Summary of Q&A Session at the online Briefing on the results of FY2023 held on May 15, 2024

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1. Outlook for FY2024

Q: The sales plan of 270 billion yen seems optimistic. Could you explain?
A: Orders have been strong since last year, with a substantial backlog. Projects contributing to net sales include refinery-related projects in India, petrochemical and chemical projects in China, fertilizer projects in Nigeria, and biomass power projects, petrochemical and pharmaceutical projects in Japan. Approximately 80% of FY2024's projected net sales plan comes from already received orders, with the remaining 20% expected from new orders.

Q: Can the gross profit margin of 11.1% be sustained, and is aiming for 12% feasible?
A: FY2023's high gross profit margin was due to the award of numerous projects like urea licensing and engineering services. We plan to focus on high-margin non-EPC projects, aiming to make them account for half of the gross profit by FY2030. While the gross profit margin may fluctuate, we expect it to stay between 10% and 12%.

Q: What is the ratio of expected orders in new business areas to that of existing areas in this fiscal year? What is the orders target for new business areas?
A: While the number of new business area projects is higher, the order value is greater in existing areas. Last year, new business areas accounted for about 9% of gross profit, but this year we expect it to increase to around 20%.

Q: Is this target in new business area a highly ambitious goal due to negotiations with customers, or is it a highly probable goal?
A: The market is promising as many customers are actively working towards the global carbon neutrality goal for 2030. However, in new business areas such as SAF (Sustainable Aviation Fuel) and ethanol-to-ethylene, customers are cautious in their decision-making from a cost-effectiveness perspective. While progress is taking some time, we are working towards closing deals by considering government subsidies and cost reduction strategies together with customers.

Q: What is the breakdown of plant types for the 250 billion yen order target?

A: (Detailed answer provided after the Q&A session)
The major plant segments in terms of value are the existing business area of oil and gas, and petrochemicals/chemicals.

Q: Is the target of 250 billion yen assumed without the orders of equity method affiliates?
A: The new FPSO (Floating Production Storage and Offloading) project in Brazil is currently in the FEED (Front-End Engineering Design) stage, but the timing of the rollover to EPCI (Engineering, Procurement, Construction, and Installation) is still uncertain, so it is not included at this time. This may change in the future. Therefore, the target of 250 billion yen is assumed without the orders of the equity method affiliates. However, the prospects of potential projects are fluid and thus each order target may change going forward.

Q: We have heard that some troubles have occurred in biomass power projects. What is the progress there? What is the impact on the performance of the projects?

A: There are one or two projects experiencing some issues during the commissioning, but we have already made additional provisions. Other projects are progressing smoothly.

Q: What is the progress of the polypropylene project in Ichihara, Japan?
A: The mechanical completion is scheduled for the first half of FY2024, and we are currently in the final stages of the project.

Q: Isn't there a high dependency on FPSO projects?
A: While FPSO projects do account for a certain portion of our portfolio, we plan to manage our overall portfolio in a balanced manner to avoid over-reliance on any single project type.

2. Progress of the Mid-Term Management Plan and Management Policies
Q: What is the breakdown of the 20% (2 billion yen) of net income for 2030 across the three areas on P26: ① fuel ammonia, ② geothermal carbon neutral park, and ③ solar carport?
A: Approximately half will come from fuel ammonia (①), with the remaining half split equally between the geothermal carbon neutral park (②) and the solar carport (③).

Q: On the bottom right of P26, it is mentioned that by 2030, you will participate in supplying over 10% of domestic ammonia and hydrogen demand. What are the specific figures?
A: The government targets for both ammonia and hydrogen are 3 million tons each. Therefore, supplying over 10% means participating in the supply of 300,000 tons for each ammonia and hydrogen.

Q: Where are the ammonia production plants and the ammonia cracking plants for hydrogen production located, in Japan or abroad?
A: The ammonia production plants are basically located abroad, while the ammonia cracking plants are planned to be located in Japan. The ammonia produced overseas will be transported to Japan, where it will be cracked into hydrogen at the domestic plants.

Q: On P26, it is mentioned that geothermal power plant demonstration will be conducted in Japan in 2027. Where specifically will this take place?
A: Initially, we are planning to conduct demonstrations at several sites in Indonesia. Based on the success of these projects, we will present the results to potential customers in Japan and then aim to carry out demonstrations domestically. There are numerous promising locations for geothermal power generation within Japan.

Q: Why are you focusing on convenience stores for the solar carport business?
A: We are targeting convenience stores because there are approximately 54,000 of them nationwide, providing a significant number of potential sites for solar carports.

Q: What is the background and impact of a decision to make our Brazilian equity method affiliate TSPI a subsidiary, and what is the relationship with the investment partner?

A: We decided to make TSPI a subsidiary to enhance direct management of its loss-making projects and to appropriately manage risks. By strengthening our involvement, including personnel reinforcement, and negotiating change orders with customers, we are taking a leadership role. During the execution of previous projects, we provided cash flow support and found that leading the operations in Brazil ourselves would be more beneficial overall. Our investment partner agreed with this assessment, which led to the decision to make TSPI a subsidiary.

(Note: The content has been reorganized and revised for clarity.)