Q&A between Investors and the President during the IR Meeting (May 10,2022)

Question 1

The first question is about slide 13 of the presentation material, which provides information about immediate risks at hand. These risks are all interconnected to one another, and, with regard to the risk of price rise in the wholesale electricity market and market procurement on the far right, how do you think risk exposure changes this year and next year onwards as four nuclear units enter into a phase of stable operation? This fiscal year, the utilization rate will decline, which will impact the company's power supply. Would the risk of high market prices have a greater impact on income this fiscal year than it did last year? Would the change of business structure, based on the distribution of roles between Kyushu Electric Power and Kyuden Mirai Energy mitigate the risk to some extent? I'd like to hear your opinion about this.

Last year the utilization rate of nuclear plants was high, but sales outside the Kyushu region may have applied a downward pressure on income. To what extent would the market risk have an adverse effect on income this year? Do you have the means to control such an effect somewhat? Please explain your stance.

From next fiscal year onwards when four nuclear units establish stable operation, can the risk be disregarded? Would the company's low-cost supply capacity boost earnings amidst power supply shortage? Is it correct to assume that the current difficulty will turn into an opportunity next year and beyond? Please explain about this, too.

- My second question is about the progress management of income in growth business areas. I appreciate your detailed explanation, tracing progress by category. In the bar graph in Slide 11, you said that, by including projects that have already been decided, growth businesses are estimated to have already achieved about 90% of their respective income targets. When I look at the color-coded breakdown of the bars, the "other businesses" in green appear to have already surpassed the target, and the "ICT business" in grey seems to be also progressing well. In contrast, the "renewable energy business" in blue looks like struggling to reach its target. Is my understanding correct? The plan appears to be for the "other businesses" and "ICT business" to pick up growth from last year. What kind of determined investments are contributing to this income growth? For each of the growth businesses, I want to hear Mr. President's understanding about their status of progress.

Answer Q1

- Let me respond to some of those questions first. Regarding your first question about the impact of the wholesale market, higher prices in the wholesale market have both positive and negative impacts as a whole. The negative impacts include an increase in the purchase power costs, as you have pointed out. At the same time, there may

be a positive impact when selling our own power supply or re-selling LNG. This will be affected by any given year's power supply configuration and fuel prices. In this sense, 2022 and 2023 are quite different. For FY2022, the negative impact should be more prominent due to a lower nuclear operation, which, in turn lowers expectations for LNG reselling and market sales. When it comes to addressing these situations, we are planning to rearrange power supply for retail outside the Kyushu region into three different categories; those to be supplied from us, those to be arranged in bilateral wholesale electricity trading outside Kyushu and those to be dealt with in futures transactions.

In FY2023 and beyond, when four nuclear units realized stable operations, we should become capable to offer wholesale sales or to resell LNG. In this sense, higher fuel prices would pose a less negative impact, and could even deliver a positive impact, depending on various conditions including fuel supplies and foreign exchange. Accordingly, we believe establishing stable operations of the four nuclear units is the biggest risk-managing measure.

- As for the income of growth business, as shown earlier, aggressive efforts will be made to expand the renewable energy business. The income of the "other businesses" include income from affiliate group companies. More specifically, in the ICT business, QTnet is currently in the phase of depreciating fiber optic networks and other assets it has invested in, and the depreciation will complete in several years. In this sense, the scale of income from affiliates can be expected to expand. When all these factors are added up, we estimate to have reached about 90% of the targets.

Additional remark on Q1

- Let me supplement some information. Firstly, on procurement for retail business outside Kyushu, Kyuden Mirai Energy has built up the ability to arrange bilateral wholesale electricity trading to a substantial extent, and no longer needed to rely on the market in most part in 4Q last year. It is important to focus on bilateral wholesale electricity trading to become less reliant on a highly volatile market. When the four nuclear units establish stable operation, in FY2023 onwards, we will be in a very strong position. It is very unclear for how long fuel prices stay on the upward trend. "We don't know" is all we can say, given the fact that we cannot even present forecasts. Fuel prices would not come down so easily, and as such, electricity market prices would not drop either. Our nuclear plants have the capacity to generate about 30 billion kWh of power annually if they maintain normal operation. Variable costs of nuclear power are about 3 yen/kWh, including front-end and back-end. In comparison, the range for LNG is generally about 10 yen/kWh. Yet the actual price is currently above this range. If the price difference widens, we are in the advantage to the tune of 30 billion kWh multiplied by the price. In this sense, I have high expectations for FY2023 and beyond.
- As for the second question about growth business, the "other businesses" represent incomes of affiliates added together, and could therefore contain temporary factors. I

don't think they are overrepresented. As explained in the previous page, the renewable energy business and the overseas business are progressing very well, and so is the urban development business. In a recent example, a commercial complex called "LaLaport" was opened at the former site of Fukuoka's fresh produce market on April 25. This was a joint project with Mitsui Fudosan and Nishi-Nippon Railroad. Projects like this are performing very well. Even though there are only three years left to the target year of 2025, I believe this business segment is progressing well to hit the mark.

Question 2

- Let me ask one more question. In relation to the Russian crisis, is it correct to understand that we don't need to worry too much about the risk of fuel procurement restrictions disrupting the operation of your own thermal power sources, which can be addressed adequately by way of alternative procurement in principle?

Answer Q2

- In terms of Russia, we actually import LNG from Sakhalin-2 project, totaling about 450,000 tons planned for FY2022. This accounts for about 15% of our LNG imports. If this supply is stopped, we must explore an alternative, which is not an easy task to be honest with you. At present, the Japanese government has declared its intention of banning Russian coal imports and phasing out the importation of Russian oil. However, the government has been consistent in allowing LNG imports. Halting LNG exports would have little benefit to Russia, and we are hopeful to continue to secure LNG from the country. However, in the unlikely scenario of the suspension of Russian LNG imports, we should have options such as increasing the output of coal-fired thermal plants. I don't think it would escalate into a crisis situation.

Question 3

- I would like to ask two questions. The first question is about your analysis of income fluctuations in the attached material. It might be coincidental, but the income from re-selling LNG is offsetting the impact of price increase in the wholesale market. In your current position, is it correct to understand that, as long as the four nuclear units maintain normal operation, LNG surplus will continue to offset the impact of price rise in the wholesale market?
- The second question is about your wholesale and retail policies. Even with nuclear energy, you are buying increasingly from JEPX including FIT for renewable energy. Are you passing these costs to users in the form of price increase? Please explain your sales price policy. Thank you.

Answer Q3

- I'd like to answer your first question. Take a look at page 10 of the reference material.

Income from reselling LNG totals 27.2 billion yen. Skip one item to the right and you can see the impact of price increase in the wholesale electricity market listed as minus 28 billion yen. The reselling income was attributable to higher prices in fuel and electricity market, but this, in turn, increased the cost of procurement from the wholesale electricity market. This was the result of the four nuclear units going operational. As explained in response to the first question, the minus 28 billion yen recorded for the wholesale market includes the cost for procuring from electricity markets outside Kyushu. As was explained earlier, we will be shifting from this type of procurement to bilateral wholesale electricity trading to make it even or even ahead.

Additional remark on Q3

- Let me add some information. These figures may be very close but would never be exactly the same. Income from re-selling LNG is determined by the difference between the price in long-term contracts and spot prices. The price in long-term are determined by a formula, but are linked to crude oil prices in principle. The income of 27.2 billion yen must be based on the association between crude oil price and spot LNG price. The impact of higher prices on the wholesale electricity market is shown as minus 28 billion yen, partly because we must pay a higher price for a start, and also because avoidable costs must be covered with the market price in relation to the amount of "Grant based on the Act on Purchase of Renewable Energy Sourced Electricity "received. This is completely unrelated to the amount of income received from re-selling LNG, and is subject to change depending on what power sources are attributable to the marginal cost. They could be LNG or even coal in some time zones. At times, there could be significant surplus electricity, which brings its price to 0.01 yen per kWh. For this reason, the income from reselling LNG does not necessarily match the impact of higher wholesale market prices. I suspect it is only coincidental that those figures are so close.
- As for the second question about our sale price strategy, specified-scale electric utilities known as PPSs (new entrants to the electricity retail sector) are having supply difficulty and some of them continue to stay away from public tenders and contract renewal. We believe that electricity prices should cover not only fuel costs but also fixed expenses. PPSs have been buying electricity from JEPX at a variable cost without shouldering fixed expenses, and pricing their electricity solely based on market prices, forcing us to face tough competition. In the given circumstance, we have always taken the stance that appropriate electricity pricing should reflect not only variable costs but also fixed expenses. We are negotiating with customers to bring our prices to the appropriate level.

Question 4

- May I ask a few more questions? Firstly, it might be purely coincidental that the income from reselling LNG is very similar to the impact of higher market prices. When these

factors are considered separately, if the four nuclear units are in normal operation, can we expect some continuity with the LNG surplus? Also, when you talked about risks being reduced by the increase in bilateral wholesale electricity trading outside Kyushu, is it correct to understand that, would exposure to the electricity exchange significantly decrease from the new fiscal year onwards?

Answer Q4

- Your understanding is correct for the latter part. For the former part, we have a substantial amount of LNG on long-term contracts, and maintain a long position of reselling any surplus. But that doesn't mean it will always bring income. In FY2019, when the spot LNG price was incredibly low, it was only about $3 per MMBtu. Crude oil prices were not as low as that, and we ended up making a reselling loss in 2019. There is no guarantee that we will continue to enjoy this income into the future. Yet, I feel that $3 was quite extraordinary as the price of LNG, and this wouldn't happen again. I believe that the Ukraine crisis eventually will subside, and we made reselling profits even before the rise of LNG prices at the time prior to Russian invasion or last summer when Europe experienced a season of low wind speeds. Although, my feeling is that the price would not go below the level of that in FY2019.

Question 5

- For my first question, Prime Minister Kishida has been talking a lot about using nuclear energy. I believe it would be a lot more effective to shorten periodic inspection period or extend inspection cycle, as President Ikebe has repeatedly said, rather than streamlining the review process of the Nuclear Regulation Authority. I'd like to know if there are some initiatives the government is taking go forward or not and what you wish to see progress for?
- Secondly, your presentation said that your company's profit level based on true capabilities is around 100 billion yen in FY2021 excluding the effect of time lag of fuel cost adjustments. Page 4 talked about reduced operation at Genkai NPSs, and lack of clarity in fuel price trends, however I think that these factors are temporary. When your company normalizes in FY2023, do you perceive the current business performance as being able to achieve the income level that combines 100 billion yen in ordinary income with incomes coming from your growth business? In terms of business performance for FY2022 and FY2023, do you perceive any positive or negative factors other than the nuclear utilization rate and fuel prices? What is your view on your business capability in the current FY2022?

Answer Q5

- For the first question, it is very reassuring that Prime Minister Kishida has been talking about the use of nuclear energy. Shorten periodic inspection period partly requires streamlining our work in areas outside regulatory requirements. In these areas, all

electric utilities including ourselves are striving to boost efficiency day after day. However, when I say periodic inspection period should be shortened more systematically, I'm talking about online maintenance. The ability to perform maintenance work while facilities are in operation should drastically shorten this period. We are still in the stage whereby the government and electric utilities are exploring how this could be achieved. As for the question of inspection cycle, our current cycle is 13 months, but Japanese laws allow the cycle to be extended to 18 months or 24 months. The question is how this could be implemented. We are still exploring technical options in relation to fuel burnup rate. This is something I'd like to actualize, and NRA Chairman Fuketa also says he is willing to come to a discussion table. We should be able to start talks once the technical issues are sorted out. Shorten periodic inspection period and extending inspection cycle translate into utilization rate improvement and we have Genkai Units 3 & 4 and Sendai Units 1 & 2 in operation. But it is Japan's urgent task to restart more nuclear plants. Unless this is achieved, our country cannot align ourselves toward the path for carbon neutrality by 2050.

- As for the second question about our company's profit level based on true capabilities, our goal is to achieve 75 billion yen in Japanese electric power business and 50 billion yen in growth business for a total of 125 billion yen by FY2025. As already explained, we are on track to reach the target. Our current ability is to earn 100 billion yen in income, and we are working on expanding it to 125 billion yen by 2025. Nuclear energy is a very competitive power source when normal operations can be maintained. I'm unsure how carbon pricing becomes incorporated into our business, but it is safe to say that power sources that do not emit CO2 will become more valuable. With firm understanding about the importance of nuclear energy, we received regulatory review at an early stage and made early investments to enable resumption of plant operation. Now, we can finally reap the benefit from the year 2023 and beyond.

Question 6

- My first question is about transmission and distribution business. The segment's ordinary income was 7.1 billion yen in the fiscal year that has just ended, but the figure was 29.1 billion yen the year before. That is a decline of 21.9 billion yen. I suspect the result has something to do with supply – demand adjustment market. Please provide your forecast or outlook of the transmission and distribution segment for the new fiscal year or FY2023, with or without specific figures.
- My second question is about ROIC. I will look forward to disclosure of ROIC. Now, in terms of ROA, your total assets were worth about 4.7 trillion yen 5 to 6 years ago, but this has increased by just over 10% more recently to about 5.3 trillion yen. I'm referring to the figure 5 – 6 years ago because that was when your ordinary income was about 100 billion yen. Supposing your current income-earning capability is 100 billion yen, if you are to stay on the level this new year and beyond, your total assets may continue

to increase while the profit level remains steady. What are your views on this? My hypothesis is that, looking back the past 5 – 6 years, the deregulation of the existing electricity business lowered its income level while returns from growth business remain modest, as it is not that easy to generate income at the current stage. Let me hear if you have other views.

Answer Q6

- In regard to transmission and distribution business, as you said, the income level dropped significantly in FY2021. In relation to the supply and demand adjustment market, expenditures were incurred over above the government subsidy for power source adjusting supply and demand. At the same time, there was always a question about the system. Some are saying that such a deficit should not happen in the grid business. In this sense, this subsidy amount has been increased for FY2022. I feel the situation in FY2021 was somewhat unusual. In terms of our future outlook for power transmission and distribution, institutional design related to subsidies will become normalized, and the revenue cap system will take direction. There is a common consensus that the grid business must be sustainable. In this sense, there will be an appropriate level set, and income will steadily increase. As the President explained earlier, we are implementing initiatives in overseas business, with one project already completed in the Middle East. I cannot refer to its specific location due to competition reasons. Yet, in terms of exploring similar projects, we must increase income overseas in addition to steadily increasing profits in Japan. I hope transmission and distribution business will continue to increase income steadily.
- You are quite right about ROIC and there is room to increase income in existing businesses as well, as President Ikebe explained earlier. The non-fossil fuel energy value trading market, currently has very low prices, but we expect to see an upturn, given the future value of CO2. FY2022 represents a halfway mark for achieving government targets, and trading is expected to become active this year. The market is slightly lower in EU due to the Ukraine crisis, but has been sustaining reasonable prices. With revenue set to increase further, and the capacity market to start in 2024, I expect income in these segments to rise. As for growth business, Page 10 lists projects that we will be working on from now. I am convinced that these projects will generate income. In this sense, there may have been projects that were slow to deliver income before, but our businesses will be returning significant income moving forward, even for businesses other than existing affiliate group companies. As for assets, it is true that spending is piling up in various areas including installation of Specialized Safety Facility. Yet, I am sure we can meet everyone's expectations by ensuring to increase income.

Additional remark on Q6

- Let me add some information. I am not satisfied with the current income level of the

transmission and distribution business. There should be more favorable figures in FY2023 onwards following the introduction of a new pricing structure in FY2023. The ordinary income of 7.1 billion yen for FY2021 is not a sustainable level. That is what we have been saying to our power transmission / distribution subsidiaries as well as the Transmission & Distribution Grid Council. As you pointed out, in the demand – supply adjustment market, our transmission and distribution business is paying into it and our power generation business is gaining from it. Yet, transmission and distribution business is not making ends meet by itself, showing that the system is flawed. I have instructed our team to speak out so that something will be done, including a retrospective review. At least, when the new fee structure is launched in FY2023, I understand that all the costs involved in supply – demand adjustment can be recouped from then on.

- As for the second question, over the past 5 – 6 years, we had to allocate a lot of resources to nuclear safety works. Spending on these projects has gone into our assets. As I said earlier, when our nuclear plants establish stable operation from FY2023 onwards, the advance investments will come back as our strength. We have made fairly active investments in growth business over the last 5 years or so and are only just started to reap the reward. In that sense, ROA might be low, but recent investments will bear fruit in abundance in the future.

Question 7

- May I also ask another question? I was not aware that "Effect of the hike in JEPX prices," in factor analysis of ordinary income for finished fiscal years, had something to do with "Grant based on the Act on Purchase of Renewable Energy Sourced Electricity". I suspect the mechanism is that avoidable costs portion of this grants are linked to spot prices and become deducted, and that is way the amount of grants received is reduced. Does the industry or your company accept this mechanism as an established rule, or do you consider it as a variable, depending on JEPX? Do you question the system itself in a way similar to your stance on the supply – demand adjustment market?

Answer Q7

- In the long term, as Japan will shift from FIT to FIP, the current problem should disappear, as the risk is passed to power generation businesses using solar or other renewable energies. In the short term, when it comes to avoidable costs, supposing we gained income by using solar-generated electricity, if someone asks us how the electricity would have been generated without solar energy, it would be only logical to say we would have purchased it from the market. This year, however, the market pricing during daytime, when we purchased solar, was a little out of ordinary. Figures for FY2021 moved in a strange way. Logically speaking, though, I think it is consistent, to some extent, to say that the avoidable costs are linked to market prices.

Question 8

- I'd like to clarify about your approach to dividends. Listening to discussions so far, I could somewhat understand your stance that the income level cannot be reasonably indicated due to lack of clarity about fuel prices this year. In the mid- to long-term, you are talking about your company's profit level based on true capabilities and solid outlook of achieving 125 billion yen in 2025. That being the case, one of your options could be to present stable dividend payout of 40 yen. Please explain why you chose to make dividend forecast as undecided, and what discussions took place about it within your company.
- The second question is about your approach to the volume of electricity sold. What do you think is the appropriate level of electricity sales volume against your supply capacity? Earlier, you said you recorded the highest volume of electricity sold in history. This may depend on the nuclear utilization rate and bilateral wholesale electricity trading, but, in the present state, what is the electricity sales volume that poses little market risk to your company?

Answer Q8

- Firstly, about our stance on dividends, please take a look at Page 3. This page shows forecasts for both financial results and dividends. The page says, "We will continue to make efforts to maintain a certain level of dividends." This is exactly how we feel about the topic. In internal discussions, some suggested releasing a forecast figure as dividends should be paid out in a stable manner. However, it seemed to be lacking integrity to present the expected amount of dividend when we could not forecast our business performance or the movement of fuel prices. This is why we decided not to release a specific figure as dividend forecast but clearly state that "We will continue to make efforts to maintain a certain level of dividends."
- Your second question about the appropriate volume of electricity sales is a difficult one to answer. In the long term, considering that it is important to establish good relationship with customers, I believe the higher the sales volume, the better. However, as all electric utilities say, with large fluctuations observed in the electricity trading market, we would be exposed to fewer risks if we stick to our own power generation capacity with some addition to be sourced from J-Power and other wholesalers. However, there would be customer relations issues if we become over-sensitive toward the risk and end up letting go of customers. There has to be a right balance. Our current mechanism is to have sales reps communicate with customers and sign up those who accept our contractual terms. However, when it comes to those who have switched to PPSs, which have about 15% market share in Kyushu, it is difficult to suddenly arrange electricity to supply to them if they choose to come back to us. We would have no choice but buy electricity from the market. Based on the market price

of today or in FY2021, the electricity charge would come to 1.3 times that of today's rate or even higher. When customers say they want to come back to us, we send our sales reps to establish contact and start negotiations. In such a case, the supply is based on the general provisions for Last Resort Service, priced at 1.2 times the rate of general electric utilities. There is general understanding about this on our part and on the part of customers. It is not easy to say that we have to beyond 1.2 times and charge 1.3 times, for example. Could we then charge lower than 1.2 times, e.g. 1.1 times or in line with the standard fee menu? Since the power needs to be sourced from the electricity trading market, such a practice could be deemed as unfair discount, as it is selling something at a price lower than the purchase price, although it all depends on the interpretation of the Anti-Monopoly Act by the Fair Trade Commission. This is why it is difficult to supply electricity to former PPS customers. All we can say to them is that they should accept the Last Resort Service as that would be cheaper for now.

Additional comment on Q8

- Let me provide some figures for consideration. As of December last year, on the basis of electricity sales volume, Kyuden's customer churn rate to PPSs is 13.6%, much lower than the national average of 21.7%.

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