

Q&A at Investor Meeting for FY2024 Financial Results

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

[Shimane Nuclear Power Station]

Q. To what extent will Shimane Unit 2 have income and expenditure improvement effects in the FY2026 forecast? Should we base our estimates on the income and expenditure improvement effects in FY2025?

Furthermore, to what extent will Shimane Unit 3, for which we made a successful bid at the long-term decarbonization power source auction, have income and expenditure improvement effects, in light of the business return indicated in the long-term decarbonization power source auction guidelines? Also, how much of the approximately 400 billion yen for nuclear power investment indicated as part of the investment related to decarbonization until FY2031 is investment for Shimane Unit 3? How much of the capital spent for Shimane Unit 3 so far will be subject to the long-term decarbonization power source auction?

A. With regard to the income and expenditure improvement effects due to restarting the operation of Shimane Unit 2, we forecast the impact on business performance in FY2025 after the restart in December to be a gain of approximately 11 billion yen. We believe that revising the restart timing from August to December will negatively affect business performance by approximately 12 billion yen. We are planning the business performance for FY2026, taking into account the fact that the utilization rate of nuclear power will be higher than that of 2024.

While I will refrain from discussing any numbers in detail regarding Shimane Unit 3, including bidding information of the long-term decarbonization power source auction, in light of the fact that we can expect to ensure the recovery of fixed costs from the power capacity market, we believe that there will be some degree of income and expenditure improvement effects. As it is necessary to refund 90% of other market revenue, the income and expenditure improvement effects for Shimane Unit 3 will be limited in the event that fuel prices drastically increase. However, we forecast that the income and expenditure improvement effects will be increased by Shimane Unit 2, which is not subject to the long-term decarbonization power source auction, and conversely, we also forecast that we can safely recover fixed costs with Shimane Unit 3 even if the recovery of fixed costs by Shimane Unit 2 decelerates in the event of a drop in fuel prices. We believe they will mutually complement one another.

Q. Regarding Shimane Unit 3, for which we made a successful bid at the long-term decarbonization power source auction, you have stated that you are aiming to start operation by FY2031 and complete safety measure work by around FY2029. However, in light of the fact that it took about three years after receiving permission for change in reactor installation license to complete safety measure work on Shimane Unit 2, it seems that, counting backward, it will be difficult to meet your goal if you do not receive permission for change in reactor installation license during FY2026. What are your thoughts on the schedule moving forward?

Also, how should we consider the risk in the event that the start of operation at Shimane Unit 3 is not achieved by FY2031?

A. As we move forward with priority placed on the review for Shimane Unit 2, we are also proceeding with Shimane Unit 3 to the extent possible, and at present, we have almost completed our response for the analysis code, which takes the most time. The review of application for approval of operational

safety programs for Shimane Unit 2 is also coming to a close. While there is some impact from the operator inspection before commercial operations confirmation inspections for Shimane Unit 2, we would like to move forward with restarting full-scale reviews for Shimane Unit 3, coordinating with the Nuclear Regulation Authority.

If we do not work steadily to receive permission for change in reactor installation license and approval of construction plans, we will not be able to achieve operation by FY2031. For that reason, we are working towards that response, while also carrying out construction work to the extent possible. In light of that facts that Shimane Unit 3 is an ABWR (Advanced Boiling Water Reactor) type, that matters regarding natural disasters were finalized during the review for Shimane Unit 2, and that we have verified those issues uniquely identified by Chugoku Electric using Shimane Unit 2, we believe there will be no significant issues in the contents of the review. However, review of application for approval of construction plans requires a certain amount of time, regardless of whether there are any findings or not. Therefore, we will first move forward with making adjustments so that we can quickly resume procedures to receive permission for change in reactor installation license.

We believe there are two risks. One is a penalty in the long-term decarbonization power source auction for delaying the start of operation at Shimane Unit 3, and the other is failure to meet our targets for cutting CO₂ emissions. With regard to the penalty in the long-term decarbonization power source auction, the system permits a certain degree of leeway for the start of operation, and we therefore consider the risk to be relatively insignificant. With regard to our targets for cutting CO₂ emissions, it is true that Shimane Unit 3 carries significant weight in achieving our FY2031 targets. In order to be able to achieve our targets, we will not only proceed with work on Shimane Unit 3, but aside from nuclear power, we will also work to further expand our renewable energy while promoting the decarbonization of each power source in parallel for the decarbonization of thermal power generation (biomass, ammonia, and hydrogen), including the new Unit 2 at Yanai Power Station, for which we made a successful bid at the long-term decarbonization power source auction.

Q. Thank you for disclosing forecasts for capital investment amounts in FY2025 and 2026. The investment for FY2025 was 370 billion yen, which is a large amount, and I assume that this is due to restarting the operation of Shimane Unit 2. Please give me a breakdown of the 370 billion yen for FY2025 and the 300 billion yen for FY2026, as well as your forecast for the free cash flow.

A. For FY2025, safety measure work at Shimane Nuclear Power Station reached over 100 billion yen, about 30% of the 370 billion yen. For FY2026, it comprises about 20% of the 300 billion yen. The remaining amounts consist primarily of constant investment in thermal power and network facilities. With regard to Shimane Unit 2, while safety measure work will finish in FY2025, investment for the Specific Major Accident Response Facility will continue for several more years. This means that investment will not end in FY2025.

[Decrease in Electricity Sales and Equal Treatment between internal retail division and third party retailers]

Q. While Chugoku Electric is forecasting a year-on-year decrease in total electricity sales for FY2025, former general electricity utilities in neighboring areas are forecasting increases in total electricity sales, primarily in sales to other companies. What is the cause for the decrease in total electricity sales? How do you consider the competitive environment as of late, in light of the thoroughly equal treatment between internal retail division and third party retailers? Is there a decrease in the operation rate of your own power sources, or does this impact the electricity you receive from other companies?

A. We suffered a negative spread due to pursuing electricity sales around FY2022, when there were drastic jumps in fuel prices and electricity market prices. Reflecting on that, and also considering the fact that equal treatment between internal retail division and third party retailers will be applied even more strictly in the future, we now plan our total electricity sales while also considering increasing the procurement of power sources from other companies.

In contract negotiations for FY2025, prices on the futures market were at a high level due to

predictions of a harsh winter until around November or early December of 2023. However, following predictions for a warm winter that were announced after the start of the new year, prices on the futures market dropped. On top of that, customers became more concerned about the prices. As a result, the total amount of electricity sales decreased.

Whether we should ensure total electricity sales through competitive pricing or maintain our price levels is a troubling issue. We have revised our policy to one where we sell when we can ensure a certain amount of spread, also taking into consideration factors such as market prices during the summer on the electricity transaction market.

It is also difficult to make forecasts regarding fuel prices due to factors such as the situation in the Middle East. Instead of taking risks, we aim to ensure a spread in our electricity sales.

Q. Are you in a situation that allows you to maintain the spread in sales and procurement? With the current spread as a base, do you intend to create added value to expand the spread?

A. In the western Japan area, we are seeing increases in the operation of nuclear power and the introduction of renewable energy, and the prices on the electricity market are lower than those in the eastern Japan area. We aim to bring in inexpensive electricity during the daytime and cut costs for demand during the lighting time zone, thus aiming to maintain and expand our spread.

Q. Does profit gained through electricity trading belong to the power generation side or the retail side in your in-house management?

A. We currently sort this to the power generation side.

It is necessary for us to further spread the awareness that, under the policy of equal treatment between internal retail division and third party retailers, transactions between the power generation/wholesale side and the retail side are not in-house transactions but rather transactions through the market. Therefore, with the aim of investigating our future strategy in a quick and focused manner, we have established two projects, the "Profitability Reinforcement Project," which investigates our retail strategy, and the "Power Balancing Optimization Project," which investigates our power generation and wholesale strategy. Through these projects, we aim to carry out investigations in a focused manner to quickly clarify each business strategy.

Q. With regard to thoroughly equal treatment between internal retail division and third party retailers, I believe that the national government wants to make power generation sides sell their power sources at wholesale to the retail market with equal footing in order to promote competition. From the perspective of a third party, it seems more beneficial to record electricity trading profits on the retail side. Does keeping the trading function on the power generation side create more profit?

A. Opinions are split regarding which is better. We at Chugoku Electric have confirmed the rules and are currently carrying this out on the power generation side. While some people may believe in setting the trading function on the retail side, we are not considering doing so at the current time.

If the debate on splitting power generation and sales were to develop, I believe it might be possible for us to revisit the topic of where to place the trading function. However, at present, we are preparing for the future such as by training human resources who can engage in supply and demand trading.

[Electricity Demand and Supply Capacity in the Future]

Q. There are plans to build new data centers and semiconductor factories throughout Japan over the next five to ten years, and demand in the Chugoku area is also forecast to expand. What are your thoughts on this? Also, how will you respond to that expanding demand? Is there leeway in your supply capacity?

A. At present, we ensure a certain amount of reserve margin and have some leeway regarding kW, despite the fact that Shimane Nuclear Power Station is not in operation. We are also keeping oil-fired

thermal power. While its competitiveness in the western Japan area is inferior from the perspective of kWh cost, it is an important power source in terms of adjustment capability and as a backup power source. We intend to maintain it for the time being. According to the supply plan of Chugoku Electric Power Transmission & Distribution, a certain degree of demand is forecast for the Chugoku area as well in the future. When we consider carbon neutrality in the future, it will be difficult to both operate nuclear power and also continue operating our existing thermal power stations at a high operation rate. However, as the amount of renewable energy sources installed in the Chugoku area is increasing, we aim to incorporate those sources together with thermal power sources, limiting the overall CO₂ emissions while responding to the increase in demand. Specifically, Shimane Units 2 and 3 will bear the base of our supply capacity, and we will decrease the load change ratio and minimum load of thermal power sources as well as increase the DSS (Daily Start and Stop) frequency in order to incorporate the ever-expanding renewable energy sources as much as possible. Thus, we will ensure kW while also suppressing the operation rate of thermal power. In the future, we will include ammonia and hydrogen when there is less kWh to aim for decarbonization. In this way, we aim to respond to increasing demand in the Chugoku area.

[Transmission and Distribution Business]

Q. I believe that, despite being a regulated business, the transmission and distribution business is extremely volatile and very difficult for business operators to predict. It seems to me that the description of efforts for PBR improvement indicated in the explanatory documents do not include any mention of the transmission and distribution business. If this business cannot be expected to produce profit, I believe it is necessary to call on the system designer, such as the government, to revise the system. How do you regard this situation? Do you consider it to be a problem?

A. Just as you say, the business performances for the transmission and distribution business are extremely volatile, and we cannot deny that income and expenditures tend to be estimated conservatively. We believe the cause to be the procurement cost for the adjustment capability, wherein the entire amount must be procured from the market. In FY2025, the primary and secondary supply/demand adjustment markets were opened, and all supply/demand adjustment markets and capacity markets are now available. However, they do not all function properly yet, and there has been an ongoing lack of adjustment capability. The reason that electricity can be supplied stably despite the lack of adjustment capability is due to the surplus from power sources operating in parallel. Moving forward, we will request that the system be improved as necessary to ensure that we can stably procure electricity from the market as much as possible.

As for the power generation side, from the perspective of stabilizing area supply and demand, we would like to ensure enough power sources to provide adjustment capability for the Chugoku area.

Q. According to the Consolidated Financial Report, depreciation for FY2024 reached approximately 100 billion yen on a consolidated base. Furthermore, Chugoku Electric Power Transmission & Distribution has depreciation of approximately 40 billion yen and capital investment of approximately 60 billion yen. If we use Chugoku Electric Power Transmission & Distribution's profit for the current fiscal year as a base, the free cash flow comes out to be negative. If we assume that there will be virtually no profit moving forward, does that mean that the free cash flow for Chugoku Electric Power Transmission & Distribution will normally be negative?

You have shown that 600 billion yen, just under half of the 1.3 trillion yen for investment related to decarbonization from FY2025 to 2031, will be invested in transmission and distribution. Do you believe that capital investment is unavoidable, despite the low ROIC at Chugoku Electric Power Transmission & Distribution?

A. With regard to the amount of investment for transmission and distribution, it is difficult to sort items into a category related only to carbon neutrality. Therefore, we consider all investment related to network facility expansion and replacement currently being planned to be investment in carbon neutrality.

The free cash flow was in the black for FY2024, but we are planning negative numbers for FY2025 and 2026. While depreciation increases, we conservatively estimated the cost for adjustment capability and the like in light of the investment cash flow, risks, and the like due to investment related to carbon neutrality, and as a result, the profit level is extremely low. We believe a profit standard fitting for business return to be about 15 billion yen, and assume that depreciation and investment cash flow are about the same degree at this level. We believe it is a business that should constantly be in the black.

Q. The ROIC for Chugoku Electric Power Transmission & Distribution in FY2024, when business performances were favorable, was a low value of 3.8%. Considering the opaqueness of the supply/demand adjustment market, the low profit margin, and the high volatility, it is difficult from the stock market side to see the benefits of including that company in the Chugoku Electric Group's portfolio. Isn't it time to reconsider how to handle the transmission and distribution business in the future, such as by applying the equity method with another company? What are your thoughts on how to maintain the transmission and distribution business in the future?

A. As for business performances in the transmission and distribution business during FY2024, operating income was 50.5 billion yen due to decreases in the cost for adjustment capability and the like. Conversely, ROIC was 3.8%, and we are aware that this is a low amount when considered from the stock market. The transmission and distribution business also has regulated rates, and the business return rate of 1.5% is low. With regard to allowances under the system, we believe that Chugoku Electric Power Transmission & Distribution, which bears the transmission and distribution business, should make the appeals for those allowances that are necessary.

The annual income and expenditures of the transmission and distribution business fluctuate quite significantly due to adjustment capability and other factors. The revenue gap system has a mechanism for adjusting those risks after the fact. This mechanism allows for returning profits to shareholders if profits swing upwards, and we understand considering the difficulty of evaluation from the stock market to be a problem. However, when considering our business portfolio, we believe that we should not be so quick to investigate splitting, but instead, that the transmission and distribution business operators should first call on the national government to provide allowances or the like as necessary within the system.

Q. While the supply/demand adjustment market reached its full lineup this fiscal year, I believe that unexpected situations, such as insufficient contract volumes and drastic price increases, are occurring. It is difficult from a third-party perspective to understand what is happening. What do you think about the current situation and its effect on the business performances of the Chugoku Electric Group?

A. Transactions for all products on the supply/demand adjustment market only recently became available, and it may take some time to resolve problems while going through the PDCA cycle. The supply side of adjustment capability cannot fully predict the weather a week later, and we believe that insufficiencies are caused by becoming too cautious.

At present, fuel costs are stable, and surpluses in parallel power sources allow for adjustment capability to be covered, preventing any significant problems. However, if a sudden increase in demand or a large-scale power source drop-out were to occur and cause supply shortages, we believe the price for adjustment capability could drastically rise, impacting profitability.

Q. I believe that making transactions through the adjustment capability market can show that the procurement cost for adjustment capability, that is, the cost for stable supply, is high, and in the future, would lead to the guarantee of adjustment capability on the transmission and distribution side while enabling the power generation side to reliably recover the cost of stable supply. It seems to me that providing the surplus adjustment capability on the power generation side leads to providing adjustment capability at an unwarrantedly low price. What are your thoughts?

A. We believe we should aim to be able to procure the necessary adjustment capability on the supply/demand adjustment market. However, in actuality, there are situations in which the price of adjustment capability increases drastically and we have no choice but to purchase it. What we need to aim for is being able to make fair transactions for the necessary adjustment capability on the adjustment capability market, and we will also call for revisions to the system so that the market can develop.

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

Q. I would like to confirm the ROE standard you are aiming for in the future. If the FY2026 consolidated ordinary income plan is 85 billion yen or more, then we can estimate that the net income will be approximately 60 billion yen, and based on the status of consolidated shareholders' equity being approximately 600 billion yen, we can estimate ROE will be about 10%. However, considering Chugoku Electric's financial structure, this ROE is low. First, you should increase the shareholders' equity. If we take 30% as the consolidated shareholders' equity ratio to be aimed for, then ideally, 1.2 to 1.5 trillion yen in shareholders' equity is necessary. However, even if Shimane Unit 2 goes into operation, the ROE seems it will not be more than 4 or 5%, and the ROIC is that low. For ROIC improvement, the ROE must be raised by some percent, and I believe 8 to 10% is necessary. Even at the minimum of 8%, it will be difficult with the current ROIC, so I believe you should seriously get started working to make improvements now.

A. Since my appointment as President in June of last year, I have engaged in improving our financial structure, together with regaining trust, as issues of the utmost importance. In FY2024, we were able to improve our shareholders' equity ratio to 14.6%. Moving forward, however, I believe that rather than aim for 15% or higher, we should work towards genuine improvement for our financial structure. To that end, we must consider increasing profit.

We believe that the profit level we should aim for in the future is approximately 90 to 100 billion yen. However, as it is difficult to forecast the operation status of Shimane Unit 2 as well as the profit of Chugoku Electric Power Transmission & Distribution, we created our forecasts for FY2026 using conservative assumptions. At present, our plans for ordinary income in FY2026 remain at 85 billion yen. However, in the "Profitability Reinforcement Project" and the "Power Balancing Optimization Project," two new projects we established in April of this year, we will investigate strategies for improving profitability in both the power generation/wholesale and retail areas, respectively, and aim to augment our profit. If there are any strategies that can be implemented this fiscal year, we would like to incorporate them ahead of time.

In the process of improving our shareholders' equity, the level of ROE will drop for the same amount of profit. For WACC as well, if the shareholders' equity return rate and interest were to increase, then it may change from the low level thus far. In the future, we are not aiming for the numbers shown plus something extra, but rather, to make profits of nearly 100 billion yen while also slimming down and improving the productivity of our assets to gain ROIC and ROE on higher levels.

For Shimane Unit 3, we have recorded a considerable amount of money under the construction in progress account due to investment just up until the Great East Japan Earthquake, and investment will increase moving forward. We will carry out investigations in light of this situation so that we will be able to indicate what levels of ROIC and ROE we will aim for.

Q. You have disclosed your FY2024 results and your planned values for FY2025 for ROIC by segment. Do you plan to continue to investigate ROIC targets in the same framework of disclosure by segment in the future? Under thoroughly equal treatment between internal retail division and third party retailers, will you keep the power generation and retail businesses as part of the comprehensive energy business, or will you split them up and manage them in-house? What are your thoughts on your response for the future?

Furthermore, the materials for the Company Investors Meeting do not describe any of the growth businesses except for the information and telecommunications business. Is this because those businesses not described are being managed in a separate management method different from ROIC,

or have you only described the major matters at the current time? I would like to know how you will manage the ROICs by segment in the future.

A. This year, we disclosed the ROIC results for FY2024 and the ROIC forecasts for FY2025 by disclosure segment as a trial. With regard to the comprehensive energy business, we believe that, in order to aim for expanded profit in both the power generation and retail businesses under thoroughly equal treatment between internal retail division and third party retailers, it is necessary to introduce business management and targets for each business respectively. However, there are also issues including the method for allocating shareholders' equity. Therefore, we will investigate methods for business management in the future.

With regard as well to our group businesses and growth businesses, we are carrying out trial calculations believing that ROIC and ROE can be used for business evaluation. However, there are also companies that carry out external sales and companies that support and contribute to streamlining in the electricity business, and as such, we will continue investigating how to utilize these indices, including to what extent it is appropriate to apply ROIC management. With regard to the disclosure segments in particular, we will first grasp indices such as ROIC and then carry out investigations including how to analyze and utilize the same.

Furthermore, we believe that, at the least, it is necessary to use ROIC, ROE, and the like as management indices for the group as a whole.

[Dividend Policy]

Q. With regard to the dividends for FY2024, the dividend payout ratio was ultimately 9.4%, and did not reach the stated goal of 10%. While this may be because dividends are decided in units of 5 yen, I would like to know the underlying reasons that led to this result.

Also, you stated that you intend to raise the dividend payout ratio once the consolidated shareholders' equity ratio exceeds 15%. What kind of debates are you having in your company at the current point of time, including on the topic of stable dividends?

The consolidated shareholders' equity ratio for FY2024 is 14.6%. Isn't it possible that the consolidated shareholders' equity ratio will reach 15% momentarily during FY2025?

I understand that you are placing utmost priority on improving your financial structure, but I think you should organize the opinions of investors and options in light thereof and begin preparation regarding the dividend policy for once the consolidated shareholders' equity ratio exceeds 15%. Personally speaking, I think you should revise the dividend policy to link it to accounting profit including the gain and loss from the time lag of the fuel cost adjustment system.

A. As you pointed out, we used units of 5 yen, and set the dividends for FY2024 to 35 yen (planned for 5 yen for interim dividends and 30 yen for year-end dividends).

Regarding the dividends once the consolidated shareholders' equity ratio exceeds 15%, we are currently focusing on improving our financial structure, and we would like to respond with some degree of financial discipline, at least until the consolidated shareholders' equity ratio returns to approximately 20%.

Also, there could be some degree of stable factors, and so we would like to exchange opinions with you all and continue to investigate our response for once the consolidated shareholders' equity ratio exceeds 15%.

* 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.

End