

Messages from the Outside Directors

Hiroshi Tomono

Director
Chairman of the
Audit Committee



A review and prospects for the future

Following the full liberalization of electricity retail markets in 2016, the power industry was in the midst of a period of great change. The Kansai Electric Power Group as a whole also upped its game and we concentrated our efforts on various initiatives. In the middle of that period, we brought about such problems as the cash/gift receiving scandal, which caused us to lose the trust of our customers and society, damaged our corporate value, and slowed down business transformation.

While analyzing the causes of those problems and devising countermeasures, we have formulated our business improvement plans. We at the Group have committed ourselves to swiftly implementing all the items outlined in the plans, and we have since devoted our energies to corporate governance reforms. The Board of Directors systematically set an agenda and freed itself from formal procedure, changing it significantly to a forum for discussion. In addition to the Nominating, Compensation, and Audit Committees, we appreciate the fact that the activities of the Compliance Committee have begun to get on track.

What we have tried to do with the Audit Committee, of which I have been appointed Chairman, is to make proper discussion our number one priority. The basis for proper discussion is objective information and to that end, it is also important for the Audit Committee and executive officers to communicate in a way that is beneficial. We are endeavoring to build close relationships that enable the unreserved expression of opinions, and with further effort and wisdom, I feel that we can expect to improve the quality of our auditing activities even further.

Our number two priority is the rearrangement of the organization, its functions, and how we work. In fiscal 2021, we focused on designing a system to enhance communication among accounting auditors, and we created a mechanism that maintains our rigorous collaboration with each other thanks to such an exchange of opinions. About two years have passed since the Audit Committee was established. Based on these experiences, I would like to aim for an even more refined structure.

Our number three priority concerns problems relating to the cash/gift receiving scandal and compensation paid to former officers for

their part-time engagements after retirement. Regarding our response to proceedings for damages filed by the Company against those former officers, we will listen carefully to the opinions of everyone involved and to make a fair decision.

In fiscal 2021, in addition to implementing our business improvement plans, we worked on improving the Group's growth and corporate value. I think that we have achieved definite results, and I feel that little by little, the wheels of this big organization are beginning to turn. As management, I will promote this action and give it momentum. This will create a buzz among all our employees, who will energetically share information and jointly contribute to our collective wisdom.

Expectations for the Kansai Electric Power Group

In order to further increase our capabilities as a corporate group, I have been emphasizing since my appointment that it is crucial to repeatedly convey the importance of compliance awareness and user viewpoints, so that they permeate every corner of our organizations.

In dialogue with employees, I sense that many of them have undergone a very positive change in their understanding of compliance awareness and user viewpoints.

Once employees understand the importance of these things, I think the key point is whether they are able to link their understanding with behavior. I believe that the role of middle management is vital for doing this. If middle management conveys this key point in line with the characteristics of the workplace and until employees on site are convinced, individual employees will gain a deeper understanding of the reality on the ground. This will change their behavior; the necessary information will make its way up to management; and managers will confront that reality to refine measures. This will then be conveyed to employees once more, thereby producing a virtuous cycle.

Progress is being made in establishing the structural aspects of our organizational culture, which a third-party committee identified as being an inward-looking corporate constitution. Particularly now, when a change in the culture has become apparent, the time is right for change in a very real sense, and it is important to take initiatives with action in mind.

At a time when a radical reexamination of energy strategy is inevitable due to the changing international situation, I expect the Kansai Electric Power Group to accomplish its growth strategy and become a leading company in energy business, while the Group assesses what kind of initiatives are needed and utilizes the wide-ranging expertise of outside directors, who are experts in various fields and form a powerful advisory group.

As I mentioned before, the wheels are beginning to turn. For those wheels to start turning more quickly, as a member of the Board of Directors, I, too, intend to do my utmost to help and to work alongside our employees.



Kazuko Takamatsu

Director
Member of the
Nominating Committee
Chairperson of the
Compensation Committee

A review of Compensation Committee initiatives and prospects for the future

In June 2020, with the Kansai Electric Power Company's shift to being a company with a nominating committee, etc., the legally mandated Compensation Committee was established and began its activities.

For the two years since then, we have undertaken repeated discussions focusing on the performance-based compensation system and the concept of setting indices and targets, and created a new mechanism.

Specifically, in addition to multiplying the indices for performance-based compensation to enable an assessment from various viewpoints of the extent to which officers have contributed, we have introduced ESG-related indices.

Moreover, based on reflection regarding compensation issues that were peculiar to the Company—for example, those relating to part-time engagements—and in order to make compensation for officers more transparent, we have begun to release information about specific calculation methods for compensation, as well as individual remuneration amounts for our inside directors.

As a result of the initiatives of the Compensation Committee over the past two years, I believe we have completed the establishment of the basic compensation system and secured its transparency.

As Chairperson of the Compensation Committee, I see the securing of transparency in relation to compensation as a basic premise, and I intend to do my best to build a compensation system that strikes a balance between our individual responsibilities and results.

Power company business, which has energy infrastructure at its heart, differs from business at the consumer electronics manufacturer where I worked previously, and is significantly affected by government policy and all kinds of regulations. Therefore, there are aspects in which it is hard for the results of initiatives by various officers and business divisions to be directly linked with financial indices such as sales and earnings.

At the same time, in addition to the introduction of the competition principle to electricity business following the full liberalization of electricity retail markets, our business structure is becoming more complex, as we have been multilaterally working on business other than the energy business, for example telecommunications and real estate. I believe such changes will accelerate even more in the future.

Due to these changes, the guidance of management will have a major influence on the performance of the corporate group. Alongside this, I think a varied compensation system will be sought in which the performance of officers is directly related to their compensation.

We have completed one round of establishing the basic compensation system, but going forward, from the point of view of officer incentives, we will continue to reexamine and improve the system, thereby enhancing the quality of our management.

Expectations for the Kansai Electric Power Group

At present, I feel there is a very strong mindset among those who work at the Kansai Electric Power Company that they must not make mistakes. Electric power is a crucial infrastructure that supports the everyday lives of the country's citizens, and I understand that such a culture is formed by the employees' sense that their mission is to provide a stable supply of electricity. This in itself is also, I believe, one of the strengths presented by the Company.

In the meantime, as mentioned above, the Kansai Electric Power Company must multilaterally tackle business besides energy business. Also, even in the energy business, I believe there will be an increasing number of areas—such as renewable energy and hydrogen—in which we should advance technological development and commercialization using approaches that differ from those of the past. In such an environment, we will need people who are determined to take on the challenge of areas they have yet to experience, and by cultivating an organizational culture that nurtures those types of personnel (one that tolerates diversity), I think we will become an even better company.

At Sony, where I used to work, there were many people who welcomed a challenge and the company had a positive view of them. There, even if you made a mistake, you could move on to the next challenge and you were given the chance to recover. That culture was so pervasive that anyone who had not experienced failure was less likely to be promoted to higher managerial positions.

If you see a situation in which you cannot recover from the failure of making even a single mistake, the work environment around you becomes so frightening that you can no longer try to achieve anything at all. I have found it to be invaluable that as far as possible, you are allowed to make minor mistakes while you are still young. Then you can accumulate the experiences of recovering from those mistakes and come to believe that making mistakes is not a problem.

Having this kind of culture take root in every corner of the organization, including in the field, will be tough and may take time. I believe the attitude of management is vital for achieving this.

Since the cash/gift receiving scandal, the Kansai Electric Power Company has formulated a new management philosophy and placed importance not just on compliance but on taking up challenges with the aim of reforming of its organizational culture. Compared with compliance, I feel the results of those efforts may still be limited.

As an outside director who has worked in an organization with a completely different culture from the power industry, and while utilizing this different viewpoint to provide help and advice, I anticipate even more powerful change in the Kansai Electric Power Group in the future.