

Questions and Answers at Business Unit IR Meeting 2022 Part 2 (Infrastructure Business Unit)

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[Speaker]	Yukihito Honda	Managing Executive Officer, General Manager, Infrastructure Business Unit
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	Hidemasa Kozawa	Corporate Officer, General Manager, Social Infrastructure Business Division
	Koichi Taniguchi	Corporate Officer, General Manager, Global Power Infrastructure Business Division
	Yuji Watanabe	Corporate Officer, General Manager, Logistics Infrastructure Business Division
	Yoshinori Takayama	Corporate Officer, General Manager, Investor Relations Dept.

<Questioner 1>

Regarding renewable energy, you have newly disclosed new goal of 5GW or more by 2030. What is the premise that have led to this disclosure? The invested capital will also increase to JPY400 billion in FY30, and could you advise how you plan to increase your renewable energy related assets?

<Honda>

We have disclosed this for the first time in this IR Meeting. The pipeline has been built up, and considering high feasibility of certain projects among them, we have come to the point where we can aim for 5 GW.

<Taniguchi>

There are onshore wind power project in Egypt, and offshore wind power project in France, for which we have been awarded the tender. With these two projects we can set to achieve 2GW. In addition, it will depend on the bidding result, but we are working for multiple project such as offshore wind power in Japan and solar power in Germany, wind power in Europe, a geothermal power in Indonesia, solar power in Bangladesh. If we add these up, we should be able to aim 5GW by 2030. Based on these progress, we have decided to disclose the above as our new target including some stretch.

<Questioner 1>

I understand that Summit Energy is aiming to become profitable next fiscal year, but for example, even if the contracts are amended with customers such as JCOM, it still seem difficult for Summit Energy to be profitable unless it is passed on to the individual consumers. Also the balance between power sales and power generation must be adjusted. Please tell us what you think on these points.

<Kozawa>

The reason why Summit Energy has been struggling in the current fiscal year is due to two factors: high price in JEPX market, the wholesale electricity market, and soaring fuel prices. Summit Energy's customer base is largely composed of standard households that have high demand during the morning and evening hours when JEPX prices rise. Also having the caps on fuel cost adjustment, soaring JEPX prices greatly affected the company. As seen in news media, the former general electricity utilities are planning to raise electricity prices by April next year, and Summit Energy has begun asking its major customers, including JCOM, to raise prices for general household consumers, who are the end users. With the elimination of the caps on fuel cost adjustments also taking shape, the company is now preparing the ground to return to the black.

The company has been in a short position in terms of the balance between power generation and power sales because it has increased sales more than the power source it has from relative contract and own power generation. But considering the current market environment, the plan is to work toward a neutral position by matching supply and demand, so that the company can return to be profitable in the next fiscal year and beyond. Summit Energy can function to balance supply and demand in entire Company's renewable energy value chains, and we will work to further enhance its functions.

<Questioner 2>

On the page 7 of presentation, understand you will accumulate invested capital, mainly in social infrastructure and renewable energy, toward FY30. How are you going to increase the profitability by combining income gain and capital gain? Will future profits be consistently generated or sharply increased in the later stage? Please tell us how the profits will grow in this long time span.

<Mihara>

While the size of assets grows, the portfolio will change. First, for thermal IPP, we will continue to reduce the invested capital from JPY500 billion in FY22 to JPY300 billion in FY30, but this asset will continue to generate revenue until FY30 as there is existing contracts secured. Both renewable energy and social infrastructure requires a considerable amount of time to develop and construct, and it inevitably takes a certain period of time before they become profitable. Therefore, while having revenue from thermal IPP as the base for a certain period of time, we will accumulate new assets that replace the existing assets and generate profit to grow the scale of entire Business Unit in the future. The risk profile of these businesses differs from that of thermal power generation business, and the scale of return is also different. However, by accumulating certain size of assets and generating earnings, we consider we will be able to secure a reasonable scale of earnings.

<Questioner 3>

I understand that thermal IPP is the large portion of Business Unit overall profit in FY22, but I would like to know more details in how the current profit structure will look like in FY30.

<Mihara>

Currently as of FY22, we have invested capital of JPY100 billion for renewable energy and JPY100 billion for social infrastructure, but these are assets that will take a little more time to generate profit, as the most projects are still under development. In the meantime, thermal IPP accounts for a large portion of our current revenue. On the other hand, in FY30, as explained earlier, about 30% will be the revenue that we have secured by existing contracts. The rest will come from renewable energy and social infrastructure. Based on such profit structure plan, we are building up assets as shown in page 7.

<Questioner 3>

I understand that the plan is to increase the invested capital in the social infrastructure business group to about 500 billion yen in FY30. Considering the profit from the industrial parks is approximately 10 billion yen, we assume that there will be other businesses that invested capital will be accumulated. Please tell us what businesses are planned and how much of them are realistic, including the business currently under development.

<Kozawa>

The social infrastructure business group includes overseas industrial parks and smart cities that are not part of the social infrastructure SBU. The social infrastructure business group's invested capital is planned at 500 billion yen, and it consists of approximately 150 billion yen for overseas industrial parks and smart cities. The remaining 350 billion yen is for 8 business areas under the social infrastructure SBU, which are the business areas that defined as focus area. In these areas, it includes the existing business such as water business, which we have been working on for many years, railway transportation including EPC, airports, and ports, which have a certain probability of success. In terms of new business areas, we have no track record at this time yet, but we are working on businesses such as waste management, data centers, as well as hospitals and 5G. The 8 focus areas will be reviewed and replaced as necessary depending on the business trends in the future.

<Questioner 4>

In the quantitative targets on page 10 of the presentation, the FY23 and FY24 plan show an increase in net profit compared to FY22. What are the factors contributing to the increase in profit in these years?

<Mihara>

In FY23 and FY24, there are several factors, but the largest of which is the existing thermal power business. This is the part of the existing contract that changes phases, and it will raise the profit level. It is almost solid as it is secured in the contract. And there is also profit improvement in Summit Energy is factored in.

<Questioner 5>

The second round of the domestic offshore wind power tender to be carried out soon. I would like to know what you are considering to ensure profitability in your bid.

<Taniguchi>

In the second round, the bidding rules will be changed considerably, and we expect severe competition. We refrain from

providing a clear explanation of our bidding strategy, as we are about to start the bidding process, but we are preparing to win the contract based on the results of the first round.

<Questioner 6>

What are your thoughts on the feasibility of a floating offshore wind power business?

<Taniguchi>

We see the floating offshore wind power as a technology that has broad market potential. In Europe, projects for floating offshore wind power generation are emerging, and we would like to build up our track record there. Offshore wind power generation projects in Japan are also likely to expand from near-shore waters to the EEZ (Exclusive Economic Zone) in the future, and we would like to be prepared for future projects in Japan.

<Mihara>

As released in September this year, we have passed pre-qualification for floating offshore wind power project in France. We are currently considering whether or not to participate in this bidding process, taking place in the advanced market of Europe, with partner companies.

<Questioner 6>

Regarding Summit Energy, you mentioned that you are aiming to turn into profitable in the next fiscal year utilizing relative contracts. But I have the impression that it may be difficult for Summit Energy to turn into profitable looking at the recent price increase by the former general electricity utilities. Please tell us what you think in this regard.

<Kozawa>

Regarding Summit Energy's forecast for next fiscal year, as mentioned earlier, there are two major factors that have caused the recent profit drop for Summit Energy: high JEPX prices and soaring fuel prices. Of these, the most impactful of the two is soaring fuel prices. If the elimination of fuel price caps is realized, we will be able to ask end users through our main customers to share the fuel costs, thereby covering a large portion of the so-called deficit.

Also, we are not rushing to get more relative contracts under these market situations, as we may end up paying a high price even if the contract is a relative contract. In order for Summit Energy to turn in the black next fiscal year, the basis is to utilize large number of contracts that Summit Energy already has had from the past.

We are planning that these existing relative contracts are connected to the customer at appropriate prices, and the caps on the fuel adjustment cost will be eliminated. With these assumptions, we are now projecting that we will be able to return to black next fiscal year.

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