



Mission: Engineering for Sustainable Growth of the Global Community

Vision: Global Leading Engineering Partner

Values: Integrity, Creativity, Diversity, Learning, Team

TOYO's Revival Plan

- Back to the track toward sustainable growth -

May 14, 2015

Toyo Engineering Corporation

1. FY2014 Performance
2. Loss in Brazil and Measures to be taken
3. Root Causes of Project Losses
4. Remedial Management Action Plan
5. Top-committed Risk Management
6. Short Term Target

1. FY2014 Performance (as of Mar.31,2015)

◆ Net loss: JPY20.9 billion

Due to loss of equity method affiliates in Brazil: JPY 23.0 billion

(Loss on project operation: JPY 16.7 billion, Impairment loss for fixed assets: JPY 5.5 billion, Impairment loss for goodwill: JPY 0.8 billion)

(Billion Yen)

	Forecast as of Feb.10, 2015	FY2014 performance	Difference
Net sales	330	311.4	(18.6)
Gross profit	18	17.2	(0.8)
Gross profit rate	5.5%	5.5%	0.0%
Operating income	(7)	(7.3)	(0.3)
Operating income rate	- 2.1%	- 2.4%	- 0.3%
Ordinary income	(4)	(25.2)	(21.2)
Net Income	0	(20.9)	(20.9)
New orders	500	470.3	(29.7)

◆ Cancellation of year-end-dividends (Interim dividends ¥4 paid)

2. Loss in Brazil and Measures to be Taken (1)

◆ Loss in FPSO Topside Project (P-74)

➤ Main Causes :

- 1) Inadequate FEED provided by the client, impacting project Bill of Quantities (B/Q), cost, and schedule
- 2) Delay in client decision of changes
- 3) Insufficient risk-evaluation by EBR*

➤ Cause of sudden recognition of cost increase :

Cost increase and schedule impact due to the delay in decision of design change and revised project schedule of client (finally agreed in Feb.2015)

➤ Reflection Points :

Overestimate of EBR's project management capability, and difficulty to secure governance of equity method companies.

EBR*: equity method affiliate in Brazil

2. Loss in Brazil and Measures to be Taken (2)

◆ Impairment Loss in fixed asset of EBR Yard

- Review of business plan for yard considering future investment trend of Petrobras/Brazil.

◆ Measures to be taken

- Brazil Task Team directly reporting to CEO
- Strengthen local management system
- Strengthen risk management, change order negotiation
- Cautiously watch and correspond to the change of Brazil market



3. Root Causes of Project Losses

- ◆ Consequently irrationalized orders acquired under severe business environment
- ◆ Insufficient risk assessment at proposal stage
- ◆ Lack of project key personnel
- ◆ Problems in project management of multi-office project execution

4. Remedial Management Action Plan

- ◆ Restructuring of Management System
 - 1) Change Mindset
 - 2) Executive Committee Reform
 - 3) Bracing Group Steering Structure

- ◆ Improvement of Management Process at Proposal Stage
 - 4) Balanced Sales Activities
 - 5) Intensive Approval Process
 - 6) Improvement of Proposal Quality

- ◆ Enhancement of Project Management Capability
 - 7) Enhancing project management capability for multi-office project execution
 - 8) Enhancing project management organization for mega-projects
 - 9) Reinforcement of Project key personnel

- ◆ Change of Corporate Culture
 - 10) Promotion of all-around communication

5. Top-committed Risk Management

◆ Executive Committee Reform

- Establishment of Business Strategic Committee and Proposal/Project Management Committee

◆ Intensive Approval Process

- Management review for each major proposal
- Final offer approval process to ensure transparency and check-and balance function (Approved by CEO, CFO, Corporate Management Director, and Unit Director of related Business Operation Unit)

◆ Project Risk Management System

- Monthly Project Performance Review in addition to existing Quarterly Project Performance Review for major projects

◆ Risk Management System for Group Companies

- Establishment of Corporate Planning Unit and Group Companies Committee

◆ Verification of Risk Management System by third party

6. Short Term Target

- ◆ Steady execution of order backlog, implementation of cost saving measures, selection and concentration on proposals and other measures in order to recover profitability

(Billion Yen)

	FY2015	FY2016	FY2017
New Orders	330	350	350
Net Sales	340	490	450
Gross Profit	27	34	33
Gross Profit Rate	7.9%	6.9%	7.3%
Operating Income	2.5	10	8
Operating Income Rate	0.7%	2.0%	1.8%
Ordinary Income	4.5	11	9
Net Income	3	7	6



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