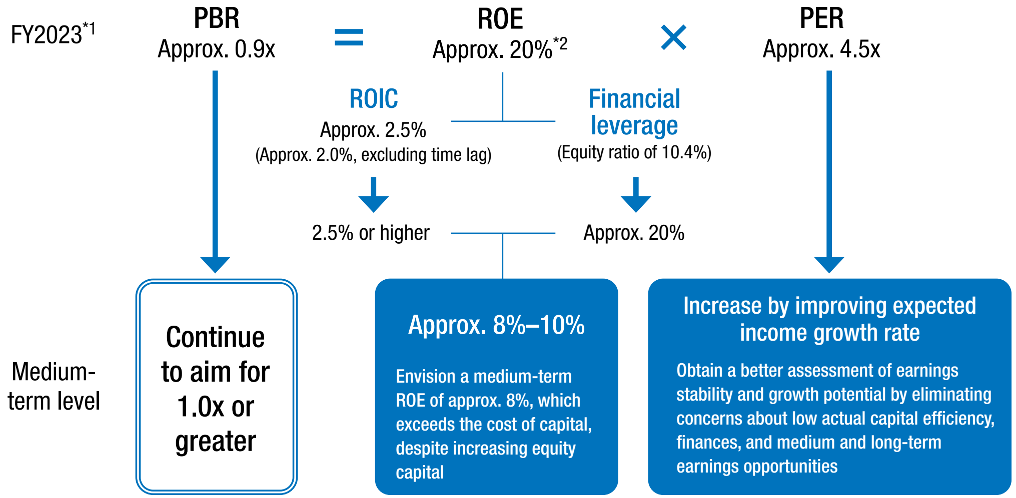
Toward Sustainable Enhancement of Corporate Value

Analysis of Current Situation and Future Direction

As for the Kyuden Group's corporate value, we conducted an analysis after breaking down price-to-book ratio (PBR) into capital profitability (return on equity (ROE)) and future growth expectations (price earnings ratio (PER)). The analysis revealed that the main factor for our low PBR is that the stock market expects weak income growth rate on account of "low actual earnings" and "concerns about finances and uncertainty about medium to long-term earnings opportunities."

In order to achieve sustainable enhancement of corporate value (PBR constantly above 1), it is necessary to (1) achieve capital profitability that exceeds the cost of capital (increase ROE), and (2) obtain a better assessment of the recent recovery in earnings and future growth potential (increase PER).

Current PBR, ROE, and PER levels and future direction



*1: Share price: as of August 31, 2023; net income per share based on FY2023 earnings forecasts (as of August); net assets per share: as of end of FY2022 (excluding preferred shares)
*2: FY2023, capital efficiency is expected to exceed the medium-term level because equity capital is recovering as earnings improve

As for the actual orientation of efforts, we are implementing the following.

Increase ROE

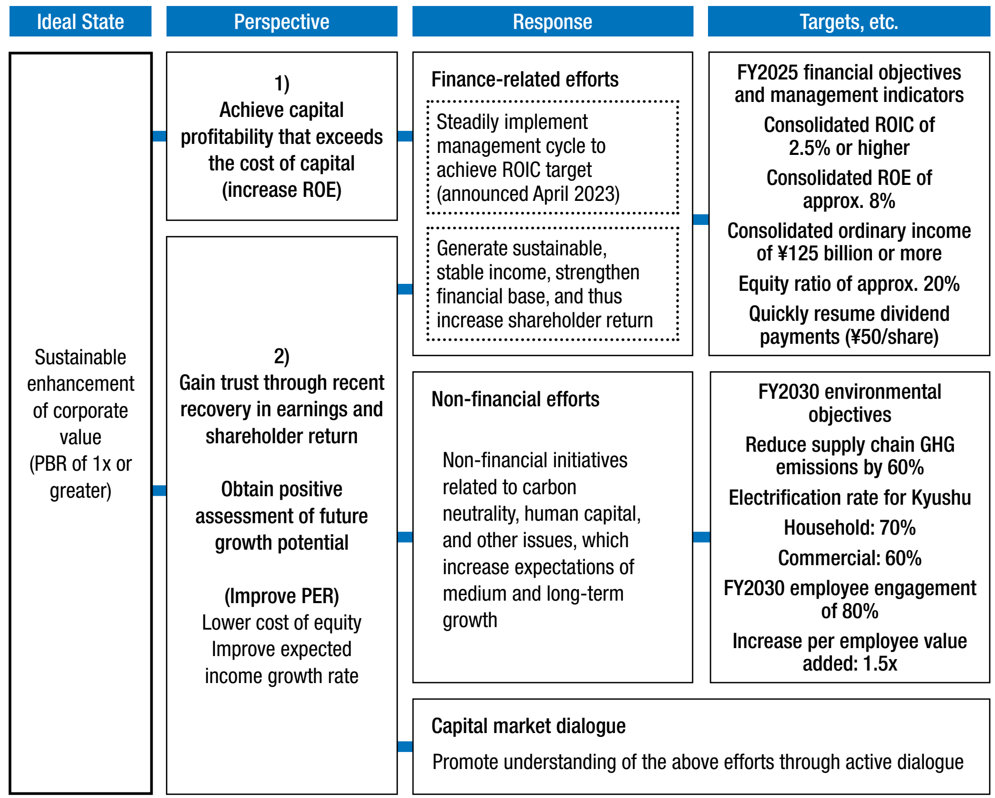
Even when working to restore our financial base by increasing equity capital going forward, we want to achieve an ROE of approx. 8%, which exceeds the cost of capital, in the medium term, through the sustainable and stable generation of income that takes into consideration capital efficiency and by steadily expanding growth businesses through management based on ROIC, targets for which were announced in April 2023.

Increase PER

In addition to moving forward with the aforementioned finance-related efforts and steadily generating income each fiscal year to achieve consolidated ordinary income of at least ¥125 billion as a financial objective, we want to work to strengthen our financial base, which supports the generation of stable income, and thus expand shareholder returns. Furthermore, for non-financial efforts, we will work to reach environmental targets, such as achieving carbon neutrality, which will increase medium and long-term growth expectations, reinforce human capital, the driving force for the sustainable enhancement of corporate value, and link this to lowering the cost of capital and a greater expected income growth rate.

In order to obtain a positive assessment of our future growth strategy from capital markets, we will also actively hold dialogues with investors through IR activities.

■ Perspective of initiatives and direction of response



Promoting ROIC-Based Management That Takes into Consideration Capital Profitability

In order to enhance corporate value in the medium and long term through management that is conscious of the cost of capital and share price, we introduced ROIC as a new management indicator in FY2022, and announced new Group-wide ROIC targets for the Group—2.5% or greater for FY2025 and 3.0% or greater for FY2030, both on a consolidated basis.

For the Domestic Electricity Business, we will ensure an ROIC that equals or exceeds the cost of capital on a stable basis while balancing efficiency and stable supply. On the other hand, for growth businesses, we aim for an ROIC that substantially exceeds the cost of capital.

		FY2025	FY2030
Consolidated ROIC targets	(Average for 2019–2021) 1.3%	2.5% or higher	3.0% or higher
Perspective when setting objectives	Shareholder value	ROE of approx. 8%	ROE of approx. 8%–10%
	×	×	×
	Financial base	Equity ratio of approx. 20%	Further improve finances
(Reference) Outlook for achieving objectives for each business	Domestic Electricity Business ROIC	Approx. 2.5%	2.5% or higher
	Growth businesses ROIC	Approx. 5%–6%	Approx. 6%–7%

Consolidated ROIC > Medium to long-term WACC
Both increase shareholder value and strengthen financial base
generate sustainable corporate value

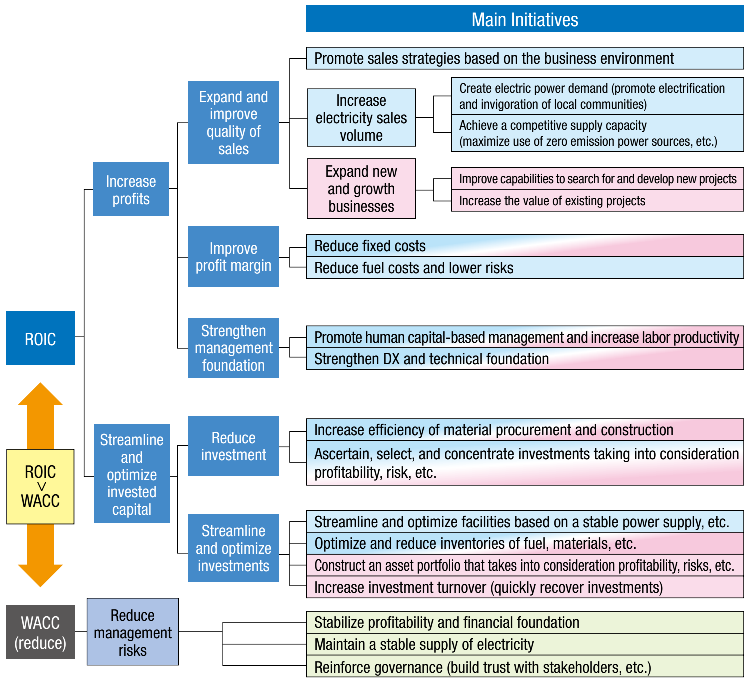
Ensure a stable ROIC that exceeds WACC by balancing efficiency and stable power supply

Aim for an ROIC that dramatically exceeds WACC in the medium and long term through selection and concentration of projects/investments

ROIC management cycle

In addition to each business division working independently to make improvements using ROIC for the individual business as a management indicator in order to accomplish the consolidated ROIC target, the Board of Directors and Corporate Strategy Division work to monitor progress and strive for an appropriate allocation of business resources to achieve consolidated objectives.

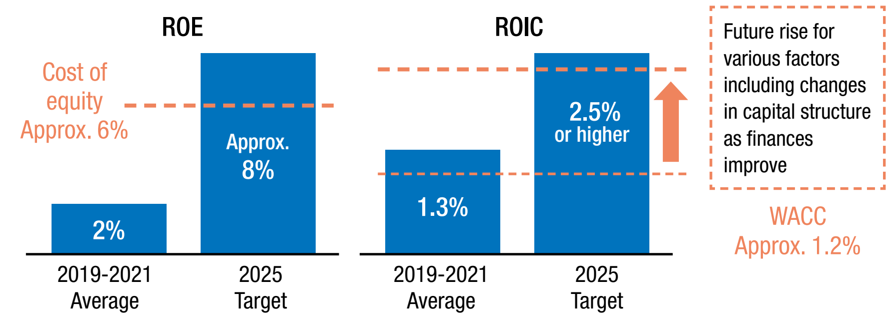
Efforts are also made to promote understanding throughout the Company using such items as an "ROIC tree" so that employees understand and are aware of the importance of capital efficiency and can incorporate that into their actual work.



Our Cost of Capital

As for our current cost of capital, cost of equity is about 6% and WACC is about 1.2%. However, we expect that WACC will rise to a certain extent in the medium and long term considering various factors, including changes in our capital structure as our finances improve in the future, and will keep this level in mind when making management decisions.

■ ROE/ROIC and cost of capital



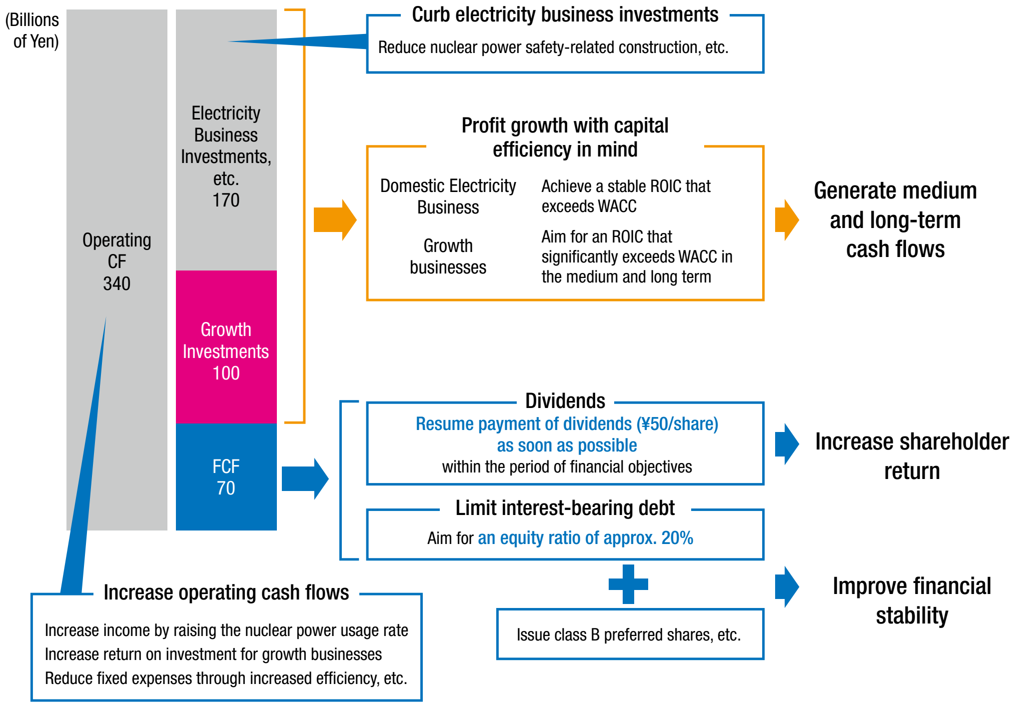
Initiatives to Increase Expectations of Income Growth in the Medium and Long Term

As for our medium and long-term growth, to obtain a positive assessment from investors, it is necessary to solidify our recent recovery in earnings and reinforce our financial foundation, generate stable, sustainable cash flows through those efforts, and thus pay a stable dividend to our shareholders, which will likely lead to an increase in PER.

Earnings are expected to trace a V-shaped recovery in FY2023 for various reasons, including the higher utilization of nuclear power. In order to achieve ordinary income of at least ¥125 billion in FY2025, which is one of our financial objectives, and ordinary income of at least ¥150 billion in FY2030, which is an element of our FY2030 Management Vision, we will generate steady income growth through the stable operation of nuclear power stations and a greater return from growth businesses that we have invested in.

We expect to record a positive free cash flow starting in FY2023 as cash flows from operating activities increase due to growth in income and one round of nuclear power safety-related construction is completed. In addition to using generated cash flows to establish a foundation for even greater cash flows through investments that take into consideration capital efficiency, we will tie those efforts to quickly resuming dividend payments of ¥50 per share and achieving an equity ratio of 20% as one of our financial objectives.

Cash flows image for FY2025



Non-financial efforts

In addition to financial efforts, non-financial efforts are also important for the Company to generate growth in the medium and long term. Expanding non-financial capital through investment in human capital and working toward decarbonization will lead to improved assessment of our future growth potential, which will also contribute to an increase in PER.

Details regarding initiatives to further strengthen human capital management and growth through achieving carbon neutrality are provided on P67 and P42, respectively.

Confirming Progress with Future Efforts

As for enhancing corporate value, which includes improving our PBR, directors confirm progress in these efforts once a year, and if necessary, consider revisions.

Message from the Executive Director of the Corporate Strategy Division

Hiroto Kido
Executive Director, Corporate Strategy Division

The Board of Directors also discussed sustainable enhancement of corporate value with breaking down PBR into ROE and PER.

Although capital efficiency is expected to significantly improve in FY2023 because of an increase in the nuclear power utilization rate, we believe it is necessary to achieve further growth. This can be done by both expanding growth businesses and controlling the balance sheet while achieving a stable, not transitory, improvement in capital efficiency. On account of this awareness of the problem, we introduced ROIC as a new management indicator.

In addition to this being incorporated into the management PDCA cycle, the Board of Directors and other internal bodies are considering the analysis of each business based on ROIC and the direction of improvements. In particular, for electricity businesses, it is necessary to take into consideration balancing this with a stable power supply. The Corporate Strategy Division is not only encouraging the operation of each business based on an awareness of ROIC but also working to link that to enhancements in corporate value by optimizing the business portfolio and further improving capital efficiency.

Efforts are being made to spread ROIC management throughout the Group, which includes top management providing explanations of ROIC when holding dialogues at business offices, and revising business plans for each office to incorporate an awareness of capital efficiency. Senior management will continue to communicate the importance of capital efficiency so that objectives and efforts do not become mere formalities.

As for finances, there was a dramatic deterioration in equity capital as a result of the decline in FY2022 earnings. I would like to apologize to all shareholders that in light of the state of finances and medium and long-term profitability, we were not able to pay dividends. Improving our finances is an urgent issue in order to generate sustainable growth going forward and thus provide shareholders with stable returns.

To improve our financial stability, we have issued ¥200 billion in nonconvertible class B preferred shares, a ¥100 billion increase from the traditional class A preferred shares, to raise financial stability to some extent. We will allocate funds to investments that improve cash flows and take into consideration ROIC, and steadily work to pay shareholder returns and reduce interest-bearing debt.

If the denominator of ROE increases due to an increase in equity capital, it will be necessary to further raise PER while improving ROIC to raise PBR. Our actual performance will show that we can generate stable income, and the whole Group will unite to ensure the enhancement of corporate value so that we can obtain a positive assessment of our medium to long-term growth potential from capital markets through shareholder returns (resuming dividend payment of ¥50/share) and non-financial efforts, including further strengthening human capital management and achieving carbon neutrality.