



TEC's course of reform on track

Fiscal 2002 interim business results and review of operations

Accountability

TEC announced its interim business results for fiscal 2002 on November 27. In this issue, we summarize the interim results, report on the status of business activities, and outline future management strategies.

*President and Chief Executive Officer **Toshibiko Hirose***



Initial projections largely achieved —

Core business segment in the black

Despite the continued slump in the Japanese economy due to the global economic slowdown and the delayed implementation of structural reforms, TEC's consolidated net sales, operating income, and recurring profit in the interim period, ended September 30, 2001, exceeded initial projections. This performance is the result of a range of strategies for reform based on the Company's renovation plan, including measures targeting improvements in project results. In particular, on a non-consolidated basis, we achieved new orders totaling ¥84.2 billion in the first half; our full-year target set at ¥140.0 billion. Also, we saw a return to operating income and recorded recurring profit of ¥660 million, evidence of the steady recovery of our core business segment despite the difficult environment. However, an unavoidable appraisal loss on investment securities accompanying the fall in domestic stock markets meant that we recorded a net loss on both a consolidated and a non-consolidated basis.

Toyo Business Engineering Corporation, our affiliated company in IT-related business, and TEC Estate Ltd., our affiliated company in real estate leasing and management, both registered stable earnings and contributed to consolidated results.

Also, we made progress in reducing interest-bearing debt, an outstanding financial issue, down to the ¥70 billion level on a non-consolidated basis and to the ¥100 billion level on a consolidated basis. TEC will continue to make efforts to reduce these levels further.

Future management issues —

Progress in implementing the Company's renovation plan

The key management issue for the current fiscal year is the completion of the Company's three-year renovation plan for reforming TEC's business structure and creating the foundation for stable manage-

ment from fiscal 2003. The culmination of these reform efforts was the reorganization of the EPC solutions business into overseas and domestic headquarters in July 2001, thereby creating a structure with three business headquarters, including the e-solutions business. TEC relies on the EPC solutions business as its main source of earnings.

However, we are in the process of making the transition to a new business structure that will allow us to realize our corporate principle of "providing clients with total solutions" and under which the e-solutions business will form a new, stable source of earnings in the future.

The action plans based on the renovation plan are yielding positive results. We have successfully implemented a range of strategies, including the shift to a transnational business structure that makes maximum use of overseas bases, personnel adjustments, reductions in fixed costs, and other business reforms.

In the future, we will concentrate on addressing the following issues.

The *Overseas Business Headquarters*, which accounts for 80% of TEC's net sales, continued its successful track record during the period under review, receiving orders for a fertilizer plant in Iran and the recommencement of construction of an oil refinery in Russia, among others. However, work accounted for by the overseas bases is still only 20% to 25% of the total business of the headquarters. In the future, it will be vital that we boost marketing and promote improved cost-competitiveness by raising the effectiveness of the entire transnational business structure. The aim is to strengthen the overseas bases and increase opportunities for their better utilization. In addition, EPC business reforms based on the effective use of IT and a focus on receiving orders primarily in the energy sector will be ongoing issues.

The *Domestic Business Headquarters*, which consolidated the former independent units of domestic plant EPC, industrial systems, and energy solutions in July 2001, is giving high priority to seeking further synergies in domestic resource consoli-

ation. The major issues facing the Domestic Business Headquarters are achieving stable returns in domestic business sectors that are low risk and creating a structure that can contribute to the improved earnings of the entire EPC solutions business.

The *e-Solutions Business Headquarters* is in the process of creating a business foundation that will support its operations from a long-term perspective. To that end, the headquarters is continuing to make the necessary expenditures, such as introducing IT tools and investing in partners. It is also strengthening activities to receive orders to achieve its objectives of "Building Global Supply Chain Management" and recording a strong performance in the future. In addition, the headquarters is working to horizontally develop its business outside the manufacturing industry. Although the IT market is in a downturn, the expected expansion of TEC's e-solutions business is underpinned by the need for corporate reform. By strengthening our ties with Toyo Business Engineering Corporation and actively promoting collaboration with partners, we aim to create original solutions by drawing on our individual strengths; one example of applications in sectors outside manufacturing is the securities settlement back office system (described later). The headquarters will continue to map out its future course in line with this strategy.

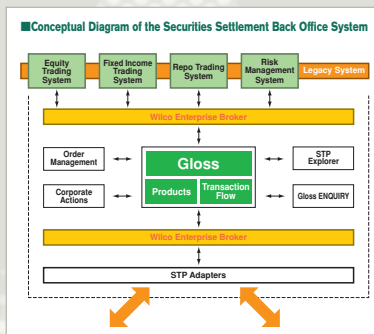
In the future, the Company as a whole intends to continue to proceed with its e-transformation, expanding its e-solutions business to achieve a stable business model while maintaining an organization of 900 people. Concerning the allocation of personnel, both the Overseas Business Headquarters and the Domestic Business Headquarters will need to continue to take decisive action with regard to business reforms and to pursue greater operational efficiency. Both headquarters will also need to secure competitive projects by using the transnational business structure, pursuing the formation of alliances, and outsourcing operations to ultimately establish a structure that produces quality work and

ensures customer satisfaction. At the same time, in our Group operations, we will seek further improvements in consolidated management efficiency centered on Toyo Business Engineering Corporation and our overseas bases while promoting the restructuring of affiliated companies. We will also continue to reduce interest-bearing debt by improving cash flow and debt recovery with the aim of strengthening our financial position.

Strategies in priority sectors —

Focusing on energy

TEC has selected the four sectors of energy, food, the environment, and the global net community as the focus of its future business development. In the food sector, for example, we aim to develop businesses that will leverage our experience and track record in fertilizer plants, while in the environment sector, which is one of the key sectors in the 21st century, we will create businesses centered on Environmental Engineering Corporation, established in



April 2001 through a joint investment with Ebara Corporation, Chiyoda Corporation, and Mitsui & Co., Ltd.

We are now actively addressing the needs of the advanced information society through our e-solutions business. In July 2000, TEC and Toyo Business Engineering Corporation jointly concluded a partnership agreement with the Japan branch of Wilco International Asia Pacific Ltd. to market and provide systems construction for the securities settlement back office system of U.K.-based Wilco International. This system supports securities firms' operations for the settlement and management of orders for shares and

bonds traded on stock exchanges. The system's outstanding software perfectly meets demands that are emerging accompanying the international trend toward next-day settlement (so-called T+1, or "Trade + 1 day"). We anticipate the system will be highly evaluated among Japanese securities firms, which are yet to take steps to offer such settlement services.

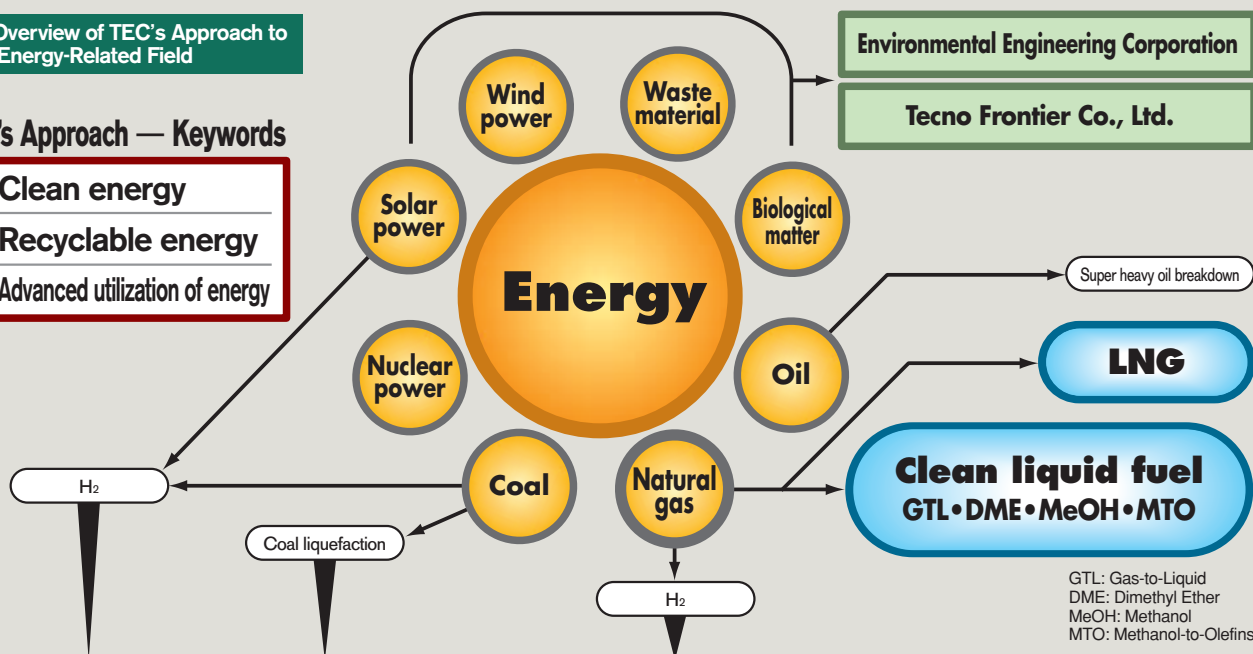
Meanwhile, in the energy sector, there will be further investment in response to growing global demand for clean energy. We are actively working on energy projects, focusing on the promising sectors of liquefied natural gas (LNG) and next-generation energy, such as gas-to-liquid (GTL) and dimethyl ether (DME), which will contribute to improved profit margins.

The **LNG sector** is a particularly attractive area and, with the world's gas reserves estimated at 144 trillion m³, offers great potential for future development. Based on the technology we have accumulated in the ethylene sector, we are working to receive LNG project orders by making full use of our capabilities, including local expertise acquired through projects undertaken in

An Overview of TEC's Approach to the Energy-Related Field

TEC's Approach — Keywords

- Clean energy
- Recyclable energy
- Advanced utilization of energy



GTL: Gas-to-Liquid
DME: Dimethyl Ether
MeOH: Methanol
MTO: Methanol-to-Olefins

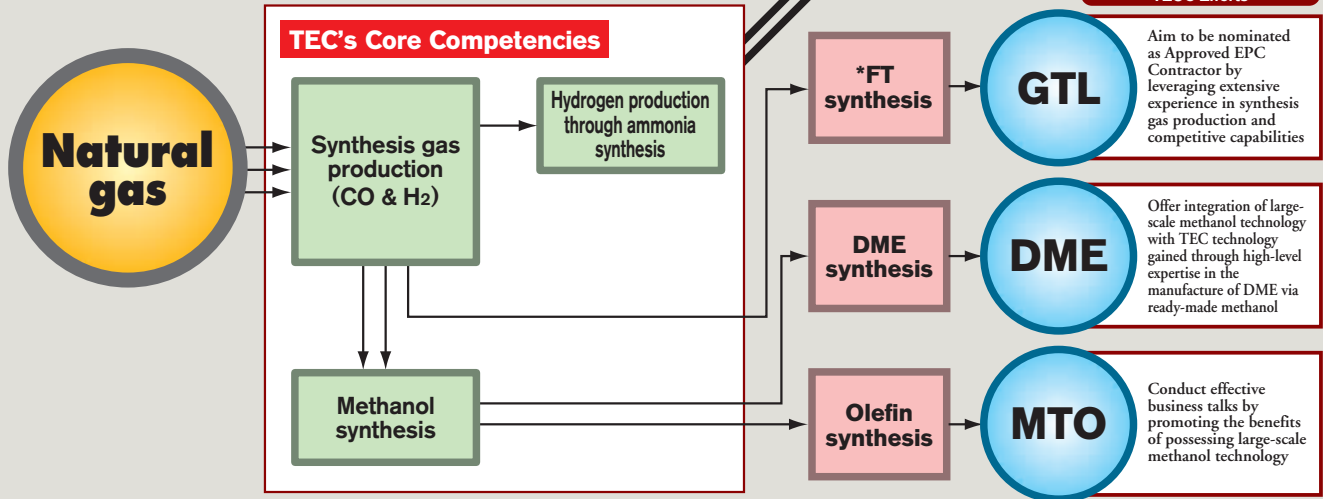
Applications

- Chemical materials
- Diesel substitutes
- Fuel batteries
- Gasoline substitutes
- LPG substitutes
- Micro gas turbines

TEC's Strengths — Next-Generation Energy: Outlook and Approach

Premium Industry Results

Plant construction: Ammonia, 42 plants; Methanol, 11 plants; Hydrogen, 13 plants



* FT synthesis: Common term for the method used to produce hydrocarbons by mixing carbon monoxide and hydrogen gas.

Asia, the Middle East, and Russia, points of contact with oil majors, and an extensive customer base, as well as our established track record in peripheral facilities, such as LNG terminals and pipelines.

In the *next-generation energy sector*, our focus is on clean liquid fuels converted from natural gas, such as GTL, DME, and methanol-to-olefins (MTO), and our clients include oil majors, electricity and gas companies, and leading chemical companies, with whom we maintain strong relations. Of the total cost of next-generation energy manufacturing facilities, synthetic gas (H₂ and CO) manufacturing facilities account for 50% or more, and our leading technology and construction track record of synthetic gas manufacturing facilities will be key to our future expansion into this area. Moreover, with a wealth of experience in ammonia and methanol plants, it is a sector that offers great potential for TEC to fully utilize its special characteristics as a leader in synthesis gas and its original technologies, such as the jumbo methanol process. We have established an in-house task force to achieve our integrated entry into the sector, from the current feasibility study stage through

future EPC, and are working on strategies to give concrete form to next-generation energy projects.

The development of the Company's operations in the energy sector is essential to TEC's long-term stable management. In addition to giving priority to the investment of management resources in this sector, we plan to fully utilize our alliances and transnational business structure based on our accumulated technology and track record.

Outlook

The current business environment has become even more uncertain following the September 11, 2001, terrorist attacks on the United States. We have organized an in-house team to evaluate the impact of the tragic incidents on our business strategies, and we are closely monitoring market trends. Despite the difficult operating environment, we expect to achieve our full-year target for new orders. However, it will be necessary to further improve project results in order to achieve our 7% gross profit margin target. In particular, we will place

utmost importance on "error prevention" to avoid the negative investment of personnel and time in the recovery of errors. Furthermore, in order to make the three business headquarters structure function effectively in generating and undertaking projects, the whole Company will work to realize stronger horizontal alliances between the headquarters and to better utilize their combined capabilities in such areas as overseas expansion projects for Japanese companies and the application of IT to EPC in e-solutions. We have already set the management course, created the organizational foundation to support our future initiatives, and paved the way for achieving our objectives.

In addition to completing our renovation plan and consolidating on its results, in fiscal 2002 we will promote strategies in new sectors and make a start on the development of businesses of the future. From fiscal 2003, we hope to achieve stable management and return the continued support we have received from our shareholders.