

Financial Results for FY2018 ending on March 31, 2019
Q&A from the Earning Release Conference (held on May 14, 2019)

※This content is based on information available on the date of the earning release conference (May 14, 2019)

1. Financial results for FY 2018 ended on March 31, 2019

<p>Profit in FY 2018 ended on March 31, 2019 landed at a level slightly above the latest forecast. This was likely the result of both positive and negative factors. Can you explain these factors?</p>	<p>Positive factors were profitability improvements, including recordings of net sales, profits and attainment of bonus from the early completion of the Yamal LNG project.</p> <p>Negative factors were: (1) decrease in profit due to lower net sales; (2) recording of additional costs from schedule delays due to the effects of heavy rain in November 2018 and other reasons related to the Refinery project in Kuwait; (3) recording of additional costs to cover some costs of the Ichthys LNG Project's combined cycle power plant under construction; and (4) recording of additional costs for a solar power plant under construction in Japan, arising from changing the construction method because of an unexpected ground condition.</p> <p>We would like to refrain from disclosing the amount breakdown of positive and negative factors.</p>
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2. Contracts and business outlook for FY 2019 ending on March 31, 2020 and beyond

<p>Does the new contracts target for FY 2019 include the award of the Area 4 LNG project in</p>	<p>In FY 2019, we expect to be awarded at least one LNG project contract. In other businesses, we hope to be awarded contracts for an oil refinery project in the Middle East.</p>
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Mozambique?	The total sum of projects we expect to tender will be a very large amount. However, we will comprehensively consider the situation of each project, and we are planning around 600 billion yen for new contracts in the overseas Oil & Gas sector.
Does the gross profit ratio forecast for FY 2019 include risk elements?	There are low probability risk elements and elements with expected upturn in FY 2019. However, these are unable to be quantified at this point and thus not included.
If the level of net sales increases in years later, what range of gross profit ratio should we expect?	As we have explained to date, our gross profit ratio target is above 10% for lump-sum projects in the total engineering business. We hope to have the gross profit ratio at a level of 8% to 9% after taking various factors into consideration, such as mix of well executed projects and not well executed projects, and the estimate loss costs in the sales costs.
What is the sales outlook for the LNG Canada project for the next fiscal year (FY 2020) and beyond?	This project will be executed by adopting the module construction method. The module construction method involves a complex process of equipment procurement and fabrications, which makes it difficult to forecast the timing of cost accruals on the basis of which sales are recorded. In FY 2019, we forecast a progress rate in the 10% level (sales based on percentage-of-completion). We are not yet at the stage to provide a clear response regarding the sales outlook in the next fiscal year and beyond.
In the FY 2019 business forecast, functional materials manufacturing business is projected to have a revenue increase and profit reduction. What is the reason for this?	We made rather conservative forecasts based on the individual outlook figures at this time. It does not mean the situation is deteriorating.

3. Other

Other EPC contractors are facing worsening	We hope that will be the case. However, as clients also have budget restrictions for each project, an
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<p>business results and are cautious about participating in new project tenders. Does this allow JGC to receive project contracts at better profit ratios?</p>	<p>improved competition environment does not necessarily translate into project contracts at higher profit ratios.</p>
<p>What do you consider as the advantages and disadvantages of the worsening business results of other EPC contractors?</p>	<p>A disadvantage is that it may lead to decreasing confidence in the entire industry. An advantage is that clients are beginning to indicate an intention to secure highly reliable EPC contractors.</p>
<p>Can you update us on the arbitration with the client and subcontractor related to the Ichthys LNG project?</p>	<p>There have been no notable changes. We expect it will take around two to three years to reach settlement. We recorded additional accounts receivable of around 7 billion yen in the fourth quarter of FY 2018, and expect that the account receivable will increase by around 5 to 6 billion yen in FY 2019 (full year).</p>
<p>JGC executes LNG projects in Canada which has close ties to the United States. Do you have any concerns about how the U.S.-China trade friction will impact JGC?</p>	<p>We have no particular concerns at this time.</p>