

Message from the President

Having all preparations for growth in place,
we will make great strides toward achieving
sustainable improvements to our corporate value
as an industry leader in decarbonization.

池辺 和弘

Kazuhiro Ikebe
Member of the Board of Directors
President & Chief Executive Officer



Where are we heading?

The Kyuden Group's top priority right now is achieving carbon neutrality. All of the Group's strategies are focused on becoming carbon neutral, and by executing these strategies, we will enhance our corporate value in financial and non-financial terms.

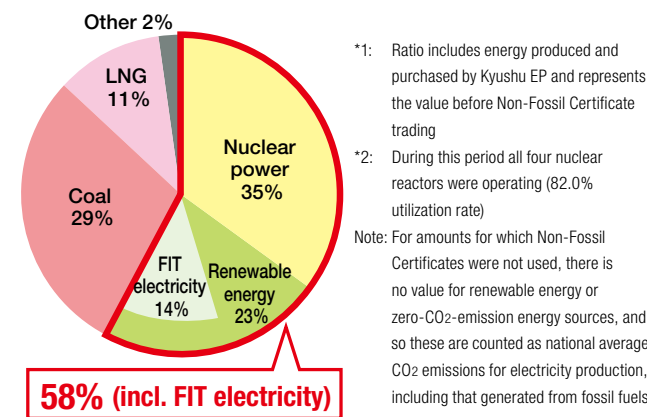
The Kyuden Group aims to achieve carbon neutrality by 2050 and plans to achieve "carbon negativity" as early as possible before 2050. The latter is realized by both reducing greenhouse gas (GHG) emissions from business activities across the entire supply chain to net zero, as well as by undertaking activities that help reduce GHG emissions across society, such as promoting electrification and other measures. **P08** This year we became the first major energy company in Japan to be certified under the Science Based Targets initiative (SBTi) for our GHG emission reduction targets, which were set based on the level of our environmental targets for FY2030. **P42** We intend to continue to lead Japan and the industry as a whole as an industry leader in low-carbon and carbon-free efforts.

In order to achieve carbon neutrality, we will do our utmost to advance the two pillars of **carbon reduction / decarbonization in power sources**, i.e., producing electricity with technology that does not emit CO₂, and **promotion of electrification**, i.e., using energy in the form of electricity.

To promote power generation that does not emit CO₂, we must first expand renewable energy and work steadily to ensure the safe and stable operation of nuclear power plants. Doing so will enable us to cover about 60% of our energy mix with power sources that do not emit CO₂, such as nuclear power and hydro, geothermal, solar, and wind, including those

promoted under Japan's renewable energy feed-in tariff (FIT) scheme. Going forward, we will continue to proactively utilize power sources that do not emit CO₂.

■ Kyushu EP's Ratio of Zero-Emission or FIT Energy Sources*1 (FY2019*2)



On the other hand, thermal power generation is essential to compensate for fluctuations in output from renewable energy sources such as solar power, which cannot be generated at night and is affected by weather conditions. At our company we are continuously working to maintain and improve overall thermal efficiency from the perspective of reducing CO₂ emissions and fuel consumption. In addition, we are exploring measures such as co-firing of hydrogen/ammonia and biomass, as well as carbon capture and storage (CCS) technologies. **P44**

In order to increase the use of electricity and advance electrification, Japan needs to push ahead with policies to promote electrification nationwide, and such policies are just beginning to take effect. Thanks to government subsidies, tax incentives for heat pumps and all-electric homes, and other measures, electrification is advancing rapidly

in all sectors of Japan. This transition is not only happening in the transportation sector, where we see a shift to electric vehicles, but also in the industrial, commercial, and household sectors.

Given this push for electrification and other factors, it is certain that the share of electricity in the final energy consumption will grow from its current level, which is now at around 25%. Regarding Japan's overall electric power demand, I personally believe that by 2050, it will be about double the current level, and in fact may well exceed it. Furthermore, as digitalization gains speed and the amount of electricity required to process this data grows exponentially, there may even be concerns about a shortage in the electricity supply. This is particularly relevant in Kyushu, as in the prefecture Kumamoto there will be a concentration of semiconductor fabrication plants along with business facilities and in the area of Kitakyushu one of Kyushu's largest data centers will be constructed. If demand for electricity outgrows supply, it is not as if power plants and power lines can be built overnight. The construction of a new power plant can take anywhere from several years to several decades. Yet another key factor in ensuring a stable supply of electricity is creating an attractive business environment for new entrants in the power generation sector. For this reason, I believe that it is critical for the government to present a vision for the next 20 years or so, based on how it plans to encourage Japan's future electrification through policy means.

I am confident that this path to carbon neutrality not only have a direct impact on the expansion of electricity demand but also lead to enhanced corporate value for the Kyuden Group, considering our extensive experience and expertise in the power supply sector.

Toward Sustainable Enhancement of Corporate Value

We will continue to make management efforts by outlining our corporate value through sustainable growth and improvement of capital efficiency, while taking into Tokyo Stock Exchange's request for companies to take "action to implement management that is conscious of cost of capital and stock price" by analyzing their cost of capital and market valuation, and to disclose their targets and plans for improvement. Although the Kyuden Group's price-to-book ratio (PBR) is currently close to 1, we believe there is room for improvement.

PBR can be broken down into return on equity (ROE) and price earnings ratio (PER). We believe that improving ROE, an indicator of capital efficiency, and PER, an indicator of confidence in our performance and growth potential, is essential for our shareholders and investors to evaluate the Group's corporate value, and for us to achieve sustainable improvements to our corporate value (a PBR above 1) over the medium to long term. **P24**

First, with respect to improving capital efficiency, we will achieve a return on capital higher than the cost of capital by promoting management that is conscious of return on invested capital (ROIC). With respect to improving confidence in our performance and growth potential, we will use the current turnaround in business performance to improve financial stability and thoroughly return the profit to our shareholders. At the same time, we will communicate to our investors that we as a corporate group will do our utmost toward decarbonization while creating further growth over the long term. Making improvements in each of these areas will enable us to achieve sustainable improvements to our corporate value (a higher PBR).

ROIC-Based Management

Last year we introduced ROIC as a new management indicator. In April 2023, we announced the Group-wide ROIC targets of 2.5% or higher for FY2025 and 3.0% or higher for FY2030 (consolidated basis). **P25**

As we work towards achieving our target of ¥150 billion in consolidated ordinary income by 2030 (as outlined in our *Management Vision 2030*), we are investing in expanding our Growth Businesses. However, reducing interest-bearing debt to restore and strengthen our damaged financial foundation is also a challenge. By implementing ROIC, we aim to enhance corporate value through capital-efficient management, meet the expectations of the capital market, and achieve a balance between expanding our Growth Businesses and strengthening our financial foundation.

In the short term, we are focusing on improving capital efficiency by ensuring that employees are aware of its importance and can incorporate it into their specific tasks. Each business department has created and analyzed ROIC trees, and investment decisions are made with a focus on ROIC for each project. I noticed that ROIC-based practices are starting to be implemented on the ground level.

From a medium to long term perspective, ROIC also serves as a decision criteria for making changes to our business portfolio. One of our management targets in our vision is to earn half of the ¥150 billion in consolidated ordinary income from Growth Businesses. We can focus on the more profitable business areas by promoting ROIC-based management. We would also like to explore building a business portfolio that goes beyond the framework of electricity, so that everyone will be able to recognize that our company is engaged in more than just the electricity business.



Management Vision 2030 and Growth Businesses

In terms of progress towards the realization of the *Management Vision 2030* and the steady expansion of our Growth Businesses, we have set an interim target for FY2025 of achieving a consolidated ordinary income of ¥125 billion or more (Domestic Electricity Business: ¥75 billion; Growth Businesses: ¥50 billion). **P21** Regarding the Domestic Electricity Business, we have completed installation work of Specific Safety Facilities (SSFs) at nuclear power plants, and can expect to generate income from high utilization of nuclear power plants in the future. As for our Growth Businesses, we expect to achieve our targets through income from investment projects that we have already initiated in our Overseas Business and Renewable Energy Business. Therefore, I believe that it is very likely that we will achieve our financial objectives for FY2025, and then our management targets for FY2030, in terms of income.

More specifically, in our Renewable Energy Business, we are making steady progress toward reaching our target of developing 5,000 MW by FY2030. If we include projects we have already invested in, we have achieved close to 80% of our interim target (4,000 MW by FY2025). Furthermore, by integrating hydro and geothermal power generation into Kyuden Mirai Energy, the Group's renewable business arm, and strengthening our business operation structure, we aim to accelerate our efforts to make renewable energy our main source of power generation, as the only operator in Japan that owns all five renewable energy sources (solar, wind, hydro, geothermal, and biomass), and one of the top operators in terms of capacity owned domestically.

In our Overseas Business, more than 70% of our interim target (4,000 MW by FY2025) has already been secured, and we are moving forward with projects with the aim of reaching 5,000 MW in equity output by FY2030. We are actively working to lower the carbon intensity of and decarbonize the energy sources in the areas in which we operate through subsea transmission projects and collaboration with other renewable energy developers.

As for our ICT Service Business, in the rapid digitalization of society, we will reinforce services such as digital transformation (DX) proposals for enterprises and municipalities in addition to our core services in fiber optic broadband internet and data centers.

As for our Urban Development Business, in addition to reinforcing our overseas operations, we will grow our earnings by developing high value-added urban development projects that leverage the Group's collective capabilities in decarbonization and digital technology. At the same time, we will help to sustainably develop local communities and society by creating vibrant communities and to increase their pull factor.

Meanwhile, with regard to our financial foundation, we issued ¥200

billion of Class B preferred shares in August 2023, and are currently in the process of building up capital. I believe we are within reach of achieving a 20% equity ratio, one of our financial objectives, as long as we maintain a high level of profit under our four nuclear power units and use our resources efficiently to reduce interest-bearing debt through ROIC-based management. Once we are on a clear path to reaching an equity ratio of around 20%, we intend to enhance returns to shareholders, including promptly resuming dividends of ¥50 per share.

Enhancing Our Human Capital

The key players in achieving sustainable improvements to our corporate value is talent. In order to keep growing sustainably despite constant changes in the business environment, it is essential to maximize the potential of our talent and to improve our productivity and capabilities as an organization. **P67**

Our people are also the driving force that will lead the way in an era characterized by a drastically changing business environment that calls for disruptive innovation. A company in which each employee enthusiastically takes initiative to act autonomously in which the organization harnesses employees' energy to enhance productivity and generate innovation. I am determined to transform the Kyuden Group into such a company. To achieve this, under the strong leadership of our senior management, we are building an organization in which diverse talent can thrive and innovate continuously.

Organizational flexibility and flexible thinking, as well as the innovation that springs from it, will be key as we tackle carbon neutrality and other future challenging issues. The Kyuden Group has launched the KYUDEN i-PROJECT, a project led directly by the president, to provide employees with opportunities to consider new businesses and services inspired by flexible ideas that go beyond the framework of our existing organization and operations. **P69** In other words, part of the significance of this



Our rugby team Kyuden Voltex was promoted to Division 2 in the Japan Rugby League One

project is nurturing flexible mindsets. I believe that the employees who participated in this project will be able to apply what they learned through the project at their respective workplaces, leading to greater innovation throughout the organization. We are already seeing the results.

As competition for talent intensifies, we must manage our businesses with the assumption that there will be increased upward pressure on Japan's per-capita labor costs, which have been lagging behind other countries. It will therefore be essential to promote DX and leverage generative AI to fundamentally change the way we work and alter our business processes to achieve greater productivity.

The Kyuden Group has been working to develop frameworks to promote DX. In FY2022, we established the DX Promotion Division and announced the *Kyuden Group DX Vision*, with the aim of bringing about corporate transformation. Looking ahead, we will accelerate the development of digital talent and implement measures to improve labor productivity and value added per employee. **P71**

It is true that in order to ensure a stable supply of electricity, some departments require technology and skills that have been acquired over a long period of time. However, on the flip side, an organization that lacks diversity and fluidity becomes stagnant and will reach a dead end due to its rigid way of thinking. While we often refer to employees as "human capital," I believe that rather than confining talent within a company and making them fixed "capital," a better approach would be to increase the mobility of talent throughout society and allowing individuals with diverse experiences to circulate.

The fact that other companies want to hire people trained at our company is gratifying, and it is equally wonderful to have talented people who were trained at other companies join us and play an active role. Moreover, people who we have trained at our company are hired by other

companies, and then return to our company once again with additional experience. I believe this is the best scenario.

We need to actively recruit experienced personnel and acquire outside perspectives and knowledge. I think we should flip the term "human resources" into "resourceful humans". My vision of human resources development is to nurture specialists with talents and abilities in their respective fields in order to boost the competitiveness of the organization as a whole.

Review of the Past Fiscal Year and Management Vision 2030

FY2022 was a year marked by significant impacts from the external environment, such as rising fuel prices and the rapid depreciation of the yen. As there is a three-month lag between the increase in fuel prices and its reflection in electricity charges through the fuel cost adjustment system, we experienced a negative turn in profits for the fiscal year. In addition, external factors, such as an increase in the price of electricity purchased from other companies due to higher wholesale electricity market prices, have impacted us significantly. Another factor that contributed to the deterioration of our finances was the increase in fuel costs as we could not fully utilize nuclear power due to the installation work of SSFs at Genkai Nuclear Power Plant. For the first time in eight fiscal years, the company posted a net loss.

The installation of SSFs at Unit 4 of Genkai was completed in February 2023, marking the end of installation work at all of our nuclear power plants. Looking ahead, we expect stable operation of all four reactors, which allows us to secure profits on an ongoing basis. In addition, FY2023 will see a significant improvement and a V-shaped

recovery from the previous year's losses due to delayed gains from the fuel price adjustment system. I consider FY2022 to have been a year in which we have been setting the foundation for recovery, making all the preparations necessary to make the jump toward exponential growth in FY2023 and beyond.

On the other hand, Kyushu EP and Kyuden Mirai Energy received cease and desist orders and a surcharge payment order based on the Antimonopoly Act from the Japan Fair Trade Commission (Kyuden Mirai Energy received only a cease and desist order). After carefully reviewing and confirming the details of each order, we concluded that "there was no agreement regarding the cartel activities," and filed a lawsuit seeking the revocation of the order. We will explain our position in the revocation lawsuit and seek a fair judgment from the court going forward. Nevertheless, we take these orders very seriously. We are steadily implementing measures to ensure compliance with the Antimonopoly Act so that we will never again invite such allegations in the future.

There was also an incident involving the improper handling of customer information. We regard this incident as a serious problem that could undermine fair competition, which is the basis of the liberalization of the electricity market. The fundamental cause was the lack of awareness on the part of senior management at the time of the spin-off, as they decided on business operations that had the potential to cause problems. In addition to establishing systems to prevent recurrence, it is critical that we create a workplace culture that refuses to overlook inappropriate behavior and enables whistleblowing. Senior management will take the lead in ensuring compliance with laws, regulations, and rules, and will work to create a workplace with an atmosphere of openness and trust. **P83-85**

Factors such as Russia-Ukraine conflict and the effects of a weak yen have caused fuel and wholesale electricity market prices to soar. This has had a significant impact on our income and expenditures, and the possibility of a power crunch has made securing a stable supply of energy a major priority for the entire country. Precisely because of these circumstances, we are reaffirming the Kyuden Group's Mission to *Enlighten Our Future*. We have long been committed to the electricity business as a social infrastructure company that supports people's lives and contributes to the local community by ensuring a stable supply of electricity. After WWII, we were the first company in Japan to achieve a stable demand-supply balance, and we have cultivated our strengths by helping to solve social issues while maintaining a stable supply. With these strengths at our core, I am confident that we can transform unprecedented changes in the business environment into opportunities that will lead to future growth. **P17-19**

Having said that, I would like to reiterate that we have been able to set forth a solid strategy that draws on our strengths our *Management Vision 2030*, providing a direction for our efforts toward growth. **P08**

Strategy I in this management vision is **Developing the Energy Service Business**, and there is no doubt that energy services will be a major driver of growth within the overall picture. Based on the strengths we have cultivated through our energy service business centered in Kyushu, namely stable supply technology and a high ratio of zero-emission energy sources, we are now making steady progress toward achieving the challenging goal of carbon negativity as soon as possible.

Strategy II, **Building a Sustainable Community Together**, is about working to resolve local community issues together with everyone in the community. I think that Strategy II will be the most important strategy

for the Kyuden Group for the future. Since our work is originally in the infrastructure business, we have strong networks and relationships of trust that we have fostered by supporting the lives and economies of local communities and developing together with them. For this reason, I believe that we are well positioned to work together with communities to solve local issues. For example, we are participating in airport management projects to increase the number of visitors, and we have concluded partnership agreements with local governments to cooperate in local carbon neutral initiatives. In this way, we hope to think together with the local community and contribute to solving social issues. I have always said, "Without the development of Kyushu, there can be no development of the Kyuden Group". Co-creation with the local community is at the heart of realizing our management vision.

To Our Stakeholders

I would like to remind our shareholders and investors that although we recorded an ordinary loss for FY2022, our efforts to date have left us well prepared for growth in FY2023 and beyond. Regarding dividends, we will continue to strive to resume dividend payments of ¥50 as soon as possible within the financial objective period (ends in FY2025). Our senior management will also take the lead in actively engaging in dialogue with the market regarding our efforts to sustainably improve our corporate value, as outlined in this message. Through such dialogue, we hope you will come to appreciate how the Kyuden Group is transforming into a new format by expanding beyond the Domestic Electricity Business to include Growth Businesses such as renewable energy, overseas business, ICT services, and urban development.

We will contribute to the development of Kyushu and other regions by

working together with local communities to solve social issues, while maintaining a mutually beneficial relationship with our business partners through our Partnership Declaration.

In order to achieve our management vision and carbon neutrality, we will continue to meet the expectations of all of our stakeholders by promoting various initiatives together with our employees, the Group's important and closest stakeholders.

We look forward to your ongoing support as we move forward.

