May 12, 2021

JGC HOLDINGS CORPORATION

Q&A from the Online Earnings Release Conference (held on May 12, 2021)

On Financial Results for FY2020 Ended March 31, 2021, Long-Term Management Vision, and Medium-Term Business Plan

※This content is based on information available on the date of the online earnings release conference (May 12, 2021).

1. Financial results for FY2020 ended March 31, 2021

Question	Answer
Please tell us the factors for lower sales than the initial forecast.	In the initial forecast, we had assumed a return to normal in our business environment impacted by the pandemic before the fourth quarter, and an increase in sales. However, against the background of long-term impact, progress in recovery in overseas projects and others has remained elusive, and accordingly, results fell short of the initial forecast.
What factors do you attribute to the lower gross profit ratio in the fourth quarter?	This was mainly due to lost job charges. It is spent as inventory assets during the bidding period and will be charged to costs of sales when bidding is unsuccessful.

2. Orders received, market environment

Question	Answer
Is the impact of the pandemic causing uncertainty in the business environment in FY2021?	We think that the EPC market is affected by a combination of factors. The pandemic is one factor, as is oil majors curbing their capital investment plans in view of trends toward carbon reduction and decarbonization. We will continue to

	monitor conditions closely.

3. Forecast for FY2021

Question	Answer
Please tell us why the full-year forecast for FY2021 anticipates a two-point decline in the gross profit ratio, from 10.1% in FY2020 to 8.1% this fiscal year. Shouldn't the gross profit ratio improve as the number of unprofitable projects decline?	We have now completed several large projects, but there have been fewer contracts and estimates for new projects of this scale. Thus, the forecast accounts for the risk of a lower workload and capacity through FY2021.
Please tell us the reasons for the significant increase in net income in FY2021.	Foreign tax credits are currently unavailable, and double taxation applies, but we expect the amount of foreign tax to be significantly lower in FY2021 than in FY2020. Accordingly, the lower the tax burden is expected to increase profit.
Please tell us exactly what impact the shift to new revenue recognition accounting standards will have when this method is adopted next fiscal year.	We understand a broader scope of application for percentage-of-completion method in EPC business and change of recognition of client supply materials in functional materials manufacturing segment. We do not anticipate a significant impact overall.

4. Ichthys LNG project

Question	Answer
If all client requests are accepted, tell us how arbitration with the project client will affect the income statement and cash flow.	Any amount collected as a result of arbitration that is smaller than what we have anticipated will affect the income statement, based on the difference relative to our assumption. Even in this case, financially, we do not expect additional cash-out as it is a matter of collection of reimbursable costs we paid in advance.

5. Long-term management vision: 2040 Vision

Question	Answer
The company has pledged to be carbon-neutral by 2050. Please tell us about current emissions, as you work toward this goal, and any challenges you face.	Emissions vary greatly from year to year with the number and scale of projects carried out, but the Group's annual Scope 1 and 2 CO_2 emissions come to approximately 200,000–400,000 tons, of which functional materials manufacturing generates half. Ways to meet this goal are under consideration.
Healthcare and life sciences are positioned as growth business areas. Please tell us in detail about your stance on overseas expansion and smart hospitals.	Applying underlying technologies that have been accumulated domestically, we will pursue overseas expansion as we support both Japanese clients and companies based in relevant countries. Our efforts are gradually yielding results, such as securing a contract for solid dosage facility construction in Vietnam. Workforce expansion and M&As are also being considered. In smart hospitals, one aspect of potential business we are studying would leverage an array of medical and health data garnered from our extensive experience in domestic hospital construction.
Past achievements and connections with existing clients from EPC centered on oil and gas may not necessarily be transferable to the new business areas identified in the 2040 Vision. Can current profit levels be maintained?	Existing clients are also involved in the energy transition, and we think it is possible for us to do business focused on this segment while building on existing achievements and client connections. We intend to maintain current profit levels overall by gaining a competitive edge through digital transformation (which we promote across all segments) and by tapping our overseas subsidiaries and partners.

6. Medium-term business plan

Question	Answer
Solar and biomass power are listed as growth EPC segments on page 17 of the presentation materials. Please tell us about JGC strengths in these segments. Also tell us about JGC strategy in the Asian region, which is positioned as a growth market but is often associated with intense price competition.	Besides project execution capabilities, clients involved in biomass power need contractors who can ensure that plants provide a certain output capacity. We offer the advantage of being able to ensure the total output capacity, integrating the performance of all equipment and facilities, because we manage entire projects and draw on knowledge cultivated through execution of large-scale projects. Solar power is less technically difficult, but large projects reach a scale of 700,000 panels, affording opportunities for JGC to apply strengths in managing such large projects. We are aware of various risks in the Asian market, but we believe we can take advantage of our strengths – our ability to complete projects successfully through our global materials and equipment procurement network and use of local resources.
Please tell us how you will improve the gross profit ratio of EPC through digital technologies, preferably with a few recent examples.	A forte of ours is using digital technologies to seamlessly link all processes from design to procurement and construction. We believe that combining this approach with AWP can greatly accelerate project execution and improve price competitiveness. Currently we are reinforcing AWP development with a 200-member organization. Practical adoption is likely in about one year. Meanwhile, we are also considering ways to apply digital technologies in non-EPC business development. In maintenance, for example, we are studying business

	prospects of using the two decades of maintenance data we possess with our own maintenance record storage software to create a platform for use in anomaly prediction.
Operating income of 60 billion yen is targeted in FY2025. Please tell the breakdown by segment.	Roughly, this breaks down to 70% in energy transition, 10% in healthcare/life sciences, 15% in high-performance materials, and 5% in the circular economy and industrial & urban infrastructure segments.
Please tell us the reason the payout ratio was set at 30%. Regarding share buybacks, your policy is to consider buybacks as allowed by business conditions, but is there a specific index to be used?	The dividend payout ratio was set in consideration of cash in hand and projected operating cash flow that would enable us to secure funds for a total of 200 billion yen in strategic investment over five years. As before, our basic policy is for annual cash dividends aimed at a payout ratio of 30%, but we have also set a floor 15-yen dividend per share. During this medium-term plan, our preferred basic stance is to allocate funds for growth strategy investment and reward shareholders through higher corporate value. If excess funds are available after this, we will also consider share buybacks.
Please describe JGC's current position in the offshore wind segment.	Our offshore wind power department is bidding on multiple projects and is diligently engaged in sales activities to secure orders. Fixed-structure projects require construction support vessels, so we are also looking into collaborating with or investing in the firms that own these vessels. In offshore floating wind power projects, we are also considering participating as a business operator.