

May 14, 2020

Questions and Answers at FY2019 Financial Results Briefing

At the financial results briefing, which was held by telephone conference, we have a Q&A session only for Q1 and Q2. Due to a failure of the telephone conference system, the briefing was terminated after answering Q2.

Q3 to Q7 are the questions we received after the briefing.

Q1. Regarding the Quantitative Targets (Financial Goals), page 13 of the FY2019 financial results presentation material, as a concept of shareholder returns in mid- to long-term vision, you will pay stable dividend + steady returns based on the prospect of achieving financial targets and restart of Onagawa Unit 2.

Does the term "stable dividend" here refer to the current level of 40 yen or the previous 50 yen? Also, if the two conditions of "restart of Onagawa Unit 2" and "achieving financial targets" are met, is it possible to increase the dividend from the stable dividend level?

A1. At present, we think 40 yen is the level of stable dividends. In addition, we will make decisions regarding dividend increases by comprehensively considering the profitability of smart society realization businesses, achievement of financial targets, and future competition. The two conditions of restarting the Onagawa Unit 2 and achieving the financial targets cannot be said to necessarily lead to an increase in dividends, but we would like to return appropriately at the appropriate time.

Q2. In FY2019, free cash flow was positive due to the increase in operating cash flow. However, the scale of investment is quite high, with capital investment exceeding 300 billion yen.

For the time being, with the same scale of investment as in FY2019, you cannot expect a significant increase in free cash flow, and will you finally be able to see the surplus of free cash flow after the restart of the Onagawa Unit 2?

A2. In the future, in addition to the construction of nuclear safety measures, investment in growth projects such as smart society realization projects and renewable energy will be necessary. Therefore, it is expected that the investment level will exceed the operating cash flow for a certain period, and interest-bearing liabilities are likely to increase.

We will strive to maintain balance sheet management and maintain a certain level of financial discipline by controlling facility construction costs and reducing interest-bearing liabilities.

Q3. Regarding shareholder returns, will you continue to pay the current 40 yen dividend as the minimum stable dividend line under any circumstances?

On the other hand, the smart society realization business will become a major source of profits for the time being, so does it seem that the hurdle for increasing the dividend to ¥50 is high even after the restart of Onagawa Unit 2.

A3. Until now, we have been basically paying stable dividends without being affected by temporary deterioration in business performance.

On the other hand, we will determine if we increase dividends by comprehensively considering the achievement prospects of financial target, consolidated cash income of 320 billion yen or more in FY 2024, by restarting Onagawa Unit 2 and early profitability of the smart society realization business.

Q4. What are the sales targets and investment scale of the smart society realization business and renewable energy business? Also, how should we understand these scales in terms of business model transformation?

A4. Regarding the sales target, we are envisioning a scale of several hundred billion yen for both the smart society realization business and the renewable energy business.

On the other hand, regarding the scale of investment of the smart society realization business, we are forecasting tens of billions of yen within the scope of business currently envisioned. At present, we are in the process of exploring projects and conducting investigations toward commercialization, and we plan to further promote business development in the future. In addition, we are considering the utilization of existing equipment and management resources, and at this point we are not in a situation to state the final investment amount. Also, some expenditures are recorded as expenses, not investments.

Furthermore, the renewable energy business is expected to exceed 100 billion yen, but it is currently in the stage of conducting a feasibility study and building an investment scheme. Therefore, we are not in a situation to final investment amount as well. For large-scale wind power, we are envisioning development by project finance.

Q5. What are the expected risks due to the spread of COVID-19?

A5. Regarding the impact on our business performance due to the spread of COVID-19, it is difficult to reasonably calculate the impact on power demand, etc. The assumed financial risk is a decrease in electricity demand. This is because production and consumption activities have declined due to self-restraint in economic activities and restrictions on movement due to the government and each local government's declaration of an emergency.

On the other hand, fuel prices are falling mainly in crude oil, and fuel costs and costs of power purchased from other utilities and other companies are expected to decline. However, this is partly offset by the decrease in unit price of fuel cost adjustment charges.

We recognize that the future outlook for COVID-19 is unpredictable. Depending on the length of infection control, delays or cancellations of various works may affect fixed costs such as capital investment and maintenance costs.

Q6. In the electricity supply business, you said that you will reduce costs by several tens of billions of yen in both variable and fixed costs. What is the timeline for achieving this?

A6. Aiming to achieve the financial targets for fiscal 2024, we will work to reduce costs and work towards achieving them as soon as possible.

Q7. What is your stance on the privatization of Gas Bureau, City of Sendai?

A7. Gas Bureau, City of Sendai is the largest publicly owned gas company with approximately 340 thousand customers. We recognize that the smooth succession of the gas business in Sendai City is very important to the energy market in the Tohoku region, and thus to the regional economy in the Tohoku region.

We will continue to pay close attention to the status of consideration towards the formulation of conditions for public offering and evaluation criteria. If a solicitation is made, we will carefully judge the business feasibility and so on, and then decide whether or not to apply.