

Consolidated Financial Statements

**The Chugoku Electric Power Company, Incorporated
and Consolidated Subsidiaries**

*Year ended March 31, 2020
with Independent Auditor's Report*

The Chugoku Electric Power Company, Incorporated
and Consolidated Subsidiaries

Consolidated Financial Statements

Year ended March 31, 2020

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Consolidated Balance Sheets

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
March 31, 2020 and 2019

Assets	Millions of yen		Thousands of U.S.dollars (Note 1)
	2020	2019	2020
Property, plant and equipment:			
Utility plant and equipment	¥5,595,225	¥5,641,325	\$51,332,346
Other plant	421,999	335,134	3,871,555
Construction in progress	1,017,143	939,359	9,331,587
Suspense account related to reprocessing of spent nuclear fuel	15,149	11,361	138,982
	7,049,517	6,927,181	64,674,471
Less			
Contributions in aid of construction	106,968	100,737	981,362
Accumulated depreciation	4,494,672	4,456,259	41,235,529
	4,601,641	4,556,996	42,216,892
Net property, plant and equipment (Note 10)	2,447,876	2,370,184	22,457,579
Nuclear fuel	141,949	159,103	1,302,292
Investments and other assets:			
Investment securities (Note 11 and 12)	57,083	60,396	523,703
Investments to non-consolidated subsidiaries and affiliated companies	137,228	133,196	1,258,980
Long-term loans to employees	51	59	475
Asset for retirement benefits (Note 18)	44,858	48,132	411,543
Deferred tax assets (Note 19)	60,487	81,652	554,935
Other assets	86,499	71,367	793,569
Total investments and other assets	386,209	394,804	3,543,207
Current assets:			
Cash and time deposits (Note 8 and 11)	67,401	111,459	618,358
Receivables, less allowance for doubtful accounts of ¥282 million (\$2,589 thousand) in 2020 and ¥288 million in 2019 (Note 11)	131,785	137,271	1,209,040
Inventories, fuel and supplies	56,639	58,592	519,629
Other current assets	33,512	30,248	307,453
Total current assets	289,338	337,572	2,654,482
Total assets	¥3,265,374	¥3,261,665	\$29,957,562

See Notes to Consolidated Financial Statements

Liabilities and Net Assets	Millions of yen		Thousands of U.S.dollars (Note 1)
	2020	2019	2020
Long-term liabilities:			
Long-term debt (Note 11 and 14)	¥1,908,538	¥1,803,187	\$17,509,528
Liability for retirement benefits (Note 18)	65,718	69,362	602,918
Retirement allowances for directors and corporate auditors	245	270	2,250
Asset retirement obligations (Note 20)	93,639	91,841	859,082
Other long-term liabilities	18,454	14,155	169,307
Total long-term liabilities	2,086,596	1,978,817	19,143,087
Current liabilities:			
Long-term debt due within one year (Note 11 and 14)	196,304	306,705	1,800,963
Short-term borrowings (Note 11)	67,195	67,645	616,467
Accounts payable (Note 11)	101,020	84,910	926,792
Accrued income taxes	8,151	385	74,781
Accrued expenses	67,818	79,722	622,192
Provision for loss on disaster	239	919	2,195
Allowance for bonuses to directors and corporate auditors	74	72	681
Other current liabilities, including other long-term liabilities due within one year	90,489	96,377	830,174
Total current liabilities	531,293	636,740	4,874,249
Reserve for fluctuation in water levels	786	1,170	7,212
Provision for depreciation of nuclear power plants (Note 5)	-	86,281	-
Contingent liabilities (Note 16)			
Net assets (Note 21):			
Common stock (Note 9) :	197,024	185,527	1,807,563
Authorized - 1,000,000,000 shares			
Issued - 387,154,692 shares in 2020 and 371,055,259 shares in 2019			
Capital surplus (Note 9)	28,544	17,048	261,874
Retained earnings (Note 23)	455,867	384,711	4,182,272
Treasury stock (26,825,139 shares in 2020 and 26,813,562 shares in 2019)	(38,791)	(38,775)	(355,889)
Total stockholders' equity	642,644	548,512	5,895,821
Net unrealized holding gains (losses) on securities	5,933	10,258	54,431
Net unrealized gains (losses) on hedges (Note 13)	1,841	267	16,896
Foreign currency translation adjustments	(1,444)	(804)	(13,256)
Accumulated adjustments for retirement benefit	(5,656)	(2,726)	(51,897)
Accumulated other comprehensive income	673	6,995	6,174
Non-controlling interests	3,380	3,147	31,017
Total net assets	646,698	558,655	5,933,013
Total liabilities and net assets	¥3,265,374	¥3,261,665	\$29,957,562

See Notes to Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Profit (loss)	¥90,143	¥10,935	\$827,001
Other comprehensive income (loss):			
Net unrealized holding gains (losses) on securities	(2,948)	(11,052)	(27,048)
Net unrealized gains (losses) on hedges	164	(625)	1,506
Foreign currency translation adjustments	(346)	(562)	(3,177)
Adjustments for retirement benefit	(1,977)	(2,843)	(18,142)
Share of other comprehensive income (loss) of affiliated companies accounted for using equity method	(1,107)	(773)	(10,157)
	(6,215)	(15,857)	(57,020)
Comprehensive income (loss)	¥83,927	¥(4,922)	\$769,981
Comprehensive income (loss) attributable to:			
Comprehensive income (loss) attributable to owners of parent	¥83,734	¥(4,359)	\$768,208
Comprehensive income (loss) attributable to non-controlling interests	193	(562)	1,773

See Notes to Consolidated Financial Statements

Consolidated Statements of Changes in Net Assets

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the years ended March 31, 2020 and 2019

	Millions of yen										
	Shares of common stock	Common stock (Note 9)	Capital surplus (Note 9)	Retained earnings	Treasury stock	Net unrealized holding gains (losses) on securities	Net unrealized gains (losses) on hedges (Note 13)	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Non-controlling interests	Total
Balance at April 1, 2018	371,055,259	¥185,527	¥17,066	¥390,477	¥(38,755)	¥22,509	¥20	¥(235)	¥505	¥3,628	¥580,745
Issuance of new shares - exercise of share acquisition rights											
Profit attributable to owners of parent				11,446							11,446
Cash dividends paid (¥ 50 per share)				(17,212)							(17,212)
Surplus from sale of treasury stock			(0)		1						1
Treasury stock purchased, net					(20)						(20)
Change in scope of equity method				-							-
Other			(18)		(0)						(18)
Net changes other than stockholders' equity						(12,250)	246	(569)	(3,232)	(480)	(16,286)
Balance at March 31, 2019	371,055,259	¥185,527	¥17,048	¥384,711	¥(38,755)	¥10,258	¥267	¥(804)	¥(2,726)	¥3,147	¥558,655
Issuance of new shares - exercise of share acquisition rights	16,099,433	11,496	11,496								22,993
Profit attributable to owners of parent				90,056							90,056
Cash dividends paid (¥ 50 per share)				(17,211)							(17,211)
Surplus from sale of treasury stock			(0)		1						1
Treasury stock purchased, net					(18)						(18)
Change in scope of equity method				(1,688)							(1,688)
Other			(0)		0						(0)
Net changes other than stockholders' equity						(4,325)	1,574	(640)	(2,930)	232	(6,089)
Balance at March 31, 2020	387,154,692	¥197,024	¥28,544	¥455,867	¥(38,791)	¥5,933	¥1,841	¥(1,444)	¥(5,656)	¥3,380	¥646,698

	Thousands of U.S. dollars (Note 1)									
	Common stock (Note 9)	Capital surplus (Note 9)	Retained earnings	Treasury stock	Net unrealized holding gains (losses) on securities	Net unrealized gains (losses) on hedges (Note 13)	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Non-controlling interests	Total
Balance at March 31, 2019	\$1,702,088	\$156,408	\$3,529,464	\$(355,740)	\$94,117	\$2,451	\$(7,379)	\$(25,013)	\$28,880	\$5,125,277
Issuance of new shares - exercise of share acquisition rights	105,474	105,474								210,949
Profit attributable to owners of parent			826,210							826,210
Cash dividends paid (\$0.46 per share)			(157,908)							(157,908)
Surplus from sale of treasury stock		(0)		16						15
Treasury stock purchased, net				(171)						(171)
Change in scope of equity method			(15,494)							(15,494)
Other		(8)		6						(1)
Net changes other than stockholders' equity					(39,686)	14,444	(5,876)	(26,884)	2,137	(55,865)
Balance at March 31, 2020	\$1,807,563	\$261,874	\$4,182,272	\$(355,889)	\$54,431	\$16,896	\$(13,256)	\$(51,897)	\$31,017	\$5,933,013

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Cash flows from operating activities:			
Profit (loss) before income taxes	¥124,293	¥14,893	\$1,140,309
Depreciation	81,263	104,779	745,537
Decommissioning cost of nuclear power generating plants	2,986	3,201	27,402
Amortization of suspense account related to the decommissioning of nuclear power stations	-	4,271	-
Equity in losses (earnings) of affiliated companies	(2,534)	(2,724)	(23,252)
Loss on disposal of property	5,087	5,773	46,676
Increase (decrease) in liability for retirement benefits	(695)	(79)	(6,383)
Decrease (increase) in asset for retirement benefits	(2,517)	(5,122)	(23,091)
Increase (decrease) in reserve for fluctuation in water levels	(383)	(254)	(3,522)
Increase (decrease) in provision for depreciation of nuclear power plants	(86,281)	2,554	(791,577)
Increase (decrease) in provision for loss on disaster	(572)	919	(5,254)
Interest and dividend income	(1,703)	(2,041)	(15,631)
Interest expense	12,517	12,846	114,843
Loss (gain) on sales of securities	(2)	(10,456)	(25)
Loss (gain) on sales of fixed assets	(110)	(663)	(1,013)
Contingent loss	-	93	-
Loss on withdrawal from business	-	2,043	-
Loss on decommissioning of Iwakuni Thermal Power Station	2,221	-	20,376
Decrease (increase) in notes and accounts receivable	3,309	(13,114)	30,359
Decrease (increase) in inventories	3,642	5,343	33,420
Increase (decrease) in notes and accounts payable	7,824	(18,295)	71,781
Other	(6,864)	(1,850)	(62,973)
Subtotal	141,479	102,120	1,297,979
Interest and dividends received	4,040	4,305	37,068
Interest paid	(12,837)	(13,757)	(117,778)
Income taxes refund (paid)	(3,027)	(11,034)	(27,775)
Net cash provided by (used in) operating activities	129,654	81,635	1,189,494
Cash flows from investing activities:			
Purchase of property	(173,923)	(179,304)	(1,595,630)
Purchase of investments in securities	(105,865)	(59,146)	(971,239)
Proceeds from sales of investment securities	98,682	58,736	905,345
Other	8,994	10,969	82,521
Net cash provided by (used in) investing activities	(172,111)	(168,744)	(1,579,002)

	Millions of yen		Thousands of U.S.dollars (Note 1)
	2020	2019	2020
Cash flows from financing activities:			
Proceeds from issue of bonds	182,480	162,628	1,674,135
Repayment of bonds	(228,969)	(90,000)	(2,100,633)
Proceeds from long-term borrowings	123,500	172,500	1,133,027
Repayment of long-term borrowings	(59,537)	(120,284)	(546,211)
Proceeds from short-term borrowings	139,942	188,458	1,283,876
Repayment of short-term borrowings	(139,730)	(186,735)	(1,281,926)
Proceeds from issue of commercial paper	20,000	280,000	183,486
Repayment of commercial paper	(20,000)	(290,000)	(183,486)
Purchase of treasury stock	(20)	(24)	(185)
Purchase of treasury stocks of subsidiaries	-	(17)	-
Cash dividends paid	(17,221)	(17,222)	(157,996)
Dividends paid to non-controlling interests	(18)	(53)	(168)
Other	(1,879)	(1,738)	(17,238)
Net cash provided by (used in) financing activities	(1,451)	97,510	(13,320)
Effect of exchange rate changes on cash and cash equivalents	(150)	(133)	(1,376)
Net increase (decrease) in cash and cash equivalents	(44,058)	10,266	(404,206)
Cash and cash equivalents at beginning of the fiscal year	91,399	81,025	838,527
Increase in cash and cash equivalents resulting from change of scope of consolidation	-	43	-
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	-	63	-
Cash and cash equivalents at end of the fiscal year (Note 8)	¥47,341	¥91,399	\$434,321

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of The Chugoku Electric Power Co., Inc. (“the Company”) and its consolidated subsidiaries (together with the Company, “the Companies”) have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and the Electricity Business Act and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of the Company’s overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Japanese Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2020, which was ¥109 to U.S. \$1.00. The convenience translation should not be construed as a representation that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

Numerical values less than one million yen or one thousand dollars are rounded off, excluding per share information. As a result, total values and numerical values obtained by summing each item will not necessarily match. This applies to both Japanese yen units and dollar units.

2. Significant accounting policies

The following is a summary of the significant accounting policies used in the preparation of the consolidated financial statements.

Consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has power of control through majority voting rights or existence of certain other conditions evidencing control by the Company. In the elimination of investments in subsidiaries, all the assets and liabilities of a subsidiary, not only to the extent of the Company’s share but also including the non-controlling interest share, are evaluated based on fair value at the time the Company acquired control of the subsidiary.

Investments in non-consolidated subsidiaries and affiliated companies over which the Company has the ability to exercise significant influence over operating and financial policies of the investees are accounted for using the equity method.

For the year ended March 31, 2020, 22 subsidiaries (21 in 2019) were consolidated and 6 (6 in 2019) subsidiaries were excluded from consolidation due to their immateriality for the consolidated total assets, sales and revenues, profit attributable to the owners of the parent, retained earnings, and etc., in the consolidated financial statements.

For the year ended March 31, 2020, 4 non-consolidated subsidiaries (4 in 2019) and 14 affiliated companies (12 in 2019) were accounted for by the equity method.

For the year ended March 31, 2020, 2 non-consolidated subsidiaries (2 in 2019) and 18 affiliated companies (13 in 2019) were stated at cost without applying the equity method of accounting. Even if the equity method had been applied to these investments, the amounts of profit and retained earnings, etc., would individually have had only a slight effect and together would have had no material impact on the consolidated financial statements.

The consolidated subsidiaries whose accounting closing date differs from the consolidated closing date are

Chugoku Electric Power Australia Resources Pty. Ltd., Chugoku Electric Power International Netherlands B.V. and Chugoku Electric Power America, LLC. These companies have December 31 as their closing dates. In drawing up the consolidated financial statements, the Company use these consolidated subsidiaries' financial statements as of their closing dates and make the necessary adjustments, in consolidated terms, for their important transactions that take place between the date and the consolidated closing date.

Inventories, fuel and supplies

Inventories, fuel and supplies are stated at cost, determined principally by the weighted average method. Inventories with lower profitability have been written down.

Securities

Available-for-sale securities for which market value is readily determinable are stated at market value as of the end of the period with unrealized gains and losses, net of applicable deferred tax assets/liabilities, not reflected in earnings but directly reported as a separate component of net assets. The cost of securities sold is determined by the moving average method. Available-for-sale securities for which market value is not readily determinable are stated primarily at moving average cost.

If the market value of equity securities issued by unconsolidated subsidiaries or affiliated companies is not accounted for by the equity method, or the market value of the available-for-sale securities declines significantly, the securities are stated at fair market value, and the difference between the fair market value and the book value is recognized as a loss in the period of the decline. If the market value of equity securities issued by unconsolidated subsidiaries or affiliated companies not accounted for by the equity method is not readily available, the securities should be written down to net asset value with the corresponding loss recorded in the consolidated statements of operations in the year that the net asset value declined significantly. In these cases, the fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

Property and depreciation

Depreciation and amortization of tangible and intangible fixed assets are calculated by the straight-line method, based on the useful life stipulated by the Corporation Tax Act.

Nuclear fuel and amortization

Nuclear fuel is stated at cost less accumulated amortization. The amortization of loaded nuclear fuel is calculated based on the quantity of heat produced for the generation of electricity.

Allowance for doubtful accounts

The allowance for doubtful accounts is provided in an amount sufficient to cover possible losses on collection. It consists of the estimated uncollectible amount with respect to identified doubtful receivables and an amount calculated based on the Companies' historical rate of loss with respect to the remaining receivables.

Provision for loss on disaster

In order to prepare for the costs or losses required to repair the assets damaged due to the torrential rain occurred in July 2018, the Company recorded the amount of loss estimated at March 31, 2019.

Reserve for fluctuation in water levels

Based on the Act for Partial Revision of the Electricity Business Act, pursuant to the provisions prior to the revision of this Act, the Company provides drought reserves against fluctuation in water levels in the sums stipulated by the Ministry of Economy, Trade and Industry ordinance.

Provision for depreciation of nuclear power plants

In accordance with the Electricity Business Act, the Company provides for a provision for depreciation of nuclear power plants to equalize the burden of depreciation expenses after commencement of commercial operation based on an ordinance of the Ministry of Economy, Trade and Industry.

Accounting methods pertaining to retirement benefits

To prepare for employees' retirement benefits, the figure obtained by subtracting plan assets from retirement benefit obligations from the estimated sums at the end of the consolidated accounting year is recorded as liability for retirement benefits (or as asset for retirement benefits when the plan asset amount exceeds the retirement benefit obligations).

For attributing the estimated retirement benefits to the period until the end of the fiscal year in determining the retirement benefit obligations, the benefit formula basis is principally followed.

Past service costs are amortized by the straight-line method using a certain number of years (mainly 1 year) within the employee's average remaining service period when the costs occurred.

Actuarial gains/losses are apportioned into sums by the straight-line method using a certain number of years (5 years) within the employee's average remaining service period from the consolidated accounting year in which the difference occurred, and each sum is amortized from the consolidated accounting year following the year of occurrence.

Unrecognized actuarial gains/losses and unrecognized past service costs are recorded as accumulated adjustments for retirement benefit in accumulated other comprehensive income in the Net Assets section, after adjusting for tax effects.

Derivatives and hedge accounting

The Companies state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless the derivative financial instrument is used for hedging purposes. If used for hedging purposes and meet certain hedging criteria, recognition of gain/loss is deferred until the loss/gain on the hedged item is recognized.

Under Japan's accounting standards, interest rate swap transactions, forward foreign exchange transactions and currency swap transactions are processed together with the hedged items and are not recognized in terms of losses/gains in derivative transactions.

Hedging effectiveness is evaluated by comparing the total cash flow change of the hedging instrument and the total cash flow change of the hedged item. However, assessment of hedge effectiveness is not carried out for interest rate swap transaction or currency swap transactions that meet certain requirements.

Capitalization of interest expense

Interest expense related to debt incurred for the construction of power plants has been capitalized and included in the cost of the related assets pursuant to the accounting regulations under the Electricity Business Act.

Calculating asset retirement obligations for decommissioning specified nuclear power generation facilities

In accordance with an Ordinance of the Ministry of Economy, Trade and Industry, the asset cost equivalent of asset retirement obligations for decommissioning specified nuclear power generation facilities is calculated by applying the straight-line method to the estimated total decommissioning cost for the period equal to the facilities' forecasted operating period.

However, if retiring a reactor due to changes in energy policy, when approval by the Ministry of Economy, Trade and Industry was given upon an application to extend the accumulation period, the straight-line method shall be used to calculate the cost for the period from the month containing the retirement date of the specified nuclear power generation facilities to the month in which 10 years have passed (if the retirement date is more than 40 years past from the month in which power generation began, then 50 years from the month in which power generation began).

The asset retirement obligations for decommissioning specified nuclear power generation facilities are recorded based on the estimated total decommissioning cost.

Money transfer and accrual methods for suspense account related to the decommissioning of nuclear power stations, and in expense summing methods

With the change in energy policy, the accounting method used for the retirement of a reactor includes the following: The book value (excluding the estimated cost of disposal) of nuclear power generation facilities related to the relevant reactor (excluding decommissioned assets and assets equivalent to asset retirement obligations), construction in progress related to the relevant nuclear power generation facilities and nuclear fuel related to the reactor and the cost of reprocessing the irradiated fuel and cost of dissolving the nuclear fuel in connection with the relevant reactor's decommissioning can be included as write-off costs in the suspense account related to the decommissioning of nuclear power stations. Specifically, the power company submits an application form to the Ministry of Economy, Trade and Industry's approval and carries out the transfers and additions into suspense account related to the decommissioning of nuclear power stations. Then, starting from the month in which approval is received, the Company adds the write-off costs to those expense accounts in amounts commensurate with its electricity rate revenue.

Method of recording the contributions required for spent nuclear fuel reprocessing

For expenses required in the reprocessing of spent nuclear fuel from nuclear power generation, based on the "Act for the Partial Amendment of the Spent Nuclear Fuel Reprocessing Fund Act" (Act No. 40 of 2016; the "Amended Act"), the nuclear power company's obligation to shoulder costs will be fulfilled by paying a contribution to the Nuclear Reprocessing Organization of Japan ("NuRO"), which will then implement the reprocessing, etc. Furthermore, based on Article 4, Paragraph 1 of the Amended Act, the contribution calculated based on the amount of spent nuclear fuel generated during operation depends on the method used to record it as an electric utility operating expense.

Also, the difference between the estimated costs required in the reprocessing of spent fuel generated up to the end of FY 2005 and the FY 2006 reserve fund recorded under the standard, a ¥3,306 million each year, has been recorded as electric utility operating expense from the effective date of the Amended Act until FY 2020 based on Article 4 of the supplementary provisions of the Ordinance Partially Amending the Accounting Rules for the Electric Power Industry (Ministry of Economy, Trade and Industry Ordinance No. 94 of 2016).

Furthermore, contributions to NuRO include contributions related to processing involved in reprocessing spent nuclear fuel in accordance with Article 2 of the Amended Act, and the said contributions are recorded as suspense account related to reprocessing of spent nuclear fuel.

Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments with original maturities of three months or less that are readily convertible to known amount of cash as they present insignificant risk of change in value.

Foreign currency transactions

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rate.

Consolidated tax system

The Companies apply the consolidated tax system.

Application of tax effect accounting for the transition from the consolidated tax payment system to the group taxation system

Having regard to paragraph 3 of "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (PITF No.39, March 31, 2020), the Company and its domestic consolidated subsidiaries did not follow paragraph 44 of "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018) but applied provisions of pre-amended tax laws when calculating the amounts of deferred tax assets and liabilities that relate to transitioning to the group taxation system and related amendments of tax laws for transitioning to the single tax payment system.

3. Changes in Accounting Policies Difficult to Distinguish from Changes in Accounting Estimates

Change in the depreciation method for property, plant and equipment

The Company has conventionally used the declining balance method for depreciation of property, plant and equipment (excluding leased assets), but has changed it to the straight-line method from the year ended March 31, 2020 onward.

From the advancement of electricity system reforms to changes in the way power is consumed prompted by the Great East Japan Earthquake, the business environment surrounding the Company has undergone significant changes in recent years. In terms of regulations, the full-scale liberalization of retail electricity was implemented in 2016, and legal separation was implemented in April 2020. It is expected that competition due to these electricity system reforms will become even more and more intense.

With that in mind, regarding the way power is consumed, although strong numbers of demand can be expected for major industries, the Company also forecast decrease in household demand due to factors such as the population decrease that has already begun and the orientation towards conserving electricity/energy prompted by the Great East Japan Earthquake. For these reasons, the Company projected that the electric power demand in our area will remain virtually at the same level for the next 10 years.

In accordance with the changes in the electric power demand, moving forward, the Company shifted the purpose of capital investment focus items the "FY 2019 Mid-Term Management Plan" from business expansion to function maintenance, changing the policy to engage in the further stable operation of facilities. For that reason, the Company determined that the straight-line method, which allocates the investment effect to profit stably for a long term, is more in line with the actual situation as the method of depreciation.

As a result, for the year ended March 31, 2020, operating profit increased by ¥21,480 million (US\$197,066 thousand), and ordinary income and profit before income taxes increased by ¥21,372 million (US\$196,080 thousand), compared with the figures obtained using the previous method.

4. Standards and guidance not yet adopted

The following standard and guidance were issued but not yet adopted.

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 31, 2020)

(1) Overview

The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying following 5 steps:

Step1: Identify contract(s) with customers.

Step2: Identify the performance obligations in the contract.

Step3: Determine the transaction price.

Step4: Allocate the transaction price to the performance obligation in the contract.

Step5; Recognize revenue when (or as) the entity satisfies a performance obligation.

(2) Effective date

This standard and guidance will be applied from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of the application of the standards

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

-“Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019)

-“Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, July 4, 2019)

-“Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, July 4, 2019)

-“Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019)

-“Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No.19, July 4, 2019)

(1)Overview

In order to enhance comparability with internationally recognized accounting standards, “Accounting Standard for Fair Value Measurement” and “Implementation Guidance on Accounting Standard for Fair Value Measurement” (together, hereinafter referred to as “Fair Value Accounting Standards”) were developed and guidance on methods measuring fair value was issued. Fair Value Accounting Standards are applicable to the fair value measurement of the following items:

-Financial instruments in “Accounting Standard for Financial Instruments”; and

-Inventories held for trading purposes in “Accounting Standard for Measurement of Inventories.”

Furthermore, the "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" was revised, to include cautionary notes regarding matters such as the breakdown for each level of the fair value for financial instruments.

(2) Effective date

These standard and guidance will be applied from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of the application of the standards

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

-“Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections” (ASBJ Statement No. 24, March 31, 2020)

(1)Overview

The purpose of this standard is to indicate the principle for accounting process and the overview of procedures used when the related accounting standards are not clearly determined.

(2)Effective date

This standard will be applied from the year ending March 31, 2021.

-“Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No.31, March 31, 2020)

(1)Overview

The purpose of this standard is to disclose information that contributes to the financial statement users in understanding the accounting estimate included in items where the estimated figures recorded in the financial statements for this fiscal year may greatly affect the financial statements for the following fiscal year.

(2)Effective date

This standard will be applied from the year ending March 31, 2021.

5. Additional Information

Reversal of a provision for depreciation of nuclear power plants according to the partial amendment of the Ministerial Ordinance concerning Provision for Depreciation of Nuclear Power Plants

(1)Descriptions

In accordance with an ordinance of the Ministry of Economy, Trade and Industry executed on August 2, 2019, power generating businesses subject to the ordinance were set as those parties that use the declining balance method to depreciate property, plant and equipment.

Since the Company changed its depreciation method for plant and equipment from the declining balance method to the straight-line method from the year ended March 31, 2020, the Company is no longer an electricity generation utility subject to the Ministerial Ordinance from this year.

As a result, the Company reversed the balance of provision for depreciation of nuclear power plants at September 30, 2019.

(2)Reversed amount

¥86,739 million (US\$795,778 thousand) (Including ¥457 million (US\$4,201 thousand) recorded during consolidated cumulative second quarter year ended March 31, 2020.)

(3)Amount of effect to the consolidated profit (loss)

As a result of reversing the provision for depreciation of nuclear power plants (credit) at September 30, 2019, profit before income taxes for the year ended March 31, 2020 increased by ¥86,739 million (US\$795,778 thousand).

Disclosure related to the impact of COVID-19 on the accounting estimates

Since it is difficult to reflect the impact of COVID-19 into the estimate values of its future business plans, the Companies have not included any effects of the COVID-19 in their accounting estimates, such as the recoverability of deferred tax assets.

6. Content of extraordinary profit

For the year ended March 31, 2019, gains on sales of securities was recorded from the sale of strategically held shares.

7. Content of extraordinary loss

Following the decision to retire Iwakuni Thermal Power Station made by the Board of Directors meeting held on February 25, 2020, an impairment loss of ¥2,114 million (US\$19,401 thousand) for the generating facilities and a provision of ¥106 million (US\$975 thousand) for supplies were recorded for the year ended March 31, 2020.

(1) Grouping method

Fixed assets used in the electric power operations are considered as a single asset group due to the fact that all assets from power generation to sales activity are used together to create a cash flow.

Fixed assets used in business other than electric power operations are accounted for by business or by location.

Fixed assets other than the above are, in general, accounted for by location or by individual asset.

(2) Asset outlines and amounts

Impairment loss recognized, based on the grouping, was ¥2,114 million (US\$19,401 thousand), and the following describes the fixed assets.

Asset	Location	Type	Millions of yen	Thousands of U.S. dollars
			2020	2020
Iwakuni Thermal Power Station	Iwakuni, Yamaguchi Prefecture	Land	¥ 292	\$ 2,687
		Buildings	283	2,605
		Structures	1,216	11,163
		Machinery and equipment	320	2,941
		Other	0	3
Total			¥ 2,114	\$ 19,401

(3) Method for calculating recoverable amount

The book value of the applicable assets was written down to the recoverable amount and the amount written down was included in loss on decommissioning of Iwakuni Thermal Power Station. The recoverable amount was measured using the net realizable value, with the estimated cost of disposal deducted from the valuation amount evaluated based on the price of the road rating.

For the year ended March 31, 2019, contingent loss was recorded with an amount equivalent to the book value of assets lost due to the torrential rain occurred in July 2018.

Loss on disaster is considered the disaster recovery costs from the said disaster, and recorded facility recovery costs (repair costs) of ¥2,698 million and other disaster-related costs of ¥824 million.

Loss on withdrawal from business is the loss that occurred due to the Company's consolidated subsidiary ADPLEX Co., Ltd. withdrawing from the package printing business, and includes impairment loss of ¥1,906 million. The following describes the assets that have recorded impairment loss.

(1) Grouping method

Fixed assets used in the electric power operations are considered as a single asset group due to the fact that all assets from power generation to sales activity are used together to create a cash flow.

Fixed assets used in business other than electric power operations are accounted for by business or by location.

Fixed assets other than the above are, in general, accounted for by location or by individual asset.

(2) Asset outlines and amounts

The Companies have recorded impairment loss for the following fixed assets used in business other than electric power operations.

Application	Location	Type	Millions of yen
			2019
Business assets	Hiroshima, Hiroshima Prefecture	Land	¥ 560
		Buildings	725
		Machinery and equipment	589
		Other	32
Total			¥ 1,906

(3) Method for calculating recoverable amount

The book value of the applicable assets was written down to the recoverable amount and the amount written down was recorded in loss on withdrawal from business. Net realizable value was used for the recoverable amount, and the net realizable value was evaluated using estimated sales amounts.

8. Cash and cash equivalents

Reconciliations between cash and time deposits recorded in the consolidated balance sheets and cash and cash equivalents recorded in the consolidated statements of cash flows at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Cash and time deposits	¥ 67,401	¥ 111,459	\$ 618,358
Time deposits with maturities exceeding 3 months	(20,060)	(20,060)	(184,036)
Cash and cash equivalents	¥ 47,341	¥ 91,399	\$ 434,321

9. Content of Important Non-Fund Transactions

The exercise amount of stock acquisition rights in convertible bonds with stock acquisition rights for the years ended March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Increase in capital due to exercise of stock acquisition rights	¥ 11,496	¥ —	\$ 105,474
Increase in additional paid-in capital due to exercise of stock acquisition rights	11,496	—	105,474
Decrease in bonds with stock acquisition rights due to exercise of stock acquisition rights	¥ 22,993	¥ —	\$ 210,949

10. Property, plant and equipment

The major classifications of property, plant and equipment at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2020	2019	2020	
Hydroelectric power production facilities	¥ 109,265	¥ 111,534	\$ 1,002,437	
Thermal power production facilities	170,226	178,585	1,561,714	
Nuclear power production facilities	97,489	102,277	894,400	
Transmission facilities	299,634	303,096	2,748,940	
Transformation facilities	148,766	143,361	1,364,828	
Distribution facilities	368,242	364,738	3,378,367	
General facilities	85,549	75,668	784,856	
Inactive facilities	14,316	16,150	131,347	
Other electric utility plants and equipment	5,194	5,125	47,654	
Other plants	116,898	118,925	1,072,461	
Construction in progress	1,017,143	939,359	9,331,587	
Suspense account related to reprocessing of spent nuclear fuel	15,149	11,361	138,982	
Total	¥ 2,447,876	¥ 2,370,184	\$ 22,457,579	

Accumulated gains in relation to the receipt of contributions in aid for construction deducted from the original acquisition costs were ¥106,968 million (US\$981,362 thousand) and ¥100,737 million at March 31, 2020 and 2019, respectively.

11. Financial instruments

1. Issues related to financial instruments

(1) Approach to financial instruments

Most of the Companies' business consists of electric power business and funds that are necessary for capital investment and operations are raised from bonds, long-term borrowings, short-term borrowings and commercial paper ("CP") according to the Companies' plans for financing.

The Companies' fund management involves only highly safe monetary assets pursuant to these plans.

The derivative transactions are only for receivables and payables (actual demand transactions) arising from the business of the Company and certain consolidated subsidiaries. There are no transactions for speculative purposes.

(2) Details and risks of financial instruments and our risk management structure

Long-term investments (available-for-sale securities) consist of stocks of companies that share business interests with us, and the fair value of the stocks and the financial condition of the relevant companies are investigated on a regular basis.

The majority of the Companies' notes receivable and accounts receivable consist of receivables related to the electric power business and are exposed to customer credit risk. For the relevant risk, each customer's due date and balance are controlled in accordance with power supply conditions.

Short-term investments (held-to-maturity securities) are in the form of negotiable deposits and are exposed to the banks' credit risk. The risk is managed by depositing these investments only with banks that have a high credit rating.

Bonds and loans payable are procured mainly for capital investment. Since many interest-bearing debts consist of long-term funds with fixed interest rates (bonds and long-term borrowings), the fluctuation of market interest

rates may have limited impact on our business results. Some long-term funds are used for derivative transactions (interest rate swaps and currency swaps) as a means to hedge risk to mitigate or avoid market fluctuation risk.

Due dates of the most notes payable and accounts payable are within one year.

The Company enters into interest rate swap contracts, commodity swap contracts and currency swap contracts to mitigate and avoid market fluctuation risk. The Company has adopted hedge accounting for these instruments.

The Company believes that the related credit risk arising from the event of contract nonperformance by counterparties is extremely low, since the Company uses highly creditworthy financial institutions as counterparties to its derivative transactions, and determines fair values and credit information on a periodic basis.

The Company has established a management function independent from the execution function of derivatives and manages derivative transactions in accordance with internal regulations providing authorization limits, methods of execution, reporting and management, etc.

Although bonds and loans payable are exposed to liquidity risk, the Companies manage liquidity risk by monthly cash management ensuring liquidity that is necessary for operation of the Companies and diversifying financing methods.

(3) Supplemental explanation for financial instruments' fair value

The fair value of financial instruments is the market value or a reasonably calculated value when the relevant instruments do not have a market value. Since value calculation reflects variable factors, the relevant value may change depending on preconditions.

Note that the contract amount for derivative transactions in Note 13, "Derivatives and hedge accounting," does not reflect the market risk for the derivative transaction itself.

2. Issues related to fair value of financial instruments

The followings are the book values, the fair values and the differences at March 31, 2020 and 2019. Please note that items whose fair value is difficult to evaluate are not included (See Note b).

	Millions of yen						Thousands of U.S. dollars		
	2020			2019			2020		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Assets									
(1) Long-term investment: Available-for-sale securities	¥ 12,599	¥ 12,599	¥ —	¥ 16,546	¥ 16,546	¥ —	\$ 115,587	\$ 115,587	\$ —
(2) Cash and time deposits	67,401	67,401	—	111,459	111,459	—	618,358	618,358	—
(3) Notes receivable and accounts receivable	128,572	128,572	—	132,776	132,776	—	1,179,562	1,179,562	—
Liabilities									
(4) Bonds	¥ 921,523	¥ 935,279	¥ 13,756	¥ 990,453	¥ 1,012,805	¥ 22,352	\$ 8,454,339	\$ 8,580,546	\$ 126,206
(5) Long-term borrowings	1,182,834	1,201,356	18,522	1,118,965	1,139,569	20,603	10,851,690	11,021,621	169,931
(6) Short-term borrowings	67,195	67,195	—	67,645	67,645	—	616,467	616,467	—
(7) Notes payable and accounts payable	56,223	56,223	—	48,684	48,684	—	515,813	515,813	—
(8) Derivative transactions									
① Hedge accounting is applied	¥ (160)	¥ (160)	¥ —	¥ —	¥ —	¥ —	\$ (1,469)	\$ (1,469)	\$ —
② Hedge accounting is not applied	(414)	(414)	—	(523)	(523)	—	(3,805)	(3,805)	—

(Note a) Issues related to evaluation method for financial instruments' fair value, securities and derivative transactions

(1) Long-term investment: Available-for-sale securities

Fair values depend on stock exchange quotations.

For the difference between book value and acquisition cost for available-for-sale securities, please refer to Note 12, “Securities.”

(2) Cash and time deposits and (3) Notes receivable and accounts receivable

Since these are settled in a short time and their fair values approximate the book values, the relevant book values are quoted for them.

For the difference between fair value and book value for held-to-maturity securities, refer to Note 12, “Securities.”

(4) Bonds

Bonds with market value are valued as such. Bonds without market value are valued based on comparable bonds being newly issued or on a price put forward by the financial institution or other organizations. Some bonds are subject to the special treatment of interest rate swaps and assignment of currency swaps (Please refer to Note 13, “Derivatives and hedge accounting”). These are valued based on the same terms and conditions applied to the relevant interest rate swap transactions and currency swap transactions.

(5) Long-term borrowings

The values of long-term borrowings are calculated using terms as if the borrowings were new loans. Some long-term borrowings are subject to the special treatment of interest rate swaps (Please refer to Note 13, “Derivatives and hedge accounting”). These are valued based on the same terms and conditions applied to the relevant interest rate swap transactions.

(6) Short-term borrowings and (7) Notes payable and accounts payable

Since these are settled in a short time and their fair values approximate the book values, the relevant book values are quoted for them.

(8) Derivative transactions

Please refer to Note 13, “Derivatives and hedge accounting.”

(Note b) Financial instruments for which assessing fair value is extremely difficult

	Millions of yen		Thousands of
	2020	2019	U.S. dollars
	Book value		
	2020	2019	2020
Unlisted stocks	¥ 37,779	¥ 37,674	\$ 346,597
Other	1,917	1,043	17,587
Total	¥ 39,696	¥ 38,718	\$ 364,184

The above securities do not have market values, and it is difficult to estimate their future cash flow. As a result, they are not included in “(1) Long-term investment: Available-for-sale securities.”

(Note c) Anticipated redemption schedule for monetary claims and debt securities held to maturity subsequent to the fiscal year-end

	Millions of yen		Thousands of U.S. dollars
	Within 1 year		
	2020	2019	2020
Cash and time deposits	¥ 67,401	¥ 111,459	\$ 618,358
Notes receivable and accounts receivable	128,572	132,776	1,179,562
Total	¥ 195,973	¥ 244,235	\$ 1,797,920

(Note d) Anticipated redemption schedule for bonds, long-term borrowings and other interest-bearing debt subsequent to the fiscal year-end

	Millions of yen					
	2020					
	Within 1 year	1 year - 2 years	2 years - 3 years	3 years - 4 years	4 years - 5 years	Over 5 years
Bonds	¥ 120,000	¥ 80,000	¥ 40,000	¥ 118,228	¥ 133,185	¥ 430,000
Long-term borrowings	76,089	159,982	142,042	92,279	98,804	613,635
Short-term borrowings	67,195	—	—	—	—	—
Total	¥ 263,284	¥ 239,982	¥ 182,042	¥ 210,507	¥ 231,989	¥ 1,043,635

	Millions of yen					
	2019					
	Within 1 year	1 year - 2 years	2 years - 3 years	3 years - 4 years	4 years - 5 years	Over 5 years
Bonds	¥ 251,959	¥ 120,000	¥ 80,000	¥ 30,000	¥ 118,228	¥ 390,000
Long-term borrowings	54,529	76,099	159,999	142,059	92,297	593,980
Short-term borrowings	67,645	—	—	—	—	—
Total	¥ 374,133	¥ 196,099	¥ 239,999	¥ 172,059	¥ 210,525	¥ 983,980

	Thousands of U.S. dollars					
	2020					
	Within 1 year	1 year - 2 years	2 years - 3 years	3 years - 4 years	4 years - 5 years	Over 5 years
Bonds	\$ 1,100,917	\$ 733,944	\$ 366,972	\$ 1,084,660	\$ 1,221,880	\$ 3,944,954
Long-term borrowings	698,070	1,467,726	1,303,139	846,602	906,465	5,629,685
Short-term borrowings	616,467	—	—	—	—	—
Total	\$ 2,415,455	\$ 2,201,671	\$ 1,670,112	\$ 1,931,263	\$ 2,128,346	\$ 9,574,639

(Note e) Bonds and long-term borrowings include items whose payment is due within one year.

(Note f) Receivables and liabilities generated from derivative transactions are shown in net amounts. When the total amount is negative (liabilities), the amount is shown in parentheses ().

12. Securities

Available-for-sale securities

Categories	Millions of yen						Thousands of U.S. dollars		
	2020			2019			2020		
	Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference
Available-for-sale securities with book values exceeding acquisition costs									
Equity securities	¥11,537	¥6,375	¥5,162	¥16,157	¥7,301	¥8,856	\$105,846	\$58,487	\$47,358
Bonds	—	—	—	—	—	—	—	—	—
Other	8	2	5	9	2	6	75	27	48
Subtotal	¥11,545	¥6,378	¥5,167	¥16,167	¥7,304	¥8,863	\$105,921	\$58,515	\$47,406
Available-for-sale securities with book values not exceeding acquisition costs									
Equity securities	¥1,053	¥1,134	¥ (81)	¥379	¥456	¥ (77)	\$9,665	\$10,411	\$ (745)
Bonds	—	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	—	—
Subtotal	¥1,053	¥1,134	¥ (81)	¥379	¥456	¥ (77)	\$9,665	\$10,411	\$ (745)
Total	¥12,599	¥7,512	¥5,086	¥16,546	¥7,761	¥8,785	\$115,587	\$68,926	\$46,661

At March 31, 2020 and 2019, unlisted stocks of ¥39,696 million (US\$364,184 thousand) and ¥38,718 million, respectively, had no market values. Since estimating their future cash flow to evaluate their fair value was difficult, the unlisted stocks are not included in the “Available-for-sale securities”.

13. Derivatives and hedge accounting

Derivative transactions for which hedge accounting was not applied

Categories	Type of transaction	Millions of yen							
		2020				2019			
		Amount of contract	Amount of contract longer than 1 year	Fair value	Unrealized gains (losses)	Amount of contract	Amount of contract longer than 1 year	Fair value	Unrealized gains (losses)
Market transactions	Commodity swap Fixed-rate payment and flexible-rate receipt	¥ 397	¥ —	¥ (160)	¥ (160)	¥ —	¥ —	¥ —	¥ —

Categories	Type of transaction	Thousands of U.S. dollars			
		2020			
		Amount of contract	Amount of contract longer than 1 year	Fair value	Unrealized gains (losses)
Market transactions	Commodity swap Fixed-rate payment and flexible-rate receipt	\$ 3,647	\$ —	\$ (1,469)	\$ (1,469)

(Note a) The fair value of derivative transactions is measured at quoted prices from the financial institutions.

Derivative transactions for which hedge accounting was applied

<Currencies>

			Millions of yen					
Hedge accounting method	Type of transaction	Items to be hedged	2020			2019		
			Amount of contract	Amount of contract longer than 1 year	Fair value	Amount of contract	Amount of contract longer than 1 year	Fair value
Assignment of currency swaps	Currency swap Japanese yen payment & U.S. dollars receipt	Bonds	¥ 86,413	¥ 86,413	(Note b)	¥ 90,187	¥ 33,228	(Note b)

			Thousands of U.S. dollars		
Hedge accounting method	Type of transaction	Items to be hedged	2020		
			Amount of contract	Amount of contract longer than 1 year	Fair value
Assignment of currency swaps	Currency swap Japanese yen payment & U.S. dollars receipt	Bonds	\$ 792,779	\$ 792,779	(Note b)

(Note b) Since currency swaps that are treated in “Assignment of currency swaps” are treated together with hedged bonds, the relevant fair value is included in the fair value of the bonds.

<Interest>

			Millions of yen					
Hedge accounting method	Type of transaction	Items to be hedged	2020			2019		
			Amount of contract	Amount of contract longer than 1 year	Fair value	Amount of contract	Amount of contract longer than 1 year	Fair value
Special treatment of interest rate swaps	Interest-rate swap Fixed-rate receipt & flexible-rate payment	Bonds & long-term borrowings	¥20,000	¥—	(Note c)	¥60,717	¥20,000	(Note c)

			Thousands of U.S. dollars		
Hedge accounting method	Type of transaction	Items to be hedged	2020		
			Amount of contract	Amount of contract longer than 1 year	Fair value
Special treatment of interest rate swaps	Interest-rate swap Fixed-rate receipt & flexible-rate payment	Bonds & long-term borrowings	\$183,486	\$—	(Note c)

(Note c) Since interest-rate swaps that are treated in “Special treatment of interest rate swaps” are treated together with hedged bonds and long-term borrowings, the relevant fair value is included in the fair value of the bonds and long-term borrowings.

<Commodities>

			Millions of yen					
Hedge accounting method	Type of transaction	Items to be hedged	2020			2019		
			Amount of contract	Amount of contract longer than 1 year	Fair value	Amount of contract	Amount of contract longer than 1 year	Fair value
General method	Commodity swap Fixed-rate payment & flexible-rate receipt	Fuel import payment debt (projected transaction)	¥ 2,520	¥ —	¥ (414)	¥ 4,887	¥ —	¥ (523)

			Thousands of U.S. dollars					
Hedge accounting method	Type of transaction	Items to be hedged	2020					
			Amount of contract	Amount of contract longer than 1 year	Fair value			
General method	Commodity swap Fixed-rate payment & flexible-rate receipt	Fuel import payment debt (projected transaction)	\$ 23,127	\$ —	\$ (3,805)			

(Note d) The fair value of derivative transactions is measured at quoted prices from the financial institutions.

14. Long-term debt

Long-term debt at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Bonds due through 2049 at rates of 0% to 3.488% (Note)	¥921,523	¥990,453	\$8,454,339
Long-term borrowings from the Development Bank of Japan Inc., other banks and insurance companies due through 2036	1,182,834	1,118,965	10,851,690
Lease obligations	486	474	4,461
	¥2,104,843	¥2,109,893	\$19,310,491
Less amounts due within one year	(196,304)	(306,705)	(1,800,963)
Total	¥1,908,538	¥1,803,187	\$17,509,528

(Note) Bonds include zero-coupon bonds with stock acquisition rights due in 2020 and 2022.

At March 31, 2020 and 2019, long-term borrowings from the Development Bank of Japan Inc. in the amounts of ¥325,000 million (US\$2,981,651 thousand) and ¥286,445 million and all bonds above were secured by a statutory preferential right which gives the creditors a security interest in all assets of the Company totaling ¥3,092,832 million (US\$28,374,613 thousand) and ¥3,085,124 million, respectively, senior to that of general creditors. Some assets of subsidiaries are being used as collateral for loans from financial institutions and other sources.

The annual maturities of long-term debt at March 31, 2020 and 2019 were as follows:

At March 31, 2020 Year ending March 31	Millions of Yen		Thousands of U.S. dollars	
2021	¥	196,089	\$	1,798,987
2022		239,982		2,201,672
2023		182,042		1,670,112
2024		210,507		1,931,263
Thereafter		1,275,625		11,702,985

At March 31, 2019 Year ending March 31	Millions of Yen	
2020	¥	306,488
2021		196,099
2022		239,999
2023		172,059
Thereafter		1,194,505

Note: Excluding lease obligations.

15. Leases

(As lessee)

Operating lease transactions

The present values of future minimum lease payments under operating leases that are non-cancelable at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Current portion	¥ 5	¥32	\$ 53
Non-current portion	3	3	35
Total	¥ 9	¥ 36	\$ 88

(As lessor)

1. Finance lease transactions

Non-capitalized finance leases before March 31, 2008 have been accounted for in the same manner as operating leases.

Lease payments received under non-capitalized finance leases amounted to ¥147 million (US\$1,356 thousand) and ¥198 million for the years ended March 31, 2020 and 2019, respectively.

The present values of future minimum lease payments to be received under non-capitalized finance leases at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Current portion	¥ 145	¥ 188	\$ 1,331
Non-current portion	91	237	844
Total	¥ 237	¥ 425	\$ 2,175

2. Operating lease transactions

The present values of future minimum lease payments under operating leases that are non-cancelable at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Current portion	¥ 46	¥ 34	\$ 424
Non-current portion	118	103	1,083
Total	¥ 164	¥ 137	\$ 1,507

16. Contingent liabilities

At March 31, 2020 and 2019, the Companies were contingently liable as guarantors for loans of other companies and employees in the amount of ¥127,417 million (US\$1,168,967 thousand) and ¥122,398 million, respectively.

At March 31, 2019, the Company was also contingently liable with respect to certain domestic bonds which were assigned to certain banks under debt assumption agreements in the aggregate amount of ¥35,000 million.

17. Research and development expenses

Research and development expenses charged to operating expenses were ¥11,906 million (US \$109,235 thousand) and ¥11,345 million for the years ended March 31, 2020 and 2019, respectively.

18. Retirement benefits

1. Overview of the retirement benefit plan adopted

The Companies provide a defined benefit corporate pension scheme – including a hybrid annuity scheme – and a lump sum plan as their defined benefit type plan.

A premium severance payment is also sometimes made when employees retire or otherwise terminate their employment.

In 1984 the Company adopted a qualified pension plan for a part of its retirement allowance system. In 2004, however, under a review of its regulations concerning retirement allowance/pension plans, it shifted to a hybrid annuity scheme, which is a floating-rate type of pension plan, and shifted to a system offering a choice between a defined contribution pension plan and retirement benefit advance payment scheme for part of its retirement lump sum scheme.

Under the defined benefit corporate pension schemes and retirement lump sum schemes of some of the subsidiaries, the simplified valuation method is used for calculating the assets, liabilities and costs for the retirement benefits. In such cases, each is added to the appropriate itemization in “2. Defined benefit plans” below.

2. Defined benefit plans

(1) Movement in retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at the beginning of the fiscal year	¥ 262,998	¥ 266,536	\$ 2,412,831
Service cost	9,030	9,076	82,850
Interest cost	2	275	25
Actuarial loss (gain)	(6,037)	2,216	(55,385)
Benefits paid	(17,275)	(15,109)	(158,493)
Other	(0)	3	(0)
Balance at the end of the fiscal year	¥ 248,719	¥ 262,998	\$ 2,281,826

(2) Movement in plan assets

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at the beginning of the fiscal year	¥ 241,768	¥ 244,001	\$ 2,218,059
Expected return on plan assets	3,715	3,559	34,086
Actuarial loss (gain)	(9,716)	537	(89,145)
Contributions paid by the Companies	3,823	4,153	35,076
Benefits paid	(11,730)	(10,483)	(107,623)
Balance at the end of the fiscal year	¥ 227,859	¥ 241,768	\$ 2,090,452

(3) Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Retirement benefit obligations for defined benefit corporate pension schemes	¥ 184,565	¥ 195,370	\$ 1,693,260
Plan assets	(227,859)	(241,768)	(2,090,452)
	(43,293)	(46,397)	(397,191)
Retirement benefit obligations for retirement lump sum schemes	64,153	67,627	588,565
Total net liability (asset) for retirement benefits at the end of the fiscal year	¥ 20,859	¥ 21,230	\$ 191,374

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Liability for retirement benefits	¥ 65,718	¥ 69,362	\$ 602,918
Asset for retirement benefits	(44,858)	(48,132)	(411,543)
Total net liability (asset) for retirement benefits at the end of the fiscal year	¥ 20,859	¥ 21,230	\$ 191,374

(4) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Service cost	¥ 9,030	¥ 9,076	\$ 82,850
Interest cost	2	275	25
Expected return on plan assets	(3,715)	(3,559)	(34,086)
Net actuarial loss (gain) amortization	839	(2,214)	7,698
Other	1,056	970	9,693
Retirement benefit costs for defined benefit plans at the end of the fiscal year	¥ 7,213	¥ 4,548	¥ 66,181

(5) Adjustments for retirement benefit

A breakdown of the items (before tax effect deduction) that have been reported as adjustments for retirement benefits was as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Actuarial gains/losses	¥ (2,840)	¥ (3,893)	\$ (26,061)
Total	¥ (2,840)	¥ (3,893)	\$ (26,061)

(6) Accumulated adjustments for retirement benefit

A breakdown of the items (before tax effect deduction) that have been reported as accumulated adjustments for retirement benefits was as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unrecognized actuarial gains/losses	¥7,569	¥ 4,728	\$ 69,443
Total	¥7,569	¥ 4,728	\$ 69,443

(7) Plan assets

① The percentages of the main categories of plan assets were as follows:

	2020	2019
Bonds	37%	39%
Equity securities	10%	11%
Life insurance general accounts	40%	37%
Other	13%	13%
Total	100%	100%

② Long-term expected rates of return

The long-term expected rate of return on plan assets is determined by taking into account the allocation of current and expected plan assets as well the long-term rates of return to be expected currently and in the future for the various assets that consist of the plan assets.

(8) Actuarial assumptions

The major actuarial assumptions were as follows:

	2020	2019
Discount rate	mainly 0.2%	mainly 0.0%
Long-term expected rate of return	mainly 1.5%	mainly 1.4%

3. Defined contribution pension plan

The contributions required from the Companies to the defined contribution pension plan amounted to ¥757 million (US\$6,948 thousand) and ¥763 million for the years ended March 31, 2020 and 2019, respectively.

19. Income taxes

The Company is subject to a number of taxes based on income.

Significant components of the Companies' deferred tax assets and liabilities at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deferred tax assets:			
Excess depreciation	¥ 24,700	¥ 24,372	\$ 226,606
Asset retirement obligations	13,028	12,849	119,524
Adjustment for unrealized intercompany profits	9,544	9,080	87,568
Liability for retirement benefits	6,234	6,249	57,196
Accrued bonuses and other expenses	3,756	3,685	34,464
Reprocessing of irradiated nuclear fuel	2,275	2,291	20,877
Provision for depreciation of nuclear power plants	—	24,124	—
Other	20,355	18,642	186,751
Total gross deferred tax assets	79,895	101,295	732,989
Less valuation allowance	(16,235)	(14,952)	(148,946)
Total deferred tax assets	63,660	86,342	584,043
Deferred tax liabilities:			
Unrealized holding gains on securities	(1,633)	(2,727)	(14,989)
Other	(1,631)	(2,016)	(14,965)
Total deferred tax liabilities	(3,265)	(4,744)	(29,954)
Net deferred tax assets	¥60,395	¥81,598	\$554,089

For the years ended March 31, 2019 and 2020, as the discrepancy between the statutory effective tax rate and the income tax rate after the application of tax effect accounting is less than 5/100ths of the statutory effective tax rate, notes are omitted.

20. Asset retirement obligations

Asset retirement obligations included in the consolidated balance sheets

(1) Outline of the asset retirement obligations

Asset retirement obligations are recorded mainly in conjunction with measures to decommission specified nuclear power generation facilities under the “Act on the Regulation of Nuclear Source Material, Nuclear Fuel Material and Reactors.” In accordance with an ordinance of the Ministry of Economy, Trade and Industry, the cost is calculated by applying the straight-line method to the estimated total decommissioning cost for the facilities' forecast operating period.

However, if retiring a reactor due to changes in energy policy, when approval by the Ministry of Economy, Trade and Industry was given upon an application to extend the accumulation period, the straight-line method shall be used to calculate the cost for the period from the month containing the retirement date of the specified nuclear power generation facilities, to the month in which 10 years have passed (if the retirement date is more than 40 years past from the month in which power generation began, then 50 years from the month in which power generation began).

(2) Method of calculating the value of the asset retirement obligations

The value of the asset retirement obligations was calculated mainly by taking as the estimated use period the accumulation period (generation facilities' forecasted operating period) which is prescribed in the Ordinance of the Ministry of Economy, Trade and Industry, and using a discount rate of 2.3%.

(3) Variation in the total value of the asset retirement obligations during the years ended March 31, 2020 and 2019:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at the beginning of the fiscal year	¥91,856	¥79,026	\$842,724
Changes in estimated obligations and accretion	1,852	12,830	16,998
Balance at the end of the fiscal year	¥93,709	¥91,856	\$859,722

(Note) Changes in estimated obligations and accretion for the year ended March 31, 2019 include the effect (increase of ¥11,815 million) of the change in the estimated useful life used in calculating the asset retirement obligations pertaining to measures for decommissioning specified nuclear power generation facilities — namely, the change in useful life from the forecasted operating period plus the estimated safe storage period to the forecasted operating period only.

21. Net assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock.

However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Company Law, in cases in which a dividend distribution of surplus is made, companies are required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends as additional paid-in capital or as legal earnings reserve until the total of these equals 25% of common stock. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Neither additional paid-in capital nor legal earnings reserve can be distributed as dividends. However, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese law and regulations.

At the annual stockholders' meeting held on June 25, 2020, the stockholders approved cash dividends amounting to ¥9,014 million (US\$82,704 thousand). The appropriations had not been accrued in the consolidated financial statements at March 31, 2020. Such appropriations are recognized in the period in which they are approved by the stockholders.

22. Segment information

The Companies' reporting segments are structural units of the Companies that are separated from the others and for which separate financial information is available. This information is the subject of periodic deliberations by the Board of Directors in order to decide the allocation of business resources and evaluate business results.

With electric power as their core, the Companies are developing total solution operations by focusing pouring business resources into strategic business domains that can exploit the Companies' strengths.

Thus, the Companies, with electric power as their nucleus, are composed of three segments each of which provides different products and services using the business resources possessed by the Companies: "Electric power," "Comprehensive energy supply," and "Information and telecommunications."

In the "Electric power" segment, the Company supplies power within the Chugoku Region as the basis of our operational development. In the "Comprehensive energy supply" segment, the Company provides energy utilization services that include the sale of LNG and other fuels and the sale of electricity and heat. In the "Information and telecommunications" segment, the Company provides electrical communications and data processing services utilizing Information and Communications Technology (ICT).

Other business segments, not comprised in the reporting segments include those in which the Company carry out environmental harmony creation, business/lifestyle support, electric power business support and like operations.

Change in the depreciation method for property, plant and equipment

As described In Note 3 "Changes in Accounting Policies Difficult to Distinguish from Changes in Accounting Estimates", The Company has conventionally used the declining balance method for depreciation of property, plant and equipment (excluding leased assets), but has changed it to the straight-line method from the year ended March 31, 2020 onward.

As a result, for the year ended March 31, 2020, the segment income of, "Electric power" and "Comprehensive energy supply" increased by ¥21,802 million (US\$200,020 thousand) and ¥0 million (US\$5 thousand), while "Adjustment" decreased by ¥322 million (US\$2,958 thousand), respectively, compared with the figures obtained using the previous method.

A summary by segment for the years ended March 31, 2020 and 2019 is as follows:

	Millions of yen							
	2020				Other	Total	Adjustment (Note)	Consolidated
	Reporting segment			Total				
Electric power	Comprehensive energy supply	Information and tele- communications	Total					
Operating revenues:								
Outside customers	¥1,187,127	¥79,612	¥31,007	¥1,297,746	¥49,606	¥1,347,352	¥ —	¥1,347,352
Intersegment	25,820	2,937	11,974	40,732	69,010	109,742	(109,742)	—
Total	1,212,947	82,549	42,981	1,338,478	118,616	1,457,095	(109,742)	1,347,352
Segment income (loss)	¥39,525	¥2,336	¥3,445	¥45,307	¥4,617	¥49,924	¥(1,754)	¥48,170
Segment assets	3,033,949	54,985	77,756	3,166,691	222,743	3,389,434	(124,059)	3,265,374
Other items:								
Depreciation expense	¥67,842	¥1,537	¥8,809	¥78,189	¥3,563	¥81,752	¥ (489)	¥81,263
Investment in equity method affiliated companies	13,843	5,799	—	19,643	100,630	120,274	—	120,274
Value increase in tangible and intangible assets	168,335	1,808	9,307	179,451	3,670	183,122	(3,914)	179,207

Millions of yen								
2019								
Reporting segment								
	Electric power	Comprehensive energy supply	Information and tele-communications	Total	Other	Total	Adjustment (Note)	Consolidated
Operating revenues:								
Outside customers	¥1,224,535	¥71,654	¥29,764	¥1,325,955	¥51,023	¥1,376,979	¥ —	¥ 1,376,979
Intersegment	23,994	2,287	12,099	38,381	71,654	110,035	(110,035)	—
Total	1,248,530	73,942	41,864	1,364,337	122,678	1,487,015	(110,035)	1,376,979
Segment income (loss)	¥10,265	¥1,808	¥2,332	¥14,406	¥6,115	¥20,521	¥(991)	¥19,530
Segment assets	3,030,443	51,955	77,365	3,159,763	224,721	3,384,485	(122,820)	3,261,665
Other items:								
Depreciation expense	¥91,789	¥1,694	¥8,990	¥102,475	¥3,388	¥105,863	¥ (1,084)	¥104,779
Investment in equity method affiliated companies	10,052	5,276	—	15,329	97,660	112,989	—	112,989
Value increase in tangible and intangible assets	170,917	750	7,849	179,517	2,689	182,206	(3,048)	179,158

Thousands of U.S. dollars								
2020								
Reporting segment								
	Electric power	Comprehensive energy supply	Information and tele-communications	Total	Other	Total	Adjustment (Note)	Consolidated
Operating revenues:								
Outside customers	\$ 10,891,074	\$ 730,385	\$ 284,469	\$ 11,905,929	\$ 455,105	\$ 12,361,035	\$ —	\$ 12,361,035
Intersegment	236,881	26,953	109,855	373,690	633,122	1,006,812	(1,006,812)	—
Total	11,127,955	757,339	394,324	12,279,619	1,088,228	13,367,847	(1,006,812)	12,361,035
Segment income (loss)	\$ 362,614	\$ 21,434	\$ 31,613	\$ 415,663	\$ 42,357	\$ 458,021	\$ (16,092)	\$ 441,928
Segment assets	27,834,396	504,449	713,365	29,052,212	2,043,514	31,095,727	(1,138,165)	29,957,562
Other items:								
Depreciation expense	\$ 622,404	\$ 14,105	\$ 80,821	\$ 717,331	\$ 32,694	\$ 750,026	\$ (4,488)	\$ 745,537
Investment in equity method affiliated companies	127,006	53,209	—	180,215	923,217	1,103,432	—	1,103,432
Value increase in tangible and intangible assets	1,544,358	16,595	85,390	1,646,344	33,674	1,680,018	(35,911)	1,644,107

(Note) “Adjustment” of “Segment income (loss)” in an amount of ¥(1,754) million (US\$(16,092) thousand) and ¥(991) million refers to intersegment elimination for the years ended March 31, 2020 and 2019, respectively.

“Adjustment” of “Segment assets” in an amount of ¥(124,059) million (US\$(1,138,165) thousand) and ¥(122,820) million refers mainly to intersegment elimination for the years ended March 31, 2020 and 2019,

respectively.

“Adjustment” of “Value increase in tangible and intangible assets” in an amount of ¥(3,914) million (US\$(35,911) thousand) and ¥(3,048) million refers mainly to intersegment elimination for the years ended March 31, 2020 and 2019, respectively.

Since the categories for products and services are the same as the categories within the reporting segments, information about individual products and services is omitted here.

Since the Companies’ sales to external customers in Japan accounted for over 90% of the total sales in the Consolidated Statements of Operations for the years ended March 31, 2020 and 2019, information concerning region-by-region sales amounts is omitted here.

Since the value of the Companies' property, plant and equipment located in Japan accounted for over 90% of the value of property plant and equipment in the consolidated balance sheets at March 31, 2020 and 2019, information concerning region-by-region property, plant and equipment is omitted here.

Since no customer among the Companies' external customers accounted for 10% or more of the total sales in the Consolidated Statements of Operations for the years ended March 31, 2020 and 2019, information concerning major customers is omitted here.

Information on impairment loss for fixed assets in each reporting segment

Information on impairment loss for fixed assets in each reporting segment for the year ended March 31, 2020 is listed below.

Millions of yen								
2020								
	Reporting segment			Total	Other	Total	Adjustment (Note)	Consolidated
	Electric power	Comprehensive energy supply	and tele-communications					
Impairment loss	—	—	—	—	—	—	¥ 2,114	¥ 2,114

Thousands of U.S. dollars								
2020								
	Reporting segment			Total	Other	Total	Adjustment (Note)	Consolidated
	Electric power	Comprehensive energy supply	and tele-communications					
Impairment loss	—	—	—	—	—	—	\$ 19,401	\$ 19,401

(Note) This is the impairment loss of fixed assets recorded following the decision to retire Iwakuni Thermal Power Station, and is included in "Loss on decommissioning of Iwakuni Thermal Power Station" under “Other expense (income)”.

Information on impairment loss for fixed assets in each reporting segment for the year ended March 31, 2019 is listed below.

Millions of yen								
2019								
Reporting segment								
Information								
Electric power	Comprehensive energy supply	and tele-communi- cations	Total	Other (Note)	Total	Adjustment	Consolidated	
Impairment loss	—	—	—	—	¥ 1,906	¥ 1,906	—	¥ 1,906

(Note) This is the impairment loss of fixed assets recorded due to ADPLEX Co., Ltd. withdrawing from the package printing business, and is included in "Loss on withdrawal from business" under "Other expense (income)".

23. Subsequent event

The following appropriations of retained earnings at March 31, 2020 were approved at the annual meeting of stockholders held on June 25, 2020:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥25 (US\$0.22) per share	¥ 9,014	\$ 82,704

Changes in segment categories

Following the legal separation of the power transmission and the distribution division implemented on April 1, 2020, the Companies have decided to change the reporting segments of "Electric power", "Comprehensive energy supply", and "Information and telecommunications" to "Comprehensive energy", "Power transmission and distribution", and "Information and telecommunications" from the year ending March 31, 2021 onward.

Information regarding amounts for the revenues, income or loss, and other items for each reporting segment for the year ended March 31, 2020 using the segment categories after the said change is currently being calculated and will be disclosed in the following consolidated fiscal year.

Independent Auditor's Report

To the Board of Directors of The Chugoku Electric Power Co., Inc.

Opinion

We have audited the accompanying consolidated financial statements of The Chugoku Electric Power Co., Inc. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2020 and 2019, the consolidated statements of income and comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies, other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020 and 2019, and its consolidated financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 3 to the consolidated financial statements. The Company conventionally used the declining balance method for depreciation of property, plant and equipment (excluding leased assets), but has changed it to straight-line method from the year ended March 31, 2020. Our opinion is not modified in respect of this matter.

Responsibilities of Management and the audit and supervisory committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit and supervisory committee are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report

that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit and supervisory committee regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit and supervisory committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

/S/ Kohei Komatsubara
Designated Engagement Partner
Certified Public Accountant

/S/ Kozo Ozaki
Designated Engagement Partner
Certified Public Accountant

/S/ Shinya Fukuda
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Hiroshima Office, Japan
August 26, 2020

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.

Non-Consolidated Balance Sheets

The Chugoku Electric Power Co., Inc.
March 31, 2020 and 2019

Assets	Millions of yen		Thousands of U.S.dollars
	2020	2019	2020
Property, plant and equipment:			
Plant and equipment	¥5,821,831	¥5,785,793	\$53,411,302
Construction in progress	1,025,666	948,568	9,409,782
Suspense account related to reprocessing of spent nuclear fuel	15,149	11,361	138,982
	6,862,647	6,745,724	62,960,067
Less-			
Contributions in aid of construction	103,423	97,219	948,837
Accumulated depreciation	4,376,997	4,345,857	40,155,940
	4,480,420	4,443,077	41,104,778
Net property, plant and equipment	2,382,226	2,302,646	21,855,288
Nuclear fuel	141,949	159,103	1,302,292
Investments and other assets:			
Investment securities	54,567	58,607	500,618
Investments to subsidiaries and affiliated companies	97,705	88,166	896,384
Long-term loans to employees	8	12	75
Deferred tax assets	44,141	66,784	404,971
Other assets	136,104	118,245	1,248,669
Total investments and other assets	332,528	331,817	3,050,719
Current assets:			
Cash and time deposits	57,372	104,271	526,356
Receivables, less allowance for doubtful accounts of ¥186 million (\$1,713 thousand) in 2020 and ¥199 million in 2019	110,069	113,999	1,009,810
Inventories, fuel and supplies	44,554	47,124	408,758
Other current assets	24,131	26,161	221,387
Total current assets	236,128	291,557	2,166,313
Total assets	¥3,092,832	¥3,085,124	\$28,374,613

Liabilities and Net Assets	Millions of yen		Thousands of U.S.dollars
	2020	2019	2020
Long-term liabilities:			
Long-term debt	¥1,900,773	¥1,793,902	\$17,438,284
Employees' severance and retirement benefits	56,549	57,498	518,806
Asset retirement obligations	92,612	90,871	849,651
Other long-term liabilities	17,073	12,678	156,638
Total long-term liabilities	2,067,008	1,954,950	18,963,380
Current liabilities:			
Long-term debt due within one year	194,750	305,500	1,786,697
Short-term borrowings	67,145	67,145	616,009
Accounts payable	82,853	71,547	760,124
Accrued income taxes	11,806	4,917	108,320
Accrued expenses	62,157	73,529	570,255
Provision for loss on disaster	239	912	2,195
Other current liabilities, including other long-term liabilities due within one year	111,589	115,434	1,023,754
Total current liabilities	530,541	638,987	4,867,356
Reserve for fluctuation in water levels	786	1,170	7,212
Provision for depreciation of nuclear power plants	-	86,281	-
Net Assets:			
Common stock	197,024	185,527	1,807,563
Authorized - 1,000,000,000 shares			
Issued - 387,154,692 shares in 2020 and 371,055,259 shares in 2019			
Capital surplus	28,224	16,727	258,939
Retained earnings	304,500	234,018	2,793,581
Treasury stock (26,562,422 shares in 2020 and 26,550,377 shares in 2019)	(38,399)	(38,382)	(352,285)
Net unrealized holding gains (losses) on securities	3,445	6,220	31,606
Net unrealized gains (losses) on hedges	(298)	(377)	(2,741)
Total net assets	494,496	403,735	4,536,663
Total liabilities and net assets	¥3,092,832	¥3,085,124	\$28,374,613

