

November 9, 2018

JGC Corporation

Second Quarter Financial Results for FY2018 ending on March 31, 2019

Q&A from the Earning Release Conference (held on November 8, 2018)

※This content is based on information available on the date of the earning release conference (November 8, 2018)

1. Downward adjustment of net sales in the full-year financial forecast

<p>Please tell us why net sales decreased by 60 billion yen in your full-year financial forecast for FY 2018 ending on March 31, 2019 (hereinafter “this fiscal year”).</p>	<p>The major reasons for the decrease in net sales are:</p> <ul style="list-style-type: none">(1) The expected slow-down in the final stages of a construction project in the Middle East(2) A project in Southeast Asia that we had expected would lead to sales of tens of billions of yen was scaled down due to the client’s decision(3) The revision of a revenue forecast for a FLNG project at an earlier stage and other project due to an aggressively estimated percentage-of-completion at the last guidance in comparison with the actual record of half year end <p>With regards to a delay in revenue recognition as above (3), though the forecast sales in accounting will not reach the level initially predicted, the actual execution of the project has been making good progress.</p>
<p>Despite the downward adjustment, there is still a need to increase sales in the latter half of the fiscal year in order to achieve</p>	<p>We predict an increase of sales in the latter half of the fiscal year, based on revised a revenue forecast of each project in progress by following the result of the first half of the fiscal year.</p>

<p>the sales forecast for the entire fiscal year. But is that possible?</p>	
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2. Risks in the Ichthys LNG project

<p>Can you elaborate the risks associated with the Ichthys LNG project you mentioned in your announcements today?</p>	<p>As we mentioned in the outline of our financial results, we are continuing negotiations regarding recovery of reimbursable costs and unapproved change orders with the client, and a part of these are undergoing arbitration. Furthermore, regarding the construction of the combined cycle power plant, which is a part of this project, the subcontractor abandoned their responsibilities before completion despite working under a fixed price EPC contract of the power plant. This led to our joint venture group having to hire another subcontractor and pay the costs to continue construction of the power plant. The costs have been charged to the subcontractor and were taken to arbitration. As for the accounting, we have taken the assessed recoverable value with certainty after taking into account relevant professional advice from independent auditors and lawyers.</p>
<p>Can you tell us the amount you are negotiating with the client, and the approximate amount paid on behalf of the first subcontractor to construct the combined cycle power plant?</p>	<p>A certain estimate of the overall amount under dispute that we believe recoverable has been included in accounts receivable of our financial statements with totals around 100 billion yen for our 40% share.</p>
<p>Has the amount paid on behalf of the subcontractor in constructing the combined</p>	<p>As you say, the amount has been included in the accounts receivable. We do not expect the amount to increase dramatically in the future.</p>

<p>cycle power plant been treated as accounts receivable on the balance sheet? Will this amount increase in the future?</p>	
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3. The status of unprofitable projects

<p>In the second quarter of this fiscal year, there was an explanation about a project in which profits had deteriorated, but was this the project in Kuwait? Can you tell us the reason, and the financial impact?</p>	<p>It was the project in Kuwait as you say. We recognized a cost increase for scheduled delays and acceleration.</p> <p>The licensor suggested a material change of equipment in view of safety at the final stages of the project. We have confirmed that more time is needed to organize this change. Moreover, there have been continued problems regarding the acquirement of visas for foreign workers. As the project entered the final stages, it became difficult to mobilize additional skilled laborers due to extremely high demand as there were several projects simultaneously running close to completion in the neighboring area other than ours. The delay in progress also takes those into consideration. We cannot comment on the amount.</p>
<p>Regarding the projects in Saudi Arabia and Algeria (projects in the past for which the company booked provisions for losses), can you tell us the circumstances?</p>	<p>Regarding the projects in Saudi Arabia, we are expecting to complete them within the fiscal year. As for the project in Algeria (crude oil and gas processing facility), we overcame the cause of the loss, and completed the 1st train. There has been no further loss of both of these projects.</p>

4. LNG Canada project

<p>Regarding the LNG Canada project, you explained that the use of modular construction will minimize the on-site construction work.</p> <p>Can you tell us how much you can reduce the amount of on-site construction work by making use of this method?</p>	<p>In the LNG Canada project, the use of modular construction for the entire facility, and the use of larger modules are expected to cut the amount of on-site construction work by around 70% compared to conventional stick-built construction.</p>
<p>Is it true that the gross profit ratio at LNG Canada is around 10%?</p>	<p>We believe it meets our requirements in margin.</p>
<p>Regarding the LNG Canada project, I have heard that there are plans to construct 3rd and 4th trains. If a decision is made to go ahead with this plan, will the work be ordered to your group under a negotiated contract for the same amount as the contract to construct the 1st and 2nd trains?</p>	<p>That is the client's decision, so we cannot comment, but we would love to acquire the contract.</p> <p>In a project to build additional trains, many of the existing utility facilities can be shared, so the contract amount will be slightly less, but still a large amount.</p>

5. Yamal LNG project

<p>Have improved profits in the Yamal LNG project, which has been making steady progress, been reflected in the financial results?</p>	<p>The project has been making good progress, and the 2nd train has been completed. There has been talk of giving out bonuses, and the improved profits have been reflected in this fiscal quarter, as well as our full-year financial forecast.</p>
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6. Becoming a holding company

<p>What will change when you become a holding company?</p>	<p>Our business is currently centered on EPC in the overseas oil and gas sector, and the company is dependent on the success or failure of projects in this field. To break free of this, we need to develop a new pillar in our business to create a multi-pronged business system that integrates the overseas infrastructure sector, the domestic EPC business and the manufacturing business. Our aim is to change to a system of group-style management to enhance it.</p>
<p>Are you aiming to become a holding company to make M&A easier in the future?</p>	<p>The purpose of these reforms is not M&A but to develop a new pillar in our business so that, as a group, we will not be affected as much by the overseas plant market.</p>