



RED ELECTRIC POWER

Round B

Memorandum for Red, Co.

Generation Business Dpt. Ryuhei,SHIMMEI

Corporate Planning Dpt. Ryotaro,TANAKA

Legal Dpt. Shota,YAKUSHIJI

Environment Dpt. Yukina.TORIYAMA

Team University of Tokyo

Overall Policy

We enter this negotiation with the intention to mend relationship and thereby establish a solid and collaborative relationship with Blue. Therefore, we would like to make our best efforts to create a win-win situation, and would like to contribute to the further development of both of our companies.

Although provided under this memorandum represents our core policy towards this negotiation, we are willing to flexibly conduct the negotiation depending on the situation.

We believe that there are four issues to be dealt with, which are as follows:

1. The return of subsidy and upfront payment
2. Hydro-electric power plant
3. Biomass power plants
4. Relationship with Orange

We would like to replace the old Basic Agreement with a new agreement with all the agreements regarding the following issues incorporated.

Issue 1, The return of the subsidy and the upfront payment.

With respect to the return of the subsidy and the upfront payment, we would like to use these two issues as keys to conduct a flexible negotiation. In other words, provided that Red and Blue agree on the issues explained below, we are willing to make some payments regarding the return of the subsidy and the upfront payment.

Regarding the return of the subsidy, we are willing to pay \$4.5 million on condition that a new agreement and a solid relationship are established.

Regarding the return of the upfront payment, although we are unable to pay such amount in the name of return for the upfront payment, we may pay up to US\$500,000 by raising the amount of payment for other issues in the negotiation.

In addition, if possible we would also like to ask Blue not to relegate Brown, since he had been acting as our reliable counterpart. .

Issue 2, Hydro-electric power plant

Goal

We would like to conclude a long-term contract with Blue.

As for the price of CERs, we would like to settle on

- (a) US\$12 for 2012; and
- (b) US \$10 for post 2012 period.

Strategy

We would like to sell CERs to Blue over a long period. However, first, we would like to propose a single year contract with relatively high prices of CER. We believe that we should then move onto proposing a long-term contract since by doing so we could take initiative in the discussion of the price of CERs.

Bottom Line

If a single year contract is concluded, the minimum price we could accept would be US \$10 per ton.

If a long-term contract is concluded, the minimum price we could accept would be US\$8 per ton. .

Issue 3, Biomass power generation

Goal

We would like to settle on

- (a) equity ratio of 60-to-40(Red-to-Blue) ;
- (b) three directors from Red and two from Blue;
- (c) \$10 per ton for the price of CERs.

Strategy

We would like to increase our discretion and improve managerial flexibility of Green.

Therefore, we would like to propose the 60-to-40 equity ratio and that Red elect three directors.

If Blue shows its fear of Red having too much power, we could offer measures to deal with this concern such as expanding the scope of matters requiring a consensus, electing a representative director from Red, and so forth.

When Blue is not willing to accept, we may tell Blue about Grape Electric Power who has approached Red with a proposal for cooperation. However, basically our intention is to continue the business with Blue on this area and we are very much looking forward for the cooperation with Blue.

As for the price of CERs, we could offer US\$10 per ton if Blue accepts our condition for the stake ratio. If Blue is not likely to accept this condition, we may propose the plan to takeover Green.

Bottom Line

We could not compromise on the 51-to-49 equity ratio for the stake and US\$10 per ton for the price of CERs.

4. Relationship with Orange

Goal

We would like Blue to

- (a) agree on our decision to give Orange some modest gifts in the name of Red;
- (b) attend the dinner party with Orange.

Strategy

Given that Red would get an enormous disadvantage if Red does not give any gift to Orange, it would be difficult for Red not to give any gifts to Orange.

We would like Blue to agree on our decision to give Orange some modest gifts. We would like to emphasize that gift would be sent in the name of Red and therefore should cause no harm to Blue. We would also like to invite Ota and Orange to a dinner party to improve the relation between Blue and Orange.

Bottom line

We would also like to get Blue attend the dinner party with Orange.