November 10, 2022

JGC Holdings Corporation

Second Quarter Financial Results for FY2022 ending on March 31, 2023

Q&A from the Online Earnings Release Conference (held on November 10, 2022)

This content is based on information available on the date of the earnings release conference (November 10, 2022).

1. Second quarter financial results for FY2022 ending on March 31, 2023

Question	Answer
The gross profit ratio was 12.0% in the first half of the fiscal year, higher than the forecast of 9.2% for the year. What are the factors behind this?	This can be attributed to the impact of the weak yen in the EPC business and margin improvement from successful risk management in some projects at the last stage of construction or completion, among other factors.
Calculations indicate that the forecast for the gross profit ratio for the second half is 8.2%, which would be lower than the ratio in the first half. What factors are behind this? Can we safely assume that this is not because the Company is worried about deteriorating profitability on particular projects?	There are three reasons for this. First, the USD/JPY exchange rate was 144.81 yen at the end of the second quarter, but our forecast is based on assumption of stronger Japanese yen USDJPY140 for the second half of the fiscal year. Second, although we could expect profitability to improve in the EPC business, we have not yet factored this into our forecasts for the second half. Third, we have been conservative in pricing in the impact that the steep rise in raw materials and fuel will have on the functional materials manufacturing business. We have not forecasted a lower gross profit ratio for the second half because of projects whose profitability we are concerned about.

2. Market environment

With so many inquiries from customers, what are the bottlenecks and constraining factors at present that stand in the way of customers placing orders for plant construction?	This is my personal view, but if we look at the LNG field, we find that equipment and material prices have not returned to the levels seen before the invasion of Ukraine, and while customers' investments are increasing, this conflicts with some customers' needs to quickly manufacture LNG. Moreover, orders are primarily being placed with the main equipment suppliers and some equipment has long lead times, which I think is another constraint. However, projects regarding which the government is promoting the export of LNG, as in the US, will likely quickly move to the FID stage. My sense is that there are some obstacles overall, but projects are making steady progress.
Is there a high probability that the Cameron LNG terminal expansion plan and the Freeport LNG facility expansion project in the US will begin between the second half of this fiscal year and the next fiscal year?	That is what we expect.
Can you tell us about your policies for taking on orders for LNG plans in the US?	We have LNG plans underway around the world, and do not focus exclusively on LNG projects in the US. Moreover, since the Group's resources for carrying out these projects are limited, our basic policy is to be very selective in choosing which projects to take on. It can be difficult to hire enough construction workers in the US, so having a trustworthy partner who can reliably secure construction workers is essential. Once we have a firm understanding of the current risks and local conditions, we make a cautious decision on whether we can carry out multiple projects at the same time in the US.
Given the increase in inquiries regarding various projects, what is the	In addition to the construction of a new operation center in India, we are increasing

Group's policy on expanding its capacity to implement projects?	staff by 100 at the engineering center in southeast Asia. Meanwhile, in Japan, we plan to increase the number of contract employees who are skilled engineers by 100. However, we think it is important not to expand capacity at the expense of quality.
Many other companies in this industry are struggling with rising costs due to the spike in material and equipment prices. How is JGC managing these higher costs? Can you also tell me how you plan to address this in the second half?	We will bid for future projects with the current sharp rise in material and equipment prices factored into the bid. In the case of projects received early in this fiscal year, these have been unofficially announced, but we were able to persistently negotiate with the client and receive the order with higher prices factored into the amount. The situation for ongoing projects differs depending on the contract terms with the client, but if the contract leaves room for negotiation, we will tenaciously negotiate with the client so that these higher prices are shared. We have already priced in some of the impact of the steep jump in prices into our earnings forecasts for this fiscal year.
In Europe, the suppliers of natural gas are diversifying now that Russia is out of the picture, but I hear that it is difficult to obtain financing for LNG plans in terms of decarbonization and ESG. Do these problems seem to be heading toward a resolution?	It is difficult to determine at this point whether these issues will be resolved, but we believe that LNG will be used in the near term as a transition energy and that the need for low carbon and decarbonization will rise, as with the combination of LNG plants with CCS, for example. However, the Group does not assume that LNG will remain the main source of energy, and is working to expand fields with future growth potential, such as hydrogen and ammonia fuel, as we outline in our long-term management vision, 2040 Vision, and our medium-term management plan, BSP2025.
Can you please provide an update on developments for LNG projects?	We are currently bidding for the Cameron LNG facility expansion plan and the Freeport LNG train expansion project, and are bidding for a FLNG plan in Malaysia as well. We have also received inquiries regarding a basic engineering plan (front-end engineering design, or FEED) for an LNG plan in Oceania.

3. Individual projects

It seems like raising profitability levels in the EPC business, which is identified as a growth area in the medium-term management plan, is an important theme. What progress has been made in the past six months to one year?	In the hydrogen and ammonia fuel fields, we expect to carry out FS and pre-FEED for several projects from the second half of this fiscal year through next fiscal year, and we are also working to implement SAF projects overseas. Our speed has not increased dramatically, but we are boosting personnel in these growth fields, even as we remain active in our existing fields, and are making steady progress in the right direction.