May 10, 2024

Tohoku Electric Power Co., Inc.

Questions and Answers at FY2023 Financial Results Briefing

Q1. I am aware that the new KPIs were announced this time with a fairly comprehensive set of capital cost-conscious KPIs, and I have the impression that both ROIC and profit levels were set high, but with electricity rates in the area higher than those in other regions, is there any competitive risk when profit levels are set even higher than now? Please tell us how did you consider competitive risk in setting the financial targets for this time and what you consider the probability of the KPIs.

A1. We recognize that our electricity rate level is inferior to those of other companies that have already restarted nuclear power generation, but we hope to reduce fuel costs through the stable operation of Onagawa Unit 2 and achieve our target level while increasing our competitiveness. In addition, in light of the recent decline in wholesale electricity trading market prices and fuel prices, we have set our financial targets after taking into account a certain degree of downward pressure from competition. We have been offering the variety of services including energy-saving proposals, in order to better serve our customers in the area. We intend to continue to develop sales activities that earn the trust of our customers and make them their first choice, thereby minimizing the number of customers leaving the company. In addition, based on our past experience, we will develop sales strategies to ensure steady profits by distinguishing between the customers who focus only on price and the customers who are willing to have a long-term relationship with us so that we do not fall into a war of attrition caused by excessive price-cutting competition. In addition, we will implement management efficiency measures, such as streamlining facilities, to the extent that it does not interfere with the stable supply of electricity, including the closure of aging thermal power stations.

Q2. Regarding the restart schedule for Onagawa Unit 2, we would like to confirm whether the safety countermeasure work scheduled for completion in June is progressing smoothly and whether it is correct to understand that the probability of completion of the work has increased. In addition, examination status of Higashidori Unit 1 was announced last month. Or is there a possibility that Onagawa Unit 3 will be prioritized over Higashidori Unit 1? I would like to confirm if there is any change in the order of change in resource allocation.

A2. Currently, the safety work is progressing smoothly toward the completion of construction by the end of June. As for the timing of restart, we will require careful attention to the progress of on-site work, including various tests and grid restoration, as well as pre-operational inspections by the operator and pre-operational confirmation by the Nuclear Regulatory Commission. In any case, we would like to aim to restart operations around September. As for Onagawa Unit 3, no application for a conformity assessment has been filed at this time, so the order of priority will remain the same: Onagawa Unit 2, followed by Higashidori Unit 1, and then Onagawa Unit 3. With limited resources, we would like to restart Onagawa Unit 2 as soon as possible, while simultaneously proceeding with the conformity assessment and safety work for Higashidori Unit 1 and preparations for the application for the conformity assessment for Onagawa Unit 3.

Q3. In your forecast for FY2024, you state that the effect of improved earnings due to the restart of Onagawa Unit 2 is "a decrease in fuel costs: 40 billion yen," but please explain the earnings benefits including the incremental fixed costs.

A3. Depreciation and amortization expenses are expected to increase by about 20 billion yen or less as an additional fixed cost following the completion of the safety measures work. Under certain assumption, the annual reduction in fuel costs is estimated to be about 60 billion yen, but for FY2024, it is estimated to be about 40 billion yen, since the station will be restarted in the middle of the fiscal year.

Q4. As a new approach to shareholder return, you have proposed "stable dividends with a DOE 2% as a guideline." Please explain why you adopted "DOE" and why you chose "2%" as the target. Please also explain why you chose "as a guide to 2% " instead of "more than 2%".

A4. By using DOE as an indicator, we will be able to stably increase dividends in accordance with the status of shareholders' equity accumulation, and thus we will be able to meet the expectations of our shareholders while balancing and keeping pace with our top priorities of "restoring our financial base" and "enhancing shareholder returns". The "2%" level was set with reference to our past dividend performance and the performance of other companies.

In addition, since it is necessary to leave a certain amount of room for management judgment and discretion in determining the specific amount of dividends, the Company has decided to use "2% as a guideline" rather than strictly apply the "2%" level, and to make a comprehensive judgment based on the Company's past basic policy.

Q5. In your forecast for FY2024, you assume that the amount of electricity sold at retail will decrease by about 3 billion kWh from the previous year. Is this due to economic trends and area demand, or does it mean that competition is having a negative impact to some extent?

A5. The main factors are progress in energy and electricity conservation and ongoing production adjustments at some of the major customers. We have also factored in that a certain degree of customer defection will occur. On the other hand, wholesale electric power sales are expected to increase as supply capacity will be enhanced by the restart of Onagawa Unit 2, and we hope to increase the total amount of electricity sold.

Q6. You mentioned that you will make a comprehensive judgment while aiming for a DOE 2% as a guideline "for the time being", but are you aware of the possibility of raising the DOE level once your financial base has been enhanced? Or is there any possibility to include different indicators? In addition, please indicate to what level will DOE of 2% continue until the consolidated capital adequacy ratio recovers. I would like ask you to explain the time frame.

A6. Until the consolidated capital adequacy ratio returns to 20%, we would like to maintain a DOE of 2% as a guideline. After that, we will consider various options without ruling them out.

Q7. I would like to confirm the concept of "New Business Domains" on page 31 of the financial results briefing documents. You have set a target of about 3.5% consolidated ROIC by FY2026, but will you break it down into either 5 areas or 11 business segments, and then manage the target? If possible, please explain the current level of ROIC for each of the five domains and the degree of improvement needed for the future.

A7. ROIC management in each business domain is currently under consideration. We plan to manage each business domain based on ROIC internally, but we will continue to consider how we can present this information outside the company.

In addition, there are some business domains for which setting a target of ROIC of 3.5% is not appropriate, and we are discussing whether ROIC of 3.5% is appropriate, including what target level might be better for each business domain.

Q8. I consider that whether or not to disclose the information outside the company is a management decision, but internally, how long will it take to be able to manage ROIC by business? Although the company is engaged in integrated business of power generation and sales, I recognize that one of the characteristics of your business is that you have operated power generation and retail sales as "Power Supply Business" and "Smart Society Realization Business" respectively since the "Working Alongside Next" stage. Is it already possible to manage ROIC progress by separating wholesale and retail in the current management accounting and business management? If you say you are still in the middle of the road, how many years will it take you to be able to do this? Also, as it stands, what level of granularity is being managed internally?

A8. At least, we would like to instruct the companies to develop target setting with ROIC in mind in their internal plans for the next financial year and beyond. With regard to transactions between the Power Generation Company and the Sales Company, we have already adopted the concept of non-discrimination between internal and external transactions using internal transaction prices, and we consider that a certain line has been drawn at the present time.

Q9. With regard to the financial target of a consolidated capital adequacy ratio of 25% or more in

FY2030, what is the concept of 25% or more? For example, do you intend to further increase the consolidated capital adequacy ratio to 30% in FY2035, or do you think that a ratio of 25-30% is sufficient? What is your view on the level of an appropriate consolidated capital adequacy ratio?

A9. Taking into account fuel price fluctuations and natural disaster risks, a consolidated capital adequacy ratio of 25-30% is considered an appropriate level.

Q10. Please explain your approach to future margins. We understand that for corporate customers, margins have improved considerably as a result of the review of the standard menu and rate revisions, and that there will be further improvements in FY2024 as a result of the impact of the elimination of the excess cap on the time lag between April and June for the fuel mix. In such an outlook, do you think there is room for future improvements in margins? If Onagawa Unit 2 is restarted, the balance of payments will improve by that amount, but what are your thoughts on whether the current profit margin will be maintained and the unit price lowered, or whether the profit margin will be improved and the benefits of the restart will be properly incorporated into profits?

A10. In addition to the review of electricity rates, we have asked customers in the high-voltage and higher categories to review their individual contracts, and as a result, we believe that we have been able to secure a certain level of margins at the moment. Although the competitive environment may intensify in the future, the restart of Onagawa Unit 2 will enable the Company to utilize stable and competitive electricity. Even in an increasingly competitive environment, the Company will ensure profitability and margins by utilizing these advantages and strengths. In addition, the company will beat out the competition by proposing efficient ways of using electricity, affordable free rate plans that suit the actual conditions of use and services that deliver safe and secure lifestyles.

Q11. What is your perception of the electricity demand outlook, which has been a hot topic in the power sector recently? While the increase in demand related to data centers and semiconductors has been a hot topic, in the company’s case, there has been talk about a grim outlook for retail electricity sales at this time, and we have the impression that there is not much talk of an increase in electricity demand in the medium to long term as well. Looking back, I remember that in the 2000s, efforts were being made to increase demand by attracting more factories, but what is the current situation? If Onagawa Unit 2 is restarted smoothly and Higashidori Unit 1 is also restarted, we believe that the company will be able to offer electricity rates that are quite competitive. Please tell us about your approach and current efforts to increase demand.

A11. Regarding demand in the Tohoku area, although it is expected to increase in the short term, it is expected to remain flat in the medium to long term due to energy conservation and population decline. In other areas, on the other hand, demand is expected to rise steadily for semiconductor plants and data centers, and we see business opportunities there. We would like to actively conduct sales activities outside the area. In addition, there are similar developments in our area, such as the construction of new semiconductor plants, and we believe that there is sufficient potential for demand to increase. The Tohoku Electric Power Network also recognizes that expanding demand in the area is an important issue to be addressed over the medium to long term, and as part of this, focusing on attracting companies conducted by local authorities, and is reportedly providing support to attract companies in terms of the formation of power facilities.

Q12. Regarding p.36 of the financial results briefing documents, 'For Realizing Management Conscious of Cost of Capital and Stock Price', the impression is that it says good things qualitatively. Improving the financial structure is a necessity and we hope that the company will do its best to achieve a consolidated equity ratio of 20% or 25%. On the other hand, with regard to profitability targets, I have the impression that the description and target setting are the exact opposite: in the section on the direction of the ROIC response, there are descriptions of 'building up and expanding profits' and 'improving capital profitability', but although consolidated ordinary income excluding time lag effects for FY2024 is 200 billion yen, the consolidated ordinary income target for FY2026 is 190 billion yen. The consolidated ordinary profit target for FY2026 has been lowered to 190 billion yen. In FY2030, the target has not been raised to more than 200 billion yen. I would guess that the burden of depreciation of nuclear power is high, but the consolidated ROIC target for FY2026 is around 3.5%, despite the forecast for FY2024 of 3.8%, which means that return on capital has not improved. This means that the target for FY2026 is around 3.5%, which means that return on capital has not improved. What is management's view on the fact that the target is set at a worse figure than the current situation? If a figure lower than the current level is presented without any clarity on the concept of future competition risks, it may not be regarded as a 'target' by external parties. In addition, the consolidated cash profit forecast for FY2024 is stated as 440 billion yen, but can we assume that consolidated cash profit will increase?

A12. Even with the prospect of capital investment of around 300 billion yen each year and a gradual expansion of the balance sheet as a whole in the future, we want to generate a certain level of profit while being aware of the cost of capital. In formulating the plan, we believe that targets have been set and managed appropriately, for example by taking into account a certain degree of risk and imposing additional effort targets on the plans presented by each department as management. The financial targets set this time are also at the same level numerically, but we recognize that they are not easy targets to achieve in an uncertain environment where future trends in fuel prices, etc. and the competitive environment cannot be foreseen. We hope to steadily achieve this level by building up profits through our efforts under the 'Working Alongside next + PLUS' initiative. In addition, consolidated cash profit will end in FY2024 as a financial target, but we will continue to monitor it internally and will work diligently to increase it.

Q13. The statement on the left-hand side of p.36 of the financial results briefing documents regarding the direction of action is good in itself, but by setting financial targets that appear to be the exact opposite, the company appears to be announcing that the PBR will go down. We understand the background to the setting of the targets after listening to today's explanation, but we would like the company to devise a way to disseminate information to the capital markets.

A.13. In an uncertain environment where future trends in fuel prices, etc. and the competitive environment cannot be foreseen, the current sales situation has seen an increase in the number of withdrawals and tougher price negotiations at the time of contract renewal, and management has judged that these risks and uncertainties must also be factored in when setting financial targets. Management has by no means lowered the targets. We recognize that the targets are difficult to achieve unless firm measures are taken in terms of both sales and costs. We will devise ways of disseminating information in the future so that everyone in the capital markets understands the situation.

Q14. With regard to consolidated ROIC, the current forecast for 2024 is 3.8%, but what are the figures for each segment (generation and sales, transmission and distribution, construction) on a 2024 forecast basis? We would like to understand the current situation. In addition, we think that the ROIC for power transmission and distribution will not rise above the current level, but will you increase power generation and sales, or will you expand in new business areas? In addition, we would like to know the direction of the response. We would be grateful if you could give us some figures for each segment and the direction of action within six months or a year.

A.14. We will refrain from providing a detailed ROIC forecast by business, but as you are aware, the ROIC of the power transmission and distribution business is relatively low, and a high level may not be expected for the power generation business, as it has a large number of nuclear and other generation assets. On the other hand, a high figure can be expected for the sales business due to the small number of assets held, etc. The situation differs from business to business, so we will strive to set appropriate targets for each business based on a bird's-eye view of the whole.

Q15. In addition to safety work on Onagawa Unit 2 and investments related to Higashidori Unit 1, there may also be investments in Higashi-Niigata Units 6 and 7, etc. We would like to know more about the breakdown of 'investments contributing to a stable supply of electricity: approximately 300 billion yen per year' and 'strategic investments: approximately 300 billion yen by FY2030'. Also, we would like to confirm whether it is correct to assume that investments contributing to the stable supply of electricity would amount to 300 billion yen per year even if Higashidori Unit 1 and Onagawa Unit 3 are not included to a large extent.

A.15. The outline and scale of investments for 'Investments contributing to the stable supply of electricity' and 'Strategic investments' have been presented separately, as they have different investment objectives towards achieving the financial targets set out in this report. Specifically, 'Investments that contribute to the stable supply of electricity' are investments necessary for the continuous implementation of the stable supply of electricity, which is our mission, such as network grid development, thermal, hydro and nuclear power, and for the stable generation of earnings in the electricity business. On the other hand, 'Strategic investments' are those that contribute to increasing profits and enhancing the company's corporate value, as investments that generate added value in response to changes in the electricity business, such as decarbonization and the development of renewable energies. With regard to nuclear power, the amount of investment in Higashidori Unit 1 is not large at present, as the company's stance is to invest according to the progress of the conformity assessment. Onagawa Unit 3 has not yet applied for a conformity assessment, so it is currently treated as a maintenance cost rather than a capital investment.