# Consolidated Eleven-year Financial Summary

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

| | Millions of Yen | | | | | | | | | | | Thousand US dollars |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| For the Year: | 2010.3 | 2011.3 | 2012.3 | 2013.3 | 2014.3 | 2015.3 | 2016.3 | 2017.3 | 2018.3 | 2019.3 | 2020.3 | 2020.3 |
| Operating revenues: | ¥1,444,941 | ¥1,486,083 | ¥1,508,084 | ¥1,545,919 | ¥1,791,152 | ¥1,873,467 | ¥1,835,692 | ¥1,827,524 | ¥1,960,359 | ¥2,017,181 | ¥2,013,050 | $18,497,197 |
| Electric | 1,310,085 | 1,354,204 | 1,367,610 | 1,406,218 | 1,633,023 | 1,719,570 | 1,688,328 | 1,681,066 | 1,804,418 | 1,844,850 | 1,800,189 | 16,541,302 |
| Other | 134,856 | 131,878 | 140,474 | 139,700 | 158,129 | 153,897 | 147,364 | 146,458 | 155,940 | 172,331 | 212,860 | 1,955,895 |
| Operating expenses: | 1,345,214 | 1,387,174 | 1,692,939 | 1,845,347 | 1,886,974 | 1,916,782 | 1,715,435 | 1,704,883 | 1,857,235 | 1,930,606 | 1,949,236 | 17,910,837 |
| Electric | 1,220,536 | 1,261,425 | 1,562,055 | 1,715,262 | 1,746,890 | 1,779,711 | 1,584,556 | 1,574,890 | 1,713,322 | 1,771,776 | 1,751,766 | 16,096,358 |
| Other | 124,677 | 125,748 | 130,883 | 130,085 | 140,083 | 137,070 | 130,879 | 129,993 | 143,913 | 158,829 | 197,469 | 1,814,478 |
| Interest charges | 35,292 | 34,025 | 34,025 | 37,407 | 39,429 | 40,148 | 39,317 | 36,008 | 33,416 | 31,397 | 28,990 | 266,385 |
| Income (loss) before income taxes and minority interests | 67,610 | 48,318 | (214,750) | (334,298) | (73,732) | (72,901) | 92,499 | 82,840 | 73,558 | 52,276 | 40,170 | 369,115 |
| Income taxes | 25,404 | 19,245 | (48,760) | (2,195) | 20,786 | 40,324 | 17,359 | 2,230 | (14,470) | 19,773 | 38,594 | 354,633 |
| Net income (loss) attributable to owners of the parent | 41,812 | 28,729 | (166,390) | (332,470) | (96,096) | (114,695) | 73,499 | 79,270 | 86,657 | 30,970 | (419) | (3,851) |

| | Yen | | | | | | | | | | | (U.S. dollars) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Per Share of Common Stock: Basic net income (loss) | ¥88.38 | ¥60.73 | ¥(351.80) | ¥(702.98) | ¥(203.19) | ¥(242.38) | ¥155.17 | ¥159.97 | ¥175.56 | ¥58.05 | ¥(6.05) | $(0.05) |
| Diluted net income (loss) | — | — | — | — | — | — | — | 159.78 | 144.03 | 47.51 | — | — |
| Cash dividends applicable to the year (common stock)[*1] | 60.00 | 60.00 | 50.00 | — | — | — | — | 15.00 | 20.00 | 30.00 | 35.00 | 0.32 |
| Cash dividends applicable to the year (Class A preferred shares)[*1] | — | — | — | — | — | — | — | 3,500,000.00 | 3,500,000.00 | 3,500,000.00 | 1,599,452.00 | 14,696.79 |

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

| | Millions of Yen | | | | | | | | | | | Thousand US dollars |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| At Year-End: | 2010.3 | 2011.3 | 2012.3 | 2013.3 | 2014.3 | 2015.3 | 2016.3 | 2017.3 | 2018.3 | 2019.3 | 2020.3 | 2020.3 |
| Total assets | ¥4,054,192 | ¥4,185,460 | ¥4,428,093 | ¥4,526,513 | ¥4,549,852 | ¥4,784,735 | ¥4,748,237 | ¥4,587,541 | ¥4,710,073 | ¥4,794,039 | ¥4,948,063 | $45,465,988 |
| Net property | 3,037,054 | 3,033,125 | 2,997,232 | 2,941,114 | 2,941,142 | 2,985,935 | 3,073,861 | 3,134,911 | 3,229,489 | 3,344,082 | 3,483,659 | 32,010,098 |
| Long-term debt, less current portion | 1,724,972 | 1,714,429 | 2,188,601 | 2,526,729 | 2,804,896 | 2,844,538 | 2,745,848 | 2,789,038 | 2,699,097 | 2,666,177 | 2,795,794 | 25,689,557 |
| Total equity | 1,089,066 | 1,079,679 | 888,131 | 557,799 | 494,232 | 450,990 | 499,903 | 574,577 | 653,963 | 665,250 | 637,957 | 5,861,964 |

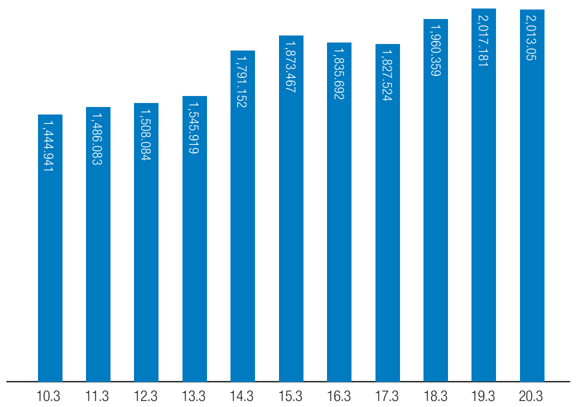
(U.S. dollar amounts have been translated from yen, for convenience, at the rate of ¥108.83 = U.S.$1, the approximate rate of exchange at March 31, 2020.)
Note: Figures less than a million yen are rounded down. (Applies hereafter)

## Summary of the Year Ended March 31, 2020

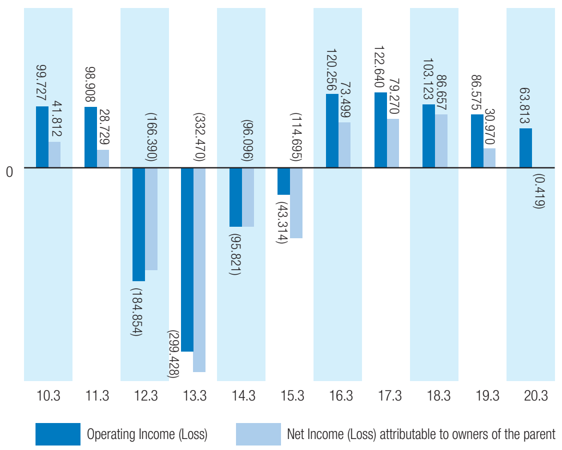
In terms of business results for the fiscal year ending March 31, 2020, although the Group has been working to reduce costs, and we enjoyed a decrease in fuel costs due to a decrease in the unit price of thermal power generation as the Matsuura Power Station No. 2 started operation, ordinary income decreased in comparison to the previous fiscal year. Factors include a decrease in light and power revenue, a decrease in delivered power revenue due to a market slump in wholesale power transactions, and an increase in depreciation costs due to starting operation of the Matsuura Power Station No. 2. Based on recent business performance trends, net income attributable to owners of the parent was -400 million yen, reflecting an increase in income taxes due to the partial withdrawal of deferred tax assets as a result of examining the recoverability of deferred tax assets.

For more information on financial conditions, please refer to the Securities Report.

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 as of March 31 for 2020, consolidated operating revenues decreased 0.2% from the previous fiscal year to ¥2.013 trillion despite an increase in sales in the ICT service business. Factors include a decrease in retail electricity sales and in electricity sales to other suppliers as well as an increase in renewable energy-related subsidies.

Operating expenses increased 1.0% to ¥1.9492 trillion despite the Group working to reduce costs and decreased fuel costs due to a decrease in the unit price of thermal power generation for the domestic power business. Factors include an increase in depreciation costs, an increase in cost of purchased power from renewable sources, an increase in electricity procurement costs at consolidated subsidiaries, and an increase in costs in the ICT service business.

As a result, operating income for the term under review fell 26.3% year on year, to ¥63.8 billion.

Other revenues increased 62.5% year on year, to ¥16.9 billion due to the recording of equity in earnings of affiliates. Other expenses decreased 8.4% from the previous fiscal year to ¥40.7 billion, partly due to the impact of equity method investment losses recorded in the previous fiscal year.

Ordinary revenue was ¥2.03 trillion, an increase of 0.1% over the previous fiscal year, while ordinary expenses reached ¥1.9899 trillion, up 0.8%. As a result, ordinary income was down 23.8% year on year, to ¥40 billion.

Corporate income tax increased to 38.5 billion from ¥18.8 billion over the previous term, due to such factors as an increase in income taxes-deferred resulting from partial withdrawal of deferred tax assets.

As a result of the foregoing factors, net income attributable to owners of the parent declined by ¥31.3 billion over the previous fiscal year, to ¥400 million. The basic net income per share of common stock decreased by ¥64.10, resulting in a ¥6.05 loss.

## Segment Information (Before Elimination of Internal Transactions)

### (1) Domestic Power Business

Despite a decrease in volume sold by the Group due to bad weather in summer and the effects of a warm winter, group total retail sales volume increased 0.6% over the previous fiscal year to 73.2 billion kWh due to the increase in contracts in the Kanto area by Kyuden Mirai Energy Company, Incorporated. Total Group wholesale electric power sales decreased 4.4% from the previous fiscal year to 7.5 billion kWh. As a result, the total electricity sales volume sold by the Group increased by 0.1% over the previous fiscal year to 80.7 billion kWh.

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

In terms of operating results, operating revenues decreased 0.6% from the previous fiscal year to 1.8483 trillion yen despite an increase in renewable energy-related subsidies. Factors include decreases in electricity charges and electricity charges from resellers. Operating expenses increased 0.7% to 1.8059 trillion yen despite the Group working to reduce costs and decreased fuel costs due to a decrease in the unit price of thermal power generation. Factors include an increase in depreciation costs, an increase in cost of purchased power from renewable sources, and an increase in electricity procurement costs at consolidated subsidiaries.

As a result, operating income fell 34.5% to ¥42.4 billion.

### (2) Other Energy Service Business

Operating revenues decreased 4.6% from the previous fiscal year to 193.9 billion yen, and operating income decreased 1.8% to 11.4 billion yen despite an increase in projects to replace electric meters. Factors include a decrease in power plant construction/repair projects and a decline in LNG sales prices.

### (3) ICT Service Business

Sales increased 6.9% over the previous fiscal year to ¥112.6 billion due to contracts for information system development and sales of information system equipment. Operating revenues increased 28.7% to ¥6.2 billion.

### (4) Other Business

Sales decreased 2.2% from the previous fiscal year to ¥28.8 billion due to a decrease in real estate sales. Operating revenues decreased 19.8% to ¥4.8 billion.

## Financial Position

### (1) Assets, Liabilities and Equity

Assets increased by ¥154 billion to ¥4.948 trillion mainly due to an increase in fixed assets from construction projects to improve nuclear safety.

Liabilities increased by ¥181.3 billion over the end of the previous fiscal year to ¥4.3101 trillion due to an increase in interest-bearing debt. The balance of interest-bearing debt increased by 183.1 billion year on year to ¥3.4062 trillion.

Total equity decreased ¥27.2 billion to reach 637.9 billion at the close of the term, while the equity ratio was 12.3%, partially due to dividend payments.

### (2) Cash Flows

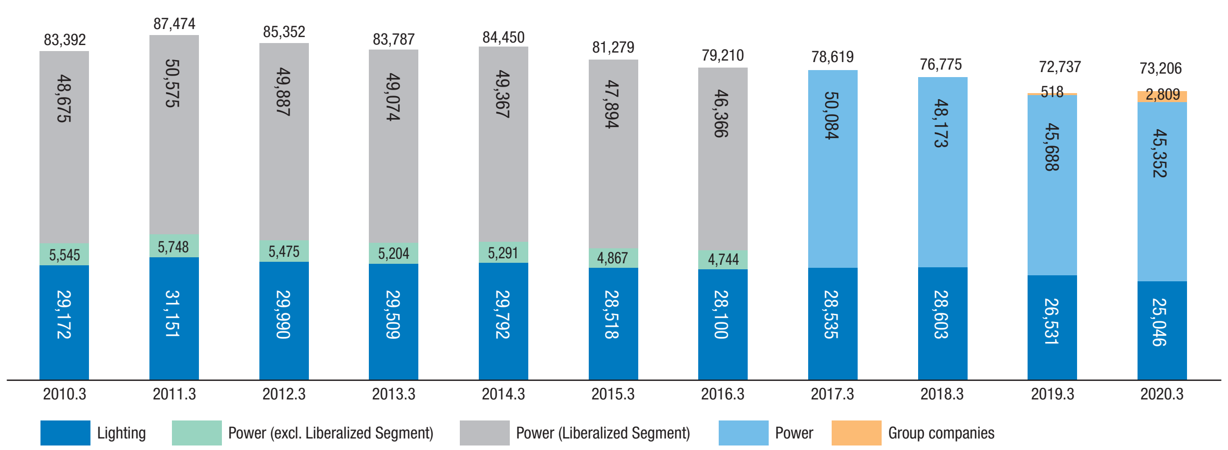
Cash flows provided by operating activities fell by ¥56.1 billion from the previous fiscal year to ¥226.8 billion despite a decrease in fuel expenses in our electricity business. Factors include a drop in lighting and power revenue and the costs of purchased power as well as an increase in costs associated with reprocessing of used nuclear fuel.

Net cash used in investment activities ended ¥60.2 billion higher at the close of the previous fiscal year to ¥424.6 billion. This was due, in part, to increased expenditures for capital investments, other investment, and lending.

Net cash used in financing activities increased from ¥40.7 billion in spending to ¥157.9 billion in income, mainly due to an increase in income from the issuance of corporate bonds and commercial paper as well as long-term borrowing.

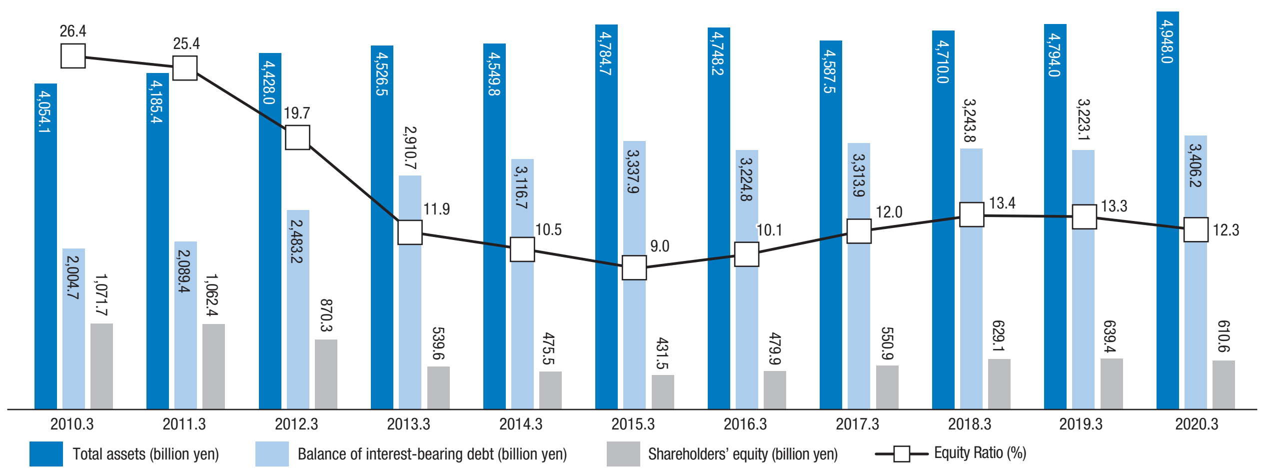
As a result, the balance of cash and cash equivalents at the end of the term was ¥205.4 billion, ¥39.7 billion down from the close of the previous fiscal year.

Electricity Sales Volume




*1 Specified-Scale Demand is 6,000 V or higher at standard voltage and 50 kW or higher of contracted power
*2 Display categories changed from fiscal 2017
*3 Values before fiscal 2018 describe the amount of electricity sold separately by the Company. Values after fiscal 2019 describe the amount of electricity sold including group companies.
*4 Group companies include Kyuden Mirai Energy Company, Incorporated

Consolidated Interest-bearing Debt and Equity Ratio



# Business Risks Factors

The major risks that the Group (the Company and its consolidated subsidiaries) management recognizes as having impact on business performance and financial condition are as follows.
Forward-looking statements in this report reflect judgment as of the filing date of the Securities Report.

## (1) Changes in the Competitive Environment

### 1. Domestic Power Business

Total Group electricity sales volume may be affected by unavoidable external environmental conditions due to changes in temperature and climate, economic trends, etc., as well as changes in the competitive environment caused by the emergence of new competitors from the total liberalization of electricity retailing that took effect in April 2016 and trends in wholesale electricity transactions in the electric power trading market.

In fiscal 2019, the Group sold a total of 80.7 billion kWh of electricity, which is 100.1% compared to the previous fiscal year.

Group revenue from the domestic electricity business accounts for the majority of Group business performance. As such, a significant decrease in the total electricity sales volume would likely affect the Group's business performance.

In response to these risks of a decrease in profits in the domestic electric business, the Group is working to expand sales, including outside of Kyushu, by offering attractive rate plans and services, strengthening sales activities as a whole, and promoting gas sales businesses, etc.

Kyushu Electric Power Transmission and Distribution Co., Inc. is engaged in activities aimed at generating electricity demand in the Kyushu area, taking into account behavior regulation under legal unbundling.

### 2. Overseas Businesses

The Group invests in overseas businesses with the objective of increasing profits. As of March 31, 2020, the Group's equity output overseas is 2.42 million kW. Our goal is to expand this to 5 million kW by fiscal 2030.

Overseas businesses hold risks different from those in the domestic electricity business. In the event of changes in the external environment, such as the manifestation of country-specific risks, especially changes in environmental and energy-related policies, the Group's business performance may be affected due to insufficient return on investment.

To reduce these risks, the Group has established an organization, centralizing knowledge related to overseas business investment, conducting inspections of overseas businesses, and establishing a management system for participating projects. We conduct profitability and risk assessments for each project and optimize our portfolio as necessary as part of our overseas business risk management strategy.

### 3. Energy businesses, ICT service business Other

In addition to the domestic electricity and overseas businesses, the Group is engaged in a wide range of businesses, including energy businesses, ICT services, urban development, community development, and real estate businesses. With these businesses, we are able to utilize our strengths to innovate in new areas from the viewpoint of generating new revenue streams.

However, Group business performance may be affected by changes in the business environment in each business area, such as more intensive competition from other companies and shrinking of markets.

Businesses in new areas have risks different from existing business areas. Obtaining a suitable return on investment may not always be possible, which can affect Group business performance.

To reduce these risks, the Group conducts profitability and risk assessments as part of the process to implement new businesses.

## (2) Status of the Situation Surrounding Nuclear Power

### 1. Stable Operation of 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. The Group intends to maximize the benefits of nuclear power on the premise of ensuring safety.

As of March 31, 2020 the Group faces a deadline in completing construction of facilities to help prevent specific serious accidents, and we are contending with 5 pending lawsuits calling for the suspension of operations at Genkai Nuclear Power Station and Sendai Nuclear Power Station. The Group may be forced to suspend the operation of nuclear power stations depending on the delay in responding to the construction deadline and the results of the lawsuits, which may affect Group business performance.

In response to such risks, the Sendai Nuclear Power Station is conducting intensive construction of these facilities to help prevent specific serious accidents. The Genkai Nuclear Power Station is also conducting intensive construction and responding promptly and thoroughly to national reviews in efforts to finish this construction early. Regarding the litigation, we are committed to fully defending the Group's claims and achieving an understanding of nuclear power station safety.

### 2. Atomic Fuel Cycle and Back-end of Nuclear Operations

As of March 31, 2020, the Group has guaranteed 79.4 billion yen for Japan Nuclear Fuel Limited, which is the implementation entity of the atomic fuel cycle business. Creditors may require implementation of this guarantee if the financial condition of Japan Nuclear Fuel Limited deteriorates.

In response to such risks, the Group provides human resources support via temporarily contract employees to ensure an early completion of Japan Nuclear Fuel Limited reorganization and its stable operations.

Group business performance may be affected by changes in costs, such as the decommissioning of nuclear facilities, which are ultra-long-term businesses, and nuclear back-end of nuclear operations such as storage, reprocessing, and disposal of spent fuel, depending on future system reviews, changes in estimated future costs, and the status of fuel storage.

At this time, these risks have been reduced to a certain extent as the Group reserves and contributes necessary expenses based on national subsidies.

## (3) Fluctuations in Market Prices

### 1. Fluctuations in Fuel Costs

The main thermal fuels used by the Group's power generation businesses include LNG and coal procured from overseas. Purchase amounts are affected by fluctuations in CIF prices and foreign exchange rates. These fluctuations can affect Group business performance.

In response, the Group has decided to hedge risks on foreign currency-denominated debt associated with the import of fuel by utilizing currency swap transactions and fuel price swap transactions as necessary.

A fuel cost adjustment system has been established to update electricity prices in accordance with the impact of fuel prices and foreign exchange rates. This helps to alleviate some of the impact on Group business performance.

The Group has concluded a long-term purchase agreement linked to crude oil prices, in which annual volume obligations are imposed for the purpose of stable procurement of LNG fuel. Potential surpluses of LNG as a result of current supply and demand conditions for power would be sold. In such cases, a sluggish LNG market may result in LNG resale loss due to differences in resale prices. These risks may actualize affecting Group business performance.

In fiscal 2019, LNG resale losses of 18.1 billion yen were incurred due to an increase in resale price differences.

In response to these risks, the Group is taking efforts to reduce the risk of excess LNG. Some of these efforts include creating LNG demand in Japan and overseas via LNG fuel supply (LNG bunkering) for ships as well as postponing transactions the next several years.

### 2. Interest Rate Fluctuations

The Group owns a large number of facilities, including power generation facilities, transmission and substation facilities, and power distribution facilities, which are necessary for a stable supply of electricity in our domestic electricity business, which is our core business.

To continue a stable supply of electricity, we must continue to systematically build and upgrade facilities, which requires a significant amount of capital.

The Group procures these funds mainly through loans from financial institutions and the issuing of corporate bonds. As of March 31, 2020, the Group balance of interest-bearing debt amounts to 3.4062 trillion yen (equivalent to 69% of total assets). As a result, future fluctuations in market interest rates may affect Group business performance.

However, 94% 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 Group business performance is therefore viewed as limited.

## (4) Changes in Systems Related to the Power Industry

### 1. System Design Based on the Strategic Energy Plan

With regard to energy policy, we have taken on board 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.

Group business performance could be affected if capital investment and power supply costs, such as power generation facilities, transmission and substation facilities, and power distribution facilities owned by the Group, increase due to the aforementioned and other changes in the organization of electricity businesses, or if the utilization rate of power generation facilities owned by the Group declines.

### 2. Development of Markets and Rules in Accordance with the Reform of Electric Systems

The 2019 baseload market was established with the aim of further invigorating competition in the electric power trading market. This may intensify competition due to competitor procurement of baseload power supplies, and so the company may need to secure an alternative supply capacity to compensate for market offerings.

In response to public interest issues, the creation of the capacity market and a non-fossil value trading market is expected to improve the business environment related to the maintenance of power generators. However, improper system design could result in insufficient compensation resulting in difficulty to maintain supply of power.

In order to respond quickly and accurately to the risks as just described, we have established an organization within the Group to actively collect information on energy policy, systems related to the electricity business, and environmental regulations and to cooperate with relevant parties to conduct company-wide strategy reviews.

## (5) Climate Change Initiatives

In recent years, interest in climate change has been growing at home and abroad. Since the adoption of the Paris Agreement, and especially at the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change in 2015, initiatives toward a low-carbon society have become critical in many countries.

Under these circumstances, Group business performance may be affected by the revision of regulations aimed at lower carbon emissions, including increased capital investment and costs for power supply facilities owned by the Group.

In global financial and capital markets, ESG information continues to be used more and more for investment decisions. If our efforts to reduce carbon are found to be insufficient or not appropriate in response to information disclosed on climate change, we may lose trust and evaluation from shareholders and investors. This could impact business results including slumps in stock prices and difficulty in obtaining financing.

In response to these risks, the Group aims to diversify our energy production methods as defined in the Strategic Energy Plan. We will proactively develop and increase acceptance of renewable energy while continuing to utilize nuclear power generation on the premise of ensuring safety. We will maintain and improve the thermal efficiency of thermal power plants in efforts to achieve power sources that produce low amounts of carbon. We will promote the electrification of society with initiatives such as promoting the current trend of fully electric residential buildings as well as the utilization of heat pumps in offices and factories. Other energy-saving and low-$CO_2$ emissions efforts include electrification in the transportation division.

As an energy provider responsible for helping to address the global warming issue, we will continue transparent disclosure of information on low-carbon initiatives based on the TCFD recommendations to which we agreed to in July 2019.

## (6) Facility Accidents/Failures and System failures

### 1. Natural Disasters

Recognizing that the electricity business is the foundation of society and economic activities by being an indispensable lifeline to customers, the Group strives to ensure a stable supply of electricity.

We have a large number of facilities necessary for the execution of electric business, including power supply facilities such as power generation facilities, transmission and substation facilities, and power distribution facilities necessary for a stable supply of electric power. In the event of a large-scale disaster caused by an earthquake, tsunami, typhoon, torrential rain, or other disasters, these facilities will be damaged potentially resulting in power outages over large areas for extended periods of time. This would result in lost income and significant costs to repair facilities, affecting business performance.

In response to these risks, the Group is upgrading/reinforcing facilities while cooperating with relevant organizations such as local governments (prefectures and municipalities) and the Self-Defense Forces to respond effectively to disasters, take emergency measures, and conduct disaster recovery efforts for power supply facilities.

With regard to nuclear facilities in particular and as described in "(2) Status of the Situation Surrounding Nuclear Power", we are strengthening measures to prevent and to respond effectively to serious accidents on the basis of new regulatory standards in Japan.

### 2. Aging of Equipment

The Group has a large number of power supply, information, and communication facilities, including power generation facilities, transmission and substation facilities, and power distribution facilities, in various parts of Kyushu.

Power supply facilities built in accordance with the growth of electricity demand during the period of high economic growth in particular are significantly aging. The probability of accidents and failures will likely increase due to deterioration of the equipment. In the unlikely event of a serious facility accident at a large-scale power plant or ultra-high voltage transmission line, the Group may experience an economic loss due to equipment damage, and widespread and long-term power outages may have a significant impact on socio-economic activities. With equipment continuing to age, we need to increase the frequency of inspections, maintenance, and repairs. This could increase repair expenses and other related costs.

In response to these risks, the Group making efforts to assess and find potentially hazardous areas through equipment patrols and proper maintenance in accordance with equipment conditions. While we increase our focus on inspections and repairs of aging power supply facilities, we are also making efforts to replace/upgrade significantly aged equipment. We are also working to improve the sophistication and efficiency of equipment maintenance by utilizing new technologies such as drones, image analysis, and AI.

### 3. System Failure

Information processing systems are indispensable for the execution of Group business. Our ICT service business is also an important base of business in providing information processing systems to customers.

System failures can cause disruptions both internally and externally. In this case, Group business performance may be adversely affected due to a loss of trust in the Group and costs incurred from system restoration.

To address this risk, the Group actively monitors system operations 24 hours a day, 365 days a year and systematically updates equipment in efforts to prevent system failures.

### 4. Cyber Attacks

The number of cyber attacks against the Group continues to increase year over year. As attack methods become more sophisticated and malicious, the impact and significance of these threats are also increasing.

The Group operates a wide range of businesses, including the domestic electricity business and ICT service business. As such, sensitive internal information and personal information could be stolen and/or disclosed due to cyber attacks.

Power outages caused by cyber attacks on power supply facilities have occurred outside of Japan. Attacks on Group power supply facilities power supply can cause suspensions of power.

In all of these cases, Group business performance may be affected due to the loss of the trust in the group and costs incurred to restore systems.

In response to these risks, the Group takes a multi-layered approach to defending against these risks, via our Cyber Security Control Office, through organizational, human, physical, and technical initiatives. Through this, we aim to maintain and improve the level of information security throughout the entire Group.

## (7) Operational Risks

### 1. Inadequate Business

The Group operates a wide range of businesses such as the domestic electricity business, energy business, ICT service business. Various business deficiencies due to employee negligence and such could have a significant impact both internally and externally, such as hindering our ability to provide services to customers.

In the domestic electric power business, our core business, managing supply and demand has become more complicated than before due to reforms of the electricity system and the spread of renewable energy. Even in such circumstances, the stable supply of power is an important mission of the Group. Accidental improper operational of power supply facilities could result in wide-range power outages or injury and even death by electric shock. Such situations could negatively impact trust in the Group, and costs may be incurred to restore facilities. This would ultimately affect Group business performance.

To prevent such accidents in operating power supply facilities, the Group has established thorough planning and work management systems. Work education and training systems are also in place.

The group-wide safety promotion system centered on the Companywide Safety Promotion Committee and the Group Safety Promotion Subcommittee in which group companies participate, implements initiatives based on the Kyuden Group Safe Conduct Charter in efforts to eliminate the threat of disasters.

### 2. Violation of Laws and Regulations

The Group has many bases mainly in the Kyushu area. We provide customers with various products and services including electricity, which are subject to various laws and regulations. Overseas business operations are subject to the legal regulations of the relevant country.

The Group strives to comply with these various laws and regulations. However, violations of laws and regulations due to insufficient understanding of various laws and regulations or inadequate response when laws and regulations are changed are possible. Any damage or loss of customer trust due to actions contrary to social requirements, including personal misconduct by employees, could affect Group business performance.

In response to such risks, we have established a compliance-based management to comply with legal regulations through the understanding of laws and regulations, as well as to comply with social norms and corporate ethics. A Compliance Officer positioned within the Compliance Committee chaired by the President functions as the head of the executive body of this organization. The organization formulates and implements activity plans, and has already established a system to set up consultation desks internally and externally to promote compliance.

We are working to strengthen our ability to promote these initiatives throughout the entire Group. In addition to sharing compliance information and exchanging opinions with group companies, we promote initiatives that involve cooperation from all group companies. We are also clarifying the role of managing departments regarding guidance and support for group companies.

### 3. Infectious Disease Outbreaks

Since the report of a new coronavirus infection (Covid-19) in China in December, 2019, the number of infected people has increased globally. A declaration of emergency has been issued by the government in Japan, which has had a significant impact on society and the economy.

Not limited to only the Covid-19, whether there is an outbreak of a new infectious disease with high pathogenicity, the Group could be compromised by this, which could impact business continuity. Group business performance may be affected by global epidemics of infectious diseases as maintaining supply chains could become quite difficult, increasing risk in providing a stable supply of electricity and smooth operations.

In response to such risks, the Group has formulated a Business Plan Against New Infectious Diseases based on the Act on Special Measures for Pandemic Influenza and New Infection Diseases. With this plan, we will be able to maintain a stable and appropriate supply system for electric power even if the infection of the coronavirus spreads further or new infectious diseases occur. With safety as the top priority, we will be better prepared to continue our business.

### 4. Lack of Human Resources and Skills

The Group recognizes the importance of continuously providing high-quality products and services to customers by securing excellent human resources and improving their skills.

With our core business of the domestic electricity business in particular, technique and expertise must be passed down. If it is not possible to secure and develop human resources, or if a large number of human resources leave us, this could impact sustainable growth of the Group and affect business performance.

In response to these risks, we formulate a recruitment plan every year based on medium- to long-term forecasts and strive to secure the necessary human resources. Based on the Kyushu Electric Power Education Charter, which we use as guidelines for our training system, we have established training policies and plans and conduct various training programs to promote social and technical growth and to create a workplace culture that emphasizes human resource development. We also develop human resources with the aim of strengthening comprehensive capabilities of the Group, such as conducting joint training with the Group.

We also promote flexible work styles to enhance the work-life balance of employees, to improve labor productivity through work style reforms, and to create a workplace environment in which diverse human resources can play an active role.

## (8) Others

### 1. Impairment of Fixed Assets

The Group owns a large number of facilities, and its assets and future cash flows produced by the Asset Group will be affected by changes in the business environment surrounding the Group.

As such, if company profitability declines due to the manifestation of various risks, such as a decrease in total electricity sales volume, an unplanned shutdown of nuclear power stations, or a decrease in the utilization rate of power generation facilities, Group business performance may be affected by impairment of fixed assets as cash flows would decrease with little to no return on investment as a result.

### 2. Reduction of Deferred Tax Assets

The Group has determined the recoverability of deferred tax assets based on an estimate of future taxable income, mainly due to carryover losses from the prolonged suspension of nuclear power stations in the past year.

If the risk of significant impact on taxable income, such as a decrease in total electricity sales volume or an unplanned suspension of nuclear power stations, becomes apparent resulting in a potential deterioration in taxable income in the future, Group business performance may be affected by the reduction of deferred tax assets.

# Consolidated Balance Sheet

Kyushu Electric Power Company, Incorporated and Consolidated Subsidiaries
March 31, 2020

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2020 | 2019 | 2020 |
| ASSETS | | | |
| PROPERTY (Note 3): | | | |
| Plant and equipment | ¥10,608,007 | ¥10,368,906 | $97,473,191 |
| Construction in progress | 641,816 | 587,629 | 5,897,424 |
| Total | 11,249,824 | 10,956,535 | 103,370,615 |
| Less- | | | |
| Contributions in aid of construction | 221,603 | 216,366 | 2,036,233 |
| Accumulated depreciation | 7,544,561 | 7,396,086 | 69,324,283 |
| Total | 7,766,165 | 7,612,452 | 71,360,517 |
| Net property | 3,483,659 | 3,344,082 | 32,010,098 |
| NUCLEAR FUEL | 240,942 | 267,824 | 2,213,935 |
| INVESTMENTS AND OTHER ASSETS: | | | |
| Investment securities (Notes 4 and 14) | 82,924 | 75,551 | 761,960 |
| Investments in and advances to nonconsolidated subsidiaries and affiliated companies (Note 14) | 166,612 | 131,441 | 1,530,939 |
| Assets for retirement benefits (Note 7) | 6,210 | 14,099 | 57,066 |
| Deferred tax assets (Note 10) | 164,272 | 189,892 | 1,509,439 |
| Special account related to nuclear power decommissioning (Note 2.g) | 43,535 | 45,592 | 400,034 |
| Special account related to reprocessing of spent nuclear fuel (Note 2.n) | 54,777 | 32,400 | 503,332 |
| Other | 126,008 | 87,608 | 1,157,844 |
| Total investments and other assets | 644,340 | 576,585 | 5,920,617 |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents (Note 14) | 205,485 | 245,273 | 1,888,136 |
| Receivables (Note 14) | 258,646 | 237,236 | 2,376,609 |
| Allowance for doubtful accounts | (773) | (769) | (7,107) |
| Inventories, principally fuel | 83,059 | 91,827 | 763,207 |
| Prepaid expenses and other | 32,702 | 31,980 | 300,491 |
| Total current assets | 579,121 | 605,547 | 5,321,337 |
| TOTAL | ¥4,948,063 | ¥4,794,039 | $45,465,988 |

See notes to consolidated financial statements.

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2020 | 2019 | 2020 |
| LIABILITIES AND EQUITY | | | |
| LONG-TERM LIABILITIES: | | | |
| Long-term debt, less current portion (Notes 6 and 14) | ¥2,807,217 | ¥2,676,370 | $25,794,516 |
| Liability for retirement benefits (Note 7) | 102,265 | 99,600 | 939,677 |
| Asset retirement obligations (Note 8) | 268,332 | 264,166 | 2,465,612 |
| Other | 64,865 | 64,961 | 596,026 |
| Total long-term liabilities | 3,242,680 | 3,105,099 | 29,795,832 |
| CURRENT LIABILITIES: | | | |
| Current portion of long-term debt (Notes 6 and 14) | 404,208 | 445,466 | 3,714,128 |
| Short-term borrowings (Notes 9 and 14) | 118,012 | 115,063 | 1,084,370 |
| Commercial paper (Note 14) | 92,000 | | 845,355 |
| Notes and accounts payable (Notes 13 and 14) | 142,732 | 135,648 | 1,311,521 |
| Accrued income taxes (Note 14) | 3,471 | 2,324 | 31,898 |
| Other | 298,160 | 316,228 | 2,739,686 |
| Total current liabilities | 1,058,585 | 1,014,731 | 9,726,961 |
| RESERVE FOR FLUCTUATIONS IN WATER LEVEL | 8,840 | 8,958 | 81,230 |
| 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 | 2,180,509 |
| Capital surplus | 120,008 | 120,831 | 1,102,712 |
| Retained earnings | 276,997 | 300,551 | 2,545,227 |
| Treasury stock-at cost, | | | |
| 1,194,235 shares in 2020 and 1,209,576 shares in 2019 | (1,501) | (1,524) | (13,800) |
| Accumulated other comprehensive income: | | | |
| Unrealized gain on available-for-sale securities | 2,115 | 4,090 | 19,439 |
| Deferred gain (loss) on derivatives under hedge accounting | 713 | (4,306) | 6,557 |
| Foreign currency translation adjustments | (4,697) | (3,582) | (43,164) |
| Defined retirement benefit plans | (20,298) | (13,928) | (186,514) |
| Total | 610,641 | 639,435 | 5,610,966 |
| Noncontrolling interests | 27,316 | 25,814 | 250,998 |
| Total equity | 637,957 | 665,250 | 5,861,964 |
| TOTAL | ¥4,948,063 | ¥4,794,039 | $45,465,988 |

See notes to consolidated financial statements.

# Consolidated Statement of Operations

Kyushu Electric Power Company, Incorporated and Consolidated Subsidiaries
Year Ended March 31, 2020

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2020 | 2019 | 2020 |
| OPERATING REVENUES: | | | |
| Electric | ¥1,800,189 | ¥1,844,850 | $16,541,302 |
| Other | 212,860 | 172,331 | 1,955,895 |
| Total operating revenues | 2,013,050 | 2,017,181 | 18,497,197 |
| OPERATING EXPENSES (Note 12): | | | |
| Electric | 1,751,766 | 1,771,776 | 16,096,358 |
| Other | 197,469 | 158,829 | 1,814,478 |
| Total operating expenses | 1,949,236 | 1,930,606 | 17,910,837 |
| OPERATING INCOME | 63,813 | 86,575 | 586,360 |
| OTHER EXPENSES (INCOME) | | | |
| Interest charges | 28,990 | 31,397 | 266,385 |
| Share of loss (profit) of entities accounted for using the equity method (Note 13) | (9,247) | 2,822 | (84,975) |
| Other-net | 4,018 | (189) | 36,925 |
| Total other expenses-net | 23,761 | 34,030 | 218,335 |
| INCOME BEFORE INCOME TAXES AND (REVERSAL OF) PROVISION FOR RESERVE FOR FLUCTUATIONS IN WATER LEVEL | 40,052 | 52,544 | 368,025 |
| (REVERSAL OF) PROVISION FOR RESERVE FOR FLUCTUATIONS IN WATER LEVEL | (118) | 268 | (1,089) |
| INCOME BEFORE INCOME TAXES | 40,170 | 52,276 | 369,115 |
| INCOME TAXES (Note 10): | | | |
| Current | 6,953 | 9,905 | 63,895 |
| Deferred | 31,640 | 9,868 | 290,737 |
| Total income taxes | 38,594 | 19,773 | 354,633 |
| NET INCOME | 1,576 | 32,502 | 14,481 |
| NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS | 1,995 | 1,532 | 18,333 |
| NET (LOSS) INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT | ¥ (419) | ¥ 30,970 | $ (3,851) |

| | Yen | | U.S. Dollars |
|---|---|---|---|
| PER SHARE OF COMMON STOCK (Note 2.t): | | | |
| Basic net (loss) income | ¥(6.05) | ¥58.05 | $(0.05) |
| Diluted net income | | 47.51 | |
| Cash dividends applicable to the year | | | |
| Common share | 35.00 | 30.00 | 0.32 |
| Class A preferred share | 1,599,452.00 | 3,500,000.00 | 14,696.79 |

See notes to consolidated financial statements.

# Consolidated Statement of Comprehensive Income

Kyushu Electric Power Company, Incorporated and Consolidated Subsidiaries
Year Ended March 31, 2020

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2020 | 2019 | 2020 |
| NET INCOME | ¥1,576 | ¥32,502 | $14,481 |
| OTHER COMPREHENSIVE (LOSS) INCOME (Note 17): | | | |
| Unrealized loss on available-for-sale securities | (1,776) | (113) | (16,326) |
| Deferred gain (loss) on derivatives under hedge accounting | 5,121 | (3,155) | 47,055 |
| Foreign currency translation adjustments | (923) | (3,536) | (8,486) |
| Defined retirement benefit plans | (6,362) | (1,954) | (58,465) |
| Share of other comprehensive loss in nonconsolidated subsidiaries and affiliated companies | (588) | (1,146) | (5,408) |
| Total other comprehensive loss | (4,530) | (9,905) | (41,631) |
| COMPREHENSIVE (LOSS) INCOME | ¥(2,954) | ¥22,597 | $(27,149) |
| TOTAL COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO: | | | |
| Owners of the parent | ¥(4,861) | ¥21,257 | $(44,669) |
| Noncontrolling interests | 1,906 | 1,339 | 17,519 |

See notes to consolidated financial statements.

# Consolidated Statement of Changes in Equity

Kyushu Electric Power Company, Incorporated and Consolidated Subsidiaries
Year Ended March 31, 2020

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 Gain (Loss) on Derivatives under Hedge Accounting | Foreign Currency Translation Adjustments | Defined Retirement Benefit Plans | Total | Non-controlling interests | Total Equity |
| BALANCE AT APRIL 1, 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 |
| Change in the parent's ownership interest due to transactions with noncontrolling interests | | | | | 21 | | | | | | | | 21 | | 21 |
| Cash dividends, ¥35 per common share | | | | | | (16,588) | | | | | | | (16,588) | | (16,588) |
| Cash dividends, ¥2,296,575 per class A preferred share | | | | | | (2,296) | | | | | | | (2,296) | | (2,296) |
| Net loss attributable to owners of the parent | | | | | | (419) | | | | | | | (419) | | (419) |
| Purchase of treasury stock (Note 11) | | | | | | | 14 | (100,857) | | | | | (100,857) | | (100,857) |
| Disposal of treasury stock (Note 11) | | | | | (844) | | (29) | 100,880 | | | | | 100,035 | | 100,035 |
| Adjustment of retained earnings for inclusion of companies accounted for by the equity method | | | | | | (4,250) | | | | | | | (4,250) | | (4,250) |
| Net change in the year | | | | | | | | | (1,975) | 5,019 | (1,114) | (6,370) | (4,440) | 1,502 | (2,938) |
| BALANCE AT MARCH 31, 2020 | 474,183 | ¥237,304 | 1 | | ¥120,008 | ¥276,997 | 1,194 | ¥(1,501) | 2,115 | 713 | ¥(4,697) | ¥(20,298) | ¥610,641 | ¥27,316 | ¥637,957 |

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 Gain (Loss) on Derivatives under Hedge Accounting | Foreign Currency Translation Adjustments | Defined Retirement Benefit Plans | Total | Non-controlling interests | Total Equity |
| BALANCE AT MARCH 31, 2019 | $2,180,509 | | $1,110,274 | $2,761,656 | $(14,011) | $37,589 | $(39,567) | $(32,922) | $(127,979) | $5,875,549 | $237,196 | $6,112,745 |
| Change in the parent's ownership interest due to transactions with noncontrolling interests | | | 198 | | | | | | | 198 | | 198 |
| Cash dividends, $0.32 per common share | | | | (152,422) | | | | | | (152,422) | | (152,422) |
| Cash dividends, $21,102.40 per class A preferred share | | | | (21,102) | | | | | | (21,102) | | (21,102) |
| Net loss attributable to owners of the parent | | | | (3,851) | | | | | | (3,851) | | (3,851) |
| Purchase of treasury stock (Note 11) | | | | | (926,741) | | | | | (926,741) | | (926,741) |
| Disposal of treasury stock (Note 11) | | | (7,760) | | 926,952 | | | | | 919,191 | | 919,191 |
| Adjustment of retained earnings for inclusion of companies accounted for by the equity method | | | | (39,052) | | | | | | (39,052) | | (39,052) |
| Net change in the year | | | | | | (18,149) | 46,125 | (10,242) | (58,535) | (40,802) | 13,801 | (27,000) |
| BALANCE AT MARCH 31, 2020 | $2,180,509 | | $1,102,712 | $2,545,227 | $(13,800) | $19,439 | $6,557 | $(43,164) | $(186,514) | $5,610,966 | $250,998 | $5,861,964 |

See notes to consolidated financial statements.

# Consolidated Statement of Cash Flows

Kyushu Electric Power Company, Incorporated and Consolidated Subsidiaries
Year Ended March 31, 2020

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2020 | 2019 | 2020 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Income before income taxes | ¥ 40,170 | ¥ 52,276 | $ 369,115 |
| Adjustments for: | | | |
| Income taxes paid | (5,963) | (19,367) | (54,796) |
| Depreciation and amortization | 261,369 | 238,189 | 2,401,631 |
| Decommissioning costs of nuclear power units | 9,450 | 10,557 | 86,833 |
| Amortization of special account related to nuclear power decommissioning | 2,056 | 873 | 18,900 |
| Loss on disposal of plant and equipment | 4,874 | 5,843 | 44,793 |
| (Reversal of) provision for reserve for fluctuation in water level | (118) | 268 | (1,089) |
| Share of (profit) loss of entities accounted for using the equity method | (9,247) | 2,822 | (84,975) |
| Changes in assets and liabilities: | | | |
| Increase in trade receivables | (7,074) | (12,546) | (65,004) |
| Decrease (increase) in inventories, principally fuel | 8,766 | (20,508) | 80,555 |
| Decrease in trade payables | (5,083) | (12,493) | (46,706) |
| Increase in liability for retirement benefits | 793 | 988 | 7,290 |
| (Decrease) increase in accrued expenses | (35,473) | 32,459 | (325,949) |
| Other-net | (37,669) | 3,658 | (346,127) |
| Total adjustments | 186,682 | 230,743 | 1,715,354 |
| Net cash provided by operating activities | 226,852 | 283,020 | 2,084,469 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Capital expenditures including nuclear fuel | (425,054) | (377,408) | (3,905,676) |
| Proceeds from contribution in aid of construction | 38,444 | 40,751 | 353,249 |
| Payments for investments and advances | (58,525) | (27,318) | (537,770) |
| Proceeds from sales of investment securities and collections of advances | 14,020 | 9,996 | 128,826 |
| Other-net | 6,492 | (10,362) | 59,656 |
| Net cash used in investing activities | (424,623) | (364,341) | (3,901,714) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Proceeds from issuance of bonds | 259,154 | 209,288 | 2,381,277 |
| Repayments of bonds | (194,600) | (219,800) | (1,788,109) |
| Proceeds from long-term loans | 271,470 | 200,514 | 2,494,444 |
| Repayments of long-term loans | (248,443) | (207,582) | (2,282,855) |
| Net increase (decrease) in short-term borrowings | 2,948 | (2,311) | 27,093 |
| Net increase in commercial paper | 92,000 | | 845,355 |
| Acquisition of treasury stock | (100,901) | (857) | (927,143) |
| Disposal of treasury stock | 100,036 | | 919,198 |
| Cash dividends paid | (18,820) | (15,300) | (172,935) |
| Other-net | (4,845) | (4,668) | (44,520) |
| Net cash provided by (used in) financing activities | 157,999 | (40,716) | 1,451,803 |
| FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS | (16) | 1,426 | (149) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (39,787) | (120,611) | (365,589) |
| CASH AND CASH EQUIVALENTS OF A NONCONSOLIDATED SUBSIDIARY MERGED WITH A CONSOLIDATED SUBSIDIARY | | 9 | |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 245,273 | 365,875 | 2,253,726 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | ¥ 205,485 | ¥ 245,273 | $ 1,888,136 |

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Kyushu Electric Power Company, Incorporated and Consolidated Subsidiaries
Year Ended March 31, 2020

## 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, 2019, to conform to the classifications used in the consolidated financial statements for the year ended March 31, 2020.

The U.S. dollar amounts included herein are provided solely for the convenience of readers outside Japan and are stated at the rate of ¥108.83 = U.S. $1, the approximate exchange rate prevailing on March 31, 2020. 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, 2020, include the accounts of the Company and its 47 (45 for 2019) subsidiaries (together, the "Companies"). All significant intercompany transactions and balances have been eliminated in consolidation. Investments in 17 (12 for 2019) nonconsolidated subsidiaries and 22 (16 for 2019) 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 10 (8 for 2019) 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.

*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 operations 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. As of April 1, 2008, the Company recalculated the estimate in accordance with a specific law. As a result, the unrecognized prior costs were changed from ¥104,397 million to ¥90,977 million, and these costs are amortized over 12 years, beginning on April 1, 2008. 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 ($69,663thousand)) 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%.

In accordance with the accounting regulations applicable to electric utility providers, 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.

*p. Income Taxes* — The provision for income taxes is computed based on the pretax income included in the consolidated statement of operations. 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.

*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 has a performance-based stock compensation plan called "Board Benefit Trust (BBT)," (the "Plan") for directors (excluding outside directors) and executive officers (together, the "Directors").

(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 provided 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, 2020, the number of shares was 648 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 (657 thousand shares for the year ended March 31, 2020).

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.

Diluted EPS for the year ended March 31, 2020 is not disclosed because it is anti-dilutive due to the Companies' net loss position.

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 —*

*Accounting Standard for Revenue Recognition*

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 expect to apply the accounting standard and guidance for annual periods beginning on or after April 1, 2021, and are in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

*Accounting Standard for Fair Value Measurement*

To enhance comparability of financial statements among domestic and overseas companies, the ASBJ issued ASBJ Statement No. 30, "Accounting Standard for Fair Value Measurement" and ASBJ Guidance No. 31, "Implementation Guidance on Accounting Standard for Fair Value Measurement," and revised related ASBJ Statements and ASBJ Guidance (the "New Accounting Standards") on July 4, 2019. The New Accounting Standards define the guidance for fair value measurements. The New Accounting Standards are applied for fair value measurements as follows:

- Financial Instruments defined by "Accounting Standard for Financial instruments"
- Measurement method of Inventories held for trading purpose defined by "Accounting Standard for Measurement of Inventories"

In accordance with the New Accounting Standards, "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" was revised and the revised guidance requires an entity to disclose details of financial instruments by levels of the fair value hierarchy.

The New Accounting Standards are effective for the annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2020, or annual periods ending on or after March 31, 2020. The New Accounting Standards shall be applied prospectively, however, under certain circumstances, it is permitted to be applied retrospectively.

The Companies expect to apply the accounting standard and guidance for annual periods beginning on or after April 1, 2021, and are in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

*Revised Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Correction*

On March 31, 2020, the ASBJ issued the revised ASBJ Statement No.24, (revised 2020) "Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections." The revised accounting standard requires an entity to disclose the outline of accounting principles and procedures in the absence of accounting standards that are specifically applied to transactions or events.

The Companies expect to apply the accounting standard for the year ending March 31, 2021.

*Accounting Standard for Disclosure of Accounting Estimates*

On March 31, 2020, the ASBJ issued the ASBJ Statement No. 31, "Accounting Standard for Disclosure of Accounting Estimates." To help the users of the financial statements understand the assumptions and related risks, the new accounting standard requires an entity to disclose the information of estimation uncertainty at the end of the reporting period that has a significant risk of resulting in a material adjustment to the financial statement within the next financial year.

The Companies expect to apply the accounting standard for the year ending March 31, 2021.

## 3. PROPERTY

The breakdown of property at March 31, 2020 and 2019, was as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2020 | 2019 | 2020 |
| Costs: | | | |
| Electric power production facilities: | | | |
| Hydroelectric power | ¥ 832,774 | ¥ 823,163 | $ 7,652,063 |
| Thermal power | 1,484,717 | 1,422,363 | 13,642,535 |
| Nuclear power | 1,861,669 | 1,859,676 | 17,106,213 |
| Internal-combustion engine power | 136,986 | 132,202 | 1,258,723 |
| Renewable power | 113,642 | 114,138 | 1,044,216 |
| Total | 4,429,789 | 4,351,544 | 40,703,752 |
| Transmission facilities | 1,893,384 | 1,875,081 | 17,397,637 |
| Transformation facilities | 1,062,761 | 1,050,236 | 9,765,336 |
| Distribution facilities | 1,490,384 | 1,471,235 | 13,694,614 |
| General facilities | 409,446 | 406,650 | 3,762,256 |
| Other electricity-related facilities | 144,818 | 123,326 | 1,330,687 |
| Other plant and equipment | 1,177,421 | 1,090,830 | 10,818,906 |
| Construction in progress | 641,816 | 587,629 | 5,897,424 |
| Total | 11,249,824 | 10,956,535 | 103,370,615 |
| Less- | | | |
| Contributions in aid of construction | 221,603 | 216,366 | 2,036,233 |
| Accumulated depreciation | 7,544,561 | 7,396,086 | 69,324,283 |
| Carrying amount | ¥ 3,483,659 | ¥ 3,344,082 | $ 32,010,098 |

## 4. INVESTMENT SECURITIES

The costs and aggregate fair values of investment securities at March 31, 2020 and 2019, were as follows:

| | Millions of Yen | | | |
|---|---|---|---|---|
| March 31, 2020 | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as: | | | | |
| Available-for-sale: | | | | |
| Equity securities | ¥1,681 | ¥1,677 | ¥85 | ¥3,272 |
| Debt securities | 250 | 31 | | 281 |
| Other securities | 311 | 42 | 2 | 351 |
| Held-to-maturity | 141 | | 9 | 131 |

| | 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 |

| March 31, 2020 | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as: | | | | |
| Available-for-sale: | | | | |
| Equity securities | $ 15,447 | $ 15,413 | $ 789 | $ 30,071 |
| Debt securities | 2,301 | 289 | | 2,590 |
| Other securities | 2,863 | 394 | 23 | 3,233 |
| Held-to-maturity | 1,295 | | 84 | 1,211 |

The Company contributed certain securities with a fair value of ¥2,352 million ($21,619 thousand) to the retirement benefit trust for the Company's retirement benefit plans and recognized a noncash gain of ¥656 million ($6,035 thousand) for the year ended March 31, 2020.

## 5. PLEDGED ASSETS

All of the Company's assets amounting to ¥4,433,616 million ($40,738,920 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 ¥46,436 million ($426,691 thousand), are pledged as collateral for a portion of their long-term debt at March 31, 2020.

Investments in affiliated companies held by consolidated subsidiaries, amounting to ¥15,737 million ($144,605 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, 2020.

## 6. LONG-TERM DEBT

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

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2020 | 2019 | 2020 |
| Yen bonds, 0.14% to 2.52%, due serially to 2049 | ¥ 1,274,898 | ¥ 1,134,497 | $ 11,714,582 |
| Yen-denominated zero coupon convertible bonds due 2020 and 2022 | 75,000 | 150,000 | 689,148 |
| Loans from the Development Bank of Japan Inc., 0.32% to 3.15%, due serially to 2038 | 278,339 | 285,450 | 2,557,562 |
| Loans, principally from banks and insurance companies, 0.091% to 4.945%, due serially to 2039 | | | |
| Collateralized | 64,201 | 65,114 | 589,921 |
| Unsecured | 1,503,820 | 1,473,038 | 13,818,071 |
| Obligations under finance leases | 15,166 | 13,736 | 139,357 |
| Total | 3,211,425 | 3,121,836 | 29,508,644 |
| Less current portion | 404,208 | 445,466 | 3,714,128 |
| Long-term debt, less current portion | ¥ 2,807,217 | ¥ 2,676,370 | $ 25,794,516 |

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

| Year ending March 31 | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| 2021 | ¥ 404,208 | $ 3,714,128 |
| 2022 | 390,694 | 3,589,956 |
| 2023 | 346,762 | 3,186,275 |
| 2024 | 308,113 | 2,831,144 |
| 2025 | 342,378 | 3,145,994 |
| Thereafter | 1,419,267 | 13,041,145 |
| Total | ¥ 3,211,425 | $ 29,508,644 |

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, 2020, were as follows:

| Stock name | Yen-denominated zero coupon convertible bonds due 2022 |
|---|---|
| Stock will be converted | Common stock |
| Issue price of stock acquisition rights (yen) | Gratis free |
| Issue price of stock | ¥1,416.4 ($13.01) |
| Amount of zero coupon convertible bonds | ¥75,000 million ($689,148 thousand) |
| Amount of stock price issued by exercising stock acquisition rights | — |
| Application rate of stock acquisition rights (%) | 100 |
| Period of exercise stock acquisition rights | 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 25, 2020, 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 2022 has been changed from ¥1,416.4 to ¥1,391.8, with an effective date on April 1, 2020.

## 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, 2020 and 2019, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2020 | 2019 | 2020 |
| Balance at beginning of year | ¥ 408,992 | ¥ 415,695 | $ 3,758,088 |
| Current service cost | 13,422 | 13,554 | 123,333 |
| Interest cost | 3,200 | 3,302 | 29,403 |
| Actuarial (gains) losses | (1,142) | 530 | (10,495) |
| Benefits paid | (23,528) | (24,159) | (216,194) |
| Other | 11 | 68 | 101 |
| Balance at end of year | ¥ 400,955 | ¥ 408,992 | $ 3,684,238 |

## Notes to Consolidated Financial Statements

(2) The changes in plan assets for the years ended March 31, 2020 and 2019, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2020 | 2019 | 2020 |
| Balance at beginning of year | ¥ 326,512 | ¥ 338,750 | $3,000,204 |
| Expected return on plan assets | 7,202 | 7,276 | 66,180 |
| Actuarial losses | (18,318) | (8,861) | (168,326) |
| Contributions from the employer | 6,729 | 6,756 | 61,832 |
| Benefits paid | (16,461) | (17,409) | (151,260) |
| Contribution of securities to retirement benefit trust | 2,352 | | 21,619 |
| Balance at end of year | ¥ 308,016 | ¥ 326,512 | $2,830,250 |

(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, 2020 and 2019, was as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2020 | 2019 | 2020 |
| Funded defined benefit obligation | ¥394,037 | ¥402,204 | $3,620,672 |
| Plan assets | (308,016) | (326,512) | (2,830,250) |
| | 86,021 | 75,692 | 790,422 |
| Unfunded defined benefit obligation | 6,917 | 6,788 | 63,565 |
| Net liability for defined benefit obligation | ¥ 92,939 | ¥ 82,480 | $ 853,987 |

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2020 | 2019 | 2020 |
| Liability for retirement benefits | ¥98,484 | ¥95,845 | $904,934 |
| Assets for retirement benefits | (5,544) | (13,364) | (50,946) |
| Net liability for defined benefit obligation | ¥ 92,939 | ¥ 82,480 | $ 853,987 |

(4) The components of net periodic benefit costs for the years ended March 31, 2020 and 2019 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2020 | 2019 | 2020 |
| Current service cost | ¥ 13,422 | ¥ 13,554 | $ 123,333 |
| Interest cost | 3,200 | 3,302 | 29,403 |
| Expected return on plan assets | (7,202) | (7,276) | (66,180) |
| Recognized actuarial losses | 7,783 | 6,105 | 71,521 |
| Amortization of prior service cost | 504 | 658 | 4,634 |
| Others | 315 | 240 | 2,902 |
| Net periodic benefit costs | ¥ 18,023 | ¥ 16,585 | $ 165,615 |

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2020 and 2019, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2020 | 2019 | 2020 |
| Prior service cost | ¥ 503 | ¥ 589 | $ 4,630 |
| Actuarial losses | (9,391) | (3,287) | (86,298) |
| Total | ¥ (8,887) | ¥ (2,698) | $ (81,668) |

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2020 and 2019, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2020 | 2019 | 2020 |
| Unrecognized prior service cost | ¥ (15) | ¥ (519) | $ (140) |
| Unrecognized actuarial losses | (25,888) | (16,496) | (237,879) |
| Total | ¥ (25,903) | ¥ (17,015) | $(238,019) |

(7) Plan assets as of March 31, 2020 and 2019
*a. Components of plan assets*
Plan assets consisted of the following:

| | 2020 | 2019 |
|---|---|---|
| Debt investments | 39% | 42% |
| Equity investments | 21 | 26 |
| General account of life insurance companies | 21 | 19 |
| Others | 19 | 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, 2020 and 2019, were set forth as follows:

| | 2020 | 2019 |
|---|---|---|
| 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, 2020 and 2019, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2020 | 2019 | 2020 |
| Balance at beginning of year | ¥3,021 | ¥2,899 | $ 27,760 |
| Periodic benefit costs | 728 | 574 | 6,696 |
| Benefits paid | (311) | (144) | (2,865) |
| Contributions from the employer | (323) | (307) | (2,968) |
| Balance at end of year | ¥3,115 | ¥3,021 | $ 28,623 |

# Notes to Consolidated Financial Statements

(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, 2020 and 2019, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2020 | 2019 | 2020 |
| Funded defined benefit obligation | ¥6,105 | ¥6,078 | $ 56,097 |
| Plan assets | (5,563) | (5,653) | (51,117) |
| | 541 | 425 | 4,980 |
| Unfunded defined benefit obligation | 2,573 | 2,595 | 23,643 |
| Net carrying amount of liabilities and assets | 3,115 | 3,021 | 28,623 |
| | | | |
| Liabilities for retirement benefits | 3,781 | 3,755 | 34,742 |
| Assets for retirement benefits | (665) | (734) | (6,119) |
| Net carrying amount of liabilities and assets | ¥3,115 | ¥3,021 | $ 28,623 |

(3) Periodic benefit costs

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2020 | 2019 | 2020 |
| Periodic benefit costs calculated under the simplified method | ¥ 728 | ¥ 574 | $6,696 |

Defined contribution plans

The required contribution to defined contribution plans by the Company and its certain consolidated subsidiaries for the years ended March 31, 2020 and 2019 was ¥2,209 million ($20,299 thousand) and ¥2,251 million, respectively.

## 8. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2020 and 2019, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2020 | 2019 | 2020 |
| Balance at beginning of year | ¥ 264,166 | ¥ 221,372 | $2,427,331 |
| Net change in the year | 4,265 | 42,793 | 39,196 |
| Balance at end of year | ¥ 268,432 | ¥ 264,166 | $2,466,528 |

## 9. SHORT-TERM BORROWINGS

Short-term borrowings were generally represented by bank loans, bearing interest at rates ranging from 0.014% to 0.48% and from 0.16% to 0.46% for the years ended March 31, 2020 and 2019, 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% for the years ended March 31, 2020 and 2019.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2020 and 2019, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2020 | 2019 | 2020 |
| Deferred Tax Assets: | | | |
| Tax loss carryforwards | ¥169,277 | ¥168,314 | $1,555,431 |
| Depreciation | 50,466 | 46,269 | 463,717 |
| Liability for retirement benefits | 38,819 | 37,401 | 356,698 |
| Asset retirement obligations | 29,102 | 30,097 | 267,415 |
| Other | 78,909 | 79,670 | 725,073 |
| Total of tax loss carryforwards and temporary differences | 366,576 | 361,751 | 3,368,336 |
| Less valuation allowance for tax loss carryforwards | (121,512) | (95,868) | (1,116,530) |
| Less valuation allowance for temporary differences | (48,374) | (42,242) | (444,492) |
| Total valuation allowance (Note) | (169,886) | (138,110) | (1,561,022) |
| Deferred tax assets | 196,689 | 223,641 | 1,807,314 |
| | | | |
| Deferred Tax Liabilities: | | | |
| Capitalized assets retirement costs | 9,863 | 11,216 | 90,630 |
| Gain on contributions of securities to retirement benefit trust | 5,619 | 5,375 | 51,632 |
| Accrued income of foreign subsidiary | 5,616 | 4,267 | 51,605 |
| Amortization in foreign subsidiary | 3,708 | 2,505 | 34,077 |
| Assets for retirement benefits | 1,761 | 3,981 | 16,182 |
| Deferred gain on derivatives under hedge accounting | 1,439 | | 13,230 |
| Other | 11,944 | 10,084 | 109,750 |
| Deferred tax liabilities | 39,952 | 37,431 | 367,110 |
| Net deferred tax assets | ¥156,737 | ¥186,210 | $1,440,203 |

Note:

Valuation allowance increased by ¥31,775 million ($291,975 thousand). This was mainly because the Company additionally recognized valuation allowance for tax loss carryforwards of ¥26,114 million ($239,954 thousand).

The expiration of tax loss carryforwards, the related valuation allowance and the resulting net deferred tax assets as of March 31, 2020 and 2019 were as follows:

| March 31, 2020 | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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) | ¥ 15,308 | ¥ 86,959 | ¥ 32,653 | ¥ 25,021 | ¥ 926 | ¥ 8,409 | ¥ 169,277 |
| Less valuation allowances for tax loss carryforwards | 9,486 | 69,562 | 26,923 | 14,511 | 404 | 623 | 121,512 |
| Net deferred tax assets relating to tax loss carryforwards | 5,821 | 17,396 | 5,729 | 10,509 | 521 | 7,785 | 47,765 (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 those were recoverable from expectations of future taxable income based on the business plan approved by the Board of Directors.

Notes to Consolidated Financial Statements

| March 31, 2019 | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 c) | ¥ 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 d) |

Notes:
c) The tax loss carryforwards were the amount multiplied by the normal effective statutory tax rate.
d) 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 those were recoverable from expectations of future taxable income based on the business plan approved by the Board of Directors.

| March 31, 2020 | 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) | $ 140,663 | $ 799,036 | $ 300,040 | $ 229,910 | $ 8,511 | $ 77,270 | $ 1,555,431 |
| Less valuation allowances for tax loss carryforwards | 87,167 | 639,181 | 247,393 | 133,341 | 3,717 | 5,728 | 1,116,530 |
| Net deferred tax assets relating to tax loss carryforwards | 53,495 | 159,854 | 52,647 | 96,568 | 4,793 | 71,541 | 438,901 (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 those 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, 2020 and 2019, was as follows:

| | 2020 | 2019 |
|---|---|---|
| Normal effective statutory tax rate | 27.9% | 27.9% |
| Valuation allowance | 69.2 | 11.1 |
| Other - net | (1.0) | (1.2) |
| Actual effective tax rate | 96.1% | 37.8% |

## 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.

*Acquisition and disposal of Class A preferred stock*

The Company acquired the previous Class A preferred stock based on the articles of incorporation and has issued the new Class A preferred stock. The information of the new Class A preferred stock is as follows:

(1) Way of offering
Third-party allotment to the Mizuho Bank, Ltd., Development Bank of Japan Inc. and MUFG Bank, Ltd

(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) Issue date
June 28, 2019

(6) 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.

(7) 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 ¥2,100,000 per share.

(Annual preferred dividend as of the record date of March 31, 2020 is ¥1,599,452 per share.)

The information of the previous Class A preferred stock was as follows:

(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 ¥3,500,000 per share.

## 12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥5,525 million ($50,774 thousand) and ¥5,459 million for the years ended March 31, 2020 and 2019, respectively.

## 13. RELATED PARTY DISCLOSURES

(a) Significant transactions of the Company with an affiliated company for the years ended March 31, 2020 and 2019 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2020 | 2019 | 2020 |
| KYUDENKO CORPORATION | | | |
| Transactions: | | | |
| Purchase of construction works on distribution facilities and other | ¥40,217 | ¥37,794 | $369,545 |
| Balances at year end: | | | |
| Payables for construction works | 3,160 | 3,539 | 29,042 |

(b) Notes concerning the parent company or important affiliates

*Important affiliates' financial summary*

For the year ended March 31, 2020, Kyudenko Corporation was an important affiliate. The financial summary of its financial statements was as follows:

| March 31, 2020 | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Total current assets | ¥184,812 | $1,698,176 |
| Total noncurrent assets | 144,096 | 1,324,052 |
| Total current liabilities | 143,524 | 1,318,799 |
| Total noncurrent liabilities | 14,144 | 129,970 |
| Total equity | 171,239 | 1,573,459 |
| Operating revenues | 365,128 | 3,355,039 |
| Income before income taxes | 28,677 | 263,504 |
| Net income | 19,225 | 176,657 |

For the year 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:

| March 31, 2019 | Millions of Yen |
|---|---|
| Total current assets | ¥186,053 |
| Total noncurrent assets | 166,330 |
| Total current liabilities | 148,614 |
| Total noncurrent liabilities | 13,802 |
| Total equity | 189,966 |
| Operating revenues | 352,007 |
| Income before income taxes | (22,931) |
| Net income | (33,763) |

## 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, 2020 and 2019 were as follows:

| | Millions of Yen | | |
|---|---|---|---|
| March 31, 2020 | Carrying Amount | Fair Value | Unrecognized Gain (Loss) |
| Investment securities: | | | |
| Held-to-maturity debt securities | ¥ 141 | ¥ 131 | ¥ (9) |
| Available-for-sale securities | 3,906 | 3,906 | |
| Investments in and advances to nonconsolidated subsidiaries and affiliated companies | 39,593 | 47,061 | 7,467 |
| Cash and cash equivalents | 205,485 | 205,485 | |
| Receivables | 258,646 | 258,646 | |
| Total | ¥ 507,773 | ¥ 515,232 | ¥ 7,458 |
| Long-term debt: | | | |
| Bonds | ¥ 1,349,898 | ¥ 1,358,316 | ¥ 8,417 |
| Loans | 1,846,361 | 1,879,188 | 32,827 |
| Short-term borrowings | 118,012 | 118,012 | |
| Commercial paper | 92,000 | 92,000 | |
| Notes and accounts payable | 142,732 | 142,732 | |
| Accrued income taxes | 3,471 | 3,471 | |
| Total | ¥ 3,552,476 | ¥ 3,593,721 | ¥ 41,245 |
| Derivatives | ¥ 1,189 | ¥ 1,189 | |

| | 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) | |

| | Thousands of U.S. Dollars | | |
|---|---|---|---|
| March 31, 2020 | Carrying Amount | Fair Value | Unrecognized Gain (Loss) |
| Investment securities: | | | |
| Held-to-maturity debt securities | $ 1,295 | $ 1,211 | $ (84) |
| Available-for-sale securities | 35,895 | 35,895 | |
| Investments in and advances to nonconsolidated subsidiaries and affiliated companies | 363,812 | 432,433 | 68,620 |
| Cash and cash equivalents | 1,888,136 | 1,888,136 | |
| Receivables | 2,376,609 | 2,376,609 | |
| Total | $ 4,665,749 | $ 4,734,286 | $ 68,536 |
| Long-term debt: | | | |
| Bonds | $ 12,403,731 | $ 12,481,080 | $ 77,349 |
| Loans | 16,965,556 | 17,267,194 | 301,638 |
| Short-term borrowings | 1,084,370 | 1,084,370 | |
| Commercial paper | 845,355 | 845,355 | |
| Notes and accounts payable | 1,311,521 | 1,311,521 | |
| Accrued income taxes | 31,898 | 31,898 | |
| Total | $ 32,642,433 | $ 33,021,421 | $ 378,987 |
| Derivatives | $ 10,926 | $ 10,926 | |

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, commercial paper, notes and accounts payable, and accrued income taxes.*

The carrying amounts of short-term borrowings, commercial paper, 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 |
|---|---|---|---|
| | 2020 | 2019 | 2020 |
| Investment securities: | | | |
| Available-for-sale: | | | |
| Equity securities | ¥ 67,007 | ¥ 64,564 | $ 615,712 |
| Other securities | 11,868 | 2,919 | 109,057 |
| Investments in and advances to nonconsolidated subsidiaries and affiliated companies: | | | |
| Equity securities | 88,193 | 69,085 | 810,376 |
| Other securities | 30,201 | 23,691 | 277,506 |
| Total | ¥197,270 | ¥160,260 | $ 1,812,652 |

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

| | Millions of Yen | | | |
|---|---|---|---|---|
| March 31, 2020 | 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 | ¥ 33 | ¥ 103 |
| Available-for-sale securities with contractual maturities | | | 14 | 281 |
| Cash and cash equivalents | ¥ 205,485 | | | |
| Receivables | 258,646 | | | |
| Total | ¥ 464,132 | ¥ 5 | ¥ 47 | ¥ 384 |

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| March 31, 2020 | 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 | $ 303 | $ 946 |
| Available-for-sale securities with contractual maturities | | | 134 | 2,590 |
| Cash and cash equivalents | $ 1,888,136 | | | |
| Receivables | 2,376,609 | | | |
| Total | $4,264,745 | $ 45 | $ 437 | $ 3,536 |

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, 2020 | 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 | ¥ 5,749 |
| Buying Canadian dollar (Note a) | | 23,101 | 23,101 | (1,028) |
| Interest rate swaps: | | | | |
| Principle treatment (Note b) | Long-term loans | 58,815 | 57,539 | (3,531) |
| Pay fixed / | | | | |
| Receive floating | | | | |
| Special treatment (Note c) | Long-term loans | 2,106 | 1,889 | |
| Pay fixed / | | | | |
| Receive floating | | | | |
| Total | | | | ¥ 1,189 |

Notes to Consolidated Financial Statements

| March 31, 2019 | Hedged Item | Millions of Yen<br>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) | | | | |
| Pay fixed /Receive floating | Long-term loans | ¥35,752 | ¥34,384 | ¥(1,650) |
| Special treatment (Note c) | | | | |
| Pay fixed / Receive floating | Long-term loans | 2,323 | 2,106 | |
| Total | | | | ¥(5,002) |

| March 31, 2020 | Hedged Item | Thousands of U.S. Dollars<br>Contract Amount | Contract Amount Due after One Year | Fair Value |
|---|---|---|---|---|
| Foreign exchange forward contract: | | | | |
| Buying U.S. dollar (Note a) | Accounts payable | $ 513,008 | $ 513,008 | $ 52,832 |
| Buying Canadian dollar (Note a) | | 212,274 | 212,274 | (9,452) |
| Interest rate swaps: | | | | |
| Principle treatment (Note b) | Long-term loans | 540,432 | 528,705 | (32,453) |
| Pay fixed / | | | | |
| Receive floating | | | | |
| Special treatment (Note c) | Long-term loans | 19,352 | 17,359 | |
| Pay fixed / | | | | |
| Receive floating | | | | |
| Total | | | | $ 10,926 |

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, 2020, 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*

Contingent liabilities at March 31, 2020 were as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Co-guarantees of loans, mainly in connection with procurement of fuel | ¥79,443 | $729,978 |
| Guarantees of employees' loans | 50,013 | 459,558 |
| Other | 10,527 | 96,730 |

### *Loan commitments*

Kyuden International Corporation, a consolidated subsidiary of the Company, has entered into the Shareholder Loan Agreement with Senoko Energy Pte Ltd. The unexercised portion of loan commitments under the agreement for the year ended March 31, 2020 was as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Total loan limits | ¥1,585 | $14,564 |
| Loan executed | | |
| Unexercised portion of loan commitments | 1,585 | 14,564 |

## 17. COMPREHENSIVE INCOME

The components of other comprehensive loss for the years ended March 31, 2020 and 2019, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2020 | 2019 | 2020 |
| Other comprehensive income (loss): | | | |
| Unrealized loss on available-for-sale securities: | | | |
| Losses arising during the year | ¥ (1,756) | ¥ (183) | $ (16,137) |
| Reclassification adjustments to profit or loss | (703) | 2 | (6,460) |
| Amount before income tax effect | (2,459) | (180) | (22,598) |
| Income tax effect | 682 | 67 | 6,272 |
| Total | ¥ (1,776) | ¥ (113) | $ (16,326) |
| Deferred gain (loss) on derivatives under hedge accounting: | | | |
| Gains (losses) arising during the year | ¥ 5,936 | ¥ (2,569 ) | $ 54,547 |
| Reclassification adjustments to profit or loss | 255 | (327) | 2,343 |
| Amount before income tax effect | 6,191 | (2,897) | 56,891 |
| Income tax effect | (1,070) | (258) | (9,835) |
| Total | ¥ 5,121 | ¥ (3,155) | $ 47,055 |
| Foreign currency translation adjustments: | | | |
| Losses arising during the year | ¥ (959) | ¥ (5,006) | $ (8,817) |
| Amount before income tax effect | (959) | (5,006) | (8,817) |
| Income tax effect | 36 | 1,469 | 331 |
| Total | ¥ (923) | ¥ (3,536) | $ (8,486) |
| Defined retirement benefit plans: | | | |
| Losses arising during the year | ¥ (17,175) | ¥ (9,462) | $ (157,820) |
| Reclassification adjustments to profit | 8,287 | 6,763 | 76,151 |
| Amount before income tax effect | (8,887) | (2,698) | (81,668) |
| Income tax effect | 2,525 | 744 | 23,202 |
| Total | ¥ (6,362) | ¥ (1,954) | $ (58,465) |
| Share of other comprehensive loss in nonconsolidated subsidiaries and affiliated companies: | | | |
| Losses arising during the year | ¥ (699) | ¥ (1,121) | $ (6,425) |
| Reclassification adjustments to profit or loss | 110 | (24) | 1,016 |
| Total | ¥ (588) | ¥ (1,146) | $ (5,408) |
| Total other comprehensive loss | ¥ (4,530) | ¥ (9,905) | $ (41,631) |

## 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' reportable segments consist of domestic electric power, other energy service, information and communication technology (ICT) service and other.

- *Domestic Electric Power segment:* this segment is engaged in the business of power generation and retail electricity in Japan and electricity transmission and distribution in Kyushu region.
- *Other Energy Service segment:* this segment is engaged in the business that provides a stable supply of electric power, such as construction and maintenance of electricity-related facilities, selling gas and LNG, a renewable energy business, and overseas business.
- *ICT Service segment:* this segment is engaged in the data communication business, optical broadband business, construction and maintenance of telecommunications facilities, information system development business, and data center business.
- *Other segment:* this segment is engaged in the real estate business, nursing home business, and other business.

(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."

(3) Information about sales, profit, assets and other items at March 31, 2020 and 2019, was as follows:

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2020 | | | | | | |
| | Reportable segment | | | | | | |
| | Energy service | | | | | | |
| | Domestic Electric Power | Other Energy Service | ICT Services | Other | Total | Reconciliations | Consolidated |
| Sales: | | | | | | | |
| Sales to external customers | ¥ 1,844,326 | ¥ 74,158 | ¥ 81,005 | ¥ 13,559 | ¥ 2,013,050 | | ¥ 2,013,050 |
| Intersegment sales or transfers | 4,069 | 119,811 | 31,690 | 15,292 | 170,863 | ¥ (170,863) | |
| Total | ¥ 1,848,395 | ¥ 193,970 | ¥ 112,696 | ¥ 28,851 | ¥ 2,183,913 | ¥ (170,863) | ¥ 2,013,050 |
| Segment profit | 42,471 | 11,464 | 6,257 | 4,833 | 65,027 | (1,213) | 63,813 |
| Segment assets | 4,230,126 | 535,988 | 190,967 | 181,174 | 5,138,256 | (190,193) | 4,948,063 |
| Other: | | | | | | | |
| Depreciation | 227,214 | 10,624 | 22,692 | 3,648 | 264,179 | (2,810) | 261,369 |
| Increase in property and nuclear fuel | 383,047 | 13,049 | 25,691 | 5,341 | 427,130 | (5,398) | 421,731 |

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2019 | | | | | | |
| | Reportable segment | | | | | | |
| | Energy service | | | | | | |
| | Domestic Electric Power | Other Energy Service | ICT Services | Other | Total | Reconciliations | Consolidated |
| Sales: | | | | | | | |
| Sales to external customers | ¥ 1,854,745 | ¥ 73,094 | ¥ 73,330 | ¥ 16,011 | ¥ 2,017,181 | | ¥ 2,017,181 |
| Intersegment sales or transfers | 4,061 | 130,195 | 32,117 | 13,499 | 179,874 | ¥ (179,874) | |
| Total | ¥ 1,858,807 | ¥ 203,290 | ¥ 105,447 | ¥ 29,510 | ¥ 2,197,056 | ¥ (179,874) | ¥ 2,017,181 |
| Segment profit | ¥ 64,815 | ¥ 11,669 | ¥ 4,860 | ¥ 6,025 | ¥ 87,370 | ¥ (795) | ¥ 86,575 |
| Segment assets | 4,109,204 | 472,178 | 188,273 | 171,603 | 4,941,259 | (147,219) | 4,794,039 |
| Other: | | | | | | | |
| Depreciation | 205,430 | 9,360 | 22,667 | 3,703 | 241,161 | (2,971) | 238,189 |
| Increase in property and nuclear fuel | 326,138 | 24,245 | 21,743 | 2,569 | 374,697 | (4,881) | 369,816 |

Notes to Consolidated Financial Statements

| | Thousands of U.S. Dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2020 | | | | | | |
| | Reportable segment | | | | | | |
| | Energy service | | | | | | |
| | Domestic Electric Power | Other Energy Service | ICT Services | Other | Total | Reconciliations | Consolidated |
| Sales: | | | | | | | |
| Sales to external customers | $16,946,855 | $ 681,416 | $ 744,334 | $ 124,591 | $18,497,197 | | $18,497,197 |
| Intersegment sales or transfers | 37,390 | 1,100,906 | 291,190 | 140,513 | 1,570,000 | (1,570,000) | |
| Total | $16,984,245 | $1,782,322 | $1,035,525 | $ 265,105 | $20,067,198 | $(1,570,000) | $18,497,197 |
| Segment profit | $ 390,259 | $ 105,346 | $ 57,493 | $ 44,413 | $ 597,513 | $ (11,152) | $ 586,360 |
| Segment assets | 38,869,121 | 4,925,009 | 1,754,730 | 1,664,745 | 47,213,606 | (1,747,617) | 45,465,988 |
| Other: | | | | | | | |
| Depreciation | 2,087,790 | 97,626 | 208,511 | 33,527 | 2,427,455 | (25,823) | 2,401,631 |
| Increase in property and nuclear fuel | 3,519,688 | 119,906 | 236,070 | 49,081 | 3,924,746 | (49,609) | 3,875,137 |

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 operations.

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.

(4) Change in reportable segments

Effective April 1, 2019, the Companies changed its operating segments from electric power, energy related business, information technology (IT) and telecommunications and other to domestic electric power, other energy service, information and communication (ICT) service and other, and transferred Kyuden Mirai Energy Company, Incorporated which had previously been segmented as energy related business, to domestic electric power because the Kyuden Group Management Vision 2030 was formulated in June 2019.

The segment information for the year ended March 31, 2019, is also disclosed using the new operating segments.

## 19. SUBSEQUENT EVENT

*a. Year-end cash dividends*

At the general shareholders meeting held on June 25, 2020, the Company's shareholders approved the following appropriation of retained earnings as of March 31, 2020:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Year-end cash dividends, ¥15.00 ($0.13) per common share | ¥7,109 | $65,322 |
| Year-end cash dividends, ¥1,052,877.00 ($9,674.51) per Class A preferred share | ¥1,052 | $9,674 |

## 20. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the year ended March 31, 2020 and 2019, was as follows:

| | Millions of Yen | Thousands of Shares | Yen | U.S. Dollars |
|---|---|---|---|---|
| Year Ended March 31,2020 | Net Income Attributable to Owners of the Parent | Weighted-Average Shares | EPS | |
| Net loss attributable to owners of the parent | ¥(419) | | | |
| Amount not attributable to common shareholder: | | | | |
| Preferred dividend | (2,443) | | | |
| Basic EPS-Net loss available to common shareholders | ¥(2,862) | 472,986 | ¥ (6.05) | $ (0.05) |
| Effect of dilutive securities: | | | | |
| Convertible bonds | | | | |
| Diluted EPS-Net income for computation | | | | |

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

### 21. ADDITIONAL INFORMATION

*Execution of the Absorption-type Split Agreement*

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 carried out an absorption-type split in which the general transmission and distribution business were transferred to Kyushu Electric Power Transmission and Distribution Co., Inc. (the succeeding company), a wholly owned subsidiary of the Company. The business split aimed not only to respond to Legal Unbundling appropriately but also to improve value of the entire group and build a competitive business management system.

a) Description of business
General electricity transmission and distribution business, Power generation business in remote islands and any business incidental thereto
b) Effective date of the absorption-type split
April 1, 2020
c) Method of the absorption-type split
This was an absorption-type split where in the Company was the splitting company and the subsidiary wholly owned by the Company was the succeeding Company.
d) 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 was accounted for as business combinations under common control.

Accordingly, effective April 1, 2020, the Companies divided domestic electric segment into “power generation and sale segment” and “electricity transmission and distribution segment.” Power generation and sale segment includes the Company and Kyuden Mirai Energy Company, Incorporated, and electricity transmission and distribution segment includes Kyushu Electric Power Transmission and Distribution Co., Inc. Consequently, the Companies’ reportable segments consist of five segments.

**Deloitte.**

Deloitte Touche Tohmatsu LLC
Elgala
1-4-2 Tenjin, Chuo-ku
Fukuoka-shi, Fukuoka 810-0001
Japan

Tel: +81 (92) 751 0931
Fax: +81 (92) 751 1035
www.deloitte.com/jp/en

## INDEPENDENT AUDITOR’S REPORT

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

### Opinion

We have audited the consolidated financial statements of Kyushu Electric Power Company, Incorporated and its consolidated subsidiaries (the “Companies”), which comprise the consolidated balance sheet as of March 31, 2020, and the consolidated statement of operations, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Companies as of March 31, 2020, and its consolidated financial performance and its consolidated 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.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Companies in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Member of
**Deloitte Touche Tohmatsu Limited**

**Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements**

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

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

The Audit and Supervisory Committee is responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Companies' financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgement. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit 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 Companies' internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Companies' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Companies to cease to continue as a going concern.

- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Companies to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

**Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan**

Our firm and its designated engagement partners do not have any interest in the Companies which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

June 25, 2020