

North American Power Business Briefing: Q&A Summary

Date: December 4, 2024 (Wed.) 16:00 to 17:00
Presenters: Eiichiro Higashiyama Chief Operating Officer, Plant Project, Marine & Aerospace Division
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Mediator: Kazunori Harada General Manager, Investor Relations Division

Q: What is the level of ROIC in the renewable energy business, which is a growth driver, and the timeline for reaching the future profit target of ¥30 billion and the amount of investment needed to achieve that target?

A: The return on renewable energy differs from that of investment and development businesses. From the perspective of asset efficiency, we have realized a return of 10% or more to date for investment businesses and strive to maintain that level going forward. As for development businesses, we have a business model that targets high returns over the short term depending on the quality of the project. Although it is hard to clearly present returns, unlike investments, there are some cases where asset efficiency reaches several dozen percentage points because in development business, large-scale capital investment is not always necessary even after acquiring the land. Accordingly, we have set the stable investment businesses as our foundation and aim to continue expanding the volume of the development business. We will, however, be careful to avoid incurring the excessive fixed costs that entail expanding the proportion of the development business, recognizing the need to maintain balance. As for the timeline for achieving the future profit target of ¥30 billion, we first aim to achieve the target within three years and are working on new projects that should help us achieve the target in five years at the latest. As we strive to achieve this target, some asset replacement may also be included, but we expect to conduct additional investment of around ¥100 billion. To ensure this does not lead to an overall worsening of asset efficiency, we will invest in projects while remaining conscious of asset efficiency.

Q: I would like to ask about the impact of Donald Trump's reelection. As for risks in North America's power market, what effects do you foresee on the Inflation Reduction Act (IRA) and the impact of higher tariffs?

A: While it is difficult to anticipate the risks of policy changes, around 70% of the regions benefitting from the IRA are in states that support the Republican Party. This means there is no incentive for the new administration to implement fundamental changes to the current system, and we suspect that some of the preferential policies for renewable energy currently in effect will remain in place. In the event of cost increases due to tax code changes, these costs would need to be passed on to electric power prices. However, we expect U.S. power demand will significantly rise due in part to the increase in construction of data centers to meet demand for AI, and there is still strong demand related to green power, so we are not very concerned about passing on costs to end users.

A: The Company has concluded many power sales agreements with corporates, but there is still strong demand in renewable energy. An increasing amount of energy is needed for advanced tech companies to expand their businesses at extremely high growth rates, and some companies have announced that they will procure 100% of their power from renewable energy sources, and the demand of renewable energy is growing. In addition, there has been an increase in the number of companies expanding their

procurement ratio of renewable energy besides advanced tech companies, such as automakers, retailers, and telecommunication companies. In fact, sale prices of renewable energy power are currently on an upward trend. Of course, we need to remain attentive to the continued increase in costs driven by inflation. However, even if there are cost increases due in part to tax code changes, we believe that it will remain possible to pass these costs on, considering the supply and demand situation. At the same time, we will carefully monitor market trends, and if it becomes difficult to pass on costs, we plan to take prompt and necessary measures accordingly.

Q: The development at Tyr Energy Development Renewables (TED) seems to focus on projects mainly in states that support the Republican Party. What is the background that led to the current regional portfolio?

A: It is challenging to promote development projects simultaneously across the entire United States, so we have conducted screenings based on factors such as how supportive the environment is for renewable energy, the maturity of the wholesale market, and the balance between power prices and solar radiation, and have carefully selected the regions we should enter. For example, although Texas and California have high solar irradiance, regulations are relatively lax, and the low entry barriers for small-scale operators result in a more competitive environment. The Company has instead constructed its portfolio by focusing on regions where strong credit support, such as parent company guarantees or letter of credits, are required for development permits, limiting the number of potential entrants. In addition, we have prioritized expansion in regions with power grids connected to established power market systems (such as PJM and MISO).

Q: My understanding is that a state's policies or political leanings were not a factor in selecting a region, and the portfolio was constructed organically.

A: That is correct. Power grids differ in each region of the United States, so the capacity for integrating renewable energy depends on the congestion of the grid, and the ease of obtaining approval and conducting inspections for grid connections can differ. From these perspectives, when screening regions, we prioritize development in regions with established electric power markets, such as PJM and MISO, where project feasibility is higher.

Q: Can you tell us about the electric power sales price for data centers?

A: While it is difficult to provide an exact figure, as the price vary depending on construction costs, the power supply and demand, and regional factors, there are many cases where the contract price is higher than the market price. Due to the necessity of securing renewable energy sources, a certain spread is accepted, which encourages the development of renewable energy.

Q: If a market is forecast to have high ROI, we can expect new entrants and an intensification in competition, but how much room for growth do you think there is in the renewable energy market? And how are your initiatives different from those of your competitors?

A: In the expansive land of the United States, there is ample land that can be built on, but we are aware that we need to continually monitor the market environment. As for factors that will determine the proliferation of renewable energy and the balance of power supply and demand, the most pressing issues are how to eliminate power line congestion and acquire sufficient new capacity for power lines. It will take time to solve these issues, so we believe the tight supply and demand situation will persist for a while longer. The Company has tapped its funding capabilities and undertaken the renewable energy business, including solar power, from the first development phase while leveraging the

development experience it gained in the biomass and gas-fired power businesses. In addition, TED developed a unique system that can incorporate development experience and knowledge into map data, which enables rapid development by instantly identifying land suitable for projects. Although the North American Power Business as a whole has experienced difficult times, we believe that expanding our diverse portfolio, including not just investment but also operation and maintenance functions, has contributed to the Company's strengths.