

November 17, 2023

Tohoku Electric Power Co., Inc.

Questions and Answers at 2Q of FY2023 Financial Results Briefing

Q1. As for the prospect of financial results of this fiscal year, when considering the impact of income and expenditure improvement due to the increase in electricity rates, I expect that the results will be slightly above the levels of “the consolidated ordinary income excluding the impact of time lag in fuel cost adjustment; about 130 billion yen,” or “the consolidated cash income; about 340 billion yen.” I would like to have the company’s perception of the levels of actual profits and consolidated cash income at present.

A1. We have a perception that “the consolidated ordinary income excluding the impact of time lag in fuel cost adjustment will be about 130 billion yen” as our actual profits at present. Fluctuation in fuel cost has been so large, accordingly, fluctuation in wholesale electricity trading market price has also increased. To prepare natural disasters occurred frequently in recent years, we need to secure the profit steadily and continuously earn consolidated ordinary income of at least about 130 billion yen.

As for fiscal year 2024, we are expecting a positive element in which the impact of restart of Onagaza Nuclear Power Station Unit 2 and increased operations in high-efficiency Joetsu Thermal Power Station Unit 1 will contribute to profit, on the other hand, the competitive environment will become tougher. At present, there are so many unstable elements such as fuel costs trend that we decided to leave the prospect of financial results unchanged. As for the financial results in the next fiscal year and beyond, we cannot mention now, but we would like to make efforts to secure consolidated ordinary income of at least about 130 billion yen as its actual profit while considering various risks at management side. As a result, it may exceed the target, or not reach the target in case of rising fuel costs, etc. Based on the response experience after the Russian invasion of Ukraine, we would like to take measures to reduce the downside as much as possible through various risk hedges such as fixed exchange rate or utilization of future trading in fuel procurement.

Q2. At the end of President's presentation, he mentioned about improvement of financial strength, reduction of interest-bearing debt, and dividend increase. I think that the company needs to ensure positive free cash flow in order to realize the reduction in interest-bearing debt and dividend increase. I expect that the consolidated cash income may increase, on the other hand, investment will not decrease much in the future. Are you expecting that the company will be able to ensure a good free cash flow to realize both reduction in interest-bearing debt and dividend increase? Or are you considering the increase in dividend even if it exceeds free cash flow somewhat? I would like to have your explanation about the possible compatibility of reduction in interest-bearing

debt and dividend increase.

A2. As per 1H results, the expectation of cash flow of FY2023 at present is that cash flows from operating activities will significantly improve compared last fiscal year, on the other hand, cash flow from investment activities will increase compared to last fiscal year due to the completion of security measure works for Onagawa Nuclear Power Station Unit 2, etc. We expect that the financial results for the next fiscal year and beyond will settle down slightly due to the decrease in the costs for security measure works. As for the possibility of dividend increase, we would like to consider it by examining the balance among various stakeholders including investment in growth business, return of profit to customers, shareholders, and employees. For FY2022, we suspended previous dividend of 40-yen level, and for this fiscal year, we are expecting interim dividend 5 yen and year-end dividend 10 yen. For the prospect of dividend for the next fiscal year and beyond, we cannot mention at present, however, we would like to examine it by taking into consideration the overall situation of recovery of financial strength and income and expenditure.

Q3. You explained that the effect of income and expenditure improvement due to the restart of Onagawa Nuclear Power Station Unit 2 will be around 80 billion yen (40 billion yen in P/L) annually when calculating based on certain assumptions. Can I expect that profit level of actual profit from the next fiscal year onwards after the restart in May 2024 increase simply by that amount? Or should I be a little conservative in my prediction by taking into account of various risk factors? Please tell us the company's idea on profit.

A3. When calculating simply, the effect share of income and expenditure improvement will contribute to the increase in profit, however, there are various risk factors including intensifying competitive environment. The efforts such as streamlining of operations have also steadily having an effect, and there is a possibility that the benefit from the restart of Onagawa Nuclear Power Station Unit 2 can be turned into positive as it is, however, please understand the possibility of diminishing profit due to other risk factors.

Q4. You mentioned about a discussion on fierce competition. Please tell us its background. Are the events that new electric companies come in the region covered by Tohoku Electric Power Co., Inc. actually occurring? And, is there any concerns about contract renewal for next fiscal year?

A4. As for electricity rates of the company, we increased the rates in liberalized sector, then filed an application for increase in regulatory rates, and raised the rates starting this June. We recognize that new power companies temporarily stopped their actions by stopping accepting new applications due to the wholesale transaction market rates hikes and procurement prices hikes, but recently, the wholesale transaction market rates remain stable at a low level, and their movement is gaining momentum gradually. As far as it goes, market-linked plan is cheaper than traditional plan, a certain number of customers are leaving. New power companies provide customers with

electricity rate menu based on Tohoku Electric Power's rate levels, therefore, we think that the competition will intensify further if the wholesale electricity transaction market price stabilize in the coming fiscal year.

As for electricity rates for high voltage or above, the rates offered by the companies which run nuclear power station are cheaper, therefore, the rates are low in the west and high in the east. Tohoku Electric Power's electricity rates are relatively high, and actually, there is a reasonable rates difference. The customers including those operating nationwide compare electricity rates of the factories in Kyushu and those in Tohoku, and negotiate the rates, therefore, we expect further intensification of competition in the future, which we need to consider as a risk to some extent.

Q5. You mentioned that the company needs to return profits to various stakeholders, so I would like to ask you the return to customers. Is there a possibility of lower electricity rates uniformly as a customer return, or is it only to be applied on an individual basis?

A5. As for the return to customers, we acknowledge that some companies lowered electricity rates uniformly, but Tohoku Electric Power is considering to maintain current rates for the time being excluding the part to which the fluctuation of fuel price based on fuel cost adjustment system will be reflected. Because electricity rates vary depending on the use of electricity or load factor, we would like to offer individual customer service through suggestion of efficient use of electricity or flexible rate plan according to the actual conditions of use.

A6. At the end of September, a press conference was held, in which the President stated that the company will change the restart timing of Onagawa Nuclear Power Station Unit 2 from February 2024 to May of the same year, and commented that "it will a factor in deterioration of the balance of the payments by about 20 billion yen." Please explain about an impact on next year's income and expenditures again.

A6. As for the impact on income and expenditures due to the change of restarting of Onagawa Nuclear Power Station Unit 2, the financial forecast for this fiscal year published in July included fuel cost reduction effect of around several billions of yen as a result of estimates based on certain assumptions.

As for the impact on income and expenditures of FY2024, when assuming restart in around May in the same year and start commercial operation in around June, we expecting that there is a possibility that reduction effect of fuel cost for about two months will be lost compared to before the revision of the works completion date. Under certain assumption, the reduction effect of fuel cost is about 10 billion yen per month, therefore, we expect a possible loss of fuel cost reduction effect of 20 billion yen in 2 months.

Q7. At this time, you did not fix the forecast of financial results, but if a factor behind the upswing or downside is occurring in the details, please let us know.

A7. I understood that your question is as follows. Of the consolidated ordinary income of 200 billion yen as indicated in the financial forecast for the entire fiscal year, at the time of Q2, we already had consolidated ordinary income of 219.1 billion yen, so how do you project income and expenditures for the second half of the year?

We have three negative factors. The first is the fact that a number of substantial expenditure items come up in Q3 and Q4. Year-round outsourcing or repair work started in spring are often completed in the second half of the fiscal year. We have curtailed repair works for the past two years due to the deficit, therefore, in particular, this fiscal year we are proceeding with the repair works needed for maintaining stable supply. The acceptance inspection period for such works will be in the second half of the fiscal year, therefore, we expect lower income level in the period.

The second factor is the impact of time lag in fuel cost adjustment. In the first half of the fiscal year, it turned to a significant marginal gain due to the decline in fuel price since the second half of last fiscal year, on the other hand, in the second half of the fiscal year, certain differential losses are expected based on current fuel market conditions or future prospect.

The third factor is the fact that the costs associated with the restart of Onagawa Nuclear Power Station Unit 2 will be recorded in Q3 and Q4. As a factor specific to this fiscal year, there is a prospect that facility inspection and repair costs will increase compared to previous years, and many of those expenses will be recorded in the second half of this fiscal year.

Based on such factors, we decided to leave profits unchanged at consolidated ordinary income of 200 billion yen announced in July.

Q8. You mentioned that the work for the restart of Onagawa Nuclear Power Station Unit 2 is progressing smoothly, and there is a possibility of acceleration of completion time. I think it was a positive communication. Do you mean that you have some leeway in schedule, so if the work proceeds smoothly, the completion date can be accelerated? I would like a little more background on this.

A8. Among the security measure work for Onagawa Nuclear Power Station Unit 2, the work for pressure suspension chamber that has been critical is proceeding as originally planned, but for additional “work for fire protection of electrical conduit”, as a result of security-based scrutiny, we changed the completion time from November 2023 to February 2024.

The reason we mentioned about the possibility of acceleration of works is that we are working in two shifts to get it started as soon as possible, and the work is progressing well at this stage, therefore, there is a possibility of resuming operations ahead of published schedule depending on the work status of the site. We would like to continue to make effort toward completion of the work in February 2024 while placing the highest priority on ensuring safety.

Q9. You mentioned that “We are aiming for actual profit over 100 billion yen” in your explanation after the publication of Q1 financial results, but the president mentioned “actual profit of 130 billion

yen”. Generally speaking, 130 billion yen falls into the category of over 100 billion yen, but did you change the level of actual profit to aim for from 100 billion yen to 130 billion yen based on the first half results or the prospect for the future? Or is it a simply change of expression?

A9. There is no significant difference between over 100 billion yen and 130 billion yen. At the time of publishing Q1 results, we were in the process of negotiating rates increase with customers of high voltage or above, but at the time of Q2 results, we could see the whole picture of negotiation, therefore, we added slightly to our forecast.

Q10. I would like to ask you about the expansion of renewable energy in the future. I recognize that Tohoku Sustainable & Renewable Energy Co., Inc. plays the crucial role of renewable energy business, but in the future, in the course of expansion of renewable energy, do you have a basic plan to promote the business using funds and resources of corporate group, and align with other companies in a project as needed? Or do you have a plan to proceed with renewable energy business by investing external funds assuming a partnership with other companies to achieve a big target of 2 million kW? What is your concept and structure of the project?

A10. As for the initiative for renewable energy expansion in our corporate group, Tohoku Sustainable & Renewable Energy Co., Inc. (hereinafter called TOUSEC) and Renewable Energy Company of Tohoku Electric Power Inc. are promoting. As a division of roles, TOUSEC, focusing on hydroelectric power generation, is also responsible for a part of geothermal power station (Matsukawa Geothermal Power Station). As for other geothermal power generation, Tohoku Electric Power is responsible, but we are considering to shift it to TOUSEC in the future. As for wind power generation, TOUSEC has been in charge of it so far, but Tohoku Electric Power can make a quicker decision, therefore, we decided to shift it to Tohoku Electric Power. As for the alliance with other companies, we founded SPC (Special Purpose Company) by working with other companies on a case-by-case basis. So far, we often set alliance, but there are some 100% in-house only business in our plan. We have also been focusing expansion of renewable energy for achieving carbon neutral, however, we have been affected by recent material price hikes, and as for onshore wind power generation, there are significant opposition in some municipalities despite a favor of the project as a whole in the Northeast region. We need to keep a close watch on the opposition side. We believe that we are building a trust relationship with local community in our region, and based on such advantage, we would like to proceed with the project while explaining it well and offering consultation to gain local understanding.

Q11. What do you think of TSE’s request (PBR less than 1) as management? Other power companies explained the progress using one to three sheets, and presidents mentioned about it in their presentation in financial results briefing. No companies showed new management target, but at least they explained the progress along the way. I feel that Tohoku Electric Power Co., Ltd. also showed its awareness of the problem in its material by describing transition and prospect of PBR or ROIC as

“financial results related data” in the latter part of the explanation material, but you did not directly mention it. I think you can adjust what the company thinks and the perception of capital market by showing the progress of consideration in advance. Unlike in the past, companies need to communicate and engage with capital market in the stage they are discussing and considering in their companies. By making engagement in advance, companies can set the target corresponding to stock capital market, therefore, I would like you to disclose the progress of internal discussion in the future.

A11. We are fully aware of TSE’s request, and understand that you point out that the company should actively disclose and disseminate information on its response. Based on significant changes, etc. of income and expenditures due to Ukraine crisis, etc., we are now discussing medium to long-term financial target and strategy. However, we are in the middle of discussion, and do not have materials for detailed explanation, therefore, we omitted an explanation for that today. At present, we are under careful consideration of financial KPI to aim for including the reduction of capital cost, and finally improvement of corporate value, and expansion of EVA spread equity spread to make midterm to long-term improvements of significantly abandoned financial strength. As soon as our plan is finalized, we would like to have an opportunity to explain it. Please understand it.

Q12. As for equity capital, I would like you to build up it as your explanation, and I would like to see it return to the level before Ukraine crisis as soon as possible. On the other hand, TSE’ request put an importance on return-on-investment ratio, and “consolidated cash income” that Tohoku Electric Power Co., Ltd. set as a financial target does not line with the direction of TSE’s request. It is unavoidable to set it as a goal for time being, but as a goal after TSE’s request, you should put an importance on return-on-investment ratio or take an approach in terms of cash flow or shareholder return. If you are considering continuing to set consolidated cash income as a target, I would like you to consider changing it to the one responding to TSE’s request.

A12. We appreciate your valuable opinion. In order to response to you and TSE’s request, we will work diligently on it. A present, we are widely under consideration including the discussion if the target remains the same as the current consolidated cash income in the company. We think that ROE is one option among capital efficiency indicators, therefore, we will not rule out all of the points you raised, but will proceed with a broad discussion on what target would be best for us.