

June 15, 2020

KEPCO's Response to Shareholder's Request to File an Action against its Current and Former Board Members and Audit Members

The Kansai Electric Power Co., Inc. (Code: 9503)

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Regarding the incident of our executives and employees receiving cash and gifts, etc. from the relevant person outside the Company (as below, we say "the incident"), the Company entrusted the independent external attorneys, who have no interest in KEPCO, received the result of the objective and rigid investigation, and considered whether or not to file the above action to pursue liability against Audit & Supervisory Board Members in sight of the investigation report by the Third-party Committee received on March 14, 2020 and the request from individual shareholders to file lawsuit.

1. Judgement for the liability action against current and former Board Members

Audit Members of the Company established the Director Liability Investigation Committee composed of independent external attorneys, who have no interest in KEPCO and received the investigation report on June 8, 2020. (Noticed on March 30, 2020 and June 8, 2020)

Audit Members decided whether or not to file the above action against Board Members today based on the investigation report above.

(a) Filing a liability action against Audit Members

Audit Members of the Company have decided to file a liability action against the below five former Board Members of the Company on the grounds that they breached their duty of care of a prudent manager in relation to the incident.

(Name of former Board Members)	(Claimed amount of damages)*
Makoto Yagi	1,936 million yen
Shigeki Iwane	1,936 million yen
Hideki Toyomatsu	1,936 million yen
Ryohei Shirai	1,936 million yen
Shosuke Mori	170 million yen

* All Board Members held responsible shall be jointly liable to pay the claimed amount up to the amount listed next to its name.

[2] Reason for not filing a liability action against certain current and former Board Members of the Company

Audit Members of the Company have decided for the below reasons not to file a liability action against nine (9) of the current and former Board Members of the Company that are subject to the request of the liability action, which leaves the five (5) former Board Members named in [1] as targets of the lawsuit.

(Current/Former Board Members exempted from legal action and reasons therefor)

Ikuo Morinaka

Mr. Morinaka did not breach his duty of care of a prudent manager because, by the time he was appointed as a Board Member in June 2019, the Company was already aware of the incident and promises to place orders, etc. were no longer being made in advance.

Tomio Inoue

Mr. Inoue did not breach his duty of care of a prudent manager because he was not involved in the decision to not publicly announce or report the results of internal investigations.

Yoshihiro Doi, Takashi Morimoto, Toyokazu Misono, Yasushi Sugimoto, Tomihiko Oishi, Kyoji Shimamoto and Koji Inada

These seven (7) Board Members did not breach their duty of care of a prudent manager because it was not unnatural for the Board Members who attended the study meeting to consider that the reported matters were already settled and it was unnecessary for them to work out appropriate measures.

A notice will be sent to the representative of the concerned shareholders, as per Art. 847-4 of the Companies Act, in regard to current and former Board Members that are exempted from legal action.

As the next step, the Company will file a lawsuit with the Osaka District Court to claim damages from the named former Board Members. (As provided for under the Companies Act, the Company will be represented by the Audit Members in lieu of the President.)

The Company will report the progress of this lawsuit where necessary.

2. Explanation of why liability actions will not be filed against current and former Audit Members

The Board of Directors at KEPCO requested attorneys from Kitahama Partners, an independent law firm with no conflict of interests in this case, to investigate the liability of the seven (7) current and former Audit Members (hereinafter the “Named Auditors”) for not reporting the incident to the Board of Directors.

The investigations found that the Named Auditors breached their duty of care of a prudent manager. However, on the other hand, our legal advisors who analyzed whether the Company should pursue legal actions against the Named Auditors are of the view that, in this case, opinions would be divided whether Named Auditors should be subject to breach of duty of a prudent manager.

Also, even if Named Auditors did breach their duty of care of a prudent manager, it may not be ascertainable whether or not damages were incurred as a direct result of that breach or the scope thereof, and it is inconceivable to seek any large amount of compensation from the Named Auditors. Also, even if damage claims were filed, the likely amount of any recovered monies would not outweigh the expenses required to pursue legal action. Along with that comes the demerit of allocating business resources to such lawsuit that could go on for a long time. Therefore, after considering the various impacts that pursuing this case in court could have on the future business

operations of the Company, the Board of Directors decided today that it is in the best interests of the Company not to file actions against the Named Auditors.

A notice will be sent to the representative of the concerned shareholders, as per Art. 847-4 of the Companies Act, in regards to this decision not to file a liability action against the Named Auditors.

Attachment 1: Overview of the Investigation regarding the Liability of Named Audit

Attachment 2: Overview of the Necessity to File a Liability lawsuit against Named Audit

Attachment 3: Circumstances regarding the Company's Delivery on the Requests from Shareholders to File a Lawsuit, etc.

Overview of the Investigation regarding the Liability of Named Audit

1. Purport of commissioned investigations

- Whether the Named Auditors are contractually liable for damages caused to the Company. If they are liable for damages, should the Company file a liability action against the Named Auditors?

2. Investigator

Toru Watanabe, Attorney of Kitahama Partners

*Concurrently, Mr. Watanabe delegated the investigation to Mr. Masahiro Maeda, Professor at the Kyoto University Graduate School of Law.

3. The person subject to the investigation

Current and former 7 audit members

Standing audit members (Current)

Yasuhiro Yashima, Yukishige Higuchi (Former), Yasuo Tamura

Outside audit members (Current)

Tsutomu Toichi, Fumio Otsubo (Former), Takaharu Doi, Hisako Makimura

4. Period of investigation

From March 30, 2020 to June 12, 2020

5. Overview of the investigation result

After conducting the investigation such as by reviewing the Investigation Report from the Third-Party Committee and other documentations, and directly interviewing the Named Auditors, the delegated investigators ascertained the following:

(1) History of facts

- In October 2018, the standing auditors received from the managing director in charge of compliance, etc., a report on the series of measures taken by the Board Members of the Company against the issue of receipt of monies and gifts. Such report covered measures taken from and after the incident was revealed by a tax audit.
- The standing auditors judged that they were not required to report the incident to the Board of Directors because the matter did not qualify as “grossly improper facts” given that the concerned executives and employees had already returned most of the received monies and gifts, did not recognize the monies and gifts as favors for placing orders with select businesses, the process in which orders were placed did not violate corporate rules, and other reasons.
- The outside auditors, as well, did not state opinions that the incident should be reported to the Board of Directors. As a result, at the Board of Auditors meeting held in November that same year, it was confirmed that all of the Named Auditors shared the same opinion.

(2) Breach of duty of care of a prudent manager

In light of the amount of money and gifts and the number of persons who received monies and gifts in this incident, it is recognized that there was “grossly improper facts” in the acts of Board Members and therefore, the Named Auditors breached their duty of care of a prudent manager for not reporting such incident to the Board of Directors.

(3) Damage for which compensation must be paid by the Named Auditors

Damage for which the Named Auditors have obligations to compensate are limited to damage that has reasonable causal relationship with the Named Auditors’ breach of their reporting duties. Compared to cases where Audit Members did not prevent illegal acts of executives, it is hard to determine in this case whether damage incurred and (if incurred) the amount of damages. Therefore, seeking large sums of compensation is unimaginable in this case. Moreover, while

the cost required to investigate the liability of the Named Auditors would likely be considered as cost incurred due to the Named Auditors' failure to report the matter, the cost of commissioning the Third-Party Committee and damages due to lost credibility cannot be considered within the scope of damages that Named Auditors have obligations to compensate.

(4) Decision on whether to file a liability action against the Named Auditors

- Board Members have broad “discretion” on the issue of filing a liability action against the Named Auditors, and may opt not to pursue legal action if it would not be in the best interests of the Company.
- Although [1] the probability of winning this case is high and [2] there is a strong possibility that the court would allow the Company to collect owed debts, after taking into consideration the legal costs of the action and the impact that the action would have on the Company's credibility, it is very likely that [3] the benefits will not outweigh the costs, as the money that can expectedly be recovered by pursuing legal action will not exceed the projected costs of going to trial, etc.
- If the current Board Members were to decide, based on reasonable information, not to pursue legal action because the expected benefits would not outweigh the costs, the decision not to file claims would not, as long as the basis for that decision is not remarkably irrational, constitute a breach of duty of care of a prudent manager on the part of the current Board Members.

Overview of Analysis of the Need to Pursue Legal Action against the Named Auditors

1. Purport of commissioned analysis

- If the Board Members select not to file a liability action against the Named Auditors, would they be in breach of their duty of care of a prudent manager?

2. Investigator

Oh-Ebashi LPC & Partners (Law firm serving as legal advisors to the Company)
Hirohiko Ikeda, Attorney
Shinya Nochioka, Attorney

3. The person subject to the investigation

From May 27, 2020 to June 12, 2020

4. Overview of investigation result

After conducting the investigation such as by reviewing the Investigation Report from the Third-Party Committee and other documentations, and directly interviewing the Named Auditors, the delegated investigators ascertained the following:

- (1) Legal premises of whether or not the Board Members would be in breach of their duty of care of a prudent manager
 - In order to state that the Board Members are not in breach of their duty of care of a prudent manager, it is required:
 - 1) That the Board Members collected reasonable information for judging and deciding not to pursue legal action, and;
 - 2) That there was nothing irrational in the process or details that the Board Members used to make the judgment and decision not to pursue legal action.
- (2) On the issue of whether or not the Board of Directors collected reasonable information for judging and deciding not to pursue legal action
 - The Board Members collected information by hiring legal experts (attorneys and law professors) to investigate the facts and conduct a legal analysis, and, since there is no reason to doubt the credibility and reliability of the investigation results of the hired experts, the evaluation can be made that the collected information was reasonable.
- (3) On the issue of whether or not there was anything irrational in the process or details of the judgment and decision made by the Board Members.
 - It will be judged from the following perspectives of whether there was anything irrational in the process or details that the Board Members used to make that judgment and decision: [1] whether or not the probability of winning this case is high, [2] whether or not there is a strong possibility that the court would allow the Company to collect owed debts, and [3] whether or not the money that is expected to be recovered by pursuing legal action will outweigh the projected costs of going to trial.
 - It is the opinion of the hired legal experts that, because the inaction of the Named Auditors will be recognized as a breach of duty of care of a prudent manager and because it is hard to think that the damages will amount to any sizable sum of money, [1] the probability of winning this case is high and [2] there is a strong possibility that the court would allow the Company to collect owed debts. Opinions would probably be divided whether Named Auditors are subject to breach of duty of a prudent manager, however, even if it were ruled that a breach was in fact committed, it would not be considered a serious breach of duty.
 - On the issue of [3] the money that is expected to be recovered by pursuing legal action will not outweigh the projected costs of going to trial, etc., it is very rational to decide not to pursue

legal action on the fact that expected benefits would not outweigh the costs when taking into consideration the legal costs of the action and the impact that the action would have on the Company's credibility.

- Based on the foregoing, there is nothing irrational in the process or details used by the Board Members in making its decision not to pursue legal action against the Named Auditors.

(4) Whether the Board Members would be in breach of their duty of care of a prudent manager

- As outlined above, because the Board Members collected reasonable information when judging and deciding not to pursue legal action, and there was nothing irrational in the process or details that it used to make that judgment and decision, the Board Members decision not to file a liability action against the Named Auditors will not constitute a breach of their duty of care of a prudent manager.

KEPCO's Response to Shareholder's Request to File an Action

