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Report Based on Paragraph 3 of Article 106 of the Electricity Business Act

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To Mr. Hiroshi Kajiyama
Minister of Economy, Trade and Industry

Takashi Morimoto, President and Director
The Kansai Electric Power Co., Inc.

Report Based on Paragraph 3 of Article 106 of the Electricity Business Act

While the Company were required to report the results of its investigation of facts and causes concerning the incident that executives and employees of the Company received a large amount of cash and gifts from a former deputy mayor of the town of Takahama, Fukui Prefecture and whether any other similar incidents have been identified or not based on Paragraph 3 of Article 106 of the Electricity Business Act (on September 27, 2019), the Company reports them as follows.

For the report, the Company set up a third-party committee (on October 9, 2019) and conducted an objective and thorough investigation to find out the facts and causes. Having received the investigation report from the third-party committee today, the Company makes a report as in the attached document.

The following report has been compiled by the Company based on its understanding of the Investigation Report of the third-party committee.

1. Facts on the incident that executives and employees of the Company received a large amount of cash and gifts from a former deputy mayor of the town of Takahama, Fukui Prefecture

(1) Receipt of cash and gifts

(a) Parties related to the power generation business ^(*1)

- A total of 75 executives and employees in the Nuclear Power Division, etc. ^(*2) received cash and gifts equivalent to approximately JPY 360 million in total ^(*2) from Mr. Moriyama and companies recognized as having a certain relationship with Mr. Moriyama (hereinafter referred to as “Business Partners, etc.”).
- The receipt of cash and gifts began immediately following Mr. Moriyama’s retirement as deputy mayor of the town of Takahama in 1987 and it is recognized that the receipt ranged evenly over the 1990s, the 2000s and the 2010s.
- While executives and employees in key positions of the nuclear power sections mainly received cash and gifts, the recipients were wide ranging including executives and employees in the sections related to the placement of orders for commissioned works.
- After the Great East Japan Earthquake, the number of the executives and employees who received cash and gifts and the amount of the cash and gifts received both increased significantly at the same time with the increase in the number of placements of orders for works at the nuclear power plant in response to the new regulatory standards imposed on nuclear power plants.
- While the amount of cash and gifts received each time was several tens to several hundreds of thousands yen for many persons, some executives of the Nuclear Power Division sometimes received a substantially high amount of cash and gifts equivalent to 5 to 10 million yen and the total amount received also reached several tens of millions yen to more than 100 million yen.
- Many of the executives and employees who received cash and gifts from Mr. Moriyama and others purchased items worth a similar amount to the cash and gifts received and then gave the items to Mr. Moriyama to repay the amount equivalent to the cash and gifts.
- Business Partners, etc. sometimes provided the cash and gifts directly although it was not very often, and it is recognized that those companies funded them.
- Also, in the cases where Mr. Moriyama provided cash and gifts, he received a large amount of money in the name of such as remunerations from part of the Business Partners, etc. and it is likely more factual to consider those remunerations to be part of the funds.
- It is recognized that the main purpose of Mr. Moriyama’s provision of cash and gifts was to maintain the mechanism for his obtaining financial benefits from Business Partners, etc., by causing Kepco to issue work orders to those companies in which he was involved or with which he had relationships in return for such provision of cash and gifts.

^(*1) “Parties related to the power generation business” include the Kyoto Branch and subsidiaries of Kepco that are closely involved in this incident, in addition to the Nuclear Power Division.

^(*2) Five recipients and the amount of receipt of 4.8 million yen listed in the “parties related to the general transmission and distribution business” are included.

(b) Parties related to the general transmission and distribution business

- A total of five executives and employees of the Power System Engineering Center (formerly the Central Transmission and Distribution Construction Office until the reorganization in June 2003) received cash and gifts equivalent to 4.8 million yen in total from Mr. Moriyama.

- In the late 1990s, Mr. Moriyama made a request to visit some executive of the Central Transmission and Distribution Construction Office for greeting through an officer of Kepco. In the meeting, the executive received cash and gifts equivalent to 500,000 yen from an officer of a Business Partner, etc. who also attended the meeting when Mr. Moriyama gave the signal.
 - After that, when executives of the Central Transmission and Distribution Construction Office met Mr. Moriyama for an inaugural address, explanation of the outline of commissioned works and other purposes, they sometimes received cash and gifts equivalent to several hundreds of thousands yen to 1 million yen.
- (c) Parties related to the retail electricity business
- No continuous receipt of cash and gifts from Mr. Moriyama or the Business Partners, etc. beyond the social courtesy was identified.
- (2) Placement of orders for commissioned works
- (a) Parties related to the power generation business
- There were also cases where executives and employees of Kepco promised to issue orders for individual works as well as works conforming to the planned order amount, to Mr. Moriyama and in some cases actually placed orders as promised. In other cases, information on present or future works (such as the project name and estimated amount of orders for work) were provided. (hereinafter collectively referred to as “Advance Promises to Issue Work Orders”)
 - Advance Promises to Issue Work Orders compromise the appropriateness and transparency of Kepco’s order placement process in the items where orders are placed on nominated contractors, and may eventually undermine the Company’s interests as well. On the other hand, the order amounts in the items where orders are placed on nominated contractors did not come to be recognized to be unreasonable in the investigation.
 - In the items where orders were placed through competitive biddings, those which received information on current or future works had advantages and order placement through competitive biddings eventually became inappropriate. There is also a possibility that order placement through competitive biddings partly lost substance.
- (b) Parties related to the general transmission and distribution business
- Executives and employees of Kepco made Advance Promises to Issue Work Orders and also promised to raise the amounts of the orders placed by the main contractors on Business Partners, etc. from the initial amounts at the demand of Mr. Moriyama. Such an act compromises the appropriateness and transparency of Kepco’s order placement process and may eventually undermine the Company’s interests as well. On the other hand, the order amounts did not come to be recognized to be unreasonable in the investigation.
- (c) Parties related to the retail electricity business
- No particular facts were recognized as problems.
- (3) Responses after detection of this incident
- Until the Taxation Bureau started a tax examination of one of the Business Partners, etc., Kepco did not respond to this incident in an organized manner or make discussions on it as a company.
 - In response to the questioning of executives and employees of Kepco by Kanazawa Regional Taxation Bureau, Kepco decided to conduct an internal investigation in February 2018, set up the Internal Investigation Committee in June and prepared the Internal Investigation Report in September.
 - Kepco’s Chairman of the Board of Directors and President consulted with the Corporate Advisors

but did not report the incident to the Board of Directors or individual directors including external directors.

- When about two months passed from the completion of the final report to Kanazawa Regional Taxation Bureau, executives reported to Audit & Supervisory Board Members of Kepco.
- The Audit & Supervisory Board Members did not report this incident to the Board of Directors.
- The Board of Directors did not discuss whether it was necessary/appropriate to announce this incident in public or not and eventually made no announcement on it.
- Without the provision of information or explicit discussion on those who received the cash and gifts, shareholders and directors approved proposals to elect them as directors.
- While some of those who received the cash and gifts submitted revised tax returns on the cash and gifts received, the Chairman of the Board of Directors and the President consulted with the Corporate Advisors and decided to compensate for the additional tax burdens.

2. Results of the investigation into the causes by the Company

(1) Causes of the acts to receive cash and gifts and place orders

- Kepco's executives/employees involved in the Incident lacked the awareness that priority should not be given to business performance and business activities over compliance
- Kepco's management lacked the decisiveness with courage to tackle the Incident in a straightforward manner and correct it.
- Nontransparent and incorrect "local orientedness" justified problematic behaviors.
- The Nuclear Power Division was self-closed and governance over the division was insufficient.

(2) Causes of the problems after detection of this incident

- The organizations that constitute the governance system that should watch and correct dishonest acts and scandals, or their members, did not fulfill their responsibility or have a perspective on how society and customers will see this incident.

(3) Introverted corporate culture disseminated across Kepco (i.e., lack of user-orientedness and disregard of transparency)

- The fundamental problem was the introverted corporate culture that prioritizes business activities over compliance and lacks the viewpoint of users and the general public.

3. Whether any other similar incidents have been identified or not

Except for the sections and subsidiaries included in the sections at the time when the cash and gifts were received listed in 4-1-2-2 of the document attached to the Investigation Report^(*3), the continuous receipt of cash and gifts from Mr. Moriyama or the Business Partners, etc. beyond the social courtesy or any similar case of the receipt of cash and gifts that presents a problem for compliance was not identified in other sections of Kepco (including, but not limited to, Thermal Power Division and Hydropower Division) or its subsidiaries.

(*3) Please note that the document is not translated into English. If you would like to see the detail of the sections and subsidiaries, please refer the Investigation Report in Japanese version.