May 2, 2024

JGC Holdings Corporation

Q&A from Online Revisions of Earnings Forecast Conference 2023
(held on April 30, 2024)

This content is based on information available on the date of the earnings release conference (April 30, 2024).

1. Revisions of Earnings Forecast FY2023

Question	Answer
Regarding the chemical plant in Thailand, it was mentioned that additional costs were recorded considering the situation where the design work was mostly completed as of the third quarter. However, please describe the reason why an additional loss of 8 billion yen occurred this time.	In this project, additional costs were recorded in the third quarter. However, several months have passed since then, and the design and procurement costs are expected to exceed the budget again. Therefore, Company determined to reflect additional costs for risk, such as costs for future leverages. As a result, Company recorded an additional loss.
Please specify which projects for the negative 32 billion yen in “Risk reassessment” mentioned on page 4 of the “Revision of Earnings Forecast FY2023”.	This 32 billion yen cost accounting reflects the results of risk reassessment in projects executed by JGC Headquarters, not overseas subsidiaries. The majority is for the oil and gas project in Saudi Arabia, where it was determined to anticipate costs, such as increase of design costs and future delay risks. In addition, for other major ongoing projects overseas, reassessment was also conducted on the execution status and future budget plans. Therefore, there were some projects where, although they will not result in a deficit, it was

	judged that costs for risk should be additionally accounted. As a result, it amounted 32 billion yen including all of these.
Are the two cases included in the "Loss in overseas subsidiary" mentioned on page 4 of the "Revision of Earnings Forecast FY2023" both newly expensed cases in the fourth quarter	One case is the NGL plant expansion project in Saudi Arabia, which became a deficit in the second quarter. Additional losses were recorded to deal with the situation where the arrival of equipment and materials at the site is significantly delayed. The other case is the LNG terminal project in Indonesia, where a loss was newly recorded in the fourth quarter.
There was a natural gas processing plant project executed by the Saudi Arabian subsidiary, which has not recorded a loss. Is the construction still ongoing.	The construction work is in its final stages, progressing towards handover.
Please describe the order date and order amount of the LNG terminal project in Indonesia of the overseas subsidiary that has newly recorded a loss.	The EPC contract came into effect in the third quarter of 2023. However, the overseas subsidiary had received and carried out the front end engineering design (FEED) work before that. As for the order amount, Company cannot provide specific figures, however it is less than 50 billion yen.
Please describe the current status and expected completion of the oil and gas project in Saudi Arabia, which has newly recorded additional costs, and the LNG terminal project in Indonesia executed by overseas subsidiary.	The design work for the oil and gas project in Saudi Arabia is in its final stages, and the delivery of equipment and materials to the site has begun, with steelwork and piping work also progressing. However, additional work is required in the design work, and there is a concern about schedule delays. Completion is planned for the 2025 fiscal year. The design and procurement work for the LNG terminal construction project in Indonesia is in its final stages, and construction work will intensify. Completion is planned for the first half of 2025.

From the perspective of mobilizing construction workers, did Company anticipate additional losses? What is the recognition of the current risks in construction work.	Currently, in the Middle East, we have not heard of any difficulties in mobilizing construction workers. Even in the projects where losses were recorded, Company newly incorporate the risk of schedule delays for the entire project and the extension of the design period mainly due to design work.
Regarding the oil and gas project in Saudi Arabia, it was mentioned that the impact of the surge in equipment and material prices was considered at the time of order acceptance for this project. Does this loss mean that the equipment and material prices have surged beyond that. Or should we understand that the main cause is the quality of design and the delay associated with it.	In this project, we considered the impact of the surge in equipment and material prices and contracted with the client at that time. As for the equipment and material prices, although some have exceeded the initial estimate, most of them could be covered. There are two factors for the loss this time. One is the quality issue of the design is dragging on. The other is a phenomenon unique to Saudi Arabia, where a clause to purchase equipment and materials from client-designated vendors in Saudi Arabia is incorporated into the contract. The plant market in Saudi Arabia is currently active, and the operating rate of client-designated vendors continues to be high. Rather than the quoted price of the client-designated vendor rising, the impact of the equipment and materials not being delivered as scheduled due to the high workload of the client-designated vendor is significant. Various additional measures are required to catch up with the delivery delay.

2. Future outlook

Question	Answer
Additional losses are being recorded in the same project consecutively, new losses are being recorded in overseas subsidiaries and JGC, as losses are being recorded from three directions. Could we conclude that the underlying cause is a lack of resources. Please describe what measures are being taken against these issues.	We take the situation of deteriorating profitability in multiple projects very seriously. In response to this, Company have scrutinized the risks of major projects executing in overseas, and as a result, Company recorded losses in two new projects this time. We will explain the details for "Issues" and "Countermeasures" listed in today's document ('Revision of Earnings Forecast for FY2023', page 7) at the full-year earnings announcement on May 14th.
In the common issues, Company mentioned that the expansion of the business area led to the dispersion of resources. On the other hand, if the expanded areas are reduced, it is conceivable that it will be difficult for the order size and top line to grow. Will it be inevitable to reduce the top line and prioritize profitability in the future.	The most important thing is profitability, and we will continue to win projects that ensure it. We have been doing so in the past, but we need to strengthen it in the future. How much order size is appropriate is a very difficult issue. The necessary personnel change depending on the nature of the project, such as the type of plant, construction site, and partners, so we cannot give a clear answer at this point. Please understand that our top priority is to secure profits by placing the right personnel.
The total loss amount announced in the second and third quarters, and the downward revision of this time's earnings forecast, amounts to about 70 billion yen, which is a considerable loss. Does the Company have a sense of this problem. Also, among the projects that recorded losses this term, excluding the natural gas processing plant and new gas pipeline project in Indonesia that were recorded in the second	The amount of loss recorded this term is large, and we take it very seriously. There may have been organizational problems, however it is a fact that the situation has become challenging to execute projects, such as the COVID-19, the situation in Ukraine, and the Middle East. It is also a fact that we have recorded losses. Both the top management and the project team are currently considering why such an event occurred and what measures to take for it. We will explain the details at the full-year earnings announcement on May 14th.

quarter, all are projects awarded after 2021, considering the situation one to two years after the spread of the COVID-19. Company is in a situation to discuss the essence when such a loss continues. Are you having such a discussion.	
Considering the loss recorded this time, will there be a discussion that delves into organizational theory and the management structure of EPC regression.	As for the issues in the loss recorded this time, we directly recognize the appropriate personnel allocation of design and the lack of execution ability of overseas group subsidiaries. As for how to solve these issues, there are some specific efforts being made, such as flexible personnel allocation within the organization, dealing with projects according to the execution ability of overseas subsidiaries, and strengthening the involvement of JGC Headquarters.

3. Others

Question	Answer
I got the impression that it is difficult to balance the traditional oil & gas sector and the sustainable sector. Is it the Company's long-term direction to transition to the sustainable sector and restrain resource allocation to the oil & gas sector.	In JGC Group's long-term management vision and medium-term business plan, we have a policy of diversifying our business areas from the traditional oil & gas sector to new sectors, including the sustainable sector. We are not considering changing this management strategy due to the downward revision of our earnings this time. On the other hand, as for how to properly allocate personnel in both sectors, we must consider the proper personnel while devising flexibility in personnel allocation across organizations as one way of thinking.

Is there any impact from cases that incurred losses in the fiscal year 2023 on the forecasts for fiscal year 2024.	We announced a downward revision of earnings forecast for fiscal 2023, however we are reviewed the budget of each project, and among these, we have incorporated the costs that will be needed in the future and recorded them as provision for loss on construction contracts in fiscal 2023. In other words, for projects where construction will continue beyond 2024, the anticipated expenses are fully reserved in the fiscal year 2023. If construction progresses as expected, there will be no continued deficit beyond the fiscal year 2024.
In the forecasts for fiscal year 2024, could you please provide information on the estimated revenue for the projects that resulted in a deficit this time.	The forecasts for fiscal year 2024 is currently under review, and specific details will be provided during the full-year financial results announcement on May 14. However, the proportion of loss projects are estimated to be around 10% to 20% of total revenue.
Considering the current liquidity situation and outlook, the decision to maintain shareholder dividends for the fiscal year 2023 was made. Please provide more context or details about the background and the direction of forecasts and dividends for the fiscal year 2024.	Thank you for providing additional context. It appears that the decision to maintain the initial forecasted shareholder dividend of 40 yen was based on the assessment of current liquidity conditions, indicating that a dividend of 40 yen is feasible. As for the dividend for the fiscal year 2024, it will be announced alongside the forecasts for fiscal year 2024 on May 14, 2024. While a definitive explanation for the forecasts for fiscal year 2024 cannot be given at this stage, there is an expectation that performance will continue to recover.