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OUTLOOK FOR 2017:

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NEWS & UPDATES





AKIHIRO MISHIMA

Chairman & President

Tsuneishi Heavy Industries (Cebu), Inc.

CONTINUING TO HIT MORE MILESTONES AS WE WORK TOWARDS FURTHER DEVELOPING ASIA'S LEADING SHIPYARD

"First and foremost, I wish to thank all of our employees and their families for their support and hard work in 2016.

Tsuneishi Heavy Industries (THI) has been recognized in the 51st ANVIL Awards and received its first Silver ANVIL Award for its outstanding public relations programs on a sustained basis community development category on February 2016. The prestigious Anvil Awards has recognized THI for the "inspiring story of how a remote coastal town boomed to become a ship-building site, contributing to the social, economic and cultural welfare of its people."

THI has been a strong advocate of Corporate Social Responsibility and sees it as a pre-requisite of building a successful enterprise. Since 1998, the company has been true to its endeavors of a deeper commitment to environmental protection and to clearly point out the need for action against global warming and climate change through its annual tree planting activity. To date, THI together with its philanthropic-arm, Tsuneishi Foundation (Cebu), Inc. (TFCI) planted more or less 40,000 indigenous trees with 100% survival rate. In addition, a total of 55,000 propagules were planted during the mangrove planting activities.

We are actively involved in the local community like the school building repairs of public elementary schools, and holding a Kid's Day. It is an annual activity where we visit public schools, giveaway school supplies, souvenirs, play and eat lunch with

the school children.

With the help of our 13,000-strong workforce, in 2016, we were able to deliver 20 cargo vessels of different types; six eco-ship dubbed as AERO58 (58,000 deadweight metric ton type bulk carrier), eight KAMSARMAX (82,000 deadweight metric ton type bulk carrier), five N58 (58,000 deadweight metric ton type bulk carrier), and one ship order of 35,000 deadweight metric ton type bulk carrier.

We started the leadership training last March, which was facilitated by RAFI's Kool Camp, apart from lectures; the training also focuses on how we can contribute to THI's goals as a team, and we will continue this in 2017. The Inter-company transfer program to Tsuneishi Shipbuilding-Japan will still continue this year for technical exchanges but it will be in a longer years like a maximum of two years for supervisory and above.

This year, THI is expected to deliver 15 vessels in total; two 58BC, four 64BC, and eight 82BC, adding up the first construction of one tugboat as the 15th order.

We will carry out measures to improve profitability, cost competitiveness while maintaining product quality, and open to challenges for other types of vessels such as container ships and tankers.

As we celebrate another year with our employees, customers and business partners, we will continue to hit more milestones as we work towards further developing Asia's leading shipyard."



SEGISMUNDO EXALTACION JR.
President
Tsuneishi Technical Services (Phils.), Inc.

CREATING SYNERGY THROUGH TIMELY SHARING OF CRITICAL INFORMATION + TLIFE IN ACTION

“To all my dear Colleagues and fellow TTSPians:

First and foremost, I wish to thank all of you for the support that you have extended and for the favorable efforts exerted in 2016.

Indeed, we were able to achieve significant improvements in our targeted key result areas such as delivering value to THI and TSC by being able to keep our costs economical and by the glaring reduction of our errors as well as close to having a 100% delivery rate of all detail and production designs to yard side.

While I have felt and I have seen these improvements, I trust that we can all sustain the momentum and take the challenge of hurdling new sets of operational and strategic objectives in this year 2017. We need to find ways to shorten our design process lead-time in order to ably support TSC Design Division’s intention to carry-out the design of at least 8 new types of vessel per year. It is also noteworthy to support THI on the aspect of cost economics by being able to utilize available excess materials prior to defining new

purchase order specifications.

All these can only be achieved by continuously improving ourselves and our work attitude, by practicing the timely sharing of critical information that will create healthy cross-functional relationships not just among Teams within our organization but most importantly between TTSP and with THI and its concerned affiliates and with TSC. We need to create that much needed synergy that will enable us to hurdle the challenges of the future. To operationalize this, it is simply the sum between “timely sharing of critical information” and the enduring exercise of our shared values of TLIFE.

To complement all these intentions, with firm resolved, we will sustain the development of our human resource by way of periodic mentoring and training in order to acquire the needed competencies and skill sets as we move towards our strategic direction being expressed in our Vision, Mission and Values statement.”



ALEX ALASCO
President
Asian Craft (Cebu), Inc.

ESCALATING EMPLOYEES' MOTIVATIONS AND RESPECTIVE WORK PERFORMANCES

"Asian Craft (Cebu) Incorporated exhibited an optimum level of achievement, as it succeeded on exporting two units of sill beam accessory for Portainer Crane of Mitsui Project, which was aimed as one of the objectives for 2016. Recognition parallels to the production output of ACCI-Hull Fabrication Group, ACCI-Steel Material Cutting Group and ACCI-Outfitting Group for continuously escalating their motivation, as they were able to meet and even surpassed their targeted performance achievement last year.

Basic measures as man-hour control or reduction, cost cutting on consumables and operational expenses, maintaining or increasing quality standards to control, if not eliminate cancelled or rejected blocks, keeping aligned to safety procedures and practices and coping output schedules remain tied up to our objectives. For the whole working force to be fully engaged with their respective work performance, Asian Craft also aims on the

development of learning aspect. Advantages on attending THI QC lectures and elevating skills of grinders, fitters and welders through trainings and NK licensing are always emphasized.

Company objectives do not only involve profitability but also growth along with customer satisfaction. For this year, Asian Craft will be engaging in machining of Hatch Cover hinges, complete fabrication and installation of Radar Mast accessories including painting works and fabrication of assorted types of cranes.

Goal setting is an important component of employee motivation, in which employees look forward to new accomplishments, pushing their performance to ever increasing heights. As for Asian Craft's achievements, I extend my gratitude to all that embodies ACCI, especially to the production team who remained focused on running our operation and production efficiently."



SILVINO OIAMOT
President
K&A Metal Industries, Inc.

SENDING OUR STAFFS TO ACTIVITIES FOR TOOL ENRICHMENT AND STRICT ADHERENCE TO SAFETY AND HEALTH PROGRAMS

"2016 was once again a remarkable year for K&A Metal Industries, Cebu. Through thick and thin, K&A was able to realize all what were laid on the table with regards to our projections. We surpassed the production tonnage to a high 5,268 tons comprising all our fabrication sections. We obtained a surplus of 9,665 m² in our Painting Department. Capping it up, we maintained our zero-delay schedules in all our sections. However, as everything has its ups and downs, our defect ratio had unfortunately reached 6.11% despite our efforts to provide incentives to those who got a 0% defect in UT welding. Notwithstanding this unenthusiastic issue, we reached 2,072,670 man-hours without Lost Time Accident. This, I believe, is what matters most.

All these accomplishments are products of the collective traits of my team: Oneness. The good supervision, the cooperation and support, the constant inculcation of one's commitment to their respective duties and responsibilities, and the inherent characteristics of my team in doing the line with regards to compliance of the rules and regulations issued by the Company are but some of the primary reasons of these successes. Not to be counted

out is the cooperation and support of our subcontractors who had been with us as our partners for quite a long time now.

This year, though the given work from THI has diminished, we will continue our best efforts to sustain the momentum we have had in our production output. Great emphasis on customer's satisfaction is also a concern to reckon with. Thus, we will reduce customer's comments, improve our UT statistics and welding capabilities by sending our welders and fitters to THI Training Center for their mandatory licensing. We will also maintain our zero-delay schedules and cost-wise, we aim to reduce it to 10% vis-à-vis our 2016 data. Of course, the primacy of the welfare and safety of our employees is put on a pedestal. This shall be realized through the different strategies that we had formulated by sending our staffs to activities for tool enrichment and strict adherence to safety and health programs.

The success of one is the success of all. Thus, it is my fervent hope that K&A will continue to be a strategic partner and a valuable contributor to the overall success of the Tsuneishi Group."



SHINJI OKADA

President

Tsuneishi Accommodation (Cebu), Inc.

RECONSIDERING THE MANAGEMENT PROCESS, REORGANIZATION OF OUR TEAM, DIVERSIFICATION OF TRAINING CURRICULUM

"Now, we are on the start line of 2017.

This year, we are surrounded by such difficult business situation which we have never experienced. Manufacture's reduction is getting the serious problem to us.

During the difficult era, we are likely to take defensive actions. However, I'd like to suggest that we should take this situation as a big chance which we can achieve something we haven't done yet but will be necessary for our future.

For example, there are many actions we need to take this year: such as reconsidering the management process, reorganization of our team, diversification of training curriculum which can improve employee's skills.

And of course, improvement of work environment: such as old machinery's replacement, repairing the buildings, construction of new mobile roofs are also the important tasks. We need to discuss these tasks and make better results.

Also, our core system, EMS/ISO14001 was evaluated and renewed as the 2015 edition and it have just certified. So, I'm going to make use of this system actively in our current business.

Then finally, we will be able to make the organization system that enables us to secure the reasonable profit as improving the cost by 20% which I published as the medium-term management plan."

NEWS & UPDATES

TSUNEISHI HEAVY INDUSTRIES (CEBU), INC.

EMPLOYEES RICE SUBSIDY INCREASED, HOUSING LOAN INTEREST REDUCED

What a great year to start with these two improved benefits for the employees of Tsuneishi Heavy Industries (Cebu), Inc. (THI).

The rice subsidy that is provided every month was increased from 1,000 pesos to 1,500 pesos for regular employees and from 500 pesos to 750 pesos for probationary employees. The rice subsidy, in a form of coupon, is distributed to all entitled employees and is used to purchase rice or corn at the accredited store or supplier.

On the other hand, the housing loan interest rate

that was 6% per annum was reduced to 3% per annum.

The housing program of THI, which is an assisted-employer housing benefit that helps employees to acquire, house and/or lot, construction of his residential house, expansion or renovation needs, provides a comprehensive array of benefits consisting of loan programs including down payment assistance and other homeownership-related assistance.

Since its inception, the THI Housing Program has provided approximately 50 home loans. This helped



employees to address the major barriers in acquiring a house and/or lot such as the lack of funds for a down payment and inability to qualify for a loan.

The THI Housing Program

aims to help employees lead a more stable and rewarding life.

All amendments is effective January 2017.

TSUNEISHI HEAVY INDUSTRIES (CEBU), INC.

NEW PEZA DIRECTOR VISITS THI

THI was visited by Mr. Charito Booc Plaza, Director General of the Philippine Economic Zone Authority (PEZA) under the Philippine's Duterte administration. Director General Plaza has presented President Duterte with a comprehensive development program for the Philippine economy, to include the establishment of special economic zones for agriculture, industry, and tourism as well as the

construction of defense industry facilities. He came to THI to tour its factory and observe factory construction work, ship blocks, and other aspects of shipbuilding.

After a reception from THI's President Akihiko Mishima and presidents of affiliated companies, recent economic conditions in the Philippines and other topics were discussed.



