

Interview with the President

TOP INTERVIEW



Kazuhiro Ikebe

Member of the Board of Directors,
President & Chief Executive Officer

K. Ikebe

Q1

How would you review your first year as president overall?

A1

I think that we've laid a firm business foundation that will help the Kyuden Group grow in the medium to long term.

In FY2018, we moved forward with several essential strategies, including operating four nuclear power stations, responding to the competitive environment, and developing new sources of revenue. At the same time, the group as a whole put tremendous effort into increasing efficiency throughout all our business activities. As a result, we've now been in the black for four consecutive years.

First, in terms of nuclear power, we resumed normal operations of Genkai Nuclear Power Station Unit 4, bringing our total number of nuclear power units in operation to four. That means that four of the nine total nuclear power generation facilities in Japan that have been restarted are units of ours. Moving forward, we will work autonomously and continuously to enhance safety and reliability, and strive to continue operating our nuclear power stations safely and stably, provide a stable source of power, improve our balance, and reduce the amount of CO₂ emissions, all while providing information proactively and communicating effectively.

With respect to the competitive environment, three years have passed since full deregulation of the industry. Although the increase in the number of lost customers has slowed somewhat, the level of competition we face is steadily increasing. FY2018

saw us firmly engaged in a variety of business activities, such as top-level sales by myself and other executives, and face-to-face sales that take advantage of direct contact with customers. We also made sure to quickly provide price plans that meet our customers' needs, such as by offering electricity and gas as a set (with about 90,000 applications received as of the end of March 2019) and heat stroke prevention plans, which we announced last July and have been very well received (about 160,000 applications). We also started reducing our prices in April 2019, which, when taken with our operation of four nuclear plants and the effects of improved management efficiency, has strengthened our competitive position.

We are seeking new sources of revenue through the full-scale rollout of the KYUDEN i-PROJECT, which is aimed at generating new value for customers and the community by solving a range of issues. Elsewhere, the whole group is working cohesively to create innovative businesses and services. Some of these have already been commercialized, including a personal monitoring service that works by using location information, and a project for improving hydroelectric power generation in Vietnam.

In infrastructure-related services, our airport management project is expected to provide stable returns over the medium to long term, while also contributing to regional development and revitalization. From our base in Kyushu, we remain dedicated to our core business—energy services—as a means of regional development and revitalization. This increases the potential for revenue, not only for our main business, but also for the group as a whole. It should also be noted that our company jointly holds the rights to operate Fukuoka Airport with other organizations, and the airport commenced private operations in April 2019. The same applies to Kumamoto Airport, which will commence private operations in April 2020.

So, I think over my first year as president, we've successfully laid a firm business foundation that will grow the Kyuden Group over the medium to long term.





We have now reached the middle fiscal year of the period set for the completion of the financial objectives announced in FY2017, what can you tell us about the Kyuden Group's progress so far?



At present, our equity ratio is on the road to recovery, and the group as a whole continues to work on the dual policies of increasing revenue and cutting costs.

Our target of ¥110 billion or more in ordinary income (FY2017—FY2021 average) has been affected by factors such as the state of operations at the Genkai Nuclear Power Station Units 3 and 4 and the schedule for regular inspections of nuclear power stations. As such, we expect an average of around ¥70 billion for the three years from FY2017 to FY2019.

We also have an equity ratio target of around 20% to be achieved by the end of FY2021. In light of such circumstances with respect to ordinary income, our equity ratio is showing recovery, and stands at 13.3% as of the end of FY2018.

In terms of FY2020 onwards, we first need to determine the progress of construction at Specific Safety Facilities at the Sendai Nuclear Power Station Units 1 and 2, in light of the installation

deadlines of March and May 2020, respectively. That said, we do foresee a reduction in fuel costs achieved by using our nuclear power plants to the maximum extent and bringing our cutting-edge coal-fired Matsuura Power Station Unit 2 (ultra-supercritical generation type, 1,000 MW) online, lowering temporary outgoing related to power system reforms, and more. At the same time, we are aiming at a further increase in revenue from overseas business, renewable energy business, ICT services, and more.



Q3

You recently drew up the Kyuden Group Management Vision 2030. Can you tell us about the position in which you hope to be by 2030, and your approach to management objectives?

A3

We formulated our management vision based on the idea that without development for Kyushu, there can be no development for the Kyuden Group. In other words, we made it our mission to develop and grow along with the region, and then set the position we want to be in, and four management objectives, for 2030.

Many social issues have become much more serious in recent years. Decreases in the population, a falling birthrate and aging society, and people concentrating in urban areas have led to increased social and economic gaps between regions. One of the main points of this vision lies in us reaffirming the Kyuden Group as an organization whose mission is to face these issues head-on, and develop and grow along with the region.

In terms of our position for 2030, we created the slogan, "Kyuden Group: Creating the future, starting from Kyushu. Providing more prosperous, comfortable living to become our customers' No. 1 choice." This expresses our wish to become our customers' first choice by providing energy services and new kinds of value for a more prosperous and comfortable lifestyle, and the idea that by using Kyushu as a foundation to help solve a variety of social issues, we can create a brighter future throughout the region and throughout society, which will then spread from Kyushu to the rest of the world.

In terms of management objectives, we need to further improve our equity ratio, secure income with a look to growth investments, and so on to realize the position I've described just now. In light of this, we set ordinary income as one of our management objectives. Specifically, we're aiming for earnings of ¥150 billion, which is about double our current level. Half of this will come from domestic power businesses, and the other half from other sources. Increasing the total amount of power sales—both retail and wholesale—in and outside Japan, and strengthening our competitiveness through low power prices, are two extremely important factors for us to achieve this ordinary income target. We therefore set total power sales of 120 million MWh and a never-ending pursuit of top-level power prices as

further management objectives. At the same time, I've been extremely concerned about environmental problems such as global warming for some time now. Thus, to demonstrate our strong commitment to creating a low-carbon society, we have made contributing 70% to the amount by which Kyushu's CO₂ must be reduced one of our management objectives. We feel this is also in line with the increasing global focus on ESG investment.



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FY2018 was the fourth fiscal year running where dividends increased, what is your approach to shareholder returns in the future?



Maintaining stable dividends continues to be the foundation of increased returns for our shareholders and investors.

We will determine the dividend based on a comprehensive review of our business performance and other factors, with maintenance of stable dividend payments as a fundamental policy.

The dividend for the fiscal year ending in March 2019 was set at ¥30 (¥15 each for the interim and full year) based on that year's business results and other factors.

For the fiscal year ending in March 2020, we are planning to increase the dividend by ¥10 from the previous fiscal year, to ¥40 (¥20 each for the interim and full year), based on a general judgment of this year's performance forecast, revenues/expenditures and financial status for the medium to long term, and so on.

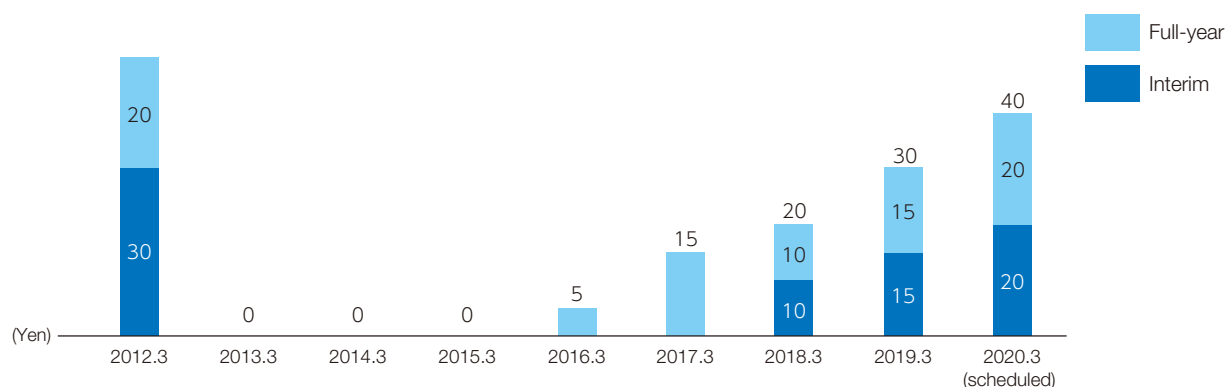
Future dividends will be considered in light of whether or not financial targets are being met, revenues/expenditures and financial status for the medium to long term, etc. We hope to return the dividend to its pre-disaster level (about ¥50) as soon as possible once it appears certain that we will meet our equity ratio target of about 20%.

As I mentioned earlier, part of our management vision is

earning half of our 2030 ordinary income target (¥150 billion) from businesses other than our domestic power businesses. Thus, in the future, we will consider the redistribution of profits in light of the growth of those other businesses, while keeping stable dividends as the bedrock. This will enable us to provide even better returns to our shareholders.

Of course, our company is still operating in a difficult business environment, and we are aware that uncertain times will likely continue. Maintaining and strengthening our equity capital remains one of the most important issues for us. Thus, through a special resolution at the annual shareholders' meeting in June 2019, we revised the specifics concerning class A preferred stock issued in August 2014, by changing assignees, changing dividend rates, and so on. Doing so not only ensured the stability of our recovering equity capital, but also reduced the preferred dividend rate from 3.5% annually to 2.1%, enabling us to achieve a reduction of ¥1.4 billion per year in preferred dividend obligations.

● Dividends per Share of Common Stock



Q5

Finally, can you tell us about your hopes for FY2019?

A5

We believe factors such as operating four nuclear power plants and the Matsuura Power Station Unit 2 coming online provide us with an opportunity to switch our business from “defense” to “offense.” We will aim for the sustainable growth of the Kyuden Group as a whole, while also working to further enhance our corporate value.

Continuing safe and stable nuclear power operation, responding to the competitive environment, and improving our balance are the management issues we will engage with as we move forward.

First, when it comes to operating our nuclear plants safely and stably, we firmly believe that we must always be striving to ensure that nuclear power is safe. Based on this belief, we will work autonomously and continuously to enhance safety and reliability with respect to the safe and stable operations of Genkai Nuclear Power Station Units 3 and 4 and Sendai Nuclear Power Station Units 1 and 2, and making steady progress on decommissioning Genkai Nuclear Power Station Units 1 and 2. One particular issue is that the installation deadlines for Specific Safety Facilities at Sendai are coming up next year. Although we are aware that progress has been slower than anticipated, the construction plan has already been approved, so we will thoroughly examine ways to shorten the work period for the remaining installation construction and devote all our energy to making that a reality.

In terms of responding to the competitive environment, we plan to use the price reductions in effect since April 2019, new price plans and services created based on customer needs, and more as “weapons” to move beyond our competitors openly and fairly. We are forecasting an increase in the amount of power sold in FY2019 over the previous year for the first time since 2016’s full deregulation of the power sales market.

To improve our balance, we will continue steady operations of the power sources that give us a competitive edge, including our four nuclear power plants, as well as the Matsuura Power Station Unit 2, which we are bringing online in December. We will also work further to achieve an unmatched level of efficiency throughout all of our business activities. At the same time, we will continue to develop our overseas businesses and renewable energy businesses, while expanding into new businesses and



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services that take advantage of the Kyuden Group’s strengths, including ICT services, urban development and community planning, and infrastructure-based services. This should enable us to achieve even higher levels of revenue.

Working as a single entity to address these issues will ensure the Kyuden Group can both achieve sustainable growth and further enhance its corporate value.

In closing, we announced our Management Vision for 2030 in 2019. This will serve as a starting point for our entire group to work together toward making that vision a reality.