CONSOLIDATED FINANCIAL STATEMENTS

Shikoku Electric Power Company, Incorporated and consolidated subsidiaries

CONSOLIDATED BALANCE SHEET

March 31, 2023

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2023**	2022	**2023**
PROPERTY, PLANT AND EQUIPMENT (Note 5)**:**			
Utility plant, at cost	**¥3,123,009**	¥3,120,560	**$23,306,037**
Other plant and equipment, at cost	**293,022**	288,494	**2,186,731**
Construction in progress	**121,483**	88,951	**906,589**
	3,537,515	3,498,006	**26,399,365**
Less:			
Contributions in aid of construction	**(53,895)**	(50,463)	**(402,201)**
Accumulated depreciation	**(2,567,940)**	(2,553,114)	**(19,163,731)**
	(2,621,836)	(2,603,577)	**(19,565,940)**
Net property, plant and equipment	**915,678**	894,429	**6,833,417**
NUCLEAR FUEL, LESS ACCUMULATED AMORTIZATION	**89,735**	94,844	**669,664**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 6,8 and 18)	**47,609**	40,815	**355,291**
Investments in and advances to unconsolidated subsidiaries and associates (Note 8)	**91,534**	79,995	**683,089**
Long-term loans receivable	**692**	742	**5,164**
Net defined benefit assets (Note 9)	**10,382**	9,998	**77,477**
Special account related to nuclear power decommissioning	**36,803**	41,136	**274,649**
Special account related to reprocessing of spent nuclear fuel	**35,891**	30,297	**267,843**
Deferred tax assets (Note 12)	**37,343**	35,425	**278,679**
Other assets	**22,245**	20,443	**166,007**
Total investments and other assets	**282,502**	258,855	**2,108,223**
CURRENT ASSETS:			
Cash and cash equivalents (Note 18)	**105,904**	72,928	**790,328**
Notes receivable, accounts receivable and contract assets (Note 18)	**123,415**	115,071	**921,007**
Inventories (Note 7)	**59,974**	31,507	**447,567**
Other current assets (Notes 17 and 18)	**35,202**	33,978	**262,701**
Allowance for doubtful accounts	**(388)**	(872)	**(2,895)**
Total current assets	**324,108**	252,614	**2,418,716**
TOTAL	**¥1,612,025**	¥1,500,744	**$12,030,037**

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of yen 2023	2022	Thousands of U.S. dollars (Note 1) 2023
LONG-TERM LIABILITIES:			
Long-term debt (Notes 8,17,18 and 22)	**¥ 873,581**	¥ 744,688	**$ 6,519,261**
Provision for loss on guarantees	**8,384**		**62,567**
Net defined benefit liabilities (Note 9)	**21,711**	22,987	**162,022**
Asset retirement obligations (Note 10)	**130,494**	128,796	**973,835**
Other long-term liabilities	**25,045**	23,119	**186,902**
Total long-term liabilities	**1,059,216**	919,592	**7,904,597**
CURRENT LIABILITIES:			
Current portion of long-term debt (Notes 8,17,18 and 22)	**90,280**	97,393	**673,731**
Commercial papers（Note 18)		33,000	
Notes and accounts payable (Note 18)	**81,415**	56,007	**607,574**
Income taxes payable	**873**	804	**6,514**
Accrued expenses	**38,668**	32,396	**288,567**
Provision for loss on guarantees	**152**		**1,134**
Other current liabilities (Note18,19 and 22)	**42,705**	45,006	**318,694**
Total current liabilities	**254,096**	264,608	**1,896,238**
RESERVE FOR FLUCTUATIONS IN WATER LEVEL	**400**	1,246	**2,985**
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 17, 19 and 20)			
EQUITY (Note 11)**:**			
Common stock - authorized, 772,956,066 shares; issued, 207,528,202 shares in 2023 and 223,086,202 shares in 2022	**145,551**	145,551	**1,086,201**
Capital surplus	**3,598**	35,198	**26,850**
Retained earnings	**134,023**	166,683	**1,000,171**
Treasury stock - at cost 1,880,571 shares in 2023 and 17,361,631 shares in 2022	**(3,440)**	(41,680)	**(25,671)**
Accumulated other comprehensive income:			
Net unrealized gain on available-for-sale securities	**125**	1,345	**932**
Deferred gain on derivatives under hedge accounting	**8,395**	1,516	**62,649**
Foreign currency translation adjustments	**7,368**	3,362	**54,985**
Remeasurements of defined benefit plans	**165**	915	**1,231**
Total	**295,788**	312,892	**2,207,373**
Noncontrolling interests	**2,524**	2,404	**18,835**
Total equity	**298,312**	315,297	**2,226,208**
TOTAL	**¥1,612,025**	¥1,500,744	**$12,030,037**

CONSOLIDATED STATEMENTS OF OPERATIONS

Year ended March 31, 2023

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	**2023**
OPERATING REVENUES (Note 13)**:**			
Electric	**¥735,069**	¥535,241	**$5,485,589**
Other	**98,133**	106,707	**732,335**
Total operating revenues	**833,203**	641,948	**6,217,932**
OPERATING EXPENSES (Notes 14 and 22)**:**			
Electric	**760,611**	560,663	**5,676,201**
Other	**84,877**	94,803	**633,410**
Total operating expenses	**845,489**	655,466	**6,309,619**
OPERATING LOSS	**(12,285)**	(13,517)	**(91,679)**
OTHER EXPENSES (INCOME):			
Interest expense (Note 22)	**6,184**	5,579	**46,149**
Losses on valuation of investment securities	**1,366**	181	**10,194**
Equity in losses of associates	**7,327**		**54,679**
Provision for loss on guarantees	**8,536**		**63,701**
Interest and dividend income	**(2,042)**	(1,696)	**(15,238)**
Gains of non-current assets	**(239)**	(836)	**(1,783)**
Gains of investment securities	**(1,852)**	(274)	**(13,820)**
Foreign exchange gains	**(9,177)**	(1,991)	**(68,485)**
Equity in earnings of associates		(2,025)	
Loss on return of imbalance revenue and expenses(Note 15)		1,541	
Other, net	**125**	(339)	**932**
Total other expenses	**10,229**	139	**76,335**
LOSS BEFORE REVERSAL OF RESERVE FOR FLUCTUATIONS IN WATER LEVEL AND INCOME TAXES	**(22,515)**	(13,656)	**(168,022)**
REVERSAL OF RESERVE FOR FLUCTUATIONS IN WATER LEVEL (Note 16)	**846**	6,565	**6,313**
LOSS BEFORE INCOME TAXES	**(21,669)**	(7,091)	**(161,708)**
INCOME TAXES (Note 12)**:**			
Current	**1,891**	1,537	**14,111**
Deferred	**(841)**	(2,526)	**(6,276)**
Total income taxes	**1,049**	(988)	**7,828**
NET LOSS	**(22,719)**	(6,102)	**(169,544)**
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	**152**	159	**1,134**
NET LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT	**¥ (22,871)**	¥ (6,262)	**$ (170,679)**
	Yen		U.S. dollars (Note 1)
PER SHARE OF COMMON STOCK (Note 23)**:**			
Basic net loss	**¥(111.19)**	¥ (30.44)	**$ (0.82)**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended March 31, 2023

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	**2023**
NET LOSS	**¥(22,719)**	¥ (6,102)	**$(169,544)**
OTHER COMPREHENSIVE INCOME (LOSS) (Note 21)**:**			
Unrealized loss on available-for-sale securities	**(1,109)**	(313)	**(8,276)**
Deferred loss on derivatives under hedge accounting	**(751)**	(370)	**(5,604)**
Foreign currency translation adjustments	**4,738**	2,045	**35,358**
Remeasurements of defined benefit plans	**(710)**	(2,428)	**(5,298)**
Share of other comprehensive income in associates	**6,748**	908	**50,358**
Total other comprehensive income (loss)	**8,915**	(157)	**66,529**
COMPREHENSIVE LOSS	**¥ (13,803)**	¥ (6,260)	**$ (103,007)**
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO:			
Owners of the parent	**¥ (13,956)**	¥ (6,420)	**$ (104,149)**
Noncontrolling interests	**152**	159	**1,134**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended March 31, 2023

	Thousands	Millions of yen										
						Accumulated other comprehensive income						
	Outstanding Number of Shares of Common Stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gain on available-for-sale securities	Deferred gain on derivatives under hedge accounting	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total	Noncontrolling interests	Total equity
BALANCE AT APRIL 1, 2021	205,722	¥145,551	¥35,198	¥179,315	¥(41,684)	¥1,779	¥1,526	¥730	¥3,260	¥325,678	¥2,275	¥327,953
Cumulative effects of changes in accounting policies				(174)						(174)		(174)
BALANCE AT APRIL 1, 2021 (as restated)	205,722	¥145,551	¥35,198	¥179,141	¥(41,684)	¥1,779	¥1,526	¥730	¥3,260	¥325,503	¥2,275	¥327,779
Net loss attributable to owners of the parent				(6,262)						(6,262)		(6,262)
Cash dividends, ￥30 per share				(6,194)						(6,194)		(6,194)
Purchase of treasury stock	(6)				(4)					(4)		(4)
Disposal of treasury stock	8			(1)	9					7		7
Net change in the year						(433)	(10)	2,631	(2,345)	(157)	128	(28)
BALANCE AT MARCH 31, 2022	**205,724**	**¥145,551**	**¥35,198**	**¥166,683**	**¥(41,680)**	**¥1,345**	**¥1,516**	**¥3,362**	**¥915**	**¥312,892**	**¥2,404**	**¥315,297**
Net loss attributable to owners of the parent				**(22,871)**						**(22,871)**		**(22,871)**
Cash dividends, ￥15 per share				**(3,096)**						**(3,096)**		**(3,096)**
Purchase of treasury stock	**(99)**				**(74)**					**(74)**		**(74)**
Disposal of treasury stock	**22**			**(0)**	**23**					**23**		**23**
Cancellation of treasury stock			**(31,600)**	**(6,690)**	**38,290**							
Net change in the year						**(1,220)**	**6,879**	**4,006**	**(750)**	**8,915**	**119**	**9,035**
BALANCE AT MARCH 31, 2023	**205,647**	**¥145,551**	**¥3,598**	**¥134,023**	**¥(3,440)**	**¥125**	**¥8,395**	**¥7,368**	**¥165**	**¥295,788**	**¥2,524**	**¥298,312**

	Thousands of U.S. dollars (Note 1)										
					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gain on available-for-sale securities	Deferred gain on derivatives under hedge accounting	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total	Noncontrolling Interests	Total equity
BALANCE AT MARCH 31, 2022	**$1,086,201**	**$262,671**	**$1,243,902**	**$(311,044)**	**$10,037**	**$11,313**	**$25,089**	**$6,828**	**$2,335,014**	**$17,940**	**$2,352,962**
Net loss attributable to owners of the parent			**(170,679)**						**(170,679)**		**(170,679)**
Cash dividends, $0.11 per share			**(23,104)**						**(23,104)**		**(23,104)**
Purchase of treasury stock				**(552)**					**(552)**		**(552)**
Disposal of treasury stock			**(0)**	**171**					**171**		**171**
Cancellation of treasury stock		**(235,820)**	**(49,925)**	**285,746**							
Net change in the year					**(9,104)**	**51,335**	**29,895**	**(5,597)**	**66,529**	**888**	**67,425**
BALANCE AT MARCH 31, 2023	**$1,086,201**	**$26,850**	**$1,000,171**	**$(25,671)**	**$932**	**$62,649**	**$54,985**	**$1,231**	**$2,207,373**	**$18,835**	**$2,226,208**

See notes to consolidated financial statements.

Shikoku Electric Power Company, Incorporated and consolidated subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended March 31, 2023

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	**2023**
OPERATING ACTIVITIES:			
Loss before income taxes	**¥(21,669)**	¥ (7,091)	**$(161,708)**
Adjustments for:			
Income taxes paid	**(3,094)**	(2,195)	**(23,089)**
Depreciation and amortization	**58,453**	64,705	**436,216**
Loss on disposal of property, plant and equipment	**2,385**	3,074	**17,798**
Decommissioning cost of nuclear power units	**4,209**	3,885	**31,410**
Depreciation of special account related to nuclear power decommissioning	**4,333**	2,031	**32,335**
Decrease in reserve for fluctuations in water level	**(846)**	(6,565)	**(6,313)**
Equity in losses (earnings) of associates	**7,327**	(2,025)	**54,679**
Foreign exchange gains (Note 4)	**(3,160)**	(210)	**(23,582)**
Loss on return of imbalance revenue and expenses		1,541	
Changes in assets and liabilities:			
Increase in net defined benefit assets	**(1,892)**	(5,397)	**(14,119)**
Decrease in net defined benefit liabilities	**(727)**	(736)	**(5,425)**
Increase in notes and accounts receivable	**(8,344)**	(1,985)	**(62,268)**
Increase (decrease) in allowances for doubtful accounts	**(471)**	890	**(3,514)**
Increase in inventories	**(28,216)**	(3,389)	**(210,567)**
Increase in notes and accounts payable	**25,407**	2,665	**189,604**
Increase (decrease) in consumption taxes payable	**6,170**	(7,824)	**46,044**
Increase in provision for loss on guarantees	**8,536**		**63,701**
Other, net	**(12,314)**	8,467	**(91,895)**
Net cash provided by operating activities	**36,086**	49,841	**269,298**
INVESTING ACTIVITIES:			
Capital expenditures including nuclear fuel	**(75,079)**	(104,156)	**(560,291)**
Proceeds from sales of property, plant and equipment	**1,926**	1,544	**14,373**
Payments for asset retirement obligations	**(1,465)**	(844)	**(10,932)**
Payments for investments and advances	**(23,437)**	(23,417)	**(174,902)**
Proceeds from sales of investment securities and collections of advances	**6,455**	1,771	**48,171**
Net cash used in investing activities	**(91,600)**	(125,102)	**(683,582)**
FINANCING ACTIVITIES:			
Proceeds from issuance of bonds	**112,000**	65,000	**835,820**
Redemption of bonds	**(65,000)**	(35,000)	**(485,074)**
Proceeds from long-term loans	**103,900**	42,000	**775,373**
Repayments of long-term loans	**(29,900)**	(6,379)	**(223,134)**
Net increase (decrease) in commercial papers	**(33,000)**	23,000	**(246,268)**
Cash dividends paid	**(3,096)**	(6,194)	**(23,104)**
Purchase of treasury stock	**(5)**	(4)	**(37)**
Cash dividends paid to minority shareholders	**(32)**	(30)	**(238)**
Other, net	**(36)**	(129)	**(268)**
Net cash provided by financing activities	**84,829**	82,261	**633,052**
EFFECT OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	**3,659**	484	**27,305**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**32,975**	7,484	**246,082**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**72,928**	65,444	**544,238**
CASH AND CASH EQUIVALENTS AT END OF YEAR	**¥105,904**	¥ 72,928	**$ 790,328**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended March 31, 2023

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act, the Japanese Electric Utility Law and its related accounting regulations, and in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2022 consolidated financial statements to conform to the classifications used in 2023.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Shikoku Electric Power Company, Incorporated（the “Company”）is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥134 to $1, the approximate rate of exchange at March 31, 2023. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Amounts less than one million yen and less than one thousand U.S. dollars have been rounded down, except for per share data.

As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

2. SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

(a) Consolidation and investments in unconsolidated subsidiaries and associates

In principle, under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Company or significant subsidiaries have the ability to exercise significant influence are accounted for by the equity method. The consolidated financial statements as of March 31, 2023, include the accounts of the Company and its twelve subsidiaries (collectively the “Group”).

Investments in one unconsolidated subsidiary and seven associates, are accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries and associates are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition is amortized over a maximum period of 20 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

The fiscal year end of one consolidated subsidiary is December 31. The Company consolidates such consolidated subsidiary’s financial statements using its financial results for the year ended December 31. The effects of any significant transactions during the period between the subsidiary’s fiscal year end and the Company’s fiscal year end are reflected in the consolidated financial statements.

(b) Property, plant and equipment

Property, plant and equipment are stated at cost. Contributions in aid of construction include contributions made by customers and are deducted from the cost of the related assets in accordance with the regulations described in Note 1.

Depreciation of property, plant and equipment is computed by the straight-line method based on the estimated useful lives of the assets.

(Change in accounting policies that are difficult to distinguish from change in accounting estimates)

(Change in depreciation method for property, plant and equipment)

The Company and its consolidated subsidiaries had mainly adopted the declining balance method for the depreciation method of property, plant and equipment. However, starting this consolidated fiscal year, the Company and its consolidated subsidiaries have changed the depreciation method to the straight-line method.

Electricity demand in the Shikoku area, which is the main supply area of the Group, has remained almost flat in recent years. In the future, although it is expected that the energy source will switch to electric power against the background of decarbonization, it is expected that the trend will remain stable due to factors such as population decline.

Under these circumstances, in the power generation business, the operation of specific serious accident response facility for Ikata Nuclear Power Station Unit 3 began in October 2021, and Saijo Thermal Power Station Unit 1 replacement has started trial operation in December 2022. After these large-scale investments, the power generation business will mainly focus on investments in the maintenance and managing existing power generation facilities and the general power transmission and distribution business will also mainly focus on investments in the maintenance and managing the transmission and distribution facilities.

Based on above, the Company and its consolidated subsidiaries determined that the straight-line method, which allocates the investment amount evenly over the useful life, is more reasonable as a depreciation method.

As a result, compared to the previous method, operating loss for fiscal 2023 have decreased by ¥17,494 million ($130,552 thousand), and loss before income tax have decreased by ¥17,438 million ($130,134 thousand).

(c) Long-lived assets

The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

(d) Amortization of nuclear fuel

Amortization of nuclear fuel is computed based on the quantity of heat produced for the generation of electricity.

(e) Investment securities

All investment securities are classified and accounted for, depending on management's intent, as follows:

Available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of equity. Nonmarketable available-for-sale equity securities are stated at cost, determined by the moving-average method.

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

(f) Special account related to nuclear power decommissioning

On September 28, 2017, “Ordinance on Accounting at Electricity Utilities” (Ordinance of the Ministry of Economy, Trade and Industry No.77, 2017; “Revised Ordinance”) was revised.

After the date of enforcement of the Revised Ordinance (September 28, 2017), in the event of decommissioning of a nuclear reactor resulting from changes in energy policies, based on the accounting regulations, the following assets and costs may be posted as or transferred to a special account related to nuclear power decommissioning with the approval of the Minister of Economy, Trade and Industry: (A) The carrying amount of fixed assets requiring maintenance to operate a nuclear reactor at the time of its decommissioning (excludes the carrying amount of specified assets for nuclear power and includes the carrying amount of fixed assets recorded as construction in progress that are limited to items for which construction is not completed after the suspension of nuclear reactor operations); (B) The carrying value of nuclear fuel for said reactor (excludes projected disposal amounts); and (C) Cost of reprocessing of irradiated nuclear fuel generated in connection with the decommissioning of the nuclear reactor, and amount corresponding to costs necessary to dismantle the components of the nuclear fuel.

The special account related to nuclear power decommissioning has been collected by a transmission fee of the general electricity transmission and distribution. The Company were received approval of special assets for nuclear power, special account related to nuclear power decommissioning and provision for decommissioning of nuclear power units (collectively “Contribution for facilitating nuclear reactor decommissioning”) from the minister of Economy, Trade, and Industry in accordance with Regulation for Enforcement of Electricity Business act, article 45-21-12 (Act No.77 of 1995, Ministry of International Trade and Industry). In response, the Group changed the transportation service provision in accordance with - Regulation for Enforcement of Electricity Business act, article 45-21-11 - and has collected contribution for facilitating nuclear reactor decommissioning.

The special account related to nuclear power decommissioning has been amortized by amortization expense of the special account related to nuclear power decommissioning, upon collection of the transmission fee.

(g) Cost of reprocessing irradiated nuclear fuel

The cost of reprocessing nuclear fuel irradiated from the operation of nuclear power facilities as contribution, defined by the Act for Partial Revision of the Spent Nuclear Fuel Reprocessing Implementation Act (Act No. 40 of 2016), has been recognized as electric utility operating expenses in proportion to the amount of irradiated nuclear fuel from the nuclear power facilities.

Contributions include those made in relation to reprocessing of spent fuel, and these contributions have been organized into a special account related to reprocessing of spent nuclear fuel.

(h) Cash equivalents

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

(i) Inventories

Inventories, principally fuel for power generation, are stated at the lower of cost, determined by the average method, or net realizable value.

(j) The standards for recognition of significant revenues

In the electric business, which is the main business of the corporate group, the Company mainly sell and wholesale electricity, and the performance obligation is the supply of electricity based on the contract with the customer. Regarding these performance obligations, revenue is recognized mainly based on the amount of electricity determined by meter reading (based on the meter reading date) in accordance with the Electric Utility Accounting Regulation.

In addition, payments are received within approximately one month from the date when the amount of electricity was determined by meter reading, and the amount of consideration does not include important financial factors.

(k) Retirement and pension plans

The Company accounts for the liability and assets for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are mainly attributed to periods on a benefit formula basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects. Actuarial gains and losses are mainly amortized in the following period year and past service costs are mainly amortized in the current period.

(l) Asset retirement obligations
An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

For nuclear power units, the Company recognizes asset retirement obligations as the sum of the discounted cash flows using a discount rate of 2.3%. However, the Company recognizes asset retirement obligations as the amount determined by the Japanese Electric Utility Law and its related accounting regulations if such amount is higher than the sum of the discounted cash flows.

(m) Income taxes
The provision for income taxes is computed based on the pretax income included in the consolidated statement of income.

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

(n) Bond issuance costs
Bond issuance costs are charged to income as incurred.

(o) Foreign currency transactions
Short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates in effect as of each balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

(p) Foreign currency financial statements
The balance sheet accounts of the consolidated foreign subsidiary are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as “Foreign currency translation adjustments” under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of the consolidated foreign subsidiary are translated into yen at the current exchange rate as of the balance sheet date.

(q) Derivative and hedging activities
The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign currency exchange rates and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by the Group to reduce foreign currency exchange rate and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

For derivatives used for hedging purposes, if the derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Payables denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the foreign currency fluctuations are translated at the contracted rate if the forward contracts qualify for hedge accounting.

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

(r) Per share information
Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share is not disclosed because dilutive securities are not issued.

3. SIGNIFICANT ACCOUNTING ESTIMATES

(I) Recoverability of deferred tax assets
(1) Carrying amounts
See Note 12 about the amount of deferred tax assets in the consolidated balance sheet for the current fiscal year.

(2) Information on the significant accounting estimate
The Group records the recoverable amount of deferred tax based on estimated taxable income in the future. This estimated taxable income is calculated based on business plans approved by management and available information when the Company prepares consolidated financial statements. Estimated electricity sales volume and related costs are included in these main plans and information. If these assumptions of plans and information are changed, the judgement of recoverability of deferred tax assets may be affected.

(II) Impairment of an Assets Group Relating to Data Center Business

(1) Carrying amounts

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2023	2022	**2023**
Other plant and equipment	**¥ 9,762**	¥ 10,272	**$ 72,850**

(2) Information on the significant accounting estimate

STNet, Incorporated, which is the core company of Telecommunications Business, owns special structures which combine disaster-resistant robustness and a high degree of security required for the data center business. The operating income from this business has been continuously negative, and there is an indication that these business assets may be impaired, but, in the current fiscal year, the impairment loss of data center business assets is not recognized because the undiscounted future cash flows exceed the carrying amount of these assets. The undiscounted future cash flows are calculated based on the forecast of new customer acquisitions and the data center usage unit price in the business plan approved by management. An impairment loss is possibly recognized if these business plans are changed in the next fiscal year.

(Ⅲ) Investment in overseas power generation business

(1) Carrying amounts

	Millions of yen	Thousands of U.S. dollars
	March 31,	March 31,
	2023	**2023**
Investment in overseas power generation business	**¥ 43,321**	**$ 323,291**
Liabilities from application of equity method	**1,710**	**12,761**
Provision for loss on guarantees	**8,536**	**63,701**
Loss on investment in overseas power generation business	**18,893**	**140,992**

Notes: 1. Investments in overseas power generation businesses in the above table are included in investment securities and investments in and advances to unconsolidated subsidiaries and associate, and other assets on the consolidated balance sheet.
2. Liabilities from application of equity method in the above table are included in other long-term liabilities on the consolidated balance sheet.
3. Loss on investment in overseas power generation business in the above table are included in equity in losses of associates and provision for loss on guarantees on the consolidated statements of operations.

(2) Information on the significant accounting estimate

The Company invests in the overseas power generation business mainly through its consolidated subsidiary SEP International Netherlands B.V. , the equity method is applied to the investment in unconsolidated subsidiaries and affiliated companies, and the performance of these businesses is reflected through investment gains and losses based on the equity method.

If any of these investments show indicators of a decline in business profitability, the investment amount exceeding the recoverable amount calculated based on cash flow outlook based on the business plan, etc., is recognized as a loss. In addition, if a debt guarantee is provided, the financial condition of the guaranteed party will be taken into account, and provision for loss on guarantees is recognized when the possibility of loss arising from the performance of the guarantee obligation increase.

Due to the decrease in profitability in the Taiwan offshore wind power generation business invested by SEP International Netherlands B.V., the recoverable amount fell below the investment amount and the increased possibility of loss associated with the performance of the guarantee obligation. Based on the above, liabilities from application of equity method, provision for loss on guarantees and loss on investment in overseas power generation business are recorded in the current consolidated fiscal year.

Due to changes in the external environment such as policy changes related to environment and energy, and the emergence of country risks in the countries, there is a possibility that cash flows expected to be obtained in the future will deteriorate significantly, and in that case, it may affect the valuation of investments.

4. CHANGES IN PRESENTATION

Consolidated cash flow statement
The amount of “Foreign exchange gains” which was included in “Other, net” of “Net cash provided by operating activities” in the previous consolidated fiscal year, increased significantly, so has been disclosed separately in the current consolidated fiscal year. In order to reflect this change in presentation, the consolidated financial statements for the previous consolidated fiscal year have been reclassified.
As a result, in the consolidated cash flow statement of the previous consolidated fiscal year, ¥8,257million that was displayed in “Other, net” of “Net cash provided by operating activities” has been reclassified as ¥(210) million displayed in “Foreign exchange gains” and ¥8,467 million displayed in “Other, net”.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at carrying amount at March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2023	2022	**2023**
Hydroelectric power	**¥ 288,815**	¥ 287,857	**$ 2,155,335**
Thermal power	**477,154**	495,516	**3,560,850**
Nuclear power	**804,733**	801,942	**6,005,470**
Transmission facilities	**575,692**	568,123	**4,296,208**
Transformation facilities	**369,895**	366,085	**2,760,410**
Distribution facilities	**506,017**	502,095	**3,776,246**
General facilities	**100,701**	98,939	**751,500**
Total utility plant, at cost	**3,123,009**	3,120,560	**23,306,037**
Other plant and equipment, at cost	**293,022**	288,494	**2,186,731**
Construction in progress	**121,483**	88,951	**906,589**
Total	**3,537,515**	3,498,006	**26,399,365**
Less contributions in aid of construction	**(53,895)**	(50,463)	**(402,201)**
Less accumulated depreciation	**(2,567,940)**	(2,553,114)	**(19,163,731)**
Carrying amount	**¥ 915,678**	¥ 894,429	**$ 6,833,417**

6. INVESTMENT SECURITIES

(1) Information regarding each category of the securities classified as available-for-sale is as follows:

	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2023				
Securities classified as:				
Available-for-sale:				
Equity securities	**¥ 1,425**	**¥ 321**	**¥ (0)**	**¥ 1,747**
Corporate bonds	**1,871**		**(85)**	**1,786**
Other securities	**26**	**2**		**28**
Total	**¥ 3,324**	**¥ 323**	**¥ (85)**	**¥ 3,562**

	Thousands of U.S. dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2023				
Securities classified as:				
Available-for-sale:				
Equity securities	**$ 10,634**	**$ 2,395**	**$ (0)**	**$ 13,037**
Corporate bonds	**13,962**		**(634)**	**13,328**
Other securities	**194**	**14**		**208**
Total	**$ 24,805**	**$ 2,410**	**$ (634)**	**$ 26,582**

Nonmarketable available-for-sale equity securities (consolidated balance sheet amount of ¥31,875 million ($237,873 thousand)) and investing in unions, etc. that record the amount equivalent to equity in net amount in the balance table (consolidated balance sheet amount of ¥13,688 million ($102,149 thousand)) were not included.

	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2022				
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 3,039	¥ 2,109	¥ (317)	¥ 4,830
Other securities	26	2		29
Total	¥ 3,065	¥ 2,112	¥ (317)	¥ 4,860

Nonmarketable available-for-sale equity securities (consolidated balance sheet amount of ¥31,706 million) and investing in unions, etc. that record the amount equivalent to equity in net amount in the balance table (consolidated balance sheet amount of ¥3,979 million) were not included.

Some of the above investment securities are pledged as collateral for long-term debt from financial institutions, see Note 8 for details.

(2) The proceeds, realized gains and realized losses of the available-for-sale securities which were sold during the years ended March 31, 2023 and 2022, were as follows:

	Millions of yen		
	Proceeds	Realized Gains	Realized Losses
March 31, 2023			
Available-for-sale:			
Equity securities	**¥ 2,743**	**¥ 1,852**	
Total	**¥ 2,743**	**¥ 1,852**	

	Thousands of U.S. dollars		
	Proceeds	Realized Gains	Realized Losses
March 31, 2023			
Available-for-sale:			
Equity securities	**$ 20,470**	**$ 13,820**	
Total	**$ 20,470**	**$ 13,820**	

	Millions of yen		
	Proceeds	Realized Gains	Realized Losses
March 31, 2022			
Available-for-sale:			
Equity securities	¥ 631	¥ 274	
Total	¥ 631	¥ 274	

(3) The impairment losses on available-for-sale equity securities

The impairment losses on available-for-sale equity securities for the years ended March 31, 2023 and 2022, were ¥1,366 million ($10,194 thousand) and ¥181 million, respectively.

If the market value at the end of the period declines by 50% or more from the acquisition cost, all impairment is recorded, and if the market value at the end of the period declines by approximately 30% to 50% from the acquisition cost, impairment losses are recorded for amounts deemed necessary in consideration of recoverability.

7. INVENTORIES

Inventories at March 31, 2023 and 2022, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2023	2022	**2023**
Merchandise and finished products	**¥ 595**	¥ 536	**$ 4,440**
Work-in-process	**9,349**	11,048	**69,768**
Raw materials and supplies	**50,029**	19,922	**373,350**
Total	**¥ 59,974**	¥ 31,507	**$ 447,567**

8. LONG-TERM DEBT

Long-term debt at March 31, 2023 and 2022, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2023	2022	**2023**
0.13% to 2.26% (0.13% to 2.26% in 2022) domestic bonds, due on various dates through 2052	**¥ 461,992**	¥ 414,990	**$ 3,447,701**
0.41% to 0.99% (0.41% to 0.99% in 2022) loans from The Development Bank of Japan, due on various dates through 2031	**25,000**	25,000	**186,567**
0.24% to 2.20% (0.24% to 2.20% in 2022) loans principally from banks and insurance companies, due on various dates through 2041	**461,300**	387,300	**3,442,537**
Obligations under finance leases	**15,568**	14,791	**116,179**
Total	**963,861**	842,081	**7,192,992**
Less current portion	**(90,280)**	(97,393)	**(673,731)**
Long-term debt, less current portion	**¥ 873,581**	¥ 744,688	**$ 6,519,261**

All of the Company's assets are subject to certain statutory preferential rights as collateral for loans from The Development Bank of Japan listed in the above table, for bonds.

Annual maturities of long-term debt at March 31, 2023, were as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2024	¥ 90,280	$ 673,731
2025	77,821	580,753
2026	70,851	528,738
2027	33,114	247,119
2028	115,204	859,731
2029 and thereafter	576,596	4,302,955
Total	¥ 963,868	$ 7,193,044

The investment of certain consolidated subsidiaries that are pledged as collateral for investees' long-term debt from financial institutions were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2023	2022	**2023**
Investment securities	**¥ 995**	¥ 1,429	**$ 7,425**
Investments in and advances to unconsolidated subsidiaries and associates	**15,362**	7,807	**114,641**

9. RETIREMENT AND PENSION PLANS

The Company has a defined benefit pension plan based on the Defined Benefit Corporate Pension Act, a lump-sum retirement benefit plan, and a defined contribution pension plan. The consolidated subsidiaries have adopted some of these plans.
Certain consolidated subsidiaries calculate net defined benefit assets, net defined benefit liabilities, and net periodic benefit cost by the simple method.
In certain cases, the Group pays additional retirement benefits for employees.

(1) The changes in defined benefit obligation for the years ended March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Balance at beginning of year	**¥ 138,192**	¥ 141,337	**$ 1,031,283**
Current service cost	**4,695**	4,837	**35,037**
Interest cost	**162**	163	**1,208**
Actuarial gains and losses	**(546)**	92	**(4,074)**
Benefits paid	**(8,212)**	(8,237)	**(61,283)**
Past service cost	**19**		**141**
Balance at end of year	**¥ 134,310**	¥ 138,192	**$ 1,002,313**

Note: The above does not include plans applying the simple method.

(2) The changes in plan assets for the years ended March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Balance at beginning of year	**¥ 125,958**	¥ 126,261	**$ 939,985**
Expected return on plan assets	**2,517**	2,523	**18,783**
Actuarial gains and losses	**(583)**	1,227	**(4,350)**
Contributions from the employer	**2,439**	2,500	**18,201**
Benefits paid	**(6,525)**	(6,555)	**(48,694)**
Balance at end of year	**¥ 123,807**	¥ 125,958	**$ 923,932**

Note: The above does not include plans applying the simple method.

(3) The changes in net defined benefit liabilities and net defined benefit assets for plans applying the simple method for the years ended March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Balance at beginning of year	**¥ 754**	¥ 683	**$ 5,626**
Net periodic benefit cost	**185**	185	**1,380**
Benefits paid	**(43)**	(43)	**(320)**
Contributions from the employer to plan assets	**(71)**	(70)	**(529)**
Balance at end of year	**¥ 824**	¥ 754	**$ 6,149**

(4) A reconciliation between the liabilities and assets recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets is as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2023	2022	**2023**
Funded defined benefit obligation	**¥ 113,736**	¥ 116,285	**$ 848,776**
Plan assets	**(123,807)**	(125,958)	**(923,932)**
	(10,070)	(9,673)	**(75,149)**
Unfunded defined benefit obligation	**20,573**	21,907	**153,529**
Net liabilities arising from defined benefit obligation	**¥ 10,503**	¥ 12,234	**$ 78,380**

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2023	2022	**2023**
Net defined benefit liabilities	**¥ 20,789**	¥ 22,128	**$ 155,141**
Net defined benefit assets	**(10,285)**	(9,894)	**(76,753)**
Net liabilities arising from defined benefit obligation	**¥ 10,503**	¥ 12,234	**$ 78,380**

Note: The above does not include plans applying the simple method.

(5) A reconciliation between the liabilities and assets recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets for plans applying the simple method is as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2023	2022	**2023**
Funded defined benefit obligation	**¥ 1,695**	¥ 1,611	**$ 12,649**
Plan assets	**(1,182)**	(1,144)	**(8,820)**
	512	467	**3,820**
Unfunded defined benefit obligation	**312**	287	**2,328**
Net liabilities arising from defined benefit obligation	**¥ 824**	¥ 754	**$ 6,149**

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2023	2022	**2023**
Net defined benefit liabilities	**¥ 922**	¥ 858	**$ 6,880**
Net defined benefit assets	**(97)**	(103)	**(723)**
Net liabilities arising from defined benefit obligation	**¥ 824**	¥ 754	**$ 6,149**

(6) The components of net periodic benefit costs for the years ended March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Current service cost	**¥ 4,695**	¥ 4,837	**$ 35,037**
Interest cost	**162**	163	**1,208**
Expected return on plan assets	**(2,517)**	(2,523)	**(18,783)**
Recognized actuarial gains	**(904)**	(4,498)	**(6,746)**
Amortization of prior service cost	**1**		**7**
Others	**(106)**	(93)	**(791)**
Net periodic benefit costs	**¥ 1,330**	¥ (2,115)	**$ 9,925**

Note: The above does not include plans applying the simple method.

(7) Net periodic benefit cost for plans applying the simple method for the years ended March 31, 2023 and 2022, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Net periodic benefit cost	**¥ 185**	¥ 185	**$ 1,380**

(8) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Prior service cost	**¥ 17**		**$ 126**
Actuarial losses	**941**	¥ 3,363	**7,022**
Total	**¥ 959**	¥ 3,363	**$ 7,156**

(9) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2023	2022	**2023**
Unrecognized prior service cost	**¥ 17**		**$ 126**
Unrecognized actuarial gains	**(203)**	¥ (1,145)	**(1,514)**
Total	**¥ (186)**	¥ (1,145)	**$ (1,388)**

(10) Plan assets

a. Components of plan assets

Plan assets as of March 31, 2023 and 2022, consisted of the following:

	2023	2022
Debt investments	31%	33%
Equity investments	13	12
Life insurance company general accounts	53	52
Others	3	3
Total	100%	100%

b. Method of determining the expected rate of return on plan assets

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

(11) Assumptions used for the years ended March 31, 2023 and 2022, were set forth as follows:

	2023	2022
Discount rate	Mainly 0.1%	Mainly 0.1%
Expected rate of return on plan assets	Mainly 2.0	Mainly 2.0

(12) Defined contribution pension plan cost for the years ended March 31, 2023 and 2022, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Defined contribution pension plan cost	**¥ 1,510**	¥ 1,535	**$ 11,268**

10. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Balance at beginning of year	**¥ 128,796**	¥ 126,885	**$ 961,164**
Reductions associated with settlement of asset retirement obligations	**(1,465)**	(844)	**(10,932)**
Other	**3,164**	2,756	**23,611**
Balance at end of year	**¥ 130,494**	¥ 128,796	**$ 973,835**

11. EQUITY

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

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders’ meeting. For companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two year-term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the Company has prescribed so in its articles of incorporation. With respect the third condition above, the Board of Directors of companies with (a) board committees (namely, appointment committee, compensation committee, and audit committee) or (b) an audit and supervisory committee (as implemented under the Companies Act effective May 1, 2015) may also declare dividends at any time because such companies, by nature, meet the criteria under the Companies Act. The Company is organized as a company with an audit and supervisory committee, effective June 28, 2017. However, the Company cannot do so because it does not meet all the above criteria.

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

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

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

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

(c) Treasury stock and treasury stock acquisition rights

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

(d) Stock-based incentive system for directors and executive officers

The Company introduced a stock compensation plan for directors (excluding outside directors) and executive officers (hereinafter referred to as “Directors” collectively) by resolution approved at the 95th general shareholders meeting held on June 26, 2019.

(1) Overview of the plan

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

(2) Shares of the Company held by the Trust

The Company records shares of the Company in the Trust as treasury stock at cost (excluding acquisition-related costs). For the year ended March 31, 2023 and 2022, the corresponding carrying amount of such treasury stock was ¥223 million ($1,664 thousand) and ¥175 million, and the number of shares was 248 thousand and 177 thousand.

12. INCOME TAXES

The Group is subject to income taxes. The aggregate normal statutory tax rates for the Company approximated 28% for each of the years ended March 31, 2023 and 2022. Such rates for the consolidated subsidiaries approximated 30% for the years ended March 31, 2023 and 2022.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2023	2022	**2023**
Deferred Tax Assets:			
Depreciation and amortization	**¥ 20,951**	¥ 20,178	**$ 156,350**
Asset retirement obligations	**14,384**	14,250	**107,343**
Tax loss carried forward	**6,926**	7,309	**51,686**
Net defined benefit liabilities	**6,400**	6,762	**47,761**
Intercompany profit elimination	**4,259**	4,080	**31,783**
Other	**19,775**	16,368	**147,574**
Less valuation allowance for tax loss carried forward	**(2,330)**	(345)	**(17,388)**
Less valuation allowance for a total of deductible temporary difference	**(12,926)**	(10,751)	**(96,462)**
Total	**57,442**	57,852	**428,671**
Deferred Tax Liabilities:			
Special account related to nuclear power decommissioning	**10,305**	11,518	**76,902**
Capitalized asset retirement costs	**3,455**	3,747	**25,783**
Prepaid pension costs	**2,900**	2,789	**21,641**
Deferred gain on derivatives under hedge accounting	**1,450**	1,749	**10,820**
Other	**1,987**	2,621	**14,828**
Total	**20,098**	22,427	**149,985**
Net Deferred Tax Assets	**¥ 37,343**	¥ 35,425	**$ 278,679**

Tax loss carried forward and its deferred tax assets by deadline, were as follows:

	Millions of yen						
March 31, 2023	**2024**	**2025**	**2026**	**2027**	**2028**	**2029 And thereafter**	**Total**
Tax loss carried forward	**¥ 93**	**¥ 91**	**¥ 38**		**¥ 230**	**¥ 6,472**	**¥ 6,926**
Less valuation allowance	**(62)**	**(91)**	**(38)**		**(230)**	**(1,906)**	**(2,330)**
Deferred tax asset	**30**	**0**				**4,565**	**4,596**

	Millions of yen						
March 31, 2022	2023	2024	2025	2026	2027	2028 And thereafter	Total
Tax loss carried forward	¥ 249	¥ 93	¥ 91	¥ 38		¥ 6,835	¥ 7,309
Less valuation allowance	(208)	(93)	(40)	(2)			(345)
Deferred tax asset	40		51	36		6,835	6,964

March 31, 2023	2024	2025	2026	2027	2028	2029 And thereafter	Total
	Thousands of U.S. dollars						
Tax loss carried forward	$ 694	$ 679	$ 283		$ 1,716	$ 48,298	$ 51,686
Less valuation allowance	(462)	(679)	(283)		(1,716)	(14,223)	(17,388)
Deferred tax asset	223	0				34,067	34,298

The tax loss carried forward is the amount multiplied by the statutory effective tax rate.
Deferred tax assets are recorded for the portion judged to be recoverable based on the estimated amount of future taxable income based on the business plan approved by management.

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of operations for the years ended March 31, 2023 and 2022, is omitted, as net loss was recorded.

Application of the Group Tax Sharing System

The Company and a part of domestic consolidated subsidiaries have transitioned from the consolidated tax system to the group tax sharing system from the current fiscal year.
Accounting and disclosure for income taxes and tax effect accounting have been applied the " Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (Practical Solution No. 42, August 12, 2021, Accounting Standards Board of Japan). In addition, based on Practical Solution No. 42-32(1), it is assumed that there is no impact on the consolidated financial statements from changes in accounting policies resulting from the adoption of Practical Solution No. 42.

13. REVENUE RECOGNITION

1. Revenue from contracts with customers

Revenue from contracts with customers for the years ended March 31, 2023 and 2022, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Revenue from contracts with customers	¥ 804,914	¥ 633,983	$6,006,820

2. Disaggregation of revenue from contracts with customers

Disaggregation of revenue into reportable segments for the years ended March 31, 2023 and 2022, were as follows:

	Millions of yen					
	Reportable segments					
	Electric utility		Telecommunications services	Energy	Construction /Engineering	Total
March 31, 2023	Power generation and sales	Transmission and distribution				
Sales						
Retail sales	¥ 492,946	¥ 3,904				¥ 496,851
Wholesale	121,078	63,894				184,972
Other revenue	2,012	27,729	35,515	19,849	26,516	111,624
Total	¥ 616,037	¥ 95,528	¥ 35,515	¥ 19,849	¥ 26,516	¥ 793,447
Revenues recognized from other sources	¥ 15,535	¥ 7,968	¥ 939	¥ 2,104	¥ 107	¥ 26,655

March 31, 2022	Millions of yen					
	Reportable segments					
	Electric utility		Telecommunications services	Energy	Construction /Engineering	Total
	Power generation and sales	Transmission and distribution				
Sales						
Retail sales	¥ 387,712	¥ 55				¥ 387,767
Wholesale	71,766	42,848				114,615
Other revenue	1,767	28,035	34,381	20,779	38,313	123,278
Total	¥ 461,246	¥ 70,939	¥ 34,381	¥ 20,779	¥ 38,313	¥ 625,661
Revenues recognized from other sources	¥ 197	¥ 2,856	¥ 1,225	¥ 2,099	¥ 109	¥ 6,488

March 31, 2023	Thousands of U.S. dollars					
	Reportable segments					
	Electric utility		Telecommunications services	Energy	Construction /Engineering	**Total**
	Power generation and sales	Transmission and distribution				
Sales						
Retail sales	**$ 3,678,701**	**$ 29,134**				**$ 3,707,843**
Wholesale	**903,567**	**476,820**				**1,380,388**
Other revenue	**15,014**	**206,932**	**265,037**	**148,126**	**197,880**	**833,014**
Total	**$ 4,597,291**	**$ 712,895**	**$ 265,037**	**$ 148,126**	**$ 197,880**	**$ 5,921,246**
Revenues recognized from other sources	**$ 115,932**	**$ 59,462**	**$ 7,007**	**$ 15,701**	**$ 798**	**$ 198,917**

(Notes) 1. The amount shows sales to external customers.

2. Revenues recognized from other sources include subsidies received as part of the "Measures to Mitigate Drastic Fluctuations in Electricity and Gas Prices" implemented based on the "comprehensive economic measures to overcome high prices and realize economic revitalization". They include ¥15,393 million ($114,873 thousand) for “Power generation and sales”, ¥23 million ($171 thousand) for “Transmission and distribution”, and ¥142 million ($1,059 thousand) for “Energy”.

3. Since the above doesn’t include “Other”, the total amount doesn’t match “Revenue from contracts with customers”

Since the amount of “Revenues recognized from other sources”, which was included in “Other revenue” in the previous consolidated fiscal year, has become material, it has been posted separately from the current consolidated fiscal year. In order to reflect this change in presentation method, the consolidated financial statements for the previous consolidated fiscal year have been reclassified.

As a result, for “Power generation and sales”, the ¥1,965 million displayed in “Other revenue” in the disaggregation of revenue from contracts with customers for the previous consolidated fiscal year was ¥1,767 million for “Other revenue” and ¥197 million for “Revenues recognized from other sources”, and for “Transmission and distribution”, the ¥30,892 million displayed in “Other revenue” was ¥28,035 million for “Other revenue” and ¥2,856 million for “Revenues recognized from other sources”, and for “Telecommunications services”, the ¥35,606 million displayed in “Other revenue” was ¥34,381 million for “Other revenue” and ¥1,225 million for “Revenues recognized from other sources”, and for “Energy”, the ¥22,879 million displayed in “Other revenue” was ¥20,779 million for “Other revenue” and ¥2,099 million for “Revenues recognized from other sources”, and for “Construction/Engineering”, the ¥38,422 million displayed in “Other revenue” was ¥38,313 million for “Other revenue” and ¥109 million for “Revenues recognized from other sources”, and for “Total”, the ¥129,766 million displayed in “Other revenue” was ¥123,278 million for “Other revenue” and ¥6,488 million for “Revenues recognized from other sources”.

3. Information for understanding the amount of income for the current consolidated fiscal year and the following consolidated fiscal year

Receivables arising from contracts with customers, contract assets and contract liabilities at the beginning and end of the years ended March 31, 2023 were as follows:

① Balance of contract assets and contract liabilities, etc.

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2023	Beginning of 2023	**2023**
Receivables arising from Contracts with Customers			
Notes receivable	**¥ 3,037**	¥ 3,061	**$ 22,664**
Accounts receivable	**72,947**	68,955	**544,380**
Contract Assets	**7,938**	6,537	**59,238**
Contract Liabilities	**1,635**	3,437	**12,201**

(Notes) 1. Receivables arising from contracts with customers include bonds related to the renewable energy special measures law levy related to Feed-in Tariff Program for Renewable Energy.
2. Contract assets were recorded mainly in businesses other than the electric business.

② Transaction price allocated to the remaining performance obligation

The transaction prices allocated to the remaining performance obligations related to retail sales and wholesale in the electric business are as follows, and are expected to be recognized as profits in the actual supply and demand year stipulated in each contract.

	Millions of yen	Thousands of U.S. dollars
	2023	**2023**
Due within one year		
Due over one year and within three years	**¥ 50,393**	**$ 376,067**
Due over three years	**24,454**	**182,492**
Total	**¥ 74,848**	**$ 558,567**

In accordance with practical expenditures stated in the "Accounting Standard for Revenue Recognition" (Accounting Standard No. 29,March31, 2020) in paragraphs 80-22, (1) and (2) is applied, and among contracts with an initially expected contract within a year and contracts with an initially expected contract period of more than one year, not including contracts that recognize profits based on the amount of power determined by meter reading (based on the meter reading date) in the above table.

Receivables arising from contracts with customers, contract assets and contract liabilities at the beginning and end of the years ended March 31, 2022 were as follows:

① Balance of contract assets and contract liabilities, etc.

	Millions of yen	
	March 31,	
	2022	Beginning of 2022
Receivables arising from Contracts with Customers		
Notes receivable	¥ 3,061	¥ 2,372
Accounts receivable	68,955	57,199
Contract Assets	6,537	11,540
Contract Liabilities	3,437	7,555

(Notes) 1. Receivables arising from contracts with customers include bonds related to the renewable energy special measures law levy related to Feed-in Tariff Program for Renewable Energy.
2. Contract assets and contract liabilities were recorded mainly in businesses other than the electric business.

② Transaction price allocated to the remaining performance obligation

The transaction prices allocated to the remaining performance obligations related to retail sales and wholesale in the electric business are as follows, and are expected to be recognized as profits in the actual supply and demand year stipulated in each contract.

	Millions of yen
	2022
Due within one year	
Due over one year and within three years	¥ 38,041
Due over three years	12,429
Total	¥ 50,470

In addition, the practical convenience stipulated in "Accounting Standard for Revenue Recognition" (Accounting Standard No. 29, March 31, 2020) in paragraphs 80-22, (1) and (2) is applied, and among contracts with an initially expected contract within a year and contracts with an initially expected contract period of more than one year, not including contracts that recognize profits based on the amount of power determined by meter reading (based on the meter reading date) in the above table

14. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥4,151 million（$30,977 thousand）and ¥4,152 million for the years ended March 31, 2023 and 2022, respectively.

15. LOSS ON RETURN OF IMBALANCE REVENUE AND EXPENSES

(Loss on return of imbalance revenue and expenses for the years ended March 31, 2022)
The general power transmission and distribution company received a request for taking measures about making adjustments by deducting the portion of the imbalance charge unit price in January 2021 that exceeds a certain level from the future consignment charge according to the burden of the retail electricity company from the Ministry of Economy, Trade and Industry. Based on this, based on the proviso of Article 18, Paragraph 2 of the Electricity Business Act, an application for special approval for the special measures was submitted to the Minister of Economy, Trade and Industry on January 27, 2022, and got approval on February 14. Therefore, the adjustment amount related to the special measures is recorded.

16. REVERSAL OF RESERVE FOR FLUCTUATIONS IN WATER LEVEL

(Reversal of reserve for fluctuations in water level for the years ended March 31, 2022)

Based on the provisions of Article 36, Paragraph 2 of the Electricity Business Act before the revision (Act No. 170 of 1964) according to the provisions of Article 1 of the Act for Partial Revision of the Electricity Business Act (Act No. 72 of 2014), which is applied by replacing it with the provisions of Article 16, Paragraph 3 of the Supplementary Provisions, a reserve for drought reserve by special permission to allocate to financial resources to curb the extent of damage to capital due to deterioration of income and expenditure. The Company submitted application to the Minister of Economy, Trade and Industry on March 11, 2022, and permission was obtained on March 25. Accordingly, a part of the allowance has been withdrawn.

17. LEASES

［Lessee］

The minimum lease payments under noncancelable operating leases subsequent to March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2023	2022	**2023**
Due within one year	**¥ 120**	¥ 166	**$ 895**
Due after one year	**355**	478	**2,649**
Total	**¥ 475**	¥ 645	**$ 3,544**

［Sublease］

Lease investment assets and lease obligations, without deducting interest expense in the accompanying consolidated balance sheet as of March 31, 2023, under sublease transactions, were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2023	2022	**2023**
Lease investment assets:			
Other current assets	**¥ 15,438**	¥ 14,625	**$ 115,208**
Lease obligations:			
Current portion of long-term debt	**2,645**	2,458	**19,738**
Long term dept	**12,792**	12,167	**95,462**

18. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group policy for financial instruments

The Group uses financial instruments, mainly long-term debt, including bonds and loans, based on its capital financing plan. Short-term borrowings are used to fund ongoing operations. Cash surpluses, if any, are invested in low-risk financial assets. Derivatives are not used for speculative purposes, but to manage exposure to financial risks as described in (2) below.

(2) Nature and extent of financial instruments and risk management

Investment securities, mainly equity instruments for ensuring stable and efficient operation of the electric utility business, are managed by monitoring market values and financial position of issuers on a regular basis.

Accounts receivable are mostly for electricity charges and managed individually.

The repayments of bonds and loans are primarily long-term, and the interest rates for them are fixed. Although they are exposed to market risks from changes in interest rates, fluctuations in interest have only a limited impact on the Group.

Payment terms of payables, such as trade notes and trade accounts, are less than one year.

Derivatives mainly include foreign exchange forward contracts and interest rate swaps, which are used to manage exposure to market risks from changes in foreign currency exchange rates of payables and from changes in interest rates of loans. Derivative transactions are conducted by executive and administrative departments based on internal regulations. The counterparties to these derivatives are limited to major international financial institutions, etc. with high credit ratings. Therefore, the Group does not anticipate any losses arising from credit risk. Please see Note 19 for more details about derivatives**.**

(3) Supplementary explanation on matters related to the fair values of financial instruments, etc.

Since the calculation of the fair values of financial instruments incorporates variable factors, the value may fluctuate by adopting different preconditions.

(4) Fair values of financial instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, other rational valuation techniques are used instead. Please also see Note 19 for the details of fair value for derivatives.

	Millions of yen		
March 31, 2023	Carrying amount	Fair value	Unrealized gain (loss)
Investment securities	**¥ 3,562**	**¥ 3,562**	
Total	**3,562**	**3,562**	
Bonds	**461,992**	**444,620**	**¥ (17,371)**
Long-term loans	**486,300**	**479,548**	**(6,751)**
Total	**¥ 948,292**	**¥ 924,169**	**¥ (24,122)**

	Thousands of U.S. dollars		
March 31, 2023	Carrying amount	Fair value	Unrealized gain (loss)
Investment securities	**$ 26,582**	**$ 26,582**	
Total	**26,582**	**26,582**	
Bonds	**3,447,701**	**3,318,059**	**$ (129,634)**
Long-term loans	**3,629,104**	**3,578,716**	**(50,380)**
Total	**$ 7,076,805**	**$ 6,896,783**	**$ (180,014)**

Notes: 1. Bonds and long-term loans in the above table include the current portion of such instruments.

2. Since "Cash and cash equivalents", "Notes and accounts receivable", and "Notes payable and accounts payable" are cash or are settled in a short period of time, and their carrying amount approximate fair value, the note is omitted.

3. At March 31, 2023 nonmarketable available-for-sale equity securities were ¥31,875 million ($237,873 thousand), and its carrying amount was not included in the above table.

4. At March 31, 2023 investing in unions, etc. that record the amount equivalent to equity in the balance table in net amount is not included in "securities and other securities", based on " Implementation Guideline of Accounting Standard for Fair Value Measurement" (Implementation Guideline of Accounting Standard No. 31, June 17, 2021) in paragraph 24-16. The amount recorded on the consolidated balance sheet is ¥13,688 million ($102,149 thousand).

March 31, 2022	Millions of yen Carrying amount	 Fair value	 Unrealized gain (loss)
Investment securities	¥ 4,860	¥ 4,860	
Total	4,860	4,860	
Bonds	414,990	416,161	¥ 1,170
Long-term loans	412,300	415,234	2,934
Total	¥ 827,290	¥ 831,395	¥ 4,104

Notes: 1. Bonds and long-term loans in the above table include the current portion of such instruments.

2. Since "Cash and cash equivalents", "Notes and accounts receivable", "Notes payable and accounts payable", and "Commercial paper" are cash or are settled in a short period of time, and their carrying amount approximate fair value, the note is omitted.

3. At March 31, 2022 nonmarketable available-for-sale equity securities were ¥31,706 million, and its carrying amount was not included in the above table.

4. At March 31, 2022 investing in unions, etc. that record the amount equivalent to equity in the balance table in net amount is not included in "securities and other securities", based on " Implementation Guideline of Accounting Standard for Fair Value Measurement" (Implementation Guideline of Accounting Standard No. 31, June 17, 2021) in paragraph 24-16. The amount recorded on the consolidated balance sheet is ¥3,979 million.

(5) Maturity analysis for financial assets and securities with contractual maturities

March 31, 2023	Millions of yen Due in 1 year or less	 Due after 1 Year through 5 Years	 Due after 5 Years through 10 Years	 Due after 10 Years
Investment securities				**¥ 1,837**
Cash and cash equivalents	**¥ 105,904**			
Notes receivable	**3,595**			
Accounts receivable	**111,882**			
Other current assets	**50**			
Total	**¥ 221,432**			**¥ 1,837**

Other assets are time deposits with a deposit period of more than three months for which collateral is set for payment to business partners.

March 31, 2023	Thousands ofU.S. dollars Due in 1 year or less	 Due after 1 Year through 5 Years	 Due after 5 Years through 10 Years	 Due after 10 Years
Investment securities				**$ 13,708**
Cash and cash equivalents	**$ 790,328**			
Notes receivable	**26,828**			
Accounts receivable	**834,940**			
Other current assets	**373**			
Total	**$ 1,652,477**			**$ 13,708**

March 31, 2022	Millions of yen Due in one year or less
Cash and cash equivalents	¥ 72,928
Notes receivable	3,514
Accounts receivable	105,019
Other current assets	50
Total	¥ 181,512

Please see Note 8 for annual maturities of long-term debt.

(6) Matters concerning the breakdown of financial instruments by market value level

The fair value of financial instruments is classified into the following three levels according to the observability and importance of the inputs used to calculate the fair value.

Level 1 fair value: Of the inputs related to the observable fair value calculation, the fair value calculated based on the market price of the asset or liability that is formed in an active market and is subject to the calculation of the fair value.

Level 2 fair value: Of the inputs related to the calculation of the observable market value, the fair value calculated using the inputs related to the calculation of the fair value other than the level 1 input.

Level 3 fair value: Fair value calculated using inputs related to the calculation of unobservable fair value.

When multiple inputs that have a significant influence on the fair value calculation are used, the fair value is classified into the level to which those inputs belong, which has the lowest priority in the fair value calculation.

(7) Financial instruments whose fair value is the amount recorded on the consolidated balance sheet, were as follows:

	Millions of yen			
March 31, 2023	Level1	Level2	Level3	Total
Investment securities				
Available for sale securities	**¥ 1,747**	**¥ 28**	**¥ 1,786**	**¥ 3,562**
Derivative trading				
Currency related		**5,066**		**5,066**
Total assets	**1,747**	**5,094**	**1,786**	**8,628**
Derivative trading				
Product related		**28**		**28**
Total liabilities		**¥ 28**		**¥ 28**

	Millions of yen			
March 31, 2022	Level1	Level2	Level3	Total
Investment securities				
Available for sale securities	**¥ 4,830**	**¥ 29**		**¥ 4,860**
Derivative trading				
Currency related		**6,135**		**6,135**
Total assets	**4,830**	**6,164**		**10,995**
Derivative trading				
Interest rate related		**1**		**1**
Total liabilities		**¥ 1**		**¥ 1**

	Thousands of U.S. dollars			
March 31, 2023	Level1	Level2	Level3	Total
Investment securities				
Available for sale securities	**$ 13,037**	**$ 208**	**$ 13,328**	**$ 26,582**
Derivative trading				
Currency related		**37,805**		**37,805**
Total assets	**13,037**	**38,014**	**13,328**	**64,388**
Derivative trading				
Product related		**208**		**208**
Total liabilities		**$ 208**		**$ 208**

(8) Financial instruments other than the above, were as follows:

March 31, 2023	Millions of yen			
	Level1	Level2	Level3	Total
Bonds		¥ 444,620		¥ 444,620
Long-term loans		479,548		479,548
Total liabilities		¥ 924,169		¥ 924,169

March 31, 2022	Millions of yen			
	Level1	Level2	Level3	Total
Bonds		¥ 416,161		¥ 416,161
Long-term loans		415,234		415,234
Total liabilities		¥ 831,395		¥ 831,395

March 31, 2023	Thousands of U.S. dollars			
	Level1	Level2	Level3	Total
Bonds		$ 3,318,059		$ 3,318,059
Long-term loans		3,578,716		3,578,716
Total liabilities		$ 6,896,783		$ 6,896,783

(9) Explanation of the evaluation method and the inputs related to the calculation of the fair value

Investment securities

The fair values of listed stocks are evaluated using the market price, and since they are traded in an active market, they are classified as a Level 1 fair value.

Since there is no transaction price in the market, the fair value of investment trusts is based on the standard price and is classified as a Level 2 fair value.

The fair value of bonds is calculated by the present value of the total amount of principal and interest discounted by the interest rate that incorporates credit risk. Since the inputs used to calculate the interest rate are unobservable, it is classified as Level 3 fair value.

Derivatives

The fair values of derivatives are calculated based on the prices offered by the financial institutions of the business partners, and are classified as Level 2 fair value.

Embedded derivatives related to long-term depts that include derivatives are intended to fix fluctuations in interest rates, and their fair value is included in the fair value of the long-term depts.

Bonds

The fair values of bonds issued by the Company are evaluated using the market price and is classified as Level 2 fair value.

Long-term loans

The fair value of long-term debt is calculated by the present value of the total amount of principal and interest discounted by the interest rate obtained by adding the credit spread to an appropriate index such as the yield of government bonds, and is classified as Level 2 fair value.

(10) Information on Level 3 fair value of financial assets and financial liabilities whose fair value is the amount recorded on the consolidated balance sheet, were as follows:

Quantitative information about significant unobservable inputs

The fair value of bonds of investment securities is calculated by the discounted present value, and its discount rate is 4.16%.

A reconciliation of the fair value of bonds of investment securities from beginning balance to ending balance, and Unrealized income (loss) on available-for-sale securities which charged to income (loss) in the current consolidated profit and loss statement

	Millions of yen	Thousands of U.S. dollars
Beginning balance		
Income (loss) in the current consolidated fiscal year or other comprehensive income		
Other comprehensive income	**¥ (85)**	**$ (634)**
Net purchases, sales, issuances and settlements	**1,871**	**13,962**
Ending balance	**¥ 1,786**	**$ 13,328**

"Other comprehensive income" in the above table is included in "Unrealized income (loss) on available-for-sale securities" on consolidated statement of comprehensive income.

Explanation of the fair value valuation process

The trading department calculates the fair value of financial instruments classified as Level 3 fair value by the valuation policy established for the calculation of fair value, and the calculation result is approved by the appropriate responsible person.

Explanation of effects on fair value when significant unobservable inputs are changed

The discount rate is calculated by adding risk factors such as credit risk on the standard market interest rate. Generally, significant increase (decrease) in the discount rate will result in a significant decrease (increase) in the fair value of available-for-sale securities.

19. DERIVATIVES

The Company uses derivative financial instruments ("derivatives"), including foreign exchange forward contracts and currency swaps, to hedge foreign currency exchange rate risk associated with certain assets and liabilities denominated in foreign currencies. The Company also enters into interest rate swap contracts as a means of managing its interest rate exposure on certain liabilities. The Company does not hold or issue derivatives for trading or speculation purposes.

The counterparties to these derivatives are limited to major international financial institutions, etc. with high credit ratings. Therefore, the Company does not anticipate any losses arising from credit risk.

Derivative transactions to which hedge accounting is not applied at March 31, 2023, were as follows:

	Millions of yen			
March 31, 2023	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized gain (loss)
Electricity Futures:				
Fixed payment, floating receipt	**¥ 114**		**¥ (28)**	**¥ (28)**
Total	**¥ 114**		**¥ (28)**	**¥ (28)**

	Thousands of U.S. Dollars			
March 31, 2023	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized gain (loss)
Electricity Futures:				
Fixed payment, floating receipt	**$ 850**		**$ (208)**	**$ (208)**
Total	**$ 850**		**$ (208)**	**$ (208)**

There were no derivative transactions to which hedge accounting is not applied at March 31, 2022.

Derivative transactions to which hedge accounting is applied at March 31, 2023 and 2022, were as follows:

	Millions of yen			
March 31, 2023	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign exchange forward contracts:				
Buying U.S.$	Payables and forecasted transactions	**¥ 6,732**	**¥ 3,531**	**¥ 5,066**
Total		**¥ 6,732**	**¥ 3,531**	**¥ 5,066**

	Millions of yen			
March 31, 2022	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign exchange forward contracts:				
Buying U.S.$	Payables and forecasted transactions	¥ 9,633	¥ 6,732	¥ 6,135
Total		9,633	6,732	6,135
Interest rate swaps:				
Fixed rate payment, floating rate receipt	Long-term debt	18,000		(1)
Total		¥ 18,000		¥ (1)

	Thousands of U.S. Dollars			
March 31, 2023	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign exchange forward contracts:				
Buying U.S.$	Payables and forecasted transactions	**$ 50,238**	**$ 26,350**	**$ 37,805**
Total		**$ 50,238**	**$ 26,350**	**$ 37,805**

20. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Fuel purchase commitments

At March 31, 2023, the Company had a number of fuel purchase commitments, most of which specify quantities and dates for fuel deliveries. However, purchase prices are contingent upon fluctuations of market prices.

(b) At March 31, 2023, total contingent liabilities were as follows:

	Millions of yen	Thousands of U.S. dollars
Co-guarantees or guarantees of loans of other companies:		
Japan Nuclear Fuel Limited	**¥ 37,962**	**$ 283,298**
Ras Girtas Power Company Q. S. C.	**1,041**	**7,768**
Al Suwadi Power Company S.A.O.G.	**787**	**5,873**
Al Batinah Power Company S.A.O.G.	**747**	**5,574**
Co-guarantees of employees' housing loans	**5,140**	**38,358**
Guarantees obligation related to the performance of the transaction		
Sharjah United Arab Emirates Thermal Power Project	**2,002**	**14,940**
Vietnam Vung Ang 2 Coal-Fired Power Project	**1,121**	**8,365**
Sakaide Biomass Power Project	**901**	**6,723**
Total	**¥ 49,706**	**$ 370,940**

21. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Unrealized gain(loss) on available-for-sale securities:			
Losses arising during the year	**¥ (759)**	¥ (122)	**$ (5,664)**
Reclassification adjustments to profit or loss	**(898)**	(274)	**(6,701)**
Amount before income tax effect	**(1,658)**	(397)	**(12,373)**
Income tax effect	**548**	83	**4,089**
Total	**(1,109)**	(313)	**(8,276)**
Deferred loss on derivatives under hedge accounting:			
Gains arising during the year	**9,829**	1,135	**73,350**
Reclassification adjustments to profit or loss	**(10,867)**	(1,649)	**(81,097)**
Amount before income tax effect	**(1,038)**	(513)	**(7,746)**
Income tax effect	**286**	143	**2,134**
Total	**(751)**	(370)	**(5,604)**
Foreign currency translation adjustments:			
Adjustments arising during the year	**4,738**	2,045	**35,358**
Total	**4,738**	2,045	**35,358**
Remeasurements of defined benefit plans:			
Adjustments arising during the year	**(54)**	1,135	**(402)**
Reclassification adjustments to profit or loss	**(904)**	(4,498)	**(6,746)**
Amount before income tax effect	**(959)**	(3,363)	**(7,156)**
Income tax effect	**248**	935	**1,850**
Total	**(710)**	(2,428)	**(5,298)**
Share of other comprehensive income in associates:			
Gains arising during the year	**6,541**	482	**48,813**
Reclassification adjustments to profit or loss	**207**	425	**1,544**
Total	**6,748**	908	**50,358**
Total other comprehensive income (loss)	**¥ 8,915**	¥ (157)	**$ 66,529**

22. RELATED-PARTY TRANSACTIONS

(1)Related – party transactions of the Company

Significant transactions of the Company with directors and Audit & Supervisory Committee members, unconsolidated subsidiaries, and associated companies for the years ended March 31, 2023 and 2022, were as follows:

Ryohei Kagawa (Audit & Supervisory Committee Member)

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Transactions:			
Borrowing funds	**¥ 8,000**		**$ 59,701**
Payment of interest	**199**	¥ 193	**1,485**
Balances:			
Long-term debt	**¥ 44,500**	¥ 41,500	**$ 332,089**

Note:
Ryohei Kagawa, who is an Audit & Supervisory Committee Member, was concurrently the director and Vice-President and CCO (representative director) of The Hyakujushi Bank, LTD. (the "Bank").
The Company borrowed from the Bank of which he was a representative, and the interest rate has been reasonably determined considering the market rate of interest. Collateral for the loans is not being offered.

(2) Related – party transactions of consolidated subsidiaries

Significant transactions of consolidated subsidiaries with associated companies for the years ended March 31, 2023 and 2022, were as follows:

Yondenko Corporation

(The Company owns 31.9% of the common stock of Yondenko Corporation at March 31, 2023)

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Transactions:			
Construction	**¥ 20,869**	¥ 19,495	**$ 155,738**
Maintenance	**15,922**	15,095	**118,820**
Balances:			
Other current liabilities	**¥ 4,235**	¥ 3,634	**$ 31,604**

23. PER SHARE INFORMATION

Basic net income(loss) per share（"EPS"）for the years ended March 31, 2023 and 2022, were as follows:

	Millions of yen	Thousands of Shares	Yen	U.S. dollars
For the year ended:	Net income(loss) attributable to owners of the parent	Weighted-average shares	EPS	
March 31, 2023	**¥ (22,871)**	**205,701**	**¥ (111.19)**	**$ (0.82)**
March 31, 2022	¥ (6,262)	205,725	¥ (30.44)	

24. SEGMENT INFORMATION

Under the Accounting Standards Board of Japan(“ASBJ”) Statement No. 17, “Accounting Standard for Segment Information Disclosures”, and ASBJ Guidance No. 20, “Guidance on Accounting Standard for Segment Information Disclosures”, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and for which such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) Description of reportable segments

The Group’s reportable segments are those for which separate financial information is available and regular evaluation by the Company’s management is performed in order to decide how resources are allocated among the Group.

For the year ended March 31, 2023, the Group’s reportable segments consisted of five segments: “Power generation and sales,” “Transmission and distribution”, “Telecommunications services,” Energy “,” and “Construction/Engineering.”

(2)Change of reportable segments

As described in Note 2, the Company and its consolidated subsidiaries had mainly adopted the declining balance method for the depreciation method of property, plant and equipment, but from this consolidated fiscal year, they have changed the depreciation method for them to the straight-line method.

As a result of this change, compared to the previous method, the segment loss for the current consolidated fiscal year decreased by ¥11,034 million ($82,343 thousand) in the “Power generation and sales” and by ¥199 million ($1,485 thousand) in the “Energy”. In addition, segment profits increased by ¥4,430 million ($33,059 thousand) in the “Transmission and distribution”, ¥1,395 million($10,410 thousand) in the “Telecommunications services”, ¥60 million ($447 thousand) in the “Construction/Engineering”, ¥707 million ($5,276 thousand) in “Other”, and “Reconciliations” decreased by ¥388 million ($2,895 thousand).

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

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, “Significant accounting and reporting policies.” Reportable segment profit is based on ordinary income, same amount of loss before reversal of reserve for fluctuations in water level and income taxes in this fiscal year. Also, intersegment sales or transfers are computed based on market price.

(4) Information about sales, profit (loss), assets, and other items of the Group for the years ended March 31, 2023 and 2022, were as follows:

	Millions of yen									
	Reportable segments						Other	Total	Reconciliations	Consolidated
	Electric utility		Telecommunications services	Energy	Construction /Engineering	Total				
	Power generation and sales	Transmission and distribution								
2023										
Sales										
Sales to external customers	¥ 631,572	¥ 103,497	¥ 36,455	¥ 21,953	¥ 26,624	¥ 820,103	¥ 13,099	¥ 833,203		¥ 833,203
Intersegment sales or transfers	77,462	162,773	9,126	3,812	26,440	279,616	22,516	302,133	(302,133)	
Total	709,034	266,271	45,582	25,766	53,065	1,099,720	35,616	1,135,336	(302,133)	833,203
Segment profit (loss)	¥ (28,941)	¥ 7,264	¥ 9,370	¥ (15,118)	¥ 3,509	¥ (23,915)	¥ 2,150	¥ (21,764)	¥ (751)	¥ (22,515)
Segment assets	¥ 1,372,286	¥ 475,129	¥ 60,455	¥ 69,078	¥ 58,182	¥ 2,035,132	¥ 61,829	¥ 2,096,961	¥(484,936)	¥ 1,612,025
Other:										
Depreciation and amortization	32,349	19,468	4,387	1,428	173	57,807	1,781	59,588	(1,135)	58,453
Interest income	3,641	6	4	161	116	3,929	0	3,930	(3,191)	738
Interest expenses	6,004	2,807	10	371	27	9,221	155	9,376	(3,191)	6,184
Equity gains(losses) of Associated companies				(8,163)	956	(7,206)		(7,206)	(120)	(7,327)
Increase in property, plant and equipment and intangible assets	48,364	28,272	5,510	673	105	82,926	5,917	88,843	(1,448)	87,395
Investment in associated companies that applied the equity method				31,180	17,467	48,648		48,648		48,648

	Millions of yen									
	Reportable segments									
	Electric utility		Telecommunications services	Energy	Construction /Engineering	Total	Other	Total	Reconciliations	Consolidated
	Power generation and sales	Transmission and distribution								
2022										
Sales										
Sales to external customers	¥ 461,444	¥ 73,796	¥ 35,606	¥ 22,879	¥ 38,422	¥ 632,149	¥ 9,799	¥ 641,948		¥ 641,948
Intersegment sales or transfers	46,758	146,057	9,018	3,618	30,768	236,221	26,372	262,594	(262,594)	
Total	508,203	219,854	44,624	26,497	69,191	868,371	36,172	904,543	(262,594)	641,948
Segment profit (loss)	¥ (40,217)	¥ 10,581	¥ 8,114	¥ 2,959	¥ 3,989	¥ (14,573)	¥ 3,158	¥ (11,415)	¥ (699)	¥ (12,114)
Segment assets	¥ 1,281,933	¥ 469,186	¥ 54,828	¥ 59,736	¥ 60,222	¥1,925,908	¥ 54,437	¥1,980,345	¥(479,600)	¥ 1,500,744
Other:										
Depreciation and amortization	31,493	24,195	6,066	1,617	251	63,624	2,516	66,140	(1,434)	64,705
Interest income	3,714	0	3	112	134	3,964	1	3,965	(3,325)	639
Interest expense	5,445	2,930	13	337	38	8,766	138	8,905	(3,325)	5,579
Equity gains(losses) of Associated companies				1,034	1,033	2,067		2,067	(41)	2,025
Increase in property, plant and equipment and intangible assets	65,526	26,713	5,829	1,297	191	99,557	3,060	102,617	(1,829)	100,788
Investment in associated companies that applied the equity method				22,577	17,128	39,706		39,706		39,706

	Thousands of U.S. dollars									
	Reportable segments						Other	Total	Reconciliations	Consolidated
	Electric utility		Telecommunications services	Energy	Construction /Engineering	Total				
	Power generation and sales	Transmission and distribution								
2023										
Sales										
Sales to external customers	$4,713,223	$772,365	$272,052	$163,828	$198,686	$6,120,171	$97,753	$6,217,932		$6,217,932
Intersegment sales or transfers	578,074	1,214,723	68,104	28,447	197,313	2,086,686	168,029	2,254,723	(2,254,723)	
Total	5,291,298	1,987,097	340,164	192,283	396,007	8,206,865	265,791	8,472,656	(2,254,723)	6,217,932
Segment profit(loss)	$ (215,977)	$ 54,208	$ 69,925	$ (112,820)	$ 26,186	$ (178,470)	$ 16,044	$ (162,417)	$ (5,604)	$ (168,022)
Segment assets	$10,240,940	$3,545,738	$451,156	$ 515,507	$434,194	$15,187,552	$461,410	$15,648,962	$(3,618,925)	$12,030,037
Other:										
Depreciation and amortization	241,410	145,283	32,738	10,656	1,291	431,395	13,291	444,686	(8,470)	436,216
Interest income	27,171	44	29	1,201	865	29,320	0	29,328	(23,813)	5,507
Interest expense	44,805	20,947	74	2,768	201	68,813	1,156	69,970	(23,813)	46,149
Equity gains(losses) of Associated companies				(60,917)	7,134	(53,776)		(53,776)	(895)	(54,679)
Increase in property, plant and equipment and intangible assets	360,925	210,985	41,119	5,022	783	618,850	44,156	663,007	(10,805)	652,201
Investment in associated companies that applied the equity method				232,686	130,350	363,044		363,044		363,044

Notes: 1."Other" consists of product and sales of electric devices, commercial business, and others.
2. Amounts of adjustment for the year ended March 31, 2023, was as follows:
- An adjustment of segment profit(loss) of ¥(751) million ($(5,604) thousand), which represents transactions made between segments, is eliminated. Segment profit(loss), after this adjustment, is consistent with the ordinary profit.
- An adjustment of segment assets of ¥(484,936) million ($(3,618,925) thousand), which represents transactions made between segments, is eliminated.
- An adjustment of depreciation of ¥(1,135) million ($(8,470) thousand), which represents transactions made between segments, is eliminated.
- An adjustment of interest income of ¥(3,191) million ($(23,813) thousand), which represents transactions made between segments, is eliminated.
- An adjustment of interest expense of ¥(3,191) million ($(23,813) thousand), which represents transactions made between segments, is eliminated.
- An adjustment of equity gains(losses) of associated companies of ¥(120) million ($(895) thousand), which represents transactions made between segments, is eliminated.
- An adjustment of increase in property, plant and equipment and intangible assets of ¥(1,448) million ($(10,805) thousand), which represents transactions made between segments, is eliminated.

3. Amounts of adjustment for the year ended March 31, 2022, was as follows:
- An adjustment of segment profit(loss) of ¥(699) million, which represents transactions made between segments, is eliminated. Segment profit(loss), after this adjustment, is consistent with the ordinary profit.
- An adjustment of segment assets of ¥(479,600) million, which represents transactions made between segments, is eliminated.
- An adjustment of depreciation of ¥(1,434) million, which represents transactions made between segments, is eliminated.
- An adjustment of interest income of ¥(3,325) million, which represents transactions made between segments, is eliminated.
- An adjustment of interest expense of ¥(3,325) million, which represents transactions made between segments, is eliminated.
- An adjustment of equity gains(losses) of associated companies of ¥(41) million, which represents transactions made between segments, is eliminated.
- An adjustment of increase in property, plant and equipment and intangible assets of ¥(1,829) million, which represents transactions made between segments, is eliminated.

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Shikoku Electric Power Company, Incorporated and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2023, and the consolidated statement of operations, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matter Description

1. 【Electric lighting and electric power charges in the Power Generation & Sales segment】

Electric lighting charges and electric power charges (hereinafter referred to as the "electric charges") are the primary revenue streams of the electricity business and are particularly significant accounts in the Group's consolidated financial statements. The Group recorded ¥735,069 million of operating revenues for the electricity business for the year ended March 31, 2023, which accounted for approximately eighty percent of the Group's overall operating revenue. Since the electricity business requires significant investments in equipment, such as power generating units, to run its business, the proportion of the fixed expenses to the operating expenses is large and the break-even point is high. Therefore, if misstatements occur in electric charges, such misstatements could materially impact net income.

Electric charges consist of high-volume transactions that is low in value, though each transaction of electric charges is immaterial compared to the total amount of revenue. In addition, the electric charges are automatically calculated by the IT systems based on customer data and meter reading data and are interfaced with the accounting system. In order to detect potential misstatements that could have a material impact on profits from the revenue population, it is necessary to obtain sufficient audit evidence by testing individual transactions with customers as well as to perform an analysis and other audit procedures multilaterally and comprehensively based on our understanding and evaluation of the process of recording electric charges.

As such, we identified revenue recognition from electric charges as a key audit matter because it requires extensive audit procedures as it is quantitatively material to the consolidated financial statements.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to revenue recognition of the electric charges included the following, among others:

(1) Given that the electric charges are uniformly processed in accordance with power-supply terms and conditions, we performed analytical procedures by disaggregating the population based on certain criteria, such as terms and conditions of supply agreements.

i. Analytical procedures as risk assessment procedures

We disaggregated the population of transactions of electric charges revenue by main price menu, area and basic charge and meter-rate charge. We performed a monthly transaction analysis by comparing the disaggregated amounts with sales volume of electric light electricity (kWh), the unit price of sales (yen/kWh), the number of contracts and the volume of the contracted power (kW) to determine whether the results were consistent with the competitive business environment and the historical results and to assess the probability of misstatement indicators for recording the revenue transactions.

ii. Substantive analytical procedures

For certain menus that are quantitatively material among various price menus which constitute electric charges, we developed an expectation for electric charges revenue by each material disaggregated population and compared it to the recorded balance. Our expectations were developed by multiplying the meter reading data by the contract unit price considering the fuel cost adjustments calculated based on the applicable upper limit price in the fuel cost adjustment system, various rate discount plans offered by the Group, and discounts funded by government subsidies provided based on the project called the "Measures to Mitigate Drastic Fluctuations in Electricity and Gas Prices." We evaluated any material differences between the expected amounts and recorded balances by performing inquiries with the responsible personnel and performing detail testing of the transaction, as necessary.

(2) The data used in the substantive analytical procedures was generated from the IT systems of the respective business process. To test the reliability of the data and identify the relevant controls, we obtained an understanding of the accounting process for electric charges. We then evaluated the design and operating effectiveness of the following underlying general IT controls and relevant controls performed by management, among others:

✓ Application and Contract	Review and approval by administrators to authorize the access to the system and ensure the accuracy of the registration information such as customer and contract data
✓ Metering	Review and approval by administrators to authorize the access to the system and follow-up procedures for identified abnormal meter reading data
✓ Conditioning	Examination and approval by the administrator to verify the correction of the amounts in the conditioning report and unusual results therein
✓ Billing and Revenue recognition	Testing of the accuracy and completeness of system interface controls and automated controls for electric charges revenue data

In understanding the accounting process of the electric charges, we prepared a process flow diagram to identify risks of material misstatements and how controls, including IT application controls, are designed and implemented in the business processes. With the assistance of our IT specialists, we determined the scope and evaluation of IT application controls and the related general IT controls. We also evaluated the automated controls, focusing on the automated reporting process that identifies the abnormal meter reading data, as well as the automated reporting process that extracts unusual conditioning results.

(3) For substantive procedures other than the substantive analytical procedures, we selected a sample of revenue transactions and performed detail transaction testing by agreeing subsequent cash collections related to the electric charges to supporting documents, such as bank statements and/or bank transfer data. For corporate customers who demand extra-high or high voltage electric power service, we also tested the subsequent cash receipts on a sample basis by tracing to supporting evidence, such as bank transfer data provided from the bank.

(4) We evaluated manual adjustments to the revenue transactions within the IT system for appropriateness by performing detail transaction testing for the material adjustments. In addition, we tested the operating effectiveness of the IT application controls within the IT systems that prevents the access of unauthorized personnel.

(5) In addition, to address the risks of management override of controls, we tested manual journal entries recorded directly to the accounting system.

Key Audit Matter Description

2.【Impairment test of the data center business in the Telecommunications services segment】

In the Medium-Term Management Plan 2025, the Group aims to expand its business in the Telecommunications services to create new revenue sources in business fields other than the electrical business. STNet, a core company in the Telecommunications services segment, is promoting investments in the data center business, including the launch of the Shintakamatsu Data Center (Powerico) in 2013, and the completion of the second building in November 2019.

As described in Note 3 (II) and Note 24 to the consolidated financial statements, the Telecommunications services segment recognized ¥60,455 million of assets as of March 31, 2023, of which ¥9,762 million was allocated to the data center business. If impairment losses were to be recognized on the data center business, the impact on performance of the Group, as well as for Telecommunications services segment, could be material.

Since the data center business has been continuously reporting operating losses, the Group determined that an impairment indicator exists and assessed whether impairment losses need to be recognized.

Impairment losses are recognized if the carrying amounts of the assets in the data center business exceed the estimated amount of undiscounted cash flows for the remaining economic useful lives of these assets. The carrying amount of the assets in the data center business is material and remaining useful lives of those assets tend to be long because the assets of the data center business consist of highly secured and disaster-resistant buildings and large electrical equipment. Therefore, the estimated period of future cash flows is over a long period of time.

The Group uses certain assumptions, such as estimates of acquiring new customers, customer retention rates and changes in data center usage unit price, in the business plan, which have a significant impact on future revenue forecasts.

The estimate of acquiring new customers is a key assumption because the majority of the operating expenses of the data center business are composed of fixed expenses and the recoverability of the investment depends on how quickly the server room could be fully occupied.

We identified the determination of impairment recognition of the data center business as a key audit matter because of the significant estimates and assumptions made by management in performing the impairment test.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to the determination of impairment recognition of the assets in the data center business included in the following, among others:

(1) We tested the undiscounted future cash flows used in the determination of impairment recognition based on the Medium-Term Management Plan 2025 approved by the Board of Directors. We evaluated whether there was a change in the estimation method adopted by management. In addition, we compared the estimated undiscounted cash flows with the historical results to assess the degree of reliability of management's estimates.

(2) In order to understand the current status and future forecasts of the data center business environment, we inspected materials reported to the Board of Directors as well as the reports published by market research companies. We evaluated whether the contents of such reports were consistent with the knowledge of the business environment that management used in the estimates, and whether there were events or situations which required changes in estimation method.

(3) We evaluated the feasibilities or uncertainties of the assumptions used in management's accounting estimates. We inquired of management and those responsible for business planning based on our understanding of the comparison with the historical results, the current status of the business environment, future forecasts and the following matters:

    i. As the majority of operating expenses are fixed expenses, we compared the estimated operating expenses to historical results and evaluated whether the costs expected to recur in the future are appropriately considered in the future cash out flows. In addition, as the electricity charges are material components of the variable costs of the data center business, we evaluated whether the estimate was appropriately considered in line with the utilization rate of the data centers.

ii. We evaluated whether the estimated costs of acquiring new customers, the customer retention rates and the changes in data center usage unit price were reasonable by comparing them with historical results and reports published by various market research companies.

iii. We evaluated the reasonableness and uncertainties of the estimates of acquiring new customers as a key assumption by inquiring of the sales manager about the estimation method and relevant supporting information used and by inspecting the sales reports and the offering documents from potential customers for the estimated costs of acquiring new customers in the following year.

Key Audit Matter Description

3.【Change in depreciation method for property, plant and equipment】

As described in Note 2 (b) to the consolidated financial statements, the Group changed the depreciation method for property, plant and equipment from the declining balance method to the straight-line method from the beginning of the year ended March 31, 2023. The effects of the change in depreciation method were decreases in operating loss by ¥17,494 million and loss before income taxes by ¥17,438 million for the year ended March 31, 2023.

Electronic power demand in the Shikoku area, which is the main supply area, has been almost flat in recent years. Although a shift in power sources is expected toward decarbonization, it is expected to remain stable in the future considering the decline in population. As investments in large-scale projections has slowed down, the Group will focus on investments in the maintenance and managing existing power generation facilities and transmission and distribution facilities rather than the expansion of power generation capacity and transmission and distribution networks.

Based on the above consideration, the Group decided that the straight-line method, which allocates the costs of property, plant and equipment by the same amount each year over the useful life, better reflected the pattern of consumption of the economic benefits of property, plant and equipment since the operation of property, plant and equipment was expected to be stable in the future.

The change in depreciation method was determined by management in line with the electronic power demand forecast in the Shikoku area and the capital investment policy within the medium-term management plan based on the Strategic Energy Plan issued by the government for decarbonization. The determination by management required significant judgments and had a significant impact on the consolidated financial statements. Therefore, we determined the justification for the change in depreciation method as a key audit matter.

This is also an emphasis of matter as well as a key audit matter.

How the Key Audit Matter Was Addressed in the Audit

In order to examine whether the management's judgment that the change in the depreciation method corresponds to a change in accounting policy for a valid reason was appropriate, we disaggregated the balance amount of property, plant and equipment into main categories of power generation facilities and transmission and distribution facilities and performed the following audit procedures, among others:

(1) Regarding the reasonableness of the change in the depreciation method, we inquired of management the reason of the change in the depreciation method that it could reflect the changes in the external environment, such as the energy policy by the government, electronic power demand for the Shikoku area, an expected role as a power transmission and distribution business operator, and rate system as well as the internal environment, such as the Group's power source development and operation policy and the usage policy for power transmission and distribution facilities based on changes in the energy policy by the government and economic environments. We also examined whether there were any contradictions between the evidence obtained from the inquiry of management and the factual information corroborating the internal and external environments such as changes in the composition of the facilities and the results of facility use in recent years, the Strategic Energy Plan in Japan.

(2) For the reasonableness of the change to the straight-line method, we inquired of management whether the facilities would operate stably in the future and examined whether there were any contradictions between the energy policy and the economic environment and the changes in the composition of the facilities and the facility use policy in the medium-term management plan based on the results of facility use in recent years that were the basis for management's judgment.

(3) For the timeliness of the change in depreciation method in the current year, the Group considered the change was appropriate as the large-scale investment projects within the medium- to long-term facility development and operation policies developed based on the changes of the energy policy and economic environments completed in the current year. We examined the reasonableness of management's judgment from the perspective of whether the change should have been made in previous fiscal years rather than the current year.

(4) To evaluate whether the effects of the change in depreciation method were properly calculated, we performed the following procedures on the respective depreciation expense calculated by the straight-line method and the declining-balance method:

i. For the accuracy of straight-line depreciation, we made selections from the population of straight-line depreciation expenses recorded. For the selections, we performed recalculation in addition to a test of underlying information for the depreciation calculation such as the book value and remaining useful life by the following:

- We reconciled the book value as of the beginning of the current year to the book value as of the end of the previous year.
- We reconciled the useful life applied by the Group to the remaining useful life as of the beginning of the current year when the depreciation method was changed.

ii. With regard to the accuracy of depreciation expenses calculated by the declining balance method, we developed an expectation assuming the depreciation rate by considering changes in the composition of property, plant and equipment by category, and examined the consistency between the expected value and the Group's calculated value.

Other Information

Other information comprises the information included in the Group's disclosure documents accompanying the audited consolidated financial statements, but does not include the consolidated financial statements and our auditor's report thereon.

We determined that no such information existed and therefore, we did not perform any work thereon.

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

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

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

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

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

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

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

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

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu LLC
July 21, 2023