

Q&A at Investor Meeting for FY2023-2Q Financial Results

(April 1 through September 30, 2022)

Supply/Demand Balance after Misumi Thermal Power Station Unit 2 (Misumi Unit 2) Starts Operation

Q. I understand that the newly established a market price adjustment charges following a revision of standard electricity rates for high voltage and extra high voltage plans cover only fluctuations in renewable energy purchase costs based on the FIT system (feed-in tariff system for renewable energy). However, after Misumi Unit 2 starts operation, there will be excess supply capacity, so is it sufficient to hedge only the FIT portion of the risk related to market procurement?

A. We believe that the ratio of market procurement can be reduced by strengthening supply capacity through the operation of Misumi Unit 2. We expect a reduction in the risk of market price fluctuations, although this will be affected by future trends in the market and supply/demand.

Balance between Improving Financial Structure and Returning Profits to Shareholders

Q. Looking at the price increase in electricity rates, a considerable amount of profit seems possible. With regard to improving the financial structure and returning profits to shareholders, at what speed do you plan to proceed and how will you achieve balance?

A. The level of dividends in the future has not been decided at this time. First of all, we will steadily proceed with measures regarding the revision of electricity rates. At the same time, in order to utilize Misumi Unit 2, and restart Shimane Nuclear Power Station Unit 2 (Shimane Unit 2) which will have a large impact on improving profitability, we hope to complete the safety measures as soon as possible in FY2024, which will lead to a recovery in earnings in and after FY2024. On the other hand, we recognize that it is necessary to operate the business with the same sense of tension as in FY2023, on the premise that the situation in Ukraine will continue.

Business Risks

Q. After raising electricity rates and starting Shimane Units 2 and 3, do you think you can handle the risk of price fluctuations in the fuel, foreign exchange, and power trading markets like in FY2022 and FY2023, or do you think these risks will continue to be high (the business itself is high risk)? How do you see such risk after the above initiatives are achieved?

A. We believe there is always a risk. For example, even if Shimane Unit 2 is safely restarted, it is clear from the cases of other companies that there is a judicial risk. Regarding the risk of fluctuations in fuel prices, our stance is that we must always think about what to do in the event of an unforeseen situation, such as through the monthly monitoring of amount of risk, rather than waiting until it actually happens.

Free Cash Flow

Q. Free cash flow (FCF) has been negative for seven consecutive years, and is expected to be negative this fiscal year as well. I think it will improve with the restart of Shimane Unit 2, but what about investment CF related to Shimane Unit 3 and growth businesses? Do you plan to make FCF positive in the future, or do you think that FCF can remain negative while making the necessary investments? What direction will you take?

A. According to our Group Corporate Vision, the basis of cash allocation is to balance cash flow in 10 years, by FY2031. FCF will continue to be negative for the time being as investment in large-scale

power sources continues, but we plan for this to reverse after Shimane Unit 3 starts operation. We are currently in a very challenging situation regarding revenue and expenditure. By raising electricity rates, we hope to rebalance revenue and cost, and get back on track with our vision. As for growth investment, we are continuing to make selective investments, and if FCF reverses it will become possible to invest in earnest. While making the necessary investments, we will take the current financial situation into consideration with an eye toward FY2031 and beyond.

* Additions, deletions, and corrections have been made to provide context and make the content easier to understand.

* In this document, the term “Fiscal Year 2023” refers to the period between April 1, 2022 and March 31, 2023.

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