Mitsui & Co., Ltd

Final Investment Decision for Hai Long Offshore Wind Power Project in Taiwan
Online Briefing: Q&A Session

Date and time: Friday, September 22, 2023, 17:00～17:40
Speakers:
Takehiko Ainoya, General Manager of Division I (Asia), Infrastructure Projects Business Unit
Hideaki Konishi, General Manager, Investor Relations Division

<Questioner 1>

Q1: You have stated that profit after tax (PAT) will average 3 billion yen per year after the project has become operational, but could you explain this level of profit against the 170 billion yen of investments and loans in terms of what you think the likelihood of you being able to recoup the capital being put into this project is?
A1: After the repayment of project financing and depreciation, we expect PAT to increase and reach a double-digit billion yen level. We calculated the economic efficiency based on these assumptions, and determined that it is a project worth investing in. Firstly, we believe it is most important to steadily proceed with construction and to have it completed on schedule. Furthermore, in the future, we will look at opportunities regarding a potential partial sale of our equity in order to maximize profitability and reduce exposure.

Q2: Are there any factors other than a partial sale of equity that will improve profitability?
A2: We believe it is important to use as little as possible of the contingency funds for construction, which we have projected considerably, by carrying out construction properly. Furthermore, after the start of operations, we will work on cost optimization to enhance profitability.

Q3: There have been examples of other trading companies recording impairments on wind power projects. I think the size of the guarantees is an indication of the cautious stance of lenders. Please explain your perception of risks and planned responses to both circumstances in Taiwan and the construction area's seabed foundation.
A3: As you have pointed out, geopolitical risks and engineering, procurement, and construction (EPC) cost overrun risks can be generally categorized as the main risks in this project.
We have made preparations regarding potential changes to circumstances in Taiwan in the medium- to long-term. Due to the participation of export credit agencies such as Japan Bank for International Cooperation and Nippon Export and Investment Insurance (NEXI) from various countries (Japan, Belgium, Canada, Australia, Norway, and others), the interest of countries involved in Taiwan and this project will be heightened. We believe it is important to face matters together with stakeholders based on coordination with the governments of involved countries in order to avoid certain situations. Moreover, we believe it is important to coordinate well with European, US and Japanese companies that have participated in earlier offshore wind power projects. Furthermore, assuming the worst case, we have decided to purchase investment insurance underwritten by

NEXI covering war and civil war. In addition, we have prepared a business continuity plan putting the highest priority on preserving human life and assets.
Regarding the seabed foundation, we have performed ample research on the ground conditions for previous projects, and necessary geotechnical and geological surveys have all been completed. After performing thorough analysis of previous projects, we have employed the three-legged jacket foundations for the substructure. As three pin piles are fixed to the sea floor, we believe they can be more lightweight and compact than monopiles employed in previous projects, and that this makes them less susceptible to accidents.
This is how we have performed risk analysis and responses, and we would like to avoid any future impact concerning guarantees.

Q4: If you are able to disclose it, could you tell us the capacity factor?
A4: We project that it will be more than 50%.

<Questioner 2>

Q5: The ratio of equity to debt in this scheme appears large in this project. Is this a finance structure that has taken into account the geopolitical risks and other factors?
A5: I think it is true that there is more equity in relation to debt than in an ordinary case of project finance. Considering the scale of the project, it was difficult to have the same debt ratio as ordinary project finance based on factors such as the geopolitical risks and previous offshore wind power projects. However, I think the fact that we were able to form debt (project finance) in excess of 500 billion yen is an indication of the high level of lenders' interest in this project.

Q6: Profitability seems low considering the risk of the project. What was the reason for deciding to invest in the project? Also, could you explain the positioning of the project, including profitability, among the numerous offshore wind power projects?
A6: This project has a power purchase agreement (PPA) with a fixed price and the wind conditions are also very good, so we believe earnings will be stable. Also, from a risk perspective, I think we will be able to limit the risk of cost overruns in the construction phase by conducting thorough analysis of previous projects and also proceeding with upfront development including geological surveys. In addition to that, we were able to secure project finance. Development of offshore wind power projects generally takes a long time, and we acknowledge that the level of difficulty of development of new offshore wind power projects has been increased by factors such as recent supply chain disruptions, inflation, and increases in interest rates. In such an environment, we have proceeded with development of this project for more than five years, and determined that it was worth investing from a risk and return perspective.

Q7: Did you decide to make this investment in order to achieve your 2030 target regarding renewable energy as a percentage of total capacity? Is it a project that does not exceed the current IRR target in Mitsui, so am I right in thinking that it will exceed the target rate in the future if, among other things, you include a partial sale

of your equity in the project as you spoke of before?
A7: Although this project does not exceed our current IRR target, we would like to improve profitability including controlling contingency funds for construction expenses and a partial sale of equity in the project in future.

<Questioner 3>

Q8: I understand that the capacity factor of wind power is generally around 30−35% in Japan. Is the capacity factor in excess of 50% in this project high for Taiwan, or is that the general level in there?
A8: Generally the capacity factor in excess of 50% is higher than in Japan and the UK. The wind conditions in the Taiwan Strait are good, and I understand that the capacity factor in Taiwan is relatively high.

Q9: What is your analysis of the reason for Taiwan's delay in investing in offshore wind power compared to Europe despite the favorable wind conditions?
A9: It is common for countries to take considerable time to introduce new policies. I believe that offshore wind power, for example, inevitably takes a certain amount of time because it is implemented by balancing the promotion of green electric power with the establishment of supply chains and local production. On the other hand, among neighboring countries in Asia, Taiwan seems to have promoted offshore wind power relatively smoothly.

Q10: It seems that Taiwan's stance on nuclear power and the feed-in-tariff system for renewable energy have been changed drastically. What impact will Taiwan's energy policy have on this project?
A10: I think that nuclear power and thermal power systems in energy policy could be affected by the Taiwanese government or public opinion. However, the agreement for this project has already been concluded and the PPA sales price has been fixed. Furthermore, for Taiwan, where IT is a major industry, I believe any government would position greener electricity as a national policy, therefore the negative impact on this project would be limited.

End