

April 12, 2023

**Report on Collection of Reports from the Electricity and Gas Market Surveillance
Commission**

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

6-16 Nakanoshima 3-chome, Kita-ku, Osaka

(URL <https://www.kepco.co.jp/>)

Company Representative: Nozomu Mori, Director, Representative Executive Officer, President

Contact: Takahiro Uenishi, Senior General Manager, Office of Accounting and Finance

Tel: 050-7105-9084

We were acknowledged by the Fair Trade Commission on March 30, 2023 that with respect to the transactions of special high voltage electric power and high voltage electric power there had been acts against Article 3 of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (hereinafter, the Acts), which prohibits unreasonable restriction of trade.

We received the collection of reports on the status of operation of retail electricity business from the Electricity and Gas Market Surveillance Commission, and report it to the said commission today.

In this report, we put together facts, measures to comply with Act on Prohibition of Private Monopolization and Maintenance of Fair Trade, etc. based on facts acknowledged by the Fair Trade Commission and internal investigation by an outside lawyer, in light of advice and guidance by the Compliance Committee.

We consider the following issues as major causes brought about the Acts:

- Shortage of awareness of business rules after policy shift to electric power liberalization;
- Insubstantial awareness of legal compliance;
- Shortage of knowledge and understanding of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade; and
- Shortage and malfunction of checking functions to acts of top management.

We have already implemented measures to prevent recurrence against the above causes. In addition, we will add new initiatives to the ongoing measures to prevent recurrence and throughout adhere to them.

We will throughout adhere to measures to prevent recurrence based on our firm determination and work to nurture corporate culture with an emphasis on compliance, so as not to bring about these situations again. Through these initiatives, we will devote ourselves to recover trust from the general public.

Overview of the Report to the Electricity and Gas Market Surveillance Commission

April 12, 2023

The Kansai Electric Power Company, Incorporated



Fact Finding and Actual Facts (Background and Events Leading to the Incident)

[Fact finding]

- The Company does not contest the fact-finding by the Japan Fair Trade Commission.

*Only the actions of the Company will be stated.

[Actual facts (background and events leading to the incident)*]

(Expansion outside of our traditional supply area)

- In conjunction with the suspension of nuclear power plants following the Great East Japan Earthquake, electricity prices were individually raised in April 2013 and April 2015.
- The revision of sales strategies was considered from around spring 2017. From around the autumn of 2017, we commenced sales activities (*) to customers under the supply areas of Chubu Electric Power Co., Inc. (“Chubu Electric Power”), The Chugoku Electric Power Co., Inc. (“Chugoku Electric Power”), and Kyushu Electric Power Company, Inc. (“Kyushu Electric Power”).
*We established new sales hubs in the areas under Chubu Electric Power and Chugoku Electric Power and engaged in door-to-door sales, among others. We did not establish a sales hub in Kyushu Electric Power’s area but participated in the bids by the public offices .
- We communicated our policy of expanding into the areas under the jurisdiction of Chubu Electric Power, Chugoku Electric Power, and Kyushu Electric Power to each power company.

(Results of expansion outside of our traditional supply area and issues)

- Although electricity sales volume increased, the power companies of the other supply areas expanded into our supply area and our sales prices declined.

(Consideration of the policy for sales activities outside of our traditional supply area , etc.)

- From around the summer to autumn of 2018, we considered our sales strategies outside of our traditional supply area.
- Around the autumn of 2018, we decided the following regarding our sales policy outside of our traditional supply area, and confirmed that we would communicate the policy to the other electric power companies. We also decided on a policy to set a lower limit on the sales unit price.
 - Chubu Electric Power area: Suspend sales activities to extra-high voltage/high voltage and large scale users, and continue sales activities only to high voltage and small scale users.
 - Chugoku Electric Power area: Refrain from proactive activities and only engage in activities to maintain demand and passive responses.
 - Kyushu Electric Power area: Forgo the establishment of new sale hubs
- We decided to change our sales policy, and upon making this policy widely known throughout the Company, engaged in sales activities based on the revised sales policy.

[Details* communicated to Chubu Electric Power]

*Only the actions of the Company will be stated.

- Around Nov. 2017, an executive of our corporate planning division notified Chubu Electric Power that we would commence sales activities in its supply area.
- On Nov. 2, 2018, an executive of our sales division communicated to Chubu Electric Power our sales policy outside our traditional supply area, including (i) the suspension of sales activities to extra-high voltage/high voltage and large scale users and continuation of sales activities only to high voltage and small scale users in the Chubu Electric Power area, (ii) participation in bidding for public offices and engagement in projects referred from alliance partners only upon setting a lower limit (*), (iii) refraining from increasing manpower at the sale hubs within the Chubu Electric Power area, and the allocation of current manpower to sales activities to high voltage and small scale users.
- From Nov. 2018, an executive of our sales division and managerial positions of our corporate planning and sales divisions inquired multiple times that Chubu Electric Power had understood the contents that had been communicated.

[Details* communicated to Chugoku Electric Power]

- Around Nov. 2017, an executive of our corporate planning division notified Chugoku Electric Power that we would commence sales activities in its supply area.
- On Nov. 8, 2018, an executive and managerial positions of our corporate planning division communicated to Chugoku Electric Power (i) our down-sizing of the sales structure in its supply area, (ii) the timing at which sales activities would be revised, and (iii) with regard to bidding, only bids higher than JPEX prices would be made, bids smaller than 300,000 kWh per year would be excluded, and the possibility of reducing our bidding to about one-third of our current bidding.
- Subsequently, managerial positions of our corporate planning division inquired that Chugoku Electric Power had understood the contents that had been communicated.

[Details* communicated to Kyushu Electric Power]

- Around Dec. 2017, an executive of our corporate planning division notified Kyushu Electric Power that we would commence sales activities in its supply area.
- From Oct. 12, 2018, an executive and managerial positions of our corporate planning division communicated multiple times that (i) we will avoid price competition with no regard for profit, (ii) we will not establish a sales hub in its area, (iii) we had set a new lower limit (*) to avoid sales activities below the JPEX price, which would not be economically viable, and (iv) accordingly, there would no longer be sales at low prices as before in all areas.
- Around Dec. 2018, managerial positions of our corporate planning division inquired that Kyushu Electric Power had understood the contents that had been communicated.

*The lowest levels that can be proposed when indicating quotes to customers.

(The beginning)

- Around the autumn of 2020, the Company received information from a third party that we might be engaged in actions that may be problematic in light of the Antimonopoly Act.
- We engaged an outside law firm to conduct an overall investigation and immediately started an internal investigation (the “Investigation”).

(Application under the Leniency Program)

- As a result of the Investigation, an action that was thought to fall under the Antimonopoly Act violation was found between the Company and Chubu Electric Power, Chugoku Electric Power, and Kyushu Electric Power individually.
- After Oct. 29, 2020, the Company made an application to the Japan Fair Trade Commission under the Leniency Program regarding the Antimonopoly Act violation between the Company and Chubu Electric Power, Chugoku Electric Power, and Kyushu Electric Power individually.

The causes of the incident

| | |
|-----------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Shortage of awareness of business rules after policy shift to liberalization of the electricity market | (1) Failure to raise awareness of the paradigm shift in competition policies of the energy industry |
| | (2) Insufficient awareness of the competition rules among the Former General Electricity Utilities that operate in a common business environment |
| | (3) The multiple opportunities for contact among persons with close personal connections among the Former General Electricity Utilities |
| 2. Insubstantial awareness of legal compliance | |
| 3. Shortage of knowledge and understanding of Antimonopoly Act | |
| 4. Shortage and malfunction of checking functions to acts of senior management | (1) Lack of checking system from a legal perspective in the decision-making process of senior management |
| | (2) Not enough effective auditing |
| | (3) A top-down culture leaving things to others that hindered checking functions |



Measures to prevent recurrences

| | | |
|------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| 1) Declaration of achievement of fair competition and an end to Antimonopoly Act violations by senior management | | <New initiative> |
| ➤ | Appropriate business operations based on energy liberalization policies should be the backbone of management | |
| ➤ | Put an end to Antimonopoly Act violations including unreasonable restraint of trade and engage in fair competition | |
| 2) Rebuilding a system that complies with competition policies (Antimonopoly Act) | | <Added new initiatives> |
| (1) | Develop internal rules, etc. to encourage compliance with the Antimonopoly Act | ⇒P.5 |
| (2) | Improve internal education and training, etc. to promote understanding of the Antimonopoly Act and re-instill awareness of compliance | ⇒P.6 |
| (3) | Strengthen prevention functions as indirect support for the prevention of the violation of the Antimonopoly Act | ⇒P.7 |
| (4) | Strengthen auditing functions | ⇒P.8 |

* With regard to measures to prevent recurrences, we will consider additions, as necessary.

Causes and Measures to Prevent Recurrences (1) Development of Internal Rules, etc.

The causes of the incident

- Although it was understood on a superficial level that the Former General Electricity Utilities were in competition with each other, in many areas they were in egalitarian relationships where their advantages and disadvantages coincided, giving rise to a sense that they were “basically cooperative partners.”
- Despite the frequent contacts among persons with close personal connections built over the years through various opportunities including industrial meetings, etc., there were no concrete restrictions or methods for risk control.

Measures to prevent recurrences

(* Measures that are already implemented or continue to be implemented going forward)

(1) Development of internal rules, etc.

- 1) **Enact and enforce rules on compliance with the Antimonopoly Act** (*)
 - Materialize and clarify prohibitions on acts leading to Antimonopoly Act violations.
 - Adopt strict rules on contact with competitors.
 - Adopt procedures to be followed for controlling the risk of Antimonopoly Act violations and for the early detection of its violations.
- 2) **Conduct monitoring of the compliance status with such rules** (*)
 - Continuously confirm in a timely and appropriate manner that rules are being properly enforced.
- 3) **Develop an internal leniency program** <New initiative>
 - Develop a system where leniency is considered in the final disciplinary actions, if an employee who engaged in an Antimonopoly Act violation proactively reports the fact of the violation.
 - Promote the early detection and prompt correction of Antimonopoly Act violations.
- 4) **Roll out rules on compliance with the Antimonopoly Act to affiliates** (*)
 - Explain the content of the rules on compliance with the Antimonopoly Act to all Group companies. Confirm the status of initiatives toward compliance with the Antimonopoly Act of each company. Receive consultations and provide individual instruction and advice.

The causes of the incident

- There is a lack of knowledge and understanding of the Antimonopoly Act among many of the executives and employees including senior management, and a culture was not in place conducive to consultations with our legal affairs division and outside experts and whistleblowing.
- There was misguided awareness that activities by our corporate planning divisions would not lead to or had very little risk of infringements of the Antimonopoly Act.
- Solving business problems was prioritized over compliance backed by a self-serving interpretation based on a misunderstanding of the Antimonopoly Act.
- A culture allowing for a free and vigorous exchange of opinions and consultations was lacking.
- There was an attitude of leaving compliance and abidance of the Antimonopoly Act to others and little sense of ownership.

Measures to prevent recurrences

(*) Measures that are already implemented or continue to be implemented going forward

(2) Improve internal education and training

- 1) Conduct compliance training that goes beyond the top-down culture and the culture of leaving things to others. **<New initiative>**
- 2) Conduct training for compliance with competition policies (Antimonopoly Act) for all employees including senior management. (*)
 - Conduct training for executives on compliance with competition policies (Antimonopoly Act).
 - Expand and improve training on the Antimonopoly Act by outside lawyers for our divisions other than our sales division (Provide accurate knowledge to our divisions with a potentially high risk of Antimonopoly Act violations).
 - Conduct e-learning for all employees on competition policies (Antimonopoly Act).
 - Develop, improve and make widely known throughout the Company educational tools on compliance with competition policies (Antimonopoly Act).

The causes of the incident

- There is a lack of accurate knowledge and understanding of the Antimonopoly Act among many of the executives and employees including senior management, and a culture was not in place that was conducive to consultations with our legal affairs division and outside experts, and whistleblowing.
- As a result of the lack of checking system from a legal perspective in the decision-making process of senior management as well as the failure to conduct prior legal consultations and whistleblowing, acts in violation of the Antimonopoly Act could not be prevented and there was no system for early detection of such incidents.

Measures to prevent recurrences

(*) Measures that are already implemented or continue to be implemented going forward

(3) Strengthen prevention functions

- 1) **Make the utilization of legal consultations widely known throughout the Company and improve the consultation system** (*)
 - Encourage consultations with our in-house legal affairs division and the proactive utilization of specialized lawyers of the Antimonopoly Act through our legal affairs division.
- 2) **Make the utilization of the whistleblowing system widely known throughout the Company and strengthen and improve the system** (*)
 - Make the Compliance Hotline and the outside lawyer consultation desk widely known throughout the Company, and further strengthen and improve the system.
- 3) **Monitoring of important meetings by persons in charge of legal affairs**
 - Introduce a legally-driven checking system of meetings in which important management policies involving competition are handled from the standpoint of compliance with the Antimonopoly Act . **<New initiative>**

Causes and Measures to Prevent Recurrences (4) Strengthen Oversight Functions

The causes of the incident

- Checking functions on the activities of senior management were insufficient and incomplete.
- In 2014, an incident in which the Company as the commissioning entity engaged in acts that elicited and encouraged violations of the Antimonopoly Act occurred, and despite receiving demands for the prevention of recurrences of such incidents, ongoing checks on the prevention of acts in violation of the Antimonopoly Act have been insufficient.

Measures to prevent recurrences

(*) Measures that are already implemented or continue to be implemented going forward

1) Monitoring by outside lawyers (*)

- Since the start of the Investigation, outside lawyers have been investigating whether there are any acts that could lead to violations of the Antimonopoly Act. (No acts in violation were confirmed other than the acts recognized by the Japan Fair Trade Commission)

2) Conduct internal audits on the status of compliance with the Antimonopoly Act (*)

- The Office of Internal Auditing has been conducting audits on all divisions regarding the status of compliance with the Antimonopoly Act.

<New initiative>

3) Conduct periodic audits by third parties

- The Compliance Committee has commissioned third parties including outside lawyers to conduct periodic audits from the standpoint of compliance with the Antimonopoly Act.

<New initiative>

4) Conduct priority audits by the Audit Committee

- Conduct priority audits by Standing Audit Committee Members on the status of compliance with the Antimonopoly Act, the effectiveness of the measures to prevent recurrences, and other matters, as well as audits by Audit Committee Members with an outside perspective.

(4) Strengthen auditing functions