

## Q&A at Investor Meeting for FY2024-2Q Financial Results

(April 1 through September 30, 2023)

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### [Restoring Our Business Performance and Financial Base]

**Q.** I don't think you should be satisfied with a shareholders' equity ratio of 15%, but is accumulating profit the only option? What about other options, specifically recapitalization or reducing total assets?

**A.** In terms of monetary amount, the accumulation of profits results in a larger figure. However, we are also actively selling idle assets, and we would like to improve profits and reduce assets at the same time.

**Q.** Regarding shareholders' equity, 15% is certainly one standard, but how high do you want to raise the shareholders' equity ratio? To what extent do you want to raise the amount or % of shareholders' equity?

**A.** First of all, we have set 15% as the standard from the viewpoint of recovering our losses over the past few years. However, when considering how to maintain our credit rating, 20% is the minimum required level. This is a guideline to be aware of, apart from the dividend policy. Although the Group Corporate Vision currently calls for 25%, we will need to reexamine the issue in light of such risk buffers related to a risk of litigation even after the nuclear power station starts operation and also changes in the business environment.

**Q.** Regarding the incorporation of risk into the earnings forecast, you revised the previous forecast from 30 billion yen to 20 billion yen because there was no manifestation of risk in the first half of the year. What was the basis for this calculation? Do you take into account the volume and price of LNG to be procured and the market price of JEPX? If so, will the risk be reduced after Shimane Unit 2 starts operation?

**A.** In addition to calculating the annual position of the amount for the time lag of the fuel cost adjustment system, the risk is calculated based on the statistical processing of historical fuel cost volatility, as well as the range of fluctuation. As a result, since the summer season has ended, our calculations project 20 billion yen as the equivalent risk amount for the winter season.

**Q.** Will the amount of risk be reduced if the Shimane Nuclear Station starts operation?

**A.** We believe that when Shimane Unit 2 starts operation, the risk will decrease because fossil fuel consumption will decrease. It is difficult to foresee how power procurement will be carried out under equal treatment between internal retail division and third-party retailers in the future, and we will continue to assess the impact. Risk related to procurement remains to some extent even when purchasing from other companies, and we would like to improve our ability to hedge such risk.

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### [Factors Related to Increase or Decrease in Electricity Sales]

**Q.** What is your analysis of the background and factors behind the decrease in electricity sales in the first half of the fiscal year?

**A.** The decrease in electricity sales was mainly due to power conservation and the impact of industrial trends in large power customers. There had been return demand from new electricity entrants and a switch from privately-owned power generation to grid power because contracts for

the current fiscal year were renewed at the time of last year's tight supply/demand conditions. Therefore, for the current fiscal year only, the increase in withdrawals has not had a significant effect on the decrease in electricity sales.

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### **[Reviewing the Group Corporate Vision]**

**Q.** When do you plan to revise the current Group Corporate Vision? What is the progress of your review?

**A.** Various circumstances will change when Shimane Unit 2 is restarted. We would like to consider whether a review of the Group Corporate Vision is necessary in light of these changes.

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### **[Shimane Nuclear Power Station]**

**Q.** With regard to the Shimane Nuclear Power Station, you mentioned that the investment amount increased because the findings related to the safety measure work for Shimane Unit 2 were applied to Shimane Unit 3. Please elaborate on the background of the increase in construction costs.

Also, you mentioned that the benefits are commensurate with the investment, but in terms of profitability, what is the positive effect on cash flow (fuel cost reduction) of restarting Unit 2? In addition, what is the expected profit impact of depreciation on the bottom line?

**A.** In the review of Shimane Unit 2, the Regulation Authority members raised a number of points regarding antiseismic reinforcement, fire, and overflow countermeasures. Following the approval of the construction plan for Shimane Unit 2, the scale of antiseismic reinforcement, fire, and overflow countermeasures for Shimane Unit 3 was determined. As a result, the amount of construction work increased to about 900 billion yen, including the impact of material price hikes. Although the future review of Shimane Unit 3 is still uncertain, at this point we expect the total cost of Shimane Units 2 and 3 to be around 900 billion yen.

The completion date of the safety measure work for Shimane Unit 3 is currently being investigated. The investment effect (fuel cost reduction) is expected to be around 80 billion yen for Shimane Unit 2. Shimane Unit 3 will have the benefit of further reduction in fuel costs, allowing for a return on investment. Regarding the impact of depreciation and other expenses for Shimane Unit 2 on profit and loss, the figures are factored into the rate revision. They are expected to be around 40 billion yen for depreciation, repairs, back-end costs, and other expenses.

**Q.** With the need to ensure equal treatment between internal retail division and third party retailers, if Shimane Units 2 and 3 are to be used on a wide scale in western Japan, I wonder if Shimane Unit 3 will be inferior in terms of cost compared to a nuclear power station that is already depreciating. In western Japan, where nuclear power stations are being restarted, will the power generation side be profitable?

**A.** Variable cost are extremely competitive. In terms of recovery of fixed costs, we would like to use the power capacity market to recover fixed costs.

**Q.** Is priority being given to the Specific Major Accident Response Facility at Shimane Unit 2 or the conformity review of Shimane Unit 3? Do you have the resources to proceed with Shimane Units 2 and 3 in parallel?

**A.** Currently, priority is being given to Shimane Unit 2. The team that handled approval of the construction plan is now handling the operator pre-operational inspections. This will be a significant burden until construction is completed in May 2024. In addition, Shimane Unit 3 is being handled by a different team than the one for the approval of construction plan for Shimane Unit 2. Perhaps around the time Shimane Unit 2 begins to restart operations, the remaining staff will be able to devote the rest of their time to the review of Unit 3. There is a dedicated team for the Specific Major Accident Response Facility, and that work will proceed at the same time.

**Q.** The construction of Shimane Unit 2 is scheduled to be completed in May. How significant is the risk of delay?

**A.** We coordinate with manufacturers and general contractors to determine when construction will be complete. The possible risks at this time are personal injury and lack of human resources. For example, we cannot completely rule out the possibility of delays in the event of personal injury or other accidents. Therefore, we will work to shorten the process as much as possible to cover the risk of such delays. Regarding the shortage of human resources, we are currently in the process of fully discussing and confirming this issue with manufacturers.

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**[Power Source Procurement and Sales Strategy]**

**Q.** Operation of the Shimane Nuclear Power Station will change the power source mix in the next fiscal year and beyond. What is the outline of your power source procurement and sales strategy after the station starts operation? I believe that the main benefit from restarting Shimane Unit 2 will be reduced fuel cost by curbing thermal power generation. After Shimane Unit 3 starts, will you be expanding your top line by increasing supply outside the Chugoku region and wholesale sales, or will you focus on replacing existing power sources and reviewing the power source procurement mix, including procurement from Electric Power Development Co., Ltd.?

**A.** Shimane Units 2 and 3 play a major role in stabilizing power sources and are linked to reductions in fossil fuel procurement costs. However, we expect that there will be a lot of cross-area trading amid the need to ensure equal treatment of equal treatment between internal retail division and third-party retailers, and we believe that the competitiveness of the supply of power sources over a wide area will be a factor. It will become increasingly important to reducing the power source procurement cost including improving the efficiency of existing thermal power stations and procuring fuel, as well as improving trading capabilities which enable us to successfully switch to cheaper power source when the market is inexpensive.

We believe that information on our own retail sales division and power generation division will be fragmented and separated in the future. However, we also believe that power sources will improve their competitiveness per kWh and that the ability of thermal power to adjust to successfully incorporate renewable energy into area demand will become increasingly important. This will require improving the load change ratio of thermal power. Daily start and stop (DSS) is also available, but it places a heavy burden on facilities and leads to increased repair costs. So, the capacity to receive daytime solar power needs to be increased by lowering the minimum load as much as possible. We would like to take this approach.

In the future, while aiming for low CO2 emissions through nuclear power generation, we would like to consider a power source mix for a 2050 non-carbon society that has the ability to adjust to an increase in renewable energy during the daytime, while responding to increased demand at night and lighting time zone with ammonia and hydrogen power generation, biomass power generation, and carbon dioxide capture and storage (CCS).

As for retail sales, we will lower procurement costs, including trading, as much as possible.

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**[Business Structure]**

**Q.** You mentioned that as equal treatment between internal retail division and third-party retailers is promoted, power generation and retail sales will be divided, including the division of information. With regulators demanding equal treatment, what is the point of operating as a single entity for power generation and sales? Isn't operating each independently also an option? What is your current perception of the business structure for power generation and sales?

**A.** We believe that a business structure that integrates power generation and sales is the best way for the Group to absorb customer needs and respond to them in a comprehensive manner. We will

follow up closely to ensure that we do not deviate from the rules, and we will work improve profitability by working together.

**Q.** Won't there be pressure to lower retail prices in the future? Also, what is the current competitive environment with new electricity entrants?

**A.** Our financial base has been severely damaged by the deterioration of income and expenditures over the past years. Therefore, we would like to maintain the current rate level for as long as possible in light of our financial situation. The competitive environment is expected to intensify, but it is not a simple price war. Rather, it is important to consider how to lower procurement costs and maintain a spread with the retail unit price. We would like to consider pricing with profit as our first priority.

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#### **[Dividend Policy]**

**Q.** The annual dividend has been increased to 30 yen/share in accordance with the dividend current payout ratio of 10%. However, is it correct to adopt a policy that differs from the past and from the situation of other companies and continue to maintain a dividend payout ratio of 10%, including one-time gains, until the shareholders' equity ratio of 15% is achieved, and lower the dividend if profit declines?

**A.** We discussed the issue of whether to pay a stable dividend or a dividend based on profits extensively within the company at the stage of introducing performance-based dividends, and decided on a policy of paying dividends based on profits. In light of the current fiscal year's performance, there was some discussion of prioritizing capital recovery, but the company decided to stick to the policy it had decided on and paid a full-year dividend of 30 yen/share. We will continue this policy until the shareholders' equity ratio is restored to 15%. When the shareholders' equity ratio reaches 15%, we will consider dividends thereafter.

**Q.** In your earnings forecast, you have factored in a risk of 20 billion yen in the second half of the fiscal year, as well as a negative shift for the time lag of the fuel cost adjustment system. On the other hand, given the current exchange rate and fuel prices, we believe there is a possibility of a positive upside. In the event of an upside in profit, based on the dividend policy, the dividend amount could be 30 to 40 yen. However, in the case of an upside, will the dividend amount be determined based on the calculation in accordance with the dividend policy of a 10% payout ratio?

**A.** Although there is a good possibility of both upside and downside risks, the company basically intends to pay dividends within a range that does not deviate significantly from its dividend payout ratio of 10%. Adjustments can be made within that range.

**Q.** Shouldn't you brush up on your dividend policy? There is no problem since the dividend will be increased in the current fiscal year, but there will be significant criticism if the dividend is reduced in the next fiscal year and thereafter due to lower profits. Although it is a rule to determine the amount of dividends without considering transitory factors (i.e., a time lag of the fuel cost adjustment system), companies in the energy sector are creating their own dividend policies with their own ingenuity. It would be fine if you resolved to choose a dividend policy based on all of these other companies' examples, but I feel that you might not have looked that far. It might be necessary to review the dividend policy, considering the impact on investors and their reaction if the dividend is reduced in the next fiscal year due to lower profits caused by the time lag of the fuel cost adjustment system. When making revisions, you would not be criticized for changing the method rather than the level of the dividend amount, as long as the method is reasonable. In particular, I believe that a dividend policy that includes the impact of a time lag of the fuel cost adjustment system is too harsh. In meetings with other investors, please ask them whether the market will accept a lower dividend as a result of reduced profits due to a time lag of the fuel cost adjustment system. There shouldn't be many who are willing to accept that. I would like the Board of Directors to consider the proposed revisions

with reference to market feedback and examples from other companies.

**A.** Thank you for your valuable opinion. Currently, we face the urgent task of restoring our damaged financial situation. Therefore, the current dividend payout ratio was determined. Basically, we intend to follow the current dividend policy, but we would also like to discuss it based on the feedback we have received.

**Q.** I am not criticizing the 10% dividend payout ratio, but I do not think the method of multiplying the dividend payout ratio by the volatile net income of the time lag of the fuel cost adjustment system is reasonable. This concept is communicated to all companies regardless of whether they have a high or low shareholders' equity ratio. I would like you to hear from other sell-side and buy-side people. There is no problem with revising the dividend policy within a short period of time. I would like to ask the Board of Directors to discuss the issue based on such assumptions.

**A.** The time lag of the fuel cost adjustment system will average out over a number of years. However, the recent volatility in fuel prices is too great, and there is always a risk of significant damage to the annual income and expenditure. We believe that it is very important to work on reducing the impact of a time lag of the fuel cost adjustment system while improving hedging and other capabilities. We would like to discuss dividend policy as we move forward with efforts to control annual fluctuations in income and expenditure.

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### **[Achieving Management that is Conscious of Both the Cost of Capital and Stock Prices]**

**Q.** Regarding ROIC, the amount of profit for the current term is high for your company, but in terms of ROIC, it is low, around 2%, which is a severe level. Does management share the understanding that even the current profit is not sufficient for improving PBR? Are you going to make more profit or are you going to carve out the invested capital? I believe that further improvement of ROIC would be difficult without drastic moves. Are you aware of the problem that ROIC is low at 2% and must be improved?

**A.** Although we do not present our cost of capital for this fiscal year, our finances have been significantly damaged and our cost of capital is very low. Therefore, based on our earnings forecast for this fiscal year, we believe that ROIC exceeds our cost of capital, but we recognize that a 2% ROIC level is not sufficient as we continue to strengthen our financial base. We would like to have a thorough discussion now on how to improve the situation as the amount of invested capital increases.

**Q.** You devoted the most pages to explaining your efforts to improve corporate value in electric power. What kind of awareness of the issues and discussions within your company led to the decision to disclose so much? Please share the background to the extent possible, including discussions in execution and at board meetings.

**A.** In the past, some aspects of the discussion had been conceptualized as "The Shimane Nuclear Power Station will not be started" or "Competition is fierce". But now, in light of a request from the TSE, we have analyzed the current situation in order to quantify the issues and use them as a reference when determining the direction of management. We have not yet discussed the content of the proposal presented today at a meeting of the Board of Directors, although we have discussed it at the management level. Using this as a starting point, we will conduct an in-depth analysis and apply it in appropriate plans and measures following thorough discussion by the Board of Directors, including external directors.

**Q.** Regarding the "Trend in Cost of Shareholders' Equity" on page 34 of the Investors Meeting material, the beta value of 0.38 is low considering the business risk. I would like to see the company brush up its cost of shareholders' equity based on this figure.

**A.** Although this is our track record, we regard it as an outlier. The shareholders' equity ratio is also an outlier, at around 10%. We believe it is also necessary to analyze ROA and ROE, using the figures

that should be ideal.

**Q.** Regarding the "Direction of Efforts to Improve PBR" on page 37 of the Investors Meeting material, you indicated measures to improve PBR. While (1) (Improving capital efficiency) will improve with the results of the initiatives presented, there was nothing new to the initiatives presented in (2) (Improved profitability expectations and growth potential evaluations) and it is not expected to lead to an improvement. The impression is that your action remains conventional.

Isn't something new and different from the conventional approach needed? If there is an effort, not just to increase the shareholders' equity ratio or to sell idle assets to squeeze total assets, something that anyone can say, but also an additional step such as converting assets to cash, it will feel like a new approach. If you are serious about improving your financial structure, I would suggest selling or liquidating business assets rather than idle assets. Please consider this in conjunction with a review of the Group Corporate Vision. I hope you will make changes to improve the evaluations in (2).

**A.** As we move toward carbon neutrality in the future, we will need to invest in non-carbon power sources. While we must move forward with efforts such as closing down conventional power stations that are sources of emissions, we will carefully consider how to proceed with transitions to non-carbon power sources, since the perspective of stable supply is also important in the face of intense fuel volatility. We would like to deepen our consideration of which assets to sell at what point in that process.

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

\* In this document, the term "Fiscal Year 2024" refers to the period between April 1, 2023 and March 31, 2024.

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