Summary of Q&A Session at the online Briefing for the 2nd Quarter of Fiscal Year Ending March 2024 held on November 9, 2023

TOYO explanators:
Eiji Hosoi, President & CEO
Kensuke Waki, CFO

1. Performance for the 2nd Quarter of Fiscal Year Ending March 2024 (FY2023)

Questions	Response
What is the status of the FPSO project by OFS, an equity-method affiliate?	There are two projects offshore of Guyana (Uaru project) and Brazil (Raia project), both of which are proceeding smoothly.
What is the state of deterioration in profitability by the other equity method affiliate in Brazil? Will it impact next year?	Customer's supply of drawings/materials has been delayed in modular fabrication projects, resulting in deterioration of profitability due to waiting for workers and delays in construction. We are negotiating additional compensation with customers for a change order. Load Out (shipment) of modules is scheduled for the end of 2023 and the first half of 2024, so the impact will not continue for a long time.
What is the monetary impact?	In the first half of the fiscal year, the impact of the deterioration in profitability was on the scale of the billion plus several yen.

2. Forecast for Fiscal Year Ending March 2024 (FY2023)

Questions	Response
Please explain the reasons for the upward revision in more detail.	The main reason is that the risk factors for the projects in India and China that are coming to an end have been mitigated. In the fiscal year, service type projects with higher gross profit margins, such as licensing and engineering work, will contribute to bigger than the normal year.
What is the impact of foreign exchange?	In terms of the PL in Q2, foreign exchange gains are generated as non-operating activities. However, since the foreign exchange position is fully hedged there is no impact at the profit attributable to owners of parent stage.

What is the reason why the gross margin rate is expected to decline in the second half?	In the first half of this year, profitability improved mainly due to the reduction of risk factors for overseas projects in India, China, and other countries. This doesn't mean projects are problematic in the second half of the year. Even though we look at certain risk factors in the second half of the year, if they are released, there is a possibility that profitability will improve.
Regarding the gross margin rate, the level in the previous fiscal year exceeded 12% and the forecast for this fiscal year is 10.4%. What is the target as new standard?	The gross margin rate is set at 10%. However, service type projects such as licensing, FEED, and Engineering are expected to have a gross margin of 20% to 30%. If the number of such projects are increased, it is expected to keep at the 10% to 12% level.
SG&A expenses are expected to increase in the second half. Why? Is there a DX investment?	R&D and DX cost will vary depending on job status, but we expect to incur a reasonable cost in the second half of the year. In addition, although the amount is small, bonus amount in the second half of the year at overseas EPC group companies are high. As a result, labor costs tend to be biased in the second half of the year.
This year's SG&A expenses are forecast to be 21 billion yen, but what is the level of SG&A from next year? Will the cost of proposals be reduced or increased affected by the market? How about DX investment?	DX investments are accounted for as fixed assets when IT tools development are completed and amortized on a straight-line basis over five years. Accordingly, depreciation as a result of past investments is recorded over five years and is expected to remain at the same level for a while. On the other hand, because the cost of the proposal and R&D are variable costs, it will be necessary to look at the market environment and the profit situation to determine the increase or decrease.
How about an impact of bad economic situation on projects in China?	In China, both BASF and polymer projects are ongoing, but there is no impact.
The performance of a chemical company is bad. What impact will it have on future orders?	The chemical company is pursuing a portfolio strategy and some customers are not affected by China. There are several projects currently under consideration by our customers and we are cooperating to them. Those will shift to EPC in the next fiscal year. Accordingly, we believe that there will be no impact on orders in the next fiscal year.
What is the outlook for future orders for FPSO projects by equity method affiliates?	Two proposals are ongoing, one of which is expected to be awarded in the second half of 2024 or 2025.

3. Others

Questions	Response
In addition to the labor shortage, there is concern that the performance of construction will deteriorate due to the new regulation of overtime in Japan from next year. What measures are being taken?	Four of biomass projects in Japan are now at their peak, and since April of next year, they are in the commissioning stage, so there is little impact from the new regulation. The biomass and petrochemical projects in Wakayama and Chiba are planned and budgeted based on overtime regulations from April next year. Accordingly, there is no major problem on projects already started. We will take into account an impact of new regulations for new orders.
There are concerns about a shortage of labor worldwide. Some overseas companies are promoting the standardization of engineering and the use of modules.	For example, ammonia plants, for which many projects are expected in the future, we are actively considering the use of modules. The construction of the plant can be efficiently achieved through modularization.

(Note)

- In some cases, the content has been reordered to facilitate reader understanding.