



Tohoku Electric Power Co., Inc.

Financial Results Briefing for the Fiscal Year Ended 2020

May 13, 2021

Event Summary

[Company Name]	Tohoku Electric Power Co., Inc.	
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[Event Name]	Financial Results Briefing for the Fiscal Year Ended 2020	
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[Date]	May 13, 2021	
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[Time]	14:30 – 15:40 (Total: 70 minutes, Presentation: 19 minutes, Q&A: 51 minutes)	
[Venue]	Dial-in	
[Number of Speakers]	3	
	Kojiro Higuchi	Representative Director, President
	Kazuhiro Ishiyama	Managing Executive Officer, General Manager Corporate Strategy Division
	Hideki Shimoida	Executive Officer, General Manager, Internal Services Division, Accounting & Finance
		Department
[Analyst Names]*	Shusaku Nishikawa	Daiwa Securities Co. Ltd.
	Reiji Ogino	Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.
	Norimasa Shinya	Mizuho Securities Co., Ltd.
	Shigeki Matsumoto	Nomura Securities Co., Ltd.
	Koji Kamichika	SMBC Nikko Securities Inc.

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A.

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Presentation

Operator: Everyone, thank you for standing by. We will commence the financial briefing for the fiscal year 2020 of Tohoku Electric Power Co., Inc.

Tohoku Electric Power Company, please go ahead.

Machino: I am Machino from the IR Group Accounting & Finance Department of Tohoku Electric Power Company Inc. Thank you all for your participation. Today, I will serve as the moderator.

First, I would like to introduce today's speakers. Higuchi, Representative Director and President; Ishiyama, Managing Executive Officer and General Manager Corporate Strategy Division; and Shimoida, Executive Officer and General Manager, Internal Services Division, Accounting & Finance Department.

I will now explain how we will proceed today. First, we would like to provide an overview of our financial results for FY2020. Thereafter, we will move on to a question-and-answer session.

We are scheduled to end the briefing at around 15:40. Higuchi, Representative Director and President, will now present based on the material.

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Summary of Financial Results

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- Operating revenue* ¥2,286.8 billion (a year on year increase of ¥40.4 billion)
Retail electricity volume decreased due to the impact of intensified competition and COVID-19.
On the other hand, total of grant under act on purchase of renewable energy sourced electricity based on Feed-in Tariff Scheme for renewable energy and the self-contracted portion due to introduction of the indirect auction increased.
- Ordinary income ¥67.5 billion (a year on year decrease of ¥32.4 billion)
Although fuel costs decreased due to an increase in LNG spot procurement based on fuel market conditions, retail and wholesale electricity sales decreased and costs of power purchased from other companies and fuel costs increased due to our power plant outage due to the earthquake off the coast of Fukushima Prefecture.

* Operating revenue includes ¥607.3 billion, total of grant under act on purchase of renewable energy sourced electricity and surcharge for promoting renewable energy sourced electricity based on Feed-in Tariff Scheme for renewable energy and the self-contracted portion due to introduction of the indirect auction. As this is recorded in expenses as well, it does not affect the Company's income.

【Summary of Consolidated Financial Statements】

(billions of yen)

	Consolidated			Breakdown by segment of FY2020 (A)				
	FY2020 (A)	FY2019 (B)	Change (A) – (B)	Power Generation and Sales	Network	Construction	Others	(Adjustment ²)
Operating Revenue ^{*1}	2,286.8 [1,679.4]	2,246.3 [1,750.3]	40.4 [(70.9)]	1,735.5 [(1,309.5)]	853.9 [(672.6)]	271.1	208.1	(782.0)
Ordinary Income ^{*1}	67.5 [53.5]	99.9 [77.9]	(32.4) [(24.4)]	13.9 [(0.0)]	40.9	10.3	10.7	(8.4)
Net Income Attributable to Owners of Parent	29.3	63.0	(33.6)					
Cash Income	302.3	321.9	(19.5)	102.6	167.1	12.9	30.1	(10.4)

*1 Lower figures of operating revenue exclude grant under act on purchase of renewable energy sourced electricity, the surcharge for promoting renewable energy sourced electricity, FIT electricity, and the self-contracted portion due to indirect auction. Those of ordinary income exclude time lag between fuel cost and fuel cost adjustment charges.

*2 Elimination of transactions between segments.

*3 Consolidate Cash Income = Operating income + Depreciation + Amortization of nuclear fuel + Share of profit of entities accounted for using equity method (Operating income doesn't include time lag between fuel cost and fuel cost adjustment charges.)

Higuchi: This is Higuchi from Tohoku Electric Power. Now, let me start the explanation. Thank you very much for taking time out of your busy schedule to participate in our financial results presentation today. I will now explain the outline of the financial results for FY2020 according to the materials.

I would like to explain our consolidated business results for FY2020. Please see pages 3 and 4.

Net sales increased JPY40.4 billion from the previous fiscal year to JPY2,286.8 billion, due to an increase in total of grant based on Feed in Tariff Scheme for renewable energy, and the self-contracted portion, due to introduction of the indirect auction, despite a decrease in retail electricity sales volume due to the impact of the new coronavirus in addition to intensifying competition.

Ordinary income decreased by JPY32.4 billion from the previous fiscal year to JPY67.5 billion due to a decrease in revenue from retail and wholesale sales and an increase in fuel costs and electricity purchased from other companies as a result of the shutdown of power plants, due to the earthquake off the coast of Fukushima prefecture in February this year, despite efforts to improve efficiency, such as reducing fuel costs by expanding LNG spot procurement in light of fuel market conditions.

Consolidated cash income for the current fiscal year was JPY302.3 billion.

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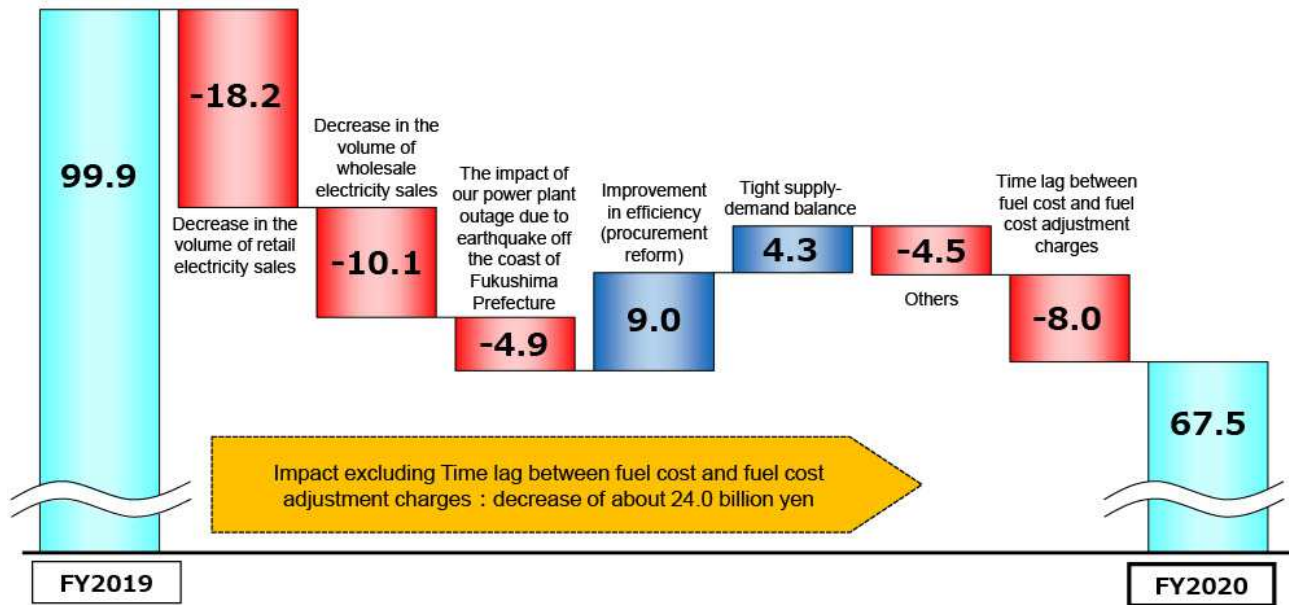
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Decrease of 32.4 Billion Yen (99.9 → 67.5)

(billions of yen)



Page 4 shows the factors behind the change in ordinary income from the previous year, including the items I have just explained. Excluding the time lag effect of the fuel cost adjustment system, ordinary income decreased by about JPY24 billion compared to the previous year.

In addition, due to the new coronavirus infection, we estimated that net sales decreased by about JPY26 billion, and ordinary income decreased by about JPY9 billion.

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Electricity Sales

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- Retail electricity sales volume 66.0 TWh (a year on year decrease 1.0 TWh)
Demand for heating increased due to lower winter temperatures compared to FY2019, but operations for commercial and industrial use resulting from the impact of COVID-19 decreased.
- Wholesale electricity sales volume 16.6 TWh (a year on year decrease 1.1 TWh)
Sales volume in the area other than Tohoku region and Niigata Prefecture increased, but JEPX transaction decreased.

(GWh)

Electricity Sales*1	FY2020 (A)	FY2019 (B)	Change (A) - (B)	Change (A) / (B)
Lighting (Residential)	21,969	21,686	283	101.3%
Power	43,983	45,217	(1,234)	97.3%
Retail Electricity Sales*2	65,952	66,903	(951)	98.6%
Wholesale Electricity Sales*3	16,571	17,652	(1,081)	93.9%
Total of Electricity Sales	82,523	84,555	(2,032)	97.6%

*1 Individual figures of Tohoku Electric Power Co., Inc., excluding network business.

*2 Retail Electricity Sales includes electric power for business use.

*3 Wholesale Electricity Sales includes the volume of specified power interchange.

Please move on to page 5. This section explains the results of electricity sales.

Retail electricity sales volume were about 1 billion kWh, or 1.4%, lower than the previous fiscal year, mainly due to a decrease in commercial and industrial operations caused by the spread of the new coronavirus infection, despite an increase in heating demand due to low temperatures in winter.

We estimate that this was due to a decline in utilization in the lodging and entertainment industries in the commercial sector, and a decline in utilization throughout the fiscal year in the industrial sector, although steel- and automobile-related industries have been on a recovery trend since the third quarter.

The wholesale electricity sale fell by approximately 1.1 billion kWh, or 6.1%, compared to the previous fiscal year due to a decrease in transactions in the wholesale electricity market, despite an increase in wholesale to the outside the region.

As a result, overall electricity sales were 2.0 billion kWh, or 2.4%, lower than the previous year.

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Financial Forecast and Dividend Forecast

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- Operating revenue ¥1,770.0 billion (a year on year decrease of 22.6%)
In addition to the expected decrease in electricity sales volume, the accounting standard for revenue recognition will be applied from FY2021.
- Income
It is difficult to reasonably determine the estimates of income because the restoration time of thermal power plants damaged by the earthquake off the coast of Fukushima Prefecture in February 2021 has not yet been determined.
- Dividend
As the income forecast is undecided due to the above reasons, the dividend has yet to be determined at this time.

Consolidated Financial Forecasts for FY2021

(billions of yen)

	FY2021 forecast (A)	FY2019 (B)	Change (A) - (B)
Operating Revenue	1,770.0	2,286.8	(516.8)
Operating Income	-	87.9	-
Ordinary Income	-	67.5	-
Net Income Attributable to Owners of Parent	-	29.3	-

Major Factors

		FY2021 forecast	FY2020
Electric power sales* (TWh)	Retail	Approx. 65.1	66.0
	Wholesale	Approx. 14.6	16.6
	T o t a l	Approx. 79.8	82.5
Crude Oil CIF Price (\$/bbl.)		Approx. 68	43.4
Exchange Rate (¥/\$)		Approx. 110	106
Nuclear Power Utilization Rate (%)		-	-

* Individual figures of Tohoku Electric Power Co., Inc., excluding network business.

Sensitivity to Major Factors

(billions of yen)

Crude Oil CIF Price (per \$1/bbl.)	-
Exchange Rate (per ¥1/\$)	-

Dividend Forecast for FY2021

	Interim	Year-end	Annual
Dividend Per Share	-		

I will now explain our earnings and dividend forecast for FY2021. Please see page 7. Sales in FY2021 are expected to be around JPY1.77 trillion.

The decrease is expected to be approximately JPY520 billion compared to the previous fiscal year, due to a decrease in the amount of electricity sold and the application of new accounting standards for revenue recognition. The impact of the latter is expected to be approximately JPY420 billion.

On the other hand, we are currently assessing the timing of the restoration of the thermal power plant damaged by the Fukushima earthquake, and as it is difficult to make a reasonable calculation at this time, we regret to inform you that we have not yet determined our profit forecast.

As for dividends, both interim and year-end dividends are undecided due to the difficulty in reasonably calculating the profit forecast. We will make an announcement as soon as we are able to foresee the business performance in the future.

As we have already announced, we will change the depreciation method for tangible fixed assets to the straight-line method from FY2021. The impact of this change is expected to be a decrease in expenses of approximately JPY46 billion in FY2021.

In FY2021, while the competitive environment in terms of sales will continue to be severe, a certain amount of negative impact from the new coronavirus infection will continue, and the restoration of facilities damaged by the earthquake off the coast of Fukushima prefecture and other factors are expected to continue to cause severe income and expenditure conditions. In light of this situation, we will accelerate our efforts to make the

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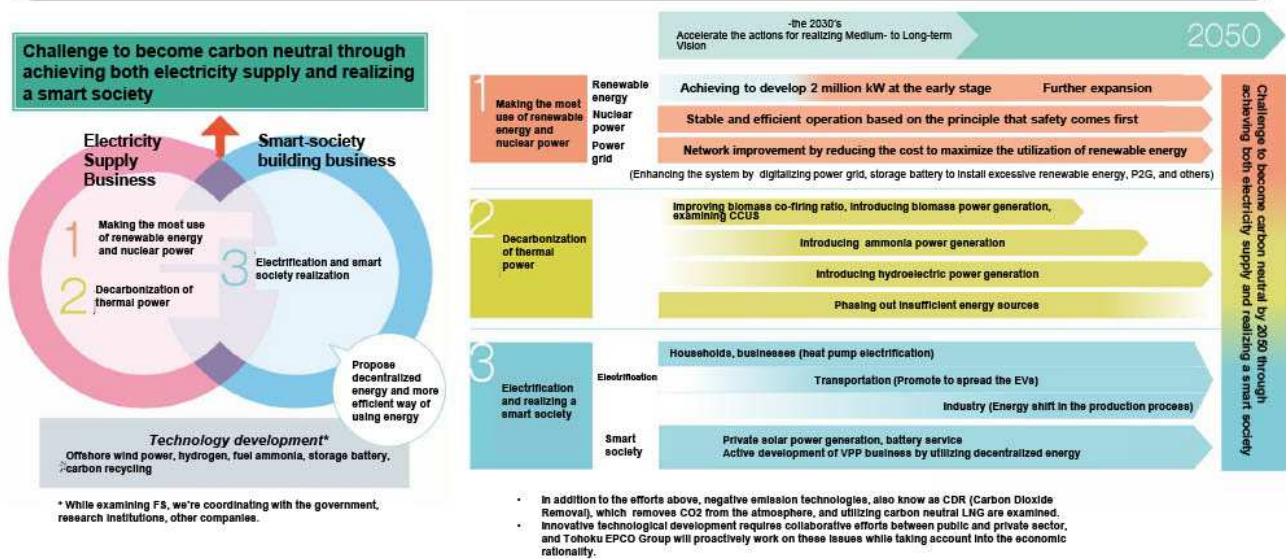
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smart society building business profitable as soon as possible, and strive to improve profitability, while working on the enhancement of electricity sale and cost reduction.

Challenge to Become Carbon Neutral by 2050

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- As the Japanese government declared **Japan will become carbon neutral by 2050**, **it has accelerated to examine how to achieve the goal**. Therefore, **the transition to decarbonization becomes a significant issue for the whole society more than ever before**.
- Against this backdrop, **our group formulated Tohoku EPCO Group's "Challenge to Become Carbon Neutral by 2050"**. Keeping in mind the basic principle of S+3E (to achieve Safety as the top priority, Energy Security, Economic Efficiency and Environment), **we will work on the fundamental policies, including making the most use of renewable energy and nuclear power, decarbonization of thermal power, and electrification and realizing a smart society**. Then, we will accelerate to reduce the amount of CO2 emissions at Tohoku Electric Power Group, as well as contributing to decarbonize the local community.



Next, I will explain the topics. Please see pages 9 and 10.

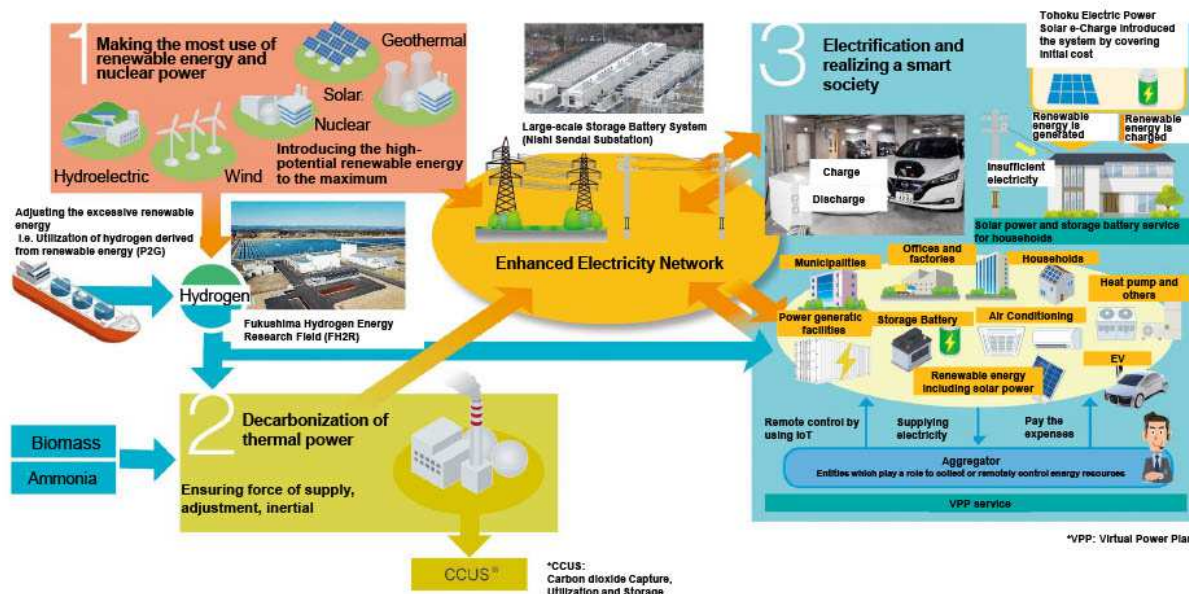
In light of the Japanese government's declaration of carbon neutrality by 2050 and the accelerating pace of studies on how to achieve it, in March this year, we formulated and announced the Tohoku Electric Power Group's Carbon Neutral Challenge 2050.

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- Tohoku Electric Power Group will aim to realize a society that concurrently achieve supply by large CO2-free power plants and the use of distributed energy and efficiency of energy use.
 - We will seek to develop 2 million kW renewable energy and expand it further, mainly by utilizing wind power generation.
 - In a stable and efficient manner, we will operate nuclear power generation while putting the top priority on safety.
 - We will contribute to introduce and expand renewable energy through enhancing electricity network and utilizing storage battery and hydrogen.
 - As for thermal power generation, we will proactively work on technology development in terms of putting practice into hydrogen and ammonia and examining CCUS.
 - Through smart-society building business including installing VPP services, we will enhance energy management by introducing the digital technology and effectively utilize the decentralized energy in the local community.



Based on the basic premise of securing S+3E, the Group will promote the decarbonization of large-scale power sources, the promotion of electrification, the use of distributed energy, as well as the realization of a smart society by improving the efficiency of energy use as the 2 wheels of our efforts and will accelerate the Group's CO2 emission reduction and contribute to the decarbonization of local communities.

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Highlights of FY2021 Tohoku Electric Power Group's Medium-term Plan

- ✓ COVID-19 pandemic brings us to severe business environment including declining electricity demand. In "Working alongside Next", which we announced last year, we recognized that we will experience Digitalization, De-centralization, De-carbonization, and Depopulation. Along with those business environment, we expect that change in electricity demand and supply and emerging social issues will become more apparent and accelerated.
- ✓ Given the perspectives above, we believe that the basic concept in "Working alongside Next" is well suited to the current status. While focusing on making our efforts to achieve the target in "Working alongside Next", we will uphold the four fundamental business concepts in "FY2021 Tohoku Electric Power Group's Medium-term Plan" to expand the profitability through drastic structural reform and prompt monetization of smart society building business.

Highlights

- "Change"**
 Thorough enhancement of competitiveness through drastic reforms to our power supply business
- "Challenge"**
 Attempt to quickly achieve profitability with our smart society building business
- "Create"**
 Evolve our management base, which supports the creation of our corporate value

Basic concept of business promotion

Accelerating our efforts:
To overcome severe income/expense conditions and open up a new, post-pandemic era

- ✓ We will accelerate the speed of a structural reform of the power supply business while thoroughly strengthening electric power sales and digging deeper into cost reductions.
- ✓ While doing our utmost to restart the nuclear power plants with safety as the first priority, we will proactively provide information for local residents and carefully conduct activities to gain their understanding.
- ✓ Under the leadership of Tohoku EPCO Frontier Co., Inc., the entire Tohoku Electric Power Group will aggressively take on and quickly achieve profitability with our smart society building business.
- ✓ We will continue to research the ideal for achieving carbon neutrality by 2050 and contributing to the reduction of CO₂ emissions on the customer side

Now, please see page 11. Next, I would like to explain the main points of the Tohoku Electric Power Group Medium-Term Plan for FY2021.

In February of last year, we formulated the Tohoku Electric Power Group's medium- to long-term vision, "Working alongside next," which is the major direction of management for the 2030s and presented the ideal vision for the 2030s.

In this context, we recognized the 4 Ds as drivers of change in the de business environment in the future: Digitalization, Decentralization, Decarbonization, and Depopulation.

The subsequent spread of the new coronavirus is expected to bring about changes in the business environment, such as a decrease in electricity demand, and further accelerate the 4 Ds that we have identified as drivers of changes in the business environment in "Working alongside next."

We believe that the direction of "Working alongside next" is consistent with the social trend toward a post-coronavirus society and that we will be able to realize our vision by further accelerating the speed of the initiatives set forth in "Working alongside next."

From this perspective, the focus of the 2021 Medium-Term Plan is on 4 basic approaches to business promotion, expanding earnings through fundamental structural reforms in the electric power supply business, and promoting the early profitability of the Smart Society Building Business.

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■ **We will shift to a business model for the maximization of profits by enhancing competitiveness and stable operation of facilities based on the mission of each function of the power supply business**

Power generation and wholesale(Thermal Power Generation)

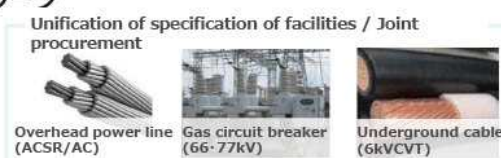
- ✓ We will promote the development of Joetsu Thermal Power Unit 1 with the goal of achieving higher economic efficiency, and less environmental load. In addition, while taking into consideration the formulation of “The 6th Basic Energy Plan” by the Japanese Government, we will continue to study and implement the closure and replacement of aged thermal power plants with low environmental and economic efficiency to further strengthen the competitiveness of our power sources and respond to changes in supply and demand caused by the introduction of a large volume of renewable energy.



Joetsu Thermal Power Unit 1 under construction
(As of January 2021)

Transmission and distribution  東北電力ネットワーク

- ✓ We will implement both countermeasures against aging equipment for power transmission and distribution, and thorough cost cutting by effective use of technology such as AI and IoT, as well as the unified specification and joint procurement of equipment.
- ✓ We will continue to promote procurement reform initiatives including furthering measures associated with considering how to buy, what to buy, and what quantity to buy, as well as strengthening organizational capabilities and systems.



Please see pages 12 and 13. With regard to our efforts to reform the structure of the electric power supply business, as shown on page 12, in the power generation and wholesale business, we will strengthen the competitiveness of power sources by constructing new cutting-edge, high-efficiency LNG-fired thermal power plants and suspending or discontinuing aged thermal power plants with low environmental and economic efficiency, as well as by responding to supply and demand fluctuations associated with the expanded introduction of renewable energy.

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- In "Highlights of FY2020 Tohoku Electric Power Group's Medium-Term Plan", we set the target to thoroughly enhance our competitiveness led by drastic reform in electricity supply business. In accordance with this plan, we seek to improve our competitive edge and maximize our profit.
- In addition, in order to pursue net zero by 2050, we will endeavor to achieve a decarbonized society as a whole value chain and realize a smart society. Accordingly, we will contribute to reduce the total amount of carbon emissions in Tohoku region and Niigata prefecture.
- Under such our thoughts, we will further take measures in terms of thermal power generation, such as promoting to develop the high-efficient equipment and shutting down the aging power plants. Then, we will enhance our competitiveness and respond to change in supply and demand along with spreading renewable energy.

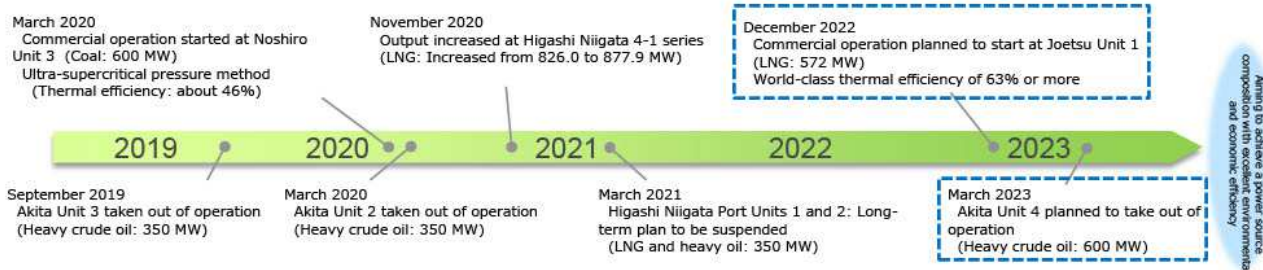


Noshiro Thermal Power Unit 3



Joetsu Thermal Power Unit 1 under construction

*Newly recorded... 



In addition, page 13 shows the results of our efforts to enhance the competitiveness of thermal power sources and our plans for the future.

Also, in the area of power transmission and distribution, we will strive to achieve both measures to deal with aging facilities and thorough cost reduction through unification of specifications, joint procurement, and continued efforts for procurement reform.

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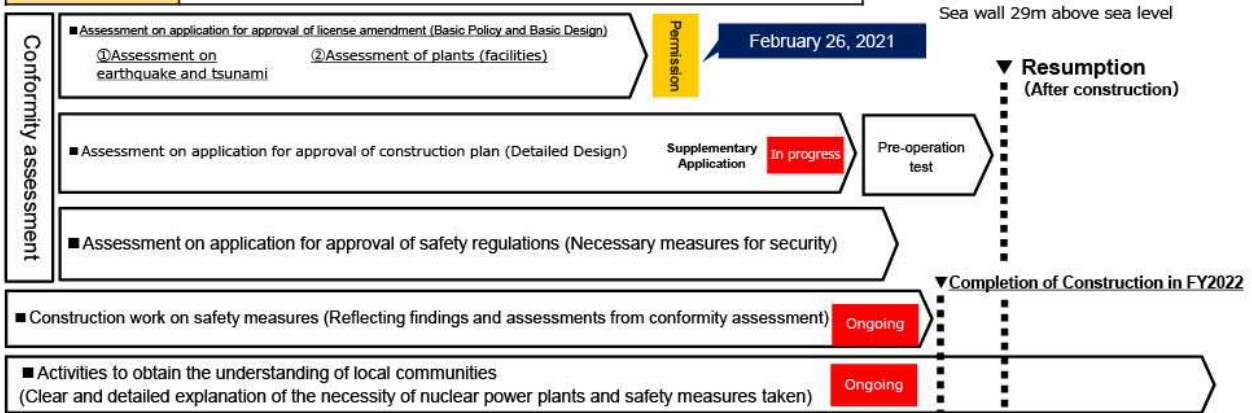
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Onagawa Nuclear Power Station

- In conformity assessment, we received permission for approval of license amendment. And a supplementary application for approval of construction plan is now under review.
- We decided to proceed with the aim of completing the construction of safety measures such as additional ground improvement work for seawalls in FY2022.

Conformity assessment	①Application for approval of license amendment - On February 26, 2020, we received permission for application for approval of license amendment of Onagawa No2 from Nuclear Regulation Authority and on November 18, 2020, Miyagi Prefecture, the town of Onagawa, and the city of Ishinomaki also granted preliminary approval for prior consultation. ②Application for approval of construction plan - On March 31, 2021, a supplementary application for approval of construction plan (5th) has been submitted and is currently under review.
Construction work on safety measures	- Currently, additional ground improvement work for seawalls, installation of venting equipment for containment vessels with filters and earthquake-resistant construction are underway.



Please see pages 14 and 15. With regard to the restart of the nuclear power station, Onagawa Number 2 has completed the submission of an amendment to the application for approval of the construction plan in terms of the examination and is now responding to the examination, and in terms of the construction, safety measures are being carried out as scheduled for completion in FY2022.

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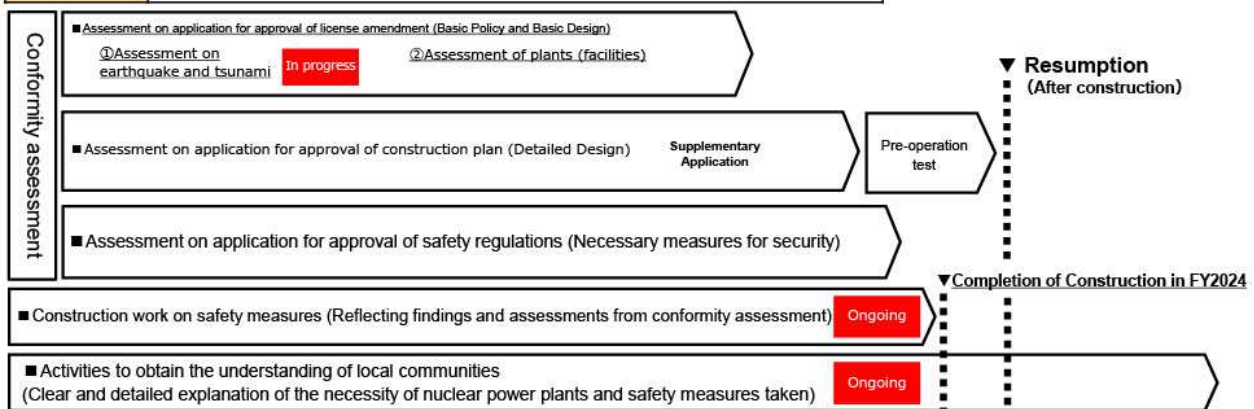
Higashidori Nuclear Power Station

- In conformity assessment, we are responding to the earthquake and tsunami assessment (formulation of standard earthquake ground motions and standard tsunamis) for permission for approval of license amendment.
- We decided to proceed with the aim of completing the construction of safety measures in FY2024, reflecting findings and assessments from conformity assessment.

Conformity assessment	<p>①Assessment of earthquake and tsunami</p> <ul style="list-style-type: none"> - Though the assessment meetings that have been conducted so far, our explanation that faults just below seismic critical facilities and faults on the site other than just below seismic critical facilities are inactive for the foreseeable future has been judged to be appropriate. As a result, the examination for fault was completed. - To formulate the standard ground motion for seismic design, the identification of epicenter and the tsunami height is being evaluated. <p>②Assessment on application for approval of safety regulations</p> <ul style="list-style-type: none"> - We are preparing while making use of the examination trends of the preceding plant and the examination experience at Onagawa Unit 2.
Construction work on safety measures	<ul style="list-style-type: none"> - We have completed the deployment of power supply vehicles and alternative emergency cooling system seawater pumps in addition to seawall 16m above sea level. - We are carrying out earthquake-resistant construction and installation of venting equipment for containment vessels with filters and emergency response facilities while reflecting finding and assessments from conformity assessment.



Panoramic view of the power plant



With regard to Higashidori Unit 1, we are currently in the process of reviewing the standard earthquake ground motions and standard tsunamis for the application for the change of reactor establishment license, and we believe that it will take a certain period of time to complete the review of earthquakes, tsunamis, and plants.

In addition, it is necessary to proceed with the design and construction of the safety measures while reflecting the findings and evaluations obtained during the review process. As a result, we have determined to extend the construction period by 3 years and aim for the completion in FY2024.

With regard to the restart of the Higashidori Unit 1, we will do our utmost to complete the examination and construction work in order to meet the new completion date.

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- We aim to become a responsible business entity dealing with renewable energy in the six prefectures of Tohoku and Niigata Prefecture. **Having wind power generation at the core and covering hydroelectric, photovoltaic, geothermal, and biomass power generation**, we will utilize the know-how our group has acquired and work on new development and business projects. We will aim for 2 million kW mainly in the six prefectures of Tohoku and Niigata Prefecture.
- We believe achieving our development goal will require investment of more than 100 billion yen. For now, we anticipate investment on a scale of roughly 10-20 billion yen/year. We will preferentially devote our management resources to the effort while determining economic efficiency and investment efficiency.
- From the perspective of the general life cycle of renewable energy, **we have established a new company to conduct operation and maintenance (O&M) business from FY2021.**

Development / participation results (as of the end of March 2021)

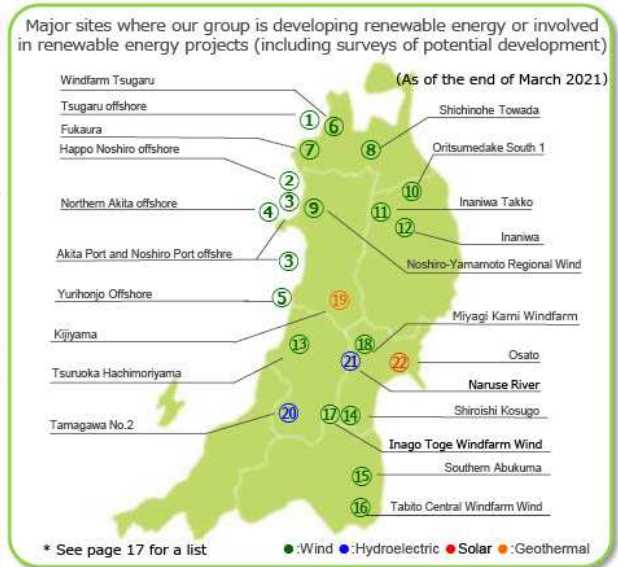
Total output share approx. **500** MW

■ Status of initiatives in FY2020

As of March 2021, our company and our corporate group are engaged in 22 renewable energy development projects, including 18 wind power generation projects. We have invested and participate in "Windfarm Tsugaru", Japan's largest wind farm in March. This has been in operation since April 2020 and is expected to contribute to the early generation of consolidated cash income.

■ Current status

- With the aim of making renewable energy a main source of power, we have invested "South Chokai Biomass Power Generation Project" which is our first dedicated biomass power generation project. We will take the initiative in the development of the project and enhance its knowledge.
- We established Tohoku Electric Power Renewable Energy Service Co., Inc. , which is in charge of O & M business. We aim to strengthen competitiveness and maximize profitability by developing businesses that demonstrate the strengths and comprehensive strengths of the Group.



Please see pages 16 and 17. We have positioned the renewable energy business as our main power source for the future, aiming to develop 2 million kW mainly from wind power, and will prioritize the investment of our management resources by investing JPY10 billion to JPY20 billion per year for the time being, after carefully assessing the economics and investment efficiency.

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(As of the end of March 2021)

	Project Name	Business Operator	Output	Scheduled Commercial Operation Date	
①	Offshore Wind	Tsugaru Offshore Wind	Green Power Nishitsugaru Offshore G.K.	Approx. 480MW	After 2028FY
②		Happo-Noshiro Offshore Wind	GK Happo Noshiro Offshore Wind	Approx. 155MW	After 2024FY
③		Akita and Noshiro Port Offshore Wind	Akita Offshore Wind Corporation	Approx. 140MW	2022
④		Northern Akita Offshore Wind	Northern Akita Offshore Wind Power LLC.	448MW (Max)	After 2025FY
⑤		Akita Yunihonjo Offshore Wind	Akita Yunihonjo Offshore Wind GK	Approx. 700MW	TBD
⑥	Onshore Wind	Windfarm Tsugaru	Green Power Tsugaru G.K.	121.6MW	April 2020
⑦		Fukaura Wind	Green Power Fukaura G.K.	Approx. 70MW	After 2024FY
⑧		Shichinohe-Towada Wind	GK JRE Hachimandake	Approx. 31MW	Dec. 2021
⑨		Noshiro-Yamamoto Regional Wind	Shirakami Wind GK	Approx. 100MW	After 2023FY
⑩		Oritsumedake South 1 Wind	GK JRE Oritsumedake Minami 1	Approx. 44MW	Jan. 2023
⑪		Inaniwa Takko Wind	Green Power Inaniwa Takko G.K.	Approx. 100MW	After 2025FY
⑫		Inaniwa Wind	Inaniwa Wind GK	Approx. 100MW	After 2025FY
⑬		Tsuruoka Hachimoriyama Wind	GK JRE Tsuruoka Hachimoriyama	Approx. 14MW	Nov. 2021
⑭		Shiroishi Kosugo Wind	Acacia Renewables K.K.	Approx. 38MW	After 2024FY
⑮		Southern Abukuma Wind	Abukuma South Wind Power LLC.	Approx. 90MW	2022FY
⑯		Tabito Central Windfarm Wind	GF Corporation	Approx. 54.6MW	After FY2027
⑰		Inego-Toge Windfarm Wind	GF Corporation	Approx. 79.8MW	After FY2027
⑱		Miyagi Kami Windfarm	GK JRE Miyagi Kami	Approx. 42MW	April 2024
⑲	Geothermal	Kijiyama (tentative name)	Tohoku Sustainable & Renewable Energy Co., Inc.	14.9MW	2029
⑳	Hydroelectric	Tamagawa No.2 Hydroelectric	Tohoku Sustainable & Renewable Energy Co., Inc.	14.6MW	Oct.2022
㉑		Naruse River	Tohoku Electric Power Co., Inc.	2.3MW	2034FY
㉒	Solar	Osato solar	Miyagi Osato Solar Park GK.	37.5MW	2021FY

As of the end of March 2020, the Company and its corporate group are engaged in the development of 22 renewable energy projects, including 18 wind power projects, with a total output share of approximately 500,000 kW.

In addition to participating in the power generation business, from the perspective of involvement in the overall life cycle of renewable energy, the Company will establish Tohoku Electric Power Renewable Energy Service Co., Inc. to develop O&M business.

The Group will leverage its strengths and comprehensive capabilities, including the technological capabilities and know-how it has cultivated through the electric power business, to develop its business, strengthen its competitiveness, and maximize profits.

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- **Synergia Power Co., Ltd., a company we established jointly with Tokyo Gas Co., Ltd.,** sells electricity for customers who use high- or extra-high voltage power in the Kanto region.
- **Tokyu Power Supply Co., Ltd., in which we invested in March 2018** sells electricity and gas mainly to customers living in areas along the Tokyu lines.
- Both companies have steadily won contracts and will continue to expand in the future.

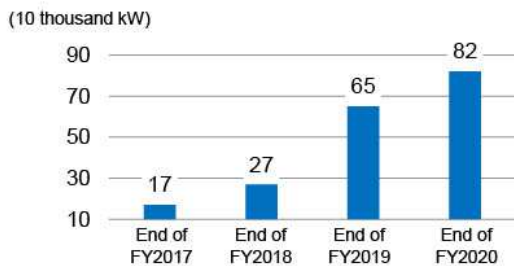
Synergia Power



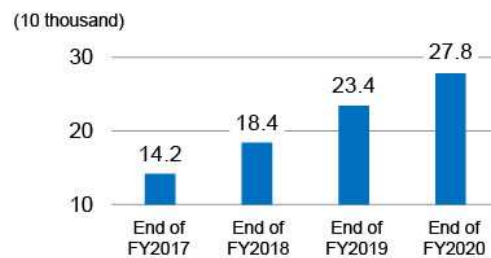
Tokyu Power Supply



Electricity Contract Capacity



Number of Contracts ※ Electricity contracts only



Please see page 18. As for electricity wholesale, we are expanding sales through supply to Synergia Power Co., Ltd. and Tokyu Power Supply Co., Ltd., mainly in the Kanto region outside our supply area, and sales are steadily increasing in FY2020.

We plan to further expand our business with these 2 companies.

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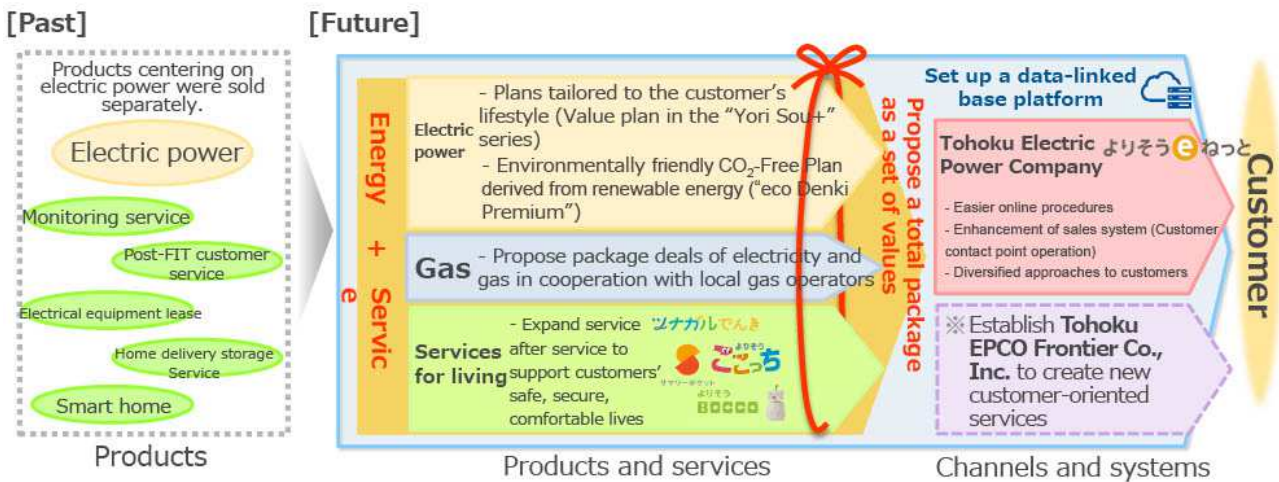
Enhancing services for household customers and improving profitability

- ✓ Under the “Yori, Sou, Chikara +ONE” brand, we will accelerate the expansion of life support services to capitalize on the post-pandemic needs of customers.
- ✓ Promote proposal of the electrification of an environmentally friendly, smart life
- ✓ Enhance customer satisfaction by proposing a special pricing plan and making “Yori, Sou eNet” more convenient to use.
- ✓ Work on the reduction of CO₂ emissions and environmental load through the Eco-living Project.

Tohoku Electric Power Company's total living support service **+ONE** より、そう、ちから

Promoting proposal of environmentally friendly living across the Company

- Proposal of CO₂-Free Plan derived from renewable energy
- Shift to paperless notice of meter reading
- Support for introduction of heat pump equipment (Eco Replacement Campaign)



Please see pages 19 to 21. I will now explain the smart society building business, which we have positioned as a growth business.

Through the use of next-generation digital technologies and innovations, the Company will provide a total package of energy and services to quickly achieve improved customer satisfaction, environmental friendliness, and enhanced profitability.

Specifically, as shown on page 19, in sales to households, we will offer a total package of energy and services, including the supply of electricity derived from renewable energy sources, in order to provide the choices to customers and improve customer satisfaction.

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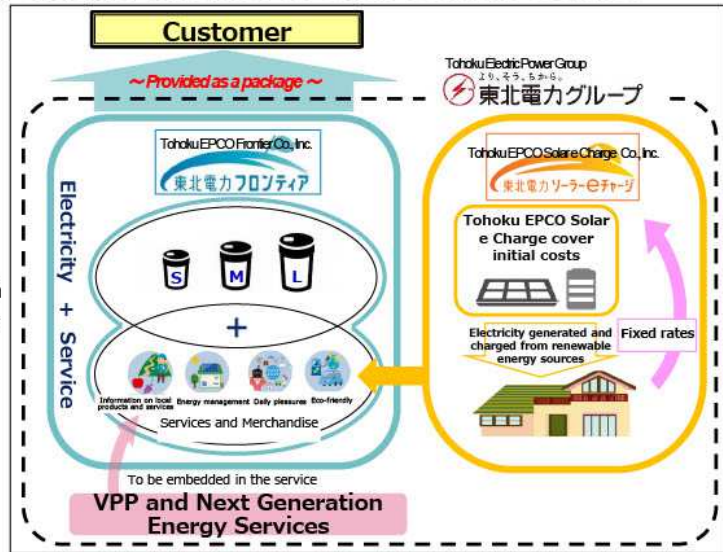
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Promotion of smart society building business

- ✓ We see the accelerating trend of post-pandemic digitalization as a business opportunity in the smart society building business. In response to this situation, we plan to provide a variety of services, including electricity, that will help solve social issues and contribute to the comfort, safety, and security of community.
- ✓ **Tohoku EPCO Frontier Co., Inc. was established on April 1, 2021.** While utilizing our strengths in "electric power" and "customer base," **we will build a platform that enables us to provide one-stop services** by linking multiple businesses and services, aiming for a sales scale of hundreds billions yen in the 2030s.
- ✓ In order to achieve the above, we will create new services by strengthening the open innovation through collaboration with start-up companies from the perspective of increasing the depth of the smart society building business.

Establishing Tohoku EPCO Frontier Co., Inc. and Tohoku EPCO Solar e Charge Co., Inc.

- ✓ Tohoku EPCO Frontier will provide a variety of services that lead to a comfortable, safe, and secure lifestyle for customers **through the use of next-generation digital technology and innovation.**
- ✓ **We set the target for FY2030 to obtain millions of individual active smart phone users** (those in the 20's and 30's), among whom digital marketing is easily gaining popularity.
- ✓ **Tohoku EPCO Power Solar e-Charge Co., Inc. was also established on April 1** through joint investment with Tokyu Power Supply Co., Ltd. In order to supply environmentally friendly and disaster-resistant electricity, the company will provide a service that allows customers to install solar panels and storage battery with no initial cost and pay a fixed monthly fee.
- ✓ We plan to offer a package of electricity provided by Tohoku EPCO Frontier and services provided by Tohoku EPCO Solar e Charge.



In addition, as detailed on page 21, we have established Tohoku EPCO Frontier Co., Inc., which will be the core of our smart society building business. Based on our strengths in electric power and customer base, we will build a platform to provide one-stop services to our customers by linking multiple businesses and services with data, thereby improving customer convenience and satisfaction. In this way, we aim to achieve sales of several hundred billion yen in the 2030s.

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Strengthening capability of proposals for corporate customers and maximizing profits by expanding solutions.



- ✓ **Develop proposals for optimal energy plans (electricity, gas, renewable energy) according to the status of customer usage and environmental needs.**
- ✓ **Enhance and proactively propose energy solution services that involve the customer's equipment,** such as providing our proprietary energy management system exEMS, electrification centering on air conditioning and heat source equipment, and contracting of air conditioning equipment.
- ✓ **Release and propose new business solution services** such as ICT equipment introduction support services and BCP-related services that meet post-pandemic customer needs **in collaboration with partners inside and outside the corporate group.**



Increase in revenue from gas sales

- ✓ **We will seek an increase wholesale supply** by bringing out potential demand through **sales activities in collaboration with city gas companies.**
- ✓ We endeavor to acquire important customers in collaboration with group companies by proposing solutions such as contracting satellite equipment in addition to shifting from other fuels to gas.
- ✓ While promoting cooperation with city gas companies to increase the set sales of electricity and gas, we will proceed with studies on expanding the gas business in response to the full-scale liberalization of the gas retail market.



LNG shipping facility at New Sendai Thermal Power Plant

Kamet (Six prefectures of Tohoku)	Set plan of electricity and gas (since April 2017 to date)
Ishinomaki Gas (Miyagi Prefecture)	Business alliance for sale of electricity and gas (since January 2019 to date)
Nikaho Gas (Akita Prefecture)	Set plan of gas and electricity (since May 2020 to date)

Status of alliance with city gas operators (as of January 2021)

In addition, as shown on page 20, for sales to corporate customers, we will improve profitability and increase profits by proposing optimal energy plans based on customers' usage conditions and environmental needs, and by proposing new business solution services in addition to the energy solution services we have been providing.

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Initiatives to Achieve Financial Goals

■ Initiatives to Achieve Financial Goals

- ✓ In response to the intensifying competitive environment, the Tohoku Electric Power Group will boldly implement structural reforms to increase the efficiency of our core business and reduce costs on a scale of tens of billions yen in both variable and fixed costs.
- ✓ We will further accelerate our efforts to transform our business model and steadily achieve our financial targets, while proceeding the sales strategy for focusing on further capacity for creating cash and profit.

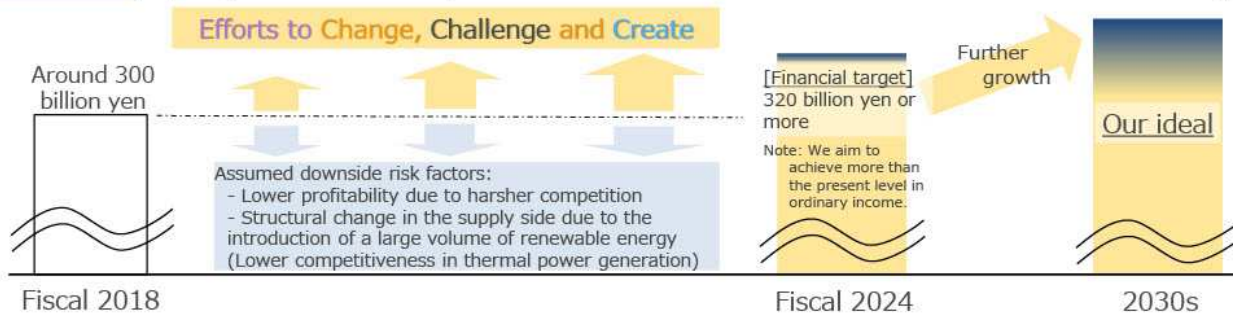
[Policy for Financial Goals (Consolidated cash income*)]

*Consolidated cash income = operating income + depreciation + amortization of nuclear fuel + share of profit of entities accounted for using the equity method

- In order to achieve “Working alongside next,” we have adopted consolidated cash income as a financial goal with an indicator that is focused on cash generating capability with the aim of accelerating the input of resources for growth by preventing a decline in profits arising from changes in the present supply and demand and revenue and expenditure structures.
- Based on the cash level required to maintain a stable power supply, invest in new growth fields, and pay and distribute returns to various stakeholders, we have set 320 billion yen or more in fiscal 2024 as the minimum level to achieve.

[Policy for Financial Discipline and Capital Efficiency]

Policy in “Working alongside next”	
Financial soundness	Since the capital (stock) damaged by the earthquake has recovered to a certain extent, we will continue to monitor the consolidated interest-bearing debt/cash profit ratio, which is an index that takes into account the debt repayment capacity (flow) in addition to consolidated equity-to-asset ratio that has been targeted to date.
Capital efficiency	Monitor the profitability of individual investment and capital efficiency of the entire corporate group, secure the profitability of the electric business, and early monetize growth businesses by shifting resources, thereby improving return on invested capital.



Next, please see pages 24 and 25.

In order to achieve the financial target of JPY320 billion or more in consolidated cash income in FY2024, which was set in “Working alongside next,” we will boldly proceed with structural reforms in the electric power supply business and reduce both variable and fixed costs by tens of billions of yen.

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➤ Regarding highlights of "Working alongside Next", what we could achieved are as follows:

Thorough enhancement of competitiveness through drastic reforms to our power supply business

(In order to improve business efficiency and maximize the value of electricity, structural reform has been proceeded in every field.)

- ✓ Nuclear power generation : **As we received prior confirmation for approval of Conformity Assessments for Onagawa Nuclear Power Plant's Unit No.2**, we've steadily prepared for resumption of the plant.
- ✓ Thermal power generation : **As gas turbine is reused, output increased at Higashi Niigata Unit No.4-1 system, which resulted in enhanced efficient.** **Due to the factors above and the long-term suspension of projects for Higashi Niigata port's Unit No.1 and No.2**, thermal power generation strengthened its competitive edge.
- ✓ Renewable energy : In order to meet the target of developing 2 million kW, we engaged in 22 renewable power projects, including five offshore wind power projects and **expanded the ownership capacity up to 500 MW.**
- ✓ Structural reform of electricity supply business : Optimizing fuel purchasing (expanding spot purchasing) and optimizing energy mix **improved cash income by approx. 20 billion yen.**
We also succeeded in **reducing the workload equivalent to 120 employees** by reviewing and consolidating work procedures and improving productivity through work style reforms and **we have been allocating personnel to growth areas.**

Smart society building business

(To maximize the rich life for the customers, we've transformed our business model that can provide various services to our customers, in addition to supplying electricity.)

- ✓ For family users : we established "**Tohoku EPCO Frontier CO., Inc.**" as the core company to make smart society building business profitable in the early stage, as well as "**Tohoku EPCO Power Solar e Charge Co., Inc.**" which provides solar power storage battery service. We promoted environmentally friendly initiatives **by introducing "Eco Denki Premium"**, a new plan to supply carbon free energy, and we promoted electrification by **subsidizing the introduction of heat pump appliances.** We have supported our customers' rich, comfortable, safe and secured lives by providing various services, such as **rental service of home appliances, delivery and storage service and repair service of home equipment.**
- ✓ For business users : **we started to offer hydroelectric premium plans, run by prefectural governments including Iwate, Akita, and Yamagata, which supply carbon-free energy, as well as "Yorisou, renewable energy"** to meet our customers' needs. In addition, **we also provide energy solutions to support energy saving efforts, and expand business solutions such as BCP & ICT support and welfare services.** In these ways, we have offered various supporting services to satisfy our customers' requests.
- ✓ New service development : **we participated in the verification projects that enabled us to put the VPP business** into practice in the early timing. Also, **we invested in Next Energy & Resources co., Ltd.**, which aims to start the business based on decentralized energy service.

Evolving management base

(To maximize the corporate value, we focus on ESG and strengthen the capacity for creating the corporate value by effectively using management resources)

- ✓ By putting the priority on ESG, the result of TCFD scenario analysis was announced. **We could obtained "A-" in CDP Climate Change Report 2020.** In addition, **we were selected as Index of "SOMPO Sustainable Management"**, which makes an investment in the companies with outstanding ESG-related initiatives, **for the three consecutive years.**
- ✓ In order to expand renewable energy business, **we issued "the 2nd Tohoku Electric Power Green Bond"**.
- ✓ Certified as a healthy and productive organization, **we were recognized as 2021 Certified Health & Productivity Management Organizations so-called 2020's White 500 in the large enterprise category.**

As a result of this effort, as described in the middle of page 25, we believe we have improved cash profit by about JPY20 billion by optimizing fuel procurement through the use of LNG spot procurement and optimizing the power supply mix.

In addition to this, we are working to reduce the equivalent of approximately 120 jobs and shift personnel to growth areas by improving productivity through a review of business processes and other measures.

We will continue to promote a sales strategy that focuses on further cash generation and profit maximization in addition to cost reduction and further accelerate our efforts to transform our business model to steadily achieve our financial targets.

The information on page 26 onward is for reference only, so please check it later.

Today, I have explained our financial results for FY2020 and our efforts to realize our medium- to long-term vision, "Working alongside next," from various perspectives.

In response to such challenges as declining profitability due to intensifying competition, declining the amount of electricity sold due to the recent effects of the new coronavirus, the decline in the wholesale electricity trading market due to the massive introduction of renewable energy, and the need to become carbon neutral by 2050, the Company will work to achieve its financial targets by strengthening its sales strategy, further reducing costs through the improvement and optimization of power supply efficiency, and quickly achieving profitability in the smart society building business.

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At the same time, we will promote the realization of a smart society, including the early expansion of the introduction of 2 million kW of renewable energy, maximum use of nuclear power, decarbonization of thermal power, electrification, use of distributed energy, and more efficient use of energy. In this way, we will promote decarbonization of our Group, as well as the local community.

We would like to ask for your continued support and cooperation in the future.

That is all for the explanation from me.

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Question & Answer

Machino: Thank you very much. We will now move on to the question-and-answer session. Please follow the operator's instructions during the Q&A session.

Operator: Please limit the number of questions to 2 at a time.

Our first question is from Mr. Shinya of Mizuho Securities Co., Ltd.

Shinya: Yes, this is Shinya from Mizuho Securities. I would like to ask 2 questions. The first point is that, on page 14 of the slide, you explain the current review of the Onagawa Nuclear Power Plant and the progress of the construction. I would like to know about the current progress of the construction and review—for example, what percentage of progress has been made, and what is your impression of the progress, and whether it is on schedule or not.

The other thing I would like to ask is the benefits of the restart of the Onagawa Nuclear Power Plant, which is often discussed, such as the reduction in fuel and other costs due to the restart, and on the other hand, the increase in costs due to increased depreciation.

In light of this, I also would like to know whether there are any changes in your recognition regarding the impact to revenue and expenditure based on these factors, including the changes in the depreciation method to the straight-line method. The situation of fuel price has also changed from a year ago, so please explain about that. This is the first question about Onagawa Nuclear Power Plant.

Secondly, I think that the Company has been working on efficiency improvement in the aspect of fuel procurement utilizing spot procurement of LNG as one of your measures of efficiency improvement. This has been particularly effective in the first half of the last fiscal year, although there may have been the impact of the sharp rise in prices. I would like to know how much the use of spot procurement of LNG has improved your profitability, including the result in FY2020.

Also, as we head into this fiscal year, the spot price has been rising again in early spring. Based on this rise of spot price, please let me know your current thought about the effect of your initiatives to revenue and expenditure of this year. This is the second point that I would like to ask you about. Those are my 2 questions.

Higuchi: I would like to reply to your first point regarding the progress of the Number 2 project in Onagawa. As for Onagawa Number 2, the examination is currently underway with the aim of completing construction in FY2022, and where construction work can be done, it is being done in parallel, so things are generally progressing as planned.

So, I didn't see your question about when the plant will be restarted, but it will be after the construction is completed in FY2022 and the pre-use operator inspection. We will carefully inspect and check the facilities for startup and aim to restart the plant as soon as possible, including fuel loading.

Next, as for the merits, although there was a change in fuel price, we make certain assumptions and evaluate the fuel specifications every year, taking a multi-year average. As for the benefits, there is no significant change from the last time I spoke about the benefits of reducing fuel costs by about JPY3 billion per month, or about JPY30 billion per year.

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As for the impact on revenue and expenditure, including depreciation, we are working on cost reduction in various areas, such as operational cost reduction, so we would like to be excused from providing specific digital figures. I would like to show you with the benefits of fuel costs.

Regarding the spot procurement part of fuel procurement, we will provide digital values from our administrative office later. With regard to spot procurement, most of the contracts have been long-term, but we have been gradually increasing the ratio of short-term and spot contracts in our LNG procurement portfolio after the expiration of long-term contracts, taking into account the risk of fluctuations in LNG needs due to the expansion of the introduction of renewable energy.

For short- and medium-term contracts, the destination can be changed flexibly at the time of delivery. Therefore, we use spot market when market price of fuel is low, while postponing time of delivery for long-term contracts. By combining such efforts, we are working very hard to reduce the procurement cost of fuel, and that is one of our characteristics.

Regarding the outlook for the future, we will continue to make efforts to improve profits by combining spot, short-term, and long-term procurement contracts, while further expanding our efforts in the area of procurement, as the benefits of reduced fuel costs have a significant impact on revenue and expenditure. That is all.

Ishiyama: I would like to add something.

On page 4 of the document, in the area of efficiency improvement, we have stated that procurement-related benefits will be JPY9 billion this time, and the breakdown of this is that the expansion of spot procurement of LNG, which Mr. Shinya just asked about, is roughly JPY6 billion. In addition to that, we are also working on procurement reforms in terms of how we buy, what we buy, and how much we buy, which will amount to about JPY3 billion.

As Higuchi, the president, mentioned earlier, the ratio of spot contract is increasing, but the price of LNG is currently rising. Naturally, we would like to procure fuel appropriately by making good use of long-term contracts, as well, making good balance between the two, so we will respond to the situation while keeping an eye on the market trends and other factors.

We also have another company, Tohoku EPCO Energy Trading Co., Inc., which we will make good use of from the perspective of risk hedging, and we will try to diversify and optimize our procurement in this area. That is all.

Shinya: Thank you very much. I would like to confirm whether it is not the case that the benefits of a spot rise will be diminished simply because the spot ratio is high, but rather that measures will be taken to better cope with overall supply and demand management. Is it correct?

The other point is that, by changing the depreciation method for Onagawa, I think you said that, for a while, the depreciation outweighed the benefits, but could you comment on whether this has changed or not, if possible? Thank you.

Ishiyama: Please understand that the first half of the story is as you pointed out. Regarding the latter part, the changes were made from the declining balance method to the straight-line method, so naturally, it has changed. I think it is safe to say that the same benefits are now available. That is all.

Shinya: I understand. Thank you very much.

Operator: The next question is from Mr. Nishikawa of Daiwa Securities Co., Ltd.

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Nishikawa: Thank you for your help. I am Nishikawa from Daiwa Securities. I have 2 questions. The first point is the forecast for FY2021 on page 7. I would like to know a little bit more about your thoughts on this undecided situation, and I would like to know if it is a situation in which there is no prospect of profit at all, because profit will fluctuate at the level of tens of billions of yen depending on the state of recovery from the damage caused by the Fukushima earthquake.

In that sense, regarding dividend, is it undecided because it is difficult to continue the dividend of JPY40 per share based on the stable dividend policy, or because you would not know until the time comes? Or are you not able to calculate precisely, although the impact is not expected to be so big? Do you think that you want to continue to pay a stable dividend of basically JPY40? I think the fact that it is undecided is connected to the impact of the Fukushima earthquake, but could you tell us more about the thinking behind it? This is my first question.

The second point is about the drastic change and structural reform of the electric power supply business, as you call it. While your company's internal resources are limited to some extent, you need to allocate resources to the Smart Society Building Business, as well. In the upstream areas, thermal power is changing, renewable energy is changing, and nuclear power is also changing in the way that you will need to do more various things. I think that your business portfolio is already expanding in this and that direction.

So, for the existing power supply business, I think it is possible to consider a little more selection and concentration in the portfolio. What are your thoughts on balancing the businesses that you are currently engaged in?

Those are my 2 questions.

Higuchi: First of all, we have made the forecast of the income and expenditure undecided, but this is due to the impact of the shutdown of thermal power plants caused by the earthquake off the coast of Fukushima prefecture. Currently, one unit of the Haramachi thermal power plant is already back in the line, and the other unit is under construction aiming to restart in early June. As for the Sendai thermal power plant, we are trying to restore it by end of July. Without dismantling the machine and actually seeing it, it is difficult to determine how long it will take to recover.

As for our Haramachi and Sendai thermal power plants, we expect to be able to restore them on the schedule that we have indicated, but we are currently working in 2 shifts, day and night, to bring them forward. That is what is happening now.

On the other hand, regarding the Soma Joint Thermal Power Plant, the damage was greater than expected. This is a power plant located very close to the epicenter of the earthquake, so it is difficult to say how long it will take to restart, unlike the cases for Haramachi and Sendai thermal power plants, at this point.

The range of the expected situation is too wide, including the longest case and the shortest case. In such a situation, it is very difficult to show exactly what the revenue and expenditure will be. If you give us a little more time, we will have a rough idea of what to expect. In that sense, we have decided to leave the forecast of income and expenditure undecided at this time.

In relation to this, as for dividends, our company's basic policy is to pay stable dividends. Therefore, we should make efforts to secure the same level of dividends as before.

In this context, I would like you to understand that it is difficult to make a reasonable judgment about the outlook for power plants damaged by the Fukushima earthquake, given the uncertainty of the supply capacity outlook.

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The second point you mentioned was the selection and concentration of the portfolio of the electricity supply business. In the midst of drastic structural reforms, we need to make sure that nuclear power is restarted in order to become carbon neutral. Of course, we also need to work on renewable energy.

In such a situation, on the other hand, it is impossible to maintain the current output of thermal power; therefore, it is obvious that thermal power that is aging will be suspended or discontinued.

In addition to that, we still need to continue to strengthen our competitiveness, so we will continue to improve our profitability by introducing the Joetsu Unit 1, a high efficiency combined cycle unit, and changing to a more efficient unit, although we do not have the same output scale.

Therefore, I think the thermal power will be on the shrinking trend. In this context, of course, we will carry out repairs by dividing the risks into different cases and considering the level of risk, while considering the reduction of construction costs. Our basic idea is to generate funds from such a situation and allocate them to renewable energy and other business for building a new society.

Therefore, even if the renewable energy comes in the power supply business considerably, in Japan as an island nation, the ability to adjust the load is naturally necessary. In that sense, although it is possible that the fuel may be replaced by hydrogen or ammonia, which are not fossil fuels, thermal power must continue to exist in the future as synchronization power, in other words, meaning as a power source necessary for stable operation of the grid, to ensure a stable supply of electricity.

Doing without thermal power would be difficult unless there are breakthroughs and innovations to replace it, and unless technologies for energy storage and grid stabilization are developed. Until we can do that, we believe that thermal power is necessary.

That is all.

Nishikawa: Thank you very much. I am sorry. I understood clearly that it is difficult to foresee the outlook. However, from what you said, you could have provided the guidance that there is the possibility of loss that may prevent continuous dividend payment, or if you intend to continue the payment of JPY40, that you would continue to pay the dividend. Please let me know the discussions that took place within the company regarding this point, including outside directors, to the extent you can.

That is all from me. Thank you very much.

Higuchi: Our basic policy is to provide stable dividends. Based on the current outlook, we naturally need to discuss whether we can pay dividends at the current dividend level when the worst-case scenario happens. There was some discussion that it would be very problematic to present the dividend in digital value without much uncertainty, so we have decided to leave it undecided.

Nishikawa: I understand. Thank you very much.

Operator: The next question is from Mr. Matsumoto of Nomura Securities Co., Ltd.

Matsumoto: I am Matsumoto from Nomura Securities. I would like to ask 2 questions.

First, on page 7, I would like to know the status of retail competition in the new fiscal year. This is especially the case in the corporate sector. In terms of taking and taking back, what kind of situation has been factored into this retail sales volume? In addition to that, I believe that unit prices will decrease due to competition, but is the degree of decrease in unit prices within the range that can be eliminated by the efficiency improvements you mentioned earlier?

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Also, you mentioned that the earnings environment is tough, so could you tell me whether the orders in the retail business are falling, which could cause the decline in the profit, although I am not sure about the degree of decline, taking into account efficiency improvement?

In addition to that, I would like to know if the decrease of 2 billion kWh in wholesale is simply due to the lack of supply capacity, which you just mentioned, and it is a different story from competition.

The second point is about the cost increase due to the suspension of Haramachi and Soma plant. Basically, Sendai is a LNG-fired power plant, but is there a risk that the coal will be stopped and the cost of fuel to replace it will increase, although it may be on a transactional basis, and that repair costs will increase, as well? Also, if there is any risk factor other than these 2 that would incur a cost, please let me know. The amount is fine, but I would like to know the items. That is the second point. Thank you.

Higuchi: First, regarding the competitive situation of the retail business in the new fiscal year, in the case of corporations which use high voltage power, there is a balance between withdrawal and recapture.

Also, as for the degree of transfer of unit price, We are trying to meet the needs of customers with lower price as much as possible. Of course, the unit price will drop significantly if we compete with other companies. If we do that, our profits will be diluted.

When the price goes down, we will have to contribute all of our surplus electricity to the power exchange; therefore, it is bit problematic that profit will decline due to the price drop of the power exchange.

As for the reduction of 2 billion kWh wholesale, we have reduced it due to the shortage of supply capacity caused by the earthquake off the coast of Fukushima Prefecture. If we are able to restore the system as soon as possible ahead of schedule, we think it will be possible to increase the sale.

The second point is about Haramachi and Soma plant. Regarding the risk factor that may cause the increase in cost, if you compare coal-fired power with LNG or oil-fired power, coal-fired power is naturally cheaper in terms of fuel costs. Therefore, if coal-fired power is shut down, there will be a cost increase in fuel costs for that.

The repair cost was recorded as an extraordinary loss in the previous fiscal year, which is JPY13 billion. We have already recorded an extraordinary loss, so we do not expect any increase in construction and repair costs this fiscal year, as long as we are able to keep them within the special cost.

This means that, if the construction cost is more than the extraordinary loss, there will be a risk of cost increase. These 2 points are the risks for cost increase. We believe that there are no other factors.

Also, if the cost increases, the supply capacity will be insufficient when the supply-demand situation becomes tight. Especially at the time of tight supply and demand, prices at the Exchange are naturally higher. The market price will be higher, and there is naturally the risk that we will have to purchase expensive electricity from the market to supply to our customers in the unlikely event that there is a shortage of supply capacity. That is all.

Matsumoto: Thank you. I am sorry, but I was not quite sure if I understood what you said about the first point. I understand that you will naturally have to focus on profitability. Is it correct that the environment has changed in a way that you can balance regaining and withdrawal, even if you take such a stance of being selective about customers.

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In that case, the competition may have loosened up a bit, or it is getting better than before. That is the impression I have. In that case, it is correct to say that you are roughly within the range of efficiency improvement. Could you please explain again about responding to the competition?

Higuchi: Yes. This is a balance between supply and demand. We cannot see unconditionally that the current situation that is balanced to a certain extent will continue. Looking at the recent situation so far, we see that the situation is becoming more or less balanced.

Matsumoto: Yes, I understand. Thank you very much.

Shimoida: I would like to make a few additional comments.

The high-voltage or higher on page 7 is about the sales forecast for FY2021. We have made these assumptions based on the situation in the wholesale power market and the outlook for wholesale of Synergia Power. As President Higuchi mentioned earlier, we are reviewing our sales strategy and are making strong efforts to recapture the high-voltage or higher. I have recognized that the progress of the withdrawal has been settled.

That is all from me.

Matsumoto: Yes. Thank you very much.

Operator: The next question is from Mr. Kamichika, SMBC Nikko Securities Inc.

Kamichika: Thank you very much for your help. This is Kamichika from SMBC Nikko Securities Inc. I have 2 questions.

The first point is about a decrease in sales of JPY18.2 billion as a change factor in profit shown at the left side of page 4 of the material distributed. Looking at the decrease in the electricity sales volume, the lighting and electricity power decreased by 900 million kWh in total, and the impact on profit was JPY18.2 billion, which is a very large amount in terms of unit price. Could you give me more detail about this JPY18.2 billion? This is my first question.

Secondly, in the medium-term plan, you have introduced your initiatives and strategies for the realization of a smart society for both low voltage and high voltage, but from the perspective of early profitability, I would like to know if you feel any response at this point in terms of time frame or scale. Thank you.

Ishiyama: Regarding the decrease in sales on page 4 of JPY18.2 billion, as the president explained earlier, one of the factors is the impact of the coronavirus, which is about JPY9 billion. In addition to that, there is the impact of the so-called decrease in the number of hours, which was pointed out earlier, and this is withdrawal. Furthermore, in corporate customer area in particular, as explained by Shimoida earlier, we more or less take and take back. This has had a slight impact on corporate customers, as well, and low-voltage customers, especially general households, have been withdrawing. This is one of the reasons that we have this figure. That is roughly how I would like you to understand it.

Higuchi: Regarding your question about the early profitability of the smart society building business, with the goal of achieving consolidated cash income of JPY320 billion or more in FY2024, we launched in April Tohoku EPCO Frontier Co., Inc. and Tohoku EPCO Solar e Charge Co., Inc. the core companies for the smart society building business. We are not expecting to see immediate profits, but we will accelerate our efforts toward 2024 to build services that meet the needs of our customers and provide them with electricity plus services on a single platform. We are now in the process of building the framework for that in this new company. We do not expect to see substantial profits in the next year or 2. The schedule is such that we should be able to start earning revenue from around FY2024. That is all.

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Kamichika: I understand very well. Thank you very much.

Operator: The next question is from Mr. Ogino of Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.

Ogino: I am Ogino from Mitsubishi UFJ Morgan Stanley Securities. I would like to ask 2 questions. The first question is about the restoration of thermal power generation, which is the main reason why the Company's plan has not been decided yet. I am sorry that I have not been able to grasp the seriousness of the situation very well, but I wonder if the earthquake had such a big impact on the Sendai thermal power plant and others. I mean the impact on the equipment.

I have a vague idea about the area near the epicenter, but I would like to know what parts of the plant, including those in Sendai, were damaged, and if that is something so serious that lessons learned after the Great East Japan Earthquake were not utilized.

I am concerned that if the earthquake that is the same degree as the one we had in February in terms of scale comes, same thing may happen. This is the first question.

Secondly, on slide 24 of the presentation materials, you wrote about the cash flow for the financial target of 2024. You mentioned cash income in the previous section, and my current understanding is that it is roughly JPY300 billion to JPY320 billion. What I would like to ask you about, instead of cash profit, is the concept of capital efficiency written on page 24, which states that the goal is to improve the return on invested capital, which is of course the correct wording as a matter of course.

I would like to ask if you could disclose the return on invested capital here in terms of ROA or ROIC. It says that we aim to improve returns here, but what is the current situation, and what would happen if we achieved this 2024 financial target? If we cannot see the current situation, we will not be able to understand what you are trying to do for improvement, and we would not know even if you have accomplished something, which is bit disappointing. If you write that you are aiming for improvement by all means, why don't you write the ROIC figure as a KPI?

At that time, if you could also write down WACC that your company is considering, it would mean that you will be able to implement what is written in the Corporate Governance Code. In this way, the spread between ROIC and WACC is the corporate value, and this evaluation can be done quantitatively.

In this way, we can move away from the vague response we had earlier that "it is just a matter of time" when Mr. Kamichika asked earlier when smart society building business will be monetized, to a proper discussion including actual timing, the amount of investment, timing to realize the outcome, and improvement in terms of ROIC using actual figures. I would like you to consider this point by all means, and this is the second question. That was all.

Higuchi: As for the first point, this earthquake had the same intensity as the Great East Japan Earthquake. The direction of the shaking was different from that of the Great East Japan Earthquake, and that is why the damage was greater in some areas. To get technical, the steam turbine shook in the axial direction, so there is a bearing stand that supports the rotating element, but the bearing stand was deformed by the shaking of the steam turbine as it rotated in the axial direction.

Therefore, it takes time to determine whether we could make a new bearing stand or rework it. Also, even if we take out the bearing stand, we need to lift a compartment of turbine for the lower part in addition to the upper part using rotor. The steam turbine contains piping, so there is also a study on whether it is possible to do this without cutting the piping, and various studies are taking time to shorten the construction period as much as possible.

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In addition, the issue is to arrange the things. I understand that arrangements for this have been made ahead of time. The situation is equivalent to the Great East Japan Earthquake. However, because the shaking was in a different direction, the damage was greater.

However, in the case of the Great East Japan Earthquake, the impact of the tsunami was very large. This time, it was caused by the earthquake, but the damage was greater due to the different direction of the shaking. You were concerned that, what if something similar to the Great East Japan Earthquake comes again? As for that, boilers have a heat exchanger that uses heat to turn water into steam, but the heat exchanger is metal, so it stretches as it heats up. It is suspended from the ceiling of the boiler to absorb the stretch.

If the shaking is too large, depending on the direction of the shaking, they will interfere with each other and deform the heat exchanger of the boiler, which is called a tube. This can lead to steam leaks. In general, most of the troubles are resolved regarding boilers in 2 or 3 months. This time, the damage caused by the trouble with the turbine has extended the construction period for restoration.

The second question on capital efficiency will be answered by Ishiyama.

Ishiyama: Regarding page 24 pointed out by Mr. Ogino, we regard capital efficiency, of course, as an important factor along with financial soundness. As you can see here, the term “monitoring” is used, but we would like to use the ROIC index in the sense of monitoring, since we have various investments for growth in the future.

As for the current situation, the current ROIC is about 2%, which is quite low. The current level of WACC is about this level, so I think we have met it. Naturally, when we consider the current business environment and future investments, we believe that we need to improve this as much as possible.

Naturally, when we invest in growth, we set the expected rate of return, but we also set our thinking based on the characteristics of each individual business. We will aim to achieve this goal, and we hope to improve our ROIC by doing so. The numbers are a little low currently, and it is difficult to present specific figures. It is still positioned as an internal management indicator for monitoring.

Ogino: Thank you very much. Does the second half of what you just said mean that you do not want to release it because the current ROIC is low?

Ishiyama: I am sorry. In reality, we are at that level, but of course, if we were to come up with such an index, we would have to come up with a numerical value to aim for. In that sense, we are still undergoing the discussion internally.

Ogino: I see. I understand very well. Also, thank you very much for talking about thermal power. I now understand that the core part was damaged substantially.

Operator: There is no other person who wishes to ask a question. Thank you very much, Tohoku Electric Power Co., Ltd.

Machino: This concludes the question-and-answer session. Thank you all very much.

Operator: This concludes the financial results briefing for FY2020 of Tohoku Electric Power Co., Ltd. Thank you for joining us today while you are busy. Please hang up the phone.

[END]

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