

November 11, 2021

JGC HOLDINGS CORPORATION

Second Quarter Financial Results for FY2021 ending on March 31, 2022
Q&A from the Online Earnings Release Conference (held on November 11, 2021)

This content is based on information available on the date of the earnings release conference (November 11, 2021).

1. Financial results for the second quarter of FY2021 ending on March 31, 2022

Question	Answer
<p>Why did you raise your forecasts for operating profit and other profit items in the second quarter results?</p> <p>I believe that you initially expected expenses to increase as the operating rate of the engineers declined, but is the operating rate improving?</p>	<p>This is because in the Total Engineering Business, profitability improved on the Mozambique FLNG, completed projects in Algeria, and multiple domestic projects. In the Functional Materials Manufacturing Business, market demand also recovered more than we initially expected, and we were therefore able to secure sales and profits, particularly in fine chemical products.</p> <p>In terms of the operating rate of the engineers, we are focusing our efforts on securing FS and FEED orders, but at this time, there has not yet been a clear improvement in the operating rate.</p>
<p>Why did operating profit decline year-on-year?</p>	<p>In the second quarter of FY2020, we recorded significant one-time profits from an LNG project completed in the past. As a result, operating profit declined year-on-year during the second quarter of this year, FY2021.</p>
<p>What is the impact of the increase in raw materials costs and equipment prices?</p>	<p>For projects where we have recently won orders, or will win orders in future, we have factored in (or will factor in) the increase in equipment prices in the</p>

	<p>order, so we think there is no particular issue.</p> <p>On the other hand, for projects that were ordered between one and three years ago, we are paying close attention to these trends. However, we have mostly completed procurement work for LNG Canada, so there will be no impact there. At the Basra refinery modernization project in Iraq, we have thus far been able to manage the impact in contingencies.</p>
How much impact does yen depreciation have?	<p>We expect our sensitivity to forex rates to be as follows: for each 1 yen move against the U.S. dollar, sales will change by 3.0 billion yen, gross profit by 300 million yen, and ordinary profit by 400 million yen.</p> <p>Please consider these numbers only as a rough guide, as we record sales based on the percentage of completion method, so the impact of changes in forex rates may not be straightforward.</p>
As of the end of the second quarter, what is your progress on the strategic investment that you announced in the medium-term business plan?	<p>We plan to invest approximately 20.0 billion yen by the end of this fiscal year.</p> <p>As of the end of the second quarter, we had invested several billions of yen.</p>

2. Market environment

There was speculative news that some clients planned to withdraw from the Rovuma LNG project in Mozambique. Do you have any updates on this matter?	<p>As far as we have confirmed, our clients have denied that they plan to withdraw.</p> <p>On the other hand, armed insurgents are active in the area surrounding the construction site in Mozambique, and we think we must pay close attention to the status of law and order.</p>
Has there been any change in the stance of oil majors, etc., toward investment in LNG amid the global movement toward low-carbon and decarbonization?	<p>Although there is a global trend toward low-carbon and decarbonized energy, energy demand is growing, particularly in developing countries. Accordingly, oil majors, etc., do not think it is realistic to completely eliminate all LNG</p>

	(natural gas) over the medium term. However, progress on the large-scale LNG expansion plan in Qatar may affect the overall supply-demand balance for LNG. As such, oil majors, etc., are closely following any changes in the LNG supply-demand balance.
Please tell us about LNG projects from next fiscal year onward.	We have begun to see action on multiple projects, including the expansion of Cameron LNG and Freeport LNG in the U.S., as well as the LNG Canada expansion. We are hopeful that we may be able to participate in some LNG projects from around the second half of FY2022.

3. Specific businesses

There is increasing focus on small modular reactors (SMR). What kind of opportunities can you expect from your investment in NuScale Power, LLC (U.S.), and what was the aim of this investment?	<p>The JGC Group has been active in the nuclear power sector for approximately 50 years, mainly in radioactive waste processing and disposal, and as such, we have a wealth of experience. The parent company of NuScale Power, LLC, which we invested in, is Fluor Corporation (U.S.). We have built an extremely good relationship with Fluor Corporation through working with them on projects such as LNG Canada, which is currently underway. We also have plans for the joint construction of SMRs.</p> <p>NuScale Power, LLC plans to sell SMRs in Asia and the Middle East over the medium- to long-term, and it is expected that we will utilize our wealth of EPC experience in these regions to lead the EPC side of these projects.</p> <p>Additionally, we have experience and advanced technical expertise related to modular construction methods, and it is expected that we will utilize this knowledge when modularizing SMRs.</p>
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<p>Please tell us about the strengthening of your structure in the domestic pharmaceutical sector.</p>	<p>Clients in the domestic pharmaceutical market are currently actively engaging in capital investment amid progress on the development of new drugs, including vaccines and anticancer drugs, and capital investment in the sector is expected to remain robust going forward. We expect this trend to spread to countries in Asia in future. As such, we are strengthening our structure in this sector, including relocating engineers within the Group and the transfer of the pharmaceutical plant EPC business from IHI Plant Services Corporation, as was recently announced.</p>
<p>Do you have any updates regarding initiatives in the offshore wind segment?</p>	<p>In 2018, we created a dedicated business department for offshore wind power. We currently have tens of employees working in this area, and have been providing support to business operators for FS, FEED, etc., with the aim of winning EPC orders for both offshore and onshore wind projects in Japan and overseas. There are promising projects this fiscal year, for which we hope to win orders.</p> <p>We will target orders for first-round projects in “the General Sea Area” (outside of ports and harbors) by working with general contractors on large-scale procurement from overseas, transport, and project management.</p>
<p>I think that the creation of integrated urban infrastructure, which you set forth in your long-term management vision, is an area where the JGC Group can utilize its project management capabilities, etc. Can you tell us about progress in this area?</p>	<p>At present, we are focusing on winning orders for specific infrastructure projects, such as airports, railways, and waste to power, which will act as components of integrated urban infrastructure. Ultimately, we intend to create conditions that enable us to create master plans for smart cities and other types of integrated urban infrastructure as a whole, etc.</p>