November 14, 2024

JGC Holdings Corporation

**Q&A from the Online Earnings Release Conference (held on November 12, 2024)**

**On Second Quarter Financial Results for FY2024 Ending March 31, 2025**

This content is based on information available on the date of the online earnings release conference (November 12, 2024).

1. Financial results for the second quarter of FY2024 and progress of ongoing projects

| Question | Answer |
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| The second quarter (July - September) saw a decrease in net sales compared to the first quarter (April - June). Could you explain the reasons for this and provide the net sales outlook for the second half of the fiscal year? | In the first quarter, there was some upward swing due to the impact of the yen's depreciation. So, there has been no significant change in the progress of ongoing EPC projects in the second quarter. In the second half of the fiscal year, net sales are expected to progress as initially planned, but there could be potential impacts from delays in the timing of new order award. For example, the large-scale EPC project in Indonesia, which was mentioned that JGC Group is close to be awarded in the 'Business Overview' presentation, the timing of final investment decision is slightly behind the expectation, and this project is expected to be recognized as an order in the fourth quarter or later, as the overseas subsidiary is the contracting party. Therefore, it may cause this fiscal year's net sales to somewhat stagnate. |

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| Could you explain the reasons why the gross profit margin for the second quarter (July - September) decreased to 5.8%, compared to 7.6% in the first quarter (April - June)? Also, please explain the concept of foreign exchange gains and losses accounted for under non-operating income and expenses. | During this first half period, there were no significant changes in the profitability of ongoing projects. The slight decrease in the gross profit margin was mainly due to the impact of exchange rates.<br><br>Based on the cumulative period of the second quarter (April to September), we will explain the impact of exchange rate fluctuations compared to the full-year forecast. The assumed exchange rate used in the full-year performance forecast is 1 USD = 145 JPY. At the end of the first quarter (end of June), the rate was approximately 161 JPY per USD, and at the end of the second quarter (end of September), it was approximately 142 JPY per USD.<br><br>The net sales for the 1st half were largely fixed during a period when the yen was weaker compared to the assumed rate of 145 JPY. As a result, the weaker yen had a positive impact of approximately 10 billion JPY on the net sales.<br><br>The gross profit margin for the cumulative period of the second quarter was 6.7%, which was lower than the full-year forecast of 7.0%. This was due to the yen being slightly stronger at 142 JPY compared to the assumed rate of 145 JPY at the end of the period. The impact on gross profit was a negative 1 to 2 billion JPY.<br>Comparing the gross profit margins of the first quarter (April to June) and the second quarter (July to September), we observed significant fluctuations due to changes in the exchange rate. In the first quarter, the yen was |

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| | significantly weaker, which led to an increase in the gross profit margin. However, in the second quarter, the yen strengthened considerably, which resulted in a decrease in the gross profit margin, effectively offsetting the gains from the first quarter. |
| For the projects for which construction loss provisions were recorded in FY2023, have there been any further profitability deteriorations, or are they progressing smoothly within the revised budgets reviewed at the end of the previous fiscal year? | Regarding the five EPC projects for which provisions for loss were recorded at the end of FY2023, they are generally progressing according to the revised schedules. The status of each project is as follows:<br><br>- Indonesia Gas Processing Plant and Gas Pipeline Construction Project:<br>Construction work is nearly complete, and performance testing is currently underway, with handover approaching.<br><br>-Indonesia LNG Receiving Terminal Construction Project:<br>Construction work is at its peak and proceeding smoothly.<br><br>-Saudi Arabia NGL Plant Expansion Project:<br>Design and procurement work is completed, and construction work is ongoing.<br><br>-Saudi Arabia Crude Oil and Gas Separation Facility Construction Project:<br>Progress is being made according to the new plan formulated at last fiscal-year-end. Procurement activities are at their peak with equipment |

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| | shipment, and steel structure and equipment installation work is progressing at the construction site.<br><br>-Thailand Chemical Plant Construction Project:<br>Construction work is ongoing, with steel structures, piping, and equipment installation progressing at the construction site. |
| Have there been any impacts on ongoing projects in the U.S. due to the hurricane that caused damage in the Midwest? | There is no impact. |

2. Market Environment and Order Outlook

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| In the "Business Overview" presentation, it was mentioned that the timing of investment decisions is being delayed due to the increase in initial investment costs, affecting the economic viability of clients' capital investment plans. Are there any changes in clients' investment projects, including the possibility of project cancellations? | Investment decisions vary by project. For example, projects with advantages such as proximity to the destination of produced LNG and existing utility facilities that reduce investment costs are considered highly feasible, and JGC Group is also focusing on such projects. |
| With the risk of rising plant costs becoming apparent, there was mention of shifting from lump-sum contracts to other forms. Given the constraints of project financing by clients, could the current market environment be an opportunity for changing contract forms? Also, will there be an increase in | There is a gap in cost awareness between clients and JGC Group, but it is gradually narrowing. There are some differences depending on clients and region, but for example, in North American projects, clients are beginning to recognize the realities of cost increases and labor shortages, and are starting to understand JGC's explanations. Some clients recognize that there are no |

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| hybrid contracts that mix lump-sum and reimbursable contracts for future orders? | contractors willing to undertake construction work in North America on a lump-sum contract basis, and that they need to bear the risks themselves.<br>Regarding contract forms, it depends on the risks of each project, but clients are considering various measures, such as expanding the scope of escalation clauses or converting some high-risk construction work to reimbursable contracts. |
| What is the outlook for expected orders, such as the expansion plan of LNG Canada and the Mozambique Rovuma LNG project for which our group received FEED services in September this year? | For the LNG Canada expansion project, we are in discussions with the client to place an order with our group following the first phase currently under construction. However, investment costs are increasing, and discussions are ongoing on the client side. The pipeline for transporting natural gas from the gas well to the liquefaction facility has already been laid with the expansion plan in mind, and the proximity to Japan, the destination of LNG, is also an advantage, so we believe the feasibility of this plan is high.<br>For the Mozambique Rovuma LNG project, we are currently working on FEED services in a joint venture with Technip Energies based on the client's new concept. However, the outlook for FID and EPC realization remains uncertain due to the suspension of another preceding LNG project (Area 1 project) in the country due to local security issues and the need to confirm the economic viability of the new concept. |

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| Regarding the overseas order target of 840 billion yen for this fiscal year, how much delay has occurred in the first half, and is there a risk of postponement to the next fiscal year? | Including the new LNG plant EPC project in the United Arab Emirates received in the first quarter, the order intake for the first half was approximately 330 billion yen. For the second half, as mentioned in the "Business Overview" presentation, we expect to receive orders for the Indonesia Tangguh UCC project, which is expected to be officially ordered by the end of the year at the latest, and an LNG project in Africa. We believe that the difference of approximately 500 billion yen between the order target (840 billion yen) and the first half order intake (330 billion yen) can be mostly secured by these two projects. |
| With the change in the U.S. administration, it is expected that LNG projects in the country will start moving. Bechtel has received many orders in recent years, but it seems that the company also has capacity limits. Do you think JGC will have more opportunities to receive orders? | Our group will continue to respond cautiously to orders for U.S. EPC projects as before. While oil and gas-related projects in the U.S. may increase. However, there is also a possibility that tariffs will be raised due to the change in administration, which could exacerbate inflation trends in the country and increase initial investment costs for clients, raising concerns about economic viability. Additionally, it is necessary to closely monitor the extent to which oil majors will focus on fossil energy investments within U.S.<br>Furthermore, U.S. projects carry high construction risks, and it is crucial yet challenging to secure U.S. contractors who can reliably execute the construction work. |

3. Others

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| Honeywell International Inc. acquired LNG production process technology from Air Products and Chemicals, Inc. Will this have any impact on the industry? | Air Products and Chemicals, Inc. holds the APCI process license for cooling and liquefying natural gas and also designs and manufactures cryogenic heat exchangers. On the other hand, Honeywell International Inc. is a process licensor for acid gas removal units that treat natural gas. Therefore, there are opinions that integrating the acid gas removal unit and the liquefaction unit for natural gas can be advantageous for their promotion. However, in recent years, there has been a trend towards constructing medium- and small-scale LNG plants with multiple trains instead of large-scale LNG plants with one or two trains. For medium- and small-scale LNG plants, processes from companies like Chart Industries, Inc. and Black & Veatch may be more advantageous, leading to the view that the APCI process may only be applicable to large-scale LNG plants. |
| In recent years, there have been cases where Chinese EPC contractors have received orders in the medium- and small-scale LNG plant market. With the increase in modular construction methods, is there a possibility that the competitive environment for orders will become more challenging as the number of medium- and small-scale LNG plant projects increases? | The expansion of Chinese EPC contractors is not limited to onshore LNG plants. In the floating LNG plant sector, Wison Group have already established a track record in Africa in collaboration with Black & Veatch. It is expected that this trend will eventually extend to onshore medium- and small-scale LNG plants as well. However, our group has achieved an integrated modular construction method that significantly reduces on-site work through meticulous process and module design, as demonstrated in projects such as LNG Canada. We believe that it will take time for Chinese EPC contractors to match our level of execution capability and quality. |