

Chiyoda's Revitalization Plan

Initiatives for revitalization and the future

Explanatory materials

May 9, 2019

Chiyoda Corporation

Agenda

1. Financial restructuring plan 2
2. Building the foundation for revitalization 4
3. Business plan 11
4. Long-term vision for the future 18

Financial restructuring plan

- ◆ Financing(*) package of JPY180bn will be secured from Mitsubishi Corporation and MUFG Bank, Ltd.
- ◆ Mitsubishi Corporation and MUFG Bank will provide support other than financing
 - Mitsubishi Corporation :
 - Enhance strategy / risk management capabilities by sharing know-how and experts
 - Assist new business creation through its business network and business development capability
 - MUFG Bank :
 - Continue to send CFO and financial experts
- ◆ Chiyoda will work on the following with the above support
 - Execute projects in project structures where Chiyoda's strengths are to be applied
 - Implement the revitalization plan
 - Shifting of business portfolio to pursue future growth

(*) The completion of the financing is subject to the approval from shareholders through a resolution at the annual general meeting on June 25, 2019 and fulfillment of other conditions precedent

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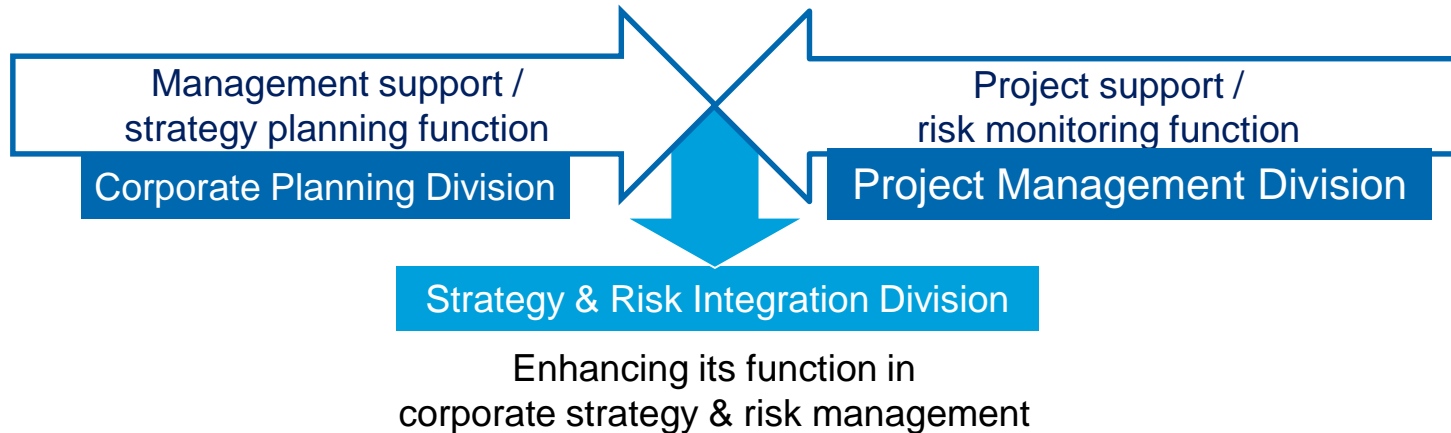
Causes of losses in major projects

- ◆ The impact of the occurrences below exceeded our reasonable expectations
 - The effect of works outside Chiyoda's scope on construction
 - Shortage of skilled labor
 - Decreased productivity / increased costs of site workers
 - The effect of natural disasters and weather on construction schedules and costs

Actions addressing the causes of losses

- 1** Further develop the risk management structure
- 2** Enhance EPC execution and management capacity
- 3** Reinforce human resources

Operate Strategy & Risk Integration Division in full-scale to further develop risk management and project execution structure, by taking account of estimated risks more prudently



Marketing / Pre-order intake

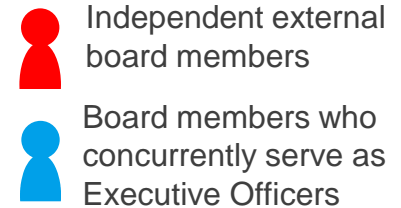
- Order intake that is commensurate with resources and capabilities of Chiyoda and allows the application of Chiyoda's strengths
- Selective project intake by conducting thorough evaluation of associated risks and estimated profits
- Further improvement of accuracy of estimates by introducing enhanced evaluation mechanism
- An execution plan with a sufficient contingency plan to have leeway for the worst case scenario

EPC execution

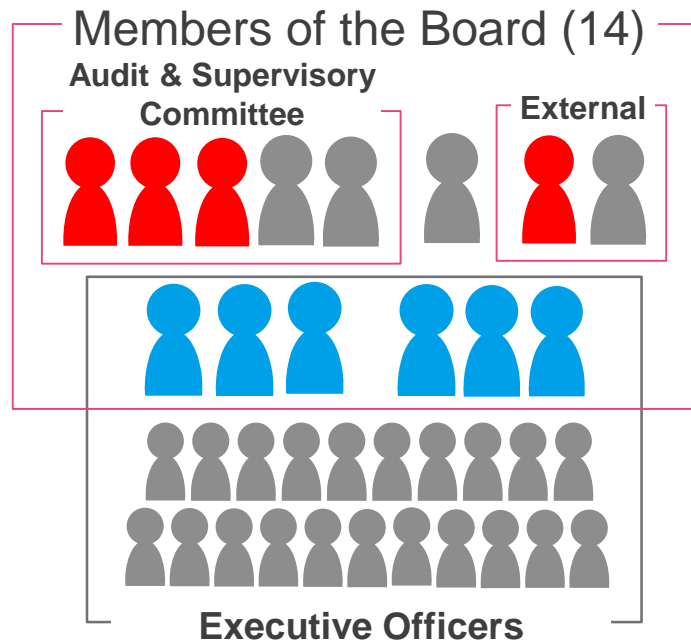
- Enhancement of project support system by cooperating with project operations
- Integrated management of overall projects profit and loss
- Prevention and minimization of causes of disputes
- Company-wide support for early countermeasures
- Project audits including a third-party engagement

Further enhancement of corporate governance

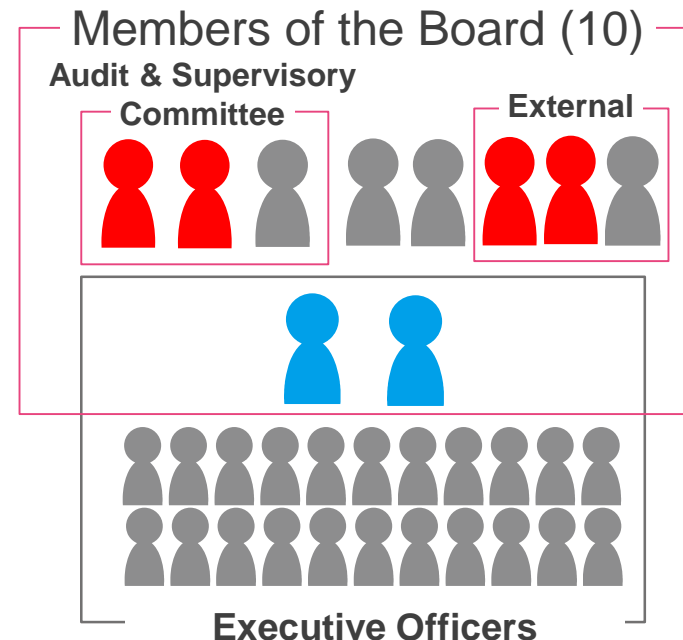
- ◆ Increase the ratio of independent external board members to 40% of the board
→ Enhance external monitoring function
- ◆ Board members who concurrently serve as Executive Officers are limited to the COO and the CFO
→ Further separate the function of operation/management of business plan and monitoring of its management



【Current】



【New】



Upgrade EPC
management
methods

Promote the utilization of a digital platform that thoroughly manages cost /schedule / quality of design, procurement, and construction

Strengthen
construction
execution
capabilities

Operate digital tools that reinforce the management of site workers and construction materials

Advance methods to manage the data of construction budgets and records

Reinforce human resources that can flexibly manage construction productivity

Enhance project control capabilities
Preventing expansion of losses by prompt countermeasures

Further implementation of meritocracy,
with the promotion of competent
employees based on performance-
based evaluation and compensation



Diversification of each
individual's capabilities through
experience in different functions
(position & role rotations)



Proactive recruitment and
integration of external talent

Reinforce and further develop human resources

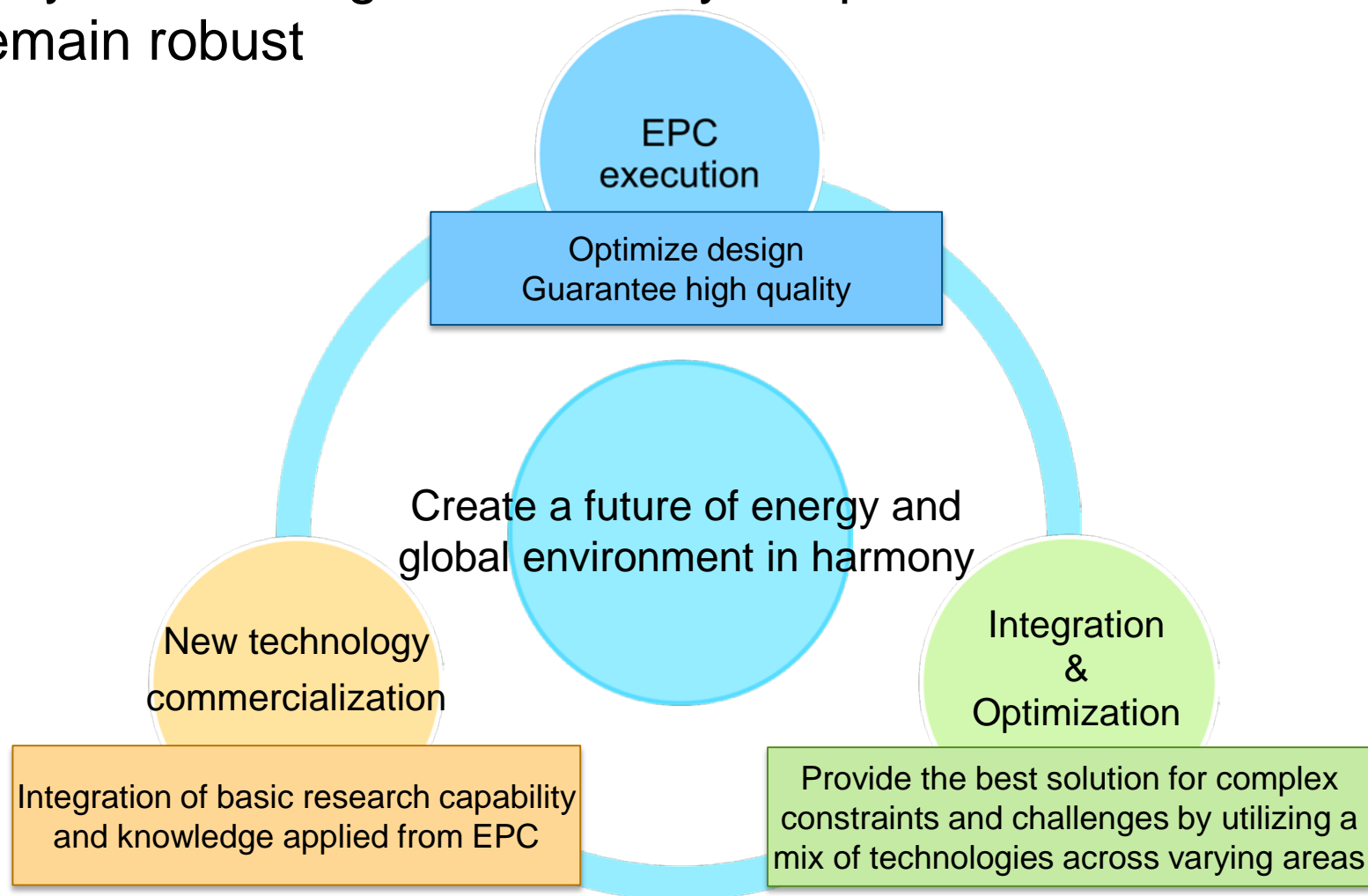
- ◆ Mindset of pursuing higher added value
- ◆ Literacy in risk, contracts and finance
- ◆ Management capabilities in cost and schedule

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Chiyoda's strengths

- ◆ Chiyoda's strengths backed by our proven track record remain robust



Key points in Chiyoda's business plan

Ensure benefits from growth areas

Order intake with thorough and prudent risk management

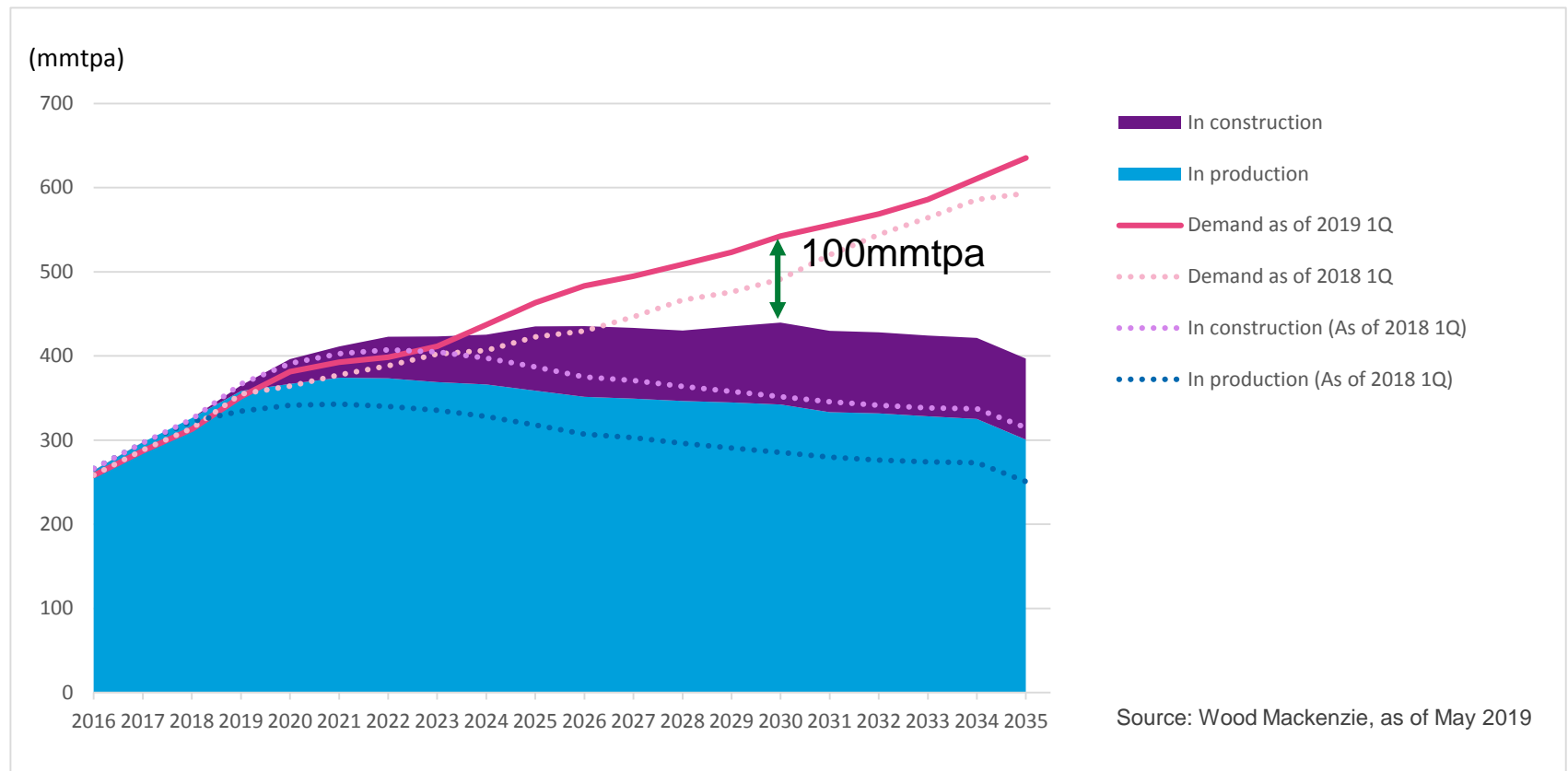
Strengthen downturn resilience by reduction of fixed costs

- Prioritize the execution of existing projects
- Capture the new demand for LNG, which is expected to steadily grow
- Accelerate the shift to the global environment business as base load, given the business transitions to low-carbon society
- Take on EPC projects where Chiyoda can play a leadership role in its execution
- Thoroughly examine construction risks to avoid uncontrollable risks
- Ensure that contract schemes fully reflect risks
- Thorough review and optimization of both domestic and overseas subsidiaries and offices
- Significant reduction in headquarter expenses

LNG market expected to grow steadily

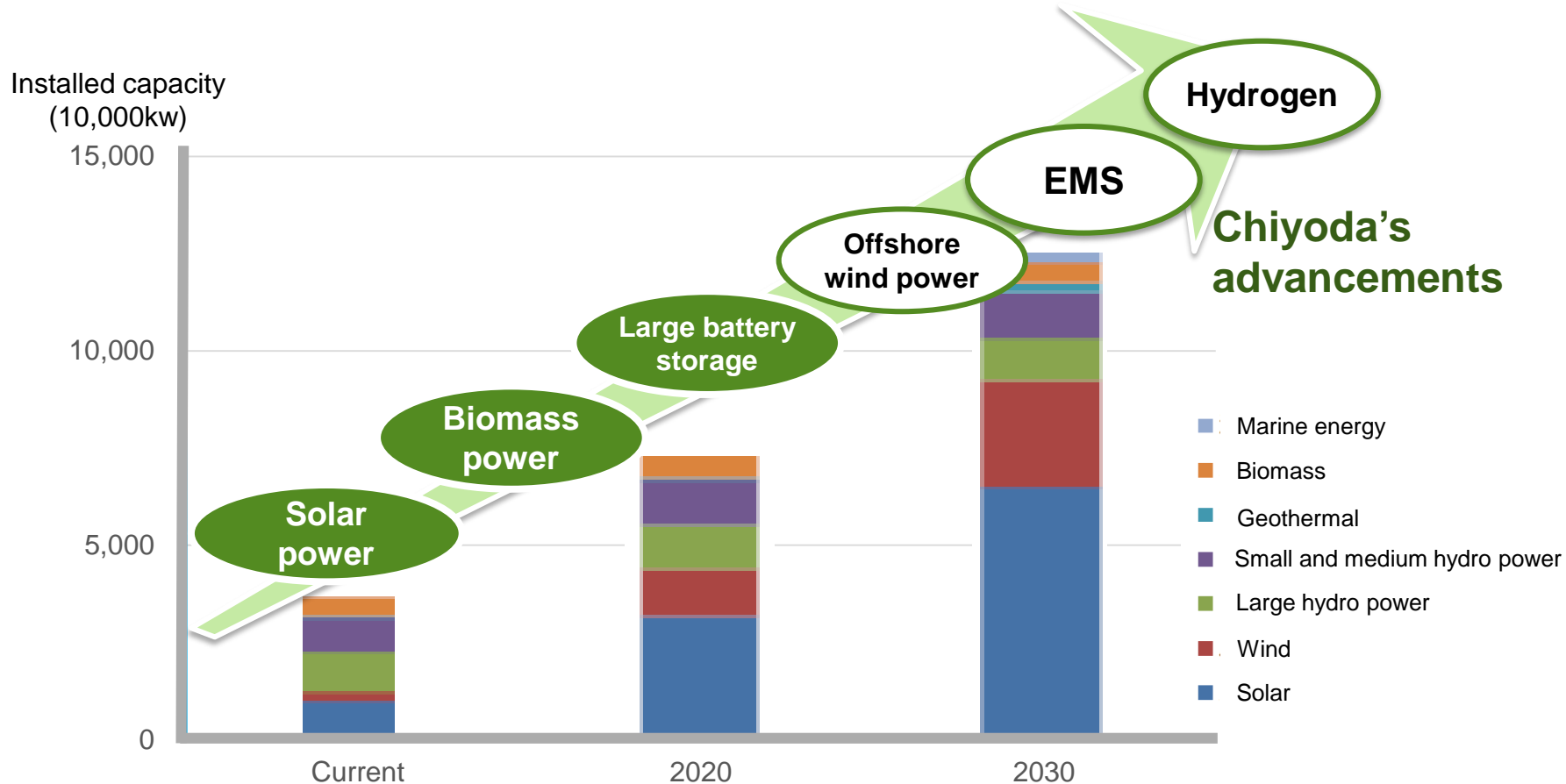
- ◆ LNG demand expected to grow steadily, mainly in Asia
- ◆ Approximately 100mmtpa demand for construction of new plants by 2030 expected
- ◆ Includes areas and clients where Chiyoda's track record is fully leveraged

LNG supply and demand balance estimate



Chiyoda's efforts in the growing global environment market

- ◆ Domestic renewable energy market growing steadily
- ◆ Chiyoda has a track record in solar and biomass power generation, as well as in battery storage systems
- ◆ Chiyoda plans to expand into offshore wind power generation and Energy Management Services (EMS)



(Source: Edited by Chiyoda Corporation based on "2014 Reports of the feasibility study on the establishment of renewable and decentralized energy system in 2050", Ministry of the Environment")

Strengthen downturn resilience by further reduction of fixed costs

◆ 30% reduction of SG&A by FY20
(vs FY17)

◆ FY18 actual

Consolidated fixed costs

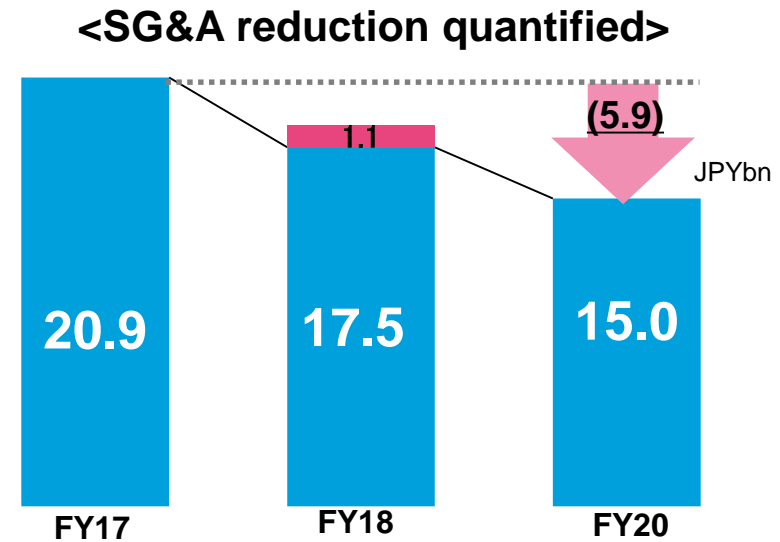
JPY59.4bn※

(vs FY17: JPY5.3bn reduction from JPY64.7bn)

SG&A

JPY17.5bn※

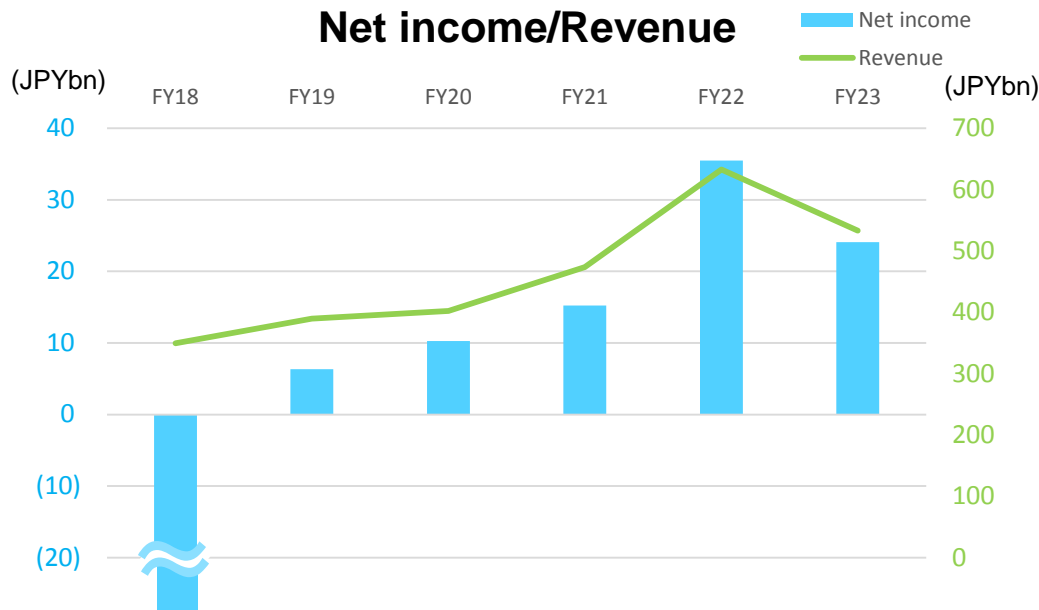
(vs FY17: JPY3.4bn reduction from JPY20.9bn)



Fixed cost items to be reduced	Concrete actions to be taken
Thorough review and optimization of overseas subsidiaries and offices	<ul style="list-style-type: none"> 50% cost reduction in overseas subsidiaries and offices
Thorough review and optimization of domestic subsidiaries	<ul style="list-style-type: none"> Business transfer, spin-off, and transition to equity method affiliates
Significant reduction in headquarter expenses	<ul style="list-style-type: none"> Reduction of compensation for senior executives and board members Reduction in outsourcing costs / IT expenses / depreciation Reduction in travelling expenses / office related expenses
Increase in efficiency by utilizing IT	<ul style="list-style-type: none"> Promotion of RPA (Robotic Process Automation)

※ Excluding JPY1.1bn of costs related to measures for the revitalization plan

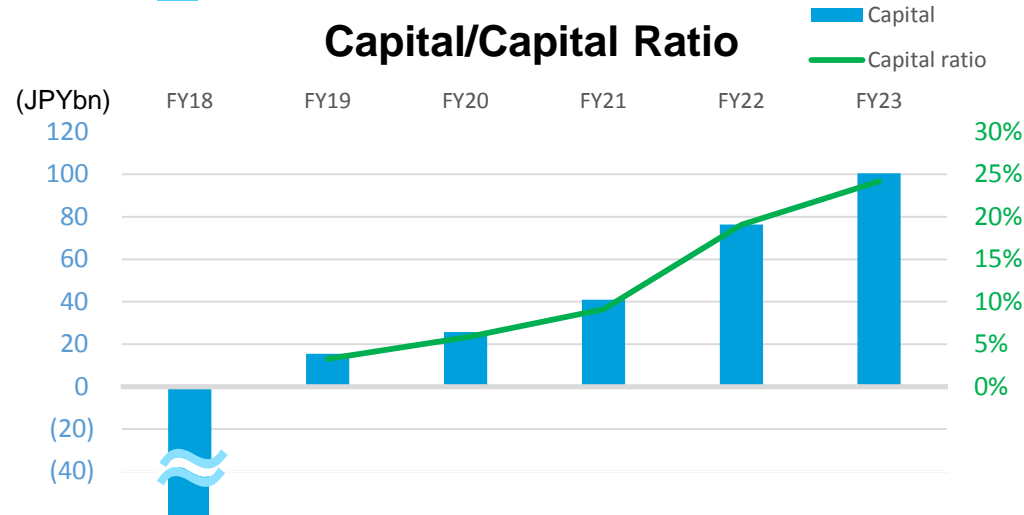
Business plan



◆ Assumed yearly order intake of JPY200~450bn in LNG/Gas, JPY100bn~150bn in global environment areas

◆ Transform to a company that stably generates a net profit of JPY10bn~20bn per year

◆ Build up profit of JPY90bn in 5 years



◆ Shareholders' equity ratio expected to recover to over 20% by 2023

◆ Aim to eliminate the accumulated losses within the period of this business plan

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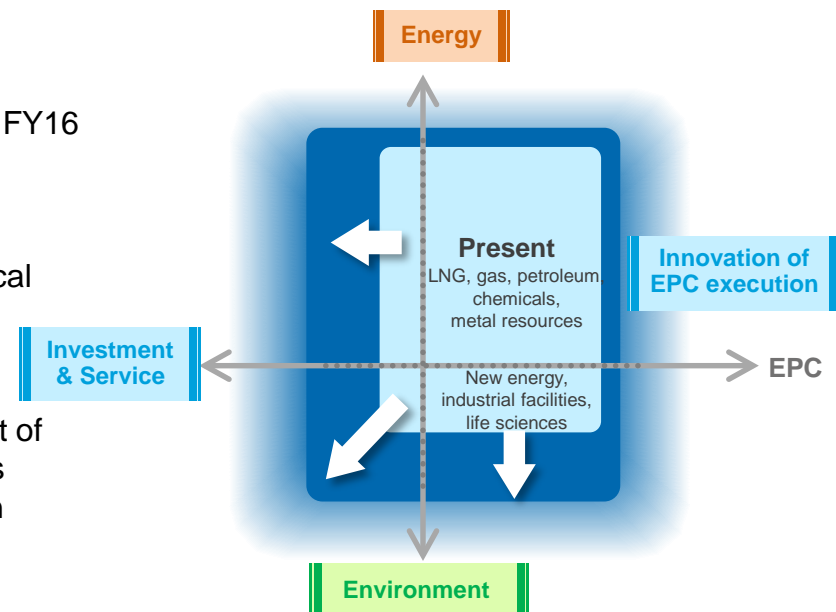
Progress of mid-long term growth strategy and vision of the future

Mid-term plan growth strategy

- ◆ Expansion of 2 business areas, “Energy” and “Global environment”
- ◆ Innovate EPC execution and diversify business by penetrating into Investment & Service areas, utilizing digital innovation technologies

Chiyoda’s current standing / progress

- ◆ Global environment area: order intake increase by 150% vs FY16
 - Order intake in renewable energy, battery storages and facilities related to renewable energy
 - Biopharmaceuticals production, technological progress in regenerative medicine and order intake in high-end medical facilities
- ◆ Utilization of digital innovation technology:
 - Launch of digital tools further enhancing the management of costs/schedule/quality/site workers/construction materials
 - Provision of systems that improve production efficiency in plant facilities



Vision of the future

Re-define Chiyoda’s value in engineering



Synergies with new business creation capability of Mitsubishi Corporation



Accelerate growth strategy

Mirai(*) Engineering for the future for energy and global environment

Until now

- ◆ Services provided for each phase of the project life cycle, mainly in FEED/EPC
- ◆ Optimize individual plants
- ◆ In-house R&D and implementation of external new technologies through EPC services

What Chiyoda envisions with its engineering capabilities

Challenges & needs of society / clients

- ◆ Optimization and improvement of existing business assets through digitalization
- ◆ Dilemma between increasing population / energy demand and resource limitation / climate change (decarbonization)
- ◆ Enhancement in disaster resilience
- ◆ Continuity of healthcare system

① Realize technologies

- ◆ Project life cycle partner to maximize the clients' asset value

② Integrate technologies

- ◆ Integration partner to provide compound system fit for complex energy needs & restrictions

③ Accelerate future technologies

- ◆ Incubation partner for future technology development to solve challenges in energy and global environment

Solutions

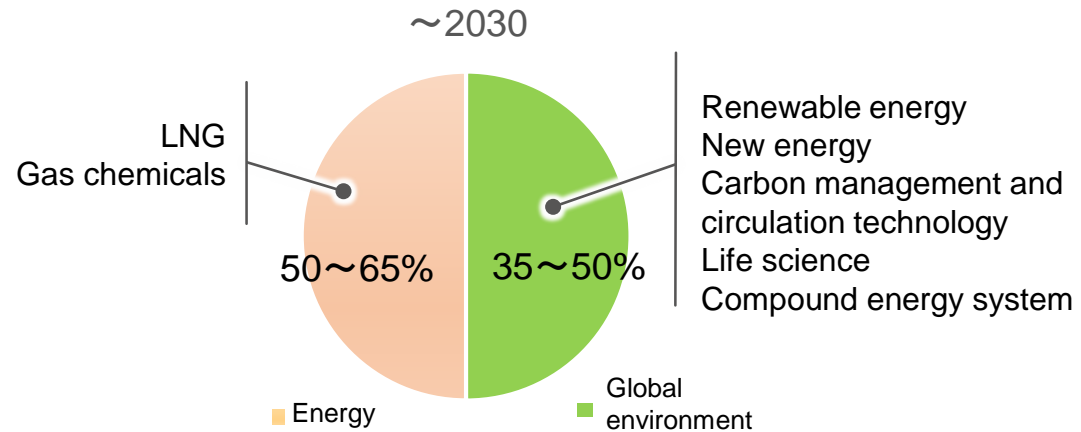
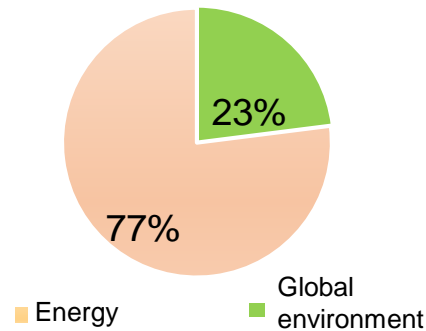
- ◆ Data-centric plant delivery
- ◆ Optimized plant system operation to improve productivity, save manpower, automated, and remotely controlled
- ◆ Development and provision of optimal diversified compound systems and demand chain systems
- ◆ Creation of a carbon neutral society through managing carbon and developing new technology
- ◆ Development of technologies related to smart cells, iPS cells for fundamental cure and regenerative medicine
- ◆ Development of manufacturing process to reduce drug production cost

(*) Mirai means future in Japanese

Future business portfolio

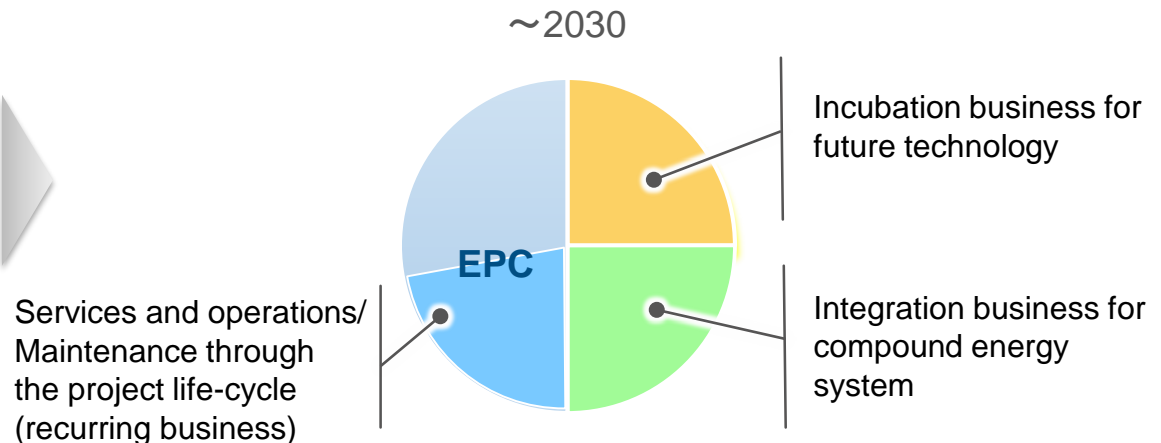
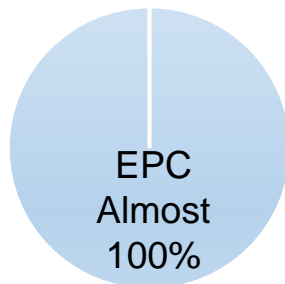
◆ Business area

Now (Revenue based)



◆ Business model

Now



Any projections included in these materials are based solely on information available at the time this presentation was prepared. It is possible that actual results may vary significantly from the projections due to a number of risk factors such as economic conditions. The results projected here should not be construed in any way as being guaranteed by the Company. Investors are recommended not to depend solely on these projections for making investment decisions.

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