

Q&A from the Online Earnings Release Conference (held on February 9, 2024)

On Third Quarter Financial Results for FY2023 Ending March 31, 2024

This content is based on information available on the date of the earnings release conference (February 9, 2024).

1. Financial results for the third quarter of FY2023 and full-year earnings forecast

Question	Answer
Please describe in detail the reasons for third-quarter losses associated with Thai chemical and domestic clean energy projects, as well as any impact on cumulative third-quarter results and the full-year forecast.	<p>JGC was awarded the chemical plant EPC project in Thailand in 2022. The design subcontractor's delays in preparing drawings for facilities such as piping and other lapses in quality led us to anticipate additional costs to keep the project on schedule, and a provision for construction loss was recorded. Design work is currently in the final stage, with nearly 90% of the procurement complete and steel structure and piping work underway on site.</p> <p>JGC was awarded the domestic biomass power generation plant EPC project in 2020. Although the project is now at the stage of commissioning before handover, to ensure stable operation, some time is still needed for final adjustments to the steam turbine and for adjustments to accompanying equipment and instruments. The turbine was procured from Europe, and because manufacturing coincided with the pandemic, business trips were restricted. With local quality control challenging, it was exceptionally difficult to prevent defects, and when issues were found,</p>

	<p>dispatching engineers from Europe to examine and resolve them took more time. Final work is underway before handover, expected in the fourth quarter.</p> <p>The downward impact on third-quarter (9 months) results is approximately 19–20 billion yen on gross profit, including second-quarter loss recorded by overseas subsidiaries. In the three months of the third quarter, the impact of the Thai chemical and domestic clean energy projects was approximately 7–8 billion yen.</p> <p>Regarding the full-year forecast, this is expected to negatively impact the total engineering business by approximately 22 billion yen, relative to the initial forecast, while a gain of approximately 1.5 billion yen is expected in functional materials manufacturing business, resulting in a net reduction of approximately 20 billion yen in the gross profit forecast.</p> <p>Moreover, regarding a potential improvement in profit from large projects (mentioned in the second-quarter financial results in November), this has not been incorporated into the revision of full-year forecast because official documents have not been received as of the third quarter and have not been reflected in accounting yet.</p>
<p>What is the extent of loss for the Thai chemical and domestic clean energy projects, respectively?</p>	<p>Profitability of individual projects is not disclosed. Current and future losses have been recorded as of the third quarter.</p>
<p>Was additional loss recorded in the third quarter for projects of overseas subsidiaries for which a second-quarter loss was recorded?</p>	<p>All loss for these projects, including projected loss, was recorded as of the second quarter.</p>
<p>As a variety of factors at the design stage led to losses being recorded in the second and third quarters, are you facing any general difficulties in engineering phase of ongoing</p>	<p>Each project differs from others in the background and circumstances involved, but in general, we have not identified any new difficulties in execution at the design phase. In the case of the Thai chemical project, we have subcontracted a part of the design work to outsourcing and we will be</p>

<p>projects?</p>	<p>examining the framework for this management. In a project involving a Saudi Arabian subsidiary for which a loss was recorded in the second quarter, this was due to time-consuming design review with the client. The main factor in the case of the project managed by an Indonesian subsidiary was ground improvement.</p>
<p>Have any measures been taken in response to the lower profitability, such as changing how other current projects are monitored?</p>	<p>The factors leading to these losses are considered unique to each project. JGC Holdings as a holding company supervising operating companies will also be analyzing the underlying causes and context as we consider measures in response.</p>
<p>The prospect of change orders was mentioned as potentially improving profit in the second-quarter financial announcement, but all that we know is that this was not recorded in the third quarter results. Might it be recorded next fiscal year, or is the outlook for change orders itself uncertain?</p>	<p>Processes are underway on the client side, and change orders are expected this fiscal year or next.</p>
<p>What is the nature of these change orders?</p>	<p>Costs in current overseas projects have increased for reasons including the impact of the pandemic and additional work requested by clients. Accordingly, we have requested additions (increases) to the order amount. Because the verbal agreements in place with clients must be formally documented before being recorded, we are waiting for clients to complete the process.</p>
<p>Even if the amount of loss recorded for the three months of the third quarter is recovered, the gross profit ratio will probably still be lower than the initial forecast (8.5%), but what are the other factors for a lower gross profit ratio?</p>	<p>In addition to the roughly 7–8 billion yen loss in the three months of the third quarter, another factor is the impact of the dollar-yen exchange rate. The divergence in the three months of the third quarter stems from a stronger yen from the end of the second quarter (149.58 yen to the dollar) to the end of the third (141.83 yen), which has essentially offset gains from the weaker yen that were recorded in cumulative second-quarter results.</p>

<p>Please tell us details of R&D expenses that have contributed to higher SG&A expenses in the full-year forecast.</p>	<p>Establishing future engines of growth is one goal outlined in the JGC medium-term business plan ending in FY2025 (BSP 2025), and to this end we are conducting a variety of R&D in areas such as hydrogen/fuel ammonia, SAF, and biomanufacturing. Relevant expenses in this context are focused on construction of equipment and facilities needed for research and development.</p>
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2. Orders and market environment

Question	Answer
<p>How feasible is it that the company will attain the 800 billion yen order target for the current fiscal year? In particular, what is the outlook for orders as of the end of March?</p>	<p>As mentioned at the beginning of the fiscal year, we expect bidding results for some projects to be received up to the end of the fourth quarter, and the order target stands at 800 billion yen. It is difficult to comment on feasibility and the order outlook at the end of this quarter.</p> <p>Results for some projects may emerge early next fiscal year, but the impact on Group earnings in the current and next fiscal year will be minimal because earnings are recorded under the percentage-of-completion method.</p>
<p>What is the status of the Oman LNG bunkering project? There have been reports that another company has been awarded the contract.</p>	<p>We are also aware of these reports, and we sense that competition is intense.</p>

3. Other matters

Question	Answer
It was explained that current cash flow and the course of business over the next fiscal year and later were considerations in deciding to maintain the shareholder dividend announced at the beginning of the fiscal year. Can you discuss the path business results may take from next fiscal year onward?	Although it is too early for specific comments on next year's results, the simulations we have been conducting internally have given us a sense of the direction business is heading. Third-quarter losses have been recorded, but so have anticipated cost increases. Currently we see the potential of an upturn next fiscal year, in consideration of revenue from large-scale projects currently underway, and in view of projects for which orders are expected at the end of this fiscal year or early next fiscal year.
Will the change in earnings affect financial targets in the medium-term business plan (BSP 2025)?	At this time, the targets have not been revised. The medium-term business forecast is reviewed every six months, and in May we will be able to discuss details when full-year results are announced.