

President Interview

Regaining Trust as the Foremost
Priority and Aiming for
New Growth Based on
Our Management Philosophy

K. Nakagawa

Nakagawa Kengo

Representative Director
President and Chief Executive Officer



Appointment as President

Following your appointment as president, please give us an insight into your ambitions and course of action for the company.

As a result of our series of inappropriate conduct, including violations of antimonopoly laws and unauthorized viewing of customer information, there has been a significant loss of trust in the company among shareholders, investors, customers, and our various other stakeholders. Please allow me this opportunity to once again express my sincere apologies. Moreover, last year we experienced our largest ever deficit and our financial structure was significantly damaged, and this is no doubt causing a great deal of concern among our stakeholders.

It is a great honor to assume the role of president, but at the same time I feel a huge sense of responsibility to do so during this tumultuous period.

My foremost priority as president will be to restore stakeholder trust. While the loss of trust is instantaneous, regaining this trust will be a prolonged process. Since our founding in 1951, for more than 70 years we have conducted our business activities with firm roots in the Chugoku region. To restore trust in the company, we will have to start again from below zero. With this in mind, I will work to bring together the strengths of our employees and take the lead in pouring every effort into restoring stakeholder trust.

When I first joined the company, for many years I was involved in the construction and operation of thermal power plants. I then moved onto the Corporate Planning Division, where I worked on the development of mega solar and storage battery systems, the development and design of biomass power stations, and more. More recently, I helped with the launch of the Supply & Trading Division, which was set up to respond to new markets including the power capacity market, and then took on the role as head of the division to lead our own response to these new markets. Using my experience and expertise in various fields, I will strive to demonstrate strong leadership and steer management forward.

Regaining Trust

What do you think it is that led to the occurrence of this series of inappropriate conduct?

When I joined the company and started working in one of our power stations, the priority within the station was to ensure continuous operation. At the time, this was a common approach and I thought nothing of it. In FY2007, however, it was discovered that we had falsely corrected measurements from some of our power generation facilities, and general inspections were conducted of all power companies. It was at this time that I realized that the values I thought were correct were vastly different to those of society.

The same can be said for the recent incident. Despite the constantly changing requirements of customers and society, even after the liberalization of retail electric power sales we continued to prioritize the stable supply of electricity. We weren't able to recognize that our own values and that of society had shifted, and I believe this is one of the fundamental reasons as to why the incident occurred.

In taking on the role of president, I have asked all executives and employees to fine-tune their common sense. Common sense must change in line with social change, and there will be many cases in which something we used to see as the norm no longer is several years later. As an electricity provider, although we must continue with our approach to ensuring stable supplies, the methods we choose to do so must be in line with contemporary common sense. Personally, at every turning point I have striven to use my experience to fine-tune my own common sense when it has shifted away from that of society. To ensure this mindset is established among our workforce, I will make sure to set an example and appeal to our employees to do the same.

What initiatives are you working on to prevent recurrence?

In March 2023, in addition to newly appointing a vice president to lead corporate revitalization, we also set up the Inappropriate Matter Recurrence Prevention and Response Division, led by the abovementioned vice president. In May, to reinforce the structure of this division we launched the Corporate Revitalization Project, through which we are working to analyze fundamental causes born from our corporate culture and formulate recurrence prevention measures. Moreover, in September, to reinforce our companywide internal control systems we set up the Internal Control Enhancement Committee, comprising lawyers and other external experts. We are also working to reinforce our three-line management system,* which enables effective risk management and internal control. Elsewhere, we have increased the number of external directors, established rules aimed at legal compliance, hosted training programs, and implemented various other recurrence prevention measures.

While regularly publishing the progress of our recurrence prevention measures and fine-tuning our common sense in line with the opinions of our stakeholders, moving forward, we will strive to ensure that these measures take root across the company.

*An internal control system that apportions risk management roles to three "lines": Line 1: Operating departments; Line 2: Management departments; and Line 3: Internal Audit Division

One of your management reforms has been to add an external director. What are you hoping to see from him?

As I mentioned above, I believe one of the fundamental causes of this recent incident was the deviation of our common sense from that of society. Deviations can get larger if unaddressed, but noticing this deviation with internal personnel alone can be a challenge.

This is why external perspectives are key. And so, to strengthen supervisory functions and improve objectivity and transparency in

management, we newly added one external director in Kiyotaka Shobuda. Chairman of Mazda Motor Corporation, Shobuda has extensive work experience in the manufacturing industry and a wide range of expertise and experience in management. In having him bring in information on external trends and offer opinions from a different standpoint, we will work to reinforce our governance.

Restoring Business Performance and Financial Base

Following two years of consecutive deficits, in FY2024 company performance is expected to recover significantly. What are your thoughts on our current business performance and financial affairs?

I believe that one of the major factors behind our worsening business performance and financial base was the long-term inability to operate our central power source, Shimane Nuclear Power Station, following the Great East Japan Earthquake. While during this time we have sought to improve management efficiency and make growth investments, in FY2022 and FY2023, soaring fuel and electricity market prices led to record deficits for two consecutive years. In just these two years, we lost 200 billion yen in shareholders' equity. With negative free cash flow continuing and interest-bearing debt surpassing 3 trillion yen, our financial burden continues to increase. At the end of FY2023, shareholders' equity ratio fell to a record low of 11%, and so we recognize that our financial affairs are in a critical condition.

As a result, with sincere apologies to our shareholders, in FY2023 we decided not to pay out any dividends.

Elsewhere, despite maximum efforts aimed at greater management efficiency, and although we regret the huge inconvenience this will bring to our customers, we have had no choice but to revise our electricity prices. As a result, however, we anticipate a recovery in business performance in FY2024, and believe this has enabled us to toe the start line ahead of the rebuilding of our performance and financial base. Moreover, in August 2023 we received approval from the Nuclear Regulation Authority relating to our construction plans at Shimane Unit 2, and the restart of operations in the first half of FY2025 is looking increasingly likely.

Moving forward, with the need for safety investments at Shimane Unit 3 and GX (green transformation) investments to achieve carbon neutrality, we will continue to pour every effort into ensuring greater efficiency in all aspects of management, limiting income/expenditure fluctuation risks, and increasing profit levels. Moreover, it will be important to secure capital through transition finance and other diverse methods as we aim for future growth investments.

Please tell us the specific measures you will take to stabilize and improve our business performance.

The restart of Shimane Unit 2 and the launch of Unit 3 will help to reduce fuel expenses and limit risks related to market price fluctuations, and in turn contribute significantly to the stability of our business performance. Elsewhere, on top of efforts to secure fuel supplies, we will also use financial means to limit price fluctuation risks. In addition, we will aim to achieve drastic improvements in productivity through DX measures.

By segment, in the power generation business we will look to develop a competitive power source mix that includes nuclear power, and in addition to relative transactions we will use wholesale electricity transactions to increase profit. Further, while working to decarbonize and improve the efficiency of our thermal power generation, we will enhance our profitability by providing the adjustment capabilities required for the expansion of renewable energy.

In the retail business, we will establish our competitive superiority through competitive power procurement, and work to enhance our range of customer-focused services and rate plans through the development of services that cater to customers' decarbonization needs, and new plans that take into account fluctuating fuel prices. In the gas business, we will seize the opportunity to capture needs for conversions to LNG, demand for which is expected to grow over the long-term as a CO₂ reduction measure as we transition to a decarbonized society, and alongside our Group companies work to link LNG sales to improved profit.

Moreover, in the international business we will maximize introduction of renewable energy through offshore wind power projects and other means and we will invest in highly profitable projects mainly in renewable energy after thoroughly investigating any associated risks. We will also seek to increase profits in our Group companies' businesses, including in the power transmission and distribution business and the information and telecommunications business.

Please give us your thoughts on cash allocation and dividend payout ratios. Moreover, how will you respond to the Tokyo Stock Exchange's requests to implement management that is conscious of both the cost of capital and stock price?

In terms of cash allocation, with our priority firmly on the recovery of our financial base, we will make investments aimed at improving our profitability and competitive advantage for the future, and strive to enhance our shareholder returns.

To begin with, we will focus on the necessary safety investments for Shimane Unit 2 and Unit 3. We will also proceed with carbon neutral investments, such as the introduction of renewable energy and the decarbonization of our thermal power generation, and at the same time invest in growth fields in our international business, for example. When investing in new businesses, we will thoroughly assess profitability and risk and aim to improve and stabilize our income/expenditure and financial affairs.

Regarding dividends, we revised our policy in FY2024 and will now pay out performance-linked dividends. Until our shareholders' equity ratio returns to 15%, we will maintain a payout ratio of 10% as we prioritize the restoration and reinforcement of our financial base. However, once shareholders' equity ratio returns to 15% we will gradually increase our dividend payout ratio.

Although we have always sought to implement management that is conscious of both the cost of capital and stock price, our current price book-value ratio (PBR) is below 1.0. While we see this as a major issue, if we can stabilize our business performance through stable operations at Shimane Unit 2 and Unit 3, we believe that we will return to positive free cash flow. We also believe that investments in growth areas like our international business will help reinforce our profitability. At the same time, we are working to streamline our assets by, for example, closing our aging thermal power plants, and we think that continued efforts like these to boost profitability and increase capital efficiency will help to increase our corporate value. We will also work to improve PBR through thorough explanations of the Group's future growth ambitions.

Promoting Sustainability Management

Recently, with an increasing amount of sustainability information in securities reports, the importance of sustainability initiatives is rising.

In recent years, there have been growing expectations for corporations to proactively fulfill their duty to achieve a sustainable society, and market interest in sustainability management is dramatically increasing. Our Group management philosophy is "Trust. Creation. Growth." Each element includes ESG perspectives and demonstrates the way for sustainable management. While flexibly responding to the various changes in our business environment, including in supply chains which are greatly impacted by international affairs, we will work to fulfill our management philosophy from a long-term perspective and work together as a Group to drive sustainability management. I believe this is the key to improving our corporate value.

What specific initiatives is the company engaging in to achieve Carbon Neutral 2050?

As a group centered on the electricity business, carbon neutrality goes hand in hand with our sustainability management.

In March 2023, we formulated the Basic Policy of Chugoku Electric Power Group Carbon Neutral Strategy, goals and priority measures as we work to achieve Carbon Neutral 2050 as a Group. Although to date we have sought to halve CO₂ emissions in our electricity retail business by FY2031 compared to FY2014, recognizing the importance of proactively reducing our own direct CO₂ emissions, this fiscal year we have set a new target to also halve CO₂ emissions in our power generation business by FY2031.

To achieve these targets, stable operations at Shimane Unit 2 and Unit 3 are essential. In addition, while increasing introduction of renewable energy as per our Group Corporate Vision, it will be important to continue utilizing thermal power generation, which is key to providing adjustment capabilities. We will therefore aim to reduce CO₂ emissions and proceed with the decarbonization of our thermal power, and are moving forward with preparations for the practical application of ammonia/hydrogen power generation and carbon capture technologies, which separate and capture CO₂ and store it underground.

Carbon neutrality is both a social requirement and an opportunity for sustainable growth. As such, we will aim to develop and roll out services that contribute to decarbonization among our customers and communities, and shift to a next-generation power network.

From an environmental protection standpoint, recently there has been an increase in global interest in biodiversity. To date, we have implemented various initiatives to protect biodiversity in the Chugoku region, such as by regularly monitoring the environments around our power stations. Looking ahead, while further strengthening these initiatives, we will examine our response to the TNFD* Framework and enhance our information disclosure.

*Taskforce on Nature-related Financial Disclosures



One mission within our Group Corporate Vision is to “inspire employees through our culture.” How are you working to fulfill this mission?

Active participation by diverse personnel is key to creating an attractive corporate group. Moreover, each one of these employees is responsible for creating new value.

In March 2023, we formulated Policy for Promoting Active Participation of Diverse Human Resources as a comprehensive policy for the Group’s human resources. Our aim within this policy is to develop personnel who can think and act independently.

In my first message following my appointment as president, I communicated to our employees the importance of fine-tuning our common sense, taking on new challenges, and thorough discussions. Companies that facilitate open discussions are vibrant, and vibrant companies are bright and optimistic. In turn, bright and optimistic companies promote consecutive new endeavors. Of course, on occasion new challenges and discussions will lead to conflicts of

opinion, but this is proof of an organization’s diverse values. I believe that accepting these values and bringing together these diverse strengths can help to inspire our employees.

Elsewhere, we are also actively working to introduce systems for diverse workstyles, and the number of employees using these systems is increasing. However, employees’ mindsets and values will continue to diversify, and requirements will change based on age groups and individual lifestyles. And so, rather than simply adopting these new systems, it is important to grasp employees’ needs and introduce better systems as necessary.

We will continue working so that we can become a corporate group that inspires employees through its culture.

To Our Stakeholders

Do you have a message for our stakeholders?

The Chugoku Electric Power Group is currently in a difficult place, and it is precisely because of this that we must again look at the importance of our management philosophy: “Trust. Creation. Growth.” The Group’s businesses are built on the trust of its stakeholders. Executives and employees of the Group understand that it will require significant effort to restore this trust, and we will therefore work together as a Group to confront this issue head on and regain stakeholder trust.

Meanwhile, for us to continue growing amid increasingly fierce competition, the creation of products and services that respond to changing times and customer needs is paramount. It will also be important to take on new challenges. Following our improper conduct, it could be easy for employees to take a step back, but it is precisely in times like these that we must try new things. While managing the risks that go hand in hand with new challenges, we will plant new seeds for growth through the independence and creativity of our workforce. Ultimately, with our roots firmly in the Chugoku region, we will aim to become a corporate group that can achieve sustainable growth even amid drastic social changes and that can meet the expectations of its stakeholders.

Moving forward, through materials like this Integrated Report we will continue to communicate our efforts to improve corporate value in an easy-to-understand manner. Moreover, while valuing dialogue with our shareholders, investors, and various other stakeholders, we will strive to further initiatives aimed at improving corporate growth.

On behalf of the Chugoku Electric Power Group, I look forward to your continued understanding and support.

Chairperson and External Director Dialogue



The Group's Vision for Governance

In line with the Group's series of inappropriate conduct, please give us your thoughts on the issues you see and the ideal vision for Group governance.

Furuse: More than anything, reforming our corporate culture is key. Despite offering proposals and advice from various perspectives as an external director, violations related to antimonopoly laws resulted in such consequences as a cease and desist order and a surcharge payment order. When examining why this incident occurred, I think that management and the company as a whole had insufficient awareness to appropriately respond to environmental changes in the electricity industry, beginning with the liberalization of retail electric power sales. For many years, we managed the electricity business using the fully distributed cost method, and management saw it as a priority and duty to ensure stable supplies and ensure safety and security. This sense of duty was too strong, however, and this culture became rooted in the company. As a result, we had a lack of awareness on how to secure earnings in a competitive environment and how we should behave. The key to our corporate culture reform must be transparency and fairness. From a governance perspective, it is important to make decisions following thorough discussions in a fair environment, and essential to enabling this is transparency of information. Sharing information and facilitating discussions between management and

employees and across departments is key to promoting voluntary action, reinforcing the strength of our organizations, and ultimately strengthening governance.

Ashitani: I fully agree. A strong desire to ensure stable supplies of electricity is ingrained among Chugoku Electric employees. Even after the liberalization of retail electric power sales, I believe this mindset is something that we must maintain as an electricity provider, but on reflection perhaps we were too focused on this one element.

In light of our improper conduct, I took the opportunity to objectively reassess the activities of the Management Committee and the Board of Directors. While executives would raise questions and check the opinions and policies of other departments, they would rarely object. At the Board of Directors, too, there was a lack of proactive commenting on the results of Management Committee discussions, and individuals in-house would take a passive approach to the opinions of external directors.

With an awareness of these issues, when setting up a new framework in June 2023, newly appointed President Nakagawa Kengo and I spoke of the need to reinvigorate discussions at the Management Committee and the Board of Directors. At both meetings since then, even if we exceed the scheduled time, we have made sure to complete our discussions and cross-check our decisions.

Moreover, I hope to create a culture in which supervisors, management, and senior management can proceed with their

work through more frank exchange of opinions and discussions. In doing so I believe we can ensure even more efficient governance, while persevering with these initiatives will enable us to reform our corporate culture.

Expectations for the New President

What are your expectations for our new president?

Furuse: Following our inappropriate conduct, I had thought that it would be important to inject some youth into senior management to move ahead with full-scale reforms. Mr. Nakagawa has a strong desire to transform the company, and so I look forward to him proactively communicating his thoughts and reform plans in-house. There are no doubt employees within our workforce who have grown uneasy or mistrustful of the company because of the recent incident, and reforms cannot be implemented by management alone. It is the responsibility of senior management to clarify our course of action, enhance the transparency of information through regular updates on our progress, and dispel employees' concerns.

Ashitani: Due to electricity system reforms and measures to spread and promote renewable energy, systems in the electricity industry are becoming increasingly complex and there is growing need for even greater technological expertise. This is precisely why those leading business execution should have work experience in various fields. Although initially specializing in thermal power, Mr. Nakagawa has gone on to gain experience in a wide range of areas. He has also worked in the Corporate Planning Division and Supply & Trading Division, and therefore has a wealth of knowledge on our income and expenditure structure and electricity system reforms. I look forward to management unique to Mr. Nakagawa and his abundant expertise.

In his first speech after being appointed, Mr. Nakagawa spoke clearly about what he aims to achieve moving forward. I believe he was successfully able to communicate his character and his aims to our employees. I look forward to working alongside him to confront our current challenges and rebuild the company.



Toward Stronger Governance

From your differing standpoints, please tell us how you aim to improve and reinforce our governance structure.

Furuse: A sound corporate culture is the foundation for strong governance. To reform our governance, the most important thing is to create a culture that values lively discussions, creativity, and originality. I also believe it is important for each member of management to have an accurate understanding of how the company is perceived from the outside, particularly among customers, and reflect this understanding into company management. This is something I paid attention to when I worked at a bank. As members of management, thoroughly taking on board customers' opinions enabled us to understand our own weaknesses, and analyzing these weaknesses gave us pointers on how to improve.

In the same way, the opinions of those outside the company—that is, external directors—are more important than ever before, and it has been incredibly reassuring to newly welcome Shobuda Kiyotaka on board. I hope we can strengthen the Board of Directors' supervisory functions by using our respective experiences to actively offer our opinions from different standpoints, and in turn play a part in the company's reform.

Ashitani: For me, too, Mr. Shobuda's presence is very reassuring. To date, Mr. Furuse and other external directors have given us lots of suggestions and advice on matters that we have not been able to see from our position inside the company. I believe the addition of Mr. Shobuda, whose company has survived the harsh competitive environments of the manufacturing industry, will help us make further reforms toward stronger governance. As chairperson of the Board of Directors, with the support of those around me I will strive to ensure the transparency and fairness of the board.

This incident has also made me realize the importance of the customer's perspective, and that the trust of our customers is essential to our existence. To date, we have been a company that produces and sells electricity. Moving forward, however, it is important that we transform into a company that earns the trust of its customers. With Chugoku Electric and its Group companies working in tandem, we will make every effort to become a corporate group that is trusted by society.