May 12, 2025
THE CHUGOKU ELECTRIC POWER CO., INC.

Q&A at Investors Meeting for FY 3/2025 Financial Results

[Financial Results for FY 3/2025]

Q. The consolidated ordinary profit of the financial results for FY 3/2025 rose to about twice the business performance forecast at the beginning of the fiscal year. I would like to know the reason for the difference, and measures or ideas to increase the accuracy of the forecast for FY 3/2026, if any. If you intend to thoroughly manage the balance sheet and cash flows based on a minimal business performance forecast as your balance sheet and cash flows are in a difficult situation, please tell me your thoughts in this regard.

A. One of the main reasons for the higher-than-expected ordinary profits for FY 3/2025 is that changes in the temperatures increased demand in both summer and winter. The business performance forecast at the beginning of the fiscal year was based on temperature trends over the past several years. However, as a consequence, the temperatures were higher than expected in summer and lower than expected in winter. In addition, wholesale electricity market prices remained at the level higher than expected in February and March, resulting in additional electricity sales in the market. These circumstances contributed to the increase in profit. In the power transmission and distribution business, we expected an increase in supply/demand adjustment cost at the beginning of the fiscal year. However, the cost did not rise as much as expected, mainly due to the impact of structural reform made during the period for reducing the procurement volume. We believe that these factors, which cause income and expenditures to fluctuate, accumulated in a way that positively affected our performance, leading to a turnaround.
We reasonably calculated the business performance forecast for FY 3/2026 based on the fact that there is no structural reform to the supply/demand adjustment market planned at this time as well as the recent temperature changes.
The consolidated ordinary profit increased higher than expected compared to the forecast at the beginning of the fiscal year due the following factors: an increase of approximately 9-10 billion yen due to high electricity demand (Chugoku Electric Power); improved income and expenditures of approximately 20 billion yen due to higher demand in the Chugoku area and a lower supply/demand adjustment cost (Chugoku Electric Power Transmission & Distribution); an increase of approximately 10 billion yen (Group companies including Chudenko); and an increase of approximately 20 billion yen due to the further pursuit of efficiency in management.

[Business Performance Forecast for FY 3/2026, Competitive Environment]

Q. You explained that the consolidated ordinary profit forecast for FY 3/2026 is 85 billion yen, and the figure results in about 75 billion yen when the impact from the time lag due to the fuel cost adjustment system is excluded. According to the material for the financial results briefing in May of last year, the consolidated ordinary profit forecast for FY 3/2026 is 85 billion yen excluding the impact from the time lag due to the fuel cost adjustment system. Given these facts, it appears that the level of performance-based profit has been declining. The procurement costs in the supply/demand adjustment market have not risen as much as expected and efficiency in management and the like have been also improving. Based on that, is the declined level of performance-based profit due to the fact that the impact of more intense competition has become greater than assumed last April? Or are there other factors?

A. As you say, the competitive environment is severe. In addition, we incorporate the risks of deteriorated income and expenditures in the amount of approximately 5 billion yen as the risk of an economic slowdown due to tariffs imposed by the U.S. and the risk of surging fuel and market prices. Based on that premise, we forecast a consolidated ordinary profit of 85 billion yen.

Q. You said that you incorporated the risk of tariffs enacted by the U.S. and fuel price trends of about 5 billion yen in the business performance forecast for FY 3/2026. To what extent have you incorporated the impact of soaring material and equipment costs, and high interest rates?

A. The business performance forecast was made based on the current rise in interest rates, and we do not currently anticipate any further rise in interest rates. Although it is true that materials and equipment costs have been rising recently, we are not considering a major revision at this time because we signed contracts for materials and equipment for Shimane Nuclear Power Station and Yanai Unit 2 relatively early on. We will strive to increase efficiency to more than offset cost increases by accelerating construction plans and implementing various streamlining measures.

Q. According to your business performance forecast for FY 3/2026, factors such as more intense competition and a decrease in supply/demand adjustment transactions will reduce revenue by 30 billion yen. I understand this means that you expect the profit margin for wholesale or retail electricity sales in FY 3/2026 to deteriorate compared to FY 3/2025.
Do you mean that in light of the current competitive environment, your sales strategy is to secure electricity sales volume both within and outside of the region, even if the profit margin shrinks? Or did you obtain the figure by forecasting the business performance for FY 3/2026 simply based on the consolidated ordinary profit of 85 billion yen announced in the Medium-term Management Plan?
Based on the competitive environment and sales strategy, please explain the forecast for the consolidated ordinary profit of 85 billion yen for FY 3/2026, and the factors behind the decrease in revenue by 30 billion yen due to more intense competition and the like.

A. The basic concept is that in the wholesale business, we simulate the competitiveness of our power sources according to the merit order in western Japan, and then we wholesale electricity based on the capabilities of our own power sources. How much it sells for depends on market prices, and wholesale profits are first determined according to sales prices based on market price assumptions at the time the plan is formulated.
In the retail business, dealings with equal treatment of in-house and external sources are widely practiced, and for retail sales, we procure electricity from both in-house and external power sources and markets where we can procure electricity at a lower price. After making maximum efforts to reduce procurement costs, we negotiate contracts with customers. Naturally, as there are a variety of customer needs, including not only for lower prices, but also for electricity rate plans with low CO2 emissions and plans linked to market prices, we are working to meet these needs. The current forecast is based on sales results from combined retail rate plans, and the revenue will vary depending on future changes in market procurement prices.
The currently announced business performance forecast for FY 3/2026 incorporates the currently estimated wholesale and retail electricity sales.

[Sales Strategy]
Q. What are your thoughts about the effect of the price cut of 0.3 yen/kWh announced in light of the restart of Shimane Nuclear Power Station Unit 2? The forecast for the total electricity sales volume for FY 3/2026 is 57.4 billion kWh, an increase compared to FY 3/2025. Can I take this as one of the effects of the price cut? Based on the assumption that the forecast for the high voltage and extra-high voltage electricity sales volume for FY 3/2026 is 30 billion kWh, the effect of the price cut would be about 10 billion yen. Accordingly, I understand that about one-third of the "-30 billion yen due to more intense competition (wholesale and retail), a decrease in supply/demand adjustment transactions and the like" on page 9 of the material for the financial results briefings is the effect of this strategic price cut. Is my understanding correct?

A. An increase in electricity rates severely impacted high voltage and extra-high voltage customers after we revised the rates for FY 3/2024. We received many comments that they would not sign any contract unless we react reasonably once Shimane Unit 2 restarts operation. Under such circumstances, we believe that the uniform price cut of even 0.3 yen/kWh played a major role in retaining high voltage customers. We consider it a great benefit that this cut acted as a door knocker and kept them listening to us. In addition, we have been proposing and developing rate plans such as those tailored to customers' usage conditions or linked to market prices to meet their needs, leading to the increase in the forecast for the total electricity sales volume for FY 3/2026. In this aspect, we think at this point that this sales strategy has been effective to some extent.
In the future, we expect that we will face various competitions in different fields. We will continue to research other companies, including PPSs (power producers and suppliers), and work hard to avoid a situation where other companies have proposed a rate plan that we do not have.

[Free Cash Flows]
Q. In the message from top management today, he mentioned enhancing your cash management. The material for the financial results briefing (on page 25) states that "We will carry out strict cash management and aim to quickly achieve positive free cash flows and establish a financial base." Until now, I think that you basically believed that free cash flows would be in the red until Shimane Unit 3 begins commercial operation. Does the early return to positive cash flows indicated this time mean that you will realize the start of operation of Shimane Unit 3 earlier, and as a result, turn cash flows positive at the same time? Or are you considering turning cash flows positive by carefully selecting investments and the like prior to the start of operation of Shimane Unit 3?
I would like to ask you about what exactly you consider stricter cash management and at what timing you aim to achieve positive free cash flows.

A. Until the construction work pertaining to safety measures for Shimane Unit 3 is complete, free cash flows will continue to be tight because capital investment will remain quite high. Nevertheless, we will focus on ensuring the start of operation at Shimane Unit 3. Currently, we are under review by the Nuclear Regulation Authority for the application for permission to change our reactor installation license. Although it is difficult to foresee the specific construction schedule, we intend to appropriately undergo the review, finalize the overall picture of construction work as soon as possible, and sign construction contracts promptly to eliminate the deficit in free cash flows as far in advance of 2030. We will refrain from giving a definite timeframe due to the review, but we will do our utmost to bring Shimane Unit 3 into operation as early as possible.

[Shimane Nuclear Power Station]
Q. You explained that there have been no significant issues in the review by the Nuclear Regulation Authority for Shimane Unit 3 so far. Therefore, I suppose that the completion of construction work pertaining to safety measures is the only bottleneck, if any, in the way of completing the construction work by around FY 3/2029 and starting commercial operation by FY 3/2031 as currently indicated. That being the case, is it correct to think that the hurdle for the completion of the review is not so high?

A. The most important thing for the start of commercial operation at Shimane Unit 3 is to continue stable operation at Shimane Unit 2 and gain the trust of local residents.
The review by the Nuclear Regulation Authority is ongoing, and we have been informed by the Authority that our explanation will be complete by the end of this fiscal year and that the Authority will return comments next fiscal year. So far, there have been no significant points of contention, and we hope that the review will move smoothly. In parallel, we must firmly proceed with construction work pertaining to safety measures in order to complete it by around FY 3/2029. We are aware that there are a nationwide shortage of labor and difficulties in procuring materials and equipment for the construction work. For Shimane Unit 3, we have already concluded some contracts and are in the process of securing human resources. We will continue to make every effort to conclude the remaining

construction contracts as early as possible, as this will help solidify the construction schedule and reduce costs. In addition, we established a new organization with the objective of further strengthening project management to realize the early operation of Shimane Unit 3. We will take action as far in advance as possible while meeting with manufacturers and other parties to finalize the construction schedule as early as possible and to keep costs down.
The completion timing of the construction work pertaining to safety measures for Shimane Unit 3 is scheduled for around FY 3/2029. This is based on the fact that the commissioning period required for a newly established plant is expected to take about a little more than one year.

Q. The deadline for the installation of facilities to deal with specific large-scale incidents at Shimane Unit 2 and the completion timing of construction work pertaining to safety measures for Shimane Unit 3 are both around FY 3/2029. This means that the two construction projects will proceed in parallel. Are there any concerns?

A. Although the construction projects will proceed in parallel, arrangements for their construction contracts and orders are being made respectively.
We have gained the prospect of being able to carry out each of the construction projects by dispersedly placing orders for the construction work to multiple contractors respectively. Although the construction work will be congested, it is expected to be completed as planned.

Q. Shimane Unit 3 was purchased on the long-term decarbonization power source auction. I think that it is different from Shimane Unit 2 in terms of contributions to income and expenditures. I think there is a benefit of gaining a fixed capacity revenue, but is the benefit expected to contribute to a revenue growth as much as fuel cost reduction benefit does? Please explain to the extent possible.

A. Under the long-term decarbonization power source auction, approximately 90% of the revenue gained in other markets from the power source concerned will be refunded. However, we have decided to use this system because we believe that it provides a higher likelihood for the recovery of fixed costs than in the regular capacity market, as fixed costs can be recovered steadily, and exemption is granted in the case of the suspension of operation due to large-scale litigation, disasters, and the like.

[Transmission and Distribution Business]
Q. Considering only the first regulatory period of the revenue cap system, the transmission and distribution business is in a situation where the more you invest, the lower the ROIC. I understand the adverse situation for the transmission and distribution business as it is a regulated business. Nevertheless, I would like you to work to improve the power transmission and distribution business through your Corporate Vision and other measures, as it could affect the management of the entire Chugoku Electric Power Group.

A. You are right about the transmission and distribution business. If renewable energy is to be expanded in the future as stated in Japan's Seventh Strategic Energy Plan, it is essential to strengthen the network, including local grids, which will require massive amounts of investment. However, it is far from sufficient to cover the investment under the current rules. Chugoku Electric Power Transmission & Distribution, which is engaged in the transmission and distribution business, will make a firm appeal to the national government that in the process of fully introducing carbon neutrality, it is also necessary to review the nature of the rules for income and expenditures management of the network.

[Group Corporate Vision]
Q. Assuming that the effects of more intense competition (wholesale and retail) of "2. Factors Affecting Consolidated Ordinary Profit (Compared to FY 3/2025) " on page 9 of the material for the financial results briefing and inflation included in the breakdown of others will continue for one to

two years after FY 3/2027, the calculation shows that the Group will fall into the red in three years. Seeing the sense of tension regarding the current situation, I think that you should break out of the conventional management continuing from the past. If the conventional way of management remains unchanged, I can only assume a situation in which you suffer a deficit even though Shimane Unit 2 is in operation. I urge you to work hard to formulate your Group Corporate Vision.

A. With respect to more intense competition, we assume that price cuts will not result in a decrease in income and expenditures every year in the future. In western Japan, market prices fluctuate widely depending on the operation status of nuclear power stations, demand, and other factors. While keeping a close eye on market prices, we will rationally procure electricity, particularly for retail sales, without sticking to in-house power sources, and expand sales outside of the Chugoku region with as much spread as possible so that the revenue will not simply decrease. We have established the "Energy Business Portfolio Optimization Project" for this purpose in which we freely and openly exchange opinions, and listen to suggestions of outside experts without being bound by conventional ways of thinking in order to secure revenue.

Q. Where do you place Kaminoseki Nuclear Power Station in your next Group Corporate Vision? I think that Kaminoseki Nuclear Power Station has two aspects: one as a planned construction site for a power source as currently positioned and another as a possible construction site for an interim storage facility for spent fuel. I suppose that you cannot clearly mention Kaminoseki as a planned construction site for a nuclear power station. I believe that building a new nuclear power station would require substantial investment, which would make it difficult to achieve positive free cash flows even with your Corporate Vision. In that sense, I think it necessary to zoom into the future of ten years instead of five years from now on. Where do you position Kaminoseki Nuclear Power Station in your next Corporate Vision in that context?

A. According to Japan's Seventh Strategic Energy Plan, the Kaminoseki site is not viewed as a candidate site for replacement by the national government. However, it is a planned site necessary for achieving carbon neutrality in 2050, and we intend to include it into our new Group Corporate Vision. An interim storage facility for spent fuel is not directly related to the construction of a nuclear power station at the Kaminoseki site, and is one of the plans we presented in response to a request from the Kaminoseki town government regarding regional development. Currently, we are still in the process of conducting a survey, and we will discuss the plan in the future in line with the needs of local residents.

<Dividend Policy>

Q. I understand that cash flows are tight. What is the idea behind the decision to continue the performance-linked dividend policy based on the dividend payout ratio? With other companies in the industry moving to introduce DOE, what kind of debates did you have in your company in deciding on this dividend policy?

I would also like to know how you will treat the sliding time lag effect (impact from the time lag due to the fuel cost adjustment system) while taking into consideration the impact of special factors such as an extraordinary income/losses, if any.

A. We had considerable internal debates about the dividend policy. In reviewing the dividend policy, there were some opinions that a dividend payout ratio of 15% is necessary. However, at this point in time, it is difficult to foresee the result of the review for facilities to deal with specific large-scale incidents for Shimane Unit 3 and Unit 2, and we believe it is necessary to prioritize the restoration and enhancement of our financial base. Therefore, we raised the dividend payout ratio by 20% from the previous level to 12%.

We also discussed DOE, but decided against it at this time. If the dividend is based on DOE, we must pay dividends regardless of business performance even when we are in the red. Considering the above,

we cannot view it as an option in our current financial situation.
We cannot identify special factors because a variety of events could happen, but we believe that the impact from the time lag due to the fuel cost adjustment system depends on the sense of scale. For example, there was a year in the past when fuel prices rose significantly while the nuclear power station was not operating, resulting in a deficit of more than 100 billion yen. Thus, we believe that such a large deficit is a special case. We will discuss special factors considering the details and sense of scale.
We intend to retain the annual dividend of at least 10 yen per share, since it is considerably lower than that of other electric power companies. We are determined to ensure that the level of profit is maintained while continuing to upgrade our risk management.

Q. You said that the reason you did not adopt DOE as your dividend policy is that you are concerned that you should pay dividends even if the company is in the red. As an example of a case in which the profit attributable to owners of the parent company could fluctuate significantly due to special factors such as an extraordinary income/losses, you answered that you would consider a deficit due to fuel price hikes depending on the scale of the deficit. If this approach is used to determine the dividend, then there would be no problem with a dividend policy based on DOE.
In addition, the announcement of the financial results for FY 3/2025 caused the stock price to fall by nearly 100 yen, which means that the corporate value was damaged by about 35 billion yen in terms of market capitalization. On the other hand, the total amount of dividends will decrease by approximately 2 to 3 billion yen in FY 3/2026 compared to FY 3/2025. I would accept the dividend payout ratio of 12% if the reason for setting it is clearly indicated in such a way that it is based on the concept of dividend resources for achieving the consolidated shareholders' equity ratio of 20%. However, I do not think that simply raising the dividend payout ratio by 20% is consistent with management that is conscious of the stock price. I would like to ask you for another explanation.

A. We will analyze the factors behind the sharp decline in the stock price to take appropriate action. As one of the factors, we think that we have not provided enough explanation about forecasts for future business performance and growth strategy to make our shareholders want to hold stocks for a long time. In light of that, we will present plans in our new Group Corporate Vision that will enable our shareholders to look forward to our long-term growth.
We also discussed the introduction of DOE, but forwent it because we think that the adoption of DOE would foster a sense of distrust, given the fact that we are still in the process of restoring our financial base. In addition, on the basis of our financial situation, a dividend payout ratio of 15% is not feasible. Accordingly, we decided to set the dividend payout ratio of 12% with the dividend of at least 10 yen per share for the current fiscal year. Some may argue that we are not oriented toward shareholders. However, we decided on this dividend policy after internal discussions revealing that it would be difficult to raise the dividend payout ratio any further given the current situation in which dividends are paid out of debt while free cash flows are in the red.

Q. I would like you to reconsider your dividend policy from scratch when discussing your next Group Corporate Vision. Given the free cash flows, I believe that you should not have raised the dividend for FY 3/2025. Even though your free cash flows are tight, I felt that the dividend for FY 3/2025 was set in an inflexible way, and the company is managed in a very routine manner.
One possible storyline would be to improve your financial structure while paying dividends based on DOE and gradually increasing them. Also, I would like you not to include the sliding time lag effect (impact from the time lag due to the fuel cost adjustment system), as I do not want to react nervously.

A. We will take your comments into consideration as we analyze the impact of this dividend policy and other factors to reflect the results when discussing and revising our Corporate Vision in the future.

Q. You said that you would be engaged in dialog with shareholders and investors. However, I got the impression from this material for the financial results briefing that there is nothing I can say that

management will listen to. You mentioned that you cannot pay dividends if the company is in the red, and that you have negative free cash flows. However, these facts do not explain why you cannot adopt DOE. You should withdraw the current dividend policy immediately, and review and revise it focusing on DOE.
I think that Chugoku Electric Power says one thing but does another. As you mentioned, free cash flows are negative and dividends are paid out of debt. However, the fact that you did not adopt DOE makes me feel like you are saying that you will grow while protecting yourself in cases where you fail to grow. In short, the company is managed in a routine manner, and leadership is not exercised at all. My honest impression is that the management does not have the ability to understand what I am saying in this regard.
I expect a lot from your external directors, but there is no governance at all. What were your external directors doing in these discussions? Honestly, I think that Chugoku Electric Power is an incompetent company.
You should thoroughly review the debate on the dividend at today's financial results briefing, listen to sell-side analysts' comments as many times as possible, and seriously discuss what was missing right away if there is a gap between management and market opinions. From your explanation, I assume that the new dividend policy was decided in a stereotypical manner based on a request for approval. The more such an explanation is given, the more trust will be lost. We can evens ay that trust has been already lost. I urge you to reconsider the policy once more.
I am not asking for dividends, but asking for better management quality to improve credibility. I hope that you will understand it and respond to this point. In this situation where the stock price has fallen, if other shareholders were to say that the current directors are not credible, I think we should agree with them. You should feel ashamed to receive executive compensation under these circumstances. I expect your external directors to strive to reform the company for making governance work better, and I pray that the competence of the management will improve, even if only a little.

A. We will take your comments into consideration as we analyze the impact of this dividend policy and other factors to reflect the results when discussing and revising our Corporate Vision in the future.

[Organizational Review]
Q. I would like you to tell us what you will discuss in the "Energy Business Portfolio Optimization Project" among your efforts for company reorganization.

A. We will establish the "Energy Business Portfolio Optimization Project" for a limited period of one year. The main issues to be discussed are measures for the wholesale and retail sales businesses to maximize their respective profits as fuel and electricity prices are determined based on market prices. The project organization consists of members necessary to ensure that these measures are discussed. This organization will examine ways to confront various markets. It will also function to train mainly young employees so that they can play an active role in each organization of the wholesale and retail sales businesses in the future.

Q. I understand that you aim to maximize the profit of each of the wholesale and retail sales businesses through the "Energy Business Portfolio Optimization Project" to change the role of each business from that in the past. Is my understanding correct?

A. At this point, we do not intend to prepare for the splitting of power generation and sales. However, we recognize that thoroughgoing wholesales with equal treatment of in-house and external sources inevitably involves the optimization of both the wholesale and retail businesses, and consider that this project can appropriately address this challenge.

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* Edits have been made to make the content easier to understand.

* In this document, the term “FY 3/2025” refers to the period between April 1, 2024 and March 31, 2025.

* This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

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