

Questions and Answers at FY2019 2nd Quarter Financial Results Briefing

Q1. Conformity assessments of Onagawa Nuclear Power Station Unit No.2 is progressing. Given that other PWR plants have been restarted within one year after passing assessments, how are you assessing the risk for restart such as local coordination, regulatory authorities, construction work on safety measures etc.?

A1. Onagawa No. 2 is definitely approaching permission. Although we are aiming for completion of construction work on safety measures in FY2020, there are various procedures, pre-service inspections, local understanding, etc., and we cannot say a clear restart time at this point.

We think status of assessments has the most impact on restart. We will make adjustments and aim for the completion of construction work on safety measures in FY2020.

Q2. Regarding the impact of competition, how much is the impact of a decline in unit sales price included in “others -4.7 billion yen”, which is a decreasing factor of ordinary income (non-consolidated) compared to the same period of the previous year? Is it within the range of the initial assumptions?

A2. “Other -4.7 billion yen” includes profit-increasing factors such as a reduction in maintenance costs and personnel costs due to a decrease in actuarial loss, as well as profit-decreasing factors such as an increase in depreciation costs due to Noshiro 3 trial operation and the impact of a decline in sales unit prices. We will refrain from mentioning the impact of this decline in unit prices due to competitive information. Although the impact of competition is within the expected range, the severity of competition is increasing.

Q3. What are the medium- to long-term business opportunities for profits or cash flow growth after restart of Onagawa 2? In addition to participation in renewable energy business, do you focus on wide-area development, such as expanding participation in retail sales in the Tokyo metropolitan area, or are you looking for opportunities for growth elsewhere?

A3. First of all, we will allocate cash flow for the renewable energy business after the Onagawa No. 2 restart. As other companies have already started suitable wind power in our area, we will focus on cooperation with advanced operators in addition to our own efforts.

Although we don't expect cash allocations for VPP as much as renewable energy, we think that it is very important to incorporate digital innovation and digital transformation into new businesses. We will advance VPP, V2G, and smart town concepts from the demonstration stage to the commercialization stage, and make them our growth businesses.

Furthermore, the growth of sales outside area is extremely important for our profit expansion. In this regard, we will endeavor to achieve its sales targets by strengthening the relationship with the current Synergia Power Co., Ltd. and Tokyu Power Supply Co., Ltd..

Q4. What quantitative indicators are important in considering the future level of dividends?

A4. Due to intensifying competition and the expansion of grid access volume of renewable energy, the impact of worsening profits is becoming apparent. In the current situation we recognize that enhancing ability to produce profits is a high priority issue. In addition, due to the increased risk of natural disasters, we believe that improving the financial structure is more important than ever. We will steadily make efforts to promote profit expansion and cost reduction, and enhance ability to produce profits, continuing to improve the financial structure. Based on stable dividends, we will respond to investors' expectations as much as possible.

Q5. Given the fact that the spot market has been undergoing significant fluctuation, is there enough potential for Tohoku EPCO Energy Trading Co., Inc. to manage and ensure the profitability? As for trade, is power trading regarded as the main business line? Or does the fuel procurement become prominent?

A5. It is difficult to explain because Tohoku EPCO Energy Trading Co., Inc. engages in the business that is directly connected to our strategy. Basically, our main business line is power trading in terms of hedging-risk to our company group. We partly engage in fuel trading. We have proactively taken various measures and created great value by expanding supply area outside the region.

Q6. In related with dividend ratio, will the current 40 yen per share be regarded as a stable ratio under the severe future prospect? Or will the previous 50 yen per share become a stable ratio after the resumption of Onagawa No.2?

A6. Based on the latest financial results and progress of business streamlining, and the future prospect for the balance of payments, as well as the resumption of Onagawa No.2, the concrete amount of dividend ratio will be determined.

As stated in the fiscal statement, 40 yen per share is determined for this fiscal term and this is all we have for the future prospect.

Q7. As for NTT Corporation's new entry to power transmission/distribution, how do you think of the possibility that outsiders will engage in power transmission/distribution business? Also, will the trend become the threat for the existing electric power companies including your company?

A7. NTT Corporation's strategy is to strengthen electricity business by setting NTT Anode Energy Corporation as a core and reviewing the positioning of ENNET Corporation. We have continuously focused on the market trend. Strong competitors are expected to appear and the situation seems to be intensified further. Therefore, we will examine how to respond to the new entrant's movement in advance.

NTT Corporation touched upon utilizing DER (Distributed Energy Resources), but we've already launched VPP Verification Project. So it is possible for us to take various steps. In any case, we will obtain information about their movement as early as possible and take necessary actions.

Q8. Chugoku Electric Power Company revised its optional supply provisions. Rates during night hours is raised, while those during daytime hours is decreased. In light of such a severe fiscal situation that requires early response, do you have any plan to do the same action?

A8. In terms of revenues side, we created a four quadrant-matrix chart with “retail and wholesale, in Tohoku and Niigata region and outside the region”. Then, we are now examining on which area should be focused in order to optimize supplying power.

Optional supply provisions are categorized into retail in Tohoku region. Currently, we are examining various measures and started to take actions step by step. Although we are surrounded by competitive and uncertain environment, we will put much more emphasis on ensuring profitability and take sales measures while avoiding withdrawal risk.

Q9. Is it possible to provide the timing to release your new management plan or grand policy? If not, please show us your target to have events such as premission or re-start of Onagawa No.2.

As for renewable energy investment, we don't deny your investment itself. Unless no background information for 2 million kW introduction and the amount of investment and investment return is unveiled, we cannot evaluate the project.

As for dividend, the ratio continues to be uncertain, so please provide some criteria.

A9. The business environment and the prospect for the financial statement have changed compared to the previous situation. Therefore, no specific timing for announcement cannot be provided at this point. New mid-term management policy, including new financial target, is currently examined thoroughly. Evaluation based on these factors will be appreciated.

In addition to renewable energy, we would like to work on initiatives for digital innovation proactively.

Q10. As for KEPCO's scandal over executives' acceptance of money and goods, please provide the results and details of your in-house investigation.

A10. We accept it as an extremely serious and severe matter.

“Legal Compliance and Corporate Ethics Committee”, which has already been set at our Company, conducted investigation and confirmation. At the very early stage, the Committee figured out that no acceptance of money or goods were made by the current 15 board of directors as a result of checking if there is a bribery beyond the common sense.

Additionally, we conducted survey targeting the past 10 years and 112 official members and directors and ask if there were any similar cases as the KEPCO's scandal. Again, there was no result of acceptance of money and goods.

In order to avoid the case like KEPCO's, however, we will take two initiatives to improve compliance. One is to set up the windows for consultation in troublesome case that some goods were given. The other is to establish notification system in case that excessive money or goods beyond expectation were given.

Q11. Renewable energy business operators ask your power transmission/distribution section to make an investment in expanding grid capacity for renewable energy by enhancement of grid capacity. At the same time, how to collect the cost for investment should be discussed. How does transmission/distribution section respond to the matter? Will you keep their policy to expand renewable energy if the business is profitable? Or will you continue to introduce 2 million kW even though the business may be unprofitable?

A11. Currently, offering process is ongoing at three prefectures in the Northern Tohoku. Grid capacity for renewable energy drastically increased, and massive system construction work is necessary. It is extremely difficult situation for transmission/distribution company because the transmission charge cannot be raised so easily.

But one of our missions for public interests is to expand grid capacity for renewable energy, and various efforts are needed for taking management efforts. In terms of technology, we try to integrate renewable energy into the grid facility by using lithium-ion battery and improve the accuracy of estimating the output volume, as well as enhancing equipment. From the financial aspect, the government council started discussion about reforms of transmission charge. Considering that the Japanese energy policy put much importance on expanding renewable energy, we recognize that the system to reflect additional cost for enhancement of grid facility on the transmission charge will be established. Injecting renewable energy surcharge into cost for grid enhancement is now being under discussion. These movements are favorable for the Japanese energy policy to review transmission system, so we hope that this will come true.

Q12. How fast will digital innovation reflect on business development?

A12. It is difficult for us to show the exact timing. We suppose it requires much burden to boost profitability in terms of initiatives for digital innovation. But supply-demand adjustment market starting from 2021 will become one of good opportunities for our VPP Verification Project to increase profitability.

Q13. Is there any correlation between unbundling of transmission/distribution sectors with digital innovation and renewable energy collaboration? Is there any positive prospect that the shift will push forward these other businesses?

A13. There is no correlation between unbundling of transmission/distribution sectors and other new businesses. While effectively absorbing increase of cost due to unbundling, we will focus on improving our comprehensive strength including transmission/distribution company Tohoku Electric Power Network Co., Inc.

Q14. As for discussion about such a system reform, is there any concern about the effect of KEPCO's scandal that executives received money and goods?

A14. After the scandal was unveiled, the existing electric power companies are facing adverse criticism. But a series of reform including revising transmission charge is effective for the Japanese electric

power industry and energy policies. Our basic stance is to continue our current efforts even in such a severe situation.

Q15. Has the sales competition in your franchise area become intensified?

A15. At the beginning of this fiscal year, we expected it was getting eased because the ratio of returning exceeded that of switching. But the competition hasn't settle down even after that. So we expect that both the amount and unit price will be worsened than the current prospect.

Q16. At the beginning of this fiscal term, announcement that cost is expected to increase due to legal unbundling was made. How is the situation for this fiscal term? Also, are there any countermeasures to prepare when the balance of payments gets deteriorated?

A16. We have some inefficient cost at back-office section due to legal unbundling, but we will streamline our business so that the cost will be offset. As for our countermeasures to respond when the balance of payments gets worsened, we are now making progress in procurement reform. As we don't obtain the exact amount of streamlining for the first half of the fiscal year, we will make an annual report later.

Q17. Given the current oil price, it is assumed that the burden for depreciation will exceed the benefits from reduction of fuel cost even if Onagawa No.2 was resumed its operation. How can we prospect about the link between the balance and dividend even after its resumption?

A17. On the current fuel cost basis, the annual fuel cost will decrease by 35 billion yen for restart of Onagawa No.2. In the meanwhile, the construction cost to secure safety amounts to 340 billion yen. It shows that decrease in fuel cost doesn't contribute to the whole balance of payments immediately after restart. The dividend ratio will be concretely determined depending on competition situation, progress of our streamlining of our business, prospect for the balance of payments, as well as movements of Onagawa No.2.

Q18. I would like to ask you to break down the factors of increase / decrease in sales performance in the first half, including the effect of temperature on the increase / decrease.

A18. As for retail, although there was an increase in cooling demand, these financial results were due to the effect of a decline in industrial production etc. Temperature impact was +200 million kWh. As for wholesale, as the two companies, Synergia Power Co., Ltd. and Tokyu Power Supply Co., Ltd., have been steadily growing, sales outside area have expanded considerably.

Q19. What are the efforts to strengthen sales capabilities helping prevent withdrawal of customer?

A19. We will make effective use of our unique energy management system "exEMS" because it has a high reputation for its relatively low price and ease of use compared to similar systems of other electric power.

Q20. Regarding the conformity assessments, it is considered more efficient to work on Onagawa 3 after Onagawa 2. How do you plan to allocate resources in the future?

A20. Our basic policy is that the highest priority is Onagawa No. 2, followed by Higashidori No. 1, which has already been applied.

Q21. As for stance for sales outside area, are you trying to regain what was taken within Tohoku and Niigata region?

A21. Rather than regaining what was taken, we will pursue the full potential of two pillars outside the region, Synergia Power Co., Ltd. and Tokyu Power Supply Co., Ltd.,.

Q22. Regarding aged thermal power scrap, are you planning to stop the old LNG thermal power plant after the Akita thermal power plant? Or is there any use for aging thermal power plants?

A22. Regarding aging thermal power plants, basically we want to make it slim as soon as possible.