
November 2021
Kyushu Electric Power Company Inc.

Q&A between Investors and the President during the IR Meeting (November 11, 2021)

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- First, regarding dividends, the President has mentioned before that the company was keen to return to a dividend level of ¥50 again in a short period of time. What milestones would Kyuden have to reach, in order for it to decide to resume ¥50 dividends? During this meeting, the President talked a lot about profit standards, but what does he consider to be the most important factors in deciding on a ¥50 dividend: the ability to make profits or financial strength? What level would be required for the President to consider a ¥50 dividend?
- Second, it was explained that Kyuden's profit level based on true capabilities would exceed ¥100 billion when disregarding the time lag inherent to the fuel adjustment system and Growth businesses would make steady progress, taking into account that for this year the availability factor for nuclear power stations is 90%, which is much higher than recent years. Does the President think that Kyuden can earn more than ¥100 billion as profit level based on true capabilities, if the nuclear power stations' base utilization rate was 80%? Furthermore, if Sendai Nuclear Power Station is going to extend its operational life, will it require any special construction work that may reduce its availability factor? Is that a concern? I want to hear more about the availability factor of nuclear power stations and profit level based on true capabilities from a mid-to-long term perspective.

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- First, as per financial targets, we hope to return to ¥50 dividend by 2025 or as soon as possible. While we are aiming for 20% equity ratio, we consider that a general milestone to keep an eye on and will not necessarily start issuing ¥50 dividends just because we've achieved that milestone. In terms of profit targets, we have set a goal of ¥125 billion for 2025 and I think the major factor in our decision will be whether or not we are on track to meet that target. The projected dividend for this year is ¥40 and we currently believe that we will be able to deliver a ¥50 dividend in the not-so-far future without disappointing our investors.
- Second, we believe this fiscal year's profit level based on true capabilities will be around ¥100 billion. Of course, this figure is based on our current situation, and we believe there are other positive factors on the horizon. For example, we are aware that the base utilization rate for nuclear power stations has reached above 80%, but we hope to improve this by increasing efficiency in the implementation of periodic Inspection. I think we are capable of generating ¥100 billion even with the utilization rate of at least 80%. At this point we have not decided

to extend the operational life of the units at Sendai from 40 years, but if we were to apply for an extension, it is possible that the NRA may decide that additional work is necessary after having reviewed the application. However, we are being able to continue operating the units in a safe and stable manner so far, and if there are no problems identified during the special inspection, I believe that no major additional work will be required.

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- First, the volume of electricity sold in the first half of the year has increased, even when excluding the impact of COVID-19. How is the competition? Looking at the step chart, it does not look like you have reduced unit prices. Why do your sales efforts seem to be successful?
- Second, you have included the effects of streamlining in the full-year forecast. Is this primarily driven by the effects of rising fuel prices being carried over? Or are the effects of this streamlining structural and will they continue into the next fiscal year and beyond?

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- First, we think that our strong sales are the result of our efforts to work alongside our customers in the Kyushu area and I believe that these efforts are starting to bear fruit as we see customers switching back to our company following the liberalization of the market. On the price side, if the experience of last winter's market price hike due to the tight supply-demand conditions has had an impact on competitors' proposals and bid, then I think you could say that our competitiveness has increased. We will continue to improve our price competitiveness and make proposals that meet the needs of our customers in areas other than price. Amid an increasing demand among our customers for carbon neutral initiatives, we have been promoting sales activities such as energy savings assessments and other efforts, which I believe played an important factor in our current success.
- Second, we have not been able to analyze the effects of streamlining in the current fiscal year in terms of temporary and permanent factors. While some part of the ¥7-8 billion improvement due to streamlining stems from the carried over rising fuel prices, we have been working on streamlining from a completely new perspective through DX and I think this is making a difference as well.

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- First, you mentioned that you are considering the use of ROIC, but I would like to hear more about your perception of the current situation. ROIC for the last fiscal year was 1.34% (including the time lag effect), but is the current ROIC higher than WACC? Kyuden's ROE has historically been around 5%, but it is difficult to evaluate given the current low equity ratio. I think the ROIC must be raised to improve the ROE in improving the equity ratio.

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- Second, regarding corporate governance, what is the President's position on separating management and execution, taking into account the examples of KEPCO and TEPCO? Also with regard to external directors, the corporate governance code, which was revised this spring, included a recommendation regarding the establishment of an external board director. Is Kyuden doing anything to address this? At briefings held by other companies, I have been asking other companies to create opportunities for external board members to talk to shareholders, and I appreciate that Kyuden is actively engaging with this issue.

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- First, ROIC, on a consolidated basis, based on this year's earnings projection is around 1.5%, which is around the same level as WACC. We have been internally discussing the use and disclosure of ROIC, but in terms of existing frameworks, we are ensuring capital efficiency by using a hurdle rate based on the cost of capital for each individual investment as a basis for investment decisions. We are aiming for an ROE of around 8% in the mid-term range along with the financial targets announced previously. We would like to consider ROIC going forward.
- Second, regarding corporate governance, the President and below execute and the Chairman and the board supervise. The effectiveness of the Board of Directors, which I believe is functioning very effectively, because in response to the opinions of external directors, we are holding roundtable discussions, separate from the Board of Directors meetings, to analyze matters regarding risk and management and to develop a shared understanding of important strategies. We will also consider creating opportunities for dialogue with external board members should there be any requests from investors. Under our current structure, we have two non-audit external board members and three external audit members. The two non-audit members have a wealth of experience outside the company and overseas, and we hope that they can both provide guidance to our company.

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- First, you mentioned the periodic inspections of nuclear power stations. How do you intend to approach the regulatory authority about extending the inspection interval to 13 months? Does the NRA seem receptive?
- Second, what are the insights if any from your analysis of internal carbon pricing in the context of Kyuden's business activities?
- Third, what does the President currently intend to do when or if the ROIC of each division is calculated?

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- First, regarding the periodic inspections of nuclear power stations, we were talking about shortening the time required to conduct inspections in order to increase the overall
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utilization rate. However, as you mentioned, I am aware that it is possible under the rules that planned inspection intervals can be extended from 13 months to 18 months. In the dialogue between utilities and the NRA, I have felt that the chairman of the NRA is not against the idea. Increasing the utilization rate of nuclear power stations is an important issue that we need to tackle as it will contribute significantly to reducing CO2 emissions. Both reducing the inspection period and extending the intervals are both important measures to pursue when increasing the utilization rate of nuclear power stations and we believe that the NRA is also not completely against either of these ideas.

- Second, internal carbon pricing is being used to make internal investment decisions. However, this is not yet being used in all of our business areas and I think that this is a challenge that we need to discuss going forward. Carbon free opportunities have a high potential for future profit growth and the risk of them becoming unusable is low and we take this into account in our investment decisions.
- Third, we have been discussing the use of ROIC in existing businesses. We recognize that there are many issues to consider such as which businesses to bundle into units when measuring ROIC and how to consider synergies among businesses.

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- I can understand how Kyuden's competitiveness can comparatively increase within the Kyushu area. However, I am concerned that Kyuden Mirai Energy's competitiveness could decrease due to rising procurement costs and other factors.
- Are there any specific areas, which showed an improvement in profit governance, or where there has been a positive response compared to last year's projection? Are there any stories you could share that would illustrate this?

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- First, in terms of rising fuel prices, our competitiveness is increasing when fuel prices are rising because of our use of nuclear power and renewable energies. Looking at the unit price for fuel cost adjustment, our margin of increase in fuel cost adjustment fees per unit amount is small, and our advantage in this area compared to our competitors can be easily seen. Kyuden Mirai Energy does not have the same advantages over competitors as its positioning within Kyushu but I don't think it is less competitive than other companies. It is hedging risk by considering various electricity procurement methods, including negotiated transactions, and will continue to strengthen its sales activities.
- Second, in profit governance, we have revised our earnings projection multiple times in the past, but the most memorable instance for me is the withdrawal of the earnings projection in January of 2021. We were thoroughly criticized over this but our intention was to disclose information accurately and we felt that it would not be fair to keep the forecast unchanged

while the future was uncertain. I am sure that the initial earnings forecast to come true is the best-case scenario for investors, but I hope that you will consider this as a testament to our honesty. This term, we have also worked on strengthening communication with group companies and related internal organizations on income and expenditures management. As a result, we have not had to revise our earnings projection as of yet and we will continue to strictly manage our income and expenditures to ensure this projection can be maintained.

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- How did fluctuations in the JEPX market price affect earnings levels in and outside the area during the first half of the year? I can understand how Kyuden may be more competitive compared to other utilities in the area, but I fear that the opposite may hold true for areas outside the Kyushu area.
- There seems to be a large discrepancy in the performance of the transmission and distribution business among the general transmission and distribution companies, which are spin-offs from the 9 utilities. How has the establishment of the supply and demand adjustment market affected Kyuden's earnings for the first half of the year and full-year forecast? Some transmission and distribution companies are experiencing losses so is the FEPC taking any actions such as petitioning the national government or addressing these issues as an industry?

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- The first question is difficult to answer. Looking at it from the perspective of the Kyushu area, high prices in the wholesale electricity market mean that we can sell our electricity at a high price, but it has a negative impact on our purchases and renewable energy subsidies that are calculated in conjunction with market prices. In terms of the competitive environment, while we are less likely to be affected by increases in fuel prices due to our renewables and nuclear power generation, new operators who often procure electricity from the spot market are heavily impacted by such increases. As a result, the impact for Kyuden will be relatively positive. Outside of Kyushu area, I cannot share any details of how Kyuden Mirai Energy sets prices based on the responses of other companies and how it hedges risk as it is part of the management strategy. In responding to our competition, I can say we are acquiring new customers by leaning on our mutual connection to Kyushu, in addition to competing on price.
- Second, regarding the supply and demand adjustment market, the bidding process will enable Kyuden, which has been responding flexibly to rapid changes in renewable energy output, to obtain compensation in a transparent way, which is a good thing for Kyuden. Meanwhile, renewable subsidies, which is a source of income for the transmission and distribution business, has been scarce this fiscal year, and We have not been able to collect all of the consideration paid. In that sense, there have been negative effects. I have heard

that other utilities have been impacted but I think that this is something that the TDGC (Transmission and Distribution Grid Council) needs to address with the Agency for Natural Resources and Energy, and not the FEPC.

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- Under the current circumstances the volatility of the electricity business is increasing, with regard to fuel procurement and other factors, and therefore we expect to see a difference in the earnings per utility, depending on their position or approach on these matters. I want to hear more about Kyuden's policy or approach in hedging against volatility.

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- Because of our well-balanced portfolio of power sources, we have the ability to hedge on our own to some extent against rising fuel prices, and therefore we do not feel a strong need to fix the electricity procurement price through futures for example. New operators who do not have their own power sources usually cannot handle the kind of spot price volatility that took place in January this year. Kyuden Mirai Energy is hedging its exposure against this kind of risk by using various procurement methods.

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- I personally respect your decision to withdraw the earnings projection in January. People may disagree but I think fundamentals should be disclosed and if they are bad, the stock price should go down, and if they are good, it should go up. Meanwhile, and this can be said for the industry overall, I think that utilities should disclose fluctuations in profit margins to allow for the discussion based on hard numbers: otherwise, you cannot breakdown and analyze the price factors and quantity factors when faced with reduced profits in a worsening competitive environment. Although this is a request, I would like to see Kyuden to do more in-depth discussions on profit governance and information disclosure, and then roll out its efforts to other utilities if possible.
- Announcing the goal to become carbon negative is a bold, decisive step that other utilities can only hope to follow. In the official announcement, I hope that you will disclose more information appropriately in the general sense of direction as it was explained today. I think that this could create a ripple effect throughout the industry if it can be framed from the perspective of S+3E.

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- Thank you for understanding our stance on disclosure. Electricity as a product is difficult to differentiate, compared to cars for instance, in which you could differentiate on design among other factors. We hope to do business based on the effects of electricity rather than on electricity itself, through sales activities and by providing added value such as proposals

and technical advice on energy conservation. So, it is very difficult to have our performance analyzed in terms of quantity and price. We will consider how to disclose information in a way that does not compromise our competitiveness, but I think rolling this out to other utilities will be difficult.

- Thank you for your comments on our goal of becoming carbon negative. In addition to reducing our greenhouse gas emissions by transitioning from fossil fuels to renewable energy, we are working on activities to reduce emissions in Japan by promoting electrification. For example, the entire group is working hard on EV utilization projects and proposals to companies and industries for electrification. Our aim of becoming carbon negative does not restrict to our power sources only, but our aim is also to contribute significantly to the carbon neutrality of Japan as a whole by 2050.

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- Kyuden Mirai Energy has been growing its sales and its profits to some extent. What are the factors driving sales and the factors behind the profits? We heard that the risk of rising fuel prices was being hedged but I think it also needs to be looked at in terms of competition. Electricity procurement at peak times looks to be especially tough this year and Kyuden Mirai Energy still faces the challenge of procuring electricity during times of demand. In such a situation, I want to know the reasons and context to why Kyuden Mirai Energy's sales is growing.
- Regarding fuel procurement, how have rising spot prices of coal affecting earnings for the first half of the year and the full-year? The rising spot price of LNG must have both positive and negative effects: how is that being reflected in the earnings? I also would like to hear about LNG resale measures and how much have been factored in the business performance.

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- First, Kyuden Mirai Energy has been offering a broad scope of plans, including plans based on business partnerships with JAL and other companies mainly located in Tokyo, and has been successful in winning bids. Their strengths lie in their active sales activities but also their ability to sign contracts with people who have their roots in Kyushu, as many companies in the Tokyo metropolitan area originate from Kyushu or have presidents who were born in Kyushu. We are conducting in-depth analysis and diversifying sources on the procurement front, but I am sure other new operators are doing similar things, so I think the main differentiating factor is our sales force.
- Second, regarding the effects of the rising fuel prices, the spot price for coal soared past the \$250 mark at one point but we have been working on procuring coal at different points in time and mixing different types of coal to ensure that the effects of these rising prices do not impact us directly. Recently, prices have settled a bit which is a relief. We use long-term

contracts to procure LNG. Stable supply is our top priority and we may consider reselling after having carefully examined the demand and supply situation and determined that there is sufficient supply. Everything depends on the demand and supply this winter, but looking at the prices right now, I think if we were to resell, it could contribute to our full-year earnings.

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- The President mentioned that profit level based on true capabilities is around ¥100 billion or more but in the last meeting I remember him saying that it was around ¥90 billion. How did it increase by ¥10 billion in 6 months?
- My understanding of the Kyuden Group's interpretation of becoming carbon negative is that they will actively promote electrification throughout the society and count the reduction in emissions in society at large as part of Kyuden's carbon emissions reduction, thus contributing to reducing emissions for society at large and not just for Kyuden's own supply chain. Is this accurate? On a separate note, looking at the long run, are there any talks of construction of new nuclear power plants and replacement of existing nuclear power stations?

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- The volume of electricity sold has been growing this term. I am adding a portion of that profit, about ¥10 billion worth, in the calculations for the company's true profit levels. Personally, when looking at the amount that Kyushu Electric Power Transmission and Distribution Co. have not been able to collect all of the consideration paid in the supply and demand adjustment market, I think this estimate is on the conservative side.
- Our efforts to be carbon negative is as you described: we are aiming for "negative" emissions when adding the effects of emission reductions from the promotion of electrification and of renewables outside Kyushu area. Nuclear power is a very important factor in achieving carbon neutrality.

As FEPC Chairman, I've been saying that the industry will promote the use of renewables as a main power source, the use of hydrogen, ammonia and CCUS in thermal power generation, and nuclear power, as three principle areas of action. Among them, nuclear power, which is technologically well established, and which allows for electricity to be generated in a planned manner, is critical. The 6th Strategic Energy Plan did not mention construction of new nuclear power plants and replacement of existing nuclear power stations, but I have been asking the government and our Diet members to include it in the plan. There are a couple of reasons for this: the first reason is the effect on human resources. Without talks of construction of new nuclear power plants and replacement of existing nuclear power stations, we will not be able to attract human resources or implement long-term training plans. The second reason is a supply chain problem: without talks of construction of new nuclear power plants and

replacement of existing nuclear power stations, we may not be able to maintain supply of the steel and parts necessary for building and maintaining nuclear power stations. Another reason is that the people of the region, where the plant is located, may feel uncertain about the future. Kyuden believes in continuing to operate all four operating power plants safely and in a stable manner. Looking to the international stage, the French President Macron announced a policy to restart the development of nuclear power stations. The EU is also recognizing that nuclear power is becoming more and more necessary due to reducing the rise in electricity prices and increase in CO2 emissions. As the world continues to gradually change, and if Japan can domestically continue to engage in the discussions, I think a common understanding can be reached that nuclear power is necessary and an important power source in achieving carbon neutrality.

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