May 10, 2023

Questions and Answers at FY2022 Financial Results Briefing

Q1.What is the reaction of the customers of high-voltage or more power to reviewing the standard rate plans and introducing market-linked items. Also, what is the quantitative impact of improving revenues and expenditures due to the review of the deregulated electricity rate?

A1. We have received very harsh opinions from our high-voltage or more customers, and a certain number of customers have switched their contracts to other companies, but we have generally agreed, including the customers switched from last resort supply.

Compared to FY2021, the profit and loss improvement effect of the rate revision for high-voltage or more is expected to be over 100 billion yen in FY2023, and a maximum of about 150 billion yen in FY2024. In addition, we would like to revise the regulated electricity charges as soon as possible, and we will respond appropriately to the METI's review.

Q2. What is your view of the current situation where it is necessary to further increase earning power in order to optimize the balance sheet at an early stage, considering the situation where interest-bearing liabilities exceed 3 trillion yen, invested capital is at the 4 trillion yen level, and investment in nuclear power and power network facilities is expected to continue to be at a higher level than other companies?

A2. We are strongly aware of the need to reduce interest-bearing liabilities, therefore we need to reinforce our revenue base.

Currently, exchange rates, fuel prices, and electricity market prices are stable, but it is necessary to keep in mind that there is a possibility that they will fluctuate significantly due to various changes in circumstances. However, we are determined to secure profit in FY2023 by implementing appropriate measures. If there is no impact of equipment damage and an increase in the cost of alternative power procurement, such as the Fukushima Offshore Earthquake in FY2021 and FY2022, we have confidence that it will be possible to make a certain amount of profit. In addition, the resumption of Onagawa Unit 2 will be a valuable force for improving profitability, and we will do our utmost to complete safety measures in November this year and resume operations in February next year.

Q3. Is it correct to understand that the restart of Onagawa Unit 2 will not be an opportunity to reduce electricity rates?

A3. We have factored in the restart of Onagawa Unit 2 in the rate revision, and we do not plan to immediately reduce prices, including liberalization charges, even if Onagawa Unit 2 is restarted. Under such circumstances, if the income and expenditures improve more than expected, we believe that it is necessary to consider returning profits to shareholders, customers, and other stakeholders. We have received requests from customers for price reductions after the restart of

Onagawa Unit 2, but we recognize that the recovery of our financial base is our top priority, and we are considering price reductions while assessing these circumstances.

Q4. Other companies in the same industry are moving to expand their equity capital through fundraising. What are your thoughts on equity finance?

A4. Our policy is to recover equity capital by improving profitability and securing profits.

Q5. It was explained that the construction of safety measures in Onagawa Unit 2 is progressing as planned, but I recognize that the schedule is quite tight. Do you expect to be able to complete the construction by November this year, even considering certain delay risk such as additional construction works or occurrence of incidents?

A5. Regarding the construction work for safety measures in Onagawa Unit 2, the work will be completed in November of this year, taking into account the fact that seismic reinforcement work for the pressure suppression chamber was added through the NRA's conformity assessment. Although the schedule is tight, construction is currently progressing according to the schedule by working on construction work in 24 hours shift in 2 shifts. Under such circumstances, since last year, there have been cases where construction has temporarily stopped due to accidents, so from now on, we will proceed with construction work while paying special attention to ensuring safety, including preventing occupational accidents.

Q6. Are you considering measures to reduce the burden of electricity bills for high-voltage or more, like those being implemented by other company?

A6. Our top priority is to restore our financial base, and we are not considering measures to reduce the burden through electricity charges.

Q7. What is your target level for the equity ratio and equity capital amount, including hybrid bonds? Also, do you have a quantitative standard for paying dividends once equity capital has recovered?

A7. As for the level of the consolidated equity ratio to be aimed for the time being, we recognize around 20% of the pre-Great East Japan Earthquake level as one of our yardsticks. Additionally, in a situation where volatility and uncertainty in the electric power business are increasing, such as a sharp rise in fuel and electricity procurement prices, it is necessary to have a certain amount of equity capital. So, we are considering what the optimal level should be.

Regarding dividends, we have not set any particular standard of equity ratio for resuming dividends, but, in past case, after we stopped paying dividends due to the Great East Japan Earthquake, we resumed dividends payment in FY2013, and then increased dividends in stages. Bearing this background in mind, we will consider the timing and level of resumption of dividends, taking into account comprehensively the financial situation at that time and the medium- to long-term prospects for income and expenditure. We would like to restore the dividend as soon as possible.

Q8. I recognize that the introduction of a bidding system in wholesale electricity sales is the ultimate method for ensuring non-discrimination between group companies and other companies. There may also be adverse effects, such as the inability to set detailed prices in our retail division. Please tell us about the background and results of the introduction. In other word, which is the main reason of bidding, to ensure transparency or to improve profitability?

A8. Based on the idea that a bidding system might be the best option from the standpoint of strengthening efforts to ensure indiscriminate negotiation opportunities and wholesale conditions in electric power wholesale sales, we introduced this voluntarily ahead of other electric power companies. The successful bidder is determined based on a comprehensive evaluation that also takes into account the credit evaluation of the bidder.

With the introduction of this system, we believe that our power generation division will be able to prioritize wholesale sales to customers with high prices, and we will be able to maximize profits. In addition, as the marketization of the electric power business progresses, we believe that our retail division can also capture new business opportunities such as planning and executing sales strategies that are conscious of procurement prices and market prices.

Also, we recognize that it is necessary to brush up every year to improve the system and operation while accumulating experience and achievements.

Q9. I would like to know how the non-fossil value will be handled in the introduction of the bidding system for wholesale electricity sales.

A9. The non-fossil value can be traded separately from "the value of electricity itself", and in the wholesale bidding we conducted for FY2023, we are selling "electricity itself" that does not include the non-fossil value. .

The non-fossil value owned by our company is sold as a "non-fossil certificate" through market transactions and negotiated transactions.

Q10. Due to the impact of the unauthorized browsing of information, there is a concern that not only will synergies not work, but governance will not work with the information blockage between power network companies and sales departments more severe. There is also a problem from the perspective of capital efficiency, as the business return rate of power network companies is too low. Given this situation, how do you evaluate the value that the power network company is part of the Tohoku Electric Power Group's business from a financial and corporate value perspective?

A10. As a group, we recognize the importance of the power network business in ensuring stable supply and in conducting sound business operations.

In addition, since the power network business is expected to generate stable profits under the wheeling fee system, we think it better for the stability of business operations that Tohoku Electric Power Network continues to be included in the same corporate group.

Q11. Based on the explanation that the recovery of the financial base is the top priority issue, I have the impression that the possibility of resuming dividends in FY2023 is low, but at the beginning of the period, the dividend forecast was not "0 yen" but "undecided". Therefore, it is difficult to judge whether the stock market can expect to resume dividends during this fiscal year. Please tell us the reason of “undecided”.

A11. Regarding dividends, we will make a decision based on the recovery of the financial base and the outlook for the amount that can be distributed when the increase in the regulated rate is approved and the income and expenditure for the current fiscal year can be forecast. Again, we would like to resume dividends as soon as possible.

Q12. You recalculated the fuel costs, etc. in the process of reviewing the regulated rate increase. What is the profit improvement effect if the recalculation result is approved as it is?

A12. As the application of the regulated rates increase is currently under review, we cannot comment on the specific effect of improving the balance of payments. But we have already incurred costs of 12 billion to 13 billion yen in FY2023 due to exceeding the upper limit of the fuel cost adjustment system, and we recognize that there will be no further costs if the rate revision is approved.

Q13. Is it correct to assume that shareholders will not be forced to bear the burden (dividends will be postponed) on the grounds that customers are required to bear a certain amount of burden due to the increase in the regulated rate?

A13. Regarding returns to stakeholders, we make comprehensive decisions while looking at the balance between customers and shareholders and the recovery of our financial base. We would like to do our best not to burden the shareholders any further.

Q14. In March of this year, the Tokyo Stock Exchange issued a notification to listed companies requesting three points: current analysis of stock prices, ROE, ROIC, and PBR, improvement plans and their disclosure, and their implementation. I would like to know your thoughts on the schedule after receiving this notification from the TSE. If possible, I would like you to analyze the current situation before the announcement of the first quarter financial results, and present an improvement plan by the financial results briefing after the second quarter financial results. It is difficult to make the improvement plan perfect from the beginning, so I think it would be good to improve it through engagement.

A14. We recognize the importance of responding to the notification from the TSE, and we would like to respond appropriately as a company. At present, there are some aspects that have not been discussed internally, including the schedule for disclosure or improvement measures related to this content, so we cannot provide specifics at this time, but we would like to inform you at an appropriate time in the future.