May 9, 2025
Tohoku Electric Power Co., Inc.

Questions and Answers at FY2024 Financial Results Briefing

Q1. Regarding Onagawa Unit 2, I'm sure that it has been operating stably since last year. However, the deadline for the installation of is approaching in December 2026, and I would like to ask about that point.

If I were to ask, "Is the construction of the Specified Severe Accident Management Facility progressing smoothly?" I assume the answer would naturally be "Yes, it is," so it's a difficult question to phrase. However, considering the significant delays in construction that occurred at Tokyo Electric Power Company Holdings' Kashiwazaki-Kariwa Nuclear Power Plant, I believe there are some concerns when looking at such cases in other companies.

I understand that you may not be able to comment on the specifics of the construction itself, but I would like to hear your view on how you perceive the risks from a management perspective—particularly in terms of financial performance from the fiscal year ending March 2028 onward.

A1. Regarding the status of the Specified Severe Accident Management Facility for Onagawa Unit 2, first of all, construction began as planned in January 2024. As for the "design and construction plan approval application" related to the Specified Severe Accident Management Facility, we submitted it in two parts, and the first application has already been approved.

The construction of the Specified Severe Accident Management Facility is required to be completed within a five-year grace period following the approval of the construction plan for the main facility. We intend to continue responding appropriately to the upcoming inspections and construction work to ensure completion by the installation deadline in late December 2026.

We are aware, through media reports and other sources, of the situation at Tokyo Electric Power Company Holdings' Kashiwazaki-Kariwa Nuclear Power Plant, which you mentioned. However, our company is proceeding on the premise that we will complete the construction properly by the deadline. That said, there have been comments suggesting that discussions may be held if the regulatory authorities request revisions, so we will continue to closely monitor the national policy direction and consider appropriate responses as necessary.

The installation deadline for the Specified Severe Accident Management Facility is not limited to Onagawa Unit 2; we also have upcoming projects for Higashidori Unit 1 and Onagawa Unit 3. From a long-term perspective, if such revisions were to be realized, we believe it would be a positive development for our company. On the other hand, prioritizing safety is, of course, critically important, and we intend to proceed steadily with that in mind.

Q2. Regarding the dividend forecast of 40 yen per share for the current fiscal year, I understand that this reflects a solid response, slightly exceeding a DOE (Dividend on Equity) level of 2%. As I understand it, the current policy is to make comprehensive decisions with DOE 2% as a benchmark. However, I would like you to once again explain your thinking on the future dividend policy.

The EPS guidance for this fiscal year is around 270 yen, and if this pace continues, I believe it is quite reasonable to expect a dividend increase of 4 to 5 yen in the next fiscal year. Even considering potential risk factors, such as a temporary suspension of Onagawa Unit 2, I would like to ask whether the company views a steady dividend increase based on DOE 2% as a manageable level of cash outflow from a management perspective.

A2. Regarding dividends, even as our financial base is still in the process of recovery, we have set a DOE (Dividend on Equity) benchmark of 2% with the intention of enhancing shareholder returns while maintaining a certain level of predictability in line with the pace of financial recovery.

For the current fiscal year, based on this DOE 2% benchmark and considering the progress made in strengthening our financial foundation, we have restored the annual dividend to 40 yen—the level prior to the Ukraine crisis. Through this, we hope to convey our commitment to meeting the expectations of capital market participants as much as possible.

Looking ahead, our policy remains unchanged: we aim to steadily accumulate profits and maintain dividends at a level aligned with the DOE 2% benchmark, while working toward achieving our fiscal 2026 financial target of an equity ratio of approximately 20%. Therefore, we ask for your understanding that our direction is to gradually increase dividend levels in tandem with the steady recovery of our financial base and profit growth.

As for the dividend policy beyond that point, we plan to deepen internal discussions based on factors such as the earnings outlook and the likelihood of achieving our targets for fiscal 2026, as well as the medium- to long-term business environment. We will announce our policy at an appropriate time.

Q3. Although fiscal year 2024 was a strong year in terms of performance, cash flow was slightly negative. Assuming that the current fiscal year proceeds at a steady pace, I estimate that operating cash flow will be in the mid- to upper-300 billion yen range. In this context, I would like to ask how you view the level of future investments.

Assuming that Onagawa Unit 2 continues to operate stably, will free cash flow remain sustainably positive? Please explain your outlook for future free cash flow.

A3. Regarding free cash flow, we ask for your understanding that, as in the past, we have only disclosed actual results and have not provided specific projections, including for the current fiscal year.

That said, to give a general sense of the direction for fiscal 2025: strategic investments and large-scale investments in grid infrastructure are expected to continue, and as a result, investment cash flow is projected to increase to a certain extent. Given this, we recognize that free cash flow may continue to be negative.

From a medium- to long-term perspective, we are currently at the peak of large-scale network investments, and construction of the Specified Severe Accident Management Facility for Onagawa Unit 2 is also ongoing. Therefore, we expect the situation to remain challenging for the time being. However, we anticipate that these major projects will peak within the next few years, and as capital expenditures begin to stabilize, we expect to see a path toward positive free cash flow in the future.

Q4. Do you envision the timing of free cash flow turning positive and the peak of capital expenditures to occur before fiscal year 2030?

A4. While it is difficult to specify exactly when this will occur, we aim to bring free cash flow into positive territory as early as possible. With that in mind, we will continue to pursue initiatives that are aligned with our financial targets, including carefully selecting and prioritizing capital investments.

Q5. I understand that a temporary discount for electricity rates (hereinafter referred to as the "Thanks Discount") was implemented this winter in conjunction with the restart of the Onagawa nuclear power plant. Since no new pricing measures have been announced since then, is it reasonable to interpret that, while it may not amount to a price increase, the company is currently securing solid profits?

A5. To begin with, regarding the "Thanks Discount" implemented this year, although it did involve a certain level of cost on our part, we approached it with the expectation that more low-voltage customers would shift from regulated to deregulated pricing plans. As a result, combined with the synergistic effect of the "Now is the best time to change a rate plan" campaign, we recognize that this initiative has yielded a certain degree of success in promoting the transition to deregulated plans.

Next, with regard to electricity rate reductions, our basic stance is that the business environment surrounding our company is becoming increasingly uncertain. Rising prices and inflation are contributing to higher costs, and under these circumstances, we believe it is difficult to implement across-the-board rate reductions at this time.

On the other hand, for customers on high-voltage or higher plans, our rates are relatively high compared to other regions, and competition is intensifying. Therefore, we believe it is extremely important to offer timely pricing plans that are not solely based on price but are also tailored to the increasingly diverse needs of our customers.

For example, offering market-linked pricing plans or contracts that leverage the value of renewable energy in ways that provide tangible benefits to customers will be key to success. We aim to move quickly in exploring such options and make proposals that align with customer needs in order to minimize customer attrition.

This may be looking a bit ahead, but we recognize that, going forward, a certain decline in profit margins may be unavoidable. Since profit is calculated as margin multiplied by volume (kWh), we intend to focus on increasing the volume side. From this perspective, we are planning to actively expand our sales efforts not only to recapture demand within our service area but also to reach out to areas outside our region.

Additionally, with regard to data centers, the Tohoku region has been lagging behind, so we plan to strengthen our sales efforts and work toward expanding into out-of-region areas where demand growth is expected.

Q6. I would like to ask about your approach to investing in renewable energy projects. You has recently won several offshore wind power bids, but we recognize that not only offshore wind, but the renewable energy sector as a whole is currently facing challenges in securing investment profitability. In light of this, I would like to confirm whether you intend to continue pushing forward aggressively, or whether you plan to make appropriate decisions while maintaining investment discipline.

A6. With regard to our renewable energy business, we are currently working toward an installation target of over 2 million kW. As of the end of March 2025, if all the development projects in which we are involved are successfully commercialized, our equity-based output would amount to approximately 850,000 kW.

As you pointed out, the situation has become increasingly challenging due to factors such as the recent surge in material costs. However, for the projects currently underway, each participating business entity is leveraging its accumulated experience and expertise to collectively reduce development costs.

Taking these efforts into account, we intend to continue addressing these challenges by striving to reduce both costs and risks, while working to improve profitability.

As of now, we are involved in three offshore wind power projects, and we understand that all of them are progressing according to plan.

Q7. Earlier, in response to the question regarding electricity rates, it was mentioned that a “decline in profit margins is unavoidable.” I would like to confirm whether this point is fully reflected in the ¥35 billion decrease shown in the “Changes in the market and sales environment” section of the ladder chart on page 17 of the Financial Forecasts for FY2025 (2/2) in the financial results presentation materials. Or are there other negative factors contributing to this figure as well?

In addition, I understand that while you aim to secure electricity sales volume both within and outside its service area, it also anticipates some erosion of profit margins due to competition. With that in mind, I would like to ask how KPIs are being set for future sales activities. In other words, I would like to understand your approach to sales management—specifically, how you determine the acceptable level of discounting and at what price point it is appropriate to acquire customers.

A7. The 35 billion yen decrease under “Changes in the market and sales environment” includes, of course, an assessment based on certain assumptions regarding the current intensification of competition with other companies. However, it also reflects various other factors, such as the decline in capacity market prices from FY2024 to FY2025. We would like you to understand that this amount includes not only the sales environment but also the impact of the power market system.

Regarding our basic approach to customer engagement, we aim to avoid excessive price competition as much as possible. We do not intend to match competitors’ pricing levels across the board, and we recognize that a certain level of customer attrition is, to some extent, unavoidable.

That said, since each customer has different circumstances, our sales teams engage directly with customers to understand their needs and preferences. We then provide customized proposals, including the additional services that offer tangible benefits to the customer.

Naturally, our sales activities are based on a clear understanding of procurement costs, and we proceed on the premise of securing a certain level of margin.

Q8. I would like to ask for your general view and current understanding of the Long-Term Decarbonization Power Source Auction. While I understand that you may not be able to comment on specific power sources, I would appreciate your thoughts in general terms.

Several companies have successfully bid in this auction using nuclear power, including costs for safety work at existing plants, as a means to recover fixed costs. From your perspective, what are the advantages and disadvantages of utilizing this scheme for nuclear power projects?

Do you consider the current framework sufficient for recovering the fixed costs associated with nuclear power operations? Or, given that the return levels may not be particularly high and that 90% of profits from other markets must be returned under the scheme, do you view it as relatively unattractive and in need of further enhancement?

A8. With regard to the Long-Term Decarbonization Power Source Auction itself, we recognize that there are both advantages and disadvantages.

The greatest advantage is the increased predictability of investment recovery for power sources. Given that the investment recovery period for nuclear power is particularly long, this perspective is extremely important. In that sense, we believe that there is a certain degree of value in utilizing this mechanism.

On the other hand, the current system also has its drawbacks. For example, even if electricity market prices surge, only about 10% of the additional revenue from other markets can be retained by the company. Furthermore, if unexpected cost increases occur after winning a bid, those additional costs cannot be recovered.

This issues have also been raised in the context of offshore wind public tenders. When there are significant changes in circumstances—such as a sharp rise in prices or material costs after a bid has been awarded—it raises the question of whether adjustments can be made to reflect those changes. Additionally, interest burdens during the construction phase can be quite substantial. It appears that the government is also considering how financing should be structured. Therefore, we intend to closely monitor future developments in system revisions and carefully assess whether the scheme can be applied to individual plants.

Q9. This may be a difficult question to answer, and I understand if you prefer to refrain from commenting. However, I would like to hear your general view on the current developments surrounding the potential restart of Tokyo Electric Power Company Holdings' Kashiwazaki-Kariwa Nuclear Power Plant.

From an external perspective, the plant is located in Niigata Prefecture, which falls within your franchise area. While Units 6 and 7 may not be directly related to you, Unit 1 is a shared power supply. By taking steps that would contribute to the restart, I feel that there is still some room for negotiation to enjoy benefits from Units 6 and 7.

Given the challenges Tokyo Electric Power Company Holdings is facing in its relationship with Niigata Prefecture, is there any possibility that your company could receive some form of consideration or benefit in return? Any insights you can share—within the limits of what is possible—would be appreciated.

A9. To begin with the conclusion, our company is not in a position to comment on the situation regarding Tokyo Electric Power Company Holdings' Kashiwazaki-Kariwa Nuclear Power Plant. However, since Niigata Prefecture is naturally part of our service area, it is true that we are observing developments at the plant with a certain level of interest.

For the local community, the most important concern is undoubtedly “safety and peace of mind.” We sincerely hope that the plant will be restarted after thorough safety measures have been implemented. From an “All-Japan” perspective, considering the current energy landscape, we believe that the restart of nuclear power plants in various regions is extremely important. In that sense, we hope that the restart of the Kashiwazaki-Kariwa Nuclear Power Plant will proceed smoothly.

Regarding the concept of a wide-area power source (Unit 1), we would like to clarify that Unit 1 and Units 6 and 7—which are being prioritized for restart—are fundamentally separate facilities. Our involvement is limited to Unit 1, in which we participated in development. Therefore, discussions related to Unit 1 should be treated independently, and we ask for your understanding that we are not directly involved in the other units.

Q10. The transition of the PBR and PER over the past five years is shown on page 41 of the financial results presentation materials. As of the end of fiscal year 2024, the PBR is at its lowest level. Additionally, the PER stands at approximately 3 times, which is significantly lower than the TOPIX average of around 13 times.

While I believe the equity ratio should continue to be strengthened going forward, it is inevitable that ROE will gradually decline from the current level of around 13%. However, I would like to ask whether the company intends to leave the declining PBR over the past year unaddressed, or whether there are any plans to take action with the stock price in mind.

Although page 33 outlines the main initiatives under “Our Management For Capital Cost and Stock Price,” the financial targets and KPIs have not changed since last year. This lack of change gives the impression of limited growth potential. Therefore, I feel that even if discussions are held on initiatives for the new fiscal year under the current financial targets and KPIs, it is unlikely to lead to improved market evaluation.

I would like to hear the new president’s view on the current situation where the PBR is below 1.0.

A10. Regarding the current situation where the PBR is significantly below 1.0, we recognize this as a major issue. In that sense, we are committed to helping capital market participants better understand our company and working to raise our PBR.

We appreciate the candid feedback that our current financial targets and KPIs lack a sense of growth. However, since we have set financial targets for fiscal years 2026 and 2030, we believe it is important to first steadily achieve the three financial targets for FY2026. By doing so and reaching an ROIC of 3.5%, we expect to achieve an ROE of around 8%. Therefore, we recognize the importance of first laying a solid foundation toward that goal.

While we continue to work on restoring our financial base, we also focus on expanding profits and improving capital efficiency. A key point will be how we can improve our PER, which currently lags significantly behind the average of Prime Market-listed companies. As stated on page 33, we recognize the need to strengthen engagement with capital market participants and to build a strong sense of trust and understanding. As explained at the beginning along with our financial targets, we aim to steadily enhance shareholder returns in line with the recovery of our financial base, with a DOE of 2% as a benchmark.

Going forward, we will focus on firmly establishing our foundation through the initiatives outlined on page 33. Based on the results we achieve by FY2026, we will then consider revising our KPIs accordingly.

Q11. At this point, I believe the previous response represents the best that can be offered under the current circumstances. The idea of strengthening the foundation by increasing equity capital and growing dividends in line with DOE certainly sounds reasonable. As I mentioned earlier, I understand that a decline in ROE may be inevitable. However, when I see that the ROIC for FY2024 is 4.8%, FY2025 is projected at 3.6%, and the FY2026 target is 3.5%, I honestly don’t feel even the slightest sense of growth. If this is being presented as “growth,” then I believe there may be a fundamental misunderstanding of what the term “growth” actually means.

The consolidated ordinary income forecast for FY2025 is 190 billion yen on a real basis. On page 17 of the financial results presentation, various changes are noted, such as “Higher interest expenses” and “Price hikes.” I would like to clarify whether this 190 billion yen figure is a conservative, must-achieve target that the company is determined not to fall below—essentially a baseline from which any upside will be considered later—or whether it is a number based on a probabilistic assumption, such as "there is a 60% chance that these negative factors will materialize," and the company genuinely expects that outcome. Please explain the assumptions behind this forecast.

A11. As noted on page 17, the factors affecting consolidated ordinary income for FY2025 are outlined there. To address your question directly, we believe that securing a level of around 190 billion yen is the minimum necessary to achieve our financial targets. Amid rising funding needs for capital investments, including strategic investments, we recognize this level as the baseline required to ensure positive free cash flow while pursuing growth and improving our financial position. Therefore, the 190 billion yen figure has been set with various risks taken into account.

Looking ahead to FY2030, we have set a financial target of achieving consolidated ordinary income of over 200 billion yen. To reach this goal, we intend to take on new challenges aimed at expanding revenue and enhancing profitability, thereby building further momentum.

Q12. I would like to ask about the profitability of the transmission and distribution business. According to page 21 of the financial results presentation, the ROIC for this segment was 1.3%, and while I appreciate the disclosure itself, the segment information in the FY2024 earnings report shows that out of the total consolidated investment of approximately 380 billion yen, about 180 billion yen—nearly half—was allocated to the transmission and distribution business.

Looking ahead, I expect the ROIC to come in slightly below the 1.3% recorded in FY2024. In any case, the reality is that nearly half of the total investment is being directed toward a business with an ROIC in the 1% range. Depreciation expenses are just under 100 billion yen, so if profits are in the range of 10 to 20 billion yen, the free cash flow of this business alone would be in the red by 60 to 70 billion yen. While I understand that regulatory constraints may make this area something of a "sacred cow," from a purely financial perspective at the consolidated level, it seems to be a significant drag on performance.

I ask this question with an understanding of the regulatory environment, but is there really no way to improve this situation? While I recognize that it may be difficult to reduce investment cash flow in the transmission and distribution business, I would like to hear your thoughts on efforts to improve free cash flow—such as lobbying the government, possibly in coordination with other former general power utilities, in order to enhance profitability in this segment.

A12. We fully recognize the concerns you've raised, and they align with the issues our group is also aware of. The recent surge in network-side investment is largely due to the peak construction phase of the second interconnection line between Tokyo and Tohoku area. This project has had a significant impact on our capital expenditures. However, we do not expect the current level of capital investment to continue indefinitely, as large-scale grid construction projects are expected to taper off in the coming years. That said, inflationary pressures—particularly rising labor and material costs—are increasingly affecting the network segment as well.

The revenue cap system is based on a five-year business plan, and Tohoku Electric Power Network is operating in accordance with that plan. However, actual demand has not grown as expected, inflation has had a greater-than-anticipated impact, and additional costs have arisen in the demand and supply balancing market. These factors have all contributed to downward pressure on profits.

Regarding the demand and supply balancing market, some improvements have been made to the system. In terms of increasing electricity volume, we are actively working on initiatives such as attracting data centers. These efforts are expected to increase wheeling revenues not only for Tohoku Electric Power but also for Tohoku Electric Power Network, and our group is committed to pursuing them.

Lastly, with regard to inflation adjustments, discussions are currently underway in the government's expert panel on electricity pricing systems. Our group is closely monitoring these discussions with the hope that revisions—including to the rate of return on capital—will be realized during the second regulatory period. Ideally, we would appreciate if inflationary impacts could be addressed even within the first regulatory period. This is not an issue unique to us, but rather a challenge faced by the entire industry. Therefore, we intend to continue advocating for early improvements.

Q13. On page 16 of the financial results presentation, there is a section outlining the assumptions underlying the earnings forecast. I would like to ask specifically about the outlook for electricity sales volume. For FY2025, the total electricity sales volume is projected to remain roughly flat, with an increase in retail sales and a decrease in wholesale sales. Could you explain the rationale and assumptions behind these respective forecasts?

While I believe competition has become somewhat more intense compared to before, there was also a comment earlier suggesting that "we are willing to accept a slight decline in margins in order to secure volume." Does this imply that, from a sales strategy perspective, the increase in retail sales is being driven by a deliberate effort to gain market share even at the expense of margins? Or is it more about expanding sales by capturing demand outside the traditional service area?

As for wholesale, given that the stable operation of the Onagawa plant will enhance supply capacity, I would have expected to see a greater increase. Could you provide some clarification on this point?

A13. Your understanding is essentially correct and aligns closely with our own. While the total electricity sales volume is expected to remain largely flat, we do anticipate some customer attrition in the retail segment—particularly among high-voltage and corporate customers—due to increasingly intense competition. In response to this competitive environment, we are working to increase kWh sales both within and outside our service area, with the aim of exceeding the FY2024 sales volume.

Regarding your point about the stable operation of the Onagawa plant and the resulting surplus in supply capacity, you are absolutely right. However, at this stage, the second interconnection line has not yet been completed, so there are still transmission constraints when it comes to supplying electricity to the Tokyo area. Taking these circumstances into account, our current outlook is that the overall result will be roughly in line with FY2024 levels.

Q14. This is a rather detailed point, but I would like to confirm the graph and figures related to the "Impact of Time Lag between Fuel Cost and Fuel Cost Adjustment Charges" shown on page 5 of the financial results presentation.

The FY2024 financial results materials indicate a positive impact of 22 billion yen, while the Q3 results materials show a positive impact of 10 billion yen. Based on this, I understand that there was a 12 billion yen positive impact in Q4 alone. However, this doesn't seem to align with the image shown in the graph. Looking only at the January–March period, January appears to show a loss, and March a gain, which gives the impression that the overall impact was nearly neutral.

Could you please explain again how the time lag impact should be interpreted?

The reason I'm asking about this in such detail is because I'm concerned that overestimating the positive impact of the time lag may lead to an underestimation of the company's actual underlying profit for FY2024.

A14. Regarding the situation in the fourth quarter, while revenue was largely fixed, the reduction in fuel costs had a significant impact on the actual time lag balance. There may have been some issues with how the graph was presented, but the substantial drop in fuel costs during Q4 resulted in the time lag effect as shown. We would appreciate your understanding that this is the basis for the figures presented.