



# 2016

Integrated Report

Year ended  
March 31, 2016

## 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."





## Contents

<b>02</b>	<b>To Our Stakeholders</b>
<b>04</b>	<b>Five-Year Financial and Non-Financial Highlights</b>
<b>06</b>	<b>Overview 1</b> Wide-ranging Business Development
<b>08</b>	<b>Overview 2</b> Global Operations to Increase Customer Value
<b>10</b>	<b>Major Orders Received in Fiscal 2015</b>
<b>12</b>	<b>The Future of TOYO</b> Enhancement of Corporate Value by Utilizing Our Global Human Capital
<b>17</b>	<b>Corporate Governance</b>
<b>20</b>	<b>HSSE+Quality</b>
<b>21</b>	<b>Safety</b>
<b>24</b>	<b>Environment</b>
<b>26</b>	<b>Quality</b>
<b>27</b>	<b>Contribution to Society / Investor Relations</b>
<b>28</b>	<b>Human Capital</b>
<b>30</b>	<b>Management's Discussion and Analysis</b>
<b>35</b>	<b>Business Risk and Other Risks</b>
<b>Financial Section</b>	
<b>36</b>	<b>Consolidated Financial Statements</b>
<b>42</b>	<b>Notes to Consolidated Financial Statements</b>
<b>73</b>	<b>Independent Auditor's Report</b>
<b>74</b>	<b>Corporate Data</b> <b>Corporate Information</b>
<b>77</b>	<b>Stock Information</b>

### Editorial Policy

The TOYO Engineering Group (TOYO) operates its businesses in line with its mission of "Engineering for Sustainable Growth of the Global Community," under the principle of meeting customer needs by providing world-class engineering while contributing to a sustainable global society. 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.

# To Our Stakeholders



In April 2015, TOYO refreshed its management and worked on reforms of our management and business operations in all areas and improvement in profitability to revitalize the company. In fiscal 2015, the first year of structural reforms, new orders and operating income exceeded their targets, and this helped us to achieve our target of net income. I would like to explain about the results from the previous year and our outlook for the future to our shareholders.

## Summary of Consolidated Financial Results for Fiscal 2015

Although sales declined year on year to ¥299.8 billion, operating income was ¥11.0 billion, exceeding our target due to an improvement in earnings and expenditures for several projects and reduced selling, general and administrative expenses. However, ordinary income was ¥3.8 billion, underperforming our target because of ¥9.2 billion in non-operating expenses which included ¥8.2 billion in equity in losses of affiliates. Furthermore, after recorded extraordinary income on the sale of share holdings and real estate assets following a re-evaluation of assets as part of TOYO's revival plan, and deducted corporate income tax, profit became ¥3.0 billion, in line with target. Equity in losses of affiliates were generated mainly due to an increase in costs for the FPSO topside project that is being undertaken by a subsidiary of TSPI, TOYO's Brazilian equity method affiliate, and the recording of impairment losses for module fabrication yard facilities. Accumulated impairment losses from the yard facilities combined with the total for fiscal 2014 amounted to over 70% of the acquisition price. TOYO received several new orders, including for an ethylene plant project in the U.S., a natural gas-fired cogeneration power plant project in Thailand, and a fertilizer complex project in India. Orders rose to ¥443.5 billion (exceeding our target by more than ¥100.0 billion), resulting in a record order backlog of ¥823.0 billion. The year-end dividend was ¥4 per share, unchanged from the dividend forecast announced at the start of the fiscal year.

## Measures of Revival Plan

In April 2015, TOYO established a Revival Plan composed of four pillars of reforms, namely "restructuring of the management system," "improvement of management process at proposal stage," "enhancement of project management capability," and "change of corporate culture." In "restructuring of the management system," we increased the number of Outside Directors, reformed the Executive Committee, and newly set up a Group Operation Committee. In "improvement of management process at proposal stage," with a focus on balanced sales activities, we improved the management process at the final proposal stage and implemented rigorous operation. In "enhancement of project management capability," we are improving our project execution system for projects with group companies and mega-projects, while developing and reinforcing our project personnel. In "change of corporate culture," we are promoting communication in all directions and are seeking to increase employees' motivation and improve organizational performance.

## Issues and Initiatives in Fiscal 2016

This fiscal year marks the second year of the revival plan. In addition to pressing ahead with reforms, TOYO will focus on three major items as a management policy of Fiscal 2016 to prevent project losses and improve profitability.

### 1 Enhancement of Risk Management of Brazilian Business

For the FPSO Topside Project, we shifted the leadership of project execution from our affiliate to TOYO and conducts thorough risk management. Around 80% of the project has been completed and will move forward to module lifting and integration on FPSO hull. Furthermore, we will reduce the size of TSPI and minimize operating expenses.

### 2 Thorough management for mega-projects

Several mega-projects are currently underway, including the large-scale ethylene complex in Malaysia and the large ethylene plant in U.S., and we have started the full-scale construction work for these projects. These projects are revenue streams for the group, and we will ensure intensive management of these projects with full support from all of our company.

### 3 Continued improvement of profitability

TOYO will continue initiatives that seek to improve profitability by increasing gross profit while curbing selling, general and administrative expenses. We will also seek to improve the profitability of projects by thorough quality control, and preventing schedule delays and occurrence of losses by quickly identifying and resolving problems.

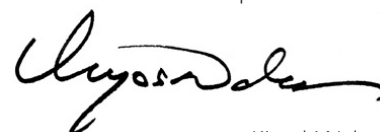
## Forecast for Fiscal 2016

Our consolidated forecast for fiscal 2016 includes new orders of ¥250.0 billion, net sales of ¥450.0 billion, and net profit of ¥5.0 billion. Annual dividends are forecasted as a year-end dividend of ¥6.00.

TOYO endeavors to "return to a path of sustainable growth," which is the objective of the Revival Plan, by working to enhance our profit structure and continuing to bolster measures to further improve profitability. Furthermore, we will harness our company-wide capabilities and continually draw on our spirit of innovation to continuously provide customers with new value.

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

September 2016



Kiyoshi Nakao  
President and Chief Executive Officer

# Five-Year Financial and Non-Financial Highlights

Toyo Engineering Corporation and Consolidated Subsidiaries      Years ended March 31

Financial Highlights:	2016	2015	2014	2013
Net sales	<b>299,813</b>	311,454	230,124	228,723
Gross profit	<b>30,513</b>	17,214	25,155	24,200
Operating income (loss)	<b>11,087</b>	(7,356)	455	1,593
Income (loss) before income taxes	<b>8,697</b>	(21,989)	5,673	2,982
Net Income (Loss)	<b>3,038</b>	(20,965)	967	1,457
Total assets	<b>321,836</b>	261,609	257,480	240,694
Total net assets	<b>51,036</b>	44,979	74,831	71,091
Long-term loans payable	<b>18,764</b>	23,604	33,535	26,477
Capital stock	<b>18,198</b>	18,198	18,198	18,198
New orders	<b>443,537</b>	470,369	365,137	290,444
Backlog of contracts at end of the year	<b>823,066</b>	659,005	538,023	410,492

Per share:

Net income (loss)	<b>15.85</b>	(109.34)	5.05	7.60
Total net assets	<b>265.92</b>	234.20	382.61	363.15
Cash dividends	<b>4.00</b>	4.00	3.00	5.00

Net sales by sector (%):

Chemical fertilizers	<b>4.4</b>	20.5	19.4	16.6
Petrochemicals	<b>42.4</b>	42.1	30.3	18.8
Refinery	<b>22.2</b>	16.6	13.0	7.7
Energy-related	<b>18.4</b>	5.0	7.2	27.0
General manufacturing facilities and information technology	<b>2.6</b>	4.3	9.2	16.7
Others	<b>10.0</b>	11.5	20.9	13.2
(Overseas sales ratio)	<b>(83)</b>	(87)	(84)	(81)

Non-financial Highlights:

Number of employees*1	<b>4,397</b>	4,463	4,747	4,548
(Number of employees at parent company) *1	<b>1,092</b>	1,084	1,037	1,026
CO <sub>2</sub> emissions (Tons)*2	<b>2,716</b>	2,760	2,583	2,156
Crude oil equivalent (Kiloliters)*2	<b>1,384</b>	1,360	1,413	1,411
Domestic construction waste volumes (Tons)*3	<b>16,972</b>	11,764	666	832
Overseas construction waste volumes (Tons) *3	<b>10,300</b>	29,500	20,700	9,900
Lost Time Incident Rate (LTIR)*4	<b>0.07</b>	0.08	0.07	0.09
Total Recordable Incident Rate (TRIR)*5	<b>0.21</b>	0.22	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. dollar amounts are stated at ¥112.62 to U.S.\$1.00, the exchange rate prevailing on March 31, 2016.

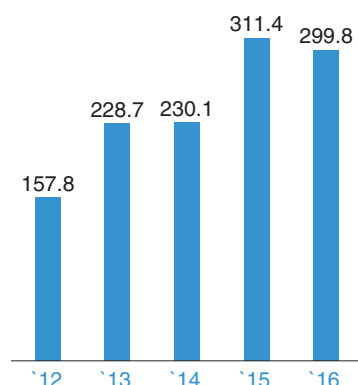
Millions of yen	Thousands of U.S. dollars (Note)
2012	2016
157,881	<b>\$2,662,164</b>
24,918	<b>270,937</b>
5,341	<b>98,446</b>
4,941	<b>77,224</b>
3,728	<b>26,975</b>
222,415	<b>2,857,716</b>
69,265	<b>453,169</b>
24,582	<b>166,613</b>
18,198	<b>161,587</b>
269,188	<b>3,938,350</b>
359,120	<b>7,308,346</b>

Yen	U.S. dollars (Note)
19.43	<b>\$0.14</b>
349.42	<b>2.36</b>
6.00	<b>0.03</b>

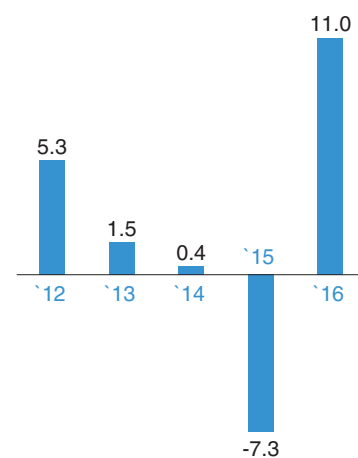
10.0
15.3
11.5
35.2
20.3
7.7
(73)

4,494
1,055
2,166
1,385
2,222
17,300
0.09
0.24

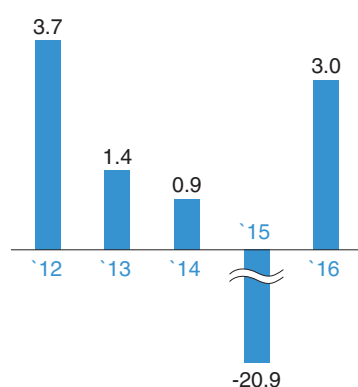
Net sales (¥ billion)



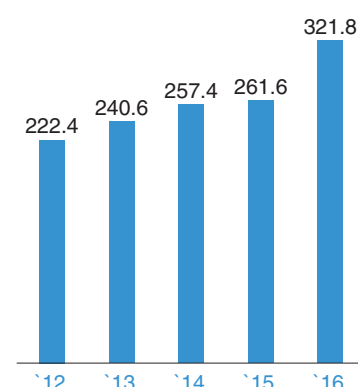
Operating income (loss) (¥ billion)



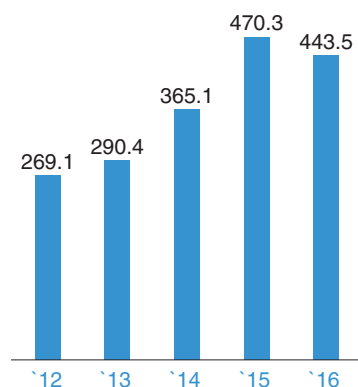
Net Income (Loss) (¥ billion)



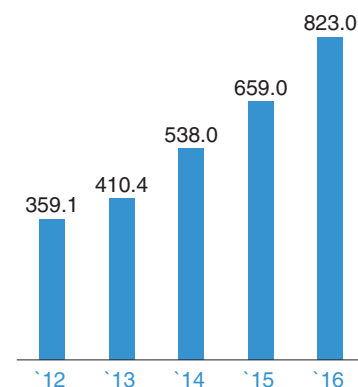
Total assets (¥ billion)



New orders (¥ billion)



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



## Wide-ranging Business Development

Since its foundation in 1961, TOYO has implemented a wide range of projects on the global stage, mainly in the plant engineering field. Our rich experience covers a broad range of fields, such as the hydrocarbon field including oil & gas development and other resources, oil refining and gas processing, petrochemicals and gas chemicals, fertilizers, the infrastructure field including power generation, transportation systems, the effective use of water resources, and industrial plant fields including pharmaceuticals. We execute projects in various countries and regions together with our group companies to provide comprehensive solutions to diverse customer needs and problems.

### Oil & Gas Development Field

TOYO's competitive edge in the oil & gas development field is its ability to conduct "comprehensive engineering from subsurface to surface." We can optimize subsurface and surface systems for each phase in oil recovery, by tracking changes in subsurface conditions and predicting future conditions. This allows TOYO to continue providing customers with the highest level of expert service at every stage of oil & gas recovery, from initial planning to the closing of operations.



### Oil & Gas Development Field

Oil / Gas Development | EOR | FPSO

### Infrastructure Field

The demand for infrastructure projects, such as power generation, transportation systems, and the effective use of water resources, is growing in tandem with economic development in emerging economies. TOYO uses its abilities in project management, design and procurement, and construction management—cultivated in the plant engineering field—as well as its regional knowhow and track record to actively develop infrastructure business that meets customer needs.



### Infrastructure Field

Power Generation | Transportation Systems | Effective Use of Water Resources

## Business Topics

### Collaborating with overseas companies to develop subsea resources

TOYO is collaborating with Baker Hughes Incorporated in the U.S. and Aker Solutions ASA in Norway, aiming to integrate each company's core technologies and expertise in oil & gas recovery to develop subsea resources in Japanese coastal waters. TOYO will handle overall project and facilities planning, Baker will be in charge of subsurface energy recovery services, and Aker will take care of overseas design and fabrication of subsea production facilities.



## TOYO's Proprietary Technologies

### Urea Synthesis Technology ACES21® and Urea Granulation Technology

TOYO licenses its ACES21® energy saving urea process and urea granulation technology. ACES21® reduces construction costs by simplifying urea synthesis and reduces operating costs by minimizing the amount of energy needed to produce urea. We also offer our proprietary urea granulation technology which is highly necessary for large-scale farming.



Kaltim (Indonesia)



# BUSINESS FIELD



## Oil Refining & Gas Processing Field

FCC / RFCC |  
Catalytic Reforming |  
Hydrocracking | Natural Gas  
Processing |  
LNG / GTL

## Oil Refining & Gas Processing Field

TOYO is involved in various projects around the world including facilities associated with oil refining, from grassroots refineries to hydro desulphurization, catalytic reforming, hydrocracking, and thermal cracking, as well as facilities associated with natural gas such as LPG\*5, LNG and GTL, pipelines, facilities for receipt, storage and discharge, and other gas and supply chain-related projects.



## Petrochemical, Chemical & Pharmaceutical Field

Ethylene | EO/EG | Urea |  
Ammonia |  
Aromatics | Methanol |  
Bio-pharmaceutical | Containment

## Petrochemical, Chemical & Pharmaceutical Field

Since its founding, TOYO has advanced licensing technologies in the petrochemical and fertilizer fields as a licensor and through technological partnerships. We have numerous successes in a wide variety of fields, such as ethylene, propylene, various polymers, aromatics, urea, ammonia, and methanol. In the pharmaceutical field, we are aggressively involved mainly with highly active pharmaceutical and biopharmaceutical plants.

### ● Innovative Energy Saving Distillation System *SUPERHIDIC*<sup>®</sup>

Distillation is a key part of the separation process in petrochemicals and oil refining. *SUPERHIDIC*<sup>®</sup>, developed by TOYO, divides the distillation column into a rectifying section and a stripping section. By placing a compressor, and producing the heat exchange in between the two sections, energy consumption is cut in half in this distillation system. The first plant for Chemiway Maruzen Petrochemical Co., Ltd. started operations.



Chemiway Maruzen Petrochemical Co., Ltd.  
(Japan)

### ● COREFLUX<sup>®</sup> High-efficiency NGL recovery process

TOYO has developed COREFLUX<sup>®</sup> for gas separation and refining. COREFLUX<sup>®</sup> is processing technology that achieves a high product recovery rate with low energy consumption, and is used to recover ethane, propane, butane and other high added value raw materials from natural gas. COREFLUX<sup>®</sup> will be adopted at a gas separation unit that TOYO is presently building in Turkmenistan.



State Concern "Turkmengas"  
(Turkmenistan)

## Global Operations to Increase Customer Value

TOYO's group companies maintain close contact with their countries, regions, and customers while mutually cooperating to build a global network that executes EPC projects based on the optimal formation and with unified standards. Through this network we gather information about the market, human capital and technology. TOYO shares this information throughout the group so as to continue providing solutions to address customer needs. Group companies use their experience and previous successes to achieve high quality and HSSE, meet schedules and budgets, and ensure project completion. We continue striving to even further develop our global operations as we aim to be a corporate group that earns solid customer trust.

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

Number of employees as of March 31, 2016: Approximately 300  
Established: 1986

#### **Major ongoing projects** **Large-scale ethylene complex (Malaysia)**

Collaboration within the group: Toyo-Japan, Toyo-India, and IKPT

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

Number of employees as of March 31, 2016: Approximately 300  
Established: 2004

#### **Major ongoing projects** **Investment projects using Japanese companies' foreign capital (China)**

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

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

Number of employees as of March 31, 2016: Approximately 2,000  
Established: 1976

#### **Major ongoing projects** **Large-scale ethylene complex (Malaysia)**

Collaboration within the group: Toyo-Japan, Toyo-Malaysia, and IKPT

#### **Large gas chemical complex (Turkmenistan)**

Collaboration within the group: Toyo-Japan and Toyo-Korea

#### **Two LNG plants (India)**

Collaboration within the group: Toyo-Japan

#### **Large fertilizer complex (India)**

Collaboration within the group: Toyo-Japan



**Toyo Engineering Korea Limited**

[Toyo-Korea]  
(Seoul, Korea)

Number of employees as of March 31, 2016: Approximately 400  
Established: 1987

**Major ongoing projects**

**Large gas chemical complex (Turkmenistan)**

Collaboration within the group: Toyo-Japan and Toyo-India

**Polyethylene plant (U.S.)**

Collaboration within the group: Toyo-Japan

**Toyo Engineering Canada Ltd.**

[Toyo-Canada]  
(Calgary, Canada)

Number of employees as of March 31, 2016: Approximately 100  
Acquired Tri Ocean Engineering Limited in Canada in 2010

**Major ongoing projects**

**Oil sands SAGD facilities (Canada)**

Collaboration within the group: Toyo-Japan and Toyo-Korea

**Toyo Engineering Corporation**

[Toyo-Japan]  
(Tokyo/Chiba, Japan)

Number of employees as of March 31, 2016: Approximately 1,500  
Established: 1961

**PT. Inti Karya Persada Tehnik**

[IKPT]  
(Jakarta, Indonesia)

Number of employees as of March 31, 2016: Approximately 1,000  
Invested: 2011

**Major ongoing projects**

**Large-scale ethylene complex (Malaysia)**

Collaboration within the group: Toyo-Japan, Toyo-India, and Toyo-Malaysia

**Subway project (Indonesia)**

Collaboration within the group: Toyo-Japan

**Synthetic rubber projects (Indonesia)**

Collaboration within the group: Toyo-Japan

**Toyo U.S.A., Inc.**

[Toyo-USA]  
(Houston, U.S.A.)

Number of employees as of March 31, 2016: Approximately 50  
Established: 1986

**Major ongoing projects**

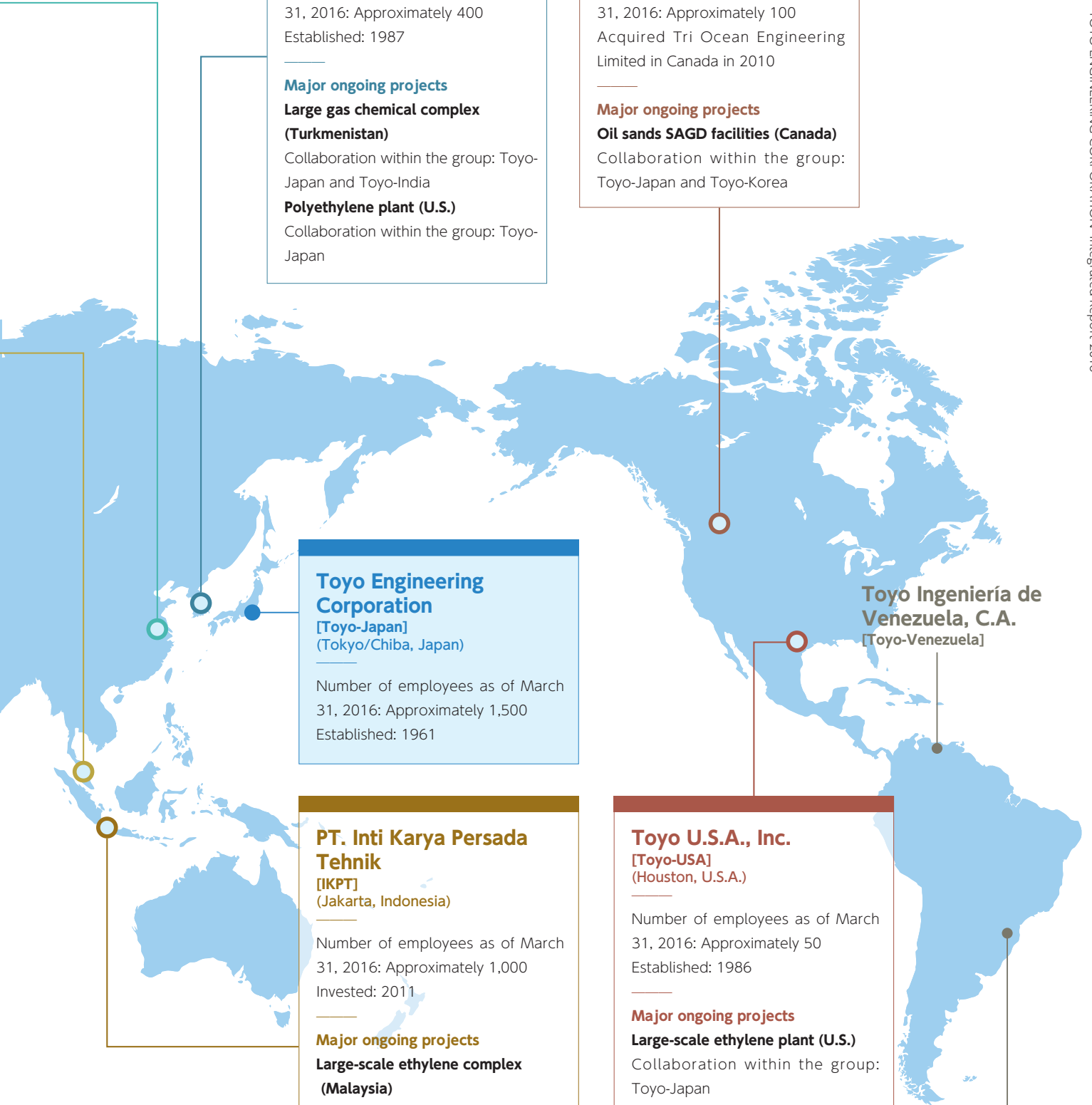
**Large-scale ethylene plant (U.S.)**

Collaboration within the group: Toyo-Japan

**Toyo Ingeniería de Venezuela, C.A.**

[Toyo-Venezuela]

**TS Participações e Investimentos S.A.**  
[TSPI]



# Major Orders Received in Fiscal 2015

## Order over ¥100 billion

### Large-scale Ethylene Plant Project in the U.S.

TOYO has been awarded an EPC project to construct a 500,000 t/y ethylene plant licensed by Lummus Technology Inc. of U.S., in Plaquemine, Louisiana, by Shintech Inc., a subsidiary of Shin-Etsu Chemical Co., Ltd., Japan. Local construction work for the project will be subcontracted by CB&I in the U.S., under TOYO. The project is scheduled to be completed in the first half of 2018, and the produced ethylene

will be supplied as feedstock to Shintech's existing PVC resin production facilities. TOYO has extensive experience in ethylene plant projects. This ongoing project is the 45th to be added to TOYO's ethylene plant track record, following the Malaysian project awarded in August 2014. This is TOYO's largest project in the U.S. market.

## Orders over ¥50 billion

### Cogeneration Power Plant Projects in Thailand

At the end of November 2014, TOYO entered into the construction contracts for 12 natural gas-fired combined cycle cogeneration power plants (six 120 MW, two 125 MW, and four 130 MW, total generation capacity 1,490 MW) in the suburbs of Bangkok with companies jointly owned by Mitsui & Co., Ltd., and Gulf Energy Development Company Limited (GED). The projects were started subsequently from February 2015, and TOYO has been awarded EPC projects for five plans in fiscal 2015. Going

forward, work will gradually start up again at two-month intervals from June 2016, with plans to receive orders for five projects in fiscal 2016 and one project in fiscal 2017. TOYO and Mitsui have previously completed the seven cogeneration power plant projects (total generation capacity 790MW) in the suburbs of Bangkok in 2013, and work was completed by the planned construction deadlines for all of the projects.

### Fertilizer Projects in India

TOYO has been awarded a contract for an EPC project of Chambal Fertilisers and Chemicals Limited (CFCL), a major private sector fertilizer producer in India, to construct a large-scale fertilizer complex in Kota, Rajasthan, India. The complex will have an ammonia plant with capacity of 2,200 t/d, and a urea plant with capacity of 2,000 t/d. For the ammonia plant, the ammonia production technologies by KBR in the U.S. will be employed, while TOYO's

ACES21<sup>®</sup> and urea granulation technology will be employed for the urea plant. In addition, Toyo-India has been awarded construction works for the utility facilities of the fertilizer complex. Previously, in 1999, TOYO successfully completed a fertilizer complex for CFCL (an ammonia plant with capacity of 1,350 t/d and a urea plant with capacity of 2,350 t/d). This project is the 15th fertilizer project that TOYO will construct in India.

## Orders over ¥10 billion

### Synthetic Rubber Plant Project in Indonesia

TOYO and IKPT have been awarded a contract for an EPC project of Synthetic Rubber Plant with production capacity of 120,000 tons per annum in Cilegon on the western tip of Java, from PT. Synthetic Rubber Indonesia (SRI), Joint Venture company of Compagnie Financiere Du Groupe Michelin (Michelin), a major tire manufacturer in France, and PT Chandra Asri Petrochemical Tbk (CAP), a major private sector petrochemical company in Indonesia. Butadiene feedstock will be provided by a subsidiary of

CAP, and the plant will produce Solution Styrene Butadiene Rubber (SSBR) and Polybutadiene Rubber with Neodymium Catalyst (PBR) licensed by Michelin, which will be used to produce tires. Toyo-Japan is in charge of project management and offshore supply contract and IKPT entered into detail engineering, onshore procurement and construction contract. The target for completion is in 2018.

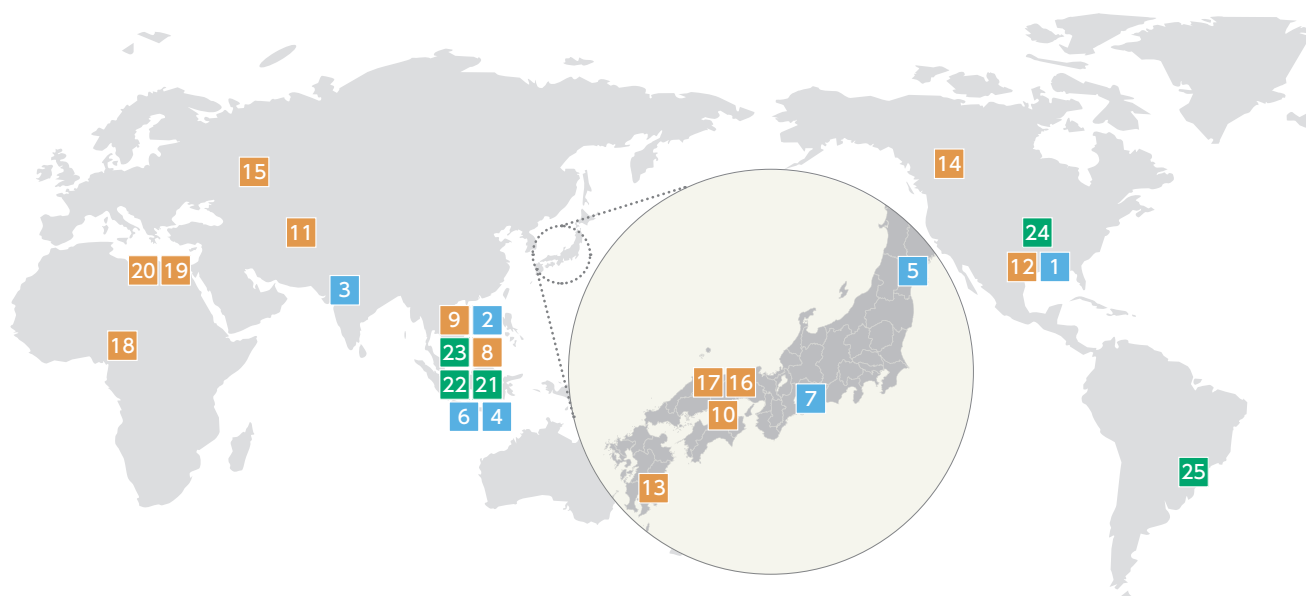
### Large-scale Photovoltaic Power Plant Project in Japan (Miyagi)

TOYO has been awarded an EPC project of a large-scale photovoltaic power plant planned in Osaki City, Miyagi Prefecture, Japan by Pacifico Energy Furukawa G.K. The plant will have a power generation capacity of 56.87 MW (DC) and is scheduled for completion by the end of 2016. The power generated will be sold to the Tohoku Electric Power Co., Inc. TOYO is now executing the several

construction projects of large-scale photovoltaic power plants such as in Setouchi City, Okayama Prefecture (230MW), Miyazaki City, Miyazaki Prefecture (96MW), and Mimasaka City, Okayama Prefecture (42MW). Accordingly, TOYO has been awarded photovoltaic power plant projects with a total output of over 450 MW including this project.

## Major Projects

Projects progressing in the world for the development of sustainable society



		Type	Location	Scope
New Orders	1	Ethylene Plant	U.S.A.	EPC
	2	Natural Gas Fired Cogeneration Power Plants (5 of 12)	Thailand	EPC
	3	Chemical Fertilizer Complex	India	EPC
	4	Synthetic Rubber Plant	Indonesia	EPC
	5	Photovoltaic Power Generation Plant (Furukawa, Miyagi)	Japan	EPC
	6	Railroad system and train track construction	Indonesia	EPC
	7	Construction of coal-fired power plant facility	Japan	EPC
Ongoing	8	Ethylene Complex	Malaysia	EPC
	9	Natural Gas Fired Cogeneration Power Plants (1 of 12)	Thailand	EPC
	10	Photovoltaic Power Generation Plant (Setouchi, Okayama)	Japan	EPC
	11	Gas Chemical Complex	Turkmenistan	EP
	12	Polyethylene Plant	U.S.A.	EP
	13	Photovoltaic Power Generation Plant (Hosoe, Miyazaki)	Japan	EPC
	14	Oil Sands Facilities	Canada	EPC
	15	Oil Refinery Modernization (Heavy Residue Conversion Complex)	Russia	EP
	16	Photovoltaic Power Generation Plant (Mimasaka, Okayama)	Japan	EPC
	17	Photovoltaic Power Generation Plant (Kumenan, Okayama)	Japan	EPC
18	Ammonia and Urea Plant	Nigeria	EP	
19	Ethylene and Butadiene Plants	Egypt	EPC	
20	Polyethylene Plant	Egypt	EPC	
Completed	21	Chemical Fertilizer Plant	Indonesia	EPC
	22	Ethylene Plant Expansion	Indonesia	EPC
	23	Gas Processing Plant Modernization	Malaysia	EPC
	24	Ethylene Plant	U.S.A.	EP
	25	EPC of FPSO topside processing units for vessels	Brazil	EPC

EP: Engineering and Procurement

EPC: Engineering, Procurement and Construction

# The Future of TOYO

Enhancement of Corporate Value by Utilizing Our Global Human Capital

12

The Future of TOYO



## Enhancement of Corporate Value by Utilizing Our Global Human Capital

**Tomonori Ito**

Professor,  
Graduate School of International Corporate Strategy,  
Hitotsubashi University  
(Hitotsubashi ICS)



**Kiyoshi Nakao**

President and Chief Executive Officer  
Toyo Engineering Corporation

TOYO believes that people, or “human capital,” are assets that generate corporate growth, hence it is working toward fostering its people.

How should human capital be cultivated, utilized, and linked to corporate value so that it can play active role on the global stage?

We invited Mr. Tomonori Ito, a Professor at Hitotsubashi ICS, to hear his candid opinions as a person that has been involved in management training across TOYO, including its overseas group companies.

**Nurturing a managerial perspective on the company overall through practical training**

**Mr. Nakao** TOYO understands that people, or “human capital,” are assets that generate corporate growth, and so it has been conducting various human resource systems. Mr. Ito was engaged in from the planning and the implementation to the lecture of the “TOYO Management Program,” held in 2013 and 2014, a training geared toward the management layer of both Toyo-Japan and overseas group companies. Today, we want to have your insights on how to link human capital with corporate value and demonstrate TOYO’s value globally while looking back on these training activities.

**Mr. Ito** In corporate training course at my university (The Graduate School of International Corporate Strategy, Hitotsubashi University), usefulness in real-world application is emphasized in staff lectures, debates based on case studies and group work regarding various management issues. Therefore custom-made programs are put in place to meet corporate needs.

This training was a one-week input session composed of business administration by faculty and lectures regarding corporate strategy by TOYO executives, and after deepening their understanding and reflecting on overall corporate management strategy, various issues were tackled across the group over a period of about six months. I figured it must have been difficult to do joint work on a global scale while also handling routine operations. At the presentation made six months later, executives were also present, and a lot of feedback was given by them. While sharing views on issues across the company, I think

those participants gained the opportunity to see the company as a whole from a managerial perspective, not limited to seeing things from a departmental perspective.

**Mr. Nakao** I also participated in the final presentation, and it appears that even employees that had only been active in their present work were able to understand the importance of arming themselves with a theoretical background when undertaking global management. After actually coming into contact with the employees, what are your feelings on the strengths and weaknesses of TOYO’s human capital?

**Cultivating and utilizing human capital on a global scale**

**Mr. Ito** As should be expected from candidates who will take on the role of the next generation of TOYO management, participants were very bright and debated actively and openly, and it was here that I felt the TOYO culture. Their level of English was also high, which was expected from a global nature of the company. However, as discussions deepened on various topics, it became clear that in a business context, communication between Japan and overseas group companies was a one-way street, making it difficult for those from overseas to express opinions to the Japanese side. Communications were also weak among differing overseas group companies. These issues possibly emerged as factors linked to frustration among overseas members.

In light of this, the “conflict management” lecture was added to the training program for the following year. Through a management method that seeks to solve challenges by actively accepting differing opinions



**Kiyoshi Nakao**

President and Chief Executive Officer  
Toyo Engineering Corporation

Joined Toyo Engineering Corporation in 1977. He took charge of the engineering unit as a head of Equipment Engineering Division in 1999. He assumed the office of Executive Officer in 2004 and contributed to acquisition of new orders as a head of Proposal Division. In 2006 he was assigned as a head of Procurement Division. Afterwards, he became a 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 his post in Japan in April 2013, where he then took the office of Senior Executive Officer, Unit Director of Plant Project Unit, and director before current position starting April 2015.

and confrontations, which are generally seen as negative in Japan, various issues were raised and opinions were exchanged via case studies, including the ideal method of internal communication.

**Mr. Nakao** From personal experience serving as President of Toyo-China, I realize the necessity of listening to opinions from the field on a daily basis. The Revival Plan that is currently underway also promotes omnidirectional communication as “corporate culture reform,” but improvement on Japanese-style communication could also be considered an issue shared by all Japanese companies, TOYO included. May I ask for your views on cultivating and utilizing global personnel in relation to the matters brought up in this conversation?

**Mr. Ito** Broadly speaking, I think there are three points. First is “establishing a flat organization.” To promote business in a global market that is undergoing constant change, swift decision-making and implementation is essential. Although a pyramid style organization, found commonly in traditional Japanese companies, is the strength in working toward unifying opinions across a company, it cannot cope with the speed of businesses overseas. To aim to speed up management, it is essential to create methods of open communication that cross layer boundaries with a flat organization.

The second key is “management of knowledge workers.” As Peter Drucker, a management scholar, points out, “knowledge workers” seek “something to live for and purpose,” “fair evaluation,” and “self-growth” in their work. That is to say, previous human resource systems may cause them to be easily discouraged. To prevent the loss of talented personnel, it is a requirement to create meaningful work and fair evaluation systems.

The third point can be signified by the “importance of clearly stated communication.” In the past, Japanese companies held “tacit knowledge,” or knowledge based on experience and instincts that could not be quantified, as a source of competitive strength. However, in the realm of global business, where languages and cultures differ, such “wordless communication” cannot function. Thus, it becomes necessary to change “tacit knowledge” to “explicit knowledge.” In essence, it is important to practice cultural communication, such as words and numbers, via various methods.

**Mr. Nakao** Another issue is thorough implementation of English communication. It is not uncommon to resort to using Japanese in situations where decision-making is conducted under nuanced conditions. I feel that it is also important to undertake the creation of frameworks that allow for fair participation from a language perspective in decision-making at meetings by capable engineers overseas.

---

#### TOYO’s three persistence

**Mr. Ito** According to Michael Porter, an economist who is known for competitive strategy, WTP (Willingness to Pay: Users willfully making payment, and the amount thereof) is the source of competitiveness, and from the definition “WTP – Cost = Profit,” in order to win the competition and create profit, there is no other way than to raise WTP, or lower cost. However, competitors such as China and South Korea have significant advantage with regard to cost, and I feel that we must transition to the idea of raising WTP.

**Mr. Nakao** As you stated, I think that Japanese companies in general are all facing such an issue. The




---

#### Tomonori Ito

Professor, Graduate School of International Corporate Strategy, Hitotsubashi University (Hitotsubashi ICS)

Joined the Bank of Tokyo (currently The Bank of Tokyo-Mitsubishi UFJ, Ltd.) after graduation from the University of Tokyo, Faculty of Economics. After receiving his MBA from Harvard Business School, he worked for UBS in Japan as Managing Director and (co-)Head of Investment Banking, and led many transactions such as IPOs, equity finance for public companies, and M&As. In 2011, he assumed the office of Adjunct Professor of Hitotsubashi ICS before assuming the current position in 2012, specializing in corporate finance, business finance, M&A, etc.

He also serves as an external board member to Parco Co., Ltd., Aozora Bank, Ltd. and Electric Power Development Co., Ltd.



issue is not "cheaper is better," but "how to create more value," and I feel that in order for a company to improve its performance, all employees must think about what types of value that their company can create.

**Mr. Ito** It's also an issue to provide overall systems that capture the needs of clients and are concentrated on services. For example, with projects, unless the client's needs are not understood from a very early stage prior to bidding, the end result is a race to the bottom on price.

**Mr. Nakao** Differentiation is not possible by simply waiting an ITB (invitation to bid). One of TOYO's differentiating qualities is its ability to provide alternative solutions valuable to customers from their standpoint, and I think that this is the greatest service we provide to customers. I believe that it also contributes to a higher WTP. To achieve this, it is necessary for TOYO to hold "persistence" in safety, quality, schedule, costs, and technology, and I am certain that these will lead to competitiveness in getting new orders, improvement of project execution ability, and enhancement of profitability.

**Mr. Ito** The "persistence" you mentioned are extremely important, and I think that the Japanese are strong with these "persistence".

**Mr. Nakao** To explain as to what these "persistence" are, in my understanding, I think there are three aspects. First is "aspirations and excitement" toward work. Second is the concept of "reverence." Third is "sensitivity." In the context of a TOYO member, each one should be thrilled to participate in the construction of plants that will become essential infrastructure for the economic development of various countries, while being aware that the occurrence of an accident will result in serious consequences. To create higher values, there is a need to always think of ways to improve, and have the sensitivity to be on the lookout for new information. The result should be a higher quality of work, and solid value provided to customers. Steady execution of work under these three "persistence" is TOYO's corporate culture, and I think that employees who are able to keep this in mind will lead to improved corporate value.

workers, which were mentioned earlier. It is also a concept advocated by Michael Porter in recent years of CSV (Creating Shared Value: A new way of thinking that realizes both social issue resolution and improved corporate competitiveness at the same time), which leads to the achievement of economic prosperity activities and creating social value. As TOYO's job is to operate a business that create social infrastructure, it serves a very important role. I believe that this thinking is very important in terms employee motivation. It will also ultimately lead to profits, and the aforementioned WTP.

**Mr. Nakao** We all have experienced such feelings of achievement in various forms, and I think these serve as our motivation.

**Mr. Ito** Previously, social contribution and profits were in a tradeoff relationship, but the importance of achieving both is increasing year by year. In such times, the words stated by the President become important; customers pay as a result of providing services and systems with an extremely high level of quality. To achieve this, the importance of innovation cannot be understated. Innovation cannot be achieved by utilizing the traditional methods. New ways must be forged.

**Mr. Nakao** I also think that alongside the

### The seven distinctions

#### Let's return to our roots!!

- 1 The engineering industry is essentially global
- 2 It is an industry looking toward the future
- 3 It is an industry that sells intellect and technology
- 4 It is an industry that consolidates knowledge
- 5 The greatest asset is people
- 6 Specialized knowledge and boundary knowledge
- 7 Free development and the first to capture the trends of the times

### Origins in the engineering industry

**Mr. Ito** The thrill felt toward work that were just mentioned also serve as motivation for knowledge



mentioned “persistence,” innovation is also a key. What came to mind when I thought of the Company’s future growth were the seven items of “Let’s return to our roots!!” that were announced at the New Year’s greeting to the employees in January of this year (see chart). Actually, these were printed in a pamphlet that I received when I joined the Company, showing that the Company had already set forth this mission over 40 years ago.

**Mr. Ito** This is truly progressive. It is a superb vision that perfectly captures the universality of the engineering business, no matter the times.

**Mr. Nakao** When looking upon these again, I myself felt that they should be stated in our mission 10 years and 20 years into the future as the roots from which TOYO comes, and I spoke of this to the employees. Although the products and places where we do work may change, I don’t think that the essential aspect of engineering as our business will change. I feel that to share and jointly recognize the “persistence” and “innovation” that we all inherently hold will require change of the mindset.

#### Dialogue with employees a key to revival

**Mr. Ito** This is a reason that communication via “explicit knowledge” is important, and for change of the mindset to occur, leaders of global companies must hold town hall meetings including overseas, and make announcements persistently via various methods such as email and letters. In particular, messages must be delivered to middle managements, who are tasked with local operations, and it is important to create structures to educate young

employees; the reality is that without any active measures, it can be difficult to produce results.

**Mr. Nakao** Actually, after assuming the position of President last year, one of the matters to which particular attention was paid during that one year was discussion with middle managements. As discussions progressed, it reaffirmed the fact that it was important to implement change of the mindset of employees in their 40s and 50s, and unless this changed, the Company would not move forward either. In the future, the important issue will become how they connect management and young workers, and I think that ensuring that we are all on the same page is an issue that will persist for some time.

**Mr. Ito** It’s important to continue to put forth messages to the market via methods such as IR and media activities to highlight matters including positive corporate aspects, ways of thinking, and inherent corporate value that cannot be understood from financial information.

**Mr. Nakao** Mindset of each individual employee toward issues such as quality defines competitiveness, and I think it is the biggest aspect of WTP. By once again restructuring the experiences and awareness structures that TOYO has built up over 55 years, fostering the innovative spirit, and embarking on new challenges, I believe that these can lead to further competitive strength and higher value. By providing our human capital with opportunities and through cooperation, I am certain that results can be produced. I want to thank you for the opportunity to hear your thoughts today.



## 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. Furthermore, in addition to adhering to the Corporate

Governance Code, TOYO has published Corporate Governance Guidelines on the website outlining our basic corporate governance framework and philosophy.

**Governance system chart (As of June 29, 2016)**

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

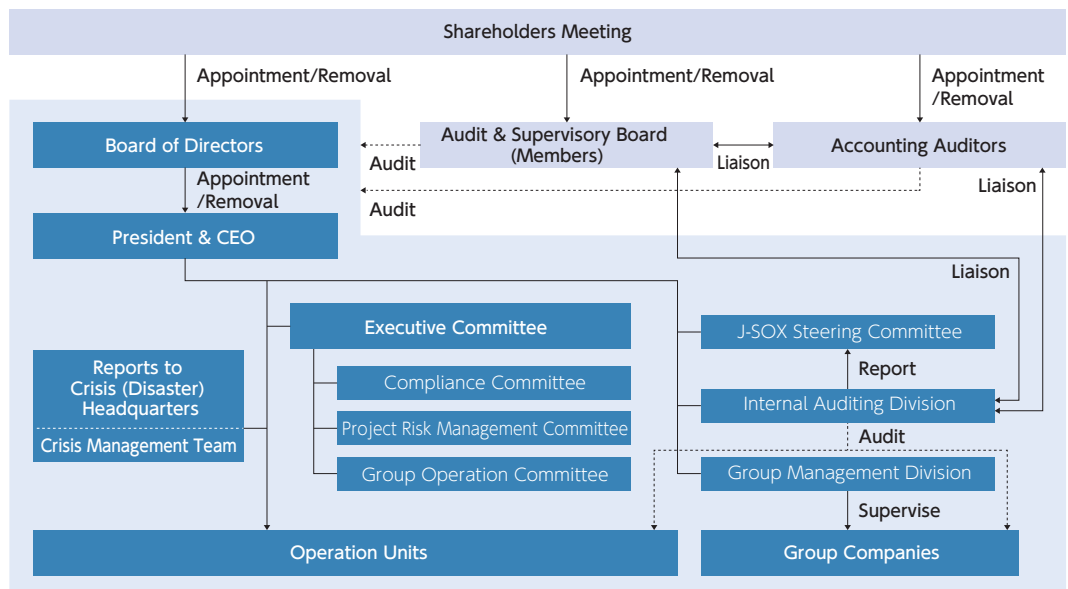
## Corporate Governance System

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 (23 members, including concurrent

posts of ten Directors) 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 for many years, 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 elected with expectations that he will make fair and precise comments and opinions from an independent standpoint and based on his expertise.
Masami Tashiro (Independent Officer)	Possessing extensive international experience at financial institutions as well as rich experience and considerable insight as a manager, Masami Tashiro has been providing accurate suggestions and opinions, delivered from a position of independence and with 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 capital markets as well as rich experience and considerable insight as a manager, Yusuke Yamada has been providing accurate suggestions and opinions concerning all aspects of the Company's management, delivered from a position of independence. 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.

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 Risk

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 developed a risk hotline system for compliance as a framework for properly reporting to the Board of Directors and the Audit & Supervisory Board Members, and established internal / external contacts for consultation and reporting. 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 Risk 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 and Environment

We, TOYO, having set our mission as “Engineering for Sustainable Growth of the Global Community,” aim to realize a global society that is sustainable, contributing to our clients by conserving the environment and harmonizing with human evolution. To accomplish this during the process of performing engineering services, we consider it our Corporate Social Responsibility (CSR) to fulfill provisions regarding quality and HSSE (Health, Safety, Security and Environment).

In particular, we place the highest priority on safety. In the process of providing business solutions to our valued clients, we take the utmost care to prevent the loss of valuable human life. We strive to ensure awareness in every member of the organization that respect for human life takes precedence over any amount of effort, time and expenditure during business operations. We firmly believe that safety is not just relevant to construction site staff, but

should be a foundation for every member of the organization.

While providing specialized services, TOYO is committed to energy saving and natural resources conservation designs. In addition, during construction work, we follow practices that take account of the reduction of environmental impact such as harmlessness, reduction and recycle of waste, and prevention of pollution.

In order to maximize the capability of our overseas group companies and simultaneously integrate our global operations as we move towards the creation of the next generation of the engineering business, we will continue to challenge new frontiers. Thus, we aim to become the most trusted “Global Leading Engineering Partner” for our clients by offering know-how and providing solutions to our client’s needs.

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

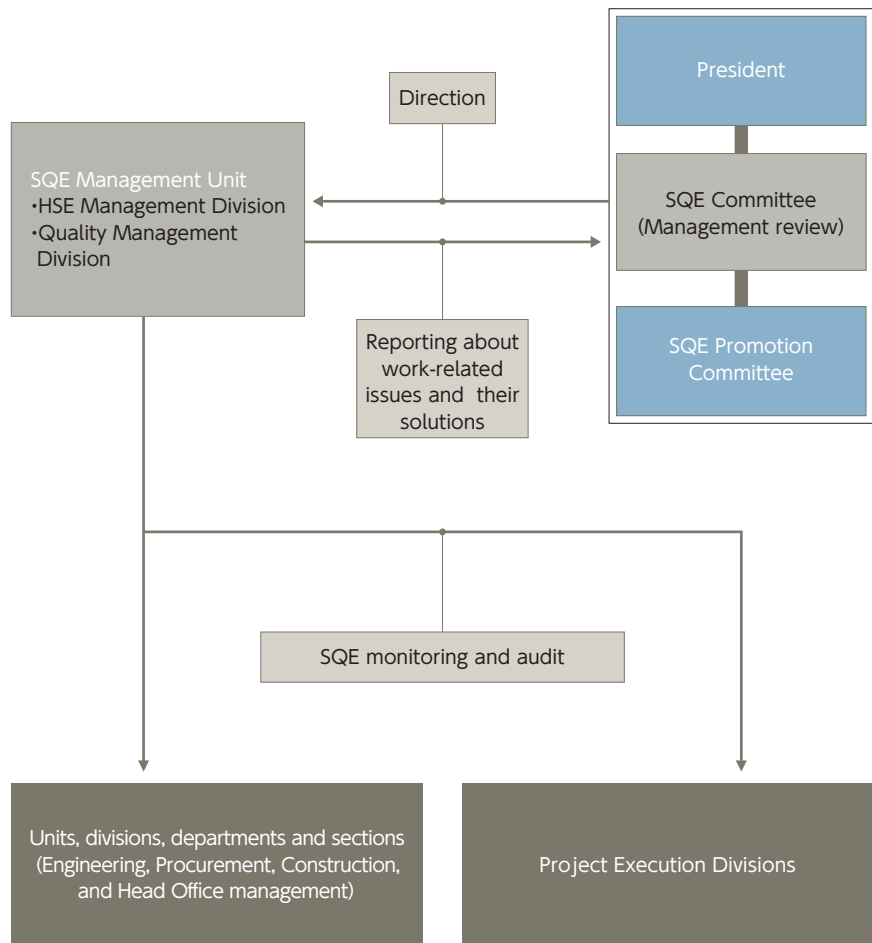
TOYO has set up the SQE Committee, which reports directly to the President, to review companywide SQE management activities. The Committee establishes the operating policies and assesses and approves the results of SQE activities.

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 Management Unit monitors the SQE activities performed by individual Operating Divisions and individual Project Execution Divisions, and conducts SQE audits and reports the results to the SQE Promotion Committee and the SQE Committee.

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

SQE Management Structure



An industrial establishment promises foremost to pay attention to safety in the surrounding community and throughout society. TOYO strictly pledges that loss of human life must absolutely be prevented and applies all efforts and initiatives to safety. Time and value dedicated to safety initiatives are given the utmost priority.

“Safety” is a key component of the TOYO brand. In order to boost our brand globally, we actively promote various safety measures and shall actively strive to consolidate a firm safety culture.

## Safety Record

TOYO’s safety record for 2011 to 2015 is as follows:

TOYO aims for zero accidents as a safety management objective. Hence our target is to further reduce the Lost Time Incident Rate (LTIR) and the TRIR.

Safety Record over the Past 5 Years (One million hour base)

Year (Jan. to Dec.)	Employee- Worked Man-Days (Thousands)	Employee- Worked Man-Hours (Thousands) (A)	Number of Incidents					LTIR* <sup>1</sup>	TRIR* <sup>2</sup>
			Fatalities	Lost Time Incidents (LTI)	Medical Treatment (No Lost Time)	LTI Total (B)	Recordable (C)		
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

\*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)

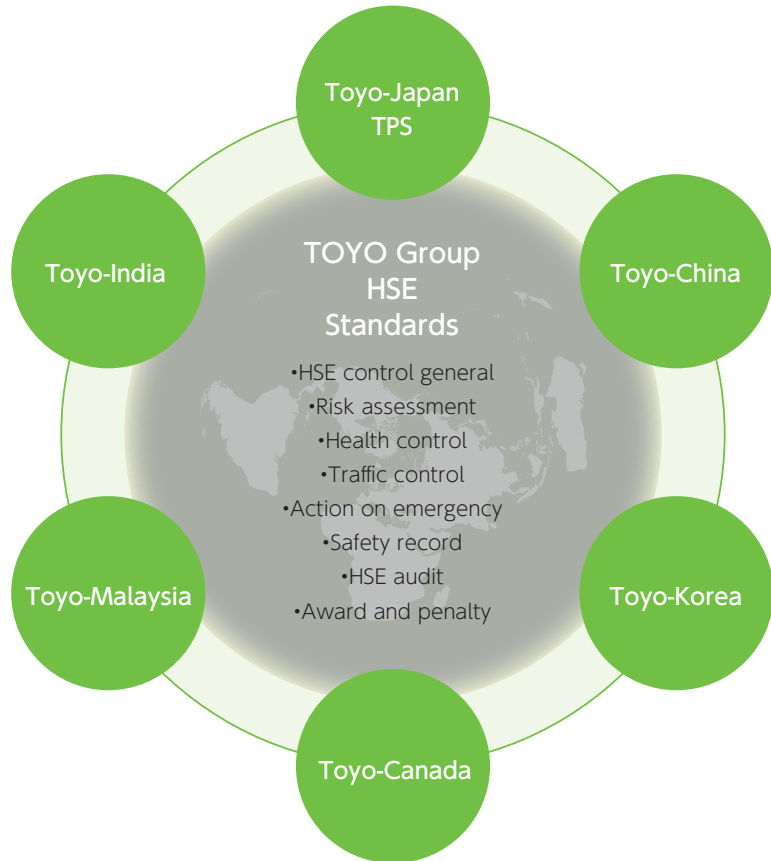


Total Recordable Incident Rate (TRIR)



## Safety Management Rules

TOYO has established unified rules (TOYO Group HSE Standards) to ensure that safety management is implemented at the same level, irrespective of country and region, throughout TOYO group companies.



## TOYO Group Safety Meeting

The designated heads of HSSE at TOYO group companies 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)



Held in 2016 at Toyo-Malaysia

## 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.

### Major Campaign Programs

1. President Message
2. Introduction of site safety
3. Lectures on lifestyle-related diseases
4. Safety assessment training
5. Distribution of information on overseas safety measures
6. Morning radio exercise
7. Introduction of campaigns at group companies
8. Display of posters, banners and panels
9. Safety awards



Firefighting demonstration



Rescue training at group company



Evacuation drill at group company



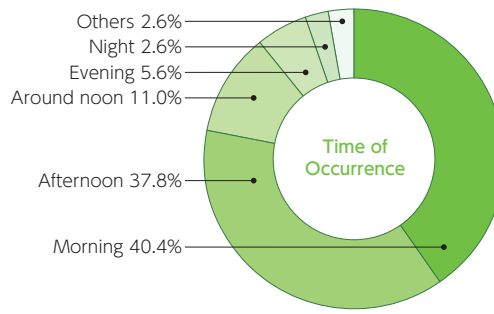
Periodic community cleanup campaigns run by construction workers



## Near-miss

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

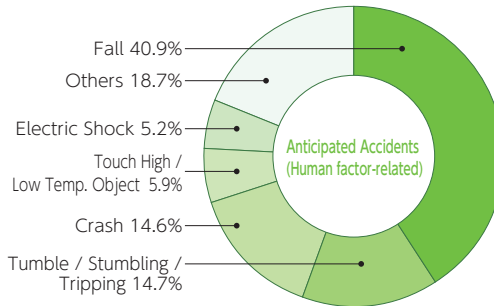
TOYO is proactively collecting the near-miss data at sites, analyzing it, and utilizing the results in our safety management to prevent accidents. Data on 9,844 near-miss occurrences was collected from 2008 to December 2015 and analyzed. Major findings are as presented to the right:



### Focused on the morning hours:

#### Countermeasures

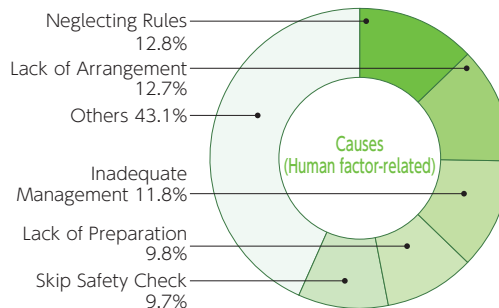
- Ensure conducting the morning meeting, TBM\*1 and KYK\*2 before work start.
- Make all workers aware of safety conditions at the workplace before work start.
- Check health conditions before work start.



### 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.

## Lessons Learned from Accidents — pinched

### Situation

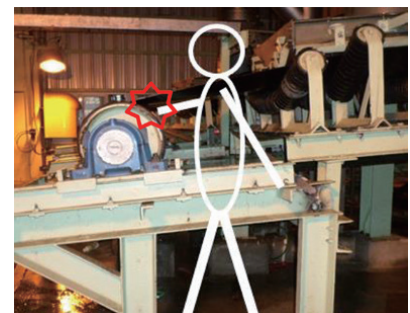
System started suddenly when adjusting conveyor tension. A worker's right arm was lodged in the belt.

### Causes

- Lack of communication between workers
- Inadequate guidelines to prevent malfunctions
- Machine not covered with protection cover
- Start-up alarm system not installed
- No supervision

### Countermeasures

- Strengthen communication between workers
- Prepare thorough guidelines to prevent malfunctions
- Protection cover device completely installed
- Installed start-up alarm system
- Ensure presence of supervisor during test operation



Considering that the preservation of the global environment and prevention of global warming are recognized as common issues facing all of humanity, TOYO has established the following philosophy:

- Contribute to 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.

In order to realize this philosophy, TOYO will continue actively resolving the environmental issues of our clients in the future.

## Applying Technology to Preserve the Environment

TOYO, by promoting the development, application and improvement of technologies that contribute to the preservation of the environment, offers the technology that best suits our clients and a variety of solutions that contribute to the preservation of the environment as well as the prevention of pollution.

### Photovoltaic Power Plant

TOYO has enhanced its development and promotion of social infrastructure projects.

As a result, as of March 2016, we have received orders for five mega solar photovoltaic power plant projects in Japan, which are currently under way. Renewable energy such as solar power is expected to play an increasingly important role from the viewpoint of preserving the global environment. TOYO will continue to work on photovoltaic power plant projects as part of its infrastructure business.

### Overview of Photovoltaic Power Plant Projects

Client	Site	Power Generation (MW)	Scheduled Completion Time
Pacifico Energy Kumenan G.K.	Kumenan City, Kume-gun, Okayama Prefecture, Japan	32	Spring of 2016
Pacifico Energy Mimasaka Musashi G.K.	Mimasaka City, Okayama Prefecture, Japan	42	Summer of 2016
Pacifico Energy Furukawa G.K.	Osaki City, Miyagi Prefecture, Japan	57	Winter of 2016
Pacifico Energy Hosoe G.K.	Miyazaki City, Miyazaki Prefecture, Japan	96	Spring of 2018
Setouchi Future Creations LLC (Setouchi Kirei Mirai-dukuri)	Setouchi City, Okayama Prefecture, Japan	231	Spring of 2019



Expected view at completion  
(Left: Miyazaki City's photovoltaic power generation, Right: Setouchi City's photovoltaic power generation)

## Efforts for Reducing Environmental Load

### Construction Waste Disposal

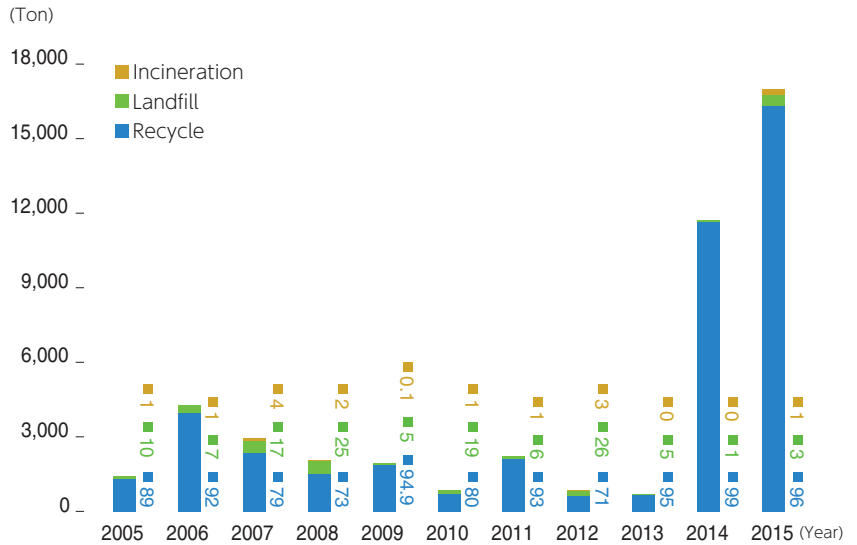
#### Project sites in Japan

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

For fiscal 2015, it was 96% recycle, 3% landfill and 1% incineration waste.

Recycled waste disposal increased in fiscal 2015 due to concrete waste and asphalt/concrete waste from civil engineering works for photovoltaic power generation.

Percentage of construction waste by disposal method



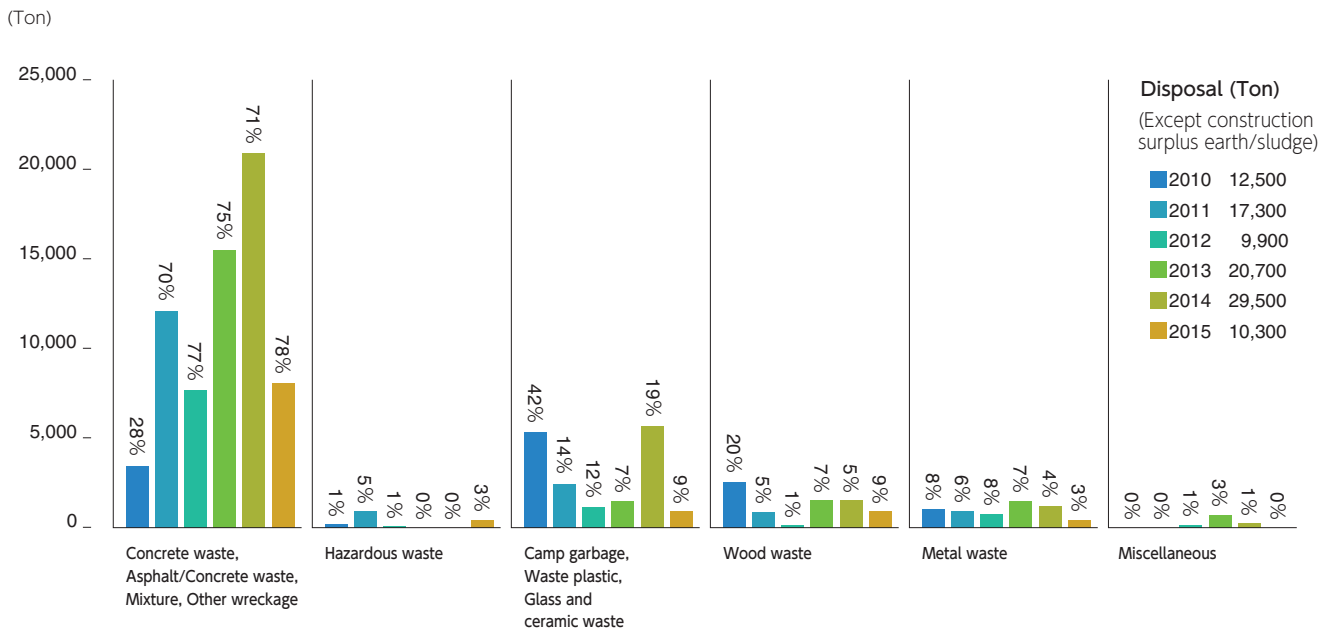
#### Overseas project sites

The total amount of construction waste disposal in calendar year 2015 at overseas project sites, excluding surplus soil/sludge, was 10,300 tons. Total waste disposal declined following completion 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)



## ISO Approval

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



ISO 9001: Certificate (unified accreditation, including major global subsidiaries)



ISO14001: Certificate



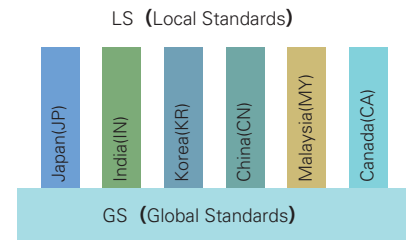
ISO 27001: Certificate

## 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.

## TOYO's Standards

TOYO has established unified standards used commonly with global subsidiaries as Global Standards (GS). We have continued to use them, as well as Local Standards (LS) specific to individual overseas group companies and improved TOYO's overall quality management. We will continue to further improve TOYO Standards while providing clients with reliable quality.



## SQE Training

We regularly hold new employee training, TOYO Academy classes for young and mid-level employees, quality management (QM) training for mid-level employees, and internal project quality manager training. We use common QM training materials and aim to improve TOYO's overall quality.



QM training

# Contribution to Society / Investor Relations

## Contribution to Society / IR activities

### TOYO's Social Contribution Activities

TOYO has been engaged in numerous overseas projects ever since winning a fertilizer plant construction contract in India in 1963—shortly after our establishment. As such, we have maintained deep ties with overseas businesses and have implemented various support activities.

#### Seminars for Technology Transfers

In response to requests from abroad, TOYO offers seminars related to project management, environmental technologies and other subject areas. Cooperating mainly with the business courses at the Japan Center of JICA (Japan International Cooperation Agency), we offer three-week technical training courses to approximately 50 trainees from private enterprises in the requesting countries. These courses have been offered in Kazakhstan, Uzbekistan, Malaysia, Vietnam, Indonesia, Myanmar, Mozambique and other countries.

#### Accepting 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 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.

In particular, 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.



### IR activities

We work to ensure effective communication with market participants and promote IR activities that reflect opinions of these participants in management. The following are the IR activities in the fiscal year ended March 2016.

#### ● Meeting for Analysts and Institutional Investors 【Twice】

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

#### ● Business Meeting for Analysts and Institutional Investors (Meetings held by Securities Companies) 【Twice】

Meetings during which the President explained the status of our business and management policies

#### ● Briefing for Analysts and Institutional Investors 【100 times】

Individual briefings for analysts and institutional investors

#### ● Published on the IR information homepage (updated as necessary)

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



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

To an engineering company, people are not simply human resources but are precious human capital capable of creating new value. Under this belief, TOYO has long used the term “human capital” instead of “human resources.” For human capital, high-level expertise and knowledge, excellent project management capability, sophisticated sense and leadership for global business are required in order to stand together with customers receiving our services and to provide services with added value that exceed what customers seek.

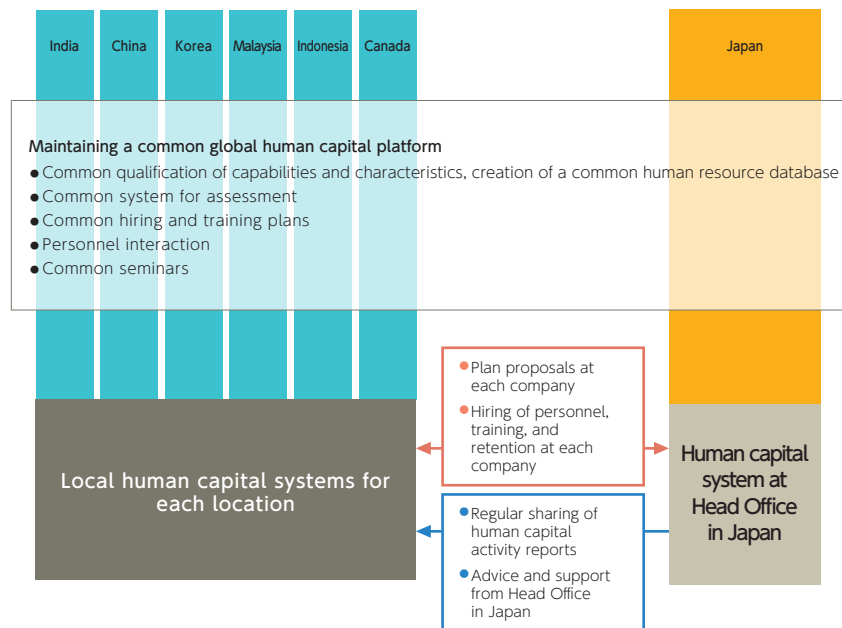
TOYO has fully prepared comprehensive stratified development systems and training programs in order to cultivate a great deal of talented human capital capable to meet these requirements. We also support the growth of our employees by creating opportunities for them to actively challenge new things.

For the realization of these initiatives, TOYO has a Human Capital Development Committee directly under the President. It was created in 2003 to achieve three goals: (1) to create a group of human capital who can sophisticate the level of businesses and enhance competitive strength, (2) to realize improvements in employees’ work satisfaction and motivation, and (3) to energize the corporate culture. In the Committee, management policies and companywide issues are taken up in a timely manner, and training subjects that match the direction of our businesses are considered throughout the company.

Under the policy of promoting human capital development in all of TOYO, we plan to expand systems and programs in Toyo-Japan across the group in addition to individualized programs in each overseas group company.

### TOYO’s Human Capital Development

At TOYO, we believe that a combination of classroom learning and practical training, such as OJT (On the Job Training), is the best way to develop human capital. Classroom learning involves business knowledge and management skills and know-how, taught through stratified training. These trainings include new employees, young employees, newly appointed managers, middle managers, and next-generation management candidates. In practical training, we provide training opportunities to allow for our diversified personnel to be able to produce results anywhere in the world, including on-site workshops and OJT at our overseas group companies. Additionally, we have various and effective human capital development programs for cultivating the capabilities of our local employees at overseas group companies such as technical instruction from engineers sent from Toyo-Japan and personnel exchanges between group companies.



Human capital at local subsidiaries is basically left to each subsidiary, but the Head Office offers aggressive support through activities such as regularly holding human capital division head meetings as well as issuing human capital activity reports.

Ahead of utilizing human capital globally, we are making use of our human capital that can flourish locally.

### TOYO Academy

TOYO Academy is a seminar which enables participants to acquire not only principles but practical knowledge and know-how that can be learned from in-house instructors who are in front-line. The Academy serves as a place where senior engineers can pass on their experience, know-how, and our persistence in technologies to younger engineers. This also provides participants with opportunities to acquire knowledge that is unable to be experienced in own work, and foster awareness of seeking to optimize the overall project. With the intent of improving quality across the entire group, the TOYO Academy is being expanded from Japan to the overseas locations.



### OJT at Overseas Sites

Through OJT at overseas sites, young engineers experience fieldwork, such as construction and operations, at plant construction sites overseas. Accepting responsibility and working hands-on there is a valuable opportunity to apply the knowledge gained from work and training in Japan. Additionally, we offer practical OJT at our overseas group companies such as Toyo-Korea and Toyo-India, where trainees can acquire detailed engineering skills from employees at overseas group companies.



### TOYO Global Leaders Seminar

To cultivate personnel that can provide value on the global stage, we hold the "TOYO Global Leaders Seminar" on an annual basis, in which young employees from various locations, including Toyo-Japan, participate. Group discussions and group work are conducted by multinational teams including participants from Japan, China, South Korea, Malaysia, Indonesia, and India, with the intent of experiencing working together in a cross-cultural environment. Through this seminar, we aim to cultivate next-generation leaders that can produce results while recognizing individual differences.



Topic	Training personnel who can perform globally	Interview with a participant in global training
-------	---	---



**Proposal Manager,  
Toyo-India  
Girish.T. Sadalge**

As a Proposal Manager, my role is to prepare competitive proposals. It also involves communicating with customers and partners. Currently, I am responsible primarily for bidding of a joint project with a company out of TOYO Group.

TOYO is placing heavy emphasis on personnel development where various education programs are offered. A program in which I participated last year was targeted towards middle management of various Toyo Group Companies who will serve as the core of the TOYO Group in the future, and are expected to produce results when undertaking global work. This program focused on the importance of understanding cultural differences when members from different countries work together. Program also showcased an example of a failed project caused due to misunderstanding arose from cultural differences, and case studies for issue resolution via constructive dialogue. I learned about things those should be considered for an organization to function and also about synergies that can be created. Recently, I tried to put these learnings into practice while interacting with partner in a recent bidding project, and as a result, our proposal to the client was highly regarded.

Moving forward, I would like to see the proposal for which I am responsible gets converted into a project and become a member of its execution team. In future, I aim to assume a position where I can participate in important decision-making for TOYO.

# Management's Discussion and Analysis

## Business Overview

Under conditions in which the outlook for future investment plans remains unclear due to the effects of a decline in crude oil prices, capital expenditures in petrochemicals and chemical fertilizers maintained solid ground, and investment trends in infrastructure equipment such as power generation and transportation were strong. Amid such circumstances, TOYO worked as a group in sales activities and project execution. As a result, concerning orders booked, we received new orders for projects such as an ethylene plant in the U.S., natural

gas-fired cogeneration power plant projects in Thailand, a chemical fertilizer complex in India, a synthetic rubber plant in Indonesia, a complete railway system and track construction in Indonesia, and a mega solar project in Furukawa. Meanwhile, progress was seen in project execution overseas, such as oil sands facilities in Canada, an ethylene complex project in Malaysia, a gas chemical complex in Turkmenistan, and oil refinery modernization in Russia. In Japan, mega solar projects among others were making progress.

## Consolidated Financial Results

Net sales	¥299.8 billion	(Down 3.7% year on year)
Operating income	¥11.0 billion	(Previous fiscal year: Operating loss of ¥7.3 billion)
Ordinary income	¥3.8 billion	(Previous fiscal year: Ordinary loss of ¥25.2 billion)
Net Income (Loss)	¥3.0 billion	(Previous fiscal year: Loss attributable to owners of parent of ¥20.9 billion)
New orders	¥443.5 billion	(Down 5.7% year on year)
Cash dividends	¥4.00 per share	(Annual)

## Fiscal 2015 Performance Outline

In fiscal 2015, net sales were ¥299.8 billion, down 3.7% year on year; operating income was ¥11.0 billion, compared to an operating loss of ¥7,356 million in the previous fiscal year, due to improvements at profitability in certain projects and reduction of selling, general and administrative expenses. Despite recording non-operating income of ¥2.0 billion including ¥0.7 billion in foreign exchange gains, equity in losses of affiliates of ¥8.2 billion was recorded in connection with a wholly owned subsidiary of our joint venture TS Participações e Investimentos S.A. (TSPI); hence ordinary income was ¥3.8

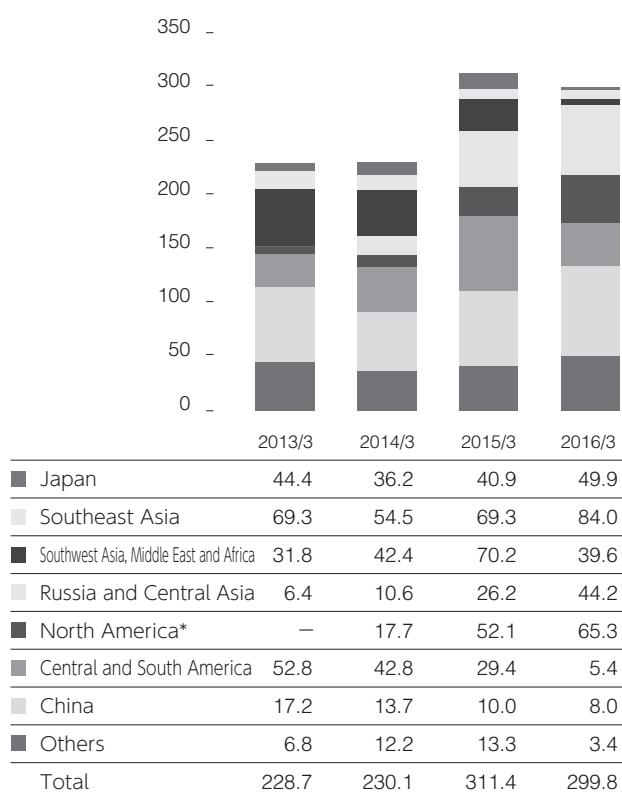
billion, compared to an ordinary loss of ¥25.2 billion in the previous fiscal year. Additionally, due to extraordinary income of ¥4.8 billion from sales of stock and sales of real estate and recording ¥5.6 billion in income taxes, etc., net income was ¥3.0 billion, compared to a loss attributable to owners of the parent of ¥20.9 billion in the previous fiscal year. New orders received were ¥113.5 billion higher than the target at ¥443.5 billion (down 5.7% year on year) and backlog of contracts rose to a record high of ¥823.0 billion (up 24.9% year on year) in fiscal 2015.



## Net sales

### Breakdown by region

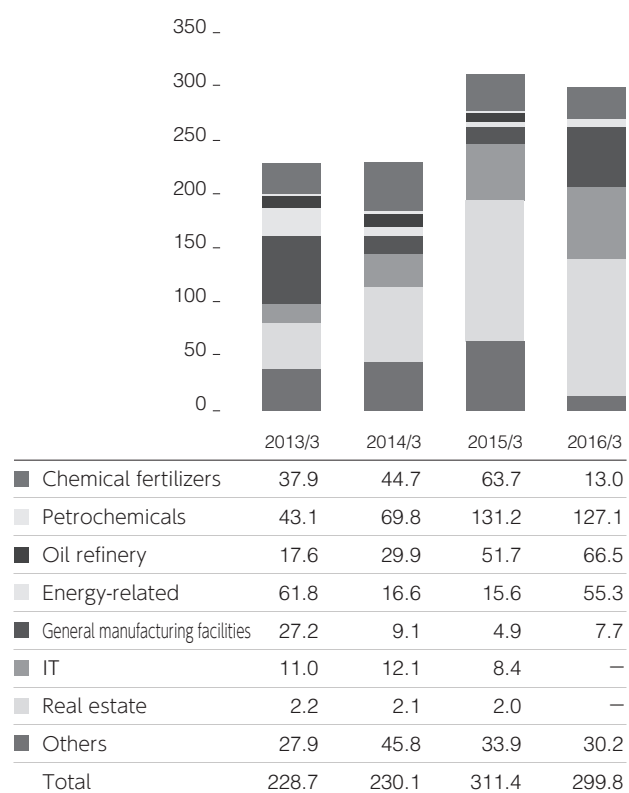
(¥ billion)



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

### Breakdown by segment details

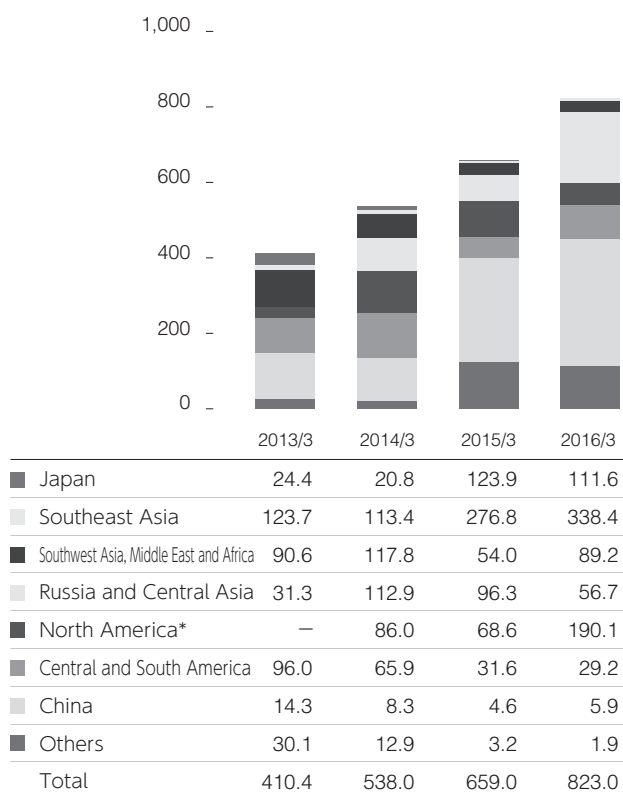
(¥ billion)



## Backlog of contracts

### Breakdown by region

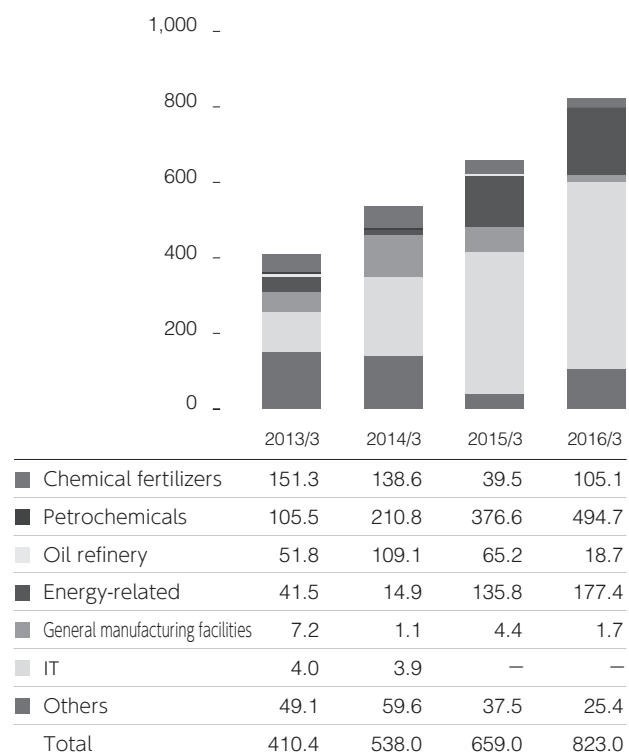
(¥ billion)



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

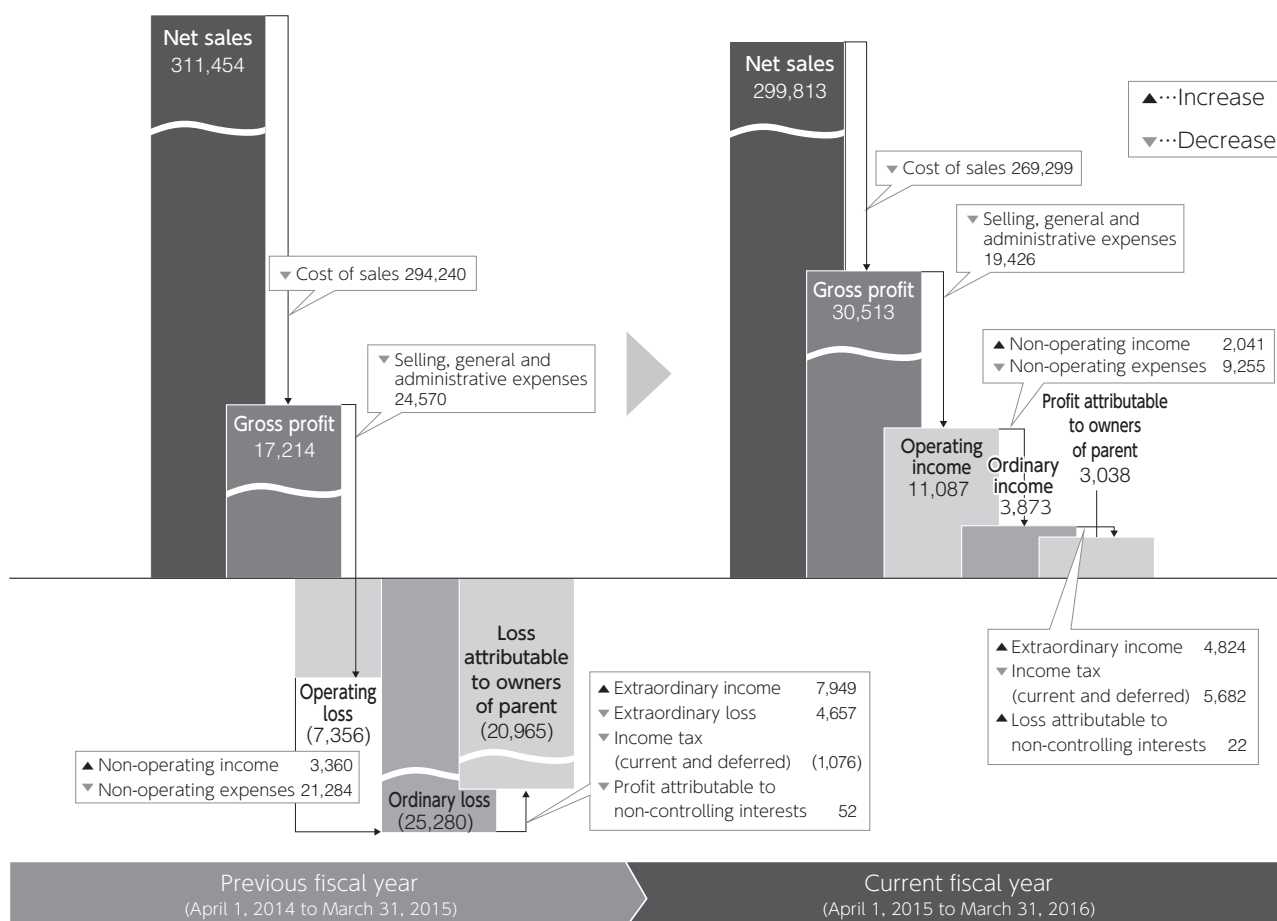
### Breakdown by segment details

(¥ billion)



## Consolidated Statement of Income Summary

(¥ million)



Net cash provided by operating activities was ¥46.3 billion, compared to net cash used in operating activities of ¥4.1 billion in the previous fiscal year. While an increase in costs on uncompleted construction contracts caused a ¥21.3 billion deficit, the recording of ¥8.6 billion profit before income taxes (compared to a loss before income taxes of ¥21.9 billion in the previous fiscal year) and increase in advances received on uncompleted construction contracts owing to progress in large-scale projects led to a surplus of ¥70.2 billion. In cash flows from investing activities, there was a net cash used in investing activities of ¥11.7 billion, compared to a net cash provided by investing activities of ¥9.5 billion in

the previous fiscal year. Despite an increase to ¥4.9 billion in proceeds from sales of property, plant and equipment, there was a decrease in short-term loans receivable to equity method affiliates to ¥18.5 billion.

Net cash provided by financing activities was ¥1.0 billion, compared to a net cash used in financing activities of ¥14.3 billion in the previous fiscal year, as long-term loans payable, etc., were higher after the repayment of existing payables.

As a result, cash and cash equivalents at end of period increased by ¥33.6 billion from the beginning of period, to ¥124.1 billion. This total includes ¥5.6 billion received on deposit from our joint venture construction work project.

## Consolidated Statement of Cash Flows Summary

(¥ million)

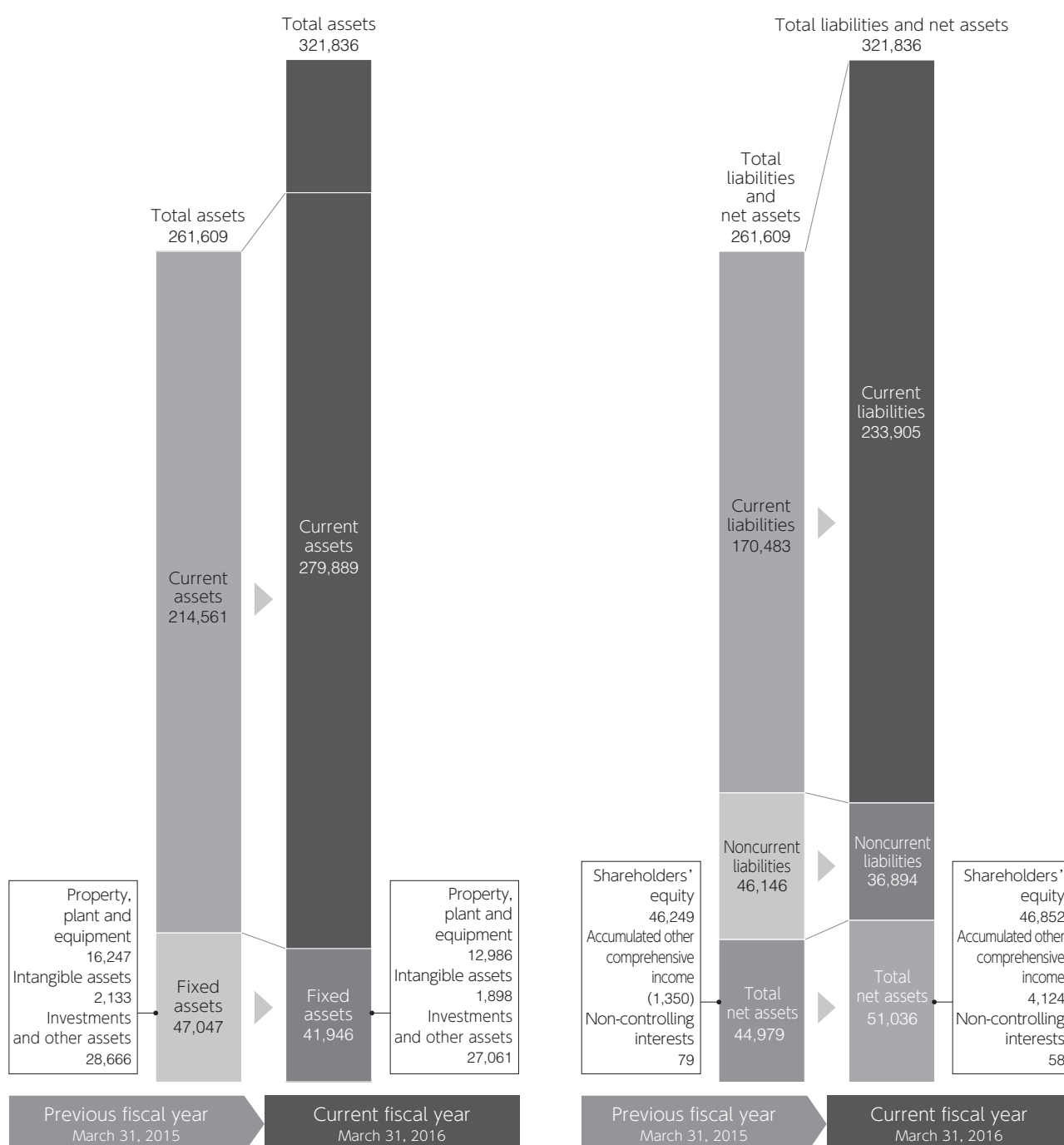
	Cash flows From Operating activities	Cash flows used in investing activities	Cash flows from financing activities	Effect of exchange rate change on cash and cash equivalents	Cash and cash equivalents at end of period
Cash and cash equivalents at beginning of period	90,462				
	46,376	(11,776)	1,099	(2,035)	124,125
Current fiscal year (April 1, 2015 to March 31, 2016)					

Total assets increased ¥60.2 billion year on year, to ¥321.8 billion. The main cause was deposits from customers and an increase in cash and deposits due to the sale of assets, in addition to an increase in costs on uncompleted construction contracts due to progress in large-scale projects, leading to an increase of ¥65.3 billion in current assets, and a decline in non-current assets of ¥5.1 billion, mainly attributed to a decrease in property, plant and equipment caused of factors such as transfers of ownership for some real estate. Total liabilities were up ¥54.1 billion year on year to ¥270.7 billion, the result of an increase of ¥63.4 billion

in current liabilities caused primarily by an increase in advances received on uncompleted construction contracts due to progress in large-scale projects, as well as a decrease of ¥9.2 billion in non-current liabilities. Net assets were up ¥6.0 billion year on year to ¥51.0 billion, due to recording of profit attributable to owners of parent and a decrease of deferred losses on hedges from the effects of foreign exchange fluctuations. Additionally, the capital adequacy ratio declined by 1.4 points year on year to 15.8%, mainly due to an increase in total assets.

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. The year-end dividend for fiscal 2015 was ¥4.00 per share as announced at the beginning of the period.

## Fiscal 2016 Performance Forecast Outline (Consolidated)

Net sales	¥450.0 billion
Operating income	¥12.5 billion
Ordinary income	¥10.5 billion
Profit attributable to owners of parent	¥5.0 billion
New orders	¥250.0 billion
Cash dividends	¥6.00 per share

## Forecast for Fiscal 2016

In fiscal 2016, in TOYO's core plant market, although restraints in the global large-scale upstream investment can be seen due to the effects of a decline in crude oil prices, conversely, TOYO expects an outlook where capital investment in plants in areas such as petrochemicals and chemical fertilizers will remain on solid ground, back by the expanded demand for energy, materials, and foodstuffs in emerging markets. Additionally, in the infrastructure field, demand is predicted for the coal-fired power plants and mega-solar projects, and in the natural resources and energy field, inquiries are being fielded for service work ahead of future upstream development investment.

Taking these factors into account, TOYO has set its goal for new orders in fiscal 2016 at ¥250.0 billion, which is ¥100.0 billion lower than the ¥350.0 billion target for the second year of the Revival Plan announced in May 2015,

in consideration of an excess of ¥113.5 billion over the target of ¥330.0 billion in actual orders received for the first year of the Revival Plan in fiscal 2015, and outstanding orders of over ¥800.0 billion.

Looking at performance in fiscal 2016 while speculating for new orders, the current backlog of contracts and the progress of projects in the future, TOYO expects net sales of ¥450.0 billion, operating income of ¥12.5 billion, ordinary income of ¥10.5 billion, and profit attributable to owners of parent of ¥5.0 billion.

In order to achieve these targets, the group intends to continue with its aim to bolster profitability while improving its financial standing, working across the Company to regain the trust of stakeholders as soon as possible.

# Business Risk and Other Risks

---

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 Chief Compliance Officer (CCO) 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.

# Consolidated Financial Statements

## Consolidated Balance Sheets

Toyo Engineering Corporation and Consolidated Subsidiaries March 31, 2016 and 2015

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>Current assets:</b>			
Cash and deposits (Note 16)	¥126,815	¥ 90,753	\$1,126,043
Notes receivables, accounts receivable from completed construction contracts	78,261	62,556	694,912
Short-term investment securities (Note 19)	998	2,354	8,861
Costs on uncompleted construction contracts (Note 7)	54,418	33,744	483,200
Deferred tax assets (Note 22)	3,536	2,928	31,397
Accounts receivable-other	12,535	15,474	111,303
Other	4,925	8,738	43,731
Allowance for doubtful accounts	(1,601)	(1,988)	(14,215)
Total current assets	279,889	214,561	2,485,251
<b>Property, plant and equipment :</b>			
Buildings and structures (Note 4)	16,299	16,574	144,725
Machinery, vehicles, tools, furniture and fixtures	5,274	5,680	46,830
Land (Note 4)	6,944	9,398	61,658
Lease assets	197	291	1,749
Construction in progress	6	8	53
Accumulated depreciation and impairment loss	(15,735)	(15,705)	(139,717)
Total property, plant and equipment	12,986	16,247	115,308
<b>Intangible assets:</b>			
Goodwill	5	6	44
Other	1,893	2,126	16,808
Total intangible assets	1,898	2,133	16,853
<b>Investment and other assets:</b>			
Investment securities (Note 3, 19)	21,470	18,702	190,641
Long-term loans receivable	4,575	4,580	40,623
Deferred tax assets (Note 22)	1,168	5,559	10,371
Other (Note 3)	4,502	4,175	39,975
Allowance for doubtful accounts	(4,654)	(4,351)	(41,324)
Total investments and other assets	27,061	28,666	240,285
Total non-current assets	41,946	47,047	372,456
<b>Total assets</b>	<b>¥321,836</b>	<b>¥261,609</b>	<b>\$ 2,857,716</b>

See notes to consolidated financial statements.

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>Current liabilities :</b>			
Notes payable, accounts payable for construction contracts and other	¥ 85,653	¥ 86,007	\$ 760,548
Short-term loans payable (Note 4, 6)	13,793	8,233	122,473
Income taxes payable	1,928	472	17,119
Advances received on uncompleted construction contracts	112,994	44,288	1,003,320
Provision for bonuses	724	555	6,428
Provision for warranties for completed construction	67	123	594
Provision for loss on construction contracts (Note 7)	1,404	3,924	12,466
Forward exchange contracts	7,316	15,373	64,961
Other	10,021	11,505	88,980
Total current liabilities	233,905	170,483	2,076,940
<b>Non-current liabilities:</b>			
Long-term loans payable (Note 4, 6)	18,764	23,604	166,613
Lease obligations	52	64	461
Deferred tax liabilities (Note 22)	835	9	7,414
Net defined benefit liability (Note 21)	5,732	4,693	50,896
Provision for loss on business of subsidiaries and affiliates	458	508	4,066
Liabilities from application of equity method	9,288	15,447	82,472
Other	1,762	1,818	15,645
Total non-current liabilities	36,894	46,146	327,597
Total liabilities	270,799	216,630	2,404,537
<b>Net assets:</b>			
<b>Shareholders' equity</b>			
Capital stock (Note 15)	18,198	18,198	161,587
Capital surplus	17,656	20,759	156,774
Retained earnings	11,433	7,724	101,518
Treasury stock	(436)	(432)	(3,871)
Total shareholders' equity	46,852	46,249	416,018
<b>Accumulated other comprehensive income:</b>			
Valuation difference on available-for-sale securities	3,862	2,299	34,292
Deferred gains or losses on hedges	(4,761)	(9,717)	(42,274)
Foreign currency translation adjustment	4,936	4,759	43,828
Remeasurements of defined benefit plans	87	1,308	772
Total accumulated other comprehensive income	4,124	(1,350)	36,618
<b>Non-controlling interests</b>	58	79	515
<b>Total net assets</b>	51,036	44,979	453,169
<b>Contingent liabilities (Note 5)</b>			
<b>Total liabilities and net assets</b>	¥321,836	¥261,609	\$2,857,716

## Consolidated Statements of Income

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>Net sales</b>	<b>¥299,813</b>	¥311,454	<b>\$2,662,164</b>
<b>Cost of sales (Note 9, 10)</b>	<b>269,299</b>	294,240	<b>2,391,218</b>
Gross profit	<b>30,513</b>	17,214	<b>270,937</b>
<b>Selling, general and administrative expenses (Note 8, 9)</b>	<b>19,426</b>	24,570	<b>172,491</b>
<b>Operating income (loss)</b>	<b>11,087</b>	(7,356)	<b>98,446</b>
<b>Non-operating income :</b>			
Interest income	<b>585</b>	939	<b>5,194</b>
Dividends income	<b>308</b>	160	<b>2,734</b>
Foreign exchange gains	<b>735</b>	388	<b>6,526</b>
Reversal of allowance for doubtful accounts	<b>75</b>	1,218	<b>665</b>
Miscellaneous income	<b>337</b>	652	<b>2,992</b>
Total non-operating income	<b>2,041</b>	3,360	<b>18,122</b>
<b>Non-operating expenses :</b>			
Interest expenses	<b>356</b>	740	<b>3,161</b>
Equity in losses of affiliates	<b>8,281</b>	19,712	<b>73,530</b>
Miscellaneous expenses	<b>617</b>	831	<b>5,478</b>
Total non-operating expenses	<b>9,255</b>	21,284	<b>82,179</b>
<b>Ordinary income (loss)</b>	<b>3,873</b>	(25,280)	<b>34,389</b>
<b>Extraordinary income :</b>			
Gain on sales of property, plant and equipment (Note 11)	<b>2,502</b>	6,175	<b>22,216</b>
Gain on sales of investment securities	<b>1,442</b>	—	<b>12,804</b>
Gain on sales of shares of subsidiaries and affiliates	<b>880</b>	—	<b>7,813</b>
Gain on sales of shares of subsidiaries	—	908	—
Gain on sales of investments in capital of subsidiaries and affiliates	—	98	—
Reversal of reserve for repairs	—	766	—
Total extraordinary income	<b>4,824</b>	7,949	<b>42,834</b>
<b>Extraordinary loss :</b>			
Loss on sales of property, plant and equipment (Note 12)	—	138	—
Amortization of goodwill (Note 13)	—	1,453	—
Loss on sales of shares of subsidiaries	—	2,522	—
Loss on valuation of shares of subsidiaries	—	34	—
Provision for loss on business of subsidiaries and affiliates	—	508	—
Total extraordinary loss	—	4,657	—
<b>Profit (loss) before income taxes</b>	<b>8,697</b>	(21,989)	<b>77,224</b>
Income taxes-current	<b>2,596</b>	1,203	<b>23,050</b>
Income taxes-deferred	<b>3,085</b>	(2,279)	<b>27,393</b>
Total income taxes	<b>5,682</b>	(1,076)	<b>50,452</b>
<b>Profit (loss)</b>	<b>3,015</b>	(20,913)	<b>26,771</b>
<b>Profit (loss) attributable to :</b>			
Non-controlling interests	<b>(22)</b>	52	<b>(195)</b>
Owners of parent (Note 25)	<b>¥ 3,038</b>	¥(20,965)	<b>\$ 26,975</b>

See notes to consolidated financial statements.



## Consolidated Statements of Comprehensive Income

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>Profit (loss)</b>	<b>¥3,015</b>	¥(20,913)	<b>\$26,771</b>
<b>Other comprehensive income:</b>			
Valuation difference on available-for-sale securities	<b>1,563</b>	1,010	<b>13,878</b>
Deferred gains or losses on hedges	<b>3,064</b>	(7,660)	<b>27,206</b>
Foreign currency translation adjustment	<b>(1,418)</b>	1,587	<b>(12,591)</b>
Remeasurements of defined benefit plans	<b>(1,221)</b>	613	<b>(10,841)</b>
Share of other comprehensive income of affiliates accounted for using equity method	<b>3,489</b>	(172)	<b>30,980</b>
Total other comprehensive income	<b>5,477</b>	(4,621)	<b>48,632</b>
<b>Comprehensive income (Note 14)</b>	<b>¥8,492</b>	¥(25,534)	<b>\$75,404</b>
<b>Comprehensive income attributable to :</b>			
Owners of parent	<b>8,513</b>	(25,593)	<b>75,590</b>
Non-controlling interests	<b>(21)</b>	58	<b>(186)</b>

See notes to consolidated financial statements.

## Consolidated Statements of Changes in Net Assets (Note 15)

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2016 and 2015

Millions of yen										
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remesurements of defined benefit plans	Non-controlling interests	Total net assets
Balance at April 1, 2014	¥18,198	¥20,759	¥31,546	¥(408)	¥1,288	¥(1,133)	¥2,427	¥695	¥1,458	¥74,831
Cumulative effects of changes in accounting policies			(1,514)							(1,514)
Balance at beginning of year applied the change in accounting policies	18,198	20,759	30,032	(408)	1,288	(1,133)	2,427	695	1,458	73,317
Dividends from surplus			(1,342)							(1,342)
Loss attributable to owners of parent			(20,965)							(20,965)
Purchase of treasury stock				(23)						(23)
Net changes of items other than shareholders' equity					1,010	(8,584)	2,332	613	(1,378)	(6,006)
Balance at March 31, 2015	¥18,198	¥20,759	¥7,724	¥(432)	¥2,299	¥(9,717)	¥4,759	¥1,308	¥79	¥44,979

Millions of yen										
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remesurements 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

Thousands of U.S. dollars (Note 1)										
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remesurements of defined benefit plans	Non-controlling interests	Total net assets
Balance at April 1, 2015	\$161,587	\$184,327	\$68,584	\$(3,835)	\$20,413	\$(86,281)	\$42,257	\$11,614	\$701	\$399,387
Reversal of capital surplus		(27,543)	27,543							—
Profit attributable to owners of parent			26,975							26,975
Change of scope of equity method			(21,585)							(21,585)
Purchase of treasury stock				(26)						(26)
Changes of items other than shareholders' equity					13,878	44,006	1,571	(10,841)	(186)	48,428
Balance at March 31, 2016	\$161,587	\$156,774	\$101,518	\$(3,871)	\$34,292	\$(42,274)	\$43,828	\$772	\$515	\$453,169

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Toyo Engineering Corporation and Consolidated Subsidiaries Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>Cash flows from operating activities:</b>			
Profit (loss) before income taxes	¥8,697	¥(21,989)	\$77,224
Depreciation and amortization	1,532	2,489	13,603
Amortization of goodwill	(9)	1,686	(79)
Increase (decrease) in allowance for doubtful accounts	(84)	(1,363)	(745)
Increase (decrease) in net defined benefit liability	(1,020)	2,127	(9,057)
Increase (decrease) in provision for loss on construction contracts	(2,514)	409	(22,322)
Interest and dividends income	(893)	(1,100)	(7,929)
Interest expenses	356	740	3,161
Foreign exchange losses (gains)	(100)	584	(887)
Loss (gain) on sales of property, plant and equipment	(2,501)	(6,157)	(22,207)
Equity in (earnings) losses of affiliates	8,281	19,712	73,530
Loss (gain) on sales of investment securities	(1,442)	(20)	(12,804)
Loss (gain) on sales of shares of subsidiaries	—	1,613	—
Loss (gain) on sales of shares of subsidiaries and affiliates	(880)	—	(7,813)
Loss (gain) on valuation of shares of subsidiaries	—	34	—
Decrease (increase) in notes receivable, accounts receivable from completed construction contracts	(17,637)	(13,986)	(156,606)
Decrease (increase) in costs on uncompleted construction contracts	(21,300)	529	(189,131)
Decrease (increase) in accounts receivable-other	2,154	(1,738)	19,126
Increase (decrease) in notes and accounts payable-trade	1,481	29,353	13,150
Increase (decrease) in advances received on uncompleted construction contracts	70,293	(14,039)	624,160
Increase (decrease) in reserve for repairs	—	(685)	—
Increase (decrease) in provision for loss on business of subsidiaries and affiliates	(50)	508	(443)
Other, net	102	(2,659)	905
Subtotal	44,465	(3,952)	394,823
Interest and dividends income received	2,782	2,059	24,702
Interest expenses paid	(351)	(767)	(3,116)
Income taxes paid	(519)	(1,532)	(4,608)
Net cash provided by (used in) operating activities	46,376	(4,192)	411,791
<b>Cash flows from investing activities:</b>			
Net decrease (increase) in time deposits	(512)	(528)	(4,546)
Purchase of property, plant and equipment	(281)	(575)	(2,495)
Proceeds from sales of property, plant and equipment	4,988	17,022	44,290
Purchase of intangible assets	(581)	(903)	(5,158)
Purchase of investment securities	(3)	(274)	(26)
Proceeds from sales of investment securities	2,358	38	20,937
Proceeds from sales of shares of subsidiaries and affiliates	1,661	—	14,748
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	—	(196)	—
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	—	852	—
Net decrease (increase) in short-term loans receivable	(18,527)	(5,554)	(164,508)
Other, net	(878)	(291)	(7,796)
Net cash provided by (used in) investing activities	(11,776)	9,587	(104,564)
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term loans payable	532	(2,608)	4,723
Proceeds from long-term loans payable	6,685	1,800	59,358
Repayment of long-term loans payable	(6,059)	(11,877)	(53,800)
Repayment of finance lease obligations	(55)	(243)	(488)
Cash dividends paid	—	(1,342)	—
Other, net	(3)	(69)	(26)
Net cash provided by (used in) financing activities	1,099	(14,341)	9,758
<b>Effect of exchange rate change on cash and cash equivalents</b>	<b>(2,035)</b>	<b>2,473</b>	<b>(18,069)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>33,663</b>	<b>(6,472)</b>	<b>298,907</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>90,462</b>	<b>96,934</b>	<b>803,249</b>
<b>Cash and cash equivalents at the end of period (Note 16)</b>	<b>¥124,125</b>	<b>¥90,462</b>	<b>\$1,102,157</b>

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Toyo Engineering Corporation and Consolidated Subsidiaries

## 1. BASIS OF PREPARATION

Toyo Engineering Corporation (the "Company") and its domestic consolidated subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its overseas consolidated subsidiaries maintain their books of account in conformity with those of their respective countries of domicile. The accompanying consolidated financial statements have been compiled from the accounts prepared by the Company in accordance with the provisions set forth in the Financial Instruments and Exchange Law of Japan and with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. Certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan.

For the convenience of readers, the accompanying consolidated financial statements and the relevant notes have also been presented in U.S. dollars by translating all Japanese yen amounts at the exchange rate of ¥112.62 to U.S.\$1.00 prevailing on March 31, 2016.

## 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, 2016, 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 twenty years on a straight-line basis.

### (b) Securities

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

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

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

### (c) Derivative Financial Instruments

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

Deferral hedge accounting is adopted for derivatives which is 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 manages its derivative transactions in accordance with its internal "Policies and Procedures for Risk Management."

### (d) Costs on Uncompleted Construction Contracts

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

**(e) Depreciation and Amortization**

Depreciation of property, plant and equipment is principally computed by the declining-balance method based on the estimated useful lives of the assets.

However, buildings and rental properties acquired after April 1, 1998 are depreciated on a straight-line method.

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

Buildings and structures: 3 to 50 years

Machinery, vehicles, tools, furniture and fixtures: 2 to 20 years

Amortization of intangible assets of the Company and its consolidated subsidiaries is calculated principally by straight line 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 are provided with tax effect at remeasurements of defined benefit plans under total 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 accounts of foreign subsidiaries and affiliates 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 three months or less to be cash equivalents.

**(p) Consumption Tax**

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

**(q) Consolidated Tax Return**

The Company files a consolidated tax return with 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**

Net income per share is computed based on the weighted average number of shares outstanding during each year. Diluted net income per share is not presented since there was no potential for dilution by the issuance of common stock. Total net assets per share is computed based on outstanding shares at the balance sheet date.

**(u) Research and Development Costs**

Research and development costs are charged to income when incurred.

**(Accounting change)**

The "Revised Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013, hereinafter referred to as the "Business Combinations Accounting Standards"), the "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013, hereinafter referred to as the "Consolidated Financial Statements Accounting Standard"), and the "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013, hereinafter referred to as the "Business Divestitures Accounting Standard") became applicable from the fiscal year ended March 31, 2016. As a result, for subsidiaries the Company continues to control, differences arising from changes in its ownership interests are entered in capital surplus, and costs associated with the acquisition of shares are now treated as expenses in the fiscal year in which they are incurred. In addition, for business combinations that are implemented on and after the beginning of the fiscal year ended March 31, 2016, the allocation of the cost of acquisitions, as determined after review of provisional accounting treatment, is reflected in the consolidated financial statements for the period in which the business combination took place. Additionally, the Company has changed the method of presenting consolidated net income and changed minority interests in income to the non-controlling interests item. To reflect these changes, the Company has reclassified the consolidated financial statements for the previous fiscal year.

Regarding the application of the Business Combinations Accounting Standards, the Company has applied the provisional accounting treatment contained in Business Combination Accounting Standard 58-2 (4), Consolidated Financial Statements Accounting Standard 44-5 (4), and Business Divestitures Accounting Standard 57-4 (4) and will apply these standards from the beginning of the fiscal year ended March 31, 2016.

In the consolidated statements of cash flows effective for the fiscal year ended March 31, 2016, the following changes were made in the method of classification. Cash flows related to purchases or sales of shares of subsidiaries that do not result in a change in the scope of consolidation have been included in "Cash flows from financing activities." Cash flows related to expenses arising due to purchases of shares of subsidiaries that result in a change in the scope of consolidation or cash flows related to expenses due to purchases or sales of shares of subsidiaries that do not result in a change of the scope of consolidation have been included in "Cash flows from operating activities."

There was no impact on the consolidated financial statements and per share information for the fiscal year ended March 31, 2016 as a result of these changes.

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

Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2015)

**(1) Overview**

While the accounting treatment on recoverability of deferred tax assets basically follows the framework of the Auditing Treatment Regarding Judgment of the Recoverability of Deferred Tax Assets outlined in the Japanese Institute of Certified Public Accountants (JICPA) Industry Audit Committee Statement No. 66, i.e. a framework for estimating deferred tax assets by classifying entities into five categories and calculating the amount according to those categories, it has made the following necessary revisions on treatment.

- (i) Accounting treatments for entities not satisfying any of the category criteria from (Category 1) to (Category 5).
- (ii) Category criteria of (Category 2) and (Category 3).
- (iii) Accounting treatments for unscheduled deductible temporary differences for entities in (Category 2).
- (iv) Accounting treatments for reasonably estimated period for taxable income before temporary differences for entities in (Category 3).
- (v) Accounting treatments for entities satisfying the category criteria of (Category 4) and also falling in (Category 2) or (Category 3).

**(2) Effective date**

The above revisions are scheduled to be applied from the beginning of the fiscal year ending March 31, 2017.

**(3) Effects of application of the implementation guidance**

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

### 3. INVESTMENTS AND OTHER ASSETS

Among investment securities and other in investment and other assets, the amounts of shares of unconsolidated subsidiaries and affiliates as of March 31, 2016 and 2015 are as follows:

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Investments and other assets			
Investment securities	¥11,441	¥10,347	\$101,589
Other	524	428	4,652

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

The following assets at March 31, 2016 and 2015 were pledged as collateral:

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Collateral			
Buildings	¥1,155	¥1,231	\$10,255
Land	1,186	1,186	10,530
Total	¥2,341	¥2,418	\$20,786

These assets were pledged for issuing the performance bonds. There is not any corresponding obligation as of March 31, 2016.

The following schedule shows the maturities of long-term loans payable subsequent to March 31, 2016:

Years ended March 31,	Millions of yen	Thousands of U.S. dollars
2017	¥9,793	\$86,956
2018	6,019	53,445
2019	4,756	42,230
2020	1,711	15,192
2021	5,267	46,767
2022 and thereafter	1,009	8,959

### 5. CONTINGENT LIABILITIES

For the year ended March 31, 2016

(Guarantee obligations and Guarantees)

Guaranteed parties	Millions of yen	Thousands of U.S. dollars	Details
ATLATEC,S.A.DE C.V.	¥ 400	\$ 3,551	Loan guarantee
Toyo Setal Empreendimentos Ltda.	2,325	20,644	Performance bond
Estaleiros do Brasil Ltda.	599	5,318	Payment guarantee
Other	79	701	Loan guarantee etc.
Total	¥3,405	\$30,234	

For the year ended March 31, 2015

(Guarantee obligations and Guarantees)

Guaranteed parties	Millions of yen	Details
ATLATEC,S.A.DE C.V.	¥ 180	Loan guarantee
Toyo Setal Empreendimentos Ltda.	2,764	Performance bond
Other	52	Loan guarantee etc.
Total	¥2,996	



## 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 nine trading banks.

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Commitment Line			
Amount of commitment line contract	¥26,646	¥20,011	\$236,600
Used amount	10,258	5,604	91,085
Balance of unused commitment line	¥16,387	¥14,406	\$145,507

## 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
	2016	2015	2016
Costs on uncompleted construction contracts	¥600	¥2,575	\$5,327

## 8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The main components of selling, general and administrative expenses for the years ended March 31, 2016 and 2015 are as follows:

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Salaries	¥9,195	¥11,048	\$81,646
Provision for bonuses	236	463	2,095
Retirement benefit expenses	957	874	8,497
Depreciation	549	530	4,874
Research and development costs	449	762	3,986

## 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, 2016 and 2015 amounted to ¥449 million ( \$3,986 thousand) and ¥762 million, respectively.

## 10. PROVISION FOR LOSS ON CONSTRUCTION CONTRACTS

Gross amount of increase in provision for loss on construction contracts as of March 31, 2016 and 2015 are as follows:

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Amount of provision for loss on construction contracts	¥1,110	¥3,389	\$9,856

## 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
	2016	2015	2016
Building and structures	¥ 393	¥ 461	\$ 3,489
Land	2,109	5,714	18,726
Total	¥2,502	¥6,175	\$22,215

## 12. LOSS 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
	2016	2015	2016
Land	¥ —	¥138	\$ —

## 13. AMORTIZATION OF GOODWILL

In accordance with Section 32 of “Practical Guidelines on Accounting Standard for Capital Consolidation Procedures in Preparing Consolidated Financial Statements” (JICPA Accounting Practice Committee Statement No.7, November 28, 2014), as write-down of its investment in a subsidiary being recognized, the Company recognized a full amortization of goodwill associated with the affiliate for the year ended March 31, 2015.

## 14. OTHER COMPREHENSIVE INCOME

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Valuation difference on available-for-sale securities:			
Amount arising during the year	¥3,648	¥ 1,387	\$32,392
Reclassification adjustments for gains and losses realized in net income	(1,442)	(20)	(12,804)
The amount of valuation on available-for-sale securities before tax effect	2,206	1,366	19,587
Tax effect	(642)	(356)	(5,700)
Valuation difference on available-for-sale securities	1,563	1,010	13,878
Deferred gains and losses on hedges:			
Amount arising during the year	4,254	(10,871)	37,773
Reclassification adjustments for gains and losses realized in net income	403	—	3,578
The amount of deferred gains and losses on hedges before tax effect	4,658	(10,871)	41,360
Tax effect	(1,593)	3,210	(14,144)
Deferred gains or losses on hedges	3,064	(7,660)	27,206
Foreign currency translation adjustments:			
Amount arising during the year	(1,139)	1,587	(10,113)
Reclassification adjustments for gains and losses realized in net income	(278)	—	(2,468)
The amount of foreign currency translation adjustment before tax effect	(1,418)	1,587	(12,591)
Tax effect	—	—	—
Foreign currency translation adjustment	(1,418)	1,587	(12,591)
Remeasurements of defined benefit plans adjustment:			
Amount arising during the year	(1,756)	973	(15,592)
Reclassification adjustments for gains and losses realized in net income	(76)	(89)	(674)
The amount of remeasurements of defined benefit plans adjustment	(1,832)	884	(16,267)
Tax effect	611	(270)	5,425
Remeasurements of defined benefit plans adjustment	(1,221)	613	(10,841)
Share of other comprehensive income of associates accounted for using equity method:			
Amount arising during the year	3,489	(172)	30,980
Total other comprehensive income	¥5,477	¥(4,621)	\$48,632

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

### 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 subsequent to the fiscal year ended March 31, 2017.

Date of approval	Resolution approved by	Paid from	Type of shares	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)	Amount par share (Yen)	Amount par share (U.S. dollars)	Shareholders' cut-off date	Effective date
June 29, 2016	Annual general meeting of shareholders	Capital Surplus	Common stock	766	6,801	4.0	0.03	March 31, 2016	June 30, 2016

For the year ended March 31, 2015

## (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
<b>Issued stock:</b>				
Common stock	192,792,539	—	—	192,792,539
Total	192,792,539	—	—	192,792,539
<b>Treasury stock:</b>				
Common stock	1,024,116	52,619	—	1,076,735
Total	1,024,116	52,619	—	1,076,735

Note : Treasury stock increased by 52,619 shares due to the purchase 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 par share (Yen)	Shareholders' cut-off date	Effective date
June 25, 2014	Annual general meeting of shareholders	Common stock	575	3.0	March 31, 2014	June 26, 2014
November 13, 2014	Board of directors	Common stock	766	4.0	September 30, 2014	December 1, 2014

## 16. 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, 2016 and 2015 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Cash and deposits	<b>¥126,815</b>	¥90,753	<b>\$1,126,043</b>
Time deposits with maturities over three months	<b>(2,689)</b>	(2,290)	<b>(23,876)</b>
Short-term investments with maturities within three months included in securities	—	1,999	—
Cash and cash equivalents	<b>¥124,125</b>	¥90,462	<b>\$1,102,157</b>

The amounts of assets and liabilities of Toyo Business Engineering Corporation, over which the Company lost control during the fiscal year ended March 31, 2015, the total consideration and net cash and cash equivalents received arising from the sales of shares are as follows:

	Millions of yen 2015
Current assets	¥3,709
Non-current assets	1,751
Current liabilities	(2,629)
Non-controlling interests	(1,387)
Company's interests after losing control	(917)
Gain on sales of shares	908
Total consideration received	1,435
Cash and cash equivalents of subsidiary over which control is lost	(583)
Net cash and cash equivalents received	¥ 852

The amounts of assets and liabilities of Tec Estate Corporation, over which the Company lost control during the fiscal year ended March 31, 2015, the total consideration and net cash and cash equivalents paid arising from the sales of shares are as follows:

	Millions of yen 2015
Current assets	¥ 787
Non-current assets	3,029
Current liabilities	(579)
Non-current liabilities	(292)
Loss on sales of shares	(2,522)
Total consideration received	423
Cash and cash equivalents of subsidiary over which control is lost	(619)
Net cash and cash equivalents paid	¥(196)

## 17. 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 followings are future minimum lease payments and receivables:

#### (b-1) Operating Leases (as Lessee)

Future minimum lease payments subsequent to March 31, 2016 and 2015 for noncancelable operating leases are summarized as follows:

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Within one year	¥ 704	¥493	\$ 6,251
Over one year	1,621	271	14,393
Total	¥2,326	¥765	\$20,653

## 18. FINANCIAL INSTRUMENTS

### For the year ended March 31, 2016

#### 1. Condition of Financial Instruments

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

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

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

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

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

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

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

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

#### 2 Fair Value of Financial Instruments

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

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

Millions of yen

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

(\*1) Notes receivable, accounts receivable from completed construction contracts and accounts receivable—other listed above are offset by the corresponding figures of allowance for doubtful accounts listed above.

(\*2) Net receivables and payables derived as a result of derivative transactions are presented. Values in parentheses show contra-asset account, net liabilities and unrealized loss.

At March 31, 2016	Thousands of U.S. dollars		
	Book value	Fair value	Unrealized gain / (loss)
(1)Cash and deposits	\$1,126,043	\$1,126,043	\$ —
(2)Notes receivable, accounts receivables from completed construction contracts	694,912		
Less: Allowance for doubtful accounts	(2,725)		
Notes receivable, accounts receivable from completed construction contracts, net	692,177	692,425	239
(3)Accounts receivables-other	111,303		
Less: Allowance for doubtful accounts	(710)		
Accounts receivable-other, net	110,584	110,593	9
(4)Short-term investment securities and investment securities			
Available-for-sale securities	81,690	81,690	—
Total of assets	2,010,513	2,010,752	239
(1)Notes and accounts payable for construction contracts and other	760,548	760,557	9
(2)Short-term loans payable	35,517	35,517	—
(3)Long-term loans payable (including current portion)	253,569	255,301	1,722
Total of liabilities	1,049,644	1,051,376	1,731
Derivatives			
not designated as hedging instruments	(1,003)	(1,003)	—
designated as hedging instruments	(57,520)	(57,520)	—
Total derivatives	\$ (58,533)	\$ (58,533)	\$ —

At March 31, 2015	Millions of yen		
	Book value	Fair value	Unrealized gain / (loss)
(1)Cash and deposits	¥90,753	¥90,753	¥ —
(2)Notes receivable, accounts receivables from completed construction contracts	62,556		
Less: Allowance for doubtful accounts (*1)	(98)		
Notes receivable, accounts receivable from completed construction contracts, net	62,457	62,453	(4)
(3)Accounts receivables-other	15,474		
Less: Allowance for doubtful accounts (*1)	(71)		
Accounts receivable-other, net	15,403	15,403	(0)
(4)Short-term investment securities and investment securities			
Held-to-maturity securities	1,999	1,999	(0)
Available-for-sale securities	6,748	6,748	—
Total of assets	177,362	177,357	(4)
(1)Notes and accounts payable for construction contracts and other	86,007	86,003	(4)
(2)Short-term loans payable	3,473	3,473	—
(3)Long-term loans payable (including current portion)	28,364	28,477	112
Total of liabilities	117,845	117,953	108
Derivatives (*2)			
not designated as hedging instruments	(136)	(136)	—
designated as hedging instruments	(11,826)	(11,826)	—
Total derivatives	¥(11,962)	¥(11,962)	¥ —

(\*1) Notes receivable, accounts receivable from completed construction contracts and accounts receivable—other listed above are offset by the corresponding figures of allowance for doubtful accounts listed above.

(\*2) Net receivables and payables derived as a result of derivative transactions are presented. Values in parentheses show contra-asset account, net liabilities and unrealized loss.



**(Note 1) Computational method and related issues****Assets****(1) Cash and deposits**

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

**(2) (3) Notes receivable, 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 the financial institution.

**Liabilities****(1) Notes payable, accounts payable for construction contracts and other**

Book values for items which are settled in a short-term are used as fair values of these items because they are nearly equal to such book values. Fair values of other items are based on the present value discounted by the proper discount rate coupled with period for settlement and credit risks.

**(2) Short-term loans payable**

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

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

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

**Derivative Transactions**

See "20. 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 (\$19,623 thousand) as of March 31, 2016 and ¥2,356 million as of March 31, 2015 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.

For the fiscal year ended March 31, 2016, ¥1 million (\$8 thousand) is recognized as impairment associated with unlisted securities.

**(Note 3) Redemption schedule for monetary assets with maturity date and short-term investment and investment securities**

<b>At March 31, 2016</b>	Millions of yen			
	Within one year	After one year through five years	After five years through ten years	After ten 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	¥ —	¥ —

<b>At March 31, 2016</b>	Thousands of U.S. dollars			
	Within one year	After one year through five years	After five years through ten years	After ten years
Cash and deposits	\$ 1,126,043	\$ —	\$ —	\$ —
Notes and accounts receivable from completed construction contracts	633,475	61,436	—	—
Accounts receivable-other	110,149	1,145	—	—
Available-for-sale securities	8,861	—	—	—
Total	\$1,878,538	\$62,582	\$ —	\$ —

At March 31, 2015	Millions of yen			
	Within one year	After one year through five years	After five years through ten years	After ten years
Cash and deposits	¥ 90,753	¥ —	¥ —	¥ —
Notes and accounts receivable from completed construction contracts	56,511	6,045	—	—
Accounts receivable-other	15,350	123	—	—
Held-to-maturity securities	1,999	—	—	—
Available-for-sale securities	354	—	—	—
Total	¥164,969	¥6,169	¥—	¥—

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

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

## 19. 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, 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

At March 31, 2016	Thousands of U.S. dollars		
	Book value	Acquisition cost	Unrealized Gain
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	\$72,820	\$20,706	\$52,113
Subtotal	\$72,820	\$20,706	\$52,113
Securities whose carrying value does not exceed their acquisition costs:			
Other	\$ 8,861	\$ 8,861	\$ —
Subtotal	8,861	8,861	—
Total	\$81,690	\$29,568	\$52,113

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

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

	Thousands of U.S. dollars		
	Sales	Sum of gain on sales	Sum of loss on sales
<b>At March 31, 2016</b>			
Equity securities	<b>\$21,328</b>	<b>\$12,804</b>	<b>\$—</b>

The book value, unrealized gain and loss and the related fair value of held-to-maturity securities at March 31, 2015 are summarized as follows:

	Millions of yen		
	Book value	Fair value	Unrealized gain
<b>At March 31, 2015</b>			
Securities whose fair value does not exceed their carrying value:			
Commercial paper	¥1,999	¥1,999	¥(0)
Total	¥1,999	¥1,999	¥(0)

The acquisition cost, unrealized gain and loss and the related book value of available-for-sale securities with available fair values at March 31, 2015 are summarized as follows:

	Millions of yen		
	Book value	Acquisition cost	Unrealized gain
<b>At March 31, 2015</b>			
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥6,393	¥2,863	¥3,530
Subtotal	¥6,393	¥2,863	¥3,530
Securities whose carrying value does not exceed their acquisition costs:			
Other	¥ 354	¥ 354	¥ —
Subtotal	354	354	—
Total	¥6,748	¥3,218	¥3,530

Selling amount and gain on sales of securities at March 31, 2015 are as follows:

	Millions of yen		
	Sales	Sum of gain on sales	Sum of loss on sales
<b>At March 31, 2015</b>			
Equity securities	¥32	¥20	¥—

For the fiscal year ended March 31, 2015, ¥34 million under securities (share of subsidiaries ¥34 million, and other of ¥0 million) are recognized as impairment loss associated with unlisted securities.

## 20. DERIVATIVE TRANSACTIONS

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 one 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)

	Thousands of U.S. dollars			
	All notional amounts	Notional amounts due over one year	Fair value	Unrealized gain / (loss)
Non-market transaction:				
Foreign exchange forward contracts				
Selling				
USD	\$43,011	\$3,081	\$ (488)	\$ (488)
EUR	14,038	—	(115)	(115)
Buying				
USD	2,788	2,619	(221)	(221)
EUR	11,765	1,447	(168)	(168)
SGD	0	—	(0)	(0)
Total	\$71,630	\$7,156	\$(1,003)	\$(1,003)

## 2. Derivatives designated as hedging instruments

### (1) Currency-related

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

Thousands of U.S. dollars					
	Main hedged items	All notional amounts	Notional amounts due over one year	Fair value	Computational method of fair value
<b>Deferral hedge accounting method:</b>					
Foreign exchange forward contracts					
Selling					
USD		<b>\$899,094</b>	<b>\$420,600</b>	<b>\$(43,065)</b>	Based on prices offered by financial institutions
EUR		<b>36,467</b>	<b>8,985</b>	<b>1,287</b>	
CAD	Accounts receivable and accounts payable	<b>3,090</b>	<b>—</b>	<b>177</b>	
SEK		<b>124,107</b>	<b>57,405</b>	<b>(1,047)</b>	
Buying					
USD			<b>591,768</b>	<b>350,204</b>	
EUR		<b>139,264</b>	<b>47,815</b>	<b>(4,945)</b>	
SEK		<b>99,786</b>	<b>49,795</b>	<b>(541)</b>	
KRW		<b>15,174</b>	<b>5,176</b>	<b>(1,092)</b>	
<b>Alternative method</b>					
Foreign exchange forward contracts					
Selling					
USD		<b>273,494</b>	<b>—</b>		Based on forward exchange contract prices
EUR	Accounts receivable and accounts payable	<b>150</b>	<b>—</b>		
CAD		<b>26,727</b>	<b>—</b>		
Buying					
USD			<b>8,817</b>	<b>—</b>	
EUR		<b>21,292</b>	<b>—</b>		
KRW		<b>6,144</b>	<b>—</b>		
Total		<b>\$2,245,453</b>	<b>\$940,019</b>		

## (2) Interest-related

Millions of yen						
	Transaction type	Main hedged items	All notional amounts	Notional amounts due over one year	Fair value	Computational method of fair value
<b>Accounting method</b>						
Special method for interest rate swaps	Interest swap contracts floating for fixed rate swap	Long-term loans payable	<b>¥9,740</b>	<b>¥8,340</b>	N/A	Based on prices offered by financial institutions
Total			<b>¥9,740</b>	<b>¥8,340</b>		
Thousands of U.S. dollars						
	Transaction type	Main hedged items	All notional amounts	Notional amounts due over one year	Fair value	Computational method of fair value
<b>Accounting method</b>						
Special method for interest rate swaps	Interest swap contracts floating for fixed rate swap	Long-term loans payable	<b>\$86,485</b>	<b>\$74,054</b>	N/A	Based on prices offered by financial institutions
Total			<b>\$86,485</b>	<b>\$74,054</b>		

For the year ended March 31, 2015

## 1. Derivatives not designated as hedging instruments

## (1) Currency-related

	Millions of yen			
	All notional amounts	Notional amounts due over one year	Fair value	Unrealized gain/(loss)
Non-market transaction:				
Foreign exchange forward contracts				
Selling				
USD	¥10,869	¥964	¥16	¥16
CAD	459	50	(2)	(2)
EUR	2,672	—	124	124
Buying				
USD	402	—	(3)	(3)
EUR	1,833	—	(270)	(270)
Total	¥16,237	¥1,014	¥(136)	¥(136)

## 2. Derivatives designated as hedging instruments

## (1) Currency-related

	Main hedged items	Millions of yen			Computational method of fair value	
		All notional amounts	Notional amounts due over one year	Fair value		
Deferral hedge accounting method:						
Foreign exchange forward contracts						
Selling						
USD		¥141,107	¥74,854	¥(16,026)	Based on prices offered by financial institutions	
EUR		3,786	2,274	68		
SGD		391	—	(44)		
CAD	Accounts receivable and accounts payable	540	27	(6)		
Buying						
USD		67,370	38,759	6,534		
EUR		24,513	10,377	(1,364)		
SEK		34	—	(0)		
KRW		5,437	1,536	(34)		
JPY		158	—	0		
Alternative method						
Foreign exchange forward contracts						
Selling						
USD		11,971	—		Based on forward exchange contract prices	
CAD	Accounts receivable and accounts payable	656	610			
Buying						
USD		2,438	—	N/A		
EUR		942	—			
SEK		185	—			
Total		¥259,534	¥128,439			

## (2) Interest-related

	Transaction type	Main hedged items	Millions of yen			Computational method of fair value
			All notional amounts	Notional amounts due over one year	Fair value	
Accounting method:						
Special method for interest rate swap	Interest swap contracts floating for fixed rate swap	Long-term loans payable	¥9,400	¥8,120	N/A	Based on prices offered by financial institutions
Total			¥9,400	¥8,120		

## 21. RETIREMENT BENEFITS

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

The Company and parts of 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 this account, the interest credit which is based on the movement of market interest rate and the contribution credit which is based on the salary level are accumulated.

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

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

### (1) Changes in defined obligations

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
April 1	¥18,461	¥15,721	\$163,922
Cumulative effects of changes in accounting policies	—	2,222	—
Balance at beginning of year applied the change in accounting policies	18,461	17,944	163,922
Service cost	1,042	985	9,252
Interest cost	315	319	2,797
Actuarial gains and losses	1,494	322	13,265
Benefit paid	(1,185)	(1,394)	(10,522)
Other	(295)	283	(2,619)
March 31	¥19,833	¥18,461	\$176,105

### (2) Changes in plan assets

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
April 1	¥13,767	¥12,044	\$ 122,242
Expected return on plan assets	332	307	2,947
Actuarial gains and losses	(228)	1,011	(2,024)
Contributions by the employer	1,389	1,408	12,333
Benefit paid	(980)	(1,163)	(8,701)
Other	(181)	159	(1,607)
March 31	¥14,100	¥13,767	\$(125,199)

### (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, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Funded defined benefit obligations	¥17,969	¥16,507	\$159,554
Plan assets	(14,100)	(13,767)	(125,199)
Subtotal	3,868	2,739	34,345
Unfunded defined benefit obligations	1,864	1,953	16,551
Net amount of liabilities and assets recognized in consolidated balance sheets	5,732	4,693	50,896
Liabilities (net defined benefit liability)	5,732	4,693	50,896
Net amount of liabilities and assets recognized in consolidated balance sheets	5,732	4,693	50,896



## (4) Retirement of benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Service cost	<b>¥1,042</b>	¥ 985	<b>\$9,252</b>
Interest cost	<b>315</b>	319	<b>2,797</b>
Expected return on plan assets	<b>(332)</b>	(307)	<b>(2,947)</b>
Amortization of retirement benefit obligation at transition	—	246	—
Amortization of actuarial loss	<b>59</b>	126	<b>523</b>
Amortization of past service cost	<b>(168)</b>	(177)	<b>(1,491)</b>
Other	<b>(91)</b>	4	<b>(808)</b>
Total	<b>¥ 824</b>	¥1,198	<b>\$7,316</b>

## (5) Remeasurements of defined benefit plans

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Past service cost	<b>¥ (167)</b>	¥(180)	<b>\$ (1,482)</b>
Transition obligations	—	246	—
Actuarial loss	<b>(1,665)</b>	818	<b>(14,784)</b>
Total	<b>¥(1,832)</b>	¥ 884	<b>\$(16,267)</b>

## (6) Remeasurements of defined benefit plans

The unrecognized past service cost, obligation at transition and unrecognized actuarial gains and losses recognized in accumulated other comprehensive income (amount before income tax effect) as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unrecognized past service cost	<b>¥ —</b>	¥ 167	<b>\$ —</b>
Obligation at transition	—	(8)	—
Unrecognized actuarial loss	<b>122</b>	1,796	<b>1,083</b>
Total	<b>¥122</b>	¥1,955	<b>\$1,083</b>

## (7) Major breakdown of plan assets

	2016	2015
Components of net periodic benefit cost		
Securities	<b>44%</b>	41%
Stocks	<b>27%</b>	31%
Cash and deposits	<b>13%</b>	12%
Other	<b>16%</b>	16%
Total	<b>100%</b>	100%

## (8) Basis of actuarial calculation

Basis of calculation of projected benefit obligation for the years ended March 31, 2016 and 2015 are as follows:

	2016	2015
Discount rate	<b>Mainly 0.08%</b>	Mainly 0.9%
Expected rate of return on plan assets	<b>Mainly 2.0%</b>	Mainly 2.0%
Expected salary increase rate	<b>Mainly 3.2%</b>	Mainly 3.2%

The contributions by the Company and subsidiaries to the defined contribution plans were ¥756 million (\$6,712 thousand) and ¥404 million for the years ended March 31, 2016 and 2015, respectively.

## 22. INCOME TAXES

The statutory tax rates applicable to the Company and its domestic subsidiaries for the year ended March 31, 2016 and 2015 were approximately 32.8%. Income taxes of the foreign subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets (gross):			
Net defined benefit liability	<b>¥1,727</b>	¥ 1,307	<b>\$15,334</b>
Deferred gains or losses on hedges	<b>1,717</b>	3,264	<b>15,245</b>
Operating loss carry forwards	<b>1,159</b>	3,293	<b>10,291</b>
Tax adjustment of sales by percentage of completion method	<b>461</b>	129	<b>4,093</b>
Provision of allowance for doubtful accounts	<b>457</b>	548	<b>4,057</b>
Provision for loss on construction contracts	<b>313</b>	902	<b>2,779</b>
Provision for bonuses	<b>150</b>	127	<b>1,331</b>
Other	<b>1,393</b>	1,176	<b>12,369</b>
Total deferred tax assets (gross)	<b>¥7,381</b>	¥10,748	<b>\$65,538</b>
Deferred tax assets-Deferred tax liabilities	<b>(2,676)</b>	(2,259)	<b>(23,761)</b>
Total deferred tax assets	<b>¥4,704</b>	¥8,488	<b>\$41,768</b>
Deferred tax liabilities (gross):			
Undistributed earnings of subsidiaries and affiliates	<b>1,276</b>	976	<b>11,330</b>
Valuation difference on available-for-sale securities	<b>1,695</b>	1,052	<b>15,050</b>
Other	<b>731</b>	240	<b>6,490</b>
Total deferred tax liabilities (gross)	<b>3,703</b>	2,269	<b>32,880</b>
Deferred tax assets-Deferred tax liabilities	<b>(2,676)</b>	(2,259)	<b>(23,761)</b>
Deferred tax liabilities	<b>(1,026)</b>	(9)	<b>(9,110)</b>
Net deferred tax assets	<b>¥3,678</b>	¥ 8,479	<b>\$32,658</b>

Note : The Company and its consolidated subsidiaries had temporary differences excluded from calculation of deferred tax assets of ¥5,193 million (\$46,110 thousand) and ¥5,250 million at March 31, 2016 and 2015, respectively, which are available to be offset against future taxable income.

(Changes in Presentation)

The impact of the tax adjustment of sales by percentage of completion method, which had previously been included in other under deferred tax assets, is presented separately under deferred tax assets because its materiality has increased.

To reflect this change in presentation, the tax adjustment of sales by percentage of completion method of ¥129 million, which had been previously included in other under deferred tax assets, is reclassified as tax adjustment of sales by percentage of completion method as of March 31, 2015.

(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,	2016	2015
Statutory tax rate in Japan	<b>32.8%</b>	*
Adjustments:		
Permanently nondeductible expenses	<b>1.9</b>	
Permanently nontaxable dividends received	<b>(9.8)</b>	
Per capita levy on corporate inhabitant tax	<b>0.1</b>	
Temporary differences excluded from calculation of deferred tax assets	<b>(1.9)</b>	
Tax Credit	<b>(0.4)</b>	
Difference in tax rates for foreign subsidiaries	<b>(3.3)</b>	
Difference in tax base between corporate income tax and enterprise tax	<b>2.2</b>	
Operating loss carry forwards for subsidiaries	<b>(6.6)</b>	
Equity in earnings of affiliates	<b>41.0</b>	
Decrease of deferred tax assets, net of liabilities, at fiscal year-end due to change in statutory tax rate	<b>1.7</b>	
Other	<b>7.6</b>	
Effective tax rate	<b>65.3</b>	

\*As loss before income taxes was recognized for the year, this information was omitted.

(3) Change in deferred tax assets and deferred tax liabilities due to tax rate changes

As the "Act for Partial Amendment of the Income Tax Act, etc. (Act No. 15 of 2016) and the "Act for Partial Amendment of the Local Tax Act, etc. (ACT No. 13 of 2016) were approved in the Japanese Diet on March 29, 2016, the effective statutory tax rates, which are used to measure deferred tax assets and deferred tax liabilities, have been changed from 32.1% to 30.7% (for temporary differences expected to be realized or settled from April 1, 2016 to March 31, 2018) and to 30.5% (for temporary differences expected to be realized or settled on or after April 1, 2018).

As a result, the deferred tax assets decreased by ¥183 million (\$1,625 thousand), income taxes increased by ¥146 million (\$1,296 thousand), valuation difference on available-for-sale securities increased by ¥32 million (\$284 thousand), and deferred gains on hedges decreased by ¥69 million (\$612 thousand) as of and for the year ended March 31, 2016.

## 23. SEGMENT INFORMATION

### For the year ended March 31, 2016

The Company sold some shares of Toyo-Business Engineering Corporation, which was part of the IT Business, and all of its shares of Tec Estate Corporation, which mainly comprised of the Real Estate Business in the fiscal year ended March 31, 2015. Accordingly, from the first quarter of fiscal year ended March 31, 2016, the Company's reportable operating segment has changed to a single segment, namely the EPC Business.

For the year ended March 31, 2015

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

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

EPC Business—Research and development, design, engineering, procurement, and construction of a variety of plants, such as oil, gas, petrochemical, and general chemical.

IT Business—Solution business based on other companies' ERP package products and product business based on our subsidiary ERP package products, etc.

Real Estate—Rent of commercial facilities and residences, and administration.

(The Calculation Method of Net Sales, Gain or Loss, Assets, Liabilities and Other Amounts)

The accounting policies of the segments are substantially the same as those described in the summary of significant accounting policies in Note 2 and intersegment sales are recorded at the market value.

The calculation method of project benefit obligation and service cost was changed from the fiscal year ended March 31, 2015. Accordingly, the calculation method of project benefit obligation and service cost in segment information was also changed. The effect on segment profit (losses) are immaterial, as a result of this accounting change.

Year ended March 31, 2015	Millions of yen					Adjustment	Consolidated
	EPC business	IT business	Real estate	Total			
<b>I Net sales and segment profits:</b>							
Net sales							
(1) Net sales to outside customers	¥301,062	¥8,426	¥1,966	¥311,454	¥ —		¥311,454
(2) Inter-segment net sales	129	50	179	359	(359)		—
Total	301,191	8,476	2,145	311,813	(359)		311,454
Segment profits	(8,367)	178	812	(7,376)	19		(7,356)
<b>II Segment assets</b>	<b>¥253,256</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥253,256</b>	<b>¥8,352</b>		<b>¥261,609</b>
<b>III Others</b>							
Depreciation	¥ 1,549	¥ 476	¥ 445	¥ 2,471	¥53		¥ 2,525
Amortization of goodwill	1,697	—	—	1,697	—		1,697
Amount invested in equity method affiliates	9,952	—	—	9,952	—		9,952
Increase of fixed assets	966	463	20	1,450	(5)		1,445

Notes : 1. "Adjustments" for Segment profits and Depreciation represent the elimination of inter-segment transactions.

2. "Segment profits" represents operating income from Consolidated Statement of Income.

3. Segment assets adjustments include ¥8,352 million of non-allocated corporate assets, which is chiefly the Company's investment securities attributed to the administrative department.

4. Amortization of goodwill include the amortization of goodwill captured in extraordinary loss.

## (1) Information by Geographical Segment Based on the Locations of Projects

Year ended March 31, 2016	Millions of yen				Total
	Japan	Canada	Malaysia	Other	
Net sales	<b>¥49,925</b>	<b>¥51,244</b>	<b>¥43,331</b>	<b>¥155,311</b>	<b>¥299,813</b>

Year ended March 31, 2016	Thousands of U.S. dollars				Total
	Japan	Canada	Malaysia	Other	
Net sales	<b>\$443,304</b>	<b>\$455,016</b>	<b>\$384,754</b>	<b>\$1,379,071</b>	<b>\$2,662,164</b>

(Changes in presentation)

Canada and Malaysia, which had been included in "Other" for the year ended March 31, 2015, were presented separately for the year ended March 31, 2016, because the amounts were above 10 percent of net sales on the consolidated statement of income.

Brazil, Indonesia and Nigeria, which had been presented separately for the year ended March 31, 2015, were included in "Other" for the fiscal year ended March 31, 2016, because the amount is below 10 percent of net sales on the consolidated statement of income.

To reflect this change in presentation, Canada of ¥30,247 million and Malaysia of ¥26,427 million, which had been previously included in "Other", were reclassified to Canada and Malaysia as of March 31, 2015.

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

Year ended March 31, 2016	Thousands of U.S. dollars			Total
	Japan	Indonesia	Other	
Property, plant and equipment	<b>\$79,319</b>	<b>\$25,475</b>	<b>\$10,504</b>	<b>\$115,308</b>

Year ended March 31, 2015	Millions of yen				Total
	Japan	Canada	Malaysia	Other	
Net sales	¥40,906	¥30,247	¥26,427	¥213,873	¥311,454

Year ended March 31, 2015	Millions of yen			Total
	Japan	Indonesia	Other	
Property, plant and equipment	¥11,630	¥2,944	¥1,672	¥16,247

## (2) Information by Major Clients

	Millions of yen	
	Net Sales	Segment
<b>Year ended March 31, 2016</b>		
JAPAN CANADA OIL SANDS LIMITED	<b>¥50,854</b>	<b>EPC</b>
PRPC REFINERY AND CRACKER SDN. BHD.	<b>¥36,042</b>	<b>EPC</b>
	Thousands of U.S. dollars	
	Net Sales	Segment
<b>Year ended March 31, 2016</b>		
JAPAN CANADA OIL SANDS LIMITED	<b>\$451,553</b>	<b>EPC</b>
PRPC REFINERY AND CRACKER SDN. BHD.	<b>\$320,031</b>	<b>EPC</b>
Year ended March 31, 2015	Millions of yen	
	Net Sales	Segment
Indorama Eleme Fertilizer & Chemicals Limited	¥32,316	EPC

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

For the year ended March 31, 2016, the disclosure is omitted because the Company has a single segment, namely the EPC Business.

The following table presents the amortization and balance of goodwill as of and for the year ended March 31, 2016 and 2015 by reportable segments:

Year ended March 31, 2015	Millions of yen			
	EPC Business	IT Business	Real Estate	Total
Goodwill				
Amortization of goodwill	¥1,697	¥—	¥—	¥1,697
Balance at March 31, 2015	6	—	—	6
Negative goodwill				
Amortization of negative goodwill	10	—	—	10
Balance at March 31, 2015	¥ 106	¥—	¥—	¥ 106

## 24. RELATED PARTY TRANSACTIONS

### Affiliate

#### For the year ended March 31, 2016

Name: NEDL CONSTRUÇOES DE DUTOS DO NORDESTE LTDA.	Summary of transactions	Millions of yen			Thousands of U.S. dollars		
		Transaction amount	Title of account	Account balance	Transaction amount	Title of account	Account balance
Address							
Brazil							
Capital and investments:							
7,933 thousands BRL							
Business	<b>Loan for operating fund</b>	<b>¥ —</b>	<b>Long-term loans receivable</b>	<b>¥3,707</b>	<b>\$ —</b>	<b>Long-term loans receivable</b>	<b>\$32,916</b>
Construction							
Equity ownership percentage							
Holding 42% directly							
Relation with related party							
Loan for operating fund							

#### For the year ended March 31, 2015

Name: NEDL CONSTRUÇOES DE DUTOS DO NORDESTE LTDA.	Summary of transactions	Millions of yen		
		Transaction amount	Title of account	Account balance
Address				
Brazil				
Capital and investments:				
2,524 thousands BRL				
Business	Loan for operating fund	¥ —	Long-term loans receivable	¥3,707
Construction				
Equity ownership percentage				
Holding 42% directly				
Relation with related party				
Loan for operating fund				

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

2. The Company reserved ¥3,707 million (\$32,916 thousand) of allowance for doubtful accounts at March 31, 2016, against the loan above.

3. The Company reserved ¥3,707 million of allowance for doubtful accounts at March 31, 2015, against the loan above.

#### For the year ended March 31, 2016

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
Address							
Brazil	<b>Loan for operating fund</b>	<b>¥18,306</b>	<b>¥ —</b>	<b>¥ —</b>	<b>\$162,546</b>	<b>\$ —</b>	<b>\$ —</b>
Capital and investments:							
57,749 thousands BRL							
Business	<b>Accrued interest income</b>	<b>303</b>	<b>—</b>	<b>—</b>	<b>2,690</b>	<b>\$ —</b>	<b>\$ —</b>
Construction							
Equity ownership percentage							
Holding 50% indirectly							
Relation with related party	<b>Guarantee obligation</b>	<b>5,604</b>	<b>—</b>	<b>—</b>	<b>49,760</b>	<b>\$ —</b>	<b>\$ —</b>
Loan for operating fund							



For the year ended March 31, 2015  
Name: ESTALEIROS DO BRASIL LTDA.

	Summary of transactions	Millions of yen		
		Transaction amount	Title of account	Account balance
Address				
Brazil				
Capital and investments:				
57,749 thousands BRL	Loan for operating fund	¥5,002	Short-term loans	¥5,002
Business				
Construction	Accrued interest income	38	Other current assets	1
Equity ownership percentage				
Holding 50% indirectly				
Relation with related party				
Loan for operating fund	Guarantee obligation	5,948	—	—

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  
3. On the consolidated financial statements, ¥5,002 million (\$41,631) about short-term-loans is deducted.

For the year ended March 31, 2015  
Name: TOYO-THAI CORPORATION  
PUBLIC COMPANY LTD

	Summary of transactions	Millions of yen		
		Transaction amount	Title of account	Account balance
Address				
Thailand				
Capital and investments:				
560,000 thousands TBH				
Business				
Construction	Ordering of designing and construction	¥3,247	Account payable	¥3,085
Equity ownership percentage				
Holding 22.2% directly				
Relation with related party				
Ordering of designing and construction				

Note : 1. TOYO-THAI CORPORATION PUBLIC COMPANY LTD changed the name to TTCL Public Company Limited from April 9, 2015.

For the year ended March 31, 2015  
Name: TOYO SETAL EMPREENDIMENTOS LTDA.

	Summary of transactions	Millions of yen		
		Transaction amount	Title of account	Account balance
Address				
Brazil				
Capital and investments:				
38,904 thousands BRL				
Business				
Construction	Guarantee obligation	¥2,764	—	¥ —
Equity ownership percentage				
Holding 50% indirectly				
Relation with related party				
Loan for operating fund				

Note : 1. The Company was responsible for the guarantee obligation in the execution of project at March 31, 2015, against the affiliate above.

**Significant affiliates**

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 Participacoes e Investimentos S.A., whose condensed financial information is as follows:

Year ended March 31,	Millions of yen	Thousands of U.S. dollars
	2016	2016
Total current assets	<b>¥66,865</b>	<b>\$593,722</b>
Total non-current assets	<b>14,589</b>	<b>129,541</b>
Total current liabilities	<b>79,299</b>	<b>704,128</b>
Total non-current liabilities	<b>5,185</b>	<b>46,039</b>
Total net assets	<b>(3,029)</b>	<b>(26,895)</b>
Net sales	<b>120,796</b>	<b>1,072,598</b>
Profit before income tax	<b>3,139</b>	<b>27,872</b>
Loss	<b>¥(1,739)</b>	<b>\$ (15,441)</b>

For the year ended March 31, 2015, the significant affiliates were Moeco Thai Oil Development Co.,Ltd, .TOYO-THAI CORPORATION PUBLIC COMPANY LTD.,\*1 Modec and Toyo Offshore Production Systems Pte.Ltd., and TS Participacoes e Investimentos S.A., whose condensed financial information is as follows:

Year ended March 31,	Millions of yen
	2015
Total current assets	¥142,990
Total non-current assets	28,106
Total current liabilities	149,318
Total non-current liabilities	8,943
Total net assets	12,834
Net sales	211,300
Loss before income tax	(7,959)
Loss	¥ (13,447)

Note : 1. TOYO-THAI CORPORATION PUBLIC COMPANY LTD changed the name to TTCL Public Company Limited from April 9, 2015.

**25. AMOUNTS PER SHARE**

Years ended March 31,	Yen		U.S. dollars
	2016	2015	2016
Net assets per share	<b>¥265.92</b>	¥234.20	<b>\$2.36</b>
Profit (loss) attributable to owners of parent per share	<b>15.85</b>	(109.34)	<b>0.14</b>

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.



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

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

## Independent Auditor's Report

The Board of Directors  
Toyo Engineering Corporation

We have audited the accompanying consolidated financial statements of Toyo Engineering Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2016, 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, 2016, 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 29, 2016

# Corporate Data

## Corporate Information

### Corporate Data

Corporate Name: Toyo Engineering Corporation (TOYO)

Founded: May 1, 1961

Number of Employees: 4,397 (Consolidated, As of March 31, 2016)

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 Mobarra, 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

Makoto Fusayama

### President & CEO

Kiyoshi Nakao \*1

### Executive Vice President

Takaya Naito \*1

### Directors

Masayuki Yoshizawa \*1 \*2

Masaaki Yamaguchi \*3

Shoji Koshikawa

Tomohisa Abe

Hirokazu Hayashi\*4

Masami Tashiro\*4

Yusuke Yamada\*4

### Senior Audit & Supervisory Board Member

Masayuki Uchida

### Audit & Supervisory Board Members

Hiroshi Inoue

Yoshiyuki Funakoshi \*5

Kiyohito Uchida \*5

### Senior Executive Officers

Tadashi Hori

Hiroshi Sato

Masahiko Kita \*6

Haruo Nagamatsu

Teruhiko Inoue

Toru Osanai

### Executive Officers

Motoyoshi Kamoshima

Takayoshi Imanishi

Koji Kojima

Itsuya Yanagi

Eiichi Ide

Hideki Shida

Keisuke Ishii

Shinichi Okazaki

Eiji Hosoi

Kensuke Waki

Hiroshi Fujita

D B A C

A Kiyoshi Nakao

B Makoto Fusayama

C Takaya Naito

D Masayuki Yoshizawa

\*1 Representative Director

\*2 CCO (Chief Compliance Officer)

\*3 CFO (Chief Financial Officer)

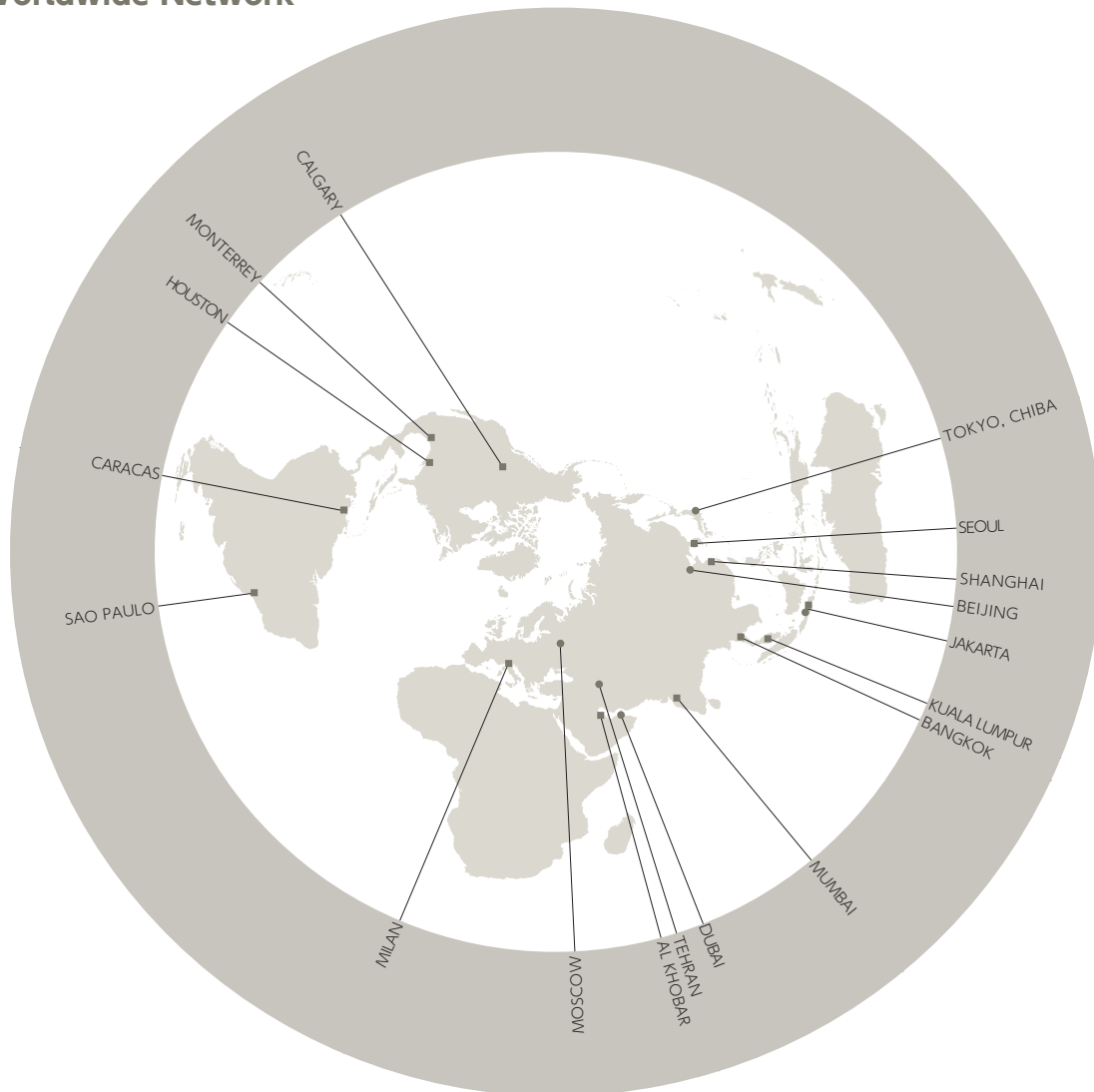
\*4 Outside Director

\*5 Outside Auditor

\*6 CTO (Chief Technology Officer)

(As of June 29, 2016)

## Worldwide Network



- HEAD OFFICE / ENGINEERING CENTER  
Chiba, Japan

- TOKYO HEAD OFFICE  
Tokyo, Japan

### Overseas Offices

- 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

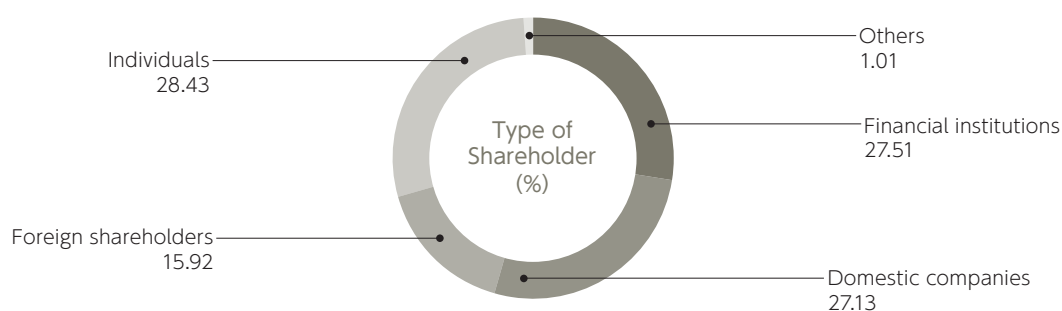
TEC Accounting & Consulting Ltd.  
Business support and consulting for accounting and  
accounting system development

# Stock information

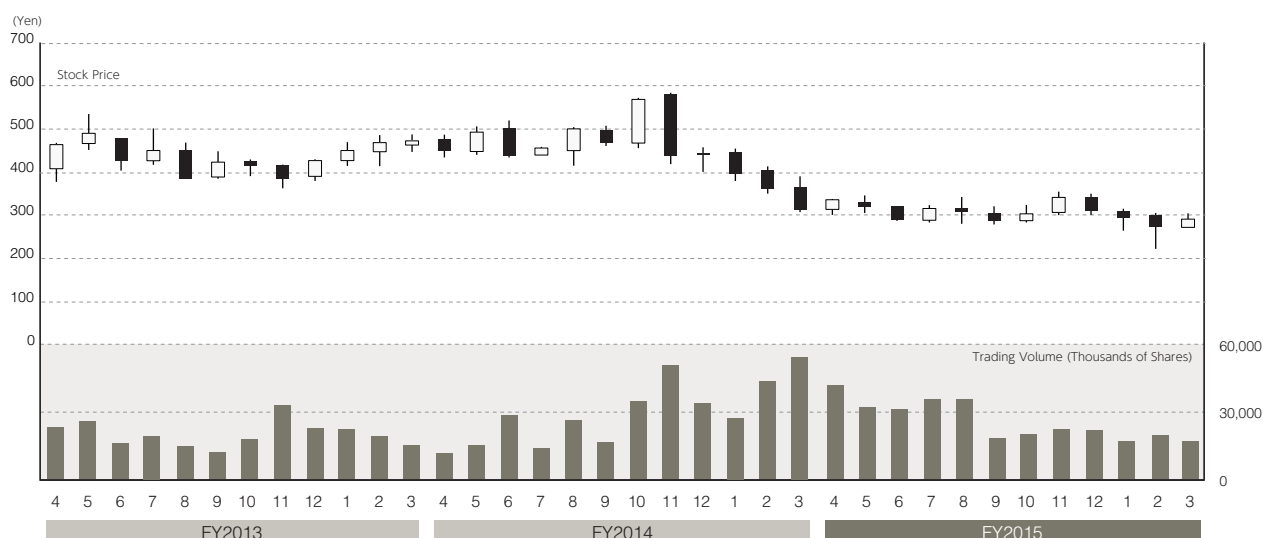
(As of March 31, 2016)

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	16,631
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
Japan Trustee Services Bank, Ltd. Trust Account 9	4,162	2.15
The Bank Of New York 133522	3,497	1.81
State Street Bank And Trust Company	3,325	1.72
Japan Trustee Services Bank, Ltd. Trust Account	3,221	1.67
The Master Trust Bank of Japan, Ltd. Trust Account	2,892	1.50
Sumitomo Mitsui Banking Corporation	2,350	1.21
State Street Bank And Trust Company 505103	2,171	1.12



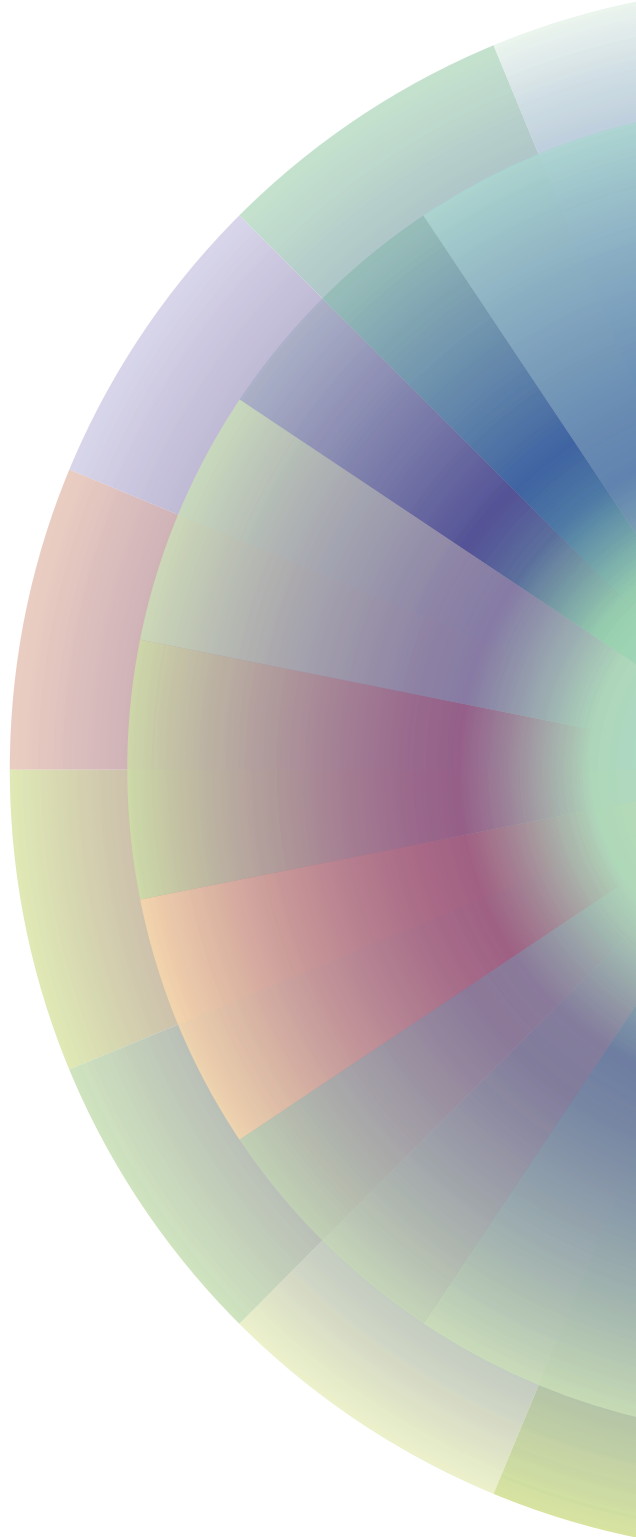
Stock chart





**Toyo Engineering Corporation**

2-8-1 Akanehama,  
Narashino-shi, Chiba 275-0024, Japan  
Tel: 81-47-451-1111 Fax: 81-47-454-1800  
<http://www.toyo-eng.com/jp/en/>



Printed with Volatile Organic Compounds, VOC, Free inks.