CHIYODA CORPORATION

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The presentation was held in Japanese. This document is a translation/ summary for reference only.

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IR, PR & CSR Department
Chiyoda Corporation

Financial Results for the First Quarter of Fiscal Year Ending March 31, 2020: Briefing Summary (Briefing held on August 1, 2019)

Chiyoda Corporation ("Chiyoda", TSE:6366; ISIN: JP3528600004) released the financial results of the 1st quarter of Fiscal Year ending March 31, 2020, on August 1, 2019.　A presentation was held on the same day at 15:30 (Japan Standard Time).The following is the summary of the transcript (translation).

Highlights

- Operating income stood at 9.1 billion yen, signifying profit secured in the main business and a steady start of the revitalization process. Profit was 2.3 billion yen, reaching approximately 38% of the full-year forecast.
- Measures for financial strengthening are implemented in line with the revitalization plan. Payment of 70 billion yen for the preferred shares in the third-party allotment was completed on July 1 and negative net worth was cleared. A Subordinated loan of 20 billion yen from MUFG Bank was also executed on July 1. In addition, a credit line of 90 billion yen from Mitsubishi Corporation has been secured in preparation for future cash flow. Efforts to reduce fixed cost continue in addition to measures to strengthen the financial position of the Company.
- The new risk management system started steadily functioning. The Company ensures the steady implementation and proper cost control of ongoing projects and accepts orders for new projects based on strategies aiming at optimizing resource allocation and thorough risk control.

Financial Summary

- New orders amounted to 33.3 billion yen, revenue 86.5 billion yen, operating income was 9.1 billion yen, and profit came to 2.3 billion yen.

New Orders

- For Mozambique Area-1, the scope of work is limited to technical support after discussions with the client and joint venture partners.

Contract Backlog

(Description omitted)

Income-related Items

- Revenue totaled 86.5 billion yen, which is steady progress representing approximately 22% of the full-year forecast of 390 billion yen.

- Gross profit was 13 billion yen and the gross profit ratio was 15% which exceeded the fiscal-year target of 7.4% as a result of profit growth after reaching agreement with a client on new contract conditions for Cameron LNG and the reversal of the contingency balance due to completion of Yamal LNG.
- SG&A expenses stood at 4 billion yen, slightly less than 25% of the full-year forecast, indicating the effects of steady reduction.
- Non-operating income/expenses was a loss of 5.4 billion yen. Ordinary income came to 3.7 billion yen. Adding extraordinary income (loss), income taxes, and others to these resulted in profit of 2.3 billion yen.

[Non-operating income/expenses]

- Foreign exchange valuation loss accounts for major portion of Non-operating expenses.
- As for non-consolidated foreign-currency denominated assets, foreign exchange forward contract has been arranged to hedge the risk of currency fluctuations in the past. However, a large loss in overseas subsidiary was posted in the settlement for the fiscal year ended March 31, 2019, which resulted in a large amount of foreign-currency denominated liabilities thereof. As a result, the foreign-currency denominated assets and liabilities were mostly comparable on a consolidated basis. Therefore, foreign exchange forward contract has not been arranged in first quarter of fiscal year ending March 31, 2020.
- The yen rose approximately three yen against the US dollar between the end of March and the end of June. While this affected the income statement, it had limited impact on the balance sheet.
- Under consolidated accounting rules, a change in the amount of non-consolidated foreign-currency denominated assets and liabilities is recognized in the income statement as a foreign exchange gain or loss, which results in an increase or decrease in profit, while such change is also recognized as a foreign exchange translation adjustment (comprehensive income) of the balance sheet. In contrast, a change in the amount of foreign-currency denominated assets and liabilities of an overseas subsidiary is not recognized in its income statement as a foreign exchange gain or loss, while such change is recognized as a foreign exchange translation adjustment (comprehensive income) of balance sheet.
- As a result, a decrease in assets and a decrease in liabilities correspond to each other on the consolidated balance sheet and the impact is limited. Meanwhile, only the foreign exchange loss caused by a decrease in non-consolidated assets is recognized on the income statement, giving a negative effect on the net result.
- Moreover, because there is a three-month difference between the fiscal year end of non-consolidated account settlement and that of its overseas subsidiaries, any negative impact on the income statement and balance sheet of non-consolidated basis appears mainly in the first quarter and positive impact on the balance sheet of subsidiaries appears in the second quarter. The amounts of foreign-currency denominated assets and liabilities on a consolidated basis, however, almost offset each other and the actual impact is limited.
- This foreign exchange loss will not affect the cash flow.
- The arrangement of a foreign exchange forward contract for its foreign-currency denominated assets and liabilities shall be flexibly treated, considering financial situation in the future.

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Revenue

(Description omitted)

Balance Sheet

- Cash and deposits increased to 102.6 billion yen primarily due to the execution of a short-term loan of 30 billion yen from Mitsubishi Corporation based on the loan package in the revitalization plan.
- Accounts receivable – other rose 6.7 billion yen generally due to advances paid for subcontractors in the Ichthys project.
- Total net assets presented as negative net worth of 54.9 billion yen is the amount before the implementation of the third party allotment by Mitsubishi Corporation.
- The negative net worth were cleared as of July 1 after Mitsubishi Corporation underwrote 70 billion yen for the third-party allotment and MUFG Bank executed a subordinated loan of 20 billion yen on July 1.

Full-year Forecast

- The full-year forecast remains unchanged.

Status of Ongoing Major Projects

- The agreement had been reached with the client on new contract conditions for Tangguh LNG in July. The result of this agreement has not been incorporated into the financial results for the first quarter of the fiscal year ending March 31, 2020.

--End--

Note: Some additions and corrections were made to make the content easier for readers to understand.

Any projections included in these materials are based solely on information available at the time this presentation was prepared. It is possible that actual results may vary significantly from the projections due to a number of risk factors such as economic conditions. The results projected here should not be construed in any way as being guaranteed by the Company. Investor are recommended not to depend solely on these projections for making investment decisions.