

Consolidated Financial Statements

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

*Year ended March 31, 2021
with Independent Auditor's Report*

The Chugoku Electric Power Company, Incorporated
and Consolidated Subsidiaries

Consolidated Financial Statements

Year ended March 31, 2021

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Consolidated Balance Sheets

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
March 31, 2021 and 2020

Assets	Millions of yen		Thousands of U.S.dollars (Note 1)
	2021	2020	2021
Property, plant and equipment:			
Utility plant and equipment	¥5,635,470	¥5,595,225	\$50,770,006
Other plant	427,423	421,999	3,850,660
Construction in progress	1,105,524	1,017,143	9,959,681
Suspense account related to reprocessing of spent nuclear fuel	18,936	15,149	170,598
	7,187,355	7,049,517	64,750,947
Less			
Contributions in aid of construction	116,112	106,968	1,046,062
Accumulated depreciation	4,536,215	4,494,672	40,866,806
	4,652,328	4,601,641	41,912,868
Net property, plant and equipment (Note 11)	2,535,026	2,447,876	22,838,078
Nuclear fuel	137,436	141,949	1,238,167
Investments and other assets:			
Investment securities (Note 12 and 13)	64,522	57,083	581,284
Investments to non-consolidated subsidiaries and affiliated companies	144,281	137,228	1,299,829
Long-term loans to employees	38	51	346
Asset for retirement benefits (Note 18)	62,206	44,858	560,414
Deferred tax assets (Note 19)	56,148	60,487	505,840
Other assets	97,726	86,635	880,420
Allowance for doubtful accounts	(8,470)	(136)	(76,313)
Total investments and other assets	416,452	386,209	3,751,821
Current assets:			
Cash and time deposits (Note 9 and 12)	59,885	67,401	539,505
Receivables(Note 12)	148,152	132,067	1,334,708
Short-term investment	4	—	39
Inventories, fuel and supplies	53,841	56,639	485,058
Other current assets	37,836	33,512	340,868
Allowance for doubtful accounts	(3,465)	(282)	(31,222)
Total current assets	296,254	289,338	2,668,957
Total assets	¥3,385,169	¥3,265,374	\$30,497,025

See Notes to Consolidated Financial Statements

Liabilities and Net Assets	Millions of yen		Thousands of U.S.dollars (Note 1)
	2021	2020	2021
Long-term liabilities:			
Long-term debt (Note 12 and 15)	¥1,870,787	¥1,908,538	\$16,853,944
Liability for retirement benefits (Note 18)	64,102	65,718	577,496
Retirement allowances for directors and corporate auditors	265	245	2,389
Asset retirement obligations (Note 20)	96,018	93,639	865,027
Other long-term liabilities	16,819	18,454	151,530
Total long-term liabilities	2,047,993	2,086,596	18,450,387
Current liabilities:			
Long-term debt due within one year (Note 12 and 15)	240,401	196,304	2,165,774
Short-term borrowings (Note 12)	67,195	67,195	605,360
Commercial paper (Note 12)	90,000	-	810,810
Accounts payable (Note 12)	115,113	101,020	1,037,056
Accrued income taxes	2,272	8,151	20,471
Accrued expenses	70,459	67,818	634,770
Provision for loss on disaster	27	239	251
Allowance for bonuses to directors and corporate auditors	72	74	655
Other current liabilities, including other long-term liabilities due within one year	90,487	90,489	815,203
Total current liabilities	676,029	531,293	6,090,354
Reserve for fluctuation in water levels	801	786	7,218
Contingent liabilities (Note 16)			
Net assets (Note 21):			
Common stock : (Note 10)	197,024	197,024	1,774,994
Authorized - 1,000,000,000 shares			
Issued-387,154,692 shares in 2021 and 387,154,692 shares in 2020			
Capital surplus (Note 10)	28,545	28,544	257,170
Retained earnings (Note 23)	451,942	455,867	4,071,554
Treasury stock (26,883,619 shares in 2021 and 26,825,139 shares in 2020)	(38,866)	(38,791)	(350,152)
Total stockholders' equity	638,646	642,644	5,753,567
Net unrealized holding gains (losses) on securities	10,312	5,933	92,907
Net unrealized gains (losses) on hedges (Note 14)	2,771	1,841	24,967
Foreign currency translation adjustments	(3,589)	(1,444)	(32,341)
Accumulated adjustments for retirement benefit	9,054	(5,656)	81,568
Accumulated other comprehensive income	18,548	673	167,102
Non-controlling interests	3,151	3,380	28,394
Total net assets	660,346	646,698	5,949,064
Total liabilities and net assets	¥3,385,169	¥3,265,374	\$30,497,025

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, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Profit (loss)	¥14,522	¥90,143	\$130,833
Other comprehensive income (loss):			
Net unrealized holding gains (losses) on securities	2,849	(2,948)	25,672
Net unrealized gains (losses) on hedges	707	164	6,370
Foreign currency translation adjustments	(1,194)	(346)	(10,764)
Adjustments for retirement benefit	14,265	(1,977)	128,514
Share of other comprehensive income (loss) of affiliated companies accounted for using equity method	1,343	(1,107)	12,107
	17,970	(6,215)	161,900
Comprehensive income (loss)	¥32,493	¥83,927	\$292,734
Comprehensive income (loss) attributable to:			
Comprehensive income (loss) attributable to owners of parent	¥32,440	¥83,734	\$292,253
Comprehensive income (loss) attributable to non-controlling interests	53	193	480

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, 2021 and 2020

	Millions of yen										
	Shares of common stock	Common stock (Note 10)	Capital surplus (Note 10)	Retained earnings	Treasury stock	Net unrealized holding gains (losses) on securities	Net unrealized gains (losses) on hedges (Note 14)	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Non-controlling interests	Total
Balance at April 1, 2019	371,055,259	¥185,527	¥17,048	¥384,711	¥(38,775)	¥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
Issuance of new shares - exercise of share acquisition rights											
Profit attributable to owners of parent				14,564							14,564
Cash dividends paid (¥ 50 per share)				(18,016)							(18,016)
Surplus from sale of treasury stock			(0)		4						3
Treasury stock purchased, net					(77)						(77)
Change in scope of consolidation				(182)							(182)
Change in scope of equity method				(291)							(291)
Other			2		(1)						0
Net changes other than stockholders' equity						4,379	929	(2,144)	14,710	(229)	17,646
Balance at March 31, 2021	387,154,692	¥197,024	¥28,545	¥451,942	¥(38,866)	¥10,312	¥2,771	¥(3,589)	¥9,054	¥3,151	¥660,346

	Thousands of U.S. dollars (Note 1)									
	Common stock (Note 10)	Capital surplus (Note 10)	Retained earnings	Treasury stock	Net unrealized holding gains (losses) on securities	Net unrealized gains (losses) on hedges (Note 14)	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Non-controlling interests	Total
Balance at March 31, 2020	\$1,774,994	\$257,156	\$4,106,916	\$(349,476)	\$53,451	\$16,592	\$(13,017)	\$(50,962)	\$30,458	\$5,826,112
Issuance of new shares - exercise of share acquisition rights										
Profit attributable to owners of parent			131,214							131,214
Cash dividends paid (\$0.45 per share)			(162,308)							(162,308)
Surplus from sale of treasury stock		(4)		37						33
Treasury stock purchased, net				(698)						(698)
Change in scope of consolidation			(1,641)							(1,641)
Change in scope of equity method			(2,625)							(2,625)
Other		18		(14)						4
Net changes other than stockholders' equity					39,456	8,375	(19,323)	132,531	(2,064)	158,974
Balance at March 31, 2021	\$1,774,994	\$257,170	\$4,071,554	\$(350,152)	\$92,907	\$24,967	\$(32,341)	\$81,568	\$28,394	\$5,949,064

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, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Cash flows from operating activities:			
Profit (loss) before income taxes	¥18,628	¥124,293	\$167,824
Depreciation	83,418	81,263	751,521
Decommissioning cost of nuclear power generating plants	3,166	2,986	28,531
Equity in losses (earnings) of affiliated companies	(3,654)	(2,534)	(32,923)
Loss on disposal of property	5,166	5,087	46,543
Increase (decrease) in liability for retirement benefits	(106)	(695)	(960)
Decrease (increase) in asset for retirement benefits	1,009	(2,517)	9,093
Increase (decrease) in reserve for fluctuation in water levels	15	(383)	136
Increase (decrease) in provision for depreciation of nuclear power plants	-	(86,281)	-
Increase (decrease) in provision for loss on disaster	(205)	(572)	(1,848)
Interest and dividend income	(1,368)	(1,703)	(12,329)
Interest expense	10,645	12,517	95,906
Loss (gain) on sales of securities	(44)	(2)	(398)
Loss (gain) on sales of fixed assets	(272)	(110)	(2,455)
Provision of allowance for doubtful accounts	11,448	-	103,139
Loss on decommissioning of Iwakuni Thermal Power Station	-	2,221	-
Decrease (increase) in notes and accounts receivable	(15,615)	3,309	(140,677)
Decrease (increase) in inventories	4,451	3,642	40,103
Increase (decrease) in notes and accounts payable	12,247	7,824	110,338
Other	1,805	(6,864)	16,262
Subtotal	130,736	141,479	1,177,807
Interest and dividends received	3,853	4,040	34,715
Interest paid	(10,826)	(12,837)	(97,539)
Income taxes refund (paid)	(13,534)	(3,027)	(121,929)
Net cash provided by (used in) operating activities	110,228	129,654	993,053
Cash flows from investing activities:			
Purchase of property	(186,024)	(173,923)	(1,675,893)
Purchase of investments in securities	(58,842)	(105,865)	(530,114)
Proceeds from sales of investment securities	66,065	98,682	595,187
Other	6,038	8,994	54,401
Net cash provided by (used in) investing activities	(172,762)	(172,111)	(1,556,418)

	Millions of yen		Thousands of U.S.dollars (Note 1)
	2021	2020	2021
Cash flows from financing activities:			
Proceeds from issue of bonds	124,474	182,480	1,121,390
Repayment of bonds	(120,000)	(228,969)	(1,081,081)
Proceeds from long-term borrowings	77,500	123,500	698,198
Repayment of long-term borrowings	(76,056)	(59,537)	(685,197)
Proceeds from short-term borrowings	309,397	139,942	2,787,360
Repayment of short-term borrowings	(309,580)	(139,730)	(2,789,009)
Proceeds from issue of commercial paper	360,000	20,000	3,243,243
Repayment of commercial paper	(270,000)	(20,000)	(2,432,432)
Purchase of treasury stock	(83)	(20)	(749)
Cash dividends paid	(18,024)	(17,221)	(162,386)
Dividends paid to non-controlling interests	(79)	(18)	(717)
Other	(2,305)	(1,879)	(20,768)
Net cash provided by (used in) financing activities	75,241	(1,451)	677,850
Effect of exchange rate changes on cash and cash equivalents	(147)	(150)	(1,325)
Net increase (decrease) in cash and cash equivalents	12,560	(44,058)	113,159
Cash and cash equivalents at beginning of the fiscal year	47,341	91,399	426,495
Increase in cash and cash equivalents resulting from change of scope of consolidation	167	-	1,510
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	(234)	-	(2,112)
Cash and cash equivalents at end of the fiscal year (Note 9)	¥59,835	¥47,341	\$539,054

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, 2021, which was ¥111 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, 2021, 20 subsidiaries (22 in 2020) were consolidated and 9 (6 in 2020) 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, 2021, 6 non-consolidated subsidiaries (4 in 2020) and 12 affiliated companies (14 in 2020) were accounted for by the equity method.

For the year ended March 31, 2021, 3 non-consolidated subsidiaries (2 in 2020) and 20 affiliated companies (18 in 2020) 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. , Chugoku Electric Power America, LLC. and Chugoku Electric Power Singapore Pte. Lte. 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, 2021.

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.

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.

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 in 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, and ordinary income and profit before income taxes increased by ¥21,372 million, compared with the figures obtained using the previous method.

4. Significant accounting estimates

Deferred tax assets

(1) Carrying amount as of March 31, 2021

¥56,148 million

(2) Information that assists users of the consolidated financial statements in understanding the nature of the accounting estimates

1) Method used for calculating the amount recorded in the consolidated financial statements for the year ended March 31, 2021

The Companies record the deferred tax assets for the amounts deemed to be recoverable through future taxable income estimated in the Mid-Term Management Plan.

2) Main assumptions used in calculating the amounts recorded in the consolidated financial statements for the year ended March 31, 2021

For the future taxable income, the Companies make the best estimates possible based on the information available at present, taking into account predictions for electricity sales, market trends for fuel costs, and etc.

3) Effects on the consolidated financial statements for the year ending March 31, 2022

In case of the decrease in the Companies' future taxable income resulted from factors that could not be predicted, such as changes in the competition environment or fluctuations in fuel costs, the Companies' business results may be affected by reversing the deferred tax assets.

5. 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)
- "Electricity Business Accounting Regulations" (Ministry of International Trade and Industry Ordinance No.57, June 15, 1965 amended on March 31, 2021)

(1) Overview

The "Accounting Standard for Revenue Recognition" and the "Implementation Guidance on Accounting Standard for Revenue Recognition" set out accounting procedures and disclosure guidance regarding revenue from contracts with customers, while the "Electricity Business Accounting Regulations" was amended mainly to comply with the above accounting standard and guidance.

(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.

However, the major effect involved in applying these accounting standards includes the charges and grants pursuant to the Act on Special Measures Concerning Procurement of Electricity from Renewable Energy Sources by Electricity Utilities (hereinafter, "Renewable Energy Special Measures Act") which were conventionally recorded as electric revenue based on the Feed-in Tariff Scheme for Renewable Energy. Under the Renewable Energy Special Measures Act, charges are no longer be recorded in the electric revenue, and grants are to be deduced from the electric expense. As a result, the electric revenue and the electric expense will decrease by approximately ¥367,000 million (US\$3,306,306 thousand) for the year ending March 31, 2022. The Companies are currently in the process of determining the amounts of other effects on the consolidated financial statements.

In addition, the residential lighting and electric power charges within the electric revenue have been recorded as revenue based on the amount of electric power charges determined by monthly meter readings (hereinafter, "meter reading date basis") and will continue to be recorded as revenue based on the meter reading date basis in accordance with the "Electricity Business Accounting Regulations" for the year ending March 31, 2022 and onward.

- “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, March 31, 2020)

(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 onward.

(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.

6. Changes in presentation

Adoption of “Accounting Standard for Disclosure of Accounting Estimates”

The Companies adopted “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020) from the year ended March 31, 2021 on the consolidated financial statements, and therefore significant accounting estimates are disclosed in the note to the consolidated financial statements.

The note does not include information for the year ended March 31, 2020 in accordance with the transitional provision set out in paragraph 11 of the accounting standard.

Consolidated Balance Sheets

Due to the increase in amount, the allowance for doubtful accounts included in “Investments and other assets” in "Other assets" until the year ended March 31, 2020 was disclosed as a separate line item starting from the year ended March 31, 2021. In order to reflect this change in presentation, the Companies have made a rearrangement to the consolidated balance sheets. As a result, ¥86,499 million included in "Other assets" in " Investments and other assets " for the year ended March 31, 2020 has been reclassified to ¥(136) million in " Allowance for

doubtful accounts", and ¥86,635 million in "Other assets".

Also, due to the increase in amount, the allowance for doubtful accounts included in "Receivables" in "Current assets" until the year ended March 31, 2020 was disclosed as a separate line item starting from the year ended March 31, 2021. In order to reflect this change in presentation, the Companies have made a rearrangement to the consolidated balance sheets. As a result, ¥131,785 million in "Receivables" in "Current assets" for the year ended March 31, 2020 has been reclassified to ¥(282) million in " Allowance for doubtful accounts", and ¥132,067 million in "Receivables".

7. 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 (Including ¥457 million 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.

Burden charge for smooth decommissioning of reactors

In order to smoothly decommission reactors, the "Decommissioning Accounting Scheme" was established. By applying this decommissioning accounting scheme, the remaining book value of the nuclear reactors decommissioned due to changes in energy policies or changes in safety regulations, etc. can be recovered through the structure of consignment supply service fees for general power transmission and distribution businesses.

Conventionally, the recovery was permitted through collecting retail regulation fees. However, since October 2020, the recovery was shifted to the current scheme considering the continuance of the system.

Pursuant to the stipulations of Article 45, Paragraph 21, Item 6 of the "Regulation for Enforcement of the Electricity Business Act" (Ministry of International Trade and Industry Ordinance No. 77 of 1995), the Company has submitted an application regarding the required reserve amount for the book value of specified nuclear power assets and reserve fund for dismantling nuclear power facilities (hereinafter, "burden charge for smooth decommissioning of reactors"), and this application was approved by the Minister of Economy, Trade and

Industry on July 22, 2020.

In response to this and pursuant to the stipulations of Article 45, Paragraph 21, Item 5 of the "Regulation for Enforcement of the Electricity Business Act" (Ministry of International Trade and Industry Ordinance No. 77 of 1995), the Chugoku Electric Power Transmission & Distribution Co., Inc. altered its general clause for consignment supply services effective October 1, 2020, and is thereby collecting the burden charge for smooth decommissioning of reactors.

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

While it is still unclear when the COVID-19 will come to an end, taking into account the effect on retail electricity sales for the year ended March 31, 2021, the Companies deem that there will not be a significant impact on their accounting estimates such as the recoverability of deferred tax assets, at this moment.

8. Content of extraordinary loss

Due to the steep rise in the imbalance fee unit price caused by the surge in the electricity market wholesale price in January 2021, some imbalance fees may be difficult to collect, as such allowance for doubtful accounts was recorded for the year ended March 31, 2021.

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 for the generating facilities and a provision of ¥106 million for supplies were recorded for the year ended March 31, 2020. 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

Impairment loss recognized based on the grouping was ¥2,114 million, and the following describes the fixed assets.

			Millions of yen
Asset	Location	Type	2020
Iwakuni Thermal Power Station	Iwakuni, Yamaguchi Prefecture	Land	¥ 292
		Buildings	283
		Structures	1,216
		Machinery and equipment	320
		Other	0
Total			¥ 2,114

(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.

9. 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, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Cash and time deposits	¥59,885	¥ 67,401	\$539,505
Time deposits with maturities exceeding 3 months	(50)	(20,060)	(450)
Cash and cash equivalents	¥59,835	¥47,341	\$539,054

10. 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, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Increase in capital due to exercise of stock acquisition rights	¥—	¥ 11,496	\$—
Increase in additional paid-in capital due to exercise of stock acquisition rights	—	11,496	—
Decrease in bonds with stock acquisition rights due to exercise of stock acquisition rights	¥—	¥ 22,993	\$—

11. Property, plant and equipment

The major classifications of property, plant and equipment at March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Hydroelectric power production facilities	¥ 101,244	¥ 109,265	\$ 912,110
Thermal power production facilities	164,153	170,226	1,478,861
Nuclear power production facilities	98,084	97,489	883,641
Transmission facilities	295,708	299,634	2,664,036
Transformation facilities	154,803	148,766	1,394,628
Distribution facilities	374,036	368,242	3,369,701
General facilities	88,114	85,549	793,822
Inactive facilities	13,655	14,316	123,026
Other electric utility plants and equipment	5,232	5,194	47,139
Other plants	115,532	116,898	1,040,829
Construction in progress	1,105,524	1,017,143	9,959,681
Suspense account related to reprocessing of spent nuclear fuel	18,936	15,149	170,598
Total	¥ 2,535,026	¥ 2,447,876	\$ 22,838,078

Accumulated gains in relation to the receipt of contributions in aid for construction deducted from the original acquisition costs were ¥116,112 million (US\$1,046,062 thousand) and ¥106,968 million at March 31, 2021 and 2020, respectively.

12. 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 14, "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, 2021 and 2020. 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		
	2021			2020			2021		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Assets									
(1) Long-term investment: Available-for-sale securities	¥16,053	¥16,053	¥ —	¥12,599	¥12,599	¥ —	\$144,625	\$144,625	\$ —
(2) Cash and time deposits	59,885	59,885	—	67,401	67,401	—	539,505	539,505	—
(3) Notes receivable and accounts receivable	136,763	136,763	—	128,572	128,572	—	1,232,099	1,232,099	—
Liabilities									
(4) Bonds	¥926,462	¥939,170	¥12,708	¥ 921,523	¥935,279	¥ 13,756	\$8,346,510	\$8,460,999	\$114,488
(5) Long-term borrowings	1,183,862	1,202,375	18,513	1,182,834	1,201,356	18,522	10,665,424	10,832,214	166,789
(6) Short-term borrowings	67,195	67,195	—	67,195	67,195	—	605,360	605,360	—
(7) Commercial paper	90,000	90,000	—	—	—	—	810,810	810,810	—
(8) Notes payable and accounts payable	68,696	68,696	—	56,223	56,223	—	618,887	618,887	—
(9) Derivative transactions									
①Hedge accounting is applied	¥459	¥459	¥ —	¥ (160)	¥ (160)	¥ —	\$ 4,138	\$ 4,138	\$ —
②Hedge accounting is not applied	250	250	—	(414)	(414)	—	2,258	2,258	—

(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 13, "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 13, "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 assignment of currency swaps (Please refer to Note 14, "Derivatives and hedge accounting"). These are valued based on the same terms and conditions applied to the relevant 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 14, “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, (7) Commercial paper and (8) 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.

(9) Derivative transactions

Please refer to Note 14, “Derivatives and hedge accounting.”

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

	Millions of yen		Thousands of
	U.S. dollars		
	Book value		
	2021	2020	2021
Unlisted stocks	¥ 37,873	¥ 37,779	\$ 341,203
Other	5,355	1,917	48,245
Total	¥ 43,228	¥ 39,696	\$ 389,448

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		
	2021	2020	2021
Cash and time deposits	¥ 59,885	¥ 67,401	\$ 539,505
Notes receivable and accounts receivable	136,763	128,572	1,232,099
Total	¥ 196,648	¥ 195,973	\$ 1,771,604

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

	Millions of yen					
	2021					
	Within 1 year	1 year - 2 years	2 years - 3 years	3 years - 4 years	4 years - 5 years	Over 5 years
Bonds	¥80,000	¥40,000	¥118,228	¥133,185	¥50,000	¥505,000
Long-term borrowings	159,917	141,968	92,206	98,731	129,442	561,596
Short-term borrowings	67,195	—	—	—	—	—
Commercial paper	90,000	—	—	—	—	—
Total	¥397,112	¥181,968	¥210,434	¥231,916	¥179,442	¥1,066,596

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	—	—	—	—	—
Commercial paper	—	—	—	—	—	—
Total	¥ 263,284	¥ 239,982	¥ 182,042	¥ 210,507	¥ 231,989	¥ 1,043,635

Thousands of U.S. dollars						
2021						
	Within 1 year	1 year - 2 years	2 years - 3 years	3 years - 4 years	4 years - 5 years	Over 5 years
Bonds	\$720,720	\$360,360	\$1,065,117	\$1,199,864	\$450,450	\$4,549,549
Long-term borrowings	1,440,697	1,278,998	830,687	889,471	1,166,145	5,059,423
Short-term borrowings	605,360	—	—	—	—	—
Commercial paper	810,810	—	—	—	—	—
Total	\$3,577,589	\$1,639,358	\$1,895,804	\$2,089,336	\$1,616,596	\$9,608,973

(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 ().

13. Securities

Available-for-sale securities

Categories	Millions of yen						Thousands of U.S. dollars		
	2021			2020			2021		
	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	¥16,041	¥7,510	¥8,530	¥11,537	¥6,375	¥5,162	\$144,518	\$67,665	\$76,853
Bonds	—	—	—	—	—	—	—	—	—
Other	11	2	8	8	2	5	106	26	80
Subtotal	¥16,053	¥7,513	¥8,539	¥11,545	¥6,378	¥5,167	\$144,625	\$67,692	\$76,933
Available-for-sale securities with book values not exceeding acquisition costs									
Equity securities	¥—	¥—	¥—	¥1,053	¥1,134	¥(81)	\$—	\$—	\$—
Bonds	—	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	—	—
Subtotal	¥—	¥—	¥—	¥1,053	¥1,134	¥(81)	\$—	\$—	\$—
Total	¥16,053	¥7,513	¥8,539	¥12,599	¥7,512	¥5,086	\$144,625	\$67,692	\$76,933

At March 31, 2021 and 2020, unlisted stocks of ¥43,228 million (US\$389,448 thousand) and ¥39,696 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”.

14. Derivatives and hedge accounting

Derivative transactions for which hedge accounting was not applied

Categories	Type of transaction	Millions of yen							
		2021				2020			
		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 and others	Commodity swap Fixed-rate payment and flexible-rate receipt	¥ 1,180	¥ —	¥ 459	¥ 459	¥ 397	¥ —	¥ (160)	¥ (160)

Categories	Type of transaction	Thousands of U.S. dollars			
		2021			
		Amount of contract	Amount of contract longer than 1 year	Fair value	Unrealized gains (losses)
Market transactions and others	Commodity swap Fixed-rate payment and flexible-rate receipt	\$ 10,635	\$ —	\$4,138	\$4,138

(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					
			2021			2020		
Hedge accounting method	Type of transaction	Items to be hedged	Amount of contract	Amount of contract longer than 1 year	Fair value	Amount of contract	Amount of contract longer than 1 year	Fair value
Currency swap								
Assignment of currency swaps	Japanese yen payment & U.S. dollars receipt	Bonds	¥ 86,413	¥ 86,413	(Note b)	¥ 86,413	¥ 86,413	(Note b)

			Thousands of U.S. dollars					
			2021					
Hedge accounting method	Type of transaction	Items to be hedged	Amount of contract	Amount of contract longer than 1 year	Fair value			
Currency swap								
Assignment of currency swaps	Japanese yen payment & U.S. dollars receipt	Bonds	\$ 778,495	\$ 778,495	(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					
			2021			2020		
Hedge accounting method	Type of transaction	Items to be hedged	Amount of contract	Amount of contract longer than 1 year	Fair value	Amount of contract	Amount of contract longer than 1 year	Fair value
Interest-rate swap								
Special treatment of interest rate swaps	Fixed-rate receipt & flexible-rate payment	Bonds & long-term borrowings	¥—	¥—	¥—	¥20,000	¥—	(Note c)

			Thousands of U.S. dollars					
			2021					
Hedge accounting method	Type of transaction	Items to be hedged	Amount of contract	Amount of contract longer than 1 year	Fair value			
Interest-rate swap								
Special treatment of interest rate swaps	Fixed-rate receipt & flexible-rate payment	Bonds & long-term borrowings	\$—	\$—	\$—			

(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					
			2021			2020		
Hedge accounting method	Type of transaction	Items to be hedged	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)	¥ 821	¥ —	¥ 250	¥ 2,520	¥ —	¥ (414)

			Thousands of U.S. dollars		
			2021		
Hedge accounting method	Type of transaction	Items to be hedged	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)	\$ 7,400	\$ —	\$2,258

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

15. Long-term debt

Long-term debt at March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Bonds due through 2050 at rates of 0% to 3.488% (Note)	¥926,462	¥921,523	\$8,346,510
Long-term borrowings from the Development Bank of Japan Inc., other banks and insurance companies due through 2036	1,183,862	1,182,834	10,665,424
Lease obligations	864	486	7,784
	¥2,111,188	¥2,104,843	\$19,019,719
Less amounts due within one year	(240,401)	(196,304)	(2,165,774)
Total	¥1,870,787	¥1,908,538	\$16,853,944

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

At March 31, 2021 and 2020, long-term borrowings from the Development Bank of Japan Inc. in the amounts of ¥310,000 million (US\$2,792,792 thousand) and ¥325,000 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 ¥3,094,988 million (US\$27,882,781 thousand) and ¥3,092,832 million, respectively, senior to that of general creditors. Also, the following assets of consolidated subsidiaries and their investing companies are pledged as collateral for loans from financial institutions and other sources.

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Consolidated subsidiaries			
Pledged assets:			
Other property, plant and equipment	¥577	¥585	\$5,200
Pledged debt:			
Long-term borrowings	1,200	1,200	10,810
Consolidated subsidiaries' investing companies			
Pledged assets:			
Investments and other assets			
Other assets (Note)	¥4,529	¥0	\$40,808

When consolidated subsidiaries' investing companies default on debts, liabilities on consolidated subsidiaries are limited to their invested amounts.

The annual maturities of long-term debt at March 31, 2021 and 2020 were as follows:

At March 31, 2021 Year ending March 31	Millions of Yen	Thousands of U.S. dollars
2022	¥ 239,917	\$ 2,161,418
2023	181,968	1,639,358
2024	210,434	1,895,804
2025	231,916	2,089,336
Thereafter	1,246,038	11,225,569

At March 31, 2020 Year ending March 31	Millions of Yen
2021	¥ 196,089
2022	239,982
2023	182,042
2024	210,507
Thereafter	1,275,625

(Note) Excluding lease obligations.

16. Contingent liabilities

At March 31, 2021 and 2020, the Companies were contingently liable as guarantors for loans of other companies and employees in the amount of ¥130,418 million (US\$1,174,942 thousand) and ¥127,417 million, respectively.

17. Research and development expenses

Research and development expenses charged to operating expenses were ¥11,677 million (US \$105,203 thousand) and ¥11,906 million for the years ended March 31, 2021 and 2020, 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
	2021	2020	2021
Balance at the beginning of the fiscal year	¥ 248,719	¥ 262,998	\$ 2,240,712
Service cost	8,332	9,030	75,069
Interest cost	478	2	4,313
Actuarial loss (gain)	64	(6,037)	578
Benefits paid	(14,468)	(17,275)	(130,345)
Other	(291)	(0)	(2,625)
Balance at the end of the fiscal year	¥ 242,834	¥ 248,719	\$ 2,187,702

(2) Movement in plan assets

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Balance at the beginning of the fiscal year	¥227,859	¥241,768	\$ 2,052,786
Expected return on plan assets	3,437	3,715	30,968
Actuarial loss (gain)	16,402	(9,716)	147,770
Contributions paid by the Companies	3,783	3,823	34,081
Benefits paid	(10,252)	(11,730)	(92,366)
Other	(290)	—	(2,620)
Balance at the end of the fiscal year	¥ 240,938	¥ 227,859	\$ 2,170,620

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Retirement benefit obligations for defined benefit corporate pension schemes	¥ 179,701	¥ 184,565	\$ 1,618,931
Plan assets	(240,938)	(227,859)	(2,170,620)
	(61,237)	(43,293)	(551,688)
Retirement benefit obligations for retirement lump sum schemes	63,133	64,153	568,770
Total net liability (asset) for retirement benefits at the end of the fiscal year	¥ 1,896	¥20,859	\$ 17,081

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Liability for retirement benefits	¥ 64,102	¥ 65,718	\$577,496
Asset for retirement benefits	(62,206)	(44,858)	(560,414)
Total net liability (asset) for retirement benefits at the end of the fiscal year	¥ 1,896	¥ 20,859	\$ 17,081

(4) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Service cost	¥ 8,332	¥ 9,030	\$ 75,069
Interest cost	478	2	4,313
Expected return on plan assets	(3,437)	(3,715)	(30,968)
Net actuarial loss (gain) amortization	3,511	839	31,630
Other	171	1,056	1,542
Retirement benefit costs for defined benefit plans at the end of the fiscal year	¥9,056	¥7,213	\$81,586

(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
	2021	2020	2021
Actuarial gains/losses	¥ 19,849	¥ (2,840)	\$ 178,823
Total	¥ 19,849	¥ (2,840)	\$ 178,823

(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
	2021	2020	2021
Unrecognized actuarial gains/losses	¥(12,279)	¥7,569	\$(110,630)
Total	¥(12,279)	¥7,569	\$(110,630)

(7) Plan assets

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

	2021	2020
Bonds	36%	37%
Equity securities	13%	10%
Life insurance general accounts	38%	40%
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.

	2021	2020
Discount rate	mainly 0.2%	mainly 0.2%
Long-term expected rate of return	mainly 1.5%	mainly 1.5%

3. Defined contribution pension plan

The contributions required from the Companies to the defined contribution pension plan amounted to ¥845 million (US\$7,614 thousand) and ¥757 million for the years ended March 31, 2021 and 2020, 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, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Deferred tax assets:			
Excess depreciation	¥ 24,288	¥ 24,700	\$218,814
Asset retirement obligations	13,260	13,028	119,459
Adjustment for unrealized intercompany profits	10,021	9,544	90,281
Construction and repair costs	5,909	6,027	53,238
Accrued bonuses and other expenses	3,763	3,756	33,905
Reprocessing of irradiated nuclear fuel	2,250	2,275	20,273
Liability for retirement benefits	862	6,234	7,772
Other	17,099	14,327	154,047
Total gross deferred tax assets	77,455	79,895	697,794
Less valuation allowance	(16,699)	(16,235)	(150,442)
Total deferred tax assets	60,756	63,660	547,351
Deferred tax liabilities:			
Unrealized holding gains on securities	(2,712)	(1,633)	(24,441)
Other	(1,959)	(1,631)	(17,656)
Total deferred tax liabilities	(4,672)	(3,265)	(42,097)
Net deferred tax assets	¥56,083	¥60,395	\$505,254

The effective tax rate reflected in the consolidated statements of operations for the year ended March 31, 2021 differs from the statutory tax rate for the following reasons.

	2021	2020
Statutory tax rate	27.96%	—
Tax credit	△5.53%	—
Equity in net income of affiliated companies	△5.49%	—
Valuation allowance	3.00%	—
Enterprise tax	1.77%	—
Other	0.33%	—
Effective tax rate	22.04%	—

(Note) For the year ended March 31, 2020, since the difference between the statutory tax rate and the effective tax rate was less than 5% of the statutory 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, 2021 and 2020:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Balance at the beginning of the fiscal year	¥93,709	¥91,856	\$844,232
Changes in estimated obligations and accretion	2,332	1,852	21,014
Balance at the end of the fiscal year	¥96,042	¥93,709	\$865,246

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, 2021, the stockholders approved cash dividends amounting to ¥9,013 million (US\$81,201 thousand). The appropriations had not been accrued in the consolidated financial statements at March 31, 2021. 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, from the year ended March 31, 2021, the Companies are composed of three reporting segments: combining power generation and electric power sales business with comprehensive energy supply business to be a single business unit the "Comprehensive energy", following the legal separation implemented on April 1, 2020 the "Power transmission and distribution", and the "Information and telecommunications".

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.

Changes in segment categories

From the year ended March 31, 2021, following the legal separation of the power transmission and distribution division implemented on April 1, 2020, the Companies separated the "Power transmission and distribution" from "Electric power" and combined "Comprehensive energy supply" to be "Comprehensive energy".

Before	After
[Electric power] Power generation, Electric power sales, Power transmission and distribution, etc.	[Comprehensive energy] Power generation, Electric power sales, Fuel sales, Heat supply, etc.
[Comprehensive energy supply] Electric power sales, Fuel sales, Heat supply, etc.	[Power transmission and distribution] Power transmission and distribution, etc.
[Information and telecommunications] Tele-communications, Information processing, etc.	[Information and telecommunications](no changes) Tele-communications, Information processing, etc.

Furthermore, following the legal separation of the power transmission and distribution division implemented on April 1, 2020, the segment information for the year ended March 31, 2020 has been prepared based on the new classification using certain assumptions that the power transmission and distribution division had been legally separated.

A summary by segment for the years ended March 31, 2021 and 2020 is as follows:

	Millions of yen							
	2021							
	Reporting segment				Other	Total	Adjustment (Note)	Consolidated
Comprehensive energy	Power transmission and distribution	Information and tele- communications	Total					
Operating revenues:								
Outside customers	¥1,103,395	¥134,346	¥31,006	¥1,268,748	¥38,750	¥1,307,498	¥ —	¥ 1,307,498
Intersegment	77,919	289,528	14,107	381,554	63,237	444,791	(444,791)	—
Total	1,181,314	423,874	45,114	1,650,303	101,987	1,752,290	(444,791)	1,307,498
Segment income (loss)	¥(12,606)	¥41,060	3,411	31,865	4,339	36,205	(1,921)	34,283
Segment assets	3,033,960	1,037,624	77,235	4,148,819	194,748	4,343,568	(958,398)	3,385,169
Other items:								
Depreciation expense	¥31,932	¥40,816	¥8,674	¥81,423	¥2,591	¥84,014	¥ (595)	¥83,418
Value increase in tangible and intangible assets	119,366	64,420	7,556	191,343	2,952	194,296	(3,678)	190,617

	Millions of yen							
	2020							
	Reporting segment				Other	Total	Adjustment (Note)	Consolidated
Comprehensive energy	Power transmission and distribution	Information and tele- communications	Total					
Operating revenues:								
Outside customers	¥1,201,010	¥71,905	¥31,007	¥1,303,923	¥43,429	¥1,347,352	¥ —	¥ 1,347,352
Intersegment	67,439	280,875	11,974	360,288	60,212	420,501	(420,501)	—
Total	1,268,450	352,780	42,981	1,664,212	103,641	1,767,853	(420,501)	1,347,352
Segment income (loss)	¥19,717	¥23,175	¥3,445	¥46,338	¥3,519	¥49,858	¥(1,687)	¥48,170
Segment assets	2,945,341	1,034,178	77,756	4,057,276	187,972	4,245,249	(979,874)	3,265,374
Other items:								
Depreciation expense	¥30,805	¥39,686	¥8,809	¥79,301	¥2,547	¥81,849	¥(585)	¥81,263
Value increase in tangible and intangible assets	112,441	58,304	9,307	180,053	2,553	182,606	(3,398)	179,207

	Thousands of U.S. dollars							
	2021							
	Reporting segment			Total	Other	Total	Adjustment (Note)	Consolidated
Comprehensive energy	Power transmission and distribution	Information and tele- communications						
Operating revenues:								
Outside customers	\$9,940,500	\$1,210,327	\$279,339	\$11,430,167	\$349,101	\$11,779,268	\$ —	\$ 11,779,268
Intersegment	701,973	2,608,361	127,097	3,437,431	569,703	4,007,134	(4,007,134)	—
Total	10,642,473	3,818,688	406,436	14,867,599	918,804	15,786,403	(4,007,134)	11,779,268
Segment income (loss)	\$(113,568)	\$369,913	\$30,730	\$ 287,076	\$39,096	\$326,172	(17,309)	308,863
Segment assets	27,332,974	9,347,965	695,815	37,376,756	1,754,490	39,131,246	(8,634,221)	30,497,025
Other items:								
Depreciation expense	\$287,678	\$367,713	\$78,152	\$733,543	\$23,345	\$756,889	\$ (5,368)	\$751,521
Value increase in tangible and intangible assets	1,075,374	580,363	68,076	1,723,815	26,602	1,750,417	(33,141)	1,717,276

(Note) “Adjustment” of “Segment income (loss)” in an amount of ¥(1,921) million (US\$(17,309) thousand) and ¥(1,687) million refers to intersegment elimination for the years ended March 31, 2021 and 2020, respectively.

“Adjustment” of “Segment assets” in an amount of ¥(958,398) million (US\$(8,634,221) thousand) and ¥(979,874) million refers mainly to intersegment elimination for the years ended March 31, 2021 and 2020, respectively.

“Adjustment” of “Value increase in tangible and intangible assets” in an amount of ¥(3,678) million (US\$(33,141) thousand) and ¥(3,398) million refers mainly to intersegment elimination for the years ended March 31, 2021 and 2020, 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, 2021 and 2020, 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, 2021 and 2020, 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, 2021 and 2020, information concerning major customers is omitted here.

Information on impairment loss for fixed assets in each reporting segment

There is nothing to note about Information on impairment loss for fixed assets in each reporting segment for the year ended March 31, 2021.

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	Consolidated
Comprehensive energy (Note)	Power transmission and distribution	Information and tele-communications						
Impairment loss	¥2,114	—	—	¥2,114	—	¥2,114	—	¥ 2,114

(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)".

23. Subsequent event

The following appropriations of retained earnings at March 31, 2021 were approved at the annual meeting of stockholders held on June 25, 2021:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥25 (US\$0.22) per share	¥ 9,013	\$ 81,201

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, 2021 and 2020, the consolidated statements of operations and comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and 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, 2021 and 2020, and its consolidated financial performance and its consolidated 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition of electric lighting and power charges	
The key audit matter	How the matter was addressed in our audit
The Chugoku Electric Power Co., Inc.'s electric revenue of ¥1,161,494 million in the consolidated statements of operations for the current fiscal year included ¥806,370 million of revenue related to residential electric lighting and commercial electric power charges (hereinafter referred to as the "electric lighting and power charges"), representing approximately 61.6% of total operating revenue, ¥1,307,498 million.	The primary procedures we performed to assess whether the electric lighting and power charges are properly recognized included the following: (1) Testing internal controls relevant to the electric lighting and power charges We tested the design and operating effectiveness of the following internal controls relevant to the key audit matter. The internal controls related to the IT systems were evaluated by our own IT specialists.

<p>As described in Note “Standards and guidance not yet adopted”, electric lighting and power charges are recognized as revenue based on the electricity usage determined by monthly meter readings. The series of transactions including reception, meter reading, charge calculation, billing and collection are managed by a sales management system, and the charges are automatically calculated based on the electricity usage determined by the meter reading and the contract unit price registered in customer data. The results of the calculations are interfaced from the sales management system to the accounting system monthly and the electric lighting and power charges are recognized in the accounting system. Since the number of customers and contracts are extremely large, the electric lighting and power charges are highly dependent on automated controls throughout the process. We, therefore, determined that to record the electric lighting and power charges which are of high importance in amount accurately, the appropriateness of the Company’s IT systems including the sales management system, the accounting system and the various databases to be properly designed and operated was one of the most significant in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.</p>	<ul style="list-style-type: none"> ● Process level controls for the automated charge calculations in the sales management system; ● Controls related to the examination and approval by supervisors on the charge correction; ● Process level controls for the interface between the related IT systems within the sales management system and the accounting system; ● Controls related to the examination and approval on the closing of the electric lighting and power charges; and ● General IT controls such as access to programs and data, program changes, and computer operations over the sales management system and the accounting system. <p>(2) Other audit procedures relevant to the electric lighting and power charges</p> <p>In addition to the internal control testing, we performed the following.</p> <ul style="list-style-type: none"> ● Within the electric lighting and power charges, the sales transactions with large commercial and industrial customers have a large per amount of revenue, which would have a significant impact on the financial reporting, and therefore we analyzed the unit price for each customer calculated with the electric power charges and the amount of electricity usage. We performed detailed procedures on the items that indicated some inaccurate electric power charges; and ● We examined the contents of the journal entries concerning the electric lighting and power charges directly recorded into the accounting system without going through the sales management system.
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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 with regard to 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.

From the matters communicated with the audit and supervisory committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 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/ Kozo Ozaki
Designated Engagement Partner
Certified Public Accountant

/S/ Junko Kito
Designated Engagement Partner
Certified Public Accountant

/S/ Shinya Fukuda
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Hiroshima Office, Japan
August 11, 2021

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.