ANNUAL REPORT 2018

Year Ended March 31, 2018

The Chugoku Electric Power Co., Inc. (JAPAN)

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To Our Dear Stockholders and Investors

We would like to express our sincere gratitude to our stockholders and investors for your extremely generous support.

Looking at the business environment surrounding our organization, two years have passed since the full liberalization of the retail sale of electricity started, numerous operators including major electric companies have newly entered the Chugoku Region and the competition is getting more intense. Also, we're required with legal separation of the power transmission/distribution sector is required by April 2020.The electricity business is in an era of great change.

In these circumstances, the Energia group will strive to improve the state of our revenue and expenditure and prevent our financial structure from deteriorating through thoroughly enhancing business efficiency, and we will work on developing and expanding growth businesses in which we can exploit our strengths.

On the other hand, regarding our consolidated revenue and expenditure for the year ended March 2019, although our revenue and profit increased, we are still in a severe situation, as there is still no prospect of restarting our Shimane Nuclear Power Station, which will be indispensable for radical recovery of the business base and stabilization of our business.

In these circumstances, the Energia group will strive to improve the state of our revenue and expenditure and prevent our financial structure from deteriorating through thoroughly enhancing business efficiency, and we will work on developing and expanding growth businesses in which we can exploit our strengths.

In response to the full liberalization of the retail sale of electricity, we will provide high value-added services to meet diverse energy-related needs ranging from home to commercial, so as to go on being chosen by the customers of the Chugoku Region, which is our operating base. In addition, with a view to establishing new revenue base, we will take steps to promote electricity business in areas outside the Chugoku Region and overseas power generation business. As for Power Transmission and Distribution Division, we shall proceed with preparation for the legal separation of the transmission/distribution sector steadily, keeping the level of supply stability and efficiency to proceed with this smoothly.

As for Shimane Nuclear Power Station, we will respond definitely to the new regulatory requirements enacted by the Nuclear Regulation Authority (NRA), and will continue to engage in improving of safety as we make maximal efforts toward operation restart and start while obtaining the understanding of the local people.

Based on our dividend policy "continuing with a stable dividend", we have paid out ¥25 per share as the interim dividends to our shareholders and are planning to pay out ¥25 as the year-end dividends of FY2018.

We will be striving to be a "corporate group that people choose in the region and that grow beyond the region" in order to be able to meet our stockholders' and investors' expectations.

We request your continued cooperation and support into the future.

August 2018

Tomohide Karita
Representative Director
Chairperson of the Board

Mareshige Shimizu
Representative Director
President & Chief Executive Officer

Corporate Profile

For over half a century since its founding in 1951, The Chugoku Electric Power Co., Inc. has fulfilled a mission of providing a stable supply of electricity and has thereby contributed to the development of its region.

The Chugoku Region, which forms the main part of our supply area, is located at the western end of Japan's main island of Honshu and has an area of 32,000 square kilometers and a population of roughly 7.4 million. The region contains a large number of manufacturing hubs, in fields such as machinery, chemicals and steel, which are pillars of Japan's manufacturing industry.

Corporate Data of The Chugoku Electric Power Co., Inc

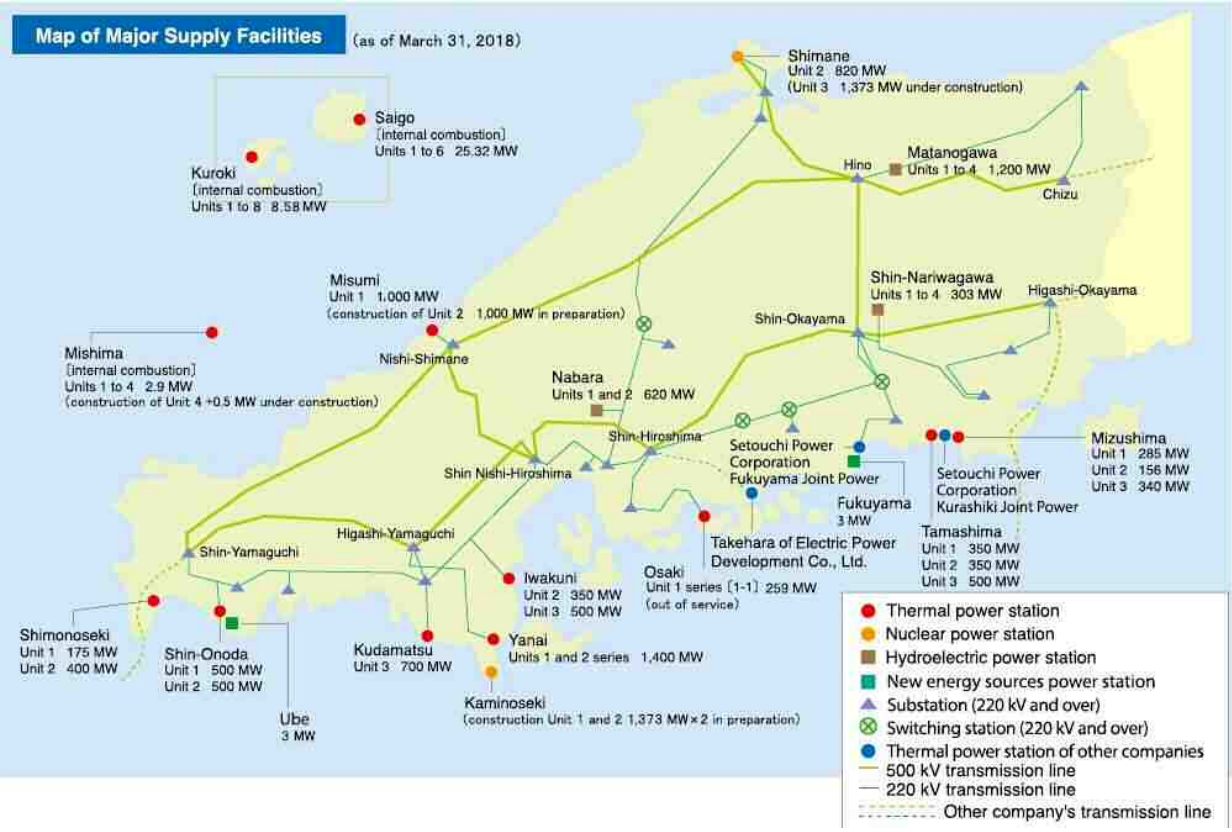
(as of March 31,2018)

Corporate name	The Chugoku Electric Power Co., Inc
Head Office	4-33 Komachi, Naka-ku, Hiroshima 730-8701 Japan
DATE established	May 1, 1951
Paid-in capital	185.5 billion yen
Common stock issued	371,055,259 stocks
Number of employees	9,305
Main supply facilities	Power stations and total output 114 stations 11,538 MW

Thermal	12 stations	7,802 MW
Hydroelectric	99 stations	2,910 MW
Nuclear	1 stations	820 MW
New energy sources	2 stations	6 MW

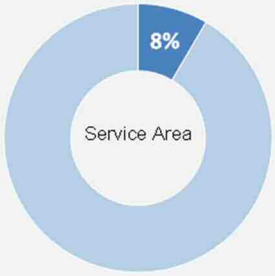
Electric energy output (by own company and others, total)	63,529 GWh
Thermal	53,752 GWh
Hydroelectric	4,631 GWh
Nuclear	0 GWh
New energy sources	5,146 GWh

Main business places	Regional Offices: 5 Sales Offices: 30 Sales Center: 18



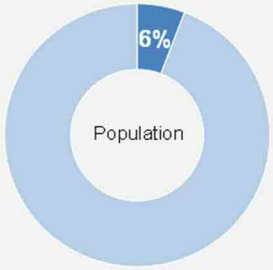
In this report, the term “Fiscal Year 2018” refers to the period which ended March 31, 2018.
However, this does not apply to the referenced sources.

Characteristics of Chugoku Region



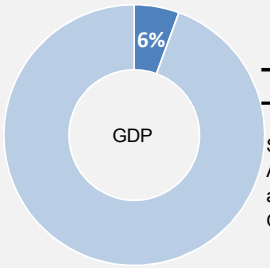
Chugoku Region	31,922km²
Japan	377,974km²

Source:"Statistical reports on the land area by prefectures and municipalities in Japan" (as of October 1, 2017)" by Geospatial Information Authority of Japan, Ministry of land, Infrastructure, Transport and Tourism.



Chugoku Region	7,368,766
Japan	126,706,210

Source:"Population Estimates(as of October 1, 2017) " by Statistics Bureau, Ministry of International Affairs and Communications.



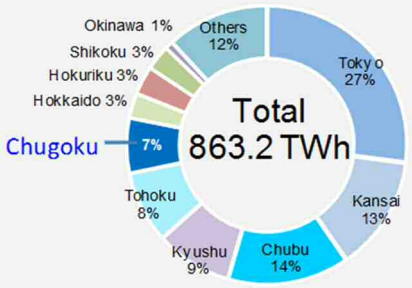
Chugoku Region	28,611,146
Japan	514,296,287

(millions of yen)

Source:"Annual Report on Prefectural Accounts for FY2014" by Economic and SocialReserch Institute, Cabinet Office, Government of Japan

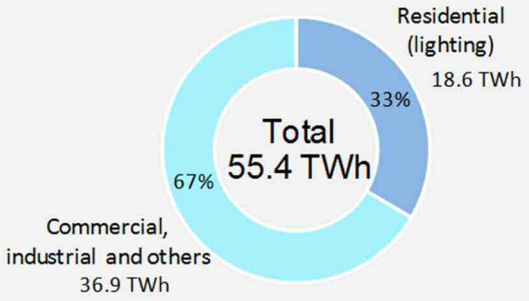
Characteristics of Chugoku Electric

Electric Sales Share by company



Source: Survey of Electric Power Statistics

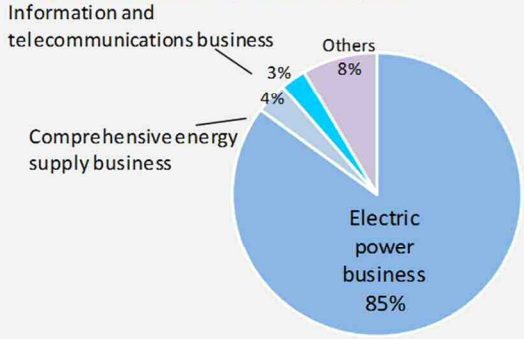
Electric Sales Volume by Demand Type



Operating revenues by Segment

In order to meet our customers’ increasingly diverse needs, we are engaged in providing services leading to enhanced convenience and comfort for customers, primarily in the electric power business but also in other areas including comprehensive energy supply business and information and telecommunication business.

■ Operating Revenue by Business Segment



Segment	Operating Revenue (FY 2018)	Business content
Electric power business	1,201.3 billion yen	Electric power supply
Comprehensive energy supply business	50.3 billion yen	Fuel sales business, electricity and thermal energy supply business
Information and telecommunications business	41.0 billion yen	Telecommunications business, data processing business

"Others" includes business such as enviromental harmony creation business / lifestyle suport, and electric power business support.

Consolidated Financial Highlights

FY2018 Financial Results Summary

(1) Consolidated

(billion yen)

	FY2018 (A)	FY2017 (B)	Difference (A-B)	Rate of change (A/B-1)
Operating revenues	1,314.9	1,200.3	114.5	9.5 %
Operating income	39.6	34.5	5.1	14.8 %
Ordinary income	30.7	19.4	11.2	57.5 %
Net income attributable to owners of the parent	20.7	11.3	9.3	82.6 %

(Rounded down to the hundred million yen)

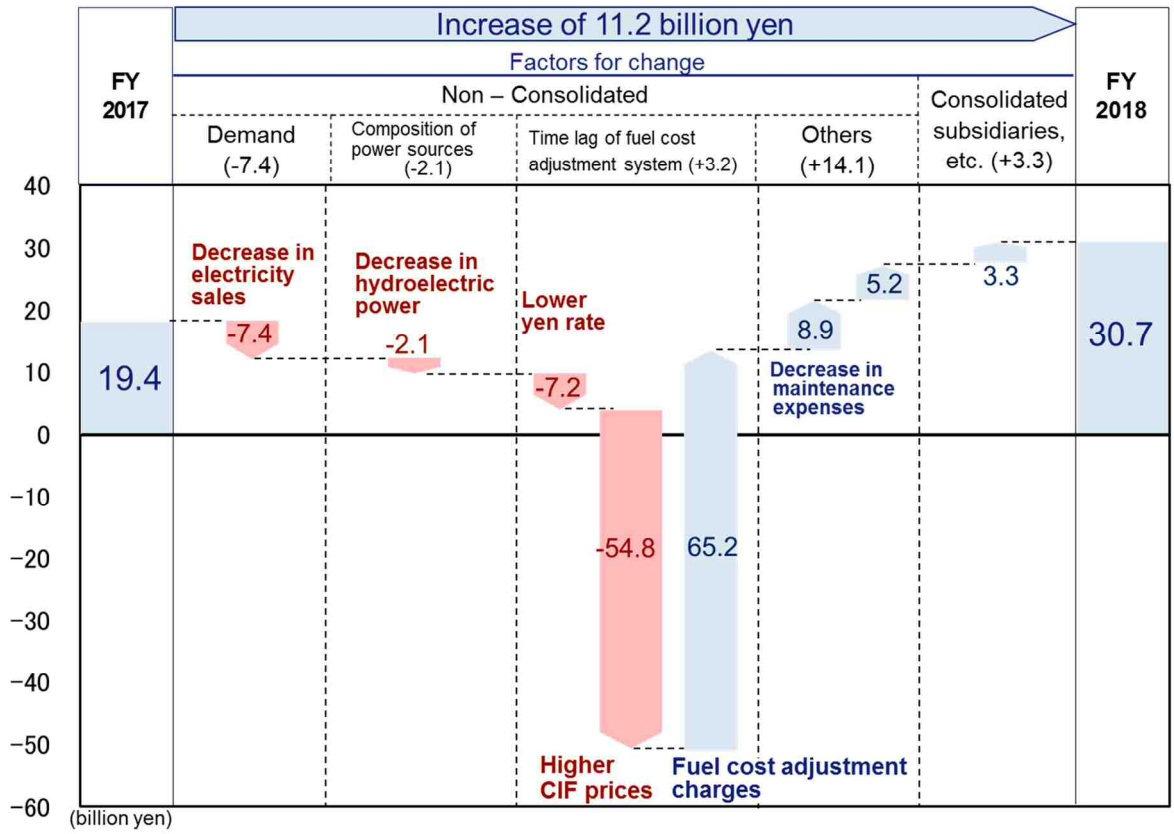
(2) Non-consolidated

(billion yen)

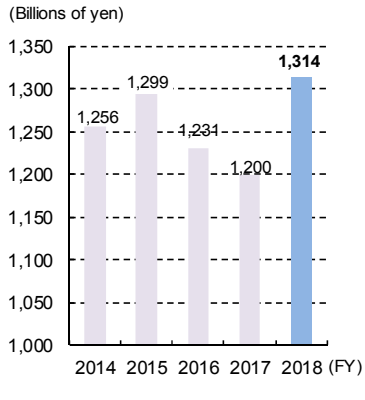
	FY2018 (A)	FY2017 (B)	Difference (A-B)	Rate of change (A/B-1)
Operating revenues	1,227.4	1,121.7	105.6	9.4 %
Operating income	32.4	28.8	3.6	12.7 %
Ordinary income	24.0	16.1	7.8	48.7 %
Net income	16.4	14.6	1.7	12.1 %

(Rounded down to the hundred million yen)

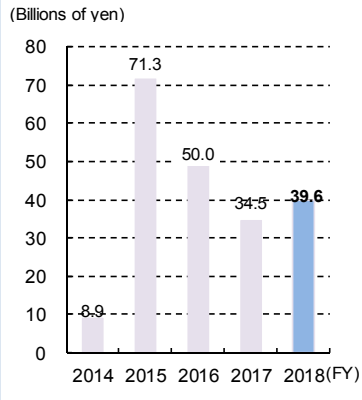
Factors for Change in Ordinary Income < Consolidated >



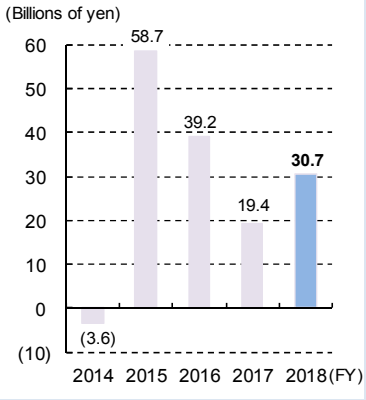
■Operating revenues



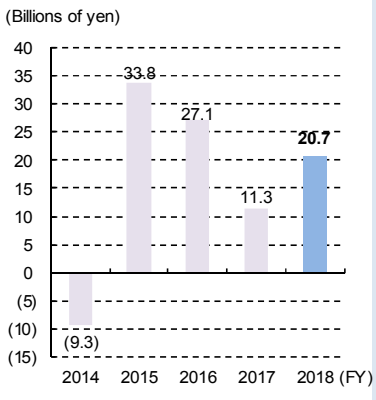
■Operating income(loss)



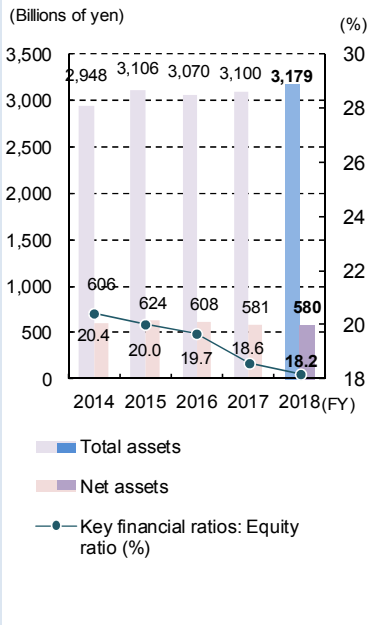
■Ordinary income(loss)



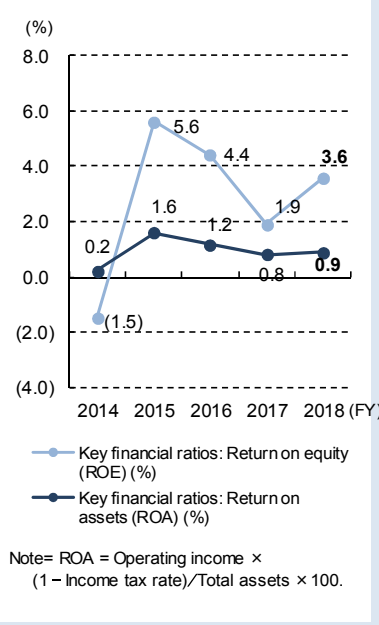
■ Profit (loss) attributable to owners of parent



■ Total assets,Net assets, Equity ratio

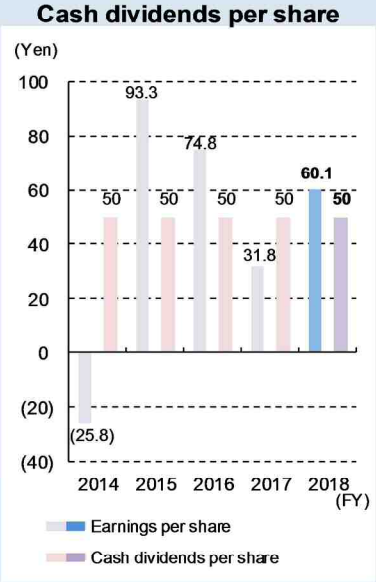


■ Return on equity, Return on asset

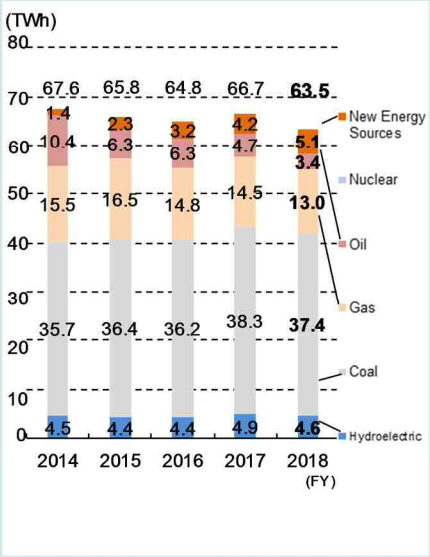


Note= ROA = Operating income × (1 − Income tax rate)/Total assets × 100.

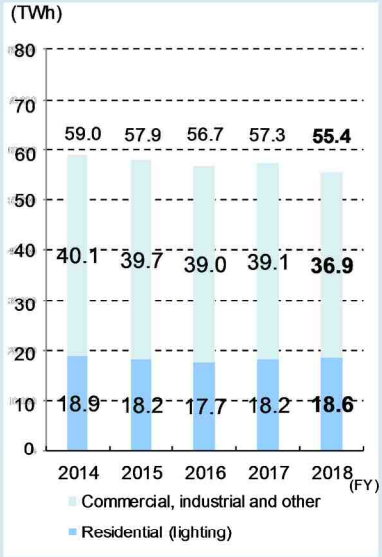
■ Earnings per share, Cash dividends per share



■Power generated and received by Power source (by own company and others, total)



■Electric sales



An Interview with President Mareshige Shimizu

As we stated in Energia Group Corporate Vision, we will be striving to be a "corporate group that people choose in the region and that grow beyond the region" in order to be able to meet our stockholders' and investors' expectations.

Q Currently in Japan, the Nuclear Regulation Authority (NRA) is proceeding with examinations of compliance with the new safety standards, which is a prerequisite for restarting operation at the nuclear power stations. How is the situation at Shimane Nuclear Power Station? What are the prospects for restart of operation over the near future?

A At our Shimane Nuclear Power Station, compliance examination of Unit 2 is in progress. We also applied for verification of compliance with the new regulatory requirements at Unit 3 in August 2018. I cannot forecast anything definite about when operation will restart and start. First of all we must get through the NRA's examination, and we are making full efforts to accommodate it.

We have to go on providing the inexpensive and stable supply of electricity that underpins socioeconomic activities, and we have to restore the soundness of our corporate performance in fulfillment of our investors' and stockholders' expectations. We are conscious that in order to achieve those tasks, it will be essential to work at improving safety at our nuclear power station and to restart it at an early date. In order to restart this facility, I believe three things will be of major importance: we must get through the NRA's examination, we must complete the measures required by the regulatory requirements, and we must obtain the understanding of the local people.

We applied for compliance verification of Unit 2 (commissioned 1989; 820 MW) in December 2013, and it is currently undergoing examination by the Nuclear Regulation Authority. In February 2018, the design earthquake ground motion, which serves as the standard for power station seismic design, was rated as generally appropriate by the NRA.

The advanced boiling water reactor (ABWR) to be employed as Unit 3 at Shimane Nuclear Power Station is a plant with outstanding safety and reliability that was developed jointly by the government, manufacturers and power companies. It will be a mainspring of competitiveness for us as competition under liberalization of the electric power business unfolds. The equipment itself is already complete, and the pre-use inspections carried out ahead of fuel loading have all ended. In August 2018, we applied for verification of compliance with the new regulatory requirements.

I cannot say anything definite about specifically when operation will restart and start. But we are moving vigorously forward with measures for enhancing safety at the site, and I take it that we are making steady headway toward operation restart and start.

The local people's understanding will also be essential in order to restart the nuclear power station and to make continuous use of it without any unscheduled stoppages. The following statements are made in the government's Basic Energy Plan (approved by the Cabinet in July 2018).

(a) "If compliance with the world's strictest regulatory requirements is recognized by the NRA,

that decision will be respected and nuclear power station operations will resume."

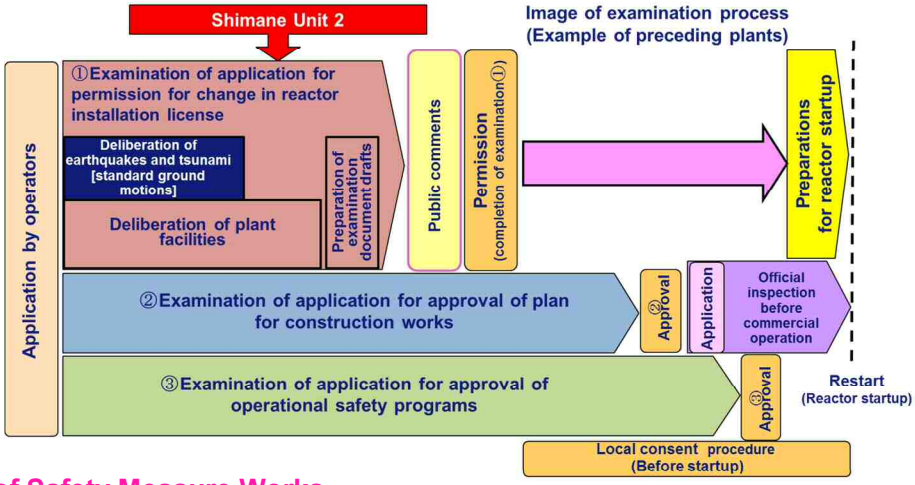
(b) "The national government, too, will lead the efforts to gain the understanding and cooperation of local governments where power stations are located and other parties concerned."

At the same time that it is moving ahead with equipment-related efforts aimed at raising safety, Chugoku Electric is working to raise human-factor safety. It is doing this by, for example, effecting continual raising of employees' awareness and coping skills, in ways such as implementing drills that simulate the accidents occurred by many factors like fire or disease such as earthquakes and Tsunami. By giving the local people a series of respectful explanations about these efforts, we intend to progressively dispel their anxieties concerning the safety of nuclear power generation.

■State of Shimane Nuclear Power Station Unit2

◆Process involved in examining new regulatory requirements compliance

In December 2013, we submitted application documents for compliance verification of Shimane Unit 2 to the Nuclear Regulation Authority (NRA). The examinations to verify compliance began in January 2014. As of the end of April this year, a total of 92 examinations have been conducted.



◆State of Safety Measure Works

Aiming for completion as early as possible in FY2019, safety measures construction is in progress.

Installation of an emergency response facility
(As of July 2018)

Installation of a gas turbine generator
(As of July 2018)

Q The dividends of FY2019 are "undecided", but could you tell us the forecasts at the present time regarding them?

A Although the dividends are "undecided", we have no intention of revising our basic policy of continuing with a stable dividend of 50 yen per share over the year at the present time.

Regarding dividends, our basic approach is to continue with stable dividends, and we have been implementing dividends of 50 yen per share from an overall consideration of forecasts and so forth of the mid- and long-term revenue-expenditure and financial situations, not merely of the results for a single fiscal year.

As things currently stand, we have sustained a considerably advanced degree of damage to our self-owned capital as a result of the protracted suspension of Shimane nuclear power generation operation, and as regards dividends up until our nuclear power generation restarts, we will be making particular decisions in each case, based on an examination of the revenue-expenditure and financial situations at the time. But we have no intention of revising our basic policy of continuing with stable dividends.

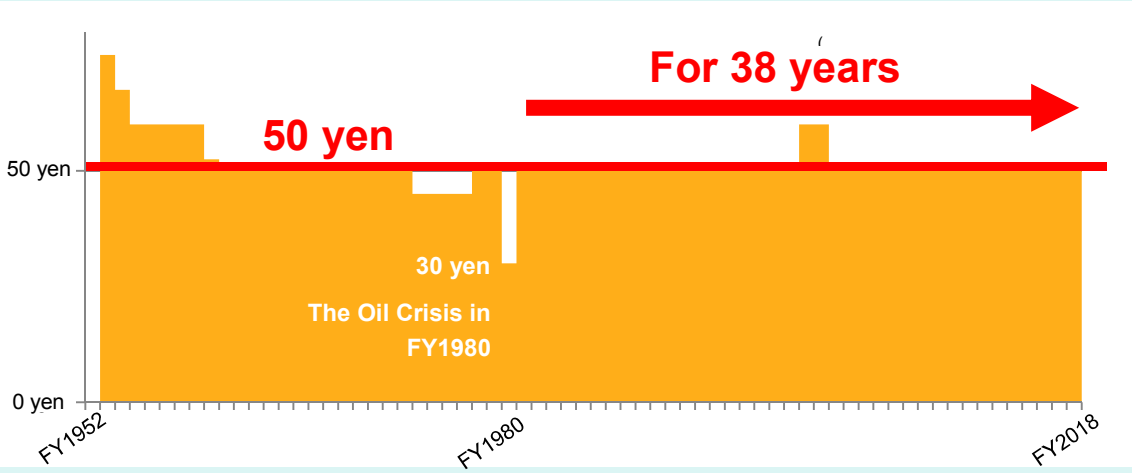
While there are fluctuations each fiscal year, we do believe that, barring any unforeseen sudden causes of revenue-expenditure deterioration such as stopping large-scale coal-fired thermal power, we can prevent any serious deficits. Restart of operations at the Shimane Nuclear Power Station remains an indispensable condition for stabilization of our business. We believe that our top priority is to focus on restarting operation of the Shimane Nuclear Power Station as soon as possible, and on achieving further efficiency improvement.

◆Dividends

We have continued stable dividends of ¥50 per share, based on our dividend policy "constant nominal payment", in consideration of medium-and-long term viewpoint.

◆Dividend per Share

We have been implementing dividends of 50 yen or more per share since FY1981, for 38 years.



Q Electricity System Reform is underway in Japan, and two years have passed since the full liberalization of the retail sale of electricity started in April last year. How do you take this? Also, there are those in the capital markets who hold the opinion it will be a big risk for private businesses to continue running nuclear power stations under free competition– what are your thoughts on this?

A Although the competition is intense, our new menu of electricity rates and services are receiving solid approval from many customers. We will provide high value-added services so as to go on being chosen by the customers of the Chugoku Region, which is our operating base.

As for private businesses continuing to run nuclear power stations, we believe it will be indispensable to have in place an environment that gives them prospects for the future, so that they can plan and implement long-term operations. We will keep advocating that the requisite policies and measures should be devised.

Following the full liberalization of the retail sale of electricity, numerous operators have newly entered the Chugoku Region and the competition is intense. In these circumstances, we are receiving solid approval from many customers, as may be gathered from the fact that the number of subscribers to our members-only “Gutto Zutto Club” website and new “Gutto Zutto Plan” of tariffs exceeded 700,000 respectively by the end of March 2018.

The Energia group will provide high value-added services to meet diverse energy-related needs ranging from home to commercial, so as to go on being chosen by the customers of the Chugoku Region, which is our operating base.

At the same time, so that customers can enjoy advantages from liberalization, it will be necessary for the power supply-demand situation to be stable – which will require restart of nuclear power to proceed, among other things – and for a business environment to be in place where, even under competition, nuclear power generation is utilized as an important base-load power source – on the major precondition that its safety is ensured.

In May 2016, as part of this business environment improvement and with a certain level of involvement by the government, laws were established for the purpose of stably securing funds necessary for nuclear fuel cycle operations, so that the operations could be carried out steadily and efficiently. In October 2016, the Nuclear Reprocessing Organization of Japan was established as the implementing body. The government has been reviewing the nuclear damage compensation system as well, including examining appropriate role-sharing between the government and businesses.

As for private businesses continuing to run nuclear power stations, we believe it will be indispensable to have in place an environment that gives them prospects for the future, so that they can plan and implement long-term operations. We will keep advocating that the requisite policies and measures should be devised.

Q What kind of concepts do you have for growth scenarios over mid- and long-term?

A First of all, we aim for an early restart of the Shimane Nuclear Power Station, and will strive to strengthen the competitiveness of our power sources by developing Misumi Power Station Unit 2. Also, by striving to increase earning capability through growth businesses in other regions of Japan and overseas, we aim to stably ensure profit levels above our pre-earthquake levels.

In January 2016, we announced the "Energia Group Corporate Vision", which describes our profit and financial targets for the future looking towards the 2020s.

First of all, we will make an all-out effort to accommodate the examination of the Shimane Nuclear Power Station in hopes of restarting Unit 2 early and proceeding steadily toward the commissioning of state-of-the-art Unit 3. In addition, we will strive to strengthen the competitiveness of our power sources, including developing Misumi Power Station Unit 2, a 1000 MW coal-fired thermal power plant.

Also, we are making efforts to increase the earning capability of the group by engaging in the establishment of revenue bases in other regions of Japan and overseas, including electricity sales businesses in the Greater Tokyo area and investing in a coal-fired power generation project in Malaysia.

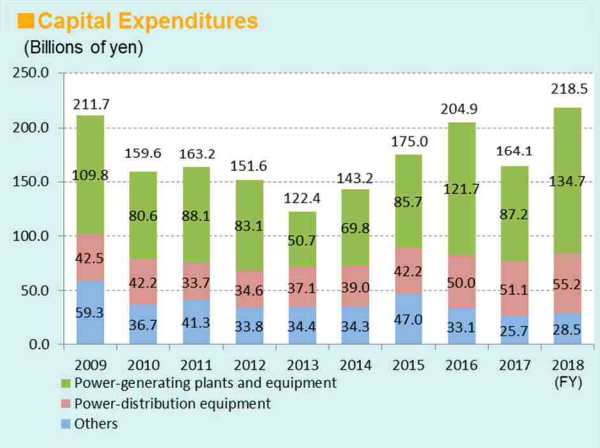
Moreover, in April 2017, we established a new joint venture with JFE Steel Corporation with the objective of studying the development of a coal-fired thermal power plant in Chiba City.

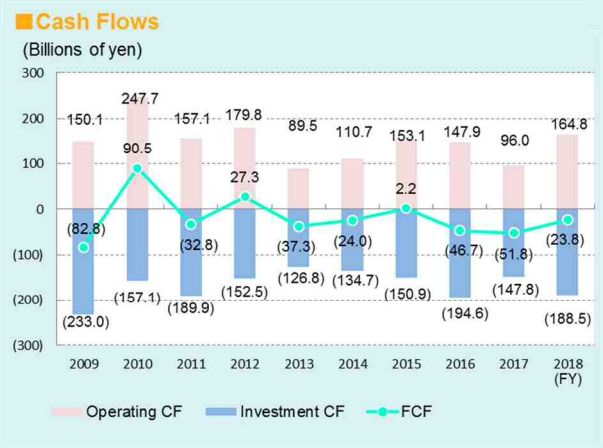
Through these efforts, we hope to achieve the profit and financial targets stated in the Corporate Vision.

◆Trend in Capital Expenditures Sums

Amid an ongoing severe situation for revenues and expenditures, we have been implementing careful selection of necessary works and striving to reduce contracting and equipment/materials procurement costs, rationalize design and work implementation methods, and curb capital expenditures.

We intend to continue to move steadily ahead with the safety measure works necessary for stable resumption of our nuclear power, and alongside that to study new investments in growing fields, balancing the risks with the yields. Thus, for the time being, we expect that capital expenditures will remain at a high level.





Energia Group Corporate Vision

In January 2016, we announced the "Energia Group Corporate Vision", which describes our management policies for the future looking towards the 2020s.

We are steadily promoting efforts to achieve the Corporate Vision, and are aiming to be a "corporate group that people choose in the region and that grows beyond the region".

Corporate Group Image We Aim for as We Look at the 2020s

A corporate group that people choose in the region and that grows beyond the region

- We will provide services with the highest customer satisfaction.
- We will achieve power source competitiveness on the top level in Japan.
- We will deliver an inexpensive, high-quality power transmission and distribution network service.
- We will establish a revenue base in other regions of Japan and overseas.
- We will contribute to solving issues and expanding our community through our business activities.

Profit / Financial Targets

- We will stably ensure profit levels above our pre-earthquake levels (consolidated ordinary income of 60 billion yen or more per year).
- As the financial base needed for a healthy business, first, we will ensure pre-earthquake levels (approx. 25% consolidated equity ratio).

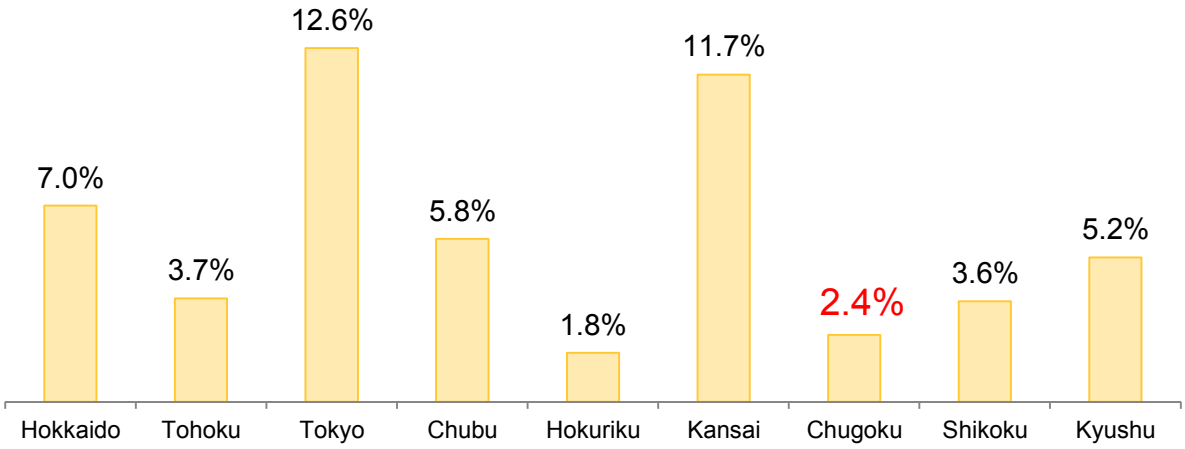
* We will aim to achieve this as early as possible in the 2020s.

Efforts to Achieve the Corporate Vision

Responses for Full Liberalization of the Retail Sale of Electricity

Two years have passed since the full liberalization of the retail sale of electricity started in April 2016. Although the competition is intense, our new menu of electricity rates and services are receiving solid approval from many customers. By developing high value-added services and engaging in electrification-promoting activities that meet energy-saving and cost-saving needs, we hope to continue to be chosen by customers in the Chugoku region, our business base.

◆ Share of New Electricity (Low voltage, as of March 2018)



Source: Electricity and Gas Market Surveillance Commission
Provisionally calculated in-house from the Electricity Transactions Report

Status of Shimane Nuclear Power Station

◆ Outline of Shimane Nuclear Power Station

We shut down Unit 1 at Shimane Nuclear Power Station and are taking various safety measures for its Units 2 and 3 in the light of new knowledge and insight gained from the accident at the Fukushima Daiichi Nuclear Power Station.

- Unit 1 was shut down on April 30, 2015. We obtain approval of a decommissioning plan in April 2017 and started decommissioning works in July 2017. We are proceeding responsibly with the utmost priority on ensuring safety.
- Regarding Unit 2, we applied in December 2013 for examination to verify its compliance with the new regulatory requirements. In February 2018, the design earthquake ground motion, which serves as the standard for power station seismic design, was rated as generally appropriate. Currently, examinations concerning earthquakes, tsunamis, and facilities are being conducted.
- Regarding Unit 3, we applied in August 2018 for examination to verify its compliance with the new regulatory requirements.

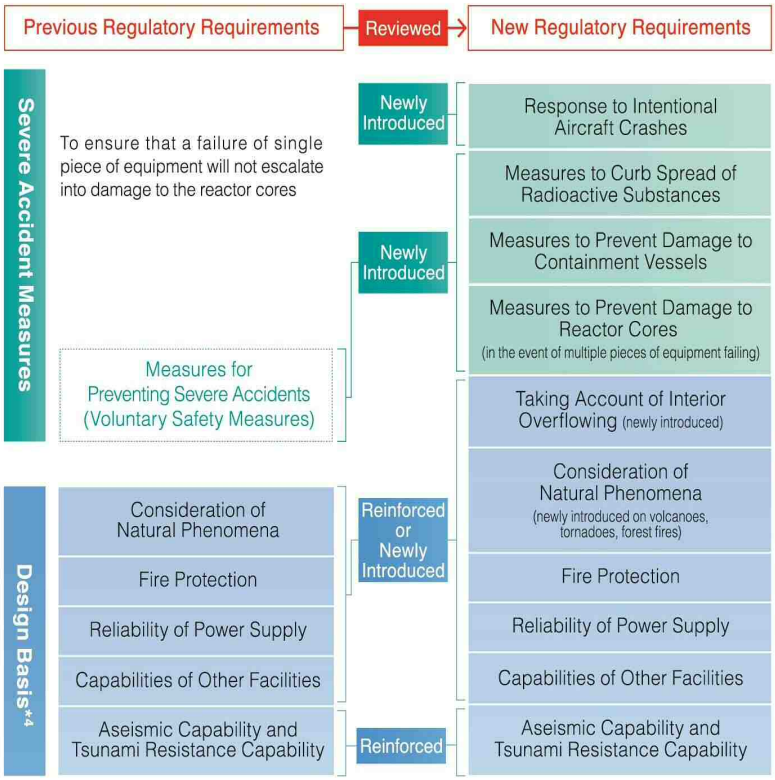
◆ Outline of the New Regulatory Requirements

Learning from the accident at the Tokyo Electric Power Company's Fukushima Daiichi Nuclear Power Station, "Defense-in-depth*1" which is the fundamental ideology for nuclear power safety has been strengthened. The Nuclear Regulation Authority enacted new regulatory requirements for nuclear power station in July 2013.

The new regulatory requirements have stricter assumptions for earthquakes and tsunami, and newly require measures for volcanoes, tornados and interior overflowing*2.

Countermeasures for a severe accidents*3 are now regulated, whereas previously they had been voluntary safety measures.

*1 Defense-in-depth: To adopt multilayered safety measures, however, when designing each safety measure, ensure that the purpose can be achieved with the relevant measure without relying on other measures.
*2 Interior overflowing: Water that flows into the building because of water leaks from damage of devices and piping in the power station buildings or activation of fire extinguishing equipment.
*3 Severe accident: Phenomenon in which nuclear reactor is subject to serious damage.
*4 Design basis: Standards for preventing severe accidents



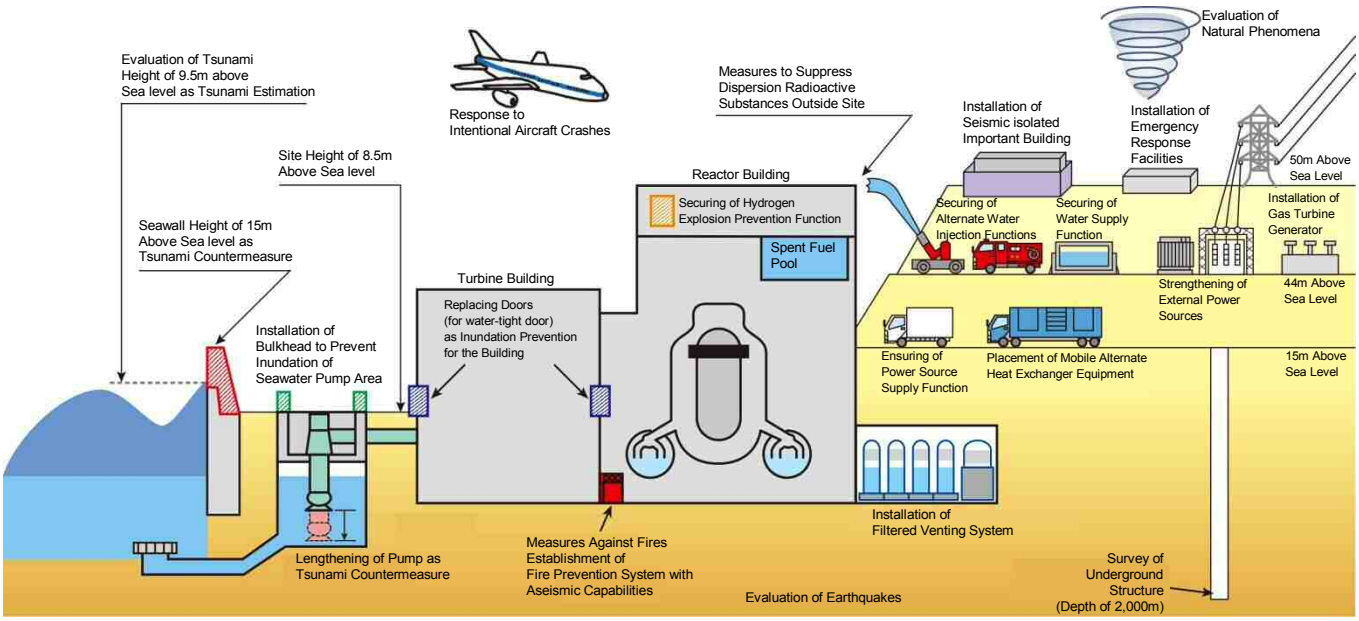
Source: Nuclear Regulation Authority

◆ Main Safety Measures at Shimane Nuclear Power Station

At the Shimane Nuclear Power Station, including Unit 3 under construction, we are considering the multiplicity and diversity of measures to ensure safety with the strong determination that we will never have a similar accident. Our safety measures center on "measures to prevent severe accidents" and "measures in the event that a severe accident occurs".

Currently, we are also carrying out construction to improve the safety of the power station.

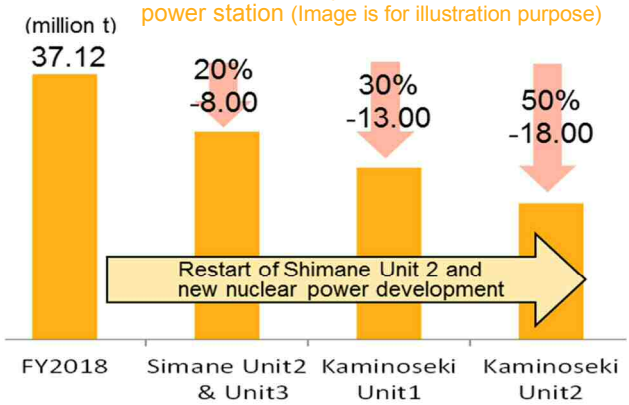
Conceptual Graphic of Shimane Nuclear Power Station Safety Countermeasures



Formation of Environmentally-friendly Equipment

We take coping with an issue of global warming as an important task. Along with efforts to expand the usage of non-fossil fuel energy such as nuclear power and renewable energy, we also strive to more efficiently use our fossil fuel energy, such as by using the best technology economically usable in our newly-developed thermal power station.

Control effect of CO_2 by the operation of nuclear power station (Image is for illustration purpose)



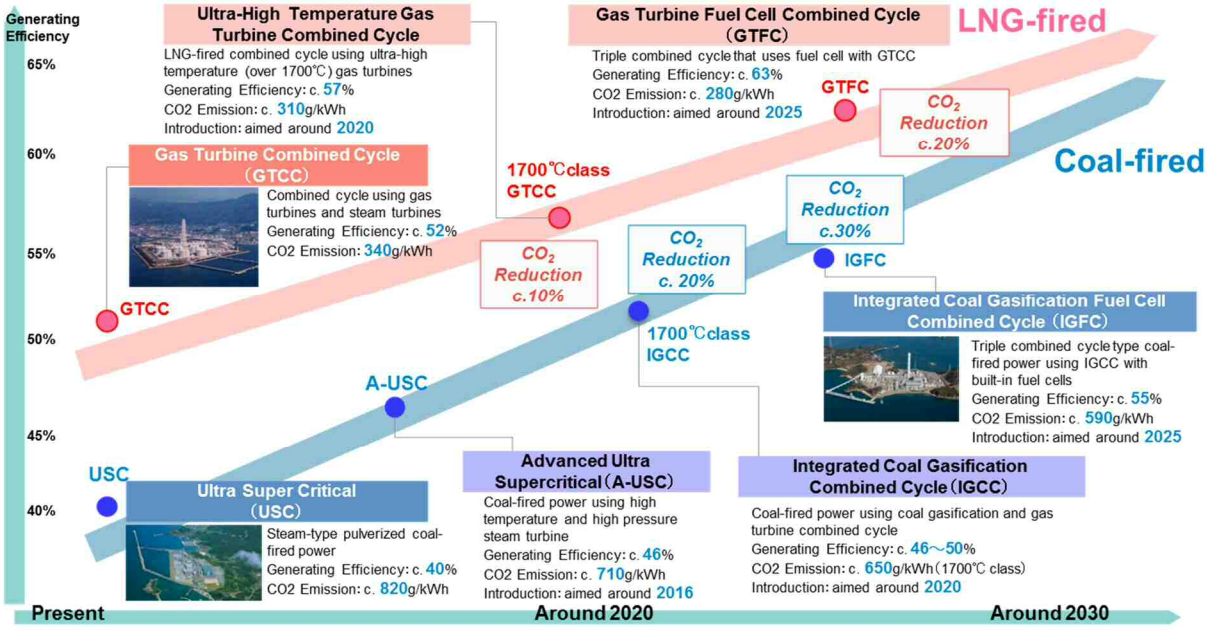
◆ Nuclear Power Generation

The operation of nuclear power station is highly effective to saving valuable fossil fuel and emission reductions of CO_2.

◆ Thermal Power Generation

✓ National Technical Roadmap for Next-generation Thermal Power Stations

The nation is promoting higher efficiency for thermal power stations.



Source: Ministry of Economy, Trade and Industry ("METI")

✓ Misumi Power Station Unit 2 (Coal)

By adopting the most advanced power generation method (USC*1) corresponding to the best available technology (BAT*2), and by applying knowledge gained from operating Misumi Unit 1, we have developed plans for power generation facilities having superior environmental qualities, operation reliability, and economy.

*1 Ultra Super Critical

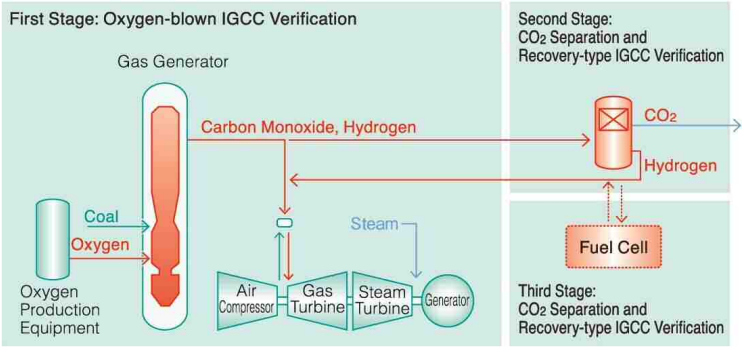
*2 Best Available Technology

Name	Misumi Power Station Unit 2
Address	1810 Okami, Misumi-cho, Hamada City, Shimane Prefecture
Output	1,000 MW
Electricity generating system	Ultra Super Critical
Fuels used	Coal
Schedule	Work stating: November 2018 Operation starting: November 2022

✓ The Integrated Gasification Fuel Cell (IGFC)

Coal-fired thermal power provides superior supply stability and economy, and Chugoku Electric is engaged in developing technology that will contribute to high efficiency and cleanness levels for this energy form, so that it can be utilized long into the future.

Aiming for the Integrated Gasification Fuel Cell (IGFC)*1, the ultimate high-efficiency coal-fired thermal power generation technology, which drastically reduces CO2, we started demonstration tests with an Oxygen-blown Integrated Gasification Combined Cycle (Oxygen-blown IGCC)*2, which is the fundamental technology for IGFC, in March 2017. Also, aiming for a significant reduction in CO2 emissions, we commenced construction on a CO2 separation and recovery demonstration facility in April 2018.



Testing location	Inside Osaki Power Station site
Output	166 MW
Testing scheduled to commence	March 2017

*1 A form of cycle power generation technology that combines fuel cells with IGCC to further improve generating efficiency.

*2 Technology whereby oxygen is used to gasify coal, yielding a product gas with H_2 and CO as main constituents, which is used to drive gas turbines alongside steam turbines in combined cycle generation.

View of the Demonstration Test Plant

◆ Efforts to Expand Introduction of Renewable Energy

We are working as a united group to expand introduction of renewable energy.

✓ Mega Solar Power

We are operating mega solar power station in Fukuyama City, Hiroshima Prefecture and Ube City, Yamaguchi Prefecture.

Name	Fukuyama Photovoltaic Power Station	Ube Photovoltaic Power Station
Address	Minooki-cho, Fukuyama City, Hiroshima Prefecture (Company premises)	Nishiokinoyama, Ube City, Yamaguchi Prefecture (Company premises)
Output	3 MW	3 MW
Power generation	Approx. 3,680,000 kWh / year Equivalent to the annual usage for approx.1,000 general households	Approx. 3,520,000 kWh / year Equivalent to the annual usage for approx.900 general households
Reduction of CO_2 emission	approx.2,100 t -CO_2 / year	approx.2,000 t-CO_2 / year
Start of operation	December 2011	December 2014

Ube Photovoltaic Power Station

✓ Biomass Power Generation

We are proceeding with construction on a biomass and coal mixed-fuel power station.

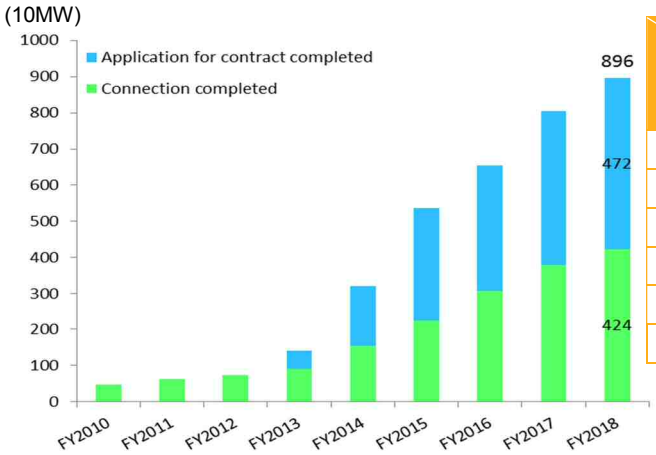
Along with contributing to the expansion and spread of renewable energy through biomass power generation, we believe it will contribute to expanding profitability in the business environment following the liberalization of the retail sale of electricity and the electricity system reform.

Name	AIR WATER & ENERGIA POWER YAMAGUCHI CORPORATION	AIR WATER & ENERGIA POWER ONAHAMA CORPORATION	KAITA BIOMASS POWER CO., LTD.
Address	3-1, Kanebo-cho, Hohu City, Yamaguchi Prefecture (Inside Hofu plant)	2-4, Onahama, Iwaki City, Fukushima Prefecture (Inside Onahama plant, Nihonkaisui Co., Ltd.)	2-118, Myojin-machi, Kaita-cho, Aki-gun, Hiroshima Prefecture (inside Kaita plant, HIROSHIMA GAS Co., Ltd.)
Output	112 MW	75 MW	112 MW
Electricity generation system	Circulating Fluidized Bed	Circulating Fluidized Bed	Circulating Fluidized Bed
Fuels used	Woody biomass (including domestic materials primarily procured from Yamaguchi Prefecture), Coal	Woody biomass	Woody biomass (including domestic materials primarily procured from Hiroshima Prefecture), Coal, Natural Gas (use for support)
Operation Starting	FY2020	FY2021	FY2021
Investment ratio	AIR WATER 51% Chugoku Electric 49%	AIR WATER 51% Chugoku Electric 49%	HIROSHIMA GAS 50% Chugoku Electric 50%

✓ Purchasing Power from Renewable Energy

In order to contribute to an expansion of renewable energy, we purchase electricity generated by solar power and wind power. Latest application status can be found at: http://www.energia.co.jp/elec/seido/kaitori/moshikomi.html

Installation of Renewable Energy Facilities (As of March 31, 2018)



	Application for contract completed	Connection completed	Total
Solar power	277	370	647
Wind power	93	35	128
Hydroelectric	4	3	7
Biomass	98	17	115
Geothermal	0	0	0
Total	472	424	896

✓ Demonstration Project Utilizing Hybrid Storage Battery System in the Oki-islands

To further penetration of renewable energy, we constructed a hybrid power storage system that combines two types of storage batteries, and started operation in September, 2015 in the Oki islands, as the first challenge in Japan.

From the end of September 2015 to March 2019, we verify the technology to manage and control efficient charging and discharging of the storage batteries.

On remote islands where transmission lines are not linked to the mainland, electricity usage is small, and fluctuations in the amount of renewable energy generated have a large impact; therefore, in order to expand the introduction of renewable energy, we installed two types of storage batteries and began verification project.

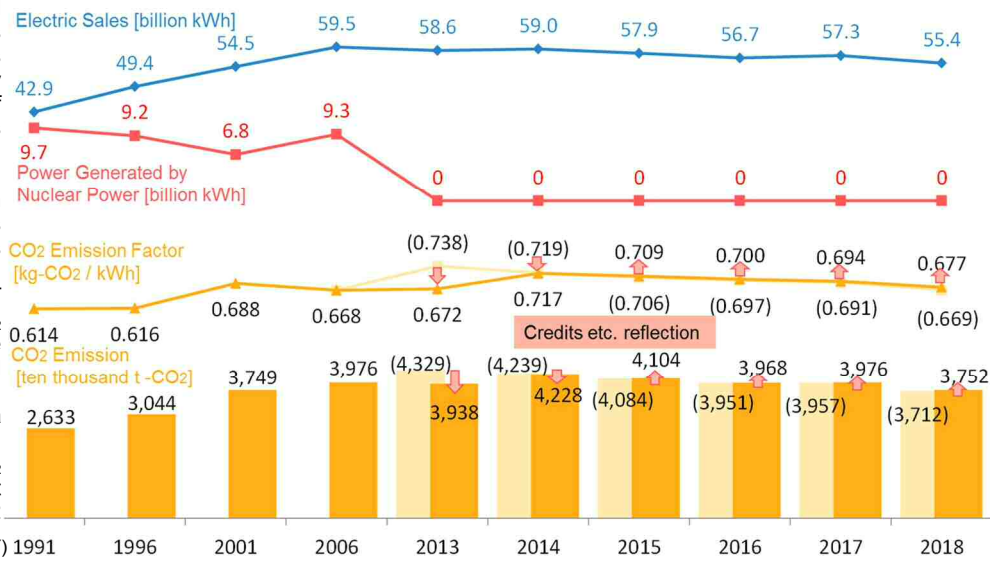
✓ CO_2 Emissions and Emission Factors

Calculated from the "Calculation and announcement of actual emissions coefficients and adjusted emissions coefficients by electricity utility" announced by the nation based on the Act on Promotion of Global Warming Countermeasures (hereinafter, "Global Warming Act").

Reflects adjustments involved in FIT (from FY2013) and CO_2 emissions credits based on the Global Warming Act. The parentheses indicate values before reflection (emissions and emission factors before adjustment).

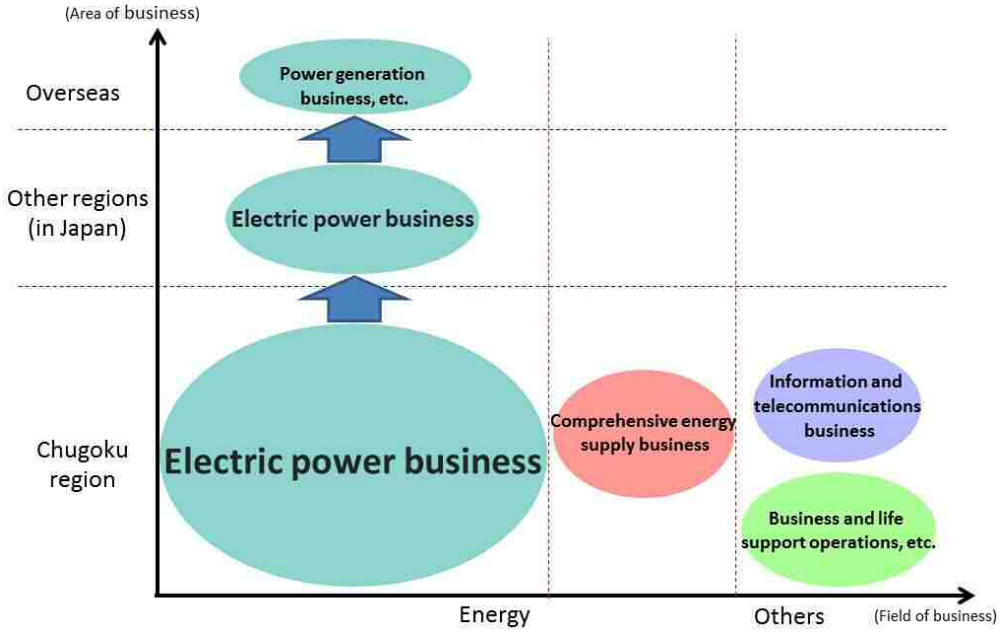
From FY 2015 and thereafter, as the FIT adjustment amount exceeds the CO_2 emissions credit reflection amount, the unadjusted value is larger than the adjusted value.

The CO_2 emission factor for FY 2018 is a provisional value, and the official value will be announced by the nation. After FY2017, CO_2 emission factor doesn't include supply amount for remote islands. Electric sales and CO2 emission include them.



Establish a Revenue Base in Other Regions and Overseas

We will cooperate with influential partners in Japan and overseas to establish a revenue base both in other regions of Japan and overseas, thus improving the base profitability of the group.



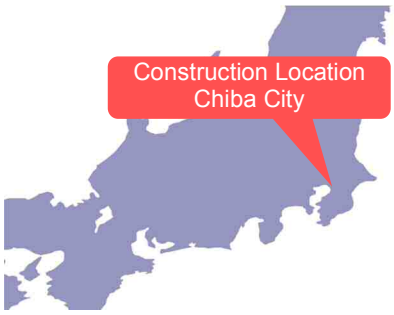
◆ Expansion of Electricity Sales Business in Other Regions in Japan

We have begun selling electricity to home customers in the Greater Tokyo area since April 2016.
After electricity retailing in the Greater Tokyo area gets rolling, we will investigate expanding the business depending on its profitability and other factors.

✓ New Power Source Development In Other Regions In Japan

In cooperation with JFE Steel Corporation, we are proceeding with investigations to develop a coal-fired power station (Electricity generating system: Ultra Super Critical) in Chiba City, Chiba Prefecture, and established Chiba Power Co., ltd in April 2017.

We believe that, by using our company's know-how and JFE Steel Corporation's existing infrastructure, the development of power stations with outstanding supply stability and cost performance will further contribute to improving profitability in the business environment following the electricity system reform.



Name	Chiba Power Co., ltd
Address	Kawasaki-cho, Chuo-ku, Chiba City, Chiba Prefecture JFE Steel Corporation, East Japan Works (Chiba District) premises
Output	1,000 MW
Electricity generating system	Ultra Super Critical (USC)
Fuels mainly used	Coal
Schedule	Work stating: 2020 Operation starting: 2024
Investment ratio	Chugoku Electric 73%, JFE Steel 27%

◆ Investment in Power Generating Business Overseas

We have positioned overseas business as one of the growth areas while the competitive environment of the domestic electric power business is becoming increasingly severe. Utilizing the knowledge of the electrical business we have cultivated so far, we will continue to participate in new overseas opportunities and work to strengthen our profitability.

✓ In Malaysia

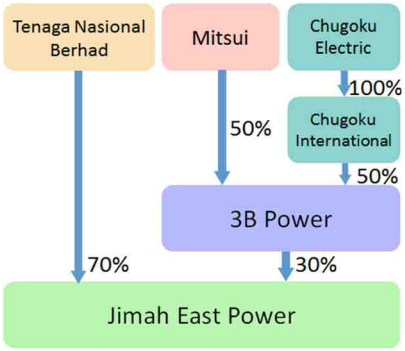
We participated in coal-fired power generation project in Malaysia on March 2016. We have also dispatched employees from our company on-site since June of the same year.

We maximize the usage of the accomplishments, experience and environmental technology the company has accumulated through the construction management and operation of coal-fired power plants in order to provide a stable supply of electricity in Malaysia and contribute to the realization of a low-carbon society.

Project Overview

Installed Capacity	Ultra super critical (USC) coal-fired power generation 2,000MW (1,000MW ・ 2 units)
Start of operations	Unit No. 1: June 2019 Unit No. 2: December 2019
Offtaker and period	TNB (Malaysian electric power company) for 25 years
Total project cost	Approx. 12 billion MYR (Approx. 320 billion JPY)

Investment Scheme



Plant Location

✓ In America

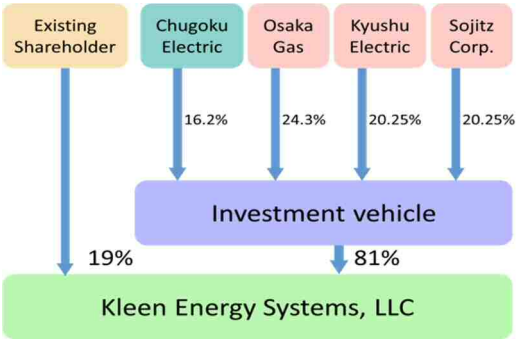
We participated in natural gas fired power generation project in the US on May 2018.

This case is our first participation in the power generation business in the US.

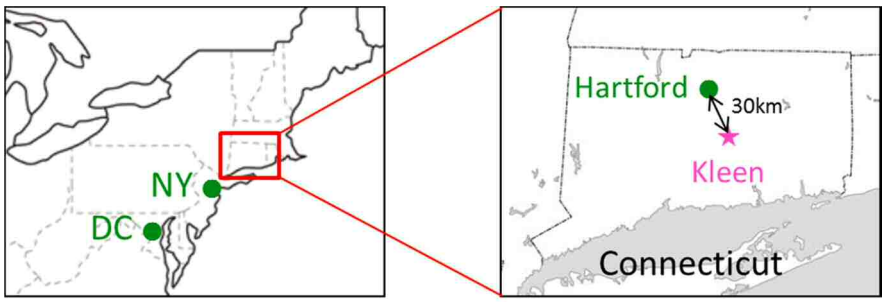
Project Overview

Project	Kleen Energy Systems, LLC
Installed Capacity	Combined Cycle Gas Turbine (CCGT) 620MW
Start of operations	July 2011
Market	Wholesale power market in the northeastern United States

Investment Scheme



Plant Location



◆ Development of Overseas Consulting Business

Utilizing our knowledge of the electricity business cultivated up to now both in Japan and overseas, we plan to contribute to the electricity business overseas and develop our overseas consulting business, positioning it as a pioneering effort related to the overseas electricity generation business.

For example, for over ten years in Cambodia, we have fostered a trusting relationship by taking on consulting work, including consulting involving the revision of electric power master plans and development of small hydroelectric plants.

Consulting for Revision of Electric Power Development Master Plan（Cambodia）

Consulting for Development of Small-scale Hydropower plants（Cambodia）

Strengthening of Human Resources and Technical Base

To flexibly and accurately adapt to changes in the business environment, we are promoting the active engagement of diverse human resources while making reforms in how we work. Also, while aiming for sustainable growth in our people and organization, we are striving to accelerate the development of employees who will possess broad, deep technological and technical skills.

◆ Active Engagement of Diverse Human Resources

We have strived to develop an innovative work style system as a foundation on which diverse human resources can successfully engage, a system that will further improve hourly productivity while balancing work and child/family care. Aiming for even more effective utilization of the existing system in the future, we are examining how to solve operational challenges and build a workplace environment that will make diverse ways of working possible.

To promote the active engagement of female employees, we are making positive efforts to assign work that will enable female employees to be even more engaged and demonstrate their abilities. We have also set the targets shown below.

✓ Targets for active engagement of females

・Compared to the start of FY2016, double the number of female employees who are in section manager and higher positions by the end of FY2021.

・Compared to the start of FY2016, increase by approximately 50% the number of female employees who are in executive positions by the end of FY2021.

◆ Certification of persons with advanced technological and technical skills

Employees who have advanced, professional technological and technical skills in certain fields are certified as "Energia Masters." These Energia Masters provide technical guidance at sites that support the stable supply of electricity. They also engage in lectures in-house and outside the company, as well as a broad range of other activities tied to the succession of technological and technical skills.

Energia Master certification is offered in eight areas related to the operation, maintenance, and construction of electric power facilities (namely, power distribution, thermal power, nuclear power, hydroelectric power, physical distribution, civil engineering, architecture/construction, and information). In FY 2018, 12 persons were newly certified. Currently (as of March 2018), 46 persons are certified and active.

Symbol of “Energia Masters”

◆ Training staff system

Well-experienced employees are appointed as "Technical Skill/Technical Skill Enhancement Chiefs." About 160 such persons currently provide guidance on technological and technical skills through work. They also conduct on-the-job training and are otherwise engaged primarily in workplace OJT activities.

Trend in Japan's Energy Policy

Deliberations toward revision of energy policy and the electricity business system have been ongoing in Japan since the occurrence of the Great East Japan Earthquake and Tokyo Electric Power Company's Fukushima Daiichi Nuclear Power Station accident in March 2011.

Energy Mix

Pursuant to the Basic Act on Energy Policy enacted in June 2002, the Japanese government framed a Basic Energy Plan that puts together long-term, comprehensive and systematic policies concerning energy supply and demand. Under the said Act, the Plan's contents must be reviewed, and the Plan amended as necessary, once every three years.

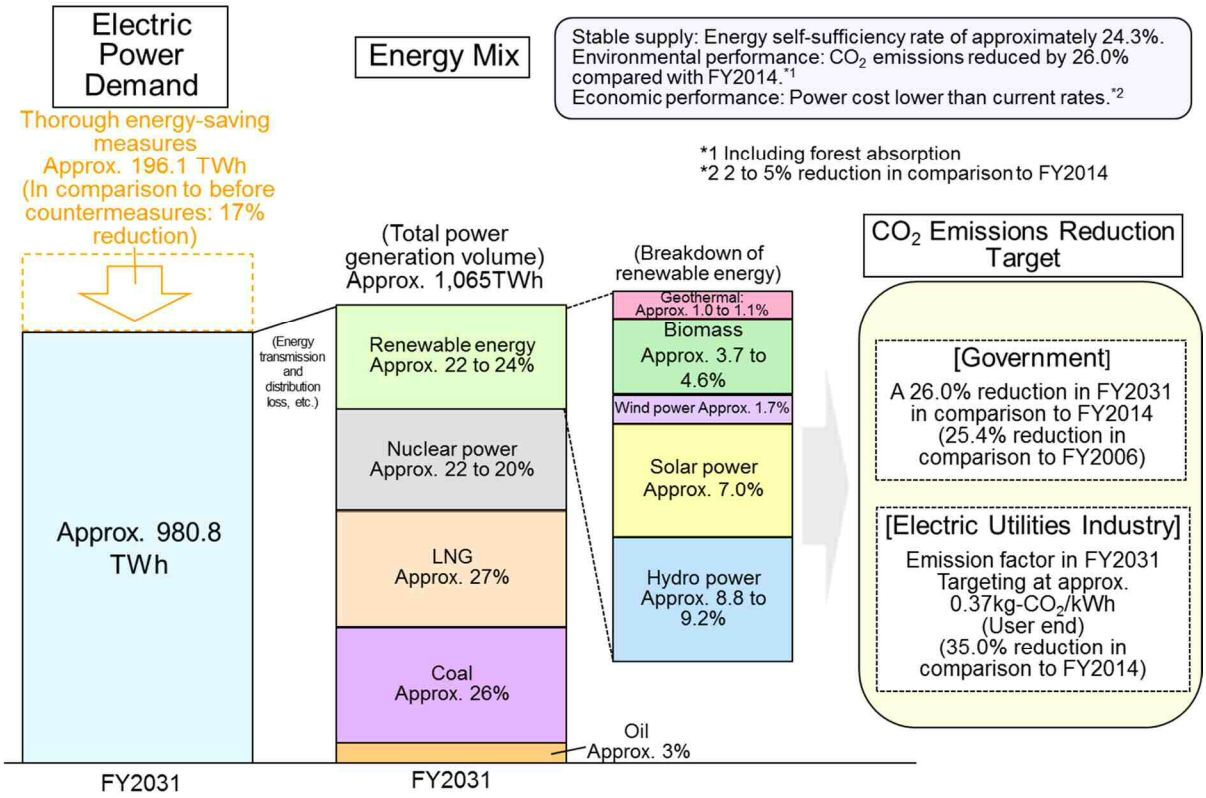
In April 2014 the Cabinet approved the Fourth Basic Energy Plan. On the basis of an "S + 3 Es"* approach, this plan positions nuclear power generation as "an important base-load power source" contributing to the stability of the energy supply-demand structure, and moreover sets forth an orientation of accelerating the introduction of renewable energies. In July of this year, an energy mix for FY2031 has been put forward that is based on the roles of such energy source and is balanced so as not to depend excessively on any particular energy source.

In July 2018 the Cabinet approved the Fifth Basic Energy Plan. While maintaining the concept of the Forth Plan, the direction of measures to ensure the realization of energy mix in 2030 was shown.

In a form that conforms to this energy mix, Japan's overall CO2 emission control target was set as a "26% reduction in FY2031 compared to FY2014", and a target "aiming for an emission factor of approximately 0.37 kg-CO2/kWh in FY2031 (35.0% reduction compared to FY2014)" was set for electricity businesses, too, provided that the energy mix was achieved. Aiming to achieve the overall electricity business targets, each business is currently moving ahead with efforts.

*S + 3 Es: Activities, with Safety ("S") as over-arching precondition, that give first priority to the stable supply of energy (energy security, the first "E") and devote maximal efforts to achieving energy supply at low cost through raising of economic efficiency (second "E") while at the same time seeking environmental compliance (third "E").

◆ Energy Mix and CO2 Emissions Reduction Target (Decided by the cabinet in July 2015)



Electricity System Reform

Japan was using a system whereby 10 general electric utilities that have to carry out all the operations from power generation through to retail fulfilling the supply responsibilities in their defined supply areas. But given facts such as the electricity shortages in the aftermath of the Great East Japan Earthquake, there are held to be increased societal needs for “utilizing supply capacity across wider areas” and “letting people choose a power company of their own free will”. Accordingly, Electricity System Reform is now underway which will reform the electricity business system in three phases.

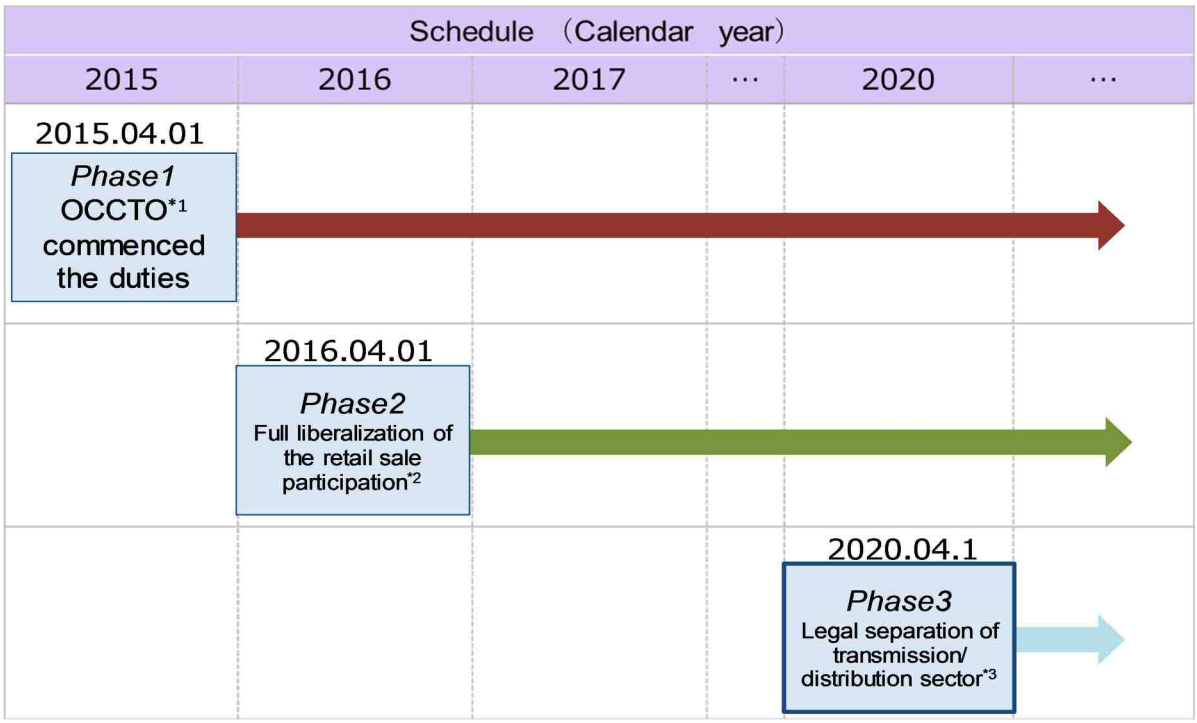
The first phase –“Expanding operations of wide-area electrical grids”– got underway in April 2015, when the “Organization for Cross-regional Coordination of Transmission Operators” commenced their duties. These bodies are to coordinate certain power supply-demand plans and operations across wide areas covering the electric power of various districts.

The second phase –“Full liberalization of the retail sale participation”– is scheduled to be implemented from April 2016 onward.

The third phase –“Legal separation of the power transmission/distribution sector”– is to be implemented by April 2020, as stipulated in the Electricity Business Act which passed the National Diet in June 2015.

In each phase of the Electricity System Reform, verification as to conformity with the government’s energy policy and as to the power supply-demand situation, etc., are to be conducted, and such measures as may be necessary are to be devised in line with the results of such verification and from the perspectives of competitive conditions, funding and so forth.

◆Outline and Schedule of Electricity System Reform



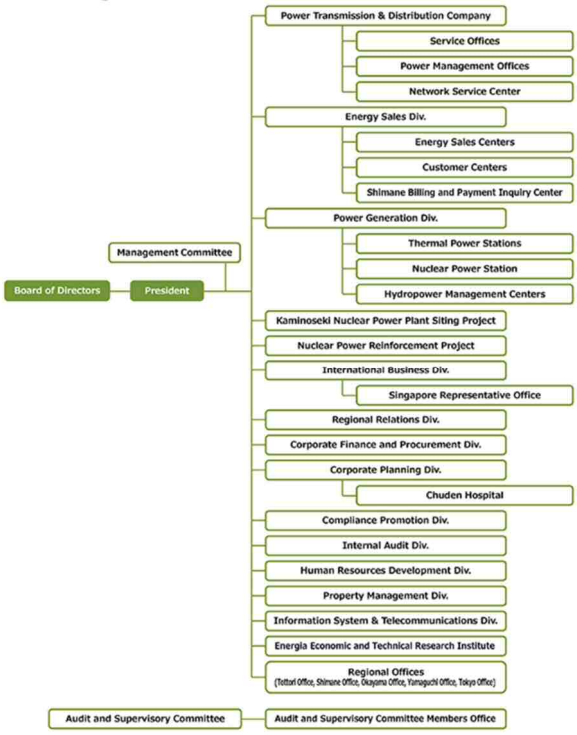
*1 ·Organization for Cross-regional Coordination of Transmission Operators：Independent organizations that centrally collect information on system users and coordinate supply-demand plans/operation across a wide area in their various regions.

*2 ·Expansion of the scope of liberalization to include low-voltage customers (homes, offices and so on), thus enabling all customers to select the business they purchase power from.
·Retail businesses will be obliged to ensure a supply capacity commensurate with their own demand.
·Businesses will be free to set their own rates, in principle. However, as a transitional measure to protect consumers, the supply obligation and rate regulation with regard to low-voltage customers will continue to be imposed on the general electric utilities.

*3 ·The Act prohibits general power transmission and distribution businesses, and power transmission businesses, from engaging in retail electricity business or electricity generation business.
·In order to ensure a fair competitive environment, the Act sets up conduct regulations that prohibit directors of a general power transmission and distribution business and power transmission businesses from serving concurrently as a director of an electricity generation business or retail electricity business in the same corporate group, or vice-versa.

Corporate Information

Organization Chart (As of October 1, 2017)



Board Members / Management (As of June 27, 2018)

◆ Board Members

Representative Director Chairperson of the Board	Tomohide Karita
Representative Directors	Mareshige Shimizu
	Nobuo Watanabe
	Moriyoshi Ogawa
	Masaki Hirano
Directors	Hideo Matsumura
	Hideo Matsuoka
	Akimasa Iwasaki
	Shigeru Ashitani
	Takafumi Shigeto
	Natshuhiko Takimoto
Directors Audit and Supervisory Committee Members	Hiroshi Segawa
	Hiroaki Tamura
	Kunio Uchiyamada
	Etsuko Nosohara

◆ Main Executive Officers

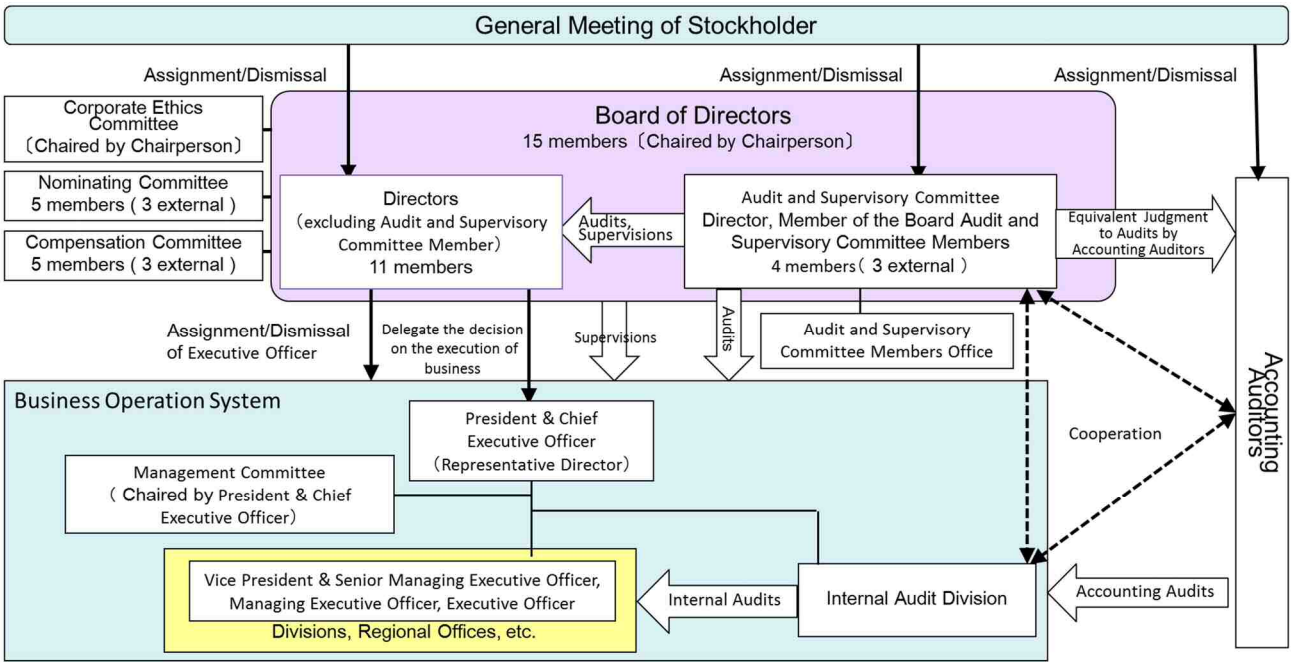
President & Chief Executive Officer	Mareshige Shimizu
Vice President & Senior Managing Executive Officers	Nobuo Watanabe
	Moritoshi Ogawa
	Masaki Hirano
Managing Executive Officers	Hideo Matsumura
	Hideo Matsuoka
	Akimasa Iwasaki
	Shigeru Ashitani
	Takafumi Shigeto
	Natshuhiko Takimoto
	Koro Ito
	Masahiro Yamashita
	Hisashi Kanda
	Tatsuo Kitano
	Norimasa Tamura
	Toshio Takaba
	Toru Fukushima

Corporate Governance

To enable quick, resolute decision-making, further improve management transparency and fairness, and strengthen supervisory functions, we adopt a system of company with audit and supervisory committee and have three external Directors.

We continue striving to enhance and strengthen corporate governance to establish trust of our stakeholders such as our stockholders and investors, our customers, local communities and our business partners.

◆Corporate Structure and Internal Controls (As of April 2018)



Consolidated Five-Year Summary

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

	Millions of yen					Thousands of U.S. dollars (Note1)
	2014	2015	2016	2017	**2018**	**2018**
Operating revenues	¥1,256,054	¥1,299,624	¥1,231,572	¥1,200,379	**¥1,314,967**	**$12,405,350**
Operating income (loss)	8,992	71,341	50,015	34,520	**39,626**	**373,831**
Profit (loss) attributable to owners of parent	(9,384)	33,852	27,113	11,341	**20,707**	**195,355**
Net assets	606,482	624,875	608,535	581,162	**580,745**	**5,478,734**
Total assets	2,948,019	3,106,275	3,070,948	3,100,754	**3,179,442**	**29,994,744**
Interest-bearing debt	1,857,935	1,980,196	1,950,374	2,053,281	**2,078,239**	**19,606,036**
Free cash flows (Note 2)	(23,980)	2,229	(46,715)	(51,775)	**(23,755)**	**(224,105)**
Other financial data						
Per share data (yen and dollars):						
Net assets (Note 3)	1,659.34	1,710.60	1,668.47	1,677.09	**1,676.42**	**15.82**
Earnings:						
Basic	(25.88)	93.38	74.83	31.84	**60.15**	**0.57**
Cash dividends	50.00	50.00	50.00	50.00	**50.00**	**0.47**
Key financial ratios:						
Equity ratio (%)	20.4	20.0	19.7	18.6	**18.2**	
Return on equity (ROE) (%)	(1.5)	5.6	4.4	1.9	**3.6**	
Return on assets (ROA) (%) (Note 4)	0.2	1.6	1.2	0.8	**0.9**	
Price earnings ratio (PER) (times) (Note 5)	—	16.8	20.3	38.7	**21.3**	

	Millions of kWh				
	2014	2015	2016	2017	**2018**
Power generated and received					
Generated:					
Hydroelectric	3,612	3,404	3,448	3,878	**3,784**
Thermal	39,797	38,769	36,612	35,867	**33,643**
Nuclear	–	–	–	–	**-**
New energy sources	5	6	8	8	**8**
Power interchanged and purchased (NET)	21,674	21,367	22,339	23,212	**23,490**
Power used for pumped storage (Note 6)	(690)	(431)	(630)	(750)	**(940)**
Total (Note 7)	64,396	63,114	61,778	62,216	**59,986**
Transmission loss	(5,416)	(5,246)	(5,059)	(4,962)	**(4,555)**
Total (Note 7)	58,980	57,868	56,719	57,254	**55,432**
Electric sales:					
Residential (lighting)	18,910	18,203	17,710	18,184	**18,562**
Commercial, industrial and other	40,070	39,665	39,009	39,070	**36,870**
Total	58,980	57,868	56,719	57,254	**55,432**

Notes:
1. U.S. dollar amounts above are given for the reader's convenience only and are converted from yen at ¥106 = US$1.00, the exchange rate prevailing on March 31, 2018.
2. Free cash flows represent the net cash flows from operating activities and from investing activities.
3. Net assets per share is computed using the number of shares of common stock in issue at the end of each year.
4. ROA = Operating income × (1 — Income tax rate) / Total assets × 100.
5. PER for the fiscal years ended March 2014 is not given because losses attributable to the owners of the parent were recorded for that year.
6. Power used for pumped storage is the electric power used to pump water for reservoir operations at pumped-storage power stations.
7. For electric energy information, the sum of the individual amounts may not match the totals due to the rounding of numerical values.

Consolidated Financial Review

Summary of Operations

- In the consolidated fiscal year ended March 31, 2018, the Japanese economy continued to show improvement in the employment and income environment as consumer spending remained steady, and the overseas economy also saw recovery. With these factors in the background, exports increased and production activities picked up. Therefore, the economy saw a moderate recovery. The situation in the Chugoku region was similar to the rest of the country.
- Consolidated sales of electricity decreased by 3.2% from the previous fiscal year to 55.4 billion kilowatt hours.
- Operating revenues of the Chugoku Electric Power Co., Inc. ("the Company") and its consolidated subsidiaries (together with the Company, "the Companies") for the fiscal year were ¥1,314.9 billion (US$12,405.3 million), a rise of 9.5%, or ¥114.5 billion (US$1,081.0 million), from fiscal 2017. Profit attributable to the owners of the parent for the fiscal year was ¥20.7 billion (US$195.3 million), a rise of ¥9.3 billion (US$88.3 million). Free cash flow (net cash provided by operating activities minus net cash used in investing activities) amounted to an outflow of ¥23.7 billion (US$224.1 million).
- The Company maintained cash dividends per share at ¥50.00 (US$0.47).

Operating Revenues

- Operating revenues for the fiscal year were ¥1,314.9 billion (US$12,405.3 million), a rise of 9.5%, or ¥114.5 billion (US$1,081.0 million).
- Operating revenues from electric power operations amounted to ¥1,193.6 billion (US$11,261.0 million), a rise of 8.8%, or ¥96.9 billion (US$914.6 million).
- Operating revenues from other operations such as the comprehensive energy supply business and the information and telecommunication business increased by 17.0%, or ¥17.6 billion (US$166.4 million), to ¥121.2 billion (US$1,144.3 million).

Operating Expenses and Operating Income

- Operating expenses for the fiscal year were ¥1,275.3 billion (US$12,031.5 million), a rise of 9.4%, or ¥109.4 billion (US$1,032.8 million).
- Despite efforts to raise operational efficiency across the board, operating expenses in electric power business increased by ¥93.8 billion (US$885.0 million) to ¥1,159.1 billion (US$10,934.9 million). This stemmed from an increase in raw material costs due to an increase in fuel costs, as well as an increase in "Feed-in Tariff Scheme for Renewable Energy" payments.
- In operations other than electric power operations, operating expenses were ¥116.2 billion (US$1,096.5 million), a rise of 15.6%, or ¥15.6 billion (US$147.7 million).
- Operating income was ¥39.6 billion (US$373.8 million), a rise of ¥5.1 billion (US$48.1million).

Other Expenses (Income), Profit (Loss) Before Income Taxes and Profit (Loss) Attributable to Owners of Parent

- Total other expenses (income) decreased by 40.6%, or ¥6.1 billion (US$57.6 million), to ¥8.9 billion (US$84.1 million).
- As a result of applying the reserve for fluctuation in water levels and the provision for depreciation of nuclear power plants, profit before income taxes was ¥27.1 billion (US$255.8 million), a rise of ¥11.2 billion (US$105.7 million). Profit attributable to the owners of the parent was ¥20.7 billion (US$195.3 million), a rise of ¥9.3 billion (US$88.3 million).
- Earnings per share went to ¥60.15 (US$0.57) from ¥31.84 in the previous fiscal year.

Financial Position

Assets

- At fiscal year-end, consolidated total assets were ¥3,179.4 billion (US$29,994.7 million), a rise of 2.5% or ¥78.6 billion (US$742.3 million) due to an increase in construction in progress resulting from, for instance, safety improvement construction at the Shimane Nuclear Power Station.
- Fixed assets were ¥2,311.4 billion (US$21,806.3 million), a rise of 4.3%, or ¥95.3 billion (US$899.3 million).
- Nuclear fuel was ¥180.4 billion (US $1,702.1 million), a rise of 22.3%, or ¥32.9 billion (US $310.7 million).
- Total investments and other assets were ¥362.8 billion (US$3,423.0 million), a decrease of 7.7%, or ¥30.2 billion (US$285.1 million).
- Total current assets were ¥324.6 billion (US$3,063.1 million), a decrease of 5.6%, or ¥19.3 billion (US$182.6 million).

Liabilities, Non-controlling Interests and Net Assets

- total liabilities were ¥2,598.6 billion (US$24,516.0 million), a rise of 3.1% or ¥79.1 billion (US$746.2 million), due mainly to an increase in interest-bearing debt. Interest-bearing debt increased by 1.2%, or ¥24.9 billion (US$235.4 million), to ¥2,078.2 billion (US$19,606.0 million). Other liabilities increased by 11.6%, or ¥54.1 billion (US$510.8 million), to ¥520.4 billion (US$4,909.9 million).
- Total net assets were ¥580.7 billion (US$5,478.7 million), a decrease of 0.1% or ¥0.4 billion (US$3.9 million). Although there was an allocation of profit attributable to the owners of the parent, other factors, including payment of dividends, caused the total to decrease. The equity ratio declined 0.4 percentage points to 18.2% from 18.6%.

Cash Flows

- Net cash provided by operating activities was ¥164.7 billion (US$1,554.6 million), a rise of 71.7%, or ¥68.7 billion (US$648.9 million), due to an increase in profit before income taxes, among other factors.
- Net cash used in investing activities was ¥188.5 billion (US$1,778.7 million), a rise of 27.6%, or ¥40.7 billion (US$384.6 million), due to an increase in equipment investment and other factors.
- Free cash flow, therefore, amounted to an expenditure of ¥23.7 billion (US$224.1 million).
- Net cash provided by financing activities was ¥4.4 billion (US$42.2 million), a decrease of 92.4%, or ¥54.1 billion (US$510.8 million). With procurements exceeding repayments, bonds and long-term borrowings increased ¥24.0 billion (US$226.5 million).
  Cash dividends paid were ¥17.2 billion (US$162.4 million).
- Cash and cash equivalents at end of the fiscal year totaled ¥81.0 billion (US$764.3 million), a decrease of ¥19.1 billion (US$181.1 million) over the total at the end of the previous year.

Summary of Cash Flows

Years ended March 31	Millions of yen		Thousands of US dollars
	2018	2017	2018
Net cash provided by (used in) operating activities	¥164,794	¥96,003	$1,554,661
Net cash provided by (used in) investing activities	(188,549)	(147,779)	(1,778,767)
Net cash provided by (used in) financing activities	4,483	58,630	42,296
Effect of exchange rate changes on cash and cash equivalents	73	(106)	697
Net increase (decrease) in cash and cash equivalents	(19,197)	6,748	(181,111)
Cash and cash equivalents at beginning of the fiscal year	100,223	93,475	945,504
Cash and cash equivalents at end of the fiscal year	¥81,025	¥100,223	$764,392

Risk Factors

The following primary risk factors to which the Companies are subject may exert a significant influence on investor decisions. The Companies recognize these risk factors and will try to assess and manage those risks. The forward-looking statements included below represent estimates as of March 31, 2018.

1. Revision of systems pertaining to nuclear power generation

We are continuously taking steps to enhance safety, not only comply with the new regulatory standards enacted in July 2013. These steps include countermeasures against earthquakes and tsunamis, measures to assure reliability of external power sources and measures to deal with severe accidents, including the installation of filtered vent equipment. These measures are being taken in response to the accident that occurred at the Fukushima Daiichi Nuclear Power Station. However, should the revision of policies and regulations pertaining to nuclear power take certain directions, the Companies' results and financial condition could be affected.

Although the back-end of the nuclear fuel cycle is a super-long-term business and involves uncertainties, the electric utilities' risks in this area have been alleviated by systemic measures taken by the nation. However, the Companies' results and financial condition could be affected in the future by revisions of the system, changes in the estimates of future sums or the operating status of the reprocessing plant.

2. Revision of policies and systems pertaining to electric power business

It is possible that the Companies' business results will be affected by the reexamination of systems pertaining to the electric power business, such as detailed system study for the legal separation of power transmission and power distribution sectors, as well as the intensifying competition with other companies following the full-scale liberalization of retail electricity.

Also, it is possible that the Companies' business results will be affected by energy and environmental policies such as those pertaining to the FY 2031 energy mix and reductions in greenhouse gas emissions.

3. Natural disasters and other troubles

The Companies have substantial property, plant and equipment mainly for the electric power business. Natural disasters such as earthquakes and typhoons, illegal acts including terrorism and other troubles have the potential, by giving rise to costs pertaining to the recovery of facilities and procurement of alternative thermal power fuel, to affect the Companies' results and financial condition.

4. Business other than electric power

In addition to the electric power business, the Companies are engaged in the "comprehensive energy supply business," "information and telecommunications business," "environmental business," and "business and lifestyle support business." If these businesses do not grow as the Companies expect due to changes in the business environment or other factors, the Companies' business results may be affected.

5. Economic conditions

Since electricity sales are subject to economic trends such as production activities, economic conditions may affect the Companies' business results.

6. Seasonal variations in weather

Since electricity sales are subject to demand for air conditioning and heating, temperatures in the power supply area have the potential to affect the Companies' results and financial condition.

A decrease in the water flow rate could boost the Company's fuel costs through reduction in the Company's proportion of hydropower generation. Therefore, rainfall levels in the water resource areas have the potential to affect the Companies' results and financial condition.

7. Changes in fuel prices

Sources of fuel for the Company's thermal power generation include coal, liquefied natural gas (LNG) and heavy and crude oil. Therefore, fluctuations in energy prices, such as the price of coal, LNG and heavy and crude oil, and fluctuations in foreign exchange rates may affect the Companies' results and financial condition. However, the impact of these factors is considered limited because the Companies are trying to mitigate fuel price fluctuation risk by diversifying the energy mix and because the fluctuation in fuel prices and foreign exchange rates are reflected in electricity rates through the Fuel Cost Adjustment System.

8. Changes in financial markets

Future changes in interest rates or credit ratings resulting in changes in interest rates on borrowings have the potential to affect the Companies' results and financial condition. However, since most of the Companies' debt have been funded as long-term fixed-rate debt (i.e., bonds and loans), the impact of changes in interest rates on the Companies' results and financial condition is expected to be limited.

Also, the Companies' costs and liabilities for retirement benefits are accounted for based on assumptions for actuarial calculations such as the discount rate and the long-term expected rate of return on plan assets. Changes in the discount rate and the expected rate of return have the potential to affect the Companies' results and financial condition.

9. Compliance

The Companies give top priority to making progress with compliance in all business operations the foundation of management.

We strive for thorough compliance and take prompt corrective action for acts of non-compliance. Should a major case of non-compliance occur, however, there is a possibility that our social credibility would decline and affect the smooth operation of business.

10. Management of business information

The Companies maintain a large volume of business information on individuals including that of electric power customers. The Companies have established basic guidelines and other internal rules for information management and personal information protection. The Companies comply with these rules and rigorously administer all of this information through the promotion of information security measures. However, a lapse in administration of any of this information has the potential to affect the Companies' results and financial condition.

Consolidated Balance Sheets

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
March 31, 2018 and 2017

	Millions of yen		Thousands of U.S.dollars (Note 1)
Assets	2018	2017	2018
Property, plant and equipment:			
Utility plant and equipment	¥5,592,558	¥5,547,216	$52,759,983
Other plant	335,284	329,923	3,163,057
Construction in progress	859,188	763,091	8,105,555
Suspense account related to the decommissioning of nuclear power stations	4,271	8,876	40,294
Suspense account related to reprocessing of spent nuclear fuel	7,574	—	71,458
	6,798,876	6,649,107	64,140,348
Less			
Contributions in aid of construction	98,232	94,587	926,722
Accumulated depreciation	4,389,169	4,338,380	41,407,260
	4,487,402	4,432,967	42,333,982
Net property, plant and equipment (Note 6)	2,311,474	2,216,140	21,806,365
Nuclear fuel	180,428	147,485	1,702,156
Investments and other assets:			
Investment securities (Note 7 and 8)	77,797	78,131	733,934
Investments to non-consolidated subsidiaries and affiliated companies	121,639	117,022	1,147,545
Long-term loans to employees	78	93	741
Asset for retirement benefits (Note 14)	46,982	46,623	443,231
Deferred tax assets (Note 15)	64,150	62,586	605,191
Other assets	52,194	88,616	492,398
Total investments and other assets	362,842	393,073	3,423,042
Current assets:			
Cash and time deposits (Note 5 and 7)	93,035	65,233	877,694
Receivables, less allowance for doubtful accounts of ¥432 million ($4,077 thousand) in 2018 and ¥482 million in 2017 (Note 7)	122,898	127,550	1,159,424
Short-term investment (Note 7)	8,000	65,000	75,471
Inventories, fuel and supplies	61,535	53,383	580,526
Deferred tax assets (Note 15)	10,991	9,996	103,689
Other current assets	28,235	22,892	266,371
Total current assets	324,696	344,055	3,063,179
Total assets	¥3,179,442	¥3,100,754	$29,994,744

See Notes to Consolidated Financial Statements

Liabilities and Net Assets	Millions of yen		Thousands of U.S.dollars (Note 1)
	2018	2017	2018
Long-term liabilities:			
Long-term debt (Note 7 and 10)	¥1,817,380	¥1,693,779	$17,145,097
Liability for retirement benefits (Note 14)	69,517	69,160	655,821
Retirement allowances for directors and corporate auditors	229	224	2,161
Asset retirement obligations (Note 16)	78,971	77,376	745,013
Other long-term liabilities	21,288	23,206	200,833
Total long-term liabilities	1,987,386	1,863,747	18,748,928
Current liabilities:			
Long-term debt due within one year (Note 7 and 10)	167,140	266,114	1,576,792
Short-term borrowings (Note 7)	67,895	69,245	640,518
Commercial paper	10,000	—	94,339
Accounts payable (Note 7)	100,755	86,704	950,522
Accrued income taxes	6,478	232	61,120
Accrued expenses	82,175	69,184	775,240
Allowance for bonuses to directors and corporate auditors	63	61	600
Other current liabilities, including other long-term liabilities due within one year	91,650	82,733	864,627
Total current liabilities	526,158	574,275	4,963,763
Reserve for fluctuation in water levels	1,424	1,220	13,439
Provision for depreciation of nuclear power plants	83,727	80,348	789,878
Contingent liabilities (Note 12)			
Net assets (Note 17):			
Common stock :	185,527	185,527	1,750,260
Authorized - 1,000,000,000 shares			
Issued - 371,055,259 shares in 2018 and 2017			
Capital surplus	17,066	17,068	161,006
Retained earnings (Note 19)	390,477	387,088	3,683,750
Treasury stock (26,799,578 shares in 2018 and 26,786,189 shares in 2017)	(38,755)	(38,739)	(365,620)
Total stockholders' equity	554,316	550,944	5,229,397
Net unrealized holding gains (losses) on securities	22,509	22,809	212,357
Net unrealized gains (losses) on hedges	20	(247)	195
Foreign currency translation adjustments	(235)	(305)	(2,219)
Accumulated adjustments for retirement benefit	505	4,168	4,772
Accumulated other comprehensive income	22,801	26,425	215,105
Non-controlling interests (Note 3)	3,628	3,791	34,232
Total net assets	580,745	581,162	5,478,734
Total liabilities and net assets	¥3,179,442	¥3,100,754	$29,994,744

See Notes to Consolidated Financial Statements

Consolidated Statements of Operations

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S.dollars (Note 1)
	2018	2017	2018
Operating revenues (Note 18):			
Electric	¥1,193,671	¥1,096,722	$11,261,047
Other	121,296	103,657	1,144,303
	1,314,967	1,200,379	12,405,350
Operating expenses (Note 13):			
Electric	1,159,104	1,065,288	10,934,943
Other	116,236	100,571	1,096,575
	1,275,341	1,165,859	12,031,519
Operating income (loss) (Note 18)	39,626	34,520	373,831
Other expenses (income):			
Interest expense	17,758	20,806	167,534
Interest income	(66)	(425)	(624)
Gains on sales of securities	(202)	(569)	(1,906)
Equity in losses (earnings) of affiliated companies	(3,535)	(4,477)	(33,357)
Other, net	(5,030)	(304)	(47,455)
	8,924	15,030	84,190
Special item:			
Provision (reversal) of reserve for fluctuation in water levels	203	785	1,920
Provision for depreciation of nuclear power plants	3,378	2,793	31,870
Profit (loss) before income taxes	27,120	15,911	255,849
Provision for income taxes: (Note 15)			
Current	7,880	2,627	74,342
Deferred	(1,123)	2,335	(10,599)
	6,756	4,962	63,742
Profit (loss) (Note 3)	20,363	10,948	192,106
Profit (loss) attributable to non-controlling interests (Note 3)	(344)	(392)	(3,248)
Profit (loss) attributable to owners of parent (Note 3)	¥20,707	¥11,341	$195,355

	Yen		U.S.dollars (Note 1)
	2018	2017	2018
Per share data:			
Earnings (basic)	¥60.15	¥31.84	$0.57
Cash dividends	50.00	50.00	0.47

See Notes to Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S.dollars (Note 1)
	2018	2017	2018
Profit (loss) (Note 3)	¥20,363	¥10,948	$192,106
Other comprehensive income (loss):			
Net unrealized holding gains (losses) on securities	(106)	2,218	(1,000)
Net unrealized gains (losses) on hedges	495	200	4,677
Foreign currency translation adjustments	82	13	773
Adjustments for retirement benefit	(4,068)	549	(38,382)
Share of other comprehensive income (loss) of affiliated companies accounted for using equity method	(6)	428	(57)
	(3,602)	3,411	(33,988)
Comprehensive income (loss)	¥16,760	¥14,360	$158,117
Comprehensive income (loss) attributable to:			
Comprehensive income (loss) attributable to owners of parent	¥17,082	¥14,723	$161,160
Comprehensive income (loss) attributable to non-controlling interests	(322)	(363)	(3,042)

See Notes to Consolidated Financial Statements

Consolidated Statements of Changes in Net Assets

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the years ended March 31, 2018 and 2017

		Millions of yen									
	Shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains (losses) on securities	Net unrealized gains (losses) on hedges	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Non-controlling interests (Note 3)	Total
Balance at April 1, 2016	371,055,259	¥185,527	¥17,103	¥393,859	¥(15,169)	¥20,448	¥(448)	¥(304)	¥3,347	¥4,170	¥608,535
Profit attributable to owners of parent (Note 3)				11,341							11,341
Cash dividends paid (¥50 per share)				(18,112)							(18,112)
Surplus from sale of treasury stock			(0)		3						2
Treasury stock purchased, net					(23,599)						(23,599)
Change in scope of equity method											-
Change in treasury stocks of parent arising from transactions with non-controlling shareholders (Note 3)											–
Other			(34)		26						(8)
Net changes other than stockholders' equity						2,361	200	(0)	821	(379)	3,002
Balance at March 31, 2017	371,055,259	¥185,527	¥17,068	¥387,088	¥(38,739)	¥22,809	¥(247)	¥(305)	¥4,168	¥3,791	¥581,162
Profit attributable to owners of parent (Note 3)				20,707							20,707
Cash dividends paid (¥50 per share)				(17,213)							(17,213)
Surplus from sale of treasury stock			(0)		2						1
Treasury stock purchased, net					(19)						(19)
Change in scope of equity method				(105)							(105)
Change in treasury stocks of parent arising from transactions with non-controlling shareholders (Note 3)											–
Other			(1)		0						(0)
Net changes other than stockholders' equity						(299)	268	69	(3,662)	(162)	(3,787)
Balance at March 31, 2018	**371,055,259**	**¥185,527**	**¥17,066**	**¥390,477**	**¥(38,755)**	**¥22,509**	**¥20**	**¥(235)**	**¥505**	**¥3,628**	**¥580,745**

	Thousands of U.S. dollars (Note 1)									
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains (losses) on securities	Net unrealized gains (losses) on hedges	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Non-controlling interests (Note 3)	Total
Balance at March 31, 2017	$1,750,260	$161,019	$3,651,781	$(365,467)	$215,186	$(2,333)	$(2,877)	$39,324	$35,768	$5,482,661
Profit attributable to owners of parent (Note 3)			195,355							195,355
Cash dividends paid ($0.47 per share)			(162,389)							(162,389)
Surplus from sale of treasury stock		(3)		20						17
Treasury stock purchased, net				(179)						(179)
Change in scope of equity method			(996)							(996)
Change in treasury stocks of parent arising from transactions with non-controlling shareholders (Note 3)										–
Other		(9)		7						(2)
Net changes other than stockholders' equity					(2,829)	2,528	658	(34,552)	(1,535)	(35,730)
Balance at March 31, 2018	**$1,750,260**	**$161,006**	**$3,683,750**	**$(365,620)**	**$212,357**	**$195**	**$(2,219)**	**$4,772**	**$34,232**	**$5,478,734**

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S.dollars (Note 1)
	2018	2017	2018
Cash flows from operating activities:			
Profit (loss) before income taxes	¥27,120	¥15,911	$255,849
Depreciation	104,106	105,690	982,133
Decommissioning cost of nuclear power generating plants	1,454	1,516	13,720
Amortization of suspense account related to the decommissioning of nuclear power stations	4,605	4,605	43,444
Equity in losses (earnings) of affiliated companies	(3,535)	(4,477)	(33,357)
Loss on disposal of property	5,611	5,085	52,941
Increase (decrease) in liability for retirement benefits	972	440	9,172
Decrease (increase) in asset for retirement benefits	(6,612)	(6,237)	(62,382)
Increase (decrease) in provision for reprocessing of irradiated nuclear fuel	—	(4,548)	—
Increase (decrease) in provision for reprocessing of irradiated nuclear fuel without a fixed plan to reprocess	—	155	—
Increase (decrease) in reserve for fluctuation in water levels	203	785	1,920
Increase (decrease) in provision for depreciation of nuclear power plants	3,378	2,793	31,870
Interest and dividend income	(1,548)	(1,641)	(14,607)
Interest expense	17,758	20,806	167,534
Decrease (increase) in fund reserved for reprocessing of irradiated nuclear fuel	—	6,351	—
Payments of accrued contribution for reprocessing of irradiated nuclear fuel	—	(7,939)	—
Decrease (increase) in notes and accounts receivable	(13,265)	(12,115)	(125,144)
Decrease (increase) in inventories	(7,546)	3,028	(71,195)
Increase (decrease) in notes and accounts payable	9,268	12,271	87,442
Other	34,081	(10,155)	321,525
Subtotal	176,052	132,325	1,660,871
Interest and dividends received	3,610	4,105	34,064
Interest paid	(19,110)	(21,870)	(180,292)
Income taxes refund (paid)	4,241	(18,556)	40,018
Net cash provided by (used in) operating activities	164,794	96,003	1,554,661
Cash flows from investing activities:			
Purchase of property	(214,038)	(169,638)	(2,019,226)
Purchase of investments in securities	(53,900)	(67,999)	(508,493)
Proceeds from sale of investment securities	61,403	80,389	579,282
Other	17,985	9,470	169,670
Net cash provided by (used in) investing activities	(188,549)	(147,779)	(1,778,767)

	Millions of yen		Thousands of U.S.dollars (Note 1)
	2018	2017	2018
Cash flows from financing activities:			
Proceeds from issue of bonds	210,052	156,407	1,981,626
Repayment of bonds	(240,000)	(160,000)	(2,264,150)
Proceeds from long-term borrowings	134,000	221,050	1,264,150
Repayment of long-term borrowings	(79,809)	(118,035)	(752,916)
Proceeds from short-term borrowings	191,290	230,053	1,804,622
Repayment of short-term borrowings	(202,230)	(227,248)	(1,907,830)
Proceeds from issue of commercial paper	174,000	128,000	1,641,509
Repayment of commercial paper	(164,000)	(128,000)	(1,547,169)
Purchase of treasury stock	(21)	(23,631)	(202)
Cash dividends paid	(17,223)	(18,123)	(162,489)
Dividends paid to non-controlling interests	(29)	(16)	(276)
Other	(1,545)	(1,825)	(14,577)
Net cash provided by (used in) financing activities	4,483	58,630	42,296
Effect of exchange rate changes on cash and cash equivalents	73	(106)	697
Net increase (decrease) in cash and cash equivalents	(19,197)	6,748	(181,111)
Cash and cash equivalents at beginning of the fiscal year	100,223	93,475	945,504
Cash and cash equivalents at end of the fiscal year (Note 5)	¥81,025	¥100,223	$764,392

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

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

1. Basis of presenting consolidated financial statements

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

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

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2018, which was ¥106 to U.S. $1.00. The convenience translation should not be construed as a representation that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

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

2. Significant accounting policies

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

Consolidation

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

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

For the year ended March 31, 2018, 19 subsidiaries (18 in 2017) were consolidated and 6 (6 in 2017) subsidiaries were excluded from consolidation due to their immateriality for the consolidated total assets, sales and revenues, profit attributable to the owners of the parent, retained earnings, etc., in the consolidated financial statements.

For the year ended March 31, 2018, 6 non-consolidated subsidiaries (6 in 2017) and 12 affiliated companies (9 in 2017) were accounted for by the equity method.

For the year ended March 31, 2018, 12 affiliated companies (13 in 2017) were stated at cost without applying the equity method of accounting. Even if the equity method had been applied to these investments, the amounts of profit and retained earnings, etc., of the affiliated companies would

individually have had only a slight effect and together would have had no material effect on the consolidated financial statements.

The consolidated subsidiaries whose accounting closing date differs from the consolidated closing date are Chugoku Electric Power Australia Resources Pty. Ltd. and Chugoku Electric Power International Netherlands B.V. Both companies have December 31 as their closing date. In drawing up the consolidated financial statements, we use these consolidated subsidiaries' financial statements as of their closing dates and make the necessary adjustments, in consolidated terms, for their important transactions that take place between those dates and the consolidated closing date.

Inventories, fuel and supplies

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

Securities

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

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

Property and depreciation

Depreciation of property, plant and equipment is computed using the declining balance method, while amortization of intangible fixed asset is computed by the straight-line method, based on the useful life periods stipulated by the Corporation Tax Act.

Nuclear fuel and amortization

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

Allowance for doubtful accounts

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

Reserve for fluctuation in water levels

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

Provision for depreciation of nuclear power plants

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

Accounting methods pertaining to retirement benefits

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

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

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

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

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

Derivatives and hedge accounting

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

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

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

Capitalization of interest expense

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

Calculating asset retirement obligations for decommissioning specified nuclear power generation facilities

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

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

With the change in energy policy, the accounting method used for the retirement of a reactor includes the following: The book value (excluding the estimated cost of disposal) of nuclear power generation facilities related to the relevant reactor (excluding decommissioned assets and assets equivalent to

asset retirement obligations), construction in progress related to the relevant nuclear power generation facilities and nuclear fuel related to the reactor and the cost of reprocessing the irradiated fuel and cost of dissolving the nuclear fuel in connection with the relevant reactor's decommissioning can be included as write-off costs in the suspense account related to the decommissioning of nuclear power stations. Specifically, the power company submits an application form to the Minister of Economy, Trade and Industry's approval and carries out the transfers and additions into suspense account related to the decommissioning of nuclear power stations. Then, starting from the month in which approval is received, the company adds the write-off costs to those expense accounts in amounts commensurate with its electricity rate revenue.

Method of reckoning contributions required for spent nuclear fuel reprocessing

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

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

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

Cash and cash equivalents

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

Foreign currency transactions

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

Consolidated tax system

The Companies apply the consolidated tax system.

3.Standards and guidance not yet adopted

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

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018)

(1) Overview

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

Step1: Identify contract(s) with customers.

Step2: Identify the performance obligations in the contract.

Step3: Determine the transaction price.

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

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

(2) Effective date

The effective date has not yet been set.

(3) Effects of the application of the standards

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

4. Additional information

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

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

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

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

In the third quarter of the fiscal year ended March 31, 2017, in compliance with Article 3 of the Amended Ordinance’s supplementary provisions, there was a reduction of ¥39,705 million (US$354,517 thousand) in the fund reserved for reprocessing of irradiated nuclear fuel and a reduction of ¥49,937 million (US$445,868 thousand) in provision for reprocessing of irradiated nuclear fuel. This difference was shifted to other long-term liabilities, etc. In compliance with Article 6 of the supplementary provisions, ¥7,916 million (US$70,685 thousand) in provision for the reprocessing of irradiated nuclear fuel without a fixed plan to reprocess was shifted to long-term liabilities due within one year. Based on Article 7, Paragraph 1, of the Amended Act supplementary provisions, upon receipt of notice from the Minister of Economy, Trade and Industry, monetary amounts recorded as long-term liabilities due within one year

were paid to NuRO during the consolidated fiscal year.

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

With the implementation of the Amended Act, a ¥33,311 million balance at the end of the previous consolidated fiscal year (for the estimated difference pertaining to the amount equal to the present value calculated based on the amount of spent fuel before the Amended Act went into effect) is not recognized.

・Change of calculating asset retirement obligations for decommissioning specified nuclear power generation facilities

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

However, if retiring a reactor due to changes in energy policy, the straight-line method shall be used for reckoning the period from the month containing the retirement date of the specified nuclear power generation facilities, to the month in which 10 years have passed.

5. Cash and cash equivalents

Reconciliations of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash and time deposits	¥ 93,035	¥ 65,233	$ 877,694
Time deposits with maturities exceeding 3 months	¥(20,010)	¥(30,010)	$(188,773)
Short-term investments that mature within 3 months of the acquisition date	¥ 8,000	¥ 65,000	$ 75,471
Cash and cash equivalents	¥ 81,025	¥ 100,223	$ 764,392

6. Property, plant and equipment

The major classifications of property, plant and equipment at March 31,2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Hydroelectric power production facilities	¥ 114,562	¥ 120,568	$ 1,080,774
Thermal power production facilities	178,935	181,689	1,688,070
Nuclear power production facilities	95,434	90,607	900,329
Transmission facilities	313,957	312,685	2,961,860
Transformation facilities	144,960	142,501	1,367,555
Distribution facilities	365,057	366,652	3,443,942
General facilities	78,058	78,248	736,402
Inactive facilities	17,597	19,217	166,016
Other electric utility plants and equipment	4,502	4,485	42,473
Other plants	127,373	127,514	1,201,633
Construction in progress	859,188	763,091	8,105,555
Suspense account related to the decommissioning of nuclear power stations	4,271	8,876	40,294
Suspense account related to reprocessing of spent nuclear fuel	7,574	—	71,458
Total	¥ 2,311,474	¥ 2,216,140	$ 21,806,365

Calculated according to the accounting principles and practices generally accepted in Japan, accumulated gains in relation to the receipt of contributions in aid of construction deducted from the original acquisition costs amounted to ¥98,232 million (US$926,722 thousand) and ¥94,587 million at March 31, 2018 and 2017, respectively.

7. Financial instruments

1. Issues related to financial instruments

(1) Approach to financial instruments

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

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

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

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

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

Most of the Companies' notes receivable and accounts receivable consist of receivables for electricity charges and are exposed to customer credit risk. For the relevant risk, each customer's due date and balance are controlled in accordance with power supply conditions.

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

Bonds and loans payable are procured mainly for capital investment. Since many interest-bearing debts consist of long-term funds with fixed interest rates (bonds and long-term borrowings), the fluctuation of market interest rates may have limited impact on our business results. Some long-term funds are used for derivative transactions (interest rate swaps and currency swaps) as a means to hedge risk to mitigate or avoid market fluctuation risk.

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

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

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

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

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

(3) Supplemental explanation for financial instruments' fair value

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

Note that the contract amount for derivative transactions in Note 8, "Derivatives and hedge accounting," does not reflect the market risk for the derivative transaction itself.

2. Issues related to fair value of financial instruments

The following are book values, fair values and the differences as of March 31, 2018 and 2017. Please note that items whose fair value is difficult to evaluate are not included (See Note b).

	Millions of yen						Thousands of U.S. dollars		
	2018			2017			2018		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Assets									
(1) Long-term investment: Available-for-sale securities	¥ 33,742	¥ 33,742	¥ —	¥ 34,187	¥ 34,187	¥ —	$ 318,326	$ 318,326	$ —
(2) Cash and time deposits	93,035	93,035	—	65,233	65,233	—	877,694	877,694	—
(3) Notes receivable and accounts receivable	119,001	119,001	—	106,610	106,610	—	1,122,659	1,122,659	—
(4) Short-term investment: Held-to-maturity securities	8,000	8,000	—	65,000	65,000	—	75,471	75,471	—
Liabilities									
(5) Bonds	¥ 917,402	¥ 938,616	¥ 21,213	¥ 946,955	¥ 972,251	¥ 25,295	$ 8,654,744	$ 8,854,875	$ 200,131
(6) Long-term borrowings	1,066,897	1,091,834	24,937	1,012,882	1,041,156	28,274	10,065,072	10,300,328	235,256
(7) Short-term borrowings	67,895	67,895	—	69,245	69,245	—	640,518	640,518	—
(8) Commercial paper	10,000	10,000	—	—	—	—	94,339	94,339	—
(9) Notes payable and accounts payable	66,552	66,552	—	57,818	57,818	—	627,855	627,855	—
(10) Derivative transactions	¥ 344	¥ 344	—	¥ (344)	¥ (344)	—	$ 3,253	$ 3,253	—

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

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

Fair values depend on stock exchange quotations.

For the difference between book value of available-for-sale securities and acquisition cost, please refer to Note 8, "Securities."

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

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

For the difference between fair value of held-to-maturity securities and book value, refer to Note 8, "Securities."

(5) Bonds

Bonds with market value are valued as such. Bonds without market value are valued based on comparable bonds being newly issued or on a price put forward by the financial institution or other organization. Some bonds are subject to the special treatment of interest rate swaps and assignment of currency swaps. These are valued based on the same terms and conditions applied to the relevant interest rate swap transactions and currency swap transactions.

(6) Long-term borrowings

The values of long-term borrowings are calculated using terms as if the borrowings were new loans.

Some long-term borrowings are subject to the special treatment of interest rate swaps. These are valued based on the same terms and conditions applied to the relevant interest rate swap transactions.

(7) Short-term borrowings,(8) Commercial paper and (9) Notes payable and accounts payable

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

(10) Derivative transactions

Please refer to Note 8, “Derivatives and hedge accounting.”

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

	Millions of yen		Thousands of U.S. dollars
	Book value		
	2018	2017	2018
Unlisted stocks	¥ 37,743	¥ 37,831	$ 356,072
Other	1,046	1,034	9,875
Total	¥ 38,790	¥ 38,865	$ 365,947

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

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

	Millions of yen		Thousands of U.S. dollars
	Within 1 year		
	2018	2017	2018
Long-term investment: Available-for-sale securities with maturity	¥ —	¥ —	$ —
Cash and time deposits	93,035	65,233	877,694
Notes receivable and accounts receivable	119,001	106,610	1,122,659
Short-term investment: Held-to-maturity securities	8,000	65,000	75,471
Total	¥ 220,037	¥ 236,844	$ 2,075,825

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

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

	Millions of yen					
	2017					
	Within 1 year	1 year - 2 years	2 years - 3 years	3 years - 4 years	4 years - 5 years	Over 5 years
Bonds	¥ 205,000	¥ 90,000	¥ 236,959	¥ 120,000	¥ 30,000	¥ 265,000
Long-term borrowings	61,102	79,939	90,467	81,497	162,963	536,912
Short-term borrowings	69,245	—	—	—	—	—
Commercial paper	—	—	—	—	—	—
Total	¥ 335,347	¥ 169,939	¥ 327,426	¥ 201,497	¥ 192,963	¥ 801,912

	Thousands of U.S. dollars					
	2018					
	Within 1 year	1 year - 2 years	2 years - 3 years	3 years - 4 years	4 years - 5 years	Over 5 years
Bonds	$ 849,056	$ 2,376,971	$ 1,132,075	$ 754,716	$ 283,018	$ 3,254,716
Long-term borrowings	727,246	732,723	746,100	1,535,721	1,299,259	5,024,020
Short-term borrowings	640,518	—	—	—	—	—
Commercial paper	94,339	—	—	—	—	—
Total	$ 2,311,161	$ 3,109,695	$ 1,878,175	$ 2,290,438	$ 1,582,278	$ 8,278,737

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

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

8. Securities

Held-to-maturity securities

Categories	Millions of yen						Thousands of U.S. dollars		
	2018			2017			2018		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Held-to-maturity securities with fair values exceeding book values									
Bonds	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	$ —	$ —	$ —
Other	—	—	—	—	—	—	—	—	—
Subtotal	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	$ —	$ —	$ —
Held-to-maturity securities with fair values not exceeding book values									
Bonds	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	$ —	$ —	$ —
Other	8,000	8,000	—	65,000	65,000	—	75,471	75,471	—
Subtotal	¥ 8,000	¥ 8,000	¥ —	¥ 65,000	¥ 65,000	¥ —	$ 75,471	$ 75,471	$ —
Total	¥ 8,000	¥ 8,000	¥ —	¥ 65,000	¥ 65,000	¥ —	$ 75,471	$ 75,471	$ —

Available-for-sale securities

Categories	Millions of yen						Thousands of U.S. dollars		
	2018			2017			2018		
	Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference
Available-for-sale securities with book values exceeding acquisition costs									
Equity securities	¥ 33,261	¥ 9,051	¥ 24,210	¥ 33,693	¥ 9,185	¥ 24,507	$ 313,788	$ 85,390	$ 228,398
Bonds	—	—	—	—	—	—	—	—	—
Other	10	2	7	9	2	6	99	27	71
Subtotal	¥ 33,272	¥ 9,054	¥ 24,217	¥ 33,703	¥ 9,188	¥ 24,514	$ 313,888	$ 85,418	$ 228,470
Available-for-sale securities with book values not exceeding acquisition costs									
Equity securities	¥ 470	¥ 492	¥ (21)	¥ 484	¥ 496	¥ (11)	$ 4,438	$ 4,645	$ (206)
Bonds	—	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	—	—
Subtotal	¥ 470	¥ 492	¥ (21)	¥ 484	¥ 496	¥ (11)	$ 4,438	$ 4,645	$ (206)
Total	¥ 33,742	¥ 9,546	¥ 24,195	¥ 34,187	¥ 9,684	¥ 24,503	$ 318,326	$ 90,063	$ 228,263

Since for the fiscal years ended March 31, 2018 and 2017, unlisted stocks in the amount of ¥38,790 million (US$365,947 thousand) and ¥38,865 million in book value had no market value and there was no way to estimate their future cash flow, it is difficult to evaluate their fair value. Hence, unlisted stocks are not included in the above “Available-for-sale securities”.

9. Derivatives and hedge accounting

Derivative transactions for which hedge accounting is applied

<Currencies>

Hedge accounting method	Type of transaction	Items to be hedged	Millions of yen					
			2018			2017		
			Amount of contract	Amount of contract longer than 1 year	Fair value	Amount of contract	Amount of contract longer than 1 year	Fair value
Assignment of currency swaps	Currency swap Japanese yen payment & U.S. dollars receipt	Bonds	¥ 56,959	¥ 56,959	(Note a)	¥ 56,959	¥ 56,959	(Note a)

Hedge accounting method	Type of transaction	Items to be hedged	Thousands of U.S. dollars		
			2018		
			Amount of contract	Amount of contract longer than 1 year	Fair value
Assignment of currency swaps	Currency swap Japanese yen payment & U.S. dollars receipt	Bonds	$ 537,349	$ 537,349	(Note a)

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

<Interest>

Hedge accounting method	Type of transaction	Items to be hedged	Millions of yen 2018 Amount of contract	2018 Amount of contract longer than 1 year	2018 Fair value	2017 Amount of contract	2017 Amount of contract longer than 1 year	2017 Fair value
	Interest-rate swap							
Special treatment of interest rate swaps	Fixed-rate receipt & flexible-rate payment	Bonds & long-term borrowings	¥ 61,431	¥ 60,717	(Note b)	¥ 62,145	¥ 61,431	(Note b)
	Fixed-rate payment & flexible-rate receipt		3,000	—	(Note b)	3,000	3,000	(Note b)

Hedge accounting method	Type of transaction	Items to be hedged	Thousands of U.S. dollars 2018 Amount of contract	2018 Amount of contract longer than 1 year	2018 Fair value
	Interest-rate swap				
Special treatment of interest rate swaps	Fixed-rate receipt & flexible-rate payment	Bonds & long-term borrowings	$ 579,537	$ 572,801	(Note b)
	Fixed-rate payment & flexible-rate receipt		28,301	—	(Note b)

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

<Commodities>

Hedge accounting method	Type of transaction	Items to be hedged	Millions of yen 2018 Amount of contract	2018 Amount of contract longer than 1 year	2018 Fair value	2017 Amount of contract	2017 Amount of contract longer than 1 year	2017 Fair value
General method	Commodity swap Fixed-rate payment & flexible-rate receipt	Fuel import payment debt (projected transaction)	¥ 3,300	¥ —	¥ (344)	¥ 8,254	¥ —	¥ (344)

Hedge accounting method	Type of transaction	Items to be hedged	Thousands of U.S. dollars 2018 Amount of contract	2018 Amount of contract longer than 1 year	2018 Fair value
General method	Commodity swap Fixed-rate payment & flexible-rate receipt	Fuel import payment debt (projected transaction)	$ 31,138	$ —	$ (3,253)

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

10. Long-term debt

Long-term debt at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Bonds due through 2038 at rates of 0.13% to 3.225% (Note)	¥ 917,402	¥ 946,955	$ 8,654,744
Long-term loans from the Development Bank of Japan Inc., other banks and insurance companies due through 2037	1,066,897	1,012,882	10,065,072
Lease obligations	219	56	2,073
	1,984,520	1,959,894	18,721,889
Less amounts due within one year	(167,140)	(266,114)	(1,576,792)
Total	¥ 1,817,380	¥ 1,693,779	$ 17,145,097

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

At March 31, 2018 and 2017, long-term loans from the Development Bank of Japan Inc. in the amounts of ¥280,672 million (US$2,647,852 thousand) and ¥264,027 million and all bonds above were secured by a statutory preferential right which gives the creditors a security interest in all assets of the Company totaling ¥2,939,983 million (US$27,735,692 thousand) and ¥2,875,781 million, respectively, senior to that of general creditors. Some assets of subsidiaries are being used as collateral for loans from financial institutions and other sources.

The annual maturities of long-term debt at March 31, 2018 and 2017 were as follows:

Year ending March 31, 2018	Millions of Yen	Thousands of U.S. dollars
2019	¥ 167,088	$ 1,576,303
2020	329,627	3,109,695
2021	199,086	1,878,175
2022	242,786	2,290,438
Thereafter	1,045,267	9,861,015

Year ending March 31, 2017	Millions of Yen
2018	¥ 266,102
2019	169,939
2020	327,426
2021	201,497
Thereafter	994,875

Note: Excluding lease obligations.

11. Leases

(As lessee)

Operating lease transactions

The present values of future minimum lease payments under operating leases that are non-cancelable as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Current portion	¥ 162	¥ 181	$ 1,535
Non-current portion	28	197	269
Total	¥ 191	¥ 379	$ 1,804

(As lessor)

1. Finance lease transactions

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

Lease payments received under non-capitalized finance leases amounted to ¥204 million (US$1,933 thousand) and ¥204 million for the years ended March 31, 2018 and 2017, respectively.

The present values of future minimum lease payments to be received under non-capitalized finance leases as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Current portion	¥ 210	¥ 204	$ 1,988
Non-current portion	425	632	4,012
Total	¥ 636	¥ 837	$ 6,000

2. Operating lease transactions

The present values of future minimum lease payments under operating leases that are non-cancelable as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Current portion	¥ 24	¥ 12	$ 232
Non-current portion	72	27	683
Total	¥ 97	¥ 40	$ 915

12. Contingent liabilities

At March 31, 2018 and 2017, the Companies were contingently liable as guarantors for loans of other companies and employees in the amount of ¥121,109 million (US$1,142,541 thousand) and ¥113,804 million, respectively.

At March 31, 2018 and 2017, the Company was also contingently liable with respect to certain domestic bonds which were assigned to certain banks under debt assumption agreements in the aggregate amount of ¥80,000 million (US$754,716 thousand) and ¥45,000 million.

13. Research and development expenses

Research and development expenses charged to operating expenses were ¥10,293 million (US $97,111 thousand) and ¥4,608 million for the years ended March 31, 2018 and 2017, respectively.

14. Retirement benefits

1. Overview of the retirement benefit plan adopted

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

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

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

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

2. Defined benefit plans

(1) Movement in retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at beginning of the fiscal year	¥ 267,047	¥ 274,277	$ 2,519,314
Service cost	9,015	9,297	85,047
Interest cost	524	259	4,948
Actuarial loss (gain)	2,982	(2,857)	28,139
Benefits paid	(13,033)	(13,930)	(122,959)
Other	0	0	1
Balance at end of the fiscal year	¥ 266,536	¥ 267,047	$ 2,514,492

(2) Movement in plan assets

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at beginning of the fiscal year	¥ 244,510	¥ 245,143	$ 2,306,701
Expected return on plan assets	3,474	3,513	32,780
Actuarial loss (gain)	953	652	8,996
Contributions paid by the Companies	4,209	4,241	39,713
Benefits paid	(9,146)	(9,041)	(86,290)
Balance at end of the fiscal year	¥ 244,001	¥ 244,510	$ 2,301,901

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Retirement benefit obligations for defined benefit corporate pension schemes	¥ 198,591	¥ 199,420	$ 1,873,505
Plan assets	(244,001)	(244,510)	(2,301,901)
	(45,410)	(45,089)	(428,396)
Retirement benefit obligations for retirement lump sum schemes	67,944	67,626	640,986
Total net liability (asset) for retirement benefits at end of the fiscal year	¥ 22,534	¥ 22,536	$ 212,590

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Liability for retirement benefits	¥ 69,517	¥ 69,160	$ 655,821
Asset for retirement benefits	(46,982)	(46,623)	(443,231)
Total net liability (asset) for retirement benefits at end of the fiscal year	¥ 22,534	¥ 22,536	$ 212,590

(4) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service cost	¥ 9,015	¥ 9,297	$ 85,047
Interest cost	524	259	4,948
Expected return on plan assets	(3,474)	(3,513)	(32,780)
Net actuarial loss (gain) amortization	(3,606)	(2,708)	(34,025)
Other	790	1	7,455
Retirement benefit costs for defined benefit plans	¥ 3,248	¥ 3,337	$ 30,645

(5) Adjustments for retirement benefit

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Actuarial gains/losses	¥ (5,635)	¥ 801	$ (53,168)
Total	¥ (5,635)	¥ 801	$ (53,168)

(6) Accumulated adjustments for retirement benefit

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrecognized actuarial gains/losses	¥ 835	¥ (4,800)	$ 7,879
Total	¥ 835	¥ (4,800)	$ 7,879

(7) Plan assets

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

	2018	2017
Bonds	49%	50%
Equity securities	13%	13%
Life insurance general accounts	37%	37%
Other	1%	0%
Total	100%	100%

② Long-term expected rates of return

In order to determine the long-term expected rate of return on plan assets, account is taken of the allocation of current and envisioned plan assets and of the long-term rates of return to be expected currently and in the future from the various assets that make up the plan assets.

(8) Actuarial assumptions

The major actuarial assumptions were as follows.

	2018	2017
Discount rate	mainly 0.1%	mainly 0.2%
Long-term expected rate of return	mainly 1.4%	mainly 1.4%

3. Defined contribution pension plan

The contributions required from the Companies to the defined contribution pension plan amounted to ¥759 million (US$7,168 thousand) and ¥757 million for the years ended March 31, 2018 and 2017, respectively.

15. Income taxes

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

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2018 and 2017were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets:			
Provision for depreciation of nuclear power plants	¥ 23,410	¥ 22,465	$ 220,850
Excess depreciation	23,109	21,538	218,013
Asset retirement obligations	12,474	12,461	117,682
Adjustment for unrealized intercompany profits	8,863	8,633	83,617
Liability for retirement benefits	6,538	6,583	61,683
Accrued bonuses and other expenses	3,770	3,742	35,573
Other	20,229	20,578	190,841
Total gross deferred tax assets	98,395	96,003	928,261
Less valuation allowance	(13,160)	(12,035)	(124,151)
Total deferred tax assets	85,235	83,967	804,110
Deferred tax liabilities:			
Unrealized holding gains on securities	(7,314)	(7,224)	(69,003)
Suspense account related to the decommissioning of nuclear power stations	(1,194)	(2,492)	(11,266)
Other	(1,585)	(1,668)	(14,959)
Total deferred tax liabilities	(10,094)	(11,385)	(95,229)
Net deferred tax assets	¥ 75,141	¥ 72,582	$ 708,881

The causes of the discrepancy between the statutory tax rate and the effective income tax rate after application of tax effect accounting in the years ended March 31, 2017 and 2016 were as follows.

	2018	2017
The Company's statutory tax rate	28.20%	28.20%
(adjustment)		
Tax credit	(5.17%)	(2.68%)
Equity in losses (earnings) of affiliated companies	(3.68%)	(7.94%)
Less valuation allowance	4.33%	7.25%
Loss (gain) on change in equity	—	2.77%
Other	1.23%	3.59%
Effective income tax rate after application of tax effect accounting	24.91%	31.19%

16. Asset retirement obligations

Asset retirement obligations included in the consolidated balance sheets

(1) Outline of the asset retirement obligations

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

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

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

(3) Variation in the total value of the asset retirement obligations during the fiscal year ended March 31, 2018 and 2017:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at beginning of the fiscal year	¥ 77,401	¥ 75,747	$ 730,205
Changes in estimated obligations and accretion	1,624	1,654	15,323
Balance at end of the fiscal year	¥ 79,026	¥ 77,401	$ 745,529

17. Net assets

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

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

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

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

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

At the annual stockholders' meeting held on June 27, 2018, the stockholders approved cash dividends amounting to ¥8,612 million (US$81,254 thousand). The appropriations had not been accrued in the consolidated financial statements as of March 31, 2018. Such appropriations are recognized in the period in which they are approved by the stockholders.

18. Segment information

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

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

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

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

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

A summary by segment for the years ended March 31, 2018 and 2017 is as follows:

	Millions of yen							
	2018							
	Reporting segment							
	Electric power	Comprehensive energy supply	Information and tele-communications	Total	Other	Total	Adjustment (Note)	Consolidated
Operating revenues:								
Outside customers	¥ 1,193,671	¥ 47,973	¥ 29,029	¥ 1,270,674	¥ 44,292	¥ 1,314,967	¥ —	¥ 1,314,967
Intersegment	7,617	2,290	11,936	21,844	74,452	96,297	(96,297)	—
Total	1,201,288	50,264	40,966	1,292,519	118,744	1,411,264	(96,297)	1,314,967
Segment income (loss)	¥ 31,706	¥ 2,140	¥ 2,645	¥ 36,492	¥ 3,820	¥ 40,313	¥ (687)	¥ 39,626
Segment assets	2,899,571	43,503	79,064	3,022,139	250,015	3,272,154	(92,712)	3,179,442
Other items:								
Depreciation expense	¥ 90,956	¥ 1,659	¥ 8,912	¥ 101,528	¥ 3,731	¥ 105,260	¥ (1,153)	¥ 104,106
Investment in equity method affiliated companies	9,790	4,632	—	14,422	99,611	114,034	—	114,034
Value increase in tangible and intangible assets	205,225	3,627	7,789	216,642	4,876	221,518	(3,011)	218,507

	Millions of yen							
	2017							
	Reporting segment							
	Electric power	Comprehensive energy supply	Information and tele-communications	Total	Other	Total	Adjustment (Note)	Consolidated
Operating revenues:								
Outside customers	¥ 1,096,722	¥ 33,625	¥ 29,037	¥ 1,159,386	¥ 40,993	¥ 1,200,379	¥ —	¥ 1,200,379
Intersegment	4,008	1,809	12,117	17,935	78,110	96,046	(96,046)	—
Total	1,100,731	35,434	41,155	1,177,322	119,104	1,296,426	(96,046)	1,200,379
Segment income (loss)	¥ 27,746	¥ 2,070	¥ 2,769	¥ 32,586	¥ 2,721	¥ 35,307	¥ (787)	¥ 34,520
Segment assets	2,843,244	39,542	81,561	2,964,348	260,459	3,224,807	(124,053)	3,100,754
Other items:								
Depreciation expense	¥ 92,421	¥ 2,148	¥ 8,589	¥ 103,159	¥ 3,582	¥ 106,741	¥ (1,051)	¥ 105,690
Investment in equity method affiliated companies	9,334	4,134	—	13,469	98,647	112,117	—	112,117
Value increase in tangible and intangible assets	152,914	1,845	8,315	163,075	3,502	166,578	(2,394)	164,184

	Thousands of U.S. dollars							
	2018							
	Reporting segment							
	Electric power	Comprehensive energy supply	Information and tele-communications	Total	Other	Total	Adjustment (Note)	Consolidated
Operating revenues:								
Outside customers	$ 11,261,047	$ 452,581	$ 273,866	$ 11,987,495	$ 417,854	$ 12,405,350	$ —	$ 12,405,350
Intersegment	71,865	21,611	112,607	206,083	702,380	908,464	(908,464)	—
Total	11,332,912	474,192	386,474	12,193,579	1,120,235	13,313,815	(908,464)	12,405,350
Segment income (loss)	$ 299,118	$ 20,197	$ 24,954	$ 344,270	$ 36,044	$ 380,314	$ (6,483)	$ 373,831
Segment assets	27,354,451	410,409	745,892	28,510,754	2,358,632	30,869,386	(874,642)	29,994,744
Other items:								
Depreciation expense	$ 858,080	$ 15,654	$ 84,076	$ 957,812	$ 35,207	$ 993,019	$ (10,885)	$ 982,134
Investment in equity method affiliated companies	92,363	43,702	—	136,065	939,727	1,075,792	—	1,075,792
Value increase in tangible and intangible assets	1,936,093	34,218	73,484	2,043,796	46,002	2,089,798	(28,405)	2,061,392

(Note) "Adjustment" of "Segment income (loss)" in an amount of ¥(687) million (US$(6,483) thousand) and ¥(787) million refers to intersegment elimination for the years ended March 31, 2018 and 2017, respectively.

"Adjustment" of "Segment assets" in an amount of ¥(92,712) million (US$(874,642) thousand) and ¥(124,053) million refers mainly to intersegment elimination for the years ended March 31, 2018 and 2017, respectively.

"Adjustment" of "Value increase in tangible and intangible assets" in an amount of ¥(3,011) million (US$(28,405) thousand) and ¥(2,394) million refers mainly to intersegment elimination for the years ended March 31, 2018 and 2017, respectively.

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

Since the Companies' sales to external customers in Japan accounted for over 90% of the total sales in the Consolidated Statements of Operations for the fiscal years ended March 31, 2018 and 2017, information concerning region-by-region sales amounts is omitted here.

Since the value of the Companies' tangible fixed assets located in Japan accounted for over 90% of the value of tangible fixed assets in the consolidated balance sheets as of March 31, 2018 and 2017, information concerning region-by-region tangible fixed assets is omitted here.

Since no customer among the Companies' external customers accounted for 10% or more of the total sales in the Consolidated Statements of Operations for the fiscal years ended March 31, 2018 and 2017, information concerning major customers is omitted here.

19. Subsequent event

The following appropriations of retained earnings at March 31, 2018 were approved at the annual meeting of stockholders held on June 27, 2018:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥25 (US$0.23) per share	¥ 8,612	$ 81,254

KPMG

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of The Chugoku Electric Power Co., Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2018 and 2017, and the consolidated statements of operations, statemenes of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Chugoku Electric Power Co., Inc. and its consolidated subsidiaries as at March 31, 2018 and 2017, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

July 31, 2018
Hiroshima, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Non-Consolidated Balance Sheets

The Chugoku Electric Power Co., Inc.
March 31, 2018 and 2017

Assets	Millions of yen 2018	Millions of yen 2017	Thousands of U.S.dollars 2018
Property, plant and equipment:			
Plant and equipment	¥5,740,162	¥5,697,886	$54,152,476
Construction in progress	867,265	770,829	8,181,751
Suspense account related to the decommissioning of nuclear power stations	4,271	8,876	40,294
Suspense account related to reprocessing of spent nuclear fuel	7,574	—	71,458
	6,619,273	6,477,592	62,445,980
Less-			
Contributions in aid of construction	94,704	91,750	893,438
Accumulated depreciation	4,289,150	4,246,139	40,463,680
	4,383,854	4,337,889	41,357,119
Net property, plant and equipment	2,235,419	2,139,702	21,088,861
Nuclear fuel	180,428	147,485	1,702,156
Investments and other assets:			
Investment securities	68,004	68,077	641,547
Investments to subsidiaries and affiliated companies	47,693	45,236	449,939
Long-term loans to employees	25	36	236
Deferred tax assets	54,400	53,674	513,216
Other assets	92,888	124,639	876,306
Total investments and other assets	263,012	291,664	2,481,246
Current assets:			
Cash and time deposits	73,058	56,874	689,233
Receivables, less allowance for doubtful accounts of ¥315 million ($2,974 thousand) in 2018 and ¥367 million in 2017	102,144	109,727	963,624
Short-term investment	8,000	65,000	75,471
Inventories, fuel and supplies	49,820	41,301	470,004
Deferred tax assets	8,957	8,131	84,509
Other current assets	19,141	15,894	180,584
Total current assets	261,123	296,929	2,463,428
Total assets	¥2,939,983	¥2,875,781	$27,735,692

Liabilities and Net Assets	Millions of yen		Thousands of U.S.dollars
	2018	2017	2018
Long-term liabilities:			
Long-term debt	¥1,783,852	¥1,657,367	$16,828,800
Employees' severance and retirement benefits	57,789	56,842	545,185
Asset retirement obligations	77,861	76,781	734,537
Other long-term liabilities	19,337	29,163	182,425
Total long-term liabilities	1,938,840	1,820,154	18,290,949
Current liabilities:			
Long-term debt due within one year	163,227	262,402	1,539,885
Short-term borrowings	67,395	67,035	635,801
Commercial paper	10,000	—	94,339
Accounts payable	86,456	74,333	815,624
Accrued income taxes	11,152	4,153	105,208
Accrued expenses	75,666	63,578	713,838
Other current liabilities, including other long-term liabilities due within one year	83,510	83,773	787,834
Total current liabilities	497,408	555,276	4,692,533
Reserve for fluctuation in water levels	1,424	1,220	13,439
Provision for depreciation of nuclear power plants	83,727	80,348	789,878
Net Assets:			
Common stock	185,527	185,527	1,750,260
Authorized - 1,000,000,000 shares			
Issued - 371,055,259 shares in 2018 and 2017			
Capital surplus	16,727	16,727	157,807
Retained earnings	242,733	243,514	2,289,936
Treasury stock (26,536,727 shares in 2018 and 26,522,804 shares in 2017)	(38,362)	(38,345)	(361,912)
Net unrealized holding gains (losses) on securities	11,708	11,603	110,456
Net unrealized gains (losses) on hedges	248	(247)	2,343
Total net assets	418,582	418,779	3,948,892
Total liabilities and net assets	¥2,939,983	¥2,875,781	$27,735,692

Non-Consolidated Statements of Operations

The Chugoku Electric Power Co., Inc.
For the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S.dollars
	2018	2017	2018
Operating revenues	¥1,227,470	¥1,121,789	$11,579,912
Operating expenses:			
Personnel	96,688	99,369	912,152
Fuel	207,883	183,436	1,961,167
Purchased power	364,089	302,810	3,434,805
Depreciation	90,956	92,421	858,080
Maintenance	89,832	98,817	847,473
Taxes other than income taxes	53,996	53,206	509,404
Purchased services	51,185	50,767	482,882
Other	240,363	212,143	2,267,575
	1,194,995	1,092,973	11,273,542
Operating income (loss)	32,475	28,816	306,370
Other expenses (income):			
Interest expense	17,204	20,258	162,302
Interest income	(30)	(408)	(292)
Other, net	(8,784)	(11,927)	(82,873)
	8,388	7,922	79,136
Profit (loss) before special item and income taxes	24,086	20,893	227,233
Special item:			
Provision (reversal) of reserve for fluctuation in water levels	203	785	1,920
Provision for depreciation of nuclear power plants	3,378	2,793	31,870
Profit (loss) before income taxes	20,504	17,314	193,442
Provision for income taxes:			
Current	5,891	116	55,581
Deferred	(1,831)	2,528	(17,282)
	4,059	2,645	38,298
Profit (loss)	¥16,445	¥14,669	$155,143

	Yen		U.S.dollars
	2018	2017	2018
Per share data:			
Earnings (basic)	¥47.73	¥41.15	$0.45
Cash dividends	50.00	50.00	0.47

Major Subsidiaries and Affiliated Companies

(As of March 31, 2018)

Name	Capital (Millions of yen except for †, ‡)	a percentage of voting rights(%)	Business
CHUDEN KOGYO CO.,LTD.*	77	100.0	Contracting out construction and painting projects
CHUDEN PLANT CO.,LTD.*	200	100.0	Construction of power facilities
CHUGOKU INSTRUMENTS CO.,INC.*	30	100.0	Repair of electric power meters, electrical work and telecommunications engineering
Energia L&B Partners Co.,Inc.*	104	100.0	Realty, building management and leasing
CHUDEN KANKYO TECHNOS CO.,LTD.*	50	100.0	Operation and management of power station equipment
Energia Communications,Inc.*	6,000	100.0	Telecommunications business,data processing
EnerGia Business Service Co.,Inc.*	490	100.0	Financial services for the Group,accounting and personnel-related services
Energia Solution & Service Company, Incorporated*	4,653	100.0	Cogeneration. dispersed power sources,fuel sales and other energy use business,electric water heater sales and leasing
Power Engineering and Training Services, Incorporated*	288	100.0	Training in thermal power generation technology, engineering
Chugoku Electric Power Australia Resources Pty. Ltd.*	60 Millions of Australian $ †	100.0	Exploration, development, production business of energy resources
Chugoku Electric Power International Netherlands B.V.*	1 US $ ‡	100.0	Investment, financing and providing guarantees for overseas electricity projects
Denryoku Support Chugoku Co.*	65	100.0	design of distribution equinment
CHUDEN ENGINEERING CONSULTANTS CO., LTD.*	100	100.0 (10.0)	Civil engineering and construction consulting
Chiba Power Corp.*	350	73.0	Development of coal-fired power station in Chiba prefecture
The Energia Logistics Co.,Inc.*	40	70.0	Logistics (Shipping, etc.)
TEMPEARL INDUSTRIAL CO.,LTD.*	150	57.6 (1.0)	Manufacturing of electric machine tools
CHUGOKU KOATSU CONCRETE INDUSTRIES CO.,LTD.*	150	50.1	Manufacturing of concrete products and civil engineering / foundation construction
ADPLEX Co.,Ltd.*	30	47.6 (0.9)	Printing,advertising
EnerGia Care Service Co.,Inc.*	78	100.0 (66.7)	Management of a nursing home,day-care services,home nursing care services
Setouchi Joint Thermal Power Co.,LTD.**	5,000	50.0	Thermal power generation
CHUGOKU HEALTH AND WELFARE CLUB CO.,INC.**	50	50.0	Welfare agency services
MIZUSHIMA LNG COMPANY,LIMITED**	800	50.0	Accepting consignments to receive,store,convert into gas form and deliver liquefied natural gas (LNG), gas pipeline service business
Setouchi Power Corporation**	100	50.0	Supply of electric power
Osaki CoolGen Corporation**	490	50.0	Development of Coal Gasification Technology
KAITA BIOMASS POWER CO., LTD.**	100	50.0	Development of biomass and coal mixed-fuel power station
AIR WATER & ENERGIA POWER YAMAGUCHI CORPORATION**	490	49.0	Development of biomass and coal mixed-fuel power station
AIR WATER & ENERGIA POWER ONAHAMA CORPORATION**	245	49.0	Development of biomass and coal mixed-fuel power station
CHUDENKO CORPORATION**	3,481	39.3 (0.2)	Electrical and telecommunications engineering
The Chugoku Electric Manufacturing Company, Incorporated**	150	40.0	Manufacturing of electric machine tools
Houseplus Chugoku Housing Warranty Corporation Limited**	50	33.3	Functional evaluation and construction confirmation checks for housing
OZUKI STEEL INDUSTRIES CO.,LTD.**	50	20.0	Manufacturing of cast steel products

* Consolidated subsidiary
** Affiliated company accounted for by the equity method
Note:The figure in parentheses ( ) after a proportion of voting rights held is the percentage, among those, of indirectly-held voting rights.

Investor Information

(As of March 31, 2018)

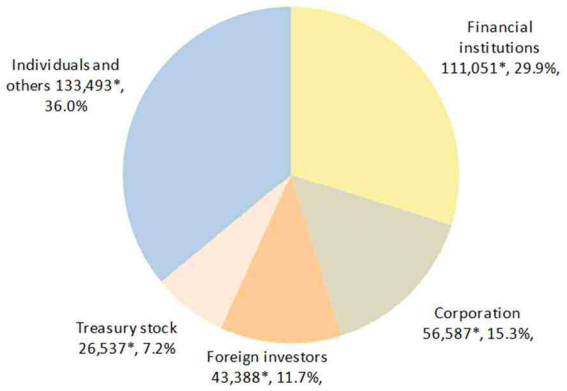
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
KPMG AZSA LLC
TRANSFER AGENT AND REGISTRAR:
Sumitomo Mitsui Trust Bank,Limited
SECURITIES TRADED:
Tokyo Stock Exchange, Inc.
NUMBER OF STOCKHOLDERS: 124,114
COMMON STOCK ISSUED: 371,055,259 shares

MAJOR STOCKHOLDERS

Name	Number of Stocks Held (thousands)	Percentage (%)
Japan Trustee Services Bank, Ltd.	38,307	11.12
Yamaguchi Prefecture	34,005	9.87
The Master Trust Bank of Japan,Ltd.	22,074	6.41
Nippon Life Insurance Company	15,021	4.36
Company stock investment	7,521	2.18
The Hiroshima Bank,Ltd.	5,842	1.70
THE SAN-IN GODO BANK, LTD.	5,547	1.61
STATE STREET BANK WEST CLIENT - TREATY 505234	5,022	1.46
JP MORGAN CHASE BANK 385151	3,900	1.13
Mizuho Bank, Ltd.	3,094	0.90

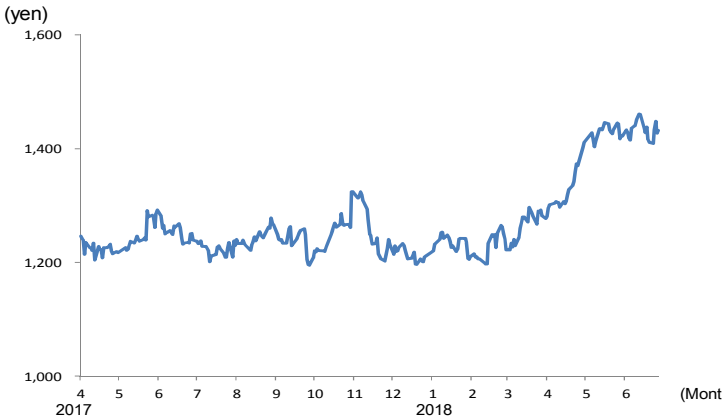
Note:The table above excludes 26,537thousand shares of treasury stock.

DISTRIBUTION OF COMMON STOCK ISSUED



*Thousands of stocks

STOCK PRICE RANGE ON THE TOKYO STOCK EXCHANGE



The Chugoku Electric Power Co., Inc.

4-33, Komachi, Naka-ku, Hiroshima 730-8701, Japan
Tel:+81-82-241-0211 Fax:+81-82-544-2792
http://www.energia.co.jp/