

Toyota Tsusho Corporation
Acquisition of Stock of Eurus Energy Holdings Corporation
(100% Ownership)
Condensed Transcript of Q&A Session

Date & time: Friday, May 27, 2022 (1) 8:45-9:15 a.m. (2) 12:00-12:30 p.m.

Attendees : Hideyuki Iwamoto, CFO

Yasushi Aida, Assistant to CFO

Q. What is your view of the risk of Tokyo Electric Power Company Holdings, Inc. ("TEPCO") withdrawal by becoming a wholly owned subsidiary?

Also, please tell us about quantitative issues such as differential investment.

A. We do not see any risk associated with TEPCO's exit.

We are discussing with TEPCO on a case-by-case basis, for example, asking for the continuation of seconded staff from TEPCO until a certain point is reached for projects that are currently underway.

Technical support may be provided in partnership with various electric power companies on a project-by-project basis.

The amount of differential investment is approximately 120 billion yen, and since the 60% subsidiary has been converted to a wholly owned subsidiary, it will be treated as a negative capital surplus, which will reduce the company's equity capital. There will be no amortization expense as there is no swing to intangible assets or other treatment.

Q. What is your prospect of the growth in profits and the capacity of power generation in future?

A. We plan to contribute to profits over the next two to three years from the projects we have in the pipeline, mainly in northern Hokkaido. We are positive about offshore wind power, but we need to determine whether it is viable as a project or not. However, considering the impact of Russia and the energy policies of various countries, we believe that renewable energy will definitely become a profitable business in the medium to long term. We have no intention of doing this project at a loss, and our priority is profit rather than expanding the GW capacity of power generation.

Q. The PER is estimated to be about 30 times based on the assumption that you will acquire 185 billion yen in shares and that profits will increase by about 6 billion yen. Will profits be increase

as power generation increases in the future?

A. We expect profits will increase as power generation increases. It is also important to find ways to make projects that are expired FITs, and we will probably try to improve efficiency through replacement or by combining contracts such as Post FIT.

We expect that J-Credit and other certificate deals will also become more active.

Q. What do you think about the price of offshore wind power in Japan, which is said to be higher than in Europe?

A. The environment in Europe and Japan is quite different in terms of wave height, lightning hours, typhoons, and so on. Therefore, it is difficult to operate at the same cost in Japan as in Europe, especially in terms of maintenance. The cost of construction and materials has been rising sharply, and it will be difficult to plan the profitable budget for projects in near future. As for power transmission and distribution, we believe that without government subsidies, it will be difficult to make the projects profitable.

Q. What concrete measures will you take to increase your power generation capacity (from 5 GW in fiscal 2024 to more than 10 GW in fiscal 2029) as stated in your mid-term business plan?

A. In the current environment, it is difficult to enter the renewable energy business, not limited to offshore wind power, unless one has financial strength and the ability to conduct continuous, long-term management. We believe that the number of sellers of solar power and onshore wind power will increase in the future. In this context, it will be important to develop a business model that increases profitability by replacing expired FITs and other projects with more efficient ones. Of course, offshore wind power is indispensable in terms of increasing the number of GW. The number of locations where offshore power generation is possible is limited, so speed is extremely important. We believe that the target of 10 GW or more in FY2029 set forth in our mid-term business plan is necessary for us to continue to compete as a renewable energy business.

Q. You estimate that the acquisition of a wholly owned subsidiary will increase the profit by about 6 billion yen, but considering the interest and amortization of goodwill, it will probably result in almost no profit. Also, will there be further disclosure of information such as equity power generation capacity as a result of becoming a wholly owned subsidiary?

A. At the current level of interest rates in Japan, there will be no significant impact, although it will depend on how the company is connected over the long term loan. Since goodwill will not be generated and will be treated as a negative capital surplus, we believe that no amortization expense will be incurred and profits will be generated in the future. We would like to take action

to ensure that detailed disclosure of segment information moves in a more positive direction.

Q. Do you feel that the price for this deal was influenced by the drop in the variation of listed renewable energy-related stocks due to Mitsubishi Corporation's bid for the offshore wind project?

A. We had been discussing this deal even before the successful bid for the offshore wind project, but we believe that the timing of the project could be considered as such.

Q. Considering the current level of valuations for renewable energy projects, I think you are acquiring shares at an extremely lower price. Are there any risk factors that we can't recognize from the outside, such as low equity capacity in Gross/Net?

A. Eurus has a lot of 100% owned projects in Japan and equity projects mainly in Europe, but overall, we recognize that Gross/Net is not significantly different or rather higher than other companies. Replacing costs, the principle of discount rate, expected operating life terms, Post PPA, and planned pipeline fulfillment rate were points in the valuation discussion. As a result, we believe we agreed with the property price.

Q. Please explain the impact of the wholly owned subsidiary on Toyota Tsusho's consolidated BS.

A. We expect the Net DER to worsen by less than 0.2 points.

Q. The impact on business performance is expected to be minor this fiscal year, you said. Could you tell us how about in the future?

A. If we assume the deal closing at the end of July, we will start taking 100% profit of consolidated result of Eurus from August. We did not budget this impact into our initial plan, so we expect it to have a positive impact, slightly. On the other hand, disposal costs for replacement projects, etc., will start around the end of the fiscal year, so we do not think there will be much of an impact on profit and loss for the current fiscal year. Contributions to development costs will depend on the future progress of offshore wind power.

Q. When do you expect the project will be profitable?

A. We assume replacement projects such as the Tomamae project will get back to be profitable early, but it will take five years or longer for offshore wind power projects to become profitable. We are aiming for 5 GW or more by 2025.