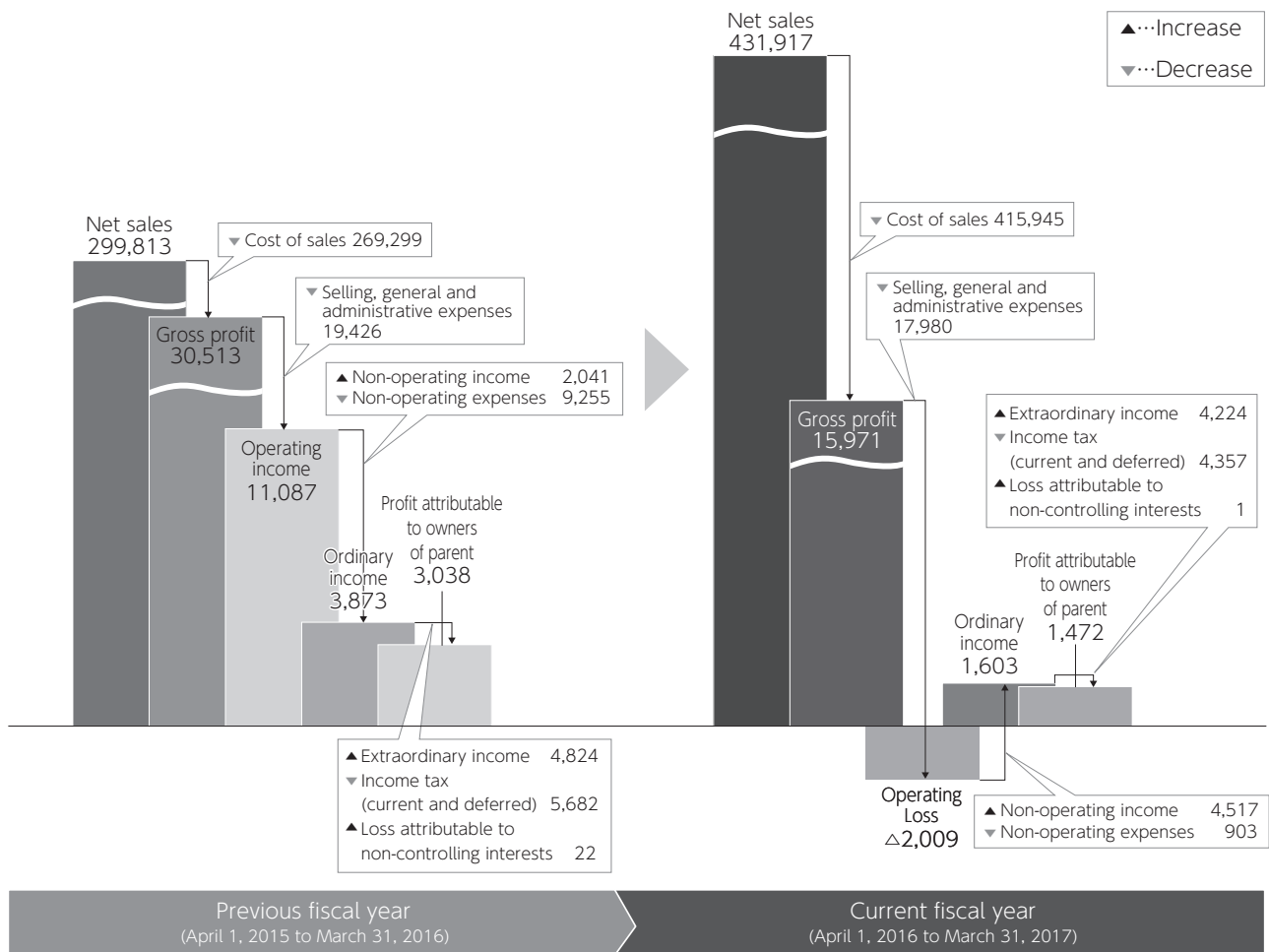
Breakdown by segment details

(¥ billion)



Consolidated Statement of Income Summary

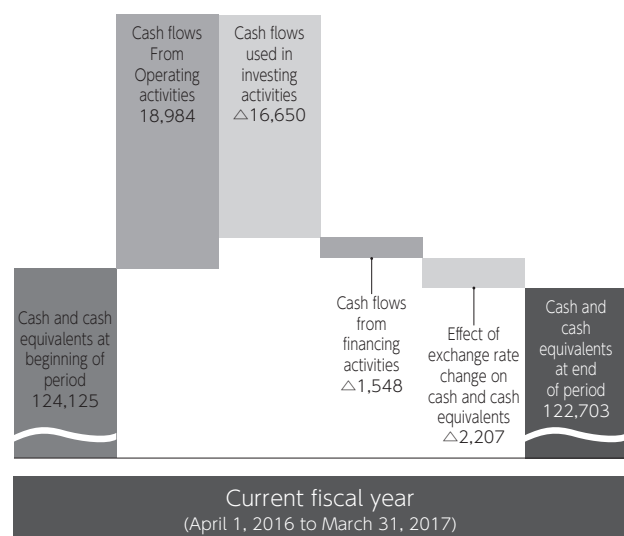
(¥ million)



Net cash provided by operating activities was ¥18.9 billion, compared to net cash provided by operating activities of ¥46.3 billion in the previous fiscal year. While a decrease in advances received caused a ¥23.9 billion deficit, the recording of ¥5.8 billion profit before income taxes (compared to ¥8.6 billion in the previous fiscal year) and an increase in notes and accounts payable-trade led to a surplus of ¥38.2 billion. Net cash used in investing activities was ¥16.6 billion, compared to net cash used in investing activities of ¥11.7 billion in the previous fiscal year. This was primarily due to a ¥16.2 billion deficit caused by a decrease in short-term loans receivable. Net cash used in financing activities was ¥1.5 billion, compared to net cash provided by financing activities of ¥1.0 billion in the previous fiscal year, owing mainly to a decline of ¥0.7 billion in the balance of loans and cash dividends paid of ¥0.7 billion. As a result, cash and cash equivalents at the end of the period decreased by ¥1.4 billion from the beginning of the period, to ¥122.7 billion. This total includes ¥3.5 billion received on deposit from our joint venture construction work project.

Consolidated Statement of Cash Flows Summary

(¥ million)



Total assets decreased ¥4.7 billion year on year, to ¥317.0 billion. While accounts receivable-other decreased by ¥5.8 billion, notes receivables and accounts receivable from completed construction contracts increased by ¥10.1 billion, which combined with other factors to cause current assets to increase by ¥1.8 billion year on year. Meanwhile, due primarily to a ¥5.3 billion decrease in investment securities, fixed assets decreased by ¥6.6 billion year on year.

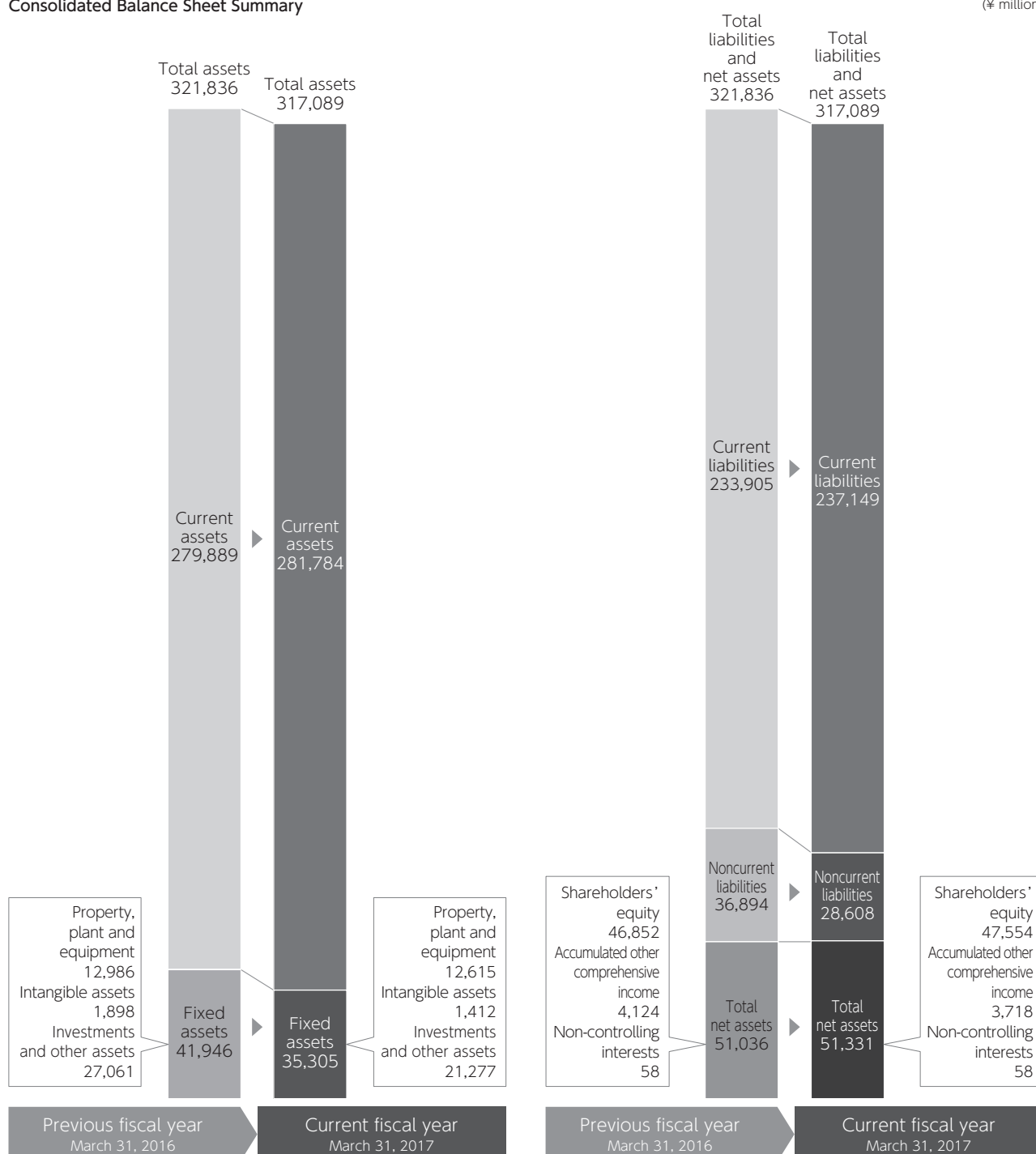
Total liabilities decreased ¥5.0 billion year on year to ¥265.7 billion. Current liabilities increased by ¥3.2 billion year on year, primarily as a result of a ¥37.7 billion increase in notes payable, accounts payable

for construction contracts and other, despite a ¥25.8 billion decrease in advances received on uncompleted construction contracts and a ¥5.3 billion decrease in short-term loans payable. Non-current liabilities decreased ¥8.2 billion, due mainly to a decrease of ¥3.9 billion in net defined benefit liability and a ¥9.2 billion decrease in liabilities from application of equity method, despite a ¥4.6 billion increase in long-term loans payable.

Net assets were up ¥0.2 billion year on year, to ¥51.3 billion, mainly owing to the recording of ¥1.4 billion in profit attributable to owners of parent, despite cash dividends paid of ¥0.7 billion and a decrease in accumulated other comprehensive income of ¥0.4 billion.

Consolidated Balance Sheet Summary

(¥ million)



TOYO's dividend policy is to endeavor to distribute profits to shareholders in accordance with operating performance. We also strive to maintain stable dividends from a medium-to long-term perspective while taking into consideration the need for internal reserves that underpin our business base. Our internal reserves are allocated to different reserves for strategic investment in new

business fields, for R&D investment, and in preparation for possible business risk-related losses, and we intend to use these funds effectively to ensure growth going forward. For fiscal 2016, an interim dividend was not paid, and comprehensively considering the aforementioned losses, financial status, and other factors, the year-end dividend was ¥2.00 per share.

Fiscal 2017 Performance Forecast Outline (Consolidated)

Net sales	¥370.0 billion
Operating income	¥6.5 billion
Ordinary income	¥5.0 billion
Profit attributable to owners of parent	¥2.0 billion
New orders	¥250.0 billion
Cash dividends	¥3.00 per share (year-end dividend)
Cash dividends after consolidation of shares on October 1	¥15.00 per share

* With October 1, 2017 as the effective date, we plan to change the trading unit of the Company's shares to 100 shares, and implement a consolidation of shares at a ratio of five shares to one. If this consolidation of shares is taken into consideration, the year-end dividend will be ¥15.00 per share.

Forecast for Fiscal 2017

In the plant business, despite uncertainty regarding the timing of clients' investment decisions, a recovery is expected in demand for petrochemical and fertilizer plants in the U.S., Southeast Asia, India, Russia, Central Asia and other regions. In the infrastructure business, capital expenditure is continuing in Japan, including in relation to power plants for thermal power, photovoltaic and biomass amid an expansion in the market owing to the deregulation of electric power, while overseas, electric power demand is increasing in Southeast Asia and elsewhere, and stable capital investment is expected to continue. In the energy business, there is demand for service work aimed at future resource development, such as services for upgrading of existing oilfields. Taking these factors into account, as our target for new orders in fiscal

2017, we expect new orders of ¥250.0 billion, mainly comprising plant projects in areas such as petrochemicals and fertilizers, in light of our order strategy of prioritizing profitability, and infrastructure projects such as those relating to photovoltaic, biomass, and natural gas-fired power generation. Looking at performance in fiscal 2017 while taking into consideration progress in projects currently held and other factors, TOYO expects net sales of ¥370.0 billion, operating income of ¥6.5 billion, ordinary income of ¥5.0 billion, and profit attributable to owners of parent of ¥2.0 billion. With regard to the dividend, TOYO intends to implement a single year-end dividend of ¥3.00 per share. The TOYO Group shall focus all its efforts on implementing these measures, while striving united toward regaining the trust of stakeholders as soon as possible.

The following is a list of potential risks associated with the information concerning TOYO's operating results and financial condition in this integrated report that may have a significant

bearing on investors' decisions. This is not intended to be a complete list of these potential risks, but examples recognized by TOYO.

Business Risks

In the execution of our business operations, we promote sales activities to obtain new orders for the purpose of ensuring an appropriate amount of work, and have created and maintain various risk management systems to prevent project losses, from the proposal stage until the completion of the project, as part of our

corporate governance. However, we are aware of the possibility that the risks listed below may occur, and may have a negative impact on our operating results and financial condition stemming from a large decrease in order volume or the suspension, termination, or significant decline in project profitability:

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

To address these risks, TOYO will examine possible countermeasures by carefully gathering information beforehand and working to fully understand the situation. We will strive to mitigate these risks through such measures as enrolling in trade insurance, signing exchange contracts, setting contract conditions with customers (including diversifying our contracts, setting quotations of contract price, and setting payment conditions and risk sharing conditions with the customer), and decentralizing the suppliers of our equipment and materials, and construction contractors.

Compliance Risks

TOYO's business follows a wide range of laws and regulations, including domestic and international labor laws, privacy protection laws, tax laws, import and export control regulations, and unfair competition prevention laws. There is a possibility that changes to these laws, unforeseeable interpretations of these laws, or the like will increase the burden of compliance. By thorough familiarization of TOYO's codes of conduct, compliance manual and other documents, development and operation of an

internal reporting system, and awareness building and promotion activities by the Compliance Committee with CCO (Chief Compliance Officer) as chairperson, TOYO is working diligently to bolster our compliance system. In the case where an act that violates the law or is questionable may occur, it would lead TOYO to confront problems such as an increased burden, an interruption in sales, or a loss of credibility, which may negatively impact business performance.

Investment Risks

We strive to reduce the aforementioned risks in the business operations of TOYO's group companies by creating the appropriate collaboration system in which the division that administrates group companies can accurately understand and manage their situation. For our business operations through our Brazilian equity

method affiliate, situations where we cannot receive the corresponding return on investment, or where additional funding is needed due to changes in the political and economic climate of Brazil or trust problems with our business partners may negatively impact TOYO's business performance.

Financial Section Consolidated Financial Statements

Consolidated Balance Sheets

Toyo Engineering Corporation and Consolidated Subsidiaries March 31, 2017 and 2016

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Current assets:			
Cash and deposits (Note 14)	¥126,042	¥126,815	\$1,123,469
Notes receivables, accounts receivable from completed construction contracts	88,394	78,261	787,895
Short-term investment securities (Note 4, 17)	1,175	998	10,473
Costs on uncompleted construction contracts (Note 7)	49,536	54,418	441,536
Deferred tax assets (Note 20)	3,020	3,536	26,918
Accounts receivable-other	6,730	12,535	59,987
Other	7,958	4,925	70,933
Allowance for doubtful accounts	(1,074)	(1,601)	(9,573)
Total current assets	281,784	279,889	2,511,667
Property, plant and equipment :			
Buildings and structures (Note 4)	16,297	16,299	145,262
Machinery, vehicles, tools, furniture and fixtures	4,999	5,274	44,558
Land (Note 4)	6,898	6,944	61,484
Leased assets	74	197	659
Construction in progress	5	6	44
Accumulated depreciation and impairment loss	(15,658)	(15,735)	(139,566)
Total property, plant and equipment	12,615	12,986	112,443
Intangible assets:			
Goodwill	3	5	26
Other	1,408	1,893	12,550
Total intangible assets	1,412	1,898	12,585
Investments and other assets:			
Investment securities (Note 3, 17)	16,071	21,470	143,248
Long-term loans receivable	4,576	4,575	40,787
Deferred tax assets (Note 20)	1,123	1,168	10,009
Other (Note 3)	3,981	4,502	35,484
Allowance for doubtful accounts	(4,474)	(4,654)	(39,878)
Total investments and other assets	21,277	27,061	189,651
Total non-current assets	35,305	41,946	314,689
Total assets	¥317,089	¥321,836	\$ 2,826,357

See notes to consolidated financial statements.

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Current liabilities :			
Notes payable, accounts payable for construction contracts and other	¥123,444	¥ 85,653	\$1,100,311
Short-term loans payable (Note 4, 6)	8,415	13,793	75,006
Income taxes payable	761	1,928	6,783
Advances received on uncompleted construction contracts	87,116	112,994	776,504
Provision for bonuses	654	724	5,829
Provision for warranties for completed construction	209	67	1,862
Provision for loss on construction contracts (Note 7)	4,085	1,404	36,411
Forward exchange contracts	4,995	7,316	44,522
Other	7,468	10,021	66,565
Total current liabilities	237,149	233,905	2,113,815
Non-current liabilities:			
Long-term loans payable (Note 4, 6)	23,373	18,764	208,334
Lease obligations	40	52	356
Deferred tax liabilities (Note 20)	1,459	835	13,004
Net defined benefit liability (Note 19)	1,802	5,732	16,062
Provision for loss on business of subsidiaries and affiliates	140	458	1,247
Liabilities from application of equity method	—	9,288	—
Other	1,792	1,762	15,972
Total non-current liabilities	28,608	36,894	254,995
Total liabilities	265,758	270,799	2,368,820
Net assets:			
Shareholders' equity :			
Capital stock (Note 13)	18,198	18,198	162,206
Capital surplus	10,732	17,656	95,659
Retained earnings	19,064	11,433	169,926
Treasury stock	(440)	(436)	(3,921)
Total shareholders' equity	47,554	46,852	423,870
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	2,246	3,862	20,019
Deferred gains or losses on hedges	(2,842)	(4,761)	(25,332)
Foreign currency translation adjustment	4,319	4,936	38,497
Remeasurements of defined benefit plans	(5)	87	(44)
Total accumulated other comprehensive income	3,718	4,124	33,140
Non-controlling interests	58	58	516
Total net assets	51,331	51,036	457,536
Contingent liabilities (Note 5)			
Total liabilities and net assets	¥317,089	¥321,836	\$2,826,357

Consolidated Statements of Income

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net sales	¥431,917	¥299,813	\$3,849,870
Cost of sales (Note 9, 10)	415,945	269,299	3,707,505
Gross profit	15,971	30,513	142,356
Selling, general and administrative expenses (Note 8, 9)	17,980	19,426	160,263
Operating income (loss)	(2,009)	11,087	(17,907)
Non-operating income :			
Interest income	934	585	8,325
Dividends income	535	308	4,768
Foreign exchange gains	1,311	735	11,685
Equity in earnings of affiliates	15	—	133
Reversal of allowance for doubtful accounts	680	75	6,061
Miscellaneous income	1,039	337	9,261
Total non-operating income	4,517	2,041	40,262
Non-operating expenses :			
Interest expenses	375	356	3,342
Equity in losses of affiliates	—	8,281	—
Loss on valuation of investments in capital of subsidiaries and affiliates	274	—	2,442
Miscellaneous expenses	254	617	2,264
Total non-operating expenses	903	9,255	8,048
Ordinary income	1,603	3,873	14,288
Extraordinary income :			
Gain on sales of property, plant and equipment (Note 11)	310	2,502	2,763
Gain on sales of investment securities	1,289	1,442	11,489
Gain on sales of shares of subsidiaries and affiliates	—	880	—
Gain on securities contribution to retirement benefits trust	2,625	—	23,397
Total extraordinary income	4,224	4,824	37,650
Profit before income taxes	5,828	8,697	51,947
Income taxes-current	2,558	2,596	22,800
Income taxes for prior periods	825	—	7,353
Income taxes-deferred	973	3,085	8,672
Total income taxes	4,357	5,682	38,835
Profit	1,471	3,015	13,111
Profit (loss) attributable to :			
Non-controlling interests	(1)	(22)	(8)
Owners of parent (Note 23)	¥ 1,472	¥ 3,038	\$ 13,120

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Profit	¥1,471	¥3,015	\$13,111
Other comprehensive income:			
Valuation difference on available-for-sale securities	(1,616)	1,563	(14,404)
Deferred gains or losses on hedges	1,928	3,064	17,185
Foreign currency translation adjustment	(516)	(1,418)	(4,599)
Remeasurements of defined benefit plans	(92)	(1,221)	(820)
Share of other comprehensive income (loss) of affiliates accounted for using equity method	(107)	3,489	(953)
Total other comprehensive income (loss)	(405)	5,477	(3,609)
Comprehensive income (Note 12)	¥1,066	¥8,492	\$ 9,501
Comprehensive income (loss) attributable to :			
Owners of parent	1,066	8,513	9,501
Non-controlling interests	(0)	(21)	(0)

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets (Note 13)

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2017 and 2016

Millions of yen										
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Non-controlling interests	Total net assets
Balance at April 1, 2015	¥18,198	¥20,759	¥7,724	¥(432)	¥2,299	¥(9,717)	¥4,759	¥1,308	¥79	¥44,979
Reversal of capital surplus		(3,102)	3,102							—
Profit attributable to owners of parent			3,038							3,038
Change of scope of equity method			(2,431)							(2,431)
Purchase of treasury stock				(3)						(3)
Net changes of items other than shareholders' equity					1,563	4,956	177	(1,221)	(21)	5,454
Balance at March 31, 2016	¥18,198	¥17,656	¥11,433	¥(436)	¥3,862	¥(4,761)	¥4,936	¥87	¥58	¥51,036

Millions of yen										
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Non-controlling interests	Total net assets
Balance at April 1, 2016	¥18,198	¥17,656	¥11,433	¥(436)	¥3,862	¥(4,761)	¥4,936	¥87	¥58	¥51,036
Dividends paid to shareholders		(766)								(766)
Reversal of capital surplus		(6,157)	6,157							—
Profit attributable to owners of parent			1,472							1,472
Purchase of treasury stock				(4)						(4)
Sale of treasury stock		(0)		0						0
Net changes of items other than shareholders' equity					(1,616)	1,919	(616)	(92)	(0)	(406)
Balance at March 31, 2017	¥18,198	¥10,732	¥19,064	¥(440)	¥2,246	¥(2,842)	¥4,319	¥(5)	¥58	¥51,331

Thousands of U.S. dollars (Note 1)										
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Non-controlling interests	Total net assets
Balance at April 1, 2016	\$162,206	\$157,375	\$101,907	\$(3,886)	\$34,423	\$(42,436)	\$43,996	\$775	\$516	\$454,906
Dividends paid to shareholders		(6,827)								(6,827)
Reversal of capital surplus		(54,880)	54,880							—
Profit attributable to owners of parent			13,120							13,120
Purchase of treasury stock				(35)						(35)
Sale of treasury stock		(0)		0						0
Net changes of items other than shareholders' equity					(14,404)	17,104	(5,490)	(820)	(0)	(3,618)
Balance at March 31, 2017	\$162,206	\$95,659	\$169,926	\$(3,921)	\$20,019	\$(25,332)	\$38,497	\$(44)	\$516	\$457,536

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Cash flows from operating activities:			
Profit before income taxes	¥ 5,828	¥ 8,697	\$ 51,947
Depreciation and amortization	1,293	1,532	11,525
Amortization of goodwill	(9)	(9)	(80)
Increase (decrease) in allowance for doubtful accounts	(706)	(84)	(6,292)
Increase (decrease) in net defined benefit liability	(1,435)	(1,020)	(12,790)
Increase (decrease) in provision for loss on construction contracts	2,697	(2,514)	24,039
Interest and dividends income	(1,470)	(893)	(13,102)
Interest expenses	375	356	3,342
Foreign exchange losses (gains)	424	(100)	3,779
Loss (gain) on sales of property, plant and equipment	(297)	(2,501)	(2,647)
Equity in (earnings) losses of affiliates	(15)	8,281	(133)
Loss (gain) on sales of investment securities	(1,289)	(1,442)	(11,489)
Loss (gain) on sales of shares of subsidiaries and affiliates	—	(880)	—
Loss on valuation of investments in capital of subsidiaries and affiliates	274	—	2,442
Gain on securities contribution to retirement benefits trust	(2,625)	—	(23,397)
Decrease (increase) in notes receivable, accounts receivable from completed construction contracts	(10,381)	(17,637)	(92,530)
Decrease (increase) in costs on uncompleted construction contracts	4,344	(21,300)	38,720
Decrease (increase) in accounts receivable-other	6,305	2,154	56,199
Increase (decrease) in notes and accounts payable-trade	38,231	1,481	340,770
Increase (decrease) in advances received on uncompleted construction contracts	(23,933)	70,293	(213,325)
Increase (decrease) in provision for loss on business of subsidiaries and affiliates	(317)	(50)	(2,825)
Other, net	1,565	102	13,949
Subtotal	18,860	44,465	168,107
Interest and dividends income received	4,768	2,782	42,499
Interest expenses paid	(359)	(351)	(3,199)
Income taxes paid	(4,285)	(519)	(38,194)
Net cash provided by (used in) operating activities	18,984	46,376	169,212
Cash flows from investing activities:			
Net decrease (increase) in time deposits	(700)	(512)	(6,239)
Purchase of property, plant and equipment	(555)	(281)	(4,946)
Proceeds from sales of property, plant and equipment	337	4,988	3,003
Purchase of intangible assets	(246)	(581)	(2,192)
Purchase of investment securities	(54)	(3)	(481)
Proceeds from sales of investment securities	1,418	2,358	12,639
Proceeds from sales of shares of subsidiaries and affiliates	—	1,661	—
Net decrease (increase) in short-term loans receivable	(16,234)	(18,527)	(144,700)
Other, net	(614)	(878)	(5,472)
Net cash provided by (used in) investing activities	(16,650)	(11,776)	(148,408)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	(2,000)	532	(17,826)
Proceeds from long-term loans payable	11,025	6,685	98,270
Repayment of long-term loans payable	(9,784)	(6,059)	(87,209)
Repayment of finance lease obligations	(18)	(55)	(160)
Cash dividends paid	(766)	—	(6,827)
Other, net	(4)	(3)	(35)
Net cash provided by (used in) financing activities	(1,548)	1,099	(13,798)
Effect of exchange rate change on cash and cash equivalents	(2,207)	(2,035)	(19,671)
Net increase (decrease) in cash and cash equivalents	(1,422)	33,663	(12,674)
Cash and cash equivalents at beginning of period	124,125	90,462	1,106,382
Cash and cash equivalents at the end of period (Note 14)	¥122,703	¥124,125	\$1,093,707

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. Certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan.

For the convenience of readers, the accompanying consolidated financial statements and the relevant notes have also been presented in U.S. dollars by translating all Japanese yen amounts at the exchange rate of ¥112.19 to U.S.\$1.00 prevailing on March 31, 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. Investment in significant affiliates is accounted for by the equity method. As of March 31, 2017, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 13 and 6, respectively.

Toyo Engineering Korea Limited, Toyo Engineering Corporation (China) and 5 other subsidiaries are consolidated using their financial statements as of their respective fiscal year end, which falls on December 31, and necessary adjustments are made to their financial statements to reflect any significant transactions from January 1 to March 31. Intercompany accounts and transactions are eliminated in consolidation. The difference between the acquisition cost and the equity in the net assets at the time of acquisition is amortized in principle within 20 years on a straight-line basis.

(b) Securities

All debt and equity securities other than equity securities issued by subsidiaries and affiliates are classified into one of three categories: trading, held-to-maturity or available-for-sale securities. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those securities which the Company and its consolidated subsidiaries have the ability and intent to hold until maturity. All securities not included in trading or held-to-maturity are classified as available-for-sale securities.

Trading securities are recorded at fair value. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accumulation of premiums or discounts. Unrealized gains or losses on trading securities are included in earnings. Short-term investment securities classified as available-for-sale securities are recorded at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as available-for-sale securities are recorded at cost.

Cost of securities sold is determined by the moving-average method.

(c) Derivative Financial Instruments

The Company and certain consolidated subsidiaries enter into various derivative transactions in order to manage certain risk arising from adverse fluctuations in foreign currency exchange rates and interest rates. Derivative financial instruments are carried at fair value with changes in unrealized gain or loss charged or credited to operations, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as a component of net assets.

Deferral hedge accounting is adopted for derivatives which are qualified as hedges, under which unrealized gain or loss is deferred. Hedging instruments are derivative transactions such as foreign exchange forward contract and interest rate swap, and hedged items are primarily forecast sales denominated in foreign currencies, and receivables and payables denominated in foreign currencies. Hedge effectiveness is not assessed if the substantial terms and conditions of the hedging instruments and the hedged forecasted transactions are the same. The Company and its consolidated subsidiaries manage its derivative transactions in accordance with its internal "Policies and Procedures for Risk Management".

(d) Costs on Uncompleted Construction Contracts

Costs on uncompleted construction contracts is stated at cost, determined by the identified-cost method.

(e) Depreciation and Amortization

Depreciation of property, plant and equipment is principally computed by the declining-balance method based on the estimated useful lives of the assets. However, buildings 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 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 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 Loss on Business of Subsidiaries and Affiliates

Provision for loss 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 over 9 years within the average of the estimated remaining service years of the employees in the year following the year of recognition. Past service cost is amortized as incurred over 13 years within the average of the estimated remaining service years when incurred.

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

(m) Foreign Currency Translation

Both short-term and long-term receivables and payables in foreign currencies are translated at the rates of exchange in effect at the balance sheet date and differences arising from the translation of the these accounts are included in the consolidated statements of income.

The balance sheet accounts of the consolidated foreign subsidiaries are translated at the rates of exchange in effect at the balance sheet date, except for capital stock and capital surplus, which are translated at their historical exchange rates. Revenues, expenses and net income for the year are translated at the rates of exchange in effect at the balance sheet date. Differences arising from translation of the accounts of foreign subsidiaries and affiliates are presented as "Foreign currency translation adjustment" and "Non-controlling interests" in the accompanying consolidated balance sheets.

(n) Recognition of Revenues

Revenues and costs of construction contracts of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. The percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost. The completed-contract method continues to be applied for contracts for which the percentage of completion cannot be reliably estimated.

(o) Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, the Company and its consolidated subsidiaries consider all highly liquid investments with insignificant risk of changes in value purchased with an original maturity of 3 months or less to be cash equivalents.

(p) Consumption Tax

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

(q) Consolidated Tax Return

The Company files a consolidated tax return with domestic subsidiaries.

(r) Advances Received on Uncompleted Construction Contracts

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

(s) Income Taxes

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

(t) Per Share Information

Profit per share is computed based on the weighted average number of shares outstanding during each year. Diluted profit per share is not presented since there was no potential for dilution by the issuance of common stock.

Total net assets per share is computed based on outstanding shares at the balance sheet date.

(u) Research and Development Costs

Research and development costs are charged to income when incurred.

(Accounting change)

Effective from the fiscal year ended March 31, 2017, the Company adopted "Practical Solution on a Change in Depreciation Method due to Tax Reform 2016" (Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force No. 32, issued June 17, 2016) following the revision to the Corporation Tax Act of Japan. Accordingly, the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016 was changed from the declining-balance method to the straight-line method.

The effect of this change on the consolidated financial statements for the fiscal year ended March 31, 2017 was immaterial.

(Additional information)

Effective from the fiscal year ended March 31, 2017, the Company adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, issued March 28, 2016).

3. INVESTMENTS AND OTHER ASSETS

Among investment securities and other in investments and other assets, the amounts of shares of unconsolidated subsidiaries and affiliates as of March 31, 2017 and 2016 are as follows:

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Investments and other assets			
Investment securities	¥9,585	¥11,441	\$85,435
Other	624	524	5,561

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

The following assets at March 31, 2017 and 2016 were pledged as collateral:

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Collateral			
Short-term investment securities	¥1,001	—	\$ 8,922
Buildings	1,043	1,155	9,296
Land	1,146	1,186	10,214
Total	¥3,192	¥2,341	\$28,451

These assets were mainly pledged for issuing the performance bonds. There is not any corresponding obligation as of March 31, 2017.

The following schedule shows the maturities of long-term loans payable subsequent to March 31, 2017:

Years ended March 31,	Millions of yen	Thousands of U.S. dollars
2018	¥6,415	\$57,179
2019	6,351	56,609
2020	2,709	24,146
2021	9,817	87,503
2022	4,157	37,053
2023 and thereafter	336	2,994

5. CONTINGENT LIABILITIES

For the year ended March 31, 2017
(Guarantee obligations and Guarantees)

Guaranteed parties	Millions of yen	Thousands of U.S. dollars	Details
ATLATEC, S.A.DE C.V.	¥ 636	\$ 5,668	Loan guarantee
Toyo Setal Empreendimentos Ltda.	550	4,902	Payment guarantee etc.
Other	73	650	Loan guarantee etc.
Total	¥1,260	\$11,230	

For the year ended March 31, 2016
(Guarantee obligations and Guarantees)

Guaranteed parties	Millions of yen	Details
ATLATEC, S.A.DE C.V.	¥ 400	Loan guarantee
Toyo Setal Empreendimentos Ltda.	2,325	Performance bond
Estaleiros do Brasil Ltda.	599	Payment guarantee
Other	79	Loan guarantee etc.
Total	¥3,405	

6. COMMITMENT LINE CONTRACTS

In order to maintain access to a stable and effective source of operating capital, the Company has entered into commitment-line contracts with 10 trading banks.

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Commitment Line			
Amount of commitment line contract	¥19,200	¥26,646	\$171,138
Used amount	9,200	10,258	82,003
Balance of unused commitment line	¥10,000	¥16,387	\$ 89,134

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 as follows:

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Costs on uncompleted construction contracts	¥141	¥600	\$1,256

8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The main components of selling, general and administrative expenses for the years ended March 31, 2017 and 2016 are as follows:

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Salaries	¥8,949	¥9,195	\$79,766
Provision for bonuses	161	236	1,435
Retirement benefit expenses	598	957	5,330
Depreciation	373	549	3,324
Research and development costs	493	449	4,394

9. 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, 2017 and 2016 amounted to ¥493 million (\$4,394 thousand) and ¥449 million, respectively.

10. PROVISION FOR LOSS ON CONSTRUCTION CONTRACTS

Gross amount of increase in provision for loss on construction contracts as of March 31, 2017 and 2016 are as follows:

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Amount of provision for loss on construction contracts	¥3,907	¥1,110	\$34,824

11. 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
	2017	2016	2017
Building and structures	¥310	¥ 393	\$2,763
Land	—	2,109	—
Total	¥310	¥2,502	\$2,763

12. OTHER COMPREHENSIVE INCOME

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Valuation difference on available-for-sale securities:			
Amount arising during the year	¥1,664	¥3,648	\$14,831
Reclassification adjustments for gains and losses realized in profit or loss	(3,914)	(1,442)	(34,887)
The amount of valuation difference on available-for-sale securities before tax effect	(2,249)	2,206	(20,046)
Tax effect	632	(642)	5,633
Valuation difference on available-for-sale securities	(1,616)	1,563	(14,404)
Deferred gains and losses on hedges:			
Amount arising during the year	1,901	4,254	16,944
Reclassification adjustments for gains and losses realized in profit or loss	777	403	6,925
The amount of deferred gains and losses on hedges before tax effect	2,679	4,658	23,879
Tax effect	(750)	(1,593)	(6,685)
Deferred gains or losses on hedges	1,928	3,064	17,185
Foreign currency translation adjustments:			
Amount arising during the year	(516)	(1,139)	(4,599)
Reclassification adjustments for gains and losses realized in profit or loss	—	(278)	—
The amount of foreign currency translation adjustment before tax effect	(516)	(1,418)	(4,599)
Tax effect	—	—	—
Foreign currency translation adjustment	(516)	(1,418)	(4,599)
Remeasurements of defined benefit plans:			
Amount arising during the year	(173)	(1,756)	(1,542)
Reclassification adjustments for gains and losses realized in profit or loss	43	(76)	383
The amount of remeasurements of defined benefit plans	(129)	(1,832)	(1,149)
Tax effect	37	611	329
Remeasurements of defined benefit plans	(92)	(1,221)	(820)
Share of other comprehensive income (loss) of affiliates accounted for using equity method:			
Amount arising during the year	(107)	3,489	(953)
Total other comprehensive income (loss)	¥ (405)	¥5,477	\$(3,609)

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

For the year ended March 31, 2017

(a) Type and number of outstanding shares

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

Note : 1. Treasury stock increased by 14,076 shares due to the purchase of shares less than one unit.
2. Treasury stock decreased by 160 shares due to the sale of shares less than one unit.

(b) Dividends

(b-1) Dividends from surplus

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)	Amount per share (Yen)	Amount per share (U.S. dollars)	Shareholders' cut-off date	Effective date
June 29, 2016	Annual general meeting of shareholders	Common stock	766	6,827	4.0	0.03	March 31, 2016	June 30, 2016

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

Date of approval	Resolution approved by	Paid from	Type of shares	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)	Amount per share (Yen)	Amount per share (U.S. dollars)	Shareholders' cut-off date	Effective date
June 27, 2017	Annual general meeting of shareholders	Retained earnings	Common stock	383	3,413	2.0	0.01	March 31, 2017	June 28, 2017

For the year ended March 31, 2016

(a) Type and number of outstanding shares

Type of shares	Number of shares			
	Balance at beginning of year	Increase in shares during the year	Decrease in shares during the year	Balance at end of year
Issued stock:				
Common stock	192,792,539	—	—	192,792,539
Total	192,792,539	—	—	192,792,539
Treasury stock:				
Common stock	1,076,735	12,521	—	1,089,256
Total	1,076,735	12,521	—	1,089,256

Note : Treasury stock increased by 12,521 shares due to the purchase of shares less than one unit.

(b) Dividends

(b-1) Dividends with a shareholders' cut-off date during the fiscal year ended March 31, 2016 but an effective date in the fiscal year ended March 31, 2017

Date of approval	Resolution approved by	Paid from	Type of shares	Amount (Millions of yen)	Amount per share (Yen)	Shareholders' cut-off date	Effective date
June 29, 2016	Annual general meeting of shareholders	Capital Surplus	Common stock	766	4.0	March 31, 2016	June 30, 2016

14. 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, 2017 and 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash and deposits	¥126,042	¥126,815	\$1,123,469
Time deposits with maturities over 3 months	(3,338)	(2,689)	(29,753)
Cash and cash equivalents	¥122,703	¥124,125	\$1,093,707

15. LEASES

The Company and its consolidated subsidiaries have adopted "Accounting Standard for Lease Transactions".

(a) Finance Leases

Finance leases are capitalized, and recorded on the balance sheet based on finance lease contracts.

(b) Operating Leases

Operating leases are not capitalized. The following are future minimum lease payments:

(b-1) Operating Leases (as Lessee)

Future minimum lease payments subsequent to March 31, 2017 and 2016 for noncancelable operating leases are summarized as follows:

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Within 1 year	¥ 587	¥ 704	\$ 5,232
Over 1 year	1,125	1,621	10,027
Total	¥1,712	¥2,326	\$15,259

16. 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 borrowing from banks.

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

Notes receivables, 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 organizing their corresponding forward-exchange contracts, in principle.

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

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

	Millions of yen		
	Book value	Fair value	Unrealized gain / (loss)
At March 31, 2017			
(1)Cash and deposits	¥126,042	¥126,042	¥ —
(2)Notes receivables, accounts receivable from completed construction contracts	88,394		
Less: Allowance for doubtful accounts (*1)	(855)		
Notes receivables, accounts receivable from completed construction contracts, net	87,538	87,562	23
(3)Accounts receivables-other	6,730		
Less: Allowance for doubtful accounts (*1)	(67)		
Accounts receivable-other, net	6,662	6,662	—
(4)Short-term investment securities and investment securities			
Available-for-sale securities	5,835	5,835	—
Total of assets	226,078	226,102	23
(1)Notes and accounts payable for construction contracts and other	123,444	123,444	0
(2)Short-term loans payable	2,000	2,000	—
(3)Long-term loans payable (including current portion)	29,788	29,838	50
Total of liabilities	155,232	155,283	51
Derivatives (*2)			
not designated as hedging instruments	(189)	(189)	—
designated as hedging instruments	(3,803)	(3,803)	—
Total derivatives	¥ (3,992)	¥ (3,992)	¥ —

(*1) Notes receivables, 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.

	Thousands of U.S. dollars		
	Book value	Fair value	Unrealized gain / (loss)
At March 31, 2017			
(1)Cash and deposits	\$1,123,469	\$1,123,469	\$ —
(2)Notes receivables, accounts receivable from completed construction contracts	787,895		
Less: Allowance for doubtful accounts	(7,621)		
Notes receivables, accounts receivable from completed construction contracts, net	780,265	780,479	205
(3)Accounts receivable-other	59,987		
Less: Allowance for doubtful accounts	(597)		
Accounts receivable-other, net	59,381	59,381	—
(4)Short-term investment securities and investment securities			
Available-for-sale securities	52,009	52,009	—
Total of assets	2,015,135	2,015,348	205
(1)Notes and accounts payable for construction contracts and other	1,100,311	1,100,311	0
(2)Short-term loans payable	17,826	17,826	—
(3)Long-term loans payable (including current portion)	265,513	265,959	445
Total of liabilities	1,383,652	1,384,107	454
Derivatives			
not designated as hedging instruments	(1,684)	(1,684)	—
designated as hedging instruments	(33,897)	(33,897)	—
Total derivatives	\$ (35,582)	\$ (35,582)	\$ —

Millions of yen

At March 31, 2016	Book value	Fair value	Unrealized gain / (loss)
(1)Cash and deposits	¥126,815	¥126,815	¥ —
(2)Notes receivables, accounts receivable from completed construction contracts	78,261		
Less: Allowance for doubtful accounts (*1)	(307)		
Notes receivables, accounts receivable from completed construction contracts, net	77,953	77,981	27
(3)Accounts receivable-other	12,535		
Less: Allowance for doubtful accounts (*1)	(80)		
Accounts receivable-other, net	12,454	12,455	0
(4)Short-term investment securities and investment securities			
Available-for-sale securities	9,200	9,200	—
Total of assets	226,424	226,451	27
(1)Notes and accounts payable for construction contracts and other	85,653	85,654	0
(2)Short-term loans payable	4,000	4,000	—
(3)Long-term loans payable (including current portion)	28,557	28,752	194
Total of liabilities	118,211	118,406	195
Derivatives (*2)			
not designated as hedging instruments	(113)	(113)	—
designated as hedging instruments	(6,478)	(6,478)	—
Total derivatives	¥ (6,592)	¥ (6,592)	¥ —

(*1) Notes receivables, 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 the proper discount rate coupled with period for settlement and credit risks.

(4) Short-term investment securities and investment securities

Fair value of stock items are based on the market prices and bond items are based on the market prices or their price provided by 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 the proper discount rate coupled with period for settlement and credit risks.

(2) Short-term loans payable

Book values are used as fair values because they are nearly equal to such book values.

(3) Long-term loans payable (including current portion)

The present values of the principal and total interest, discounted by the rate assumed to be applied to the new borrowings under the same conditions, are used as the fair values.

Derivative Transactions

See "18. DERIVATIVE TRANSACTIONS".

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

Unlisted securities that amounted to ¥2,210 million (\$19,698 thousand) as of March 31, 2017 and ¥2,210 million as of March 31, 2016 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 investment and investment securities with maturity date

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

At March 31, 2017	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	\$1,123,469	\$ —	\$ —	\$ —
Notes and accounts receivable from completed construction contracts	728,389	59,497	—	—
Accounts receivable-other	59,381	597	—	—
Available-for-sale securities	10,473	—	—	—
Total	\$1,921,730	\$60,103	\$ —	\$ —

At March 31, 2016	Millions of yen			
	Within 1 year	After 1 year through 5 years	After 5 years through 10 years	After 10 years
Cash and deposits	¥126,815	¥ —	¥ —	¥ —
Notes and accounts receivable from completed construction contracts	71,342	6,919	—	—
Accounts receivable-other	12,405	129	—	—
Available-for-sale securities	998	—	—	—
Total	¥211,561	¥7,048	¥ —	¥ —

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

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

17. INVESTMENT 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, 2017 are summarized as follows:

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

At March 31, 2017	Thousands of U.S. dollars		
	Book value	Acquisition cost	Unrealized gain
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	\$41,527	\$ 8,797	\$32,730
Subtotal	\$41,527	\$ 8,797	\$32,730
Securities whose carrying value does not exceed their acquisition costs:			
Other	\$10,473	\$10,473	\$ —
Subtotal	10,473	10,473	—
Total	\$52,009	\$19,279	\$32,730

Selling amount and gain on sales of securities at March 31, 2017 are as follows:

At March 31, 2017	Millions of yen		
	Sales	Sum of gain on sales	Sum of loss on sales
Equity securities	¥1,532	¥1,309	¥ —

At March 31, 2017	Thousands of U.S. dollars		
	Sales	Sum of gain on sales	Sum of loss on sales
Equity securities	\$13,655	\$11,667	\$ —

The acquisition cost, unrealized gain and loss and the related book value of available-for-sale securities with available fair values at March 31, 2016 are summarized as follows:

At March 31, 2016	Millions of yen		
	Book value	Acquisition cost	Unrealized gain
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥8,201	¥2,332	¥5,869
Subtotal	¥8,201	¥2,332	¥5,869
Securities whose carrying value does not exceed their acquisition costs:			
Other	¥ 998	¥ 998	¥ —
Subtotal	998	998	—
Total	¥9,200	¥3,330	¥5,869

Selling amount and gain on sales of securities at March 31, 2016 are as follows:

At March 31, 2016	Millions of yen		
	Sales	Sum of gain on sales	Sum of loss on sales
Equity securities	¥2,402	¥1,442	¥ —

18. DERIVATIVE TRANSACTIONS

For the year ended March 31, 2017

1. Derivatives not designated as hedging instruments

(1) Currency-related

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

	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	\$26,677	\$757	\$(1,452)	\$(1,452)
EUR	3,921	—	(0)	(0)
Buying				
USD	249	—	(0)	(0)
EUR	5,615	205	(205)	(205)
JPY	454	—	(8)	(8)
Total	\$36,928	\$962	\$(1,684)	\$(1,684)

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

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		\$ 450,164	\$173,241	\$(38,586)	Based on prices offered by financial institutions	
EUR		11,337	1,613	855		
SEK	Accounts receivable and	60,682	1,140	3,618		
THB	accounts payable	17,987	6,658	(231)		
Buying						
USD		474,721	128,496	5,009		
EUR		58,891	4,091	(2,709)		
SEK		39,691	5,196	(1,586)		
KRW		4,617	1,595	(258)		
Alternative method:						
Foreign exchange forward contracts						
Selling						
USD		140,262	18,406		Based on forward exchange contract prices	
EUR	Accounts receivable and	4,251	—			
Buying						
USD	accounts payable	11,560	—	N/A		
EUR		7,736	463			
CAD		1,470	—			
KRW		2,362	—			
Total		\$1,285,809	\$340,948			

(2) Interest-related

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

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	\$106,426	\$98,404	N/A	Based on prices offered by financial institutions
Total			\$106,426	\$98,404		

For the year ended March 31, 2016

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	¥4,844	¥347	¥ (55)	¥ (55)
EUR	1,581	—	(13)	(13)
Buying				
USD	314	295	(25)	(25)
EUR	1,325	163	(19)	(19)
SGD	0	—	(0)	(0)
Total	¥8,067	¥806	¥(113)	¥(113)

2. Derivatives designated as hedging instruments

(1) Currency-related

	Main hedged items	Millions of yen					
		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		¥101,256	¥ 47,368	¥(4,850)	Based on prices offered by financial institutions		
EUR		4,107	1,012	145			
CAD	Accounts receivable and accounts payable	348	—	20			
SEK		13,977	6,465	(118)			
Buying							
USD			66,645	39,440		(932)	
EUR		15,684	5,385	(557)			
SEK		11,238	5,608	(61)			
KRW		1,709	583	(123)			
Alternative method:							
Foreign exchange forward contracts							
Selling							
USD		30,801	—		Based on forward exchange contract prices		
EUR		17	—				
CAD	Accounts receivable and accounts payable	3,010	—				
Buying							
USD			993	—		N/A	
EUR			2,398	—			
KRW		692	—				
Total		¥252,883	¥105,865				

(2) Interest-related

	Transaction type	Main hedged items	Millions of yen			
			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	¥9,740	¥8,340	N/A	Based on prices offered by financial institutions
Total			¥9,740	¥8,340		

19. 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 obligations

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
April 1	¥19,833	¥18,461	\$176,780
Balance at beginning of year	19,833	18,461	176,780
Service cost	1,076	1,042	9,590
Interest cost	221	315	1,969
Actuarial gains and losses	44	1,494	392
Benefit paid	(1,327)	(1,185)	(11,828)
Other	(114)	(295)	(1,016)
March 31	¥19,734	¥19,833	\$175,898

(2) Changes in plan assets

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
April 1	¥14,100	¥13,767	\$125,679
Expected return on plan assets	336	332	2,994
Actuarial gains and losses	16	(228)	142
Contributions by the employer	778	1,389	6,934
Amount of establishment retirement benefit trust	3,862	—	34,423
Benefit paid	(1,067)	(980)	(9,510)
Other	(95)	(181)	(846)
March 31	¥17,932	¥14,100	\$159,835

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

The reconciliation of the defined benefit obligations and plan assets to net defined benefit liability recognized in the consolidated balance sheets as of March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Funded defined benefit obligations	¥18,613	¥17,969	\$165,906
Plan assets	(17,932)	(14,100)	(159,835)
Subtotal	681	3,868	6,070
Unfunded defined benefit obligations	1,120	1,864	9,983
Net amount of liabilities and assets recognized in consolidated balance sheets	1,802	5,732	16,062
Liabilities (net defined benefit liability)	1,802	5,732	16,062
Net amount of liabilities and assets recognized in consolidated balance sheets	1,802	5,732	16,062

(4) Retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service cost	¥1,076	¥1,042	\$9,590
Interest cost	221	315	1,969
Expected return on plan assets	(336)	(332)	(2,994)
Amortization of actuarial gains and losses	(101)	59	(900)
Amortization of past service cost	—	(168)	—
Other	—	(91)	—
Total	¥ 860	¥ 824	\$7,665

(5) Remeasurements of defined benefit plans

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Past service cost	¥ —	¥ (167)	\$ —
Actuarial loss	(129)	(1,665)	(1,149)
Total	¥(129)	¥(1,832)	\$(1,149)

(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, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrecognized actuarial gains and losses	¥(7)	¥122	\$(62)
Total	¥(7)	¥122	\$(62)

(7) Major breakdown of plan assets

	2017	2016
Components of net periodic benefit cost		
Securities	31%	44%
Stocks	44%	27%
Cash and deposits	10%	13%
Other	15%	16%
Total	100%	100%

The retirement benefit trust of 21% is included in total plan assets for the year ended in March 31, 2017.

(8) Basis of actuarial calculation

Basis of calculation of projected benefit obligation for the years ended March 31, 2017 and 2016 are as follows:

	2017	2016
Discount rate	Mainly 0.08%	Mainly 0.08%
Expected rate of return on plan assets	Mainly 2.0%	Mainly 2.0%
Expected salary increase rate	Mainly 3.4%	Mainly 3.2%

Defined Contribution Plans

The contributions by the Company and subsidiaries to the defined contribution plans were ¥579 million (\$5,160 thousand) and ¥756 million for the years ended March 31, 2017 and 2016, respectively.

20. INCOME TAXES

The statutory tax rates applicable to the Company and its domestic subsidiaries for the years ended March 31, 2017 and 2016 were approximately 30.7% and 32.8%, respectively. 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

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets (gross):			
Net defined benefit liability	¥1,483	¥1,727	\$13,218
Deferred gains or losses on hedges	941	1,717	8,387
Operating loss carry forwards	492	1,159	4,385
Tax adjustment of sales by percentage of completion method	269	461	2,397
Provision for loss on construction contracts	1,112	313	9,911
Provision for bonuses	136	150	1,212
Accounts payable for construction contracts	874	323	7,790
Other	1,212	1,527	10,803
Total deferred tax assets (gross)	¥6,524	¥7,381	\$58,151
Deferred tax assets-Deferred tax liabilities	(2,380)	(2,676)	(21,214)
Total deferred tax assets	¥4,144	¥4,704	\$36,937
Deferred tax liabilities (gross):			
Undistributed earnings of subsidiaries and affiliates	1,341	1,276	11,952
Valuation difference on available-for-sale securities	1,062	1,695	9,466
Gain on securities contribution to retirement benefits trust	638	—	5,686
Other	940	731	8,378
Total deferred tax liabilities (gross)	3,982	3,703	35,493
Deferred tax assets-Deferred tax liabilities	(2,380)	(2,676)	(21,214)
Deferred tax liabilities	1,602	1,026	14,279
Net deferred tax assets	¥2,542	¥3,678	\$22,657

Note : The Company and its consolidated subsidiaries had temporary differences excluded from calculation of deferred tax assets of ¥6,335 million (\$56,466 thousand) and ¥5,193 million at March 31, 2017 and 2016, respectively, which are available to be offset against future taxable income.

(Changes in Presentation)

Provision of allowance for doubtful accounts, which had been presented separately for the year ended March 31, 2016, is included in "Other" for the fiscal year ended March 31, 2017 because its materiality has decreased.

Accounts payable for construction contracts, which had been included in "Other" for the year ended March 31, 2016, is presented separately for the year ended March 31, 2017 because its materiality has increased.

To reflect these changes in presentation, accounts payable for construction contracts of ¥323 million, which had been previously included in "Other" under deferred tax assets, is reclassified as accounts payable for construction contracts and provision of allowance for doubtful accounts of ¥457 million, which had been previously presented separately, is reclassified as "Other" under deferred tax assets as of March 31, 2016.

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

Years ended March 31,	2017	2016
Statutory tax rate in Japan	30.7%	32.8%
Adjustments:		
Permanently nondeductible expenses	3.9	1.9
Permanently nontaxable dividends received	(0.3)	(9.8)
Per capita levy on corporate inhabitant tax	0.2	0.1
Temporary differences excluded from calculation of deferred tax assets	8.2	(1.9)
Tax credit	—	(0.4)
Difference in tax rates for foreign subsidiaries	(8.3)	(3.3)
Difference in tax base between corporate income tax and enterprise tax	(0.7)	2.2
Operating loss carry forwards for subsidiaries	12.8	(6.6)
Equity in earnings of affiliates	(0.1)	41.0
Decrease of deferred tax assets, net of liabilities, at fiscal year-end due to change in statutory tax rate	—	1.7
Adjustment of tax in prior years	14.4	—
Non-income based tax in foreign countries	8.8	4.9
Other	5.2	2.7
Effective tax rate	74.8	65.3

(Changes in Presentation)

Non-income based tax in foreign countries, which had been included above in "Other" for the year ended March 31, 2016, is presented separately for the year ended March 31, 2017 because its materiality has increased.

To reflect this change in presentation, non-income based tax in foreign countries of 4.9%, which had been included in "Other" is reclassified as non-income based tax in foreign countries as of March 31, 2016.

21. SEGMENT INFORMATION

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

Year ended March 31, 2017	Millions of yen					Total
	Japan	Malaysia	USA	Thailand	Other	
Net sales	¥71,032	¥96,663	¥80,714	¥52,198	¥131,307	¥431,917

Year ended March 31, 2017	Thousands of U.S. dollars					Total
	Japan	Malaysia	USA	Thailand	Other	
Net sales	\$633,140	\$861,600	\$719,440	\$465,264	\$1,170,398	\$3,849,870

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

Year ended March 31, 2017	Thousands of U.S. dollars			Total
	Japan	Indonesia	Other	
Property, plant and equipment	\$79,374	\$23,807	\$9,252	\$112,443

Year ended March 31, 2016	Millions of yen					Total
	Japan	Malaysia	USA	Thailand	Other	
Net sales	¥49,925	¥43,331	¥14,055	¥15,989	¥176,511	¥299,813

Year ended March 31, 2016	Millions of yen			Total
	Japan	Indonesia	Other	
Property, plant and equipment	¥8,933	¥2,869	¥1,183	¥12,986

(Changes in presentation)

USA and Thailand, which had been included in "Other" for the year ended March 31, 2016, are presented separately for the fiscal year ended March 31, 2017 because the amounts are above 10 percent of net sales on the consolidated statement of income.

Canada, which had been presented separately for the year ended March 31, 2016, is included in "Other" for the fiscal year ended March 31, 2017 because the amount is below 10 percent of net sales on the consolidated statement of income.

To reflect these changes in presentation, USA of ¥14,055 million and Thailand of ¥15,989 million, which had been previously included in "Other", are reclassified to USA and Thailand, while Canada of ¥51,244 million, which had been previously presented separately, is reclassified as "Other" as of March 31, 2016.

(2) Information by major clients

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

Year ended March 31, 2017	Thousands of U.S. dollars	
	Net Sales	Segment
PRPC REFINERY AND CRACKER SDN. BHD.	\$848,703	EPC
Shintech Louisiana, LLC	\$559,167	EPC

Year ended March 31, 2016	Millions of yen	
	Net Sales	Segment
JAPAN CANADA OIL SANDS LIMITED	¥50,854	EPC
PRPC REFINERY AND CRACKER SDN. BHD.	¥36,042	EPC

22. RELATED PARTY INFORMATION

1. Related Party Transactions

For the year ended March 31, 2017

Name: NEDL-CONSTRUCOES 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: 12,000 thousands BRL	Loan for operating fund	¥ —	Long-term loans receivable	¥3,707	\$ —	Long-term loans receivable	\$33,042
Business: Construction							
Equity ownership percentage: Holding 42% directly							
Relation with related party: Loan for operating fund							

For the year ended March 31, 2016

Name: NEDL-CONSTRUCOES 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: 7,933 thousands BRL	Loan for operating fund	¥ —	Long-term loans receivable	¥3,707
Business: Construction				
Equity ownership percentage: Holding 42% 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 (\$33,042 thousand) of allowance for doubtful accounts at March 31, 2017, against the loan above.

3. The Company reserved ¥3,707 million of allowance for doubtful accounts at March 31, 2016, against the loan above.

For the year ended March 31, 2017

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	¥16,244	Short-term loans receivable	¥2,775	\$144,790	Short-term loans receivable	\$24,734
Business: Construction							
Equity ownership percentage: Holding 50% indirectly	Repayment of loan for operating fund	2,267	—	—	20,206	—	—
Relation with related party: Loan for operating fund	Accrued interest income	204			1,818		

For the year ended March 31, 2016
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	¥18,306		
Capital and investments: 57,749 thousands BRL				
Business: Construction				
Equity ownership percentage: Holding 50% indirectly	Accrued interest income	303	—	—
Relation with related party: Loan for operating fund	Guarantee obligation	5,604		

Notes : 1. Interest rate on loan is determined by considering effective market rates
2. Guarantee obligation is provided based on the bank loan of the subsidiaries

2. Summary Financial Statements of Significant Affiliates

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

Year ended March 31,	Millions of yen	Thousands of U.S. dollars
	2017	2017
Total current assets	¥ 61,981	\$ 552,464
Total non-current assets	15,168	135,199
Total current liabilities	85,613	763,107
Total non-current liabilities	4,144	36,937
Total net assets	¥(12,607)	\$(112,371)
Net sales	¥ 44,100	\$ 393,083
Profit before income tax	3,651	32,543
Profit	¥ 2,122	\$ 18,914

For the year ended March 31, 2016, 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., whose condensed financial information is as follows:

Year ended March 31,	Millions of yen
	2016
Total current assets	¥ 66,865
Total non-current assets	14,589
Total current liabilities	79,299
Total non-current liabilities	5,185
Total net assets	¥ (3,029)
Net sales	¥120,796
Profit before income tax	3,139
Loss	¥ (1,739)

23. AMOUNTS PER SHARE

Years ended March 31,	Yen		U.S. dollars
	2017	2016	2017
Net assets per share	¥267.48	¥265.92	\$2.38
Profit attributable to owners of parent per share	7.68	15.85	0.06

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

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

24. SIGNIFICANT SUBSEQUENT EVENTS

Change in the Number of Shares Constituting One Trading Unit and Consolidation of Shares

The Company resolved at a meeting of its Board of Directors held on May 12, 2017 to submit proposals for a change in the number of shares constituting one trading unit, consolidation of shares and partial amendments to the Articles of Incorporation to the 62nd Annual General Meeting of Shareholders held on June 27, 2017. The proposals were subsequently approved by the general meeting of shareholders.

1. Reasons for implementing consolidation of shares

With respect to the "Action Plan for Consolidating Trading Units" announced by Japanese Stock Exchanges, the Company will change the number of its shares constituting one unit of stock from 1,000 shares to 100 shares. Along with the change, the Company will also consolidate 5 shares into 1 share with the objective of adjusting the investment unit to an appropriate level and amend the Company's total number of issuable shares from 500,000,000 shares to 100,000,000 shares.

2. Details of consolidation of shares

(1) Type of shares to be consolidated
Common stock

(2) Consolidation method and ratio

The Company will consolidate 5 shares into 1 share on October 1, 2017 based on the number of shares held by shareholders listed in the final shareholders' register as of September 30, 2017.

(3) Decrease in number of shares due to consolidation

Number of shares outstanding before consolidation (as of March 31, 2017)	192,792,539 shares
Decrease in number of shares due to consolidation	154,234,032 shares
Number of shares outstanding after consolidation	38,558,507 shares

Note : "Decrease in number of shares due to consolidation" and "Number of shares outstanding after consolidation" are theoretical values calculated by multiplying the number of shares outstanding before consolidation by the consolidation ratio.

(4) Treatment of fractional shares

If fractional shares of less than 1 share arise as a result of the consolidation of shares, the Company shall, in accordance with the provisions of the Corporation Law of Japan, collectively dispose of them and distribute the proceeds to all the fractional shareholders in proportion to the ratio of such fractions.

3. Effective date of the share consolidation

October 1, 2017

4. Impact on per share information

Assuming that the consolidation of shares was conducted at the beginning of the previous fiscal year, per share information as of and for the fiscal years ended March 31, 2017 and 2016 is as follows.

Years ended March 31,	Yen		U.S. dollars
	2017	2016	2017
Net assets per share	¥1,337.40	¥1,329.60	\$11.92
Profit attributable to owners of parent per share	¥ 38.42	¥ 79.24	\$ 0.34



Ernst & Young ShinNihon LLC
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 Tokyo 100-0011, Japan

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 www.shinnihon.or.jp

Independent Auditor's Report

The Board of Directors
 Toyo Engineering Corporation

We have audited the accompanying consolidated financial statements of Toyo Engineering Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2017, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Toyo Engineering Corporation and its consolidated subsidiaries as at March 31, 2017, 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 27, 2017

Corporate Data

Corporate Name:	Toyo Engineering Corporation
Founded:	May 1, 1961
Number of Employees:	4,287 (Consolidated, as of March 31, 2017)
Corporate Philosophy:	Mission: Engineering for Sustainable Growth of the Global Community Vision: Global Leading Engineering Partner Values: Integrity, Creativity, Diversity, Learning, Team
Business Activities:	Engineering and Construction for Industrial Facilities R&D support, design, engineering, procurement, construction, commissioning, technical assistance for industrial facilities: oil, gas, oil & gas development, petrochemicals, chemicals, water treatment, transportation systems, power generation, nuclear power, advanced production systems, pharmaceutical, fine chemical, distribution systems, biotechnology, environment and others

History

- 1961 • TOYO was established. Capital: 300 million yen
- 1962 • An agreement for engineering service and technical assistance was concluded with Lummus Co. (U.S.A.).
- 1963 • The first overseas contract for a fertilizer plant with The Fertilizer Corporation of India Ltd. was awarded.
- 1964 • The first urea plant contract in the former Soviet Union was awarded.
- 1965 • TOYO was awarded its first ethylene plant contract (Osaka, Japan).
- 1969 • TOYO was awarded the contract for the first ammonia plant in the former Soviet Union.
- 1970 • TOYO was awarded the contract for two ammonia plants in the former East Germany.
- 1972 • International Procurement & Service Corporation (Currently Toyo Engineering Europe, S.r.l.) established.
- 1973 • A contract for a urea plant for China was awarded.
- 1975 • Capital: 1,890 million yen
- 1976 • Toyo Engineering India Limited established.
- 1977 • Research Center in Mobara, Chiba was completed.
- 1978 • Capital: 2,970 million yen
- 1980 • Capital: 3,300 million yen
 - TOYO was listed on the second section of the Tokyo Stock Exchange.
- 1982 • Capital: 5,040 million yen
 - TOYO was listed on the first section of the Tokyo Stock Exchange.
- 1985 • Toyo-Thai Corporation Ltd. established.
- 1986 • Toyo U.S.A., Inc. established.
 - Toyo Engineering & Construction Sdn. Bhd. established in Malaysia.
- 1987 • Toyo Engineering Korea Limited established.
- 1989 • Capital: 12,219 million yen
- 1990 • Head Office/Engineering Center (Baytec Building) started operation in Narashino, Chiba.
- 1993 • Capital: 13,017 million yen
- 1994 • TOYO received ISO 9001 registration.
- 1999 • Toyo Business Engineering Corporation established.
- 2004 • TOYO received ISO 14001 registration.
 - Toyo Engineering Corporation, China established.
- 2006 • Capital: 18,198 million yen
- 2007 • Relocation of Tokyo head office.
- 2008 • TOYO invested in Atlatec, S.A. de C.V. in Mexico.
- 2009 • TOYO formulated the Group MVV (Mission, Vision, Values).
- 2010 • TOYO acquired Tri Ocean Engineering Limited in Calgary, Alberta, Canada (Currently Toyo-Canada).
- 2011 • The 50th Anniversary
 - TOYO invested in PT. Inti Karya Persada Teknik (IKPT) in Indonesia.
- 2012 • TS Participações e Investimentos S.A. established in Brazil.
 - Consolidated Group logo developed.
- 2015 • Kiyoshi Nakao was elected as President and CEO.

Board of Directors, Audit & Supervisory Board Members and Executive Officers



Chairman

Masaaki Yamaguchi

President & CEO

Kiyoshi Nakao *1

Executive Vice President

Takaya Naito *1

Directors

Masayuki Yoshizawa *1 *2

Shoji Koshikawa

Tomohisa Abe

Haruo Nagamatsu

Hirokazu Hayashi

Masami Tashiro

Yusuke Yamada

Senior Audit & Supervisory Board Member

Masayuki Uchida

Audit & Supervisory Board Members

Hiroshi Inoue

Yoshiyuki Funakoshi *3

Kiyohito Uchida *3

Senior Executive Officers

Tadashi Horii

Hiroshi Sato

Teruhiko Inoue

Toru Osanai

Executive Officers

Motoyoshi Kamoshima

Koji Kojima

Itsuya Yanagi

Eiichi Ide

Keisuke Ishii

Shinichi Okazaki

Eiji Hosoi

Kensuke Waki *4

Hiroshi Fujita

Takashi Iguchi

Keiji Morino

C B A D

A Kiyoshi Nakao

B Masaaki Yamaguchi

C Takaya Naito

D Masayuki Yoshizawa

*1 Representative Director

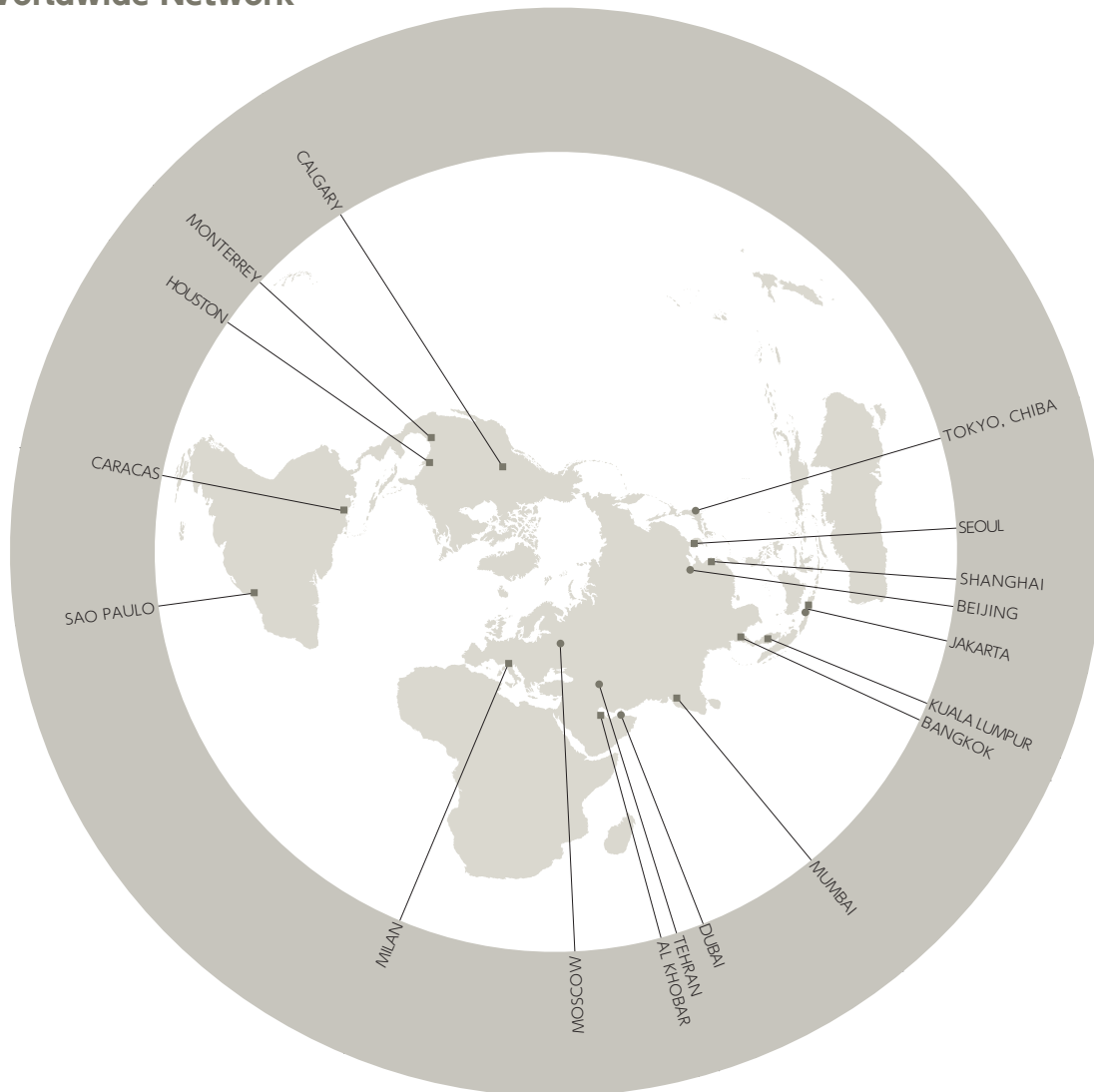
*2 CCO (Chief Compliance Officer)

*3 Outside Director

*4 CFO (Chief Financial Officer)

(As of June 27, 2017)

Worldwide Network



- HEAD OFFICE / ENGINEERING CENTER
Chiba, Japan

- TOKYO HEAD OFFICE
Tokyo, Japan

OVERSEAS OFFICE

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

OVERSEAS GROUP COMPANIES

- Toyo Engineering Korea Limited
Seoul, Korea
- Toyo Engineering Corporation (China)
Shanghai, China
- PT. Inti Karya Persada Tehnik (IKPT)
Jakarta, Indonesia
- Toyo Engineering & Construction Sdn. Bhd.
Kuala Lumpur, Malaysia

- Toyo Engineering India Private Limited
Mumbai, India

- Saudi Toyo Engineering Company
Al Khobar, Saudi Arabia

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

- Toyo Engineering Canada Ltd.
Calgary, Canada

- Toyo U.S.A., Inc.
Houston, U.S.A.

- Toyo Ingeniería de Venezuela, C.A.
Caracas, Venezuela

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

- TTCL Public Company Limited
Bangkok, Thailand

- Atlatec, S.A. de C.V.
Monterrey, Mexico

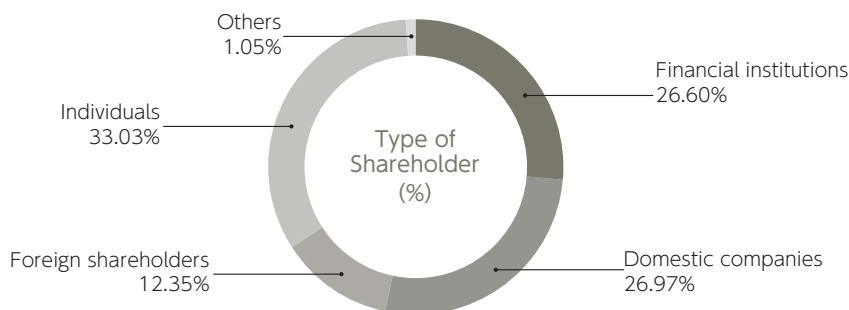
DOMESTIC GROUP COMPANIES

- TEC Air Service Corporation
Travel and insurance services
- TEC Business Services Corporation
Staffing service, contracted business service, translation and interpretation service, facility management service
- TEC Project Services Corporation
EPC and maintenance services for plants and facilities, environmental technology
- Chiba Data Center Corporation
Data entry, scanning services and commercial printing
- Toyo Business Engineering Corporation
System consulting and solutions provider
- TEC Accounting & Consulting Ltd.
Business support and consulting for accounting and accounting system development

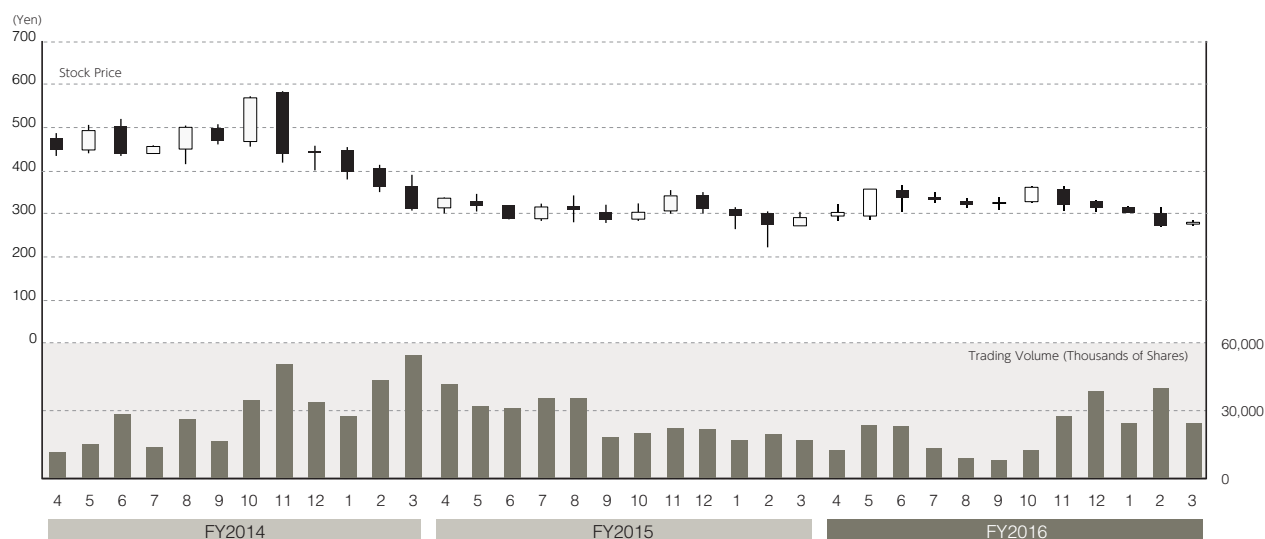
(As of March 31, 2017)

Capital Stock	¥18,198 million
Stock Exchange Listing	Tokyo Stock Exchange
Authorized Shares	500,000,000
Capital Stock Issued	192,792,539
Number of Shareholders	18,329
Administrator of Shareholders' Register	Sumitomo Mitsui Trust Bank, Limited 1-4-1 Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan

Major Shareholders:	Number of shares (thousands)	Percentage of total (%)
Mitsui & Co., Ltd.	43,770	22.70
Japan Trustee Services Bank, Ltd. (Mitsui Chemicals, Inc. Retirement Benefit Trust Account re-entrusted by Sumitomo Mitsui Trust Bank, Limited)	25,703	13.33
Taisei Corporation	5,000	2.59
State Street Bank And Trust Company	3,929	2.03
Japan Trustee Services Bank, Ltd. Trust Account 9	2,611	1.35
The Bank of New York 133522	2,577	1.33
Japan Trustee Services Bank, Ltd. Trust Account 5	2,420	1.25
Sumitomo Mitsui Banking Corporation	2,350	1.21
The Master Trust Bank of Japan, Ltd. Trust Account	2,264	1.17
Japan Trustee Services Bank, Ltd. Trust Account	1,874	0.97



Stock chart





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Printed with Volatile Organic Compounds, VOC, Free inks.