November 12, 2019

JGC Holdings Corporation

Second Quarter Financial Results for FY2019 ending on March 31, 2020

Q&A from the Earning Release Conference (held on November 12, 2019)

※This content is based on information available on the date of the earning release conference (November 12, 2019)

1. Financial results for the second quarter of FY2019 ending on March 31, 2020

Gross profit ratio in the first half was 8.3%, roughly the same level as the full-year forecast. If you have a breakdown of positive factors and negative factors, please share the details on those.	The main positive factor was the improvement of profit resulting from the drawdown of the Yamal LNG Project contingency reserve. On the other hand, the main negative factor was the additional costs incurred on a gas booster facility construction project in Algeria. We received the order for this project at a time when the environment was challenging due to weak oil prices and declining capital investments by clients. Also, we have executed the project while the local government was restricting the hiring of workers from outside the province. As we reached the peak of the construction period, the labor shortage became conspicuous on the above and partly due to the effect of social conditions. After obtaining approval from the local government following negotiations for the mobilization of both workers from other provinces and those from overseas, we reviewed the execution plan and posted the additional costs associated with this extension of the construction schedule. We also made a partial provision for loss on construction contracts. Currently we are going to negotiate with the client with a view to recovering the

	additional costs, and we would like to refrain from disclosing specific breakdowns of the amounts involved in negotiations. Moreover, Algeria has seen continued political instability since the resignation of the president in April 2019, and we are aware of the need to pay close attention to the situation.
Please explain why the progress of quarterly sales as a percentage of full-year forecasts is low. Do you expect to be able to achieve full-year forecast for net sales?	The reason for the low rate of progress in quarterly sales is that the progress of LNG Canada Project is expected to grow sharply in the second half of this fiscal year, which is in line with our assumptions from the beginning. At this point in time we believe that we can hit the full-year net sales forecast.
Why has cash flow from operating activities improved so significantly compared to the same period of the previous year?	This is because there has been rapid progress in collection of receivables on projects in Algeria, which until now had been putting pressure on cash flow, and because dividends have been paid in respect to the Yamal LNG project, and so on.

2. Status of unprofitable projects

Please give us an update on the current status of projects for which provisions for loss on construction contracts have been made in the past.	The oil refinery project in Saudi Arabia is making smooth progress towards completion by the end of the fiscal year. The oil refinery project in Kuwait is also scheduled for completion by the end of the fiscal year, but we have been engaged in remaining works to meet the rigorous demands of the client, and strict management of profitability remains crucial. We posted additional costs in relation to the satellite facility project in Algeria in the first quarter of this fiscal year, but that is currently progressing smoothly in line with plans. In Japan, construction work currently under way on the large solar power plant is

	nearing the final phase, and is scheduled to be completed by the end of the fiscal year.

3. Other

Why did you fail to win the order for the Nigeria LNG expansion project?	We have heard that it was the result of a difference in the bid price. It is a great disappointment, but it is also the result of and incorporating various necessary risks into the bid price, and we do not think we are in a situation where we have to go as far as cutting such costs in order to win the order.
Is my understanding correct that the gross margin on the order recently received for the Mozambique LNG project is around 10% ?	We set the required gross margin for lump-sum projects at 10%, and this project also assumes similar levels of gross profitability.
Please give us some idea of what your target for orders received will be for the next fiscal year (the one ending March 31, 2021).	At this point this is only a rough impression, but there are plenty of projects for us to target, and we expect a similar level of orders as this fiscal year.
With regard to your growth strategy over the medium to long term, what kind of story do you have in mind?	Our recent move to a holding company structure was indeed the first step towards generating reliable and stable profits from multiple businesses, and towards sustainable growth in corporate value. Currently we are still in the middle of our (5-year) medium-term business plan, so I would like to talk about this again in more detail in the next medium-term business plan starting from FY2021.