

March 31st, 2020

Kyushu Electric Power Co., Inc.

Investor FAQ about FY2019

Q1 The ordinary income of FY2020 is affected by the SSF (Specified Safety Facilities) completion deadlines for Sendai Nuclear Power Station Units 1 and 2. Could you give more information on the SSF construction works and the reason for not meeting the deadline?

Under the safety standards of the Nuclear Regulation Authority (NRA), Japanese electric utilities must build facilities that can respond to emergencies caused by terrorist attacks against the nuclear reactors. Major purpose of the Specified Safety Facilities is the protection against a deliberate plane crash. The SSF completion deadline is set as 5 years from the approval date of "Construction plan for main facilities". The NRA's policy is to order a suspension of operations from the day after a construction deadline is missed. In Japan, the earliest SSF completion deadline is for Kyushu Electric Power's Sendai Unit 1 (March 2020), followed by Sendai Unit 2 (May 2020), Kansai Electric Power's Takahama Units 3 (August 2020) and 4 (October 2020).

As mentioned before, the SSF completion deadline is set as 5 years from the approval date of the construction plan; however, at that time it was not clear what these SSF requirements would entail exactly. As Kyushu Electric Power's Sendai Units 1 and 2 are the first nuclear reactors to meet the SSF completion deadline, we have been working closely together with the NRA to define these requirements to ensure safety as best as possible. These requirements have been discussed over a long period of time and the definite outcome was communicated in April 2019. The SSF completion deadline of March 2020, however, has not been changed, resulting in the fact that construction works need to be realized in a period of one year. We estimate that to complete the SSF construction works will need an additional 8 to 9 months and therefore Sendai Unit 1 will be offline from March to December 2020 and Unit 2 from May to January 2021. Of course, we are doing our utmost to shorten the work period when possible. For Genkai Nuclear Power Station Units 3 and 4, the SSF deadline will be respectively August 2022 and September 2022. For Genkai, by making maximal efforts, we aim to complete the SSF construction works within the deadline.

Q2 The ordinary income of FY2019 decreased because of a loss in reselling surplus LNG. Could you explain more about the LNG losses?

Currently our company has long-term LNG contracts with suppliers in countries such as Australia, Russia, and Indonesia. Some of these contracts were made after the Fukushima Disaster in 2011 in order to make up for the amount of electricity that nuclear power plants used to generate annually before the earthquake. To ensure security of power supply, we committed to then appropriate volumes of LNG linked to oil price. However, the long-term forecasts of Kyushu's electricity consumption were higher than actual consumption, as annual demand decreased over time. This is largely due to three factors.

First, the introduction of energy conservation measures after the Fukushima disaster turned into conservation habits and electricity consumption declined. Second, the introduction of the feed-in tariff system in 2012 resulted in a rapid increase of solar power generation in the Kyushu region. In order to accept the electricity of renewable energy sources into the electricity grid as much as possible, we had to reduce our thermal power generation output, particularly using less LNG, as it is more expensive than coal. Last, in 2016, the liberalization of the electricity retail market started, and new electricity retailers entered the market which led to lower electricity demand for our company.

Using less LNG resulted in a surplus and the long-term LNG contracts generally have take-or-pay clauses, which allow for limited flexibility on offtake volume. Therefore, we began reselling the surplus LNG. Unfortunately, in 2019 there was an oversupply in the LNG market and, as supply exceeded demand, LNG prices plunged dramatically. The reselling of our surplus LNG incurred great losses as spot market prices were considerably lower than our contracted price, as it is linked to oil prices. Currently, price review negotiations are ongoing so that the revised prices would reflect the level of the recent term contract prices.

Looking forward, for 2020 we expect an increase in LNG use, as two of our four nuclear units will be temporarily shut down for a period of 8/9 months. We are also looking into initiatives to create more demand for LNG such as LNG bunkering, which means using LNG as a fuel for ships, and replacing heavy oils, which is better for the environment. In 2022, the largest long-term LNG contract (out of eight contracts in total) will expire, which has a contractual volume of 1 million tons of LNG per year.

Q3 A new coal-fired thermal power plant, called Matsuura Power Station Unit 2, went online in December 2019. Why does the company invest in coal power as there is currently a global decline in using coal-fired electricity?

We do share the world's concerns about the environment and we pay great care to our CO2 emissions. In our Kyuden Group Management Vision for 2030, we have set a target to contribute to reductions in CO2 emissions produced in Kyushu by 70%, which shows our commitment to create a better environment. Our CO2 emissions in FY2018 totaled 24.8 million metric tons with an emissions coefficient of 0.347 kg CO2/kWh for electric power sold. By combining nuclear power, hydro power, and renewable energy we have a high ratio of non-fossil power source ratio of 43%. Making efforts to incorporate renewable energy as much as possible, our FIT electricity ratio is 12%. This means that over 50% of our electricity is being generated by non-fossil power sources.

When looking at our thermal power sources, coal currently accounts for 25% and LNG for 18%. In Europe there is a decline in using coal-fired electricity, whereas the Japanese government has defined coal-fired power as an important baseload power in the 5th Strategic Energy Plan, defining coal as 26% of the projected energy mix for the year 2030. With no power lines or gas pipelines from neighboring countries, Japan is poor in natural resources such as oil and natural gas, and therefore is easy to be affected by the influence of international situations when securing resources. To ensure a stable energy supply, Japan proceeds with the diversification of supply sources by importing crude oil, LNG, and coal.

We are trying to reduce the harmful impact of thermal power by closing down old oil-fired thermal power plants, which produce more CO2, and by investing in advanced thermal power plants, such as the Matsuura power plant Unit 2, which is coal-fired but has ultra super-critical technology that improves thermal efficiency and reduces environmental impact. It has a high thermal efficiency of approximately 46%.

Q4 Domestic retail electricity sales volume has decreased for FY2019. Being faced with new entrants and a declining population in Kyushu, what measures does the company take to mitigate a decline in sales?

We prevent customers from switching by a variety of business activities such as direct mail and face-to-face sales that take advantage of direct contact with customers. We also introduced a variety of plans, such as offering electricity and gas as a bundled plan (as of the end of December 2019 we received 110,000 applications) and plans for all-electric homes. To meet customers' needs we have also tailored our offerings to various customer segments, such as the Heat Stroke Prevention Plan. This plan is especially designed for the elderly as they receive a discount on the higher energy costs during summer, encouraging them to run their air conditioners without worrying about the electricity bill. It has been very well received (about 180,000 applications in 2019). Furthermore, we introduced Kyuden Safety Support, a one-stop solution that offers a wide range of support services. This not only includes electricity related services, but also social services to support family life such as (preventive) care services.

In April 2019, we also started to reduce our prices for the low voltage sector, as a result of the operation of four nuclear power stations and improved management efficiency. When comparing the electricity rates of the 10 major utilities for household consumers, we have the second-lowest rate. A lower power price strengthens our competitiveness.

In Kyushu, our top 5 competitors consist of telecommunication, cable television, and gas companies and ex-PPSs, who have been selling electricity to extra-high voltage users since 2000. Some of these companies offer bundled packages that combine their original services with power supply. As of the end of December 2019, 950,000 customers have switched to other suppliers in the low voltage sector. The market share of new entrants in Kyushu is around 13%, which is lower than the country average of 20%.

For the future, we expect a decline in the population in Kyushu. However, we also see a great potential for electrification in Kyushu for various sectors such as households, transport, and industry. Therefore, we expect electricity consumption will relatively be the same, as the population decline will be offset by electrification.

Although our main market is Kyushu, we are extending our energy services to other areas outside Kyushu. For instance, our subsidiary Kyuden Mirai Energy is offering energy services in the Tokyo metropolitan area. During the last year (summer 2018 – summer 2019), they have been very successful and Mirai was listed for the month November as the eighth most successful new entrant by the Ministry of Economy, Trade and Industry, which publishes every month a ranking based on sales volume (published January 2020).

Also we have set up a new alliance with Itochu Enex, a Tokyo based company. During the FY2018 (04/2018-03/2019) their sales volume was approximately 1.2 TWh. From April 2020, we will start our collaboration with Itochu Enex, which provides us the opportunity to sell our electricity nearly all over Japan.

Q5 The dividend of Kyushu Electric Power was 50 yen per share before the Great East Japan Earthquake. For FY2019 the company changed it from 40 yen per share to 35 yen per share. Could you explain the reasons for this change of forecast?

It is very unfortunate that we had to make a downward adjustment. The full-year estimate of 80 billion ordinary income was not realistic anymore as we had encountered several losses. The rainy season lasted longer and limited the overall magnitude of the summer heat. This resulted in less use of air-conditioning and therefore a decrease in electricity consumption. This also meant that there was less demand for electricity by other suppliers, so less power was sold to other suppliers. With demand being low, the wholesale electricity prices declined, which resulted in further losses. The excess of LNG on the market has caused LNG prices to drop and resulted in surplus LNG trading losses. The combination of these losses forced us to change our dividend from the originally forecasted 40 yen per share to 35 yen per share.

However, looking at the last four years our dividend has increased every year. By making maximal efforts, we hope to return the dividend to its pre-disaster level of ¥50 per share, which is our ongoing goal, along with the maintenance of stable dividend payments as a fundamental policy.

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