

Mission: Engineering for Sustainable Growth of the Global Community

Vision: Global Leading Engineering Partner

Values: Integrity, Creativity, Diversity, Learning, Team



Management Policy Update for FY2018

May 15, 2018

Toyo Engineering Corporation

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1. FY2017 Performance Summary

- ◆ Expansion of periodic loss by cost increase at Ethylene Project in USA
- ◆ New orders attaining the target

(Unit : JPY billion)

	2018/3/31	2018/2/7 Forecast	Difference
Net Sales	335.6	350.0	(14.4)
Gross Profit	(12.5)	3.0	(15.5)
Gross Profit Margin	-3.7%	0.9%	-4.6%
SG&A(Selling, General and Administrative Expenses)	20.4	21.0	0.6
Operating Income	(32.9)	(18.0)	(14.9)
Non-Operating Income and Expenses	5.1	2.0	3.1
Ordinary Income	(27.8)	(16.0)	(11.8)
Net Income	(26.8)	(18.0)	(8.8)
New Orders	309.3	250.0	59.3

- ◆ Back log of Contracts : 448.6 billion yen
- ◆ Dividends per share : None

◆ Deterioration in Gross Profit

- Losses recognized during 4Q : ▲15.5 billion yen

◆ Reason of Difference in Gross Profit

- Cost increase at Ethylene Project in USA : ▲17.6 billion yen
- Increase of gross profit at other projects : 2.1 billion yen

3. Reason of Cost increase and Measures taken at Ethylene Project in USA

Factor

- ◆ Inadequate CB&I's capability

※CB&I : Construction subcontractor at Ethylene Project in USA



Challenge

- ◆ Securing adequate workforce
- ◆ Improvement of productivity



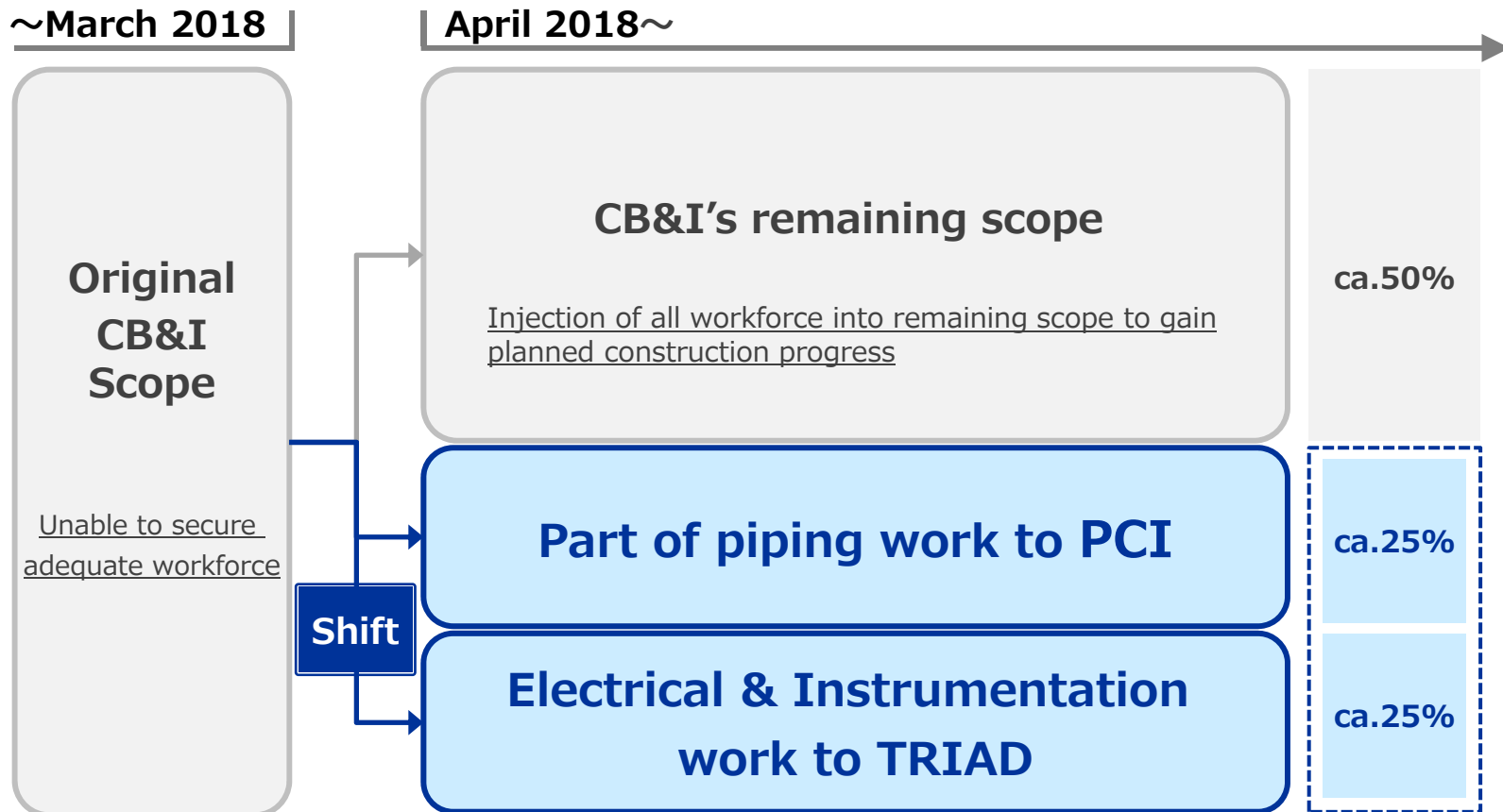
Measures taken

- ◆ To shift around 50% of CB&I's work scope to other 2 contractors
- ◆ To increase TOYO's supervisors at site and carry out intensive control of work progress
- ◆ To reinforce construction management system and place special rooms("war rooms") for specified areas so as to timely and immediately make coordination between TOYO & subcontractors in an integrated manner
- ◆ Continued discussion with contractors etc. for reducing or sharing costs

4. Situation of Ethylene Project in USA


◆ Project situation

- Piping and Electrical & Instrumentation works now in full-swing
- Securing workforce by shifting CB&I's scope to other 2 contractors. A trend for improvement in productivity of construction workforce




5. Major Ongoing Projects

As of 2018/3/31



Turkmenistan
2014 Gas Petrochemical Complex



Japan
2017 Biomass Power x1
2017 Mega-Solar x3
2014 Mega-Solar x1




India
2017 Fertilizer
2015 Fertilizer



Thailand
2017 Gas Power SPP x1
2016 Gas Power SPP x5



USA
2015 Ethylene



Nigeria
2017 Fertilizer




Malaysia
2014 Ethylene Complex



Brazil
2013 FPSO Topside (P-74)



Achievement of 1st Oil
(April 2018)



Indonesia
2017 Polyethylene
2017 Gas Compression
2015 S-SBR
2015 Railway Systems (MRT)

6. FY2017 Feedback

Policy

Feedback

To secure project profit



- ◆ Deterioration in profit at Ethylene Project in USA
- ◆ Other projects are going as planned

To acquire new orders



- ◆ New orders of around 300 billion yen acquired attaining the target with fair gross profit (Fertilizer in India and Nigeria, Biomass Power etc.)

To strengthen corporate structure



- ◆ Decrease of net assets by big project loss
- ◆ Improved capability of group companies and their contribution to consolidated financial performance
- ◆ Compression of fixed cost and strategic reallocation of manpower

To promote innovation



- ◆ Sales promotion of innovative energy-saving distillation system *SUPERHIDIC*[®]
- ◆ Launching *Digital Fertilizer* implementation

7. Toward Revitalization of TOYO

- ◆ **Completion of Ethylene Project in USA within the current budget**
- ◆ **Basic policy of Revitalization plan**

Reformation of business structure	Reformation of business portfolio	<ul style="list-style-type: none"> ◆ Selection & concentration of products and market with two pillars of Plant & Infrastructure business
	Promotion of Innovation	<ul style="list-style-type: none"> ◆ Promotion of new business ◆ Work efficiency & cost reduction by <i>DXoT</i>(Digital Transformation of TOYO)
Enhancement of organizational capability	Optimization of overseas group EPC companies	<ul style="list-style-type: none"> ◆ Optimization and standardization of operation as whole TOYO group
	Appropriate application of Toyo-Japan resources	<ul style="list-style-type: none"> ◆ Man power shift from Plant to Infrastructure in accordance with business portfolio
	Enhancement of risk management	<ul style="list-style-type: none"> ◆ Intensive proposal control ◆ Focusing on proactive risk management at project stage
Reinforcement of financial base		<ul style="list-style-type: none"> ◆ Every measure such as compression of fixed cost and others to be studied and implemented

8. FY2018 New Order Target

New order target : 300 billion yen

Company-wide	<ul style="list-style-type: none">◆ Enhancement of competitiveness by utilizing group companies◆ Most suitable partnering for each project (such as main equipment manufacturers for power project, Baker Hughes/Aker Solutions for offshore energy development project etc.)◆ Enhancement of collaboration with Nippon Steel & Sumikin Engineering Co., Ltd.
Plant business	<ul style="list-style-type: none">◆ Focus on down stream projects of petrochemical, fertilizer, and gas value chain in Asia, Russia, and Central Asia etc.
Infrastructure business	<ul style="list-style-type: none">◆ Focus on high-demand renewable energy field from project planning support to EPC for securing profitable orders◆ Capture power demands in South East Asia
Energy business	<ul style="list-style-type: none">◆ Continuing GESA* contracts with clients◆ Expansion of service-type projects along with increase of oil price
New business	<ul style="list-style-type: none">◆ Promotion of innovation and creation of new business model◆ Further development of <i>Digital Plant</i>

*GESA: General Engineering Service Agreement

9. FY2018 Forecast

(Unit : JPY billion)

	Forecast 2019/3
Net Sales	300.0
Gross Profit	21.0
Gross Profit Margin	7.0%
SG&A (Selling, General and Administrative Expenses)	19.0
Operating Income	2.0
Non-Operating Income and Expenses	0.5
Ordinary Income	2.5
Net Income	1.0
New Orders	300.0

◆ Dividends per share : None (plan)



Toyo Engineering Corporation

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The forecasts given above are based on information available at the time of compilation and are inherently subject to a variety of risks and uncertainties. Actual results may vary significantly from forecasts due to factors including, but not limited to, changes in the economic or business environment and exchange rate fluctuations.