May 14, 2018
JGC Corporation

Financial Results for FY2017 ending on March 31, 2018
Q&A from the Earning Release Conference (held on May 10, 2018)

※This content is based on information available on the date of the earning release conference (May 10, 2018)

1. The LNG market and JGC's capacity for executing LNG projects

Please tell us about JGC's policy concerning LNG project planned in all regions of the world.	For the LNG Canada project, for which the EPC contract was recently signed, we anticipate that the FID and contract will be recorded within the current year. In addition, for the US Jordan Cove LNG project, for which the EPC contract was signed in July 2017, we expect the FID and contract will be recorded during 2019 in line with the original schedule. Furthermore, there is commitment to the US Golden Pass LNG project, the Mozambique onshore LNG project (Area 4), and FLNG projects on the west coast of Africa, etc. Apart from these, there are plans for many LNG projects worldwide including those in their conceptual phase such as multiple plans in Russia and additional trains in Papua New Guinea, etc. We will carefully look at the viability of each and implement strategies to receive contracts.
Please tell us about JGC's capacity for executing LNG projects.	If JGC were to focus in-house resources only on LNG projects, it would be possible to execute 3 to 4 LNG projects, depending on the contract timing. However, we are aiming to build a balanced business portfolio that includes oil & gas areas other than LNG, as well as the infrastructure area, and do not plan to focus resources only on LNG projects.

2. Deterioration in profitability on some projects

There was an explanation that profitability deteriorated for some projects for Q4 of FY 2017 ending on March 31, 2018. Please tell us about such projects and the amount of deterioration in profitability for the respective projects. In addition, have such projects been subject to provisions for loss?	These are a project in Algeria and a project of an overseas subsidiary. I would like to refrain from talking about specific amounts of losses relating to individual projects, but the total provisions for loss has increased from the end of Q3 to the end of Q4 of FY 2017 because of these projects.
Please provide some more specific details about the status of the Algerian project where profitability has deteriorated.	This is a complex construction to modify the facilities at the wellhead for increasing the production of crude oil and gas, and recovering gas from combustion processes. There are also frequent gas leaks from the existing facilities, so careful construction is required, with due consideration given to safety. This has resulted in revisions to the costs and schedule, leading to additional expenses being recorded for FY 2017.
Please tell us about the progress and anticipated timing to complete construction for the Algeria project where profitability has deteriorated.	As at the end of March 2018, about 40% progress has been made. Completion dates have been set for each of the relevant multiple facilities at the wellhead, and some have been delayed. However, steadfast efforts are being made to complete the entire project by mid FY 2020 as originally planned.

3. Business outlook for FY 2018 ending on March 31, 2019

Gross profit levels had been forecast to improve due to the decline in the proportion of zero margin projects, but not much improvement is evident in the business outlook for FY 2018 ending on March 31, 2019. What is the reason?	It is true that the proportion of zero margin projects is falling, but the emergence of new projects with deterioration in profit has meant gross profit levels are not as high as originally anticipated.

There was an explanation that the tax burden is increasing because the foreign tax amount cannot be offset. Would you please provide more specific details? Is this a new problem? Will the same problem persist from next fiscal year and beyond?	To date, JGC had been able to avoid double taxation by applying Japan's foreign tax credit system to foreign taxes incurred when executing overseas projects, but the amount of foreign taxes exceeded the exemptions under the foreign tax credit system in the current period, so we were unable to avoid double taxation. This was mainly due to the compression on the limit of exemptions under the foreign tax credit exemptions caused by some unprofitable projects. In addition, there has also been a gradual tightening of the application criteria for foreign tax credit exemptions. At the present point in time, we are not forecasting the extremely large tax burden incurred this year for next year and beyond.

4. Business outlook for FY 2019 ending on March 31, 2020

Please tell us about the net sales forecast for FY 2019 ending on March 31, 2020. Are we right to expect that there will be topline growth if the 1 trillion yen in target contracts for FY 2018 ending on March 31, 2019 is achieved?	At the present point in time, I cannot make any definitive statements about the forecast net sales for FY 2019. However, the contract amounts during the past 3 years have stood at 300 to 500 billion-yen levels. In particular, there was a substantial drop in contracts to 320.6 billion yen for FY 2015 ending on March 31, 2016 and this could have an impact.
Please tell us about the forecast gross profit ratio for FY 2019. Are we right to think that the impact of unprofitable projects will no longer be felt and that there will be improvement?	At the present point in time, I am unable to comment on the forecast gross profit ratio for FY 2019. However, the current proportion of zero margin projects will definitely decline. Projects being executed and projects to be contracted in future will certainly generate income, and we will strive to return to a level of around 9% to 10%.

5. Other

There was an explanation that the plant EPC market is	We continue to maintain our stance of securing a gross profit ratio of about 10% on lump sum

improving. Is the profit ratio at the time of contract also improving?	projects.
Accounts receivable are growing on the balance sheet. Does this correspond to the temporary payment relating to the power plant subcontract for the Ichthys project?	That is correct.