

The information shown below is an English translation of the “Keizai Sangyo Daijin kara no Gyomukaizenmeirei ni Kakaru Houkoku ni tsuite”, report on the order for business improvement from the Minister of Economy, Trade and Industry released on August 10, 2023.

\* The “Keizai Sangyo Daijin kara no Gyomukaizenmeirei ni Kakaru Houkoku ni tsuite” in Japanese is the official document. This English translation is prepared for convenience.

August 10, 2023

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Code: 9504 (Prime of Tokyo Stock Exchange)  
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#### Report on the Order for Business Improvement from the Minister of Economy, Trade and Industry

On July 14, 2023, Chugoku Electric received an order for business improvement from the Minister of Economy, Trade and Industry regarding the cease and desist order and surcharge payment order issued by the Japan Fair Trade Commission in accordance with the Japan Antimonopoly Act. (This matter was disclosed in the “Receipt of an Order for Business Improvement” on the same date.)

We are hereby notifying you that, in accordance with this order, Chugoku Electric has submitted a report on our plan to prevent recurrence and the status of our expansion outside the Chugoku region on August 10, 2023.

Chugoku Electric is currently working on measures to prevent recurrence, which were formulated in light of the series of inappropriate matters. As a new initiative in response to this order for business improvement, we have decided to establish an “Internal Control Enhancement Committee” by September of this year.

This committee will consist of three external experts – such as lawyers – and one head of a related internal division. Each member will evaluate (monitor) the effectiveness and implementation status of measures to prevent recurrence from their expert perspectives on “observing code of conduct and ensuring fair competition,” “proper handling of personal information,” “enhancing internal controls,” and “respect for consumer rights,” and submit reports to management as necessary regarding improvement.

The major initiatives of this committee are outlined below.

- Continuously ascertain the status and effectiveness of the activities of the Indirect Operations Management Division (second line) and the Internal Audit Division (third line), evaluate (monitor) their content, and advise these divisions on any need to review their activities.
- Submit reports to management on issues related to internal control, etc. that are identified while performing monitoring activities.

Chugoku Electric believes that these initiatives will allow us to accurately identify and promptly respond to changes in the business environment and enhance our company-wide internal control system.

We express our sincere apologies to our shareholders, customers, and all other relevant parties for the great deal of concern and inconvenience caused by this matter.

In order to ensure that such a situation never happens again, Chugoku Electric will comply thoroughly with laws and regulations and continue to steadily implement measures to prevent recurrence.

Attachment: Plan to Prevent Recurrence (Outline)

# **Plan to Prevent Recurrence (Outline)**

The Chugoku Electric Power Co., Inc.

August 10, 2023

# Introduction

Although we have promoted our business operations with the utmost priority on compliance since announcing the “Compliance Management Promotion Declaration” in June of 2007, we have created a situation that could impede fair and free competition in violation of the aims of the Japan Antimonopoly Act and the liberalization of the electricity market (hereinafter, “this matter”). We understand this to be an extremely serious matter, and we express our sincere apologies to customers and all relevant personnel for the great deal of concern or inconvenience caused by this matter.

In order to ensure that such a situation never happens again, Chugoku Electric will comply thoroughly with laws including the Japan Antimonopoly Act and regulations and continue to steadily implement measures to prevent recurrence.

# I . Outline of this matter

In March 2023, Chugoku Electric received the cease and desist order and surcharge payment order in accordance with the Japan Antimonopoly Act from the Japan Fair Trade Commission.

Because the Commission came to conclusion that Chugoku Electric had violated the Article 3 of the Japan Antimonopoly Act (prohibited unreasonable restraint of trade) in connection with the retail supply of electricity (extra high voltage or high voltage) in relation to customers within the areas where the Kansai Electric Power CO., Inc. (hereinafter, "Kansai Electric") and Chugoku Electric had supplied electricity prior to the full liberalization of retail electric power sales and the bidding of governmental and municipal offices in the Chugoku region.

In this matter, it is our position that the following points contain aspects that can be considered possible infringements on the Japan Antimonopoly Act.

- ✓ Since Kansai Electric contacted us around November 2017 informing us that they would begin sales activities in the Chugoku area, there were inappropriate things during multiple exchanges of opinions and information gathering activities on sales activities held together with Kansai Electric.
- ✓ As the said information was reported to and shared with the relevant company management and organizations, but it was not seen as problematic within our company, and nobody attempted to correct it.
- ✓ Furthermore, with this being the case, inappropriate requests were made of Kansai Electric from us in bids (a total of five bids) regarding electric power at governmental and municipal office facilities in part of the Chugoku region including outside of the period recognized by the Commission as unreasonable restraint of trade.

With regard to this matter, on July 14, 2023, we received an order for business improvement based on Article 2-17, Paragraph 1 of the Electricity Business Act from the Minister of Economy, Trade and Industry.

## II . Cause of Occurrence

We consider the following to be the causes of these problems.

- ✓ Before the liberalization of the electricity market, the former general electricity retailers had a cooperative relationship with one another, including broadly sharing information related to the general electricity business, mainly in order to achieve the common goal of stably supplying electric power.
- ✓ There was not a sufficient change in the awareness of officers and employees regarding the importance of fair and free competition after the liberalization of the electricity market.
- ✓ Officers and employees did not have a sufficient understanding of the "unreasonable restraint of trade" regulated by the Japan Antimonopoly Act.

As a common background to all of the above, we believe that we should also reflect on the fact that we have not completely shed our conventional thinking based on a monopoly of the supply of electricity, and as a result, we failed to realize that our actions and thinking might be divergent from the way they are perceived by society in general.

### III. Issues to be Addressed in Response to This Case

In order to prevent this situation from repeating itself, we recognize that the following issues need to be addressed both in terms of governance and business operations. From this perspective, we have developed a plan to prevent recurrence.

- ✓ Form an appropriate relationship with former General Electricity Utilities based on the purpose of the liberalization of electric power.
- ✓ Raise awareness among officers and employees regarding the importance of fair and free competition.
- ✓ Spread understanding of the Japan Antimonopoly Act, and of the "unreasonable restraint of trade" in particular, among officers and employees.
- ✓ Create a corporate culture for recognizing problems as problems, speaking out proactively against them, and correcting them.
- ✓ Enhance the supervisory function of the Board of Directors and ensure a system of checks and balances on the actions of management and others.

## IV. Major Measures to Prevent Recurrence (1/2)

1. Improving objectivity and transparency in our management provided by external directors

(1) Increasing the number of external directors (Already implemented in June, 2023)

(2) Selecting the chair of the Nomination Committee and Compensation Committee from external directors (Already implemented in February and March, 2023)

2. Enhancing our structure for strictly observing competition laws in our business operations

\* New items are highlighted in yellow.

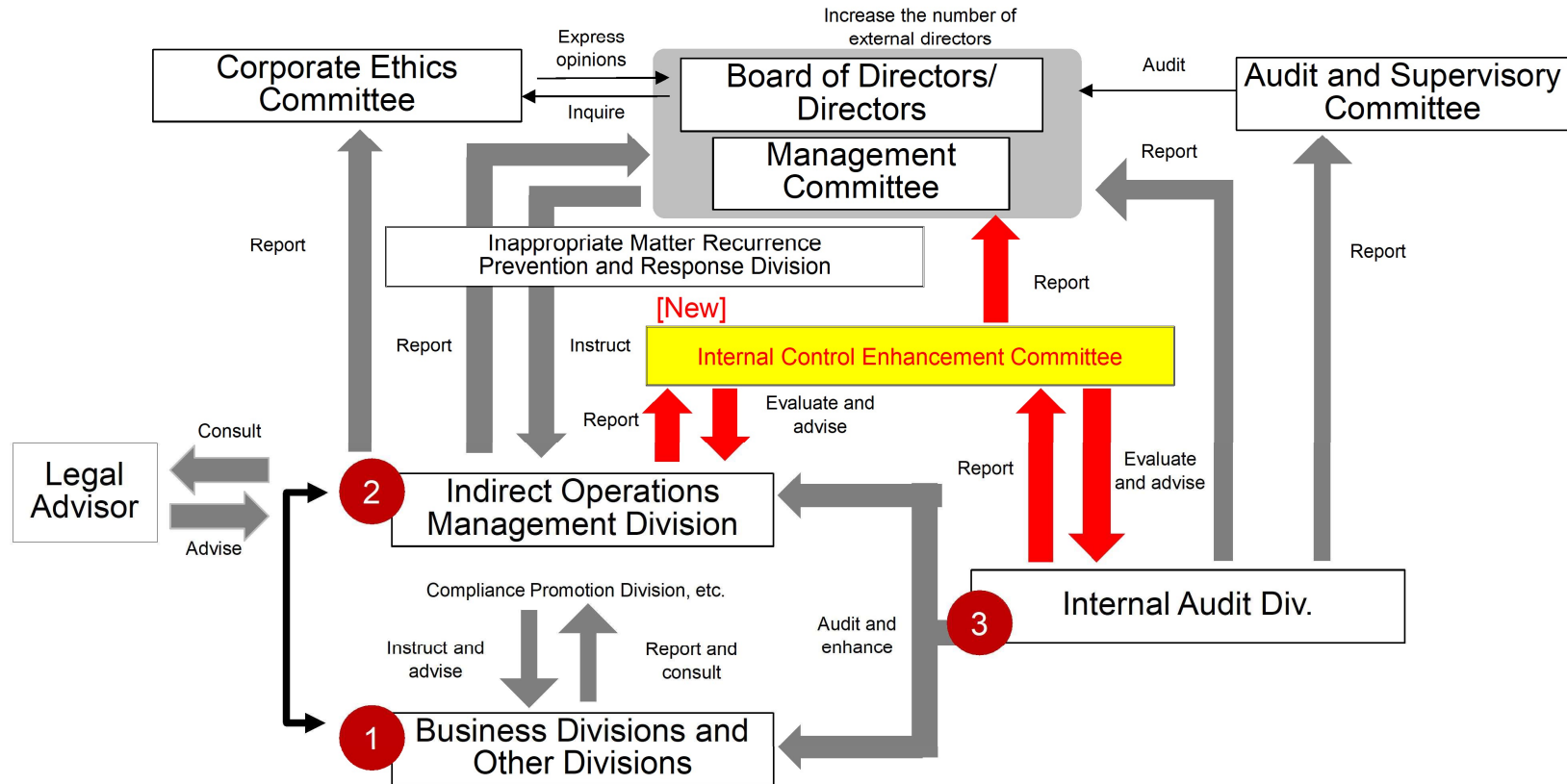
\* FY2023 is used to denote the year ended March 31, 2023 and will be followed accordingly.

Item	Outline	Timing
Arranging systematic in-house rules for strict observance of competition laws	Establishment of rules on strictly observing competition laws	February 2023
	Establishment and enhancement of rules on contact with other companies in the same industry for Energy Sales Div. and Corporate Planning Div.	September 2021 February 2023
	Review and thorough notification of the manual on strict observation of the Japan Antimonopoly Act	January 2023
Inspecting the observation status of laws and regulations	Addition of items regarding strict observation of the Japan Antimonopoly Act and a check on the observance status of laws, regulations, and the like related to business operations during the business operations inspection by the affiliated superior	Starting from FY 2023
Enhancing internal audits	Periodic audits by Internal Audit Div. regarding the strict observance of the Japan Antimonopoly Act	Starting from FY 2024
	Utilization of outside lawyers to plan and conduct internal audits	Starting from FY 2024
	Monitoring by the Audit and Supervisory Committee and Internal Audit Div. of meetings dealing with competition-related issues	Starting from FY 2024
	Verification by the Corporate Ethics Committee of the implementation status of measures to prevent recurrence	Starting from FY 2024

## IV. Major Measures to Prevent Recurrence (2/2)

Item	Outline	Timing
Utilizing the internal reporting system	Promotion for the utilization of the internal reporting desks by active notification	March 2023
	Introduction of an internal leniency system and notification of the system to employees	June 2023
	Seizure of opportunities for training and the dissemination of information, to notify employees on thorough consultation with the legal affairs division for matters related to competition laws	As needed
Implementing training and education related to compliance with laws and regulations (Ensuring effectiveness by monitoring the status of participation)	Implementation of periodic training on the Japan Antimonopoly Act for management and employees engaged in retail sales activities, etc.	Starting from August 2021
	Implementation of periodic training for all employees (utilizing compliance-strengthening month in November)	Starting from FY 2024
Clarifying and documenting actions required of officers and employees	Repeated notification to officers and employees regarding thoroughly implementing business operations with the utmost priority on compliance(Announce of president's message, etc.)	June 2021 March 2023
	Review of compliance guidelines to improve awareness for strict observance of the Japan Antimonopoly Act	March 2022
	Signing of a pledge to strictly observe the Japan Antimonopoly Act (officers, etc.)	Starting from FY 2024
Establishing a supervisory position for initiatives	Appointment of a director and executive officer in charge of corporate revitalization	March 2023
	Establishment of an emergency response headquarters (Inappropriate Matter Recurrence Prevention and Response Division) for analyzing root causes, establishing measures to prevent recurrence, and verifying the status of efforts	March 2023
	Establishment of the Corporate Revitalization Project to enhance the structure of Inappropriate Matter Recurrence Prevention and Response Division for Preventing the Recurrence of Inappropriate Incidents	May 2023
Enhancing the internal control system by incorporating external perspectives <b>[New]</b>	Establishment of an Internal Control Enhancement Committee made up of a majority of outside experts such as lawyers	Scheduled for September 2023

# Reference 1: Recurrence Prevention Promotion System



## [Internal Control Enhancement Committee]

Objective: Accurately identify and respond to changes in the management environment in order to enhance the company-wide internal control system by (1) continuously monitoring the implementation status and effectiveness of initiatives implemented by the Indirect Operations Management Division and Internal Audit Division (including the content of recurrence prevention measures) from an external perspective, and (2) providing advice to lead departments and submitting reports to management regarding evaluations and necessary revisions to the content of such initiatives.

Committee members: Three external experts (one of whom shall be the chairperson of the committee) and Chief Operating Officer of Compliance Promotion Div.

## Reference 2: Outline of the Order for Business Improvement from the Minister of Economy, Trade and Industry

1. Do not engage in cartels or similar conduct that would impede competition. Do not exchange information regarding electricity rates or sales policies with former General Electricity Utilities.
2. Establish an improvement plan, announce it to the public, and implement the plan. The improvement plan must include the following at minimum. (Submit report by August 10.)
  - (1) Conduct internal audits of the improvement plan on an ongoing basis. The implementation status and effectiveness of the plan must be continuously monitored and evaluated by an organizational body in which the majority of members are external personnel.
  - (2) Establish rules for contact with other Retail Electricity Utilities with which we have a competitive relationship.
  - (3) Establish a mechanism for monitoring meetings that deal with competition-related agendas within our company.
  - (4) With respect to ongoing training, ensure the effectiveness of such training by including officers and employees who have opportunities to come into contact with information related to sales activities, and by ascertaining the participation rate of this target group.
  - (5) Continuously inform employees of the internal leniency system and the internal reporting system.
3. Provide a written report on the status of sales expansion into areas outside the Chugoku region and matters perceived as obstacles to expanding sales outside of the Chugoku region in the future. (Submit report by August 10.)
4. Respond to requests from the Electricity and Gas Market Surveillance Commission or the Ministry of Economy, Trade and Industry for reports or explanations regarding the improvement plan and its implementation status, or of the status of supply into areas outside the Chugoku region and matters perceived as obstacles to expanding supply outside the Chugoku region.
5. Disclose the details and causes of incidents to the public, and strictly punish all persons involved.