# Consolidated Eleven-year Financial Summary

Kyushu Electric Power Company, Incorporated and Consolidated Subsidiaries
Years Ended March 31

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| For the Year: | | | | | | |
| Operating revenues: | ¥1,524,193 | ¥1,444,941 | ¥1,486,083 | ¥1,508,084 | ¥1,545,919 | ¥1,791,152 |
| Electric | 1,398,577 | 1,310,085 | 1,354,204 | 1,367,610 | 1,406,218 | 1,633,023 |
| Other | 125,616 | 134,856 | 131,878 | 140,474 | 139,700 | 158,129 |
| Operating expenses: | 1,439,470 | 1,345,214 | 1,387,174 | 1,692,939 | 1,845,347 | 1,886,974 |
| Electric | 1,317,216 | 1,220,536 | 1,261,425 | 1,562,055 | 1,715,262 | 1,746,890 |
| Other | 122,254 | 124,677 | 125,748 | 130,883 | 130,085 | 140,083 |
| Interest charges | 35,770 | 35,292 | 34,025 | 34,025 | 37,407 | 39,429 |
| Income (loss) before income taxes and minority interests | 55,859 | 67,610 | 48,318 | (214,750) | (334,298) | (73,732) |
| Income taxes | 21,481 | 25,404 | 19,245 | (48,760) | (2,195) | 20,786 |
| Net income (loss) attributable to owners of the parent | 33,991 | 41,812 | 28,729 | (166,390) | (332,470) | (96,096) |

| | Yen | | | | | |
|---|---|---|---|---|---|---|
| Per Share of Common Stock: | | | | | | |
| Basic net income (loss) | ¥71.84 | ¥88.38 | ¥60.73 | ¥(351.80) | ¥(702.98) | ¥(203.19) |
| Diluted net income (loss) | — | — | — | — | — | — |
| Cash dividends applicable to the year (common stock) | 60.00 | 60.00 | 60.00 | 50.00 | — | — |
| Cash dividends applicable to the year (Class A preferred shares) | — | — | — | — | — | — |

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| At Year-End: | | | | | | |
| Total assets | ¥4,110,877 | ¥4,054,192 | ¥4,185,460 | ¥4,428,093 | ¥4,526,513 | ¥4,549,852 |
| Net property | 3,080,446 | 3,037,054 | 3,033,125 | 2,997,232 | 2,941,114 | 2,941,142 |
| Long-term debt, less current portion | 1,811,744 | 1,724,972 | 1,714,429 | 2,188,601 | 2,526,729 | 2,804,896 |
| Total equity | 1,072,374 | 1,089,066 | 1,079,679 | 888,131 | 557,799 | 494,232 |

(U.S. dollar amounts have been translated from yen, for convenience, at the rate of ¥111.01 = U.S.$1, the approximate rate of exchange at March 31, 2019.)

Note: Figures less than a million yen are rounded down. (Applies hereafter)

## Summary of the Year Ended March 31, 2019

While Genkai Nuclear Power Station restarted, sales of electric power were down due to a drop in the volume of contracted power sales and the effects of a relatively warm winter. Undertaking a periodic inspection of Units 1 and 2 at Sendai Nuclear Power Station combined with necessary maintenance work on power transmission and distribution equipment to ensure the stable supply of our electricity, along with other factors, led to an increase in expenses such as improvement and sundry expenses. Due to the above, and taking into account investment losses resulting from appraisal losses on investments in the overseas energy business under the equity method, the year ended March 31, 2019, saw Kyushu Electric Power's profits decrease in comparison to the previous fiscal year.

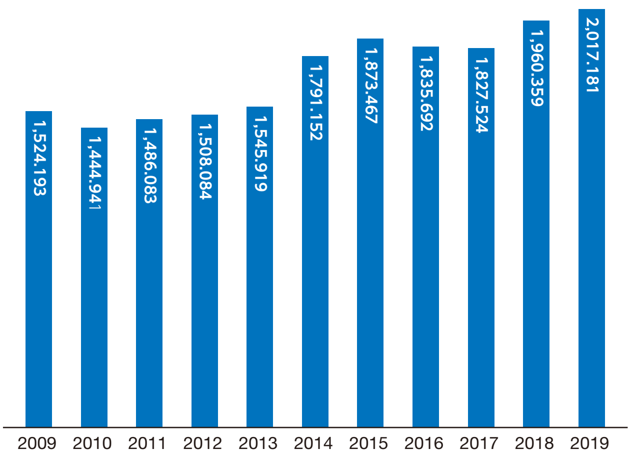
|  | Millions of Yen |  |  |  |  | Thousands of U.S. Dollars |
|---|---|---|---|---|---|---|
|  | 2015 | 2016 | 2017 | 2018 | 2019 | 2019 |
| **For the Year:** |  |  |  |  |  |  |
| Operating revenues: | ¥1,873,467 | ¥1,835,692 | ¥1,827,524 | ¥1,960,359 | ¥2,017,181 | $18,171,171 |
| Electric | 1,719,570 | 1,688,328 | 1,681,066 | 1,804,418 | 1,844,850 | 16,618,777 |
| Other | 153,897 | 147,364 | 146,458 | 155,940 | 172,331 | 1,552,393 |
| Operating expenses: | 1,916,782 | 1,715,435 | 1,704,883 | 1,857,235 | 1,930,606 | 17,391,286 |
| Electric | 1,779,711 | 1,584,556 | 1,574,890 | 1,713,322 | 1,771,776 | 15,960,516 |
| Other | 137,070 | 130,879 | 129,993 | 143,913 | 158,829 | 1,430,769 |
| Interest charges | 40,148 | 39,317 | 36,008 | 33,416 | 31,397 | 282,832 |
| Income (loss) before income taxes and minority interests | (72,901) | 92,499 | 82,840 | 73,558 | 52,276 | 470,914 |
| Income taxes | 40,324 | 17,359 | 2,230 | (14,470) | 19,773 | 178,122 |
| Net income (loss) attributable to owners of the parent | (114,695) | 73,499 | 79,270 | 86,657 | 30,970 | 278,985 |

|  | Yen |  |  |  |  | U.S. Dollars |
|---|---|---|---|---|---|---|
| Per Share of Common Stock: |  |  |  |  |  |  |
| Basic net income (loss) | ¥(242.38) | ¥155.17 | ¥159.97 | ¥175.56 | ¥58.05 | $0.52 |
| Diluted net income (loss) | — | — | 159.78 | 144.03 | 47.51 | 0.42 |
| Cash dividends applicable to the year (common stock)* | — | — | 15.00 | 20.00 | 30.00 | 0.27 |
| Cash dividends applicable to the year (Class A preferred shares)* | — | — | 3,500,000.00 | 3,500,000.00 | 3,500,000.00 | 31,528.69 |

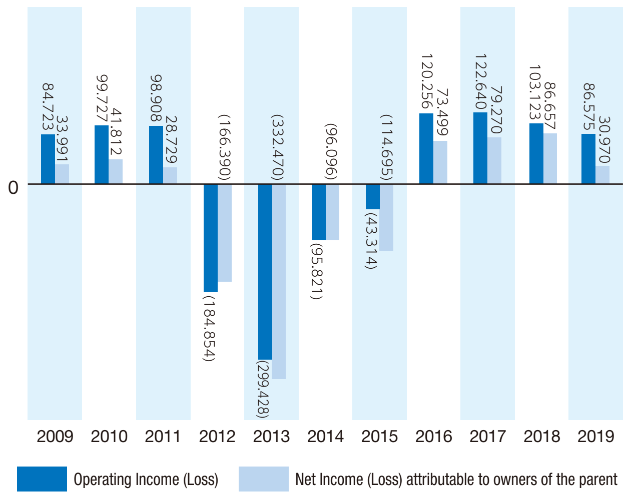
*The amounts of cash dividends per share are based on the recorded earnings for each fiscal year.

|  | Millions of Yen |  |  |  |  | Thousands of U.S. Dollars |
|---|---|---|---|---|---|---|
| **At Year-End:** |  |  |  |  |  |  |
| Total assets | ¥4,784,735 | ¥4,748,237 | ¥4,587,541 | ¥4,710,073 | ¥4,794,039 | $43,185,657 |
| Net property | 2,985,935 | 3,073,861 | 3,134,911 | 3,229,489 | 3,344,082 | 30,124,157 |
| Long-term debt, less current portion | 2,844,538 | 2,745,848 | 2,789,038 | 2,699,097 | 2,676,370 | 24,109,274 |
| Total equity | 450,990 | 499,903 | 574,577 | 653,963 | 665,250 | 5,992,704 |

Operating Revenues (Billions of yen)




Operating Income (Loss)/Net Income (Loss) attributable to owners of the parent
(Billions of yen)



# Management Discussion and Analysis

Kyushu Electric Power Company, Incorporated and Consolidated Subsidiaries

## Operating Results

In terms of income in our electricity business for 2019, factors such as a decrease in the volume of electric power sold and reduced lighting and power revenue, but also due in part to an increase in renewable energy-related subsidies and delivered power revenue, there was a 2.9% increase in consolidated operating revenues over the previous fiscal year to ¥2,017.1 billion.

With regard to expenditures, the Kyuden Group continued coordinated cost-cutting efforts. In our electricity business, the cost of purchased power from renewable sources increased, and repair costs and other expenses rose for reasons such as periodic inspection of the Sendai Nuclear Power Station and maintenance work needed for stable supply in power transmission and distribution equipment. Therefore, operating expenses rose by 4.0% to ¥1,930.6 billion.

As a result, operating income for the term under review fell 16.0% year on year, to ¥86.5 billion.

Other revenues fell 34.2% year on year, to ¥10.4 billion. An increase in gains from the sale of fixed assets was more than offset by other factors, including a drop in equity in earnings of affiliates.

Other expenses decreased 1.8% year on year to ¥44.4 billion, driven in part by lower interest expense, despite an increase in equity in losses of affiliates due to factors such as booking valuation losses related to overseas investments.

Ordinary revenue was ¥2,027.6 billion, an increase of 2.6% over the previous fiscal year, while ordinary expenses reached ¥1,975.0 billion, up 3.8%. As a result, ordinary income was down 28.7% year on year, to ¥52.5 billion.

Corporate income tax increased to ¥19.7 billion from negative ¥14.4 billion for the previous term, due to such factors as an increase in income taxes-deferred resulting from additional booking of deferred tax assets in the previous year.

As a result of the foregoing factors, net income attributable to owners of the parent declined by 64.3% over the previous fiscal year, to ¥30.9 billion. Basic net income per share of common stock totaled ¥58.05, a decrease of ¥117.51.

## Segment Information (Before Elimination of Internal Transactions)

(1) Electric Power

The volume of electric power sales fell to 72.2 billion kWh, down 5.9% year on year, due to such factors as a drop in the volume of contracted power sales and the effects of a warm winter.

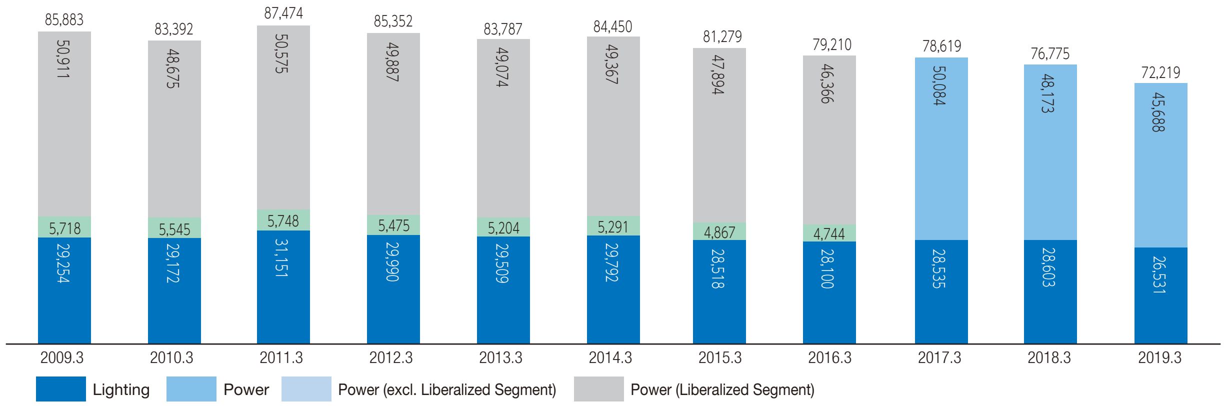
Kyushu Electric Power maintained stable supplies of electric power through stable operation of its four nuclear power stations, coordinated operation of its thermal power generation and pumped-storage facilities, and control of renewable energy output based on national rules.

Electric power segment sales were up 2.2% year on year, to ¥1,848.6 billion. Lighting and power revenue decreased due to factors such as a lower volume of electric power sales, but this was offset by a rise in renewable energy-related subsidies and delivered power revenue.

Operating expenses increased 3.5%, to ¥1,786.9 billion. While the Kyuden Group continued its comprehensive efforts to reduce operating expenses, the rise in expenses stemmed from such factors as an increase in cost of purchased power from renewable sources, and an increase in repair costs and other expenses for reasons such as periodic inspection of the Sendai Nuclear Power Station and maintenance

### Electricity Sales Volume

(Millions of kWh)




Note 1: Specified-Scale Demand is 6,000 V or higher at standard voltage and 50 kW or higher of contracted power

Note 2: Display categories changed from fiscal 2017 work needed for stable supply in power transmission and distribution equipment.

As a result, operating income fell 24.2%, to ¥61.7 billion.

(2) Energy-related Business
Sales increased 13.7% year on year, to ¥217.6 billion, and operating income rose 25.8% to ¥14.7 billion. This was due to an increase in power station construction and repair work, higher power sales outside the Kyushu region, a rise in income relating to LNG sales, and other factors.

An investment valuation loss relating to overseas energy projects has also been booked for the year as a non-operating expense.

(3) IT and Telecommunications
Sales fell 1.2% from the previous fiscal year, to ¥105.4 billion, due in part to a decrease in commissioned information system development projects. Operating income fell 33.6%, to ¥4.8 billion, in part because of an increase in advertising and other expense due to the launch of IoT services.

(4) Other Business
Sales increased 15.4% over the previous fiscal year, to ¥29.5 billion, partially thanks to higher revenues relating to real estate sales. Operating income expanded 24.9%, to ¥6.0 billion.

## Financial Position

(1) Assets, Liabilities and Equity
Total current assets, including cash and deposits, declined. However, fixed assets increased due to multiple factors, such as capital investment. As a result, total assets at the end of the term amounted to ¥4,794.0 billion, an increase of ¥83.9 billion over the previous fiscal year.

Despite a lower total of taxes payable, accrued contribution expenses for reprocessing of spent fuel, other current liabilities, and asset retirement obligations recorded higher totals. As a result, liabilities increased by ¥72.6 billion over the previous fiscal year, to ¥4,128.7 billion. The total of interest-bearing debt fell by ¥20.6 billion year on year, to ¥3,223.1 billion.

Total equity rose ¥11.2 billion, to reach ¥665.2 billion at the close of the term, while the equity ratio was 13.3%. The total equity due to dividend payouts was more than offset by net income attributable to owners of the parent.

(2) Cash Flows
Cash flows provided by operating activities fell by ¥72.9 billion from the previous fiscal year to ¥283.0 billion. This decline occurred, despite a decrease in fuel expenses in our electricity business, due to such factors as a drop in lighting and power revenue, increases in the costs of purchased power and repair expenses, and increased payments of consumption tax and corporate income tax.

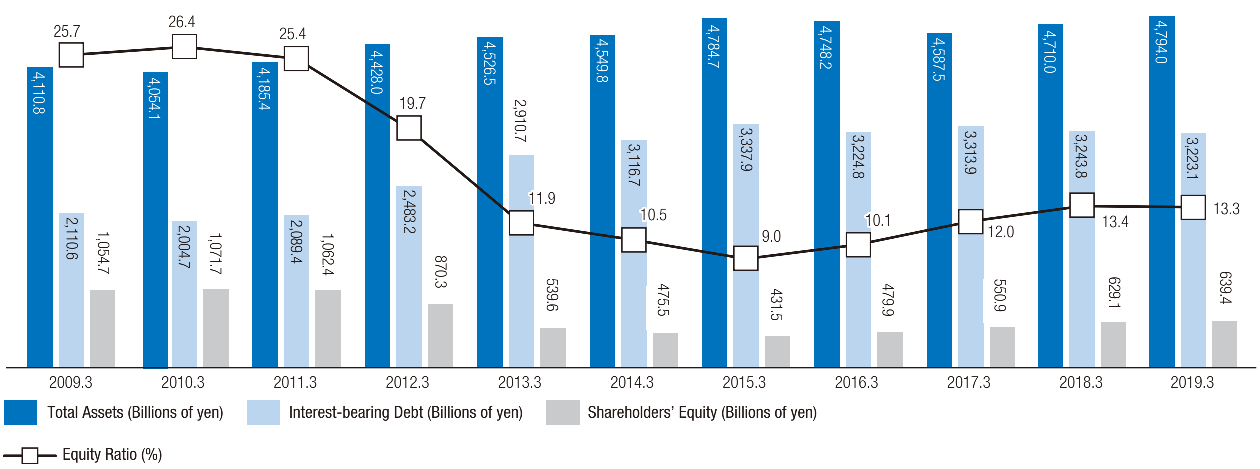
Net cash used in investment activities ended ¥42.5 billion higher than at the close of the previous fiscal year, at ¥364.3 billion. This was due, in part, to increased expenditures for capital investments, other investment, and lending.

Net cash used in financing activities amounted to ¥40.7 billion, due to a drop of ¥49.6 billion in expenditures from the previous fiscal year. This resulted, in part, from an increase in income due to long-term borrowing.

As a result, the balance of cash and cash equivalents at the end of the term was ¥245.2 billion, ¥120.6 billion down from the close of the previous fiscal year.



Consolidated Interest-bearing Debt and Equity Ratio



# Business Risks Factors

The following is a list of some significant risk factors that may have an effect on the operating results, financial position, and other aspects of the Kyuden Group (consolidated).

Forward-looking statements in this report reflect judgment as of the end of the current consolidated fiscal year.

## 1 Changes in Systems Affecting the Electricity Business

With regard to energy policy, we have taken onboard the government's 5th Strategic Energy Plan, formulated by cabinet decision in July 2018, and investigations into a system design that will allow the plan's goals to be achieved are ongoing. With regard to the matter of electricity system reforms, legal unbundling of the transmission/distribution sector will start in April 2020.

Moreover, we are also considering specific priorities from the standpoint of addressing issues affecting the public interest amid further intensification of competition and liberalization in the electricity market. We are considering the creation of a base load power source market and a capacity market, as well as the expansion of the already established non-fossil value trading market.

Changes such as these to the systems affecting the electricity business could have an impact on the Group's performance.

## 2 Status of the Situation Surrounding Nuclear Power

We believe that nuclear power generation is important in terms of energy security and global warming concerns. We will comply with the New Nuclear Regulatory Requirements enforced by the government based on the lessons learned from the accident at the Fukushima Daiichi Nuclear Power Station and continue our voluntary efforts to improve safety and reliability. In conjunction with this, we are also vigorously implementing activities to allay the concerns of local residents. However, the Group's performance could be affected by any long-term suspension of our nuclear power stations or increase in capital investments, depending on the new regulatory requirements such as on facilities or equipment deemed necessary to address specific large-scale disasters, and on results of lawsuits regarding their operations.

## 3 Fluctuations in Electricity Sales Volume

Electricity sales volume in the electricity business fluctuates according to factors such as economic trends, temperature changes, the spread of residential solar power systems, the development of energy conservation, and competition in the electricity market. As a result, changes in these factors could have an impact on the Group's performance. Supply and demand operations could be affected by an increase in solar power systems.

## 4 Fuel Price Fluctuations

Fuel expenses in the electricity business fluctuate as a result of trends in CIF prices and in the foreign exchange markets because we procure sources of fuel for thermal power generation including liquefied natural gas (LNG) and coal from overseas.

However, fluctuations in fuel prices are reflected in electric rates through the fuel cost adjustment system, which helps to ease the impact of fuel price volatility on the Group's performance.

## 5 Costs for the Back-end of Nuclear Operations

The decommissioning of nuclear facilities and the back-end of nuclear operations such as the storage, reprocessing, and disposal of spent nuclear fuel require long-term projects that involve uncertainties. However, risks to operators have been reduced to a certain extent due to the government's institutional measures and other factors. Since the costs for the back-end of nuclear operations and so forth vary in accordance with factors such as future reviews of systems, changes to estimated future expenses, and the storage conditions of spent nuclear fuel, they may affect the business performance of the Kyuden Group.

## 6 Cost of Measures to Combat Global Warming

In response to global warming, the Group aims for more efficient power generation that uses less carbon, and to this end, the Group conducts a variety of measures, such as safe and stable nuclear power station operations, active development and introduction of renewable energy, and maintenance and improvement of total thermal efficiency for thermal power stations. Future changes in policies related to global warming could have an impact on the Group's performance.

## 7 Businesses Other than Electricity

The Group is enhancing its revenue basis by utilizing its management resources and steadily developing new business areas beyond the electricity business (including our overseas business). In business operations, we put emphasis on profitability and work to improve efficiency while pursuing growth. If the planned profits cannot be achieved due to worsening business conditions inside or outside Japan, the Group's performance may be affected.

## 8 Deferred Tax Assets

The recoverability of deferred tax assets reported in the consolidated balance sheet is determined based on estimated future taxable income. Therefore, if estimated future taxable income falls due to factors such as changes in the business environment, we will have to break into deferred tax assets, and this may affect the business performance of the Kyuden Group.

## 9 Interest Rate Fluctuations

The Group's balance of interest-bearing debt as of the end of March 2019 was ¥3,223.1 billion, which accounts for 67% of the Group's total assets. Future changes in interest rates have the potential to affect the Group's financial condition.

However, 96% of outstanding interest-bearing debt comprises corporate bonds and long-term debt, and most of this bears interest at fixed rates. The impact of fluctuating interest rates on the Group's performance is therefore viewed as limited.

## 10 Leakage of Information

The Group has established strict internal frameworks to manage in-house information and personal information which Group companies hold, to ensure information security. Additionally, we have implemented thorough information management by establishing internal policies and guidelines on handling information as well as familiarizing employees with the handling procedures. However, in case of leaks of in-house information or personal information caused by computer viruses or cyber attacks, the Group's performance may be affected.

## 11 Natural Disasters

To ensure a stable supply of electricity to our customers, the Group implements inspections and maintenance of facilities systematically to prevent any trouble from occurring. However, large-scale natural disasters, such as typhoons, torrential rains, earthquakes and tsunami, as well as unexpected accidents and illicit acts have the potential to affect the Group's performance.

We are also developing a risk management system and are preparing for numerous risks that may have a material impact on business operations. Failing to respond appropriately to a risk may adversely affect the Group's performance.

## 12 Compliance

To be worthy of the trust of all its stakeholders, the Group conducts its business activities from the perspective of its customers and the local people in the regions in which it operates by working together to fully instill an awareness of compliance and complying with laws and regulations. However, if problems such as compliance violations were to cause the Group's social credibility to decline, this could have an impact on the Group's performance.

The Group will continue to work to build trust-based relationships with all its stakeholders.

# Consolidated Balance Sheet

Kyushu Electric Power Company, Incorporated and Consolidated Subsidiaries
March 31, 2019

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2019 | 2018 | 2019 |
| ASSETS | | | |
| PROPERTY (Note 3): | | | |
| Plant and equipment | ¥10,368,906 | ¥10,187,825 | $93,405,153 |
| Construction in progress | 587,629 | 561,296 | 5,293,480 |
| Total | 10,956,535 | 10,749,121 | 98,698,633 |
| Less- | | | |
| Contributions in aid of construction | 216,366 | 209,621 | 1,949,069 |
| Accumulated depreciation | 7,396,086 | 7,310,011 | 66,625,406 |
| Total | 7,612,452 | 7,519,632 | 68,574,476 |
| Net property | 3,344,082 | 3,229,489 | 30,124,157 |
| NUCLEAR FUEL | 267,824 | 271,742 | 2,412,614 |
| INVESTMENTS AND OTHER ASSETS: | | | |
| Investment securities (Notes 4 and 14) | 75,551 | 75,152 | 680,581 |
| Investments in and advances to nonconsolidated subsidiaries and affiliated companies (Note 14) | 131,441 | 117,251 | 1,184,047 |
| Assets for retirement benefits (Note 7) | 14,099 | 15,760 | 127,008 |
| Deferred tax assets (Note 10) | 189,892 | 195,713 | 1,710,588 |
| Special account related to nuclear power decommissioning (Note 2.g) | 45,592 | 19,226 | 410,708 |
| Special account related to reprocessing of spent nuclear fuel (Note 2.n) | 32,400 | 15,297 | 291,868 |
| Other | 87,608 | 86,717 | 789,195 |
| Total investments and other assets | 576,585 | 525,120 | 5,193,998 |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents (Note 14) | 245,273 | 365,875 | 2,209,467 |
| Receivables (Note 14) | 237,236 | 226,334 | 2,137,068 |
| Allowance for doubtful accounts | (769) | (853) | (6,934) |
| Inventories, principally fuel | 91,827 | 70,039 | 827,202 |
| Prepaid expenses and other | 31,980 | 22,325 | 288,083 |
| Total current assets | 605,547 | 683,720 | 5,454,887 |
| TOTAL | ¥4,794,039 | ¥4,710,073 | $43,185,657 |

See notes to consolidated financial statements.

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2019 | 2018 | 2019 |
| LIABILITIES AND EQUITY | | | |
| LONG-TERM LIABILITIES: | | | |
| Long-term debt, less current portion (Notes 6 and 14) | ¥2,676,370 | ¥2,709,117 | $24,109,274 |
| Liability for retirement benefits (Note 7) | 99,600 | 95,605 | 897,224 |
| Asset retirement obligations (Note 8) | 264,166 | 221,372 | 2,379,664 |
| Other | 64,961 | 52,041 | 585,186 |
| Total long-term liabilities | 3,105,099 | 3,078,137 | 27,971,348 |
| CURRENT LIABILITIES: | | | |
| Current portion of long-term debt (Notes 6 and 14) | 445,466 | 430,738 | 4,012,848 |
| Short-term borrowings (Notes 9 and 14) | 115,063 | 117,371 | 1,036,515 |
| Notes and accounts payable (Notes 13 and 14) | 135,648 | 156,831 | 1,221,945 |
| Accrued income taxes (Note 14) | 2,324 | 11,789 | 20,939 |
| Other | 316,228 | 252,550 | 2,848,651 |
| Total current liabilities | 1,014,731 | 969,282 | 9,140,901 |
| RESERVE FOR FLUCTUATIONS IN WATER LEVEL | 8,958 | 8,690 | 80,702 |
| COMMITMENTS AND CONTINGENCIES (Note 16) | | | |
| EQUITY (Note 11): | | | |
| Common stock, authorized, 1,000,000,000 shares; issued, 474,183,951 shares Preferred stock, authorized, 1,000 shares; issued, 1,000 shares | 237,304 | 237,304 | 2,137,689 |
| Capital surplus | 120,831 | 120,825 | 1,088,470 |
| Retained earnings | 300,551 | 282,504 | 2,707,423 |
| Treasury stock-at cost, | | | |
| 1,209,576 shares in 2019 and 520,059 shares in 2018 | (1,524) | (668) | (13,736) |
| Accumulated other comprehensive income: | | | |
| Unrealized gain on available-for-sale securities | 4,090 | 4,369 | 36,851 |
| Deferred loss on derivatives under hedge accounting | (4,306) | (1,412) | (38,790) |
| Foreign currency translation adjustments | (3,582) | (1,905) | (32,275) |
| Defined retirement benefit plans | (13,928) | (11,876) | (125,466) |
| Total | 639,435 | 629,140 | 5,760,165 |
| Noncontrolling interests | 25,814 | 24,822 | 232,538 |
| Total equity | 665,250 | 653,963 | 5,992,704 |
| TOTAL | ¥4,794,039 | ¥4,710,073 | $43,185,657 |

See notes to consolidated financial statements.

# Consolidated Statement of Income

Kyushu Electric Power Company, Incorporated and Consolidated Subsidiaries
Year Ended March 31, 2019

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2019 | 2018 | 2019 |
| OPERATING REVENUES: | | | |
| Electric | ¥1,844,850 | ¥1,804,418 | $16,618,777 |
| Other | 172,331 | 155,940 | 1,552,393 |
| Total operating revenues | 2,017,181 | 1,960,359 | 18,171,171 |
| OPERATING EXPENSES (Note 12): | | | |
| Electric | 1,771,776 | 1,713,322 | 15,960,516 |
| Other | 158,829 | 143,913 | 1,430,769 |
| Total operating expenses | 1,930,606 | 1,857,235 | 17,391,286 |
| OPERATING INCOME | 86,575 | 103,123 | 779,885 |
| OTHER EXPENSES (INCOME) | | | |
| Interest charges | 31,397 | 33,416 | 282,832 |
| Share of loss (profit) of entities accounted for using the equity method (Note 13) | 2,822 | (7,257) | 25,427 |
| Other-net | (189) | 3,286 | (1,706) |
| Total other expenses-net | 34,030 | 29,445 | 306,553 |
| INCOME BEFORE INCOME TAXES AND PROVISION FOR RESERVE FOR FLUCTUATIONS IN WATER LEVEL | 52,544 | 73,678 | 473,331 |
| PROVISION FOR RESERVE FOR FLUCTUATIONS IN WATER LEVEL | 268 | 119 | 2,416 |
| INCOME BEFORE INCOME TAXES | 52,276 | 73,558 | 470,914 |
| INCOME TAXES (Note 10): | | | |
| Current | 9,905 | 15,170 | 89,227 |
| Deferred | 9,868 | (29,640) | 88,894 |
| Total income taxes | 19,773 | (14,470) | 178,122 |
| NET INCOME | 32,502 | 88,028 | 292,792 |
| NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS | 1,532 | 1,371 | 13,807 |
| NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT | ¥ 30,970 | ¥ 86,657 | $ 278,985 |

| | Yen | | U.S. Dollars |
|---|---|---|---|
| PER SHARE OF COMMON STOCK (Note 2.t): | | | |
| Basic net income | ¥58.05 | ¥175.56 | $0.52 |
| Diluted net income | 47.51 | 144.03 | 0.42 |
| Cash dividends applicable to the year | | | |
| Common share | 30.00 | 20.00 | 0.27 |
| Class A preferred share | 3,500,000.00 | 3,500,000.00 | 31,528.69 |

See notes to consolidated financial statements.

# Consolidated Statement of Comprehensive Income

Kyushu Electric Power Company, Incorporated and Consolidated Subsidiaries
Year Ended March 31, 2019

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2019 | 2018 | 2019 |
| NET INCOME | ¥32,502 | ¥88,028 | $292,792 |
| OTHER COMPREHENSIVE (loss) INCOME (Note 17): | | | |
| Unrealized (loss) gain on available-for-sale securities | (113) | 462 | (1,018) |
| Deferred loss on derivatives under hedge accounting | (3,155) | (178) | (28,423) |
| Foreign currency translation adjustments | (3,536) | 1,448 | (31,859) |
| Defined retirement benefit plans | (1,954) | 6,598 | (17,605) |
| Share of other comprehensive (loss) income in nonconsolidated subsidiaries and affiliated companies | (1,146) | 231 | (10,326) |
| Total other comprehensive (loss) income | (9,905) | 8,562 | (89,233) |
| COMPREHENSIVE INCOME | ¥22,597 | ¥96,591 | $203,559 |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO: | | | |
| Owners of the parent | ¥21,257 | ¥95,276 | $191,493 |
| Noncontrolling interests | 1,339 | 1,314 | 12,066 |

See notes to consolidated financial statements.

# Consolidated Statement of Changes in Equity

Kyushu Electric Power Company, Incorporated and Consolidated Subsidiaries
Year Ended March 31, 2019

Thousands of Shares/Millions of Yen

| | Common Stock | | Preferred Stock | | | | Treasury Stock | | Accumulated Other Comprehensive Income | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Capital Surplus | Retained Earnings | Shares | Amount | Unrealized Gain on Available-for-Sale Securities | Deferred Loss on Derivatives under Hedge Accounting | Foreign Currency Translation Adjustments | Defined Retirement Benefit Plans | Total | Noncontrolling interests | Total Equity |
| BALANCE AT APRIL 1, 2017 | 474,183 | ¥237,304 | 1 | | ¥120,844 | ¥212,945 | 522 | ¥(685) | ¥3,597 | ¥(1,389) | ¥(3,590) | ¥(18,062) | ¥550,965 | ¥23,611 | ¥574,577 |
| Change in the parent's ownership interest due to transactions with noncontrolling interests | | | | | 0 | | | | | | | | 0 | | 0 |
| Cash dividends, ¥25 per common share | | | | | | (11,849) | | | | | | | (11,849) | | (11,849) |
| Cash dividends, ¥5,250,000 per class A preferred share | | | | | | (5,250) | | | | | | | (5,250) | | (5,250) |
| Net income attributable to owners of the parent | | | | | | 86,657 | | | | | | | 86,657 | | 86,657 |
| Purchase of treasury stock | | | | | | | 18 | (19) | | | | | (19) | | (19) |
| Disposal of treasury stock | | | | | (21) | | (20) | 36 | | | | | 15 | | 15 |
| Changes by share exchange | | | | | 2 | | | 0 | | | | | 2 | | 2 |
| Net change in the year | | | | | | | | | 772 | (23) | 1,684 | 6,185 | 8,619 | 1,210 | 9,829 |
| BALANCE AT MARCH 31, 2018 | 474,183 | ¥237,304 | 1 | | ¥120,825 | ¥282,504 | 520 | ¥(668) | ¥4,369 | ¥(1,412) | ¥(1,905) | ¥(11,876) | ¥629,140 | ¥24,822 | ¥653,963 |
| Change in the parent's ownership interest due to transactions with noncontrolling interests | | | | | 5 | | | | | | | | 5 | | 5 |
| Cash dividends, ¥25 per common share | | | | | | (11,849) | | | | | | | (11,849) | | (11,849) |
| Cash dividends, ¥3,500,000 per class A preferred share | | | | | | (3,500) | | | | | | | (3,500) | | (3,500) |
| Net income attributable to owners of the parent | | | | | | 30,970 | | | | | | | 30,970 | | 30,970 |
| Purchase of treasury stock | | | | | | | 690 | (857) | | | | | (857) | | (857) |
| Disposal of treasury stock | | | | | (0) | | (0) | 1 | | | | | 0 | | 0 |
| Adjustment of retained earnings for inclusion of companies accounted for by the equity method | | | | | | 2,425 | | | | | | | 2,425 | | 2,425 |
| Net change in the year | | | | | | | | | (278) | (2,893) | (1,677) | (2,051) | (6,900) | 991 | (5,908) |
| BALANCE AT MARCH 31, 2019 | 474,183 | ¥237,304 | 1 | | ¥120,831 | ¥300,551 | 1,209 | ¥(1,524) | ¥4,090 | ¥(4,306) | ¥(3,582) | ¥(13,928) | ¥639,435 | ¥25,814 | ¥665,250 |

Thousands of U.S. Dollars (Note 1)

| | | | | | | Accumulated Other Comprehensive Income | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Common Stock | Preferred Stock | Capital Surplus | Retained Earnings | Treasury Stock | Unrealized Gain on Available-for-Sale Securities | Deferred Loss on Derivatives under Hedge Accounting | Foreign Currency Translation Adjustments | Defined Retirement Benefit Plans | Total | Noncontrolling interests | Total Equity |
| BALANCE AT MARCH 31, 2018 | $2,137,689 | | $1,088,421 | $2,544,856 | $(6,023) | $39,364 | $(12,727) | $(17,166) | $(106,989) | $5,667,424 | $223,605 | $5,891,029 |
| Change in the parent's ownership interest due to transactions with noncontrolling interests | | | 52 | | | | | | | 52 | | 52 |
| Cash dividends, $0.22 per common share | | | | (106,738) | | | | | | (106,738) | | (106,738) |
| Cash dividends, $31,528.69 per class A preferred share | | | | ((31,528) | | | | | | (31,528) | | (31,528) |
| Net income attributable to owners of the parent | | | | 278,985 | | | | | | 278,985 | | 278,985 |
| Purchase of treasury stock | | | | | (7,723) | | | | | (7,723) | | (7,723) |
| Disposal of treasury stock | | | (3) | | 10 | | | | | 6 | | 6 |
| Adjustment of retained earnings for inclusion of companies accounted for by the equity method | | | | 21,848 | | | | | | 21,848 | | 21,848 |
| Net change in the year | | | | | | (2,513) | (26,062) | (15,109) | (18,476) | (62,161) | 8,933 | (53,228) |
| BALANCE AT MARCH 31, 2019 | $2,137,689 | | $1,088,470 | $2,707,423 | $(13,736) | $36,851 | $(38,790) | $(32,275) | $(125,466) | $5,760,165 | $232,538 | $5,992,704 |

See notes to consolidated financial statements.

# Consolidated Statement of Cash Flows

Kyushu Electric Power Company, Incorporated and Consolidated Subsidiaries
Year Ended March 31, 2019

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2019 | 2018 | 2019 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Income before income taxes | ¥ 52,276 | ¥ 73,558 | $ 470,914 |
| Adjustments for: | | | |
| Income taxes paid | (19,367) | (5,932) | (174,463) |
| Depreciation and amortization | 238,189 | 210,455 | 2,145,658 |
| Decommissioning costs of nuclear power units | 10,557 | 4,603 | 95,104 |
| Amortization of special account related to nuclear power decommissioning | 873 | 821 | 7,865 |
| Loss on disposal of plant and equipment | 5,843 | 7,999 | 52,635 |
| Provision for reserve for fluctuation in water level | 268 | 119 | 2,416 |
| Share of loss (profit) of entities accounted for using the equity method | 2,822 | (7,257) | 25,427 |
| Changes in assets and liabilities: | | | |
| Increase in trade receivables | (12,546) | (25,108) | (113,024) |
| Increase in inventories, principally fuel | (20,508) | (5,693) | (184,747) |
| (Decrease) increase in trade payables | (12,493) | 22,983 | (112,541) |
| Increase in liability for retirement benefits | 988 | 3,559 | 8,903 |
| Other-net | 36,117 | 75,887 | 325,351 |
| Total adjustments | 230,743 | 282,436 | 2,078,585 |
| Net cash provided by operating activities | 283,020 | 355,995 | 2,549,500 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Capital expenditures including nuclear fuel | (377,408) | (352,763) | (3,399,769) |
| Proceeds from contribution in aid of construction | 40,751 | 24,905 | 367,098 |
| Payments for investments and advances | (27,318) | (6,518) | (246,093) |
| Proceeds from sales of investment securities and collections of advances | 9,996 | 12,340 | 90,052 |
| Other-net | (10,362) | 284 | (93,348) |
| Net cash used in investing activities | (364,341) | (321,751) | (3,282,060) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Proceeds from issuance of bonds | 209,288 | 189,396 | 1,885,309 |
| Repayments of bonds | (219,800) | (190,000) | (1,980,001) |
| Proceeds from long-term loans | 200,514 | 150,414 | 1,806,276 |
| Repayments of long-term loans | (207,582) | (217,915) | (1,869,941) |
| Net decrease in short-term borrowings | (2,311) | (1,200) | (20,825) |
| Cash dividends paid | (15,300) | (17,065) | (137,830) |
| Other-net | (5,525) | (3,962) | (49,771) |
| Net cash used in by financing activities | (40,716) | (90,334) | (366,783) |
| FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS | 1,426 | 2,134 | 12,850 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (120,611) | (53,955) | (1,086,492) |
| CASH AND CASH EQUIVALENTS OF A NONCONSOLIDATED SUBSIDIARY MERGED WITH A CONSOLIDATED SUBSIDIARY | 9 | – | 82 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 365,875 | 419,831 | 3,295,878 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | ¥ 245,273 | ¥ 365,875 | $ 2,209,467 |

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Kyushu Electric Power Company, Incorporated and Consolidated Subsidiaries
Year Ended March 31, 2019

## 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Kyushu Electric Power Company, Incorporated (the "Company") has prepared the accompanying consolidated financial statements in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act, the Electricity Business Act and their related accounting regulations and in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. Especially accounting related to the nuclear power generation is regulated by the above accounting regulations, which are dependent on a governmental long-term nuclear energy policy.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made to the consolidated financial statements for the year ended March 31, 2018, to conform to the classifications used in the consolidated financial statements for the year ended March 31, 2019.

The U.S. dollar amounts included herein are provided solely for the convenience of readers outside Japan and are stated at the rate of ¥111.01 = U.S. $1, the approximate exchange rate prevailing on March 31, 2019. The translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Japanese yen figures less than a million yen are rounded down to the nearest million yen, except for per share data. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*a. Consolidation and Application of the Equity Method*—
The consolidated financial statements as of March 31, 2019, include the accounts of the Company and its 45 (43 for 2018) subsidiaries (together, the "Companies"). All significant intercompany transactions and balances have been eliminated in consolidation. Investments in 12 (13 for 2018) nonconsolidated subsidiaries and 16 (14 for 2018) affiliated companies are accounted for by the equity method.

The Company adopts the control and influence concepts. Under these concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are treated as subsidiaries and those companies over which the Companies have the ability to exercise significant influence are treated as affiliated companies.

Consolidation of the remaining subsidiaries and the application of the equity method to the remaining affiliated companies would not have a material effect on the accompanying consolidated financial statements.

The fiscal year-end of 8 (6 for 2018) consolidated subsidiaries and several nonconsolidated subsidiaries and affiliated companies is December 31. The Company consolidates such consolidated subsidiaries' financial statements and accounts for investments in such nonconsolidated subsidiaries and affiliated companies by the equity method using their financial results for the year ended December 31. The effects of any significant transactions during the period between the subsidiaries' and affiliated companies' fiscal year-end and the Company's fiscal year-end are reflected in the consolidated financial statements.

*b. Business Combination*— Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

*c. Property and Depreciation*— Property is stated at cost. Contributions in aid of construction including those made by customers are deducted from the cost of the related assets.

Depreciation is principally computed using the declining-balance method based on the estimated useful lives of the assets. Depreciation of easements related to transmission lines is computed using the straight-line method based on the estimated useful lives of the transmission lines.

Under the accounting regulations applicable to electric utility providers, properties, which are required for decommissioning of nuclear power units or which need maintenance and management even after nuclear power units have been in the process of decommissioning, are to be included in "Plant and equipment."

*d. Impairment of Fixed Assets*—The Companies review their fixed assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

*e. Amortization of Nuclear Fuel*— Amortization of nuclear fuel is computed based on the proportion of current heat produced to the estimated total potential heat production over the estimated useful life of the nuclear fuel.

*f. Investment Securities*— Investment securities are classified and accounted for, depending on management's intent, as follows:
(a) Held-to-maturity debt securities are stated at cost with discounts or premiums amortized throughout the holding periods; (b) Available-for-sale securities, which are not classified as the aforementioned securities and investment securities in nonconsolidated subsidiaries and affiliated companies, are stated at market value; and nonmarketable securities are stated at cost.

The Companies record unrealized gains or losses on available-for-sale securities, net of deferred taxes, in equity presented as "Unrealized gain on available-for-sale securities."

For other-than-temporary declines in fair value, investment securities are written down to net realizable value by a charge to income.

*g. Special Account Related to Nuclear Power Decommissioning*— On March 13, 2015, the Japanese government, i.e., the Ministry of Economy, Trade and Industry ("METI"), revised the accounting regulation applicable to electric utility providers. Under the revised accounting regulation effective on March 13, 2015, in case the Company decides to decommission nuclear power units due to factors such as a change of the government's energy policy, the Company is permitted to transfer the carrying amounts related to nuclear power units and costs related to nuclear power decommissioning to "special account related to nuclear power decommissioning" when the Company decides to decommission nuclear power units and applies to the Minister of METI for adopting the above special account, because they are expected to be collected through regulated electricity fees. The special account is amortized in proportion to the amounts of future regulated electricity fees collected, after approval of the Minister of METI.

On February 13, 2019, the Company decided to decommission unit No. 2 of Genkai nuclear power station. In accordance with the accounting regulation, with respect to unit No. 2 of Genkai nuclear power station, the Company transferred carrying amounts related to nuclear power units of ¥12,174 million ($109,665 thousand) and costs related to nuclear power decommissioning (reprocessing costs of irradiated nuclear fuel and costs of separating the components of nuclear fuel) of ¥15,064 million ($135,707 thousand) to a special account related to nuclear power decommissioning presented in investments and other assets. On February 27, 2019, the Minister of METI approved the adaption of the special accounting treatment which the Company submitted on February 13, 2019.

*h. Cash Equivalents*— Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits and mutual fund investments in bonds that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

*i. Inventories*— Inventories are stated at the lower of cost, principally determined by the average method, or net selling value.

*j. Foreign Currency Transactions*— Receivables and payables denominated in foreign currencies are translated into Japanese yen at the rates in effect as of each balance sheet date.

*k. Foreign Currency Financial Statements*—The balance sheet accounts of the consolidated foreign subsidiaries, and nonconsolidated foreign subsidiaries and foreign affiliated companies which are accounted for by the equity method, are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

*l. Derivatives and Hedging Activities*— Derivative financial instruments are classified and accounted for as follows: (a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income and (b) for such derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Liabilities denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the foreign currency fluctuations are translated at the contracted rate if the forward contracts qualify for hedge accounting. Forward contracts applied for committed transactions are measured at fair value and the unrealized gains/losses are deferred until the underlying transactions are completed.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements are recognized and included in interest charges.

*m. Severance Payments and Pension Plans*— The Companies have unfunded retirement plans for most of their employees and the Company and most of the consolidated subsidiaries also have contributory funded defined benefit pension plans covering substantially all of their employees.

Under ASBJ Statement No. 26, “Accounting Standard for Retirement Benefits” and ASBJ Guidance No. 25, “Guidance on Accounting Standard for Retirement Benefits”, the Companies accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects and are recognized in profit or loss over 5 years no longer than the expected average remaining service period of the employees.

*n. Accounting for Contributions Concerning Reprocessing of Spent Nuclear Fuel and Concerning Processing of Nuclear Fuel Material Separated in Reprocessing*— Prior to October 1, 2016, reserve for reprocessing of irradiated nuclear fuel was provided for reprocessing costs of irradiated nuclear fuel. The annual provision was calculated in accordance with the accounting regulations set by the Japanese Government applicable to electric utility providers in Japan.

As of April 1, 2005, unrecognized prior costs of ¥130,495 million, which had not been recognized in the past as a liability, were incurred because new accounting regulations to estimate the reprocessing costs for irradiated nuclear fuel were applicable on or after April 1, 2005. These costs were being amortized on a straight-line basis over 15 years. However, the Company recalculated the estimate in accordance with a specific law. As a result, the unrecognized prior costs as of April 1, 2008 were changed from ¥104,397 million to ¥90,977 million, and these costs are amortized over 12 years, beginning on April 1, 2008. The balance of unrecognized past costs as of March 31, 2016 was ¥30,325 million. The Company was permitted to recover these reprocessing costs by including them in the admitted cost elements for electric rates.

The Company was obliged to reserve funds which were owned by the Company and managed by an independent fund managing body set up based on the Spent Nuclear Fuel Reprocessing Implementation Act. The reserve funds belonged to the nuclear operator and were presented as “Reserve funds for reprocessing of irradiated nuclear fuel” in the consolidated balance sheet.

The Act for Partial Revision of the Spent Nuclear Fuel Reprocessing Implementation Act (the “Act”) was enforced on October 1, 2016. The Act aims to secure the funds stably for reprocessing costs without being influenced by the financial position of nuclear operators under the competitive environment on April 1, 2016, when full liberalization of participation in retail electricity sales began.

The Nuclear Reprocessing Organization of Japan (the “NuRO”) was established on October 3, 2016 under the Act. Nuclear operators are obliged to contribute the funds for reprocessing nuclear fuel to the NuRO every year. Nuclear operators fulfill the obligation to bear the reprocessing costs when they pay contributions to the NuRO, and the funds belong to the NuRO. The Reserve funds for reprocessing of irradiated nuclear fuel which were funded by nuclear operators until September 30, 2016 were transferred to the NuRO.

Contributions to NuRO consists of two parts. One is concerning reprocessing of spent nuclear fuel (part “A”), the other is concerning processing of nuclear fuel material separated in reprocessing (part “B”).

To reflect such revision of the funding system for reprocessing costs of nuclear fuel, accounting regulations applicable to electric providers were revised, and the revised regulations became effective on October 1, 2016. In accordance with the revised regulations, the Company records the part A of contributions to the NuRO, the amount of which is calculated based on quantities of irradiated nuclear fuel resulting from operation of nuclear power stations, as operating expenses. On the other hand, the Company records part B of the contributions to the NuRO as assets and presents them as "Special account related to reprocessing of spent nuclear fuel" in the consolidated balance sheet.

The Company is required to contribute equally divided amounts (¥7,581 million ($68,295 thousand)) of unrecognized past costs due to the revision of accounting regulations effective on April 1, 2005, until 2020 and record them as operating expenses.

*o. Asset Retirement Obligations*— Under ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations," an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement. The Company recognizes the asset retirement obligation as the sum of the future decommissioning costs of nuclear power unit imposed by the "Law on the Regulation of Nuclear Source Material, Nuclear Fuel Material and Reactors," discounted at 2.3%.

Prior to April 1, 2018, the asset retirement costs were allocated to expense through depreciation based on the straight-line method over a period totaling the remaining useful life and expected safe storage period of nuclear power units. However, when the Company decided to decommission nuclear power units due to factors such as a change of the government's energy policy, in accordance with the accounting regulation applicable to electric utility providers, the asset retirement costs were allocated to expense over 10 years from the month that included the date of decommissioning of the nuclear power unit on condition of approval by the Minister of METI.

On April 1, 2018, METI revised the accounting regulations applicable to electric utility providers. Effective April 1, 2018, asset retirement costs are allocated to expense over the remaining useful lives of nuclear power units through depreciation based on the straight-line method, except for asset retirement costs of nuclear power units decommissioned due to factors such as a change of a government energy policy, which are continuously allocated to expense over 10 years from the month that includes the date of decommissioning of the nuclear power unit. As a result, operating income and income before income taxes decreased by ¥4,268 million ($38,447 thousand) for the year ended March 31, 2019.

With the revision of such regulations, the expected period used to calculate discounted value of asset retirement obligations of nuclear power units was changed from the total remaining useful life and expected safe storage period to the remaining useful life. As a result, the amount of asset retirement obligations and asset retirement costs increased by ¥26,082 million ($234,954 thousand) for the year ended March 31, 2019.

On February 13, 2019, the Company decided to decommission unit No. 2 of its Genkai nuclear power station. The Company submitted the application for extension of an accumulation period for the required reserve amounts, after recalculation of the estimated total costs of decommissioning the nuclear power plants, and on April 3, 2019, the Minister of METI approved it.

Consequently, in accordance with the accounting regulation, undepreciated carrying amounts of the asset retirement costs related to unit No. 2 of Genkai nuclear power station are allocated to expenses over 10 years from the month that includes the date of decommissioning of the nuclear power unit.

*p. Income Taxes*— The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The Company and its wholly owned domestic subsidiaries adopted consolidated taxation system.

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

On February 16, 2018, the ASBJ issued ASBJ Statement No. 28, "Partial Amendments to Accounting Standard for Tax Effect Accounting," which requires deferred tax assets and deferred tax liabilities to be classified as investments and other assets and long-term liabilities, respectively. Deferred tax assets were previously classified as current assets and investments and other assets, and deferred tax liabilities were previously classified as current liabilities and long-term liabilities under the previous accounting standard. The revised accounting standard is effective for annual periods beginning on or after April 1, 2018. The Company retrospectively applied the revised accounting standard effective April 1, 2018, and deferred tax assets of ¥43,828 million ($394,818 thousand) and deferred tax liabilities of ¥85 million ($766 thousand) which were previously classified as current assets and long-term liabilities, respectively, as of March 31, 2018, have been reclassified as investments and other assets of ¥195,713 ($1,763,030 thousand), and the amount of deferred tax liabilities classified as long-term liabilities were changed to ¥1,597 million ($14,389 thousand) in the accompanying consolidated balance sheet.

*q. Reserve for Fluctuations in Water Level*— This reserve is provided to stabilize the Company's income level based on the Electricity Business Act and related accounting regulations. This reserve is recorded when the volume of water for generating hydroelectric power is abundant and available for future power generation, and reversed in years when there is an insufficient volume of water. Also, this reserve must be shown as a liability under the act and regulations.

*r. Treasury Stock*— The accounting standard for treasury stock requires that where an affiliated company holds a parent company's stock, a portion which is equivalent to the parent company's interest in such stock should be presented as treasury stock as a separate component of equity and the carrying value of the investment in the affiliated company should be reduced by the same amount.

*s. Board Benefit Trust (BBT)*— The Company introduced a performance-based stock compensation plan called "Board Benefit Trust (BBT)," (the "Plan") for directors (excluding outside directors) and executive officers (together, the "Directors") by the resolution approved at the general shareholders meeting held on June 27, 2018.

(a) Overview of the Plan

The Plan is a stock compensation plan under which shares of the Company will be acquired through a trust (the "Trust" refers to a trust established based on the Plan) using funds contributed by the Company. The shares of the Company and cash equivalent to the value of the Company's shares converted at market value (the "Company's Shares, etc.") will be provided to the Directors through the Trust, pursuant to the "Rules on Provision of Shares to Officers" set forth by the Company. The Company's shares, etc., will be granted to the Directors at the time of retirement of the Directors, in principle.

(b) Shares of the Company held by the Trust

The Company records shares of the Company in the Trust as treasury stock at cost (excluding acquisition-related costs). As of March 31, 2019, the corresponding carrying amount of such treasury stock was ¥839 million ($7,558 thousand), and the number of shares was 676 thousand.

*t. Net Income and Cash Dividends per Share*— Basic earnings per share ("EPS") are computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the year, and diluted EPS reflects the potential dilution that could occur if securities were exercised or converted into common stock.

The weighted-average number of common stock used in the computation of basic EPS and diluted EPS during the year excludes treasury stock held by the Trust established based on BBT (450 thousand shares for the year ended March 31, 2019).

Diluted EPS at year ended reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted EPS of common stock assumes full conversion of the outstanding convertible bonds at the time of issuance with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Cash dividends per share represent actual amounts applicable to earnings of the respective years.

*u. Research and Development Costs*— Research and development costs are charged to income as incurred.

*v. New Accounting Pronouncements*— On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

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

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2018.

The Companies are in the process of determining the period from when they will adopt the accounting standard and guidance, and the effect of adoption has not been evaluated when the consolidated financial statements were published.

### 3. PROPERTY

The breakdown of property at March 31, 2019 and 2018, was as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2019 | 2018 | 2019 |
| Costs: | | | |
| Electric power production facilities: | | | |
| Hydroelectric power | ¥ 823,163 | ¥ 819,664 | $ 7,415,221 |
| Thermal power | 1,422,363 | 1,534,601 | 12,812,931 |
| Nuclear power | 1,859,676 | 1,729,872 | 16,752,331 |
| Internal-combustion engine power | 132,202 | 130,382 | 1,190,902 |
| Renewable power | 114,138 | 115,622 | 1,028,185 |
| Total | 4,351,544 | 4,330,143 | 39,199,572 |
| Transmission facilities | 1,875,081 | 1,860,214 | 16,891,107 |
| Transformation facilities | 1,050,236 | 1,039,480 | 9,460,740 |
| Distribution facilities | 1,471,235 | 1,450,114 | 13,253,178 |
| General facilities | 406,650 | 400,008 | 3,663,184 |
| Other electricity-related facilities | 123,326 | 6,646 | 1,110,950 |
| Other plant and equipment | 1,090,830 | 1,101,218 | 9,826,419 |
| Construction in progress | 587,629 | 561,296 | 5,293,480 |
| Total | 10,956,535 | 10,749,121 | 98,698,633 |
| Less- | | | |
| Contributions in aid of construction | 216,366 | 209,621 | 1,949,069 |
| Accumulated depreciation | 7,396,086 | 7,310,011 | 66,625,406 |
| Carrying amount | ¥ 3,344,082 | ¥ 3,229,489 | $ 30,124,157 |

### 4. INVESTMENT SECURITIES

The costs and aggregate fair values of investment securities at March 31, 2019 and 2018, were as follows:

| | Millions of Yen | | | |
|---|---|---|---|---|
| March 31, 2019 | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as: | | | | |
| Available-for-sale: | | | | |
| Equity securities | ¥3,298 | ¥4,023 | ¥33 | ¥7,288 |
| Debt securities | 230 | 20 | | 250 |
| Other securities | 320 | 70 | 3 | 388 |
| Held-to-maturity | 141 | 0 | 6 | 134 |

| | Millions of Yen | | | |
|---|---|---|---|---|
| March 31, 2018 | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as: | | | | |
| Available-for-sale: | | | | |
| Equity securities | ¥3,265 | ¥4,237 | ¥11 | ¥7,491 |
| Debt securities | 260 | | 30 | 230 |
| Other securities | 369 | 85 | 4 | 451 |
| Held-to-maturity | 251 | 0 | 12 | 238 |

| March 31, 2019 | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as: | | | | |
| Available-for-sale: | | | | |
| Equity securities | $ 29,709 | $ 36,247 | $ 302 | $ 65,653 |
| Debt securities | 2,073 | 182 | | 2,255 |
| Other securities | 2,891 | 639 | 35 | 3,495 |
| Held-to-maturity | 1,270 | 1 | 58 | 1,212 |

## 5. PLEDGED ASSETS

All of the Company's assets amounting to ¥4,278,837 million ($38,544,614 thousand) are subject to certain statutory preferential rights established to secure bonds and loans borrowed from the Development Bank of Japan Inc.

Certain assets of the consolidated subsidiaries, amounting to ¥52,667 million ($474,435 thousand), are pledged as collateral for a portion of their long-term debt at March 31, 2019.

Investments in affiliated companies held by consolidated subsidiaries, amounting to ¥9,523 million ($85,787 thousand), are pledged as collateral for bank loans and derivatives, mainly interest rate swaps of the affiliated companies and the subsidiary of the affiliated companies at March 31, 2019.

## 6. LONG-TERM DEBT

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

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2019 | 2018 | 2019 |
| Yen bonds, 0.14% to 2.825%, due serially to 2039 | ¥ 1,134,497 | ¥ 1,144,296 | $ 10,219,777 |
| Yen-denominated zero coupon convertible bonds due 2020 and 2022 | 150,000 | 150,000 | 1,351,229 |
| Loans from the Development Bank of Japan Inc.,0.34% to 3.15%, due serially to 2038 | 285,450 | 298,471 | 2,571,393 |
| Loans, principally from banks and insurance companies, 0.126% to 4.945%, due serially to 2038 | | | |
| Collateralized | 65,114 | 55,972 | 586,564 |
| Unsecured | 1,473,038 | 1,477,701 | 13,269,419 |
| Obligations under finance leases | 13,736 | 13,413 | 123,738 |
| Total | 3,121,836 | 3,139,856 | 28,122,123 |
| Less current portion | 445,466 | 430,738 | 4,012,848 |
| Long-term debt, less current portion | ¥ 2,676,370 | ¥ 2,709,117 | $ 24,109,274 |

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

| Year ending March 31 | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| 2020 | ¥ 445,466 | $ 4,012,848 |
| 2021 | 408,307 | 3,678,116 |
| 2022 | 386,262 | 3,479,530 |
| 2023 | 308,353 | 2,777,705 |
| 2024 | 289,487 | 2,607,764 |
| Thereafter | 1,283,959 | 11,566,156 |
| Total | ¥ 3,121,836 | $ 28,122,123 |

The offer price of Yen-denominated zero coupon convertible bonds is ¥102.0, and Issue price ¥100.0 has been paid to the Company.

The contents regarding Yen-denominated zero coupon convertible bonds at March 31, 2019, were as follows:

| Stock name | Yen-denominated zero coupon convertible bonds due 2020 | Yen-denominated zero coupon convertible bonds due 2022 |
|---|---|---|
| Stock will be converted | Common stock | Common stock |
| Issue price of stock acquisition rights (yen) | Gratis free | Gratis free |
| Issue price of stock | ¥1,410.5 ($12.70) | ¥1,446.9 ($13.03) |
| Amount of zero coupon convertible bonds | ¥75,000 million ($675,614 thousand) | ¥75,000 million ($675,614 thousand) |
| Amount of stock price issued by exercising stock acquisition rights | — | — |
| Application rate of stock acquisition rights (%) | 100 | 100 |
| Period of exercise stock acquisition rights | From April 13, 2017 to March 17, 2020 | From April 13, 2017 to March 17, 2022 |

In the case of exercising stock acquisition rights, Yen-denominated zero coupon convertible bonds shall be deemed to be acquired by the Company as a capital contribution in kind by such bond holder at the price equal to the principal amount of the bond.

At the general shareholders meeting held on June 26, 2019, the Company's shareholders approved a ¥15 cash dividend per share. As a result, under the constriction rules of convertible bonds, the issue price of stock of Yen-denominated zero coupon convertible bonds due 2020 has been changed from ¥1,410.5 to ¥1,394.6, and the issue price of stock of Yen-denominated zero coupon convertible bonds due 2022 has been changed from ¥1,446.9 to ¥1,430.6, with an effective date on April 1, 2019.

## 7. SEVERANCE PAYMENTS AND PENSION PLANS

Employees terminating their employment with the Companies, either voluntarily or upon reaching mandatory retirement age, are entitled, under most circumstances, to severance payments based on credits earned in each year of service, length of service and certain other factors. As for the Company, if the termination is made voluntarily at one of a number of specified ages, the employee is entitled to certain additional payments.

Additionally, the Company and most of the consolidated subsidiaries have contributory funded defined benefit pension plans covering substantially all of their employees. In general, eligible employees retiring at the mandatory retirement age receive pension payments for the fixed term selected by them. As for the Company, eligible employees retiring after at least 20 years of service but before the mandatory retirement age, receive a lump-sum payment upon retirement and an annuity. The Company has established retirement benefit trusts for the Company's defined retirement benefit plan.

Certain consolidated subsidiaries calculate liability for retirement benefits and periodic benefit costs related to defined retirement benefit plans by the simplified method. Under the simplified method, projected benefit obligations are principally stated at the necessary payment amounts for voluntary retirement as of the end of the fiscal year. The simplified method for accounting for defined retirement benefit plans is allowed for a specified small-sized entity under accounting principles generally accepted in Japan.

### Defined retirement benefit plans (excluding plans applying the simplified method)

(1) The changes in defined benefit obligation for the years ended March 31, 2019 and 2018, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2019 | 2018 | 2019 |
| Balance at beginning of year | ¥ 415,695 | ¥ 421,572 | $3,744,668 |
| Current service cost | 13,554 | 13,657 | 122,106 |
| Interest cost | 3,302 | 3,401 | 29,749 |
| Actuarial losses (gains) | 530 | (164) | 4,776 |
| Benefits paid | (24,159) | (22,693) | (217,631) |
| Prior service cost | 69 | (77) | 623 |
| Other | (0) | (0) | (5) |
| Balance at end of year | ¥ 408,992 | ¥ 415,695 | $3,684,287 |

Notes to Consolidated Financial Statements

(2) The changes in plan assets for the years ended March 31, 2019 and 2018, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2019 | 2018 | 2019 |
| Balance at beginning of year | ¥ 338,750 | ¥ 336,106 | $3,051,531 |
| Expected return on plan assets | 7,276 | 7,034 | 65,544 |
| Actuarial (losses) gains | (8,861) | 6,149 | (79,828) |
| Contributions from the employer | 6,756 | 6,825 | 60,867 |
| Benefits paid | (17,409) | (17,365) | (156,827) |
| Balance at end of year | ¥ 326,512 | ¥ 338,750 | $2,941,286 |

(3) Reconciliation between the liability and asset recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2019 and 2018, was as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2019 | 2018 | 2019 |
| Funded defined benefit obligation | ¥402,204 | ¥409,190 | $3,623,137 |
| Plan assets | (326,512) | (338,750) | (2,941,286) |
| | 75,692 | 70,439 | 681,850 |
| Unfunded defined benefit obligation | 6,788 | 6,505 | 61,150 |
| Net liability for defined benefit obligation | ¥ 82,480 | ¥ 76,945 | $ 743,000 |

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2019 | 2018 | 2019 |
| Liability for retirement benefits | ¥ 95,845 | ¥ 92,010 | $863,392 |
| Assets for retirement benefits | (13,364) | (15,065) | (120,391) |
| Net liability for defined benefit obligation | ¥ 82,480 | ¥ 76,945 | $ 743,000 |

(4) The components of net periodic benefit costs for the years ended March 31, 2019 and 2018, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2019 | 2018 | 2019 |
| Current service cost | ¥ 13,554 | ¥ 13,657 | $ 122,106 |
| Interest cost | 3,302 | 3,401 | 29,749 |
| Expected return on plan assets | (7,276) | (7,034) | (65,544) |
| Recognized actuarial losses | 6,105 | 4,804 | 55,000 |
| Amortization of prior service cost | 658 | (1,980) | 5,930 |
| Others | 240 | 160 | 2,164 |
| Net periodic benefit costs | ¥ 16,585 | ¥ 13,009 | $ 149,406 |

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2019 and 2018, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2019 | 2018 | 2019 |
| Prior service cost | ¥ 589 | ¥ (1,903) | $ 5,306 |
| Actuarial (losses) gains | (3,287) | 11,118 | (29,616) |
| Total | ¥ (2,698) | ¥ 9,215 | $ (24,310) |

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2019 and 2018, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2019 | 2018 | 2019 |
| Unrecognized prior service cost | ¥ (519) | ¥ (1,108) | $ (4,676) |
| Unrecognized actuarial losses | (16,496) | (13,208) | (148,603) |
| Total | ¥ (17,015) | ¥ (14,317) | $(153,280) |

(7) Plan assets as of March 31, 2019 and 2018
*a. Components of plan assets*
Plan assets consisted of the following:

| | 2019 | 2018 |
|---|---|---|
| Debt investments | 42% | 42% |
| Equity investments | 26 | 27 |
| General account of life insurance companies | 19 | 18 |
| Others | 13 | 13 |
| Total | 100% | 100% |

*b. Method of determining the expected rate of return on plan assets*
The expected rate of return on plan assets is determined considering distribution of plan assets currently and in the future and the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the years ended March 31, 2019 and 2018, were set forth as follows:

| | 2019 | 2018 |
|---|---|---|
| Discount rate | Mainly 1.0% | Mainly 1.0% |
| Expected rate of return on plan assets | Mainly 2.0% | Mainly 2.0% |

Defined retirement benefit plans applying the simplified method
(1) The changes in the net carrying amount of liabilities and assets for the years ended March 31, 2019 and 2018, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2019 | 2018 | 2019 |
| Balance at beginning of year | ¥2,899 | ¥3,019 | $ 26,117 |
| Periodic benefit costs | 574 | 443 | 5,174 |
| Benefits paid | (144) | (246) | (1,306) |
| Contributions from the employer | (307) | (318) | (2,770) |
| Balance at end of year | ¥3,021 | ¥2,899 | $ 27,214 |

(2) Reconciliation between the liability and asset recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2019 and 2018, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2019 | 2018 | 2019 |
| Funded defined benefit obligation | ¥6,078 | ¥5,894 | $ 54,758 |
| Plan assets | (5,653) | (5,446) | (50,927) |
| | 425 | 447 | 3,831 |
| Unfunded defined benefit obligation | 2,595 | 2,451 | 23,383 |
| Net carrying amount of liabilities and assets | 3,021 | 2,889 | 27,214 |
| | | | |
| Liabilities for retirement benefits | 3,755 | 3,595 | 33,831 |
| Assets for retirement benefits | (734) | (695) | (6,616) |
| Net carrying amount of liabilities and assets | ¥3,021 | ¥2,899 | $ 27,214 |

(3) Periodic benefit costs

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2019 | 2018 | 2019 |
| Periodic benefit costs calculated under the simplified method | ¥ 574 | ¥ 443 | $5,174 |

Defined contribution plans

The required contribution to defined contribution plans by the Company and its certain consolidated subsidiaries for the years ended March 31, 2019 and 2018 was ¥2,251 million ($20,277 thousand) and ¥2,200 million, respectively.

## 8. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2019 and 2018, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2019 | 2018 | 2019 |
| Balance at beginning of year | ¥ 221,372 | ¥ 217,278 | $ 1,994,168 |
| Net change in the year | 42,793 | 4,093 | 385,495 |
| Balance at end of year | ¥ 264,166 | ¥ 221,372 | $ 2,379,664 |

With the revision of the accounting regulations applicable to electric utility providers on April 1, 2018, the expected period used to calculate discounted value of asset retirement obligations of nuclear power units was changed from the total remaining useful life and expected safe storage period to the remaining useful life. As a result, the amount of asset retirement obligations increased for the year ended March 31, 2019.

## 9. SHORT-TERM BORROWINGS

Short-term borrowings were generally represented by bank loans, bearing interest at rates ranging from 0.16% to 0.46% and from 0.15% to 0.46% for the years ended March 31, 2019 and 2018, respectively.

## 10. INCOME TAXES

The Companies are subject to national and local income taxes. The aggregate normal statutory tax rates for the Company approximated 27.9% and 28.1% for the years ended March 31, 2019 and 2018 respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2019 and 2018, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2019 | 2018 | 2019 |
| Deferred Tax Assets: | | | |
| Tax loss carryforwards | ¥168,314 | ¥174,745 | $1,516,208 |
| Depreciation | 46,269 | 41,867 | 416,801 |
| Liability for retirement benefits | 37,401 | 36,251 | 336,916 |
| Asset retirement obligations | 30,097 | 19,696 | 271,121 |
| Other | 79,670 | 79,098 | 717,683 |
| Total of tax loss carryforwards and temporary differences | 361,751 | 351,660 | 3,258,732 |
| Less valuation allowance for tax loss carryforwards | (95,868) | - | (863,600) |
| Less valuation allowance for temporary differences | (42,242) | - | (380,524) |
| Total valuation allowance | (138,110) | (132,038) | (1,244,125) |
| Deferred tax assets | 223,641 | 219,622 | 2,014,606 |
| | | | |
| Deferred Tax Liabilities: | | | |
| Capitalized assets retirement costs | 11,216 | 1,485 | 101,037 |
| Gain on contributions of securities to retirement benefit trust | 5,375 | 5,375 | 48,420 |
| Accrued income of foreign subsidiary | 4,267 | 3,246 | 38,445 |
| Assets for retirement benefits | 3,981 | 4,418 | 35,867 |
| Amortization in foreign subsidiary | 2,505 | 2,493 | 22,573 |
| Unrealized gain on available-for-sale securities | 1,494 | 1,628 | 13,462 |
| Other | 8,590 | 6,857 | 77,380 |
| Deferred tax liabilities | 37,431 | 25,506 | 337,187 |
| Net deferred tax assets | ¥186,210 | ¥194,116 | $1,677,419 |

The expiration of tax loss carryforwards, the related valuation allowance and the resulting net deferred tax assets as of March 31, 2019 were as follows:

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| March 31, 2019 | One Year or Less | After One Year through Two Years | After Two Years through Three Years | After Three Years through Four Years | After Four Years through Five Years | After Five Years | Total |
| Deferred tax assets relating to tax loss carryforwards (Note a) | ¥ 605 | ¥ 17,551 | ¥86,934 | ¥ 32,174 | ¥25,226 | ¥ 5,821 | ¥168,314 |
| Less valuation allowances for tax loss carryforwards | 505 | 178 | 60,471 | 22,836 | 10,699 | 1,177 | 95,868 |
| Net deferred tax assets relating to tax loss carryforwards | 100 | 17,372 | 26,463 | 9,338 | 14,527 | 4,643 | 72,446 (Note b) |

| March 31, 2019 | Thousands of U.S. Dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| | One Year or Less | After One Year through Two Years | After Two Years through Three Years | After Three Years through Four Years | After Four Years through Five Years | After Five Years | Total |
| Deferred tax assets relating to tax loss carryforwards (Note a) | $ 5,457 | $ 158,105 | $ 783,124 | $ 289,836 | $ 227,246 | $ 52,437 | $ 1,516,208 |
| Less valuation allowances for tax loss carryforwards | 4,553 | 1,607 | 544,736 | 205,717 | 96,379 | 10,607 | 863,600 |
| Net deferred tax assets relating to tax loss carryforwards | 904 | 156,497 | 238,388 | 84,119 | 130,866 | 41,830 | 652,607 (Note b) |

Notes:
a) The tax loss carryforwards were the amount multiplied by the normal effective statutory tax rate.
b) Tax loss carryforwards mainly resulted from the long-term shutdown of nuclear power plants of the Company in past years. Deferred tax assets related to tax loss carryforwards were recognized at amounts the Company judged were recoverable from expectations of future taxable income based on the business plan approved by the Board of Directors.

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the years ended March 31, 2019 and 2018, was as follows:

| | 2019 | 2018 |
|---|---|---|
| Normal effective statutory tax rate | 27.9% | 28.1% |
| Valuation allowance | 11.1 | (45.4) |
| Other - net | (1.2) | (2.4) |
| Actual effective tax rate | 37.8% | (19.7)% |

Chapter 7 of ASBJ Statement No. 28, “Partial Amendments to Accounting Standard for Tax Effect Accounting”, permitted the Company not to disclose the following information retrospectively:

- the amounts of valuation allowances for tax loss carryforwards and for temporary differences
- main reason for changes in valuation allowance if there is a significant change in valuation allowance compared to the amount in the prior year
- the amounts of the expiration of tax loss carryforwards, the related valuation allowance and the resulting net deferred tax assets in future years
- The main reason why the Company judged that deferred tax assets related to tax loss carryforwards were recoverable if the Company recognized material amounts of deferred tax assets related to tax loss carryforwards

## 11. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the general shareholders meeting. For companies that meet certain criteria, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the Company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the criteria.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the Company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/decreases and transfer of common stock, reserve and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account that was charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

### Issuance of Preferred Stock

The Company has issued 1,000 shares of Class A Preferred Stock for ¥100,000 million by way of third-party allotment to the Development Bank of Japan Inc.

(1) Way of offering
Third-party allotment to the Development Bank of Japan Inc.

(2) Class and number of new shares to be issued
1,000 shares of Class A Preferred Stock

(3) Issue price
¥100 million per share

(4) Total amount of the issue price
¥100,000 million

(5) Amount of preferred stock and additional paid-in capital to be increased
Amount of preferred stock to be increased: ¥50,000 million (¥50 million per share)
Amount of additional paid-in capital to be increased: ¥50,000 million (¥50 million per share)

(6) Issue date
August 1, 2014

(7) Uses of proceeds
The proceeds from issuance of the Preferred Stock are planned to be used entirely for construction to enhance the safety of the Company's nuclear power plants to meet new regulations for safety of nuclear power plants.

(8) Characteristics of the Preferred Stock
The Preferred Stock provides no provision for acquisition or right to request acquisition using common stock as consideration that will not dilute common stock. These stocks also do not provide any voting rights at the general shareholders meeting.

The Preferred Stock has a provision for acquisition allowing the Company to acquire this Preferred Stock in exchange for cash the day after the payment date or thereafter. Furthermore, the Preferred Stock will provide the Preferred Shareholders with the right to request acquisition of this Preferred Stock in exchange for cash of the Company the day after the payment date or thereafter if the Preferred Shareholders follow the prescribed procedures, but the exercise of this right by the Preferred Shareholders is limited by the agreement to underwriting of the Preferred Stock.

Annual preferred dividend for the Preferred Stock is ¥3,500 thousand per share.

### 12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥5,459 million ($49,177 thousand) and ¥5,651 million for the years ended March 31, 2019 and 2018, respectively.

### 13. RELATED PARTY DISCLOSURES

(a) Significant transactions of the Company with an affiliated company for the years ended March 31, 2019 and 2018 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2019 | 2018 | 2019 |
| KYUDENKO CORPORATION | | | |
| Transactions: | | | |
| Purchase of construction works on distribution facilities and other | ¥37,794 | ¥38,751 | $340,459 |
| Balances at year end: | | | |
| Payables for construction works | 3,539 | 5,016 | 31,883 |

(b) Notes concerning the parent company or important affiliates

*Important affiliates' financial summary*

For the years ended March 31, 2019, Kyudenko Corporation and Lion Power (2008) Pte. Ltd. were important affiliates. The financial summary of their combined financial statements was as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| | 2019 | 2019 |
| Total current assets | ¥186,053 | $1,676,002 |
| Total noncurrent assets | 166,330 | 1,498,338 |
| Total current liabilities | 148,614 | 1,338,750 |
| Total noncurrent liabilities | 13,802 | 124,334 |
| Total equity | 189,966 | 1,711,255 |
| Operating revenues | 352,007 | 3,170,949 |
| Loss before income taxes | (22,931) | (206,570) |
| Net loss | (33,763) | (304,145) |

Notes:
Kyudenko Corporation and Lion Power (2008) Pte. Ltd. have been regarded as important affiliates since importance of equity in earnings or losses of them in net income was increased for the year ended March 31, 2019.

## 14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

*Items Pertaining to Financial Instruments*

(a) The Companies' policy for financial instruments
The Companies use mainly long-term debt, including bonds and loans, to raise funds required for investments in electric utility plant and equipment and repayments of bonds and loans. Cash surpluses, if any, are invested in low-risk financial assets. Derivatives are used not for speculative purposes, but to avoid financial risks as described in (b) below.

(b) Nature and extent of risks arising from financial instruments and risk control system
Investment securities, mainly held-to-maturity debt securities and equity securities issued by companies related through business, and investments in and advances to nonconsolidated subsidiaries and affiliated companies which have a quoted market price in an active market are exposed to the risk of market price fluctuations. Such market risk is managed by monitoring market values and financial position of issuers on a regular basis. Investment securities and investments in and advances to nonconsolidated subsidiaries and affiliated companies which do not have a quoted market price in an active market are managed by monitoring financial position of issuers on a regular basis. In addition, the Company requires its nonconsolidated subsidiaries and affiliated companies to submit business plans and performance reports, and to consult in advance on any items that could have a significant impact on the Companies' business activities.

Receivables are exposed to customer credit risk. Payment terms are set forth in specific retail electricity power supply provisions and so on. The Companies manage their credit risk from receivables by monitoring payment terms and balances of each customer and identifying and reducing the default risk of customers at an early stage.

Bonds and loans are mainly used to raise funds for investments in plant and equipment. Foreign currency denominated debt is exposed to the market risk of fluctuations in foreign exchange. Such risk is mitigated by using currency swaps. Financial liabilities with variable interest rate is exposed to interest rate fluctuation risk. Such risk is mitigated by using interest rate swaps as necessary.

Payment terms of notes and accounts payable are less than one year. Accounts payable to purchase fuel in foreign currencies is exposed to the market risk of fluctuations in foreign exchange and fuel price. Such risks are mitigated by using currency swaps and energy swaps as necessary.

Liquidity risk comprises the risk that the Companies cannot meet their contractual obligations in full on maturity dates. The Companies manage their liquidity risk by holding adequate volumes of liquid assets based on monthly financial planning and diversifying sources of their financing.

*Fair values of financial instruments*

The carrying amounts and aggregate fair values of financial instruments at March 31, 2019 and 2018 were as follows:

| | Millions of Yen | | |
|---|---|---|---|
| March 31, 2019 | Carrying Amount | Fair Value | Unrecognized Gain (Loss) |
| Investment securities: | | | |
| Held-to-maturity debt securities | ¥ 141 | ¥ 134 | ¥ (6) |
| Available-for-sale securities | 7,926 | 7,926 | |
| Investments in and advances to nonconsolidated subsidiaries and affiliated companies | 31,908 | 55,868 | 23,960 |
| Cash and cash equivalents | 245,273 | 245,273 | |
| Receivables | 237,236 | 237,236 | |
| Total | ¥ 522,485 | ¥ 546,438 | ¥ 23,953 |
| | | | |
| Long-term debt: | | | |
| Bonds | ¥ 1,284,497 | ¥ 1,310,896 | ¥ 26,399 |
| Loans | 1,823,603 | 1,866,554 | 42,951 |
| Short-term borrowings | 115,063 | 115,063 | |
| Notes and accounts payable | 135,648 | 135,648 | |
| Accrued income taxes | 2,324 | 2,324 | |
| Total | ¥ 3,361,136 | ¥ 3,430,487 | ¥ 69,350 |
| Derivatives | (5,002) | (5,002) | |

| | Millions of Yen | | |
|---|---|---|---|
| March 31, 2018 | Carrying Amount | Fair Value | Unrecognized Gain (Loss) |
| Investment securities: | | | |
| Held-to-maturity debt securities | ¥ 251 | ¥ 238 | ¥ (12) |
| Available-for-sale securities | 8,173 | 8,173 | |
| Investments in and advances to nonconsolidated subsidiaries and affiliated companies | 28,400 | 84,205 | 55,804 |
| Cash and cash equivalents | 365,875 | 365,875 | |
| Receivables | 226,334 | 226,334 | |
| Total | ¥ 629,034 | ¥ 684,826 | ¥ 55,792 |
| Long-term debt: | | | |
| Bonds | ¥ 1,294,296 | ¥ 1,323,792 | ¥ 29,495 |
| Loans | 1,832,145 | 1,884,864 | 52,718 |
| Short-term borrowings | 117,371 | 117,371 | |
| Notes and accounts payable | 156,831 | 156,831 | |
| Accrued income taxes | 11,789 | 11,789 | |
| Total | ¥ 3,412,436 | ¥ 3,494,650 | ¥ 82,213 |
| Derivatives | ¥ (2,105) | ¥ (2,105) | |

| | Thousands of U.S. Dollars | | |
|---|---|---|---|
| March 31, 2019 | Carrying Amount | Fair Value | Unrecognized Gain (Loss) |
| Investment securities: | | | |
| Held-to-maturity debt securities | $ 1,270 | $ 1,212 | $ (57) |
| Available-for-sale securities | 71,404 | 71,404 | |
| Investments in and advances to nonconsolidated subsidiaries and affiliated companies | 287,438 | 503,275 | 215,836 |
| Cash and cash equivalents | 2,209,467 | 2,209,467 | |
| Receivables | 2,137,068 | 2,137,068 | |
| Total | $ 4,706,650 | $ 4,922,430 | $ 215,779 |
| Long-term debt: | | | |
| Bonds | $ 11,571,006 | $ 11,808,816 | $ 237,809 |
| Loans | 16,427,377 | 16,814,293 | 386,915 |
| Short-term borrowings | 1,036,515 | 1,036,515 | |
| Notes and accounts payable | 1,221,945 | 1,221,945 | |
| Accrued income taxes | 20,939 | 20,939 | |
| Total | $ 30,277,785 | $ 30,902,510 | $ 624,725 |
| Derivatives | $ (45,061) | $ (45,061) | |

The securities whose fair value cannot be reliably determined are excluded from investment securities and investments in and advances to nonconsolidated subsidiaries and affiliated companies (see (b) below).

Advances are excluded from investments in and advances to nonconsolidated subsidiaries and affiliated companies because they are immaterial.

Long-term debt contains its current portion, and obligations under finance leases are excluded because they are immaterial.

Derivatives are stated at the net amount.

(a) Methods used to calculate fair values of financial instruments

*Investment securities and investments in and advances to nonconsolidated subsidiaries and affiliated companies*

The fair values of investment securities and investments in and advances to nonconsolidated subsidiaries and affiliated companies are measured at the quoted market price of the exchanges for the equity securities. Some of the debt securities are measured principally at the quoted price obtained from financial institutions for other securities. Fair value information for investment securities by classification is included in Note 4.

*Cash and cash equivalent, and receivables*

The carrying amounts of cash and cash equivalents, and receivables approximate fair values because of their short maturities.

*Bonds*

The fair values of bonds are based on market price.

*Long-term loans*

The fair values of long-term loans at fixed interest rates are determined by discounting the cash flows related to the loans at the Company's assumed corporate borrowing rate. Because loans at variable interest rates reflect short-term movements in market interest rates and there has been no substantial change in the Company's credit position since the loans were implemented, the carrying amounts approximate fair values. A part of loans is subjected to interest rate swaps, which qualify for hedge accounting and meet specific matching criteria (see Note 15), and the fair values are determined by discounting the cash flows related to the loans with the interest rate swaps at the Company's assumed corporate borrowing rate.

*Short-term borrowings, notes and accounts payable, and accrued income taxes*

The carrying amounts of short-term borrowings, notes and accounts payable and accrued income taxes approximate fair values because of their short maturities.

*Derivatives*

Fair value information for derivatives is included in Note 15.

(b) Financial instruments whose fair value cannot be reliably determined

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2019 | 2018 | 2019 |
| Investment securities: | | | |
| Available-for-sale: | | | |
| Equity securities | ¥ 64,564 | ¥63,885 | $ 581,609 |
| Other securities | 2,919 | 2,843 | 26,296 |
| Investments in and advances to nonconsolidated subsidiaries and affiliated companies: | | | |
| Equity securities | 69,085 | 74,006 | 622,340 |
| Other securities | 23,691 | 10,780 | 213,413 |
| Total | ¥160,260 | ¥151,515 | $1,443,660 |

## *Maturity analysis for financial assets and securities with contractual maturities*

| | Millions of Yen | | | |
|---|---|---|---|---|
| March 31, 2019 | Due in One Year or Less | Due after One Year through Five Years | Due after Five Years through Ten Years | Due after Ten Years |
| Investment securities: | | | | |
| Held-to-maturity debt securities | | ¥ 5 | | ¥136 |
| Available-for-sale securities with contractual maturities | | 20 | | 250 |
| Cash and cash equivalents | ¥ 245,273 | | | |
| Receivables | 237,236 | | | |
| Total | ¥ 482,509 | ¥25 | | ¥386 |

Notes to Consolidated Financial Statements

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| March 31, 2019 | Due in One Year or Less | Due after One Year through Five Years | Due after Five Years through Ten Years | Due after Ten Years |
| Investment securities: | | | | |
| Held-to-maturity debt securities | | $ 45 | | $ 1,225 |
| Available-for-sale securities with contractual maturities | | 186 | | 2,255 |
| Cash and cash equivalents | $2,209,467 | | | |
| Receivables | 2,137,068 | | | |
| Total | $4,346,536 | $ 231 | | $ 3,480 |

Please see Note 6 for annual maturities of long-term debt.

### 15. DERIVATIVES

The Company enters into foreign exchange forward contracts, currency swaps, interest rate swaps and energy swap agreements to manage its exposures to fluctuations in foreign exchanges, interest rates and fuel price, respectively.

Consolidated subsidiaries of the Company enter into foreign exchange forward contracts and interest rate swaps to manage their exposures to fluctuations in interest rates.

The Companies do not enter into derivatives for trading or speculative purposes.

Foreign exchange forward contracts, currency swaps, interest rate swaps and energy swap agreements are not subject to any market risk except for abandoning potential income by market fluctuations in hedged items.

The Companies do not anticipate any losses arising from credit risk, which is the possibility that a loss may result from counterparties' failure to perform according to the terms and conditions of the contract, because the counterparties to those derivatives have high credit ratings.

The derivative transactions are executed by specific sections, and the administrative section monitors them based on internal policies.

*Derivative transactions to which hedge accounting is applied*

| | Millions of Yen | | | |
|---|---|---|---|---|
| March 31, 2019 | Hedged Item | Contract Amount | Contract Amount Due after One Year | Fair Value |
| Foreign exchange forward contract: | | | | |
| Buying U.S. dollar (Note a) | Accounts payable | ¥ 55,830 | ¥ 55,830 | ¥ (2,016) |
| Buying Canadian dollar (Note a) | | 23,101 | 23,101 | (1,335) |
| Interest rate swaps: | | | | |
| Principle treatment (Note b) | Long-term loans | 35,752 | 34,384 | (1,650) |
| Pay fixed / | | | | |
| Receive floating | | | | |
| Special treatment (Note c) | Long-term loans | 2,323 | 2,106 | |
| Pay fixed / | | | | |
| Receive floating | | | | |
| Total | | | | ¥ (5,002) |

| March 31, 2018 | Hedged Item | Contract Amount (Millions of Yen) | Contract Amount Due after One Year (Millions of Yen) | Fair Value (Millions of Yen) |
|---|---|---|---|---|
| Interest rate swaps: | | | | |
| Principle treatment (Note b) | | | | |
| Pay fixed /Receive floating | Long-term loans | ¥31,804 | ¥28,241 | ¥(2,105) |
| Special treatment (Note c) | | | | |
| Pay fixed / Receive floating | Long-term loans | 2,540 | 2,323 | |
| Total | | | | ¥(2,105) |

| March 31, 2019 | Hedged Item | Contract Amount (Thousands of U.S. Dollars) | Contract Amount Due after One Year (Thousands of U.S. Dollars) | Fair Value (Thousands of U.S. Dollars) |
|---|---|---|---|---|
| Foreign exchange forward contract: | | | | |
| Buying U.S. dollar (Note a) | Accounts payable | $ 502,934 | $ 502,934 | $ (18,165) |
| Buying Canadian dollar (Note a) | | 208,105 | 208,105 | (12,029) |
| Interest rate swaps: | | | | |
| Principle treatment (Note b) | Long-term loans | 322,063 | 309,743 | (14,867) |
| Pay fixed / | | | | |
| Receive floating | | | | |
| Special treatment (Note c) | Long-term loans | 20,926 | 18,972 | |
| Pay fixed / | | | | |
| Receive floating | | | | |
| Total | | | | $ (45,061) |

Notes:
a) The fair value of derivative transactions is measured at the forward foreign exchange rate.
b) The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.
c) The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest charges. As a result, the fair values of interest rate swaps are included in those of hedged items (i.e., long-term loans) in Note 14.
d) The contract or notional amounts of derivatives, which are shown in the above table, do not represent the amounts exchanged by the parties and do not measure the Companies' exposure to market risk.

## 16. COMMITMENTS AND CONTINGENCIES

At March 31, 2019, the Companies had a number of fuel purchase commitments, most of which specify quantities and dates for fuel deliveries. However, most of purchase prices are contingent upon fluctuations in market prices.

Contingent liabilities at March 31, 2019 were as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Co-guarantees of loans, mainly in connection with procurement of fuel | ¥86,875 | $782,590 |
| Guarantees of employees' loans | 54,730 | 493,021 |
| Other | 10,053 | 90,565 |

## 17. COMPREHENSIVE INCOME

The components of other comprehensive (loss) income for the years ended March 31, 2019 and 2018, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2019 | 2018 | 2019 |
| Other comprehensive (loss) income: | | | |
| Unrealized (loss) gain on available-for-sale securities: | | | |
| (Losses) gains arising during the year | ¥ (183) | ¥ 676 | $ (1,649) |
| Reclassification adjustments to profit or loss | 2 | 7 | 26 |
| Amount before income tax effect | (180) | 683 | (1,623) |
| Income tax effect | 67 | (220) | 604 |
| Total | ¥ (113) | ¥ 462 | $ (1,018) |
| Deferred loss on derivatives under hedge accounting: | | | |
| Losses arising during the year | ¥ (2,569 ) | ¥ (617) | $ (23,149) |
| Reclassification adjustments to profit or loss | (327) | 535 | (2,948) |
| Amount before income tax effect | (2,897) | (82) | (26,098) |
| Income tax effect | (258) | (96) | (2,325) |
| Total | ¥ (3,155) | ¥ (178) | $ (28,423) |
| Foreign currency translation adjustments: | | | |
| (Losses) gains arising during the year | ¥ (5,006) | ¥ 2,570 | $ (45,098) |
| Amount before income tax effect | (5,006) | 2,570 | (45,098) |
| Income tax effect | 1,469 | (1,122) | 13,239 |
| Total | ¥ (3,536) | ¥ 1,448 | $ (31,859) |
| Defined retirement benefit plans: | | | |
| (Losses) gains arising during the year | ¥ (9,462) | ¥ 6,385 | $ (85,240) |
| Reclassification adjustments to profit or loss | 6,763 | 2,830 | 60,930 |
| Amount before income tax effect | (2,698) | 9,215 | (24,310) |
| Income tax effect | 744 | (2,617) | 6,704 |
| Total | ¥ (1,954) | ¥ 6,598 | $ (17,605) |
| Share of other comprehensive (loss) income in nonconsolidated subsidiaries and affiliated companies: | | | |
| (Losses) gains arising during the year | ¥ (1,121) | ¥ 265 | $ (10,105) |
| Reclassification adjustments to profit or loss | (24) | (33) | (221) |
| Total | ¥ (1,146) | ¥ 231 | $ (10,326) |
| Total other comprehensive (loss) income | ¥ (9,905) | ¥ 8,562 | $ (89,233) |

## 18. SEGMENT INFORMATION

(1) Description of reportable segments

The Companies' reportable segments are those for which financial information is available separately and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Companies. Therefore, the Companies segments consist of electric power, energy related business, information technology (IT) and telecommunications and other.

- *Electric Power segment:* this segment is engaged in the business of power supply mainly with the Kyushu region as the basis of its operational development.
- *Energy related Business segment:* this segment is engaged in the wholesale supply of electricity; obtaining; storing; gasifying; supplying and selling gas and LNG; a renewable energy business; and other businesses related to energy.
- *IT and Telecommunications segment:* this segment is engaged in the provision of telecommunications services.
- *Other segment:* this segment is engaged in the provision of environment and recycling services, lifestyle-oriented services and others.

(2) Methods of measurement for the amounts of sales, profit, assets and other items for each reportable segment

The accounting policies of each reportable segment are consistent to those disclosed in Note 2, "Summary of Significant Accounting Policies."

*The revision of the accounting regulations applicable to electric utility providers*

METI revised the accounting regulations which became effective on April 1, 2018. Prior to April 1, 2018, the asset retirement costs were allocated to expense through depreciation based on the straight-line method over a period totaling the remaining useful life and expected safe storage period of nuclear power units. Effective April 1, 2018, these costs are allocated to expense through depreciation based on the straight-line method over the remaining useful life of nuclear power units. As a result, segment profit of Electric Power for the year ended March 31, 2019, decreased by ¥4,268 million ($38,447 thousand).

(3) Information about sales, profit, assets and other items at March 31, 2019 and 2018, was as follows:

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2019 | | | | | | |
| | Reportable segment | | | | | | |
| | Electric Power | Energy-related Business | IT and Telecommu-nications | Other | Total | Reconciliations | Consolidated |
| Sales: | | | | | | | |
| Sales to external customers | ¥ 1,844,850 | ¥ 82,989 | ¥ 73,330 | ¥ 16,011 | ¥ 2,017,181 | | ¥ 2,017,181 |
| Intersegment sales or transfers | 3,845 | 134,655 | 32,117 | 13,499 | 184,116 | ¥ (184,116) | |
| Total | ¥ 1,848,695 | ¥ 217,644 | ¥ 105,447 | ¥ 29,510 | ¥ 2,201,298 | ¥ (184,116) | ¥ 2,017,181 |
| Segment profit | ¥ 61,728 | ¥ 14,764 | ¥ 4,860 | ¥ 6,025 | ¥ 87,378 | ¥ (803) | ¥ 86,575 |
| Segment assets | 4,075,845 | 506,199 | 188,273 | 171,603 | 4,941,921 | (147,882) | 4,794,039 |
| Other: | | | | | | | |
| Depreciation | 204,040 | 10,740 | 22,667 | 3,703 | 241,152 | (2,962) | 238,189 |
| Increase in property and nuclear fuel | 323,938 | 26,445 | 21,743 | 2,569 | 374,697 | (4,881) | 369,816 |

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2018 | | | | | | |
| | Reportable segment | | | | | | |
| | Electric Power | Energy-related Business | IT and Telecommu-nications | Other | Total | Reconciliations | Consolidated |
| Sales: | | | | | | | |
| Sales to | | | | | | | |
| external customers | ¥ 1,804,418 | ¥ 73,134 | ¥ 70,512 | ¥ 12,293 | ¥ 1,960,359 | | ¥ 1,960,359 |
| Intersegment sales | | | | | | | |
| or transfers | 3,892 | 118,335 | 36,175 | 13,288 | 171,691 | ¥ (171,691) | |
| Total | ¥ 1,808,311 | ¥ 191,470 | ¥ 106,687 | ¥ 25,581 | ¥ 2,132,051 | ¥ (171,691) | ¥ 1,960,359 |
| Segment profit | ¥ 81,422 | ¥ 11,732 | ¥ 7,321 | ¥ 4,824 | ¥ 105,301 | ¥ (2,177) | ¥ 103,123 |
| Segment assets | 4,038,218 | 487,956 | 185,515 | 149,497 | 4,861,188 | (151,029) | 4,710,158 |
| Other: | | | | | | | |
| Depreciation | 180,179 | 8,044 | 21,408 | 3,795 | 213,428 | (2,972) | 210,455 |
| Increase in property | | | | | | | |
| and nuclear fuel | 318,488 | 20,094 | 22,837 | 2,417 | 363,838 | (4,885) | 358,953 |

| | Thousands of U.S. Dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2019 | | | | | | |
| | Reportable segment | | | | | | |
| | Electric Power | Energy-related Business | IT and Telecommu-nications | Other | Total | Reconciliations | Consolidated |
| Sales: | | | | | | | |
| Sales to | | | | | | | |
| external customers | $16,618,777 | $ 747,586 | $ 660,572 | $ 144,233 | $18,171,171 | | $18,171,171 |
| Intersegment sales | 34,638 | 1,212,998 | 289,317 | 121,605 | | | |
| or transfers | | | | | 1,658,560 | $(1,658,560) | |
| Total | $16,653,415 | $1,960,585 | $ 949,890 | $ 265,839 | $19,829,732 | $(1,658,560) | $18,171,171 |
| Segment profit | $ 556,063 | $ 132,998 | $ 43,785 | $ 54,278 | $ 787,126 | $ (7,241) | $ 779,885 |
| Segment assets | 36,716,025 | 4,559,943 | 1,696,004 | 1,545,835 | 44,517,808 | (1,332,150) | 43,185,657 |
| Other: | | | | | | | |
| Depreciation | 1,838,041 | 96,755 | 204,190 | 33,362 | 2,172,349 | (26,690) | 2,145,658 |
| Increase in property | | | | | | | |
| and nuclear fuel | 2,918,101 | 238,228 | 195,870 | 23,146 | 3,375,347 | (43,969) | 3,331,378 |

Notes:
(a) Reconciliations of segment profit and segment assets are intersegment transaction eliminations.
(b) Segment profit is adjusted to reflect operating income in the consolidated statement of income.

Geographic segment information is not disclosed because the Companies' overseas operations are immaterial.
Information for overseas sales is not disclosed due to overseas sales being immaterial compared with consolidated net sales.

## 19. SUBSEQUENT EVENT

### *a. Year-end cash dividends*

At the general shareholders meeting held on June 26, 2019, the Company's shareholders approved the following appropriation of retained earnings as of March 31, 2019:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Year-end cash dividends, ¥15.00 ($0.13) per common share | ¥7,109 | $64,041 |
| Year-end cash dividends, ¥1,750,000.00 ($15,764.34) per Class A preferred share | ¥1,750 | $15,764 |

*b. Acquisition and disposal of Class A preferred stock*

At the Board of Directors meeting of the Company, it was resolved to acquire the current Class A preferred stock based on the articles of incorporation and to issue the new Class A preferred stock to Mizuho Bank, Ltd., Development Bank of Japan Inc. and MUFG Bank, Ltd. by third-party allocation. Partial revision of the articles of incorporation with regard to changing contents of current Class A preferred stock and allocation of new Class A preferred stock were approved at the general shareholders meeting held on June 26, 2019. They were also approved at the meeting of ordinary shareholders and preferred shareholders.

(1) Reasons for acquisition and disposal of the Class A preferred stock

The Company will acquire the current Class A preferred stock and issue the new Class A preferred stock to secure stability of equity and reduce the burden of preferred dividends.

(2) Contents of the matters concerning acquisition

| | |
|---|---|
| a) Class of the target stock | Current Class A preferred stock |
| b) Number of shares acquired | 1,000 shares |
| c) Acquisition price | ¥100,843,836 ($908,421) per share |

*Standard acquisition price formula*

The amount to be paid per Class A share by cash = ¥100,000,000 ($900,819) + The amount of accumulated unpaid dividends for the Class A preferred stock until the year prior to the previous fiscal year + The amount of unpaid dividends for the Class A preferred stock in the previous fiscal year + The amount of unpaid dividends for the Class A preferred stock in the fiscal year.

The amounts of accumulated unpaid dividends for the Class A preferred stock until the year prior to the previous fiscal year and the amount of unpaid dividends for the Class A preferred stock in the previous fiscal year are zero since there are no accumulated unpaid dividends until the year prior to the previous fiscal year and unpaid dividends in the previous fiscal year for the Class A preferred stock.

| | |
|---|---|
| d) Total acquisition price | ¥100,843,836,000 ($908,421,187) |
| e) Acquisition from | Development Bank of Japan Inc. |
| f) Date of acquisition | June 27, 2019 |

(3) Contents of the matters concerning issue

| | | |
|---|---|---|
| a) Date of payment | June 28, 2019 | |
| b) Number of shares issue | New Class A preferred stock 1,000 shares | |
| c) Payment price | ¥100,000,000 ($900,819) per share | |
| d) Total payment price | ¥100,000,000,000 ($900,819,745) | |
| e) Annual preferred dividend | ¥2,100,000 ($18,917) per share | |
| | (Annual preferred dividend as of the record date of March 31, 2020 is ¥1,599,452 ($14,408) per share.) | |
| f) Method of allocation | Third-party allocation | |
| g) Allottee | Mizuho Bank, Ltd. | 400 shares |
| | Development Bank of Japan Inc. | 400 shares |
| | MUFG Bank, Ltd. | 200 shares |
| h) Uses of proceeds | The proceeds procured by issue of new Class A preferred stock will be used to repay a part of a bank loan the Company borrowed for acquisition of current Class A preferred stock | |

(4) Other important points

Shareholders of new Class A preferred stock are able to receive dividends in preference to common shareholders. However, Shareholders of new Class A preferred stock do not have any voting rights at the general shareholders' meetings.

The new Class A preferred stock provides no provision for acquisition or right to request acquisition using common stock as consideration that will not dilute common stock. These stocks also do not provide any voting rights at the general shareholders meeting.

*c. Execution of the Absorption-type Split Agreement*

At the Board of Directors meeting of the Company held on April 26, 2019, the Company resolved to execute an absorption-type corporate split agreement ("the Absorption-type Split Agreement") with Kyushu Electric Power Transmission and Distribution Co., Inc. (the succeeding company), which succeeds the Company's general electricity transmission and distribution business and power generation business in remote islands by way of the corporate split. The Absorption-type Split is subject to the approval of government authorities related to the general electricity transmission and distribution business.

(1) Background and purpose of Split

With respect to Japanese energy policy, the electric power system reform has been enacted in order to realize "secure stable supply of electric power," "suppress electricity rates" and "expand choices for consumers and business opportunities for electric providers."

In June 2015, the Electricity Business Act was revised as a part of the reform. The revised Act requires former General Electricity Utility to legally split the General Transmission and Distribution Business in April 2020 ("Legal Unbundling"). The revised Act also forbids General Transmission and Distribution Utility to operate power generation or retail electricity businesses for the purpose of ensuring fairness of general transmission and distribution division.

The Company will carry out an absorption-type split in which the general transmission and distribution business will be transferred to the succeeding company, a wholly owned subsidiary of the Company. The business split aims not only to respond to Legal Unbundling appropriately but also to improve value of the entire group and build a competitive business management system.

After the business split, the Company will provide energy services for abundant and comfortable life for customers and improve further profitability through enhancing competitiveness as a business holding company which operates power generation and retail electricity businesses. On the other hand, the succeeding company will enhance fairness, transparency and neutrality and aim to improve trust of customers by providing a stable supply of electric power and economic efficiency as a result of streamlining and advancing operations.

The Company and the succeeding company will fulfill their responsibilities as energy business operators and aim to sustainably improve the value of the entire group.

(2) Outline of the absorption-type split

a) The schedule of the absorption-type split

| | |
|---|---|
| The Board of Directors approved the Absorption-type Split Agreement (the Company): | April 26, 2019 |
| Resolution of directors to approve the Absorption-type Split Agreement (the succeeding company): | April 26, 2019 |
| Conclusion of the Absorption-type Split Agreement: | April 26, 2019 |
| Ordinary general shareholders' meeting to approve the Absorption-type Split Agreement (the Company): | June 26, 2019 |
| Extraordinary shareholders' meeting to approve the Absorption-type Split Agreement (the succeeding company): | June 26, 2019 |
| Effective date of the absorption-type split: | April 1, 2020 (plan) |

b) Method of the absorption-type split

This is an absorption-type split where in the Company will be the splitting company and the subsidiary wholly owned by the Company will be the succeeding Company.

c) Details of allotment related to the absorption-type split

The succeeding company, at the time of the absorption-type split, will newly issue 33,600,000 shares of common stock, which will all be allocated to the Company.

d) Treatment of stock acquisition rights and corporate bonds with stock acquisition rights following the absorption-type split

The Company's corporate bonds with share options will not be changed. The Company has not issued stock acquisition rights.

e) Common stock to be changed due to the absorption-type split

There will be no change in common stock of the Company.

f) Rights and obligations succeeded by the succeeding company

The succeeding company will succeed the rights and obligations held with respect to the general electricity transmission and distribution business and any business incidental thereto on the effective day in accordance with the provisions of the Absorption-type Split Agreement with the Company on April 26, 2019. With respect to the assumption of obligations by the succeeding company through the split, the Company will be released from such obligations. The succeeding company will not assume obligations, etc., associated with existing public bonds of the Company.

g) Prospects for default

The management of the Company and succeeding company determined that there is no problem regarding the prospect for default after the absorption-type split, because the amounts of respective assets of the Company and the succeeding company are expected to exceed the amounts of their respective liabilities after the absorption-type split and there is no estimation of default of the Company and the succeeding company after the absorption-type split.

(3) Outline of business unit to be split

a) Business contents

| Succeeding company | Description of business |
|---|---|
| Kyushu Electric Power Transmission and Distribution Co., Inc. | General electricity transmission and distribution business, Power generation business in remote islands and any business incidental thereto |

b) Operating results of business unit to be split [For the year ended March 31, 2019]

| Description of business | Sales of businesses unit to be split (a) | Sales of the Company (b) | Ratio (a/b) |
|---|---|---|---|
| General electricity transmission and distribution business, Power generation business in remote islands and any business incidental thereto | ¥114,441 million ($1,030,915 thousand) | ¥1,867,152 million ($16,819,680 thousand) | 6.1% |

c) Items and amounts of assets and liabilities to be split [As of March 31, 2019]

| Assets | | Liabilities | |
|---|---|---|---|
| Item | Carrying amount | Item | Carrying amount |
| Non-current assets | ¥1,729,924 million ($15,583,499 thousand) | Long-term liabilities | ¥38,599 million ($347,707 thousand) |
| Current assets | ¥ 115,192 million ($1,037,675 thousand) | Current liabilities | ¥124,548 million ($1,121,958 thousand) |
| Total | ¥1,845,116 million ($16,621,174 thousand) | Total | ¥163,147 million ($1,469,666 thousand) |

Notes:
The amounts of assets and liabilities to be divided shown above are the estimates of March 31, 2019. The amounts that will actually be transferred will reflect any increases or decreases made to the above amounts up to the effective date of the Split.

(4) State of the Company after the absorption-type split [As of April 1, 2020 (plan)]

| | Splitting company |
|---|---|
| Company name | Kyushu Electric Power Co., Inc. |
| Location | 1-82 Watanabe-dori 2-chome, Chuo-ku, Fukuoka |
| Title and name of authorized representative | Kazuhiro Ikebe, President and Chief Executive Officer |
| Description of business | Electricity business, etc. |
| Capital | ¥237,304 million ($2,137,689 thousand) |
| Fiscal year-end | March 31 |

(5) State of the succeeding company after the absorption-type split [As of April 1, 2020 (plan)]

| | Succeeding company |
|---|---|
| Company name | Kyushu Electric Power Transmission and Distribution Co., Inc. |
| Location | 1-82 Watanabe-dori 2-chome, Chuo-ku, Fukuoka |
| Title and name of authorized representative | Takeshi Hirowatari, President and Chief Executive Officer |
| Description of business | General electricity transmission and distribution business, Power generation business in remote islands and any business incidental thereto |
| Capital | ¥20,000 million ($180,163 thousand) |
| Fiscal year-end | March 31 |

(6) Outline of Accounting Treatment Applied

In accordance with the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, issued on January 16, 2019), and “Guidance on Accounting Standard for Business Combinations and Business Separations” (ASBJ Guidance No. 10, issued on January 16, 2019), this business combination will be accounted for as business combinations under common control.

## 20. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the year ended March 31, 2019 and 2018, was as follows:

| | Millions of Yen | Thousands of Shares | Yen | U.S. Dollars |
|---|---|---|---|---|
| Year Ended March 31, 2019 | Net Income Attributable to Owners of the Parent | Weighted-Average Shares | EPS | |
| Net income attributable to owners of the parent | ¥30,970 | | | |
| Amount not attributable to common shareholder: | | | | |
| Preferred dividend | (3,500) | | | |
| Basic EPS-Net income available to common shareholders | ¥27,470 | 473,206 | ¥58.05 | $0.52 |
| Effect of dilutive securities: | | | | |
| Convertible bonds | | 105,008 | | |
| Diluted EPS-Net income for computation | ¥27,470 | 578,214 | ¥47.51 | $0.42 |

| | Millions of Yen | Thousands of Shares | Yen |
|---|---|---|---|
| Year Ended March 31, 2018 | Net Income Attributable to Owners of the Parent | Weighted-Average Shares | EPS |
| Net income attributable to owners of the parent | ¥86,657 | | |
| Amount not attributable to common shareholder: | | | |
| Preferred dividend | (3,500) | | |
| Basic EPS-Net income available to common shareholders | ¥83,157 | 473,662 | ¥175.56 |
| Effect of dilutive securities: | | | |
| Convertible bonds | | 103,705 | |
| Diluted EPS-Net income for computation | ¥83,157 | 577,367 | ¥144.03 |

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Kyushu Electric Power Company, Incorporated:

We have audited the accompanying consolidated balance sheet of Kyushu Electric Power Company, Incorporated and its consolidated subsidiaries as of March 31, 2019, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### 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 audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we 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 the auditor's 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, the auditor considers 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, but 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 referred to above present fairly, in all material respects, the consolidated financial position of Kyushu Electric Power Company, Incorporated and its consolidated subsidiaries as of March 31, 2019, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 26, 2019

Member of
Deloitte Touche Tohmatsu Limited