Information Disclosure Based on TCFD Recommendations

In June 2019, we signed an agreement to support the Recommendations of the Task Force on Climate-related Financial Disclosures,*1 and are working to further enhance our disclosure of information related to climate change.

*1 The TCFD was set up by the Financial Stability Board (FSB) with the aim of developing methods for voluntary, uniform disclosure of climate-related financial information. TCFD recommendations provide frameworks for disclosure of information related to climate-related risks and opportunities.

Governance

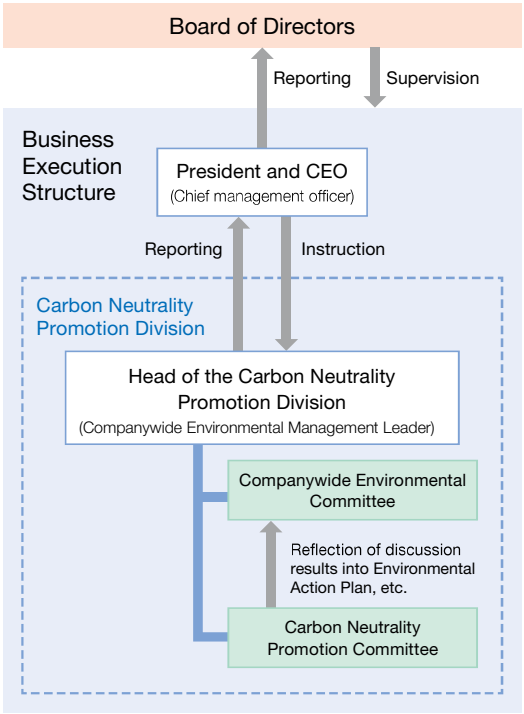
At Chugoku Electric, the president and CEO bears ultimate responsibility for the company's environmental management,*2 while the head of the Carbon Neutrality Promotion Division acts as the companywide environmental management leader. The Companywide Environmental Committee, which is chaired by the companywide environmental management leader, is held in principle twice a year, and is tasked with discussing policies and plans related to climate change and other environmental issues, as well as key matters regarding our environmental initiatives. Levels of implementation and other matters are reported to the president.

The Board of Directors, meanwhile, receives twice-yearly reports from the president regarding the levels of implementation and other matters pertaining to the Chugoku Electric Power Group Environmental Action Plan,*3 and oversees execution of environmental management operations.

To strongly promote carbon neutrality in group businesses as well as further strengthen collaboration for carbon neutrality with customers and regional communities, we have established the Carbon Neutrality Promotion Division, a dedicated organization that reports directly to the president.

The Carbon Neutrality Promotion Committee, which is chaired by the head of the Carbon Neutrality Promotion Division, is in principle held four times a year. The committee is in charge of comprehensively understanding and assessing the Group's carbon neutrality initiatives and further promoting their implementation.

*2 Activities that continuously seek to plan for, assess, and counter environmental issues such as climate change.
*3 A basic policy and action plan for the Group to promote its environmental initiatives. The basic policy describes the Group's aim to mitigate climate change through its efforts to achieve carbon neutrality by 2050, and includes measures and targets for global warming countermeasures.



Matters reported to the Board of Directors regarding climate issues (FY2023)

- ✓FY2022 results from the Chugoku Electric Power Group Environmental Action Plan
- ✓Status of initiatives to promote carbon neutrality
- ✓Formulation of the Basic Policy of Chugoku Electric Power Group Carbon Neutral Strategy

Matters discussed at the Carbon Neutrality Promotion Committee (FY2023)

- ✓Formulation of the Basic Policy of Chugoku Electric Power Group Carbon Neutral Strategy
- ✓Future initiatives for the low-carbonization/decarbonization of power sources
- ✓Development trends in technologies for carbon neutrality

Environmental Management & Carbon Neutrality Promotion Organization p. 57

Risk management

At Chugoku Electric we have set up a dedicated organization to oversee companywide risk management inside the Compliance Promotion Division. The organization promotes and supports groupwide risk management.

Under the companywide risk management system (p. 89), each division identifies and assesses risks related to its main line of business, including climate change risks, and places priority on activities to prevent risks that can be identified in advance. For risks that are difficult to foresee, each division prioritizes management activities that minimize any potential damage. Following examination of the relevant measures, they are reflected into our management plans to ensure continuous risk management.

In addition to gauging companywide risks, the Compliance Promotion Division assesses the severity of each risk based on its degree of impact and frequency. The division has positioned risks that could have a significant impact on our business activities as risks that require priority supervision, and submits information to the Management Committee on the conditions surrounding their management while also reporting to the Board of Directors. Moreover, the division recognizes changes in climate change-related policies and systems as serious risks that require close observation and countermeasures. The major business and other risks (pp. 90 & 91) that could severely impact our Group's performance are also shown in our Securities Report.

Risk Management p. 89 - p. 91

Strategies

In line with future uncertainties, we have analyzed various scenarios to enable us to strategically engage in efforts to achieve Carbon Neutral 2050. These analyses are not intended to predict results. They are for the purpose of examining long-term events and countermeasures based on certain assumptions.

Assumed scenarios

At Chugoku Electric, to allow for science-based assessments of the risks and opportunities associated with climate change, we have set a 1.5°C Scenario (Net Zero by 2050 Scenario) and a 4°C Scenario based on data published by the International Energy Agency (IEA) and other organizations. In line with Chugoku Electric Power Group Carbon Neutral 2050, we have set the years 2030 (medium term) and 2050 (long term) as terms for scenario analysis.

Scenario	Reference	Scenario assumptions
1.5°C Scenario	● IEA: World Energy Outlook 2022 NZE Scenario*1 ● Sixth Strategic Energy Plan ● Basic Policy for the Realization of GX	● Reinforcement of global climate change countermeasures and the steady reduction of GHG emissions ● Japan's achievement of its NDC*2 and carbon neutrality by 2050 ● Limitation of global average temperature rises to below 1.5°C by the end of the 21st century
4°C Scenario	● Intergovernmental Panel on Climate Change (IPCC) Sixth Assessment Report, SSP5-8.5 scenario*3 ● Japan Meteorological Agency: Climate Change in Japan 2020 4°C Increase Scenario	● Insufficient global climate change countermeasures and inadequate reduction of GHG emissions ● Global average temperature rises reach approximately 4°C by the end of the 21st century

*1 A scenario in which global average temperature rises have been stabilized at 1.5°C *2 Nationally determined contribution. Compulsory GHG emissions reduction targets that must be provided by each party under the Paris Agreement. Japan's NDC is to reduce its GHG emissions by 46% in FY2031 compared to FY2014. It will also continue with efforts to achieve its lofty goal of 50%.
*3 A scenario in which climate change policies are not introduced under fossil-fuel dependent developments.

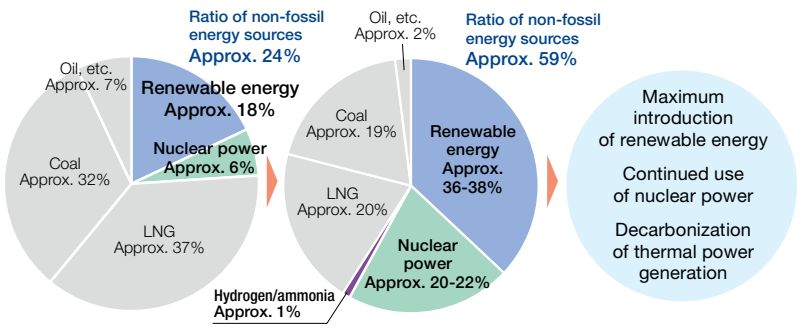
Changes in business environment

Following analysis of the assumed business environment changes in each scenario, in the 1.5°C Scenario, there would be a significant impact on our business on both the supply and demand sides, while climate change would have a significant impact on our business in the 4°C Scenario.

1.5°C Scenario **Energy supply**

According to the IEA's World Energy Outlook 2022, the global ratio of non-fossil energy sources is set to significantly increase ahead of 2050. In Japan, the Sixth Strategic Energy Plan outlines the country's policy to tackle renewable energy initiatives as a priority, and includes a non-fossil fuel energy ratio of approx. 59% for FY2031. Moreover, as part of the Basic Policy for the Realization of GX, the government proposes use of nuclear power and the introduction of hydrogen and ammonia technologies to ensure both stable supplies and carbon neutrality.

Japan's energy composition*4



Main impacts on our business

- ✓ Tightening of GHG emissions regulations
- ✓ Increasing needs for non-fossil energy sources
- ✓ Increasing needs for highly efficient/decarbonized thermal power generation
- ✓ Greater investment in decarbonization technologies
- ✓ Accelerated introduction of renewable energy in line with technology advancements

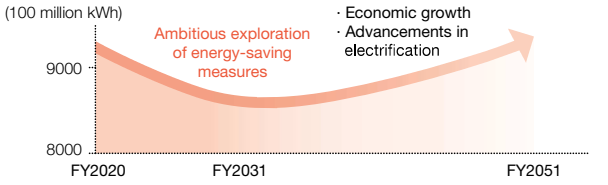
*4 Created in-house based on the Sixth Strategic Energy Plan.

1.5°C Scenario Energy demand

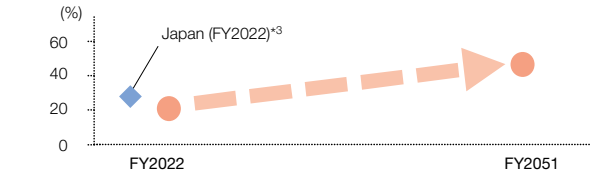
TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

According to the IEA's World Energy Outlook 2022, global electricity demand and electrification rates will continue to rise ahead of 2050. The Sixth Strategic Energy Plan predicts that electricity demand will increase by a certain amount in Japan's carbon neutral society of 2050 due to advances in electrification. However, thorough energy-saving measures are expected to mean that, in FY2031, electricity demand will be lower than in FY2020.

Electricity demand in Japan*1



Global electrification rate*2



Main impacts on our business

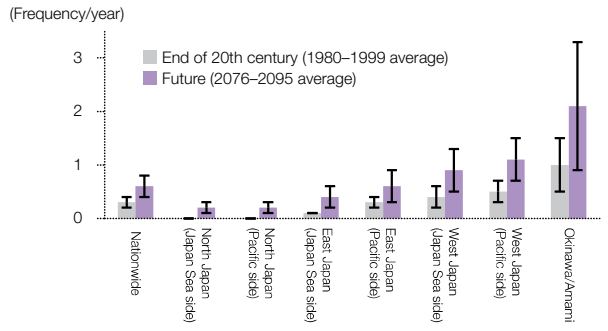
- ✓ Increasing social desire for decarbonization
- ✓ Promotion of electrification to achieve decarbonization
- ✓ Increasing needs among customers for energy-saving and decarbonization measures in their business activities

*1 Created in-house based on the Agency for Natural Resources and Energy's FY2031 Forecast for Energy Supply and Demand.
*2 Created in-house based on the IEA's World Energy Outlook 2022.
*3 Based on the Agency for Natural Resources and Energy's Energy White Paper 2023.

4°C Scenario Climate change

According to the Sixth Assessment Report from the IPCC, global average temperatures and sea levels are set to continue to rise until the mid-21st century. In its Climate Change in Japan 2020 report, the Japan Meteorological Agency predicts that this would lead to an increase in frequency of cloudbursts and stronger typhoons.

Frequency of cloudbursts*4



Main impacts on our business

- ✓ Increasing severity of natural disasters (cloudbursts, typhoons, etc.)
- ✓ Changing rainfall patterns
- ✓ Rising average temperatures and sea levels

*4 Created in-house based on the Japan Meteorological Agency's Climate Change in Japan 2020; the bars show the frequency in each area and the vertical black lines show the range of annual change.

Climate change risks and opportunities

Basic Policy of Chugoku Electric Power Group Carbon Neutral Strategy p. 25, p. 26

Based on the scenarios outlined above, we recognize climate change risks and opportunities as seen on the following page.
In order to maximize our opportunities while ensuring a thorough response to climate change risks, we will engage in various measures for both supply and demand.
Ahead of the achievement of Carbon Neutral 2050, we have formulated the Basic Policy of Chugoku Electric Power Group Carbon Neutral Strategy to clarify our course of action and actualize our initiatives. This Basic Policy outlines our policy to decarbonize the energy we provide and promote decarbonization among our customers and regions. It also contains the priority measures required to help us achieve this target by FY2031. These priority measures are to expanded use of carbon neutral power, transitioning of thermal power generation, ensuring renewable energy sources, energy services deployment, investigation of new businesses, response to community issues, and construction of next-generation power networks.

Changes in business environment (main impacts on our business)			Group risks and opportunities	Timeline		Major impact on business*1
				(Medium term)	(Long term)	
1.5°C Scenario	✓ Tightening of GHG emission regulations (Act on GX Promotion, Act on Rationalizing Energy Use, Act on Sophisticated Methods of Energy Supply Structures, etc.)	Transition risks (Policy)	◆ Increase in costs in line with tightened regulations 1 ◆ Lost revenue from a decrease in market competitiveness and the utilization rate of power generation using fossil fuels ◆ Drop in electricity sales due to increasing customer withdrawal	○	○	○
	✓ Increasing needs for non-fossil energy sources ✓ Increasing needs for highly efficient/decarbonized thermal power generation ✓ Greater investment in decarbonization technologies	Opportunities (Energy sources)	◆ Proactive adoption of hydro, solar, and wind power	○	○	○
			◆ Use of nuclear power with safety as top priority 2 3 4 ◆ Examination and utilization of advanced nuclear power technologies	○	○	○
			◆ Utilization of high-efficiency coal-fired thermal power and biomass power ◆ Utilization of carbon-free power sources (hydrogen/ammonia power generation, IGFC+CCUS/ Carbon recycling, etc.)	○	○	○
			◆ Expansion of international business (renewable energy projects)	○	○	○
	✓ Rapid adoption of renewable energy due to technological advancements	Transition risks (Technologies)	◆ Increase in grid countermeasure costs	○	○	○
	✓ Heightened social awareness of decarbonization ✓ Promotion of electrification for decarbonization ✓ Increasing needs among customers for energy-saving and decarbonization measures in their business activities	Transition risks (Technologies)	◆ Drop in prospect of utilization of existing intellectual property due to rapid technological changes and a drop in competitive/growth capabilities due to insufficient acquisition of new intellectual property	○	○	
		Transition risks (Reputation/ market)	◆ Potential impact on market share and fund procurement if our decarbonization initiatives are deemed insufficient and our reputation for reliability and corporate image suffers 5	○	○	○
		Opportunities (Market)	◆ Promotion of electrification, DR,*2 and Solar PPA,*3 etc. 6	○	○	○
			◆ Development of carbon recycling technologies (CO_2-TriCOM, Gas-to-Lipids)*4	○	○	
4°C Scenario	✓ Increasing severity of natural disasters (cloudbursts, typhoons, etc.) ✓ Changing rainfall patterns	Physical risks (Acute)	◆ Increase in recovery and countermeasure costs in line with facility damage 7 ◆ Increase in costs due to enhanced resilience measures (facility countermeasures to prepare for disasters, creation of coordinated systems to ensure early recovery)	○	○	○
			◆ Decreasing water flow rates (Decreasing hydropower) 8	○	○	
	✓ Rising average temperatures and rising sea levels	Physical risks (Chronic)	◆ Adverse impact on business activities		○	

Main financial impacts of climate change-related risks and opportunities

: Risks : Opportunities

1 Cost increases in the event GHG emissions are not reduced*5

Approx. **131.0** billion yen/year

2 Cost decreases in line with reduced CO_2 emissions from the startup of Shimane Unit 2*5

Approx. **47.0** billion yen/year

3 Cost decreases in line with reduced CO_2 emissions from the startup of Shimane Unit 3*5

Approx. **79.0** billion yen/year

4 Benefits from fuel cost reductions in line with startup of Shimane Unit 2*6

Approx. **74.0** billion yen/year

5 Impact on interest expenses in the event interest rates fluctuate by 0.1%*7

Approx. **0.5** billion yen/year

6 Increase in income from electricity rates in the event electricity sales increase by 1% due to an increase in electrification rates*7

Approx. **10.0** billion yen/year

7 Damage costs*8 (Impact of the heavy rainfall disaster in July 2018)

Approx. **3.7** billion yen/year

8 Financial impact on raw materials due to decreasing water flow rates*8 (figures from FY2023)

Approx. **0.6** billion yen/ 1% water flow rate

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

The Group's measures for risks and opportunities

Decarbonization of energy sources ····· Power Generation Business p. 35 - p. 39

- Expanded use of carbon neutral power
  - Further introduction of renewable energy — Indicators and Targets A p. 33
    - ● Further introduction of hydroelectric, solar, and wind power ● Initiatives for the biomass power generation business
  - Utilize nuclear power generation while making safety the top priority — Indicators and Targets B p. 33
    - ● Initiatives for the early commencement of operations at Shimane Unit 2 and 3
    - ● Roll out of various measures aimed at further improvement of safety ● Development of new location in Kaminoseki
- Transitioning of thermal power generation — Indicators and Targets C p. 33
  - ● Fade out of inefficient coal-fired thermal power ● Launch of state-of-the-art Misumi Unit 2, expansion of biomass mixed-fuel combustion
  - ● Promotion of the Osaki CoolGen Project ● Examination and preparation of hydrogen/ammonia power generation

Expansion of International Business ····· Initiatives to Expand Our International Businesses p. 47, p. 48

- Increase projects with a focus on renewable energy

Construction of next-generation power networks ···· Power Transmission and Distribution Business p. 43, p. 44

- Install interconnection lines and trunk grids in line with national master plan
- Install local grids to make renewable energy the main source of power and to reinforce resilience

Promotion of intellectual property strategy ····· Intellectual Properties p. 53 - p. 55

- Acquire and use intellectual property in GX and other domains, and rebuild intellectual property portfolio

Use of ESG finance systems ····· Promotion of ESG finance p. 27

- Procure funds through transition-linked hybrid loans
- Formulate new framework for the use of diverse ESG finance systems

Proactive communication with stakeholders ····· Communication with Shareholders and Investors p. 79

- Appropriately disclose initiatives and enhance disclosed content

Propose solutions to cater to customers' decarbonization needs ····· Sales Business p. 40 - p. 42

- Ensuring renewable energy sources
- Energy services deployment
- Investigation of new businesses
- Response to community issues

Support for regional decarbonization p. 79, p. 80 — Indicators and Targets D p. 33

R&D on decarbonization ····· Carbon recycling technologies p. 38

- Steadily develop carbon recycling technologies

Improved resilience ····· Strengthening Resilience p. 44

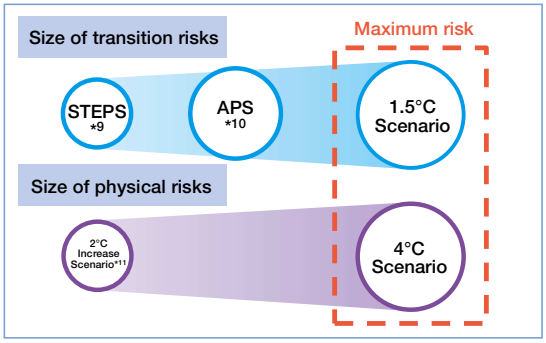
- Confirm safety of hydroelectric power facilities (dams, etc.)
- Implement flood countermeasures for substations, communication station buildings, etc. (elevation of existing equipment, watertight measures for buildings, etc.)
- Increase deployment of mobile substations

Effective use of water resources ····· Further introduction of renewable energy and improving adjustment capabilities p. 39

- Steadily implement countermeasures for decreasing water flow rates (decreasing hydroelectric power)

: Priority measures in the Basic Policy of Chugoku Electric Power Group Carbon Neutral Strategy

Both the 1.5°C Scenario and the 4°C Scenario have been set as the main scenarios in which climate change risks are at their maximum severity.
By working on measures that assume the main scenarios will come to fruition, we will be able to respond to both scenarios and engage in business with our resilience assured.
We believe that transition risks and opportunities are one and the same. Recognizing customers' changing awareness and needs as business opportunities, we will work to transform transition risks into opportunities through the initiatives outlined in "The Group's measures for risks and opportunities."



*1 In addition to evaluating current impact on our business, considerations have also been made based on priority initiatives. Note that these impact evaluations are not final, and may fluctuate based on external environmental changes such new national policies and energy circumstances.
*2 Demand response. A mechanism whereby holders of users' energy resources or third parties control these resources to change power demand patterns.
*3 Power purchase agreement.
*4 Technologies that solidify CO_2 so it can be reused in civil engineering materials and concrete (CO_2-TriCOM) and a technology that uses a bioprocess to generate high-value-added lipids from CO_2 (Gas-to-Lipids).
*5 Emissions calculated based on FY2023 achievements. For carbon prices, we have referred to the NZE Scenario and Advanced Economies (Net-zero Commitments) section from the IEA's World Energy Outlook 2022, basing the calculations on $140/t$CO_2$.
*6 Annual average for FY2024–2026. Includes electricity purchased from other companies.
*7 Calculated based on FY2023 achievements. Values are not definitive and fluctuate based on the achievements of the fiscal year used for calculation.
*8 Actual expenses as an indicator of future financial impact.
*9 A scenario in which the government's ambitious goals have not all been met. (From the IEA's World Energy Outlook 2022)
*10 A scenario in which the government's ambitious goals have all been met. (From the IEA's World Energy Outlook 2022)
*11 A scenario in which the 2°C target of the Paris Agreement is largely achieved. (From the Japan Meteorological Agency's Climate Change in Japan 2020)

Indicators and targets

GHG emissions across the supply chain

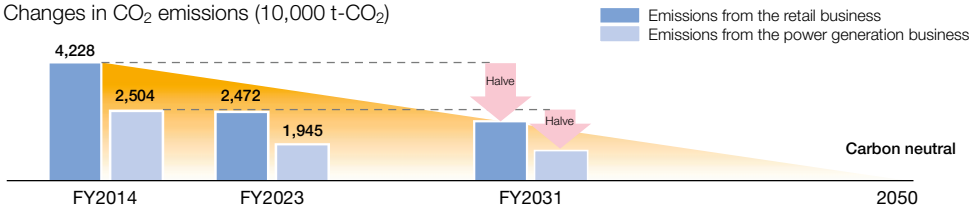
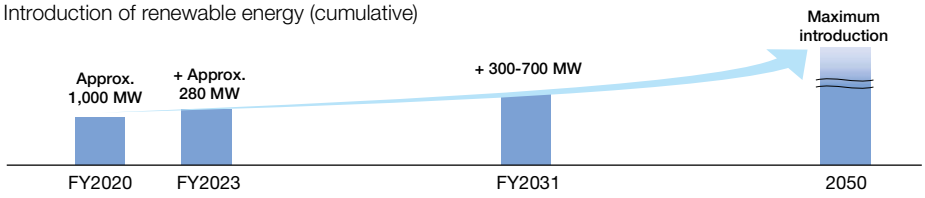
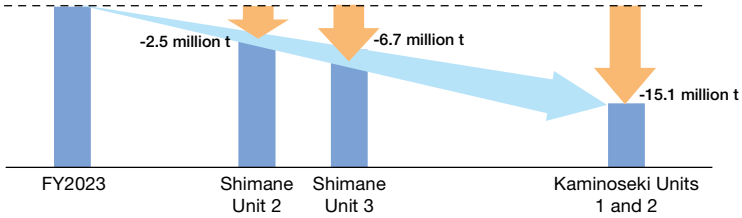
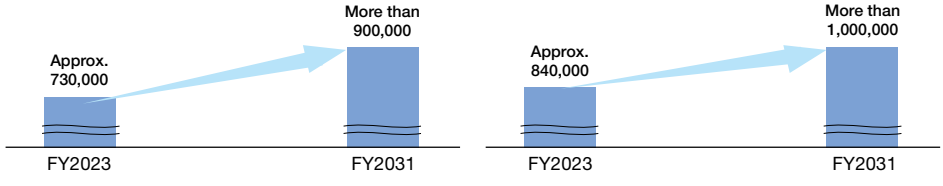
Non-financial (ESG) Data/Environment p. 98

Item	FY2022	FY2023
Scope 1 (Direct emissions of greenhouse gases by the business operator)	18.50 million t-CO_2	19.61 million t-CO_2
Scope 2 (Indirect emissions due to use of electricity supplied from other companies)	30 t-CO_2	40 t-CO_2
Scope 3 (Indirect emissions other than Scope 2)	10.88 million t-CO_2	13.00 million t-CO_2

Climate-related Targets

CO_2 Emissions Record p. 60 Transition Plan for Thermal Power Generation p. 26

Efforts to achieve carbon neutrality are in line with our Management Philosophy: Trust. Creation. Growth. With the achievement of our targets for FY2031 as the waypoint, we will strive to achieve Carbon Neutral 2050.

Indicator	Target
Reduction of CO_2 emissions	◆ Strive to be carbon neutral by 2050 ◆ Halve CO_2 emissions by FY2031 for both retail business and power generation business (compared to FY2014) Changes in CO_2 emissions (10,000 t-CO_2) 
Energy supply A Further introduction of renewable energy	◆ Between FY2021 and FY2031, newly introduce 300–700 MW of renewable energy ◆ Maximize introduction of renewable energy by 2050 Introduction of renewable energy (cumulative) 
Energy supply B Utilize nuclear power generation while making safety the top priority	◆ With safety assurance as the top priority, work toward early start and stable operation CO_2 emission suppressing effect due to operation of nuclear power stations (cumulative)*  *Assessed as an alternative power source to those with a CO_2 emissions factor of 0.545 kg-CO_2/kWh in FY2023
Energy supply C Transitioning of thermal power generation	◆ Pursue every option ahead of decarbonization by 2050 ◆ Prepare to implement hydrogen/ammonia power generation by 2030 ◆ Achievement of benchmark indicators*1 based on the Act on Rationalizing Energy Use by FY2031 ➢ Increase biomass mixed-fuel combustion rate, switch to mono-fuel combustion, and make use of IGFC+CCUS/carbon recycling, etc. ➢ Increase hydrogen/ammonia mixed-fuel combustion rate and switch to mono-fuel combustion · Accelerate examinations aimed at mixed combustion using 10% hydrogen and 20% ammonia by the 2030s
Energy demand D Propose solutions to cater to customers' decarbonization needs	◆ Develop services and deploy business contributing to decarbonization for the customer and community ◆ FY2031: More than 900,000 EcoCute units installed; more than one million all-electric home contracts Total no. of EcoCute units installed Total no. of all-electric home contracts 

Note: CO_2 emissions and CO_2 emissions factor for FY2023 are provisional values.