Management Messages

Message from the Chairman and CEO

Striving for a Sustainable Future— Overcoming the Energy Trilemma

CEO Message

Masayuki Sato
Representative Director, Chairman and CEO

Joined JGC in 1979. Has worked in finance and accounting since joining, overseeing finance for the Middle East, North Africa, Southeast Asia, and CIS projects. Appointed as a director in June 2010; CFO, Managing Director, Senior General Manager of the Corporate Administrative & Financial Affairs Division in July 2011; and Executive Vice President in June 2012. Promoted to Representative Director and Chairman in June 2014 and subsequently to CEO in June 2017.

The World Faces a Trilemma

The world now faces three complex challenges. To the challenges of accelerating decarbonization to achieve a sustainable society as well as meeting increasing immediate energy demands, we now add energy affordability. From a slightly different perspective, energy affordability can be described as commercial viability. Operating expenses (OPEX) and capital expenditure (CAPEX) have increased due to inflation in the prices of various goods and services, including increased interest rates, the cost to procure fuel and raw materials, and the unit cost of labor. Our sense of the global challenges aligns closely with what we assumed in our long-term management vision, 2040 Vision. However, I feel that the push to decarbonize and achieve a recycling-oriented society has started to come up against economic realities, and a steep barrier is starting to loom over us, which we must overcome.

Moreover, generative AI is becoming a major focal point for the effect it will have on energy demand from here on out. Although there are various projections, the spread of generative AI will not only increase the number of data centers, but its use will drive demand for higher processing capacity, which will lead to increased demand for electric power. The expectation is for data center operators to use carbon-free energy sources to supply the power needed for their operations. Therefore, it is expected that gas-fired power generation will serve as a stable power source for the time being, in addition to renewable and nuclear energy, and that demand for natural gas and LNG will remain firm over the medium to long term.

As we work toward enhancing the five business areas of our 2040 Vision (Energy transition, Healthcare & life sciences, High-performance functional materials, Circular economy, and Industrial & urban infrastructure) required by society and industry to achieve a sustainable society, I outlined how the JGC Group needs to fulfill its role as an equal partner, a collaborator, providing realistic solutions based on its technical expertise to countries, clients, and other stakeholders who face this trilemma. In fiscal 2023, I was proud that we could do so, and felt even more strongly that this is what countries, clients, and other stakeholders want.

Overview of Fiscal 2023

In fiscal 2023, the business environment was one of gradual recovery for the global economy while energy demand trended upward. The importance of natural gas and LNG as transitional energy sources was reaffirmed. As a result, demand for natural gas and LNG is growing rapidly worldwide and numerous LNG projects are moving steadily toward realization. Concurrently, we saw an acceleration of investment plans in sustainable segments such as hydrogen/fuel ammonia, SAF, and Carbon Capture and Storage (CCS), buoyed by governmental policies in various countries aimed at reducing or eliminating carbon emissions. This, combined with the acceleration of numerous LNG projects, has led to an extremely high number of inquiries from clients to the JGC Group. However, rising interest rates and rising CAPEX are beginning to delay some clients' investment decisions. The same is true in the Japanese domestic market, with increased CAPEX causing clients to take time in receiving subsidies and revising budgets, and investment in some projects has begun to be delayed. Faced with the problem of this increase in CAPEX, as well as the postponement of investment decisions on orders we had expected to receive in fiscal 2023 to fiscal 2024, orders received for our Total Engineering Business were limited to approximately ¥300 billion in fiscal 2023.

However, in March 2024 we received a limited notice to proceed for a large-scale low-carbon LNG plant construction project in the United Arab Emirates. Thereafter, in June the client made its final investment decision (FID) and the EPC contract officially came into effect. This flagship project meets increased energy demand as well as achieves the goal of decarbonization. It also reaches the bar for commercial viability, and I am proud to be involved in realizing such a project.

On the other hand, in regard to our performance in fiscal 2023, in addition to the projects carried out by our Group subsidiaries overseas, we anticipated additional costs and risk contingency for multiple projects carried out by JGC Corporation, the core of the Group's EPC business. Regrettably, this led to us recording an operating loss and a loss attributable to owners of parent.

The factors which led to additional costs and risk contingency vary depending on the specific background and particulars of each project. JGC Holdings, together with JGC Corporation, has examined the underlying factors and countermeasures. Details of these factors and countermeasures are discussed in the COO Message which follows. However, I do believe that we were not mistaken in the overall policy stated in our medium-term business plan, BSP 2025, and our long-term management vision, 2040 Vision. This calls for us to diversify our business into five business areas, starting with Energy transition, promote our own reforms, and achieve sustainable growth.

Even though we posted losses this time, we will not change our direction. In response to the losses recorded by our overseas Group subsidiaries, we put a brake on the efforts to build the stronger framework for regional management laid out in our 2040 Vision. The aim of these efforts was to expand our business by strengthening our capabilities in sales and project execution based on "local production for local consumption" in growth markets. We are presently strengthening the JGC Corporation management team and working together to tackle the immediate issues that have arisen. At JGC Holdings, we will also take the lead in overcoming this difficult situation and building a more resilient structure than ever before.

Status of BSP 2025

Fiscal 2024 marks the fourth year of the BSP 2025 medium-term business plan covering the five-year period from fiscal 2021 to fiscal 2025. It is positioned as the first phase of our long-term management vision, 2040 Vision. Over the past three years, we have made steady progress toward the three key BSP 2025 strategies of transformation of EPC operations, expansion of manufacturing business for high-performance functional materials, and establishment of future engines of growth. This is bringing about a steady shift in our Group business portfolio, which had been centered on the oil and gas sector, toward the five business areas set for expansion in the 2040 Vision.

On the other hand, because the projects which incurred additional costs and risk-associated expenses in fiscal 2023 will continue through fiscal 2025, our forecasts are as follows: net sales of ¥830 billion, operating profit of ¥26 billion, and profit attributable to owners of parent of ¥23 billion for fiscal 2024. The financial targets set forth in BSP 2025 (net sales of ¥800 billion, operating profit of ¥60 billion, and profit attributable to owners of parent of ¥45 billion) are dependent on achieving the targets for orders received in fiscal 2024 and the timing at which orders for individual projects are received. We will continue to diligently work toward achieving these targets.

Promoting Stronger Corporate Governance

With respect to corporate governance, I believe that we need to establish a structure that encourages "aggressive" management, while also strengthening our "defenses" in preparation for the diversification of risks associated with taking on new challenges. Furthermore, I believe that the JGC Group needs to incorporate diverse perspectives into our management to bring about a new dimension of transformation. Up until now, we have been increasing our number of outside directors, and have received proposals from outside directors which strike a balance between "aggressive" and "defensive" stances. Following a resolution at the Ordinary General Shareholders' Meeting in June 2024, we have appointed two new outside directors: Shinjiro Mishima and Miku Hirano. While hailing from a different industry, Mr. Mishima has corporate management experience in an order-taking industry similar to that of our Group business. Ms. Hirano possesses extensive expertise in the fields of IT and AI. As a female entrepreneur and executive, she brings further diverse perspectives and opinions to the Board.

I intend to fulfill my responsibility as Chairman of the Board of Directors by reflecting the diverse opinions of outside directors in our management, and ensuring that the Board of Directors operates in a highly effective manner.

Wrapping Up

In fiscal 2024, we are rebuilding our EPC execution structure and will restore the trust of our shareholders and investors in our ability to implement EPC. We are also determined to steadily execute current EPC projects and consistently achieve the earnings we have forecast.

To allow our EPC Group companies centered around JGC Corporation and JGC Japan Corporation to make even greater strides, we will appropriately reorganize our EPC execution structure, grasp the major trends we see in the plant market, and achieve further momentum for our next medium-term business plan.

Our Functional Materials Manufacturing business has begun to grow into a stable source of earnings for the JGC Group. The semiconductor market, which is key in the fields of fine chemicals and fine ceramics, is expected to grow from its current US$500 billion into an even vaster market of US$1 trillion by 2030. JGC Holdings will solidly support the efforts of both of these functional materials companies in growth markets such as this.

Since our founding, we have overcome major obstacles time and again. I will fulfill my responsibility as CEO of the JGC Group in overcoming our current difficulties and strengthen the earning power of the Group, fulfilling our role as a collaborator taking on issues and providing realistic solutions.

I sincerely request the continued support of all our shareholders and investors.

Message from the President and COO

A Year for Rebuilding Our EPC Execution Structure

COO Message

Tadashi Ishizuka
Representative Director,
President and COO

Joined JGC in 1972. Managed numerous projects outside of Japan after initially working in the Domestic Project Construction Division. Appointed Managing Director and General Manager of the Project Operation Services Division in June 2008; Senior Managing Director in 2010; Executive Vice President and Board Director in June 2011; Senior Executive Vice President and CPO in February 2017; and President and COO in June of the same year.

Overview of Fiscal 2023

In fiscal 2023, we posted an operating loss of ¥18.9 billion and a loss attributable to owners of parent of ¥7.8 billion after two downward revisions during the fiscal year. This was due to the deterioration of profitability of our Total Engineering Business resulting from additional costs and risk contingencies for some EPC projects underway overseas and in Japan. In addition to external factors including soaring materials and equipment prices, the factors which led to our posting of additional costs and risk contingencies were, unfortunately, largely internal, such as design quality issues at overseas JGC Group subsidiaries and at JGC Corporation headquarters. Challenges during the design phase of our Total Engineering Business, the core of the Group, have caused serious successive losses in multiple projects. I see this as an extremely serious issue for the Group and we are currently working with the JGC Corporation management team to implement countermeasures.

As for new orders, although the market environment is robust, rising interest rates and soaring construction costs have pushed up CAPEX for clients. This has tended to delay the timing of investment decisions for large-scale plant construction projects. Out of an expected ¥800 billion in orders for fiscal 2023, actual orders received were approximately ¥300 billion. However, in March 2024 we received a limited notice to proceed order for a large-scale low-carbon LNG plant construction project in the United Arab Emirates. Since the order for this project was received in fiscal 2023, actual orders received in fiscal 2023, including this project, can be considered to be approximately ¥600 billion. Taking this into account, our backlog of orders at the end of fiscal 2023 was in excess of ¥1.5 trillion. This is a backlog of orders equivalent to about two years of sales, and we believe that it is a sufficient level of backlog.

To sum up fiscal 2023, while we were able to secure orders for projects that will serve as the basis for future earnings in the booming plant market, the continued deterioration of profitability in projects underway made it a year for reviewing the earning power of the JGC Group.

Rebuilding EPC Execution Structure as the Core of the JGC Group

Within the JGC Group, we are analyzing the background and causes of the breakdowns in design quality at JGC Corporation headquarters and overseas Group subsidiaries that occurred for multiple projects underway in fiscal 2023, as follows.

First, to provide some background for this situation, the Group has been promoting the diversification of our business into five business areas, including Energy transition, that are identified in our long-term management vision, 2040 Vision, announced in fiscal 2021, and its first phase, the medium-term business plan BSP 2025. Specifically, JGC Holdings has played a central role in creating new business related to sustainability and has divided JGC Corporation into three areas: Energy Solutions, Sustainable Solutions, and Facility Solutions. Over the past few years, we have worked on numerous FS and FEED projects in the expectation that they will lead to future EPC projects, not just EPC projects in the areas of energy transition and sustainability.

We have been promoting efforts to build a stronger framework for regional management. These have aimed at expanding our business by strengthening our capabilities in sales and project execution based on “local production for local consumption” in growth markets primarily in Asia. JGC Holdings has established JGC Asia Pacific as our headquarters in Asia, strengthening the framework for regional management in the Asian region. In addition, JGC Group subsidiaries in Asia and the Middle East have been pursuing growth by targeting multiple projects each worth tens of billions of yen as clients have increased the capital investment in each project.

Against this backdrop, I see two issues. The first is ensuring the execution and quality of design work through appropriate allocation of JGC Corporation personnel. While JGC Corporation was rapidly expanding into our five areas of business, many design engineers within the Group were assigned to business development projects in areas related to sustainability, as well as FS and FEED work. As a result, we were unable to appropriately allocate design resources as an organization, and we believe this was an underlying cause of design quality issues. In this way, problems with design quality in some EPC projects executed out by JGC Corporation caused delays in schedule. This led to a negative chain of events, including the investment of more resources to make up for these delays, and ultimately resulted in a deterioration of profitability.

The second issue is to implement projects in accordance with the execution capabilities of the overseas Group subsidiaries. We have adopted a policy of proactively winning orders for projects in local markets in Asia and the Middle East through our overseas Group subsidiaries. If these were mainly small-scale projects such as those they had previously handled, they would have been able to adequately perform them. However, their EPC execution capabilities and risk management systems were unable to keep up with medium-sized projects worth tens of billions of yen, which we believe exceeded their capabilities.

We are currently working on countermeasures for each of these issues. To begin with, we are driving forward three countermeasures for the first challenge of "ensuring the execution and quality of design work through appropriate allocation of JGC Corporation personnel." First, as part of our criteria for selecting projects, we are focusing on: (1) Projects with high feasibility which are expected to yield profits immediately or in the medium term, (2) Projects that can be supported by Group resources, and (3) Projects that will be assets for the future, contributing to sustainable growth. Second, we will ensure project execution is not disrupted by prioritizing the allocation of resources to projects currently being carried out by JGC Corporation as a whole, rather than for each of the Solutions. We are also working at effectively allocating resources to projects that meet the aforementioned criteria and are being more selective than ever in taking on FS and FEED projects, which will become future assets. Third, we are expanding and enhancing the functions of our overseas Group subsidiaries in the Philippines and India, whose primary mission is to serve as engineering centers which support projects undertaken by JGC Corporation.

To address the second challenge of "carrying out projects in accordance with the execution capabilities of overseas Group subsidiaries," from the standpoint of the profitability of EPC projects undertaken by the overseas Group subsidiaries and the execution capabilities of each company, for the time being we have put the brakes on the development of our regional management framework. Moreover, we will redefine the three primary purposes for each location: (1) To be an engineering center for projects executed by JGC Corporation, (2) To be the signer of contracts entered into by JGC Corporation, and (3) To undertake and execute differentiated local EPC projects. By the end of 2024, we will restart operations at each site after redefining the focus of operations. For the moment then, we have put the brakes on our framework for regional management. We intend to again take up this challenge after we assess the capabilities of each site.

To vigorously promote these countermeasures, we have appointed Shoji Yamada, former Representative Director and President of JGC Japan Corporation, as Representative Director and Senior Executive Vice President of JGC Corporation, strengthening the JGC Corporation management team. Through the joint efforts of President Farhan Mujib and Senior Executive Vice President Shoji Yamada, we need to rebuild the JGC Group's EPC execution structure and demonstrate the results in our business performance and in doing so restore the trust in the EPC execution capabilities of our Group at the earliest time. CEO Sato and I will firmly support these efforts.

Fiscal 2024 Order Target and Earnings Forecast

Concerning the market environment for our Total Engineering Business in fiscal 2024, as in fiscal 2023 CAPEX by clients is on an upward trend due to rising interest rates and inflation. Although some clients are cautious about making FIDs, we believe that the appetite for investment is strong, primarily for large-scale LNG and for segments related to sustainability overseas, as well as for pharmaceutical manufacturing and segments related to sustainability in Japan. Meanwhile, before proceeding with selective orders, we will consider the appropriate number of projects to focus on based on the countermeasures for the issues I mentioned earlier, thoroughly examine and analyze the risks of targeted projects, and effectively allocate resources. With these measures, we aim to achieve a total of ¥970 billion (¥840 billion from overseas EPC business and ¥130 billion from domestic EPC business) in projects for our Total Engineering Business in fiscal 2024, including projects that we expected to receive during the previous fiscal year but were postponed.

In Energy Solutions for our overseas EPC business, we are primarily focusing on the LNG sector in which demand is soaring. We received an order for a large-scale low-carbon LNG plant construction project in the United Arab Emirates in June, and we are also aiming at LNG projects in regions such as Africa. In Sustainable Solutions, our aim is to receive orders for EPC services for a CCS project in Asia, and FEED services for a methanation project in North America. In Facility Solutions, we are partnering with Exyte Singapore Pte. Ltd. to obtain early orders in advanced industrial segments such as data centers and semiconductor manufacturing facilities. Following on from fiscal 2023, we are aiming to secure contracts for pharmaceuticals plants, hospitals, and food-related facilities, among others, in the domestic EPC business.

Forecasts for fiscal 2024 are net sales of ¥830 billion, gross profit of ¥58 billion, operating profit of ¥26 billion, ordinary profit of ¥34 billion, and profit attributable to owners of parent of ¥23 billion.

In our outlook by segment, we foresee our Total Engineering Business achieving net sales of ¥770 billion, and segment profit of ¥26 billion. Sales are expected to remain flat compared to the previous fiscal year due to ongoing projects that remain underway. Segment profit is one of the factors pushing down overall profit as sales from projects whose profitability deteriorated in fiscal 2023 will continue to be recorded in fiscal 2024, but no profit will be recorded. In fiscal 2024, we will continue to rebuild our EPC execution structure so as not to incur additional costs. We intend to demonstrate these results in our business performance.

Net sales and segment profit for our Functional Materials Manufacturing Business are expected to remain unchanged from the previous fiscal year. In the catalysts sector, demand for products such as FCC catalysts is expected to remain firm, backed by increased demand for replacement catalysts as fuel demand recovers. Conversely, the electronic materials and semiconductors markets, which are the mainstay of our fine chemicals and fine ceramics sector, are showing signs of bottoming out. Nonetheless, we expect a full-fledged recovery from the second half of fiscal 2024 onward.

Wrapping Up

It is no exaggeration to say that fiscal 2024 is a critical period in achieving medium- to long-term growth for the JGC Group. In the Total Engineering Business, the core of our Group, we will work to promptly rebuild our EPC execution structure and do our utmost to reach our fiscal 2024 target and earnings forecasts. At the same time, we will fulfill our duties by steadily implementing the three priority strategies set out in BSP 2025. Thank you very much for your continued support.

Management Messages

Message from the CFO

Maintaining a Strong Financial Base While Implementing Strategic Investment for Growth

CFO Message

Kiyotaka Terajima
Director, Senior Executive Vice President, and CFO

Joined JGC in 1981. After joining, established business alliances and developed contracts for domestic and overseas projects in the Legal Department. Appointed Executive Officer and General Manager of the Corporate Administrative & Financial Affairs Division in 2014; Director, Executive Officer, and Senior General Manager of the division in 2016 (Senior Executive Officer in 2017); Executive Vice President and CFO in April 2018; and Senior Executive Vice President in April 2020.

Overview of Fiscal 2023

For fiscal 2023, the JGC Group reported net sales of ¥832.5 billion, gross profit of ¥10.6 billion, operating loss of ¥18.9 billion, and loss attributable to owners of parent of ¥7.8 billion.

By segment, we saw our Total Engineering Business achieve net sales of ¥773.1 billion, and segment loss of ¥22.0 billion. Progress on large-scale EPC projects led to a significant year-on-year increase in revenue. Unfortunately, however, the Company posted a loss from additional costs and risk contingencies due to issues including manpower allocation for design work and the inability of our overseas Group subsidiaries to manage large-scale projects. In response to the problems identified, we are resolutely advancing efforts to restore profitability by promptly setting forth our response policy and gradually implementing specific actions, including making changes to some of the business strategies we have followed thus far.

Our Functional Materials Manufacturing Business achieved net sales of ¥52.0 billion, and segment profit of ¥7.2 billion. Despite a challenging market environment which includes a decline in demand for fine chemical products, record sales were achieved for the second year in a row, maintained a high level of segment profit while absorbing the burden of depreciation expenses, and continued to steadily grow. In addition to our ongoing R&D activities, we are making investments for further growth, such as acquiring land for business purposes, and intend to accelerate such investments going forward.

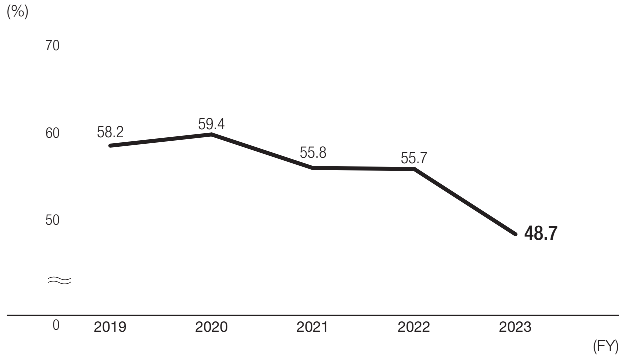
Moreover, three years have passed since the start of BSP 2025 which covers the period from fiscal 2021 to fiscal 2025, positioned as the first phase of our 2040 Vision. The three elements of our basic capital policy for this period have been: maintaining a solid financial footing to support our large-scale lump-sum EPC business, flexibly handling growth investments, and steadily ensuring shareholder returns. Going forward, we intend to formulate and execute financial strategies that align with these points.

Shareholders' Equity

In the Total Engineering Business, as the core business of our Group, it is necessary to secure liquidity to ensure its stable continuation. This is due to the nature of large-scale projects, the influence of the business environment, the possibility of significant fluctuations in cash flow due to turmoil in financial markets, and other factors. We have also secured funding capacity by maintaining a solid financial footing in order to flexibly handle growth strategy investments.

Moreover, we want to maintain the trust of clients to be able to receive orders and carry out large-scale EPC lump-sum projects. We also need to maintain our credibility by securing the necessary level of capital as a safeguard against unavoidable large-scale losses. We believe that this will allow us to ensure business continuity. One of the critical goals for accomplishing this is maintaining a stable equity ratio of 50% or more. While total assets increased due to a significant increase in sales in fiscal 2023, shareholders' equity declined due to the fact that we posted a final loss. As of March 31, 2024, we had an equity ratio of 48.7%, but we judge that this level allows us to continue to maintain a solid financial position.

Equity Ratio

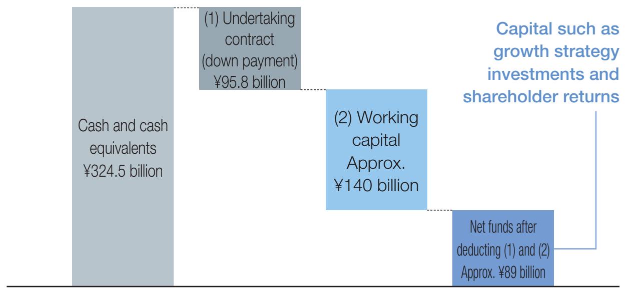


Utilizing Capital in an Effective Manner

For EPC lump-sum projects in our Total Engineering Business, ideal contract conditions and execution plans require receiving advance payment at the time of order, which allows us to carry out the project without the burden of reimbursement while it is in-progress. Therefore, when there are a number of projects progressing well under favorable conditions, the balance of cash tends to be temporarily high.

Cash and cash equivalents as of March 31, 2024, stood at ¥324.5 billion, of which ¥95.8 billion corresponded to contract liabilities such as advances received on projects. Further, holding an amount of working capital equivalent to roughly two months of sales (currently estimated to be approximately ¥140 billion) allows us to minimize the impact of sudden changes in the environment, such as turmoil in financial markets, and enables us to make flexible decisions on project execution. The approximate amount of ¥89 billion in net funds remaining after deducting this amount is positioned in BSP 2025 as a resource for use in growth strategy investments and shareholder returns. When making growth strategy investments, we will prioritize applying the amount that adds cash flows from future operating activities. However, we expect the shortfall to be made up through interest-bearing debt.

Status of Cash and Cash Equivalents as of March 31, 2024



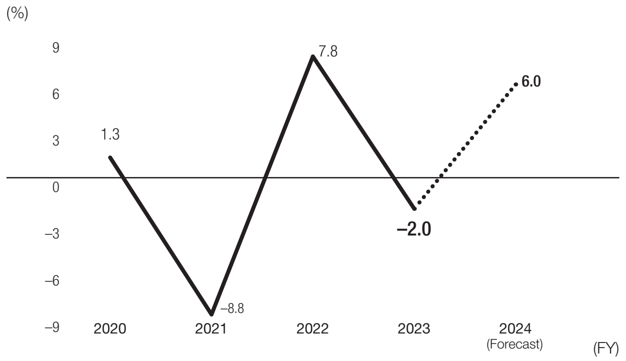
Concerning debt procurement, we issued our first green bond for ¥10 billion in September 2023. Our growth strategy investments include several projects for developing businesses and technologies that contribute to decarbonization. These green bonds are intended to fund green projects such as SAF, biomanufacturing, and high thermal conductivity silicon nitride substrates for power modules in EVs.

Prioritizing Operating Profit to Improve ROE

Based on our capital asset pricing model, we estimate the cost of shareholders' equity to be 8 to 10%, and we intend to secure return on equity (ROE) of 10% or more over the medium to long term. How we expand profit attributable to owners of parent is important for increasing ROE while working to enhance equity capital from the perspective of having a firm financial footing to support expansion of projects centered around our lump-sum EPC business. To this end, we place top priority on enhancing the profitability of our business activities.

Reflecting on the regrettable fact that we posted a final loss in fiscal 2023, we have embarked on efforts to restore profitability in our Total Engineering Business in fiscal 2024. Based on initial forecasts, ROE is expected to remain at around 6%. Going forward, we will steadily implement measures to improve profitability and achieve capital efficiency in excess of 10%.

ROE



At present, we are actively engaged in the three key strategies of BSP 2025: transformation of EPC operations, expansion of manufacturing business for high-performance functional materials, and establishment of future engines of growth. As the CFO, I am seeking to increase ROE in the medium- to long-term by working toward these key strategies with a credible and tactical financial approach. In particular, we are planning growth strategy investments of approximately ¥200 billion over the five-year span of BSP

We have invested a total of approximately ¥65 billion out of our ¥200 billion quota, primarily in research and development and capital investment.

If we include projects we plan to invest in during fiscal 2024 and beyond (for which internal investment has been decided), this comes to ¥120 billion.

	Accumulated results from fiscal 2021 to fiscal 2023	Plan for fiscal 2024 and beyond
Transformation of EPC operations	• EPC digital transformation(DX) and execution technology-related, and others • Establishment and operation of Indian operations center • Acquisition of pharmaceutical business from IHI Plant Services Corporation, and others	
Expansion of manufacturing business for high-performance functional materials	• Capital investment in high thermal conductivity silicon nitride substrates • Acquisition of land for plants factory • Renewal and expansion of production facilities, R&D, and others	
Establishment of future engines of growth	• INTEGNANCE VR • Food tech related • Healthcare-related, and others	
	• DDR Commercialization • Biomanufacturing • Sustainable aviation fuel (SAF) business • Ammonia related • CVC, etc. and others	

2025 and have already invested approximately ¥65 billion over the three years of fiscal 2021 to fiscal 2023. The breakdown of amounts invested in accordance with our key strategies is: ¥8 billion for transformation of EPC operations, ¥30 billion for expansion of manufacturing business for high-performance functional materials, and ¥27 billion for establishment of future engines of growth. Investment projects for which decisions have already been made, combined with pre-cashout deals, will bring growth strategy investments to approximately ¥120 billion.

In selecting growth strategy investment projects, we are acutely aware of the sudden market changes that have occurred since fiscal 2021 when BSP 2025 began, such as future growth in the market for plants, the rapid pace of development of markets in the sustainability sector, and the planting of seeds for future business. We have invested in an Indian operations center with the goal of increasing our project execution capacity, we have succeeded in getting the SAF business off the ground, and we have established a location for the development of biomanufacturing. Biomanufacturing uses microbes to create a wide range of products including pharmaceuticals, materials, energy, and food. According to the Organisation for Economic Co-operation and Development (OECD), this business is expected to expand in the future, and the global market is estimated to reach ¥200 trillion by 2030. Our Group is pursuing an Integrated Biofoundry® business that will provide a one-stop service for everything from breeding and improving microbes to developing production processes. We expect the new biomanufacturing R&D facility that we will establish on Port Island in Kobe to be an important base for promoting the implementation of the technology from Kobe to the world through future collaboration between industry, government, and academia.

We consider investment returns from a long-term perspective, as establishing future engines of growth entails wide-ranging R&D expenditures that can be expected to create businesses and generate growth over the long term. In our Functional Materials Manufacturing Business, asset acquisitions for expanding the business are large, and we expect returns to exceed the cost of capital in the relatively short to medium term. But we have also made upfront investments in anticipation of future business expansion, including land acquisition. Concerning the transformation of EPC operations, our investments anticipate strengthening our competitiveness for future orders through DX and improving the efficiency of EPC services.

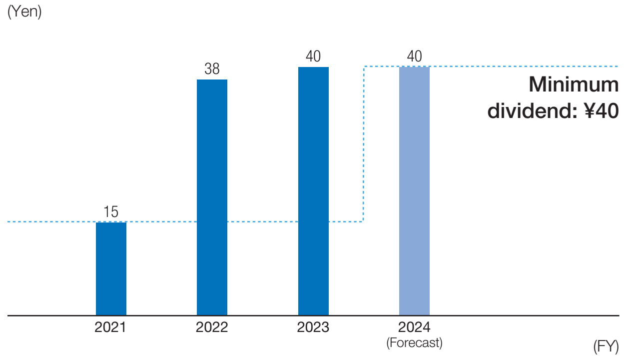
The Group Investment and Loan Committee established under JGC Holdings Corporation conducts quantitative analyses that factor in capital costs when making investment decisions, and also carefully and cautiously deliberates research and development projects based on their potential to lead to future business expansion. The committee also monitors the progress of projects after investments are made, as part of a system that can effectively study whether to withdraw from certain businesses.

Greater Shareholder Returns

We view shareholder returns as a key management issue for the Company, and our dividend policy seeks a payout ratio of about 30% during the BSP 2025 period. Cash dividends are generally paid once per year. We have revised the minimum annual dividend per share based on our current financial position and future earnings outlook, increasing it from ¥15 to ¥40 per share. Based on this policy, we have set the dividend forecast for fiscal 2024 to ¥40 per share.

Under this policy, the Company will consider share buybacks when needed, factoring in aspects including business outlook and free cash flow. I want to consider our forecast from here out once we verify the accuracy of our fiscal 2024 earnings forecast.

Cash Dividends per Share



As the CFO, during fiscal 2024 I intend to ensure we meet our fiscal 2024 earnings forecast by supporting the financial rebuilding of our EPC execution structure. In addition, we intend to meet shareholder expectations by making consistent progress in increasing the dividend per share by expanding business performance and improving shareholder value over the medium to long term. We appreciate the continued understanding and support of all of our shareholders.