

# Promoting Value Analysis (VA) BX

## VA approach

The Group's Medium-term Management Plan sets out a goal of promoting Value Analysis (VA) to achieve "BX: Building a robust corporate constitute."

In July 2021, with strengthened procurement function, we started cost structure reform efforts in cooperation with operating divisions and group companies.

## Definition of VA

VA is an approach in which the procurement and operating divisions collaborate to thoroughly examine efficiency improvement in capital investment for each operating division from all perspectives along the supply chain.

For example, in procuring materials and equipment, contracted construction work, etc., we analyze the cost structure with a focus on the original function and purpose to minimize costs by eliminating waste through specification review, equalization of the amount of materials, logistics improvement, and so on.

To this end, we are discussing ideas from many different angles and our first priority is to achieve our target budgets calculated in preparing the Medium-Term Management Plan.

### Perspectives for cost reduction

Strategic perspective	Examples of viewpoints	Concrete examples
Change specifications	Change quantity	Examine closely to minimize man-hours required
	Change quality level	Reduce excessively demanding specifications
	Change method	Unify specifications among offices and with other companies
	Change special product to general-purpose product	Expand competitive orders through generalization
	Optimize life cycle cost, etc.	Cost evaluation and minimization throughout the life cycle
Change process	Change construction method	Simplified construction method, shortened construction period
	Change scope	Separation of materials and construction costs, integration of design and construction
	Change the timing of implementation	Avoiding demand concentration and periods of high prices
	Change request level, etc.	Relaxation of excessive quality requirements and supplier qualification levels
Change procurement method	Change purchasing method	Collective order, joint procurement, multi-year contract, etc.
	Change suppliers' competitive environment	Create competition, third-party, international procurement, etc.
	Work with suppliers to reduce costs	Cost reduction activities through collaboration
	Optimize supply chain	Total optimization of business process, including internal sales and outsourcing by group companies
	Strengthen bargaining power in price negotiation, etc.	Negotiation within assessed price range, comprehensive consensus building, etc.

## FY 2021 achievements and future targets

VA has proved its effectiveness in the Group's overall cost reduction efforts with fiscal 2021 results (amount of cost reduced compared to the planned value when the Medium-term Management Plan was formulated) of approx. 70 billion yen, a significant reduction.

Toward fiscal 2025, we aim to achieve the Medium-term Management Plan targets.

## Concrete measures

### Example of cost reduction in outsourced power plant operations

We have reviewed the roles of specially appointed partner companies for the details of contracted cleaning, guarding, and vehicle operation services at our thermal power plants.

Specifically, we carefully selected the scope of consignment (locations and man-hours) and standardized the specifications, which had varied from power plant to power plant. In addition, the ordering method was also changed to reduce costs across the entirety of each of our thermal power plants.

### Example of cost reduction through cost engineering\* by Kansai Transmission and Distribution, Inc.

Kansai Transmission and Distribution, Inc. analyzes cost structure by disassembling the actual pole transformers.

Through these activities, the company identifies cost-cutting potentials and proposes changes in component structure, specifications, materials, number of components, etc. to its suppliers. This also encourages our suppliers to make counterproposals, thereby achieving cost reductions, including changes in types of contracts.

Furthermore, Kansai Transmission and Distribution, Inc. and the Company's Sourcing and Procurement Division are collaborating to acquire cost engineering skills by utilizing knowledge of external professionals, with the aim of insourcing and establishing such skills in fiscal 2022.



Cost engineering workshop

\*Cost engineering: Skills to analyze costs based on knowledge of the market, suppliers, product manufacturing and processes, and technologies owned by each division, in order to calculate an ideal cost to formulate cost reduction strategies