May 2024
Kyushu Electric Power Co.

Questions and Answers at the IR Meeting (held on May 10, 2024)

1. Date and Time: Friday, May 10, 2024, 14:00-15:10
2. Main speakers:

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

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- The forecast assumes that Kyushu's electricity demand will increase by several billion kWh over the next few years. The outlook by Transmission & Distribution is a bit more cautious than this, but it is also assumed to grow in the future. Regarding the increase in demand, the CEO communicated that the existing supply capacity is sufficient to cope with the increase in demand until the early 2030s, but I would like to confirm once again whether the existing supply capacity can handle the increase in demand.
- In addition, I would like to ask whether the increase in demand for electric power will increase profits. In response to the increase in demand, Kyushu Electric will probably increase the operating rate of its power plants to expand the total amount of electricity sales. However, since Kyushu Electric is already operating nuclear power plants at high capacity, I believe that it will primarily respond with relatively high marginal cost power sources such as LNG. It is likely that profits can be secured if the overall market price in the Kyushu region increases, but I think the pricing strategy for the retail sector is also important. How will you translate increased demand into profit growth?
- Regarding current profits. Earlier you explained that the company is on track to achieve the target for FY2025, but ordinary income for FY2024 is just under ¥100 billion, excluding the effect of the time lag (related to Japan’s fuel cost adjustment system). There seems to be a slight gap towards the FY2025 target. Are there any special factors for this fiscal year? Also, what level of actual profit do you visualize?

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- Regarding the first point. There is a discrepancy between the assumptions of Transmission &

Distribution and our assumptions. The Transmission & Distribution includes confirmed individual applications in their assumptions. On the other hand, we base our assumption on various information, including the location of semiconductor-related plants and information from newspaper articles.

- In response to this increased demand, the Hibiki LNG-fired power plant and the Hibikinada offshore wind farm are scheduled to start operation in FY2025. Therefore, as we have explained before, we believe that the necessary power sources for the area can be secured until the early 2030s.
- Regarding the third point. We have always been stating that our actual income for the period is around ¥100 billion, excluding the time lag. In our forecast for the current fiscal year, we have factored in the trends of fuel costs, including the uncertainties related to the situation in the Middle East. We have also taken into account the fact that the operating rate of nuclear power plants will be slightly lower compared to FY2023. In addition, taking into account special factors, such as lower unit prices of adjusting subsidies related to the demand-supply adjustment market received by Transmission and Distribution, we estimate the income forecast to be ¥110 billion, including the time lag, and ¥97 billion, excluding time lag. We believe that this figure does not deviate significantly from the level of actual income of around ¥100 billion as previously mentioned.

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- As a supplement to the current explanation, we are targeting ordinary income of ¥125 billion for FY2025, of which ¥75 billion is for Domestic Electricity Business and ¥50 billion is for Growth Businesses. Our outlook for FY2024 is ¥70 billion in the Domestic Electricity Business and ¥40 billion in Growth Businesses. The growth businesses consist of cumulative individual businesses, and profits may fluctuate depending on the timing of sales or dividends. While the level may be slightly lower for the fiscal year 2024 compared to around ¥51 billion in FY2023, we expect the profit to reach ¥50 billion for the FY2025, including profits from projects already invested in or projects with confirmed investments, and we are making efforts to achieve the overall goal of ¥125 billion.

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- Regarding the second point. I believe that the increase in demand will lead to increased profits. While it is uncertain whether Kyushu Electric will supply the increased demand, at least there will be a positive impact on revenue because of the increase in wheeling service charges. In addition to LNG-fired power, there is also the potential to utilize coal-fired power in the short term to meet increased demand. Although it is necessary to reduce CO2 emissions through long-term measures such as hydrogen/ammonia co-firing and CCS, coal-fired power plants can be used for immediate supply capacity. If we can supply this, it would be beneficial to us if they are purchased at a price that reflects the fuel price or higher, since fixed costs are included in our electricity rates.

- Next, regarding the pricing strategy for the retail sector. Our company owns power sources with high environmental value that do not emit CO2, such as nuclear power. These are very important power sources for becoming carbon neutral, and we would like to send out a message to ensure that their value is properly evaluated. We believe that it is valuable for our customers to be able to do business with electricity that emits less CO2, and we will appeal to them on this point. In the future, we recognize that we must consider the retail electricity prices in line with rising costs of materials and construction.

Questioner’s response:

- It is very reassuring to clearly convey the message of raising retail prices in response to cost increases, while also pricing in a way that ensures value is fairly evaluated.

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- What are the factors influencing the increase or decrease in retail and wholesale sales electricity volume outlook for the FY2024? For retail, is it due to area demand factors such as economy and temperature, or is competition a factor? As for wholesale sales, there has been a significant increase, so I would like to know the background behind this.
- Regarding the demand-supply adjustment market. All products have started trading from this fiscal year, but in April, there were instances that the offered volume was not reached and soaring contract prices. What do you see as the reasons for this? Also, what are the expected impacts on each of Kyuden's generation, sales, and transmission and distribution businesses?

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- Regarding the first point. For retail sales electricity volume, it is expected to reach a similar level to FY2023 as it will take a few years for the impact of increased demand, such as semiconductor-related factories, to be reflected, making the impact on FY2024 limited. As for wholesale sales electricity volume, it has increased by 7.1 billion kWh, which is a result of strengthening non-discriminatory practices in wholesale sales based on the instructions from the Agency for Natural Resources and Energy last year on "Measures to Ensure the Healthy Development of the Electricity Business." Specifically, there has been an increase in bilateral trading including exchanges and purchases, leading to these numbers.

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- Regarding the second point. The supply-demand adjustment market trades on a short-cycle, weekly basis, and I believe that trading has been sluggish because trading one week in advance for the following week is problematic in terms of predictability. I would like to refrain from commenting on the impact on our company's income and expenditures, as this information is extremely sensitive.

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- Some supplementary information on sales electricity volume. Regarding retail, it will take a little more time for semiconductor-related factories to start operating, and TSMC's JASM is scheduled to start operating from December this year, so it will not have much impact on this year's sales electricity volume. As for the increase in wholesale, it includes not only what our generation division sells, but also what our retail division purchases from other companies. Therefore, rather than saying that the sales volume has increased significantly, it is more realistic to view it as a change in presentation.

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- Regarding dividends. The basic dividend policy is stated as maintaining 50 yen for FY2025 and beyond, but what is the significance of this "50 yen"? Also, in the new management vision to be formulated in the future, how does the company plan to change the direction regarding dividends?
- Regarding the pricing strategy for the retail sector. Over the past two to three years, the company has made efforts to reduce discounts for high voltage and extra-high voltage rates, and I believe that this has largely run its course. What are your thoughts on maintaining profit margins in the future? There is a need to respond to cost increases, but I would like to know if there are plans to improve profit margins by adding value.

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- Regarding the first point. We are currently at a stage where we have projected a dividend of 50 yen for the fiscal year 2024, and we can only discuss further beyond that if we have already implemented a 50 yen dividend. The electricity business is a long-term business, and we have many shareholders who hold onto their shares for the long term. Therefore, this year we set the dividend at 50 yen with the intention of first returning to the 50 yen dividend as 10% of the previous 500 yen face value share. However, just as we have implemented a 60 yen dividend in the past, 50 yen is not the final amount. As we formulate a new vision, we will also consider dividends, but back when we were implementing a 50 yen dividend, there were restrictions on side businesses, and we were only operating in the domestic electricity business. Based on this, the return for the domestic electricity business is 50 yen, and it is a challenge to consider how to handle dividends when returns from investments in growth businesses start to materialize.
- Regarding the second point. Profit margins are part of our business strategy, so I cannot disclose specific details. However, I believe that environmental value must be fairly assessed. It is necessary for customers to recognize that the environmental value of our electricity is higher than that of other companies and to receive compensation accordingly. We have three renewable energy plans for corporate customers, and we aim to work towards ensuring that these pricing

levels are recognized as the standard.

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- In terms of profit margins, based on the current explanation, is it correct to assume that there will be improvements rather than maintaining the current situation?

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- Until now we have expanded profit margins by reducing sales promotion expenses and moving closer to standard menu offerings. In the future, I believe our policy will shift towards receiving fees that align with the understanding of the environmental value and services provided by our company, rather than solely focusing on expanding profit margins.

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- Is there any update on the initiatives aimed at improving nuclear utilization rates, such as shortening periodic inspection periods and extending inspection intervals, which President Ikebe has previously discussed? If there is no significant progress, could you please indicate if there are any signs of change in the next 1-2 years and what factors may be hindering progress?
- Regarding renewable energy business, how will Kyuden Mirai Energy approach renewable energy in the future? I believe Kyuden Mirai Energy will become one of the leading domestic renewable energy companies in terms of scale. Is there a possibility of expanding scale through M&A or alliances with other companies in the future? Additionally, I would like to know if there are plans to form alliances with other companies for supply chain development and the overall direction of management.
- Could you please provide an outlook on the operating profit for the Transmission and Distribution segment in the fiscal year 2024? Is this a steady profit level as expected from business compensation, or are there transitory factors that may push it up or down?

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- Regarding the third point. The ordinary income forecast for FY2024 is ¥110 billion for the entire group and ¥70 billion for the Domestic Electricity Business. As for the Transmission & Distribution segment, ordinary income for FY2023 was around ¥41 billion. While we have not disclosed the detailed outlook for FY2024, due to the lower unit prices of adjusting subsidies in the demand-supply adjustment market compared to the previous year, there is an expectation of a decrease in profit compared to the FY2023 results, but a certain profit level can still be maintained. A considerable portion of the "Others -¥22.1 billion" in the factors affecting the operating profit for FY2024 from FY2023, as indicated in the presentation material on page 4, is attributed to the impact of the "decrease in unit prices of adjusting subsidies" in the transmission and distribution market. I would like you to estimate the difference by subtracting both figures.

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- Regarding the first point. We must tackle not only for business management but also for CO2 reduction. Regarding the shortening of periodic inspection periods, we believe that online maintenance is the most effective measure, and we are discussing this with the ATENA (Atomic Energy Association) and the Nuclear Regulation Authority. ATENA claims that the introduction of online maintenance not only shortens the periodic inspection period but also allows senior employees with technical expertise to spend time mentoring younger employees during the inspection period, contributing to improved safety. Online maintenance is already being implemented overseas, so if the regulatory agency and Nuclear Regulation Authority establish the system, progress may be made. As for extending the periodic inspection period, it is legally possible, but to operate for an extended period, it is necessary to improve fuel combustion, and we are in the preparatory stage for this.
- Regarding the second point. We do not have specific plans for individual mergers or integrations with other companies. Kyuden Mirai Energy already owns five renewable energy sources and has sufficient capabilities. As for alliances, we have already formed alliances on a project-by-project basis and may continue to do so in the future. I anticipate an increase in offshore wind power in the future, and we will consider whether to form alliances on a project basis or find fixed partners.

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- I believe that your company's valuation has a weak appeal in terms of price earnings ratio (PER). In light of this, I would like to inquire about the new management vision. I believe that management should always consider 10 or 20 years ahead, but by when do you plan to finish considering the new management vision and when do you plan to announce it? Also, I believe that targeting 2030 is too close. Your company has a higher nuclear power operation rate compared to other companies, and you have strategies for carbon negativity, but considering the energy mix after nuclear power plants restarted and renewable energy development, I think a vision for around 2040 is necessary. When do you plan to formulate and announce the new management vision? Additionally, could you please indicate which timeframe you are targeting?

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- Our company formulates medium-term management plans on a yearly basis and the vision consolidated in June 2019 is the Kyuden Group Management Vision 2030 that we publicly announced. Due to significant changes in the global energy situation and energy policy trends since its formulation, we have decided to revise the vision this time. I don't think we will target 2030, but we are currently determining whether it will be 2035 or 2040, considering various factors. We want to think about what we can do, taking into account the status of the government's next Basic Energy Plan. There are also discussions about looking further ahead. In our current considerations, we are imagining 2050 and conducting backward-looking exercises from there. We believe it is necessary to formulate based not only on what we currently call the electricity business and growth business but also on a vision that looks further ahead.

- I mentioned around February this year that I want to consider a new vision. When considering the timing of announcing the vision, in addition to the Basic Energy Plan, we also need to consider Japan's likely carbon neutral reduction target (next NDC), which will probably be announced around February next year. If we announce the new vision before February next year, it may not align with the country's goals. However, I do not think it should take two or three years to create.

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- Regarding the increase in demand in the Kyushu area. While demand is expected to increase, the ability of Kyushu Electric Power's retail division to capture this demand will depend on competition. Assuming that the wholesale unit price of electricity generation remains constant as electricity is supplied indiscriminately internally and externally, what are the strengths of Kyushu Electric Power's retail in capturing demand?

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- Our strength lies in conducting visible sales activities to ensure that customers feel confident in purchasing electricity. We have account managers stationed in various locations who regularly visit customers. While nowadays people may purchase goods online without visiting physical stores, electricity is an invisible product, so it is important to have a visible presence and provide a sense of security. Therefore, we have personnel stationed at sales offices, and the visits by account managers are considered a strength. Additionally, we believe in the sense of security that comes from our longstanding business operations.

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- Even if wholesale sales from the generation division to the retail division are carried out indiscriminately, can it be considered beneficial to have competitive edge against rivals through pricing that includes non-fossil value?

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- If the generation division conducts indiscriminate wholesale sales, allowing the retail division to procure electricity from our generation division and effectively communicate the value of our low-carbon electricity to customers, then it is entirely possible. The aspect of indiscriminate supply that raises the most doubt for me is the potential inability to fully leverage the value of being CO_2-free. The electricity we purchase from other power sources generally has a higher CO_2 emission coefficient than our own electricity. As the indiscriminate system progresses, there is a possibility that we may be forced to purchase relatively higher emission electricity, which could hinder our ability to achieve carbon negativity and may require explanations in certain situations.

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- First point, regarding investment cash flow. In the original medium-term plan, it was expected that free cash flow would turn positive at some point. However, with factors such as investments in nuclear backfitting, the situation seems to be changing. Could you please provide insights on the current and medium to long-term investment levels?
- Second, about the transmission and distribution sector. From a group management perspective, there are limitations to what the main company can do, and there are also many regulatory challenges. Given the current regulatory framework, there are questions about whether it is feasible to maintain this as a private sector business. Ideally, a change in the regulatory framework would be desirable, but how are you prepared to handle the situation if it does not change, and do you anticipate any potential changes in the regulation?

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- First, free cash flow could be negative in FY2024 and FY2025, as high investment levels will continue due to development, renewal, and growth investments in power generation, transmission & distribution. However, from the fiscal year 2026 onwards, as investments stabilize after a cycle, investment cash flow is expected to calm down, leading to a positive trend in free cash flow. At the moment, there are no major investment projects planned beyond that timeframe.

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- Regarding the second point about the transmission and distribution, the revenue cap system has recently been introduced, and there is a need for further refinement to solidify the system, including aspects like demand-supply adjustment markets. However, a fundamental issue lies in the very low profit margins (business remuneration rates) calculated under the revenue cap. This issue has drawn criticism from the capital market, as it hinders investment, and regulatory authorities need to address this and continue to do so in the future. This is a common challenge faced by all power companies.
- While the system requires refinement, the construction of new transmission networks would incur astronomical costs, making it impractical. Similar situations are observed in other countries; for instance, Australia is facing challenges in constructing facilities to transmit renewable energy from the north to the south. Due to these difficulties, there are growing voices in Australia advocating for the utilization of nuclear power. Therefore, at this point, we are not considering any significant changes to our Transmission and Distribution.

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- The consolidated investment cash flow for the past few years has been around the first half of the ¥300 billion range, and except for FY2023, I think the free cash flow was negative. When you said "high investment level" earlier, do you mean the same level as past performance, or do you expect it to increase a bit more?

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- Once the investment settles down, it will be in the low ¥300 billion range, but the current fiscal years of 2024 and 2025 are slightly higher than that level. However, it is not a large investment amount like nuclear safety measures construction, so it will not increase significantly.