OFFERING CIRCULAR

THE CHUGOKU ELECTRIC POWER COMPANY, INCORPORATED

(incorporated in Japan with limited liability under the laws of Japan)

U.S.$500,000,000 2.401 per cent. Bonds due 2024

Issue Price: 100 per cent.

The U.S.$500,000,000 2.401 per cent. Bonds due 2024 (the "Bonds") of The Chugoku Electric Power Company, Incorporated (the "Company") will be issued in registered form in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. The Bonds will bear interest from 27 August 2019 at the rate of 2.401 per cent. per annum payable semi-annually in arrear on 27 February and 27 August in each year commencing on 27 February 2020. Payments on the Bonds will be made in U.S. dollars without withholding or deduction for or on account of Japanese taxes to the extent described in Condition 7 of the terms and conditions of the Bonds (the "Conditions" and each condition set out in the Conditions being a "Condition").

Unless previously redeemed or cancelled, the Bonds will be redeemed at 100 per cent. of their principal amount on 27 August 2024. If Japanese withholding taxes are imposed on payments in respect of the Bonds, the Company may, at any time, redeem all of the Bonds at 100 per cent. of their principal amount (as set out herein).

Approval in-principle has been received for the listing of the Bonds on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this Offering Circular. Admission of the Bonds to the official list of the SGX-ST is not to be taken as an indication of the merits of the Company or the Bonds.

The Bonds will be evidenced by a global certificate (the "Global Certificate") evidencing the Bonds in registered form, which is expected to be deposited with and registered in the name of, or a nominee for, a common depositary for each of Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking S.A. ("Clearstream, Luxembourg") on or about 27 August 2019 (the "Closing Date") for the accounts of their respective accountholders. The Managers (as defined in "Subscription and Sale") expect to deliver the Bonds through the facilities of Euroclear and Clearstream, Luxembourg on or about the Closing Date.

It is expected that the Bonds will be assigned a credit rating of A3 by Moody's Japan K.K. ("Moody's"). A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

This Offering Circular does not constitute an offer of, or solicitation of an offer to buy or subscribe for, the Bonds in any jurisdiction in which such offer or solicitation is unlawful. In particular, the Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("Regulation S")). In addition, the Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the "FIEA") and may not be offered or sold within Japan or to, or for the account or benefit of, residents of Japan including corporations incorporated under the laws of Japan, unless otherwise provided under the FIEA. For a summary of certain restrictions on offers and sales of Bonds, see "Subscription and Sale".

Singapore Securities and Futures Act Product Classification: Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the "SFA"), the Company has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA), that the Bonds are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).

See "Investment Considerations" for a discussion of certain factors that should be considered in connection with an investment in the Bonds.

Joint Bookrunners and Joint Lead Managers

Mizuho Securities **SMBC NIKKO** **Morgan Stanley**

Co-Managers

Citigroup **Daiwa Capital Markets Europe** **Nomura**

The date of this Offering Circular is 21 August 2019.

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The Company accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Company (the Company having taken all reasonable care to ensure that such is the case), the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Company, having made all reasonable enquiries, confirms that this Offering Circular contains all information with respect to the Company, the Group (as defined below) and the Bonds which is material in the context of the issue and offering of the Bonds, the statements contained herein relating to the Company and the Group are in every material particular true and accurate and not misleading, the opinions and intentions expressed in this Offering Circular with regard to the Company and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, there are no other facts in relation to the Company, the Group or the Bonds the omission of which would, in the context of the issue and offering of the Bonds, make any statement in this Offering Circular misleading in any material respect and all reasonable enquiries have been made by the Company to ascertain such facts and to verify the accuracy of all such information and statements.

In this Offering Circular, unless otherwise specified or the context otherwise requires, references to the "Group" are to the Company and its consolidated subsidiaries and its affiliates accounted for by the equity method taken as a whole.

No person is authorised to give any information or to make any representation not contained in this Offering Circular and any information or representation not contained in this Offering Circular must not be relied upon as having been authorised by the Company or the Managers. Neither the delivery of this Offering Circular nor any sale made in connection herewith at any time implies that the information contained herein is correct as of any time subsequent to the date hereof, nor does it imply that there has been no change in the affairs or the financial position of the Group since the date hereof.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Company or the Managers to subscribe for, or purchase, any of the Bonds. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Company and the Managers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of Bonds and distribution of this Offering Circular, see "Subscription and Sale".

None of the Fiscal Agent, Paying Agents, Transfer Agent, Registrar (each as defined in "Summary Information—The Bonds") or, to the fullest extent permitted by law, the Managers, accept any responsibility whatsoever for the contents of this Offering Circular or for any other statement, made or purported to be made by a Manager or on its behalf in connection with the Company, the Group or the issue and offering of the Bonds. Each of the Managers, the Fiscal Agent, the Paying Agents, the Transfer Agent and the Registrar accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

No action is being taken to permit a public offering of the Bonds or the distribution of this Offering Circular (in preliminary or final form) in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds and the circulation of documents relating thereto, in jurisdictions including the United States, Japan, Singapore, the European Economic Area (including the United Kingdom), Hong Kong and Switzerland and to persons connected therewith. See "Subscription and Sale".

The Bonds have not been and will not be registered under the FIEA and are subject to the Act on Special Measures Concerning Taxation of Japan (Act No. 26 of 1957, as amended, the "Special Taxation Measures Act"). Each Manager has represented and agreed that, (I) it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Bonds in Japan or to or for the benefit of, any person resident in Japan for Japanese securities law purposes (including any corporation or entity organised under the laws of Japan), or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of any person resident in Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan, and (II) it has not, directly or indirectly, offered or sold and will not, as part of its initial distribution at any time, directly or indirectly, offer or sell any Bonds to, or for the benefit of, any person other than a (i) a beneficial owner that is, for Japanese tax purposes, neither (x) an individual resident of Japan or a Japanese corporation, nor (y) an individual non-resident of Japan or a non-Japanese corporation that in either case is a person having a special relationship with the Company as described in Article 6, Paragraph 4 of the Special Taxation Measures Act (a "Specially-Related Party of the Company"), (ii) a Japanese financial institution, designated in Article 3-2-2, Paragraph 28 of the Cabinet Order relating to the Special Taxation Measures Act (Cabinet Order No. 43 of 1957, as amended, the "Cabinet Order") that will hold the Bonds for its own proprietary account (a "Designated Financial Institution") or (iii) any other excluded category of persons, corporations or other entities under the Special Taxation Measures Act.

BY SUBSCRIBING FOR THE BONDS, AN INVESTOR WILL BE DEEMED TO HAVE REPRESENTED THAT IT IS (I) A BENEFICIAL OWNER THAT IS, FOR JAPANESE TAX PURPOSES, NEITHER (X) AN INDIVIDUAL RESIDENT OF JAPAN OR A JAPANESE CORPORATION, NOR (Y) AN INDIVIDUAL NON-RESIDENT OF JAPAN OR A NON-JAPANESE CORPORATION THAT IN EITHER CASE IS A SPECIALLY-RELATED PARTY OF THE COMPANY, (II) A JAPANESE FINANCIAL INSTITUTION, DESIGNATED IN ARTICLE 3-2-2, PARAGRAPH 28 OF THE CABINET ORDER THAT WILL HOLD THE BONDS FOR ITS OWN PROPRIETARY ACCOUNT, OR (III) ANY OTHER EXCLUDED CATEGORY OF PERSONS, CORPORATIONS OR OTHER ENTITIES UNDER THE SPECIAL TAXATION MEASURES ACT.

The Bonds do not fall under the concept of so-called "taxable linked notes" as described in Article 6, Paragraph 4 of the Special Taxation Measures Act.

Interest payments on the Bonds will generally be subject to Japanese withholding tax unless it is established that such Bonds are held by or for the account of a beneficial owner that is (i) for Japanese tax purposes, neither an individual resident of Japan or a Japanese corporation, nor an individual non-resident of Japan or a non-Japanese corporation that in either case is a Specially-Related Party of the Company, (ii) a designated Japanese financial institution described in Article 6, Paragraph 9 of the Special Taxation Measures Act which complies with the requirement for tax exemption under that paragraph or (iii) a public corporation, a financial institution, a financial instruments business operator or certain other entity which has complied with the requirement for tax exemption under Article 3-3, Paragraph 6 of the Special Taxation Measures Act which has received such payments through a Japanese payment handling agent as provided in Article 3-3, Paragraph 6 of the Special Taxation Measures Act.

Interest payments on the Bonds paid to an individual resident of Japan, to a Japanese corporation, or to an individual non-resident of Japan or a non-Japanese corporation that in either case is a Specially-Related Party of the Company (except for the designated Japanese financial institution and the public corporation, the financial institution, the financial instruments business operator and certain other entity described in the preceding paragraph) will be subject to deduction in respect of Japanese income tax at a rate of 15.315 per cent. of the amount of such interest.

The Bonds have not been and will not be registered under the Securities Act. Subject to certain exceptions, the Bonds may not be offered or sold within the United States or to U.S. persons (as defined in Regulation S). The Bonds are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S. See "Subscription and Sale".

There are restrictions on the offer and sale of the Bonds in the United Kingdom. All applicable provisions of the Financial Services and Markets Act 2000 ("FSMA") with respect to anything done by any person in relation to the Bonds in, from or otherwise involving the United Kingdom must be complied with. See "Subscription and Sale".

Prohibition of Sales to EEA Retail Investors: The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II") or; (ii) a customer within the meaning of Directive 2016/97/EU (the "Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "PRIIPs Regulation") for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MiFID II product governance / Professional investors and ECPs only target market: Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Bonds has led to the conclusion that: (i) the target market for the Bonds is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Bonds (a "distributor") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

IN CONNECTION WITH THE ISSUE OF THE BONDS, MIZUHO SECURITIES ASIA LIMITED (THE "STABILISING MANAGER") (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION ACTION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY CEASE ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE BONDS. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Unless otherwise stated, references in this Offering Circular to "euro" and "€" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro, as amended, references to "U.S. dollar", "U.S.$" and "$" are to the lawful currency of the United States of America, and references to "yen" and "¥" are to Japanese yen.

In this Offering Circular, "billion" means thousand million, and, unless otherwise specified, in respect of the financial statements and amounts reproduced directly therefrom, where financial information is presented in millions of yen, amounts of less than one million have been rounded down to the nearest one million, and where financial information is presented in one hundred millions (one-tenth of a billion) of yen, amounts of less than one-tenth of a billion have been rounded down to the nearest one-tenth of a billion, except that, in certain cases, the rounding has been adjusted to make the total of individual figures equal to the total figure representing the aggregate of those individual figures. In cases where financial information other than those reproduced directly from the financial statements is presented in one hundred millions (one-tenth of a billion) of yen, amounts of less than one-tenth of a billion have been rounded down to the nearest one-tenth of a billion, with five-hundredths of a billion being rounded upwards, and the total of individual figures may not equal to the total figure representing the aggregate of those individual figures. All other figures and percentages, including operating data, have been rounded up or down (in the case of percentages, to the nearest 0.1 per cent. or to the nearest 0.01 per cent.), unless otherwise specified; however, certain percentages in tables may have been rounded otherwise than to the nearest 0.1 per cent. or 0.01 per cent., as the case may be, to make the total of the relevant items equal to 100 per cent.

The Company's fiscal year end is 31 March. The Company's financial statements are prepared in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which differ in certain material respects from generally accepted accounting principles in certain other countries. Potential investors should consult their own professional advisers for an understanding of the difference between Japanese GAAP and International Financial Reporting Standards ("IFRS"), or generally accepted accounting principles in other jurisdictions and an understanding of how those differences might affect the financial information contained herein. See "Investment Considerations—Considerations Relating to the Group's Financial Statements—Differences in generally accepted accounting principles".

This Offering Circular contains the audited consolidated financial statements of the Group, prepared and presented in accordance with Japanese GAAP, as of and for the fiscal years ended 31 March 2019, 2018 and 2017, and the audit reports with respect thereto included herein at pages F-2 and F-33.

This Offering Circular also contains the unaudited quarterly consolidated financial statements of the Group as of and for the three-month period ended 30 June 2019, including the consolidated balance sheet of the Group as of 30 June 2019 (together with a condensed consolidated balance sheet of the Group as of 31 March 2019) and the related quarterly consolidated statements of operations and comprehensive income for each of the three-month periods ended 30 June 2019 and 2018.

Per Segment Data

In this Offering Circular, unless otherwise specifically stated, operating revenues per segment and segment income comprise total operating revenues and total operating income for such segment, without taking into account any inter-segment eliminations.

The Group's reporting segment is able to obtain financial information, which is one of the Group's structural units that is separated off from the others. This information is the subject of periodic deliberations by the Board of Directors of the Company in order to decide allocation of business resources and evaluate business results. With electric power as its core, the Group is developing total solution operations by extending business resources concentrated into business domains (strategic business domains) that can exploit the Group's strengths. Thus, the Group, with electric power as its nucleus, is composed of segments each of which provides different products and services using the business resources possessed by the Group, and the reporting segment is regarded as comprising three others: "Electric Power", "Comprehensive Energy Supply", and "Information and Telecommunications".

FORWARD-LOOKING STATEMENTS

Many of the statements included in this Offering Circular contain forward-looking statements and information identified by the use of terminology such as "may", "might", "will", "expect", "intend", "plan", "estimate", "anticipate", "project", "believe" or similar phrases. The Company bases these statements on beliefs as well as assumptions made using information currently available to the Company. As these statements reflect the Company's current views concerning future events, these statements involve risks, uncertainties and assumptions. The Company's or the Group's actual future performance could differ materially from these forward-looking statements. Important factors that could cause actual results to differ from the Company's expectations include those risks identified in "Investment Considerations" and the factors discussed in "Recent Business" and "Business", as well as other matters not yet known to the Company or not currently considered material to the Group by the Company. The Company does not undertake to review or revise this Offering Circular or any forward-looking statements contained in this Offering Circular to reflect future events or circumstances. The Company cautions prospective investors in the offering not to place undue reliance on these forward-looking statements. All written and oral forward-looking statements attributable to the Company or persons acting on the Company's behalf are qualified in their entirety by these cautionary statements.

SUMMARY INFORMATION

The following summary does not purport to be complete and is qualified in its entirety by, and is subject to, the more detailed information and financial statements and the notes thereto contained elsewhere in this Offering Circular. For a discussion of certain factors that should be considered by prospective investors in connection with an investment in the Bonds, see "Investment Considerations".

THE CHUGOKU ELECTRIC POWER COMPANY, INCORPORATED

The Group supplies electricity mainly in the Chugoku region in Japan under a comprehensive system of power generation, transmission and distribution. The Chugoku region, which forms the main part of the Group's supply area, is located at the western end of Japan's main island of Honshu and has an area of 32,000 square kilometres and a population of roughly 7.3 million. The region contains a large number of manufacturing hubs, in fields such as machinery, steel and chemicals, which are pillars of Japan's manufacturing industry.

The Group's operations are principally divided into the following three reporting segments:

- *Electric Power*, engaged in the business of power supply with the Chugoku Region as the principal basis of its operational development. For the fiscal year ended 31 March 2019 and the three-month period ended 30 June 2019, the Group's operating revenues from external customers in this segment amounted to ¥1,224,535 million and ¥290,408 million, respectively, or 88.9 per cent. and 88.5 per cent. of consolidated net sales for the respective periods.
- *Comprehensive Energy Supply*, engaged in the provision of energy utilisation services that include sale of liquefied natural gas ("LNG") and other fuels and sale of electricity and heat. For the fiscal year ended 31 March 2019 and the three-month period ended 30 June 2019, the Group's operating revenues from external customers in this segment amounted to ¥71,654 million and ¥19,145 million, respectively, or 5.2 per cent. and 5.9 per cent. of consolidated net sales for the respective periods.
- *Information and Telecommunications*, engaged in the provision of electrical communications and data processing services utilising information and communications technology ("ICT"). For the fiscal year ended 31 March 2019 and the three-month period ended 30 June 2019, the Group's operating revenues from external customers in this segment amounted to ¥29,764 million and ¥7,599 million, respectively, or 2.2 per cent. and 2.3 per cent. of consolidated net sales for the respective periods.

Other business segments, not comprised in the above-mentioned reporting segments, include those where the Group carries out environmental harmony creation, business and lifestyle support, electric power business support, and the like operations. For the fiscal year ended 31 March 2019 and the three-month period ended 30 June 2019, the Group's operating revenues from external customers in this segment amounted to ¥51,023 million and ¥10,910 million, respectively, or 3.7 per cent. and 3.3 per cent. of consolidated net sales for the respective periods.

As of 30 June 2019, the Company had 22 consolidated subsidiaries, 4 non-consolidated subsidiaries accounted for by the equity method and 12 affiliates accounted for by the equity method. For the fiscal year ended 31 March 2019, the Group's operating revenues, operating income and profit attributable to owners of parent amounted to ¥1,376.9 billion, ¥19.5 billion and ¥11.4 billion, respectively. For the three-month period ended 30 June 2019, the Group's operating revenues, operating income and profit attributable to owners of parent amounted to ¥328.0 billion, ¥5.6 billion and ¥2.2 billion, respectively.

The Company's registered office is located at 4-33, Komachi, Naka-ku, Hiroshima 730-8701, Japan. The Company's shares of common stock (the "Shares") are listed on the First Section of the Tokyo Stock Exchange.

THE OFFERING

Issuer	The Chugoku Electric Power Company, Incorporated.
Securities Offered	U.S.$500,000,000 in aggregate principal amount of 2.401 per cent. Bonds due 2024.
Issue Price	100 per cent.
Closing Date	On or about 27 August 2019.
Interest	The Bonds will bear interest from 27 August 2019 at the rate of 2.401 per cent. per annum payable semi-annually in arrear on 27 February and 27 August in each year commencing on 27 February 2020.
Delivery	It is expected that the Global Certificate will be deposited with, and registered in the name of, or a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg on or about the Closing Date.
Form	The Bonds will be issued in registered form, evidenced by the Global Certificate. Definitive Certificates will only be available in certain limited circumstances. See "Summary of Provisions Relating to the Bonds While in Global Form".
Listing	Approval in-principle has been received for the listing of the Bonds on the SGX-ST. The Bonds will be traded on the SGX-ST in a minimum board lot size of U.S.$200,000 for so long as the Bonds are listed on the SGX-ST.
Rating	It is expected that the Bonds will be assigned a credit rating of A3 by Moody's. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
Use of Proceeds	The net proceeds from the issue of the Bonds are estimated to amount to approximately U.S.$498 million, and are expected to be used primarily for capital expenditure and the repayment of certain existing indebtedness of the Company (including bonds).

THE BONDS

Form and Denomination........................	The Bonds will be issued in registered form, in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.
Interest Rate...	2.401 per cent. per annum.
Status	The Bonds are direct, unconditional and unsubordinated obligations of the Company, ranking *pari passu* and rateably without any preference among themselves, and, except for the provisions of Condition 2, with all of the Company's other unsubordinated indebtedness in the form of bonds, notes or debentures (which fall within the meaning of *shasai* as referred to in Article 27-30, paragraph 1, of the Electricity Business Act of Japan (Act No. 170 of 1964, as amended, the "Electricity Business Act")) from time to time outstanding that is unsecured except for the preferential right referred to in Article 27-30, paragraph 1, of the Electricity Business Act. Under the Electricity Business Act, all holders of such bonds, notes and debentures (including the Bonds) issued by the Company have the preferential right to be paid prior to other unsecured indebtedness of the Company, with the exception of, among others, obligations in respect of national and local taxes and subject to certain general preferential rights provided in the Civil Code of Japan (Act No. 89 of 1896, as amended), such as preferential rights of employees to wages. See "Investment Considerations—Considerations Relating to the Bonds—Future structural subordination and no covenant to take measures to protect preferential rights" for the position of such preferential rights after the legal separation of the Group's electricity transmission and distribution business in April 2020.
Negative Pledge......................................	So long as any of the Bonds remain outstanding, the Company will not, and will procure that none of its Principal Subsidiaries (as defined in Condition 3.1) will, create or permit to subsist any mortgage, charge, pledge or other security interest (other than any Statutory Preferential Right (as defined in Condition 2)) for the benefit of the holders of any Relevant Debt (as defined in Condition 2) unless the same security or such other security or guarantee as provided in Condition 2 is accorded to the relevant Bonds. See Condition 2.
Redemption at Maturity	Unless the Bonds have previously been redeemed or purchased and cancelled, or become due and repayable, the Company will redeem the Bonds at 100 per cent. of their principal amount on 27 August 2024.
Redemption for Taxation Reasons........	If the Company has or will become obliged to pay any Additional Amounts (as defined in Condition 7.1) in accordance with Condition 7.1 as a result of any change in, or amendment to, the laws or regulations of Japan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 21 August 2019, and the Company is unable to avoid such obligation by taking reasonable measures available to it, the Company may, at any time, having given not less than 30 nor more than 60 days' prior irrevocable notice to the Bondholders in accordance with Condition 14, redeem all, but not some only, of the Bonds then outstanding at 100 per cent. of their principal amount. See Condition 5.2.

Cross Default	The Bonds are subject to a cross default in respect of indebtedness for borrowed money or any guarantee and/or indemnity thereof of the Company or of any Principal Subsidiary in respect of amounts of at least U.S.$10,000,000 (or its equivalent in any other currency or currencies). See Conditions 8.3 and 8.4.
Taxation	All payments by the Company in respect of the Bonds will be made without any deduction for withholding taxes of Japan, except to the extent described in Condition 7.1.
Governing Law	English law.
Jurisdiction	English courts.
International Securities Identification Number ("ISIN")	XS2043658819
Common Code	204365881
Legal Entity Identifier ("LEI") for the Company	353800MV866ELME96Q46.
Fiscal Agent, Paying Agent, Transfer Agent and Registrar	Mizuho Trust & Banking (Luxembourg) S.A.

INVESTMENT CONSIDERATIONS

Prior to making an investment decision, prospective investors should carefully consider, along with the other information set forth in this Offering Circular, the following considerations:

Considerations Relating to the Group and its Business

Revision of systems pertaining to the electric power business

An amendment to the Electricity Business Act was enacted in November 2013 and set out three phases to implement the reforms to the electric power systems in Japan. Based thereon, pursuant to the second stage of the amendment to the Electricity Business Act which was enacted in June 2014 and which took effect in 2016, various measures relating to matters that require revision in the course of the implementation of the full-scale liberalisation of retail electricity sales, including measures such as liberalisation of entry into the retail electricity sales business and deregulation of wholesale regulations with a view to vitalising the wholesale electric power exchange, have been implemented. See "The Japanese Electric Power Industry—Competition in the Electric Power Market in Japan" and "Business—Regulations—Electricity System Reform" for further details on the outlines of reforms to the electric power system in Japan.

After full-scale liberalisation of participation in retail electricity sales was implemented in 2016, competitive pressures on retail sales of electricity have increased, including on prices of electricity sales to consumers. Competition for customers occur not only from new entrants into the industry, but also from other "Specified Electric Utilities" (entities formerly falling under the definition of "General Electric Utilities" as defined by the Electricity Business Act prior to the second stage of the amendment to the Electricity Business Act referred to above) which attempt to enter into the regional market in which the Group's business is based. There can be no assurance that the Group will always be successful in competing with other electricity suppliers, and as a result, the Group's results of operations and financial condition may be materially adversely affected.

In line with the full-scale liberalisation of participation in retail electricity sales, the "wholesale regulations" relating to the electricity business (measures which regulate the long-term and large-volume supply contracts relating to supply of electricity from former wholesale electricity business operators to Specified Electric Utilities through regulating the pricing by the comprehensive cost system and regulating electricity supply obligations), which acted as complementary measures to the supply obligations and pricing regulations applicable to Specified Electric Utilities, was abolished in April 2016. As this means that prices at which wholesale supply of electricity is made is no longer regulated, depending on negotiations with the former wholesale electricity business operators, the Group's business, results of operations and financial condition may be adversely affected.

As the structure of the electric power business in Japan is currently under development and ongoing revision, the effects of the full-scale liberalisation of participation in retail electricity sales (which took effect in April 2016) and the legal separation of the electricity transmission and distribution division for the purpose of achieving neutrality (pursuant to the third stage of the amendment to the Electricity Business Act which is due to come into force in April 2020), the timing and effect of the abolition of regulation applicable to retail electricity rates of Specified Electric Utilities expected after 2020, the shape of the industry following deregulation, the potential entrants into the industry and the level of increased competition are still unclear. For example, in February 2017, the Ministry of Economy, Trade and Industry published the "Interim Report of the Policy Subcommittee for the Accomplishment of Electricity System Reform" (the "Electricity System Reform Interim Report") with a view to facilitating access by new entrants into the industry to affordable base load power supply such as coal-powered thermal power, large-scale hydroelectric power and nuclear power, and which proposed further measures for stimulating competition, such as the establishment of a base load power supply market and creation of new markets such as capacity market where electricity availability is traded with the goal to secure stable supply of electricity. Many of these measures are being implemented at the same time as the legal separation of the electricity transmission and distribution division with details being considered at the moment. Depending on the way in which the measures are implemented with respect to the base load power supply market, costs of procuring power supply for the Company may increase, and depending on the way in which the measures are implemented with respect to the capacity market, method of recovery of fixed costs and expenses of power supply may be affected, which may adversely affect the Group's business, results of operations and financial condition. In addition, as a result of the requirement for legislation-based separation of the electricity transmission and distribution division to ensure neutrality of the electricity transmission and distribution business, separation of the Company's transmission and distribution business would be necessitated, which may result in the Company having to incur costs and suffer certain inefficiencies. Further, depending on the discussions relating to reorganisation and integration relating to the electricity transmission and distribution business following the recommendations relating to the restructuring of Tokyo Electric Power Company Holdings, Incorporated (such company, its subsidiaries or such company and its subsidiaries taken together being referred to herein as "TEPCO") announced by the Ministry of Economy, Trade and Industry in December 2016 and TEPCO's third reorganisation new comprehensive business plan certified by the competent minister in May 2017, the Group's business may also be affected. With respect to the nuclear power generation business, as it is characterised by having long-term operations (including the processing and disposal of nuclear waste) and requiring large amounts of investments, even amid the implementation of electricity business structural reforms, it will require policy measures to enable private businesses to operate their businesses independently (see "—Risks pertaining to nuclear power generation"). Any revision of policy pertaining to the electric power business such as those described above may materially adversely affect the Group's business, results of operations and financial condition.

In April 2019, the Board of Directors of the Company resolved that it would implement such legislation-based separation of the electricity transmission and distribution divisions from the power generation and retail divisions by way of absorption-type corporate split (with an expected effective date of 1 April 2020), with the separated electricity transmission and distribution business becoming a 100 per cent. owned subsidiary of the Company, The Chugoku Power Transmission & Distribution Company, Incorporated (or such subsidiary of the Company under such other name to which the Company's electricity transmission and distribution business will be transferred, the "Separated Company") (see "Business—Overview of the Group—Legal separation of the electricity transmission and distribution business"). Such separation and transfer, and the structural subordination of the Bonds (i.e. the Bondholders' recourse to the electricity transmission and distribution assets held by the Company prior to the corporate split becoming structurally subordinated to the claims of direct creditors of the Separated Company), may have an adverse effect on the trading price of the Bonds. See "—Considerations Relating to the Bonds—Future structural subordination and no covenant to take measures to protect preferential rights" for further details.

In addition, under the Electricity Business Act, bonds issued by former General Electric Utilities such as the Company have the preferential right (so-called "*ippan tanpo*") to be paid prior to certain other unsecured indebtedness of such company. Pursuant to the third stage of the amendment to the Electricity Business Act expected to take effect in April 2020, the provision of such preferential rights with respect to bonds to be issued by Specified Electric Utilities are expected to be abolished, although preferential rights in respect of bonds already issued at the time will not be affected (except to the extent there is any effect through the structural change referred to above). In addition, transitional measures are available until the end of March 2025 for certain electric company issuers which are specified by the Minister of Economy, Trade and Industry ("METI"), which may continue issuing bonds with preferential rights, taking into account the current financing environment of Specified Electric Utilities. The abolition of such preferential rights may also adversely affect the costs associated with the Company's raising of funds through the issuance of bonds.

Increase in competition

As set out above, the liberalisation of participation in retail electricity sales is expected to increase competition in the electricity sector, not only from existing electric utilities and new entrants into the industry but also from other businesses through measures such as package sales of electricity and telecommunication services.

Further, increased reorganisations, alliances and consolidations within the Japanese electric power industry, including alliances between other Specified Electric Utilities or businesses in other industries (such as the alliance which is already in place between TEPCO and Chubu Electric Power Co., Inc.), may lead to greater cost effectiveness and competitiveness on their part and therefore negatively affect the Group's competitive position. While the Group intends to take measures in line with the increase in competition to remain competitive in terms of both price and services, there can be no assurance that the Group will be able to maintain its level of market share and/or profitability. Any of these factors may materially adversely affect the Group's results of operations and financial condition.

Risks pertaining to nuclear power generation

Based on the Basic Act on Energy Policy (Act No. 71 of 2002) (the "Basic Act on Energy Policy") which became effective in June 2002, the Japanese government has framed a plan (the "Basic Energy Plan") with the aim of a long-term, comprehensive and systematic implementation of measures relating to energy supply and demand. Based on the Basic Act on Energy Policy, the Basic Energy Plan's contents must be reviewed at least once in every three years, and as amended when considered necessary. The Fourth Basic Energy Plan (which was approved by the Cabinet in April 2014) has, from the point of view of maintaining stable supply of electricity, ensuring economic efficiency and preventing global warming, set out directions for progressively constructing a balanced "energy mix" (a mixture of power sources) that includes renewable energy, thermal and nuclear power generation, taking into account Japan's current state of over-dependence on fossil fuels due to drastic changes in the energy supply and demand situation following the Great East Japan Earthquake and the Fukushima Daiichi Nuclear Power Station accident in March 2011. In July 2015, the Ministry of Economy, Trade and Industry determined its "Long-term Energy Supply and Demand Outlook" (outlook for an energy mix), including its outlook for the proportion of nuclear power within the total power generation amount for the fiscal year ending 31 March 2031 to be approximately 20 per cent. to 22 per cent. Further, the above proportion of power sources for the energy mix has been maintained under the Fifth Basic Energy Plan which was approved by the Cabinet in July 2018 and it is intended that nuclear power generation will continue to be utilised as an important base load power supply for the future. See "The Japanese Electric Power Industry—Trends in Japan's Energy Policy—Basic Energy Plan".

The Group intends, upon a major precondition that its safety is ensured, to continue to utilise nuclear power generation together with renewable energy and thermal power generation, and is considering its power source development and operational plans on the presumption that the currently halted nuclear power generation facilities will resume operations and that the new nuclear power generation facilities currently being built will become operational. However, should the Japanese energy policy be radically changed (including a reduction in the proportion of nuclear energy included within the policy energy mix), it may become difficult to resume or commence operations of such nuclear power generation facilities, and in such event the Group's investments in such facilities may be lost, which may materially adversely affect the Group's results of operations and financial condition.

Following the Fukushima Daiichi Nuclear Power Station accident, the regulatory regime relating to nuclear power stations were comprehensively reviewed, and new regulatory standards relating to the safety of design of nuclear power stations were introduced in July 2013. In order to resume operations at nuclear power plants which have currently stopped operations, the operator must pass stringent conformance confirmation examinations by the Nuclear Regulation Authority (the "NRA"). Taking into account the accident at the Fukushima Daiichi Nuclear Power Station, the Group has been taking certain steps to comply with such regulatory standards, including countermeasures against earthquakes and tsunamis and measures to assure reliability of external power sources, as well as measures to deal with severe accidents, terrorist attacks and aircraft accidents (including installing filtered vent equipment, erecting an emergency evacuation response office and response office for, amongst other things, specified severe accidents). However, depending on the status of assessments by the NRA, it may not be possible for the Group to achieve an early resumption of its nuclear power station operations or additional investments may be required to comply with the regulatory standards centred around unfinished examinations, and its results of operations and financial condition may be materially adversely affected.

Taking into account the accident at the Fukushima Daiichi Nuclear Power Station, latest technical views are taken into account as needed in applying technical standards, which existing facilities must comply with (a "back-fit" system). As such, nuclear power plants that had previously been approved for operation may, should such facilities not meet the latest technical standards, be required to halt operation, and additional investments may be required in order to meet such latest regulatory standards. Further, in April 2019, the NRA indicated that it has no intention of extending the deadline for installing "facilities for handling specified major accidents and other incidents" to ensure nuclear power plants' safety against aircraft crashes and terrorist attacks (such deadline being within five years from the date on which approval is granted by the NRA for constructions plans to make changes to the principal facilities relating to the relevant nuclear power station to conform to the new regulatory standards), and that any operating nuclear power plants that have not met the deadline will have their operations halted. Any such factors may materially adversely affect the Group's results of operations and financial condition.

The Group also faces the risk of disputes and litigation arising and/or continuing in relation to its nuclear power operation, including friction with local residents, civic groups and other interested parties in relation to construction or operation of its nuclear power stations, as well as potentially prolonged lawsuits. For example, temporary injunctions granted by the relevant district courts and high courts upon applications by local residents halted operations of the Takahama Power Station Units 3 and 4 (operated by The Kansai Electric Power Company, Incorporated) and the Ikata Nuclear Power Station Unit 3 (operated by Shikoku Electric Power

Company, Incorporated) for approximately one year and nine months, respectively, until the relevant temporary injunctions were eventually dismissed (in March 2017 and September 2018, respectively). The Company is currently involved in proceedings relating to applications by certain local residents to halt operation of Units 1, 2 and 3 of its Shimane Nuclear Power Station. Further, as with other nuclear power operators in Japan, the Company has entered into various "Safety Agreements relating to Power Stations" with local governments. While the agreements do not confer on the relevant local governments the legal authority to change or stop the operation of the relevant facilities, in certain situations, they are entitled to inspect the facilities, and may make public comments or requests in respect thereof. While none of the Company's nuclear power stations are currently operating, if in future the Group were to face difficulties (including the necessity to shut down facilities) with regard to its nuclear power operations as a result of lawsuits, administrative actions, other proceedings or other significant issues in respect of the Company's relationship with interested parties, this may materially adversely affect the Group's results of operations and financial condition.

Where a nuclear power reactor is to be operated beyond 40 years from the commencement of its operation, such facilities must be assessed by the NRA for compliance with the latest regulatory standards, and in addition, the operator must apply for an approval for the extension of the operational period to the NRA together with the results of a special inspection and obtain approval in relation thereof. Further, with a view to promoting appropriate and smooth decision-making by private operators with respect to decommissioning of nuclear power generation units, and to ensuring safe and secure decommissioning should the operator decide to decommission, the government has been implementing measures in relation to pricing and accounting policies. The Electricity System Reform Interim Report, with a view to promoting appropriate and smooth decision-making by private operators with respect to decommissioning of nuclear power generation units, and to ensuring safe and secure decommissioning should the operator decide to decommission, proposes to continue the usage of an accounting policy relating to decommissioning, whereby expenses of decommissioning that are not provisioned by the reserve for decommissioning of nuclear power units are expensed in instalments over a number of years, by utilising the mechanism for charging for transmission of electricity, which continues to be an operation which requires a licence following the full-scale liberalisation of participation in retail electricity sales. With respect to Shimane Nuclear Power Station Unit No. 1 (which commenced commercial operations in 1974), a large scale and long-term investment would have been necessary for safety measures if the term of its operation were to be extended. In addition, the business environment surrounding nuclear power is changing significantly such as the implementation of an accounting policy for a smoother decommissioning of nuclear power generation units. In April 2015 the Company, after taking comprehensive factors into consideration, decided to decommission this unit in view of demand and supply power of electricity in years to come. In April 2017, the NRA approved such decommissioning plan and the decommissioning of the unit began in July 2017. The Company is aiming to complete the decommissioning by the fiscal year ending 31 March 2046. However, if the costs of decommissioning nuclear power generation units were to be significantly higher than expected due to factors such as having no track record of completion of decommissioning domestic nuclear power generation units for commercial use and undeveloped legal framework for regulations in relation to disposal of radioactive waste, or if accounting policies and other measures relating to decommissioning were to be changed in the future, this may materially affect the Group's results of operations and financial condition.

Currently, nuclear power generation facility operators have, in principle, no-fault and unlimited liability with regard to any nuclear damage caused by, among other things, the operation of its nuclear power reactors. The Group, while taking various measures to ensure safety, has, pursuant to the Act on Compensation for Nuclear Damage of Japan (Act No. 147 of 1961, as amended) (the "Nuclear Damage Compensation Act"), entered into insurance contracts and indemnity contracts which enables it to receive certain indemnities in the remote event of an accident, at the same time as making a general contribution every year to the Nuclear Damage Compensation and Decommissioning Facilitation Corporation (the "NDF") (an entity whose aim includes providing financial assistance with regard to compensatory damage payable by nuclear power generation facility operators, including TEPCO) pursuant to the Nuclear Damage Compensation and Decommissioning Facilitation Corporation Act of Japan (Act No. 94 of 2011, as amended) (the "Nuclear Damage Compensation and Decommissioning Facilitation Corporation Act"). See "Business—Regulations—Regulation of Nuclear Power Generation—Compensation Scheme for Nuclear Damage". Nevertheless, as natural or man-made disasters at power generation plants may lead to huge calamities, the adverse effects of which in the case of nuclear power generation facilities may in particular be extreme, wide-ranging and long-lasting, the Group's results of operations and financial condition may be materially adversely affected if any nuclear accidents were to occur (see "—Natural disasters, uncontrollable events and accidents"). Further, if the government were to revise the nuclear damage compensation system, depending on the content of such revision, the amount of the Group's contribution may be increased, which may materially adversely affect the Group's results of operations and financial condition.

The Company has a minority interest in, and acts as joint guarantor together with other nuclear power operators in respect of the debts of, Japan Nuclear Fuel Limited ("JNFL"), which is engaged in the uranium enrichment business and nuclear power back-end business such as burial of radioactive waste and storage of high-level radioactive waste. JNFL is currently undergoing an assessment by the NRA with regard to, among other things, its compliance with new regulatory standards relating to nuclear fuel cycle facilities. Depending on the progress of such assessment and other factors such as political concerns with respect to the use of reprocessed plutonium, the utilisation rate of the nuclear fuel cycle facilities of JNFL may be materially adversely affected. In such event, the Group's results of operations and financial condition may be materially adversely affected.

Further, the nuclear back-end business is a super long-term business and involves many uncertainties, and the Ministry of Economy, Trade and Industry is contemplating extensive revisions to such business with the aim of ensuring appropriate and efficient business implementation, including in relation to business operators and securing of funds. Based on an amendment act enacted in May 2016 which made amendments to the Act on the Implementation of the Reprocessing of Spent Fuel in Nuclear Power Generation (the "Reprocessing Contribution Act"), the Organisation for Reprocessing Spent Fuel, which is an organisation approved by the Japanese government to reprocess spent fuel, was established and commenced operations in October 2016. As a result, a mechanism was put in place for nuclear power station operators including the Company to contribute towards such organisation enough funds for reprocessing spent fuel and related MOx (Mixed-Oxide) processing operations. Although this now has alleviated to some extent the risks in this area by the Japanese electric utilities, should the necessary funds required for the reprocessing of spent fuel increase or such mechanism be re-examined such as the expansion of coverage for such contribution, this may materially affect the Group's results of operations and financial condition depending on the content of such change. Further, nuclear power station operators including the Company currently operate on the assumption that such fuel is to be reprocessed and reused. The Company may not be able to reprocess spent fuel, or operate its nuclear power stations, should it become difficult for the nuclear back-end business to operate for reasons such as variation in international framework for reprocessing of nuclear spent fuel, or political, economic and/or technical issues.

Thermal power generation facilities and renewable energy power generation facilities including hydroelectric

As of 31 March 2019, the Group operated nine principal thermal power generation facilities (operated by coal, oil or LNG), which require regular maintenance and repairs. Many of the Group's thermal power generation facilities are relatively old and therefore tend to require a higher volume of repairs than relatively new facilities. Further, due to the current continued shutdown of nuclear power generation facilities, the Group has been continuing to operate relatively old thermal power generation facilities, and while the Group is taking preventative maintenance measures, there have been some unplanned stoppages of such thermal power generation facilities. For reasons such as those referred to above, such repairs can lead to increased costs of operation, and any stoppage of a particular thermal power generation plant may require the Group to utilise other less cost-effective plants to provide the required level of electricity. Any such factors may lead to increased costs of operations. In addition, these thermal power generation facilities emit carbon dioxide ("CO_2"), and if environmental policies are significantly amended, such as through imposition of new environmental regulations or taxes relating to fossil fuel, the Group may be required to make additional investments or bear other additional costs or there is a possibility that the construction of new power generation facilities may be delayed or postponed, which may materially adversely affect the Group's results of operations and financial condition.

With regard to hydroelectric power generation facilities, rainfall levels in the water resource areas have the potential to affect the Group's results of operations and financial condition, as a decrease in water flow rate could decrease the volume of electricity generated by hydroelectric power, and may increase the Group's fuel costs through increasing the Group's dependence on thermal power generation.

Since 2016, the method of calculating the avoided costs of buying electricity generated from renewable energy, such as solar energy, wind power, water energy, geothermal power and biomass energy based on the feed-in tariff scheme (which are avoidable costs through purchasing electricity derived from renewable energy) has been changed to the method of using the wholesale market price-based calculation. As such, should wholesale market prices increase, the amount which a Specified Electric Utility may receive from their purchase of electricity generated from renewable energy under the feed-in tariff scheme may decrease. Further, through the increase in the proportion within the power supply volume of renewable energy, the supply range of which varies greatly as it is affected by natural conditions, costs in relation to frequency fluctuation measures such as through thermal power generation to maintain the quality of electricity will increase. Should the government not re-examine such costs and consider a scheme where a Specified Electric Utility is able to recover such costs through a change in the feed-in tariff scheme, this could become a cost burden for the Group. In addition, if

Specified Electric Utilities such as the Company were required to increase its transmission capacities due to the increase in power generated and sold by renewable energy operators, they may need to incur significant capital expenditures with respect to transmission lines, which may not be easily recoverable. Further, a change in environmental policies by the government may also result in the Group incurring additional investment and other costs with respect to its power generation units. Any of the above factors may materially adversely affect the Group's business, results of operations and financial condition.

Currently, as shown in the "Basic Energy Plan", the Japanese government has indicated the direction of converting renewable energy into a major power source, but early realisation of high penetration of renewable energy has so far proven to be challenging due to cost and operational reasons. However, should it be realised earlier than expected, owing to political measures or technical innovation to promote introduction and usage of renewable energy, it may reduce the utilisation rate of thermal power plants, which may materially adversely affect the Group's results of operations and financial condition.

Risks related to fuel prices and procurement

Sources of fuel for the Group's thermal power generation include coal, LNG and heavy and crude oil. Therefore, fluctuations in energy prices, such as coal, LNG, and heavy and crude oil, and that of foreign exchange rates in which such fuels are priced, may affect the Group's results of operations and financial condition.

The price and procurement of fuel may be affected by numerous factors, including geopolitical developments, terrorism, war and unrest in oil producing countries, sanctions imposed by government such as the United States and the European Union, actions by the Organization of the Petroleum Exporting Countries and other oil and gas producers and environmental concerns. While the Group, by working towards a balanced power source and procurement structure at the same time as continuing to take measures to diversify fuel supply sources and method of procurement and to ease fuel quality restrictions, attempts to decrease the Group's fuel costs and mitigate the risk of disruptions to the stable procurement of fuel (see "Business—Sources of Supply"), unexpected or rapid changes to the fuel procurement situation may adversely affect the Group's fuel costs, or even affect the continued operation of its thermal power generation facilities, which may materially adversely affect the Group's results of operations and financial condition.

With regard to fluctuations in fuel prices and foreign exchange rates, while the Fuel Cost Adjustment System (as defined below) currently allows for changes in fuel prices to be reflected in electricity rates, a rapid increase in fuel prices or adverse movements in foreign exchange rates may take several months to be reflected in electricity rates and, with regard to certain customers, would only be reflected up to a certain limit. Further, the Fuel Cost Adjustment System does not enable all increases in fuel costs caused by increased reliance on electricity generated by thermal power generation facilities due to the shutdown of nuclear power generation facilities to be reflected in electricity rates. The continued non-operation of, or delay in resumption of operation of, nuclear power generation facilities may thus, through increase in reliance on thermal power generation, result in increased fuel costs which are not compensated by the Fuel Cost Adjustment System, and the Group's results of operations and financial condition could be materially adversely be affected. For a description of the Fuel Cost Adjustment System, see "The Japanese Electric Power Industry—Overview of the Industry—Electric Power Pricing—Fuel Cost Adjustment System".

Conditions and energy demands in the Group's power supply area

The Company supplies electric power mainly in the five prefectures of the Chugoku region (Tottori, Shimane, Okayama, Hiroshima and Yamaguchi prefectures), and electricity sales are subject to the influence of economic conditions such as industrial activities in the Company's power supply area. The Chugoku region has traditionally been the manufacturing base of certain heavy chemical industries requiring significant volumes of electricity for operation. Transfers or closures of factories of such industries in the Chugoku area could lead to significant declines in demand for the electricity supplied by the Group, and materially adversely affect the Group's results of operations and financial condition. In addition, regardless of transfers or closures of factories, industries may use less electricity for operation, due to factors such as reduction of manufacturing activities caused by economic recession or advancement in energy conservation. Further, economic conditions in the Company's power supply area are also affected by the general economic conditions of Japan. Economic indicators such as gross domestic product have been showing variable signs, and the future of the Japanese economy is still uncertain. Any future recession or unfavourable economic conditions in Japan may lead to a slump in industrial activities and manufacturing activities in Japan. The decreases in electricity demand as a result of this may materially adversely affect the Group's results of operations and financial condition.

Further, Japan's overall population, including the population in the Chugoku region, is generally on a declining trend, and this may, through a reduction in the number of electricity contracts, lead to a reduction in electricity consumption. In addition, as the working population decreases, economic activity may also decrease. Such demographic trends may therefore adversely affect economic conditions, and a decline in economic conditions and energy demands in the Group's power supply area may materially adversely affect the Group's results of operations and financial condition. In addition, the decrease in the working population may result in a tight labour market leading to an increase in personnel costs, which may materially adversely affect the Group's results of operations and financial condition.

Weather conditions also affect demands for electricity supply, in particular in relation to demand for air conditioning and heating. As such, temperatures in the Group's power supply area have the potential to affect the Group's results of operations and financial condition.

Natural disasters, uncontrollable events and accidents

Japan has historically experienced, and the Group's operations are vulnerable to, earthquakes and other natural disasters, including tsunamis, typhoons, torrential heavy rain, floods, landslides, volcanic eruptions and other extreme weather conditions, fires, infectious diseases and epidemics. In addition, other events outside the Group's control (such as terrorism, deliberate acts of sabotage and hacking of IT systems), power outages or accidents (whether due to human or equipment error) could damage, cause operational interruptions or otherwise adversely affect any of the Group's facilities. In summer 2018, heavy rains and ensuing floods and landslides in the Chugoku region led to certain parts of the Company's supply area experiencing a power cut for several days. In autumn 2018, a major earthquake in one part of Hokkaido led to a black-out of the whole of the supply area of Hokkaido Electric Power Co., Inc.

As regards disaster prevention measures, the Group has put in place a "disaster prevention operational plan" with regard to potential natural disasters, and a "public protection operational plan" with regard to acts of terrorism and other uncontrollable events. However, there can be no assurance that such measures will be effective in fully preventing any major loss in such cases. In the event of a major natural disaster or other uncontrollable event or accident, the Group's facilities may experience catastrophic losses, operations may be halted, large losses and expenses to repair or replace such facilities may be incurred, electricity supply may be required to be purchased from other utilities or from the electricity supply market or alternative thermal power fuel may need to be procured, and significant reductions or losses of revenues may be experienced, or other problems may be caused to the Group's operations. The Group has insurance policies to cover certain potential losses at its production facilities, but not for certain risks (such as earthquakes). However, these insurance policies do not cover all types and amounts of possible losses and expenses at all facilities, and even if the relevant risks were covered, such policies may not be adequate to compensate for all losses and expenses. Furthermore, the Group's business may also be adversely affected if the Group's suppliers or customers were to experience a catastrophic loss due to natural disasters, accidents or other uncontrollable events, or if the Group is required to compensate for any interruption to electricity supply to its customers due to the Group's fault or error. Any such factors may materially adversely affect the Group's business, financial condition and results of operations.

Risks relating to businesses other than the electric power business and the overseas business

In addition to its main electric power business, the Group operates the comprehensive energy supply business, information and telecommunications business, environmental business, and business and lifestyle support business insofar as regulations and other conditions permit. Should these businesses not grow as the Group expects, or if their profitability is reduced through intensifying competition, the Group's results of operations and financial condition may be materially adversely affected.

The Group also has some operations overseas, which are exposed to various risks due to differences such as in legal and regulatory standards, business environment, climate and language. Such risks include those relating to business, market, political and economic instability, macroeconomic changes, credit exposure, financing, environment and human rights, compliance, litigation and natural disasters. This may result in less than expected profits for the Group and/or increased costs and additional expenditure due to plan changes, stoppages and delays. Any of the above factors may adversely affect the Group's business, results of operations and financial condition.

Funding requirements and changes in interest rates

The Group's business, in particular its electric power business, requires a significant amount of capital expenditure each year. As such, the Group is required to raise significant funds, principally through borrowings and issues of bonds, on a continuous basis. Developments in the Group's business and credit standing, changes in credit ratings in respect of its debt and adverse developments in financial markets in general, may materially adversely affect the Group's ability to raise funds, on acceptable conditions or at all. Moody's has, in October 2018, changed the outlook of the Company's long-term debt rating from "A3 (Stable)" to "A3 (Negative)", citing factors such as its expectations that material deleveraging may be difficult without a nuclear restart (source: Moody's Credit Opinion, 18 October 2018). Any failure by the Group to raise the funds it needs in an acceptable manner may materially adversely affect the Group's business, results of operations and financial condition.

The Group has a substantial amount of interest-bearing debt (consisting primarily of long-term fixed rate debts (being bonds and loans)), denominated mostly in yen. As of 30 June 2019, the Group's interest-bearing debt (comprising of long-term borrowings (including current portion), short-term borrowings, bonds, commercial paper and others) amounted to ¥2,236.6 billion. Prevailing interest rates, whether for yen or other currencies in which the Group's debts are denominated, may increase in the future. Increases in prevailing interest rates may have the effect of increasing interest payments by the Group and may increase the refinancing cost on maturity of the Group's debts. Although the Group hedges against the risk of interest rate fluctuations to a certain extent, such hedging activities may not, or may only partially cover, the risks relating to interest payable by the Group, and interest rate fluctuations could increase the Group's interest payment burden. Further, any negative movements in any credit ratings obtained by the Company (whether due to factors relating to the Group or due to changes in the relevant rating agency's policies) may increase the Group's funding or refinancing costs, in particular, where the Group is involved in obtaining debt funding through the capital markets such as by issuing bonds. Any such factors may materially adversely affect the Group's results of operations and financial condition.

Compliance and legal and regulatory risk

The Group makes giving top priority to progressing with compliance in all business operations the foundation of its management. The Group is striving for thorough compliance and aims to take prompt corrective action for acts of non-compliance. However, should a major case of non-compliance occur, the Group's social credibility may decline and affect the smooth operation of its business.

The Group is faced with the need to comply with wide range of laws, regulations and other requirements across various jurisdictions. Such laws, regulations and requirements, including specific laws and regulations relating to its electric power business (see "Business—Regulations"), agreements with local authorities and communities and requirements to disclose environmental impact of its businesses, environmental regulation (see "—Environmental regulation and climate change initiatives") as well as other general legal and regulatory requirements (including but not limited to those relating to employment, trade, antitrust, investments, intellectual property, taxation and tariffs), and their application and enforcement, are of varying degrees of complexity and strictness in different jurisdictions and localities, and sometimes not only require compliance by the Group but also by parties acting on its behalf. In particular, local government and community concurrence is important in terms of operations of power plants and building new ones. Further, compliance in respect of personnel and labour-related regulations is also important, and as the Group has many employees, there is a possibility that personnel costs as well as other expenses may increase as a result of such regulations. The Group has established risk management, compliance and internal control systems and procedures. Certain areas within the risk management, compliance and internal control systems may require constant monitoring, maintenance and continual improvements by the Group's senior management and staff. If the efforts to maintain these systems are found to be ineffective or inadequate, the Group may be subjected to inappropriate activities such as cover-up of non-compliant activities, falsification of records, fraudulent acts or corruptive practice (whether by its employees or third parties), or be found not to be in compliance with laws and regulations, which may in turn subject the Group to sanctions or penalties, or additional expenses may be incurred, and its business and reputation may be adversely affected. The internal control system, no matter how sophisticated in design, still contains inherent limitations caused by misjudgement or fault, or deliberate acts of misconduct or fraud. As such, there can be no assurance that the risk management, compliance and internal control systems of the Group are always adequate or effective notwithstanding the Group's efforts, and any failure to address any internal control matters and other deficiencies could result in investigations and/or disciplinary actions or prosecution being taken against the Group and/or its employees, disruption to the risk management and/or compliance systems, and any of these factors may have an adverse effect on the Group's reputation, results of operations and financial condition.

Further, the Group is promoting the consideration and, in certain areas has implemented, a gradual expansion of its overseas operations and strategic overseas investments. Consequently, the Group may be increasingly exposed to a number of risks including exposure to different legal and regulatory standards overseas and unexpected changes in or imposition of new legislative or regulatory requirements, including those in relation to taxation, trade restrictions or tariffs, as well as, in certain cases, political and economic instability or slowdown and social or other turmoil. Any of these factors may materially adversely affect the Group's business, results of operations and financial condition.

Management of personal and other business information

The Group maintains a large volume of business information, including credit information, on individuals including that of electric power customers. The Group has established internal rules of basic guidelines for information management and guidelines for personal information protection, and the Group works to comply with these rules and rigorously administrate all of this information by information security measures. However, in the event of information leakage due to a computer system breach by malicious third parties, theft of recording media holding such information, human error by an employee or contracted worker or by other means, the Group may lose credibility and its business performance may be affected. Moreover, the Group could face customer claims for compensatory damages, including claims under the Act on the Protection of Personal Information of Japan (Act No. 57 of 2003, as amended), and lose the trust of customers and the market, which may materially adversely affect the Group's reputation, results of operations and financial condition.

Legal proceedings and litigation

As with any major business, the Group faces risks of disputes or litigation both in Japan and overseas, whether with or without merit, in relation to its business. Such litigation and proceedings may relate, among others, to environmental liabilities, friction with local residents and civic groups in relation to construction or operation of facilities, labour and health and safety issues and, in extreme cases, injunctions to cease operation of its facilities. The Group could also become the target of administrative measures or other actions. Due to the inherent uncertainty of litigation and legal proceedings, it is not possible to predict when and whether any significant litigation and legal proceedings will be brought against the Group and whether it will prevail. If any significant litigation or legal or administrative proceedings were to occur, it may negatively affect the Group's reputation, business, results of operations and financial condition.

Environmental regulation and climate change initiatives

The Group's businesses are subject to extensive environmental regulation in Japan and on an international scale. Applicable environmental regulations address, among other things, CO_2 emissions, water pollution, disposal of substances deriving from energy production (including as a result of nuclear power generation), and atmospheric contaminants such as SOx, NOx and particulate matter, among other things. See "Business—Regulations". The Group incurs significant costs to keep its facilities and businesses in compliance with the requirements imposed by various environmental regulations, particularly as the Group has a significant reliance on coal-powered thermal power generators in its electric power business. Such regulations require the Group to adopt preventative or remedial measures and influence the Group's business decisions and directions. Further, in June 2019 the Company announced its support of the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD") established by the Financial Stability Board ("FSB"), and joined the TCFD Consortium, an initiative supported by the Japanese government designed to promote responsible disclosure of climate-related financial information by businesses and the use of this information in the investment decisions of financial institutions. See "Business—Environment and Corporate Social Responsibility".

If environmental regulations or policies were to be more stringent or if new environmental regulations or policies were to be introduced, this could increase the Group's costs of compliance, including through requiring further investments (in facilities or otherwise) for the purposes of compliance, or cause the Group to face environmental liabilities. Such environmental liabilities could increase the Group's costs, including clean-up costs. Depending on regulatory developments, the Group may not always be able to offset increases in costs incurred for environmental protection with price increases. Any of the above factors may materially adversely affect the Group's business, results of operations and financial condition.

Currently, approximately 60 per cent. of the Group's power generation is based on coal-fired thermal power due to, among others, the suspension of its nuclear power plants. If such proportion were to be maintained, the Group's business and reputation may be adversely affected by policies and initiatives at national and international levels to address climate change, such as worldwide measures to reduce greenhouse gas emissions and movements towards decarbonisation. Third parties, including investors or financial institutions, may also introduce policies adverse to the Group due to its activities in coal-fired thermal power generation, including reducing or refusing investments in, or funding to, the Group. Any of the above factors may materially adversely affect the Group's business, results of operations, financial condition and reputation.

Risks related to the implementation of the Group's strategy

The Group is implementing its business strategies formulated against a background of electric power industry deregulation and liberalisation (see "Business—Strategy"). The successful implementation of the Group's strategies and the attainment of its aims and targets are subject to various internal and external factors, including further changes to the regulatory environment (in particular in relation to the electric power industry) and relationship with local communities, general economic and market conditions in the regions in which the Group operates, developments in the competitive landscape and volatility in fuel prices and foreign exchange rates, among other factors. There can be no assurance that the Group's strategies will be implemented successfully, that the implementation of such strategies will have its intended effect, that the assumptions underlying the strategies will not differ from actual figures, that targets (whether quantitative or qualitative, and whether in the long term or short term) set by the Group will be met in time or at all, or that such targets and aims will not be further revised in future by the Company's management.

Cost and liabilities for retirement benefits

The Group's cost and liabilities for retirement benefits are accounted based on assumptions for actuarial calculation, such as the discount rate and the long-term expected rate of return on plan assets. Changes in the discount rate and expected rate of return have the potential to affect the Group's results and financial condition. Costs related to the Group's retirement benefit plans may increase if the fair value of the plan assets declines or if there is a change in the actuarial assumptions on which the calculations of the projected benefit obligation are based, such as a decline in the expected rate of return on plan assets. In addition, the Group may be required to recognise expenses related to the recognition of previously unrecognised service costs as a result of plan amendments. Changes in the interest rate environment and other factors may also adversely affect the amount of unfunded pension obligations and actuarial differences. Any such factors may materially adversely affect the Group's results of operations and financial condition.

Impairment of assets

The Group holds investment securities including marketable securities, such as listed stocks of financial institutions. Although the Group generally intends to hold such securities on a long-term basis, changes in market prices or in the financial position of the issuing companies could necessitate the recording of unrealised losses or impairment losses by the Group, which could have an adverse effect on the Group's results of operations and financial condition. Further, the Group holds significant amounts of construction in progress and assets in relation to its electric power business. Should such construction need to be halted or if the operation of the relevant facilities cannot be commenced or continued, due to changes in governmental policies regarding building of new electric power facilities, rapid changes in electricity demand or competitive landscape or otherwise, the Group's investments in such assets may become unrecoverable, and the Group may need to record significant impairment losses. Any such factors may materially adversely affect the Group's results of operations and financial condition.

Deferred tax assets

The Group records deferred tax assets based on a reasonable estimation of future taxable income in accordance with applicable accounting standards. The Group's financial condition and results of operations could be materially adversely affected if its deferred tax assets are reversed due to a change in its estimation of future taxable income and other factors.

Considerations Relating to the Group's Financial Statements

Changes in accounting policies

The Group prepares its consolidated financial statements in accordance with Japanese GAAP and applicable accounting rules under the Electricity Business Act and related ordinances and regulations, and a number of the accounting policies which it adopts, for example those relating to reserves and amortisation, are specific to the electricity business in Japan. Further, in March 2019, the Board of Directors of the Company resolved that it would change the depreciation method for tangible fixed assets from the declining-balance method to the straight-line method commencing from the fiscal year ending 31 March 2020 (see "—Recent Business—New Accounting Pronouncements and Accounting Changes—Changes in Accounting Policy—Change to the Depreciation Method for Tangible Fixed Assets"). As a result of this change, for the three-month period ended 30 June 2019, operating income and profit before income taxes increased by ¥5,188 million and ¥5,157 million, respectively, each as compared to the amounts which would have been reported applying the same method as in the corresponding period in the previous year. Further, the Ministerial Ordinance concerning Provision for Depreciation of Nuclear Power Plants (Ministry of Economy, Trade and Industry Ordinance No. 20 of 2007) (the "Ministerial Ordinance") was amended pursuant to the proclamation of an Ordinance Partially Amending the Ministerial Ordinance on 26 July 2019 which took effect on 2 August 2019 (the "Amended Ministerial Ordinance"). According to the Amended Ministerial Ordinance, electricity generation utilities which are subject to the Ministerial Ordinance are utilities that apply the declining-balance method to tangible fixed assets. Therefore, as a result of the change in the accounting policy of the Company, and as a result of amendments pursuant to the Amended Ministerial Ordinance, the Company has been required to reverse the total balance of the provision for depreciation of nuclear power plants as of 30 June 2019. This will have the effect of increasing profit before income taxes for the six-month period ending 30 September 2019 by ¥86,650 million.

Any changes to accounting rules applicable to the Group, whether specific to the electricity business or otherwise, may materially affect the Group's preparation of its financial statements, as well as its results of operations and financial condition, in the relevant year.

Differences in generally accepted accounting principles

The Company's consolidated and non-consolidated financial statements are prepared and presented in accordance with Japanese GAAP, which differs in certain respects from IFRS and generally accepted accounting principles and financial reporting standards in other countries. The Group's financial statements may therefore differ from those prepared for companies outside Japan in those and other respects. This Offering Circular does not include a reconciliation of the Company's or the Group's financial statements to IFRS or to any other generally accepted accounting principles or reporting standards in other countries. If at any point in the future the Company were to apply IFRS or any other generally accepted accounting principles for its financial reporting, the reported financial results of the Company and/or the Group may differ materially from prior years' financial results prepared under Japanese GAAP, which may make comparisons to prior years more difficult, unless comparative financial statements for prior years are prepared in accordance with IFRS or other generally accepted accounting principles and financial reporting standards.

Unaudited consolidated financial statements

This Offering Circular contains quarterly consolidated financial statements in respect of the three-month periods ended 30 June 2019 and 2018, which are not required to be, and have not been, audited by the Company's independent auditors.

The quarterly consolidated financial statements contained in this Offering Circular are not wholly comparable with the annual consolidated financial statements contained in this Offering Circular and should not be so compared. Certain adjustments, accruals and deferrals which are made in the annual audited consolidated financial statements have been estimated or are not made in respect of such quarterly consolidated financial statements.

Considerations Relating to the Bonds

Future structural subordination and no covenant to take measures to protect preferential rights

In line with the requirement for legislation-based separation of the electricity transmission and distribution division under the electricity system reforms, the Board of Directors of the Company resolved in April 2019, that it would separate its electricity transmission and distribution business from its generation and retail business in April 2020, by way of an absorption-type corporate split, pursuant to which the Company's electricity transmission and distribution business would be transferred to, and thereafter undertaken by, the Separated Company (see "—Considerations Relating to the Group and its Business—Revision of systems pertaining to the electric power business" and "Business—Overview of the Group—Legal separation of the electricity transmission and distribution business").

Upon such separation becoming effective, the electricity transmission and distribution assets of the Company will be transferred to the Separated Company, resulting in a significant reduction in the assets of the Company. As the Bondholders will have no direct claim against the Separated Company in respect of the Bonds, their recourse to the electricity transmission and distribution assets previously held by the Company will be structurally subordinated to the claims of creditors of the Separated Company. Such transfer and structural subordination may have an adverse effect on the trading price of the Bonds, and on the ability of a Bondholder to recover its investment following a default by the Company.

The Company has announced that following such a separation, the Separated Company would issue to the Company a certain amount of bonds with preferential right (so-called "*ippan tanpo*") and with the same maturity and interest (in the case of foreign currency denominated bonds, such interest being that payable in yen in respect of the corresponding swap transaction) as those of the corresponding bonds of the Company existing at the time of such separation (such bonds, as they are issued between companies within the Group, being called "inter-company bonds"). The Company, as holder of such inter-company bonds, would have the right over the assets of the Separated Company to be paid prior to certain other unsecured indebtedness of the Separated Company (although such inter-company bonds will not form security or backing for the corresponding bonds issued by the Company). While the Company intends to have the Separated Company issue such inter-company bonds to the Company in order to ensure that the separation of its electricity transmission and distribution business will not adversely affect the position of bondholders in general, the principal amount of such inter-company bonds to be issued is not expected to be the entire principal amount of the Company's outstanding bonds at the time of such separation, but is expected to be an amount that the Company believes is appropriate for the Separated Company to bear in terms of the proportionate amount of obligations. See "Business—Overview of the Group—Legal separation of the electricity transmission and distribution business". However, neither the Company nor the Separated Company are under any obligation, pursuant to the Conditions or otherwise, to take any such action. Even in the event the Company and the Separated Company choose to take such action (at their sole discretion), there can be no certainty as to the effectiveness to protect the interests of the Bondholders.

The Bonds may not be a suitable investment for all investors

Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

(i) has sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained in this Offering Circular or any applicable supplement;

(ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio;

(iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds;

(iv) understands thoroughly the terms of the Bonds and is familiar with the behaviour of any financial markets; and

(v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Change in ratings

The Bonds have been assigned a credit rating of A3 by Moody's. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Any adverse change in an applicable credit rating could adversely affect the trading price for the Bonds.

Trading market for the Bonds

Prior to the issue of the Bonds, there has been no trading market for the Bonds. Although approval in-principle has been received for the listing of the Bonds on the SGX-ST, there can be no assurance that an active trading market for the Bonds will develop. Furthermore, even if such a market does develop, it may not be liquid or sustained.

Market price of the Bonds

Trading prices of the Bonds will be influenced by, among other things, the financial position and results of operations of the Group, including the reporting of its financial results.

The Bonds do not entitle holders to receive specific security interests

Although the Bonds have the preferential right (so-called "*ippan tanpo*") to be paid prior to certain other unsecured indebtedness of the Company under the Electricity Business Act, the Bonds do not entitle holders to receive specific security interests over the Group's assets.

Exchange rate risks and exchange controls

The Company will pay principal and interest on the Bonds in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than the U.S. dollar. These include the risk that exchange rates may significantly change (including changes due to devaluation of the U.S. dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the U.S. dollar would decrease (1) the Investor's Currency-equivalent yield on the Bonds, (2) the Investor's Currency-equivalent value of the principal payable on the Bonds and (3) the Investor's Currency-equivalent market value of the Bonds. Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in the Bonds involves the risk that if market interest rates subsequently increase above the rate paid on the Bonds, this will adversely affect the value of the Bonds.

The insolvency laws of Japan and other local insolvency laws may differ from those of other jurisdictions

Because the Company is incorporated under the laws of Japan, any insolvency proceeding relating to the Company would likely involve Japanese insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which an investor may be familiar.

Modification and waivers

The Agency Agreement (as defined in the Conditions) contains provisions for calling meetings of Bondholders (as defined in the Conditions) to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

Changes in law after the issuance of the Bonds could have an adverse effect on the Bondholders

The Conditions are based on English law in effect as of the date of issue of the Bonds. No assurance can be given as to the impact of any possible judicial decision or change to English law, administrative practice or mandatory provisions of Japanese law after the date of issue of the Bonds which may have an adverse effect on the Bondholders. Certain changes to Japanese tax law may give the Company the option to redeem the Bonds before their maturity, which redemption could reduce the return on investment as compared to what could have been achieved had the Bonds been redeemed at maturity.

Integral Multiples of less than U.S.$200,000

As the Bonds have denominations consisting of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof, it is possible that the Bonds may be traded in amounts in excess of U.S.$200,000 that are not integral multiples of U.S.$200,000. In such a case, a Bondholder who, as a result of trading such amounts, holds a principal amount of Bonds of less than U.S.$200,000 will not receive a definitive Certificate in respect of such holding (should definitive Certificates be printed) and would need to purchase a principal amount of Bonds such that it holds an amount equal to at least U.S.$200,000.

Early redemption

In the event that the Company would be obliged to increase the amounts payable in respect of the Bonds due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Japan or any political subdivision thereof or any authority therein or thereof having power to tax, the Company may redeem all outstanding Bonds in accordance with the Conditions.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Bonds are legal investments for it, (ii) Bonds can be used as collateral for various types of borrowing, and (iii) other restrictions apply to its purchase or pledge of any Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Bonds under any applicable risk-based capital or similar rules.

Forward-looking Statements

Statements in this Offering Circular with respect to the Group's plans, strategies, projected financial results and beliefs, as well as other statements that are not historical facts, are forward-looking statements involving risks and uncertainties. These statements are based on assumptions and beliefs derived from information currently available to the Group, and as such actual results may differ, in some cases significantly, from these forward-looking statements. The Group does not undertake to release the results of any revision of forward-looking statements which may be made to reflect future events or circumstances. Important factors that could cause actual results to differ materially from such statements include, but are not limited to, changes to the legal and regulatory environment, general economic and market conditions in the regions in which the Group operates, developments in the competitive landscape, progress of the conformance confirmation examinations by the NRA, fluctuations in fuel prices and foreign exchange rates and availability and costs of funding. The Company cautions prospective investors in the offering not to place undue reliance on these forward-looking statements. All written and oral forward-looking statements attributable to the Group or persons acting on the Group's behalf are qualified in their entirety by these cautionary statements.

TERMS AND CONDITIONS OF THE BONDS

The following terms and conditions (the "Conditions") of the Bonds will, subject to completion and amendment, and, save for the paragraphs in italics, be endorsed on the Certificates (as defined herein):

The U.S.$500,000,000 2.401 per cent. Bonds due 2024 (the "Bonds", which expression includes any further bonds issued pursuant to Condition 12 (*Further Issues*) and forming a single series therewith) of The Chugoku Electric Power Company, Incorporated (the "Company") are constituted by a deed of covenant dated 27 August 2019 (as amended or supplemented from time to time, the "Deed of Covenant") entered into by the Company and are the subject of a fiscal agency agreement dated 27 August 2019 (as amended or supplemented from time to time, the "Agency Agreement") between the Company and Mizuho Trust & Banking (Luxembourg) S.A. as fiscal agent (the "Fiscal Agent", which expression includes any successor fiscal agent appointed from time to time in connection with the Bonds), as paying agent (together with the Fiscal Agent, the "Paying Agents", which expression includes any successor or additional paying agents appointed from time to time in connection with the Bonds), as transfer agent (the "Transfer Agent", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Bonds) and as registrar (the "Registrar", which expression includes any successor registrar appointed from time to time in connection with the Bonds). References herein to the "Agents" are to the Fiscal Agent, the Paying Agents, the Transfer Agent and the Registrar and any reference to an "Agent" is to any one of them. Certain provisions of these Conditions are summaries of the Agency Agreement and the Deed of Covenant and subject to their detailed provisions. The Bondholders (as defined below) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them. Copies of the Agency Agreement and the Deed of Covenant are available for inspection by Bondholders during normal business hours at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

1. **Form, Denomination, Title, Status, Registration and Transfers of Bonds**

1.1 ***Form and Denomination***

The Bonds are issued in registered form in the denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each, an "Authorised Denomination") and are not exchangeable for bonds in bearer form.

A bond certificate (each, a "Certificate") will be issued to each Bondholder in respect of its registered holding. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register (the "Register") of Holders of Bonds to be kept by the Registrar in accordance with Condition 1.4.1.

1.2 ***Title***

Title to the Bonds will pass only by transfer and registration of title in the Register. The Holder of any Bond will (except as otherwise declared by a court of competent jurisdiction or required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust, or any interest in it, or any writing on, or theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the Holder.

In these Conditions, a "Bondholder" and (in relation to a Bond) a "Holder" mean the person in whose name a Bond is registered in the Register (or in the case of a joint holding, the first name thereof).

Upon issue, the Bonds will be evidenced by a global certificate (the "Global Certificate") deposited with and registered in the name of, or a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg.

The Conditions are modified by certain provisions contained in the Global Certificate. Except in the limited circumstances described in the Global Certificate, owners of interests in the Bonds evidenced by the Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of the Bonds.

1.3 ***Status***

The Bonds are direct, unconditional and unsubordinated obligations of the Company, ranking *pari passu* and rateably without any preference among themselves, and, except for the provisions of Condition 2 (*Negative Pledge*), with all of the Company's other unsubordinated indebtedness in the form of bonds, notes or debentures (which fall within the meaning of *shasai* as referred to in Article 27-30, paragraph 1, of the Electricity Business Act of Japan (Act No. 170 of 1964, as amended, the "Electricity Business Act")) from time to time outstanding that is unsecured except for the preferential right referred to in Article 27-30, paragraph 1, of the Electricity Business Act. Under the Electricity Business Act, all holders of such bonds, notes and debentures (including the Bonds) issued by the Company have the preferential right (such right being referred to herein as the "Current Preferential Right") to be paid prior to other unsecured indebtedness of the Company, with the exception of, among others, obligations in respect of national and local taxes and subject to certain general preferential rights provided in the Civil Code of Japan (Act No. 89 of 1896, as amended, the "Civil Code"), such as preferential rights of employees to wages.

1.4 ***Transfers of Bonds***

1.4.1 *The Register*: The Company will cause to be kept at the Specified Office of the Registrar, and in accordance with the terms of the Agency Agreement, the Register on which shall be entered the names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers and redemptions in respect of the Bonds.

Each Bondholder shall be entitled to receive one Certificate in respect of the Bonds held by such Holder.

1.4.2 *Transfers*: A Bond may be transferred upon the surrender (at the Specified Office of any Agent) of the Certificate evidencing such Bond, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Company), duly completed and signed and any other evidence as the relevant Agent or the Registrar (as the case may be) may reasonably require; *provided, however, that* a Bond may not be transferred which would result in the principal amount of Bonds held by a Holder and in respect of which a Certificate is to be issued being less than U.S.$200,000. No transfer of a Bond will be valid unless and until entered on the Register. Upon such transfer, a new Certificate will be issued to the transferee in respect of the Bond so transferred. Where not all of the Bonds evidenced by the surrendered Certificate are the subject of the transfer, a new Certificate in respect of the balance of the Bonds will be issued to the transferor. All transfers of the Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of the Bonds scheduled to the Agency Agreement. The regulations may be changed by the Company, with the prior written approval of the Registrar. A copy of the current regulations will be made available (free of charge) during normal business hours by the Registrar to any Bondholder upon prior written request.

Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems, as described in "Summary of Provisions Relating to the Bonds While in Global Form".

1.4.3 *Delivery of New Certificates*: Each new Certificate to be issued pursuant to Condition 1.4.2 shall be available for delivery within five Transfer Business Days (as defined below) of receipt of the duly completed and signed form of transfer, and surrender of the original Certificate for exchange and any other evidence as the relevant Agent may reasonably require. Delivery of the new Certificate(s) shall be made at the Specified Office of any of the Agents to whom delivery or surrender of such form of transfer and Certificate shall have been made, or if so requested in the form of transfer, be mailed by uninsured post at the risk of the Holder entitled to the new Certificate to such address so specified (at the Company's expense) unless such Holder requests otherwise and pays in advance to the Registrar or the relevant Agent (as the case may be) the costs of such other method of delivery as agreed between such Holder and the relevant Agent and/or such insurance as it may specify. In these Conditions, "Transfer Business Day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the Specified Office of the relevant Agent.

1.4.4 *Formalities Free of Charge*: Registration of a transfer of Bonds and issuance of new Certificates shall be effected without charge by or on behalf of the Company or the Agents, but subject to (i) payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the relevant Agent may require); (ii) the Registrar being satisfied in its absolute discretion with the documents of title and/or the identity of the person making the application; and (iii) the Company and the relevant Agent being satisfied that the regulations concerning transfer of Bonds having been satisfied.

1.4.5 *No Registration of Transfer*: No Bondholder may require the transfer of a Bond to be registered (i) during the period commencing on (and including) any Record Date (as defined in Condition 6.7) and ending on the immediately following due date for any payment of principal or interest in respect of the Bonds or (ii) after a notice of redemption has been given pursuant to Condition 5.2.

2. Negative Pledge

So long as any of the Bonds remains outstanding (as defined in the Agency Agreement), the Company will not, and will procure that none of its Principal Subsidiaries (as defined in Condition 3.1 (*Definitions*)) will, create or permit to subsist any mortgage, charge, pledge or other security interest (other than any Statutory Preferential Right (as defined below)) for the benefit of the holders of any Relevant Debt (as defined below) upon the whole or any part of the Company's or such Principal Subsidiary's property or assets, present or future, to secure (i) payment of any sum due in respect of any Relevant Debt or (ii) any payment under any guarantee of any Relevant Debt or (iii) any payment under any indemnity or other like obligation in respect of any Relevant Debt, without in any such case at the same time according or procuring to be accorded to the Bonds, (x) as shall be approved by an Extraordinary Resolution (as defined in Condition 3.1 (*Definitions*)), the same security as is granted to or subsists in respect of such Relevant Debt or such guarantee, indemnity or other like obligation, or (y) such other security or guarantee as shall be approved by an Extraordinary Resolution.

For the purposes of this Condition 2 (*Negative Pledge*):

"Relevant Debt" means any present or future indebtedness in the form of, or represented or evidenced by, bonds, debentures, notes or other similar securities of any person with a stated maturity of more than one year from the creation thereof and which:

(a) either are by their terms payable, or confer a right to receive payment, in any currency other than yen, or are denominated in yen and more than 50 per cent. of the aggregate principal amount thereof is initially distributed outside Japan by or with the authorisation of the Company or the relevant Principal Subsidiary; and

(b) are for the time being, or are intended to be, quoted, listed, ordinarily dealt in or traded on any stock exchange or over-the-counter or other similar securities market outside Japan; and

"Statutory Preferential Right" means any Current Preferential Right and any similar preferential right of holders of bonds, notes and debentures issued or to be issued by the Company or any Principal Subsidiary to be paid prior to other unsecured indebtedness of the Company or the relevant Principal Subsidiary, as the case may be, arising pursuant to the Electricity Business Act or any other Japanese statute in force from time to time.

3. Definitions and Construction of References

3.1 *Definitions*

In these Conditions (unless the context otherwise requires):

"Additional Amounts" has the meaning provided in Condition 7.1 (*Additional Amounts*);

"Authorised Denomination" has the meaning provided in Condition 1.1 (*Form and Denomination*);

"Authorised Officer" means any one of the directors or officers of the Company or any other person whom the Company shall have identified as being duly authorised to sign any document or certificate on behalf of the Company;

"Bankruptcy Act" means the Bankruptcy Act of Japan (Act No. 75 of 2004, as amended);

"Bondholder" and "Holder" have the meaning provided in Condition 1.2 (*Title*);

"Cabinet Order" has the meaning provided in Condition 7.1 (*Additional Amounts*);

"Calculation Amount" has the meaning provided in Condition 4 (*Interest*);

"Calculation Period" has the meaning provided in Condition 4 (*Interest*);

"Certificate" has the meaning provided in Condition 1.1 (*Form and Denomination*);

"Civil Code" has the meaning provided in Condition 1.3 (*Status*);

"Civil Rehabilitation Act" means the Civil Rehabilitation Act of Japan (Act No. 225 of 1999, as amended);

"Claim for Exemption" has the meaning provided in Condition 7.2 (*Definitions Relating to Taxation*);

"Companies Act" means the Companies Act of Japan (Act No. 86 of 2005, as amended);

"Consolidated Financial Statements" means, in relation to any Fiscal Period of the Company, the unaudited consolidated financial statements of the Company prepared in accordance with the Relevant GAAP or, if in respect of such Fiscal Period audited consolidated financial statements have been prepared, the audited consolidated financial statements of the Company prepared as aforesaid;

"Consolidated Subsidiary" means, in relation to a Fiscal Period of the Company, Subsidiaries consolidated in the relevant Consolidated Financial Statements;

"Corporate Reorganisation Act" means the Corporate Reorganisation Act of Japan (Act No. 154 of 2002, as amended);

"Current Preferential Right" has the meaning provided in Condition 1.3 (*Status*);

"Day Count Fraction" has the meaning provided in Condition 4 (*Interest*);

"Designated Financial Institution" has the meaning provided in Condition 7.2 (*Definitions Relating to Taxation*);

"Due Date" has the meaning provided in Condition 7.1 (*Additional Amounts*);

"Electricity Business Act" has the meaning provided in Condition 1.3 (*Status*);

"Exemption Information" has the meaning provided in Condition 7.2 (*Definitions Relating to Taxation*);

"Extraordinary Resolution" means a resolution passed at a meeting of the Bondholders duly convened (including the satisfaction of the quorum requirements set out in the Agency Agreement) and held in accordance with the provisions contained in the Agency Agreement by a majority consisting of not less than three-quarters of the votes cast thereon;

"FATCA withholding" has the meaning provided in Condition 7.1 (*Additional Amounts*);

"Financial Instruments and Exchange Act" means the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended);

"first currency" has the meaning provided in Condition 13 (*Currency Indemnity*);

"Fiscal Period" means, as the context may require, (i) a period commencing on 1 April and ending on 31 March of the immediately succeeding year; or (ii) three month periods each commencing on 1 April, 1 July, 1 October and 1 January; provided that, if the Company shall change its financial year so as to end on a date other than 31 March, the provisions of items (i) and (ii) above shall be deemed to be amended *mutatis mutandis* and any such change shall be promptly notified by the Company to the Bondholders;

"Interest Payment Date" has the meaning provided in Condition 4 (*Interest*);

"Maturity Date" has the meaning provided in Condition 5.1 (*Final Maturity*);

"Participant" has the meaning provided in Condition 7.2 (*Definitions Relating to Taxation*);

"Payment Business Day" has the meaning provided in Condition 6.5 (*Payments on Payment Business Days*);

"Principal Subsidiary" means: (a) any Consolidated Subsidiary of the Company, (i) whose net sales as shown by the annual non-consolidated financial statements (or, where the Consolidated Subsidiary in question itself prepares consolidated financial statements, the annual consolidated financial statements) of such Consolidated Subsidiary used for the purposes of the latest audited annual Consolidated Financial Statements being made up, are 10 per cent. or more of the net sales of the Company and its Consolidated Subsidiaries as shown by such audited annual Consolidated Financial Statements or (ii) whose total assets as shown by the annual non-consolidated financial statements (or, as the case may be, the annual consolidated financial statements) of such Consolidated Subsidiary used for the purposes of the latest audited annual Consolidated Financial Statements being made up, are 10 per cent. or more of the total assets of the Company and its Consolidated Subsidiaries as shown by such audited annual Consolidated Financial Statements; and (b) on and after the Separated Company Effective Date, the Separated Company. A certificate signed by a Representative Director or an Authorised Officer that in the Company's opinion, a Consolidated Subsidiary is or is not or was or was not at a specified date a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

"Proceedings" has the meaning provided in Condition 16.2 (*Jurisdiction*);

"Rate of Interest" has the meaning provided in Condition 4 (*Interest*);

"Register" has the meaning provided in Condition 1.1 (*Form and Denomination*); "Related Party" has the meaning provided in Condition 7.1 (*Additional Amounts*); "Relevant Debt" has the meaning provided in Condition 2 (*Negative Pledge*);

"Relevant GAAP" means the accounting principles which are adopted by the Company for the preparation of the Consolidated Financial Statements under the Financial Instruments and Exchange Act, being one of those generally accepted in Japan or the United States or International Financial Reporting Standards (as issued by the International Accounting Standards Board (or any successor thereto) or, if applicable, as adopted or endorsed by the Accounting Standards Board of Japan (or any successor thereto));

"Relevant Taxation Acts" has the meaning provided in Condition 7.2 (*Definitions Relating to Taxation*);

"Representative Director" means a director of the Company who is for the time being a representative director within the meaning of the Companies Act or, where applicable, a representative statutory executive officer of the Company within the meaning of the Companies Act;

"second currency" has the meaning provided in Condition 13 (*Currency Indemnity*);

"Separated Company" means The Chugoku Power Transmission & Distribution Company, Incorporated or such Subsidiary of the Company under such other name to which the Company's electricity transmission and distribution business will be transferred on the Separated Company Effective Date;

"Separated Company Effective Date" means the date on which an absorption-type corporate split as approved by the general meeting of shareholders of the Company on 26 June 2019, pursuant to which the Company's electricity transmission and distribution business will be transferred to the Separated Company, will become effective;

As of the date of this Offering Circular, the Separated Company Effective Date is expected to be 1 April 2020.

"Special Taxation Measures Act" has the meaning provided in Condition 7.1 (*Additional Amounts*);

"Statutory Preferential Right" has the meaning provided in Condition 2 (*Negative Pledge*);

"Subsidiary" means a company, more than 50 per cent. of the outstanding shareholders' voting rights of which is at any given time owned by the Company, by one or more other Subsidiaries or by the Company and one or more other Subsidiaries, or any other company which is otherwise considered to be controlled by the Company under the Relevant GAAP (and, for this purpose, "voting rights" means the voting power attached to stocks or shares for the election of directors, officers or trustees of such company, other than voting powers attached to stocks or shares outstanding having such power by reason of the happening of a contingency);

"Taxes" has the meaning provided in Condition 7.1 (*Additional Amounts*);

"Tax Redemption Date" has the meaning provided in Condition 5.2 (*Redemption for Taxation Reasons*);

"Tax Redemption Notice" has the meaning provided in Condition 5.2 (*Redemption for Taxation Reasons*); and

"Transfer Business Day" has the meaning provided in Condition 1.4.3.

3.2 ***Construction of Certain References***

References to any statute or provision of any statute shall be deemed to include a reference to any statute or the provision of any statute which amends, extends, consolidates or replaces the same, or which has been amended, extended, consolidated or replaced by the same, and shall include any ordinances, regulations, instruments or other subordinate legislation made under the relevant statute.

The headings in these Conditions are for convenience only and shall be ignored in construing these Conditions.

4. **Interest**

The Bonds bear interest from and including 27 August 2019 at the rate of 2.401 per cent. per annum, (the "Rate of Interest") payable semi-annually in arrear on 27 February and 27 August in each year commencing on 27 February 2020 (each, an "Interest Payment Date"), subject as provided in Condition 6 (*Payments*). Interest in respect of any Bond shall be calculated per U.S.$1,000 in principal amount of the Bond (the "Calculation Amount").

Each Bond will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholder, and (ii) the day which is seven days after the Fiscal Agent has notified the Bondholders that it has received all sums due in respect of all the Bonds up to but excluding such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be U.S.$12.01 in respect of each Calculation Amount. If interest is required to be paid in respect of a Bond on any other date, such amount payable per Calculation Amount shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, and rounding the resulting figure to the nearest cent (half a cent being rounded upwards), where:

"Calculation Period" means the relevant period for which interest is to be calculated from (and including) the first day in such period to (but excluding) the last day in such period; and

"Day Count Fraction" means, in respect of any period, the number of days in the relevant period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30.

5. **Redemption, Purchase and Cancellation**

5.1 ***Final Maturity***

Unless the Bonds have previously been redeemed or purchased and cancelled, or become due and repayable, the Company will redeem the Bonds at 100 per cent. of their principal amount on 27 August 2024 (the "Maturity Date"), subject as provided in Condition 6 (*Payments*). The Bonds may not be redeemed at the option of the Company other than in accordance with Condition 5.2 (*Redemption for Taxation Reasons*).

5.2 ***Redemption for Taxation Reasons***

The Company may, but shall not be bound to, at any time, having given not less than 30 nor more than 60 days' prior notice (the "Tax Redemption Notice") to the Bondholders in accordance with Condition 14 (*Notices*) (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent. of their principal amount on the date fixed for redemption in the Tax Redemption Notice (the "Tax Redemption Date"), if at any time prior to the Maturity Date:

(i) the Company has or will become obliged to pay Additional Amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of Japan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 21 August 2019; and

(ii) such obligation cannot be avoided by the Company taking reasonable measures available to it,

provided that no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such Additional Amounts were a payment in respect of the Bonds then due.

Prior to the giving of any Tax Redemption Notice, the Company shall deliver to the Fiscal Agent:

(A) a certificate signed by a Representative Director or an Authorised Officer stating that the Company has or will become obliged to pay Additional Amounts as a result of such change or amendment and that the obligation referred to in (i) above cannot be avoided by the Company taking reasonable measures available to it; and

(B) an opinion of independent legal advisers of recognised standing to the effect that the Company has or will become obliged to pay such Additional Amounts as a result of such change or amendment.

Upon the giving of the Tax Redemption Notice to the Bondholders, the Company shall be bound to redeem the Bonds then outstanding at 100 per cent. of their principal amount on the Tax Redemption Date.

5.3 ***Purchase***

Subject to the requirements (if any) of any stock exchange on which the Bonds may be listed at the relevant time, the Company and/or any of its Subsidiaries may at any time purchase Bonds in the open market or otherwise. Such Bonds may, at the option of the Company or the relevant Subsidiary, be held or resold. The Bonds so purchased, while held by or on behalf of the Company or any of its Subsidiaries, shall not entitle the Bondholder to vote at any meeting of Bondholders and shall be deemed not to be outstanding for the purpose of calculating the quorum at a meeting of Bondholders or for the purposes of these Conditions. Bonds that have been purchased by the Company may, at the option of the Company, be cancelled. Bonds that have been purchased by any Subsidiary may, at the option of such Subsidiary, be delivered to the Company for cancellation.

5.4 ***Cancellation***

All Bonds which are redeemed shall forthwith be cancelled and such Bonds may not be reissued or resold. All Certificates in respect of Bonds so cancelled and Certificates in respect of Bonds purchased and cancelled pursuant to Condition 5.3 (*Purchase*) shall be forwarded to the Fiscal Agent for cancellation.

6. **Payments**

6.1 ***Payment of Principal***

Payments of principal shall be made by U.S. dollar cheque drawn on, or, upon application by a Holder of a Bond to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Certificates at the Specified Office of any Paying Agent.

6.2 ***Payments of Interest***

Payments of interest shall be made by U.S. dollar cheque drawn on, or upon application by a Holder of a Bond to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Certificates at the Specified Office of any Paying Agent.

6.3 ***Payments Subject to Fiscal Laws***

All payments in respect of the Bonds are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Bondholders in respect of such payments.

6.4 ***Agents***

The initial Agents and their initial Specified Offices are listed at the end of these Conditions. The Company reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar or fiscal agent and additional or successor paying agents and transfer agents; provided, however, that the Company shall at all times maintain a fiscal agent and a registrar. In acting under the Agency Agreement and in connection with the Bonds, the Agents act solely as agents of the Company and do not assume any obligations towards or relationship of agency or trust for or with any of the Bondholders. Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Bondholders.

6.5 ***Payments on Payment Business Days***

Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date, or, if the due date is not a Payment Business Day, for value the next succeeding Payment Business Day) will be initiated and, where payment is to be made by U.S. dollar cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Bond shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a cheque mailed in accordance with this Condition 6 (*Payments*) arriving after the due date for payment or being lost in the mail. In these Conditions, "Payment Business Day" means any day on which banks are open for general business (including dealings in foreign currencies) in New York City and Tokyo and, in the case of surrender (or, in the case of part payment only, endorsement) of a Certificate, in the place in which the Certificate is surrendered (or, as the case may be, endorsed).

6.6 ***Partial Payments***

If a Paying Agent makes a partial payment in respect of any Bond, the Company shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Certificate.

6.7 ***Record Date***

Each payment in respect of a Bond will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "Record Date"). Where payment in respect of a Bond is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

7. **Taxation**

7.1 ***Additional Amounts***

All payments of principal and interest in respect of the Bonds by or on behalf of the Company will be made without withholding of, or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Japan, or any political subdivision or any authority thereof or therein having power to tax ("Taxes") unless the withholding or deduction of such Taxes is required by law. If such withholding or deduction is so required, the Company will pay such additional amounts ("Additional Amounts") as may be necessary in order that the net amounts received by the Bondholders after such withholding or deduction shall equal the amounts which would have been receivable in respect of the Bonds in the absence of such withholding or deduction; except that no such Additional Amounts shall be payable with respect to any Bond:

(i) held by or on behalf of a Holder who is a non-resident of Japan or a non-Japanese corporation who is subject to such Taxes by reason of its being connected with Japan (including carrying on a business or maintaining a permanent establishment in Japan) otherwise than by reason only of the holding of any Bond or enforcement of rights thereunder or the receipt of payment in respect of any Bond;

(ii) held by or on behalf of a Holder who is a non-resident of Japan or a non-Japanese corporation that in either case is a person or entity controlling, or controlled by, the Company, or otherwise having a prescribed special relationship with the Company, as described in Article 6 of the Special Taxation Measures Act of Japan (Act No. 26 of 1957, as amended) (the "Special Taxation Measures Act") and Cabinet Order No. 43 of 31 March 1957 promulgated thereunder, as amended (the "Cabinet Order") (a "Related Party");

(iii) held by or on behalf of a Holder who would otherwise be exempt from any such withholding or deduction but who fails to comply with any applicable requirement to provide Exemption Information or to submit a Claim for Exemption to the Registrar or the Paying Agent to whom the relevant Certificate is presented (where required), or whose Exemption Information is not duly communicated through a Participant (as defined below) and the relevant international clearing organisation to such Paying Agent;

(iv) held by or on behalf of a Holder who is for Japanese tax purposes treated as a resident of Japan or a Japanese corporation (except for (A) a Designated Financial Institution who complies with the requirement to provide Exemption Information or to submit a Claim for Exemption and (B) a resident of Japan or a Japanese corporation who duly notifies the relevant Paying Agent of its status as exempt from such Taxes to be withheld or deducted by the Company, by reason of such resident of Japan or Japanese corporation receiving interest on the relevant Bond through a payment handling agent in Japan appointed by it); or

(v) where the relevant Certificate is presented for payment more than 30 days after the Due Date (as defined below) except to the extent that the Holder thereof would have been entitled to such Additional Amounts on presenting the Certificate in respect of such Bond for payment as at the expiry of such 30-day period.

In these Conditions, the "Due Date" means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been duly received in New York by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect shall have been duly given to the Bondholders in accordance with Condition 14 (*Notices*).

Any reference in these Conditions to principal or interest in respect of the Bonds shall be deemed to include any Additional Amounts which may be payable under this Condition 7 (*Taxation*).

If the Company becomes subject at any time to any taxing jurisdiction other than Japan, references in these Conditions to Japan shall be construed as references to Japan and/or such other jurisdiction.

No additional amounts will be payable for or on account of any deduction or withholding from a payment on, or in respect of, any Bond where such deduction or withholding is imposed pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, any regulation or agreement thereunder, any inter-governmental agreement or implementing legislation adopted by another jurisdiction in connection with these provisions or any agreement with the U.S. Internal Revenue Service ("FATCA withholding"). Further, the Company will have no obligation to otherwise indemnify an investor for any such FATCA withholding deducted or withheld by the Company, the Agents or any other party that is not an agent of the Company.

7.2 ***Definitions Relating to Taxation***

For the purposes of these Conditions:

(i) where a Bond is held through a certain participant in an international clearing organisation or a certain financial intermediary prescribed by the Special Taxation Measures Act and the Cabinet Order (together with related ministerial ordinances and regulations, the "Relevant Taxation Acts") (each, a "Participant"), in order to receive payment free of withholding or deduction by the Company, for, or on account of Taxes, if the relevant Holder is (A) a non-resident of Japan or a non-Japanese corporation, which in either case is not a Related Party, or (B) a Japanese financial institution falling under any of certain categories prescribed by the Relevant Taxation Acts (a "Designated Financial Institution"), all in accordance with the Relevant Taxation Acts, such Holder shall, at the time of entrusting the Participant with the custody of the relevant Bond, provide such Participant with certain information prescribed by the Relevant Taxation Acts to enable the Participant to establish that such Holder is exempt from the requirement for Taxes to be withheld or deducted (the "Exemption Information") and advise the Participant if the Holder ceases to be so exempt; and

(ii) where a Bond is not held by a Participant, in order to receive payments free of withholding or deduction by the Company, for, or on account of Taxes, if the relevant Holder is (A) a non-resident of Japan or a non-Japanese corporation, which in either case is not a Related Party, or (B) a Designated Financial Institution, all in accordance with the Relevant Taxation Acts, such Holder shall on or prior to each time on which it receives interest, submit to the relevant Paying Agent a claim for exemption from withholding tax (*Hikazei Tekiyo Shinkokusho*) (a "Claim for Exemption") in the form obtainable from the Paying Agent stating, *inter alia*, the name and address of the Holder, the title of the Bonds, the relevant date of interest payment, the amount of interest and the fact that the Holder is qualified to submit the Claim for Exemption, together with documentary evidence regarding its identity and residence.

8. Events of Default

If any of the following events occur:

8.1 *Non-payment of Interest*

The Company fails to pay any amount of interest in respect of the Bonds within 14 days of the due date for payment thereof; or

8.2 *Breach of Obligations*

The Company defaults in the performance or observance of any covenant, condition or provision contained in the Bonds or the Deed of Covenant and on its part to be performed or observed (other than the covenant to pay the principal or interest in respect of any of the Bonds) and such default remains unremedied for 30 days after written notice thereof, addressed to the Company by any Bondholder, has been delivered to the Company or to the Specified Office of the Fiscal Agent; or

8.3 *Cross Default on Indebtedness*

The obligation to repay any indebtedness for money borrowed by the Company or any Principal Subsidiary and having an aggregate outstanding principal amount of at least U.S.$10,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this Condition 8 (*Events of Default*)) is accelerated or capable of being accelerated prior to its stated maturity as a result of a default in respect of the terms thereof, or any such indebtedness due (on demand or otherwise) having an aggregate outstanding principal amount of at least U.S.$10,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this Condition 8 (*Events of Default*)) is not paid when due (whether on demand (if applicable) or at the expiration of any grace period as originally provided (if applicable)); or

8.4 *Cross Default on Guarantee/Indemnity*

The Company or any Principal Subsidiary fails to pay or otherwise defaults in making any payment due under any guarantee and/or any indemnity given by it in respect of any obligation or indebtedness for money borrowed having an aggregate outstanding principal amount of at least U.S.$10,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this Condition 8 (*Events of Default*)); or

8.5 *Initiation of Insolvency Proceedings*

Proceedings shall have been initiated against the Company or any Principal Subsidiary seeking with respect to the Company or such Principal Subsidiary a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction and such proceedings shall not have been discharged or stayed within a period of 60 days; or

8.6 ***Decree of Insolvency/Dissolution***

A final decree or order is made or issued by a court of competent jurisdiction adjudicating the Company or any Principal Subsidiary bankrupt or insolvent, or approving a petition seeking with respect to the Company or any Principal Subsidiary a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction or a final decree or order is made or issued by a court of competent jurisdiction for the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of the Company or any Principal Subsidiary or of all or substantially all of the property of any of them, or for the winding-up, dissolution or liquidation of the Company or any Principal Subsidiary in its bankruptcy or insolvency; or

8.7 ***Resolution for Dissolution***

A resolution is passed for the winding-up, dissolution or liquidation of the Company or any Principal Subsidiary except:

8.7.1 in the case of the Company, in connection with or in pursuance of a merger, consolidation, amalgamation, reorganisation or reconstruction (including the Company becoming, or becoming a subsidiary of, a holding company) upon which the continuing corporation or the corporation formed thereby effectively assumes (as a matter of English law) the entire obligations of the Company under the Bonds, the Deed of Covenant and the Agency Agreement; or

8.7.2 in the case of a Principal Subsidiary, where the undertaking, business and assets of such Principal Subsidiary are transferred or are otherwise vested in, or the proceeds of sale are received by, the Company or any other Subsidiary of the Company or its holding company pursuant to Condition 8.7.1, in any such case, in proportion to the ownership interest held by the Company, its holding company pursuant to Condition 8.7.1 or such other Subsidiary (as the case may be) in the relevant Principal Subsidiary; or

8.7.3 in any case, where the terms have previously been approved by an Extraordinary Resolution; or

8.8 ***Institution of Insolvency Proceedings***

The Company or any Principal Subsidiary institutes proceedings seeking with respect to itself adjudication of bankruptcy or seeking with respect to itself a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction, or consents to the institution of any such proceedings, or consents to, or acquiesces in, the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or of all or substantially all of its property, or makes a general assignment for the benefit of its creditors; or

8.9 ***Stop Payment***

The Company or any Principal Subsidiary stops payment (within the meaning of the Bankruptcy Act or any applicable law of any other jurisdiction); or

8.10 ***Cessation of Business***

The Company or any Principal Subsidiary ceases, or through an official action of its Board of Directors threatens to cease to carry on business, except:

8.10.1 in the case of the Company, in connection with or in pursuance of a merger, consolidation, amalgamation, reorganisation or reconstruction (including the Company becoming, or becoming a subsidiary of, a holding company) upon which the continuing corporation or the corporation formed thereby effectively assumes (as a matter of English law) the entire obligations of the Company under the Bonds, the Deed of Covenant and the Agency Agreement; or

8.10.2 in the case of a Principal Subsidiary, where the undertaking, business and assets of such Principal Subsidiary are transferred or are otherwise vested in, or the proceeds of sale are received by, the Company or any other Subsidiary of the Company or its holding company pursuant to Condition 8.10.1, in any such case, in proportion to the ownership interest held by the Company or its holding company pursuant to Condition 8.10.1 or such other Subsidiary (as the case may be) in the relevant Principal Subsidiary; or

8.10.3 in any case, where the terms have previously been approved by an Extraordinary Resolution; or

8.11 ***Encumbrancer***

Any encumbrancer takes possession of the whole or substantially all of the assets or undertakings of the Company or any Principal Subsidiary or a distress, execution or other similar process is levied or enforced upon or sued out against the whole or substantially all of the assets of the Company or any Principal Subsidiary and is not removed, discharged or paid out within 60 days,

then any Bond may, by written notice addressed by the Holder thereof to the Company and delivered to the Company or to the Specified Office of the Fiscal Agent, be declared immediately due and payable, whereupon it shall become immediately due and payable at its principal amount together with accrued interest without further action or formality.

For the purposes of Conditions 8.3 (*Cross Default on Indebtedness*) and 8.4 (*Cross Default on Guarantee/Indemnity*), any indebtedness which is in a currency other than U.S. dollar may be translated into U.S. dollar at the spot rate for the sale of relevant currency against the purchase of U.S. dollar quoted by any leading bank selected by the Company.

9. Prescription

Each Bond will become void unless presented for payment within the period of 10 years in the case of principal and 5 years in the case of interest from the Due Date for the payment thereof.

10. Replacement of Certificates

Should any Certificate be lost, stolen, destroyed, mutilated or defaced, it may be replaced at the Specified Office of the Registrar upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Company or an Agent may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

11. Meetings of Bondholders and Modification

11.1 *Meetings of Bondholders*

The Agency Agreement contains provisions for convening meetings of Bondholders to consider matters relating to the Bonds, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Company and shall be convened by it upon the request in writing of Bondholders holding not less than one-tenth of the aggregate principal amount of the outstanding Bonds. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing not less than 50 per cent. of the aggregate principal amount of the outstanding Bonds or, at any adjourned meeting, two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented; provided, however, that certain proposals (including any proposal to modify the date of maturity of the Bonds, to change any date fixed for payment of principal or interest in respect of the Bonds, to reduce the amount of principal or interest payable on any date in respect of the Bonds, to alter the method of calculating the amount of any payment in respect of the Bonds or the date for any such payment, to change the currency of payments under the Bonds or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "Reserved Matter")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Bondholders at which two or more persons holding or representing not less than 75 per cent. or, at any adjourned meeting, not less than 50 per cent. of the aggregate principal amount of the outstanding Bonds form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Bondholders, whether present or not.

In addition, a resolution in writing signed by or on behalf the Holders of not less than 90 per cent. of the aggregate principal amount of the Bonds who for the time being are entitled to receive notice of a meeting of Bondholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

11.2 ***Modification***

The Bonds, these Conditions and the Deed of Covenant may be amended without the consent of the Bondholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Company shall not agree, without the consent of the Bondholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Bondholders.

12. **Further Issues**

The Company may from time to time, without the consent of the Bondholders, create and issue further bonds having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Bonds.

13. **Currency Indemnity**

If any sum due from the Company in respect of the Bonds or any order or judgment given or made in relation thereto has to be converted from the currency (the "first currency") in which the same is payable under these Conditions or such order or judgment into another currency (the "second currency") for the purpose of (a) making or filing a claim or proof against the Company, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Bonds, the Company shall indemnify each Bondholder, on the written demand of such Bondholder addressed to the Company and delivered to the Company or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Bondholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof. This indemnity constitutes a separate and independent obligation of the Company and shall give rise to a separate and independent cause of action.

14. **Notices**

All notices to the Bondholders will be valid if mailed to them at their respective addresses in the Register and published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*). If publication in any of such newspapers is not (in the opinion of the Company) practicable, notices will be given in such other newspaper or newspapers as the Company shall determine. Such notices shall be deemed to have been given on the later of (i) the date of their publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which publication is required and (ii) the seventh day after being so mailed.

So long as the Bonds are evidenced by the Global Certificate and such Bonds are held on behalf of a clearing system, notices to Bondholders shall be given by delivery of the relevant notice to the relevant clearing system for communication by it to entitled accountholders in substitution for mailing and publication required by the Conditions.

15. **Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

16. **Governing Law and Submission to Jurisdiction**

16.1 ***Governing Law***

The Bonds and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

16.2 ***Jurisdiction***

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Bonds (including any non-contractual obligation arising out of or in connection with the Bonds) and accordingly any legal action or proceedings arising out of or in connection with the Bonds (including any non-contractual obligation arising out of or in connection with the Bonds) ("Proceedings") may be brought in such courts. The Company submits to the jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission has been made for the benefit of each of the Bondholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

16.3 ***Agent for Service of Process***

The Company has irrevocably appointed Law Debenture Corporate Services Limited, whose office is at present at Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom, as its agent in England to receive service of process in any Proceedings in England. If for any reason Law Debenture Corporate Services Limited ceases to be able to act as such or no longer has an address in England, the Company irrevocably agrees to appoint a substitute process agent in England and shall promptly notify the Bondholders of such appointment. Nothing in this paragraph shall affect the right to serve process in any other manner permitted by law.

SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM

The Global Certificate contains provisions which apply to the Bonds in respect of which the Global Certificate is issued, some of which modify the effect of the Conditions set out in this Offering Circular. Terms defined in the Conditions have the same meaning in the paragraphs below. The following is a summary of those provisions and certain other information:

Registration and Exchange

The Bonds will be evidenced by a Global Certificate which will be registered in the name of the common depositary for Euroclear and Clearstream, Luxembourg.

The Global Certificate will become exchangeable in whole, but not in part, for definitive Certificates if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 8 occurs.

Whenever the Global Certificate is to be exchanged for definitive Certificates, such definitive Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Certificate within five business days of the delivery, by or on behalf of the registered Holder of the Global Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such definitive Certificates (including, without limitation, the names and addresses of the persons in whose names the definitive Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Bonds scheduled thereto and, in particular, shall be effected without charge to any Holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If:

(a) Definitive Certificates have not been issued and delivered by 5.00 p.m. (Luxembourg time) on the thirtieth day after the date on which the same are due to be issued and delivered in accordance with the terms of the Global Certificate; or

(b) any of the Bonds evidenced by the Global Certificate has become due and payable in accordance with the Conditions or the date for final redemption of the Notes has occurred

and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the Holder of the Global Certificate on the due date for payment in accordance with the terms of the Global Certificate, then the Global Certificate (including the obligation to deliver definitive Certificates) will become void at 5.00 p.m. (Luxembourg time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (Luxembourg time) on such due date (in the case of (b) above) and the Holder will have no further rights thereunder (but without prejudice to the rights which the Holder or others may have under the Deed of Covenant). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg as being entitled to interests in the Bonds will acquire directly against the Company all those rights to which they would have been entitled if, immediately before the Global Certificate became void, they had been the registered Holders of Bonds in an aggregate principal amount equal to the principal amount of Bonds they were shown as holding in the records of Euroclear and/or (as the case may be) Clearstream, Luxembourg.

Transfers

Transfers of interests in the Bonds in respect of which the Global Certificate is issued shall be effected through the records of Euroclear and Clearstream, Luxembourg or any other clearing system (an "Alternative Clearing System") and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg or any Alternative Clearing System, as the case may be, and their respective direct and indirect participants.

Payments

In relation to payments made in respect of the Global Certificate, so long as this Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system, the definition for

"Payment Business Day" in Condition 6.5 shall be amended and shall be any day which is a day on which banks are open for general business (including dealings in foreign currencies) in New York City and Tokyo.

Each payment made in respect of the Global Certificate will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment where "Clearing System Business Day" means a day on which each clearing system for which the Global Certificate is being held is open for business.

Notices

Notwithstanding Condition 14, so long as the Global Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any Alternative Clearing System, notices to Holders of Bonds evidenced by the Global Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System.

Meetings

So long as at least the Relevant Fraction (as defined below) of the aggregate principal amount of the outstanding Bonds is evidenced by the Global Certificate, a single voter appointed in relation thereto or being the Holder of the Bonds evidenced thereby shall be deemed to be two voters for the purpose of forming a quorum of meetings of Bondholders.

"Relevant Fraction" means:

(a) for all business other than voting on an Extraordinary Resolution, one tenth;

(b) for voting on any Extraordinary Resolution other than one relating to a Reserved Matter, not less than 50 per cent.; and

(c) for voting on any Extraordinary Resolution relating to a Reserved Matter, not less than 75 per cent.,

provided, however, that, in the case of a meeting which has resumed after adjournment for want of a quorum it means:

(i) for all business other than voting on an Extraordinary Resolution relating to a Reserved Matter, the fraction of the aggregate principal amount of the outstanding Bonds evidenced or held by the voters actually present at the meeting; and

(ii) for voting on any Extraordinary Resolution relating to a Reserved Matter, not less than 50 per cent.

Electronic Consent

While the Bonds evidenced by the Global Certificate is registered in the name of any nominee for, or a nominee for any common depositary for, Euroclear, Clearstream, Luxembourg or any Alternative Clearing System (as the case may be), then (a) approval of a resolution proposed by the Company or the Fiscal Agent (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 90 per cent. in nominal amount of the Bonds then outstanding (an "Electronic Consent" as defined in the Agency Agreement) shall, for all purposes (including in relation to Reserved Matters), take effect as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held, and shall be binding on all Bondholders whether or not they participated in such Electronic Consent; and (b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Agency Agreement) has been validly passed, subject to certain requirements set out in the Agency Agreement, the Company and the Fiscal Agent shall be entitled to rely on consent or instructions given in writing directly to the Company and/or the Fiscal Agent, as the case may be, by accountholders in the relevant clearing system with entitlements to Bonds evidenced by this Global Certificate or, where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is held.

USE OF PROCEEDS

The net proceeds from the issue of the Bonds are estimated to amount to approximately U.S.$498 million, and are expected to be used primarily for capital expenditure and the repayment of certain existing indebtedness of the Company (including bonds).

THE CHUGOKU ELECTRIC POWER COMPANY, INCORPORATED

For over half a century since its founding in 1951, the Company has fulfilled a mission of providing a stable supply of electricity in the Chugoku region in Japan under a comprehensive system of power generation, transmission and distribution, and has thereby contributed to the development of its region. The Chugoku region, which forms the main part of the Group's supply area, is located at the western end of Japan's main island of Honshu and has an area of 32,000 square kilometres and a population of roughly 7.3 million. The region contains a large number of manufacturing hubs, in fields such as machinery, steel and chemicals, which are pillars of Japan's manufacturing industry. The Group is aiming for even further development as a business group firmly rooted in its local region, while exerting its comprehensive strength in endeavours such as stable supply of electricity.

The Group's operations are principally divided into the following three reporting segments:

- *Electric Power*, engaged in the business of power supply with the Chugoku Region as the principal basis of its operational development.
- *Comprehensive Energy Supply*, engaged in the provision of energy utilisation services that include sale of LNG and other fuels and sale of electricity and heat.
- *Information and Telecommunications*, engaged in the provision of electrical communications and data processing services utilising ICT.

Other business segments, not comprised in the above-mentioned reporting segments, include those where the Group carries out environmental harmony creation, business and lifestyle support, electric power business support, and the like operations.

As of 30 June 2019, the Company had 22 consolidated subsidiaries, 4 non-consolidated subsidiaries accounted for by the equity method and 12 affiliates accounted for by the equity method.

Selected Consolidated Financial Information

The following selected consolidated financial information should be read in conjunction with the Group's audited annual consolidated financial statements and related notes, the Group's unaudited quarterly consolidated financial statements and related notes, and "Recent Business" included elsewhere in this Offering Circular. The consolidated statements of operations data and cash flow data for the fiscal years ended 31 March 2019, 2018 and 2017 and the consolidated balance sheet data as of 31 March 2019, 2018 and 2017 have been extracted without material adjustment from the audited annual consolidated financial statements of the Group included elsewhere in this Offering Circular. The consolidated statement of operations data for the three-month periods ended 30 June 2019 and 2018 and the consolidated balance sheet data as of 30 June 2019 have been extracted without material adjustment from the unaudited quarterly consolidated financial statements of the Group included elsewhere in this Offering Circular. The consolidated balance sheet data as of 30 June 2018 has been extracted from the unaudited quarterly consolidated financial statements of the Group as of 30 June 2018 (but with rounding consistent with the unaudited quarterly consolidated financial statements of the Group included elsewhere in this Offering Circular).

The Group's consolidated financial statements have been prepared and presented in accordance with Japanese GAAP, which differ in certain respects from IFRS or generally accepted accounting principles in other jurisdictions. Further, the historical results are not necessarily indicative of results to be expected for future periods.

	As of and for the Fiscal Year Ended 31 March			As of and for the Three-Month Period Ended 30 June	
	2017	2018	2019	2018	2019
	(Millions of yen, except per share data, ratios, power generated and received and electric sales)				
Statements of Operations Data					
Operating revenues	¥1,200,379	¥1,314,967	¥1,376,979	¥ 316,585	¥ 328,064
Operating income (loss)	34,520	39,626	19,530	(1,788)	5,605
Profit (loss) attributable to owners of parent	11,341	20,707	11,446	(4,827)	2,220
Balance Sheet Data					
Net assets	581,162	580,745	558,655	566,790	550,255
Total assets	3,100,754	3,179,442	3,261,665	3,154,529	3,266,921
Interest-bearing debt(1)	2,053,281	2,078,239	2,196,903	2,123,470	2,236,629
Cash flow Data					
Net cash provided by (used in) operating activities	96,003	164,794	81,635	–	–
Net cash provided by (used in) investing activities	(147,779)	(188,549)	(168,744)	–	–
Net cash provided by (used in) financing activities	58,630	4,483	97,510	–	–
Free cash flows(2)	(51,775)	(23,755)	(87,109)	–	–
Per Share Data (in yen)					
Net assets(3)	1,677.09	1,676.42	1,613.71	1,636.35	1,589.36
Earnings:					
Basic	31.84	60.15	33.25	(14.02)	6.45
Diluted	27.95	50.12	25.74	–	4.95
Cash dividends	50.00	50.00	50.00	–	–
Key Financial Ratios					
Equity ratio(4) (per cent.)	18.6	18.2	17.0	17.9	16.7
Return on equity (ROE)(5) (per cent.)	1.9	3.6	2.0	(0.0)	0.0
Return on assets (ROA)(6) (per cent.)	0.8	0.9	0.4	(0.0)	0.1
Price earnings ratio (PER) (times)	38.7	21.3	41.5	(102.1)	210.5
Power generated and Received (in millions of kWh)					
Generated:					
Hydroelectric	3,878	3,784	3,299	993	673
Thermal	35,867	33,643	32,039	6,141	6,387
Nuclear	–	–	–	–	–
New energy sources	8	8	8	2	2
Power interchanged and purchased (net)	23,212	23,490	23,055	6,101	5,557
Power used for pumped storage(7)	(750)	(940)	(858)	(228)	(263)
Total(8)	62,216	59,986	57,543	13,008	12,357
Transmission loss	(4,962)	(4,555)	(4,598)	(688)	(648)
Total(8)	57,254	55,432	52,944	12,321	11,709
Electric Sales					
Residential (lighting)	18,184	18,562	17,488	3,785	3,755
Commercial, industrial and other	39,070	36,870	35,456	8,536	7,954
Total	57,254	55,432	52,944	12,321	11,709

Notes:

(1) Interest-bearing debt represents long-term borrowings (including current portion), short-term borrowings, bonds, commercial paper and others.

(2) Free cash flows represent net of cash flows from operating activities and those from investing activities.

(3) Net assets per share is calculated by dividing total net assets (less net income attributable to non-controlling interests) at the end of the period by the number of shares of common stock in issue at the end of each period.

(4) Equity ratio has been calculated by dividing total net assets (less net income attributable to non-controlling interests) at the end of the period by the sum of total liabilities and total net assets at the end of the period.

(5) ROE has been calculated as net income for the period divided by the average of total net assets (less net income attributable to non-controlling interests) at the beginning and at the end of the period.

(6) ROA = Operating income × (1 – Income tax rate)/Total assets × 100.

(7) Power used for pumped storage is the electric power used to pump water for reservoir operations at pumped-storage power stations.

(8) For electric energy information, the sum of the individual amounts may not match the totals due to the rounding of numerical values.

RECENT BUSINESS

The following discussion and analysis of the Group's financial condition and results of operations should be read in conjunction with "The Chugoku Electric Power Company, Incorporated—Selected Consolidated Financial Information" and the audited consolidated financial statements as of and for the fiscal years ended 31 March 2019 and 2018 in pages F-4 to F-32, the audited consolidated financial statements as of and for the fiscal years ended 31 March 2018 and 2017 in pages F-34 to F-59, and the unaudited quarterly consolidated financial statements as of and for the three-month periods ended 30 June 2019 and 2018 included in pages Q-2 to Q-9, as well as the notes to such consolidated financial statements appearing elsewhere in this Offering Circular. The audited consolidated financial statements and the unaudited quarterly consolidated financial statements have been prepared and presented in accordance with Japanese GAAP.

Overview

The Group carries out a total solutions business with the electric power business as its core and with focused investment of management resources in strategic business areas that can utilise the strengths of the Group. The Group's three reporting segments are "Electric Power", "Comprehensive Energy Supply" and "Information and Telecommunications" that are composed in accordance with the products and services provided based on the management resources held principally through the electric power business.

The Electric Power business is engaged in the business of power supply with the Chugoku Region as the principal basis of its operational development. The Comprehensive Energy Supply business is engaged in the provision of energy utilisation services that include sale of LNG and other fuels and sale of electricity and heat. Information and Telecommunications business is engaged in the provision of electrical communications and data processing services utilising ICT.

The Other business segment, comprising of businesses not included in the above-mentioned, reporting segments, include those where the Group carries out environmental harmony creation, business and lifestyle support, electric power business support, and the like operations.

As of 30 June 2019, the Company had 22 consolidated subsidiaries, 4 non-consolidated subsidiaries accounted for by the equity method and 12 affiliates accounted for by the equity method.

Critical Accounting Policies

The Company's consolidated financial statements have been prepared in accordance with the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of 1976) and the Accounting Rules for the Electric Power Industry (Ordinance of the Ministry of International Trade and Industry No. 57 of 1965). See the notes to the audited consolidated financial statements of the Group as of and for the fiscal year ended 31 March 2019 and the notes to the unaudited quarterly consolidated financial statements of the Company as of and for the three-month period ended 30 June 2019 for details relating to the critical accounting policies applied in preparing the Company's consolidated financial statements.

New Accounting Pronouncements and Accounting Changes

Changes in Accounting Policy

Change to the Depreciation Method for Tangible Fixed Assets

On 26 March 2019, the Board of Directors of the Company resolved that it would, taking into account the recent changes in the environment in which the Company operated its businesses, change the depreciation method applied to tangible fixed assets from the fiscal year ending 31 March 2020, from the declining-balance method to the straight-line method. As a result of this change, for the three-month period ended 30 June 2019, operating income and profit before income taxes increased by ¥5,188 million and ¥5,157 million, respectively, each as compared to the amounts which would have been reported applying the same method as in the corresponding period in the previous year. Further, the Ministerial Ordinance was amended pursuant to the Amended Ministerial Ordinance on 26 July 2019 which took effect on 2 August 2019. According to the Amended Ministerial Ordinance, electricity generation utilities which are subject to the Ministerial Ordinance are utilities that apply the declining-balance method to tangible fixed assets. Therefore, as a result of the change in the accounting policy of the Company, and as a result of amendments pursuant to the Amended Ministerial Ordinance, the Company has been required to reverse the total balance of the provision for depreciation of nuclear power plants as of 30 June 2019. This will have the effect of increasing profit before income taxes for the six-month period ending 30 September 2019 by ¥86,650 million. See Note 21 of the notes to the audited consolidated financial statements of the Group as of and for the fiscal year ended 31 March 2019 and 2018 included herein at page F-32 for further details.

Application of Partial Amendment to "Accounting Standard for Tax Effect Accounting"

"Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, 16 February 2018) have been applied from 1 April 2018, and deferred tax assets are presented as investments and other assets, while deferred tax liabilities are presented as long-term liabilities. As a result, deferred tax assets recorded under current assets (in the amount of ¥10,991 million) as of 31 March 2018 has been included in and presented as ¥75,141 million of deferred tax assets under investments and other assets included in the audited consolidated financial statements as of and for the fiscal year ended 31 March 2019.

Additional information

Change in method of recording expenses for implementing reprocessing of spent nuclear fuel

On 1 October 2016, the "Act for the Partial Amendment of the Spent Nuclear Fuel Reprocessing Fund Act" (Act No. 40 of 2016; the "Amended Act") and "the Ordinance Partially Amending the Accounting Rules for the Electric Power Industry" (Ministry of Economy, Trade and Industry Ordinance No. 94 of 2016; the "Amended Ordinance") was put into force, amending the Accounting Rules for the Electric Power Industry.

Since the effective date of the Amended Act, for expenses required in the reprocessing of spent nuclear fuel from power generation, a monetary amount corresponding to the amount of spent nuclear fuel generated during operation is paid as a monetary contribution to the Nuclear Reprocessing Organization of Japan ("NuRO"). Accordingly, the nuclear power company's cost burden responsibility is absolved and NuRO implements the reprocessing, among others.

Also, for expenses required in the reprocessing of spent nuclear fuel, the amount allocated was equivalent to the present value estimated based on the amount of spent nuclear fuel generated in operating the nuclear power station. However, these expenses were changed to be equivalent to the amount paid as a monetary contribution prescribed in Article 4, Paragraph 1, of the Amended Act, which is recorded as an electric utility operating expense.

In the third quarter of the fiscal year ended 31 March 2017, in compliance with Article 3 of the Amended Ordinance's supplementary provisions, there was a reduction of ¥39,705 million in the fund reserved for reprocessing of irradiated nuclear fuel and a reduction of ¥49,937 million in provision for reprocessing of irradiated nuclear fuel. This difference was shifted to other long-term liabilities, among others. In compliance with Article 6 of the supplementary provisions, ¥7,916 million in provision for the reprocessing of irradiated nuclear fuel without a fixed plan to reprocess was shifted to long-term liabilities due within one year. Based on Article 7, Paragraph 1, of the Amended Act supplementary provisions, upon receipt of notice from METI, monetary amounts recorded as long-term liabilities due within one year were paid to NuRO during the consolidated fiscal year ended 31 March 2017.

From the estimated costs required in the reprocessing of spent fuel generated by the end of the fiscal year ended 31 March 2005, a ¥3,306 million difference arising from the change in the fiscal year ended 31 March 2006 reserve fund recording standards has been uniformly recorded as an electric utility operating expense each year from the effective date of the Amended Act to fiscal year ending 31 March 2020 based on Article 4 of the Amended Ordinance supplementary provisions.

Change in calculation of asset retirement obligations for decommissioning specified nuclear power generation facilities

Previously, in accordance with the requirements of an Ordinance of the Ministry of Economy, Trade and Industry, the cost of the asset retirement obligations pertaining to measures for decommissioning specified nuclear power generation facilities had amounted to the cost of decommissioning the nuclear power generation facilities which was computed by applying the straight-line method to the estimated total decommissioning cost for the period equal to the facilities' forecasted operating period plus the estimated safe storage period. However, that Ordinance has been amended pursuant to the enactment of an Ordinance Partially Amending the Ministerial Ordinance concerning Reserve Fund for Dismantling Nuclear Power Facilities (Ministry of Economy, Trade and Industry Ordinance No. 17 of 2018), effective from 1 April 2018. As a result, the cost of decommissioning the nuclear power generation facilities is now calculated by applying the straight-line method to the estimated total decommissioning cost for the period equal to the facilities' forecasted operating period only.

However, if the nuclear power generation facility is decommissioned pursuant to certain circumstances such as a change in governmental energy policies, the cost of decommissioning the facility is computed by applying the straight-line method to the estimated total decommissioning cost for a period of ten years from the month of decommissioning of the nuclear power generation facility. If more than 40 years have elapsed from the start of the operations of the nuclear power generation facility to the date of decommissioning of the facility, the straight-line method is instead applied for the period of 50 years from the month of the start of the operations of the nuclear power generation facility.

As a result of these changes, for the fiscal year ended 31 March 2019, operating income and profit before income taxes each decreased by ¥1,575 million, each as compared to the amounts which would have been reported applying the same method as in the previous year.

Further, the facilities' forecasted operating period has been changed from a period equal to the operating period of the facilities and the estimated safe storage period to a period equal to the operating period of the facilities effective from 1 April 2018.

As a result of these changes, as of 31 March 2019, assets relating to asset retirement obligations included in utility plant and equipment under property, plant and equipment has increased by ¥10,240 million and asset retirement obligations have increased by ¥11,815 million, each as compared to equivalent amounts prior to such change.

Recent Developments

In line with the requirement for legislation-based separation of the electricity transmission and distribution division under the electricity system reforms, the Board of Directors of the Company resolved in April 2019, that it would separate its electricity transmission and distribution business from its generation and retail business in April 2020, by way of an absorption-type corporate split, pursuant to which the Company's electricity transmission and distribution business would be transferred to, and thereafter undertaken by the Separated Company. See "Business—Overview of the Group—Legal separation of the electricity transmission and distribution business" and Note 21 of the notes to the audited consolidated financial statements of the Group as of and for the fiscal year ended 31 March 2019 and 2018 included herein at pages F-31 to F-32 for further details.

Consolidated Results for the Fiscal Year Ended 31 March 2019 Compared to the Fiscal Year Ended 31 March 2018

Overview

In the fiscal year ended 31 March 2019, despite a slow-down in exports growth due to the deceleration of certain overseas economies, the Japanese economy showed a moderate improvement backed by steady growth in consumer spending and capital expenditure. In the Chugoku region, although there was some temporary reduction in production activities caused by the torrential rain in July 2018, the economy continued to show a moderate recovery.

Results

Operating Revenues

Operating revenues of the Group for the fiscal year ended 31 March 2019 was ¥1,376.9 billion, an increase of 4.7 per cent., or ¥62.0 billion, from the fiscal year ended 31 March 2018 reflecting factors such as the positive effect of the Fuel Cost Adjustment System and increase in grants received in respect of the feed-in tariff scheme for renewable energy, despite a decrease in volume of electricity sold.

Operating Expenses

Operating expenses for the fiscal year ended 31 March 2019 increased by 6.4 per cent., or ¥82.1 billion, compared to the previous fiscal year, to ¥1,357.4 billion. Despite efforts to raise operational efficiency across the board, operating expenses in electric power business increased by ¥52.7 billion to ¥1,211.8 billion. This stemmed from an increase in raw material costs due to an increase in fuel costs, as well as an increase in feed-in tariff scheme for renewable energy payments. In operations other than electric power operations, operating expenses was ¥145.6 billion, an increase of 25.3 per cent., or ¥29.3 billion.

Operating Income

As a result of the above, operating income for the fiscal year ended 31 March 2019 amounted to ¥19.5 billion, a decrease of 50.7 per cent., or ¥20.0 billion, compared to an operating income of ¥39.6 billion for the fiscal year ended 31 March 2018.

Other Expenses (Income) and Special Items

Other expenses, net (being other expenses less other income) for the fiscal year ended 31 March 2019 decreased by 73.8 per cent., or ¥6.5 billion, compared to the previous fiscal year, to ¥2.3 billion, principally reflecting a decrease in interest expense, as well as the recording of gains on sales of securities of ¥10.4 billion in the fiscal year ended 31 March 2019 (with none having been recorded in the fiscal year ended 31 March 2018), following a decision to sell certain of its security holdings following a review of its policy shareholdings and taking into consideration matters such as asset efficiency and strength of financial structure. This was set off to a certain extent by the recording in the fiscal year ended 31 March 2019 of a loss on disaster of ¥3.5 billion (due to the effects of the heavy rain in July 2018) and loss on withdrawal from business of ¥2.1 billion (relating to the withdrawal from business by a consolidated subsidiary).

Reversal of reserve for fluctuation in water levels for the fiscal year ended 31 March 2019 amounted to ¥0.2 billion, compared to provision of reserve for fluctuation in water levels of ¥0.2 billion in the previous fiscal year, while provision for depreciation of nuclear power plants for the fiscal year ended 31 March 2019 amounted to ¥2.5 billion, a decrease (in the amount additionally provisioned for the fiscal year) of 24.4 per cent., or ¥0.8 billion, compared to the previous fiscal year.

Profit before Income Taxes

Profit before income taxes for the fiscal year ended 31 March 2019 was ¥14.8 billion, a decrease of 45.1 per cent., or ¥12.2 billion, compared to the previous fiscal year.

Profit Attributable to Owners of Parent

As a result of deducting relevant amounts such as corporate tax, profit attributable to owners of parent for the fiscal year ended 31 March 2019 was ¥11.4 billion, a decrease of 44.7 per cent., or ¥9.2 billion, compared to the fiscal year ended 31 March 2018. Net earnings per share for the fiscal year ended 31 March 2019 amounted to ¥33.25, a decrease of 44.7 per cent. from ¥60.15 in the previous fiscal year.

Results by Business Segment

In the below analysis of results by business segment, figures for operating revenues and operating income per segment represent the total operating revenues and total operating income for such segment, without taking into account any inter-segment eliminations.

Electric Power

Despite a decrease in volume of electricity sold, due to the effect of the Fuel Cost Adjustment System and increase in grants received in respect of the feed-in tariff scheme for renewable energy, operating revenues in the Electric Power segment for the fiscal year ended 31 March 2019 amounted to ¥1,248.5 billion, an increase of 3.9 per cent., or ¥47.2 billion, compared to the previous fiscal year.

Although efforts were made to raise operational efficiency across the board, operating expenses for the segment increased by ¥68.6 billion to ¥1,238.2 billion for the fiscal year ended 31 March 2019. This stemmed from, among others, an increase in raw material costs due to an increase in fuel costs, as well as an increase in feed-in tariff scheme for renewable energy payments. As a result, segment income for the fiscal year ended 31 March 2019 amounted to ¥10.2 billion, a decrease of 67.6 per cent., or ¥21.4 billion, compared to the previous fiscal year.

Comprehensive Energy Supply

Operating revenues in the Comprehensive Energy Supply segment for the fiscal year ended 31 March 2019 amounted to ¥73.9 billion, an increase of 47.1 per cent., or ¥23.6 billion, compared to the previous fiscal year, principally reflecting increase in revenues from fuel sales-related business. Operating expenses for the segment increased by ¥24.0 billion compared to the previous fiscal year, to ¥72.1 billion for the fiscal year ended 31 March 2019, reflecting factors such as an increase in expenses of fuel sales-related business. As a result, segment income for the fiscal year ended 31 March 2019 amounted to ¥1.8 billion, a decrease of 15.5 per cent., or ¥0.3 billion, compared to the previous fiscal year.

Information and Telecommunications

Operating revenues in the Information and Telecommunications segment for the fiscal year ended 31 March 2019 amounted to ¥41.8 billion, an increase of 2.2 per cent., or ¥0.8 billion, compared to the previous fiscal year, principally reflecting an increase in revenues from the electrical communications-related business due to an increase in the number of telecommunication lines. Operating expenses for the segment increased by ¥1.2 billion compared to the previous fiscal year, to ¥39.5 billion for the fiscal year ended 31 March 2019. As a result, segment income for the fiscal year ended 31 March 2019 amounted to ¥2.3 billion, a decrease of 11.8 per cent., or ¥0.3 billion, compared to the previous fiscal year.

Other

Operating revenues in the Other segment for the fiscal year ended 31 March 2019 amounted to ¥122.6 billion, an increase of 3.3 per cent., or ¥3.9 billion, compared to the previous fiscal year, while segment income for the fiscal year ended 31 March 2019 amounted to ¥6.1 billion, an increase of 60.1 per cent., or ¥2.2 billion, compared to the previous fiscal year.

Consolidated Results for the Three-Month Period Ended 30 June 2019 Compared to the Three-Month Period Ended 30 June 2018

Results

Operating Revenues

Operating revenues of the Group for the three-month period ended 30 June 2019 was ¥328.0 billion, an increase of 3.6 per cent., or ¥11.4 billion, from the three-month period ended 30 June 2018 reflecting factors such as an increase in the fuel cost adjustment amount and an increase in grants received in respect of the feed-in tariff scheme for renewable energy, although the volume of electricity sold decreased compared to the same period in the previous fiscal year as a result of increasing competition.

Operating Expenses

Operating expenses for the three-month period ended 30 June 2019 increased by 1.3 per cent., or ¥4.0 billion, compared to the same period in the previous fiscal year, to ¥322.4 billion. Operating expenses in electric power business increased by ¥0.5 billion to ¥285.5 billion, principally reflecting an increase in the expense for the purchase of renewable energy and an increase in raw material costs due to a decrease in water levels, although there were efforts to raise operational efficiency. In operations other than electric power operations, operating expenses were ¥36.8 billion, an increase of 10.5 per cent., or ¥3.4 billion, compared to the same period in the previous fiscal year.

Operating Income

As a result of the above, operating income for the three-month period ended 30 June 2019 amounted to ¥5.6 billion, compared to an operating loss of ¥1.7 billion for the three-month period ended 30 June 2018.

Other Expenses (Income) and Special Items

Other expenses, net (being other expenses less other income) for the three-month period ended 30 June 2019 decreased by 43.8 per cent., or ¥1.2 billion, compared to the same period in the previous fiscal year, to ¥1.5 billion, principally reflecting a decrease in interest expense. Reversal of reserve for fluctuation in water levels for the three-month period ended 30 June 2019 amounted to ¥0.3 billion, compared to provision of reserve for fluctuation in water levels of ¥0.01 billion in the same period in the previous fiscal year, while provision for depreciation of nuclear power plants for the three-month period ended 30 June 2019 amounted to ¥0.3 billion, a decrease (in the amount additionally provisioned for the same period in the fiscal year) of 5.3 per cent., or ¥0.02 billion, compared to the same period in the previous fiscal year.

Profit (Loss) before Income Taxes

Profit before income taxes for the three-month period ended 30 June 2019 was ¥4.0 billion, compared to loss before income taxes of ¥4.9 billion for the same period in the previous fiscal year.

Profit (Loss) Attributable to Owners of Parent

As a result of deducting relevant amounts such as corporate tax, profit attributable to owners of parent for the three-month period ended 30 June 2019 was ¥2.2 billion, compared to loss attributable to owners of parent of ¥4.8 billion for the three-month period ended 30 June 2018. Net earnings per share for the three-month period ended 30 June 2019 amounted to ¥6.45, compared to net loss per share of ¥14.02 in the same period in the previous fiscal year.

Results by Business Segment

In the below analysis of results by business segment, figures for operating revenues and operating income per segment represent the total operating revenues and total operating income for such segment, without taking into account any inter-segment eliminations.

Electric Power

Despite a decrease in volume of electricity sold as a result of, among other factors, increasing competition, due to the increase in the fuel cost adjustment amount and an increase in grants received in respect of the feed-in tariff scheme for renewable energy, operating revenues in the Electric Power segment for the three-month period ended 30 June 2019 increased by 3.5 per cent., or ¥9.9 billion, compared to the same period in the previous fiscal year, to ¥296.4 billion.

Although efforts were made to raise operational efficiency across the board, operating expenses for the segment increased by ¥3.1 billion to ¥291.9 billion for the three-month period ended 30 June 2019. This stemmed from, among others, an increase in the expense for the purchase of renewable energy and an increase in raw material costs due to a decrease in water levels. As a result, segment income for the three-month period ended 30 June 2019 amounted to ¥4.4 billion, compared to a segment loss of ¥2.2 billion recorded in the same period in the previous fiscal year.

Comprehensive Energy Supply

Operating revenues in the Comprehensive Energy Supply segment for the three-month period ended 30 June 2019 amounted to ¥19.9 billion, an increase of 34.5 per cent., or ¥5.1 billion, compared to the same period in the previous fiscal year, principally reflecting an increase in revenue from electricity sales by the consolidated subsidiaries of the Company. Operating expenses for the segment increased by ¥4.8 billion compared to the same period in the previous fiscal year, to ¥19.2 billion for the three-month period ended 30 June 2019, reflecting factors such as an increase in expenses related to electricity sales by the consolidated subsidiaries of the Company. As a result, segment income for the three-month period ended 30 June 2019 amounted to ¥0.7 billion, an increase of 61.5 per cent., or ¥0.2 billion, compared to the same period in the previous fiscal year.

Information and Telecommunications

Operating revenues in the Information and Telecommunications segment for the three-month period ended 30 June 2019 amounted to ¥9.4 billion, an increase of 0.5 per cent., or ¥0.05 billion, compared to the same period in the previous fiscal year, principally reflecting an increase in revenues from the electrical communications-related business due to an increase in the number of telecommunication lines. Operating expenses for the segment decreased by ¥0.1 billion compared to the same period in the previous fiscal year, to ¥8.8 billion for the three-month period ended 30 June 2019. As a result, segment income for the three-month period ended 30 June 2019 amounted to ¥0.5 billion, an increase of 60.1 per cent., or ¥0.2 billion, compared to the same period in the previous fiscal year.

Financial Condition

Consolidated Balance Sheet as of 31 March 2019 Compared to Consolidated Balance Sheet as of 31 March 2018

As of 31 March 2019, total assets amounted to ¥3,261.6 billion, an increase of 2.6 per cent., or ¥82.2 billion, from 31 March 2018, principally reflecting an increase in construction in progress resulting from efforts such as the safety improvement construction at the Shimane Nuclear Power Station. Net property, plant and equipment stood at ¥2,370.1 billion, an increase of 2.5 per cent., or ¥58.7 billion compared to 31 March 2018. Nuclear fuel was ¥159.1 billion, a decrease of 11.8 per cent., or ¥21.3 billion compared to 31 March 2018. Total investments and other assets as of 31 March 2019 increased to ¥394.8 billion, an increase of 5.6 per cent., or ¥20.9 billion, compared to 31 March 2018. Total current assets as of 31 March 2019 were ¥337.5 billion, an increase of 7.6 per cent., or ¥23.8 billion, compared to 31 March 2018.

Total liabilities as of 31 March 2019 amounted to ¥2,703.0 billion, an increase of 4.0 per cent., or ¥104.3 billion, compared to 31 March 2018, principally reflecting an increase in long-term debt (including that due within one year) among others. Interest-bearing debt increased by 5.7 per cent., or ¥118.6 billion, compared to 31 March 2018, to ¥2,196.9 billion as of 31 March 2019.

Total net assets as of 31 March 2019 were ¥558.6 billion, a decrease of 3.8 per cent., or ¥22.0 billion, compared to 31 March 2018. This was due to the payment of dividends, among other factors. The equity ratio declined 1.2 percentage points to 17.0 per cent. as of 31 March 2019, from 18.2 per cent. as of 31 March 2018.

Consolidated Balance Sheet as of 30 June 2019 Compared to Consolidated Balance Sheet as of 31 March 2019

As of 30 June 2019, total assets amounted to ¥3,266.9 billion, an increase of 0.2 per cent., or ¥5.2 billion, from 31 March 2019, principally reflecting an increase in construction in progress resulting from efforts such as the safety improvement construction at the Shimane Nuclear Power Station. Net property, plant and equipment stood at ¥2,383.2 billion, an increase of 0.6 per cent., or ¥13.0 billion compared to 31 March 2019. Nuclear fuel was ¥159.1 billion, an increase of 0.03 per cent., or ¥0.04 billion compared to 31 March 2019. Total investments and other assets as of 30 June 2019 increased to ¥398.0 billion, an increase of 0.8 per cent., or ¥3.2 billion, compared to 31 March 2019. Total current assets as of 30 June 2019 were ¥326.4 billion, a decrease of 3.3 per cent., or ¥11.1 billion, compared to 31 March 2019.

Total liabilities as of 30 June 2019 amounted to ¥2,716.6 billion, an increase of 0.5 per cent., or ¥13.6 billion, compared to 31 March 2019, principally reflecting an increase in interest-bearing debt. Interest-bearing debt increased by 1.8 per cent., or ¥39.7 billion, compared to 31 March 2019, to ¥2,236.6 billion as of 30 June 2019.

Total net assets as of 30 June 2019 were ¥550.2 billion, a decrease of 1.5 per cent., or ¥8.4 billion, compared to 31 March 2019. This principally reflected the payment of dividends. The equity ratio declined 0.3 percentage points to 16.7 per cent. as of 30 June 2019, from 17.0 per cent. as of 31 March 2019.

Liquidity and Capital Resources

Cash Flows for the Fiscal Year Ended 31 March 2019 Compared to the Fiscal Year Ended 31 March 2018

Net cash provided by operating activities for the fiscal year ended 31 March 2019 was ¥81.6 billion, a decrease of 50.5 per cent., or ¥83.1 billion, compared with the previous fiscal year. This was due to a decrease in profit before income taxes, among other factors.

Net cash used in investing activities for the fiscal year ended 31 March 2019 was ¥168.7 billion, a decrease of 10.5 per cent., or ¥19.8 billion, reflecting a decrease in construction works for safety purposes and other factors. Free cash flow therefore amounted to an expenditure of ¥87.1 billion.

Net cash provided by financing activities for the fiscal year ended 31 March 2019 was ¥97.5 billion, an increase of 2,074.9 per cent., or ¥93.0 billion compared to the previous fiscal year. With the procurements exceeding the repayments, bonds and long-term borrowings were ¥124.8 billion. Cash dividends paid were ¥17.2 billion.

Cash and cash equivalents as of 31 March 2019 amounted to ¥91.3 billion, an increase of ¥10.3 billion compared to 31 March 2018.

Funding

As of 31 March 2019 and 30 June 2019, the Group's interest-bearing debt (consisting of long-term borrowings (including current portion), short-term borrowings, bonds, commercial paper and others) amounted to ¥2,196.9 billion and ¥2,236.6 billion, respectively.

The Group generally derives the funds it requires for its operations from cash flow from operations, borrowings from financial institutions and issues of bonds (including convertible bonds) and commercial paper. As is customary in Japan, domestic short-term and long-term bank loans are made under general agreements which provide that collateral and guarantees (or additional collateral or guarantees, as appropriate) with respect to present and future indebtedness will be given at the request of a lending bank under certain circumstances, and that the bank shall have the right, as the obligations become due or in the event of default, to offset any cash deposited against such obligations. Bonds issued by the Company, as well as borrowings by the Company from Development Bank of Japan Inc. (the balance of borrowings as of 31 March 2019 being ¥286.4 billion), have the statutory preferential right to be paid prior to certain other unsecured indebtedness of the Company (see "Business—Regulations—Preferential Rights").

Capital Expenditure

The following table sets out information with respect to the Group's capital expenditures (being the increase in value of tangible and intangible assets) for the periods indicated:

	Year Ended 31 March		
	2017	**2018**	**2019**
	(Millions of yen)		
Electric Power	¥152,914	¥205,225	¥170,917
Of which:			
Power supply	87,291	134,724	106,022
Power transportation	51,155	55,240	47,853
Of which:			
Power transmission	17,878	20,839	16,027
Power transformation	12,286	16,546	14,490
Power distribution	20,990	17,854	17,335
Nuclear fuel	10,054	10,253	8,204
Other	4,414	5,006	8,836
Comprehensive Energy Supply	1,845	3,627	750
Information and Telecommunications	8,315	7,789	7,849
Other	3,502	4,876	2,689
Adjustment	(2,394)	(3,011)	(3,048)
Total consolidated capital expenditure	¥164,184	¥218,507	¥179,158

The Group's capital expenditure is generally funded by internally generated funds, borrowings and issues of bonds.

The Group's capital expenditure for the fiscal years ended 31 March 2017, 2018 and 2019 principally related to those aimed at the stable supply of electricity reflecting demand, as well as at further efficiency of assets.

CAPITALISATION AND INDEBTEDNESS

The following table shows the consolidated capitalisation and indebtedness of the Group as of 30 June 2019, which has been extracted without material adjustment from the Group's unaudited quarterly consolidated financial statements as of the same date, and as adjusted to give effect to the issue of the Bonds:

	As of 30 June 2019	
	Actual	**As adjusted**
	(Millions of yen)	
Long-term debt:		
Bonds[2]	¥ 768,383	¥ 768,383
Long-term borrowings[3][4]	1,141,863	1,141,863
The Bonds now being issued[5]	–	54,000
Total long-term debt	1,910,246	1,964,246
Short-term debt:		
Long-term debt due within one year[3][4]	236,299	236,299
Short-term borrowings[4]	67,645	67,645
Total short-term debt	303,944	303,944
Net assets:		
Stockholders' equity:		
Common stock, no par value:		
Authorised: 1,000,000,000 Shares		
Issued: 371,055,259 Shares[7]	185,527	185,527
Capital surplus	17,047	17,047
Retained earnings	378,326	378,326
Treasury stock (26,815,008 Shares[8])	(38,777)	(38,777)
Total stockholders' equity	542,124	542,124
Accumulated other comprehensive income:		
Net unrealised holding gains (losses) on securities	8,453	8,453
Net unrealised gains (losses) on hedges	(49)	(49)
Foreign currency translation adjustments	(781)	(781)
Accumulated adjustments for retirement benefit	(2,624)	(2,624)
Total accumulated other comprehensive income	4,997	4,997
Non-controlling interests	3,133	3,133
Total net assets	550,255	550,255
Total capitalisation and indebtedness[9]	¥2,764,446	¥ 2,818,446

Notes:

(1) The above table should be read in conjunction with the unaudited quarterly consolidated financial statements of the Group contained herein.

(2) On 25 July 2019, the Company issued ¥20 billion in aggregate principal amount of ten-year domestic bonds.

(3) Includes lease liabilities.

(4) These amounts do not include debt and borrowings from the Company's non-consolidated subsidiaries accounted for by the equity method, affiliates accounted for by the equity method and affiliates not accounted for by the equity method.

(5) For the purposes of this table, the yen equivalent of the Bonds has been translated at the rate of U.S.$1.00 = ¥108, the approximate rate of exchange prevailing as of 28 June 2019. This rate of exchange bears no relationship to the rate(s) at which amounts relating to the Bonds will be converted into yen for accounting purposes.

(6) As of 30 June 2019, the Group had ¥125,320 million of contingent liabilities comprising guarantee liabilities (see Note 4 to the unaudited quarterly consolidated financial statements for the three-month period ended 30 June 2019 contained herein).

(7) All of the issued Shares are fully-paid and non-assessable.

(8) Includes Shares held by the Company's affiliates accounted for by the equity method.

(9) Total capitalisation and indebtedness is the total of total long-term debt, total short-term debt and total net assets (the total amount does not equal to the sum of these individual items due to rounding).

(10) There has been no material change in the Group's consolidated capitalisation, indebtedness, contingent liabilities and guarantees since 30 June 2019.

THE JAPANESE ELECTRIC POWER INDUSTRY

Overview of the Industry

History

The first electric power company in Japan commenced operations in 1886, as Tokyo Electric Lighting, a private company, and began supplying electricity to the public. In the years that followed, the electricity utility business grew in tandem with the modernisation of Japan and development of its industry, and the numerous electric utilities that developed were, after the First World War, restructured to create five major electric utilities. During the Second World War, the electric utility industry was completely state-controlled and utilities were integrated into Nihon Hatsusoden Co. (a nationwide power generating and transmitting state-owned company) and nine distribution companies. After the end of the Second World War, nine regional privately owned and managed "General Electric Utilities", being Hokkaido, Tohoku, Tokyo, Chubu, Hokuriku, Kansai, Chugoku, Shikoku and Kyushu Electric Power Companies, were established in 1951 and assumed the responsibility of supplying electricity to each region. This fundamental structure remains to this day, and with the return of Okinawa to Japan in 1972, Okinawa Electric Power Company joined as the tenth member.

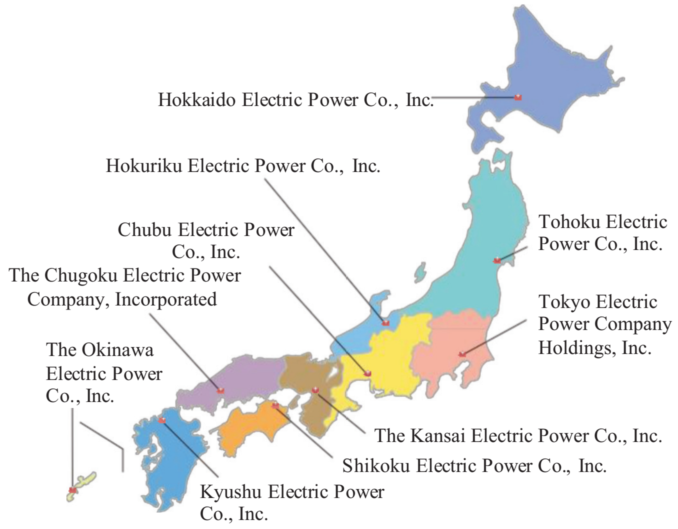
At the end of the 20th century, redressing Japan's high-cost structure and price variance between domestic and overseas markets were recognised as an issue through the development of the deregulation, and the electric utility industry started to be liberalised. In December 1995, organisations such as the independent power producers ("IPPs") were allowed to provide electricity wholesale services and in March 2000, electricity retail supply for extra-high voltage users (demand of 2MW or above) was liberalised. The scope of retail liberalisation was then expanded in April 2004 to high voltage users of 500kW or above, and subsequently in April 2005 to high voltage users of 50kW or above. Thus, a Japanese model of liberalisation based on fair competition and transparency while maintaining the vertical integration of generation, transmission and distribution to ensure a stable supply of electricity, was established.

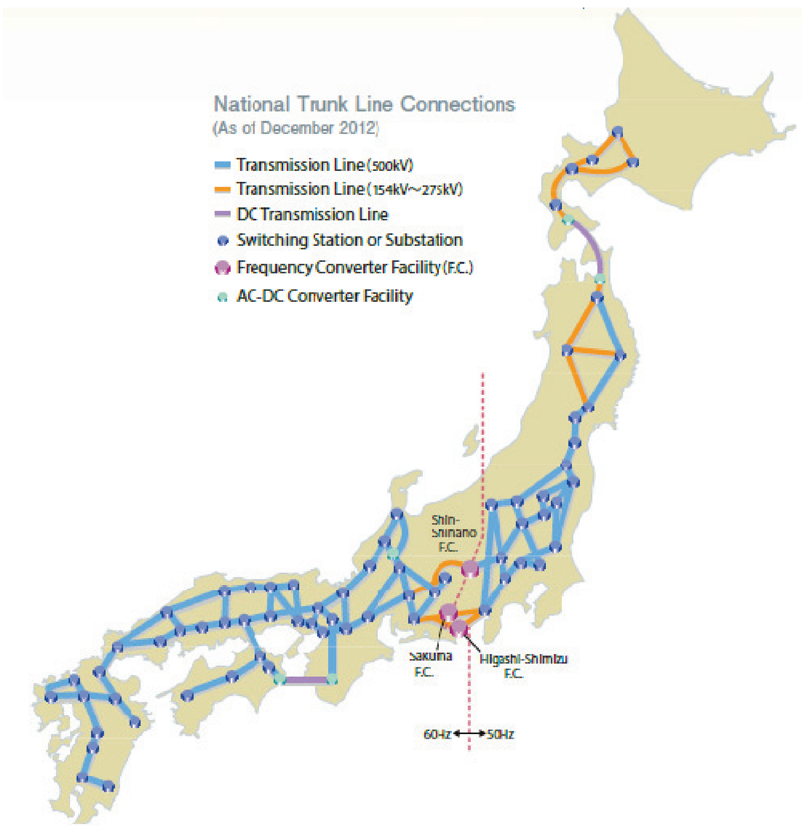
With the accident at Fukushima Daiichi Nuclear Power Station (operated by TEPCO) and subsequent tight demand and supply brought about by the Great East Japan Earthquake in March 2011 as a turning point, numerous discussions were held to maintain a stable supply and reduce energy costs, and in November 2013, the policy to implement three-phase reforms of the electricity system was adopted. The second stage of the amendment to the Electricity Business Act took effect from 1 April 2016, implementing the full-scale liberalisation of participation in retail electricity sales (see "—Japan's Energy Supply—Trends in Japan's Energy Policy—Electricity System Reform").

Electric Power Companies in Japan

Currently, ten privately-owned electric power companies, being the former General Electric Utilities, are responsible for supplying electricity to the consumers in their respective service areas, having been specified by the Japanese government as the Specified Electric Utilities which will continue to have the obligation to supply electricity and have rate regulation imposed upon them with regard to low-voltage customers as a transitional measure to protect consumers following the full liberalisation of participation in retail electricity sales in April 2016. Specified Electric Utilities must in general obtain approval from METI to provide supply conditions such as electricity rates as general supply provisions to low-voltage customers even after the full liberalisation of participation in retail electricity sales in April 2016. Rate regulation will continue until the end of March 2020, at which point, depending on the success of the measures to stimulate competition in the market, it will end. Specified Electric Utilities are also responsible for supplying electricity to customers other than low-voltage customers (who are liberalised sector customers, electric sales to whom had been liberalised prior to April 2016) based on the provisions for last resort service, if such consumers cannot conclude contracts with electricity suppliers including former power producers and suppliers (the "former PPSs") and other Specified Electric Utilities. The Specified Electric Utilities work closely with each other to enhance the stability of the electricity supply to customers nationwide. For example, they exchange or provide electricity through extra-high voltage transmission lines linking throughout Japan, in order to cope with emergency situations resulting from accidents, breakdowns, or peak demand times.

The following maps set out the current service areas of the ten Specified Electric Utilities, as well as the national trunk line connections as of December 2012:





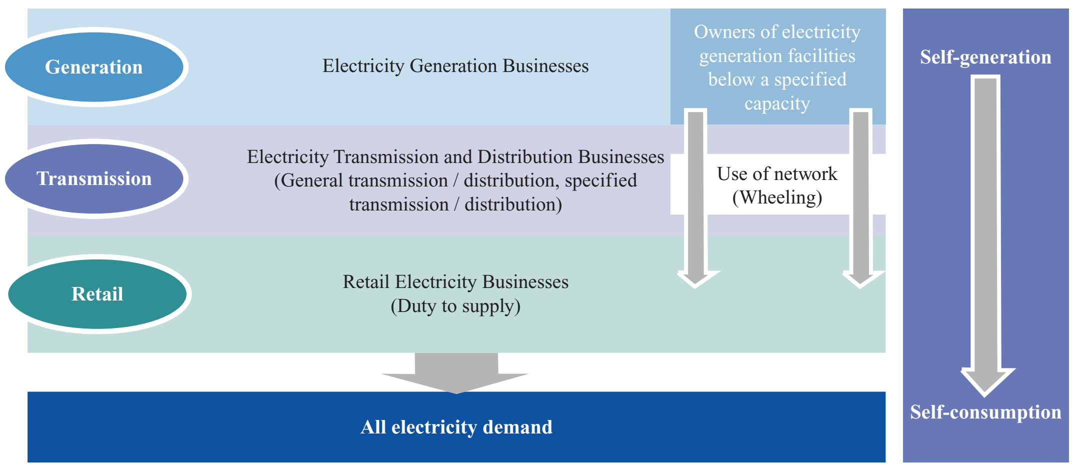
The frequency of grid power differs between eastern and western Japan, namely 50 Hz and 60 Hz respectively. This difference has a historical root in that the Tokyo area adopted German-made generators at the beginning of the electric power business while Osaka chose US-made ones. Therefore, Frequency Converter Facilities ("FC") are necessary to connect the eastern and western power grids. Three FCs, namely Sakuma FC and Higashi-Shimizu FC in Shizuoka prefecture and Shin-Shinano FC in Nagano prefecture, operate to convert the frequency. The capacity of East-West Grid Connection is planned for expansion from 1,200MW in total to 2,100MW in total by the fiscal year ending 31 March 2021 and to 3,000MW in total by the fiscal year ending 31 March 2028.

Competition in the Electric Power Market in Japan

The electric power market in Japan has been progressively liberalised to ensure competitive neutrality on the basis of a stable power supply by the existing ten Specified Electric Utilities, which consistently handle all functions from power generation to transmission and distribution. In 1995, the Electricity Business Act was revised to enable IPPs to participate in the electricity wholesale market in addition to the conventional Wholesale Electricity Utilities. Then, in March 2000, use of the transmission/distribution network owned by the electric power companies was liberalised, and the retail market was partially liberalised to allow the former PPSs to sell electricity to extra-high voltage users requiring 2MW or above. The scope of liberalisation was then expanded in April 2004 to high voltage users requiring 500kW or above, and subsequently in April 2005 to high-voltage users requiring 50kW or above. Thus, by 2011, the scope of liberalisation covered approximately 60 per cent. of total electricity demand in Japan. Electric power companies have responded to this trend of liberalisation by increasing their business efficiency while lowering electricity prices and offering a variety of pricing plans. To maintain fair and transparent use of the electricity transmission and distribution system, the Electric Power System Council of Japan was established as the sole private organisation to make rules and supervise operations from a neutral position, starting full-scale operation on 1 April 2005. In addition, Japan Electric Power Exchange was established in November 2003, with investments by the electric power companies, the former PPSs, self-generators and others, and started business on 1 April 2005. With the three goals of ensuring supply stability, suppressing electricity rates to the maximum extent possible and expanding the options for consumers and the business opportunities for operators, the Japanese government is planning to advance the reforms in three phases through the three key measures of enhancing nationwide grid operation, full deregulation of the electricity retail and generation sectors, and further ensuring neutrality in the transmission/distribution sector through legal unbundling while thoroughly inspecting each phase to solve any issues and taking necessary measures based on the results of the inspections.

Following the full liberalisation of participation in retail electricity sales in April 2016, there are now different regulations for the three separate businesses of (i) electricity generation (which requires notification to METI), (ii) electricity transmission and distribution (which requires a licence from METI), and (iii) retail electricity sales (which requires registration with METI). The Specified Electric Utilities (being the former General Electric Utilities), including the Company, currently continue to be engaged in all three such businesses, while the former PPSs, which only used to supply electricity to high-voltage liberalised sector customers, now engage in electricity generation (subject to a notification requirement) and sell electricity to any retail customer (subject to a registration requirement). The obligation on the Specified Electric Utilities (being the former General Electric Utilities) to supply electricity was abolished (although, for the purposes of customer protection, the obligation to supply electricity to low-voltage customers based on regulated pricing of low-voltage demand remains until fair competition amongst retail electricity businesses is assured), and a transition was made from the previous regulation based on the "per company" concept to imposing different obligations, as well as different regulations, for each of the businesses of electricity generation, electricity transmission and distribution and retail electricity sales. In all, 593 companies had submitted notifications of retail electricity sales business status as of 1 July 2019. However, this number includes customers who submitted notifications with the aim of purchasing electricity from the wholesale electricity market for their own use.

The following diagram outlines the electricity supply structure in Japan from April 2016 onwards:



Source: Natural Resources and Energy Agency website.

The following diagram sets out a summary of the changes made to the types of electricity businesses prior to and following full liberalisation of participation in retail electricity sales:

Prior to full liberalisation (partial liberalisation)		Full liberalisation		
		Electricity Generation Businesses (Notification system)	Electricity Transmission and Distribution (Licensing system)	Retail Electricity Sales Businesses (Registration system)
Former General Electric Utilities (10 companies)	Supply to the regulated sector subjected to regional monopoly and supply obligations, with regulation of prices	✓	✓	✓
Former PPSs	Supply only to higher voltage liberalised sector customers	✓	—	✓
Former Wholesale Electric Utilities (Electric Power Development Co., Ltd., The Japan Atomic Power Company)	Supply only to former General Electric Utilities and former PPSs	✓	—	—

In February 2017, the Ministry of Economy, Trade and Industry published the Electricity System Reform Interim Report, reporting on various discussions that took place with the aim of implementing measures to increase competition while also ensuring promotion of public interest against a background of further liberalisation (such as stable electricity supply). These measures include the establishment of a base-load power supply market, a review of rules relating to usage of interconnected lines, the introduction of a capacity mechanism and the establishment of a non-fossil fuel value trading market. The details of such measures are due to be the subject of further discussion going forward, with the aim of implementing them generally around 2020.

Electric Power Pricing

Until the full liberalisation of participation in retail electricity sales in April 2016, pricing of electricity supplied in Japan was divided between those to liberalised sector customers, which comprised customers which received extra high-voltage and high-voltage power, and the regulated sector customers, which received low-voltage power. The liberalised sector included extra-high voltage customers in the industrial and business sectors such as large factories, department stores and office buildings, and high-voltage customers in the industrial and business sectors such as medium-sized factories, supermarkets and medium-sized and small buildings, while the regulated sector included low-voltage customers such as offices, as well as lighting-purpose usage customers such as households. For the fiscal year ended 31 March 2014, the liberalised sector comprised approximately 62 per cent. of the amount of electric power consumed, while the regulated sector comprised approximately 38 per cent. (with households comprising approximately 33 per cent.) of electric power consumed (source: "Full-Scale Liberalisation of the Retail Electricity Market", Agency for Natural Resources and Energy, the Ministry of Economy, Trade and Industry, October 2015).

Electricity rates in respect of liberalised sector customers were determined by negotiations between customers and suppliers based on such factors as electricity usage plans, while electricity rates in respect of regulated sector customers were determined based on the cost-of-service principle (the "comprehensive cost system"), in which costs used as a basis for calculating pricing (with a view to producing a fair rate of return) include the assumed operating expenses (such as fuel costs, depreciation costs, repair costs, personnel costs and taxes) and capital/funding costs (dividend and interest expenses) for the relevant former General Electric Utility as a whole. To ensure fairness among the various demand categories and types of customers, rates were set according to rationally distributed unit costs, with the load characteristics particular to each category taken into account.

Following the Great East Japan Earthquake, amendments to the Electricity Business Act were enacted in June 2014 as the second stage of the electricity system reforms, and it was decided to liberalise the entry into the retail electricity market fully. With the aim of ensuring freedom of choice to all with respect to electricity, while enhancing the efficiency of the electric utility industry through competition in the retail sector, the scope of liberalisation has been expanded, and participation in retail electricity sales was fully liberalised from 1 April 2016.

Following such liberalisation, all customers in Japan are now able to select the supplier of its electricity. Retail electricity sales businesses are obliged to ensure a supply capacity commensurate with their own demand, and are free to set their own rates, in principle. However, as a transitional measure (until March 2020 at the earliest) to protect low-voltage consumers (to prevent increases in electricity rates in places where there is not enough competition), the government has nominated the Specified Electric Utilities (being the former General Electric Utilities) as businesses which will continue to have the obligation to supply electricity and have rate regulation imposed upon them with regard to low-voltage customers (former regulated sector customers); at such stage on or after the legislation-based separation of the electricity transmission and distribution division (in April 2020) as the government considers that customers' interests will not be impeded, having consideration of the status of competition, the government may end such transitional measures by region.

Low-voltage Sector (Former Regulated Sector)

The Specified Electric Utilities develop "specific retail electricity supply provisions" (for customers to which supply obligation and rate regulation apply) and "optional electricity supply provisions" (which enable customers to choose their electricity rate plans according to their type of usage). Specified Electric Utilities are required to obtain METI's authorisation to change their specific retail electricity supply provisions before they can raise electricity rates for low-voltage customers; however, only a filing of a notification to METI is required where the change to specific retail electricity supply provisions is beneficial to customers (such as rate reductions). In addition, Specified Electric Utilities are only required to notify METI of the establishment of and any amendment to optional electricity supply provisions.

Fuel Cost Adjustment System

The fuel cost adjustment system (the "Fuel Cost Adjustment System") was introduced in 1996 with the aim of promoting the stability of the management environment of the former General Electric Utilities at the same time as making clear the results of the efforts of the former General Electric Utilities to achieve management efficiency and reflecting the changes in economic environment in electricity rates as promptly as possible, by externalising the effects of fuel prices and exchange rates, which are beyond the control of the former General Electric Utilities.

Under the current Fuel Cost Adjustment System, electricity rates are adjusted on a monthly basis in the following manner: fuel costs are calculated based on the average price of fuel (all-Japan average import prices of crude oil, LNG and coal recorded in foreign trade statistics) during a three-month period, and rates for the third month following the end of such period are adjusted automatically based on the degree of fluctuation from the base average fuel price at the time of the price revision (in the case of the Company, as of 1 September 2008) (i.e., the adjustment amount calculated based on the difference between the base fuel price and the average fuel prices for the January-March period is reflected in the rates for June, for example). To prevent an excessive impact on customers if fuel prices increased substantially, a certain ceiling (an increase of 50 per cent. from the base average fuel price) had been placed on the average fuel price which forms the basis of calculation of the adjustment amount with regard to the permissible range of automatic rate adjustments; for customers with new supply contracts or new terms from April 2016, the ceiling no longer applies.

High/Extra High Voltage Sector (Former Liberalised Sector)

High/extra high voltage sector customers could choose their suppliers freely even before liberalisation in April 2016. Contract terms and conditions are determined through negotiations between the customer and supplier based on electricity consumption plans, including such factors as demand scale, load characteristics, demand type and period. Electricity rates are calculated based on the electricity rate unit price set by such contract. The supplier is under no legal supply obligation, however, and may not agree to supply electric power as a result of the negotiations. Customers who are unable to obtain a supply of electric power from another company for some reason are guaranteed receipt of an electric power supply from the Specified Electric Utilities in whose service area they are located, based on a "last-resort service contract" notified by the Specified Electric Utilities to METI.

Wheeling Service Charge System

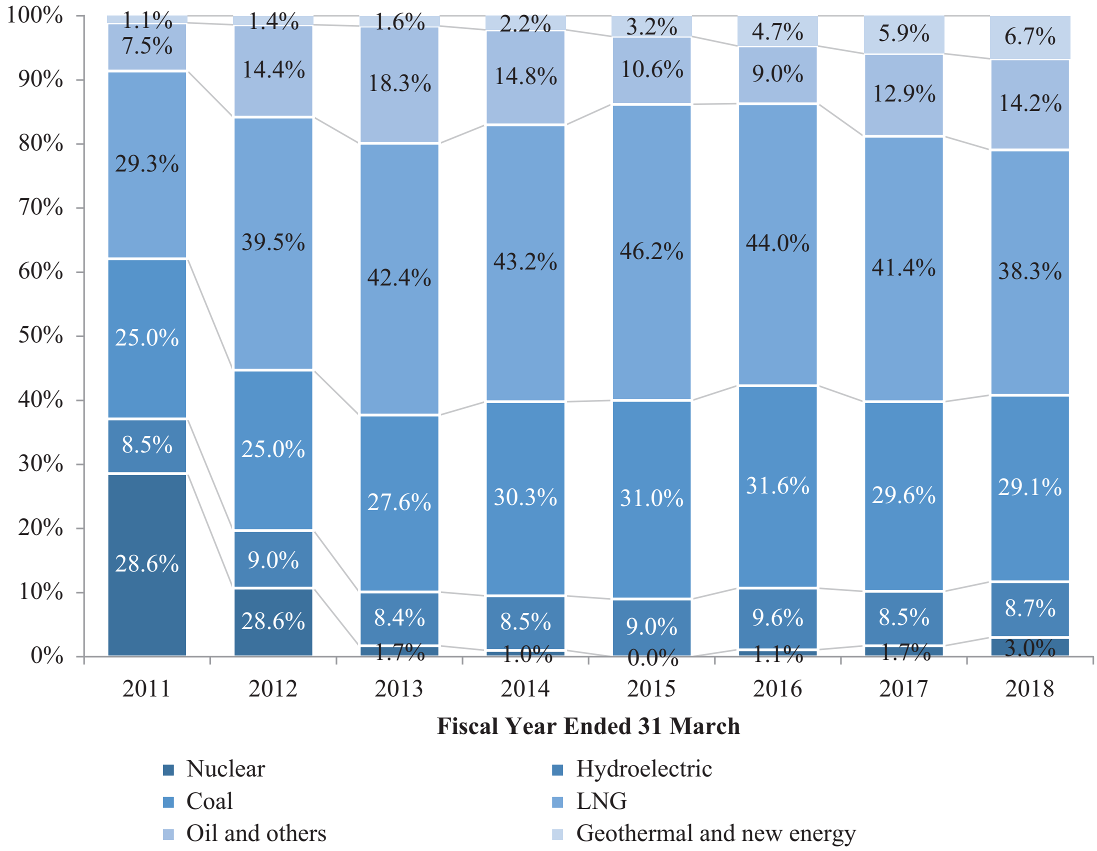
When former PPSs conduct retail supply of electricity, or when Specified Electric Utilities conduct retail supply of electricity in supply service areas other than their own, they will be using the network of the Specified Electric Utility that owns the electric power supply facilities in the service area concerned. In such cases, the Specified Electric Utility in the relevant service area is required to compile a "wheeling service contract" stipulating the charges and terms and conditions for wheeling service (electricity transmission, transformation and distribution service), and submit it to METI, to ensure fair competition. Wheeling service charges are calculated in accordance with rules prescribed by a ministerial ordinance of the Ministry of Economy, Trade and Industry that provides a basis for appropriate recovery of the necessary costs and ensures fairness among transmission and distribution line users.

Japan's Energy Supply

Overview

Resource-poor Japan is dependent on imports for almost all coal, oil and natural gas, making Japan's energy supply structure extremely vulnerable. Following the two oil crises in the 1970s, Japan has been attempting to promote energy efficiency at the same time as diversifying its energy sources through increasing the use of nuclear energy, natural gas and coal. Despite these improvements, oil still accounts for about 40 per cent. of Japan's primary energy supply, and more than 80 per cent. of imported oil comes from the politically unstable Middle East. Moreover, although Japan has one of the highest proportions of electricity demand in total energy demand at over 40 per cent., prospects for importing electricity from neighbouring countries are very poor because Japan is an island nation. In addition, there is an urgent need for global warming countermeasures such as reduction of CO_2 emissions from the use of energy. As such, in order to ensure a stable electricity supply, it is important to establish a balanced energy mix that can concurrently achieve energy security, economic efficiency, and environmental conservation, while ensuring safety.

The diagram below shows the breakdown in energy mix for the periods indicated:



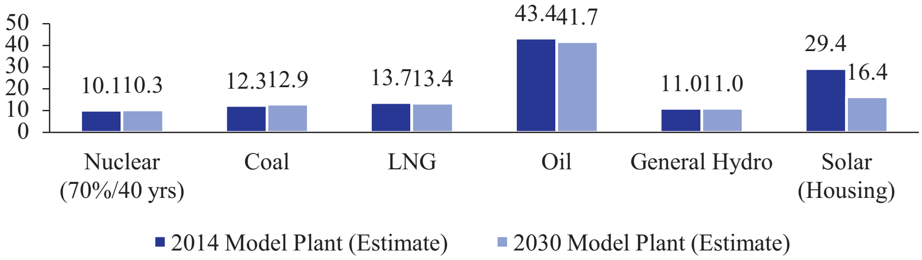
Notes:

(1) Source: Data based on the Federation of Electric Power Companies of Japan, 2018.

(2) Figures for the fiscal years ended 31 March 2011 to 2016 are based on the aggregate of the ten former General Electric Utilities, including power purchased from others. Figures for the fiscal years ended 31 March 2017 and 2018 are based on the aggregate of the ten areas.

(3) Oil and others includes LPG and other gases, etc.

The diagram below shows the estimated power generation costs (the Japanese Government's trial calculations based on model plants theoretically newly established in 2014 and 2030) broken down by type of power source (in yen per kWh):



Note:

(1) Source: Data based on the Electricity Generation Cost Verification Working Group, Advisory Committee for Natural Resources and Energy, the Ministry of Economy, Trade and Industry, May 2015.

Trends in Japan's Energy Policy

Deliberations towards revision of energy policy and the electric power business system have been ongoing in Japan since the occurrence of the Great East Japan Earthquake and TEPCO's Fukushima Daiichi Nuclear Power Station accident in March 2011.

Basic Energy Plan

Based on the Basic Act on Energy Policy which became effective in June 2002, the Japanese government has framed a Basic Energy Plan with the aim of a long-term, comprehensive and systematic implementation of measures relating to energy supply and demand. Based on the Basic Act on Energy Policy, the Basic Energy Plan's contents must be reviewed at least once in every three years, and as amended when considered necessary.

The Fifth Basic Energy Plan (which was approved by the Cabinet in July 2018) has, from the point of view of stable supply of electricity, ensuring economic efficiency and preventing global warming, set out directions for continuing to progressively construct a balanced energy mix by 2030 that includes renewable energy, thermal and nuclear power generation, taking into account Japan's current state of over-dependence on fossil fuels due to drastic changes in the energy supply and demand situation following the Great East Japan Earthquake and the accident at Fukushima Daiichi Nuclear Power Station (operated by TEPCO), in addition to the above-mentioned energy situation of Japan.

The following table sets out the positioning and the policy direction with respect to energy sources in the Fifth Basic Energy Plan of the Japanese government:

Energy source	**Positioning and policy direction**
Renewable energies	• Promising, multi-characteristic, important, low-carbon and domestic energy sources that emit no greenhouse gases and contribute to assuring energy security, utilised with a focus on reducing the environmental load over the long term. • Their introduction will continue to be actively promoted, advancing on early measures for laying the foundation for steady conversion of renewable energy into a major power source.
Nuclear power	• As a low-carbon, quasi-domestic energy source, an important base-load power source that, on the major precondition that its safety is ensured, will contribute to the stability of the long-term energy supply-demand structure from the point of view of stable supply, lowering costs, and prevention of global warming. • Under a policy of lowering dependency on nuclear power as much as possible, the volume to be secured will be assessed. • Restart of nuclear power stations is to proceed with the government playing a proactive role when the NRA has deemed them to comply with the regulatory standards.

Energy source	Positioning and policy direction
Coal	• Although problematic as it emits a large amount of greenhouse gas, currently an important base-load power source with superior stability and economic efficiency. It is expected that the need to adjust power output appropriately will grow as a consequence of the expansion of the introduction of renewable energy. • Conversion to high efficiency and next-generation coal thermal power generation will be promoted, and will continue to be utilised while focusing on reducing its environmental burdens in the long term, for example by making efforts to shift to the use of cleaner gas, and fade out inefficient coal use. • In addition to speeding up the metabolism through introduction of available leading-edge technology, promote the development of technologies to further improve power generation efficiency and reduce greenhouse gas emissions per unit of generated power.
Natural gas	• As a source involving relatively low geopolitical risk and as it emits the least amount of greenhouse gases among fossil fuels, it plays a central role as an intermediate power source; it may also become a part of the foundation of a hydrogen society. As the shift towards natural gas progresses with the "shale gas revolution", an important energy source whose role will expand in the future while focusing on reducing the environmental load in the long term. • To be utilised while reducing its costs through diversification of its supply source among other things, and avoiding over-dependence on it as an electricity source.
Oil	• An important energy source that will be utilised into the future, due to its wide range of applications (such as electricity generation, transportation) and high convenience (such as transportability, well-rounded infrastructure).

Deliberations of Details of the Energy Mix

In January 2015, the government, with a view to giving shape to the policies indicated under the Fourth Basic Energy Plan (approved by the Cabinet in April 2014), set up the Subcommittee on Long-term Energy Supply-demand Outlook in order to consider the details of energy mix. In July 2015, following the report of the Subcommittee, the Agency for Natural Resources and Energy of the Ministry of Economy, Trade and Industry issued a report on Japan's long-term energy supply and demand outlook. Under the report, the Ministry of Economy, Trade and Industry's outlook for the energy mix for the fiscal year ending 31 March 2031 is as follows (all percentages set out below are approximate):

- Renewable energies: 22 per cent. to 24 per cent., of which:
  - Geothermal: 1.0 per cent. to 1.1 per cent.
  - Biomass: 3.7 per cent. to 4.6 per cent.
  - Wind: 1.7 per cent.
  - Solar: 7.0 per cent.
  - Hydro: 8.8 per cent. to 9.2 per cent.
- Nuclear power: 20 per cent. to 22 per cent.
- LNG: 27 per cent.
- Coal: 26 per cent.
- Oil: 3 per cent.

Pursuant to the report, the government's outlook for primary energy supply structure for the fiscal year ending 31 March 2031 contemplates renewable energy and nuclear energy to comprise around 13 per cent. to 14 per cent. and 11 per cent. to 10 per cent., respectively, leading to an energy self-sufficiency rate of around 24.3 per cent.

Further, in May 2016, the Cabinet approved the Plan for Measures Against Global Warming, which included a mid-term aim of reducing Japan's greenhouse effect gas emission by 26.0 per cent. by the fiscal year ending 31 March 2031 (as compared to the level at the fiscal year ended 31 March 2014).

The Fifth Basic Energy Plan has, in addition to the energy mix outlook in 2030 set out above, set out challenges to achieve energy transitions and decarbonisation by 2050 with a view to reducing greenhouse gas emissions by 80 per cent. The primary directions towards the year 2050 set out in the Fifth Basic Energy Plan include the following:

- Renewable energy: aim to use as a major power source, economically independent and decarbonised;
- Nuclear power: one of the options for decarbonisation; pursue safe reactors and development of back-end technologies; and
- Fossil fuels: while a major power source during the transitional period, enhance resource diplomacy. Shift to gas, fade out inefficient coal, start hydrogen development for decarbonisation.

Electricity System Reform

Japan has been using a system whereby the former General Electric Utilities that have to carry out all the operations from power generation through to retail fulfil the supply responsibilities in their defined supply areas. But today, given facts such as the electricity shortages in the aftermath of the Great East Japan Earthquake, there are increased societal needs for "utilising supply capacity across wider areas" and "letting people choose a power company of their own free will". Accordingly, deliberations have been undertaken on the electric power business system which the nation should have in the future.

In April 2013, for the purposes of "ensuring a stable supply", "maximising restraint on electricity prices" and "expanding the choices of customers and business opportunities of businesses", the Cabinet approved the Policy on Electricity System Reform, which has three main components: "expansion of the cross-regional nationwide system operation", "full-scale liberalisation of participation in retail electricity sales", and "legislation-based separation of the electricity transmission and distribution division" (being the separation of the transmission and distribution business in a separate legal entity, while allowing a capital relationship between the power generation and electricity transmission and distribution companies). In November 2013, further to an amendment to the Electricity Business Act, rules relating to the Organization for Cross-regional Nationwide Coordination of Transmission Operators ("OCCTO") were added as the first phase of the reform, with the aim of contributing to, among others, the securing of a stable supply of electricity in a time of disaster as well as promoting the development of a transmission and distribution network necessary for utilising power sources across regions.

The OCCTO, which was established on 1 April 2015, has assumed the function of adjusting the supply-demand balance of electricity nation-wide in both normal and emergency situations. All electricity operators (including Specified Electric Utilities (including the Company), former wholesale electric utilities (being Electric Power Development Co., Ltd. ("J-Power") and The Japan Atomic Power Company), former designated electric utilities and former PPSs) must be members of the OCCTO. The principal functions of the OCCTO include:

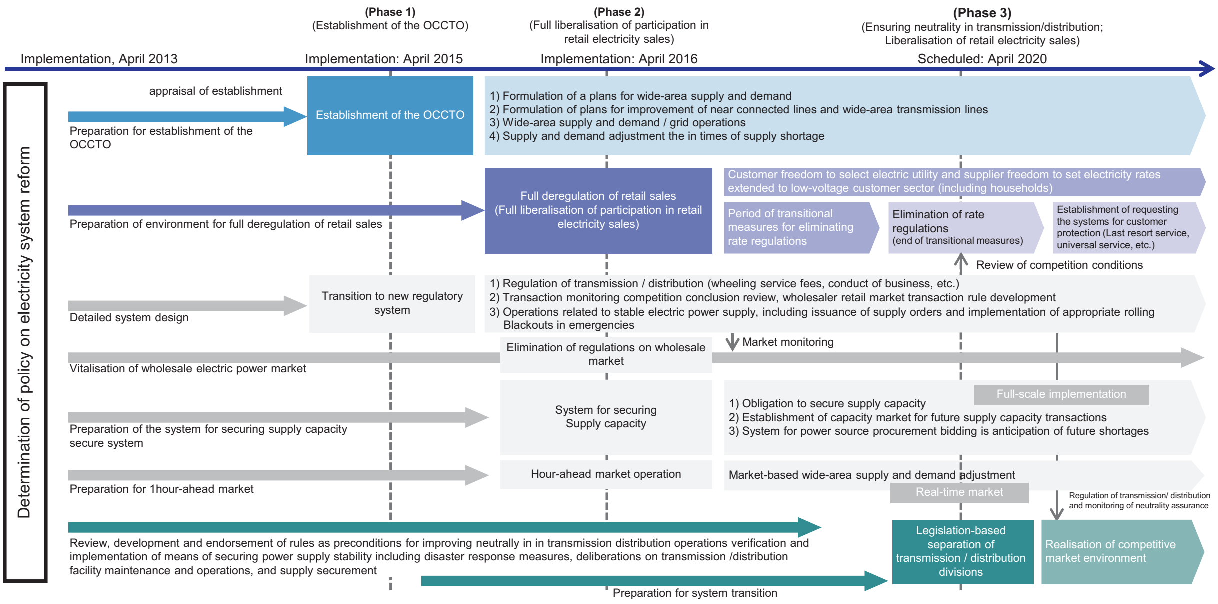
- co-ordination of demand-supply plans and grid operation plans, strengthening transmission infrastructures such as frequency converter facilities and cross-regional lines and nation-wide operation of grids;
- cross-regional operational adjustment of demand-supply balance and frequency conversion by grid operators in each region in normal situations;
- demand-supply adjustment during emergency situations through ordering increased output and electric power interchange; and
- accepting applications for grid connections from a neutral standpoint, and making disclosures relating to grid information.

Initiatives being taken in line with the above include the reinforcement of FCs, planning to increase the capacity of East-West Grid Connection from 1,200MW in total to 2,100MW in total by the fiscal year ending 31 March 2021 and to 3,000MW in total by the fiscal year ending 31 March 2028.

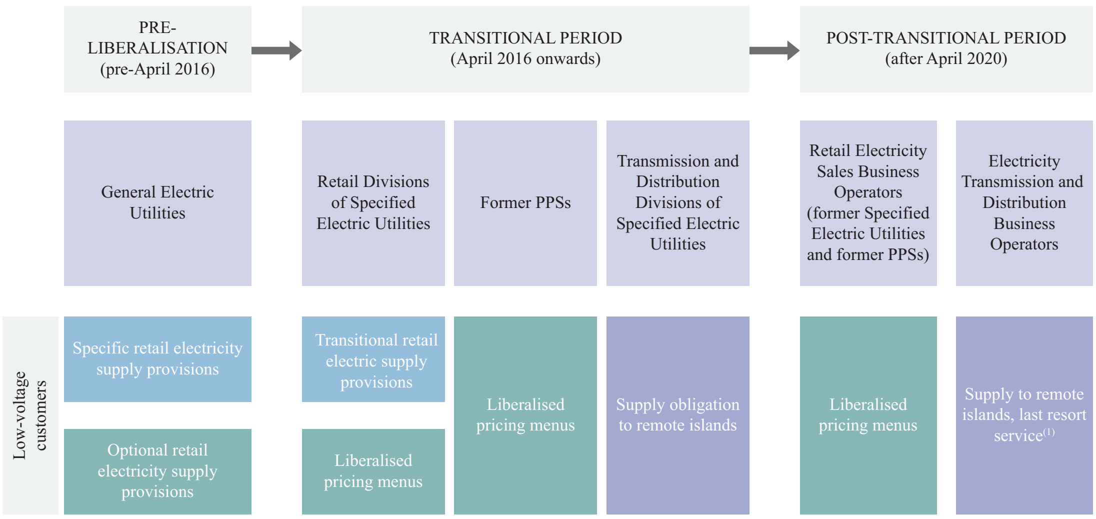
In June 2014, another amendment to the Electricity Business Act was made, to implement a full-scale liberalisation of participation in retail electricity sales from 1 April 2016. In June 2015, as the third stage of electricity system reforms, a further amendment to the Electricity Business Act was made in relation to the legislation-based separation of the electricity transmission and distribution division for securing its neutrality as well as the deregulation of retail electricity rates, with a planned effective date of 1 April 2020.

In September 2015, the Electricity Market Surveillance Commission was set up within the Ministry of Economy, Trade and Industry, in order to monitor the electricity market in consideration of full retail liberalisation, and conduct regulations in order to secure neutrality in the electric power network sector, among others.

The following sets out an outline and schedule of electricity system reforms being undertaken in Japan:



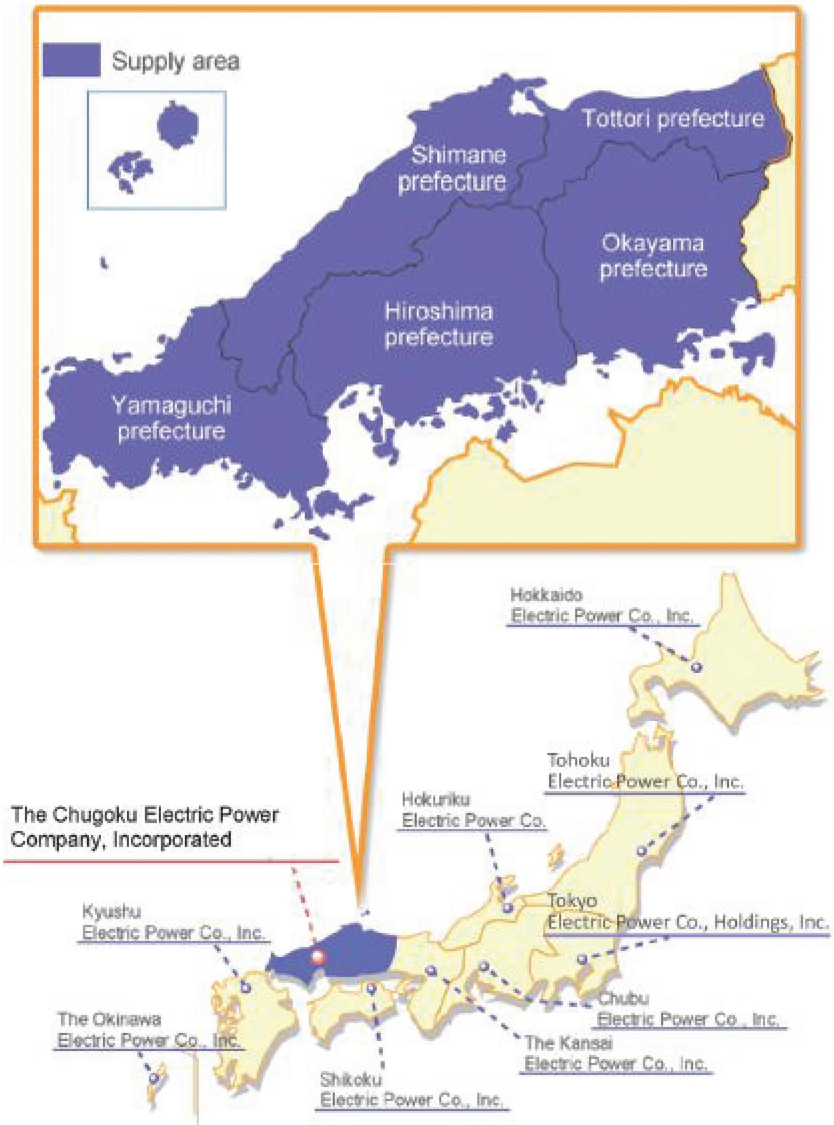
The following diagram shows the schedule for liberalisation of electric power pricing in Japan:



Overview of the Chugoku Region

The Chugoku region, which forms the main part of the Group's supply area, comprising of Tottori, Shimane, Okayama, Hiroshima and Yamaguchi prefectures, is located at the western end of Japan's main island of Honshu and has an area of 32,000 square kilometres and a population of roughly 7.3 million.

The following map shows the Company's supply area of the Chugoku region, as well as the other Specified Electric Utilities' supply areas:



The following table sets out certain data with regard to the Chugoku region, as compared to Japan as a whole:

	Chugoku Region	Japan	Percentage
Supply area(1)	31,922 km^2	377,974 km^2	8%
Population(2)	7,325 thousand	126,443 thousand	6
Gross domestic product(3)	¥ 29,920 billion	¥ 546,550 billion	5

Notes:

(1) Source: "Statistical reports on the land area by prefectures and municipalities in Japan (as of 1 October 2018)" by Geospatial Information Authority of Japan, Ministry of Land, Infrastructure, Transport and Tourism.

(2) Source: "Population Estimates (as of 1 October 2018)" by Statistics Bureau, Ministry of Internal Affairs and Communications.

(3) Source: "Annual Report on Prefectural Accounts for the fiscal year ended 31 March 2016" by Economic and Social Research Institute, Cabinet Office, Government of Japan.

History

The Group's history is summarised as follows:

May	1951	The Company was incorporated (with a capital of ¥540 million)
October	1952	Listed on the Tokyo Stock Exchange and the Osaka Securities Exchange
April	1958	Nationwide coordination of electric transmission operators commenced. The Western Region Electricity Council was established
July	1969	Commenced full-scale operation of its first pump-storage power generation facility (generating capacity of 303MW) in Shin-Nariwagawa
March	1974	Commenced operations at Shimane Nuclear Power Station Unit 1 (generating capacity of 460MW) as the first domestic nuclear power generation facility in Japan
April	1974	Company's first stack gas desulphurisation facility was introduced in the Mizushima Power Station Unit 2
March	1980	Commenced operations of its 500 kV substations and transmission lines
January	1983	Company's first international bonds (denominated in Swiss francs) were issued
February	1989	Commenced operations at Shimane Nuclear Power Station Unit 2 (generating capacity of 820MW)
November	1990	Company's first LNG thermal power station at Yanai Power Station Unit 1-1 (generating capacity of 350MW) commenced operations
January	1993	Established the Company's Environmental Action Plan
July	1996	Utilised the Fuel Cost Adjustment System for the first time with respect to the electricity charges applicable from July
June	1998	Commenced operations at the Misumi Power Station Unit 1 (generating capacity of 1,000MW)
March	2000	The amended Electricity Business Act was implemented; partial liberalisation of participation in retail electricity sales started
September	2000	Commenced LNG supply business
October	2000	Reduced electricity prices (in respect of its regulated sector customers by an average of 6.90 per cent.)
June	2001	Commenced operation of the second route of its 500 kV transmission lines
October	2001	Introduced business division system in line with the revision of the Company's operational structures
October	2002	Reduced electricity prices (in respect of its regulated sector customers by an average of 5.72 per cent.)
April	2005	Reduced electricity prices (in respect of its regulated sector customers by an average of 3.53 per cent.)
April	2005	Commenced electricity trading operations
April	2005	Established corporate social responsibility ("CSR") Action Plan
March	2006	Established the "Energia Group CSR Charter of Conduct"
April	2006	Commenced operations of the LNG power generation facilities at the Mizushima Power Station Unit 3
July	2006	Reduced electricity prices (in respect of its regulated sector customers by an average of 2.51 per cent.)
June	2007	Set forth the Declaration of Compliance Management Promotion
April	2009	Commenced operations of the LNG combined cycle power generation facilities at the Mizushima Power Station Unit 1
July	2009	Jointly established Osaki CoolGen Corporation with J-Power
June	2010	Established the "Nuclear Power Safety Culture Day" (being 3 June in each year)

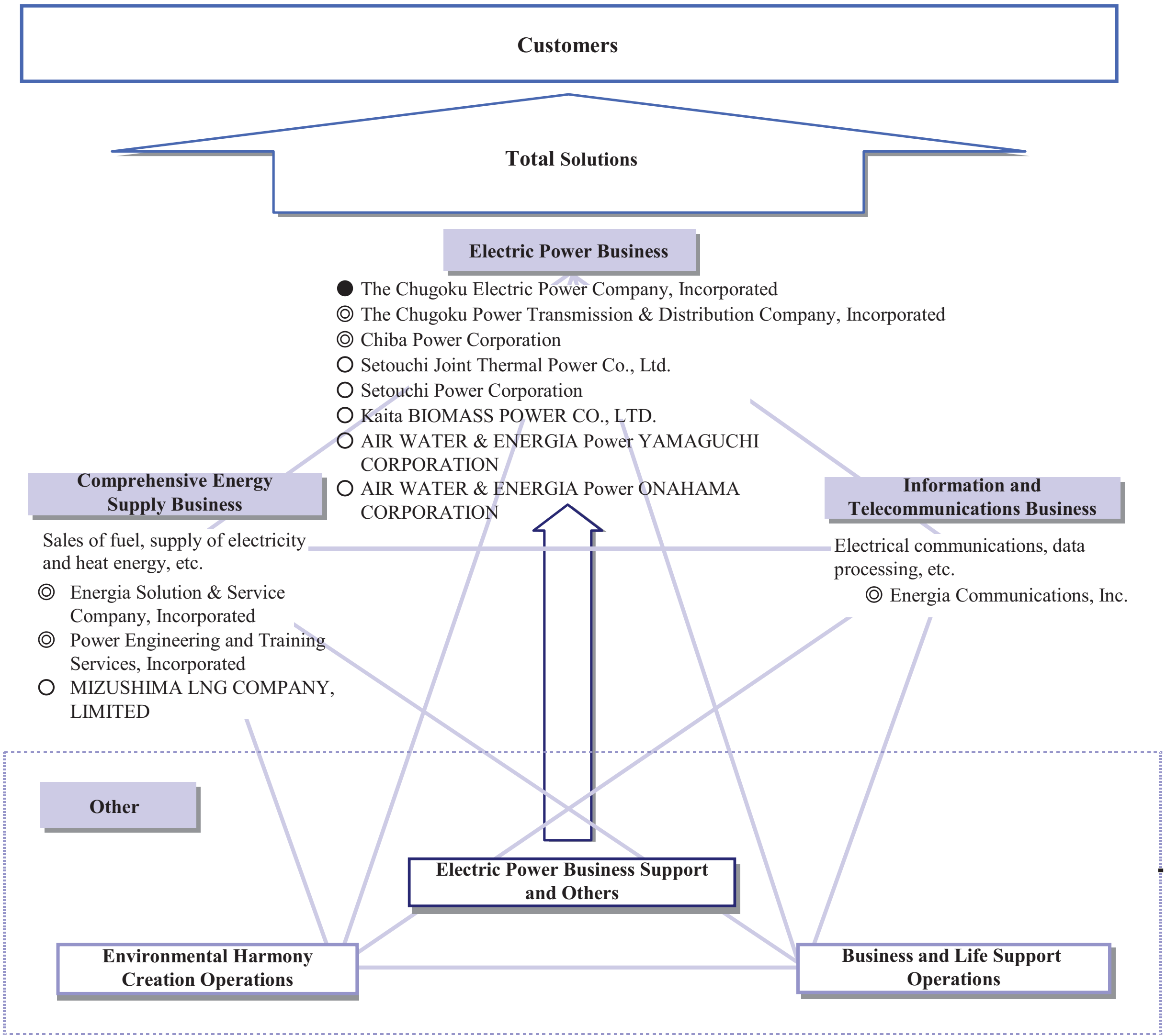
December	2011	Company's first mega-solar power station at the Fukuyama Photovoltaic Power Station (generating capacity of 3MW) commenced operations
April	2015	Shimane Nuclear Power Station Unit 1 was shut down
April	2017	Jointly established Chiba Power Corporation with JFE Steel Corporation
April	2019	Established The Chugoku Power Transmission & Distribution Company and entered into an absorption-type corporate split agreement with The Chugoku Power Transmission & Distribution Company

Overview of the Group

For over half a century since its founding in 1951, the Company has fulfilled a mission of providing a stable supply of electricity in the Chugoku region in Japan under a comprehensive system of power generation, transmission and distribution, and has thereby contributed to the development of its region.

As of 30 June 2019, the Company had 22 consolidated subsidiaries, 4 non-consolidated subsidiaries accounted for by the equity method and 12 affiliates accounted for by the equity method. The Group provides total solutions to its customers, with the electric power business at its core and comprehensive energy supply, information and telecommunications, environmental harmony creation, and business and lifestyle support set as strategic business areas.

The following diagram shows the business structure of the Group:



⇧ : flow of goods and services
● : the Company
◎ : consolidated subsidiaries of the Company
○ : affiliates of the Company accounted for by the equity method
Names of companies in the Other business have been omitted.

For the fiscal year ended 31 March 2019, the Group's operating revenues, operating income and profit attributable to owners of parent amounted to ¥1,376.9 billion, ¥19.5 billion and ¥11.4 billion, respectively. For the three-month period ended 30 June 2019, the Group's operating revenues, operating income and profit attributable to owners of parent amounted to ¥328.0 billion, ¥5.6 billion and ¥2.2 billion, respectively.

The Group is aiming for even further development as a business group firmly rooted in its local region, while exerting its comprehensive strength in endeavours such as stable supply of electricity.

Legal separation of the electricity transmission and distribution business

Pursuant to the third stage of the amendment to the Electricity Business Act, Specified Electric Utilities, including the Company, are required to implement the legal separation of the electricity transmission and distribution business from the retail electricity sales business and electricity generation business by April 2020 to ensure the neutrality of the electricity transmission and distribution business. In preparation to the implementation of these measures, in October 2017, the Company has undertaken corporate reorganisation measures which include the establishment of the Power Transmission & Distribution Company division as a new separate business division. In April 2019, the Company established the Separated Company and began preparations to apply for and obtain the necessary licences and approvals to operate an electricity transmission and distribution business. The Board of Directors of the Company also resolved to enter into an absorption-type corporate split agreement to implement the legal separation of its electricity transmission and distribution business by way of an absorption-type corporate split, whereby the Power Transmission & Distribution Company division of the Company would be transferred to the Separated Company, on the condition that such corporate split agreement would be approved at the annual general meeting of shareholders of the Company, and the necessary licences and approvals would be obtained. Such agreement was approved at the annual general meeting of the Company's shareholders held in June 2019. The Company expects the absorption-type corporate split to take effect from 1 April 2020 subject to obtaining certain regulatory approvals. Upon such absorption-type corporate split becoming effective, the assets and liabilities of the Power Transmission & Distribution Company division of the Company will be transferred to the Separated Company.

Based on the Company's balance sheets as of 31 March 2019, the book value of the assets and liabilities that would be transferred from the Company to the Separated Company would be as follows (see page F-32):

Assets		Liabilities	
	(Millions of yen)		
Fixed assets	¥ 951,539	Fixed liabilities	¥ 27,092
Floating assets	57,033	Floating liabilities	73,359
Total	¥1,008,572	Total	¥100,452

The book values in the above table are calculated based on the Company's balance sheet data as of 31 March 2019, and do not represent the actual amounts of assets and liabilities that would be transferred at the time of the taking effect of the corporate split. The book values of the assets and liabilities which will be transferred from the Company to the Separated Company will be calculated taking into account any increases or decreases to the above book values until the day before the effective date of the corporate split.

On the effective date for such absorption-type corporate split, the Company intends for the Separated Company to issue to the Company, inter-company bonds with preferential right (so-called "*ippan tanpo*") with the same maturity and interest (in the case of foreign currency denominated bonds, such interest being that payable in yen in respect of the corresponding swap transaction as mentioned below) as those of the corresponding bonds of the Company existing at the time of such separation, in order to protect the rights of the holders of the Bonds. The principal amount of the inter-company bonds to be issued with respect to the Bonds will be an amount that the Company believes is appropriate for the Separated Company to bear in terms of the proportionate amount of obligations and will therefore only amount to a part of the outstanding principal amount of the Bonds. With respect to each series of U.S. dollar-denominated bonds (including the Bonds), the Company has entered into or expects to enter into U.S. dollar/Japanese yen currency swap transactions with certain financial institutions at the time of issuance (and therefore the Company's payment obligations have been, or will have been, effectively fixed in Japanese yen at that time); the inter-company bonds planned to be issued with respect to each series of U.S. dollar-denominated bonds are therefore expected to be denominated in Japanese yen, taking into account the amounts payable under such currency swap transactions. The inter-company bonds to be issued with respect to the euroyen zero coupon convertible bonds are planned to be zero coupon bonds with no stock acquisition rights.

Competition

In Japan, after World War II, securement of large-scale electric power supply and guarantee of supply to regions were achieved through regional monopolisation by the former General Electric Utilities which carried out electric power generation through to retail supply and guaranteeing return on investment by the comprehensive cost system. However, since 1995, amidst the major trend of overall deregulation in society and introduction of the principle of competition, phased liberalisation has been introduced to the electric power business. Since March 2000, liberalisation of retail electricity sales has gradually progressed.

Pursuant to the second stage of the amendment to the Electricity Business Act enacted in June 2014, various measures such as liberalisation of retail electricity sales business and deregulation of wholesale regulations with a view to vitalising the wholesale electric power exchange have been implemented, with the full-scale liberalisation of participation in retail electricity sales having commenced in April 2016.

With the full-scale liberalisation of retail electricity sales and deregulation of wholesale regulations having commenced in April 2016, competition in retail sales of electricity is expected to further develop. The Group recognises that competition for customers may occur not only from new entrants into the industry who are able to procure supply of electricity from wholesale electric power exchange and others, but also from other Specified Electric Utilities which may attempt to enter into the regional market in which the Group's business is based.

For the fiscal year ended 31 March 2019, the total volume of electricity sold in Japan amounted to approximately 896,199 million kWh (source: Agency for Natural Resources and Energy, Ministry of Economy, Trade and Industry), of which the volume of electricity sold by operators other than the Specified Electric Utilities amounted to approximately 14 per cent. Providers other than the Group supplied approximately 8.3 per cent. and 4.1 per cent. of the volume of electricity sold in the Chugoku region with respect to the industrial and commercial market and the retail market, respectively (source: Electricity and Gas Market Surveillance Commission). The Group believes that it has maintained its share of industrial and commercial customers in the Chugoku region over the years due to its ability to supply electricity at competitive prices. With respect to the retail market, the Group believes there are three principal factors behind the low percentage of volume of electricity sold in the Chugoku region by providers other than the Group; first, although all Specified Electric Utilities other than the Company raised their regulated pricing after the Great East Japan Earthquake in 2011, the Company did not, and, as a result, it has maintained competitive electricity prices; second, leading new entrants such as major gas companies are concentrated on entering metropolitan areas such as Tokyo and Osaka; and third, many customers have switched to the Group's liberalised pricing from regulated pricing rather than switching to services of providers other than the Group, due to the varied pricing options and the established brand of the Group. With respect to the retail market of electricity sold in the Chugoku region, as compared to the number of retail contracts in effect as of March 2016, while the percentage of the Group's customers who had switched to providers other than the Group was low (5.1 per cent.), the percentage of the Group's customers who had switched internally from regulated pricing to liberalised pricing was high (15.2 per cent.) (source: The Federation of Electric Power Companies of Japan, Electricity Statistics Information).

Strengths

The Company believes that it has the following key strengths:

Solid business model

The Company currently has a near monopoly in the supply of electricity within the Chugoku region. Surrounded by cost-conscious industrial customers mainly in the machinery, steel and chemical sectors, some of which have their own power plants in-house, the Company has strived to become cost competitive long before industry deregulation kicked in; as such, even prior to the full-scale deregulation of retail electricity sales, the Company had been actively working to offer highly cost-competitive electricity rates. Consequently, following such deregulation, the Company's offerings remain attractive. This is complemented by the strong loyalty residential customers have towards the services provided by the Company. As a result, although it has been more than two years since the implementation of the full-scale liberalisation of participation in retail electricity sales, new market entrants have made relatively limited market share gains and the switching rate (in relation to a

Specified Electric Utility, the proportion of customers who have switched over to a new electricity supplier) in the Chugoku region remains low, when compared to other regions. The Company has also been introducing a variety of point programmes for its retail customers in efforts to further strengthen their relationships with the Company, including a system enabling customers to exchange points collected through the Company's points programmes with points offered by a major mobile telecommunications service operator, a major electrical appliance retailer and other partners.

Outstanding electric power portfolio

The Company's electric power portfolio is focused on coal. Under the Japanese government's Basic Energy Plan, coal is viewed as an important base-load power source with superior stability and economic efficiency. The Company has therefore maintained a cost-competitive electric power portfolio focused on coal-fired thermal power generation, while its nuclear power plants currently remain inactive. To comply with environmental regulations, the Company has been promoting the development of state-of-the-art coal-fired thermal generation systems and LNG-fired generation systems with high thermal efficiency such as Ultra Super Critical (USC) pulverised coal-fired power plants, a Gas Turbine Combined Cycle (GTCC) LNG thermal power plant and the Osaki CoolGen project, a pilot facility of Integrated Coal Gasification Combined Cycle (IGCC) and a combination of fuel cell and Integrated Coal Gasification Fuel Cell Combined Cycle (IGFC) being developed together with J-Power. The Company's power portfolio is expected to be further strengthened by the resumption of operations at its Shimane Nuclear Power Station Unit 2 and the commencement of operations at Unit 3, as well as commencement of operations of new coal-fired power plants and the decommissioning of older power plants.

Stable business performance and funding capability

The Company's outstanding electric power portfolio has kept it from resorting to electrical rate hikes even after the operation of its nuclear power stations was stopped (after the Great East Japan Earthquake). Therefore the Company could control downside pressures on earnings, and its financial soundness has been maintained and capital erosion has been minimised, despite the suspension of its nuclear power plants. The Company has strong relationships with financial institutions which has helped it achieve stable financing, allowing it to raise stable and low-cost funds from markets even after the Great East Japan Earthquake, including through the issue of domestic and international corporate bonds.

Strategy

The Group has grown by supporting energy supplies in the Chugoku region for over 60 years and regards power supply in the Chugoku region as the principal basis of its operational development. The Group is committed to maintaining a high-level competitive advantage in the current power supply, in order to retain customers.

In light of the anticipated increase in competition following the full deregulation of retail electricity sales, the Group is fully aware of the importance "to deliver good-quality and low-price electricity stably to customers" in order to remain their preferred choice.

Therefore, facility initiatives aimed at strengthening competitiveness by constructing an electric power portfolio with high economic efficiency will be implemented. Examples of such initiatives are the stable operation of nuclear power stations including the newly constructed Shimane Nuclear Power Station Unit 3, the efficiency improvements of coal-fired thermal power and the modification of facilities toward expansion of LNG utilisation. At the same time the Group will promote renewable energy and aim to realise a well-balanced power source mix to avoid over-dependence on any specific power source. Moreover, the Group is seeking to further strengthen retail competitiveness to increase customer loyalty. For example, the Company has been providing value-added local community-based services such as loyalty programmes, combining electricity supply with various other products and services, and developing and offering strategic rate plans.

In addition, the Group intends to take proactive measures to sustain business growth which will be a key priority in light of the deregulation of electricity sales. The Group utilises coal-fired thermal power which is seen as a superior power source in terms of stability of supply and economic efficiency. It has expertise in development and operation and is making continuous efforts to develop technologies with higher efficiency and lower CO_2 emissions to address global warming. The Group intends to make strategic, risk and profitability weighted investments in these business areas which can effectively leverage the Group's strengths, such as power generation and electricity supply in areas outside the Chugoku region as well as overseas (including attempting to reduce risk by entering into such business in alliance with other companies).

Based on this strategy, the Company is making a joint investment (together with MITSUI & CO., LTD. among others) in Jimah East Power Sdn Bhd ("JEP"), a coal-fired power generation project in Malaysia. The Company, through its 100 per cent. owned subsidiary, Chugoku Electric Power International Netherlands B.V., has a 15 per cent. indirect holding in JEP (the other holders being MITSUI & CO., LTD. (15 per cent. indirect holding) and Tenaga Nasional Berhad ("TNB") (70 per cent. holding)). The project comprises two USC coal-fired power generation units each with 1,000MW capacity, with Unit 1 and Unit 2 currently scheduled to start operation by around December 2019; the total project cost is expected to be approximately 12 billion Malaysian Ringgit and the offtaker is TNB for 25 years.

The Company has made a joint participation in Kleen Energy Systems, LLC ("Kleen Energy Systems") which owns a natural gas-fired power plant in Connecticut, U.S.A. The Company has a 16.2 per cent. indirect holding in Kleen Energy Systems (the other holders being Osaka Gas Co., Ltd. (24.3 per cent. indirect holding), Kyushu Electric Power Company, Incorporated (20.25 per cent. indirect holding), Sojitz Corporation (20.25 per cent. indirect holding) and 19 per cent. held by other investors). The natural gas-fired power plant uses combined cycle gas turbine technology with generating capacity of 620MW. It has been in operation since July 2011 and provides wholesale electricity in north-eastern United States.

In January 2019, the Company, through its 100 per cent. owned subsidiary, Chugoku Electric Power Singapore Pte. Ltd., acquired a 25 per cent. share in PT. Energy Sakti Sentosa ("ESS") which owns a hydroelectric power generation project (Pakkat hydropower plant) in North Sumatra Province, Indonesia. The Pakkat hydropower plant has generating capacity of 18MW and is currently in commercial operation. The offtaker is PT. Perusahaan Listrik Negara (PERSERO) for 30 years. This was the Company's first participation in the hydroelectric power generation business overseas.

In the wind power area, in April 2019 the Company has made a joint participation in Yunlin Holding GmbH ("Yunlin HD"), a 100 per cent. parent company of Yunneng Wind Power Co., Ltd. which owns an offshore wind power plant in Yunlin county, Taiwan. The Company and its affiliate accounted for by the equity method, CHUDENKO CORPORATION, each has a 50 per cent. holding in C&C Investment, a company that has a 6.75 per cent. indirect holding in Yunlin HD (the majority holder being wpd A.G. Group (73 per cent. direct holding)). The offshore-wind power plant has a generating capacity of 640MW and is currently scheduled to start operation by December 2021. The offtaker is Taiwan Power Company for 20 years.

In June 2019, the Company, through its 100 per cent. owned subsidiary, Chugoku Electric Power America, LLC, acquired a 10 per cent. member interest in South Field Energy Partners LLC which indirectly owns a natural gas-fired power plant in Ohio, U.S.A. The natural gas-fired power plant uses combined cycle gas turbine technology with generating capacity of 1,182MW. It is currently scheduled to start commercial operation in 2021 and provide electricity into the wholesale power market operated by PJM Interconnection LLC.

In January 2016, the Group announced the "Energia Group Corporate Vision", which describes future management policies looking towards the 2020s. Under such vision, the Group, with the aim of becoming a corporate group with regional dominance that contemporarily grows beyond the region, will work to provide services with the highest customer satisfaction, achieve highest levels of power source competitiveness in Japan, deliver an inexpensive, high-quality electricity transmission and distribution network service, while establishing a revenue base outside of the Chugoku region in Japan as well as overseas. The Group intends to contribute towards solving issues and expanding the community around it through its business activities.

Operations

The Group's operations are principally divided into the following three reporting segments: (i) Electric Power; (ii) Comprehensive Energy Supply; and (iii) Information and Telecommunications. In addition, businesses which do not qualify as a reporting operating segment are categorised as "Other".

The following tables set out the Group's operating revenues from outside customers by segment for the periods indicated, together with the percentages of such operating revenues as a percentage of consolidated operating revenues:

	Fiscal Year Ended 31 March					
	2017		2018		2019	
	Operating Revenues	Proportion	Operating Revenues	Proportion	Operating Revenues	Proportion
	(Millions of yen)	(Per cent.)	(Millions of yen)	(Per cent.)	(Millions of yen)	(Per cent.)
Reporting Segments:						
Electric Power	¥1,096,722	91.4%	¥1,193,671	90.8%	¥1,224,535	88.9%
Comprehensive Energy Supply	33,625	2.8	47,973	3.6	71,654	5.2
Information and Telecommunications	29,037	2.4	29,029	2.2	29,764	2.2
Other	40,993	3.4	44,292	3.4	51,023	3.7
Total consolidated operating revenues	¥1,200,379	100.0%	¥1,314,967	100.0%	¥1,376,979	100.0%

	Three-Month Period Ended 30 June			
	2018		2019	
	Operating Revenues	Proportion	Operating Revenues	Proportion
	(Millions of yen)	(Per cent.)	(Millions of yen)	(Per cent.)
Reporting Segments:				
Electric Power	¥283,464	89.5%	¥290,408	88.5%
Comprehensive Energy Supply	14,213	4.5	19,145	5.9
Information and Telecommunications	7,414	2.4	7,599	2.3
Other	11,493	3.6	10,910	3.3
Total consolidated operating revenues	¥316,585	100.0%	¥328,064	100.0%

The following table sets out by segment the Group's operating income (loss) for the periods indicated:

	Fiscal Year Ended 31 March			Three-Month Period Ended 30 June	
	2017	2018	2019	2018	2019
	(Millions of yen)				
Reporting Segments:					
Electric Power	¥ 27,746	¥31,706	¥10,265	¥(2,264)	¥4,477
Comprehensive Energy Supply	2,070	2,140	1,808	442	714
Information and Telecommunications	2,769	2,645	2,332	359	575
Other	2,721	3,820	6,115	(317)	4
Subtotal	35,307	40,313	20,521	(1,780)	5,771
Adjustment[1]	(787)	(687)	(991)	(8)	(166)
Total consolidated operating income	¥ 34,520	¥39,626	¥19,530	¥(1,788)	¥5,605

Note:
(1) This includes inter-segment eliminations.

The following table sets out certain information with respect to the significant properties, plant and equipment of the Group by segment as of 31 March 2019:

Name of Segment	Book Value[(2)]				
	Land[(1)]	Buildings	Machinery and Equipment	Adjustments[(3)]	Total
	(Millions of yen, except land areas owned)				
Electric Power	(55,132,102) ¥ 142,194	¥73,105	¥1,123,562	¥ (38,325)	¥1,300,537
Comprehensive Energy Supply	(61,376) 101	3,420	7,439	2	10,964
Information and Telecommunications	(11,524) 1,672	4,785	56,575	15	63,049
Other	(17,914,665) 9,335	19,737	12,443	(374)	41,142

Notes:

(1) Figures in parentheses in this column are land areas owned in square metres.

(2) Book value does not include construction in progress.

(3) Adjustments include adjustments relating to leases between consolidated subsidiaries of the Company.

(4) The above amounts do not include consumption tax amounts.

The following table sets out certain information with respect to the significant properties, plant and equipment of the Electric Power business of the Company by type of facility as of 31 March 2019:

Type of Facility	Description of Facility	Book Value Land[(1)(2)]	Buildings	Machinery and Equipment	Total
		(Millions of yen, except land areas owned)			
Hydroelectric power generation facilities	No. of plants: 97	(33,091,093)			
	Generating capacity: 2,909,255kW	¥ 4,408	¥ 2,211	¥106,094	¥112,714
Thermal (steam) power generation facilities[(3)]	No. of plants: 9	(3,361,920)			
	Generating capacity: 7,765,000kW	32,925	8,294	138,819	180,038
Nuclear power generation	No. of plants: 1	(2,065,216)			
	Generating capacity: 820,000kW	5,700	14,210	83,614	103,526
Thermal (internal combustion) power generation facilities	No. of plants: 3	(26,050)			
	Generating capacity: 37,250kW	363	526	1,855	2,745
New energy power generation facilities	No. of plants: 2	(150,048)			
	Generating capacity: 6,000kW	1,236	20	608	1,865
Transmission facilities	Overhead transmission lines:	(9,495,806)			
	Route length: 7,959km	31,560	137	276,153	307,852
	Circuit length: 13,233km				
	Underground transmission lines:				
	Route length: 648km				
	Circuit length: 872km				
	No. of supports: 47,255				
Transformation facilities	No. of substations: 483	(5,132,095)			
	Authorised capacity: 55,095,150kVA	34,272	11,483	101,468	147,224
	Phase modifying equipment capacity: 5,497,300kVA				
Distribution facilities	Overhead distribution lines:	(56,660)			
	Route length: 80,779km	473	31	389,522	390,027
	Circuit length: 309,283km				
	Underground distribution lines:				
	Route length: 3,159km				
	Circuit length: 4,077km				
	No. of supports: 1,674,534				
	No. of transformers: 882,359				
	Capacity of transformers: 19,320,547kVA				
General facilities	No. of facilities:	(1,305,400)			
	Head office: 1	27,209	34,140	15,367	76,717
	Branches: 5				
	Energy Sales Centers:5				
	Energy Sales Center Branches: 18				
	Customer Centers: 2				
	Shimane Billing and Payment Inquiry Center: 1				
	Service Offices: 30				
	Network Service Center: 1				

Notes:
(1) Figures in parentheses in this column are land areas owned in square metres.
(2) In addition to the above, the Company leases 29,384,160m² of land.
(3) Details relating to the steam power generation facilities include the Osaki Power Plant which was not in operation as of 31 March 2019.

The following table sets out certain information with respect to the significant properties, plant and equipment of the consolidated subsidiaries of the Company as of 31 March 2019:

Name of Consolidated Subsidiary	Business Segment	Head Office Location	Description of Facility	Book Value: Land[(1)]	Buildings	Machinery and Equipment	Total
				(Millions of yen, except land areas owned)			
Energia Solution & Service Company, Incorporated	Comprehensive Energy Supply	Hiroshima, Japan	Electricity and heat supply facilities	(61,376) ¥ 101	¥ 3,418	¥ 7,366	¥10,887
Energia Communications, Inc	Information and Telecommunications	Hiroshima, Japan	Optical fibres and others	(11,524) 1,672	4,785	56,575	63,034
Energia L&B Partners Co., Inc.	Other	Hiroshima, Japan	Buildings and assets for lease	(297,200) 2,779	6,942	1,271	10,993
Chugoku Electric Power Australia Resources Pty. Ltd	Other	Queensland, Australia	Coal mine interests	(17,379,435) 290	3,167	7,395	10,853

Note:
(1) Figures in parentheses in this column are land areas owned in square metres.

Electric Power

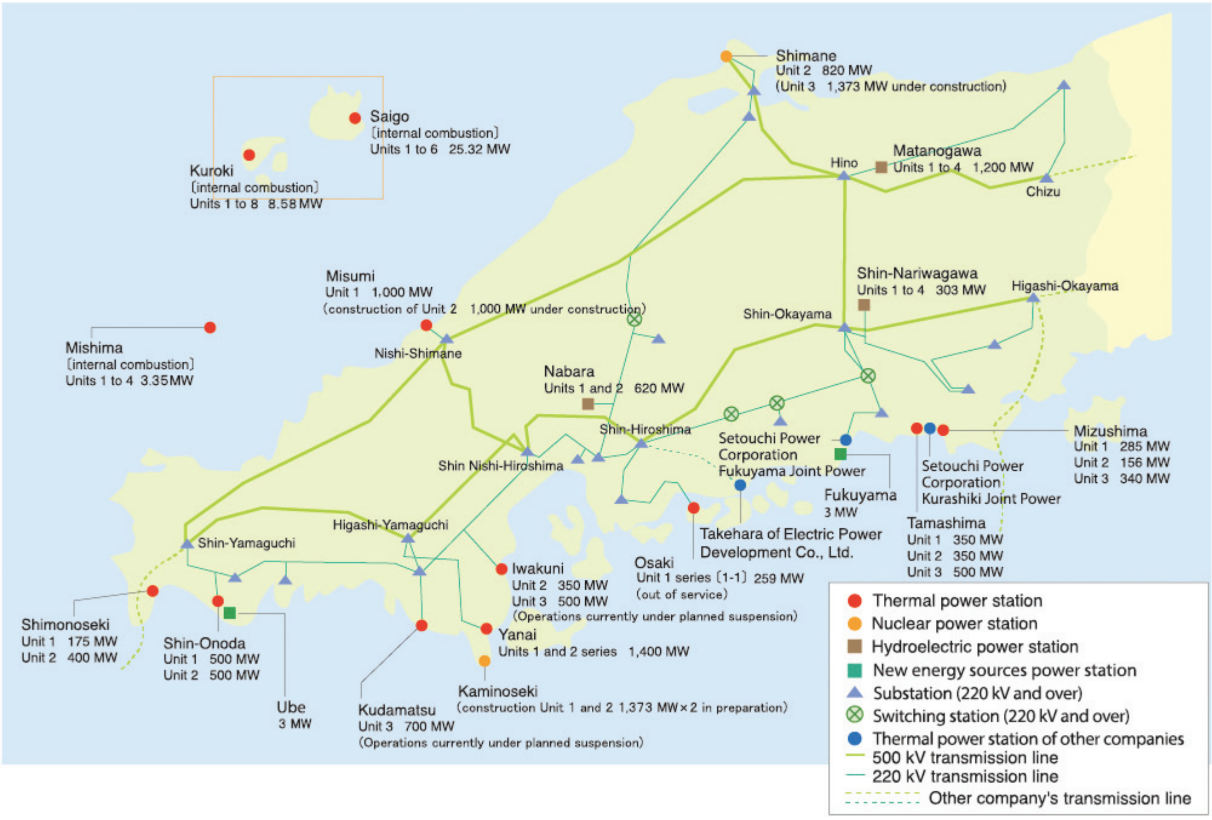
The Group's principal business is the supply of electricity mainly in the Chugoku region in Japan under a comprehensive system of power generation, transmission and retail distribution (including customer services). The Company is the principal Group company engaged in this business, and Chiba Power Corporation, the Company's consolidated subsidiary, and Setouchi Joint Thermal Power Co., LTD., Setouchi Power Corporation, KAITA BIOMASS POWER CO., LTD., AIR WATER & ENERGIA POWER YAMAGUCHI CORPORATION and AIR WATER & ENERGIA POWER ONAHAMA CORPORATION, the Company's affiliates accounted for by the equity method, are also engaged in this business.

The following table sets out certain data relating to the Group's main supply facilities as of 31 March 2019:

	Number of Facilities	Generating Capacity
		(MW)
Thermal	12	7,802
Hydroelectric	97	2,909
Nuclear	1	820
New energy sources	2	6
Total	112	11,537

The Group's thermal power generators principally comprise steam power units, which use steam turbine generators fired by coal, oil and LNG, as well as internal combustion power units, which use a diesel engine to move a generator. With regard to hydroelectric power generation, availability of such power depends on rainfall. The new energy sources facilities mentioned above are the Fukuyama Photovoltaic Power Station (generating capacity of 3MW; in operation since December 2011) in Hiroshima and the Ube Photovoltaic Power Station (generating capacity of 3MW; in operation since December 2014) in Yamaguchi.

Set out below is a map of the Group's major supply facilities as of 31 March 2019:



The following table sets out certain data relating to power generated and received by the Company for the periods indicated:

	Fiscal Year Ended 31 March		
	2017	2018	2019
		(Millions of kWh)	
Power generated and received:			
Generated by the Company:			
Hydroelectric	3,878	3,784	3,299
Thermal	35,867	33,643	32,039
Nuclear	–	–	–
New energy sources	8	8	8
Power interchanged and purchased (net)	23,212	23,490	23,055
Power used for pumped storage[(1)]	(750)	(940)	(858)
Total[(2)]	62,216	59,986	57,543
Transmission loss	(4,962)	(4,555)	(4,598)
Electric sales[(2)]	57,254	55,432	52,944

Notes:

(1) This is the electric power used to pump water for reservoir operations at pumped-storage power stations.

(2) For electric energy information, the sum of the individual amounts may not match the totals due to the rounding of numerical values.

The following table sets out power generated by the Company (receiving end data; including purchased power, but not interchanged power) by type of facility:

	Fiscal Year Ended 31 March		
	2017	2018	2019
	(Millions of kWh)		
Hydroelectric	4,885	4,631	1,135
Thermal:			
Coal	38,339	37,386	29,073
LNG and other	14,537	12,964	12,622
Oil	4,737	3,403	2,284
Total thermal	57,613	53,752	43,978
Nuclear	–	–	–
New energy sources	4,188	5,146	2,915
FIT Electricity[(1)(4)]	–	–	5,584
JEPX[(2)(4)]	–	–	7,810
Others[(3)(4)]	–	–	293
Total	66,686	63,529	61,715

Notes:

(1) Power purchased by the Company in accordance with the feed-in tariff system.

(2) Power purchased by the Company from Japan Electric Power Exchange.

(3) Includes power purchased from other companies, where the Company was unable to identify the plant at which the power was generated.

(4) Line items for "FIT Electricity", "JEPX" and "Others" have been added to the information for the fiscal year ended 31 March 2019 following amendments to the Ministry of Economy, Trade and Industry's Guidelines Concerning the Management of the Electricity Retail Business.

The following table sets out certain data relating to the Company's electric sales for the periods indicated:

	Fiscal Year Ended 31 March		
	2017	2018	2019
Volume of electric sales (millions of kWh):			
Residential (lighting)	18,184	18,562	17,488
Commercial, industrial and other	39,070	36,870	35,456
Total	57,254	55,432	52,944
Sales to other utilities (millions of kWh)	4,823	6,650	8,105
Revenues from electric sales (millions of yen):			
Residential (lighting)	¥375,227	¥410,404	¥413,015
Commercial, industrial and other	542,203	565,996	568,320
Total	917,431	976,400	981,336
Sales to other utilities (millions of yen)	¥ 41,567	¥ 59,206	¥ 79,419

Note:

(1) The above table does not include consumption tax amounts.

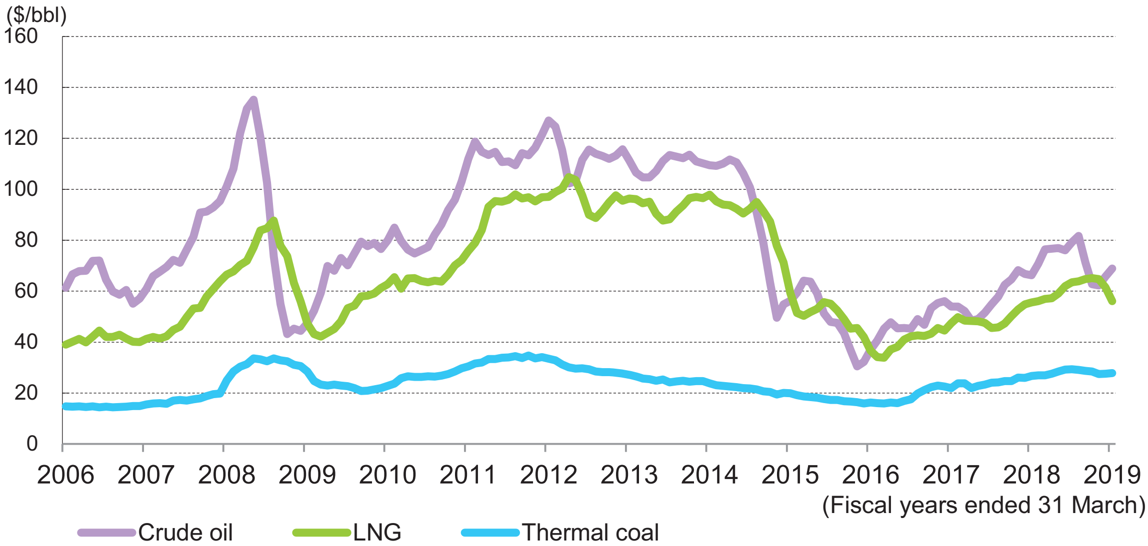
Sources of Supply

The Group's principal supply requirements comprise purchase of fuel for operation of its power plants. With regard to obtaining its supply of fuel, the Group considers factors such as price, quality, amount of reserves, political situation of the supplier country and the stability of the transportation routes as a whole, with a view to ensuring stable supply of electricity to its customers.

The Group purchases coal, fuel oil, crude oil and LNG principally for the purposes of operation of its thermal power plants. The Group may also from time to time purchase uranium for the purposes of operation of its nuclear power plants.

The following diagram sets out the trend in fuel prices (All Japan CIF, calculated based on equivalence to the heating value of 1bbl of crude oil (6,086MJ/bbl)) for the periods indicated:

◆Trend in Fuel Prices



The following table sets out the breakdown of certain of the Company's fuel costs for the periods indicated:

	Fiscal Year Ended 31 March		
	2017	2018	2019
	(Millions of yen)		
Total fuel costs	¥183,436	¥207,883	¥236,775
Of which:			
Coal	64,306	80,105	90,905
Oil	38,163	33,567	29,403
LNG	79,294	92,485	114,822
Nuclear fuel depreciation cost	–	–	–

The following table sets out certain data relating to certain supplies purchased and used by the Company for the periods indicated, and the amount in inventory as of the dates indicated:

	Coal	Heavy Oil	Crude Oil	LNG
	(Tonnes)	(Kilolitres)	(Kilolitres)	(Tonnes)
Amount in inventory as of 31 March 2016	916,438	98,375	98,196	171,047
Purchased during the fiscal year ended 31 March 2017	6,205,259	981,397	144,958	2,252,252
Used during the fiscal year ended 31 March 2017	6,274,040	971,535	185,499	2,326,889
Amount in inventory as of 31 March 2017	847,657	108,237	57,655	96,410
Purchased during the fiscal year ended 31 March 2018	6,114,529	630,310	114,174	2,434,086
Used during the fiscal year ended 31 March 2018	6,331,200	582,105	147,834	2,319,586
Amount in inventory as of 31 March 2018	630,986	156,442	23,995	210,910
Purchased during the fiscal year ended 31 March 2019	6,317,855	412,187	29,464	2,238,764
Used during the fiscal year ended 31 March 2019	6,136,872	469,756	53,360	2,330,224
Amount in inventory as of 31 March 2019	811,969	98,873	99	119,450

In August 2014, the Company entered into an agreement with Idemitsu Kosan Co., Ltd. for the purchase of a part interest in the Boggabri Coal Mine owned by an indirect subsidiary of Idemitsu in Australia, Boggabri Coal Pty. Ltd., as well as for a long-term supply contract for coal from such mine, subject to obtaining certain regulatory approvals. Such regulatory approvals having been obtained, the contract took effect in December 2014. In relation to the transaction, the Company established a 100 per cent. owned subsidiary in Australia, Chugoku Electric Power Australia Resources Pty. Ltd., for the purposes of holding such interests and to take part in the joint venture for the operation and administration of the Boggabri Coal Mine. The Boggabri Coal Mine produces high-quality thermal coal with low-sulphur content, low-ash content and high calorific. This is the first acquisition by the Group of upstream resource rights, and the Group believes that the acquisition will aid the Group in obtaining coal for thermal power generation, an important power source for the Group, in a stable manner for the long-term.

In July 2016, the Company signed a Heads of Agreement with Total Gas & Power Asia Private Limited ("Total") for the direct supply of LNG for a period of 17 years starting from 2019. Under the agreement, Total supplies the Company with up to 0.4 million tonnes of LNG per year sourced from the company's global portfolio.

Status of Nuclear Power Stations

Status of Safety Measures at Shimane Nuclear Power Station

In July 2013, new regulatory standards for safety assurance at nuclear power stations were enacted. The new regulatory standards set criteria for design, among others, of the equipment that are more stringent than previous regulations, and newly incorporate measures to cope with severe accidents involving damage to reactor cores or comparable emergency in the light of the Fukushima Daiichi Nuclear Power Station accident.

With respect to Shimane Nuclear Power Station Units 2 and 3, the Group is currently proceeding with measures for conformance with these new regulatory standards such as strengthening breakwater walls and installing filtered vent equipment and are additionally engaged in voluntary measures of its own to further improve safety levels, such as implementing aseismic margin improvement construction on important facilities, among others.

Further, in order to operate and maintain stable utilisation of nuclear power stations, understandings by the local people in the region are essential. The Japanese government sets out in its Basic Energy Plan approved by the Cabinet in 2018 that "restart of nuclear power stations is to proceed when the NRA has deemed them to comply with the regulatory standards", "the government shall play a proactive role in order to obtain understandings and cooperation of local authorities and other related parties at the site where the power station is located". The Group will proceed with initiatives regarding its facilities aiming to improve their safety levels, and at the same time will make efforts to improve safety levels from human factor side by continuously planning to improve awareness and responsiveness of the employees as such by implementing drills simulating total loss of power source. The Group is committed to make elaborate explanations on these initiatives to the local people at the power station site to dispel their anxieties concerning the safety of nuclear power generation.

Status of Responses to Conformance Confirmation Examination of the Shimane Nuclear Power Station

In December 2013, in respect of Shimane Nuclear Power Station Unit 2 (commissioned in 1989, boiling water reactor, 820MW), the Group applied to the NRA for conformance confirmation and as of 1 August 2019, the Group has undergone a total of 115 examination meetings. Their examination of matters relating to other measures for earthquake, tsunami and other natural disaster, and matters relating to equipment safety, is currently in progress.

With regard to Unit 3 (1,373MW, advanced boiling water reactor), the equipment itself is already complete, and the pre-use inspections carried out ahead of fuel loading has been fully concluded. In August 2018, the Group applied to the NRA for conformance confirmation in respect of Unit 3.

Construction of Misumi Thermal Power Station Unit 2

The Company is currently constructing a new unit at its Misumi Thermal Power Station, with a planned output of 1,000MW (increased from the initial plan of 400MW). The Company is working to commence operations in November 2022 (accelerated from the initial plan of after the fiscal year ending 31 March 2028), and output at this unit is included within the scope of the Company's power supply plans from after the fiscal year ended 31 March 2016.

The new unit is expected to contribute to controlling CO_2 emissions by replacing the older thermal power station units operated by the Company, at the same time as increasing efficiency through the development of cutting-edge thermal power supply generators.

Comprehensive Energy Supply

In this segment, the Group carries out provision of energy utilisation services that include sale of LNG and other fuels and sale of electricity and heat. Principal Group companies engaged in this business include the Company's consolidated subsidiaries, Energia Solution & Service Company, Incorporated and Power Engineering and Training Services, Incorporated as well as the Company's affiliate accounted for by the equity method, MIZUSHIMA LNG COMPANY, LIMITED.

The Group carries out sale of natural gas to city gas companies and industrial customers in the Chugoku region from its two LNG bases at Mizushima and Yanai. The Group believes that gas utilisation demand will increase for purposes such as carbon level lowering and efficient energy use, and intends to work to expand its gas business by meeting such customer needs.

The following table sets out an outline of the LNG bases at Mizushima and Yanai:

	Yanai Base	Mizushima Base
Equipment:		
Tanks	80,000 kl x 6	160,000 kl x 2
Pipeline	–	Mizushima Base to Okayama City (linear distance roughly 30km)
Volume handled annually	Approximately 1,500,000 tonnes	Approximately 1,000,000 tonnes

The Group, through Energia Solution & Service Company, Incorporated, the Company's consolidated subsidiary, operates power plants that are powered by renewable energy sources such as solar energy (21 facilities with a total generating capacity of 42MW, including the ESS Fukuyama Photovoltaic Power Station which has a generating capacity of 7.2MW), small hydro power and wind power.

Information and Telecommunications

In this segment, the Group carries out provision of electrical communications and data processing services utilising ICT. Principal Group companies engaged in this business include the Company's consolidated subsidiary, Energia Communications, Inc. ("Energia Communications"). To individuals, Energia Communications provides the "Mega Egg" Internet connection service utilising optical fibre connections, together with telephone and broadcasting services, and to corporations, the Group provides network services and cloud services under its "EneWings" branch, which promotes total information and communication technology solutions leveraging on its leading-edge information technologies and professional skills.

Other

Other business segments, not comprised in the above-mentioned reporting segments, include those where the Group carries out environmental harmony creation, business and lifestyle support, electric power business support, and the like operations. Group companies engaged in this business include, among others, the Company's consolidated subsidiaries CHUDEN KOGYO CO., LTD., CHUDEN PLANT CO., LTD. and CHUGOKU INSTRUMENTS CO., INC., engaged in businesses supporting the Electric Power business, and the Company's consolidated subsidiaries Energia L&B Partners Co., Inc. and EnerGia Business Service Co., Inc. engaged in business and life support businesses (see also "Subsidiaries and Affiliates").

Development of Overseas Business

The Group is working to develop overseas business while contributing to development of overseas electricity businesses through utilisation of the electricity business knowledge that it has cultivated to date. While carrying out efforts centred on consulting, such as support for the revision of the Electric Power Development Master Plan in Cambodia, the Group is working to build relationships with the local operators and engaging in unearthing/concretising cases for future investment in hydroelectric, thermal and other power stations. Amid a sluggish domestic power market, the Group will be working to strengthen its earning power through investment and participation in new overseas power generation business, while putting to use the technological knowledge and experience in overseas business that it has cultivated in Japan and overseas. In Southeast Asia, the Group invested in a coal-fired power generation project in Malaysia with expected installed capacity of 2,000MW in March 2016, a hydroelectric power generation project in Indonesia with generating capacity of 18MW in January 2019, and an offshore wind power generation business in western Taiwan with generating capacity of 640MW in April 2019. In the United States, the Group invested in natural gas-fired power generation project in Connecticut with generating capacity of 620MW in May 2018, and a natural gas-fired power generation project in Ohio with generating capacity of 1,182MW in June 2019.

Intellectual Property

Since 2003, the whole Group has been moving ahead with an intellectual property ("IP") strategy aiming for strengthening of market competitiveness and raising of corporate value. While continuing to promote its IP strategy and ensuring a degree of freedom in its business activities through lessening the risks of operational suspension, the Group intends to work to lower technological development costs through cross-licensing and to expand operating revenue by gaining licence revenue through technology provision to other companies. As part of local revitalisation efforts, the Group has been engaging in "IP business matching" activities such as introducing their proprietary technology to small and medium enterprises in partnership with local communities and financial institutions.

As of 31 March 2019, the Group had the following patents granted to it by business field:

	Number of Patents
Fuel	128
Power stations	1,233
Sub-stations	409
Customers	255
Transmission	296
Distribution	1,081
System operation	247
Civil engineering construction	313
New business and other	379
Company-wide infrastructural systems	507

Research and Development

The Group, working as a whole, is leveraging on its technologies gained in the Electric Power business to create new values for applications in the electric power business in the areas of power demand, power supply and networks while ensuring "S+3E": ensuring Safety, and achieving Energy security, Economic growth and Environmental conservation.

The Group's aim is to allocate management resources on "focal development areas" with a view to promoting effective R&D, and through the results of such R&D, to contribute to making the regional area even more attractive through regional industry creation and technological promotion, among other things.

The Group also works with governments, industry and academia in the region, including universities in the Chugoku region, and keeps a close cooperative relationship with institutions such as the Central Research Institute of Electric Power Industry, with a view to promoting efficient R&D.

The following table shows the Group's expenditure on R&D activities and their percentages of net consolidated operating revenues for the periods indicated:

	Fiscal Year Ended 31 March		
	2017	2018	2019
	(Millions of yen / Per cent.)		
Total R&D expenses	¥4,608	¥10,293	¥11,345
Percentage of consolidated operating revenues	0.4%	0.8%	0.8%

The Group allocated ¥11.1 billion of its R&D expenditures to the Electric Power segment and ¥0.2 billion for other segments in the fiscal year ended 31 March 2019.

In the Electric Power segment, the Group, with the aim of realising a low-carbon coal-fired thermal power generation, is engaged in the Osaki CoolGen project, a pilot facility of Integrated Coal Gasification Combined Cycle (IGCC) and a combination of fuel cell and Integrated Coal Gasification Fuel Cell Combined Cycle (IGFC) being developed together with J-Power. As a further step, the Company and J-Power announced in June 2019 that they would commence deliberations for a carbon recycling project at the Osaki CoolGen project, with the aim of utilising the CO_2 recovered as part of the IGFC process through measures such as turning such CO_2 into liquid form for various uses, including production of biofuel and eco-friendly concrete. The Group has also been working on R&D relating to technologies for responding appropriately to the ageing of its facilities, such as development of technologies for diagnosing the remaining life of boiler piping in thermal power generation facilities through accurate measurement of strains on such boiler piping, as well as developing methods of facilitating repair works on site, with a view to increasing the reliability of the facilities and reducing the cost of repairs. The Group has also been working on R&D for adhesion suppression technologies with the aim of reducing adhesion of organisms in marine water systems used in thermal and nuclear power generation facilities, with a view to preventing a decline in power generation efficiency. Further, the Group has been working on R&D relating to technologies for stabilising electric power systems without affecting the power quality or supply stability, such as research and analysis relating to the effect of the mass introduction of solar power generation on the electric power systems. In addition, the Group is engaged in R&D relating to attempts at making demand-side resources (such as storage batteries, electric vehicles and hot-water supply systems) function as virtual power plants (VPP), which can be utilised for balancing the demand and supply for electricity.

In segments other than the Electric Power segment, the Group has been working on tests for utilising recycled material from coal ash for improving the quality of river sediments, as measures to tackle environmental issues. With a view to contributing to the regional society and economic development and continuing to be the chosen power provider by customers against a background of full-scale liberalisation of retail electricity sales, the Group has been working on research and analysis of economic and industry trends in the Chugoku region, and providing information through measures such as the issue of the Energia Regional Economic Report, as well as other activities such as research relating to assisting companies with strategic management, risk management through utilisation of financial technology and utilisation and application of data. In addition, the Group has been working to expand revenue opportunities from the effective utilisation outside the Group of the results of its R&D activities, through measures such as entering into a licensing agreement with a UK consultancy firm in relation to technologies relating to maintenance and management of boiler piping in thermal power generation facilities.

Regulations

The Company is regulated principally under the Electricity Business Act. The Electricity Business Act is the law regulating electricity suppliers in Japan, and the principal governmental authority responsible for the supervision of such electricity suppliers is METI.

This section includes a description of the regulations applicable to Specified Electric Utilities (in this section, meaning persons who were General Electric Utilities as defined in the Electricity Business Act prior to its revision by the Second Stage Revision Act (as defined below); the business of such General Electric Utilities includes all of the electricity generation business, general electricity transmission and distribution business, and retail electricity sales business as defined in the Electricity Business Act), including the Company. This section also includes an outline of electricity industry regulations applicable to Japanese electricity suppliers and the electricity system reform which is currently in progress, as well as an outline of regulations applicable to persons who have installed nuclear power reactors. In addition, this section provides a description of environmental regulations applicable to electricity suppliers in Japan.

In this "—Regulations" section, the term "electric power facilities" means machinery, equipment, dams, waterways, reservoirs, transmission lines and other facilities installed for generation, transformation, transmission, distribution or use of electricity (excluding those installed in vessels, vehicles or aircraft, and others prescribed by a cabinet order).

Regulation of Electricity Business

Any person who engages in the electricity generation business, general electricity transmission and distribution business or retail electricity sales business is mainly subject to the following regulations in accordance with the Electricity Business Act:

Electricity Generation Business Operators

Any person who intends to become an electricity generation business operator (meaning a person who engages in electricity generation business conducted using electric power facilities for power generation of a certain size or larger) must file a notification with METI concerning its planned engagement in the electricity generation business.

If an electricity generation business operator has agreed to generate and supply electricity for the general electricity transmission and distribution business using electric power facilities for power generation which it maintains and operates, it may not refuse to generate and supply electricity without a justifiable reason.

General Electricity Transmission and Distribution Business Operators

Licensing Requirement to Engage in General Electricity Transmission and Distribution Business

Any person who intends to become a general electricity transmission and distribution business operator (meaning a person who affects the supply-demand balance in its entire service area by providing wheeling service and other services in that area using electric power facilities for electricity transmission and distribution which it maintains and operates) must obtain a licence from METI to engage in the general electricity transmission and distribution business.

A licence to be a general electricity transmission and distribution business operator may not be granted unless certain conditions are met, including that the planned general electricity transmission and distribution will meet demand in its service area.

METI has the authority to revoke this licence if, among others, the relevant general electricity transmission and distribution business operator violates any provision of the Electricity Business Act or any order issued thereunder resulting, in METI's judgment, in harm to the public interest.

Regulation of Corporate Reorganisation

Transfer or acquisition of a general electricity transmission and distribution business in its entirety, as well as consolidation, merger or corporate split (but only where the general electricity transmission and distribution business is transferred in its entirety to another entity through corporate split), by a general electricity transmission and distribution business operator will not be effective unless such transaction is approved by METI.

Generally, if a general electricity transmission and distribution business operator intends to transfer, or create any right other than the right of ownership (such as a security interest) in, certain facilities used for its general electricity transmission and distribution business, it must file a prior notification with METI.

If a general electricity transmission and distribution business operator intends to suspend or terminate all or any part of its general electricity transmission and distribution business, it must obtain permission from METI. Furthermore, a resolution for, or shareholders' consent to, dissolution of a general electricity transmission and distribution business operator will not be effective unless and until it is approved by METI.

Regulation of General Electricity Transmission and Distribution Business

A general electricity transmission and distribution business operator may not refuse to provide wheeling service and other services in its service area without a justifiable reason. In addition, a general electricity transmission and distribution business operator may not refuse to provide last resort service (meaning electricity supply to customers who are unable to receive electricity supply from retail electricity sales business operators or other businesses) without a justifiable reason. A general electricity transmission and distribution business operator must supply electricity to customers on isolated islands (universal service on isolated islands) at rates similar to those in areas other than such isolated islands in accordance with terms and conditions filed with METI (terms and conditions for electricity supply on isolated islands).

Regulation of Electricity Wheeling Service

Generally, general electricity transmission and distribution business operators must obtain approval from METI for rates and other terms and conditions of wheeling service and other services in their service areas. Such approval is subject to the condition that the rates are calculated on a fair cost under efficient management plus fair return on capital basis, among other things. However, it is sufficient just to file a notification in the case of any amendments to such terms and conditions that reduce rates and in other cases that are unlikely to jeopardise the interests of retail customers.

If METI judges that any rate or other term or condition of wheeling service or other services by any general electricity transmission and distribution business operator has become materially inappropriate due to any change in social or economic conditions and that such situation hinders the promotion of the public interest, METI may order such general electricity transmission and distribution business operator to change the rates and other terms and conditions of its electricity supply.

Retail Electricity Sales Business Operators

Any person who intends to become a retail electricity sales business operator (meaning a person who engages in the retail electricity sales business, which supplies electricity to meet general demand, but excluding any portion of its business falling within the definitions of either general electricity transmission and distribution business or electricity generation business) must register with METI to engage in the retail electricity sales business.

Retail electricity sales business operators must secure the supply capacity necessary to meet the electricity demand of the recipients of their retail supply, except where there is any justifiable reason. METI must refuse to register persons who are unlikely to secure such supply capacity, and other persons who are considered inappropriate to protect the interests of electricity users, for engagement in the retail electricity sales business.

The retail electricity sales business of Specified Electric Utilities, including the Company, continues to be subject for a certain period of time as transitional measures to the obligation to supply electricity to low-voltage sector customers that consume less than 50kW with voltages of less than 6,000 volts ("low-voltage sector customers") and the regulation of retail electricity rates. For details, including the termination of the transitional measures, see "—Electricity System Reform—Second Stage Revision Act" and "—Electricity System Reform—Third Stage Revision Act".

Preferential Rights

Under the Electricity Business Act, bondholders of any company concurrently engaged in the electricity businesses (a person who engages in all of the electricity generation business, general electricity transmission and distribution business, and retail electricity sales business), including the Company, have the right to receive payment of their claims from the company's property in preference to the other unsecured creditors. Such right is subject to certain general preferential rights prescribed by the Civil Code.

If a company concurrently engaged in the electricity businesses transfers its electricity generation business, general electricity transmission and distribution business or retail electricity sales business or conducts a corporate split, bondholders of any bonds issued by the company concurrently engaged in the electricity businesses and the companies which have acquired or succeeded to each business by way of such transfer or corporate split will, so long as current law remains in effect, also have the same right with respect to the property of each company.

Under a special law, Development Bank of Japan Inc. has the same right with respect to the loans extended by it to electric power companies, including the Company.

For the abolition of preferential rights starting from April 2020 pursuant to the Third Stage Revision Act, see "—Electricity System Reform—Third Stage Revision Act".

Regulation Relating to Security

Any person who has installed electric power facilities for business use (an "Electric Power Facility Installer"), including the Company, must maintain its electric power facilities for business use in conformity with technical standards prescribed by an ordinance of the competent ministry under the Electricity Business Act.

If an Electric Power Facility Installer intends to conduct any construction to install or change its electric power facilities for business use, it must generally file a notification with the principal governmental authority with respect to its plan for the construction.

Any Electric Power Facility Installer must establish security rules relating to construction, maintenance and operation of electric power facilities for business use, and file the security rules with the principal governmental authority in advance of commencement of use or, as the case may be, construction of the relevant electric power facilities for business use.

An Electric Power Facility Installer is required to conduct self-inspections of its electric power facilities for business use before using them. In addition, an Electric Power Facility Installer is required to conduct periodic operator's inspections of boilers and turbines used for power generation. For instance, steam turbines for thermal power stations must be inspected once every four years and boilers must be inspected once every two years.

Regulation of Nuclear Power Generation

Regulation Relating to Installation, Operation and Decommissioning

Nuclear power reactors (including Shimane Nuclear Power Station Units 1, 2 and 3 owned by the Company) are subject to more stringent regulations than those imposed on other types of electric power stations, principally under the Act on the Regulation of Nuclear Source Material, Nuclear Fuel Material and Reactors (the "Act on Regulation of Reactors, etc.").

Any person who has installed a nuclear power reactor (a "Nuclear Power Reactor Installer"), including the Company, must maintain its nuclear power reactor in conformity with technical standards under the Act on Regulation of Reactors, etc. Following the accident at TEPCO's Fukushima Daiichi Nuclear Power Station, new regulatory standards for nuclear power stations were established in 2013 to develop countermeasures against, among others, severe accidents. This introduced a system which reflects the latest technical knowledge in its standards from time to time and requires existing facilities to conform to such evolving standards (the so-called "back-fit" system). If technical standards for safety are strengthened to reflect the latest technical knowledge, the Company may be required to take additional safety measures for its nuclear power reactors, and to suspend operation of its nuclear power reactors until the Company complies with this requirement.

If a Nuclear Power Reactor Installer intends to conduct any work to install or change a nuclear power reactor, it must obtain prior permission or approval from the NRA. In addition, a Nuclear Power Reactor Installer must establish security rules relating to measures necessary for security purposes before the start of operation of a nuclear power reactor at an existing nuclear power station, and obtain approval from the NRA.

In addition to a pre-use inspection by the NRA, a Nuclear Power Reactor Installer must also undergo periodic inspection of the facilities of nuclear power stations by the NRA at certain times after the start of operation thereof, as well as conduct periodic operator's inspections. The operation of a nuclear power reactor must be halted during the periodic inspection, and the nuclear power reactor may not resume commercial operation until it passes the final inspection.

Most nuclear power reactors in Japan, including Shimane Nuclear Power Station Unit 2 owned by the Company, are currently subject to suspension of operation, mainly because they must satisfy the new and more stringent regulatory standards referred to above under the aforementioned back-fit system. To date, nine units within existing nuclear power stations have obtained the three principal permissions or approvals required under such standards to recommence operation, namely permission for amendment of installation of a nuclear power reactor, approval of amendment of construction plans and approval of security rules, and have recommenced operation.

If the NRA judges that, among others, a nuclear power reactor and its incidental facilities do not conform to any technical standard under the Act on Regulation of Reactors, etc., it may order the Nuclear Power Reactor Installer to suspend the use of or rebuild the nuclear power reactor and its incidental facilities or take any other measures necessary for security reasons.

The operational life of a nuclear power reactor is set at 40 years following first passage of the pre-use inspection referred to above. This may be extended once only, for up to 20 additional years, upon approval of the NRA after undergoing a more rigorous examination.

If a Nuclear Power Reactor Installer intends to decommission a nuclear power reactor, it must prepare a decommissioning plan in advance and obtain approval from the NRA. As for Shimane Nuclear Power Station Unit 1 owned by the Company, the Company decided not to apply for an extension of its operation in March 2015, terminated its commercial operation in April of that year, received approval of its decommissioning plan from the NRA in April 2017, and began its decommissioning in July 2017.

Compensation Scheme for Nuclear Damage

The following compensation scheme for nuclear damage has been established for the purpose of, among others, aiding the victims of nuclear accidents should they occur.

First, the Nuclear Damage Compensation Act imposes unlimited and no-fault liability on nuclear operators (including the Company) to compensate for any nuclear damage, and puts the liability entirely on nuclear operators (it stipulates that no person other than the nuclear operator bearing the liability for compensation will assume any liability to victims, and that any related business operators that provide nuclear operators with equipment or other items will be released from compensation claims of victims).

In addition, to ensure that compensation liability will be satisfied promptly and consistently, the law requires nuclear operators to take measures to compensate for nuclear damage, including execution of a nuclear damage liability insurance contract and a nuclear damage compensation and indemnification contract in the prescribed compensation amount (in the case of a normal commercial reactor, ¥120 billion at present). Based on such requirement, the Company has executed a nuclear damage liability insurance contract and a nuclear damage compensation and indemnification contract with an insurance amount or a compensation amount of ¥120 billion.

If any nuclear damage exceeding the compensation amount occurs, the Japanese government may provide the nuclear operator liable for compensation with financial support to cover compensation costs through the NDF, pursuant to the Nuclear Damage Compensation and Decommissioning Facilitation Corporation Act. The Nuclear Damage Compensation and Decommissioning Facilitation Corporation Act requires nuclear operators to make a general contribution (*ippan futankin*) each year to pay costs of the NDF's operations.

Reflecting the fact that TEPCO has become liable for a huge amount of damage compensation as a result of the Fukushima Daiichi Nuclear Power Station accident, the Japanese government has discussed a possible revision of the prescribed maximum compensation amount described above, and continues to consider such revision as it is necessary to ascertain whether the risk of accidents has been reduced through, among others, measures to respond to a new safety regulation introduced after the accident and voluntary initiatives taken by business operators.

Regulation Relating to Reprocessing of Spent Nuclear Fuel

Pursuant to the Reprocessing Contribution Act, which became effective in October 2016, the NuRO, an accredited corporation which reprocesses or otherwise handles spent nuclear fuel, has been established. Any person who has installed a nuclear power reactor for commercial use, including the Company, must contribute to the organisation funds necessary for, among others, the reprocessing of spent nuclear fuel and related MOx (Mixed-Oxide) fuel processing business in accordance with the act.

Environmental Regulation

As business operators engaged in public services, electricity suppliers are required to conduct their business activities subject to various laws relating to environmental regulation.

Global environmental preservation measures include the Act on Promotion of Global Warming Countermeasures, which requires measures to reduce CO_2 emissions, and a feed-in tariff scheme for renewable energy, which obligates electricity suppliers to purchase electricity generated from renewable energy sources at such price and for such period as designated by the central government. In addition, a system has been put in place through recent amendments to relevant laws and regulations to realise a prescribed energy mix and to achieve a prescribed CO_2 emissions reduction target in the electricity business in fiscal year 2030. More specifically, a system review has been conducted in connection with the Act on the Promotion of Use of Non-fossil Energy Sources and Effective Use of Fossil Energy Materials by Energy Suppliers (the so-called "Act on Sophisticated Methods of Energy Supply Structures"), the main purpose of which is to promote the use of non-fossil energy sources by retail business operators, and the Act on the Rational Use of Energy (the so-called "Energy Saving Act"), which is intended to urge electricity generation business operators to improve the power generation efficiency of thermal power generation.

Legal regulations as to the preservation of communities and living environments include the Air Pollution Control Act, the Water Pollution Control Act and the Noise Regulation Act, under which emission standards may be applied to the maintenance and operation of facilities.

Legal regulations to create a recycling-oriented society include the Waste Management and Public Cleansing Act and the Act on Special Measures Concerning Promotion of Proper Treatment of Polychlorinated Biphenyl ("PCB") Wastes, which set forth methods of treating wastes, including PCBs.

Legal regulations relating to the installation or modification of facilities such as large-scale electric power facilities include the Environmental Impact Assessment Act. Under this act and the Electricity Business Act, no person may start constructing a large-scale electric power facility which is likely to materially affect the environment, unless it obtains permission after environmental impact assessment procedures. In addition, development regulations such as those based on the Natural Parks Act, which are intended to conserve the natural environment, may be applied.

Moreover, many local governments have their own environmental regulations, which may include more stringent regulations than those under the laws above.

Electricity System Reform

The Act on the Partial Revision of the Electricity Business Act, which was enacted on 13 November 2013 (the "First Stage Revision Act"), sets forth (i) a series of general provisions for implementing a three phase progressive reform of the electricity system, based on which the Second Stage Revision Act and Third Stage Revision Act (as referred to below) have been enacted, and (ii) specific provisions of the first phase reform as referred to below.

The general provisions are intended to ensure a stable electricity supply, reduce electricity rates to the maximum extent possible and broaden options for customers and business opportunities in the electricity supply business, and to advance a three-phase reform comprised of three major pillars: (1) establishment of an entity named the OCCTO, which will be responsible for adjusting the supply-demand balance on a nationwide basis and other functions, (2) fully deregulating the retail electricity sales and electricity generation sectors, and (3) further promoting neutrality of the transmission/distribution business through legislation-based separation (measures which prohibit the same legal entity from engaging in both the electricity transmission and distribution business and the retail electricity sales or wholesale electricity business), while providing for comprehensive inspection of each phase to solve any issues and for necessary actions based on the results of these inspections.

First Stage Revision Act

The First Stage Revision Act provides for the establishment of the OCCTO, which will develop electricity transmission and distribution networks necessary for cross-regional use of power sources and will be responsible for adjusting the supply-demand balance on a nationwide basis in both normal and emergency situations, in order to help ensure a stable supply of electricity in times of disaster. The First Stage Revision Act came into force on 1 April 2015. For a description of the OCCTO, see "The Japanese Electric Power Industry—Japan's Energy Supply—Trends in Japan's Energy Policy—Electricity System Reform".

Second Stage Revision Act

As the second phase of the reform, the Act on the Partial Revision of the Electricity Business Act, etc. (the "Second Stage Revision Act") was enacted on 11 June 2014. This law, which contains measures necessary to fully deregulate participation in retail electricity sales, came into force on 1 April 2016.

The Second Stage Revision Act implemented a radical revision of business types permitted under the Electricity Business Act, reflecting the fact that in order to achieve full liberalisation of participation in retail electricity sales, traditional regulations that assumed a vertically integrated system, i.e., one based on general electric utilities which engaged in all electricity businesses of electricity generation, transmission and distribution and retail electricity sales and which were given supply monopolies over low-voltage sector customers, would need to be eliminated. As a result, new regulations were adopted applying different rules to each business type, in accordance with the characteristics such business. Among these were differing entry and exit regulations and various obligations imposed on each of the electricity generation, transmission and distribution business and the retail electricity sales business as described below.

Under the Second Stage Revision Act, engagement in the electricity generation business has become subject to a notification requirement. In addition, wholesale regulations, which had been imposed on wholesale electric utilities as a system to supplement the supply obligation and regulations on rates of General Electric Utilities (meaning persons who engage in the general electricity supply business, and who have obtained a licence from METI, including the Company) under the Electricity Business Act prior to its revision by the Second Stage Revision Act, have been lifted to revitalise the wholesale electric power market.

Engagement in the retail electricity sales business has become subject to a registration requirement, and all registered retail electricity sales business operators have become able to supply electricity to small-scale customers, including households (full-scale liberalisation of participation in retail electricity sales). However, the retail electricity sales business of the above-mentioned General Electric Utilities, including the Company, will continue to be subject for a certain period of time as transitional measures to the obligation to supply electricity to low-voltage sector customers and the regulation of retail electricity rates.

Meanwhile, engagement in the general electricity transmission and distribution business has become subject to a licence requirement, reflecting the fact that this business entails operation of electricity transmission and distribution networks functioning as public infrastructure. The general electricity transmission and distribution business has become subject to last resort obligations to supply electricity, in order to prevent the situation in which a customer might be unable to obtain electricity from any supplier, and has also become subject to a set of privileges and regulations previously granted or applied to General Electric Utilities, including grant of regional monopoly, regulations relating to terms and conditions of electricity supply (such as a comprehensive cost system and an approval requirement relating to electricity rate increases) and regulations applicable to corporate restructuring.

Bondholders of entities which were previously General Electric Utilities, like the Company, and Development Bank of Japan Inc. will continue to have the preferential right described above with respect to such entities' property after the Second Stage Revision Act comes into force.

Third Stage Revision Act

As the third phase of the reform, the Act on the Partial Revision, etc. of the Electricity Business Act, etc. (the "Third Stage Revision Act") was enacted on 17 June 2015. Most of its provisions are expected to become effective on 1 April 2020, and will implement a legislation-based separation of the electricity transmission and distribution business from the retail electricity sales business and electricity generation business, as well as the removal of the regulation of retail electricity rates.

Specifically, as measures to secure neutrality of the electricity transmission and distribution business vis-à-vis the retail electricity sales business and electricity generation business, general electricity transmission and distribution business operators will be prohibited from engaging in the retail electricity sales business and electricity generation business (in contrast to the current situation, in which Specified Electric Utilities engage simultaneously in the electricity generation business, general electricity transmission and distribution business, and retail electricity sales business) (the legislation-based separation of the electricity transmission and distribution business), except where they have obtained a licence from METI. Further, in order to ensure neutrality and fairness in retail competition, general electricity transmission and distribution business operators will be subject to certain business restrictions, including one under which their directors will be prohibited from simultaneously assuming management roles in any other electricity generation business operators and retail electricity sales business operators within the same corporate group.

Additionally, the obligation to supply electricity to low-voltage sector customers and the regulation of retail electricity rates will remain in each service area until such time as appropriate competition among retail electricity sales business operators is secured in such service area (at least until March 2020).

Furthermore, the preferential rights granted to bondholders of entities which were previously General Electric Utilities and Development Bank of Japan Inc. will be abolished upon the effectiveness of the Third Stage Revision Act. However, preferential rights in connection with bonds issued prior to such abolition, including the Bonds, and loans to General Electric Utilities made by Development Bank of Japan Inc. will remain effective. Further, as a transitional measure, general electricity transmission and distribution business operators, electricity transmission business operators, electricity generation business operators and their respective parent companies, in each case if accredited by METI, will be able to issue bonds with preferential rights until the end of March 2025.

In addition to the above, the Electricity Market Surveillance Commission was established on 1 September 2015 (it was reorganised into The Electricity and Gas Market Surveillance Commission on 1 April 2016) pursuant to the Third Stage Revision Act to monitor electricity markets and to implement regulations on the electricity business. The Commission has been granted authority by METI to require reports from and make on-site inspections of electricity suppliers and may, if it considered this necessary to secure appropriate electricity trading, make necessary recommendations to electricity suppliers.

Act on the Protection of Personal Information

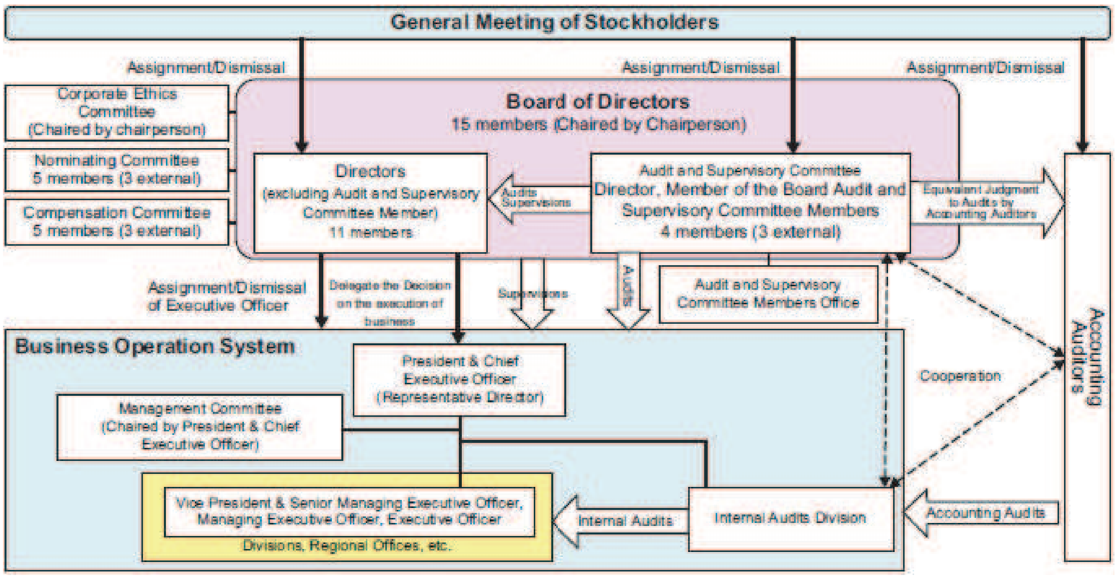
The Group receives and manages personal information from a large number of customers, especially in connection with its electricity supply. The Act on the Protection of Personal Information and its related rules, regulations and guidelines impose various requirements on businesses, including the Group, that use databases containing personal information, such as appropriate custody of such information and restrictions on information sharing with third parties.

Corporate Governance and Compliance

Corporate Governance

The business environment in which the Company operates is undergoing great changes such as the full liberalisation of participation in retail electricity sales. The Company believes that it is necessary to build a system that can adopt even more flexibly and quickly to such changes. Therefore, in June 2016, to enable quick, resolute decision-making, further improve management transparency and fairness, and strengthen supervisory functions, the Company converted to a company with audit and supervisory committee from a company with audit and supervisory board members. The Company continues striving to enhance and strengthen corporate governance to establish trust of our stakeholders such as our stockholders and investors, our customers, local communities and our business partners.

Set out below is the Company's corporate structure and internal controls in diagrammatic form (as of April 2019):



Compliance

After introspecting on the series of improper incidents involving the Group's generation facilities that came to light from the autumn of 2006 onwards, in June 2007 the Group determined to make "placing top priority on compliance in every business activity" the foundation of its management and announced its resolve and stance in that regard through a "Declaration of Compliance Management Promotion" as follows:

- The Company will unite the efforts of the whole company to engage in promotion of compliance management, with its executive setting the example.
  - The Company recognises that "compliance" means "valuing and abiding by social norms including ethics and morality", and that engagement therewith is indispensable in order for an enterprise to continue its existence in the community.
  - Based on such recognition, the Company intends to work with its whole strength to promote management that takes as its foundation "to place top priority on compliance in managing every business activity", so as to meet the community's demands for thoroughgoing securing of power facility safety, stable supply of electricity, and low electricity rates.
  - In order to realise "placing top priority on compliance", the Group intends to strictly abide by the code of conduct in the Chugoku Electric Power Corporate Code of Ethics, practicing daily the following "three actions" therein as requiring particular observance:
    - *Consulting its social consciences*: to be aware of one's own actions and to examine them in the light of its social consciences; to consult the rules without fail whenever there are any doubts about the work.

- *Speaking honestly*: Not to keep doubts and problems to oneself, but to talk them over with others in the workplace and among organisational units; to explain matters voluntarily and appropriately to customers and the community.
- *Actively correcting things*: Where matters have been handled inappropriately, to actively correct them without delay; to endeavour to revise any rules that do not match actual circumstances.

All the Group's various compliance measures are implemented under the Chairperson's supervision and the President's overall control.

Environment and Corporate Social Responsibility

Environment

Environmental Basic Policy

The Company, as a corporation concerned with energy, is committed to cherishing the environment based on the following three policies, in order to realise a society of sustainable development based on the simultaneous achievement of environmental conservation, economic growth and energy security.

- Actively approaching environmental issues, starting with global warming countermeasures, as well as other issues such as promoting formation of a recycling-oriented society and promoting local environmental conservation.
- Contributing to the creation of a society in harmony with the environment through offering environmentally friendly products and services to customers.
- Actively implementing two-way communications with local communities comprising dialogue, activities and other measures related to environmental conservation.

Task Force on Climate-related Financial Disclosures

In June 2019, the Company announced its support of the recommendations of the TCFD established by the FSB, which recommends that companies disclose the financial impact of their climate-related risks and opportunities in their financial reports, and also joined the TCFD Consortium, an initiative supported by the Japanese government designed to promote responsible disclosure of climate-related financial information by businesses and the use of this information in the investment decisions of financial institutions.

CSR

In March 2006, the Group enacted the "Energia Group CSR Charter of Conduct" setting forth the direction of the CSR activities and eight principles as the foundation for corporate activities and conduct of all executives and employees in the Group. Through this Charter, the Group is promoting CSR activities that give priority to compliance.

Energia Group CSR Charter of Conduct

The Group believes that its fundamental mission is to fulfil its duties as a member of the community and progressively contribute to the sustainable development of society, through the Group's operations whose mainstay is its electricity business. The Group further believes that the foundation for that lies in being trusted, by its customers primarily, as well as by its shareholders and investors, the local communities, its business partners, its employees, and many others.

On the basis of such awareness, the executives and employees in the Group are working to promote CSR efforts in accordance with the conduct principles below, aiming to be a corporate group that the community trusts and chooses.

- *Safety Assurance*: Placing top priority on assuring safety, the Group will work to heighten safety consciousness and will soundly carry out the necessary measures.
- *Respect for Human Rights*: With a spirit of respect for basic human rights underlying its business activities, the Group will strive toward the realisation of a society in which no discrimination whatsoever is practiced and human rights are truly respected.

- *Promotion of Compliance*: The Group will abide by relevant domestic and overseas laws, regulations and rules, and by the spirit thereof, and will promote fair business activities that are backed by ethics.
- *Rigorous "Customer-First"*: Making the meeting of customers' wide-ranging needs the Group's basic purpose, the Group will promote business activities that put customers first, in ways such as providing good-quality products and services that meet their satisfaction.
- *Active Tackling of Environmental Problems*: The Group will promote environmental management that actively engages in environmental preservation activities, so as to contribute to the realisation of a society that is capable of sustainable development.
- *Contributions to Local Community Development*: As a corporate group with roots in its region, the Group will contribute to the development of local communities through many kinds of business activities.
- *Enhancement of Communication with Community*: Through communication with broad sections of the community, the Group will strive to respond conscientiously to the community's comments and wishes and to reflect them in its operations. The Group will also actively publish information so as to raise the transparency of the Group's business activities.
- *Formation of Vibrant Corporate Culture*: The Group will work to improve internal communication and to cultivate self-directing and self-reliant human resources, and to have skills handed on from seniors to juniors, so as to form a freely communicating, vibrant corporate culture.

The executives of the Group, in the awareness that it is their own role to realise this Charter, aims not only set examples in their own conduct but will also strive to rigorously enforce the Charter so that all employees behave in accordance with it.

Insurance

The Group maintains insurance policies against accidents and disasters with respect to, among others, facilities related to its electricity supply business, to the extent practicable. These policies include coverage against fires, explosions and other incidents in respect of certain power generators, tanks of over a certain size (other than heavy oil tanks) and fuel of over a certain volume held in tanks (other than heavy oil), as well as in respect of nuclear assets at the Shimane Nuclear Power Station. The Group does not have insurance policies in respect of earthquakes.

For compensatory damage payable by any nuclear power generation facility operators pursuant to the Nuclear Damage Compensation and Decommissioning Facilitation Corporation Act, see "Regulations—Regulation of Nuclear Power Generation—Compensation Scheme for Nuclear Damage".

Legal Proceedings

The Group is currently involved in certain legal disputes and proceedings that have arisen during its normal course of business. The Group also from time to time faces other legal proceedings, such as actions for injunctions for the cessation of operations of certain power stations. However, the Group is not involved in any litigation or other legal proceedings that it believes would individually or in the aggregate have a material adverse effect on the Group's business, financial condition or results of operations.

MANAGEMENT AND EMPLOYEES

Management

Under the Companies Act of Japan (Act No. 86 of 2005, as amended) (the "Companies Act"), joint stock corporations in Japan may adopt a corporate governance structure comprised of a board of directors and an audit and supervisory committee, commonly referred to as the audit and supervisory committee system, in lieu of the traditional structure comprised of a board of directors and a board of corporate auditors or the alternative structure comprised of a board of directors and three statutory committees. The members of the audit and supervisory committee consist of three or more directors. The Company adopted the audit and supervisory committee system in June 2016 in order to improve its corporate governance.

Pursuant to the audit and supervisory committee system, the Board of Directors is comprised of Directors who are Audit and Supervisory Committee Members and Directors who are not. The Company's articles of incorporation provide for a Board of Directors consisting of no more than 15 members, including no more than four Directors who are Audit and Supervisory Committee Members. All Directors are elected by the Company's shareholders at a general meeting of shareholders, with Directors who are Audit and Supervisory Committee Members elected separately from other Directors. The term of office for Directors who are not Audit and Supervisory Committee Members expires at the close of the ordinary general meeting of shareholders held with respect to the last fiscal year ended within one year after their election, and the term of office for Directors who are Audit and Supervisory Committee Members expires at the close of the ordinary general meeting of shareholders held with respect to the last fiscal year ended within two years after their election, but all Directors may serve any number of consecutive terms.

The Company's Board of Directors has the ultimate responsibility for the administration of the Company's affairs. The Board of Directors, however, may delegate by resolution some or all of its decision-making authority in respect of the execution of operational matters (excluding certain matters specified in the Companies Act) to individual Directors. The Board of Directors elects one or more Representative Directors from among its members who are not Audit and Supervisory Committee Members. The Board of Directors elects a Chairperson of the Board and a President, and may also elect one or more Vice Presidents and Managing Executive Officers, from among its Executive Officers. Under the Company's articles of incorporation, the Chairperson of the Board and the President each has the authority individually to represent the Company.

The Directors who are Audit and Supervisory Committee Members are not required to be certified public accountants. They may not serve concurrently as executive directors, managers or any other type of employee for the Company or for any of its subsidiaries, or as accounting advisors or corporate executive officers for any of the Company's subsidiaries. In addition, more than half of the Directors who are Audit and Supervisory Committee Members at any one time must be Outside Directors as defined under the Companies Act, who have not served as executive directors, corporate executive officers, managers or any other type of employee for the Company or any of its subsidiaries for 10 years prior to their election and fulfil certain other requirements specified in the Companies Act.

The Audit and Supervisory Committee has a statutory duty to audit the administration of the Company's affairs by its Directors, to examine the financial statements and business reports to be submitted to the shareholders by a Representative Director, to prepare an audit report each year and to determine details of proposals concerning the appointment and dismissal of independent auditors and the refusal to reappoint independent auditors for submission to general meetings of shareholders. An Audit and Supervisory Committee Member may note his or her opinion in the audit report issued by the Audit and Supervisory Committee if such opinion differs from that expressed in the audit report.

In addition to Audit and Supervisory Committee Members, the Company must appoint by a resolution of a general meeting of shareholders independent certified public accountants as an independent auditor, who has the statutory duties of auditing the financial statements to be submitted by a Representative Director to the general meetings of shareholders and preparing audit reports. Currently, the Company's independent auditor is KPMG AZSA LLC.

The Company's Directors as of the date of this Offering Circular are set out in the table below:

Name	Title
Tomohide Karita	Representative Director, Chairperson of the Board
Mareshige Shimizu	Representative Director, President & Chief Executive Officer
Moriyoshi Ogawa	Representative Director, Vice President & Senior Managing Executive Officer
Masaki Hirano	Representative Director, Vice President & Senior Managing Executive Officer
Hideo Matsuoka	Representative Director, Vice President & Senior Managing Executive Officer
Akimasa Iwasaki	Managing Executive Officer, Member of the Board
Shigeru Ashitani	Managing Executive Officer, Member of the Board
Takafumi Shigeto	Managing Executive Officer, Member of the Board
Natsuhiko Takimoto	Managing Executive Officer, Member of the Board
Masahiro Yamashita	Managing Executive Officer, Member of the Board
Hisashi Kanda	Managing Executive Officer, Member of the Board
Hiroshi Segawa	Director, Member of the Board, Audit and Supervisory Committee Member
Hiroaki Tamura(1)	Director (part-time), Member of the Board, Audit and Supervisory Committee Member
Kunio Uchiyamada(1)	Director (part-time), Member of the Board, Audit and Supervisory Committee Member
Etsuko Nosohara(1)	Director (part-time), Member of the Board, Audit and Supervisory Committee Member

Note:
(1) Outside Director under the Companies Act.

All the Directors of the Company, other than the Outside Directors, are engaged in the business of the Company on a full-time basis.

The business address for the Company's Directors is 4-33, Komachi, Naka-ku, Hiroshima 730-8701, Japan.

The aggregate remuneration of the Directors (excluding the Outside Directors and Audit and Supervisory Committee Members), the Directors who are Audit and Supervisory Committee Members (excluding the Outside Directors) and the Outside Directors for the fiscal year ended 31 March 2019 paid by the Company was ¥471 million, ¥37 million and ¥36 million, respectively.

Under the Company's articles of incorporation, the Company may exempt, by resolution of the Board of Directors, its Directors from liabilities to the Company arising in connection with their failure to execute their duties in good faith and without gross negligence, within the limits stipulated by applicable laws and regulations. In addition, the Company's articles of incorporation provide that the Company may enter into liability limitation contracts with any of its Directors (excluding those who are representative managing or executive Directors or employees of the Company) to limit the maximum amount of damages arising in connection with their failure to execute their duties in good faith and without gross negligence to the total amount stipulated in Article 425, Paragraph 1, Item 1 and Item 2 of the Companies Act.

As of 31 March 2019, no Director of the Company had an interest in any transaction which was unusual in its nature or conditions or significant to the Group's business which was effected by the Company. As of 31 March 2019, there were no outstanding loans granted by any company of the Group to the Company's Directors, and no guarantees provided by any company of the Group for the benefit of any of the Directors of the Company.

Employees

The following table sets out the number of full-time employees (excluding secondees and employees on temporary leave) of the Group as of 31 March 2017, 2018 and 2019, according to reporting segments:

	As of 31 March		
	2017	2018	2019
Electric Power	8,666	8,545	8,453
Comprehensive Energy Supply	235	233	246
Information and Telecommunications	914	929	962
Others	3,755	3,778	3,757
Total	13,570	13,485	13,418

The Company considers the Group's labour relations (including those with the relevant labour unions) to be good.

Stock Option Plans

The Company currently has no stock option plans.

SUBSIDIARIES AND AFFILIATES

The following table sets out certain information as of 31 March 2019 with respect to the Company's principal consolidated subsidiaries and affiliates accounted for by the equity method:

Name	Capital	Percentage of Voting Rights[1]	Business
	(Millions of yen, unless otherwise stated)	(Per cent.)	
Consolidated Subsidiaries			
CHUDEN KOGYO CO., LTD	¥ 77	100.0	Contracting out construction and painting projects
CHUDEN PLANT CO., LTD	200	100.0	Construction of power facilities
CHUGOKU INSTRUMENTS CO., INC	30	100.0	Repair of electric power meters, electrical work and telecommunications engineering
Energia L&B Partners Co., Inc.	104	100.0	Realty, building management and leasing
CHUDEN KANKYO TECHNOS CO., LTD	50	100.0	Operation and management of power station equipment
Energia Communications, Inc	6,000	100.0	Telecommunications business, data processing
EnerGia Business Service Co., Inc	100	100.0	Financial services for the Group, accounting and personnel-related services
Energia Solution & Service Company, Incorporated	4,653	100.0	Cogeneration, dispersed power sources, fuel sales and other energy use business, electric water heater sales and leasing
Power Engineering and Training Services, Incorporated	288	100.0	Training in thermal power generation technology, engineering
Chugoku Electric Power Australia Resources Pty. Ltd	60 million Australian dollars	100.0	Exploration, development, production business of energy resources
Chugoku Electric Power International Netherlands B.V	US$ 1	100.0	Investment, financing and providing guarantees for overseas electricity projects
Chugoku Electric Power America, LLC	US$ 85.5 million	100.0	Investments in, lending to, and provision of guarantee in respect of overseas electric power projects
Denryoku Support Chugoku Co	65	100.0	Design of distribution equipment
ADPLEX Co., Ltd	30	99.8 (0.0)	Printing and advertisement
CHUDEN ENGINEERING CONSULTANTS CO., LTD	100	100.0 (10.0)	Civil engineering and construction consulting
Chiba Power Corporation	100	73.0	Thermal power generation

Name	Capital	Percentage of Voting Rights(1)	Business
	(Millions of yen, unless otherwise stated)	(Per cent.)	
EnerGia Smile Co., Inc	100	100.0 (30.0)	Leasing of vehicles and others, maintenance, administration and inspection of building equipment, secondment of personnel, cleaning, sorting and distribution of post
The Energia Logistics Co., Inc	40	70.0	Logistics (shipping and others)
TEMPEARL INDUSTRIAL CO., LTD	150	57.6 (1.0)	Manufacturing of electric machine tools
CHUGOKU KOATSU CONCRETE INDUSTRIES CO., LTD	150	50.1	Manufacturing of concrete products and civil engineering/ foundation construction
EnerGia Care Service Co., Inc	78	100.0 (66.7)	Management of a nursing home, day-care services, home nursing care services
Affiliates Accounted for by the Equity Method			
Setouchi Joint Thermal Power Co., LTD	5,000	50.0	Thermal power generation
CHUGOKU HEALTH AND WELFARE CLUB CO., INC	50	50.0	Welfare agency services
MIZUSHIMA LNG COMPANY, LIMITED	800	50.0	Accepting consignments to receive, store, convert into gas form and deliver LNG, gas pipeline service business
Setouchi Power Corporation	100	50.0	Supply of electric power
Osaki CoolGen Corporation	490	50.0	Development of Coal Gasification Technology
KAITA BIOMASS POWER CO., LTD	100	50.0	Development of biomass and coal mixed-fuel power station
AIR WATER & ENERGIA POWER YAMAGUCHI CORPORATION	490	49.0	Development of biomass and coal mixed-fuel power station
AIR WATER & ENERGIA POWER ONAHAMA CORPORATION	245	49.0	Development of biomass and coal mixed-fuel power station
CHUDENKO CORPORATION	3,481	39.4 (0.0)	Electrical and telecommunications engineering
The Chugoku Electric Manufacturing Company, Incorporated	150	40.0	Manufacturing of electric machine tools
Houseplus Chugoku Housing Warranty Corporation Limited	50	33.3	Functional evaluation and construction confirmation checks for housing
OZUKI STEEL INDUSTRIES CO., LTD	50	20.0	Manufacturing of cast steel products

Notes:

(1) Figures in parentheses denote indirect holding.

(2) On 1 April 2019, the Company established The Chugoku Power Transmission & Distribution Company, Incorporated as its 100 per cent. owned consolidated subsidiary.

JAPANESE TAXATION

The following is a general description of certain aspects of Japanese tax treatment primarily in relation to payments of principal of and interest on the Bonds. It does not purport to be a comprehensive description of the tax treatment of the Bonds. Prospective investors should note that, although the general tax information on Japanese taxation is described hereunder for convenience, the statements below are general in nature and not exhaustive.

Prospective investors are advised to consult their own legal, tax, accountancy or other professional advisers in order to ascertain their particular circumstances regarding taxation. The statements below are based on the current tax laws and regulations of Japan and the current income tax treaties entered into by Japan all as in effect on the date of this Offering Circular and all of which are subject to change or differing interpretations (possibly with retroactive effect). Neither such statements nor any other statement in this Offering Circular are to be regarded as advice on the tax position of any holder or beneficial owner of the Bonds or any person subscribing for, purchasing, selling or otherwise dealing in the Bonds or any tax implication arising from the subscription for or purchase, sale or other dealings in respect of the Bonds.

The Bonds

The Bonds do not fall under the concept of so-called "taxable linked notes" as described in Article 6, Paragraph 4 of the Special Taxation Measures Act, i.e., notes of which the amount of interest is to be calculated or determined by reference to certain indicators (as prescribed in the Cabinet Order) in respect of the issuer of such notes or any other person who has a special relationship with such issuer (that is, in general terms, a person who directly or indirectly controls or is directly or indirectly controlled by, or is directly or indirectly controlled by a person who also directly or indirectly controls, such issuer) as described in Article 6, Paragraph 4 of the Special Taxation Measures Act and Article 3-2-2, Paragraphs 5 to 7 of the Cabinet Order.

Representation by Investor upon Initial Distribution

By subscribing for the Bonds, an investor will be deemed to have represented that it is (i) a beneficial owner of the Bonds that is, for Japanese tax purposes, neither (x) an individual resident of Japan or a Japanese corporation (a "Resident Holder"), nor (y) an individual non-resident of Japan or a non-Japanese corporation (a "Non-Resident Holder") that in either case is a Specially-Related Party of the Company, (ii) a Designated Financial Institution, or (iii) any other excluded category of persons, corporations or other entities under the Special Taxation Measures Act. The Bonds are not as part of the initial distribution by the Managers at any time to be directly or indirectly offered or sold to, or for the benefit of, any person other than (i) a beneficial owner of the Bonds that is, for Japanese tax purposes, neither (x) a Resident Holder, nor (y) a Non-Resident Holder that is a Specially-Related Party of the Company, (ii) a Designated Financial Institution or (iii) any other excluded category of persons, corporations or other entities under the Special Taxation Measures Act.

Interest Payments on the Bonds

The following description of Japanese taxation (limited to national taxes) applies exclusively to interest on the Bonds, where the Bonds are issued by the Company outside Japan and payable outside Japan. It is not intended to be exhaustive and prospective purchasers are recommended to consult their tax advisers as to their exact tax position.

1. ***Non-Resident Holders that are not Specially-Related Parties of the Company***

If the recipient of interest on the Bonds is a Non-Resident Holder for Japanese tax purposes, as described below, the Japanese tax consequences on such Non-Resident Holder are significantly different depending upon whether such Non-Resident Holder is a Specially-Related Party of the Company. Most importantly, if such Non-Resident Holder is a Specially-Related Party of the Company, income tax at the rate of 15.315 per cent. of the amount of such interest will be withheld by the Company under Japanese tax law.

(1) If the recipient of interest on the Bonds is a Non-Resident Holder that is not a Specially-Related Party of the Company having no permanent establishment within Japan or having a permanent establishment within Japan but where the receipt of the interest on the Bonds is not attributable to such permanent establishment, no Japanese income tax or corporate tax is payable with

respect to such interest whether by way of withholding, deduction or otherwise, if such recipient complies with certain requirements, *inter alia*:

(i) if the relevant Bonds are held through certain participants in an international clearing organisation such as the Euroclear and Clearstream, Luxembourg or certain financial intermediaries prescribed by the Special Taxation Measures Act and the Cabinet Order (together with the ministerial ordinance and other regulations thereunder, the "Law") (each such participant or financial intermediary, a "Participant"), the requirement to provide, at the time of entrusting a Participant with the custody of the relevant Bonds, certain information (the "Interest Recipient Information") prescribed by the Law to enable the Participant to establish that the recipient is exempt from the requirement for Japanese tax to be withheld or deducted and to advise the Participant if such Non-Resident Holder ceases to be so exempted (including the case where it became a Specially-Related Party of the Company); and

(ii) if the relevant Bonds are not held through a Participant, the requirement to submit to the relevant paying agent a written application for tax exemption (*hikazei tekiyo shinkokusho*) (the "Written Application for Tax Exemption") together with certain documentary evidence.

Failure to comply with the foregoing requirements (including the case where the Interest Recipient Information is not duly communicated through a Participant or to the relevant paying agent as required under the Law) will result in the withholding by the Company of income tax at the rate of 15.315 per cent. of the amount of such interest.

(2) If the recipient of interest on the Bonds is a Non-Resident Holder having a permanent establishment within Japan and the receipt of interest is attributable to such permanent establishment, such interest will not be subject to a 15.315 per cent. withholding tax by the Company, if the recipient provides the Interest Recipient Information or submits the Written Application for Tax Exemption as set out in paragraph (1) above. Failure to do so will result in the withholding by the Company of income tax at the rate of 15.315 per cent. of the amount of such interest. The amount of such interest will be aggregated with the recipient's other Japanese source income and will be subject to regular income tax or corporate tax, as appropriate.

2. ***Resident Holders, and Non-Resident Holders that are Specially-Related Parties of the Company***

Payments of interest on the Bonds to be made to a Resident Holder (except for (a) a Designated Financial Institution which has complied with the requirements under Article 6 of the Special Taxation Measures Act and (b) a public corporation, a financial institution, a financial instruments business operator or certain other entity which has complied with the requirement for tax exemption under Article 3-3, Paragraph 6 of the Special Taxation Measures Act which has received interest through a payment handling agent in Japan as defined in Article 3-3, Paragraph 1 of the Special Taxation Measures Act and Article 2-2, Paragraph 2 of the Cabinet Order (a "Japanese Payment Handling Agent")) or to a Non-Resident Holder that is a Specially-Related Party of the Company will be subject to deduction in respect of Japanese income tax at the rate of 15.315 per cent.

Under the Law, if a Non-Resident Holder becomes a Specially-Related Party of the Company, and if such Bonds are held through a Participant, then such Non-Resident Holder is required to notify the Participant of such change in status by the immediately following interest payment date of the Bonds. As the status of such Non-Resident Holder as a Specially-Related Party of the Company for Japanese withholding tax purposes is determined based on the status as of the beginning of the fiscal year of the Company in which the relevant interest payment date falls, such Non-Resident Holder should, by such notification, identify and advise the Participant of the specific interest payment date on which Japanese withholding tax commences to apply with respect to such Non-Resident Holder as being a Specially-Related Party of the Company.

The Japanese withholding tax imposed upon interest on the Bonds paid to a Non-Resident Holder that is a Specially-Related Party of the Company as mentioned above may be reduced or exempted by an income tax treaty between Japan and the country of residence of such Non-Resident Holder in accordance with its terms.

Capital Gains, Stamp Tax and Other Similar Taxes, Inheritance Tax and Gift Tax

Gains derived from the sale or disposition of the Bonds outside Japan by a Non-Resident Holder having no permanent establishment within Japan are, in general, not subject to Japanese income tax or corporate tax.

No stamp, issue, registration or similar taxes or duties will, under current Japanese law, be payable in Japan by holders of the Bonds in connection with the issue of the Bonds, or will such taxes be payable by holders of the Bonds in connection with their transfer if such transfer takes place outside Japan.

Japanese inheritance tax or gift tax at progressive rates may be payable by an individual, wherever resident, who has acquired the Bonds from another individual as legatee, heir or donee.

SUBSCRIPTION AND SALE

Mizuho Securities Asia Limited, SMBC Nikko Capital Markets Limited and Morgan Stanley & Co. International plc (together, the "Joint Lead Managers") and Citigroup Global Markets Limited, Daiwa Capital Markets Europe Limited and Nomura International plc (together with the Joint Lead Managers, the "Managers") have entered into a subscription agreement with the Company dated 21 August 2019 in respect of the Bonds (the "Subscription Agreement"), under which, subject to the satisfaction of certain conditions set out therein, the Managers have agreed severally but not jointly to subscribe for the Bonds at 100 per cent. of the principal amount of the Bonds, in the amounts described below:

Managers		Aggregate principal amount of the Bonds
Mizuho Securities Asia Limited	U.S.$	250,000,000
SMBC Nikko Capital Markets Limited		150,000,000
Morgan Stanley & Co. International plc		85,000,000
Citigroup Global Markets Limited		5,000,000
Daiwa Capital Markets Europe Limited		5,000,000
Nomura International plc		5,000,000
Total	U.S.$	500,000,000

The Company has agreed to pay certain costs in connection with the issue and offering of the Bonds. The Managers are entitled to be released and discharged from their obligations under the Subscription Agreement or to terminate the Subscription Agreement in certain circumstances prior to payment to the Company as set out therein. The Company has agreed to indemnify the Managers against certain liabilities in connection with the issue and offering of the Bonds.

Selling Restrictions

United States

The Bonds have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Bonds have not been and will not be registered under the Securities Act or may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in accordance with Regulation S or pursuant to an exemption from the registration requirements of the Securities Act. Each Manager has represented and agreed that it has not offered or sold and will not offer or sell the Bonds (i) as part of their distribution, at any time or (ii) otherwise, until 40 days after the later of the commencement of the offering of the Bonds and the Closing Date, within the United States or to, or for the account or benefit of, U.S. persons, and only in accordance with Rule 903 of Regulation S, and it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration to whom it sells the Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, US persons. Terms used in this paragraph have the meaning given to them by Regulation S.

In addition, until 40 days after the commencement of the offering of the Bonds, an offer or sale of the Bonds within the United States by any dealer (whether or not participating in the offering of the Bonds) may violate the registration requirements of the Securities Act. Terms used in this paragraph have the meaning given to them by Regulation S.

European Economic Area

Each Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds which are the subject of the offering contemplated by this Offering Circular to any retail investor in the European Economic Area. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or

(ii) a customer within the meaning of Directive 2016/97/EU, the "Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Switzerland

This Offering Circular is not intended to constitute an offer or solicitation to purchase or invest in the Bonds described therein. The Bonds may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Offering Circular nor any other offering or marketing material relating to the Bonds constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland, and neither this Offering Circular nor any other offering or marketing material relating to the Bonds may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Offering Circular nor any other offering or marketing material relating to the offering, nor the Company nor the Bonds have been or will be filed with or approved by any Swiss regulatory authority. The Bonds are not subject to the supervision by any Swiss regulatory authority, e.g., the Swiss Financial Markets Supervisory Authority FINMA, and investors in the Bonds will not benefit from protection or supervision by such authority.

United Kingdom

Each Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and it will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Company; and

(b) it has complied with and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

Japan

The Bonds have not been and will not be registered under the FIEA and are subject to the Special Taxation Measures Act. Each Manager has represented and agreed that, (I) it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the benefit of, any person resident in Japan for Japanese securities law purposes (including any corporation or entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of any person resident in Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan; and, (II) it has not, directly or indirectly, offered or sold and will not, as part of its initial distribution at any time, directly or indirectly, offer or sell any Bonds to, or for the benefit of, any person other than (i) a beneficial owner that is, for Japanese tax purposes, neither (x) an individual resident of Japan or a Japanese corporation, nor (y) an individual non-resident of Japan or a non-Japanese corporation that in either case is a Specially-Related Party of the Company, (ii) a Japanese financial institution, designated in Article 3-2-2, Paragraph 28 of the Cabinet Order that will hold the Bonds for its own proprietary account or (iii) any other excluded category of persons, corporations or other entities under the Special Taxation Measures Act.

Singapore

Each Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Manager has represented and agreed that it has not offered or sold any Bonds or caused the Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell any Bonds or cause the Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "SFA")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Hong Kong

Each Manager has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds, other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (the "SFO") and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions Ordinance (Cap. 32) of Hong Kong (the "C(WUMP)O") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

General

Neither the Company nor any of the Managers represents that the Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating such sales.

Other Relationships

Certain of the Managers or their affiliates may purchase the Bonds and be allocated the Bonds for asset management and/or proprietary purposes but not with a view to distribution.

In connection with the offering of the Bonds, any Manager may purchase the Bonds for its or their own account and may for its or their own account enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps or other derivatives relating to the Bonds and/or other securities of the Company or its subsidiaries or affiliates and/or components of such Bonds and/or other securities, at the same time as the offer and sale of the Bonds or in secondary market transactions. Such transactions may be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Bonds). As a result of such transactions any of the Managers may hold long or short positions in the Bonds and/or derivatives relating thereto. No disclosure will be made of any such positions.

Certain of the Managers or their affiliates have in the past provided, are currently providing and may in the future provide, investment and commercial banking, underwriting, advisory and other services to the Company and its subsidiaries and affiliates for which they have received, expect to receive or may receive (as the case may be) customary compensation. Interests may evolve out of these transactions that could potentially conflict with the interests of a purchaser of the Bonds. In particular, Mizuho Bank, Ltd. ("Mizuho Bank") is one of the Company's principal bank lenders and is an affiliate of Mizuho Securities Asia Limited, a Joint Lead Manager in respect of the offering of the Bonds. A significant portion of the Company's short-term and long-term borrowings is held by Mizuho Bank. Mizuho Bank is also one of the Company's principal shareholders.

GENERAL INFORMATION

1. The Bonds have been accepted for clearance through Euroclear and through Clearstream, Luxembourg. The ISIN for the Bonds is XS2043658819 and the Common Code for the Bonds is 204365881. The LEI for the Company is 353800MV866ELME96Q46.

2. Approval in-principle has been received for the listing of the Bonds on the SGX-ST. The Bonds will be traded on the SGX-ST in a minimum board lot size of U.S.$200,000 for so long as the Bonds are listed on the SGX-ST. For so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, the Company will appoint and maintain a paying agent in Singapore, where the Bonds may be presented or surrendered for payment or redemption, in the event that the Global Certificate is exchanged for definitive Certificates. In addition, in the event that the Global Certificate is exchanged for definitive Certificates, an announcement of such exchange shall be made by or on behalf of the Company through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Certificates, including details of the paying agent in Singapore.

3. The Company has obtained all necessary consents, approvals and authorisations in Japan, if any, in connection with the issue and performance of the Bonds. The issue of the Bonds was authorised by a resolution dated 28 June 2016 of the Board of Directors of the Company and a decision dated 6 March 2019 by the Representative Director, President & Chief Executive Officer of the Company.

4. Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Group and no material adverse change in the prospects of the Group since 31 March 2019.

5. Save as disclosed in this Offering Circular, neither the Company nor any other member of the Group is, or has been involved in, any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have, or have had during the 12 months preceding the date of this Offering Circular, a significant effect on the financial position or the profitability of the Group nor is the Company aware that any such proceedings are pending or threatened.

6. Copies of the latest annual report of the Company including the audited annual consolidated financial statements in English, and the Company's latest unaudited annual and quarterly consolidated financial statements in English (being English summaries of the Company's published *Kessan tanshin* (preliminary results announcement) in Japanese) may be obtained, and copies of the Deed of Covenant and the Agency Agreement will be available for inspection, at the Specified Offices of each of the Agents during normal business hours, so long as any of the Bonds is outstanding.

7. The consolidated financial statements of the Group for each of the three fiscal years ended 31 March 2019, 2018 and 2017, included in this Offering Circular, have been audited by KPMG AZSA LLC, the Company's independent auditor, as stated in their audit reports appearing herein. The audit report as of and for the fiscal year ended 31 March 2019 includes an emphasis of matter regarding the entry into an absorption-type corporate split agreement, and an emphasis of matter relating to the amendment to the Ministerial Ordinance (see Note 21 to the notes to the audited consolidated financial statements of the Group as of and for the fiscal year ended 31 March 2019 at pages F-31 and F-32). The independent auditor's opinion was not modified in respect of these matters.

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INDEX TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS

KPMG

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of The Chugoku Electric Power Co., Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2019 and 2018, and the consolidated statements of operations, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Chugoku Electric Power Co., Inc. and its consolidated subsidiaries as at March 31, 2019 and 2018, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note 21 to the consolidated financial statements. By a resolution of the Board of Directors held on April 26, 2019, the Company decided to enter into an agreement for absorption-type company division and the agreement has been concluded on the same day. Our opinion is not modified in respect of this matter.

We draw attention to Note 21 to the consolidated financial statements. The Ministerial Ordinance concerning Provision for Depreciation of Nuclear Power Plants (Ministry of Economy, Trade and Industry Ordinance No.20 of 2007) was amended pursuant to proclamation of an Ordinance Partially Amending the Ministerial Ordinance on July 26, 2019. Our opinion is not modified in respect of this matter.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2019 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.

KPMG AZSA LLC

July 31, 2019
Hiroshima, Japan

Consolidated Balance Sheets

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	2019	2018	2019
Property, plant and equipment:			
Utility plant and equipment	¥ 5,641,325	¥ 5,592,558	$ 50,822,748
Other plant	335,134	335,284	3,019,231
Construction in progress	939,359	859,188	8,462,700
Suspense account related to the decommissioning of nuclear power stations	—	4,271	—
Suspense account related to reprocessing of spent nuclear fuel	11,361	7,574	102,358
	6,927,181	6,798,876	62,407,039
Less			
Contributions in aid of construction	100,737	98,232	907,545
Accumulated depreciation	4,456,259	4,389,169	40,146,480
	4,556,996	4,487,402	41,054,026
Net property, plant and equipment (Note 8)	2,370,184	2,311,474	21,353,013
Nuclear fuel	159,103	180,428	1,433,361
Investments and other assets:			
Investment securities (Note 9 and 10)	60,396	77,797	544,111
Investments to non-consolidated subsidiaries and affiliated companies	133,196	121,639	1,199,966
Long-term loans to employees	59	78	534
Asset for retirement benefits (Note 16)	48,132	46,982	433,625
Deferred tax assets (Note 17)	81,652	75,141	735,608
Other assets	71,367	52,194	642,953
Total investments and other assets	394,804	373,833	3,556,799
Current assets:			
Cash and time deposits (Note 7 and 9)	111,459	93,035	1,004,139
Receivables, less allowance for doubtful accounts of ¥ 288 million ($2,594 thousand) in 2019 and ¥ 432 million in 2018 (Note 9)	137,271	122,898	1,236,683
Short-term investment (Note 9)	—	8,000	—
Inventories, fuel and supplies	58,592	61,535	527,863
Other current assets	30,248	28,235	272,508
Total current assets	337,572	313,705	3,041,195
Total assets	¥ 3,261,665	¥ 3,179,442	$ 29,384,370

See Notes to Consolidated Financial Statements

Liabilities and Net Assets	Millions of yen 2019	Millions of yen 2018	Thousands of U.S. dollars (Note 1) 2019
Long-term liabilities:			
Long-term debt (Note 9 and 12)	¥ 1,803,187	¥ 1,817,380	$ 16,244,934
Liability for retirement benefits (Note 16)	69,362	69,517	624,887
Retirement allowances for directors and corporate auditors	270	229	2,438
Asset retirement obligations (Note 18)	91,841	78,971	827,398
Other long-term liabilities	14,155	21,288	127,523
Total long-term liabilities	1,978,817	1,987,386	17,827,181
Current liabilities:			
Long-term debt due within one year (Note 9 and 12)	306,705	167,140	2,763,116
Short-term borrowings (Note 9)	67,645	67,895	609,414
Commercial paper	—	10,000	—
Accounts payable (Note 9)	84,910	100,755	764,960
Accrued income taxes	385	6,478	3,476
Accrued expenses	79,722	82,175	718,223
Provision for loss on disaster	919	—	8,288
Allowance for bonuses to directors and corporate auditors	72	63	654
Other current liabilities, including other long-term liabilities due within one year	96,377	91,650	868,267
Total current liabilities	636,740	526,158	5,736,402
Reserve for fluctuation in water levels	1,170	1,424	10,541
Provision for depreciation of nuclear power plants	86,281	83,727	777,315
Contingent liabilities (Note 14)			
Net assets (Note 19):			
Common stock : Authorized—1,000,000,000 shares Issued—371,055,259 shares in 2019 and 2018	185,527	185,527	1,671,420
Capital surplus	17,048	17,066	153,590
Retained earnings (Note 21)	384,711	390,477	3,465,870
Treasury stock (26,813,562 shares in 2019 and 26,799,578 shares in 2018)	(38,775)	(38,755)	(349,330)
Total stockholders' equity	548,512	554,316	4,941,549
Net unrealized holding gains (losses) on securities	10,258	22,509	92,422
Net unrealized gains (losses) on hedges	267	20	2,407
Foreign currency translation adjustments	(804)	(235)	(7,246)
Accumulated adjustments for retirement benefit	(2,726)	505	(24,562)
Accumulated other comprehensive income	6,995	22,801	63,020
Non-controlling interests	3,147	3,628	28,360
Total net assets	558,655	580,745	5,032,930
Total liabilities and net assets	¥ 3,261,665	¥ 3,179,442	$ 29,384,370

See Notes to Consolidated Financial Statements

Consolidated Statements of Operations

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Operating revenues (Note 20):			
Electric	¥ 1,224,535	¥ 1,193,671	$ 11,031,855
Other	152,443	121,296	1,373,366
	1,376,979	1,314,967	12,405,221
Operating expenses (Note 15):			
Electric	1,211,817	1,159,104	10,917,275
Other	145,631	116,236	1,311,998
	1,357,449	1,275,341	12,229,273
Operating income (loss) (Note 20)	19,530	39,626	175,948
Other expenses (income):			
Interest expense	12,846	17,758	115,736
Interest income	(100)	(66)	(901)
Gains on sales of fixed assets	(1,573)	(1,411)	(14,178)
Gains on sales of securities (Note 5)	(10,456)	(202)	(94,202)
Equity in losses (earnings) of affiliated companies	(2,724)	(3,535)	(24,545)
Contingent loss (Note 6)	231	—	2,081
Loss on disaster (Note 6)	3,522	—	31,733
Loss on withdrawal from business (Note 6)	2,194	—	19,770
Other, net	(1,603)	(3,619)	(14,448)
	2,335	8,924	21,044
Special item:			
Provision (reversal) of reserve for fluctuation in water levels	(254)	203	(2,292)
Provision for depreciation of nuclear power plants	2,554	3,378	23,016
Profit (loss) before income taxes	14,893	27,120	134,179
Provision for income taxes: (Note 17)			
Current	4,680	7,880	42,168
Deferred	(722)	(1,123)	(6,506)
	3,958	6,756	35,662
Profit (loss)	10,935	20,363	98,517
Profit (loss) attributable to non-controlling interests	(511)	(344)	(4,605)
Profit (loss) attributable to owners of parent	¥ 11,446	¥ 20,707	$ 103,123

	Yen		U.S.dollars (Note 1)
	2019	2018	2019
Per share data:			
Earnings (basic)	¥ 33.25	¥ 60.15	$ 0.30
Cash dividends	50.00	50.00	0.45

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, 2019 and 2018

	Millions of yen		Thousands of U.S.dollars (Note 1)
	2019	2018	2019
Profit (loss)	¥ 10,935	¥20,363	$ 98,517
Other comprehensive income (loss):			
Net unrealized holding gains (losses) on securities	(11,052)	(106)	(99,575)
Net unrealized gains (losses) on hedges	(625)	495	(5,635)
Foreign currency translation adjustments	(562)	82	(5,064)
Adjustments for retirement benefit	(2,843)	(4,068)	(25,615)
Share of other comprehensive income (loss) of affiliated companies accounted for using equity method	(773)	(6)	(6,969)
	(15,857)	(3,602)	(142,861)
Comprehensive income (loss)	¥ (4,922)	¥16,760	$ (44,343)
Comprehensive income (loss) attributable to:			
Comprehensive income (loss) attributable to owners of parent	¥ (4,359)	¥17,082	$ (39,271)
Comprehensive income (loss) attributable to non-controlling interests	(562)	(322)	(5,071)

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, 2019 and 2018

		Millions of yen									
	Shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains (losses) on securities	Net unrealized gains (losses) on hedges	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Non-controlling interests (Note 3)	Total
Balance at April 1, 2017	371,055,259	¥185,527	¥17,068	¥387,088	¥(38,739)	¥ 22,809	¥(247)	¥(305)	¥ 4,168	¥3,791	¥581,162
Profit attributable to owners of parent				20,707							20,707
Cash dividends paid (¥50 per share)				(17,213)							(17,213)
Surplus from sale of treasury stock			(0)		2						1
Treasury stock purchased, net					(19)						(19)
Change in scope of equity method				(105)							(105)
Change in treasury stocks of parent arising from transactions with non-controlling shareholders											—
Other			(1)		0						(0)
Net changes other than stockholders' equity						(299)	268	69	(3,662)	(162)	(3,787)
Balance at March 31, 2018	371,055,259	¥185,527	¥17,066	¥390,477	¥(38,755)	¥ 22,509	¥ 20	¥(235)	¥ 505	¥3,628	¥580,745
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											—
Change in treasury stocks of parent arising from transactions with non-controlling shareholders											(0)
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**	**¥(38,775)**	**¥ 10,258**	**¥ 267**	**¥(804)**	**¥(2,726)**	**¥3,147**	**¥558,655**

	Thousands of U.S. dollars (Note 1)									
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains (losses) on securities	Net unrealized gains (losses) on hedges	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Non-controlling interests (Note 3)	Total
Balance at March 31, 2018	$1,671,420	$153,753	$3,517,815	$(349,150)	$202,791	$ 186	$(2,119)	$ 4,557	$32,690	$5,231,944
Profit attributable to owners of parent			103,123							103,123
Cash dividends paid ($0.47 per share)			(155,068)							(155,068)
Surplus from sale of treasury stock		(0)		10						10
Treasury stock purchased, net				(186)						(186)
Change in scope of equity method										—
Change in treasury stocks of parent arising from transactions with non-controlling shareholders										—
Other		(163)		(4)						(167)
Net changes other than stockholders' equity					(110,369)	2,221	(5,127)	(29,119)	(4,330)	(146,725)
Balance at March 31, 2019	**$1,671,420**	**$153,590**	**$3,465,870**	**$(349,330)**	**$ 92,422**	**$2,407**	**$(7,246)**	**$(24,562)**	**$28,360**	**$5,032,930**

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, 2019 and 2018

	Millions of yen		Thousands of U.S.dollars (Note 1)
	2019	2018	2019
Cash flows from operating activities:			
Profit (loss) before income taxes	¥ 14,893	¥ 27,120	$ 134,179
Depreciation	104,779	104,106	943,960
Decommissioning cost of nuclear power generating plants	3,201	1,454	28,843
Amortization of suspense account related to the decommissioning of nuclear power stations	4,271	4,605	38,479
Equity in losses (earnings) of affiliated companies	(2,724)	(3,535)	(24,545)
Loss on disposal of property	5,773	5,611	52,016
Increase (decrease) in liability for retirement benefits	(79)	972	(713)
Decrease (increase) in asset for retirement benefits	(5,122)	(6,612)	(46,147)
Increase (decrease) in reserve for fluctuation in water levels	(254)	203	(2,292)
Increase (decrease) in provision for depreciation of nuclear power plants	2,554	3,378	23,016
Increase (decrease) in provision for loss on disaster	919	—	8,288
Interest and dividend income	(2,041)	(1,548)	(18,390)
Interest expense	12,846	17,758	115,736
Loss (gain) on sales of securities	(10,456)	(201)	(94,202)
Loss (gain) on sales of fixed assets	(663)	(1,265)	(5,973)
Contingent loss	93	—	842
Loss on withdrawal from business	2,043	—	18,413
Decrease (increase) in notes and accounts receivable	(13,114)	(13,265)	(118,148)
Decrease (increase) in inventories	5,343	(7,546)	48,136
Increase (decrease) in notes and accounts payable	(18,295)	9,268	(164,820)
Other	(1,850)	35,548	(16,672)
Subtotal	102,120	176,052	920,007
Interest and dividends received	4,305	3,610	38,791
Interest paid	(13,757)	(19,110)	(123,939)
Income taxes refund (paid)	(11,034)	4,241	(99,407)
Net cash provided by (used in) operating activities	81,635	164,794	735,451
Cash flows from investing activities:			
Purchase of property	(179,304)	(214,038)	(1,615,356)
Purchase of investments in securities	(59,146)	(53,900)	(532,849)
Proceeds from sales of investment securities	58,736	61,403	529,157
Other	10,969	17,985	98,824
Net cash provided by (used in) investing activities	(168,744)	(188,549)	(1,520,223)
Cash flows from financing activities:			
Proceeds from issue of bonds	162,628	210,052	1,465,121
Repayment of bonds	(90,000)	(240,000)	(810,810)
Proceeds from long-term borrowings	172,500	134,000	1,554,054
Repayment of long-term borrowings	(120,284)	(79,809)	(1,083,645)
Proceeds from short-term borrowings	188,458	191,290	1,697,826
Repayment of short-term borrowings	(186,735)	(202,230)	(1,682,297)
Proceeds from issue of commercial paper	280,000	174,000	2,522,522
Repayment of commercial paper	(290,000)	(164,000)	(2,612,612)
Purchase of treasury stock	(24)	(21)	(218)
Purchase of treasury stocks of subsidiaries	(17)	—	(158)
Cash dividends paid	(17,222)	(17,223)	(155,161)
Dividends paid to non-controlling interests	(53)	(29)	(485)
Other	(1,738)	(1,545)	(15,659)
Net cash provided by (used in) financing activities	97,510	4,483	878,473
Effect of exchange rate changes on cash and cash equivalents	(133)	73	(1,206)
Net increase (decrease) in cash and cash equivalents	10,266	(19,197)	92,494
Cash and cash equivalents at beginning of the fiscal year	81,025	100,223	729,960
Increase in cash and cash equivalents resulting from change of scope of consolidation	43	—	395
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	63	—	568
Cash and cash equivalents at end of the fiscal year (Note 7)	¥ 91,399	¥ 81,025	$ 823,419

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

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

1. Basis of Preparing 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 the 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 Company's consolidated financial statements prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the 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 as at March 31, 2019, 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, 2019, 19 subsidiaries (19 in 2018) were consolidated and 6 (6 in 2018) 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, etc., in the consolidated financial statements.

For the year ended March 31, 2019, 6 non-consolidated subsidiaries (6 in 2018) and 12 affiliated companies (12 in 2018) were accounted for by the equity method.

For the year ended March 31, 2019, 2 non-consolidated subsidiaries (0 in 2018) and 13 affiliated companies (12 in 2018) 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., of the affiliated companies would individually have had only a slight effect and together would have had no material effect 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 date. In drawing up the consolidated financial statements, we 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 those dates 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 and affiliated companies not accounted for by the equity method or 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 fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not accounted for by the equity method is not readily available, the securities should be written down to net asset value with a corresponding charge in the consolidated statements of operations in the event the net asset value declines 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 of property, plant and equipment is computed using the declining balance method, while amortization of intangible fixed asset is computed by the straight-line method, based on the useful life periods 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 computed based on the quantity of heat produced for electricity generation.

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 loss rate with respect to the remaining receivables.

Provision for loss on disaster

The Company records the amount estimated as of the end of this consolidated fiscal year in order to prepare for costs or losses required to repair the assets damaged due to the torrential rains in July 2018.

Reserve for fluctuation in water levels

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

Provision for depreciation of nuclear power plants

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

Accounting methods pertaining to retirement benefits

In readiness for employees' retirement benefits, the figure obtained by subtracting plan assets from retirement benefit obligations based on the estimated sums at the end of the consolidated accounting year is reckoned 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 up 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 reckoned 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 certain hedging criteria are met, 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 necessary for interest rate swap transactions, forward foreign exchange transactions and 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 given approval by the Minister of Economy, Trade and Industry upon an application to extend the accumulation period, the straight-line method shall be used for reckoning 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 40 years from the month in which power generation began, then 50 years from the month in which power generation began).

(Additional Information)

In accordance with an ordinance of the Ministry of Economy, Trade and Industry, the cost of asset retirement obligations for decommissioning specified nuclear power generation facilities was calculated by applying the straight-line method to the estimated total decommissioning cost for the period equal to the facilities' forecasted operating period plus the estimated safe storage period. However, that ordinance was amended pursuant to the enactment of an Ordinance Partially Amending the Ministerial Ordinance concerning Reserve Fund for Dismantling Nuclear Power Facilities (Ministry of Economy, Trade and Industry Ordinance No. 17 of 2018) on April 1, 2018. Therefore, since that effective date, we have changed to a calculation method in which the straight-line method is applied for the forecast operating period.

However, if retiring a reactor due to changes in energy policy, when given approval by the Minister of Economy, Trade and Industry upon an application to extend the accumulation period, the straight-line method shall be used for reckoning 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 40 years from the month in which power generation began, then 50 years from the month in which power generation began).

Following this change, operating income, ordinary income, and profit before income taxes for the consolidated fiscal year decreased by ¥1,575 million each, compared with the figures obtained using the previous method.

Furthermore, the estimated use period used for calculating the asset retirement obligations pertaining to measures for decommissioning specified nuclear power generation facilities had been the facilities' operating period plus the safe storage period; however, since that effective date, this was changed to the operating period.

Following this change, both the asset cost equivalent of asset retirement obligations included in nuclear power generation facilities for the consolidated fiscal year and the asset retirement obligations increased by ¥10,240 million and ¥11,815 million, respectively, compared with the figures obtained using the previous method.

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 for the Minister 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 reckoning contributions required for spent nuclear fuel reprocessing

For expenses required in the reprocessing of spent nuclear fuel from 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, from the estimated costs required in the reprocessing of spent fuel generated by the end of FY 2005, a ¥3,306 million difference arising from a change in the FY 2006 reserve fund recording standards has been uniformly recorded as electric utility operating expense each year from the effective date of the Amended

Act to 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 reckoned as suspense account related to reprocessing of spent nuclear fuel.

Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments generally with original maturities of three months or less that are readily convertible to known amounts of cash and are so near maturity that 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.

3. Standard 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 30, 2018)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 30, 2018)

(1) Overview

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

Step 1: Identify contract(s) with customers.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligation in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

(2) Effective date

This 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.

4. Changes in Presentation Methods

Related to the consolidated statements of operations

As there has been an increase in the monetary importance of the “Gains on sales of fixed assets” which was included in “Other, net” under “Other expense (income)” in the previous consolidated fiscal year, we have decided to post it as a separate item from this consolidated fiscal year onward. In order to reflect this change in presentation method, we have made a reclassification to the consolidated financial statements, relative to last fiscal year's.

As a result of this reclassification, the ¥5,030 million which was presented for "Other, net" under "Other expense (income)" in last year's consolidated statements of operations is now presented as ¥1,411 million for "Gains on sales of fixed assets" and ¥3,619 million for "Other, net" under "Other expense (income)".

Related to the consolidated statements of cash flows

As there has been an increase in the monetary importance of "Loss (gain) on sales of securities" and "Loss (gain) on sales of fixed assets" in "Other" under "Cash flows from operating activities" in the previous consolidated fiscal year, we have decided to post them as separate items from this consolidated fiscal year onward. In order to reflect this change in presentation method, we have made a reclassification to the consolidated financial statements, relative to last consolidated fiscal year's.

As a result of this reclassification, the ¥34,081 million which was presented for "Other" under "Cash flows from operating activities" in last year's consolidated statements of cash flows is now presented as ¥201 million for "Loss (gain) on sales of securities", ¥1,265 million for "Loss (gain) on sales of fixed assets", and ¥35,548 million for "Other".

Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting"

"Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) will apply from the start of the current consolidated fiscal year. Deferred tax assets are presented as investments and other assets, while deferred tax liabilities are presented as long-term liabilities.

As a result, the ¥10,991 million which was presented for "Deferred tax assets" under "Current assets" in last year's consolidated balance sheets is now included in and presented as ¥75,141 million for "Deferred tax assets" under "Investments and other assets".

5. Content of Extraordinary Profit

Gains on sales of securities recorded the profit on sale of strategically held shares.

6. Content of Extraordinary Loss

Contingent loss recorded an amount equivalent to the book value of assets lost due to the torrential rains 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

This Company Group has recorded impairment loss for the following fixed assets used in business other than electric power operations.

Application	Place	Type	Millions of yen 2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Business assets	Hiroshima City,	Land	¥ 560	¥ —	$ 5,047
	Hiroshima	Building	725	—	6,533
	Prefecture	Machine equipment	589	—	5,308
		Other	32	—	290
Total			¥ 1,906	¥ —	$ 17,180

(3) Method for calculating recoverable amount

The book value for applicable assets is written off to the recoverable amount and the amount of the said decrease is included in loss on withdrawal from business as impairment loss. Net realizable value is used for the recoverable amount, and the net realizable value is evaluated using the sale estimate amounts.

7. Cash and Cash Equivalents

Reconciliations of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as at March 31, 2019 and 2018 were as follows:

	Millions of yen 2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Cash and time deposits	¥ 111,459	¥ 93,035	$ 1,004,139
Time deposits with maturities exceeding 3 months	(20,060)	(20,010)	(180,720)
Short-term investments that mature within 3 months of the acquisition date	—	8,000	—
Cash and cash equivalents	¥ 91,399	¥ 81,025	$ 823,419

8. Property, Plant and Equipment

The major classifications of property, plant and equipment as at March 31, 2019 and 2018 were as follows:

	Millions of yen 2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Hydroelectric power production facilities	¥ 111,534	¥ 114,562	$ 1,004,813
Thermal power production facilities	178,585	178,935	1,608,882
Nuclear power production facilities	102,277	95,434	921,415
Transmission facilities	303,096	313,957	2,730,596
Transformation facilities	143,361	144,960	1,291,545
Distribution facilities	364,738	365,057	3,285,934
General facilities	75,668	78,058	681,693
Inactive facilities	16,150	17,597	145,497
Other electric utility plants and equipment	5,125	4,502	46,173
Other plants	118,925	127,373	1,071,400
Construction in progress	939,359	859,188	8,462,700
Suspense account related to the decommissioning of nuclear power stations	—	4,271	—
Suspense account related to reprocessing of spent nuclear fuel	11,361	7,574	102,358
Total	¥ 2,370,184	¥ 2,311,474	$ 21,353,013

Calculated according to the accounting principles and practices generally accepted in Japan, accumulated gains in relation to the receipt of contributions in aid of construction deducted from the original acquisition costs amounted to ¥100,737 million (US$907,545 thousand) and ¥98,232 million as at March 31, 2019 and 2018, respectively.

9. 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.

Most of the Companies' notes receivable and accounts receivable consist of receivables for electricity charges 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 most of the 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 through 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 11, "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 following are book values, fair values and the differences as of March 31, 2019 and 2018. 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		
	2019			2018			2019		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Assets									
(1) Long-term investment: Available-for-sale securities	¥ 16,546	¥ 16,546	¥ —	¥ 33,742	¥ 33,742	¥ —	$ 149,066	$ 149,066	$ —
(2) Cash and time deposits	111,459	111,459	—	93,035	93,035	—	1,004,139	1,004,139	—
(3) Notes receivable and accounts receivable	132,776	132,776	—	119,001	119,001	—	1,196,184	1,196,184	—
(4) Short-term investment: Held-to-maturity securities	—	—	—	8,000	8,000	—	—	—	—
Liabilities									
(5) Bonds	¥ 990,453	¥ 1,012,805	¥ 22,352	¥ 917,402	¥ 938,616	¥ 21,213	$ 8,923,001	$ 9,124,377	$ 201,376
(6) Long-term borrowings	1,118,965	1,139,569	20,603	1,066,897	1,091,834	24,937	10,080,772	10,266,391	185,618
(7) Short-term borrowings	67,645	67,645	—	67,895	67,895	—	609,414	609,414	—
(8) Commercial paper	—	—	—	10,000	10,000	—	—	—	—
(9) Notes payable and accounts payable	48,684	48,684	—	66,552	66,552	—	438,599	438,599	—
(10) Derivative transactions	¥ (523)	¥ (523)	—	¥ 344	¥ 344	—	$ (4,716)	$ (4,716)	—

(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 of available-for-sale securities and acquisition cost, please refer to Note 10, "Securities."

(2) Cash and time deposits, (3) Notes receivable and accounts receivable and (4) Short-term investment: Held-to-maturity securities

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 the fair value of held-to-maturity securities and the book value, refer to Note 10, "Securities."

(5) 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 another organization. Some bonds are subject to the special treatment of interest rate swaps and assignment of currency swaps. These are valued based on the same terms and conditions applied to the relevant interest rate swap transactions and currency swap transactions.

(6) 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. These are valued based on the same terms and conditions applied to the relevant interest rate swap transactions.

(7) Short-term borrowings, (8) Commercial paper and (9) 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.

(10) Derivative transactions

Please refer to Note 11, "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		
	2019	2018	2019
Unlisted stocks	¥ 37,674	¥ 37,743	$ 339,413
Other	1,043	1,046	9,398
Total	¥ 38,718	¥ 38,790	$ 348,811

The above do not have market value, and it is hard 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		
	2019	2018	2019
Long-term investment:			
Available-for-sale securities with maturity	¥ —	¥ —	$ —
Cash and time deposits	111,459	93,035	1,004,139
Notes receivable and accounts receivable	132,776	119,001	1,196,184
Short-term investment:			
Held-to-maturity securities	—	8,000	—
Total	¥ 244,235	¥ 220,037	$ 2,200,324

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

	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	—	—	—	—	—
Commercial paper	—	—	—	—	—	—
Total	¥ 374,133	¥ 196,099	¥ 239,999	¥ 172,059	¥ 210,525	¥ 983,980

	Millions of yen					
	2018					
	Within 1 year	1 year -2 years	2 years -3 years	3 years -4 years	4 years -5 years	Over 5 years
Bonds	¥ 90,000	¥ 251,959	¥ 120,000	¥ 80,000	¥ 30,000	¥ 345,000
Long-term borrowings	77,088	77,668	79,086	162,786	137,721	532,546
Short-term borrowings	67,895	—	—	—	—	—
Commercial paper	10,000	—	—	—	—	—
Total	¥ 244,983	¥ 329,627	¥ 199,086	¥ 242,786	¥ 167,721	¥ 877,546

	Thousands of U.S. dollars					
	2019					
	Within 1 year	1 year -2 years	2 years -3 years	3 years -4 years	4 years -5 years	Over 5 years
Bonds	$ 2,269,900	$ 1,081,081	$ 720,720	$ 270,270	$ 1,065,117	$ 3,513,513
Long-term borrowings	491,254	685,583	1,441,438	1,279,816	831,505	5,351,174
Short-term borrowings	609,414	—	—	—	—	—
Commercial paper	—	—	—	—	—	—
Total	$ 3,370,569	$ 1,766,664	$ 2,162,158	$ 1,550,086	$ 1,896,622	$ 8,864,688

(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 ( ).

10. Securities

Held-to-maturity securities

	Millions of yen						Thousands of U.S. dollars		
	2019			2018			2019		
Categories	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Held-to-maturity securities with fair values exceeding book values									
Bonds	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	$ —	$ —	$ —
Other	—	—	—	—	—	—	—	—	—
Subtotal	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	$ —	$ —	$ —
Held-to-maturity securities with fair values not exceeding book values									
Bonds	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	$ —	$ —	$ —
Other	—	—	—	8,000	8,000	—	—	—	—
Subtotal	¥ —	¥ —	¥ —	¥ 8,000	¥ 8,000	¥ —	$ —	$ —	$ —
Total	¥ —	¥ —	¥ —	¥ 8,000	¥ 8,000	¥ —	$ —	$ —	$ —

Available-for-sale securities

	Millions of yen						Thousands of U.S. dollars		
	2019			2018			2019		
Categories	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	¥ 16,157	¥ 7,301	¥ 8,856	¥ 33,261	¥ 9,051	¥ 24,210	$ 145,563	$ 65,775	$ 79,787
Bonds	—	—	—	—	—	—	—	—	—
Other	9	2	6	10	2	7	88	26	62
Subtotal	¥ 16,167	¥ 7,304	¥ 8,863	¥ 33,272	¥ 9,054	¥ 24,217	$ 145,651	$ 65,802	$ 79,849
Available-for-sale securities with book values not exceeding acquisition costs									
Equity securities	¥ 379	¥ 456	¥ (77)	¥ 470	¥ 492	¥ (21)	$ 3,414	$ 4,116	$ (702)
Bonds	—	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	—	—
Subtotal	¥ 379	¥ 456	¥ (77)	¥ 470	¥ 492	¥ (21)	$ 3,414	$ 4,116	$ (702)
Total	¥ 16,546	¥ 7,761	¥ 8,785	¥ 33,742	¥ 9,546	¥ 24,195	$ 149,066	$ 69,919	$ 79,147

Since for the fiscal years ended March 31, 2019 and 2018, unlisted stocks in the amount of ¥38,718 million (US$348,811 thousand) and ¥38,790 million in book value had no market value and there was no way to estimate their future cash flow, it is difficult to evaluate their fair value. Hence, unlisted stocks are not included in the above “Available-for-sale securities”.

11. Derivatives and Hedge Accounting

Derivative transactions for which hedge accounting is applied

<Currencies>

Hedge accounting method	Type of transaction	Items to be hedged	Millions of yen 2019 Amount of contract	2019 Amount of contract longer than 1 year	2019 Fair value	2018 Amount of contract	2018 Amount of contract longer than 1 year	2018 Fair value
	Currency swap							
Assignment of currency swaps	Japanese yen payment and U.S. dollars receipt	Bonds	¥90,187	¥33,228	(Note a)	¥56,959	¥56,959	(Note a)

Hedge accounting method	Type of transaction	Items to be hedged	Thousands of U.S. dollars 2019 Amount of contract	2019 Amount of contract longer than 1 year	2019 Fair value
	Currency swap				
Assignment of currency swaps	Japanese yen payment and U.S. dollars receipt	Bonds	$812,495	$299,351	(Note a)

(Note a) 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>

Hedge accounting method	Type of transaction	Items to be hedged	Millions of yen 2019 Amount of contract	2019 Amount of contract longer than 1 year	2019 Fair value	2018 Amount of contract	2018 Amount of contract longer than 1 year	2018 Fair value
	Interest-rate swap							
Special treatment of interest rate swaps	Fixed-rate receipt and flexible-rate payment	Bonds and long-term borrowings	¥ 60,717	¥ 20,000	(Note b)	¥ 61,431	¥ 60,717	(Note b)
	Fixed-rate payment and flexible-rate receipt		—	—	(Note b)	3,000	—	(Note b)

Hedge accounting method	Type of transaction	Items to be hedged	Thousands of U.S. dollars 2019 Amount of contract	Amount of contract longer than 1 year	Fair value
	Interest-rate swap				
Special treatment of interest rate swaps	Fixed-rate receipt and flexible-rate payment	Bonds and long-term borrowings	$ 547,000	$ 180,180	(Note b)
	Fixed-rate payment and flexible-rate receipt		—	—	(Note b)

(Note b) 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					
			2019			2018		
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 and flexible-rate receipt	Fuel import payment debt (projected transaction)	¥ 4,887	¥ —	¥ 523	¥ 3,300	¥ —	¥ (344)

			Thousands of U.S. dollars		
			2019		
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 and flexible-rate receipt	Fuel import payment debt (projected transaction)	$ 44,033	$ —	$ 4,716

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

12. Long-term Debt

Long-term debt as at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Bonds due through 2039 at rates of 0% to 3.488% (Note)	¥ 990,453	¥ 917,402	$ 8,923,001
Long-term loans from the Development Bank of Japan Inc., other banks and insurance companies due through 2037	1,118,965	1,066,897	10,080,772
Lease obligations	474	219	4,276
	2,109,893	1,984,520	19,008,050
Less amounts due within one year	(306,705)	(167,140)	(2,763,116)
Total	¥ 1,803,187	¥ 1,817,380	$ 16,244,934

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

As at March 31, 2019 and 2018, long-term loans from the Development Bank of Japan Inc. in the amounts of ¥286,445 million (US$2,580,589 thousand) and ¥280,672 million and all bonds above were secured by a statutory preferential right that gives the creditors a security interest in all assets of the Company totaling ¥3,085,124 million (US$27,793,918 thousand) and ¥2,939,983 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 as at March 31, 2019 and 2018 were as follows:

Year ended March 31, 2019	Millions of Yen	Thousands of U.S. dollars
2020	¥ 306,488	$ 2,761,155
2021	196,099	1,766,664
2022	239,999	2,162,158
2023	172,059	1,550,086
Thereafter	1,194,505	10,761,311

Year ended March 31, 2018	Millions of Yen
2019	¥ 167,088
2020	329,627
2021	199,086
2022	242,786
Thereafter	1,045,267

Note: Excluding lease obligations.

13. Leases

(As lessee)

Operating lease transactions

The present values of future minimum lease payments under operating leases that are non-cancelable as of March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Current portion	¥ 32	¥ 162	$ 292
Non-current portion	3	28	35
Total	¥ 36	¥ 191	$ 328

(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 ¥198 million (US$1,784 thousand) and ¥204 million for the years ended March 31, 2019 and 2018, respectively.

The present values of future minimum lease payments to be received under non-capitalized finance leases as of March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Current portion	¥ 188	¥ 210	$ 1,695
Non-current portion	237	425	2,136
Total	¥ 425	¥ 636	$ 3,831

2. Operating lease transactions

The present values of future minimum lease payments under operating leases that are non-cancelable as of March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Current portion	¥ 34	¥ 24	$ 313
Non-current portion	103	72	929
Total	¥ 137	¥ 97	$ 1,242

14. Contingent Liabilities

As at March 31, 2019 and 2018, the Companies were contingently liable as guarantors for loans of other companies and employees in the amount of ¥122,398 million (US$1,102,689 thousand) and ¥121,109 million, respectively.

As at March 31, 2019 and 2018, the Company was also contingently liable with respect to certain domestic bonds that were assigned to certain banks under debt assumption agreements in the aggregate amount of ¥35,000 million (US$315,315 thousand) and ¥80,000 million.

15. Research and Development Expenses

Research and development expenses charged to operating expenses were ¥11,345 million (US $102,208 thousand) and ¥10,293 million for the years ended March 31, 2019 and 2018, respectively.

16. 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
	2019	2018	2019
Balance at the beginning of the fiscal year	¥ 266,536	¥ 267,047	$ 2,401,226
Service cost	9,076	9,015	81,768
Interest cost	275	524	2,480
Actuarial loss (gain)	2,216	2,982	19,971
Benefits paid	(15,109)	(13,033)	(136,120)
Other	3	0	28
Balance at the end of the fiscal year	¥ 262,998	¥ 266,536	$ 2,369,356

(2) Movement in plan assets

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at the beginning of the fiscal year	¥ 244,001	¥ 244,510	$ 2,198,212
Expected return on plan assets	3,559	3,474	32,066
Actuarial loss (gain)	537	953	4,844
Contributions paid by the Companies	4,153	4,209	37,416
Benefits paid	(10,483)	(9,146)	(94,446)
Balance at the end of the fiscal year	¥ 241,768	¥ 244,001	$ 2,178,093

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Retirement benefit obligations for defined benefit corporate pension schemes	¥ 195,370	¥ 198,591	$ 1,760,095
Plan assets	(241,768)	(244,001)	(2,178,093)
	(46,397)	(45,410)	(417,998)
Retirement benefit obligations for retirement lump sum schemes	67,627	67,944	609,261
Total net liability (asset) for retirement benefits at the end of the fiscal year	¥ 21,230	¥ 22,534	$ 191,262

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Liability for retirement benefits	¥ 69,362	¥ 69,517	$ 624,887
Asset for retirement benefits	(48,132)	(46,982)	(433,625)
Total net liability (asset) for retirement benefits at the end of the fiscal year	¥ 21,230	¥ 22,534	$ 191,262

(4) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Service cost	¥ 9,076	¥ 9,015	$ 81,768
Interest cost	275	524	2,480
Expected return on plan assets	(3,559)	(3,474)	(32,066)
Net actuarial loss (gain) amortization	(2,214)	(3,606)	(19,950)
Other	970	790	8,740
Retirement benefit costs for defined benefit plans	¥ 4,548	¥ 3,248	$ 40,973

(5) Adjustments for retirement benefit

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Actuarial gains/losses	¥ (3,893)	¥ (5,635)	$ (35,076)
Total	¥ (3,893)	¥ (5,635)	$ (35,076)

(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 is as follows.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unrecognized actuarial gains/losses	¥ 4,728	¥ 835	$ 42,601
Total	¥ 4,728	¥ 835	$ 42,601

(7) Plan assets

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

	2019	2018
Bonds	39%	49%
Equity securities	11%	13%
Life insurance general accounts	37%	37%
Other	13%	1%
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 envisioned plan assets as well as the long-term rates of return to be expected currently and in the future from the various assets that make up the plan assets.

(8) Actuarial assumptions

The major actuarial assumptions were as follows.

	2019	2018
Discount rate	mainly 0.0%	mainly 0.1%
Long-term expected rate of return	mainly 1.4%	mainly 1.4%

3. Defined contribution pension plan

The contributions required from the Companies to the defined contribution pension plan amounted to ¥763 million (US$6,881 thousand) and ¥759 million for the years ended March 31, 2019 and 2018, respectively.

17. Income Taxes

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

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets:			
Excess depreciation	¥ 24,372	¥ 23,109	$ 219,571
Provision for depreciation of nuclear power plants	24,124	23,410	217,337
Asset retirement obligations	12,849	12,474	115,760
Adjustment for unrealized intercompany profits	9,080	8,863	81,806
Liability for retirement benefits	6,249	6,538	56,299
Accrued bonuses and other expenses	3,685	3,770	33,201
Other	20,933	20,229	188,590
Total gross deferred tax assets	101,295	98,395	912,568
Less valuation allowance	(14,952)	(13,160)	(134,707)
Total deferred tax assets	86,342	85,235	777,861
Deferred tax liabilities:			
Unrealized holding gains on securities	(2,727)	(7,314)	(24,571)
Suspense account related to the decommissioning of nuclear power stations	—	(1,194)	—
Other	(2,016)	(1,585)	(18,168)
Total deferred tax liabilities	(4,744)	(10,094)	(42,740)
Net deferred tax assets	¥ 81,598	¥ 75,141	$ 735,121

The causes of the discrepancy between the statutory tax rate and the effective income tax rate after the application of tax effect accounting in the years ended March 31, 2019 and 2018 were as follows.

	2019	2018
The Company's statutory tax rate	—	28.20%
(adjustment)		
Tax credit	—	(5.17%)
Equity in losses (earnings) of affiliated companies	—	(3.68%)
Less valuation allowance	—	4.33%
Other	—	1.23%
Effective income tax rate after the application of tax effect accounting	—	24.91%

Note: For the fiscal year ended March 31, 2019, 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.

18. 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 period equal to the facilities' forecast operating period plus the safe storage period. However, that ordinance was amended pursuant to the enactment of an Ordinance Partially Amending the Ministerial Ordinance concerning Reserve Fund for Dismantling Nuclear Power Facilities (Ministry of Economy, Trade and Industry Ordinance No. 17 of 2018) on April 1, 2018. Therefore, since that effective date, we changed to a calculation method in which the straight-line method is applied for the forecast operating period.

However, if retiring a reactor due to changes in energy policy, when given approval by the Minister of Economy, Trade and Industry upon an application to extend the accumulation period, the straight-line method shall be used for reckoning 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 40 years 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 fiscal year ended March 31, 2019 and 2018:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at the beginning of the fiscal year	¥ 79,026	¥ 77,401	$ 711,947
Changes in estimated obligations and accretion	12,830	1,624	115,592
Balance at the end of the fiscal year	¥ 91,856	¥ 79,026	$ 827,539

19. 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 where 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 26, 2019, the stockholders approved cash dividends amounting to ¥8,612 million (US$77,591 thousand). The appropriations had not been accrued in the consolidated financial statements as of March 31, 2019. Such appropriations are recognized in the period in which they are approved by the stockholders.

20. 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 on allocating 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, we supply power within the Chugoku Region as the basis of our operational development. In the "Comprehensive energy supply" segment, we provide energy utilization services that include the sale of LNG and other fuels as well as the sale of electricity and heat. In the "Information and telecommunications" segment, we provide 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 we carry out environmental harmony creation, business/lifestyle support, electric power business support and similar operations.

A summary by segment for the years ended March 31, 2019 and 2018 is as follows:

	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

	Millions of yen							
	2018							
	Reporting segment							
	Electric power	Comprehensive energy supply	Information and tele-communications	Total	Other	Total	Adjustment (Note)	Consolidated
Operating revenues:								
Outside customers	¥ 1,193,671	¥ 47,973	¥ 29,029	¥ 1,270,674	¥ 44,292	¥ 1,314,967	¥ —	¥ 1,314,967
Intersegment	7,617	2,290	11,936	21,844	74,452	96,297	(96,297)	—
Total	1,201,288	50,264	40,966	1,292,519	118,744	1,411,264	(96,297)	1,314,967
Segment income (loss)	¥ 31,706	¥ 2,140	¥ 2,645	¥ 36,492	¥ 3,820	¥ 40,313	¥ (687)	¥ 39,626
Segment assets	2,899,571	43,503	79,064	3,022,139	250,015	3,272,154	(92,712)	3,179,442
Other items:								
Depreciation expense	¥ 90,956	¥ 1,659	¥ 8,912	¥ 101,528	¥ 3,731	¥ 105,260	¥ (1,153)	¥ 104,106
Investment in equity method affiliated companies	9,790	4,632	—	14,422	99,611	114,034	—	114,034
Value increase in tangible and intangible assets	205,225	3,627	7,789	216,642	4,876	221,518	(3,011)	218,507

	Thousands of U.S. dollars							
	2019							
	Reporting segment							
	Electric power	Comprehensive energy supply	Information and tele-communications	Total	Other	Total	Adjustment (Note)	Consolidated
Operating revenues:								
Outside customers	$ 11,031,855	$ 645,540	$ 268,150	$ 11,945,546	$ 459,675	$ 12,405,221	$ —	$ 12,405,221
Intersegment	216,169	20,603	109,005	345,778	645,534	991,313	(991,313)	—
Total	11,248,025	666,144	377,155	12,291,325	1,105,209	13,396,535	(991,313)	12,405,221
Segment income (loss)	$ 92,480	$ 16,291	$ 21,016	$ 129,789	$ 55,093	$ 184,882	$ (8,934)	$ 175,948
Segment assets	27,301,289	468,066	696,982	28,466,338	2,024,518	30,490,856	(1,106,486)	29,384,370
Other items:								
Depreciation expense	$ 826,932	$ 15,268	$ 80,999	$ 923,200	$ 30,526	$ 953,726	$ (9,765)	$ 943,960
Investment in equity method affiliated companies	90,567	47,533	—	138,101	879,820	1,017,921	—	1,017,921
Value increase in tangible and intangible assets	1,539,795	6,761	70,717	1,617,274	24,229	1,641,503	(27,461)	1,614,042

(Note) "Adjustment" of "Segment income (loss)" in an amount of ¥(991) million (US$(8,934) thousand) and ¥(687) million refers to intersegment elimination for the years ended March 31, 2019 and 2018, respectively.

"Adjustment" of "Segment assets" in an amount of ¥(122,820) million (US$(1,106,486) thousand) and ¥(92,712) million refers mainly to intersegment elimination for the years ended March 31, 2019 and 2018, respectively.

"Adjustment" of "Value increase in tangible and intangible assets" in an amount of ¥(3,048) million (US$(27,461) thousand) and ¥(3,011) million refers mainly to intersegment elimination for the years ended March 31, 2019 and 2018, respectively.

Since the categories for products and services are 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 fiscal years ended March 31, 2019 and 2018, information concerning region-by-region sales amounts is omitted here.

Since the value of the Companies' tangible fixed assets located in Japan accounted for over 90% of the value of tangible fixed assets in the consolidated balance sheets as of March 31, 2019 and 2018, information concerning region-by-region tangible fixed assets 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 fiscal years ended March 31, 2019 and 2018, information concerning major customers is omitted here.

Information on impairment loss for fixed assets in each reporting segment

For the fiscal year ended March 31, 2018, there is no requirement for any additional entry.

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

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

	Thousands of U.S. dollars							
	Reporting segment							
	Electric power	Comprehensive energy supply	Information and tele-communications	Total	Other (Note)	Total	Adjustment	Consolidated
Impairment loss	—	—	—	—	$ 17,180	$ 17,180	—	$ 17,180

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

21. Subsequent Event

The following appropriations of retained earnings as at March 31, 2019 were approved at the annual meeting of stockholders held on June 26, 2019:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥25 (US$0.22) per share	¥ 8,612	$ 77,591

Important company divisions

By a resolution of the Board of Directors held on April 26, 2019, the Company decided to have the general power transmission and distribution business and power generating business on remote islands, etc., be inherited by a wholly owned subsidiary (established on April 1, 2019, hereinafter referred to as the “Transmission and Distribution Company” (Note)) via the company division method on April 1, 2020 (scheduled), and both companies concluded an agreement for absorption-type company division on the same day (hereinafter, this company division is referred to as “this absorption-type division”).

The entry into force of this absorption-type division assumes, however, that the approvals necessary to execute business will be granted by the relevant authorities.

Note: A name in English has not yet been set.

1. Transaction outline

(1) Name of applicable businesses and content of corresponding work

General power transmission and distribution business, power generating business on remote islands, etc.

(2) Date of corporate merger

April 1, 2020 (scheduled)

(3) Legal form of corporate merger

Absorption-type division in which this Company is divided and this Company’s wholly owned subsidiary, the Transmission and Distribution Company, is the inheriting company

(4) Other matters on the outline of this transaction

Pursuant to the Electricity Business Act revised in June 2015, the power transmission and distribution division must be legally separated by April 2020. In order for the Company to maintain a higher level of neutrality for the power transmission and distribution business while also keeping the efficiency and work quality we have cultivated until now, the Company, which bears a power generating business and a retail power business, shall become an operating holding company, and the power transmission and distribution business shall be split up into a subsidiary to perform this absorption-type division.

Even after the legal separation of the power transmission and distribution division, the Company shall aim to improve the corporate value of the entire Chugoku Electric Power Group by continuing to construct an efficient, competitive business management structure.

Items and book value of assets and liabilities to be divided (current as of March 31, 2019)

(Assets)	Millions of yen	Thousands of U.S. dollars	(Liabilities)	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment	¥ 951,539	$ 8,572,431	Long-term liabilities	¥ 27,092	$ 244,078
Current assets	57,033	513,811	Current liabilities	73,359	660,895
Total	¥ 1,008,572	$ 9,086,242	Total	¥ 100,452	$ 904,973

Note: As each amount above was calculated based on the balance sheets as of March 31, 2019, the actual amounts inherited will be values with additions to or subtractions from the above values made up until the day before the effective date.

2. Outline of implemented accounting

In accordance with the “Accounting Standards for Business Combinations” (ASBJ Statement No. 21, January 16, 2019) and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, January 16, 2019), we plan to account for them as transactions under common control.

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

(1) Content

The Ministerial Ordinance concerning Provision for Depreciation of Nuclear Power Plants (Ministry of Economy, Trade and Industry Ordinance No.20 of 2007, “the Ministerial Ordinance”) was amended pursuant to proclamation of an Ordinance Partially Amending the Ministerial Ordinance on July 26, 2019, which become effective on August 2, 2019 (“the Amended Ministerial Ordinance”).

According to the Amended Ministerial Ordinance, electricity generation utilities subject to the Ministerial Ordinance shall be utilities that apply the declining balance method to tangible fixed assets.

Therefore, since the effective date, the Company is no longer an electricity generation utility subject to the Ministerial Ordinance as the Company changed the depreciation method for tangible fixed assets from the declining balance method to the straight-line method from April 1, 2019.

As a result, the Company will reverse the balance of provision for depreciation of nuclear power plants as of the three months ended June 30, 2019 on the six months ending September 30, 2019.

(2) Reversal amount

¥86,650 million

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

Following this reversal, profit before income taxes for the six months ending September 30, 2019 will increase by ¥86,650 million as a result of providing reversal for depreciation of nuclear power plants.

KPMG

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of The Chugoku Electric Power Co., Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2018 and 2017, and the consolidated statements of operations, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Chugoku Electric Power Co., Inc. and its consolidated subsidiaries as at March 31, 2018 and 2017, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 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.

KPMG AZSA LLC

July 31, 2018
Hiroshima, Japan

Consolidated Balance Sheets

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
March 31, 2018 and 2017

Assets	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2018
Property, plant and equipment:			
Utility plant and equipment	¥ 5,592,558	¥ 5,547,216	$ 52,759,983
Other plant	335,284	329,923	3,163,057
Construction in progress	859,188	763,091	8,105,555
Suspense account related to the decommissioning of nuclear power stations	4,271	8,876	40,294
Suspense account related to reprocessing of spent nuclear fuel	7,574	—	71,458
	6,798,876	6,649,107	64,140,348
Less			
Contributions in aid of construction	98,232	94,587	926,722
Accumulated depreciation	4,389,169	4,338,380	41,407,260
	4,487,402	4,432,967	42,333,982
Net property, plant and equipment (Note 6)	2,311,474	2,216,140	21,806,365
Nuclear fuel	180,428	147,485	1,702,156
Investments and other assets:			
Investment securities (Note 7 and 8)	77,797	78,131	733,934
Investments to non-consolidated subsidiaries and affiliated companies	121,639	117,022	1,147,545
Long-term loans to employees	78	93	741
Asset for retirement benefits (Note 14)	46,982	46,623	443,231
Deferred tax assets (Note 15)	64,150	62,586	605,191
Other assets	52,194	88,616	492,398
Total investments and other assets	362,842	393,073	3,423,042
Current assets:			
Cash and time deposits (Note 5 and 7)	93,035	65,233	877,694
Receivables, less allowance for doubtful accounts of ¥432 million ($ 4,077 thousand) in 2018 and ¥482 million in 2017 (Note 7)	122,898	127,550	1,159,424
Short-term investment (Note 7)	8,000	65,000	75,471
Inventories, fuel and supplies	61,535	53,383	580,526
Deferred tax assets (Note 15)	10,991	9,996	103,689
Other current assets	28,235	22,892	266,371
Total current assets	324,696	344,055	3,063,179
Total assets	¥ 3,179,442	¥ 3,100,754	$ 29,994,744

See Notes to Consolidated Financial Statements

Liabilities and Net Assets	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2018
Long-term liabilities:			
Long-term debt (Note 7 and 10)	¥ 1,817,380	¥ 1,693,779	$ 17,145,097
Liability for retirement benefits (Note 14)	69,517	69,160	655,821
Retirement allowances for directors and corporate auditors	229	224	2,161
Asset retirement obligations (Note 16)	78,971	77,376	745,013
Other long-term liabilities	21,288	23,206	200,833
Total long-term liabilities	1,987,386	1,863,747	18,748,928
Current liabilities:			
Long-term debt due within one year (Note 7 and 10)	167,140	266,114	1,576,792
Short-term borrowings (Note 7)	67,895	69,245	640,518
Commercial paper	10,000	—	94,339
Accounts payable (Note 7)	100,755	86,704	950,522
Accrued income taxes	6,478	232	61,120
Accrued expenses	82,175	69,184	775,240
Allowance for bonuses to directors and corporate auditors	63	61	600
Other current liabilities, including other long-term liabilities due within one year	91,650	82,733	864,627
Total current liabilities	526,158	574,275	4,963,763
Reserve for fluctuation in water levels	1,424	1,220	13,439
Provision for depreciation of nuclear power plants	83,727	80,348	789,878
Contingent liabilities (Note 12)			
Net assets (Note 17):			
Common stock : Authorized—1,000,000,000 shares Issued—371,055,259 shares in 2018 and 2017	185,527	185,527	1,750,260
Capital surplus	17,066	17,068	161,006
Retained earnings (Note 19)	390,477	387,088	3,683,750
Treasury stock (26,799,578 shares in 2018 and 26,786,189 shares in 2017)	(38,755)	(38,739)	(365,620)
Total stockholders' equity	554,316	550,944	5,229,397
Net unrealized holding gains (losses) on securities	22,509	22,809	212,357
Net unrealized gains (losses) on hedges	20	(247)	195
Foreign currency translation adjustments	(235)	(305)	(2,219)
Accumulated adjustments for retirement benefit	505	4,168	4,772
Accumulated other comprehensive income	22,801	26,425	215,105
Non-controlling interests (Note 3)	3,628	3,791	34,232
Total net assets	580,745	581,162	5,478,734
Total liabilities and net assets	¥ 3,179,442	¥ 3,100,754	$ 29,994,744

See Notes to Consolidated Financial Statements

Consolidated Statements of Operations

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Operating revenues (Note 18):			
Electric	¥ 1,193,671	¥ 1,096,722	$ 11,261,047
Other	121,296	103,657	1,144,303
	1,314,967	1,200,379	12,405,350
Operating expenses (Note 13):			
Electric	1,159,104	1,065,288	10,934,943
Other	116,236	100,571	1,096,575
	1,275,341	1,165,859	12,031,519
Operating income (loss) (Note 18)	39,626	34,520	373,831
Other expenses (income):			
Interest expense	17,758	20,806	167,534
Interest income	(66)	(425)	(624)
Gains on sales of securities	(202)	(569)	(1,906)
Equity in losses (earnings) of affiliated companies	(3,535)	(4,477)	(33,357)
Other, net	(5,030)	(304)	(47,455)
	8,924	15,030	84,190
Special item:			
Provision (reversal) of reserve for fluctuation in water levels	203	785	1,920
Provision for depreciation of nuclear power plants	3,378	2,793	31,870
Profit (loss) before income taxes	27,120	15,911	255,849
Provision for income taxes: (Note 15)			
Current	7,880	2,627	74,342
Deferred	(1,123)	2,335	(10,599)
	6,756	4,962	63,742
Profit (loss) (Note 3)	20,363	10,948	192,106
Profit (loss) attributable to non-controlling interests (Note 3)	(344)	(392)	(3,248)
Profit (loss) attributable to owners of parent (Note 3)	¥ 20,707	¥ 11,341	$ 195,355

	Yen		U.S.dollars (Note 1)
	2018	2017	2018
Per share data:			
Earnings (basic)	¥ 60.15	¥ 31.84	$ 0.57
Cash dividends	50.00	50.00	0.47

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, 2018 and 2017

	Millions of yen		Thousands of U.S.dollars (Note 1)
	2018	2017	2018
Profit (loss) (Note 3)			
Other comprehensive income (loss):	¥20,363	¥10,948	$192,106
Net unrealized holding gains (losses) on securities	(106)	2,218	(1,000)
Net unrealized gains (losses) on hedges	495	200	4,677
Foreign currency translation adjustments	82	13	773
Adjustments for retirement benefit	(4,068)	549	(38,382)
Share of other comprehensive income (loss) of affiliated companies accounted for using equity method	(6)	428	(57)
	(3,602)	3,411	(33,988)
Comprehensive income (loss)	¥16,760	¥14,360	$158,117
Comprehensive income (loss) attributable to:			
Comprehensive income (loss) attributable to owners of parent	¥17,082	¥14,723	$161,160
Comprehensive income (loss) attributable to non-controlling interests	(322)	(363)	(3,042)

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, 2018 and 2017

		Millions of yen									
	Shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains (losses) on securities	Net unrealized gains (losses) on hedges	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Non-controlling interests (Note 3)	Total
Balance at April 1, 2016	371,055,259	¥185,527	¥17,103	¥393,859	¥(15,169)	¥20,448	¥(448)	¥(304)	¥ 3,347	¥4,170	¥608,535
Profit attributable to owners of parent (Note 3)				11,341							11,341
Cash dividends paid (¥50 per share)				(18,112)							(18,112)
Surplus from sale of treasury stock			(0)		3						2
Treasury stock purchased, net					(23,599)						(23,599)
Change in scope of equity method											—
Change in treasury stocks of parent arising from transactions with non-controlling shareholders (Note 3)											—
Other			(34)		26						(8)
Net changes other than stockholders' equity						2,361	200	(0)	821	(379)	3,002
Balance at March 31, 2017	371,055,259	¥185,527	¥17,068	¥387,088	¥(38,739)	¥22,809	¥(247)	¥(305)	¥ 4,168	¥3,791	¥581,162
Profit attributable to owners of parent (Note 3)				20,707							20,707
Cash dividends paid (¥50 per share)				(17,213)							(17,213)
Surplus from sale of treasury stock			(0)		2						1
Treasury stock purchased, net					(19)						(19)
Change in scope of equity method				(105)							(105)
Change in treasury stocks of parent arising from transactions with non-controlling shareholders (Note 3)											—
Other			(1)		0						(0)
Net changes other than stockholders' equity						(299)	268	69	(3,662)	(162)	(3,787)
Balance at March 31, 2018	**371,055,259**	**¥185,527**	**¥17,066**	**¥390,477**	**¥(38,755)**	**¥22,509**	**¥ 20**	**¥(235)**	**¥ 505**	**¥3,628**	**¥580,745**

	Thousands of U.S. dollars (Note 1)									
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains (losses) on securities	Net unrealized gains (losses) on hedges	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Non-controlling interests (Note 3)	Total
Balance at March 31, 2017	$1,750,260	$161,019	$3,651,781	$(365,467)	$215,186	$(2,333)	$(2,877)	$ 39,324	$35,768	$5,482,661
Profit attributable to owners of parent (Note 3)			195,355							195,355
Cash dividends paid ($0.47 per share)			(162,389)							(162,389)
Surplus from sale of treasury stock		(3)		20						17
Treasury stock purchased, net				(179)						(179)
Change in scope of equity method			(996)							(996)
Change in treasury stocks of parent arising from transactions with non-controlling shareholders (Note 3)										—
Other		(9)		7						(2)
Net changes other than stockholders' equity					(2,829)	2,528	658	(34,552)	(1,535)	(35,730)
Balance at March 31, 2018	**$1,750,260**	**$161,006**	**$3,683,750**	**$(365,620)**	**$212,357**	**$ 195**	**$(2,219)**	**$ 4,772**	**$34,232**	**$5,478,734**

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, 2018 and 2017

	Millions of yen		Thousands of U.S.dollars (Note 1)
	2018	2017	2018
Cash flows from operating activities:			
Profit (loss) before income taxes	¥ 27,120	¥ 15,911	$ 255,849
Depreciation	104,106	105,690	982,133
Decommissioning cost of nuclear power generating plants	1,454	1,516	13,720
Amortization of suspense account related to the decommissioning of nuclear power stations	4,605	4,605	43,444
Equity in losses (earnings) of affiliated companies	(3,535)	(4,477)	(33,357)
Loss on disposal of property	5,611	5,085	52,941
Increase (decrease) in liability for retirement benefits	972	440	9,172
Decrease (increase) in asset for retirement benefits	(6,612)	(6,237)	(62,382)
Increase (decrease) in provision for reprocessing of irradiated nuclear fuel	—	(4,548)	—
Increase (decrease) in provision for reprocessing of irradiated nuclear fuel without a fixed plan to reprocess	—	155	—
Increase (decrease) in reserve for fluctuation in water levels	203	785	1,920
Increase (decrease) in provision for depreciation of nuclear power plants	3,378	2,793	31,870
Interest and dividend income	(1,548)	(1,641)	(14,607)
Interest expense	17,758	20,806	167,534
Decrease (increase) in fund reserved for reprocessing of irradiated nuclear fuel	—	6,351	—
Payments of accrued contribution for reprocessing of irradiated nuclear fuel	—	(7,939)	—
Decrease (increase) in notes and accounts receivable	(13,265)	(12,115)	(125,144)
Decrease (increase) in inventories	(7,546)	3,028	(71,195)
Increase (decrease) in notes and accounts payable	9,268	12,271	87,442
Other	34,081	(10,155)	321,525
Subtotal	176,052	132,325	1,660,871
Interest and dividends received	3,610	4,105	34,064
Interest paid	(19,110)	(21,870)	(180,292)
Income taxes refund (paid)	4,241	(18,556)	40,018
Net cash provided by (used in) operating activities	164,794	96,003	1,554,661
Cash flows from investing activities:			
Purchase of property	(214,038)	(169,638)	(2,019,226)
Purchase of investments in securities	(53,900)	(67,999)	(508,493)
Proceeds from sale of investment securities	61,403	80,389	579,282
Other	17,985	9,470	169,670
Net cash provided by (used in) investing activities	(188,549)	(147,779)	(1,778,767)
Cash flows from financing activities:			
Proceeds from issue of bonds	210,052	156,407	1,981,626
Repayment of bonds	(240,000)	(160,000)	(2,264,150)
Proceeds from long-term borrowings	134,000	221,050	1,264,150
Repayment of long-term borrowings	(79,809)	(118,035)	(752,916)
Proceeds from short-term borrowings	191,290	230,053	1,804,622
Repayment of short-term borrowings	(202,230)	(227,248)	(1,907,830)
Proceeds from issue of commercial paper	174,000	128,000	1,641,509
Repayment of commercial paper	(164,000)	(128,000)	(1,547,169)
Purchase of treasury stock	(21)	(23,631)	(202)
Cash dividends paid	(17,223)	(18,123)	(162,489)
Dividends paid to non-controlling interests	(29)	(16)	(276)
Other	(1,545)	(1,825)	(14,577)
Net cash provided by (used in) financing activities	4,483	58,630	42,296
Effect of exchange rate changes on cash and cash equivalents	73	(106)	697
Net increase (decrease) in cash and cash equivalents	(19,197)	6,748	(181,111)
Cash and cash equivalents at beginning of the fiscal year	100,223	93,475	945,504
Cash and cash equivalents at end of the fiscal year (Note 5)	¥ 81,025	¥ 100,223	$ 764,392

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 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, 2018, which was ¥106 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, 2018, 19 subsidiaries (18 in 2017) were consolidated and 6 (6 in 2017) 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, etc., in the consolidated financial statements.

For the year ended March 31, 2018, 6 non-consolidated subsidiaries (6 in 2017) and 12 affiliated companies (9 in 2017) were accounted for by the equity method.

For the year ended March 31, 2018, 12 affiliated companies (13 in 2017) 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., of the affiliated companies would individually have had only a slight effect and together would have had no material effect 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. and Chugoku Electric Power International Netherlands B.V. Both companies have December 31 as their closing date. In drawing up the consolidated financial statements, we 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 those dates 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 and affiliated companies not accounted for by the equity method or 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 fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not accounted for by the equity method is not readily available, the securities should be written down to net asset value with a corresponding charge in the consolidated statements of operations in the event the net asset value declines 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 of property, plant and equipment is computed using the declining balance method, while amortization of intangible fixed asset is computed by the straight-line method, based on the useful life periods 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 computed 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 loss rate with respect to the remaining receivables.

Reserve for fluctuation in water levels

Based on the Act for Partial Revision of the Electricity Business Act, pursuant to the provisions of the Electricity Business Act prior to the revision by this Act, the Company provides drought reserves against fluctuation in water levels in the sums stipulated by a 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

In readiness for employees' retirement benefits, the figure obtained by subtracting plan assets from retirement benefit obligations based on the estimated sums at the end of the consolidated accounting year is reckoned 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 up 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 reckoned 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 necessary for interest rate swap transactions, forward foreign exchange transactions and 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 cost 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 plus the estimated safe storage period.

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 Minister 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 reckoning contributions required for spent nuclear fuel reprocessing

For expenses required in the reprocessing of spent nuclear fuel from 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, from the estimated costs required in the reprocessing of spent fuel generated by the end of FY 2005, a ¥3,306 million difference arising from a change in the FY 2006 reserve fund recording standards has been uniformly recorded as electric utility operating expense each year from the effective date of the Amended Act to 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 reckoned as suspense account related to reprocessing of spent nuclear fuel.

Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments generally with original maturities of three months or less that are readily convertible to known amounts of cash and are so near maturity that 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.

3. 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 30, 2018)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018)

(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

The effective date has not yet been set.

(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.

4. Additional information

- *Change in method of recording expenses for implementing reprocessing of spent nuclear fuel*

On October 1, 2016, the “Act for the Partial Amendment of the Spent Nuclear Fuel Reprocessing Fund Act” (Act No. 40 of 2016; the “Amended Act”) and “the Ordinance Partially Amending the Accounting Rules for the Electric Power Industry” (Ministry of Economy, Trade and Industry Ordinance No. 94 of 2016; the “Amended Ordinance”) was put into force, amending the Accounting Rules for the Electric Power Industry.

Since the effective date of the Amended Act, for expenses required in the reprocessing of spent nuclear fuel from power generation, a monetary amount corresponding to the amount of spent nuclear fuel generated during operation is paid as a monetary contribution to the Nuclear Reprocessing Organization of Japan (“NuRO”). Accordingly, the nuclear power company’s cost burden responsibility is absolved and NuRO implements the reprocessing, etc.

Also, for expenses required in the reprocessing of spent nuclear fuel, the amount allocated was equivalent to the present value estimated based on the amount of spent nuclear fuel generated in operating the nuclear power station. However, these expenses were changed to be equivalent to the amount paid as a monetary contribution prescribed in Article 4, Paragraph 1, of the Amended Act, which is recorded as an electric utility operating expense.

In the third quarter of the fiscal year ended March 31, 2017, in compliance with Article 3 of the Amended Ordinance’s supplementary provisions, there was a reduction of ¥39,705 million (US$354,517 thousand) in the fund reserved for reprocessing of irradiated nuclear fuel and a reduction of ¥49,937 million (US$445,868 thousand) in provision for reprocessing of irradiated nuclear fuel. This difference was shifted to other long-term liabilities, etc. In compliance with Article 6 of the supplementary provisions, ¥7,916 million (US$70,685 thousand) in provision for the reprocessing of irradiated nuclear fuel without a fixed plan to reprocess was shifted to long-term liabilities due within one year. Based on Article 7, Paragraph 1, of the Amended Act supplementary provisions, upon receipt of notice from the Minister of Economy, Trade and Industry, monetary amounts recorded as long-term liabilities due within one year were paid to NuRO during the consolidated fiscal year.

From the estimated costs required in the reprocessing of spent fuel generated by the end of FY 2005, a ¥3,306 million difference arising from the change in the FY 2006 reserve fund recording standards has been uniformly recorded as an electric utility operating expense each year from the effective date of the Amended Act to FY 2020 based on Article 4 of the Amended Ordinance supplementary provisions.

With the implementation of the Amended Act, a ¥33,311 million balance at the end of the previous consolidated fiscal year (for the estimated difference pertaining to the amount equal to the present value calculated based on the amount of spent fuel before the Amended Act went into effect) is not recognized.

- *Change of calculating asset retirement obligations for decommissioning specified nuclear power generation facilities*

In accordance with the Ministerial Ordinance concerning Reserve Fund for Dismantling Nuclear Power Facilities, the cost 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 plus the estimated safe storage period. However, that Ordinance was amended pursuant to the enactment of an Ordinance Partially Amending the Ministerial Ordinance concerning Reserve Fund for Dismantling Nuclear Power Facilities (Ministry of Economy, Trade and Industry Ordinance No. 17 of 2018) on April 1, 2018. Therefore, since that effective date, we will change to a caluculation method in which the straight-line method is applied for the forecast operating period.

However, if retiring a reactor due to changes in energy policy, the straight-line method shall be used for reckoning 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.

5. Cash and cash equivalents

Reconciliations of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash and time deposits	¥ 93,035	¥ 65,233	$ 877,694
Time deposits with maturities exceeding 3 months	(20,010)	(30,010)	(188,773)
Short-term investments that mature within 3 months of the acquisition date	8,000	65,000	75,471
Cash and cash equivalents	¥ 81,025	¥ 100,223	$ 764,392

6. Property, plant and equipment

The major classifications of property, plant and equipment at March 31,2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Hydroelectric power production facilities	¥ 114,562	¥ 120,568	$ 1,080,774
Thermal power production facilities	178,935	181,689	1,688,070
Nuclear power production facilities	95,434	90,607	900,329
Transmission facilities	313,957	312,685	2,961,860
Transformation facilities	144,960	142,501	1,367,555
Distribution facilities	365,057	366,652	3,443,942
General facilities	78,058	78,248	736,402
Inactive facilities	17,597	19,217	166,016
Other electric utility plants and equipment	4,502	4,485	42,473
Other plants	127,373	127,514	1,201,633
Construction in progress	859,188	763,091	8,105,555
Suspense account related to the decommissioning of nuclear power stations	4,271	8,876	40,294
Suspense account related to reprocessing of spent nuclear fuel	7,574	—	71,458
Total	¥ 2,311,474	¥ 2,216,140	$ 21,806,365

Calculated according to the accounting principles and practices generally accepted in Japan, accumulated gains in relation to the receipt of contributions in aid of construction deducted from the original acquisition costs amounted to ¥98,232 million (US$926,722 thousand) and ¥94,587 million at March 31, 2018 and 2017, respectively.

7. 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.

Most of the Companies' notes receivable and accounts receivable consist of receivables for electricity charges 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 8, "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 following are book values, fair values and the differences as of March 31, 2018 and 2017. 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		
	2018			2017			2018		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Assets									
(1) Long-term investment: Available-for-sale securities	¥ 33,742	¥ 33,742	¥ —	¥ 34,187	¥ 34,187	¥ —	$ 318,326	$ 318,326	$ —
(2) Cash and time deposits	93,035	93,035	—	65,233	65,233	—	877,694	877,694	—
(3) Notes receivable and accounts receivable	119,001	119,001	—	106,610	106,610	—	1,122,659	1,122,659	—
(4) Short-term investment: Held-to-maturity securities	8,000	8,000	—	65,000	65,000	—	75,471	75,471	—
Liabilities									
(5) Bonds	¥ 917,402	¥ 938,616	¥ 21,213	¥ 946,955	¥ 972,251	¥ 25,295	$ 8,654,744	$ 8,854,875	$ 200,131
(6) Long-term borrowings	1,066,897	1,091,834	24,937	1,012,882	1,041,156	28,274	10,065,072	10,300,328	235,256
(7) Short-term borrowings	67,895	67,895	—	69,245	69,245	—	640,518	640,518	—
(8) Commercial paper	10,000	10,000	—	—	—	—	94,339	94,339	—
(9) Notes payable and accounts payable	66,552	66,552	—	57,818	57,818	—	627,855	627,855	—
(10) Derivative transactions	¥ 344	¥ 344	—	¥ (344)	¥ (344)	—	$ 3,253	$ 3,253	—

(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 of available-for-sale securities and acquisition cost, please refer to Note 8, "Securities."

(2) Cash and time deposits, (3) Notes receivable and accounts receivable and (4) Short-term investment: Held-to-maturity securities

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 of held-to-maturity securities and book value, refer to Note 8, "Securities."

(5) 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 organization. Some bonds are subject to the special treatment of interest rate swaps and assignment of currency swaps. These are valued based on the same terms and conditions applied to the relevant interest rate swap transactions and currency swap transactions.

(6) 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. These are valued based on the same terms and conditions applied to the relevant interest rate swap transactions.

(7) Short-term borrowings,(8) Commercial paper and (9) 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.

(10) Derivative transactions

Please refer to Note 8, "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		
	2018	2017	2018
Unlisted stocks	¥ 37,743	¥ 37,831	$ 356,072
Other	1,046	1,034	9,875
Total	¥ 38,790	¥ 38,865	$ 365,947

The above do not have market value, and it is hard 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		
	2018	2017	2018
Long-term investment:			
Available-for-sale securities with maturity	¥ —	¥ —	$ —
Cash and time deposits	93,035	65,233	877,694
Notes receivable and accounts receivable	119,001	106,610	1,122,659
Short-term investment:			
Held-to-maturity securities	8,000	65,000	75,471
Total	¥ 220,037	¥ 236,844	$ 2,075,825

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

	Millions of yen					
	2018					
	Within 1 year	1 year -2 years	2 years -3 years	3 years -4 years	4 years -5 years	Over 5 years
Bonds	¥ 90,000	¥ 251,959	¥ 120,000	¥ 80,000	¥ 30,000	¥ 345,000
Long-term borrowings	77,088	77,668	79,086	162,786	137,721	532,546
Short-term borrowings	67,895	—	—	—	—	—
Commercial paper	10,000	—	—	—	—	—
Total	¥ 244,983	¥ 329,627	¥ 199,086	¥ 242,786	¥ 167,721	¥ 877,546

	Millions of yen					
	2017					
	Within 1 year	1 year -2 years	2 years -3 years	3 years -4 years	4 years -5 years	Over 5 years
Bonds	¥ 205,000	¥ 90,000	¥ 236,959	¥ 120,000	¥ 30,000	¥ 265,000
Long-term borrowings	61,102	79,939	90,467	81,497	162,963	536,912
Short-term borrowings	69,245	—	—	—	—	—
Commercial paper	—	—	—	—	—	—
Total	¥ 335,347	¥ 169,939	¥ 327,426	¥ 201,497	¥ 192,963	¥ 801,912

	Thousands of U.S. dollars					
	2018					
	Within 1 year	1 year -2 years	2 years -3 years	3 years -4 years	4 years -5 years	Over 5 years
Bonds	$ 849,056	$ 2,376,971	$ 1,132,075	$ 754,716	$ 283,018	$ 3,254,716
Long-term borrowings	727,246	732,723	746,100	1,535,721	1,299,259	5,024,020
Short-term borrowings	640,518	—	—	—	—	—
Commercial paper	94,339	—	—	—	—	—
Total	$ 2,311,161	$ 3,109,695	$ 1,878,175	$ 2,290,438	$ 1,582,278	$ 8,278,737

(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 ( ).

8. Securities

Held-to-maturity securities

	Millions of yen						Thousands of U.S. dollars		
	2018			2017			2018		
Categories	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Held-to-maturity securities with fair values exceeding book values									
Bonds	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	$ —	$ —	$ —
Other	—	—	—	—	—	—	—	—	—
Subtotal	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	$ —	$ —	$ —
Held-to-maturity securities with fair values not exceeding book values									
Bonds	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	$ —	$ —	$ —
Other	8,000	8,000	—	65,000	65,000	—	75,471	75,471	—
Subtotal	¥8,000	¥8,000	¥ —	¥ 65,000	¥ 65,000	¥ —	$75,471	$75,471	$ —
Total	¥8,000	¥8,000	¥ —	¥ 65,000	¥ 65,000	¥ —	$75,471	$75,471	$ —

Available-for-sale securities

	Millions of yen						Thousands of U.S. dollars		
	2018			2017			2018		
Categories	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	¥ 33,261	¥ 9,051	¥ 24,210	¥ 33,693	¥ 9,185	¥ 24,507	$ 313,788	$ 85,390	$ 228,398
Bonds	—	—	—	—	—	—	—	—	—
Other	10	2	7	9	2	6	99	27	71
Subtotal	¥ 33,272	¥ 9,054	¥ 24,217	¥ 33,703	¥ 9,188	¥ 24,514	$ 313,888	$ 85,418	$ 228,470
Available-for-sale securities with book values not exceeding acquisition costs									
Equity securities	¥ 470	¥ 492	¥ (21)	¥ 484	¥ 496	¥ (11)	$ 4,438	$ 4,645	$ (206)
Bonds	—	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	—	—
Subtotal	¥ 470	¥ 492	¥ (21)	¥ 484	¥ 496	¥ (11)	$ 4,438	$ 4,645	$ (206)
Total	¥ 33,742	¥ 9,546	¥ 24,195	¥ 34,187	¥ 9,684	¥ 24,503	$ 318,326	$ 90,063	$ 228,263

Since for the fiscal years ended March 31, 2018 and 2017, unlisted stocks in the amount of ¥38,790 million (US$365,947 thousand) and ¥38,865 million in book value had no market value and there was no way to estimate their future cash flow, it is difficult to evaluate their fair value. Hence, unlisted stocks are not included in the above "Available-for-sale securities".

9. Derivatives and hedge accounting

Derivative transactions for which hedge accounting is applied

<Currencies>

			Millions of yen					
			2018			2017		
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
Assignment of currency swaps	Currency swap Japanese yen payment & U.S. dollars receipt	Bonds	¥56,959	¥56,959	(Note a)	¥56,959	¥56,959	(Note a)

			Thousands of U.S. dollars		
			2018		
Hedge accounting method	Type of transaction	Items to be hedged	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	$537,349	$537,349	(Note a)

(Note a) 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					
			2018			2017		
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
Special treatment of interest rate swaps	Interest-rate swap Fixed-rate receipt & flexible-rate payment	Bonds & long-term borrowings	¥ 61,431	¥ 60,717	(Note b)	¥ 62,145	¥ 61,431	(Note b)
	Fixed-rate payment & flexible-rate receipt		3,000	—	(Note b)	3,000	3,000	(Note b)

Hedge accounting method	Type of transaction	Items to be hedged	Thousands of U.S. dollars 2018 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	$ 579,537	$ 572,801	(Note b)
	Fixed-rate payment & flexible-rate receipt		28,301	—	(Note b)

(Note b) 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					
			2018			2017		
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)	¥ 3,300	¥ —	¥ (344)	¥ 8,254	¥ —	¥ (344)

			Thousands of U.S. dollars		
			2018		
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)	$ 31,138	$ —	$ (3,253)

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

10. Long-term debt

Long-term debt at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Bonds due through 2038 at rates of 0.13% to 3.225% (Note)	¥ 917,402	¥ 946,955	$ 8,654,744
Long-term loans from the Development Bank of Japan Inc., other banks and insurance companies due through 2037	1,066,897	1,012,882	10,065,072
Lease obligations	219	56	2,073
	1,984,520	1,959,894	18,721,889
Less amounts due within one year	(167,140)	(266,114)	(1,576,792)
Total	¥ 1,817,380	¥ 1,693,779	$ 17,145,097

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

At March 31, 2018 and 2017, long-term loans from the Development Bank of Japan Inc. in the amounts of ¥280,672 million (US$2,647,852 thousand) and ¥264,027 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 ¥2,939,983 million (US$27,735,692 thousand) and ¥2,875,781 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, 2018 and 2017 were as follows:

Year ending March 31, 2018	Millions of Yen	Thousands of U.S. dollars
2019	¥ 167,088	$1,576,303
2020	329,627	3,109,695
2021	199,086	1,878,175
2022	242,786	2,290,438
Thereafter	1,045,267	9,861,015

Year ending March 31, 2017	Millions of Yen
2018	¥ 266,102
2019	169,939
2020	327,426
2021	201,497
Thereafter	994,875

Note: Excluding lease obligations.

11. Leases

(As lessee)

Operating lease transactions

The present values of future minimum lease payments under operating leases that are non-cancelable as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Current portion	¥ 162	¥ 181	$ 1,535
Non-current portion	28	197	269
Total	¥ 191	¥ 379	$ 1,804

(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 ¥204 million (US$1,933 thousand) and ¥204 million for the years ended March 31, 2018 and 2017, respectively.

The present values of future minimum lease payments to be received under non-capitalized finance leases as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Current portion	¥ 210	¥ 204	$ 1,988
Non-current portion	425	632	4,012
Total	¥ 636	¥ 837	$ 6,000

2. Operating lease transactions

The present values of future minimum lease payments under operating leases that are non-cancelable as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Current portion	¥ 24	¥ 12	$ 232
Non-current portion	72	27	683
Total	¥ 97	¥ 40	$ 915

12. Contingent liabilities

At March 31, 2018 and 2017, the Companies were contingently liable as guarantors for loans of other companies and employees in the amount of ¥121,109 million (US$1,142,541 thousand) and ¥113,804 million, respectively.

At March 31, 2018 and 2017, 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 ¥80,000 million (US$754,716 thousand) and ¥45,000 million.

13. Research and development expenses

Research and development expenses charged to operating expenses were ¥10,293 million (US $97,111 thousand) and ¥4,608 million for the years ended March 31, 2018 and 2017, respectively.

14. 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
	2018	2017	2018
Balance at beginning of the fiscal year	¥ 267,047	¥ 274,277	$ 2,519,314
Service cost	9,015	9,297	85,047
Interest cost	524	259	4,948
Actuarial loss (gain)	2,982	(2,857)	28,139
Benefits paid	(13,033)	(13,930)	(122,959)
Other	0	0	1
Balance at end of the fiscal year	¥ 266,536	¥ 267,047	$ 2,514,492

(2) Movement in plan assets

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at beginning of the fiscal year	¥ 244,510	¥ 245,143	$ 2,306,701
Expected return on plan assets	3,474	3,513	32,780
Actuarial loss (gain)	953	652	8,996
Contributions paid by the Companies	4,209	4,241	39,713
Benefits paid	(9,146)	(9,041)	(86,290)
Balance at end of the fiscal year	¥ 244,001	¥ 244,510	$ 2,301,901

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Retirement benefit obligations for defined benefit corporate pension schemes	¥ 198,591	¥ 199,420	$ 1,873,505
Plan assets	(244,001)	(244,510)	(2,301,901)
	(45,410)	(45,089)	(428,396)
Retirement benefit obligations for retirement lump sum schemes	67,944	67,626	640,986
Total net liability (asset) for retirement benefits at end of the fiscal year	¥ 22,534	¥ 22,536	$ 212,590

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Liability for retirement benefits	¥ 69,517	¥ 69,160	$ 655,821
Asset for retirement benefits	(46,982)	(46,623)	(443,231)
Total net liability (asset) for retirement benefits at end of the fiscal year	¥ 22,534	¥ 22,536	$ 212,590

(4) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service cost	¥ 9,015	¥ 9,297	$ 85,047
Interest cost	524	259	4,948
Expected return on plan assets	(3,474)	(3,513)	(32,780)
Net actuarial loss (gain) amortization	(3,606)	(2,708)	(34,025)
Other	790	1	7,455
Retirement benefit costs for defined benefit plans	¥ 3,248	¥ 3,337	$ 30,645

(5) Adjustments for retirement benefit

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Actuarial gains/losses	¥ (5,635)	¥ 801	$ (53,168)
Total	¥ (5,635)	¥ 801	$ (53,168)

(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 is as follows.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrecognized actuarial gains/losses	¥ 835	¥ (4,800)	$ 7,879
Total	¥ 835	¥ (4,800)	$ 7,879

(7) Plan assets

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

	2018	2017
Bonds	49%	50%
Equity securities	13%	13%
Life insurance general accounts	37%	37%
Other	1%	0%
Total	100%	100%

② Long-term expected rates of return

In order to determine the long-term expected rate of return on plan assets, account is taken of the allocation of current and envisioned plan assets and of the long-term rates of return to be expected currently and in the future from the various assets that make up the plan assets.

(8) Actuarial assumptions

The major actuarial assumptions were as follows.

	2018	2017
Discount rate	mainly 0.1%	mainly 0.2%
Long-term expected rate of return	mainly 1.4%	mainly 1.4%

3. Defined contribution pension plan

The contributions required from the Companies to the defined contribution pension plan amounted to ¥759 million (US$7,168 thousand) and ¥757 million for the years ended March 31, 2018 and 2017, respectively.

15. Income taxes

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

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2018 and 2017were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets:			
Provision for depreciation of nuclear power plants	¥ 23,410	¥ 22,465	$ 220,850
Excess depreciation	23,109	21,538	218,013
Asset retirement obligations	12,474	12,461	117,682
Adjustment for unrealized intercompany profits	8,863	8,633	83,617
Liability for retirement benefits	6,538	6,583	61,683
Accrued bonuses and other expenses	3,770	3,742	35,573
Other	20,229	20,578	190,841
Total gross deferred tax assets	98,395	96,003	928,261
Less valuation allowance	(13,160)	(12,035)	(124,151)
Total deferred tax assets	85,235	83,967	804,110
Deferred tax liabilities:			
Unrealized holding gains on securities	(7,314)	(7,224)	(69,003)
Suspense account related to the decommissioning of nuclear power stations	(1,194)	(2,492)	(11,266)
Other	(1,585)	(1,668)	(14,959)
Total deferred tax liabilities	(10,094)	(11,385)	(95,229)
Net deferred tax assets	¥ 75,141	¥ 72,582	$ 708,881

The causes of the discrepancy between the statutory tax rate and the effective income tax rate after application of tax effect accounting in the years ended March 31, 2017 and 2016 were as follows.

	2018	2017
The Company's statutory tax rate	28.20%	28.20%
(adjustment)		
Tax credit	(5.17%)	(2.68%)
Equity in losses (earnings) of affiliated companies	(3.68%)	(7.94%)
Less valuation allowance	4.33%	7.25%
Loss (gain) on change in equity	—	2.77%
Other	1.23%	3.59%
Effective income tax rate after application of tax effect accounting	24.91%	31.19%

16. 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 the 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 period equal to the facilities' forecast operating period plus the estimated safe storage period.

(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 plus the estimated safe storage 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 fiscal year ended March 31, 2018 and 2017:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at beginning of the fiscal year	¥ 77,401	¥ 75,747	$ 730,205
Changes in estimated obligations and accretion	1,624	1,654	15,323
Balance at end of the fiscal year	¥ 79,026	¥ 77,401	$ 745,529

17. 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 27, 2018, the stockholders approved cash dividends amounting to ¥8,612 million (US$81,254 thousand). The appropriations had not been accrued in the consolidated financial statements as of March 31, 2018. Such appropriations are recognized in the period in which they are approved by the stockholders.

18. 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 focussing 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, we supply power within the Chugoku Region as the basis of our operational development. In the "Comprehensive energy supply" segment, we provide 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, we provide electrical communications and data processing services utilizing ICT (Information and Communications Technology).

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

A summary by segment for the years ended March 31, 2018 and 2017 is as follows:

	Millions of yen							
	2018							
	Reporting segment							
	Electric power	Comprehensive energy supply	Information and tele-communications	Total	Other	Total	Adjustment (Note)	Consolidated
Operating revenues:								
Outside customers	¥ 1,193,671	¥ 47,973	¥ 29,029	¥ 1,270,674	¥ 44,292	¥ 1,314,967	¥ —	¥ 1,314,967
Intersegment	7,617	2,290	11,936	21,844	74,452	96,297	(96,297)	—
Total	1,201,288	50,264	40,966	1,292,519	118,744	1,411,264	(96,297)	1,314,967
Segment income (loss)	¥ 31,706	¥ 2,140	¥ 2,645	¥ 36,492	¥ 3,820	¥ 40,313	¥ (687)	¥ 39,626
Segment assets	2,899,571	43,503	79,064	3,022,139	250,015	3,272,154	(92,712)	3,179,442
Other items:								
Depreciation expense	¥ 90,956	¥ 1,659	¥ 8,912	¥ 101,528	¥ 3,731	¥ 105,260	¥ (1,153)	¥ 104,106
Investment in equity method affiliated companies	9,790	4,632	—	14,422	99,611	114,034	—	114,034
Value increase in tangible and intangible assets	205,225	3,627	7,789	216,642	4,876	221,518	(3,011)	218,507

	Millions of yen							
	2017							
	Reporting segment							
	Electric power	Comprehensive energy supply	Information and tele-communications	Total	Other	Total	Adjustment (Note)	Consolidated
Operating revenues:								
Outside customers	¥ 1,096,722	¥ 33,625	¥ 29,037	¥ 1,159,386	¥ 40,993	¥ 1,200,379	¥ —	¥ 1,200,379
Intersegment	4,008	1,809	12,117	17,935	78,110	96,046	(96,046)	—
Total	1,100,731	35,434	41,155	1,177,322	119,104	1,296,426	(96,046)	1,200,379
Segment income (loss)	¥ 27,746	¥ 2,070	¥ 2,769	¥ 32,586	¥ 2,721	¥ 35,307	¥ (787)	¥ 34,520
Segment assets	2,843,244	39,542	81,561	2,964,348	260,459	3,224,807	(124,053)	3,100,754
Other items:								
Depreciation expense	¥ 92,421	¥ 2,148	¥ 8,589	¥ 103,159	¥ 3,582	¥ 106,741	¥ (1,051)	¥ 105,690
Investment in equity method affiliated companies	9,334	4,134	—	13,469	98,647	112,117	—	112,117
Value increase in tangible and intangible assets	152,914	1,845	8,315	163,075	3,502	166,578	(2,394)	164,184

	Thousands of U.S. dollars							
	2018							
	Reporting segment							
	Electric power	Comprehensive energy supply	Information and tele-communications	Total	Other	Total	Adjustment (Note)	Consolidated
Operating revenues:								
Outside customers	$ 11,261,047	$ 452,581	$ 273,866	$ 11,987,495	$ 417,854	$ 12,405,350	$ —	$ 12,405,350
Intersegment	71,865	21,611	112,607	206,083	702,380	908,464	(908,464)	—
Total	11,332,912	474,192	386,474	12,193,579	1,120,235	13,313,815	(908,464)	12,405,350
Segment income (loss)	$ 299,118	$ 20,197	$ 24,954	$ 344,270	$ 36,044	$ 380,314	$ (6,483)	$ 373,831
Segment assets	27,354,451	410,409	745,892	28,510,754	2,358,632	30,869,386	(874,642)	29,994,744
Other items:								
Depreciation expense	$ 858,080	$ 15,654	$ 84,076	$ 957,812	$ 35,207	$ 993,019	$ (10,885)	$ 982,134
Investment in equity method affiliated companies	92,363	43,702	—	136,065	939,727	1,075,792	—	1,075,792
Value increase in tangible and intangible assets	1,936,093	34,218	73,484	2,043,796	46,002	2,089,798	(28,405)	2,061,392

(Note) "Adjustment" of "Segment income (loss)" in an amount of ¥(687) million (US$(6,483) thousand) and ¥(787) million refers to intersegment elimination for the years ended March 31, 2018 and 2017, respectively.

"Adjustment" of "Segment assets" in an amount of ¥(92,712) million (US$(874,642) thousand) and ¥(124,053) million refers mainly to intersegment elimination for the years ended March 31, 2018 and 2017, respectively.

"Adjustment" of "Value increase in tangible and intangible assets" in an amount of ¥(3,011) million (US$(28,405) thousand) and ¥(2,394) million refers mainly to intersegment elimination for the years ended March 31, 2018 and 2017, 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 fiscal years ended March 31, 2018 and 2017, information concerning region-by-region sales amounts is omitted here.

Since the value of the Companies' tangible fixed assets located in Japan accounted for over 90% of the value of tangible fixed assets in the consolidated balance sheets as of March 31, 2018 and 2017, information concerning region-by-region tangible fixed assets 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 fiscal years ended March 31, 2018 and 2017, information concerning major customers is omitted here.

19. Subsequent event

The following appropriations of retained earnings at March 31, 2018 were approved at the annual meeting of stockholders held on June 27, 2018:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥25 (US$0.23) per share	¥ 8,612	$ 81,254

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INDEX TO THE UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

Quarterly Consolidated Balance Sheets

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
June 30, 2019 and March 31, 2019

Assets	Millions of yen **June 30, 2019**	 March 31, 2019
Property, plant and equipment:		
Utility plant and equipment	**¥ 5,649,391**	¥ 5,641,325
Other plant	**337,606**	335,134
Construction in progress	**945,666**	939,359
Suspense account related to reprocessing of spent nuclear fuel	**11,361**	11,361
	6,944,026	6,927,181
Less		
Contributions in aid of construction	**100,947**	100,737
Accumulated depreciation	**4,459,796**	4,456,259
	4,560,743	4,556,996
Net property, plant and equipment	**2,383,283**	2,370,184
Nuclear fuel	**159,147**	159,103
Investments and other assets:		
Investment securities	**58,788**	60,396
Investments to non-consolidated subsidiaries and affiliated companies	**138,049**	133,196
Long-term loans to employees	**55**	59
Asset for retirement benefits	**47,857**	48,132
Deferred tax assets	**82,258**	81,652
Other assets	**71,025**	71,367
Total investments and other assets	**398,034**	394,804
Current assets:		
Cash and time deposits	**67,692**	111,459
Receivables, less allowance for doubtful accounts of ¥253 million as of June 30, 2019 ¥288 million as of March 31, 2019	**149,828**	137,271
Short-term investment	**12,000**	–
Inventories, fuel and supplies	**64,459**	58,592
Other current assets	**32,474**	30,248
Total current assets	**326,455**	337,572
Total assets	**¥ 3,266,921**	¥ 3,261,665

Liabilities and Net Assets	Millions of yen June 30, 2019	 March 31, 2019
Long-term liabilities:		
Long-term debt	**¥ 1,910,246**	¥ 1,803,187
Liability for retirement benefits	**68,870**	69,362
Retirement allowances for directors and corporate auditors	**173**	270
Asset retirement obligations	**92,144**	91,841
Other long-term liabilities	**19,209**	14,155
Total long-term liabilities	**2,090,644**	1,978,817
Current liabilities:		
Long-term debt due within one year	**236,299**	306,705
Short-term borrowings	**67,645**	67,645
Accounts payable	**85,092**	84,910
Accrued income taxes	**847**	385
Accrued expenses	**57,457**	79,722
Provision for loss on disaster	**819**	919
Allowance for bonuses to directors and corporate auditors	**–**	72
Other current liabilities, including other long-term liabilities due within one year	**90,344**	96,377
Total current liabilities	**538,506**	636,740
Reserve for fluctuation in water levels	**864**	1,170
Provision for depreciation of nuclear power plants	**86,650**	86,281
Contingent liabilities		
Net assets:		
Common stock:	**185,527**	185,527
Authorized-1,000,000,000 shares		
Issued-371,055,259 shares as of June 30, 2019 and March 31, 2019		
Capital surplus	**17,047**	17,048
Retained earnings	**378,326**	384,711
Treasury Stock (26,815,008 shares as of June 30, 2019 and 26,813,562 shares as of March 31, 2019)	**(38,777)**	(38,755)
Total stockholders' equity	**542,124**	548,512
Net unrealized holding gains (losses) on securities	**8,453**	10,258
Net unrealized gains (losses) on hedges	**(49)**	267
Foreign currency translation adjustments	**(781)**	(804)
Accumulated adjustments for retirement benefit	**(2,624)**	(2,726)
Accumulated other comprehensive income	**4,997**	6,995
Non-controlling interests	**3,133**	3,147
Total net assets	**550,255**	558,655
Total liabilities and net assets	**¥ 3,266,921**	¥ 3,261,665

Quarterly Consolidated Statements of Operations

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the three-months ended June 30, 2019 and 2018

	Millions of yen	
	Three-months ended June 30,	
	2019	2018
Operating revenues:		
Electric	**¥ 290,408**	¥ 283,464
Other	**37,655**	33,121
	328,064	316,585
Operating expenses:		
Electric	**285,568**	284,982
Other	**36,890**	33,392
	322,459	318,374
Operating income (loss)	**5,605**	(1,788)
Other expenses(income):		
Interest expense	**3,042**	3,324
Interest income	**(24)**	(15)
Equity in losses (earnings) of affiliated companies	**(553)**	(384)
Other, net	**(923)**	(181)
	1,540	2,742
Special item:		
Provision (reversal) of reserve for fluctuation in water levels	**(305)**	17
Provision for depreciation of nuclear power plants	**368**	389
Profit (loss) before income taxes	**4,001**	(4,937)
Provision for income taxes:		
Current	**1,727**	(223)
Deferred	**54**	210
	1,781	(13)
Profit (loss)	**2,219**	(4,924)
Profit (loss) attributable to non-controlling interests	**(1)**	(96)
Profit (loss) attributable to owners of parent	**¥2,220**	¥(4,827)

	Yen	
	Three-months ended June 30,	
	2019	2018
Per share data:		
Earnings (basic)	**¥6.45**	¥(14.02)

Quarterly Consolidated Statements of Comprehensive Income

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the three-months ended June 30, 2019 and 2018

	Millions of yen	
	Three-months ended June 30,	
	2019	2018
Profit (loss)	**¥ 2,219**	¥ (4,924)
Other comprehensive income (loss):		
Net unrealized holding gains (losses) on securities	**(1,249)**	142
Net unrealized gains (losses) on hedges	**(311)**	109
Foreign currency translation adjustments	**22**	(715)
Adjustments for retirement benefit	**152**	(398)
Share of other comprehensive income (loss) of affiliated companies accounted for using equity method	**(607)**	495
	(1,992)	(367)
Comprehensive income (loss)	**¥ 227**	¥ (5,291)
Comprehensive income (loss) attributable to:		
Comprehensive income (loss) attributable to owners of parent	**¥ 223**	¥ (5,187)
Comprehensive income (loss) attributable to non-controlling interests	**3**	(103)

Notes to Quarterly Consolidated Financial Statements

For the three months ended June 30, 2019

1. Basis of Presenting Quarterly Consolidated Financial Statements

Numerical values less than one million yen are rounded off, excluding per share information. As a result, total values and numerical values obtained by summing each item will not necessarily match.

2. Application of Special Accounting Treatment for Quarterly Consolidated Financial Statements

- Calculation of tax expense

Tax expense is calculated by a simplified method based on multiplying the quarterly profit before income taxes by the estimated annual effective tax rate.

3. Change in Accounting Policies that is not Distinguishable from a Change in Accounting Estimate

- Change in method of depreciation of tangible fixed assets

We previously used the declining balance method as the method for depreciation of tangible fixed assets (excluding lease assets). However, the straight-line method is used from April 1, 2019.

The business environment surrounding the Group has been significantly changing in recent years due to reasons such as the progress of electricity system reform and changes to the way power is consumed following the Great East Japan Earthquake. In terms of the electricity system, the full-scale liberalization of retail electricity was enacted in 2016 and legal separation of transmission and distribution will occur in 2020, and as a result competition is expected to become even harsher.

In this situation, with regard to the way electricity is consumed, while we expect commercial demand to remain robust in major industries, domestic demand is expected to decrease due to reasons such as the population decrease which has already begun and the interest in power conservation / energy-saving following the Great East Japan Earthquake, and therefore, we have predicted that the electricity demand in our area will remain at approximately the same level for the next 10 years.

To respond to these changes in electricity demand, as we plan to shift the purpose of capital investments from expansion to functional maintenance and focus on further stable operation for facilities in the priority implementation items for the “FY2020 Mid-term Management Plan”, we determined that the straight-line method, which spreads the capital investment in a long-term and stable way, more appropriately reflects the actual usage of the assets.

As a result, compared to the result applying the previous depreciation method, operating income for the three months ended June 30, 2019 increased by ¥5,188 million and profit before income taxes for the same period increased by ¥5,157 million.

4. Quarterly Consolidated Balance Sheets

- Contingent liabilities
  - (1) Guarantee liabilities

	Millions of yen	
	As of June 30, 2019	As of March 31, 2019
JAPAN NUCLEAR FUEL LIMITED	53,800	54,266
Employees’ cooperative housing loans	25,643	26,436
AIR WATER & ENERGIA POWER YAMAGUCHI CORPORATION	13,970	13,624
3B Power Sdn. Bhd.	6,852	6,088
AIR WATER & ENERGIA POWER ONAHAMA CORPORATION	6,356	6,290
KAITA BIOMASS POWER CO., LTD.	6,250	6,250
MIZUSHIMA LNG COMPANY, LIMITED	5,364	5,387
MIZUSHIMA ECO-WORKS CO., LTD.	3,915	4,033
Orchid Wind Power Gmbh	3,167	–
Other	–	21
Total	125,320	122,398

(2) Contingent liabilities under bond debt assumption agreements

	Millions of yen	
	As of June 30, 2019	As of March 31, 2019
347th corporate bond issue (Underwriter: Mizuho Bank, Ltd.)	–	15,000
365th corporate bond issue (Underwriter: Mizuho Bank, Ltd.)	20,000	20,000
Total	20,000	35,000

Performance of obligations for the above bond issues was outsourced by concluding debt assumption agreements that applied the transitional measures under the accounting standards for financial instruments.

5. Quarterly Consolidated Statements of Cash Flow

We have not drawn up consolidated statements of cash flow for the three months ended June 30.

The depreciation (including amortization for intangible assets) for the three months ended June 30, 2019 and 2018 were as follows:

	Millions of yen	
	For the three months ended June 30, 2019	For the three months ended June 30, 2018
Depreciation	19,950	25,341

6. Stockholders' Equity

(1) For the three months ended June 30, 2019

Cash dividends

Resolution	Class of shares	Funds of dividends	Total amount of dividends (millions of yen)	Dividends per share(yen)	Record date	Effective date
Annual stockholders' meeting held on June 26, 2019	Common stock	Retained earnings	8,606	25.00	March 31, 2019	June 27, 2019

Note: The total amount of the dividends is the amount after elimination of internal transactions.

(2) For the three months ended June 30, 2018

Cash dividends

Resolution	Class of shares	Funds of dividends	Total amount of dividends (millions of yen)	Dividends per share(yen)	Record date	Effective date
Annual stockholders' meeting held on June 27, 2018	Common stock	Retained earnings	8,606	25.00	March 31, 2018	June 28, 2018

Note: The total amount of the dividends is the amount after elimination of internal transactions.

7. Segment Information

(1) For the three months ended June 30, 2019

Segment sales and income or loss

Millions of yen

	Reporting segment							
	Electric power	Comprehensive energy supply	Information and Telecommunications	Total	Other (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
Operating revenues								
Outside customers	290,408	19,145	7,599	317,154	10,910	328,064	–	328,064
Intersegment	6,015	771	1,872	8,659	12,712	21,372	(21,372)	–
Total	296,423	19,917	9,472	325,813	23,623	349,436	(21,372)	328,064
Segment income (loss)	4,477	714	575	5,767	4	5,771	(166)	5,605

Notes: 1 "Other" includes business such as environmental harmony creation, business/lifestyle support, and electric power business support.
2 "Adjustment" of segment income(loss) refers to the elimination of intersegment transactions.
3 Segment income (loss) is adjusted to be consistent with operating income shown on the quarterly consolidated statements of operations.

(2) For the three months ended June 30, 2018

Segment sales and income or loss

Millions of yen

	Reporting segment							
	Electric power	Comprehensive energy supply	Information and Telecommunications	Total	Other (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
Operating revenues								
Outside customers	283,464	14,213	7,414	305,092	11,493	316,585	–	316,585
Intersegment	3,056	590	2,006	5,653	11,349	17,002	(17,002)	–
Total	286,521	14,803	9,421	310,746	22,842	333,588	(17,002)	316,585
Segment income (loss)	(2,264)	442	359	(1,462)	(317)	(1,780)	(8)	(1,788)

Notes: 1 "Other" includes business such as environmental harmony creation, business/lifestyle support, and electric power business support.
2 "Adjustment" of segment income (loss) refers to the elimination of intersegment transactions.
3 Segment income (loss) is adjusted to be consistent with operating income shown on the quarterly consolidated statements of operations.

8. Per-share Information

Quarterly basic earnings per share and base amount for calculation, and quarterly diluted earnings per share and base amount for calculation were as follows:

	For the three months ended June 30, 2019	For the three months ended June 30, 2018
(1) Quarterly basic earnings per share (yen)	6.45	(14.02)
(base amount for calculation)		
Quarterly profit (loss) attributable to owners of parent (millions of yen)	2,220	(4,827)
Amount not belonging to common stockholders (millions of yen)	–	–
Quarterly profit (loss) attributable to owners of parent regarding common stocks (millions of yen)	2,220	(4,827)
Average number of common stocks	344,240,621	344,253,893
(2) Quarterly diluted earnings per share (yen)	4.95	–
(base amount for calculation)		
Adjustment on quarterly profit attributable to owners of parent (millions of yen)	(32)	–
(of which, interest expense after deducting tax equivalent amount)	(32)	(–)
(of which, amount due to effect of dilutive stocks of equity-method affiliated companies (millions of yen))	(0)	(–)
Increased common stocks	97,922,431	–
Outline of dilutive stocks which are not used in calculating diluted earnings per share due to no dilutive effects, and which had significant changes after the end of previous fiscal year	–	–

9. Important Subsequent Event

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

(1) Background

The Ministerial Ordinance concerning Provision for Depreciation of Nuclear Power Plants (Ministry of Economy, Trade and Industry Ordinance No.20 of 2007, "the Ministerial Ordinance") was amended pursuant to proclamation of an Ordinance Partially Amending the Ministerial Ordinance on July 26, 2019, which became effective on August 2, 2019 ("the Amended Ministerial Ordinance").

According to the Amended Ministerial Ordinance, electricity generation utilities subject to the Ministerial Ordinance shall be utilities that apply the declining balance method to tangible fixed assets.

Therefore, since the effective date, we are no longer an electricity generation utility subject to the Ministerial Ordinance as we changed the depreciation method for tangible fixed assets from the declining balance method to the straight-line method from April 1, 2019.

As a result, we will reverse the balance of provision for depreciation of nuclear power plants as of June 30, 2019 during the six months ending September 30, 2019.

(2) Reversal amount

¥86,650 million

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

Following this reversal, profit before income taxes for the six months ending September 30, 2019 will increase by ¥86,650 million as a result of the reversal of accumulated depreciation of nuclear power plants.

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