Chiyoda Corporation

Telephone Conference Transcript
Financial Results for the 3rd Quarter of FY2017
(Announced on Feb 9, 2018)

My name is Hirotsugu Hayashi, and I am the CFO of Chiyoda Corporation.

Thank you very much for your continued support for us. I appreciate your attendance at today's Telephone Conference for the 3Q Financial Results presentation.

First, I would like to explain the 3Q Financial Results and forecasts for the remainder of this fiscal year. I will start with the three most important points of this 3rd quarter result.

Please turn to page #2, "3rd Quarter Highlights".

Firstly, I would like to highlight that the revenue progressed smoothly in line with the expectation. We achieved 385.9 billion yen of revenue as of the 3rd quarter, approximately 77% of the full-year forecast.

Second, "profit attributable to owners of parent" reached 5.2 billion yen.
Owing to progress in major ongoing projects in 3rd quarter and reduction of SG&A costs, compared to the 2nd quarter, our operating income increased 4.3 billion yen, ordinary income increased 4 billion yen and profit attributable to owners of parents reached 5.2 billion yen.

The third point I would like to highlight is that "the full year forecast, including 5 billion yen of the profit, as announced on November 10, 2017 remains unchanged.

We are working hard at smoothly executing ongoing projects and aim to achieve the forecasted profit.

Please take a look at page #4.

New orders for the first nine months of the fiscal year reached 209.1 billion yen approximately 60% of the full year forecast. Of this 209.1 billion yen, 95.9 billion yen is from overseas while 113.2 billion yen comes from domestic activities. Notably, new orders in domestic reached 113.2 billion yen, 87% of the full year forecast of 130 billion yen.

Looking at the breakdown by Business Field, we can highlight that;

New orders from “Environment, New Energy, Infrastructure” reached 67.9 billion yen, an increase of about 37% YoY was booked, accounting for more than 30% of the total New Orders for the 3rd quarter.

In addition, including "Pharmaceuticals, Biochemistry and General Chemistry" with “Environment, New Energy, Infrastructure”, both categories together account for almost half of new orders, under the leadership of the “Global Environmental Engineering Division”, a newly created unit formed under the medium-term management plan.

Including the above reasons, and as we expect stable domestic orders especially from “Global Environment Engineering Division”, mid-to-small size projects of overseas subsidiaries and change orders of the on-going projects, we maintain our New Order target of 350 billion yen for the full year forecast.

Although the backlog is gradually decreasing, falling to 695 billion yen, we expect that FID of new large-scale LNG projects will be made in the years ahead. Large projects include those we have implemented FEED, such as Mozambique Area 1, Golden Pass (U.S), and Sakhalin 2 · Train 3 (Russia).

Furthermore, to satisfy Qatar's increased production plan, we expect that FEED will begin in the next fiscal year.

Please turn to page #6, “income-related items”.

First of all, the revenue in the 3Q brought the year-to-date total to 385.9 billion yen.

As shown on page #7, breakdown “by field”, revenues in “Refinery, Petrochemical, Metal” decreased as refinery projects in Vietnam and Qatar were completed last fiscal year. On the other hand, "Environment, New Energy, Infrastructure "and "Pharmaceuticals / Biochemistry / Chemical" fields are showing steady growth.

With a decrease of 900 million JPY YoY, SG&A expenses came down to 15.1 billion yen, as a result of “Structural Reform” measurements. As a result, the operating loss reached 8.8 billion yen.

In addition, as we accounted for extraordinary income of 12.1 billion yen due to the reversal of the allowance for losses relating to “EMAS Chiyoda Subsea”, and a federal corporation tax refund to the U.S. subsidiary in the 2nd quarter, extraordinary income in the 3rd quarter reached 12.9 billion while corporate tax became a 700 million refund, and the profit attributable to owners of parents increased to 5.2 billion JPY.

The “cash and deposits” position decreased by 36.1 billion yen, mainly due to the decrease in cash and cash equivalents at a U.S. subsidiary, the main contractor for U.S. LNG project where costs increased.

“Provision for loss on construction contracts” increased by 1.7 billion yen compared to the end of last FY; this was primarily booked for an ongoing small to medium size overseas project. For your reference, if comparing it with the 2nd quarter, increase of this provision is 0.9 billion yen.

Please take a look at the last page #9, “Forecast Breakdown”.

Forecast figures remains unchanged from the revised “Full-Year Forecasts “announced at the 2nd Quarter, in November 2017. Revenue to reach 500 billion, Operating Income (9.5) billion, Ordinary Income (8.0) billion, and Profit attributable to owners of parent expected to reach to 5.0 billion JPY.

Moving forward, we continue to carry out each project with the full intention of achieving the full year forecasts.

The earnings forecast for next fiscal year (ending March 2019) will be announced at the full years result announcement of the current FY results.

This concludes the explanation of the third-quarter results and full-year forecasts.

Thank you very much.

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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.