

Message from the President

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Take the first opportunity

We will use the changes happening in the environment around us as an opportunity to transform our business and take on the challenge of going beyond carbon neutrality to achieve sustainability both as a company and as a society.



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Member of the Board of Directors,
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Reaffirming the Kyuden Group's Purpose Amidst Environmental Change

Instability and uncertainty have grown in the energy market significantly since last year, resulting from the conflict between Russia and Ukraine as a number of factors converged: progressing decarbonization, the post-COVID economic recovery, a decline in wind power capacity utilization in Europe, and more. As we consider what we as the Kyuden Group should do faced with this situation and how best to lead the Group, I would like to reaffirm the meaning of our commitment to our mission to “Enlighten Our Future.” Kyuden Group's Mission, established in 2007, signifies our determination to continue delivering environmentally-friendly energy to our customers and helping them lead comfortable, eco-friendly lives even as the times undergo drastic change. It represents the very purpose of the Kyuden Group, and this



ambition to support our customers and society through stable energy supply has remained the primary mission of the Kyuden Group since our founding.

Electricity businesses provide critical infrastructure that supports the people's lives and economy. We have done our utmost not only to provide a stable supply of electricity during normal times, but to maintain and restore it as quickly as possible during typhoons and other emergencies. These experiences have helped instill the underlying spirit of our mission to “Enlighten Our Future” in each and every one of our employees.

In today's increasingly unstable and uncertain energy market, continuing to provide a stable supply of low-cost, environmentally-friendly energy is an enormous challenge. However, with our abundant experiences and the strong aspirations we hold under Kyuden Group's Mission, we are committed to contributing to a sustainable future for our customers, local communities and other stakeholders. **P4**

Progress Toward the Kyuden Group Management Vision 2030

Formulated in 2019, the Kyuden Group Management Vision 2030 sets forth our medium- to long-term strategy to continue fulfilling our mission to “Enlighten Our Future” and achieve our vision of where we want to be in 2030. In April of last year, we also set interim financial objectives to guide our path toward realizing that vision, targeting ¥125 billion or more in consolidated ordinary income (Domestic Electricity Business: ¥75 billion; Growth Businesses: ¥50 billion) and an equity ratio of approximately 20% by 2025.

We are advancing efforts together as one to achieve these targets

and our vision, and we have steadily seen results in numerous business areas. As a result, even though our consolidated ordinary income for FY2021 was down 41.3% from the previous year totaling ¥32.3 billion, it would have amounted to ¥97.3 billion if not for the delayed effects of fuel cost adjustments*. Looking at our earnings potential excluding transitory factors, we see ourselves having come extremely close to the ¥100 billion mark I have communicated in the past. **P28**

* The impact on income and expense balances for the fiscal year caused by a three-month delay before fuel price fluctuations are reflected in electricity rates under the “Fuel Cost Adjustment Scheme” (balance sheet losses increase when fuel prices rise)

Domestic Electricity Business

All nuclear power stations in Japan were shut down following the Great East Japan Earthquake, and we were the first company to meet the new regulatory standards that heightened safety levels and restart operations. Of the ten reactors that have restarted as of today, four belong to the Company, representing a complete restart of the nuclear power stations in our portfolio. Our stable nuclear power operations and high ratio of renewable energy in FY2021 helped us achieve a significant increase in profit over the previous year when excluding the delayed effects of fuel cost adjustments, even as fuel prices have risen. In FY2022, amidst mounting uncertainty over fuel procurement and prices, our nuclear power utilization rate is slated to decline due to changes in the construction schedule for the Specific Safety Facilities (SSFs) being installed at the Genkai Nuclear Power Station, which may put downward pressure on our business performance. We are responding to the risk worsening income and expense balances while striving to maintain stable power supply by diversifying our fuel and power source procurement methods, upgrading our supply and demand operations, conducting sales based on the risk of market price hikes and our supply

capacity, and cutting costs group-wide to the greatest possible extent. From FY2023 onward, completion of the SSFs at Genkai in FY2022 will enable stable nuclear power operations, which we believe will further enhance our resilience against fuel price spikes and allow us to expand our business by better leveraging our high ratio of zero-emission or FIT energy sources, one of our key strengths. **P35–36** **P44**

Growth Businesses

Ordinary income for our growth businesses came to ¥33.8 billion in FY2021. Of the ¥50 billion in ordinary income we are targeting for FY2025, about 90% is expected to come from projects we have already invested in or have decided to invest in, and we are making solid progress toward achieving this financial objective.

In our renewable energy business, we steadily promoted new development in FY2021, including the start of commercial operations at the Shimonoseki Biomass Power Station. We are also moving forward with considerations into establishing a consolidated company for our renewable energy business in order to further accelerate growth by integrating our renewable energy functions that are currently dispersed throughout the Group. **P37** **P45**

When it comes to our overseas business, our focus is not just on expanding our power generation business in Asia and other regions where we already have years of experience. We are working to expand both our areas of operation and our business fields, which include the United States and Middle East as well as the power generation and desalination business and transmission business. In FY2021, we participated in a subsea high-voltage, direct current (HVDC) transmission project in the United Arab Emirates, the Group's first power transmission project overseas. Likewise, we also participated in a gas-fired thermal

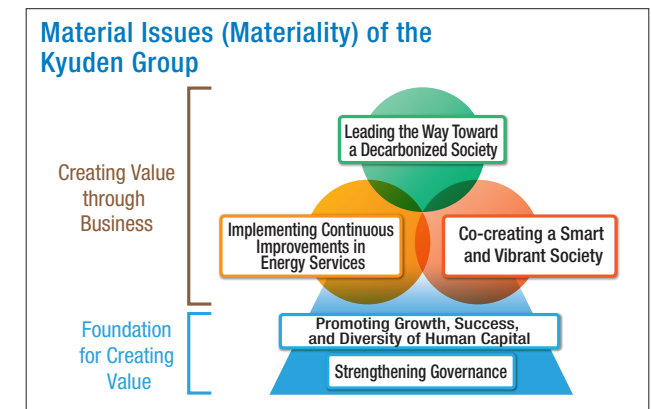
power generation project in Uzbekistan, the Group's first power generation project in Central Asia. Furthermore, in June 2022, the Group decided to participate in its first business venture in Africa. All of these projects will contribute to cutting greenhouse gas (GHG) emissions and will help achieve sustainable societies overseas. **P38** **P48**

In our ICT service business, the optical broadband services called BBIQ and data center business by QTnet have performed well in light of the rapid digital shift that has resulted from the COVID-19 pandemic. In addition to strengthening the services of these existing businesses based on the telecommunication needs during and post-COVID-19 era, we are also actively developing new businesses and services, including a drone business and the nationwide rollout of a premium gift certificate application that will help promote regional development and the revitalization of local economies. **P39** **P59–60**

Although we launched our urban development business much more recently than our other businesses, we can expect rapid returns while taking advantage of the Kyuden Group's collective capabilities across a wide range of fields. In April 2022, we not only saw the grand opening of the huge commercial complex called LaLaport Fukuoka on the site of the former Fukuoka City fruit and vegetable market, we also completed construction on the office complex Fukuoka Maizuru Square which is fully powered by 100% renewable energy. We are also stepping up efforts to increase revenue and diversify our sources of revenue with our new participation in the logistics facilities business and the development of rental housing complexes in the United States. **P40** **P60**

The Kyuden Group's Key Issues (Materiality)

As I have just mentioned, we are making steady progress in our efforts to achieve our management vision. In order to ensure that we produce results without losing pace even in the midst of a drastically changing business environment, we identified five key management issues as materiality in April this year, taking both social issues as well as Kyuden Group-specific issues for achieving our vision into account. We must tackle these with priority in order to realize a sustainable Kyuden Group as well as a sustainable society. **P16,17**



Leading the Way Toward a Decarbonized Society

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Responding to climate change is a universal task, and we feel that we have a significant role to play as a responsible energy provider. About 40% of Japan's CO₂ emissions come from power stations. Electricity is indispensable in leading prosperous lives and engaging in economic

activity, however, and we cannot afford to halt its supply in order to avoid emitting CO₂. As such, it is extremely important to decarbonize power sources by adopting more renewable energy and operating nuclear power stations safely and stably. With our long history of developing renewable energy projects and as the first company to restart nuclear power operations after the Great East Japan Earthquake, we are one of Japan's electric power industry leaders in low-carbon and carbon-free efforts. In November last year, we formulated the Kyuden Group Action Plan to Achieve Carbon Neutrality to continue leading the way toward a decarbonized society as an industry leader while also tying these efforts into further growth as a company. **P19–20** The Action Plan sets the extremely ambitious goal of not only reducing our supply chain greenhouse gas (GHG) emissions to net zero by 2050, which is our basic responsibility as an energy company, but also achieving carbon negativity as early as possible before 2050 to help reduce emissions across society as a whole. We will not be content with merely achieving carbon neutrality for ourselves. Rather, we will take on the bold challenge of going beyond net zero and achieving carbon negativity by promoting electrification, creating renewable energy, and helping build high efficiency power stations in emerging countries to contribute to reducing GHG emissions while also pursuing carbon credits through forest management. We believe that our efforts will encourage companies seeking low-carbon and decarbonized electricity to enter the Kyushu market, which will also help improve the island's competitiveness against other regions. Last year, a major semiconductor manufacturer decided to expand into Kyushu, a move which will revitalize the region and have an economic ripple effect on the surrounding areas. The Kyuden Group will work to continue to provide a stable supply of low-carbon and decarbonized electricity to help enhance the pull factor of



Kyushu. It is also essential that we tie our efforts toward a decarbonized society not only into providing value to society, but also into expanding the Kyuden Group's earnings and achieving sustainable growth. We will do our utmost to harness this global trend toward decarbonization for our further growth as a company.

Implementing Continuous Improvements in Energy Services **P56–58**

Instability and uncertainty surrounding the energy landscape has escalated drastically since last year, strongly reminding us of the importance of achieving S+3E (Safety + Energy Security, Economic Efficiency, and Environment) at the same time here in Japan, a country not well endowed with natural resources. Against this backdrop, nuclear power is vitally important not only from an environmental perspective

as a source of power that does not emit GHG during operation, but also from the perspective of the other two E's as well: energy security as a semi-domestic source of energy, and economic efficiency by keeping electricity prices down. While the same is true for other energy sources, ensuring safety is a fundamental prerequisite for nuclear power in particular. We will of course continue to conform to new regulatory standards in an appropriate fashion, but on top of this we will work to achieve an even higher level of safety, striving to ensure safe and stable operations without falling prey to the "safety myth" that everything will work within the scope of our assumptions.

With the stable supply of energy based on the S+3E perspective at our core, we will continue contributing to our customers' sustainable and comfortable futures by adding value for them through new solution services.

Co-creating a Smart and Vibrant Society P59–60

We have always maintained that the Kyuden Group cannot develop without the development of Kyushu, and revitalizing local communities by creating value together with society is extremely important to us as a community-based company. In particular, we believe that DX (Digital Transformation) will be a major key to doing so moving forward.

In July 2022, the Kyuden Group established the Digital Transformation Promotion Division to assertively promote DX for internal transformation and for social transformation. Across the company, we will promote process reforms in our business operations, and throughout society, we will create new businesses through DX. As an example, we could incorporate our power station maintenance expertise into DX and customize it for use at various plants, or provide a package featuring our know-how in calculating supply chain GHG emissions and monitoring its emission reductions. We believe that we are in possession of technology and expertise that can be used to not only meet an array of customer needs, but can also be applied to urban development and city planning through DX. As a corporate group that supports local infrastructure and grows alongside the communities in which we work, we are committed to meeting the expectations of these local communities and thereby contributing to society and industrial transformation, through DX-based regional revitalization and others.

These three major challenges identified as materiality for value creation, **leading the way toward a decarbonized society**, **implementing continuous improvements in energy services**, and **co-creating a smart and vibrant society**, all overlap with one another. And I believe that our efforts to tackle them precisely represent Kyuden Group's Mission and our purpose as a company.

Promoting Growth, Success, and Diversity of Human Capital P63–66

In these times of change, our ability to leverage that change to create new value lies in our human capital. When diverse human capital talent mutually influences and stimulates one another, it creates synergies that help the organization grow stronger. The Kyuden Group Management Vision 2030 has set a target of ¥150 billion in ordinary income for 2030, with 50% of that coming from our domestic electricity business and the other 50% from our growth businesses. To achieve this, it is important that we improve our energy service business by combining the knowledge and techniques we have cultivated thus far with new ideas and technologies, while also creating new sources of revenue through new businesses. We aim to stimulate talent that is open to taking on new challenges and leverages their existing knowledge and skills while steadily adopting that which is new to become part of our core human capital.

When it comes to incorporating diverse perspectives into management, it is important not only to ensure gender diversity but to secure human capital from diverse backgrounds, and it is vital that we create a working environment that is comfortable for all. Providing a workplace where employees juggling child or nursing care or dealing with other personal circumstances can continue working with a flexible schedule and fully demonstrate their abilities is more than just a form of “support” for employees. Experiences outside of the office like childcare and nursing care can lead to the creation of new services, enhancing our sources of value creation. Under the **promoting growth, success, and diversity of human capital** materiality, we will promote fundamental operational reforms and training for the next generation of human capital to form a highly creative, challenge-driven organization.



Strengthening Governance P67-75

A failure of governance, including compliance, in the electricity business in particular, which supports social infrastructure, would impose a great burden on society. Through our materiality initiatives, we intend to enhance the effectiveness of our governance and fulfil our responsibilities as a unified management team in order to simultaneously create both social and corporate value as well. In identifying materialities, we clarified our goals (KGIs) for each, set KPIs to monitor our progress, and incorporated them into a concrete action plan. Under the leadership of our senior management, we are committed to achieving solid results.

In addition, we are introducing a new system of management this fiscal year that utilizes ROIC, an indicator of capital efficiency. By setting medium- and long-term ROIC targets that exceed the cost of capital, managing progress by business segment, and focusing our management resources on more profitable businesses, we intend to improve our capital efficiency and thereby increase our corporate value. P29

To Our Stakeholders

It is imperative to promote carbon reduction and decarbonization in power sources and electrification in achieving carbon neutrality. In that sense, the electricity business is an extremely promising one. Keeping an eye to the future, the Kyuden Group has been making upfront investments in zero-emission power sources such as renewable energy and nuclear power, and we are confident that we are entering into an era in which these investments will come to fruition. In view of our strong management commitment to continue promoting initiatives aimed at achieving carbon negativity, we have adopted our management target of reducing greenhouse gas (GHG) emissions as a benchmark for our directors' performance-linked compensation. P68

Having been entrusted with helming the Kyuden Group, I intend to maintain a quick and decisive stance to ensure that we do not miss this opportunity to expand our business, and I will work firmly to improve the effectiveness of our corporate governance, which supervises the steering of our company's management. In addition to organizational bodies such as the Board of Directors, we have also instituted "Director Roundtables" to provide an opportunity for all of our directors to freely exchange opinions on the direction our management is taking. Carbon Neutral Vision and the Materiality were decided based upon free and open-minded discussion at such forums.

In FY2022, we are facing not only a temporary decline in our nuclear power utilization rate following delays to the construction schedule for the SSFs being installed at Genkai, but also extreme uncertainty in fuel price trends due to the conflict between Russia and Ukraine. However, the completion of Genkai's SSFs will allow for more stable

nuclear power operations from FY2023 onward. We expect this to further improve our resilience to the risk of fuel price hikes, while our investments in nuclear safety measures coming full circle will significantly improve our cash flow, bringing free cash flow back into the black. This will allow us to generate steady profits and work toward recovering our financial base even if fuel prices were to continue to rise.

When it comes to dividends, we make our determinations based on our basic policy of maintaining stable distributions, taking into comprehensive consideration not only our performance for the year but also our medium- and long-term income and expenditures, financial conditions, and other factors. We aim to restore dividends to their pre-Great East Japan Earthquake level of ¥50 per share as soon as possible by FY2025.

We are determined to meet the expectations of our shareholders and other stakeholders through a variety of initiatives aimed at achieving our 2025 financial objectives and reaching our 2030 management targets. We look forward to your ongoing support and cooperation along the way.

