

# CHAPTER 4

## Foundation for Creating Value

This chapter examines the basis of Group Value Creation. Observations of outside directors are followed by a look at our management framework and promotion of corporate governance, as well as risk management and compliance initiatives.

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(information disclosure, IR activities)



## Messages from Outside Directors

(Outside director profiles are provided on p. 56.)

Message  
from Outside Directors

### Creating Value that Addresses Social Issues

Outside Director  
**Shigeru Endo**



Amid harsher conditions in international politics, the coronavirus crisis has disrupted global supply chains and restricted movement, seriously affecting the world economy. Some have observed how the crisis seems to be fast-forwarding historical processes. Although this may be a factor that undermines JGC Group performance, it can also be taken as an excellent opportunity to enhance corporate resilience and promote reform.

Last fall, the JGC Group changed course and adopted a holding company structure. The move to a holding company represents the third major transformation following a move from oil refining to engineering business in the early years after the company was founded in the 1930s, and then another when it expanded internationally in the 1960s. Currently, the entire group is working to implement this transformation, and a notable development toward this end is the formulation of the 2040 vision. In the spirit of SDGs and ESG, the Group's determination to take on social challenges and protect the environment is becoming more apparent, and I believe we will see specific shapes this will take in the next medium-term business plan announced in 2021.

Here, I think that it may be necessary to reconsider the nature of corporate value. As a company, one must generate profit as a matter of course. However, this by itself is no longer sufficient. Companies must now create value that is useful not only for investors but also for society as a whole, including employees, their families, communities, and the environment. Recently, the supercomputer Fugaku won four

world rankings in computing speed and other areas. When I heard a developer at the announcement mention that rather than aiming to make the world's best system, they sought usability, I was impressed by their stance, which goes beyond functionality and emphasizes something responsive to user needs and valuable to society. Looking back in history, although Panasonic founder Konosuke Matsushita enjoyed early success in business, he later experienced stinging failure. He did some soul-searching after reflecting on his single-minded pursuit of profit and lack of founding ambition, and he decided that their corporate mission would be to bring happiness to people and make the world a better place.

The Group is also improving corporate governance, which is the foundation of this transformation. We also see this in recent developments, such as establishing the Nominating and Remuneration Committees, introducing restricted stock compensation, and ensuring that at least one-third of the directors are outside directors. Steady progress is being made. In the future, I hope we can hold more in-depth discussions on disclosure of non-financial information.

Many employees in the Group have strong feelings about social value. Taking on work with enthusiasm, doing all one can, and devoting oneself to it. I believe this corporate heritage is the Group's greatest core competency. Although many challenges remain, such as digital transformation, I expect the Group to continue working together and rising to the occasion with determination.

### Viewing Crises as Opportunities, and Seizing the Future

Outside Director  
**Masayuki Matsushima**



These are trying times for the JGC Group. Investment by oil majors and oil- and gas-producing countries rapidly came to a standstill this year from factors such as the Covid-19 pandemic. Meanwhile, as the global macrotrend toward decarbonization continues over the long term, it seems inevitable that companies seeking orders in oil and gas will face a headwind.

But the slump in oil and gas capital investment will not last forever; there is no need to be overly pessimistic, and it would also be a mistake to believe that continued overreliance on oil and gas poses no risk for the Group.

With this awareness, the Group is in the process of transforming its existing management strategy and sales structure in pursuit of lasting, sustainable growth. One facet of this was adopting a holding company structure as of October 2019. In 2020 the Group has also been mapping out, with input from various divisions and experts, new business that appears to be promising over the next 20 years. As these proposals are scrutinized relative to an array of criteria and prioritized, they will begin to take shape as soon as possible. To survive in the challenging world of the 21st century, the JGC Group is also planning a shift toward higher productivity, with both flexibility and tenacity, as a corporate group that has implemented digital transformation (DX).

I am of the opinion that companies may well respect their history and traditions, but unless they adapt to changes in their environment, they will fall into decline. I encourage the Group to move to their new

corporate structure with a sense of speed, undaunted by risks associated with the unknown, which come with any transformation. On this occasion, I have also advocated further promotion of efforts toward a personnel system where international and diverse human resources can play active roles. And especially at a stage such as this, I hope each member explores and vigorously discusses what the Group should be like in 20 years and the action they themselves should take.

Close monitoring will be needed, however, to prevent this far-reaching and rapid-fire transformation from causing undue friction or reform fatigue in the workplace. There is no concern that organizational reform will disrupt governance, however. Fairness and transparency have been enhanced by structural improvements to corporate governance over the past few years, such as refining the composition of the board and streamlining its management, as well as having a majority of outside directors in the Nominating and Remuneration Committees.

It is said that crises are also opportunities. Everyone is motivated when they share a sense of crisis. Getting through trying times is never easy, but I am convinced that when all members stand together and encourage each other, surely they can seize the future.

## Messages from Outside Directors

Message  
from Outside Directors



Outside Director  
**Kazuo Ueda**

It has been a year since I became an outside director of JGC Holdings in June 2019. This has given me a chance to ask many questions and make a variety of suggestions at board meetings, drawing on my expertise in finance. What interests me in particular, of course, is whether the company earns returns commensurate with risks, as expected by shareholders.

Risk and return varies greatly from one project to another. We have discussed the nature of risks, the returns expected, and the methods of risk management for each project of the JGC Group, and I have made various suggestions.

The Group has targeted 10% ROE as described in the current medium-term business plan, which took effect in 2016. At present, the rate of return on safe assets is near 0% internationally, with the equity risk premium generally placed around 3–6%. Considering that the rate of return on safe assets was previously higher than it is now, I believe this is an appropriate level.

However, if financial leverage is high—that is, the equity ratio is low—higher return is expected by shareholders, and if the business risk is high, naturally, the expected return also increases. As a textbook example of this, the expected return for each project is calculated according to the extent and nature of financial and business risk. If expected return exceeds this level, it will be adopted, but in actual business, it is not this easy.

For example, it is unrealistic to assume a statistical distribution of returns for projects in Africa and calculate risk and then cost of capital based on it. But many things are revealed if we attempt this anyway, and seeking to reduce unexpected events and keep risks

within a calculable range is a key component of risk management. As we actively engage in these kinds of discussions, I hope it helps improve decision-making.

In reality, Group earnings yielded an ROE of 1% in the fiscal year ended March 31, 2020, and the average over the past three years has been less than 4%, which is far from the target. We should not be too concerned about a low rate of return over a few short years, but this is a problem if it persists long-term.

As for the economic environment which will affect current and future return, the energy industry faces significant impact not only from short-term factors such as economic repercussions of the pandemic but also from medium and long-term influences, as well as a shift toward environmental conservation. Indeed, it is in this context that the Group itself is moving ahead in formulating a 2040 vision. Long-term corporate survival relies on an approach of determining a vision of the company far in the future and then calculating backward to plan for the near future.

For situations far in the future, it becomes more difficult to make reasonable economic calculations. However, calmly reviewing the distinctive knowledge and technologies that a company has built up over years in the context of the external environment will surely reveal the right path to take. Being competitive enough to be a player in the global arena, which relatively few Japanese enterprises can claim, will also be fundamental in the long-term vision. Looking ahead, I hope to continue contributing through these kinds of discussions.

## Corporate Governance

Related SDGs >



### Basic Stance

The JGC Group remains aware that, in line with the JGC Way corporate philosophy, the foundation for management in pursuit of higher corporate value over the medium-to long-term and sustained growth is sound governance. We are therefore strengthening our corporate governance, which we view as one of the Group's priority material issues.

Our central mechanism for corporate governance is the Board of Directors, through which we continuously review governance structures, functions, and roles. Effectiveness of the board of directors itself is analyzed and assessed each year, as we seek progress through steady improvement. In shareholder and investor

engagement, we take a proactive stance in highly transparent information disclosure, and viewpoints from this dialogue are applied to strengthen governance and management.

In regulatory compliance and other matters essential to appropriate corporate governance as well, the JGC Way philosophy serves as a shared value that calls on each employee and officer to maintain high ethical standards in everything they do, so that the Group as a whole works to enhance medium- to long-term corporate value and achieve sustained growth.

### Outline of Corporate Governance System

JGC maintains a board of directors and audit and supervisory board. JGC Group has adopted a holding company structure under which operating companies pursue the Group's core business. Separating management from execution provides greater clarity on roles and responsibilities of the holding company and operating companies. The holding company's role is to formulate management policies and oversee the operating companies from a medium- to long-term group perspective. Operating companies apply group management policies and strategies to respond flexibly and rapidly to market characteristics and seek further business expansion.

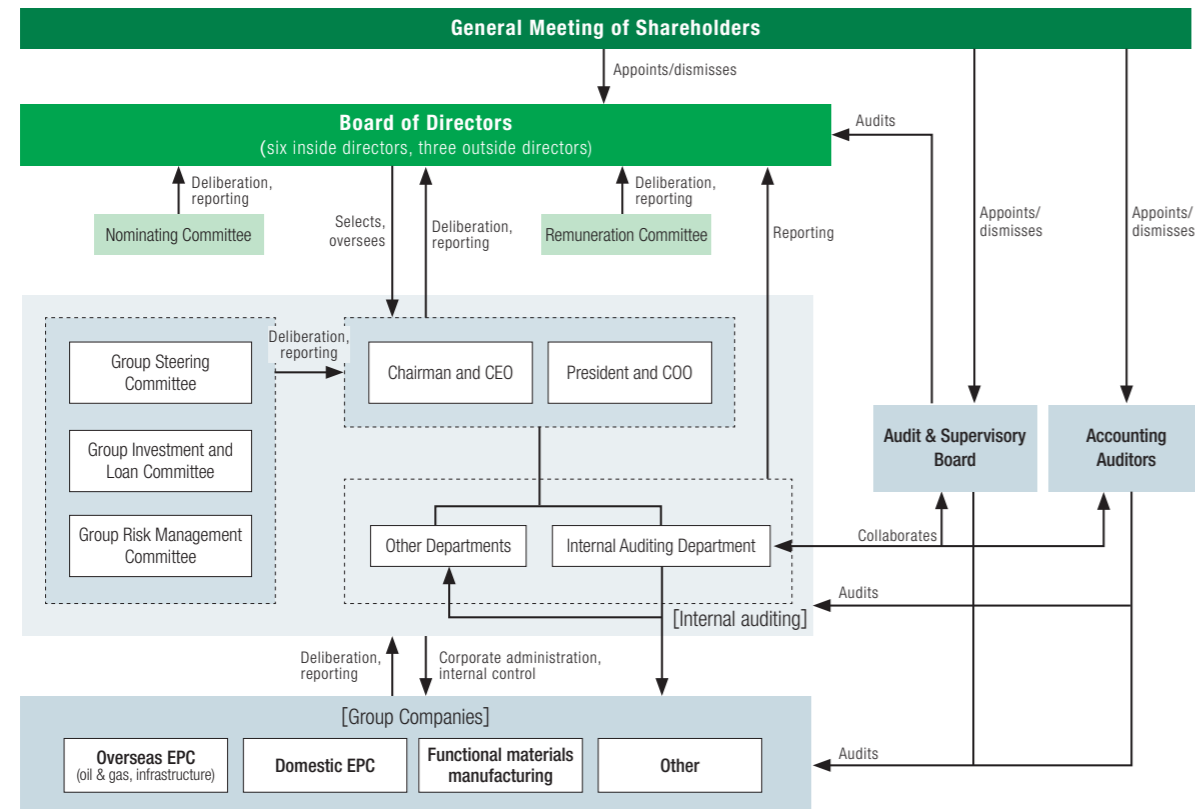
To reinforce management oversight and enhance transparency toward this end, we have appointed outside directors and outside audit/supervisory board members meeting the criteria for independent officers. Additionally, an executive officer system has been introduced to ensure rapid, efficient managerial decision-making and execution. This is intended to maximize corporate value and ensure optimal allocation of management resources for the Group as a whole while enhancing transparency of corporate management and strengthening overall group governance.

Main elements of the corporate governance system are as follows.

Body	Purpose	Meetings	Members	Head of organization
Board of Directors	<ul style="list-style-type: none"> <li>Resolves key matters of business execution</li> <li>Oversees directors' executive actions</li> <li>Deliberates on medium- to long-term strategies and issues</li> </ul>	Generally monthly	Nine directors (including three outside directors) Five auditors (including three outside auditors) (For fuller discussions, others also attend as needed, such as operating company officers, executive officers in charge of certain areas, and those in relevant divisions)	Chairman and CEO Masayuki Sato
Audit & Supervisory Board	<ul style="list-style-type: none"> <li>Discusses and resolves issues based on reports of key auditing matters</li> <li>Presents opinions based on the results to directors or the board of directors as necessary</li> </ul>	Generally monthly	Five auditors (including three outside auditors)	Full-time Audit & Supervisory Board Member Yukihiko Makino
Nominating and Remuneration Committees	<ul style="list-style-type: none"> <li>Deliberates on appointment and dismissal of officers, remuneration, etc.</li> </ul>	Annually (and as needed)	Chairman and CEO Masayuki Sato President and COO Tadashi Ishizuka Three outside directors* (Shigeru Endo, Masayuki Matsushima, and Kazuo Ueda) <small>*In order to improve fairness and transparency, the majority of the committee consists of outside directors.</small>	Chairman and CEO Masayuki Sato
Group Steering Committee	<ul style="list-style-type: none"> <li>Discusses the direction that the Group should take as well as steering matters such as management/business strategies for the Group as a whole and each operating company</li> </ul>	Generally monthly	Chairman and CEO Masayuki Sato President and COO Tadashi Ishizuka Auditors (rotating) (Consists of members such as group company officers appointed by the chairperson)	Chairman and CEO Masayuki Sato
Group Investment and Loan Committee	<ul style="list-style-type: none"> <li>Deliberates on holding company and group investment and lending projects</li> </ul>	Generally monthly	Standing members: Eight directors, executive officers, and auditors of the holding company and Group. Non-standing members: Four executive officers of the holding company may attend, depending on the agenda.	Chairman and CEO Masayuki Sato
Accounting Auditors	<ul style="list-style-type: none"> <li>CPAs Michitaka Shishido, Takemitsu Nemoto, and Atsushi Nagata of KPMG AZSA LLC audit JGC accounts.</li> <li>Auditing support is provided by 11 other CPAs and nine assistants.</li> </ul>			

# Corporate Governance

## Corporate Governance System



## Improvement Status of Internal Control System

JGC's Board of Directors determines the basic principles of the internal control system and revises them as necessary.

### [Improvement Status]

① The Internal Auditing Office monitors, evaluates, and improves the effectiveness of the internal control systems of JGC and the JGC Group and conducts separate audits as necessary

② Rules of Management Authority regulate the duties and authority of each role, and clarify the system of responsibilities in corporate management and business execution

③ Management rules for Group companies have been formulated and implemented to ensure efficient and appropriate operations across the Group

## About JGC's Response to the Corporate Governance Code

Since the implementation of the Tokyo Stock Exchange's Corporate Governance Code in June 2015, we have consistently held discussions on appropriate corporate governance for JGC and are making steady efforts to further solidify our corporate governance.

### [Content]

- ① Implementation of all principles laid out in the CG Code
- ② Disclosure according to all 11 general principles, principles, and supplementary principles required by the Tokyo Stock Exchange

## Board of Directors

### Board Functions

The Board of Directors is responsible for decision-making on medium- to long-term group strategy and issues, and it provides oversight regarding business execution of group companies. Board composition is intended to enable effective and efficient execution of these functions.

### Basic Policy on Board Composition and Diversity

From the standpoint of further enhancing discussions on medium- to long-term group strategies and issues and of strengthening oversight regarding business execution of group companies, the board consists of the following members.

① Consists mainly of directors with broad experience in business markets and directors with a high level of knowledge and expertise in engineering, procurement, and construction (EPC) operations, which is the primary group business.

② Independent outside directors are appointed in order to incorporate outside perspectives in management, with the expectation that these directors will provide objective advice to the board and fulfill oversight functions from an independent viewpoint.

As a matter of policy respecting the importance of diverse perspectives, members are appointed not solely based on professional experience and expertise but also on competence, regardless of nationality, race, or sex. Although there are currently no female or foreign members, members with various backgrounds and global experience have been appointed, and diversity will continue to be sought in the board.

### Background of Directors (six internal, three outside) etc.

Name and position at JGC	Term as auditor (in years)	Outside director attendance at board meetings in Fiscal 2019	Background							
			Business planning and management	Project management	Technology	Sales and marketing	Human resources	Finance and accounting	Legal	Global experience
<b>Masayuki Sato</b> Chairman and CEO	10	—	●	●		●	●	●		●
<b>Tadashi Ishizuka</b> President and COO	3	—	●	●	●	●				●
<b>Kiyotaka Terajima</b> Director, Senior Executive Vice President and CFO	4	—	●				●	●	●	●
<b>Masanori Suzuki</b> Director and Senior Executive Officer	6	—	●			●	●	●	●	●
<b>Keiji Nohira</b> Director and Executive Officer	Newly appointed	—	●	●	●	●				●
<b>Yutaka Yamazaki</b> Director	15	—	●	●	●	●				●
<b>Shigeru Endo</b> Outside Director	7	15/15 (100%)	●				●			●
<b>Masayuki Matsushima</b> Outside Director	4	14/15 (93.3%)	●					●		●
<b>Kazuo Ueda</b> Outside Director	1	11/12* (91.6%)	●					●		

\*appointed on June 27, 2019

### Background of Auditors (two internal, three outside), etc.

Name and position at JGC	Term as auditor (in years)	Outside director attendance at Audit & Supervisory Board in Fiscal 2019	Background		
			Corporate management	Legal, finance, accounting	Economics
<b>Yukihiro Makino</b> Audit & Supervisory Board Member	4	—		●	
<b>Yasumasa Isetani</b> Audit & Supervisory Board Member	2	—		●	
<b>Masao Mori</b> Outside Audit & Supervisory Board Member	9	26/26 (100%)		●	
<b>Koichi Ohno</b> Outside Audit & Supervisory Board Member	6	26/26 (100%)		●	●
<b>Norio Takamatsu</b> Outside Audit & Supervisory Board Member	4	26/26 (100%)	●	●	

## Corporate Governance

### Board Effectiveness Evaluation

Board effectiveness is analyzed and evaluated annually, efforts toward improvement are reviewed, and issues linked to further gains in effectiveness are discussed by the board in pursuit of continuous improvement. Presented below are a summary of the process of evaluating board effectiveness in fiscal 2019, the survey, results, and future issues to address, and main past efforts to enhance efficacy.

<b>Process</b>	<ul style="list-style-type: none"> <li>● A third-party evaluator conducts an anonymous survey of directors and auditors</li> <li>● Progress is reviewed, including progress in areas for improvement when effectiveness was last evaluated</li> <li>● Opinions are collected on current board effectiveness and ways to enhance board effectiveness</li> <li>● The board reviews the results, focusing on key future issues</li> </ul>
<b>Content of survey</b>	<ul style="list-style-type: none"> <li>● Checks compliance with principles of Section 4, "Responsibilities of the Board," of the Corporate Governance Code, including progress since the previous evaluation</li> <li>● Main evaluation items: Board composition, management, discussion, oversight functions, own involvement, and management of Nominating and Remuneration Committees</li> <li>● Solicits open-ended responses on board performance and areas for improvement</li> </ul>
<b>Evaluation results and future issues to address</b>	<p><b>Evaluation results</b></p> <p>In addition to confirming steady progress in the establishment and operation of an internal control system for appropriate management and supervision of group companies since adoption of a holding company structure in fiscal 2019, we have confirmed that the increase in the number of outside directors has enlivened board discussions. Thus, we have confirmed improved board functions in the holding company and assurance of overall effectiveness.</p> <p><b>Issues to address for greater effectiveness, response policy</b></p> <p><b>Issues</b></p> <ul style="list-style-type: none"> <li>● Expanded discussion on medium- to long-term group strategies and issues</li> <li>● Expanded discussion on digital transformation (DX) and SDG initiatives</li> <li>● Expanded reporting to the board on the content of shareholder dialogue</li> </ul> <p><b>Policy in responding</b></p> <ul style="list-style-type: none"> <li>● Expand discussion on strategies and issues in enhancing group corporate value and achieving sustained growth</li> <li>● Establish and maintain systems for prompt and accurate business decisions by group companies and proper management and oversight by the holding company</li> </ul>

### Main Efforts to Date for Improving Board Effectiveness

	From fiscal 2017	From fiscal 2018	From fiscal 2019
Main board and committee efforts	<ul style="list-style-type: none"> <li>● Expanded reporting to the board, including reporting on the internal control system</li> <li>● Increased the frequency of Risk Management Committee meetings from once to twice a year, to reinforce the risk management system</li> </ul>	<ul style="list-style-type: none"> <li>● Expanded board discussions, especially on key project status and other matters in the context of adopting a holding company structure</li> </ul>	<ul style="list-style-type: none"> <li>● Reduced inside directors by three and increased outside directors by one following the June 2019 general shareholders' meeting, to introduce a system of nine directors (including three outside directors)</li> <li>● Reorganized various committees under the holding company structure and revised matters discussed by the board</li> </ul>
Director training*	<ul style="list-style-type: none"> <li>● On-site overseas visits by outside executives (Ichthys LNG Project)</li> <li>● Company seminars (general shareholders' meeting)</li> <li>● Various external seminars</li> </ul>	<ul style="list-style-type: none"> <li>● Company seminars (D&amp;O insurance, 2018 revisions to CG Code)</li> <li>● Various external seminars</li> </ul>	<ul style="list-style-type: none"> <li>● Company seminars (board of the holding company)</li> <li>● Company seminars describing business of group operating companies involved in manufacturing and consulting</li> <li>● On-site plant and office visits by outside directors and auditors to workplaces of the manufacturing operating company</li> </ul>

\* [Policy on director training]

JGC bears costs for and provides opportunities and information for directors and auditors to acquire the knowledge and competence to fulfill their roles and responsibilities.

## Director Compensation

### Policy on Determining Director Compensation Amounts or Calculation Methods

<b>Basic policy, general shareholders' meeting resolutions</b>	<ul style="list-style-type: none"> <li>● Under a basic policy to secure the management personnel needed for greater global competitiveness and sustained gains in corporate value, a resolution made at the 113th general shareholders' meeting on June 26, 2009 set annual director compensation at an amount not exceeding 690 million yen, with auditor compensation not exceeding 88 million yen</li> <li>● As for the policy on determining the amount or calculation of director compensation, compensation shall not exceed the range resolved at the general shareholders' meeting, and details are discussed in advance by the Remuneration Committee, whose report is considered by the board to reach a decision</li> </ul>
<b>Process for determining amount of compensation</b>	<ul style="list-style-type: none"> <li>● Amounts of director compensation are at the discretion of the chairman and CEO, within the range resolved at the general shareholders' meeting</li> <li>● To ensure fairness and transparency, the chairman and CEO takes the results of deliberation by Remuneration Committee into account when deciding</li> </ul>
<b>Fixed, performance-based, and restricted stock compensation (new)</b>	<p><b>Fixed compensation</b></p> <ul style="list-style-type: none"> <li>● Determined according to each director's position and the value of their duties, accounting for the capabilities required and the weight and impact of those duties</li> <li>● Consists of base compensation and an allotment for directors or representative directors</li> <li>● Outside director compensation is limited to fixed compensation, to enable management oversight from a position independent of business execution</li> </ul> <p><b>Performance-based compensation</b></p> <ul style="list-style-type: none"> <li>● Indexed to current-term net income attributable to owners of parent, a target in the medium-term business plan</li> <li>● Performance-based compensation is determined from an evaluation of each director's professional duties and contribution to fiscal-year performance, acknowledging that in the Group's main EPC operations, several years pass from when orders are sought until projects contribute to earnings, and accounting for whether the director contributed to gains in medium- to long-term corporate value</li> <li>● As a greater incentive for each director in attaining performance targets, performance-based compensation will more directly reflect the extent that targets have been met. Additionally, when targets are met, a higher proportion of variable compensation (consisting of performance-based compensation and the restricted stock compensation described below) is applied in overall compensation</li> </ul> <p><b>Restricted stock compensation</b></p> <ul style="list-style-type: none"> <li>● Introduced so that directors share the benefits and risks of stock price fluctuations with shareholders and conduct business accordingly, and to further incentivize a higher stock price and greater medium- to long-term corporate value</li> <li>● Some 14,723 restricted shares corresponding to 10% of base compensation (equivalent to 22 million yen) were allocated to six directors on August 5, 2019</li> <li>● The restricted stock compensation system is summarized below</li> </ul> <p>Scope: Directors and executive officers of the holding company and directors of group companies</p> <p>Maximum monetary compensation: 90 million yen per year</p> <p>Total shares of restricted stock (maximum): 71,200 shares per year (approximately 0.03% of total issued shares)</p> <p>Restricted stock period: 3–30 years</p>

### Breakdown of Executive Remuneration

Category	Total value of remuneration, etc.	Breakdown of remuneration, etc.					
		Fixed remuneration		Performance-based remuneration		Restricted stock compensation	
		Number of eligible executives	Total amount provided	Number of eligible executives	Total amount provided	Number of eligible executives	Total amount provided
Nine directors (excluding outside directors)	316 million yen	nine	280 million yen	six	13 million yen	six	22 million yen
Two Audit & Supervisory Board Members (excluding outside Audit & Supervisory Board Members)	36 million yen	two	36 million yen	—	—	—	—
Six outside executives (three outside directors and three outside Audit & Supervisory Board Members)	55 million yen	six	55 million yen	—	—	—	—

\*1: Directors for whom fixed compensation applies include three directors who stepped down at the end of the 123rd general shareholders' meeting on June 27, 2019 and one director who stepped down on January 30, 2020.

\*2: Directors for whom restricted stock compensation applies include one director who stepped down on January 30, 2020.

\*3: As of the end of fiscal 2019, there were eight directors (including three outside directors) and five auditors (including three outside auditors).

## Corporate Governance

### Policies and Procedures for Senior Management Appointment and Dismissal

**Appointment process**

**Appointment of senior management and nomination of candidates for directors**

- ① Deliberations of the Nomination Committee, which includes outside directors, are focused on the following items.
  - (1) Qualities such as character and views
  - (2) Senior management and inside directors: Qualities such as performance and management capabilities
  - (3) Outside directors: Qualities such as independence and expertise
- ② After comprehensive deliberation by the Nominating Committee, a decision is made by the Board.

Appointment of senior management and nomination of director candidates follows this process and involves ample discussion before decisions are made, with the understanding that these individuals may one day be candidates to succeed the CEO.

**Dismissal process**

**Dismissal of senior management**

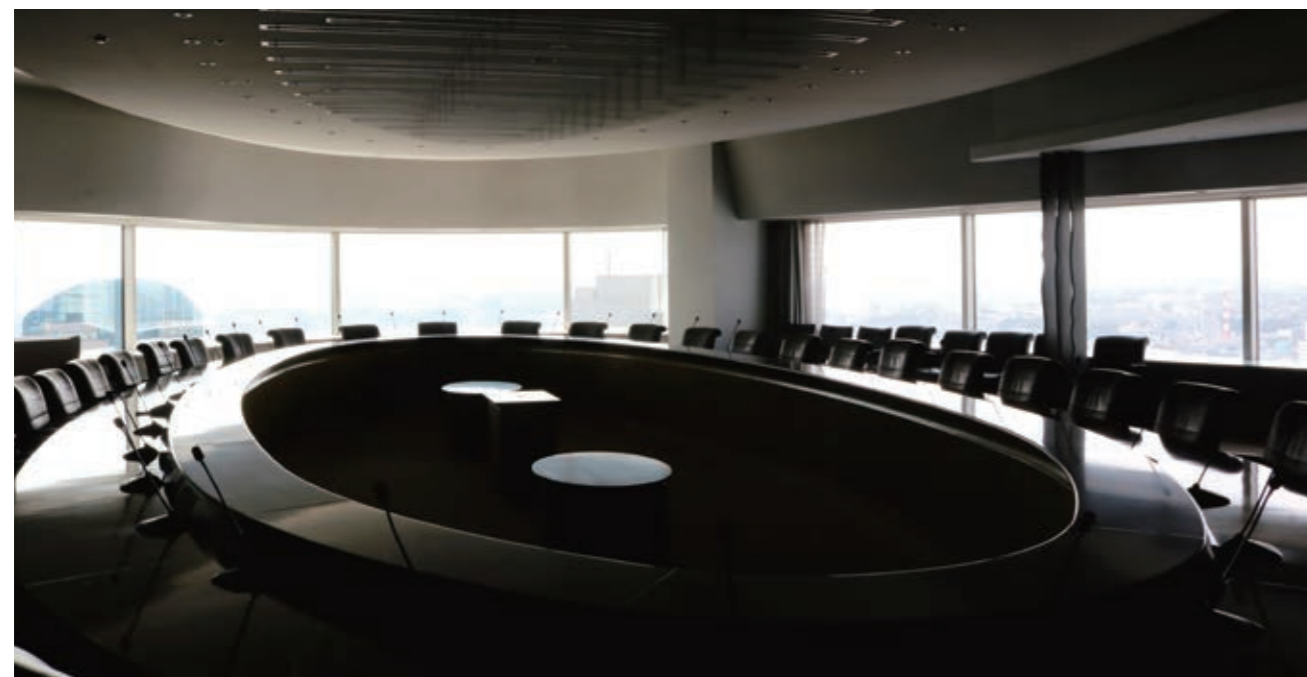
In the event of any of the following, the board decides on dismissal after deliberation by the Nominating Committee.

- (1) Wrongdoing, impropriety, or breach of faith
- (2) Violation of laws or articles of incorporation
- (3) Loss of the qualities and capabilities initially required for appointment

### Succession Plan


In nominating a director or executive officer, the Nominating Committee addresses potential CEO succession by discussing whether the individual possesses the qualities required of a CEO, has demonstrated the requisite past performance, and can be viewed as a worthy successor. Only after this discussion will the board proceed with nomination.

Furthermore, in order to make the previously tacit succession plan more concrete and effective, relevant divisions are establishing detailed criteria on the personal qualities, experience, and other attributes required of the CEO to draw up a specific plan for cultivating leaders based on these criteria.



### Introduction of Outside Directors

This section introduces JGC's outside directors, who serve an important role on its Board of Directors, Nominating Committee, Remuneration Committee, etc., as well as their resumes and reasons for their appointment.

Name	Resume	Reason for appointment
 <b>Shigeru Endo</b> Outside Director	Apr. 1974 Joined the Ministry of Foreign Affairs Apr. 2001 Director-General, Middle Eastern and African Affairs Bureau Feb. 2002 Director-General, Consular and Migration Affairs Department Aug. 2003 Ambassador to The Permanent Mission of Japan to the United Nations and Other International Organizations in Geneva and Consul General, Consulate General of Japan in Geneva Mar. 2007 Ambassador Extraordinary and Plenipotentiary to the Republic of Tunisia Jul. 2009 Ambassador Extraordinary and Plenipotentiary to Saudi Arabia Oct. 2012 Retired from the Ministry of Foreign Affairs Jun. 2013 Outside Director, former JGC CORPORATION Jun. 2013 Outside Director, IINO KAIUN KAISHA, LTD. (current post) Apr. 2014 Special Assistant to the Minister for Foreign Affairs (current post) Jun. 2018 Outside Director, ADEKA Corporation (current post) Oct. 2019 Outside Director, JGC HOLDINGS CORPORATION (current post)	Mr. Shigeru Endo does not have direct experience in company management, but he has served as the Ambassador Extraordinary and Plenipotentiary to Saudi Arabia and Tunisia and possesses unique experience and knowledge of the Company's principal business market. He is nominated as an Outside Director because the Company believes that he will be able to appropriately perform his expected duties as an Outside Director, which includes providing accurate advice and opinions for the management and business of the Company and exerting a supervisory function from an independent standpoint, by making the most of the aforementioned experience and knowledge. He satisfies the requirements of an Independent Executive pursuant to the provision of the Tokyo Stock Exchange, and the Company will continue to designate him as an Independent Executive and notify the said Stock Exchange to that effect.
 <b>Masayuki Matsushima</b> Outside Director	Apr. 1968 Joined Bank of Japan Jun. 1998 Executive Director, in charge of the Bank's International Affairs Jun. 2002 Senior Advisor, the Boston Consulting Group Feb. 2005 Senior Executive Advisor, Credit Suisse Securities (Japan) Limited Jun. 2008 Chairman, Credit Suisse Securities (Japan) Limited May 2011 Senior Advisor, the Boston Consulting Group Jun. 2011 Outside Director, Mitsui Fudosan Co., Ltd. Jun. 2011 Outside Director, Mitsui O.S.K. Lines, Ltd. (current post) Sep. 2014 Senior Advisor, Integral Corporation (current post) Jun. 2016 Outside Director, former JGC CORPORATION Jul. 2017 External Councillor, Grant Thornton Taiyo LLC (current post) Oct. 2019 Outside Director, JGC HOLDINGS CORPORATION (current post)	Mr. Masayuki Matsushima has wide experience and knowledge in the fields of finance and corporate management, having served as Executive Director of Bank of Japan, and in other significant positions. He is nominated as an Outside Director because the Company believes that he will be able to appropriately perform his expected duties as an Outside Director, which includes providing accurate advice and opinions for the management and business of the Company and exerting a supervisory function from an independent standpoint, by making the most of the aforementioned experience and knowledge. He satisfies the requirements of an Independent Executive pursuant to the provision of the Tokyo Stock Exchange, and the Company will continue to designate him as an Independent Executive and notify the said Stock Exchange to that effect.
 <b>Kazuo Ueda</b> Outside Director	Apr. 1989 Assistant Professor, Faculty of Economics, The University of Tokyo Mar. 1993 Professor, Faculty of Economics, The University of Tokyo Apr. 1998 Member of the Policy Board, Bank of Japan Apr. 2005 Professor, Graduate School of Economics, The University of Tokyo Oct. 2005 Dean, Graduate School of Economics, The University of Tokyo Oct. 2005 Dean, Faculty of Economics, The University of Tokyo Oct. 2008 Outside Director, Development Bank of Japan Inc. (current post) Apr. 2017 Director, Center for Advanced Research in Finance, The University of Tokyo (current post) Apr. 2017 Professor, Faculty of International Studies, Kyoritsu Women's University Jun. 2017 Professor Emeritus, The University of Tokyo (current post) Jun. 2017 Outside Audit & Supervisory Board Member, MELCO HOLDINGS INC. (current post) Jun. 2019 Outside Director, former JGC CORPORATION Oct. 2019 Outside Director, JGC HOLDINGS CORPORATION (current post) Apr. 2020 Dean, Faculty of Business, Kyoritsu Women's University (current post) Apr. 2020 Professor, Faculty of Business, Kyoritsu Women's University (current post)	Mr. Kazuo Ueda does not have direct experience in company management, but he has abundant academic experience as an expert on macroeconomics. He is nominated as an Outside Director because the Company believes that he will be able to appropriately perform his expected duties as an Outside Director, which includes providing accurate advice and opinions for the management and business of the Company and exerting a supervisory function from an independent standpoint, by making the most of the aforementioned experience and knowledge. He satisfies the requirements of an Independent Executive pursuant to the provision of the Tokyo Stock Exchange, and the Company will designate him as an Independent Executive and notify the said Stock Exchange to that effect.

## Corporate Governance

### Cross-shareholdings

#### 1 Purpose

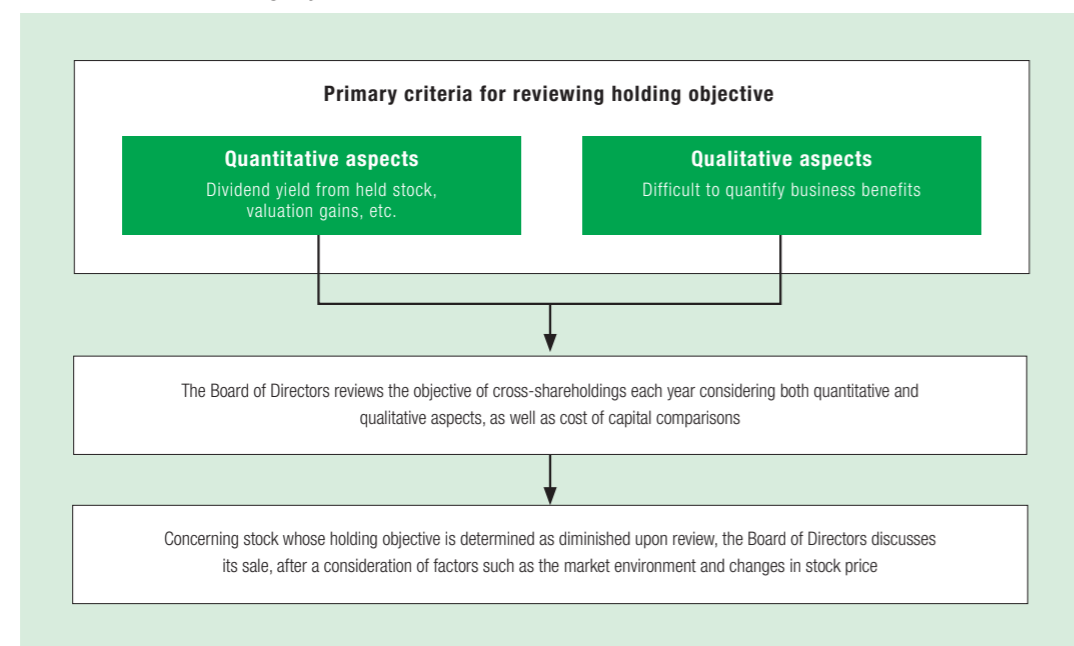
Following revision in June 2018, the CG Code now includes guidance on topics such as reduction of cross-shareholdings and the cost of capital. The Group refrains from cross-shareholdings except in cases where maintaining and strengthening relationships with clients and business partners will contribute to higher medium- to long-term corporate value for the Group. Moreover, each year, the board reviews the significance of maintaining each cross-shareholding. Both quantitative and qualitative aspects of the shares are reviewed. Specifically, quantitative considerations include dividend yield and valuation gains, and aspects that are difficult to quantify include whether business benefits and risks are commensurate with capital costs. Sale of

shares deemed to have lost their significance is investigated accounting for the market environment and changes in stock prices. The review process is described below, along with a record of past sales and reductions.

#### 2 Basis for exercising voting rights

In exercising voting rights for cross-shareholdings, advantages and disadvantages are weighed based on whether the decision will contribute to sustained growth of the company involved, and thus, higher group corporate value over the medium to long term.

#### Review Process of Holding Objective and Stock to be Sold



#### History of Sales and Reductions in Cross-shareholdings Since the Introduction of the CG Code

	Number of companies whose stock was sold	Total value of sales (based on acquisition price)	Reduction rate*
Fiscal 2015 to fiscal 2019 (fiscal 2019 in parentheses)	32 companies (three companies)	4,457 million yen (626million yen)	Approx. 35%

\* Represents the reduction rate for publicly listed stock held as of April 1, 2015 (ratio based on acquisition prices).

## Quality Management System

#### Basic Stance

In our business, quality assurance is an essential part of achieving safe plant operation and stable production. The Quality Policy established by the JGC Group is to ensure "JGC Quality" satisfying all applicable requirements by globally using the knowledge, skills, systems, and

highly talented human resources that we have continually built up through many years of project execution. This effort is led by the Quality Assurance Committee, and a framework is in place for quality assurance.

### Thorough QMS-Based Quality Assurance

JGC obtained ISO 9001 certification for its quality management system (QMS) in 1993. We have actively improved our organization on a continuous basis, led by the Quality Assurance Committee, with the aim of improving organizational performance as appropriate to the type of work performed. Every year, quality guidelines announced by the president of JGC are treated as a quality policy by each operating company, department, and section,

which set quality targets in line with the policy. Each fiscal year, they identify any organizational issues and formulate operating policies and action plans ("Plan"), implement them ("Do"), evaluate them ("Check"), and improve them on the basis of the evaluation process ("Act"). This PDCA cycle is designed to drive continuous improvement in organizational performance.

### Quality Assurance Committee

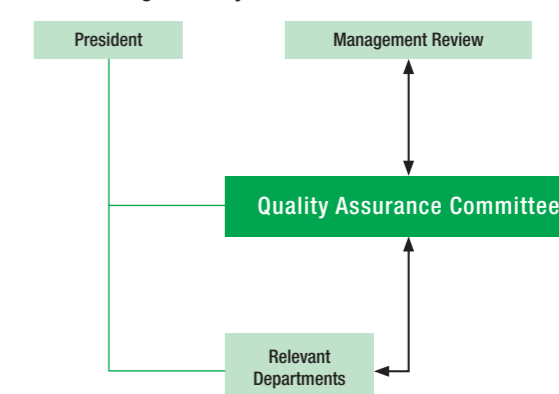
The Quality Assurance Committee meets monthly and reports directly to the president. The committee is chaired and comprised of operating company senior general managers and members at the level of general manager. The Quality Assurance Committee implements a range of remedial measures to ensure the quality of products and services provided to clients consistently

meets their specifications. It also evaluates the impact of those measures to drive ongoing improvements.

Once a year, the president conducts a management review of the Quality Assurance Committee's activities, with the president leading efforts to continuously improve the quality assurance organization.



#### Positioning of Quality Assurance Committee



# Compliance

## Basic Stance

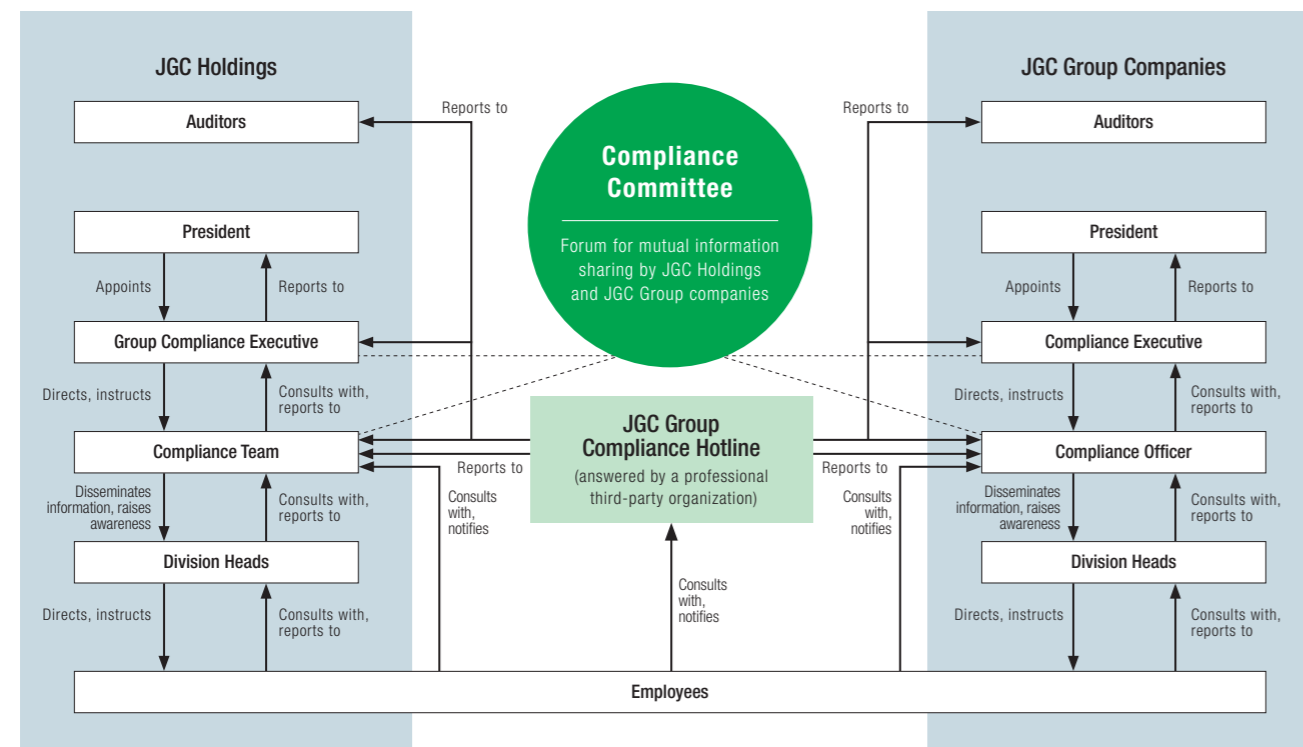
Guided by our corporate philosophy, the JGC Way, the JGC Group has positioned compliance as the cornerstone of management, based on two keywords in its list of shared values – Respect and Integrity. As a member of the international community, the JGC Group believes that compliance with the laws of Japan and all other countries where the Group operates, as well as fair and equitable business practices

in accordance with corporate ethics, are essential to the pursuit of sustainable business development. Based on this belief, the Group has developed the JGC Group Code of Business Conduct. The code, which must be followed by all employees, contains key points to ensure that the JGC Group's corporate philosophy is implemented in practice.

## Group Compliance System

The JGC Group has established a group compliance system to ensure each company carries out its business based on high ethical standards. Compliance Executives appointed by each company president are consolidating compliance activities throughout the Group and contributing to make the activities more effective. Compliance Executives, together with

Compliance Officers, evaluate the risks and implement measures fit for each company. The JGC Group has also established Compliance Committee as a forum to share information and collaborate among group companies. We are aiming to achieve a sense of unity to the entire group through the Committee.



----- Indicates participation

## Measures to Prevent Bribery

JGC works to ensure fair business practices, in line with its basic policy of complying with all anti-bribery rules and regulations, such as provisions in Japan's Unfair Competition Prevention Law prohibiting the bribing of foreign public officials, the US Foreign Corrupt Practices Act (FCPA) and the

UK Bribery Act 2010. The table below shows the JGC Group's regulations and programs related to preventing bribery, based on provisions in the JGC Group's corporate philosophy and Code of Business Conduct.

JGC Group Corporate Philosophy		
JGC Group Code of Business Conduct		
Bribery Prevention Regulations		
Regulations to prevent bribery by employees	Regulations to prevent bribery by business partners	Regulations to ensure effective operation of bribery prevention programs
<ul style="list-style-type: none"> <li>Gifts, entertainment, and travel policy</li> <li>Policy on charitable donations</li> <li>Policy on political contributions</li> </ul>	<ul style="list-style-type: none"> <li>Anti-corruption policy for international commercial representative</li> <li>Anti-corruption policy for joint ventures</li> <li>Anti-corruption policy for suppliers and subcontractors</li> </ul>	<ul style="list-style-type: none"> <li>Rules related to the JGC Group Compliance Hotline</li> <li>Bribery risk management guidelines</li> <li>Bribery prevention training guidelines</li> <li>Compliance monitoring guidelines</li> </ul>

## Compliance Training

To raise compliance awareness, the Group conducts a thematic and level-specific compliance training program. Training in fiscal 2019 was focused on preventing corruption and responding to organized crime, and in-person

training was held for relevant divisions and projects. E-learning on workplace harassment was also introduced, providing employees with opportunities to learn about harassment.

### Number of Training Courses, Participants

	2015	2016	2017	2018	2019
Number of courses	18	12	13	6	21
Number of participants	600	373	353	199	559*

\*Excluding 3,228 E-Learning participants

## Compliance Hotline

For prompt identification and prevention of compliance risks, the JGC Group Compliance Hotline was established as a resource that employees can use without hesitation to seek advice or report any concerns about actual or potential violations. Calls are answered by a third-party organization, which also enables anonymous consultation and reporting. This fiscal year, the hotline was supplemented by new internal window for the two main operating companies, JGC and JGC Japan, in consideration of the new group

management structure adopted. These are direct lines to the respective compliance officers, which enables faster investigation and response. Offering several ways to seek advice and report suspicions provides a more convenient environment for employees to receive assistance. In addition to accepting reports from employees, we also accept reports of violation of corporate ethics from all suppliers working with group companies.

### Number of Reports Received by Hotlines

	2015	2016	2017	2018	2019
	5	12	18	28	47



# Risk Management

Related SDGs >



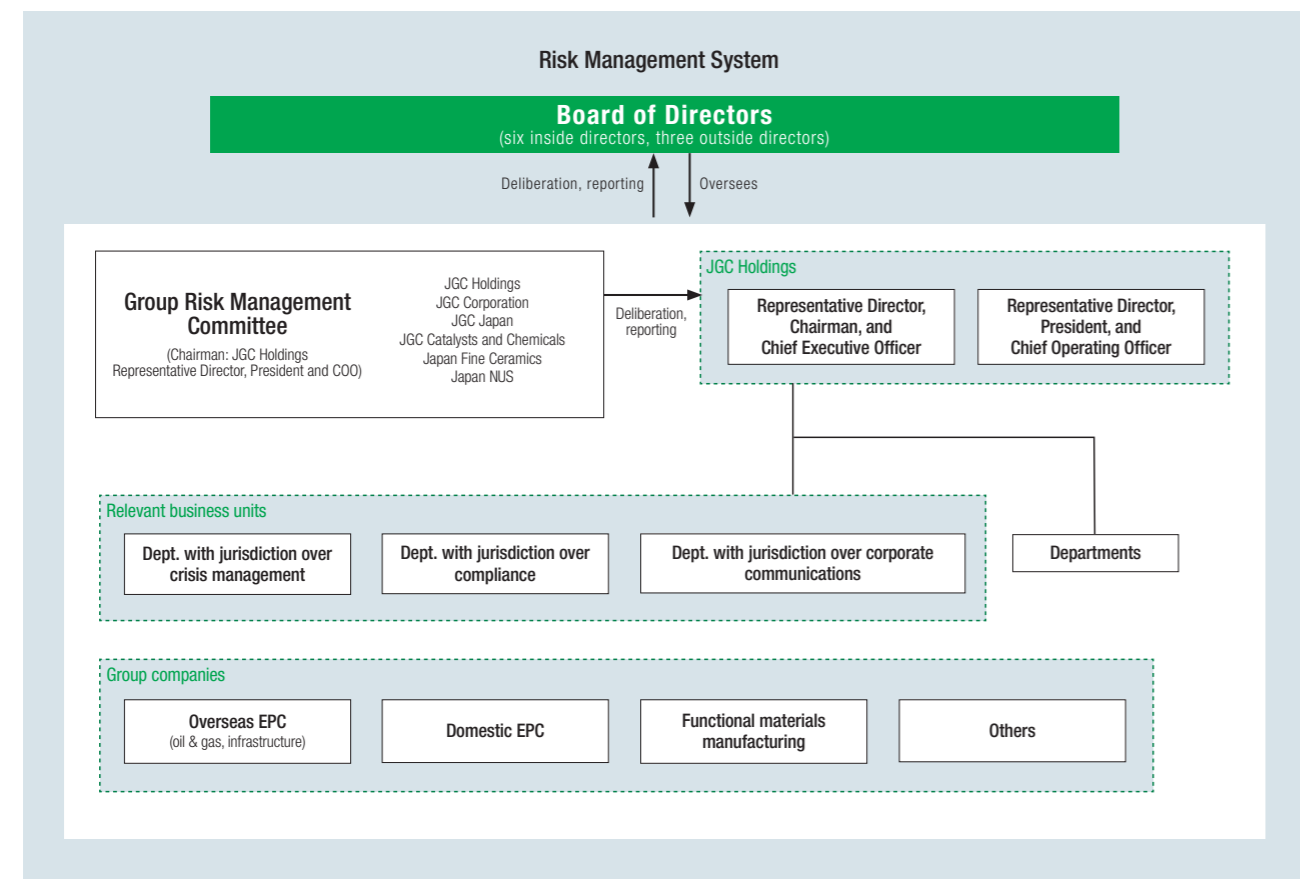
### Basic Stance

Recognizing that appropriate risk management reduces losses and contributes to profits for the Group, we strive to reduce and prevent risks routinely by understanding and organizing risks posed to the Group as a whole and by building, maintaining, and refining our risk management system. If risks do materialize, we respond rapidly and appropriately to minimize the impact and associated loss.

## Risk Management System

Based on Group Risk Management Committee rules, the JGC Group has established and uses a comprehensive risk management system for a systematic understanding of the risks posed to the Group as a whole. We are committed to further reducing these risks. Management of business risks of

the Group is mainly carried out by each operating company, with significant individual risks reported to the holding company board and discussed as necessary.











## Primary Group Risks and Responses

Primary Risk Area	Nature of Typical Risks	Countermeasures
Risk associated with receiving and executing projects	<ul style="list-style-type: none"> <li>Change of plans, cancellation, suspension, or postponement of projects in total engineering business after orders are received</li> <li>Worsening financial conditions of joint venture consortium partners as comprehensive engineering projects are executed</li> </ul>	<ul style="list-style-type: none"> <li>Specific risk analysis by the holding company and operating companies, monitoring of project progress and profitability</li> </ul>
Country risk	<ul style="list-style-type: none"> <li>Impact on business activities from political instability, war, revolution, domestic conflict, terrorism, sudden changes in economic policies or conditions, or economic sanctions</li> </ul>	<ul style="list-style-type: none"> <li>Use of trade insurance</li> <li>Gathering information on country risk</li> <li>Setting reasonable contract conditions with clients, addressing force majeure clauses and regulatory changes</li> <li>Strengthening crisis management functions by the Crisis Management Dept.</li> </ul>
Risk associated with natural disasters, epidemics, etc.	<ul style="list-style-type: none"> <li>Impact on business activities from natural disasters of unforeseen magnitude such as earthquakes, torrential rain, or typhoons, or from global pandemics such as new strains of influenza</li> </ul>	<ul style="list-style-type: none"> <li>Establishing disaster response procedures, introducing systems to confirm safety, and implementing disaster training</li> <li>Gathering information on risk</li> <li>Setting reasonable contract conditions with clients, addressing force majeure clauses and regulatory changes</li> </ul>
Foreign exchange volatility risk	<ul style="list-style-type: none"> <li>Impact on sales and profit/loss from sharp fluctuations in foreign exchange rates</li> </ul>	<ul style="list-style-type: none"> <li>Using project contracts denominated in multiple currencies, using overseas procurement</li> <li>Issuing orders denominated in foreign currencies, using forward foreign-exchange agreements</li> </ul>
Risk of construction worker shortages, substantial wage increases	<ul style="list-style-type: none"> <li>Impact on business activities in total engineering from shortages of construction workers or substantial increases in wages</li> </ul>	<ul style="list-style-type: none"> <li>Monitoring and forecasting trends in the construction industry labor force for primary plant markets</li> <li>Adopting modular construction techniques to minimize on-site construction</li> <li>Working with companies that have extensive track records in local construction</li> </ul>
Risk of substantial increases in material and equipment costs	<ul style="list-style-type: none"> <li>Increased procurement costs for material and equipment in total engineering</li> <li>Substantial rises in prices of raw materials or fuel in functional materials manufacturing</li> </ul>	<ul style="list-style-type: none"> <li>Monitoring and forecasting price trends for raw materials and for materials and equipment</li> <li>Placing orders for materials and equipment early on</li> <li>Diversifying suppliers</li> <li>Passing on higher prices to clients</li> </ul>
Investment risk	<ul style="list-style-type: none"> <li>Loss from unforeseen circumstances in the investment environment</li> </ul>	<ul style="list-style-type: none"> <li>Closer monitoring of existing investment projects</li> <li>Careful selection of new investments</li> </ul>
Legal and regulatory risk	<ul style="list-style-type: none"> <li>Restrictions under business laws and regulations such as tax or construction laws, various domestic and international environmental laws, import/export trade regulations including those for security purposes, various laws and regulations to prevent corruption such as graft, or business or investment licenses</li> </ul>	<ul style="list-style-type: none"> <li>Developing, implementing, monitoring, and improving compliance programs</li> </ul>
Information security risk	<ul style="list-style-type: none"> <li>Leaks and loss of information from power outages, disasters, failure, loss, or theft of host computers, servers, or network equipment, external attacks, or virus infections</li> </ul>	<ul style="list-style-type: none"> <li>Security measures such as preventing intrusion by establishing information security policies, adopting antivirus measures, and using encryption</li> </ul>
Risk associated with quality	<ul style="list-style-type: none"> <li>Poor quality of supplies or items procured, recall of delivered products due to defects, liability for damages</li> </ul>	<ul style="list-style-type: none"> <li>Promoting quality management system activities by establishing organizations with jurisdiction over quality assurance</li> <li>Using product liability insurance</li> </ul>
Risk associated with changes in the macroeconomic environment	<ul style="list-style-type: none"> <li>Impact on business activities from declining energy prices or cooling of the global economy</li> <li>Impact on the oil and gas segment and catalyst segment served by the Group from acceleration of the shift to a low-carbon society</li> </ul>	<ul style="list-style-type: none"> <li>Diversifying our business portfolio by shifting to a group management structure</li> <li>Developing technologies to reduce environmental impact</li> <li>Building value chains in collaboration with other companies that possess advanced technologies</li> </ul>

# Management Structure

(As of August 2020)

## Directors

 Representative Director, Chairman and Chief Executive Officer (CEO) <b>Masayuki Sato</b>	 Representative Director, President and Chief Operating Officer (COO) <b>Tadashi Ishizuka</b>	 Member of the Board <b>Kiyotaka Terajima</b>
 Member of the Board <b>Masanori Suzuki</b>	 Member of the Board <b>Keiji Nohira</b>	 Member of the Board <b>Yutaka Yamazaki</b>
 Outside Director <b>Shigeru Endo</b>	 Outside Director <b>Masayuki Matsushima</b>	 Outside Director <b>Kazuo Ueda</b>

## Audit and Supervisory Board Members

Audit and Supervisory Board Member <b>Yukihiro Makino</b>	Audit and Supervisory Board Member <b>Yasumasa Isetani</b>	Audit and Supervisory Board Member (Outside Auditor) <b>Masao Mori</b>	Audit and Supervisory Board Member (Outside Auditor) <b>Koichi Ohno</b>	Audit and Supervisory Board Member (Outside Auditor) <b>Norio Takamatsu</b>
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## Executive Officers

Senior Executive Vice President, Chief Financial Officer (CFO) <b>Kiyotaka Terajima</b>	Senior Executive Officer <b>Masanori Suzuki</b>	Senior Executive Officer, General Manager, Quality Assurance, Safety and Environment Dept.; General Manager, Crisis Management Dept. <b>Yasuhiro Okuda</b>	Senior Executive Officer, General Manager, Sustainability Co-Creation Dept. <b>Masahiro Aika</b>
Senior Executive Officer, Chief Technology Officer (CTO) <b>Yutaka Yamanaka</b>	Senior Executive Officer, Chief Digital Officer (CDO), <b>Takuya Hanada</b>	Executive Officer <b>Masayasu Endo</b>	Executive Officer, Advisor, Group Strategic Planning Dept. <b>Aya Yamazaki</b>
Executive Officer, General Manager, Government/ Industry Relations Dept. <b>Takeshi Kawasaki</b>	Executive Officer, General Manager, Group Strategic Planning Dept. <b>Keiji Nohira</b>	Executive Officer, Advisor, Group Strategic Planning Dept. <b>Shigeru Adachi</b>	

# Dialogue with Shareholders and Investors (Information Disclosure, IR activities)

## Basic Stance

The Group considers shareholder and investor engagement indispensable to sustained growth and gains in corporate value. We are proactive in highly transparent information disclosure that serves as the basis for this dialogue. By listening to shareholders' and investors' opinions, providing feedback to management and relevant departments,

acting on this knowledge in management strategies, and striving to disclose not only financial but also non-financial information, we are creating an environment in which shareholders have a solid, long-term understanding of Group management policies.

## Main IR Activities (Fiscal 2019)

### Dialog on Adopting a Holding Company Structure

We have actively engaged in dialogue to encourage an in-depth understanding among investors regarding the aims and objectives of moving to a holding company structure, which took effect on October 1, 2019. Our aims and objectives in adopting a holding company structure were carefully explained to investors through senior management and the IR Department. Not only did this ensure that the Group vision for growth was clear, it also gave us a better understanding of investor expectations, from the variety of feedback we received.

### Enhancements to the JGC Report (Integrated Report)

Each year, JGC Report is designed to be more informative, as a key disclosure resource for investment decisions from a long-term perspective. JGC Report 2019 featured fuller information on the message from top management, project risk management system, and our adoption of a holding company structure, as well as expanded content on non-financial matters such as process to identify materiality, a key ESG topic. The report was selected as the "Most Improved Integrated Report" of 2019 by the domestic asset management arm of the Government Pension Investment Fund (GPIF).



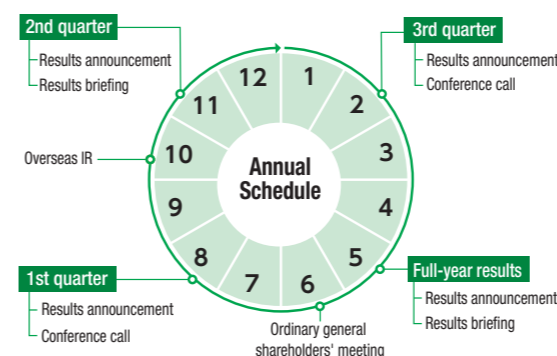
### Website Expansion

Enhanced information disclosure for shareholders and investors is also sought online, through a more informative corporate website.

We are committed to keeping shareholders, investors, and an array of other stakeholders informed through developing or updating webpages related to functional materials manufacturing and sustainability, among other topics.



## IR Activities Schedule



## Main IR Activities

Activity	No. of events	No. of companies
Responses to requests for information, phone calls from institutional investors in Japan/overseas	192	113
Results briefing conference calls	2	47
Results briefings by senior management	2	63
ESG-related meetings	4	4
Overseas IR roadshows by senior management	12	12

## Ordinary General Shareholders' Meetings

	Fiscal year 2018	Fiscal year 2019	Fiscal year 2020
Date held	June 28 (Thu)	June 27 (Thu)	June 26 (Fri)
Shareholders attending	187	227	15*
Ratio of voting rights exercised	84.1%	82.6%	84.0%

\*In Fiscal year 2019, we asked shareholders to avoid attending the meeting at the venue as much as possible, as part of measures to prevent the spread of COVID-19.