

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.