

## Message from the President

**Here in Kyushu,  
we are at the forefront of Japan's  
effort toward decarbonization.**

At Kyushu Electric Power, we believe that the trend toward carbon neutrality and the social changes brought about by COVID-19 contain opportunities for us to establish ourselves as the leader in low- and carbon-free projects to create a better future for the next generation.

### Kazuhiro Ikebe

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

# President's Message

The year 2020 was pivotal for the energy industry, not only in terms of the great social change brought about by the COVID-19 pandemic, but also the increased momentum seen in efforts toward carbon neutrality. The emergence and spread of COVID-19 had a severe impact on social and economic activities, as well as causing a major shift in the way we work, with work-from-home arrangements becoming mainstream. Meanwhile, in October, amid a global groundswell of demand for action to tackle climate change, the Japanese government declared its intention to become carbon neutral, and reduce greenhouse gas emissions to zero by 2050, thus adding extra force to the energy industry's—and, indeed, the entire Japanese industrial community's—efforts toward decarbonization.

The government's 2050 carbon neutrality target is challenging, as is its goal of cutting greenhouse gas emissions by 46% from fiscal 2013 levels, but it is vital that we do whatever is required to prevent climate change if the world is to achieve environmental sustainability. At the Kyuden Group, we are working hard to reward our stakeholders' faith in us by seeking out ways in which we can make a difference, and bringing all our strengths to bear in the effort to do so.

## Fiscal 2020 in Review

The launch of Japan's first Specific Safety Facilities at Sendai Nuclear Power Station Units 1 and 2 was a momentous achievement that significantly improves safety. Specific Safety Facilities are an extremely important for safe and secure operation, as they can cool the reactor from a remote location even in an emergency situation such as terrorist attacks. As such, they are vital to the ongoing safety of nuclear power generation. Maximizing the efficiency of work processes helped the project proceed efficiently and finish ahead of schedule. Nuclear energy will continue to be an important part of the nation's push for carbon neutrality; not only are there no CO<sub>2</sub> emissions, but operational availability is not subject to the whims of the weather, meaning it is highly stable. In order to maintain the hard-won trust of our local communities, we at Kyushu Electric Power are devoted to upholding and improving safety and reliability.

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In April 2020, we split off our power transmission and distribution business into a separate entity named Kyushu Transmission and Distribution in order to ensure the neutrality of the transmission and distribution network. Maintaining a stable supply of electricity is, and will always be, our overriding mission, and we are determined not only to improve our ability to ensure swift restoration of services following natural disasters (that are becoming more frequent and intense), but also to further enhance transmission and distribution networks while maintaining a balance between stable supply and low cost. **P33**

In an effort to grow electricity sales, we have worked to strengthen our sales structure by establishing new branch offices that combine our existing branch offices and sales centers. Demand in the Kyushu area decreased 1.1% year on year due to COVID-19, but the progress made by Kyuden Mirai Energy mainly in the Kanto region ensured that total electricity sales volume increased 6.3% across the whole Kyuden Group. **P34**

As of December 2020, Kyuden Mirai Energy boasts the fifth largest electricity sales volume in Japan despite increasingly fierce competition from new entrants to the electricity market such as public gas utilities and major telecom companies.

In our renewable energy business, which we believe will be one of our chief growth drivers in the future, we are developing a variety of projects inside and outside the Kyushu area, including upgrading geothermal and hydroelectricity facilities and building new wind power and biomass generation facilities. Our target is to develop renewable energy facilities with a capacity of 5,000 MW by 2030, and we had reached 2,300 MW by the end of fiscal 2020. We believe that offshore wind power generation will be key to meeting that target. Unlike solar and onshore wind generation, which are restricted to areas with favorable conditions, offshore has the greater potential. Working in partnership with German renewable energy giant RWE Renewables, we are looking to commercialize wind power generation projects in likely locations throughout Japan, including off the coast of Yurihonjo in Akita. **P35–P36**

We are also looking to expand our renewable energy business overseas. To that end, in June 2020, we acquired Thermochem, a geothermal technical services provider in the USA involved in operations

around the world. At present, our geothermal generation capacity of just over 200 MW accounts for around 40% of Japan's total output, which sits at around 500 MW. The field-proven strengths of Kyushu Electric Power, West Japan Engineering Consultants, and the rest of the Kyuden Group had already helped us acquire overseas generation facilities, such as Sarulla, Indonesia, which outputs roughly 330 MW, but the acquisition of Thermochem provides a secure footing from which to expand our operations worldwide. Outside of geothermal power generation, our operations extend beyond Asia and the Americas into new territories such as the Middle East. Our target is a total output of 5,000 MW by our overseas businesses, and we had reached 2,430 MW by the end of fiscal 2020. **P37–P38**

Sales and income both increased year on year in fiscal 2020, despite a number of challenges. These included rising wholesale prices in response to high winter demand in relation to supply capacity, the spread of COVID-19, and the shutdown of the Sendai Nuclear Power Station while the Special Safety Facilities were being installed. Factors behind the improved performance include an increase in retail electricity sales outside of Kyushu and a concerted groupwide push to improve our financial situation.

As we work to turn the Kyuden Group Management Vision 2030 into reality, we recognize there is room for improvement, for instance in the speed with which initiatives are carried out. Nonetheless, we have made a number of achievements that bring us steadily closer to our goal. The shift from face-to-face, in-person interaction to remote interaction has had a palpable impact on social and economic activity, but we believe that such challenges inevitably bring opportunities and we are determined to harness the full spectrum of the Kyuden Group's strengths to pursue a variety of initiatives aimed at increasing corporate value.

### Using the Evolution of the Business Environment to Seek Further Progress

The COVID-19 pandemic has brought about great social change. Virtually the whole of humanity has faced some degree of difficulty over the past couple of years and that shared experience has caused people to give thought to how they can make a difference in the future. Even in our increasingly globalized times,



social change on such a scale is unprecedented. Our electricity business has also been impacted by COVID-19: electricity sales in the Kyushu area decreased by around 2 billion kWh in 2020 to around 80 billion kWh. In uncertain times like these, when the whole of society is facing crisis and major change is inevitable, I believe it is my role as a leader, and as the CEO of the Kyuden Group to ensure we are all facing the right way and ready to help guide society to a bright future. Amid such ground-shifting changes in the business environment, I am confident that each member of the Kyuden team is prepared to harness our unique strengths, built up over long years of experience and progress, to find ways that we can help protect the natural environment and make society a better place, thereby seeking out new growth opportunities for the Kyuden Group.

In addition, Japan is facing long-standing issues, such as a declining and aging population, exacerbated by its low birth rates, and the decline of regional economies due to the overconcentration of Japan's government and economy in Tokyo. There have been major changes to working practices in the wake of

the pandemic; remote working has become increasingly widespread, and more companies are promoting “workations.” Data shows that Tokyo recorded a rare year of net population outflow in fiscal 2020. Perhaps these developments would have appeared even if there was no coronavirus pandemic, maybe a decade or so later, but the fact that they have become established in a mere year has been a major boon for regional economies. Kyushu, the Kyuden Group’s home region, is blessed with a mild climate and the people who live there are friendly. We are determined to contribute to Kyushu’s continued development by helping bring extra momentum to these communities, for instance by attracting new enterprises, and launching new services as part of our urban development, real estate, and social infrastructure businesses as vehicles for solving local problems and driving development.

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Stronger economic activity throughout Kyushu leads to higher electricity sales and corporate growth for the Kyuden Group. The Kyuden Group cannot develop without the development of Kyushu; that is why we are eager to work side by side with our local communities, investing our shared effort and insights to overcome the challenges to sustained growth. And although Kyushu’s population is in a period of decline, this does not equate to an immediate threat to demand for electricity. Power usage is calculated per household, so as long as household numbers remain stable, a decrease in the number of people in those households will not have a huge effect on consumption. As we head toward a future of carbon neutrality, I believe that encouraging electrification will help offset any decline in demand driven by declining populations.

Another major change has been the marked increase worldwide in momentum toward carbon neutrality, and we recognize that the energy industry is expected to play a significant role. Electric power generation accounts for around 40% of the 1.2 billion tons of CO<sub>2</sub> Japan emits, so it stands to reason that decarbonization of electricity supply and a pivot by consumers away from other heat sources to electric heating are vital to Japan’s efforts to achieve carbon neutrality, and we will work hard to play our part. Not only must we leverage our existing technologies to their fullest potential, but we must also innovate to create revolutionary technologies. For instance, given that renewable energy sources such as solar

power generation are susceptible to the whims of the weather, the ability of storage batteries to balance out supply and demand mean they are a key factor in the effort to broaden the uptake of renewables. But making storage batteries bigger in size and smaller in cost remains a challenge, and further investment and innovation are required. At the Kyuden Group, while taking into account uncertainties such as technical innovation and social structures, our focus is on flexibly pursuing all possibilities that might bring about an age of carbon neutrality. **P22–P25**

## Harnessing and Enhancing the Kyuden Group’s Unique Strengths for the Greater Good

It is my hope that our stakeholders—and investors in particular—will consider more than just the electricity sector when gauging the Kyuden Group’s corporate value and growth potential. The Kyuden Group Management Vision 2030 sets out a consolidated ordinary income target of 150 billion yen by 2030 (50% from the domestic electricity business, 50% from other businesses). **P26**

The nature of the power business itself is diversifying, propelled by factors such as rapid change in electric power systems. Amid such transformation, we are working hard not only on our main business which is supplying electricity in Kyushu, but also on retail operations in other areas, electricity generation in Japan and overseas, and renewable energy. We have the largest number of renewable energy generation facilities in Kyushu, and boast a wealth of expertise and knowhow regarding development and operations. Moreover, we are pursuing a variety of new projects, such as urban development and airport operations. In this way, our business model is geared toward expansion from our long-standing business of electricity supply in Kyushu to incorporate a broad range of new businesses in Japan and around the world. One of our foremost strengths is our ability to minimize CO<sub>2</sub> emissions while maintaining low costs. This is made possible by safe, stable operation of our nuclear power stations. As of July 2021, ten nuclear power stations have been allowed to restart operations in the wake of the Great East Japan Earthquake in 2011, and four of them are ours. Those four units were among the first approved to restart, and they remain in safe, steady operation today.

Another of our strengths is the high capacity and efficiency of our renewable energy operations. These are underpinned by the technical capabilities we have built up over long years of experience in resource development and operations, as we were among the first to establish a comprehensive, one-stop system for all five renewable energies—solar, wind, hydro, biomass, and geothermal—covering initial surveying, operations, sales, and everything in between. Moreover, proactive development and acceptance of renewable energy made us the industry leader for zero-emission status and proportion of FIT energy sources.

Achieving carbon neutrality is dependent on combining nuclear power and renewable energy, both of which we excel at. Based on our determination to generate electricity without emitting CO<sub>2</sub>, we have invested significant effort into the swift restart of our nuclear power generation facilities and expanding our renewable energy capacity. As a result, fully 58% of our energy sources in fiscal 2019 were zero-emission or FIT sources, with nuclear power accounting for 35% and renewable energy 23% (of which, 14% were FIT). **P22**

Shifting from internal combustion engine (ICE) vehicles to electric vehicles (EV) is cited as a means of reaching carbon neutrality, but auto manufacturer executives have made it clear that abandoning ICE for EV will not be enough by itself, and that we need to think about how the electricity that powers the cars (and, indeed the car manufacturing process) is generated. This is indeed a vital insight: carbon neutrality is impossible if the electricity that powers electric vehicles and their production is generated via a process that results in high CO<sub>2</sub> emissions. At the Kyuden Group, we are dedicated to further carbon reduction and decarbonization in power sources, and I believe that establishing Kyushu as a hub for EV production plants and promoting the spread of electric vehicles nationwide will boost Japan's effort to achieve carbon neutrality.

We have long been the frontrunners of carbon reduction and decarbonization in power sources in Japan, and it is pleasing to see the rest of the nation starting to catch up, thus affirming that the path we forged was the right one. Now we are determined to enhance our initiatives in this area to once again lead the way into the future. For instance, we plan to invest around 500 billion yen in the expansion of zero-

emission and FIT energy sources, in addition to the approximately 800 billion yen spent between fiscal 2016 and fiscal 2020. This will not only contribute to the nation's quest for carbon neutrality, but the effort to grow revenues from effective, efficient use of zero-emission energy sources will bring us closer to achieving our financial targets. **P27–P28**

Our third major strength is the close ties we have forged over the years with the people and communities in Kyushu, an area that is brimming with untapped potential. In addition to its mild climate and friendly people, Kyushu offers a variety of other advantages, including proximity to the capitals and major centers of neighboring countries, making Fukuoka (the economic focal point of Kyushu) particularly promising as an economic hub for the Asian region. I believe that unlocking that potential and establishing Fukuoka as a major Asian financial center would be a significant boon for the Japanese economy overall. Thus, it is our task to strengthen the bonds of trust we enjoy with our communities and customers and work in partnership with local governments and businesses to maximize synergies so that we might contribute further to Kyushu's development and growth, and to our own.



## Kyuden Group Carbon Neutral Vision 2050: Turning Our Vision into Reality

According to the Green Growth Strategy Through Achieving Carbon Neutrality in 2050, the government's strategy launched in December 2020, "one estimate says the power demand in 2050 will increase by 30-50% compared with the current demand level due to electrification." Electrification presents us with tremendous growth potential, so we are working to promote it on both the demand and the supply side. For instance, not only are we striving for the maximum uptake of electrification in the household, business, industrial, and transport sectors, but we are also promoting energy efficiency through better home insulation and more efficient energy use by transport and logistics businesses. Initiatives surrounding electrification and energy efficiency require administrative cooperation and a certain degree of rules and regulations. For instance, Berkeley, California, is seeking to encourage electrification by introducing a bylaw prohibiting newly built houses from connecting to the mains gas supply. We foresee that regulations aimed at promoting electrification will be implemented in Japan too, and we have already begun working to ensure we will be able to meet those rules and regulations to the letter.

On the supply side, our efforts are informed by our dedication to "S+3E" (safety, energy security, economy, and environmental conservation), and are concentrated on carbon reduction and decarbonization in power sources through a system aimed at maintaining an optimal mix of nuclear, renewable, and high-efficiency thermal energy sources. The limits of current technologies prevent us from immediately switching to entirely renewable energy sources; it is important that we move gradually to ensure our shift toward carbon neutrality does not compromise the stable supply of electricity. As a responsible energy supplier, we are endeavoring to make the most efficient use of our thermal and nuclear power plants so as to get the maximum output with the minimum CO<sub>2</sub> emissions, while also investing in the development of other solutions, such as renewable energy, storage, hydrogen, and ammonia.

Innovation through the development of technology is also a vital factor in achieving carbon neutrality. Significantly, innovation in thermal and renewable energy provision has begun to bear fruit; it will be a while yet before those breakthroughs are put to practical use in the field, but we are definitely making progress

and the tipping point is indeed near.

Moreover, the Kyuden Group has established a Sustainability Promotion Committee, with me as head, to oversee progress toward achieving the Kyuden Group Carbon Neutral Vision 2050. We have also established a department dedicated to running and overseeing our initiatives surrounding ESG management, and appointed a corporate officer to head the department. Through firm leadership, we will pursue ESG management (including our quest for carbon neutrality) in order to contribute to the realization of a sustainable society. **P41**

## Core Initiatives Aimed at Achieving Kyuden Group Management Vision 2030

Launched in June 2019, Kyuden Group Management Vision 2030 sets forth long-term policies for using our business activities as a vehicle to contribute to sustained development in Kyushu so that we may grow together with our communities. Contributing to the creation of a decarbonized society, maintaining our position as a trusted service company, creating shared value with our communities, and maintaining a workforce capable of identifying and overcoming the challenges to achieving these things. . .these will be vital to our success in making that vision a reality.

Not only is contributing to the creation of a decarbonized society the duty of all energy businesses, but it is also wind in our sails, adding extra momentum to our efforts in this area. And we know that working hard at decarbonization helps maintain our position as a trusted service company and create shared values with our communities. These days, more and more customers demand electricity generated by processes that emit no CO<sub>2</sub>. This is a marked change from a mere three years ago, when our launch of renewable energy options was met with a muted reaction. Nowadays, businesses pay careful attention to their carbon footprint, and choose suppliers accordingly, and local public entities are making an effort to eliminate CO<sub>2</sub> emissions. The times are indeed changing.

Maintaining a workforce capable of identifying and overcoming challenges refers to the importance of having a workforce and an organization that can continually evolve to stay abreast of the times and deliver

the kind of businesses and services that people need. **P51–P52**

The Kyuden Group workforce, a team of skilled and dedicated individuals, are the foundation that underpins our ability to provide unique solutions. Their earnestness compels them to think, to innovate, and to cooperate in the face of challenges, so as to find the right solution. To complement these qualities with greater flexibility, we launched a new program, the KYUDEN i-PROJECT, which seeks to encourage individuals to show greater initiative and act autonomously in tackling challenges—in this sense, the “i” in i-PROJECT stands not only for “I” as in me, but also for “innovation.” In addition to creating a corporate culture that encourages initiative, the KYUDEN i-PROJECT is a sign to our various workplaces that flexibility and diversity of values are to be valued and respected, and that we will support their efforts to innovate. I believe that the project is beginning to have an effect on the Kyuden Group culture, and that a tendency toward initiative and innovation is becoming a part of our mindset.

Each week, I record a 15-minute message for all Kyuden Group employees, which is broadcast as part of *Kaz Site*, a program on our in-house TV network. It is an informal way (coming from “Kazu-san” rather than “the president”) to communicate the importance of our various initiatives aimed at achieving the goals of the Group’s vision, and my gratitude to our workforce for their efforts in making it happen. It is an ideal way to motivate our workforce and improve morale.

## To Our Stakeholders

Even in the midst of a drastically changing business environment, we will continue to meet the expectations of all our stakeholders by considering what is best for the natural environment and society, and by continuing to utilize the full potential of our strengths to strive for ever greater heights. We are devoted to pursuing medium- to long-term increases in corporate value and shareholder value through growth investments and robust ESG management, not only to generate shareholder returns, but also to meet shareholders’ expectations. In addition, from the perspective of being in the same boat as our shareholders, I have personally increased my holding in the company in the three years since I became

President. Moving forward, I look forward to fine-tuning our earning structure so that half of our revenues come from the domestic electricity business and half come from growth businesses. This will entail a review of our shareholder returns, but for now, I am committed to restoring dividends as soon as possible to their pre-Great East Japan Earthquake level of 50 yen per share.

All of us at the Kyuden Group relish the challenges of forging a new age, and will work as a team to ensure we meet your expectations. We look forward to your ongoing cooperation and support in our journey.

