

Q&A at Investors Meeting for Chugoku Electric Power Group Corporate Vision 2040

[Growth, Sales, and Power Generation Strategies]

Q. Please explain the profit growth strategy outlined in this vision, particularly the growth of the domestic electricity business, which is at the core of the strategy, including specific measures. Ordinary income, which serves as a key performance indicator (KPI), is projected to reach 110 billion yen in FY 3/2031, 130 billion yen in FY 3/2036, and 160 billion yen in FY 3/2041. Am I correct in understanding that the 110-billion-yen projection for FY 3/2031 reflects, to some extent, the impact of Shimane Unit 3's operation, and that full-year operation of Shimane Unit 3 is expected to begin in the early 2030s? In addition, could you provide any quantitative information on the capital investment required for Shimane Unit 3 and its impact on profit?

It was also explained that considerable profit growth is projected through the latter half of the 2030s, accompanied by continued growth in retail electricity sales volume. In this regard, are you assuming any generation development plans that are not yet announced to further expand retail electricity sales volume after the major milestone of Shimane Unit 3's start of operation? Or is the plan to increase profits mainly through other areas, such as the trading business? Please also elaborate on your long-term growth strategy.

A. Regarding your question about retail electricity sales volume, please first refer to the CO2 emissions shown on page 9 of the briefing materials. The Chugoku region is home to many manufacturing industries, including steel, chemicals, and automobiles, and ranks second only to the Tokyo metropolitan area in terms of CO2 emissions from the industrial sector, reflecting its high concentration of manufacturing activity. Many factories in these industries operate their own coal-fired on-site power generation facilities. To achieve carbon neutrality by 2050, such factories are considering converting their facilities to LNG, switching to electricity purchased from the grid, or combining these approaches. We are currently proposing solutions to support these initiatives. In addition, plans are underway for the expansion of data centers and semiconductor plants, among other facilities. With regard to data centers in particular, while they are currently concentrated in the Kanto and Kansai regions, we recognize that there are many next-generation data center projects planned for the Chugoku region as well. On this basis, we expect electricity demand to increase from current levels, and our first challenge is to ensure a stable supply of power to meet this growing demand. The planned commencement of operation of Shimane Unit 3 in FY 3/2031 will contribute to a net increase in supply capacity. Together with the replacement project for Yanai Power Station (new Unit 2), these additions to our supply capacity will enable us to adequately respond to rising demand.

In addition, many of our large-scale consumers seek both a stable electricity supply and lower carbon emissions. By supplying electricity from Shimane Unit 3, we aim to meet the growing electricity demand and respond to the need to reduce CO2 emissions. Furthermore, compared with renewable energy sources, nuclear power can provide a more stable supply of electricity and relatively stable pricing. For this reason, we believe we can capture a certain portion of the increasing electricity demand. As shown on page 14 of the briefing materials, we project a total electricity sales volume of 60 billion kWh in FY 3/2031 and 70 billion kWh in FY 3/2041. While electricity demand in the Chugoku region may grow even further, these figures represent the level we are firmly committed to achieving.

Regarding ordinary income, while it depends on electricity market prices, we believe we can secure around 30 billion yen as the benefit from the operation of Shimane Unit 3. Based on this, we project an ordinary income of 110 billion yen for FY 3/2031, reflecting the effect of Shimane Unit 3's operation, including its commissioning, and 130 billion yen for FY 3/2036, based on the assumption

that Shimane Units 2 and 3 will be in stable operation and that other businesses will also generate a certain level of profit. For 2035 and 2040, we assume, as in the Seventh Strategic Energy Plan, that a substantial amount of renewable energy will be incorporated. In terms of supply capacity, our challenge lies in how to integrate this renewable energy. Since we own a significant number of thermal power plants, we intend to utilize their balancing capability to accommodate the increasing share of renewable energy. Specifically, we aim to achieve coexistence between thermal and renewable power by improving the load change ratio, lowering the minimum load, and enhancing the resilience of our facilities against DSS (Daily Start and Stop). Finally, the 160-billion-yen target for FY 3/2041 is not an overly ambitious figure; rather, it represents the profit level that we believe we must achieve through stable growth.

Q. Regarding the anticipated growth in electricity demand in the Chugoku region, we often receive questions, particularly from foreign investors, about whether your profits will come from the retail or wholesale business. From a business model perspective, I believe your strength lies in the wholesale business, especially considering that many new power companies are entering the retail market. Your competitiveness will likely depend on how effectively you can improve profit margins on your power generation assets. Assuming that electricity demand in the Chugoku region will increase, it is natural to expect that new power companies from various sectors will enter the retail market, and there will likely be competition for proposals in the wholesale market as well. Over a five- to ten-year period, which area do you think you can, or aim to, generate profits in: the retail business or the wholesale business? Please also describe the initiatives you are implementing to achieve this.

A. The answer to that question, I believe, is "both," in the sense that we aim to maximize profits in both the retail and wholesale sectors. As nondiscriminatory wholesale transactions become more widespread, retailers can procure power sources from electricity producers in all nine regions across Japan, both within and outside the Chugoku region. Under these circumstances, we believe we can secure profits by procuring power sources at the lowest possible cost, whether through the market or through bilateral transactions. Accordingly, retailers will increasingly need not only a strong sales force but also strong procurement capabilities, and we believe we have the procurement expertise to compete effectively with new power companies.

In addition, customers have various needs. For example, they may seek ways to reduce CO2 emissions, or they may request rate plans linked to market prices rather than just fixed annual rates. What is required now is not merely price competition but the ability to respond accurately to diversifying customer needs, and we are working hard to meet these expectations. As for wholesaling, we expect a growing number of retailers will need long-term power source procurement. Among these, there will also be those who ask us to procure and supply power on their behalf. Therefore, in addition to selling our own power sources, we intend to move forward while exploring ways to achieve coexistence and mutual prosperity with other retailers.

Q. I think your previous answer referred to trading and retailing, but what about power generation?

A. We consider power generation and trading to be inseparable. Because nuclear power generation offers a competitive unit price per kWh, increasing the utilization rate provides the greatest benefit. With thermal power generation, however, it is crucial to make replacements in the market in accordance with electricity market prices. The key skill lies in assessing how much a thermal power plant should operate based on market price forecasts, and in procuring fuel so as to avoid both surpluses and shortages. We believe we have acquired this expertise, and we will continue to strengthen our efforts in this area going forward. Since risk management is also essential, we established a new Risk Management Division in June and continue working to rigorously control market risk in addition to conventional general risks.

Q. Regarding retail electricity sales volume, I recall that the briefing materials mentioned "regions outside the area," but most of the answers during the Q&A session focused on matters within the area.

Am I correct in understanding that you do not intend to focus aggressively on regions outside the area, since increasing demand within the Chugoku Electric Power area alone would be sufficient to achieve a total electricity sales volume of 70 billion kWh by 2040?

A. Basically, our policy is not to differentiate between regions within and outside the area. However, since we have strong relationships with customers within the area, we expect that our main focus will continue to be there. That said, if the same power source can be sold at a higher price in the regions outside the area rather than competing on price within the area, we will not hesitate to supply it to customers in regions outside the area. Based on this approach, we intend to move forward while balancing revenue with sales volume.

Q. On page 32 of the briefing materials, the phrase "expansion of retail electricity sales" appears, while on page 14, the phrase "expansion of total electricity sales" is used. You mentioned that the electricity sales volume will increase due to the competitiveness of your power sources. In this regard, how do you anticipate the competitive environment will be, specifically in terms of whether this increase will be achieved through retail sales or wholesale sales? And how is this reflected in your strategy? Since the phrase "expansion of total electricity sales" is used, I understand that it does not necessarily matter whether the increase comes from retail or wholesale sales. However, in your explanation that emphasized an increase through retail sales, what assumptions underlie your outlook on the future competitive environment, and what is your perspective from a strategic standpoint? Please share your thoughts behind this approach.

A. The retail electricity sales volume in the Chugoku region is closely linked to demand in the region, and the figures projected for FY 3/2036 and FY 3/2041 electricity sales volumes reflect our strong commitment to meeting the region's growing electricity needs. We consider retail and wholesale electricity sales volumes to be separated on the basis of nondiscriminatory wholesale transactions. The wholesale electricity sales volume is influenced by the relationship between the competitiveness of our own power sources and electricity market prices. Although a simple calculation suggests that the wholesale electricity sales will remain unchanged at around 10 billion kWh, this figure will vary depending on market price trends. Therefore, we have set 10 billion kWh as an intermediate estimate that corresponds to the competitiveness of our power sources and the anticipated future market prices. While we cannot rule out the possibility that the sales may increase beyond this level, our power supply forecast indicates that we will still have headroom even after supplying approximately 10 billion kWh to retailers.

[Capital Procurement and Balance Sheet Improvement]

Q. Regarding the 0.4 trillion yen in capital procurement through FY 3/2031 as stated on page 20 of the briefing materials, I understand that substantial investments during this period are unavoidable given the power generation development plan. However, am I correct in understanding that debt financing will essentially be the main source of funds?

You also explained that toward FY 3/2041, the company will enter a phase of improving profitability while reducing the balance sheet, which I believe would be a desirable direction. On the other hand, looking even further ahead, the Kaminoseki Nuclear Power Station is being developed as a power source targeting FY 3/2051. Therefore, even if discussions on the construction of new nuclear power stations make some progress by FY 3/2041, they are unlikely to have any impact on the balance sheet. Based on this understanding, you are planning to steer the company toward profit growth while reducing investments. Am I correct?

A. Up to FY 3/2031, we plan to carry out capital procurement primarily through debt financing and are not considering a capital increase at this time.

Although investments related to the Kaminoseki Nuclear Power Station have not been specifically incorporated into our financial strategy through FY 3/2041, we have set a target equity ratio range of 25% to 30% for FY 3/2036 onward to allow for flexibility in capital procurement and to serve as a

risk buffer for potential investment opportunities that may arise. There are ten years to go before FY 3/2036, and we expect circumstances to change in various ways during that time. For this reason, the cash allocation on page 22 of the briefing materials does not specify details concerning growth investments, shareholder returns, or future power source investments such as the Kaminoseki Nuclear Power Station. Another major issue we need to consider going forward is whether all investments in power sources should be executed solely through our own corporate financing.

Q. The message about reducing the balance sheet by FY 3/2041 is quite striking. Does this mean that you are considering balance sheet reduction not only for the Kaminoseki Nuclear Power Station but also for existing power sources if opportunities arise?

A. We intend to firmly uphold our commitment to achieving carbon neutrality by 2050. To this end, we believe that operation of the Kaminoseki Nuclear Power Station as a base nuclear power source will be essential. We also recognize the need to develop not only solar power generation but also wind power generation as renewable energy sources. Given the increasingly challenging investment environment for large-scale power sources, utilizing government schemes is a prerequisite, as the investment scale has become too large to be covered solely through corporate financing using the traditional methods of capital procurement. At the same time, since various other companies are also planning renewable energy projects, we are considering working with them to build the necessary capacity within the Chugoku region. As we have stated, the Chugoku region offers significant potential for floating offshore wind power. Although the investment environment for offshore wind has recently worsened significantly and the timeline may therefore shift somewhat later, we intend to continue building our technological expertise and, when costs decline, proceed with investments using diverse financing methods while maintaining the soundness of our balance sheet.

Q. I understand that it is necessary to distinguish between the period through FY 3/2031 and the period beyond that. For the period through FY 3/2031, while I understand that you intend to minimize the increase in total assets and interest-bearing liabilities, I would like to know specifically how you plan to achieve this. For example, are you continuing to consider options such as selling cross-shareholdings?

You also explained that you will finance with your own funds until the commencement of operation of Shimane Nuclear Power Station Unit 3 and the replacement project for Yanai Power Station (new Unit 2). Does this mean that for the period toward FY 3/2041, you will be considering various financing methods, including approaches that do not involve holding power generation facilities as assets? Given the increasingly challenging environment for investments, do you intend to take a bold approach by pursuing asset-light management for future large-scale projects?

A. The environment for power source investment remains extremely challenging, and we intend to engage in thorough discussions regarding the extent to which government schemes will be revised going forward. If we are to invest our own funds, taking into account potential future interest rate increases, we intend to strictly apply WACC + 1% as our investment decision criterion and proceed with investments that are expected to generate profit. At the same time, procuring electricity through wholesale transactions or in the market for retail sale, instead of investing our own capital, is also considered a fully viable strategy. Under the framework of nondiscriminatory wholesale transactions, retailers can utilize power sources from other regions, which in turn provides us with opportunities to capture demand outside our own service area. That said, we must be mindful that, should Japan experience a nationwide power shortage, market prices could surge, making it extremely difficult to operate an asset-light business model. We will carefully assess how the expected increase in demand from data centers and other facilities will affect the overall electricity supply in Japan, while also closely monitoring interest rate trends and other developments. Based on these assessments, we will determine whether to invest our own funds or to secure power for retail sales by utilizing electricity

procured from the market or from other companies.

With respect to cross-shareholdings, we conduct annual reviews to verify the significance of each holding and have been steadily reducing the number of stocks held, and we will continue these efforts going forward. Toward FY 3/2031, as part of our cash management initiatives, we will continue to carefully select investment targets and steadily advance efforts to reduce assets.

Beyond FY 3/2031, our highest priority will be achieving our capital profitability targets. We have presented a cash allocation plan to reach this goal, and while the specific roadmap will depend on the investment profitability evaluation at the time, we aim to achieve our targets by making full use of a variety of financing methods, including project financing.

[Financial Targets]

Q. You indicate ROE targets of 8% and 10% on page 14 of the briefing materials. What was the rationale for setting these targets?

A. The ROE targets were set not by aggregating specific numerical estimates, but rather from the perspective of responding to requests from investors and taking into account factors such as the requirements of the Tokyo Stock Exchange. Through FY 3/2031, our focus will be on ensuring the stable operation of Shimane Unit 3, raising our profit levels, and strengthening our financial structure. In this context, we set an ROE target of 8% as a commitment to securing a minimum level of capital profitability for our shareholders. Looking ahead, we plan to develop a roadmap for achieving this target using a backcasting approach.

Q. What about the 10% target? There are only five years remaining until 2030. Although the 8% ROE target was not established by aggregating specific figures, it seems to reflect a level that is realistically achievable within that time frame. In contrast, there are 15 years to go until 2040. Depending on how asset-light your approach becomes and how much leverage you employ, a 10% ROE could represent the level expected of you, or you may be expected to pursue an even higher level. In that sense, the 10% target appears to be more of an aspirational long-term goal. I understand that the decision to aim for a 10% long-term target reflects your intention to meet market expectations. If possible, could you share your thinking behind why 10% was chosen as the target level?

A. The ROE target of 10% or higher for FY 3/2041 was set from the perspective of aiming for greater capital profitability, taking into account the expected increase from the FY 3/2031 target of 8%, as well as new power sources such as Shimane Unit 3 and the new Yanai Unit 2, and the projected growth in both kWh and profits. We also considered the balance between the equity ratio and shareholder returns, since raising the equity ratio too high could, conversely, lower capital profitability. After running simulations that incorporated these interrelated factors, we determined that a level of 10% or higher represents a target that is expected of us. To be frank, the ROIC target of WACC + 1% was set with reference to examples from other companies, given the difficulty of accurately forecasting future interest rate increases.

[Capital Investment]

Q. Regarding the cumulative investment of 1.7 trillion yen over five years, what are the respective proportions of growth investment and renewal investment? There may be some discussion as to whether Shimane Unit 3 and the new Yanai Unit 2 should be categorized as growth investment or renewal investment, but please answer based on your own definitions. Could you provide a breakdown of the investment, for example, by indicating that "90% is for renewal investment" or that "both Shimane Unit 3 and the new Yanai Unit 2 are included in renewal investment"? Alternatively, if you are able to disclose the investment amounts for Shimane Unit 3 and the new Yanai Unit 2 separately, that would also be appreciated.

A. We expect to invest 1.3 trillion yen in carbon neutrality initiatives between FY 3/2025 and FY

3/2031. This amount includes investments in nuclear power generation, renewable energy, and decarbonization of thermal power, including the new Yanai Unit 2, as well as investments in transmission and distribution systems. These have been certified by a third-party evaluation as fully contributing to renewable energy interconnection and are therefore classified as carbon neutrality investments for financial purposes. In total, we anticipate investing approximately 1.3 trillion yen, or about 200 billion yen per year, primarily in these areas. The investment amount of 1.7 trillion yen presented in the cash allocation plan covers a different period, namely, the five years from FY 3/2027 to FY 3/2031, and includes not only carbon neutrality investments but also ongoing business investments. Accordingly, we have not provided a breakdown by the categories mentioned in your question. This investment plan assumes steady progress in investments for Shimane Unit 3 and the new Yanai Unit 2, incorporates essential investments in the power transmission and distribution business, and anticipates selective investment in other areas. We plan to consider how to incorporate these within our Medium-term Management Plan and how to present them in the Action Plan scheduled for disclosure at the end of April, including possible updates to the disclosure of our carbon neutrality investments.

[Shareholder Returns and Dividend Policy]

Q. Regarding shareholder returns. At the beginning of the fiscal year, you revised the dividend payout ratio to 12%. From an outside perspective, it appears that, following six months of deliberation on the Group Corporate Vision, you have shifted your shareholder return policy to focus on DOE (dividend on equity). Could you tell us the background behind this change in your shareholder return policy?

You have stated that you aim to achieve a DOE of 2% at the earliest possible timing. However, based on your earlier comments, it seems that while the DOE policy will begin in FY 3/2027, the 2% level may not necessarily be achieved immediately. Am I correct in understanding that although you aim to reach the 2% level whenever possible, it may not be attainable until Shimane Unit 3 commences operation? Also, could you elaborate on what exactly you mean by "at the earliest possible timing"?

A. While we have prioritized improving our financial structure as a key challenge, we also recognize the importance of meeting the expectations of our shareholders. Our decision to introduce the DOE reflects our commitment to providing stable dividends over the long term. We will determine the dividend amount for next year after carefully assessing the income and expenditures for the current fiscal year. Although it will be difficult to achieve a DOE of 2% as early as next fiscal year given our current focus on strengthening our financial structure, we intend to realize a 2% dividend as soon as we reach a stage where a certain degree of improvement in our financial structure can be expected, even before Shimane Unit 3 commences operation.

Q. It appears that there has been a major shift in direction from the dividend policy announced at the beginning of the fiscal year. What discussions or issues recognized within the company led to this change? Please explain the background of this shift and the internal discussions that took place.

A. Shareholders of former general electric utilities generally expect stable dividends. When comparing dividend policies across these companies, it becomes clear that we are the only one that has adopted a performance-linked approach, and we take seriously the critical feedback we have received. Within the company, we discussed how to balance our priority of restoring our financial structure with the need to meet shareholder expectations. As a result, we decided to introduce the DOE concept, under which dividends increase as equity accumulates, as a more desirable dividend policy. While it would be ideal to implement a 2% dividend immediately, we believe it will be difficult to achieve that level as early as FY 3/2027 given our current focus on improving our financial structure.

Q. Regarding the expansion of shareholder returns beyond 2030. As stated here, taking into account

factors such as the equity ratio, ordinary income, and ROE, equity capital at the end of FY 3/2031 is expected to stand at around 1 trillion yen. Taking that as the starting point, it appears there will be limited room to significantly increase the absolute amount of equity capital toward FY 3/2041. Am I correct in understanding that most of the profits will therefore be allocated to dividends or share buybacks?

A. With regard to the use of our own capital to construct large-scale power sources toward FY 3/2041, we intend to proceed steadily through the completion of Shimane Unit 3 and the replacement project for Yanai Power Station (new Unit 2). Beyond that, we plan to consider large-scale investments while incorporating a variety of financing methods. Meanwhile, we expect renewable energy sources to increase substantially as power supply options. Because renewable energy is highly volatile and has the potential to significantly influence electricity market prices, we believe that trading expertise will play a critical role in our competitiveness. By combining the balancing capability of our own power sources with our trading technology in the electricity market, we aim to generate profits without making excessive capital investments.

Q. You mentioned that you aim to achieve a DOE of 2% at the earliest possible timing. Several indicators related to this goal, such as ordinary income, consolidated shareholders' equity ratio, and ROIC, are presented on page 14 of the briefing materials. I believe the key priority here is improving your financial structure. Am I correct in understanding that once the consolidated shareholders' equity ratio, in particular, approaches 20%, you intend to raise the DOE to 2%?

A. Safety measures for Shimane Unit 3 account for the largest portion of these investments. We are currently under review for our application for permission to change our reactor installation license, and we recognize that obtaining this permission represents the first step. While we believe the process is progressing smoothly, we cannot make any definitive statements until we receive authorization from the Nuclear Regulation Authority. We will therefore continue to respond diligently to the review. The next step will be to develop a construction plan, known as the "Approval of Design and Construction Plan." Once the construction plan is approved, the total costs of the measures required for each facility will become clear, and we consider that stage to be one of our key decision points.

Q. Once the investment amount for Shimane Unit 3 is finalized to a certain extent, you should be able to see whether a consolidated shareholders' equity ratio of 20% is attainable. Basically, that's when you intend to make a decision- is that correct?

A. Ideally, we aim to increase earnings before then to enhance the likelihood of achieving a consolidated shareholders' equity ratio of 20%. That said, the investments in safety measures for Shimane Unit 3 are substantial, and having a high level of certainty regarding the investment amount is a critical factor in advancing the improvement of our financial structure.

Q. I would like to confirm the message behind the introduction of the DOE this time. Previously, the dividend amount was determined based on the dividend payout ratio, which meant that a decline in profits led to a reduction in dividends. Regardless of whether the 2% DOE will be applied as early as next fiscal year, now that you have indicated that dividends will be determined based on DOE, should I understand that you are indicating a policy of not reducing dividends unless equity capital is eroded? I also understand that dividends were previously determined based on the payout ratio in response to requests from debtors not to pay dividends exceeding EPS. Am I correct in understanding that, under the new dividend policy, the debtors are now also in agreement with continuing dividend payments as long as equity capital is not eroded?

A. The current dividend policy, which links dividend payments to our profits, was introduced as an emergency measure following the deteriorated income and expenditures and financial structure after 2020. Prior to that, we had consistently maintained stable dividends. We continued our policy of

paying dividends at a payout ratio determined based on profits for two years. During this period, when profits for the current fiscal year exceeded expectations, a reactionary decline in profits was projected for the following fiscal year for two consecutive years, which drew significant criticism that we take seriously. Against this backdrop, and after discussions on the appropriateness of a policy under which dividends increase in tandem with a stable rise in equity capital, we decided to adopt the DOE approach starting in FY 3/2027. Although major fluctuations in fuel prices and other issues may arise in the future, we intend to determine the specific dividend amount in accordance with this policy to the greatest extent possible.

Within the company, our discussions focused on the dividend increase during the last fiscal year (FY 3/2025) and the projected decline in dividends for the following fiscal year as a reaction to it, which we recognize may have caused inconvenience to investors in terms of predictability.

While we cannot rule out the possibility of changes due to special circumstances, as we set goals for the future and work toward them under the current Group Corporate Vision, our basic policy is to follow the DOE approach, ensuring that dividends are paid in proportion to our financial recovery.

We have also discussed that, because performance-linked dividends can influence decisions that may affect profit within a single fiscal year, such as decisions to sell assets, the introduction of the DOE approach offers advantages in promoting greater asset efficiency.

[Profit Forecasts by Segment]

Q. I really appreciate that you have reviewed your shareholder return policy. If you hadn't used the word "aim," I wouldn't have minded even if the DOE target had been set at 1.5%. Previously, the dividend payout ratio was managed based on net income that included time-lag effects, which, as we had pointed out, posed the risk of a reduction in dividends. I am truly grateful that you have taken our concerns into consideration. I believe you will be asked repeatedly when you expect to reach a DOE of 2%, so please be ready with an answer. I also understand and agree that your financial structure needs to be improved.

As for the targets for FY 3/2041, I do not intend to fuss over details as long as you demonstrate your determination to aim for an ROE of 10%. That said, I cannot help but pay closer attention to the details of the targets set for FY 3/2031. I think the way the consolidated figures for FY 3/2031 are put together is excellent, regardless of the specific levels of the numbers. However, the shortcoming of this document is that when moving from consolidated-level analysis to segment-based analysis, there are no hints to be found. I would like you to provide figures such as ordinary income for FY 3/2031 by segment. If you don't have specific figures by segment, even a rough idea of your thinking would be appreciated. Regarding ordinary income shown on the Financial Targets page, the forecast for FY 3/2026 is 85 billion yen, and if the time-lag effect is excluded, the effective figure would be around 75 billion yen. It is indicated that once Shimane Unit 3 goes into commercial operation in FY 3/2031, ordinary income will reach 110 billion yen, meaning a profit increase of 35 billion yen can be assumed. Of this 35-billion-yen increase, it appears that somewhere in the range of 20 to 30 billion yen may be attributable to the operation of Shimane Unit 3. On the other hand, the operating income forecast for the power transmission and distribution business for this fiscal year is 10 billion yen, and I would like to know how much of this is reflected in the target figure. Also, if there are factors other than the power transmission and distribution business and Shimane Unit 3 that account for roughly 10 billion yen or 5 billion yen, I would like to know the breakdown, including whether these are attributable to power generation, retail, or information and telecommunications, or if they are simply rough estimates.

My second question is about Plan B for FY 3/2031 in the event that the operation of Shimane Unit 3 is delayed by one or two years. I would like to know what that scenario would look like, even if you do not have specific figures. Since the unit has not yet passed the safety review, my assumption is that we would be fortunate if it becomes operational. Although I want you to strive for successful operation and do hope to see Shimane Unit 3 up and running, I understand there may be circumstances beyond your control. If the unit does not go into operation, achieving the FY 3/2031 targets may not be feasible, but I would still like to know how you intend to continue enhancing corporate value.

A. The impact of Shimane Unit 3's operation is estimated to be around 30 billion yen. However, please note that profits may fluctuate from year to year, as they are affected by factors such as the timing of installing facilities to deal with specific large-scale incidents and conducting periodic inspections. For retail, we have factored in just under 10 billion yen, taking into account an approximately 5 billion kWh increase in electricity sales volume and a certain level of profit. We have also factored in an increase of several billion yen in profits from Group companies' initiatives in gas sales and information and telecommunications. As for the power transmission and distribution business, we expect to continue facing severe income and expenditure conditions during the current first regulatory period. For the second regulatory period, beginning in FY 3/2029, while this will depend on upcoming system revisions and rate adjustments, we expect to achieve profits fitting for the current level of business returns and have factored in a total of around 40 to 50 billion yen overall.

Q. I would like to ask in more detail about the impact of Shimane Unit 3's operation. Am I correct in understanding that Shimane Unit 3 would have a profit impact of 30 billion yen if it operates at full capacity over the year, and that its profit impact in FY 3/2031 would therefore be a fraction of that amount depending on when commercial operations commence?

A. Regarding Shimane Unit 3, given the possibility of deviations from the projected investment amount and the fact that the details of the long-term decarbonization power source auction system have yet to be determined, we currently estimate that, based on certain assumptions, the unit could increase earnings by around 20 to 30 billion yen.

Q. Am I correct in understanding that the business return rate for the power transmission and distribution business in FY 3/2031 will remain at 1.5%, and that operating income will be around 10 billion yen?

A. For the second regulatory period, profit projections take into account the expectation that factors such as rising interest rates will be reflected to some extent in the WACC, or in other words, the business return rate.

Q. Could you tell us approximately how much profit that would translate to?

A. The total assets of Chugoku Electric Power Transmission & Distribution are around 1 trillion yen. Applying a business return rate of 1.5% yields approximately 15 billion yen in operating income, which would represent an appropriate level of return. In addition, if the business return rate were to rise by about 1%, profit would be around 25 billion yen, and this potential increase has also been factored in.

End

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

* In this document, the term "FY 3/2026" refers to the period between April 1, 2025 and March 31, 2026.

* 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.