Chiyoda Global Headquarters
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The Presentation was held in Japanese. This document is a translation/ summary for reference only.

Yokohama, November 13, 2018

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Transcript of the Briefing of the
Financial Results for the Second of the Year Ending March 31, 2019

Chiyoda Corporation ("Chiyoda", TSE: ISIN: JP3528600004) released the financial results of its 2nd Quarter of the Fiscal Year Ending March 31, 2019, on November 9 , 2018. A presentation to present the Company's Operations and Finance update was held on the same day at 15:00 p.m. (Japan Standard Time) in Tokyo. The following is the transcript (translation) of the conference.

PART I: Summary of Presentation of the Financial Results of 2Q FY2018

1. Net loss of JPY 108.6 billion.

Largely due to an unprecedented increase in construction costs (approx. JPY 85 billion) at the Cameron LNG project. After a detailed reassessment of overall construction costs, we recognize the need for additional man-hours to complete the project, at a higher unit cost, due to a severe escalation of wages and a lack of skilled labor availability. This reassessment has been based on extremely conservative estimates, calculated with our JV partner, McDermott and no further losses are expected. In addition to the Cameron project revisions, we have recognized additional costs at the Freeport LNG and Tangghu projects, and a reversal of deferred tax assets.

2. Solid progress of new orders.

The full-year forecast for New Orders of JPY 800 billion remains unchanged, in anticipation of a large new LNG project FID in H2.

3. Other points

3-1 Income-related items

The corporate tax increase which is associated with reversal of deferred tax assets is the main reason for the difference between the Ordinary Loss and the Net Loss.

3-2 Revenues

Revenues have decreased considerably YoY due to accounting treatment of the Q2 results which moved negative due to the cost increases at the Cameron LNG project.

3-3 Balance Sheet

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Cash decreased to JPY 76.5 billion due to the Cameron LNG project loss. Cash-flow will be carefully monitored to avoid any negative impact on operations, and information-sharing and discussions are underway with Mitsubishi Corporation and our banks. Investments and other non-current assets decreased JPY 11.6 billion due to the reversal in deferred tax assets. The provision for loss on construction contracts this quarter is JPY 26.1 billion, reflecting the increase in costs. Shareholder's equity stands at JPY 47.5 billion, a 12.7% ratio.

4. Notes on Assumptions for a Going Concern

Given these circumstances, we recognize there may be doubts about the Company's ability to continue as a going concern. In response we are implementing countermeasures to ensure smooth execution of the Cameron LNG project, while making efforts to reduce overall SG&A costs and sell non-core assets. Various discussions are ongoing with our major shareholder Mitsubishi Corporation as we strive to deal with these concerns as quickly as possible, however no consensus has been reached of today;

5. Responsibility of Managements

In a demonstration of our commitment to the responsibilities of management, we have decided to cut remuneration as announced separately today.

PART II: Summary of Presentation "Revisiting the Medium Term Management Plan"

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In response to the substantial losses recorded in the second quarter, two pillars of structural reform - "strengthening risk management system" and "increasing earnings strength and resilience" - will be accelerated. The "Global Environmental Engineering Business" and "Business Models for a Digital Society" components of our Growth Strategy will be enhanced, while the "Energy Value Chain Business" will be revisited.

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In this chart, Energy and Environment are plotted on the vertical axis and EPC and Business Services on the horizontal axis.

As we consider the expansion of our business domains, we highlight the following:

1) Reinforcement of resources for execution of ongoing projects (focus on LNG plants) where we expect continued strong demand (Upper Right segment);

2) Asset-holding and Gas-to-Power businesses will be put on hold as we prioritize rebuilding our financial health (Upper Left);

3) Global Environment businesses, including energy storage, dispersion in energy and advanced pharmaceuticals & medical fields will be strengthened and accelerated (Lower Right);

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4) Global Environment General business and services will continue to be worked on under a longer-term perspective (Lower Left).

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Prioritized allocation of management resources to projects in progress (including Cameron): A "Cameron Task Force" was established on September 1, 2018 led by the President and CEO. A management team (Vice President level) was assembled to lead as heads of both headquarters and site office respectively, to ensure successful completion of the project. For other projects we plan to use external experts for a comprehensive third-party review of risk. Smooth execution of all of our projects will lead to a secure positive cash flow.

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This division will be established to manage risks in a unified manner at a higher corporate level. Executive officers from several sections will be assigned to operate on a cross-functional basis, including input from outside executive-level personnel. This division will act in a powerful "checks and balances" function overseeing the Projects Operations division, with powerful responsibilities and authority. A preparatory office will be set up in November to examine the functions and authorities of the division.

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The main functions of the new "Strategic and Risk Integration Division" are the risk management of the pre- and post-contract award stages. The appointment of external experts and third-party evaluation and audit components are in preparation.

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The numbers of large LNG projects will grow as the LNG market stabilizes. More stringent rules, based on profitability forecasts will assist us in prioritizing targets to a greater degree.

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Consolidated SG&A will be reduced by circa 20% over the next 2 years to approximately JPY 15 billion. JPY 3.5 billion will come from optimizing domestic group companies, reviewing overseas bases operation from a scratch, reducing HQ expenses and improving business efficiency through technology. These actions will represent cost savings of ca JPY 10 billion in consolidated fixed costs.
Meanwhile, we intend to maintain core human resource and R&D investment costs to support our future as a forward-looking Engineering Company.

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Strengthening financial position alongside a demand for funds varies depending on the progress of various projects. We continue to carefully monitor the situation and need to ensure an appropriate level of risk tolerance as we execute large-scale LNG projects and a strengthening of our financial position is essential. At present, we are in discussions with our major shareholder as Mitsubishi Corporation and our banks.

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Revenues are expected to grow as new orders for large-scale LNG projects emerge. However, our selection process will give priority to proper profit and risk management. Concurrently, we will work to expand repeat orders from existing customers in Japan, the green energy field and the environment business.

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Balancing basic earnings with SG&A costs by covering costs with stable earnings is an important component of the current Medium Term Management Plan. Stable earnings can be derived from EPC projects in Environment Engineering, including domestic repeat orders and the green energy field. Overall, this business shows steady growth and, if we assume revenues of JPY 200 billion per year, with a gross profit margin of 8%, we will be able to cover the reduced SG&A target of JPY 15 billion per year.

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In terms of the quantitative targets for the net income, although we have posted a significant loss this quarter, we are blessed with a positive order environment. Profit objectives will become attainable through stronger risk management, tackling appropriate projects and securing our financial position. Retained earnings will be negative this year but we look forward to recording profits in the next fiscal years and beyond. We have an objective of positive performance by the last year of the current MTMP, fiscal 2020.

We will continue to communicate our progress with all of these issues, as and when appropriate.

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