

*Mission: Engineering for Sustainable Growth of the Global Community*

*Vision: Global Leading Engineering Partner*

*Values: Integrity, Creativity, Diversity, Learning, Team*

# **Management Policy Update for the second quarter of FY2014**

**November 13, 2014**

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President & CEO**

- 1. Revised Forecast for FY2014**
- 2. Prioritized Policy of the 2<sup>nd</sup> half of FY2014**
- 3. Sales Updates**
- 4. Market Overview**

# 1. Revised Forecast for FY2014

- ◆ Profit : Forecast revised downward
- ◆ New Orders : Annual Forecast achieved within the 1<sup>st</sup> half of FY2014
- ◆ Dividends per Share : Forecast maintained (Note)

Forecast 2015/03	Forecast as of May.14, 2014	Forecast as of Nov.13, 2014	Difference	Performance 2014/09	(Billion Yen)
Net Sales	290	310	20	132.5	
Gross Profit	33	27	(6)	11.9	
(Gross Profit Rate)	11.4%	8.7%	- 2.7%	9.0%	
Operating Income	7	2	(5)	0.1	
Ordinary Income	10	6	(4)	2.6	
Net Income	6	3	(3)	1.2	
New Orders	330	500	170	352.6	

(Note) Dividends per Share (Non-Consolidated) (Yen): ¥8 (including interim dividends ¥4)

# Breakdown of Gross Profit Decrease

Reason		Effected Amount	(Billion Yen)
Project Cost Increase		(4)	
	▪ Egypt Polyethylene Project		
	▪ Canada Oil Sand Project		
	▪ Others		
Delay of Project Progress/New Order		(2.5)	
	▪ Brazil Utility Project		
	▪ Iraq PMC for Energy Development		
Cost Increase by Decrease of Foreign Tax Credits Limit		(1)	
Gross Profit Increase by Net Sales Increase		1.5	
Total Amount of Gross Profit Decrease		(6)	

(Remark) PMC: Project Management Contract

# Cause of Project Cost Increase

Project	Events	Cause
<b>Egypt Polyethylene</b>	Cost increase of equipment and materials	Change from original vendors
	Cost increase of engineering and construction supervisors	Reinforcement of local partner and subcontractor to keep schedule & quality
<b>Canada Oil Sand</b>	Cost increase of equipment	Change from original vendor
	Man-hour increase	Additional engineers to meet Canadian requirements

<Resulting from:>

- Lack of thorough evaluation of potential risks at the proposal stage
- Insufficient preventive measures against risks at the project stage

- ◆ **Ensure thorough practice of project control basics by:**
  - Conducting rigorous risk evaluation of projects acquired through severe competition
  - Strengthening real time monitoring of all projects
  - Detecting sign of problems at the earliest and taking necessary actions quickly

## 2. Prioritized Policy of the 2<sup>nd</sup> half of FY2014

- ◆ **Ensure steady launch and smooth execution of mega projects**
  - Gas Chemical Complex in Turkmenistan
  - Ethylene Complex in Malaysia
  - Solar Power in Japan
  
- ◆ **Secure and improve profits on on-going projects**
  - Preventing the delays of project schedule
  - Executing proper change order management

## ◆ Orders received : ¥352.6 Billion

### <Major Orders>

- Large Ethylene Complex Project in Malaysia (EPC)
- EO/EG Project in USA (FEED)
- Large-Scale Solar Power Project in Kumenan, Japan (EPC)
- Mega-Solar Power Project in Setouchi, Japan (EPC)

## ◆ Orders forecast for FY2014 update : ¥500 Billion

(Remark) EO/EG: Ethylene Oxide, Ethylene Glycol



## ◆ Expansion of Market Opportunity

- Investments continued on Shale-Gas Based Projects in North America
- Steady investments in Petrochemical/Fertilizer Fields
- Investments increased on Infrastructure Projects (Power, Transportation)
- Investments Increased in Energy Upstream

## ◆ Points of Attention

- Fluctuation of Crude Oil Price
- Geopolitical Risk (Iraq, Russia)



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