Interview with the Officer in Charge of Accounting and Finance

Our Medium-Term Management Plan shows our target of 8% ROE at the very least by the 2030s, as well as how we will solve financial issues to achieve this

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Medium-Term Management Plan

Aiming for an ROE of 8% or higher by the 2030s by achieving a performing assets ROIC of 3.5%

First of all, I would like to talk about the financial target levels outlined in the Medium-Term Management Plan 2024–2026 (“MTMP”).

Currently, our Group consolidated equity ratio is around 35%, which considerably exceeds the 30% target in the previous medium-term management plan and represents the highest levels in the electric utility industry. However, looking at the profits generated in regard to this robust equity capital, our ROE is below 8%, which is the minimum level of return demanded by the capital markets. As we tackle the challenges of constructing the Ohma Nuclear Power Plant and realizing a transition in thermal power, one of the main points in our MTMP from a financial perspective is how we achieve the returns required by the capital markets.

In regard to ROE, it is important that we do not focus solely on profit levels that make up the numerator of the fraction. We must also carefully assess the equity levels that make up the denominator. Although we have abundant equity capital at present, we also have plans for large-scale investment in projects such as the construction of the Ohma Nuclear Power Plant and transition of thermal power, which will be accompanied by an increase in interest-bearing debt. We expect this will lead to a decrease from our current equity ratio at some point. Also, the environment around the Domestic Electric Power Business is becoming highly volatile due to electricity system reforms, so it is difficult to ascertain the appropriate equity ratio for the present moment.

Based on the above, for the future financial target levels in this MTMP, we set 8% or higher as the minimum level of ROE we should be clearing based on an equity ratio of 30% or more in the 2030s, when we should have a certain prospect of resolving the aforementioned challenges. We will need a performing assets ROIC of about 3.5% to achieve this level, so we have set the target of ¥90 million in consolidated ordinary profit for FY2026, the final year of the MTMP, in recognition of the level of performing assets ROIC required.

For FY2024, we have announced a forecast consolidated ordinary profit* of ¥62 billion, which factors in a decrease in profit of about ¥18 billion associated with the long-term suspension of operation of No. 1 Unit at Tachibanawan Thermal Power Plant. By FY2026, the final year of the MTMP, we want to have recovered from this long-term suspension and also raised earning power in order to achieve our management goals.

*Forecast as of the release on May 9, 2024

P.24 Management Goals

Shareholder Returns and Stock Price

Delivering highly predictable shareholder returns and making business more transparent

We recognize that shareholder returns are an area where we are not in line with the expectations of the capital market and that we have a lot of work to do to address this. During the previous medium-term management plan period, we earned a

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large amount of one-time profit from Australian coal mining interests, and this led to a lot of critical feedback that our shareholder returns were not achieving the targeted 30% consolidated payout ratio and therefore not meeting the expectations of the capital markets. Taking into account this turn of events and our achievement of the previous plan's business result targets, we raised the year-end dividend for the fiscal year ended March 31, 2024, by ¥10 per share. We have also clarified our approach to shareholder return in the new plan by setting ¥100 per share as the lower limit for dividends and stipulating that we will consider an additional return with a consolidated payout ratio of around 30% if the total profit over the three years exceeds the forecast.

Next, in regard to stock price levels, while an anticipated increase in electricity demand and the resumption of nuclear power plant operations is driving the PBR of some electric power companies upward, our PBR has remained low at 0.4x. We recognize that the background behind this, in addition to the aforementioned low levels of ROE, is that there are two major opaque factors affecting PER. These are our thermal power transition plan amid the anticipated shrinking of coal-fired thermal power generation as part of the response to climate change, as well as the undetermined time frame for the start of operations at Ohma Nuclear Power Plant. Neither of these issues can be solved in the short term, but we have included as much explanation in the MTMP as we are able to at present with the aim of reducing the uncertainty of the outlook, even if only by a little. For thermal power plants in Japan, the plan clarifies our planned direction for the transition by site and unit. Regarding the Ohma Nuclear Power Plant Project, it demonstrates our direction of considering the use of the Long-Term Decarbonization Power Source Auction System as a way to make investment recovery more predictable.

P.25 Shareholder Returns

Enhancing Capital Efficiency

Aiming to increase returns while lightening the balance sheet

Until now, we have operated our business based on business models that involve developing and investing in-house, and then continuing to hold the developed assets long term. However, when looking at the degree of returns we can extract from our enlarged balance sheet, we recognize that we need to practice management that is highly conscious of capital efficiency.

The Electric Power Business has a business model which basically involves recovering large investments over long periods. However, taking a capital efficiency perspective, we need to focus on recovering investments early, including by selling partial interests after development to acquire developers' profits while working to lessen the burden on the balance sheet. We have already started carrying out this kind of initiative at the Jackson Generation Power Plant in the U.S. and other sites. Going forward, we will work to develop and grow the renewable energy business in Japan while also focusing on improving capital efficiency, including by partially selling off interests in a similar way and by using alliances.

The main point is we need to break away from our previous norm, which was holding a 100% interest in the assets we develop throughout their entire lifespan.

P.26 Capital Allocation

Enhancing Earning Power

Aiming to capitalize properly on the value we provide

Enhancing earning power is an important and endless theme that is always being discussed by management. An issue that is particularly significant at present is that thermal power has shifted from a baseload power source to an intermediate load power source. We need to communicate with customers to ensure they understand that products and services related to an intermediate load power source that functions as regulatory power offer a different value to what we have provided before, so that we can receive fair prices for these products and services.

Also, in regard to renewable energy, currently there is no monetary valuation for environmental value in Japan, and the government is setting the price of non-fossil fuel certificates at the lowest possible levels. Additionally, based on the current technology, Japan's land constraints mean there are not many places suitable for renewable energy development, both on land and sea. Movement is underway to realize this limited renewable energy development as soon as possible and there is growing demand from forward-looking customers who want to receive renewable energy under long-term agreements as they highly recognize the environmental value. We are working to conclude direct agreements (corporate PPAs) with these customers in order to monetize environmental value.

Whether it be thermal power or renewable energy, we will capitalize properly on the value of the products and services we provide. We see this as the first step to enhancing earning power.

Message to Investors

We intend to thoroughly disclose our thinking and initiatives and to maintain dialogue

We understand that stakeholders in the capital markets have opinions about issues facing the Group, namely, the prolonging of the construction period in the Ohma Nuclear Power Plant Project and the anticipated shrinking of coal-fired thermal power generation. Therefore, we recognize that it is extremely important to create opportunities for dialogue.

As a power generation business operator, we will maintain a stable supply of electricity while steadily working to become carbon neutral. We will also engage with our investors by thoroughly disclosing and explaining the initiatives we carry out, as well as the thinking behind them.

Your diverse opinions are valuable input into the formulation and execution of our management plans. Going forward, we look forward to continuing our relationships in a way that facilitates close communication.