

The Telephone Briefing was held in Japanese. This document is a translation/summary for reference only.



Summary of Q&As at Investor Meeting for the First Half of FY2021

Date and Time 15:00 - 16:00(JST) on Thursday, November 18, 2021
 Format Telephone Briefing
 Presenter **Kazuo Sakairi**, Senior Managing Executive Officer, Director
 Chief Financial Officer, Finance and Accounting Department
Junya Tawa, Executive Officer, Head of the Planning Group,
 Corporate Strategy Department

[H1 Results and Full-Year Forecast]

Question	Answer
Excluding time lags in FY 2021, profit forecasts for the full-year is 150 billion yen. How should we view profit levels based on your current capabilities? JERAGM realized significant profit growth in the first half of the year. Will you be able to continually maintain the current profit levels?	<ul style="list-style-type: none"> Profit excluding time lags in the first half of the year was 134.8 billion yen, but excluding positive one-off factors, including the reversal of estimated losses on the sale of LNG in the previous fiscal year and the impact on deep freeze on North America gas trading, we see profit at around 100 billion yen. However, as there are uncertainties in the second half of the year, including trends in resource prices and winter electricity demand and supply, we forecast profit of 150 billion yen for the full year. On the increase in profit at JERAGM in the first half of the year, increased trading opportunities due to large fluctuations in resource prices was a factor that boosted earnings. In addition, as we are steadily increasing personnel involved with trading and strengthening our market analysis capabilities, we have the ability to maintain profits at a certain level even in the absence of external factors such as sharp rises in resource prices.
It seems somewhat conservative to forecast full-year profit of 150 billion yen despite posting 134.8 billion yen in profit excluding time lags in the first half. Are there costs that will be newly incurred in the second half?	<ul style="list-style-type: none"> Factors behind the higher profits were greater than expected profit at JERAGM due to large fluctuations in resource prices in the first half, and the reversal of estimated losses on the sale of LNG, which we are not expecting to see in the second half. As there are uncertainties in the second half of the year, including trends in resource prices and winter electricity demand and supply, we have made a conservative full-year forecast of 150 billion yen.

[Decline in Equity Ratio]

<p>You explained that there was an increase in derivative assets and liabilities due to the sharp rise in resource prices. Is it correct to assume that derivative receivables and payables will return to their previous levels if resource prices stabilize in the future?</p>	<ul style="list-style-type: none">• The increase in derivative assets and liabilities reported for the second quarter was due to a huge rising of market value in the outstanding balance of transactions in connection with the sharp rise in resource prices, and since volume itself has not risen significantly, our assessment is that risk has not increased materially.• If resource prices stabilize in the future, derivative assets and liabilities are also expected to decline.
--	--

[Impairment Loss on Formosa 2]

<p>The majority of the impairment loss from overseas power generation project is due to Formosa 2. Are similar risks expected from Formosa 3, which you are currently participating in?</p>	<ul style="list-style-type: none">• Formosa 3 is a separate project from Formosa 2, and since we are at the stage of preparing for a bid for Formosa 3, at this point we cannot comment on specifics. However, we are looking to appropriately control our risks by utilizing the experiences we have gained with the Formosa 2 project.
---	--

[Investment in the Freeport LNG]

<p>What are the aims and expected return from your investment in the Freeport LNG Development?</p>	<ul style="list-style-type: none">• The benefits of this investment include (1) securing profits at an early stage by participating in a liquefaction project that is already running, and (2) easier access to competitive LNG production capabilities.• Regarding the expected return, we forecast stable profits from the three lines of liquefaction equipment that are currently in operation due to our investment in FLNG. We also expect that increased supply volume due to a production capacity expansion will contribute to increased profits.• JERA will follow the decarbonization roadmaps that are to be drawn up for each country and region as it strives to expand the adoption of LNG—an indispensable transitional fuel for achieving decarbonization—and to contribute to global decarbonization and energy solutions.
--	--

[The balancing market]

<p>The financial results of other electric power companies operating integrated</p>	<ul style="list-style-type: none">• We place bids on the balancing market based on rules established by the Japanese government and in keeping with the approach of
---	---

<p>power generation and sales have shown an improved balance of revenue and expenditure by bidding on the balancing market. What is the impact on your profit and loss?</p>	<p>ensuring appropriate cost recovery and margins. The balancing market is not a large part of our sales portfolio and only had a minor impact on the balance of income and expenditure.</p>
---	--

[Progress Towards JERA Zero CO2 Emissions 2050]

<p>You have been working on co-firing with ammonia and hydrogen, but are you planning on co-firing coal with both ammonia and hydrogen? Also with regard to ammonia, it appears that demonstration testing has moved forward in Japan, but when do you expect this to have an impact on the balance of your profit and loss?</p>	<ul style="list-style-type: none"> · We plan to co-fire ammonia with coal, and hydrogen with LNG. With regard to hydrogen, we are making preparations for co-firing at the Linden Gas-fired Power Station in the United States. · For ammonia co-firing, we are proceeding with demonstration testing at the Hekinan thermal Power Station in Aichi Prefecture with the aim of 20% co-firing as the first phase. · Regarding the impact on income and expenditures, we cannot comment in detail, but our plan is to proceed with demonstration testing until FY2024 with a focus on determining whether the project is feasible on a commercial basis while making use of NEDO subsidies. We do not expect any major investments or returns up to the completion of demonstration testing, and will be looking to consider full-scale investment including the supply chain in light of the results of the demonstration testing.
<p>In terms of the time frame, do you plan to proceed with ammonia co-firing ahead of hydrogen co-firing?</p>	<ul style="list-style-type: none"> · Yes, that is correct. As there are issues with the establishment of transportation technologies and transportation costs with regard to hydrogen, our position is to proceed with ammonia co-firing efforts ahead of hydrogen. In the future, at the point where there are prospects for transportation due to technological innovation or otherwise, we will consider working on hydrogen co-firing domestically.
<p>To what extent are you committed to the overall supply chain with regard to ammonia and hydrogen co-firing? Beyond power generation using ammonia, do you plan to be actively involved with the production, transportation and storage?</p>	<ul style="list-style-type: none"> · We believe that we can utilize the business model we have established in the LNG business to date, which involves everything from the securing of upstream shares to the integrated transportation and storage. For both ammonia and hydrogen, we hope to be involved in upstream, transportation and storage in some way, and will work to build a supply chain after understanding the overall cost structures involved.
<p>In terms of making the ammonia you</p>	<ul style="list-style-type: none"> · On CCS, we are considering participating in overseas initiatives

procure CO2-free, will you also address CCS and similar endeavors in the future?	and gaining a good grasp of the details of CCS projects, and incorporating them into our supply chain.
--	--

[Domestic offshore wind power generation]

Will the domestic offshore wind power generation project progressively begin operations during each development phase? Or will you begin operations only when the entire project is complete?	<ul style="list-style-type: none"> • Our basic approach for wind power generation in Japan is to start generating power once construction is complete.
For the domestic offshore wind power project you are currently bidding on in Akita Prefecture, what is the status of building ties with the local community, and what is your advantage to the project?	<ul style="list-style-type: none"> • In terms of our relationship with the local community, we have become a uniform sponsorship partner for a women's basketball team in Akita Prefecture, established operating sites within the prefecture, and worked to establish a familiar presence in the local community. • In terms of our strengths, we have a recognition that we are able to utilize, for the domestic offshore wind power project, the expertise we have gained working on large-scale thermal power generation projects in the past, and our experiences working on the Formosa projects in Taiwan.

Forward-Looking Statements

The information in this presentation may contain forward-looking statements. Forward-looking statements include statements relating to: (i) plans; (ii) business and management strategies; and (iii) performance forecasts, and are based on then-current data by the time of issuance of this document. Forward-looking statements involve risks and uncertainties including but not limited to economic conditions, competitive landscape, government laws and regulations, exchange rate and so on that could significantly affect the expected results, and are based on certain key assumptions. Many factors could cause actual results to differ materially from those projected or implied herein. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements.