November 2023
Kyushu Electric Power Company Inc.

Q&A between Investors and the President during the IR Meeting (November 13, 2023)

Mr. Ikebe, Member of the Board of Directors, President and Chief Executive Officer
Mr. Nakano, Senior Managing Executive Officer, Director of Operation Division within Business Solutions Headquarters
Mr. Kido, Executive Director of Corporate Strategy Division

Q

- First, regarding nuclear power. Have the regulatory risks associated with backfitting and the extension of the operation of the Sendai Nuclear Power Plant largely been overcome? For example, in the case of backfitting, there is the deadline of next spring, but is it correct to say that because of the review the risk of a temporary loss of stable operation of nuclear power plants has largely been eliminated? Is there a possibility that the safety work will reach a major peak in the medium to long term and lead to a lower utilization rate than the ideal level?
- Second, regarding electricity demand. Based on the location of the plant, to what extent is there a possibility that demand for electric power will increase? If so, will your company's current power generation facilities be able to handle the increase? Or will it be necessary to develop new power sources?
- Third, regarding PBR measures, is there room for an approach to increase ROIC by streamlining assets and getting closer to achieving financial targets? I suppose this would involve sorting out core and non-core assets, but are you considering such an approach?

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- Mr. Ikebe: I think it is very significant that the Nuclear Regulation Commission approved the extension of the operation of Sendai 1 and 2 from 40 to 60 years on November 1. The ability to continue operating Units 1 and 2 at the Sendai Nuclear Power Plant for an additional 20 years is not only advantageous for our management, but also contributes to stable supply by utilizing nuclear power, which emits no CO_2. We have reported to Kagoshima prefecture and the city Satsumasendai that we have received approval for the project from the NRA (Nuclear Regular Authority) , and we will continue to work diligently on this matter. With regard to backfitting, we are proceeding according to the schedule for approval of seismic motions that do not specify the epicenter, and we believe that we will meet the deadline of April next year. However, the extent of the grace period set for actual construction beyond that point is the subject of discussion not only within Kyushu Electric Power but also with an organization called ATENA and the NRA, and we are working to ensure that we receive sufficient time for this period.

- Second, regarding electricity demand, TSMC and other factories are currently being built, and we do not think there will be a problem for the next 10 years or so. I would like to refrain from commenting on specific figures on how much demand will increase.
- What concerns us the most is the longer-term outlook. Due to population decline and energy conservation, the nationwide assumption is that electricity demand for the next 10 years will remain flat or slightly decrease. However, Kyushu, with its demand for semiconductors and data centers, may experience slightly stronger demand. In addition, the promotion of electrification is expected to drive demand further upwards. Since the current electrification rate is about 26% in terms of final energy consumption, the remaining three-quarters is supplied by oil and gas, which leaves room for electrification. In the current GX promotion (Green Transformation), subsidies for heat pumps and whole house insulation are on the way, and I am more concerned about how much the demand for electricity will increase as electrification progresses in these areas. Therefore, we want to carefully monitor the speed of future electricity demand growth, as it is currently being discussed by wide-area organizations.
- Third, in terms of ROIC management, each department will consider how to increase profits and slim down assets in order to achieve a PBR of 1x. Looking at the whole picture, ROIC management will help us determine which businesses we should invest in and which businesses should not focus on, so we would like to utilize ROIC to achieve a PBR of more than 1x.

Q

- First, regarding the financial target of returning to a dividend of ¥50 per share. Is it higher than at the time of planning at the beginning of the fiscal year? Or are you aware that there are many market factors that make it difficult to predict?
- Second, regarding the review of the standard menu that was published in August. The market adjustment factor was introduced without changing the basic fees and unit charges for electricity usage in the standard menu. How was the coefficient of this market adjustment factor 0.3 determined? From a market principle perspective, it might seem better to raise prices according to demand. Could you please explain the thought process behind this?

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- Mr. Kido: Regarding the first point, the ¥50 dividend, even with poor performance last year, we achieved ¥47 billion in growth businesses, and our forecast for the current fiscal year is ¥170 billion in ordinary income. Excluding the time lag effect, the amount is in the range of the ¥120 billion level. Looking at this we are fairly confident that we can pay a dividend of ¥50 in the period up and including 2025.

- Mr. Ikebe: Adding on to the dividend, we have not announced any future plans, so we have not committed to anything beyond that point, but what we are saying now is that we will resume the dividend of ¥50 as soon as possible within the period covered by our financial targets. As for nuclear power, we have completed the installation of the SSF (Specified Safety Facilities), and we believe that we can continue to operate four nuclear reactors in a stable manner. I believe our message to your question is that we have not withdrawn our target to return to the ¥50 dividend as soon as possible in the period up and including 2025.
- Mr. Nakano: Regarding the second point on setting the market adjustment factor of 0.3 in the standard electricity tariff menu. As you can see from last year's financial results, we incurred significant losses due to soaring fuel costs and corresponding increases in the wholesale market. Additionally, amidst extreme difficulty in securing additional supply capacity, we ceased accepting contracts for high-voltage customers around February of this year. While we have now resumed acceptance as the market has started to stabilize, we cannot provide specific figures due to business strategy reasons. However, we have set the menu prices to ensure that a stable balance is achieved if we have to purchase the required supply capacity from the market at an appropriate price.
- We believe the market adjustment factor will be helpful in times of extreme high prices The market is relatively low and stable at the moment, and with the resumption of application for the standard menu, we feel that many customers are still hesitant. We expect evaluations of our new prices to come in the future.

Q (which is a follow-up question regarding the dividend)

- In the discussion on PBR of 1x, you mentioned low expected growth rate as a reason for the low PBR. Considering the so-called signaling effect of dividends, it seems to me that your company has not shown confidence in its ability to grow or maintain current profits, rather than that the market does not have high expectations.

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- Mr. Ikebe: I understand the aspect you're pointing out, but on the other hand, I think it is possible to understand that we have a large area of growth potential and would like to use it internally for investment in growth. In fact, we have also presented an image of profit accumulation in our growth businesses, so if you look at the overall picture (domestic electric power business and growth businesses), I think our PBR could be a little higher. As for the signaling effect of the dividend, we have not yet returned to a dividend of ¥50, and our primary statement is that we are aiming to do this as early as possible.

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- First, I believe that your company has been curbing sales promotion expenses (reviewing sales prices), and I would like to confirm the progress of this. I believe that you have made more progress than expected, but I would like to confirm whether there is room for further reduction.
- Second, in the current company plan, ordinary income is expected to be ¥121 billion, approaching the midterm target of ¥125 billion significantly. Is this ¥121 billion guaranteed for the following fiscal year as well, and can it be considered as a baseline? Or are there some one-time factors involved, and should we imagine that profits will be slightly lower and gradually grow until 2025?
- Lastly, I would like a brief explanation of the acquisition of a 6.67% stake in JERA's Goi Thermal Power Plant and to confirm whether this will be used to strengthen sales outside the region with this acquisition.

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- Mr. Ikebe. First, the move to bring selling prices closer to the standard menu (i.e., to reduce sales promotion expenses) is progressing well. It is evident that our electricity rates are relatively low nationwide, a fact that is well understood by corporate customers throughout Japan, particularly those with nationwide operations. In addition, the recent market inflation has had a significant impact on customers previously contracted with new electricity providers, a memory that is still fresh. Therefore, our standard menu proposals have been well-received. While I cannot provide a clear answer on how much room for further reduction exists as it also involves sales information, it is understood that the standard menu has been gradually gaining acceptance.
- Second, regarding the profit level, the question is quite close to the actual profit situation. Currently, our Genkai and Sendai nuclear power plants are operating stably. As we have been able to bring our price levels closer to the standard menu, the current level is not excessive. However, there is a systemic issue with the fuel cost adjustment time lag. It is difficult to make a commitment when taking into account the impact of the fuel adjustment time lag, and it is also necessary to consider the impact of procurement costs from the wholesale electricity market. It would be possible for us to say that we will be able to secure the current level “under normal conditions”, such as no abrupt increases in fuel costs due to time lag effects and sudden geopolitical influences, like at the start of the Russia-Ukraine

situation, or events like the current Middle East situation.

- Thirdly, one of the major strengths of the Goi thermal power plant is the ability to secure power sources outside of the Kyushu region. Currently, we are building a 600 MW-class power source in Hibikinada, Kitakyushu, in cooperation with Saibu Gas, and in addition to that, we are participating in the Goi thermal power plant. I believe that the value of power generation will increase in the future. The price of electricity is determined by supply and demand, and in a situation of extremely high demand, having the ability to supply electricity is extremely valuable. In this sense, I believe that participating in the Goi thermal power plant will be beneficial. In addition, we have long-term LNG contracts and have secured enough LNG to possibly have a surplus, so we have decided to participate in the Goi thermal power plant because we believe it will play a role in making effective use of that LNG.

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- First, regarding the business review that was mentioned earlier, is there a possibility of a drastic business review, that result in a reduction in total assets and an increase in the equity ratio, achieving the target equity ratio of 20% by 2025? Should it be assumed that such business reviews would not happen within that time frame, and from the perspective of improving ROIC through business selection and abandonment, could you provide insight?
- Secondly, I think that the fact that your nuclear power plant is operating is very competitive not only in terms of electricity rates but also in terms of GHG reductions. However, I believe that this is only a strength of Kyushu Electric Power's power generation sector, and I am concerned that if you become thoroughly non-discriminatory regarding your internal retail and the retail of other companies, there could be a development where this is not a strength of the retail sector. Or even if this were to happen, would it mean that retail would have these strengths? What is your current understanding of how the competitiveness of nuclear power, or the competitiveness of your power sources, and the non-discrimination between internal and external retailers will be linked in the future?
- Thirdly, in terms of nuclear power, looking at the current government policies, it seems there seems to be a discussion about the possibility of constructing new next-generation nuclear power plants. I understand that this may be a sensitive topic, but as the president of Kyushu Electric or as chairman of the Federation of Electric Power Companies of Japan, if there are any updates regarding the potential construction of new nuclear power plants, I would appreciate if you could share them.

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- Mr. Ikebe: First, regarding achieving the target equity ratio of 20% by 2025. The target date is only two years away, so I don't think it is something that can be easily achieved in the short term. Even if we were to scrap a business, achieving this in two years would be challenging. Therefore, our focus is currently on accumulating internal reserves, which have increased to around 15% by the end of the recent second quarter. We hope to approach or achieve this target through the accumulation of internal reserves.
- Second, I believe that at this point, we are already in a state of non-discrimination of internal and external retail. If our retail sector is strong within this undifferentiated approach, I believe it's because the retail sales department has a strong connection with customers, which serves as a strength in the business. While this may seem slightly off-topic from your question, as the chairman of the Federation of Electric Power Companies of Japan, we receive from the government a request that the sector should make all efforts not to discriminate between internal and external. For example, although each electric company receives electricity wholesale from Japan Atomic Power, the contract is that each company will support the company if something goes wrong. True non-discriminatory internal and external would mean requesting a 20-year contract and demanding the payment of basic tariffs even when nuclear power is halted due to lawsuits or administrative issues. Thus, the current non-discriminatory internal and external created state seems to be very unfavorable for the retail sector. I believe the strength of retail will continue to be strong, but the strongest bond still comes from the interactions between salespeople and customers, solving issues together, and addressing their concerns. We aim to continue this approach in the future.
- Third, regarding nuclear energy, Mitsubishi Heavy Industries is leading the advancement of next-generation nuclear power plants, such as high-temperature gas reactors (HTGR) and fast reactors. We are willing to cooperate with them as much as possible, and we believe that this will continue to progress in the future. The HTGR extracts hydrogen through the thermal decomposition of steam at high temperatures, and in view of the coming hydrogen society, I think it is a key technology in the sense that hydrogen can be extracted as a by-product. In addition, Small Modular Reactors (SMRs) is still going forward as an overall trend, although there has been recent news about the cancellation of plans for SMRs in the United States. As for what will be the most difficult challenge in the future, of course it will take more than 10 years to build a power plant, and it will be difficult, but a power plant can be built as long as the local government at the location can be properly consulted. On the other hand, building a transmission line is even more difficult than building a power plant. While many in Japan are willing to collaborate on public interests, globally, there are voices expressing the difficulty of constructing transmission lines. In such times, I wonder if it is

really possible to build a large-scale power plant and a large-scale transmission line. In that case, I think that one option would be to build SMRs that do not emit CO2 and supply electricity to nearby core cities on a scale of 200,000 or 300,000 kilowatts. I think it is possible, and we should continue our research and development on this as well.

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・ I was pleasantly surprised by the positive developments in this financial report. The equity ratio has risen from 10% to 15% over the past six months, and the absolute amount of equity has increased significantly, it went from about ¥580 billion at the end of March this year to about ¥850 billion at present. This is a welcome improvement in terms of equity capital, but on the other hand, the PBR has fallen. Since your company's market capitalization is approximately ¥500 billion, a PBR of 0.9 is correct for shareholders' equity of ¥580 billion at the end of March. However, based on the current ¥850 billion, the PB ratio is about 0.6 times. We would like the company to aim for a capital adequacy ratio of 20%, but we estimate that when the capital adequacy ratio reaches 20%, the company's shareholders' equity will probably be around ¥1 trillion. With an ROE in the mid-term currently set at 8-10%, I believe raising this to 10% would be beneficial. Given the rapid pace of equity accumulation, I am concerned that there may be a risk of the company's ROE falling below 8% in the coming years. When you were discussing ROIC earlier, I believe that you will take the ROIC approach for ROE of 8% to 10%. From my perspective, rather than maintaining an 8-10% focus, setting a higher bar with a 10% perspective for ROIC and considering downsizing existing businesses or investment in growth areas within the business portfolio would be prudent. As the conversation shifts to ROE falling below 8%, it could signal a diminished corporate value, and it may be regrettable from your company's current strong position. Therefore, I believe that the current pace of equity accumulation should be maintained, while the focus on ROIC should be raised.

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・ Mr. Ikebe: Regarding aiming for a PBR of 1, if the book value reaches ¥1 trillion and we have issued about 500 million shares, the effort is synonymous with achieving a stock price of ¥2,000. Sendai Units 1 and 2 will be operated for 60 years instead of 40 years, which is an increase of 20 years in operation. If we explain this well, I believe they will be valued at a very present value. If we consider this in the context of aiming for a PBR of 1x or more, Japan has over ¥2,000 trillion in financial assets, about half of which is in deposits. If this amount is invested in stocks or investment trusts (through NISA (Nippon Individual Savings Account)), and the likelihood of Sendai Units 1 and 2 to be operated for 20 years, this will push up the stock price. While our WACC (Weighted Average Cost of Capital) is currently low and allows us to acquire funds, I do not want to accept it as a trade-off. From the perspective of ROIC goals, it seems that we need to exceed the current WACC. I intend to continue making these efforts, and it is also necessary to focus on making more efforts to raise the stock price by limiting the dialogue to PBR. It is essential that we continue providing appropriate and timely disclosures to ensure that investors understand the situation.

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- From a PBR perspective, it will be interesting to see how close your company can approach or surpass the share prices of KEPCO and Chubu Electric Power when the dividend reaches ¥50, and I look forward to seeing you do this sometime in the near future.
- Also, in the earlier discussion of equity capital, if ROE is set at 10% and equity capital is ¥1 trillion, ¥100 billion of net income needs to be generated on a stable basis. We would be grateful if you could continue this over the span of the next five years or so.
- I would like to discuss this with your company starting next year, but assuming that an equity ratio of 20% is in sight, what level of equity ratio do you plan to achieve over the next 10 years? According to the old-fashioned common sense theory of electric power, the goal is to achieve an equity ratio of 30%, but considering your company’s position, these practices might not belong to this era anymore. I have a question about whether there are any positive aspects on the financial side due to the improvement in the equity ratio. Before delving into a detailed discussion about equity, I would like to know if there are any positive aspects observed from the stock market’s perspective resulting from the improvement in equity.

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- Mr. Nakano: When the equity ratio is 20%, which, if I do the math, means that the equity capital is ¥1 trillion. Since we also issue a large number of bonds for fundraising, this ratio is much lower than that of other electric power companies, which creates a bottleneck in fundraising when it comes to stable fundraising. Therefore, we believe that raising this ratio will have a significant effect. In addition, the company's assets are in excess of ¥5 trillion, and it is also important to consider how much it should be prepared for business risks in developing these assets. Although we believe that a certain level of equity capital is desirable, we have decided to maintain 20% for the time being, based on a balance between the amount of risk invested on the left side of the balance sheet and the financial buffer on the lower right side of the balance sheet. The situation may change in the future, but at present we believe it will have that effect.
- Mr. Kido: I think there is a debate about whether the equity ratio after achieving 20% should be 25% or 30% referring to the before mentioned theory, but I think it is necessary to sort it out based on the merits (of 25%, 30%, etc.) The point that the target is about 20%

in FY2025 is as I explained earlier, it is based on the relationship between business risk and financial buffer, and the stability of financing, but to be honest, we have not thought beyond that at present.

- Mr Ikebe: I think that an equity ratio of 20% is fine. I think it is a very good thing (from the perspective of capital efficiency) to borrow money, and moreover, to pay back that debt as well, so that with less capital, we can earn more money from the funds received from our shareholders, and this is something we will discuss in the coming year.