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December 16, 2025

Tohoku Electric Power Co., Inc.

Main Q&A at the FY2025 Sustainability Meeting

Date and Time: December 3, 2025 (Wednesday) 3:00 PM - 4:40 PM

Attendees: Representative Director & Executive Vice President in charge of Sustainability　Hiroki Nikaido

Outside Director　Mikito Nagai

Outside Director　Keiko Uehara

Q1. I would like to ask about investments related to carbon neutrality. Regarding investments, I recognize the issues of business profitability in an inflationary environment and the difficulty of managing cash flow. In the pursuit of carbon neutrality goals, are you shifting your focus toward profitability – such as screening investments – related to the development of renewable energy sources and decarbonization of thermal power? Also, if a certain level of profitability can be expected through institutional measures like long-term decarbonization power auctions, do you intend to implement such measures? I would like to hear your thoughts on this.

A1. (Nikaido) As strategic investments including those related to carbon neutrality, we are setting over 100 billion yen for the development of renewable energy, around 100 billion yen for decarbonization of thermal power, and several hundred billion yen for the development of new services and strengthening of DX infrastructure. In any of these investments, the basic idea is to form a virtuous cycle of 'profit, investment, and growth'. As you mentioned, we are making these investments while keeping in mind the impact of inflation on profitability.

Regarding renewable energy investments, we are striving to reduce development costs through careful examination of design, material procurement, and construction methods. At present, we have no intention to withdraw from the offshore wind power project at three sites. However, we are facing a challenging situation regarding the recovery of fixed costs including investments in decarbonization of thermal power. We intend to constantly evaluate the use of systems like long-term decarbonization power auctions to maintain profitability.

Q2. I would like to ask about achieving the CO_2 halving target for 2030 on slide 9. The effect of utilizing renewable energy sources, which previously ranged from 2 to 8 million tons of CO_2, has now become 4 to 5 million tons of CO_2, and I understand that the accuracy has improved. On the other hand, the effect of the restart of Onagawa Unit 2 was 1.4 million tons of CO_2 during the previous fiscal year, which saw only a short-term operation, so the resulting effect is expected to be over1.6 million tons of CO_2. Furthermore, biomass, ammonia, and CCS are considered more long-term efforts, so it might be difficult to expect CO_2 reduction effects by 2030. Additionally, considering the growth in electricity demand for data centers explained at the interim financial results briefing, I think this will be the highest hurdle to achieving 25.2 million tons of CO_2 by fiscal year 2030.

Regarding the carbon neutrality target, do you have any thoughts on revising the target level or changing to a unit target? Please explain.

A2. (Nikaido) First, regarding the effect of the restart of the Onagawa Unit 2, we estimate the resulting CO_2 reduction effect to be 3 million tons of CO_2 annually, and we estimate we can achieve an additional 1.6 million tons of CO_2 on top of the 1.4 million tons of CO_2 in fiscal year 2024. That is the intent shown in the diagram on slide 9.

Regarding hydrogen, ammonia, and CCS, while technically complete, they face significant challenges in terms of profitability, and we consider they are influenced by the national institutional measures.

Currently, we are aiming to achieve the target by combining various measures, and at this point, we have no intention to change the target.

Q3. I understand that free cash flow will continue to be negative due to investments in the transmission and distribution business and other areas until around 2027. If investments continue for the restart of Higashidori Unit 1 and Onagawa Unit 3, won't cash flow remain tight for the time being?

Hokkaido Electric Power and JERA have shown long-term capital allocation for the next 10 years. Even with some uncertainty, I believe showing it can reassure us investors. Have you considered that approach?

A3. (Nikaido) For the time being, due to the construction of Specific Severe Accident Response Facilities (hereinafter referred to as 'SA Facility') for Onagawa Unit 2, the construction of Higashi-Niigata Unit 6, and large-scale grid network investments, a situation where investments exceed operating cash flow is unavoidable, but we consider it a time for investment.

On the other hand, regarding Higashidori Unit 1, we are carefully examining the process based on the status of site development and other factors, and we plan to announce the outlook in spring 2027. And as for Onagawa Unit 3, geological surveys are being conducted for about two years starting this January for the application for conformity assessment with new regulatory standards. Therefore, it is difficult to specify the timing of specific investments.

Q4. The concept of Just Transition was also discussed at COP30, underscoring the growing emphasis on providing support for people affected by the transition to carbon neutrality. I think it would be good to firmly promote what your company is doing on that aspect.

The discontinuation of the Niigata Thermal Power Station Unit 5 means the decommissioning of the power station as a site, which will likely have a significant impact on employees, partner companies, and the regional economy as well. Can you explain if a story for a Just Transition has been drawn? Also, please disclose the progress of the Just Transition.

A4. (Nikaido) Not limited to the Niigata Unit 5, it would be good if a scenario could be drawn to switch aging equipment to successor businesses like renewable energy sources, but there are also issues such as development costs, so it is not necessarily easy. Furthermore, when it comes to coal-fired power, the impact on those engaged in port labor also becomes significant. We want to communicate with the local residents while fully recognizing the impact, mainly on employment.

Q5. We are focusing on the use of agricultural-derived carbon credits on slide 6. I think it will become a source of revenue for the region and lead to better natural capital in the region. What scale are you considering for this initiative, and do you plan to incorporate it into the 2030 CO2 halving target or the 2050 carbon neutrality achievement? Please tell us what you are thinking at this stage.

A5. (Nikaido) Although it is not on the scale of tens of thousands of tons, agriculture is thriving in the Tohoku and Niigata, and we have begun working to reduce environmental impact through agriculture and monetization through it. We have just started, and we want to proceed while observing the rising momentum in the region.

Q6. I am reassured that, following last year, opportunities for dialogue on sustainability have been provided, and not only for equity investors but also for bond investors to have dialogue opportunities with outside directors.

I believe that maximizing the use of nuclear power is essential for advancing carbon neutrality, and the request for a three-year extension of the SA Facility installation deadline is an important footprint. Please tell us what discussions took place in the board of directors regarding this matter.

A6. (Nikaido) This request was made by ATENA (Atomic Energy Association) to the Nuclear Regulation Authority, but based on the 'Declaration for Securing Proper Construction Periods' by the Japan Federation of Construction Contractors, we explained that under the assumption of very strict labor conditions, an extension of up to about three years might be necessary. Our company, as a member of ATENA, would like to respond while cooperating appropriately.

In the board of directors, we have reported on the benefits of fuel costs if the installation deadline is extended by three years.

(Uehara) There have been discussions about the difficulties in securing construction capabilities, and under such circumstances, it might be difficult to meet the current installation deadline, and the impact in the event of construction suspension was shared as a risk in the board of directors. I would like to supplement the above points as an outside director.

Q7. In the past 2-3 years, especially around last year, more companies are publishing analyses of the relationship between non-financial indicators and financial indicators in their integrated reports. In such companies, correlation analysis, causal inference, and other methods are often used to argue that indicators like employee satisfaction and the ratio of female managers contribute to improvements in the company's PBR and ROE, using logic trees and other tools.

Please explain the current status of quantitative analysis of human resource strategies, such as how employee engagement scores, learning time, and diversity KPIs affect finances. Regarding employee engagement scores, when viewed at the micro level, such as individual employees and workplace units, the results show that employees with higher engagement tend to have better sales and other performance. In finance and other areas, there are cases where the impact on finances is shown from such micro-level proportional relationships, and I hope your company will also try this.

A7. (Nikaido) Comprehending how human resource strategies ultimately affect the company’s finances is a challenging issue, but we are aware that there is high interest from the capital markets.

Currently, we are observing changes over time with the question 'Would you recommend this company as a great company to acquaintances?' in employee engagement surveys, and from the factor analysis of scores, we are identifying issues such as career development, work-life balance, and organizational culture, as shown on slide 17, and are working on addressing them. Internally, we are analyzing engagement scores by department and looking at the relationship between job content, working hours, and engagement scores, but we would like to consider further micro-level analysis in the future. We consider that comprehending the impact of human capital KPIs, including the ratio of female managers, on the company’s finances as the next stage we should follow.

Q8. Regarding the trend of employee engagement scores, I think there are various initiatives besides those on slide 17 that contribute to the steady increase in scores each year. If there are any you can introduce, please let us know.

A8. (Nikaido) It would work both positively and negatively, but I believe the impact of workplace communication is significant. In workplaces where harassment occurs, engagement drops sharply, but when management changes, scores tend to rise, so we want to work with a clear understanding that compliance affects engagement scores. Additionally, we want to work on improving scores by combining award systems, such as the president's award system.

Q9. I would like to ask the outside directors. Your company's PBR is 0.5 times, and PER is 3 times, which is one-fifth of the average PER of TOPIX. What kind of discussions are taking place in the board meetings regarding this reality? For example, it is symbolic that the executive compensation listed on slide 20 is linked to ordinary profit, but it should ideally be linked to ROE, or at least ROIC. If aiming for ordinary profit, attention may not be directed to ROE, ROIC, or PBR.

If the current stock price is properly discussed in the board meetings, there should be an increasing awareness whether it's acceptable to spend so much money on decarbonization or on money-guzzling transmission and distribution business. One answer could be that there is nothing we can do because it's the government's policy, but from the perspective of outside directors from private companies, you may have questions about the business. I would like to know about the discussions in the board of directors.

A9. (Nagai) In April last year, we launched 'Work Alongside next+PLUS'. There are two major changes from the previous 'Work Alongside next'. One is to focus on the electricity business as a professional in power, adding more value and demonstrating competitiveness to increase revenue. This also reflects the determination to compete as a professional in the electricity business amid limited resources and funds. The other one is the adoption of the phrase 'a virtuous cycle of profit, investment, and growth'. It is unusual for our company to explicitly state 'profit' in our management policy, but first and foremost, we aim to increase 'profit'. Then, while considering matters such as cash allocation, power source portfolio, and equipment ownership, we have been discussing actively investing to bring about a cycle of growth, including the environment, society, regions, and competition.

When considering 'profit', we must first tackle the sales matter. Then there are matters of rising prices and a shortage of personnel, which particularly affect the transmission and distribution business. The challenges in sales and transmission and distribution are reflected in the interim financial results, and I must admit that we were unable to provide an adequate response over the past year. We have pointed out to the executive side that the pursuit of adding value to the electricity business as a professional in power and its concrete development are still insufficient. Additionally, we have asked to establish a separate forum for discussion apart from the board of directors, where we are discussing issues such as the shortage of personnel and sales, including potential solutions. Including grid network, investments in the electricity business are large in amount, and face rising prices and interest rates over long investment payback periods. We have also been discussing the need to address issues such as escalation in the Revenue Cap System and business remuneration rates from the perspective of group management as the parent company.

Regarding PBR, the executive side says that the issue is with PER, meaning that the capital market does not fully understand the future potential, but fundamentally, it is a matter of weak profitability, and we need the means to pursue and execution capability to add value to the electricity business. While addressing that, we must further concretize the future business story, forecast medium- to long-term cash flows, and continue efforts to have the capital market understand them. We are repeatedly discussing in the board meetings, including harsh opinions, the current situation of PBR falling below 1, future growth stories, and dividends. I feel the responsibility as a director and understand the opinions of the capital market, so I want to steer things in a positive direction.

(Uehara) From an outside perspective, the scale and duration of investments by power companies are beyond imagination, with projects worth hundreds of billions of yen and lasting 50 years not being unusual. I feel there is also the difficulty of securing a appropriate level of investment returns in such circumstances. I think there are also struggles due to the slump in market prices, but in terms of sales, the sense of speed is significantly lacking compared to competitors. Then there's the issue of personnel. Unless we streamline operations with DX and allocate human resources to areas that generate revenue, including sales, it won't lead to speeding up.

The business of electricity sales with added value means selling comprehensively, including technical aspects. Although it is a business model where investment pay-off is not as easy as other ordinary business, I believe that unless sales efforts increase immediate revenue, it will not lead to appreciation from the capital market.

Q10. I would like to ask the outside directors how they view the business portfolio. In an era when it was a regional monopoly and regulated industry, it might have been viable as a business, but in the actual situation, there has been equal treatment principle between power generation and sales market, where the internal supply chain is effectively broken, and there is a lack of communication between the company and its transmission and distribution business, despite being subsidiaries, due to the known conduct regulations, I am wondering if it is really appropriate to do all the businesses by a single company amid such regulatory segmentation. I think it's quite different from ordinary business, but I would like to know the discussions in the board of directors, including your personal views.

A10. (Nagai) I would like to share what I feel. As I mentioned earlier, when we transitioned from 'Work Alongside next' to 'Work Alongside next+PLUS,' we focused our business portfolio on the electricity business. Regarding the coordination of generation, sales, and transmission and distribution, while an ordinary company would consider synergy, due to legal unbundling and equal treatment principle, our field staff seems to be really struggling, but I also think there might be an appropriate way of coordination while complying with regulations.

We have received opinions from the capital market to separate the transmission and distribution business, which is difficult to generate cash and requires significant capital investment, but I also wonder if separating it from power companies and consolidating it on a national scale is truly beneficial for the national economy. That said, as a private company, we cannot create a transmission network with no prospect of profitability. Also, regarding the ownership of power sources, I am expressing the opinion that necessary discussions should be held whether we own them ourselves, have financiers own them and borrow, do it with someone else, or undertake operations. I am also expressing that if the environment changes, the system and regulations should be reviewed, and as a company, we should not shy away from discussions.

The electricity business is difficult to understand, and we cannot remain amateurs, so we have study sessions, but the more we study, the more we feel it's inevitable. In terms of maintaining an outside perspective, I sometimes think it might be better for outside directors to remain half-amateurs as we engage in our work.

(Uehara) When I became an outside director of Tohoku Electric Power, I had the impression that having over 70 subsidiaries was a lot. Moreover, the corporatestrategy divisionoversees all of them, and I thought this might be impossible. Now, the subsidiaries have been somewhat streamlined, and management has become business-specific, focusing on the electricity business.

Regarding the company's transmission and distribution business, it is the pathway for electricity and can be considered public infrastructure like highways, and when considering the business model, I personally believe it is an issue that should be discussed as a company group and considered on a national level.

In related areas, such as the general facilities engineering business, securing construction capacity is extremely challenging due to a nationwide labor shortage, so I believe there is no need to let it go, but rather it should be utilized.

There is a very strong vertical division between generation and sales, and I have the impression that the technology we have is not yet fully utilized. I think if we could combine each technology horizontally, we could provide high-value-added services to the region, but so far, we haven't been able to do that. We share this understanding of the issues with the executive side as well.

Q11. In the previous answer, there was mention of how to hold equipment and the separation of ownership and operation. While I think it's very effective as a measure to improve capital efficiency, given the tendency of power companies to own assets, it might be difficult to take such actions. I would like to know the reaction of the executive side.

Also, when considering the relationship with the government, it may be because it has become difficult for power companies to actively communicate since the earthquake, but the opinions from power companies tend to focus more on the specifics of the regulations rather than a high level perspective, and they seem to easily fall into institutional arguments based on the premise of maintaining their electric value chain in each region. With so much liberalization and significant changes in the financial situation of power companies, I think it would be reasonable to discuss alliances and reorganizations without taboos, but such discussions tend to progress more slowly compared to other industries. I would like to know how you, as an outside director, view such a situation.

A11. (Nagai) Regarding the first point on how to hold equipment, furthermore, to achieve off-balance-sheet treatment or attract financiers, I think there is also the matter of the attractiveness of the investment itself. Wind power generation, for example, should ideally have profitability that attracts financiers through project finance, but with soaring material costs and the future pricing being completely unpredictable, it's difficult to write a feasibility study (FS). If we are to proceed nonetheless, I believe we should always consider how to hold equipment and discuss the roles of the public and private sectors in various scenarios. There is public support, such as long-term decarbonization power auctions, that makes it easier to draw future FS, but due to low profitability and long investment payback periods, this alone does not secure financing.

Also, even if we say 'make money through operations', it wouldn't be any business unless sufficient value is recognized in the operations. If we do not expect revenue from assets, we should not own them, and the human resources we should have will change from when we actually own them. I think we need to study various cases regarding how to hold equipment, and I believe the executive side is also acknowledging this.

Regarding the second point on the relationship with the government, I agree that only requesting specifics of the regulations will not achieve overall consistency. However, since the 3.11 Great East Japan Earthquake, it has been extremely difficult to draw the overall picture, and I am not sure who is in a position to do so. Regarding these points, I would also like the capital market participants, including analysts, to speak up more and help deepen the discussions.

Q12. On slide 20, it is mentioned that the effectiveness of the board of directors is evaluated through a survey. Director Nagai has been serving as an outside director since 2021, and Director Uehara since 2022. Could you tell us how the effectiveness has been improved?

A12. (Nagai) We have set aside time for discussions on how to improve based on the survey. For example, the secretariat is working towards improvements, including our opinions that the board meeting materials are numerous or difficult to understand. Additionally, at the beginning of each fiscal year, we schedule themes we want to discuss over the year, with input from us outside directors as well as proposals from the company. Furthermore, as our on-site visit, discussions with junior employees are actively arranged, allowing us to firsthand listen to their views and thoughts about, for example, the difficulties in coordination between sales and power distribution on the front lines.

As the board members may also change, new perspectives on improvement points emerge each year, and we see harsh opinions from outside directors and responses from the executive side in the board meetings and pre-meeting explanations. The situation has become completely different from the outdated board meetings. That said, unless results like PBR are evident, we cannot confidently say that effectiveness has improved, so we may need to say, we should keep working harder.

(Uehara) Even if a resolution is proposed, it would be sent back for reconsideration, if the board discussion concludes that it is not viable, which is really the case. Also, when the problem arose about the customer information handling practices within the group, I suggested strengthening the compliance lines, and the internal control organization was promptly arranged, although we are halfway due to the Higashidori issue. It seems that the opinions of outside directors are being acknowledged and properly addressed.