

Main Contents of Q&A from the FY2024 1Q Financial Presentation

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Speakers: President and CEO Kazunari Kibe

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- Q. Could you give us some background on the loss of business profit in the Infrastructure Management segment in 1Q? I believe you are anticipating the sale of renewable energy projects this fiscal year. What is the outlook for business profit in the Infrastructure Management segment in 2Q and beyond?**
- A.** One of the reasons for the deficit in business profit is due to the growing opening cost of Aichi Arena Concession, which is scheduled to open next year. Since we are currently the representative company and Aichi Arena Concession is a consolidated subsidiary, we are bearing the entire deficit in opening costs. Furthermore, Japan Wind Development Co., Ltd. will become a consolidated subsidiary from this fiscal year, and business profit is expected to be 1.5 billion (before consolidation) for this fiscal year. However, this estimate takes into account the sale of some projects, which are scheduled to be sold in the 2Q or later. The sale of Ozu Biomass is also underway, and we expect the Infrastructure Management segment to achieve record high results this fiscal year, including profit contribution to construction.
- Q. Please explain the background behind the operating loss in the Others segment. Also, will things improve from the 2Q on?**
- A.** The Others segment is an affiliate of Maeda Corp., with a primary focus on the construction industry. Therefore, while the 1Q sees a significant proportion of general administrative expenses, the gross profit from sales is expected to increase from the 2Q onwards. Consequently, we anticipate achieving our full-year plan as scheduled.
- Q. I would like to know about your policy of returning profits to shareholders through the sale of cross-shareholdings. I am sure you will be considering cash allocation in the future, but I would like to know if the next mid-term management plan will also emphasize shareholder returns or will focus on debt reduction.**
- A.** We are considering share buybacks as well as other options for distributing cash proceeds from the sale of our cross-shareholdings. In the next mid-term management plan, the company does not intend to lower its current shareholder return policy, but rather may strengthen it.

Q. I would like to know the earnings forecast for each of the concession project projects that were awarded this time and how they will contribute to our business performance. Also, in your current simulation, what is the expected annual revenue after taking into account the amortization of the management concession consideration?

We believe that the New National Stadium will be in the red for several years due to upfront costs, but would you please provide us with specific figures and thoughts on the financial results?

A. With regard to the profit outlook for each of these projects, the new National Stadium will be the first major capital investment. The first major capital investment for the new national stadium will be made in the fifth year or later of the plan, and even if it can be accelerated, it will be in the fourth year or later. Even if we are able to accelerate the project, it will be after the fourth year. Until then, please understand that this renewal work will contribute to the profit of our Building Construction segment.

Construction of the Toyohashi Arena will start next year and will take about two years to complete, after which it will be operated. construction will contribute to profits until FY27, and the SPC will only start making profits in FY28.

Finally, the renovation of the Toyama City General Gymnasium R Concession will take until September 2014. The profit contribution up to this point will be recorded in the Building Construction segment; operations will start in October 2014, and about 4 months of profit will be contributed in FY26.

As for specific figures regarding business performance, we assume that once we reach the phase of stable profitability, we will be able to generate more than 10% of profit every year on a business profit margin basis.

Q. The G&A expenses for the first quarter of FY25 appear large compared to the plan. Is it correct to say that the cost of bond-type class share was included as a factor? Please tell us if it was not included in the plan.

If we multiply the increase in the first quarter by four and consider it as one year's worth, it appears to be a little in excess of the plan, but is it correct to understand that you will aim to reduce costs from the second quarter onward?

A. As you have pointed out, G&A expenses have increased compared to the plan. The biggest reason for this increase is the effect of the full consolidation of Japan Wind Development. Second, personnel expenses have increased. In addition, as we have already announced, we have decided to become a sponsor of the B-League starting next season to accelerate regional development (this will be included in advertising expenses). The contract fee for this partnership is increasing.

Q. Please explain the background behind the slight decrease in the gross profit margin for the Building Construction segment in the first quarter compared to last year.

Additionally, with a high profit margin of 10.7% for this fiscal year, could you confirm

if this is in line with expectations and whether there were any particular negative factors?

A. We are currently engaged in negotiations to capture the increase in material costs, and we are confident that this will lead to an improvement in the gross profit margin going forward. We are making progress in completing large-scale construction projects, and we are confident that the gross profit margin for the full year will definitely increase, securing 10.7%. Additionally, as I have previously mentioned, we consistently review the profit and loss of all sites on a monthly basis at each branch, and this process is being reliably carried out.

Q. Page 5 of the presentation material shows Japan Wind Development's development plan. Looking at this plan, it appears that while the number of projects constructed each year is increasing, the start of operations is concentrated in FY30. Could you give us some background on why you are not moving forward a little earlier? Also, you mentioned earlier that business profit, including sales, is expected to be more than 20 billion yen in FY30, but please tell us how much profit is expected from electricity sales alone. Furthermore, we assume that a considerable amount of investment will be required for construction, but please tell us the expected amount and how you plan to raise the funds.

A. Page 5 of the presentation materials provides a future schedule for the progress of the Japan Wind Development pipeline, based on current plans.
As you have indicated, the trend is for the start of operations to be concentrated in 2030. The number of projects that will begin construction over the next few years is expected to increase. The construction period will depend on the scale of the project, but it could take as early as two years and as long as three to four years. Especially in the north, construction cannot be done during the winter months, so we are scheduling our work with this in mind. In an effort to make construction proceed quickly, we will determine the timing of the formal order and start of construction, taking into account the current high cost of the project.

Although it varies from project to project, at current costs it costs about 400 million yen per MW. Therefore, for a 100 MW project, the total cost would be approximately 40 billion yen.

As for financing, 80% will be procured through project financing, while corporate bank loans and bonds are being considered for the remaining 20%. We plan to proceed with procurement while considering the most favorable terms. We are also considering selling some of the projects along the way and recycling the capital.

The business profit target for FY2030 is 20 billion yen, but the current assumption is that the gain from the sale will be approximately 14 billion yen and the profit from the sale of electricity will be approximately 6 billion yen.

To add, if all of the projects were not sold, but only the income from the sale of electricity, assuming a unit price of 18 yen per unit of electricity sold, 20 to 25 billion yen could be covered by the income from the sale of electricity alone.

Q. The order profit margin in the building construction segment has risen considerably, but I would like to know whether we can expect it to exceed the full-year plan. Additionally, please inform me whether the current profit margin is trending higher than expected or if it is proceeding as scheduled.

A. Orders this term are very strong, and we expect to achieve 300 billion yen. We are rigorously managing our orders, maintaining a very high order profit margin of 9.7%. However, due to the anticipated increase in large-scale projects, we are projecting a full-year profit margin of 7.5%.

Q. What is your stance on bidding for concession projects in the 2Q and beyond? Please include the number of cases.

A. Each municipality must pass an ordinance in the council regarding bidding for concession projects in the 2Q and beyond. As we are currently aware, we assume that bids will be submitted for large water supply projects. We plan to submit one proposal this year and expect the results to be available next spring or around May.

We also have seven or eight other projects related to the arena and stadium, all of which require council approval, so we do not anticipate submitting them until next year or later.

Currently, we have several smaller projects and a number of comprehensive management projects, but the water project is the only one that exceeds several tens of billions of yen that we will be able to bid on this year.

Q. In the previous briefing, there was a discussion about strengthening efforts in semiconductor factories and production facilities. Could you update us on the current situation?

A. Regarding the semiconductor factory, we have received an order for a prototype semiconductor factory for Samsung in Yokohama, which we are currently constructing. It is a rare case for Samsung, as it is being built in a built-in style within a regular building. For production facilities, we are constructing a food factory in the United States and a meat processing plant in Vietnam. Recently, a meat processing plant was completed in the Tohoku region of Japan. We are currently focusing on food factories and are aiming to secure one to two orders. Another initiative is the construction of factories for automotive parts manufacturers. We are also working to secure approximately one order in this area.

Q. What is the status of your company's initiatives in the storage battery business?

A. We have collected a great deal of land information from Group companies and are considering several projects, including the possibility of grid linkage. We have also received a lot of information from funds, developers, and agriculturists outside the group who are interested in joint development projects. We cannot give you specific capacities, but we are considering projects ranging in size from 30 MW or more to about 2 MW. On a number basis, we are aiming to work on about 50 projects.

Q. Is it correct to assume that the projects currently in operation are basically operating under FIT? I would also like to know what the ratio of FIT to FIP for projects is that are currently under development or being considered for the future.

A. All of the projects currently in operation are FIT-based. Of the projects currently under development, approximately 800 MW are FIT or FIP, of which about two-thirds are FIT projects and one-third are FIP projects.

We plan to add new projects each year, but currently there are no more FIT projects, and we are only bidding for FIP projects. We intend to bid and acquire projects whenever possible.

On the other hand, the base price of FIP projects is trending downward, but we expect demand for corporate PPAs and green power sources to increase in the future, and we intend to focus on the development of such projects, regardless of FIP projects.

Q. Recently, several listed infrastructure funds have been cutting their scheduled dividend payments. This is supposedly due to the continued curtailment of output. Regional characteristics are probably also having an impact. I believe there is a background of climate change, with more and more cases of wind blowing less than expected. What is the gap between planned and actual power generation from your company's wind power facilities?

A. We expect that most of the projects currently being handled by listed infrastructure funds that are subject to curtailment are solar power generation projects. In areas such as Kyushu in particular, there may be an increase in curtailment due to regional factors. However, in the northern region where our projects are located, there is almost no impact of curtailment at this time.

Regarding the operating conditions, wind conditions fluctuate from year to year; we feel that the wind was slightly weaker in the 1Q, but the wind originally does not blow much during the summer months of the 1Q and 2Q. Even with last year's results, power generation is not uniform across the projects, and the situation can vary individually.

Q. With regard to your company's divestiture plan, please tell us the progress and outlook of sales contracts from the 2Q onward. Also, how much of the sale destination has been finalized?

Regarding the sales plan currently under negotiation, will you be able to recognize some profit from the sale at the end of 2Q? Or are you still considering the terms and conditions, and should we wait until the end of the fiscal year to determine the timing of the sale?

A. We currently plan to sell about three properties during the current fiscal year. We cannot give you specific details on the recipients of the sales, but we are currently discussing the sales scheme and other conditions.

However, the process of finalizing the terms and conditions is still in progress, and it may be better to wait until the end of the fiscal year to determine the timing of the sale. This is because it is more likely that we will be able to sell the projects together as a package rather than selling them piecemeal and on better terms. Instead of rushing to sell, we believe that in some cases it is better to take the time to sell a package of deals together while talking to multiple sellers.

Therefore, there is no need to sell in a hurry in 2Q, and we believe it is appropriate to wait until the end of the fiscal year to assess the situation.

From the next fiscal year onward, we plan to consider whether to sell the assets while keeping an eye on market conditions, including the selling price and environmental value, or whether to continue to hold them and take advantage of the upside from future power sales. We will sort out the projects to be sold as we proceed with discussions with the sellers.

In addition, Global Infrastructure Management Co., Ltd (unlisted), which we jointly established with TOKYU CORPORATION, manages an infrastructure fund within our group, and GIM can act flexibly as the seller for such projects.

Several financial institutions have provided funds to GIM, and we expect that they will continue to do so in the future.

The fact that our affiliated company operates an infrastructure fund is an advantage, and we believe that we will be able to continue to find sellers in the future.

Q. Despite the recent rise in interest rates and other factors, do you expect the sale of the Ozu Biomass Power Project to go through as expected, and does your company expect to record a gain on the sale this fiscal year? Is there more upside than your company expects? Will the timing of the sale be in the second half of the year?

A. The Ozu Biomass Power Plant has already started operation. We will hold an opening ceremony tomorrow and begin full-scale operations. Test operations are progressing smoothly.

One of the strengths of the Ozu Biomass Power Project is that we have a forward exchange contract at 102 yen to the dollar to procure materials, and therefore we have many needs to sell. Depending on the exchange rate situation, the value of the Ozu Biomass Power

Project may further increase. We are working on a plan to sell the project this fiscal year, but we are still considering the specific timing. There is a possibility that the sale may be carried over to next year, depending on the situation.