

# Annual Report

for the year ended March 31, 2008

# 2008



Tohoku Electric Power Co., Inc. (Japan)



# Annual Report 2008

## Profile



*Head Office (Sendai City, Miyagi Prefecture, Japan)*

Tohoku Electric Power Co., Inc., was established in 1951 and supplies electricity to approximately 7.7 million customers throughout the seven prefectures of the Tohoku region, upholding its business philosophy of prospering together with the regional community and creating new corporate value while efficiently operating facilities under an integrated structure of generation, transmission and distribution.

The Company's electric power sales in fiscal 2007 amounted to 84,072 million kWh, equivalent to that of Belgium, ranking it fifth among the 10 Japanese electric power companies.

Tohoku Electric Power's service area covers the Tohoku region, which is an area of approximately 80,000 square kilometers—roughly the size of Austria or South Carolina in the United States—and larger than any of the service territories of the other electric power companies. The region has a population of about 12 million, or 9.4% of the national total, and a regional GDP of around \$374 billion, which is similar to that of Switzerland.

With respect to our core business of electric power sales, industrial customers account for the largest share. This is because the Tohoku region has lots of available land, is rich in water resources—an essential prerequisite for production—and can supply a well-reputed labor force.

**Note: Regarding Forward-Looking Statements**

This Annual Report contains plans, strategies, estimates, and other forward-looking statements made by the Tohoku Electric Power Co., Inc. These statements, except for the historical facts, are based on assumptions derived from the information available to the Company at the time of writing (June 27, 2008). Issuing statements forecasting matters, such as performance, involves an element of risk and uncertainty, and it is possible for the Company's expectations to differ from the future reality. The reader is thus requested to refrain from depending solely upon the reliability of the forward-looking statements herein.

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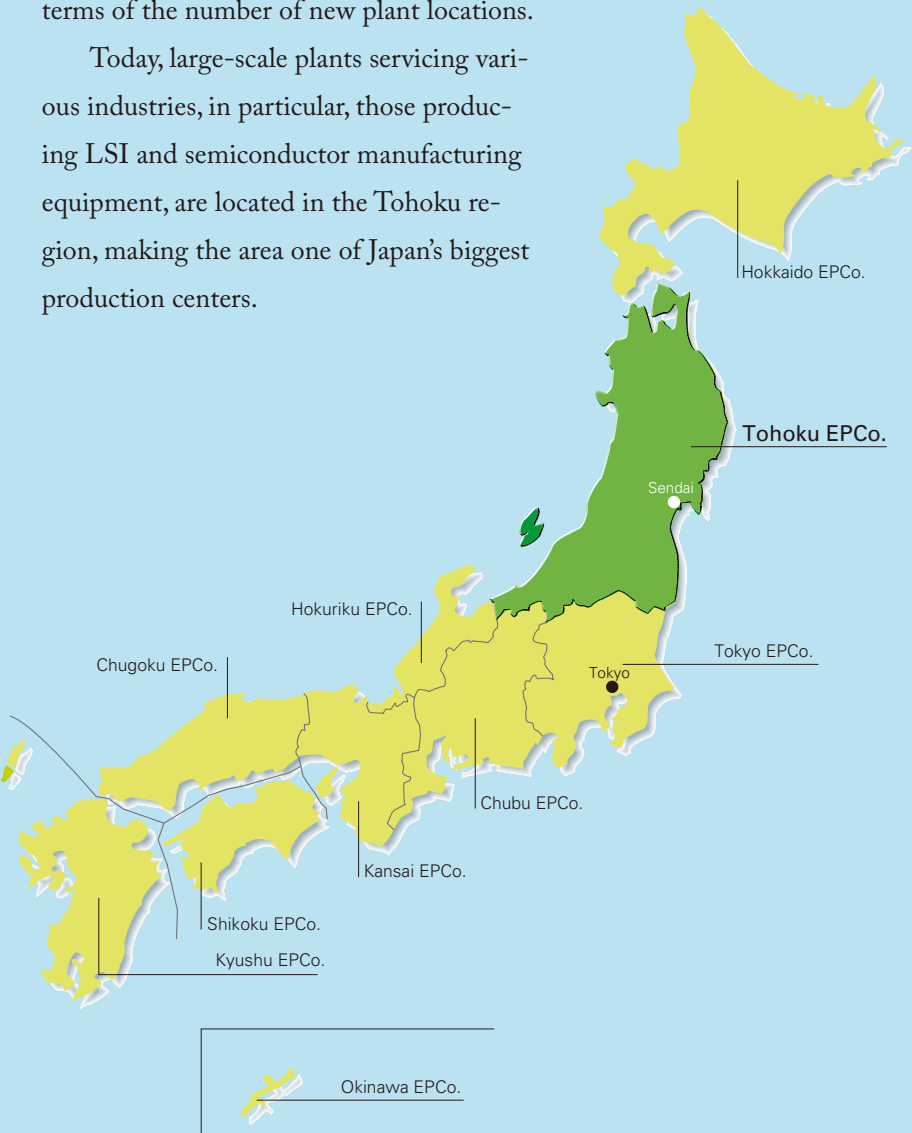
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Our service area ranks second only to that of the Tokyo Electric Power Company in terms of the number of new plant locations.

Today, large-scale plants servicing various industries, in particular, those producing LSI and semiconductor manufacturing equipment, are located in the Tohoku region, making the area one of Japan's biggest production centers.



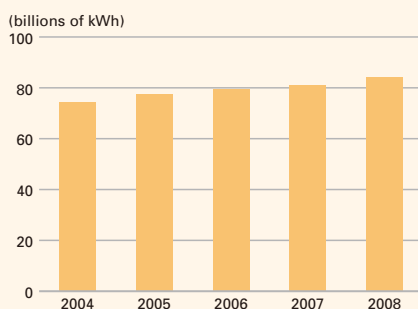
## Financial and Operating Highlights (Consolidated Basis)

Tohoku Electric Power Co., Inc. and Consolidated Subsidiaries  
Years ended March 31, 2008 and 2007

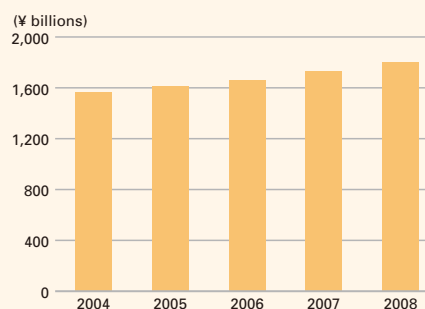
	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
<b>For the year</b>			
Operating revenues .....	¥1,802,621	¥1,728,296	\$17,990,229
Operating income .....	80,417	133,935	802,564
Net income .....	17,294	53,173	172,594
<b>At year-end</b>			
Total assets .....	4,033,835	4,069,331	40,257,834
Total net assets .....	1,015,352	1,032,681	10,133,253
	Yen		U.S. dollars
	2008	2007	2008
<b>Per share of common stock</b>			
Net income .....	¥ 34.67	¥ 106.57	\$ 0.346
Total net assets .....	1,933.42	1,971.69	19.295
Cash dividends .....	60.00	60.00	0.598

Note: All dollar amounts in this annual report represent U.S. dollars translated from yen, for convenience only, at the rate of ¥100.20=US\$1.00, the approximate rate of exchange on March 31, 2008. Billion is used in the American sense of one thousand million.

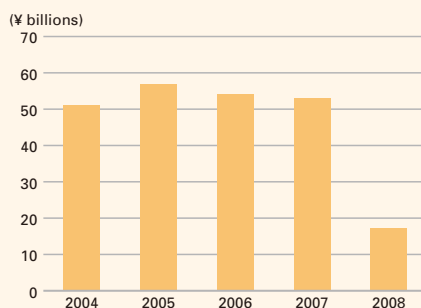
### Electric Power Sales



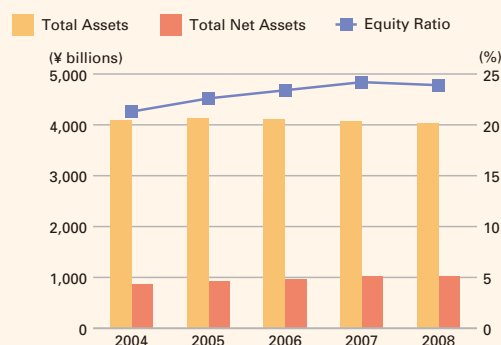
### Operating Revenues



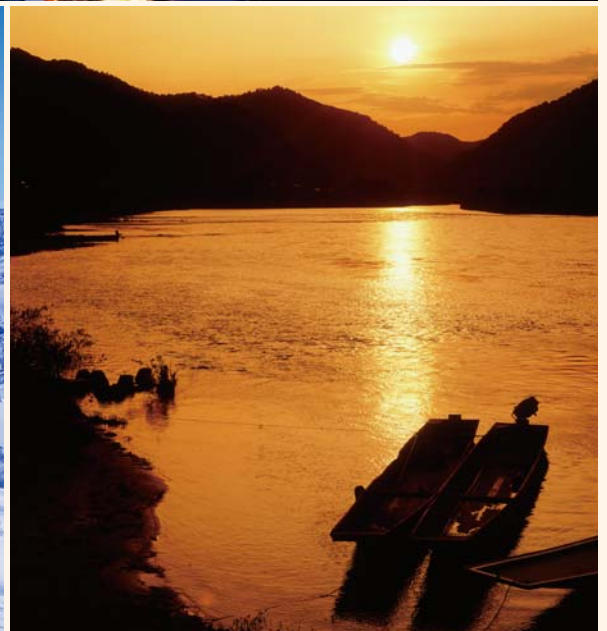
### Net Income



### Total Assets, Total Net Assets and Equity Ratio











*(left) Keiichi Makuta, Chairman of the Board  
(right) Hiroaki Takahashi, President*

## VISION 2010

# Change, Innovation, and Success

Management Philosophy: Prospering Together with the Community and Creating New Corporate Value

Since its establishment in 1951, Tohoku Electric Power Co., Inc. has focused on building and maintaining relationships of trust with local communities and customers in the belief that the Company cannot grow without the prosperity of the Tohoku region.

The Company also works in various ways to increase cooperation with local communities and support their revitalization under “VISION 2010 Change, Innovation, and Success,” which defines the Group management policies of “prospering together with the community” and “creating new corporate value.”

In recent years, an increase in newly established business in the Tohoku region has brightened the prospects for future development of the region. This development is possible thanks to the availability of skilled human resources as well as a vast land area and abundant water supply.

Tohoku Electric Power will continue its efforts geared toward the sustainable development of the Tohoku region and the revitalization of local communities. Such efforts include providing information on companies expanding in the Tohoku region and the operation of “Hokago Hiroba (after-school plaza)” programs to help foster children who will influence the future of the region.



*Keiichi Makuta*



*Hiroaki Takahashi*

## Support for Revitalization of Local Communities

Tohoku Electric Power operates the information websites “Tohoku Seven Powers +” in Japanese and “Investment Guide to Tohoku” in English and through these provides data concerning industrial resources and industry-academia-government collaborations in the seven prefectures of the Tohoku region. These websites also explain the advantages of the area as a location for enterprise and highlights the region’s unique natural and cultural attractions for audiences in Japan and overseas.

Information about the Tohoku region published on these websites includes next-generation industry development projects, programs to encourage industry-academia cooperation, achievements in technological development, and interviews with foreign capital enterprises.



<http://www.tohoku-epco.co.jp/investment/>

## Activities to Encourage Children

Tohoku Electric Power engages in various activities to foster the development of children who will influence the future of the Tohoku region. Activities to date have included a writing contest and sponsorship of the Tohoku Mini Basketball Tournament. Since fiscal 2005, the Company has stepped up its activities for children such through the launch of the “Hokago Hiroba (after-school plaza)” programs.



[http://www.tohoku-epco.co.jp/kids/after\\_school/](http://www.tohoku-epco.co.jp/kids/after_school/)

## 1. Review of Operations

The electricity sales volume for fiscal 2007 stood at 84.1 billion kWh, an increase of 3.9% over fiscal 2006 and a record high for the fifth consecutive year.

This increase was attributable to high demand for heating energy over the winter period, which was colder than the previous year’s relatively mild temperatures; the growth in all-electric housing sales; and increased usage by large-scale industrial customers, especially in the non-ferrous metals and machinery sectors.

Reflecting the increase in the electricity sales volume and other factors such as growth in the operating revenue of the Group’s construction company due to a large-scale construction order for a wind power station, consolidated operating revenue stood at a record high of ¥1,802.6 billion, representing an increase of ¥74.3 billion (4.3%) over fiscal 2006.

As for expenses, while depreciation and amortization decreased, fuel costs increased significantly amid rising fuel prices and the suspension of Tokyo Electric Power’s Kashiwazaki-Kariwa Nuclear Power Station.

Repair and maintenance expenses also increased due to regular inspection of power stations and other reasons. Overall, operating expenses stood at ¥1,722.2 billion, up ¥127.8 billion (8.0%) over fiscal 2006. As a result, consolidated operating income stood at ¥80.4 billion, a decrease of ¥53.5 billion (40.0%) compared to the previous fiscal year.

In fiscal 2007, the reserve for decommissioning costs of nuclear power units increased in response to the revised clearance level of radioactive waste. In this respect, ¥5.7 billion was accounted for as an “extraordinary loss” and corresponds to the power production volume in past years.

Accordingly, consolidated net income was ¥17.2 billion, down ¥35.8 billion (67.5%) from fiscal 2006.

## 2. Performance Outlook

On the revenue side, while the electricity sales volume for fiscal 2008 is expected to remain at the same level as fiscal 2007, consolidated sales are expected to total ¥1,860.0 billion, an increase of ¥57.3 billion (3.2%) over fiscal 2007 on the back of revenues brought about by the revised fuel cost adjustment charge.

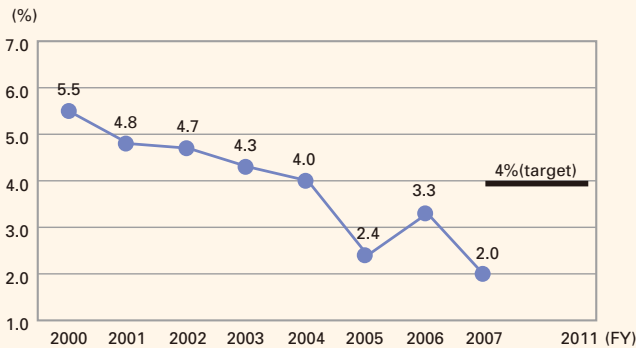
Consolidated operating expenses are expected to be higher than in fiscal 2007, with various factors—including an increase in fuel costs reflecting rising fuel prices and an



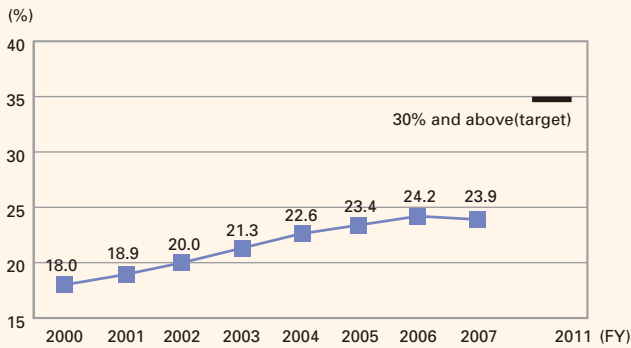
increase in electricity purchasing expenses—more than offsetting the expected decrease in depreciation and amortization under the declining-balance method of depreciation.

Therefore, consolidated operating income is forecast to be ¥82.0 billion, which is a slight increase (¥1.5 billion, or 2.0%) over fiscal 2007.

#### Return on Assets (consolidated)



#### Equity Ratio (consolidated)



### 3. Energy Supply Plan

#### Strategies

##### 1) Reinforcement of Countermeasures for

##### Large-scale Natural Disasters with Top Priority on Safety

To prevent the recurrence of recent electricity supply failure incidents and to make use of our experience in recent natural disasters, we will allocate management resources placing top priority on safety and emphasize measures to ensure a stable supply of electricity, while at the same time diversifying fuel

supply routes and sources.

##### 2) Promotion of Efforts to Become a Trusted Company and a Preferred Choice of Customers

As part of our commitment to maintaining competitiveness and preserving the environment, we will promote plans to build high-efficiency gas combined cycle power generators at the Shin-Sendai Thermal Power Station and the Niigata Thermal Power Station in addition to the Sendai Thermal Power Station which is now under construction. Moreover, we will endeavor to further streamline all construction and maintenance activities.

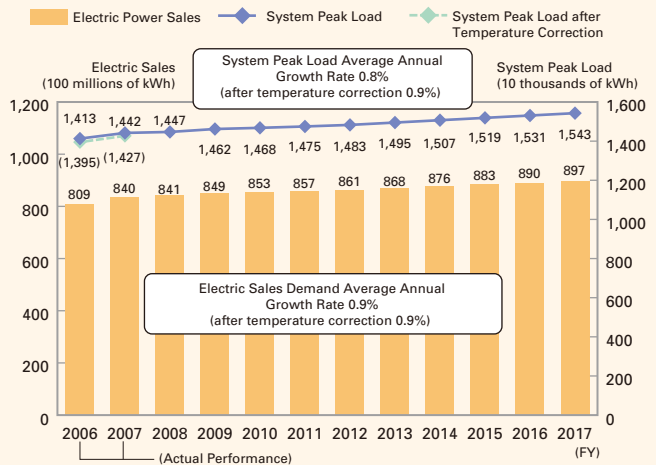
##### 3) Review the Supply Plan to Respond to the Changing Business Environment

We will review the plan to suspend the operation of or scrap aged thermal power stations so that the Company can handle demand fluctuations in a flexible manner.

#### Power Demand Forecast

Residential and other consumer demand will increase strongly despite the downward pressure being created by the shrinking population and continuation of energy-saving efforts, due to the spread of all-electric housing and increase in the number of retail stores mainly in suburban areas and that of medical and welfare facilities along with the aging of society. We expect industrial demand to increase steadily in line with the establishment of new business sites and continued economic growth.

#### Power Demand Forecast



## Facilities Planning

### 1) Power Resource Development

We drew up the power resource development plan for fiscal 2008 to respond to the changing business environment in a flexible manner while ensuring stable supply and promoting environmental preservation, and also providing competitive, economic and efficient equipment.

As to new construction projects, the plan includes our decisions to build a “Niigata No. 5 Series” high-efficiency gas combined cycle power generator at the Niigata Thermal Power Station and “Aikawa No. 3” internal-combustion power generator at the Aikawa Thermal Power Station on Sado Island.

#### Power Resource Development Plan

Name of Plant	Generating Capacity (10 thousands of kW)	Start of Construction	Start of Operation
<b>(Hydroelectric)</b>			
Moriyoshi	1.1	Aug. 2007	May 2011
Tsugaru	0.85	FY 2010	FY 2016
<b>(Thermal)</b>			
Sendai No.4	44.6	Sep. 2007	Jul. 2010
Tobishima No.8	0.02	Mar. 2008	Jun. 2008
Niigata No.5 Series	Approx. 10	Jul. 2009	Mar. 2011
Aikawa No.3	Approx. 0.8	Mar. 2010	Jul. 2011
Shin-Sendai No.3 Series	Approx. 95	Jan. 2012	Jul. 2016 (half) Jul. 2017 (full)
Joetsu No.1 Series	144	FY 2019	FY 2023
Noshiro No.3	60	After FY 2023	After FY 2023
<b>(Nuclear)</b>			
Namie/Odaka	82.5	FY 2014	FY 2019
Higashidori No.2	138.5	After FY 2014	After FY 2019

#### Long-term Suspension of Operations (A) and Closure of Thermal Power Plants (B)

Name of Plant	Generating Capacity (10 thousands of kW)	
Shin-Sendai No.1	35	(A): Dec. 2006, Restart: Jul. 2007, (B): FY 2015
Shin-Sendai No.2	60	(B): FY 2011
Niigata No.3	25	(A): Apr. 2006, (B): Jul. 2009
Niigata No.4	25	Inspection Shutdown: Dec. 2007, Restart: Jul. 2008
Higashi Niigata Minato No.1	35	(A): May 2007, Restart: Dec. 2008
Higashi Niigata Minato No.2	35	Inspection Shutdown: Jan. 2008, Restart: Jun. 2008

### 2) Power Transmission and Substations

As part of the development of 500kV trunk lines, we plan to provide the Towada and Kitakami Trunk Lines.

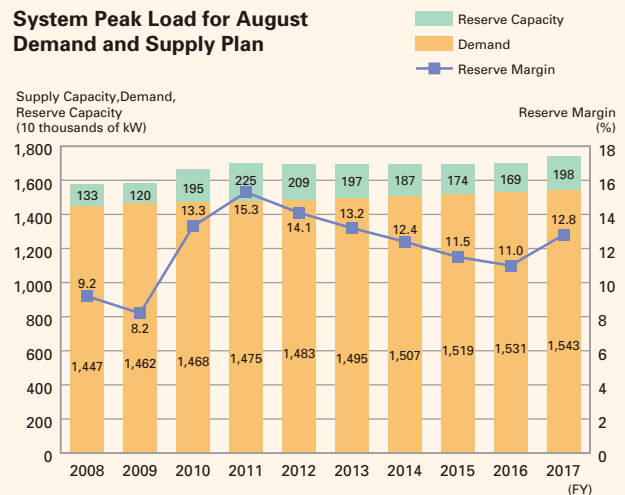
#### Power Transmission Lines and Substations Plan

Name	Specification	Start of Construction	Start of Start of Operation
<b>(Transmission Lines)</b>			
Towada Trunk Line	500kV ;114km, double circuit	Aug. 2006	Oct. 2010
Kitakami Trunk Line	500kV ;184km, double circuit	Aug. 2006	Dec. 2010
Aoba Trunk Line (Uprating)	500kV (←275kV) ;57km, double circuit	Apr. 2009	Jun. 2010
Mutsu Trunk Line (Uprating)	500kV (←275kV) ;51km, double circuit	Jul. 2009	Nov. 2009
Miyagi Chuo Line (Uprating)	500kV (←275kV) ;0.5km, double circuit	Feb. 2010	Jun. 2010
<b>(Substations)</b>			
Kamikita Substation (Uprating)	500/275kV ;1,300,000kVA×2	Aug. 2005	Oct. 2010
Miyagi Chuo Substation	500/275kV ;1,500,000kVA×1	Feb. 2007	Jun. 2010
Miyagi Substation (Uprating)	500/275kV ;1,000,000kVA×1	Feb. 2007	Dec. 2010
Iwate Substation (Uprating)	500/275kV ;1,000,000kVA×1	Aug. 2007	Dec. 2010

## Energy Supply and Demand

Based on power demand forecasts and our power resource development plan, we will maintain an appropriate level of capacity from both medium-and long-term perspectives with a reserve margin of at least 8% for the system peak load in August for the next 10 years.

#### System Peak Load for August Demand and Supply Plan



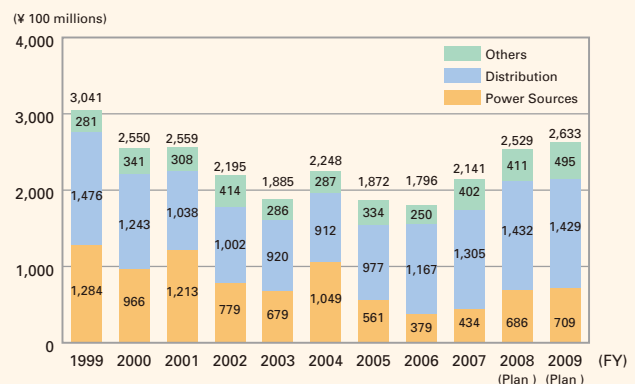
## Plant and Equipment Expenditures

With top priority on security, we plan to boost plant and equipment expenditure to ensure a stable supply of energy.

We are looking at expenditure for plants and equipment of ¥252.9 billion for fiscal 2008 (please refer to the second bar from the right).

This represents an increase over fiscal 2007, and takes into account the cost of necessary work to prevent the recurrence of recent supply failure incidents and make improvements based on our experience in recent natural disasters, thus ensuring a stable supply of energy.

#### Plant and Equipment Expenditure Planning





# Message from President Hiroaki Takahashi

## Q1

**I understand a new medium-term business plan was launched in fiscal 2007. How is the implementation process going?**

**Takahashi:** The fiscal 2007 Medium-Term Business Plan covers five fiscal years rather than the three-year period adopted in previous business plans. This was designed to maintain continuity in business development. In the latest plan, we defined “a Corporate Group trusted by society,” “a company that provides quality and affordability to our customers” and “true professionals offering the ultimate in energy services” as key goals to be achieved by the Group, and individual divisions have been autonomously implementing measures based on this plan.

To become “a Corporate Group trusted by society,” we place top priority on safety in all our activities. For example, we have been steadily implementing a set of 17 action items to prevent quality assurance issues at nuclear power stations like those identified in 2006.

To become “a company that provides quality and affordability to our customers,” the Company provides various services—designed in collaboration with Group companies—mainly to large-scale customers.

To become “true professionals offering the ultimate in energy services,” we are focusing on enhancing our human resource development functions and reinforcing communication flows between employees.

## Q2

**Could you please outline the new “focus points” of the management strategies for fiscal 2008?**

**Takahashi:** While we will manage our operations based on the fiscal 2007 Medium-Term Business Plan, we have singled out four additional issues to be addressed based on recent changes in the business environment. These issues take into account our experience in the aftermath of the 2007 Niigata Chuetsu Offshore Earthquake.

First, we will ensure safety as our No.1 priority and improve



Hiroaki Takahashi, President

the quality of operations. In fiscal 2006, we conducted a thorough inspection of our quality assurance system for nuclear power stations and power generators. As a result, we compiled extensive measures to prevent any recurrence. These go as far as calling for a change in the corporate culture. Since then, we have been steadily implementing these measures with companywide commitment.

I feel that our employees are considerably more aware of safety issues. However, a corporation's culture cannot be transformed in a single day; what we need to do is repeatedly confirm the significance of these measures and correct any slight signs of laxness at all workplaces while pursuing the transformation of our corporate culture in a patient and persistent way.

We are determined to implement quality assurance measures with greater vigor, encourage a culture that places top priority on safety and improve the quality of operations across all business processes.

Second, we will take measures to become a more reliable company. This focus is very much in line with that we have just outlined. Since November 2006, a number of inappropriate practices in terms of compliance with laws and regulations, among others, have been uncovered in the course of power generator inspections conducted at our hydroelectric, thermal and nuclear power stations. This has jolted the confidence of local communities and residents in the Company.

We will thus renew efforts to restore public confidence in the Company by maintaining safe and stable operations of our nuclear power stations through appropriate business practices, while placing top priority on safety and providing accurate information in a timely and clear manner to local communities. Such broad disclosure will help foster a sense of security among local residents.

At the third focus point, we will reinforce our countermeasures against large-scale natural disasters.

Namely, we will continue to take measures, as we always have, to enhance the robustness of facilities and minimize damage in the event of a natural disaster. We also conduct periodical emergency drills both at the company level and at individual divisions such as the retail power distribution divisions and upstream power distribution divisions to speed up recovery following power failure or damage to facilities.

In November 2007, a companywide emergency drill was conducted in preparation for a Miyagi offshore earthquake, which has been predicted for the near future. We conducted a simulation based on a large power failure and damage at the Onagawa Nuclear Power Station.

Still, taking precautions against natural disasters can never be enough. We will therefore work to enhance our abilities to cope with natural disasters by reinforcing facilities and immediately correcting any problems in emergency processes.

Finally, we will continue sales activities effectively responding to the changing business environment.

Our sales activities have been fruitful, and include the adoption of "all-electric housing" by 150,000 households. Indeed, it would appear that customers are beginning to appreciate the economical and environmentally friendly aspects of all-electric housing.

On the other hand, in November 2007, the Green Contract Law, which requires government and administrative agencies to evaluate bids for contracts in terms of environmental performance as well as price, came into effect. With this, the public and private sectors as well as general consumers have become—and will continue to be—more conscious of the need for environmental preservation.

We will offer solutions which are optimized from various perspectives including environmental friendliness by considering such trends along with the need of customers. Such solutions may include consulting on optimum service menus and proposals for electricity-powered home/building utility systems.

Focusing on these four issues, our entire Group will endeavor to achieve the three goals of the fiscal 2007 Medium Term Business Plan in an integrated manner.

### Q3

#### What will happen in terms of economic trends and electric power demand in the Tohoku region in fiscal 2008?

**Takahashi:** With respect to the local economy, business sentiment has started to weaken not only for small- and medium-sized enterprises but also in the larger companies that provide the region's economic momentum. In particular, business sentiment in the manufacturing industry, which until recently delivered strong results, has begun to weaken due to rapid foreign exchange fluctuations and soaring material prices. Many companies are expressing conservative views on the future and see the region's economy slowing down. We must monitor future movements carefully in this regard.

Still, with respect to the main economy, production activities







in the Tohoku region remain strong in many sectors, although there has been some degree of flattening and slight weakening. Specifically, the production of export-oriented products such as electric and electronic parts and transportation equipment has been boisterous. We believe that the basic structure of the region's economy continues to be driven by the performance of these sectors.

Moreover, joint efforts between local government, industry and academia to attract industry to the Tohoku region have yielded concrete results, the string of announcements by Toyota Motor affiliates as to their plans to set up new factories in the region serving as a good example. We hope that these events will have a positive effect on employment, income and personal consumption, which are lagging behind other regions, and help restore the economic strength of the Tohoku region.

Demand for electric power, meanwhile, continues to rise in a stable manner. In fiscal 2007, thanks to the spread of all-electric housing, revenues from price plans with preferential prices for late-night consumption increased. Moreover, consumption by large-scale industrial customers recorded year-on-year increases for 40 consecutive months since December 2004 (as of the end of March 2008), growing at a rate generally surpassing the national average.

The growth in energy consumption can be attributed to several factors, including the return from private power generation to an electric power supplier due to rising oil prices, construction and expansion of retail stores which added to consumption in the commercial sector, and strong production by large-scale customers such as machinery and non-ferrous metal manufacturers.

Looking to fiscal 2008, there are concerns over rising material prices and a possible slowdown of the global economy. Uncertainty over the future of the Japanese economy also remains. In spite of this, we expect demand for electricity in the Tohoku region to increase on the back of large capital expenditure by industrial firms and the strong pace of production of semiconductors and automotive parts.

## Q4

### **What are your CO<sub>2</sub> emissions reduction targets? And what measures are being taken to ensure those targets are met?**

**Takahashi:**In line with the CO<sub>2</sub> emissions reduction targets of the electricity industry as a whole, we are aiming to reduce the average CO<sub>2</sub> emissions per kWh of electricity consumed by our customers (CO<sub>2</sub> emissions intensity) in the period fiscal 2008–2012 by 20% from fiscal 1990 levels, which is equivalent to a reduction of about 0.322kg-CO<sub>2</sub>/kWh. CO<sub>2</sub> emissions levels in fiscal 2008 are projected to be about 0.466kg-CO<sub>2</sub>/kWh, although this may fluctuate due to various factors, including the capacity factors of our nuclear power stations and trends in electricity demand.

To reduce consumption of fossil fuels and CO<sub>2</sub> emissions, Tohoku Electric Power is adopting a range of measures at its power generation facilities, which include improvement of thermal efficiency at thermal power stations, ensuring safe and stable operation of nuclear power stations, enhancing capacity factors of geothermal power stations, introducing highly efficient equipment at hydroelectric power stations, and reducing electric power losses due to transmission, transformation and distribution.

Recent examples of these efforts include: expanding nuclear power usage with the installation of the Higashidori No. 1 Nuclear Power Unit (commenced operations in December 2005), the introduction of high-efficiency gas combined cycle power generators, such as the Higashi-Niigata No. 4 Series (commenced operations in December 2006); these use LNG as fuel and generate fewer CO<sub>2</sub> emissions than conventional thermal power generators.

Currently, to further reduce CO<sub>2</sub> emissions, we are planning to replace with high-efficiency gas combined cycle power generators, the Sendai No. 4, the Shin-Sendai No. 3 Series, and the Niigata No. 5 Series included.

We will make utmost efforts to reduce CO<sub>2</sub> emissions through participation and investment in the World Bank's "Prototype Carbon Fund (PCF)" and the "Japan Greenhouse Gas Reduction Fund (JGRF)," and active involvement in global warming prevention measures that utilize the Kyoto Mechanism, such as the Hydroelectric CDM Project in China and the Biomass Power Generation Project in Honduras in Latin America.

## Q5

### **Since the 2007 Niigata Chuetsu Offshore Earthquake, Japanese society has become increasingly concerned about earthquake resistance levels of nuclear power stations. How does the Company approach seismic safety?**

**Takahashi:**Our nuclear power stations were designed and built following extensive geological surveys. Accordingly, we believe they are equipped with adequate seismic safety functions.

Following the revision of the Guidelines for Seismic Design Evaluation of Nuclear Power Reactor Facilities in September 2006,

we planned and implemented geological surveys and examinations of seismic activity for areas we operate in. Following the 2007 Niigata Chuetsu Offshore Earthquake, we reviewed our geological survey and seismic investigation plan in response to instructions issued by the Minister of Economy, Trade and Industry and a request by the Governor of Miyagi Prefecture. Critical safety facilities of our nuclear power units, which are designed to “stop, cool and enclose” nuclear reactors, have been undergoing seismic safety evaluations since then. In March 2008, we submitted our interim reports on representative facilities of the Onagawa No. 1 and Higashidori No. 1 nuclear power units. We are to submit final reports according to the following schedule: Onagawa No. 1 by December 2008, Onagawa No. 2 and No. 3 by August 2009 and Higashidori No. 1 by September 2008.

As part of the evaluation programs, we use the latest scientific knowledge and results of additional geological surveys to revise specified seismic intensities and evaluate the seismic safety performance of individual facilities. Furthermore, we will continue to disclose and clearly explain all related activities to shareholders and investors in a timely manner.

### Q6

**Unit No. 1 of the Onagawa Nuclear Power Station has now resumed operations following a long stoppage after the 2005 Miyagi Earthquake, and all three nuclear power units are now working. Is that right?**

**Takahashi:** Yes, we restarted Unit No. 1 of the Onagawa Nuclear Power Station in July 2007 after a 23-month interval that started August 16, 2005, when all three nuclear power units in the power station automatically stopped as a result of the Miyagi Earthquake. During this period, a considerable amount of inappropriate handling and lax practices at the organizational level in terms of corporate ethics and compliance with laws and regulations were identified in the course of inspections of the quality assurance system for nuclear power stations and power generators. We are deeply sorry for any anxiety we may have caused resident and others in surrounding areas.

We wholeheartedly appreciate the understanding of local residents as well as the guidance of the Nuclear and Industrial Safety Agency and local governments in allowing us to resume operation of Unit No. 1, subsequent to the earlier restart of Unit No. 2 and Unit No. 3.

In regard to improving the quality assurance system and ensuring healthy practices in terms of corporate ethics and compliance with laws and regulations, we have been promoting companywide efforts based on measures to prevent recurrence. These go as far as calling for a change in the corporate culture. While I feel that these efforts have steadily improved our business processes, we still need to ensure the confidence of the local community by stably operating our nuclear power stations and placing top priority on safety.

With respect to the Higashidori Nuclear Power Station, we



completed its first periodical inspection without issue in 2007. It has continued to operate stably, thus fulfilling an important role as one of the Company's major power sources consolidating our management foundation.

### Q7

**What is the Company's dividend policy now considering the tight earnings outlook?**

**Takahashi:** The Company has expressed a policy of continuing to distribute stable dividends. In other words, we prefer to avoid cutting dividends even when our financial results fluctuate negatively in a given year.

Although, we expect tight earnings margins for several years to come due to rising fuel prices and expanding repair and maintenance expenses, we would like to maintain the current dividend level provided it is within the scope of sound management.

Also, we are considering additional returns for shareholders when the outlook for our medium- to long-term earnings improves.

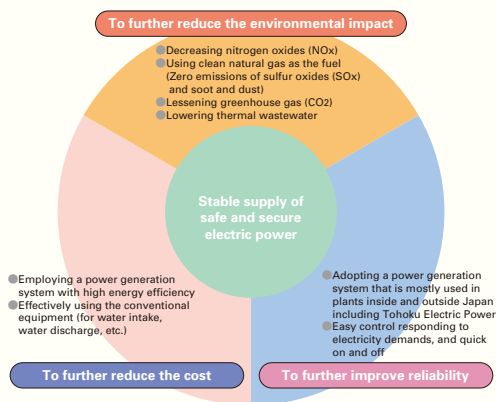


# Topics in FY2007



## Construction of Sendai No. 4 to Replace Existing Power Generators

### Concept for Replacing Sendai Thermal Power Station Unit No. 4



*The replaced building harmonizes with the surrounding natural environment*

We started the construction of a high-efficiency gas combined cycle power generator "Sendai No. 4" at the Sendai Thermal Power Station in November 2007 and closed the aged coal-fired power generators No. 1 to No. 3 in phases to strengthen our competitiveness by reducing operating costs, and also to reduce CO<sub>2</sub> emissions.

Sendai No. 4 will use LNG, which does not generate sulfur oxide (SO<sub>x</sub>) or soot upon combustion, rather than heavy oil and coal. Tohoku Electric Power will thus provide a safe and stable

supply of electric power to customers while reducing costs and the environmental load as well as improving reliability.

Sendai No. 4 will start operation in July 2010 with a thermal efficiency of 25% on a gross calorific value basis, which is among the highest levels in Japan (58% on the lower calorific value basis).

Fuel costs and CO<sub>2</sub> emissions are expected to decrease 30% compared with conventional gas generators, and CO<sub>2</sub> emissions will fall by an impressive 60% from Sendai No.1 and No.2.

## Recovery from the 2007 Niigata Chuetsu Offshore Earthquake –The Chuetsu region is struck again–



The Niigata Chuetsu Offshore Earthquake that hit on July 16, 2007 registered six on the Japanese intensity scale, seriously affecting the Kashiwazaki area in Niigata.

Power distribution and other facilities of Tohoku Electric Power suffered extensive damage with utility poles collapsing and distribution line breaks, causing blackouts to a total of 37,000 households. We dispatched some 1,700 recovery workers from offices, Group companies and electric contractors within and outside Niigata Prefecture to the affected sites to undertake immediate recovery work. Tokyo Electric Power, Hokuriku Electric Power and Chubu Electric Power helped by providing around 400 recovery workers in total. As a result of their hard work day and night, power distribution facilities were restored just two and a half days after the earthquake.

Several factors contributed to this early recovery. For example, we assigned personnel to arrange meals and accommodation for

the recovery workers. Also, thanks to the navigation system for power distribution maintenance services, workers from other offices and companies were able to visit the affected sites unaccompanied. Moreover, solid logistical support aided the recovery work to a large extent as did cooperation with other electric power companies, which had been enhanced following the 2004 Chuetsu Earthquake.

Electricity is the most important infrastructure in terms of allaying the fears of people affected by natural disasters. We must therefore ensure that all employees are fully equipped to respond to emergencies. We must also secure a stable supply and public safety in closer cooperation with Group companies and other concerned parties. Since our establishment, we have made it a clear policy to respond without delay to natural disasters in order to restore power and please our customers.



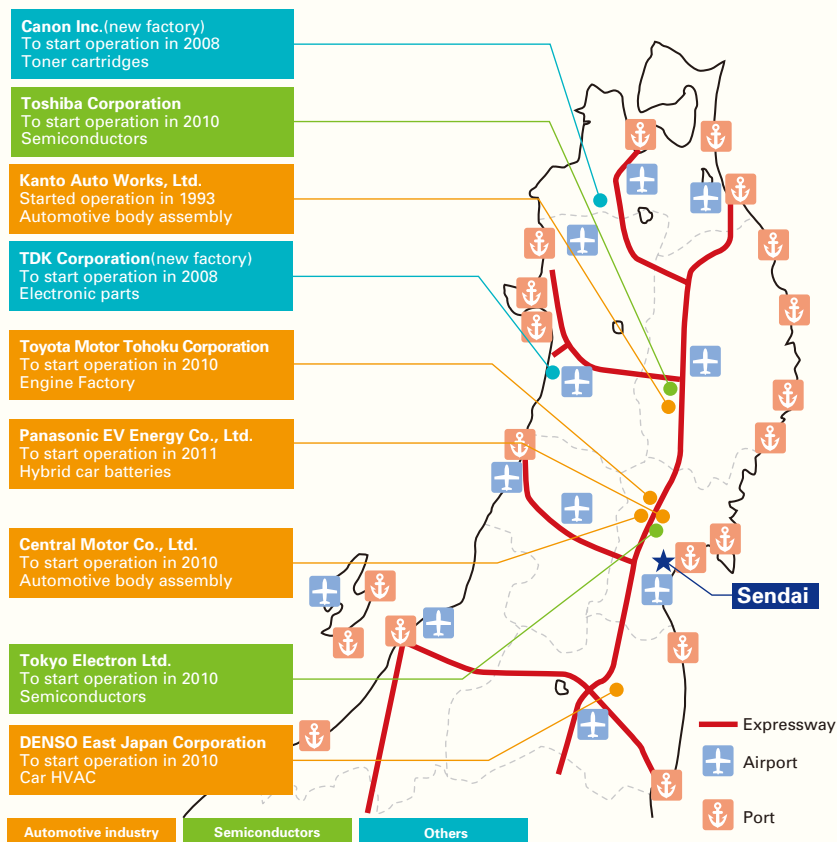
# Helping Local Communities Attract Business

## Plans for new business bases in the Tohoku region

In fiscal 2007, Central Motor Co., Ltd., a Toyota Motor Group company, announced an official plan to relocate to Miyagi in 2010. This will have a major influence on the Tohoku region by bringing in companies in the automotive and associated industries. There have also been similar decisions to establish large-scale production bases, including those by Tokyo Electron and Toshiba in the semiconductor industry, and Denso, the largest automotive parts manufacturer in Japan.

Although efforts to attract firms to the Tohoku region had not produced significant success in recent years, major companies in industries such as materials and electronics are showing increasing interest in establishing new bases in the Tohoku region thanks to efforts to attract businesses combined with the region's advantages in employment and other aspects.

## Logistics infrastructure in Tohoku and major companies establishing new sites in the region



## Efforts to attract business to the Tohoku region

- The region's drive to attract businesses is surging in various forms including through the establishment of local industry activation councils under the Enterprise Location Promotion Act.
- Businesses, universities and local governments in the region have established the Council for Gathering the Automotive Industry in Tohoku, and strategies to develop the region as a "northern business hub."

## Tohoku Electric Power's contribution to business attraction activities

- The Company has been supporting the business attraction activities of prefectural governments in various forms including with its websites "Tohoku Seven Powers +" in Japanese and "Investment Guide to Tohoku" in English.

### Main activities

1. Placing advertisements in Shinkansen bullet trains operated by JR East
2. Placing advertisements in the *Financial Times*
3. Placing advertisements in the *Nikkei Business*
4. Publishing "Data & Reports for Newly Established Businesses"



# Efforts toward Stable and Competitive Fuel Procurement

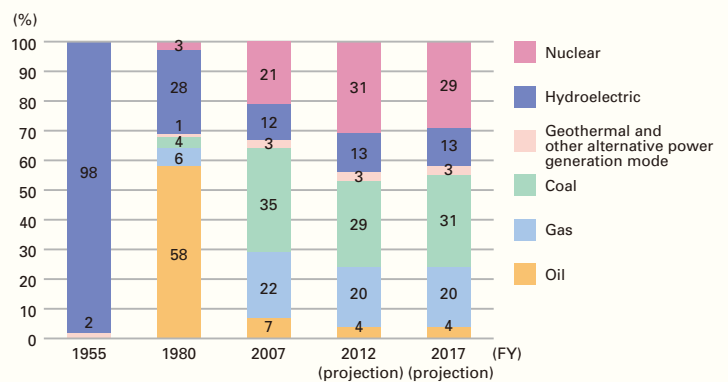


## Best Mix of Power Sources and Stable Fuel Procurement

In recent years, the supply and demand situation for fuels such as crude oil, coal, LNG and uranium has become increasingly tight amid swelling demand mainly in Asian countries, China in particular.

Against this backdrop, the Company is taking various measures to ensure stable and flexible procurement of fuel, which is crucial for a stable electricity supply. For example, we have diversified fuel supply sources to cover multiple countries and accept fuel deliveries by large carriers and dedicated service carriers. In addition, we endeavor to achieve the best mix of power sources by using hydroelectric, thermal and nuclear power in a balanced manner considering their cost and operational characteristics, rather than depending heavily on any particular fuel or power generation mode.

## Changes in the composition of our power sources (by output)



Power sources include purchases from other companies such as J-POWER and TEPCO.

## Fuel oils

*Major suppliers: Indonesia, Australia, Vietnam, Russia*

Oil-fired power units play an important role in supplementing our main power, nuclear power units and coal-fired power units. They are also advantageous as they allow us to flexibly respond to changes in supply and demand caused by seasonal demand fluctuations and unscheduled suspensions of main power sources. The stable procurement of fuel oils is therefore critical to our operations. The Company has been actively procuring crude oil from new suppliers and in 2005 became the first Japanese electric power company to import crude oil from Sakhalin Island. We also procure heavy oil from diverse supply sources, including in South Korea.

## Coal

*Major suppliers: Australia, Indonesia, China, Russia*

Coal-fired thermal power units are our main power source, accounting for about 30% of our entire output. Tohoku Electric Power is one of the largest purchasers of coal for electric power generation in Japan. We endeavor to appropriately diversify our supply sources to ensure stable procurement. We reduced our dependency on imports from Australia from nearly 70% to less than 50% of the total purchase volume and instead expanded procurement from closer sources such as Indonesia, China and Russia.

With regard to marine transportation of coal, we use dedicated service carriers, or hire specific vessels under medium- to long-term contracts. This is an economical approach in the growing vessel market and also enables stable procurement of coal.

## LNG

*Major suppliers: Malaysia, Indonesia, Australia, Qatar*

The environmental load of LNG is smaller than that of oils because of its lower emissions of CO<sub>2</sub>, NO<sub>x</sub> and SO<sub>x</sub> upon combustion. Due to this advantage, supply has been tight worldwide reflecting rising demand mainly in Europe, the United States, China and India. We endeavor to ensure the stable procurement of LNG via a long-term agreement with five LNG extraction projects in Malaysia, Indonesia, Qatar and Australia and flexible one-time purchases including those based on the "Master LNG Sales Agreement"<sup>1</sup> concluded with Oman LNG.

In recent years, shipbuilders are tending to go for larger LNG carriers to increase capacity and reduce the cost of transportation. It has become a necessity that electric power companies accept large carrier deliveries to respond to the need for one-time purchases and provide reliable medium- to long-term procurement policies. The Company therefore completed preparations for accepting large LNG carriers and received the first delivery by a 210,000 m<sup>3</sup> LNG carrier called "Q-Flex," one of the world's largest LNG carriers, in December 2007.

<sup>1</sup> A master agreement in which the parties agree on most of the terms and conditions for one-time purchases in advance. When an actual transaction becomes necessary, the parties confirm the amount and price for that specific purchase and conclude a separate contract which incorporates the terms and conditions of the master agreement.

## Nuclear fuel

*Major suppliers: Canada, Australia, Niger*

Our need for uranium has been on the increase since starting operation of Unit No. 1 at the Higashidori Nuclear Power Station. We endeavor to ensure stable procurement of uranium through medium- to long-term contracts and diversification of supply sources to Canada, Niger and Australia.

The advantages of nuclear power generation have been re-recognized by many countries concerned about such environmental issues as global warming. In addition, China and Russia recently announced plans to build additional nuclear power stations. Under these circumstances, there are concerns over tightened supply and demand for uranium in the medium to long term.

As it will become increasingly important to ensure stable, long-term procurement, in fiscal 2007 the Company invested in a new uranium mine development project in Kazakhstan and, in turn, obtained preferential rights to purchase up to 100 tons of uranium produced there on an annual basis.

# Hokago Hiroba (after-school plaza)

## ART AND CULTURE PLAZA

### School concerts

We hold unique “school concerts” in which members from professional orchestras visit elementary and junior high schools to play their school songs and other pieces requested by the schools, allowing students the chance to conduct. In fiscal 2007, we held 22 school concerts.



### Writing contest for junior high school students

We hold an annual writing contest for junior high school students in the Tohoku region. The contest dates back some 33 years and has attracted more than 360,000 compositions in total.



## SOCIETY PLAZA

### Talk event for parents “Vitamin Talk for Dreams”

We hold talk events called “Vitamin Talk for Dreams” to provide parents with opportunities to think about parenting, for example, what parents can do to help their children pursue their dreams.



## SCIENCE PLAZA

### Science experiment events

Since fiscal 2005, we have held the science experiment showcase “Denjiro’s Science Show” run by Denjiro Yonemura, a former school teacher and famous science-based performer often featured on TV, to boost children’s interest in science.



### Web contents for children

Since fiscal 2000, we have operated the website “Denki To Kagaku No Hiroba” (Electricity and Science Plaza) for children who will assume the important role of promoting science in the future.



## SPORTS PLAZA

### Tohoku Mini Basketball Tournament

The Tohoku Mini Basketball Tournament has been held annually since fiscal 1988 for elementary school pupils in the Tohoku region. It is the only such tournament for elementary school pupils in the region, and some 30,000 children participate every year, including regional qualifiers. The Company has served as the main sponsor since fiscal 1990 and sponsored the 20th tournament in fiscal 2007.





# Mecenat Activities

As a utility company which plays a key role in the region's infrastructure, Tohoku Electric Power actively promotes cultural activities in the Tohoku region for "Prospering Together with the Community."

## "My Favorite Classics" and "Family Concert"

We hold the classical music concerts "My Favorite Classics" and "Family Concert" with the cooperation of professional orchestras in the Tohoku region to provide people with opportunities to enjoy live classical music concerts. These concerts have been held more than 150 times since fiscal 1985.



## Community magazine for supporting parenting "Yui" (Bond)

We distribute a free bimonthly community magazine "Yui" to support mothers of elementary and junior high school. The magazine provides information on the region's culture which is blessed with rich nature, tips for parenting and activities by women in this field under the main concept of "raising children, raising ourselves." We will continue to contribute to the sustainable development of local communities by creating new bonds with readers and support parenting in communities.



## "Town Concert"

"Town Concert" is a community-based program in which musicians from or living in the Tohoku region, the region's professional orchestras, amateur musicians and young artists are invited to play in the same concert. This program started in fiscal 2002 and a concert is held in one of the seven prefectures in the Tohoku region each year. Fiscal 2008 will be the final year of this program.



## "Shiroi Kuni No Uta" (Poems from the Northern Country)

Tohoku Electric Power has published a periodical corporate communication magazine "Shiroi Kuni No Uta" since fiscal 1986. This magazine, which introduces cultural aspects of the Tohoku region, has received high acclaim including prizes from a nationwide public relations magazine contest for several consecutive years. Articles from "Shiroi Kuni No Uta" are also posted on our website.



## Cooperation with the Community

Since its establishment in 1951, Tohoku Electric Power has always believed that it cannot grow without the prosperity of the Tohoku region. The Company engages in various activities with customers as a member of local communities.



Forestation activities for protecting a rich watershed

### Concept

“Cooperation with the Community” represents our commitment to building a relationship of cooperation, mutual understanding and trust with customers and the local community based on the recognition that the Company and each of its employees is a member of the local community. This is what underlies one of our management policies, “Prospering Together with the Community,” and the concept which should be upheld by all employees and passed on to future generations in the Company.

The concept of “Cooperation with the Community” is disseminated to our employees through discussions on its importance and necessity in office-level meetings and other occasions as well as posting the action policy on the Company intranet.

### Organizational framework

Tohoku Electric Power runs the “Council for Promoting Cooperation with the Community” at its head office and branch office as well as and customer services office-level subcommittees. In fiscal 2007, branch offices and customer services offices engaged actively in programs which reflect their own commitment to the community, originality and local needs under the council’s action policy “Tohoku Electric Power as a company trusted by the community.”

### Cleaning Traffic Signals

Volunteers from the Misawa Customer Services Office and local offices of Group companies cleaned traffic signals in Misawa City to support the traffic safety program for schoolchildren. This activity has continued for more than 30 years.



### Co-hosting Futsal Tournament

The Niigata Branch Office co-hosted the 15th Niigata Prefecture Children’s Futsal Tournament with the Niigata Football Association for elementary school students in Niigata Prefecture. More than 500 pupils participated in the tournament.



### Visiting Elderly People Who Live Alone

Volunteers from the Ofunato Customer Services Office visit elderly people who live alone to help them check and clean their home appliances, and also enjoy talking with them.



### Dancing in Yamagata Hanagasa Matsuri Festival

The Yamagata Hanagasa Matsuri is a well-known festival held each summer in Yamagata City. Groups of people in traditional clothing and hats adorned with paper flowers parade the streets dancing. In fiscal 2007, some 200 employees from the Yamagata Customer Services Office and local Group company offices formed the Tohoku Electric Power Group Dance Team and participated in the festival.



# FINANCIAL SECTION

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# Financial Review (Consolidated basis)

## Operating Results

The corporate group's operating revenues for fiscal 2007 were ¥1,802.6 billion (US\$17,990 million), marking an increase of ¥74.3 billion (US\$741 million) or 4.3% over fiscal 2006. In the electric power business, we recorded revenue from residential customers of ¥530.4 billion (US\$5,293 million), up ¥11.5 billion (US\$115 million) or 2.2% on the previous year, and revenue from commercial and industrial customers of ¥814.2 billion (US\$8,126 million), up ¥26.3 billion (US\$262 million) or 3.3% on the previous year. These increases are attributable to increases in electricity sales volume more than offsetting the effects of the electricity rate reductions effective since July 2006. Operating revenues in the construction business also increased, mainly due to the order for a wind power station.

Operating expenses were ¥1,722.2 billion (US\$17,187 million), an increase of ¥127.8 billion (US\$1,275 million) or 8.0% over fiscal 2006, attributable to the increase in fuel expenses due to skyrocketing fuel prices and an increase in maintenance expenses from regular inspection work of power plants, which offset the decrease in depreciation and amortization in the electric power business.

As a result, operating income was ¥80.4 billion (US\$802 million), a decrease of ¥53.5 billion (US\$534 million) or 40.0% from the previous year.

In fiscal 2007, reserve for decommissioning costs of nuclear power units increased in response to the revised clearance level of radioactive waste (classification of radioactive waste for disposal purposes). In this respect, ¥5.7 billion (US\$57 million) was accounted for as extraordinary loss as the amount corresponding to power production volume over the past years.

Net income was ¥17.2 billion (US\$172 million), a decrease of ¥35.8 billion (US\$358 million) or 67.5% from the previous year.

Net income per share fell to ¥34.67 (\$0.346) from ¥106.57 in fiscal 2006.

Fiscal 2007 results by business segment are as follows:

### [Electric power business]

Operating revenues in the electric power business were ¥1,586.6 billion (US\$15,834 million), up ¥45.0 billion (US\$449 million) or 2.9% on the previous year, with an increase in electricity sales volume more than offsetting the effects of the electricity rate reduction effective since July 2006. Operating expenses were ¥1,530.2 billion (US\$15,272 million), up ¥98.5 billion (US\$983 million) or 6.9% on the previous year, reflecting the increase in fuel expenses due to skyrocketing fuel prices and an increase in maintenance expenses from regular inspection work of power plants, as well as the effects of an unscheduled halt of a nuclear power station operated by Tokyo Electric Power due to an earthquake.

As a result, operating income was ¥56.3 billion (US\$562 million), a fall of ¥53.4 billion (US\$533 million) or 48.7% from the previous year.

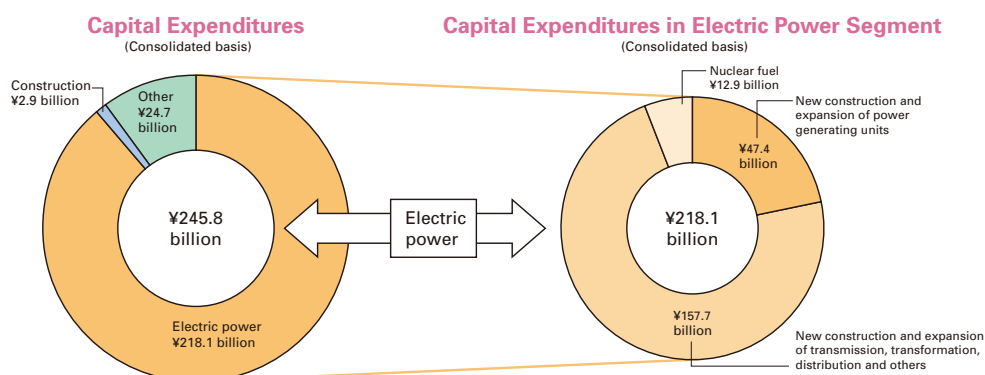
### [Construction business]

Operating revenues in the construction business were ¥283.0 billion (US\$2,824 million), up ¥32.5 billion (US\$324 million) or 13.0% on the previous year, reflecting the construction order for a new wind power station. Operating expenses were ¥271.4 billion (US\$2,708 million), up ¥30.3 billion (US\$303 million) or 12.6% on the previous year, with the addition to outsourcing expenses related to an increase in contracted work.

As a result, operating income was ¥11.6 billion (US\$115 million), an increase of ¥2.1 billion (US\$21 million) or 22.5% on the previous year.

### [Other businesses]

Operating revenues in other businesses were ¥218.6 billion (US\$2,182 million), up ¥17.9 billion (US\$179 million) or 8.9% from the previous year, mainly due to an increase in sales volume in the gas business. Operating expenses were ¥205.7 billion (US\$2,053



million), up ¥19.0 billion (US\$190 million) or 10.2% on the previous year, reflecting rising material prices in the gas business.

As a result, operating income was ¥12.9 billion (US\$128 million), a fall of ¥1.1 billion (US\$11 million) or 8.1% from the previous year.

## Capital Expenditures

The corporate group's capital expenditures in fiscal 2007 was ¥245.8 billion, or US\$2,453 million (not subject to adjustment). By segment, the electric power business accounted for ¥218.1 billion (US\$2,177 million), construction business for ¥2.9 billion (US\$29 million), and other business for ¥24.7 billion (US\$246 million).

In the core electric power business, we invested in the plant and equipment necessary in order to effectively respond to long-term demand-supply conditions. Out of capital outlay in this business segment, ¥47.4 billion (US\$473 million) or 21.8% was spent on the construction and expansion of power generation units, and ¥157.7 billion (US\$1,574 million) or 72.3% on the construction and expansion of transmission, transformation, distribution and other facilities. ¥12.9 billion (US\$129 million) or 5.9% was invested in nuclear fuel.

## Financial Position

Total assets at the end of fiscal 2007 were ¥4,033.8 billion (US\$40,257 million), a 0.9% decrease from fiscal 2006, mainly due to increasing accumulated depreciation.

Net assets at the end of fiscal 2007 were ¥1,015.3 billion (US\$10,133 million), a 1.7% decrease from fiscal 2006, mainly due to falls in retained earnings and a net unrealized holding gain on securities. As a result, equity ratio declined to 23.9% from 24.2% in fiscal 2006.

## Cash Flows

Cash and cash equivalents at the end of fiscal 2007 were ¥124.3 billion (US\$1,241 million), up 4.4% on

the end of fiscal 2006.

Cash flows by activity and factors contributing to changes from the previous year are as follows:

### [Cash flows from operating activities]

Cash flows from operating activities resulted in a net inflow of ¥277.1 billion (US\$2,765 million), an increase of ¥0.9 billion (US\$9 million) or 0.3% on the previous year, mainly through the increase in electricity sales volume more than offsetting an increase in fuel expenses due to rising fuel prices, and an increase in maintenance expenses from regular inspection work of power plants.

### [Cash flows from investing activities]

Cash flows from investing activities resulted in a net outflow of ¥159.1 billion (US\$1,588 million), a decrease of ¥38.4 billion (US\$383 million) or 19.5% from the previous year. This fall is mainly attributable to an increase in revenue, such as contributions received in aid of construction.

### [Cash flows from financing activities]

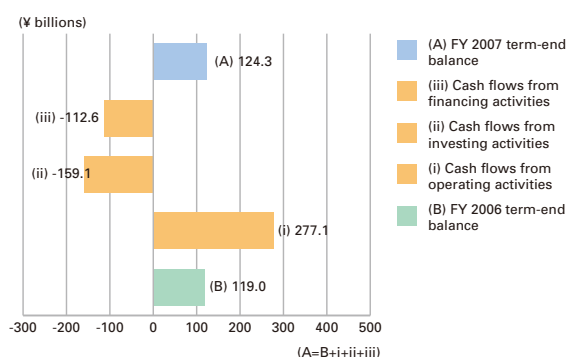
Cash flows from financing activities resulted in a net outflow of ¥112.6 billion (US\$1,124 million), an increase of ¥39.6 billion (US\$395 million) or 54.3% on the previous year, mainly due to an increase in expenditure for the redemption of bonds.

## Credit Ratings

As of June 27, 2008, the credit ratings for long-term corporate bonds issued by the Company were as follows:

Moody's Investors Service .....	Aa2
Standard & Poor's .....	AA
Fitch Ratings .....	AA-
Rating and Investment Information .....	AA+
Japan Credit Rating Agency .....	AAAp

**Cash Flows** (Consolidated basis)

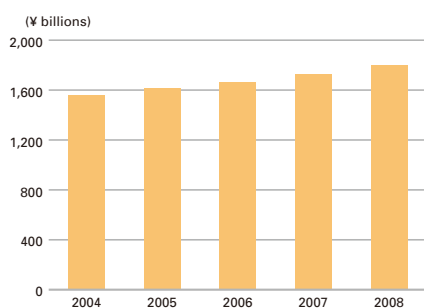


# Five-Year Summary (Consolidated basis)

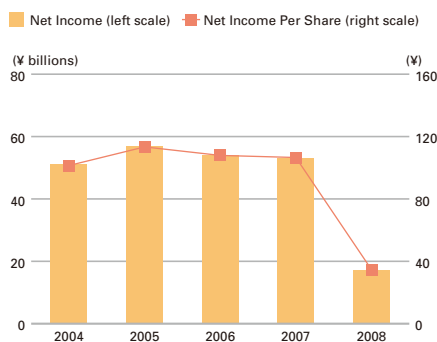
Tohoku Electric Power Co., Inc. and Consolidated Subsidiaries  
Years ended March 31

	Millions of yen				
	2008	2007	2006	2005	2004
<b>Operating results</b>					
Operating revenues	¥1,802,621	¥1,728,296	¥1,660,045	¥1,611,461	¥1,562,752
Operating expenses	1,722,203	1,594,361	1,560,197	1,447,511	1,383,790
Operating income	80,417	133,935	99,848	163,950	178,962
Interest expense	45,947	46,934	47,101	52,813	69,823
Other expenses (income), net	1,727	(12,121)	(43,108)	21,240	21,785
Income before special item, income taxes and minority interests	32,743	99,121	95,854	89,895	87,353
Special item	6,213	(4,276)	(2,332)	(2,212)	(3,634)
Income before income taxes and minority interests	38,956	94,845	93,521	87,683	83,719
Income taxes, current	14,086	36,452	23,053	42,899	35,833
Income taxes, deferred	4,450	1,850	13,514	(14,956)	(4,554)
Minority interests in earnings of consolidated subsidiaries	3,124	3,368	2,781	2,780	1,361
Net income	17,294	53,173	54,171	56,960	51,079
<b>Sources and application of funds</b>					
Sources:					
Internal funds	¥ 327,453	¥ 252,434	¥ 177,812	¥ 424,913	¥ 335,390
External funds:					
Bonds	89,695	119,583	139,517	39,853	139,435
Borrowings	878,540	887,088	879,940	760,707	918,618
	968,235	1,006,671	1,019,458	800,560	1,058,053
Total	1,295,689	1,259,105	1,197,270	1,225,474	1,393,444
Applications:					
Capital expenditures	245,817	210,559	213,226	253,505	202,547
Debt redemption	1,049,872	1,048,546	984,044	971,968	1,190,896
Total	1,295,689	1,259,105	1,197,270	1,225,474	1,393,444
<b>Assets and capital</b>					
Total assets	¥4,033,835	¥4,069,331	¥4,113,775	¥4,122,476	¥4,095,444
Property, plant and equipment, net	3,056,485	3,125,446	3,226,852	3,341,614	3,348,988
Common stock	251,441	251,441	251,441	251,441	251,441
Total net assets	1,015,352	1,032,681	1,009,206	929,771	870,852

## Operating Revenues



## Net Income & Net Income per Share



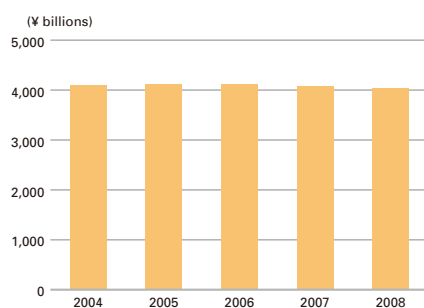


	Millions of yen				
	2008	2007	2006	2005	2004
<b>Cash Flows</b>					
Operating activities:					
Net cash provided by operating activities	¥ 277,100	¥ 276,182	¥ 226,869	¥ 374,381	¥ 336,415
Investing activities:					
Net cash used in investing activities	(159,133)	(197,591)	(229,754)	(188,863)	(151,034)
Financing activities:					
Net cash (used in) provided by financing activities	(112,675)	(73,004)	9,430	(197,679)	(169,783)
Effect of exchange rate changes on cash and cash equivalents	(4)	10	1	0	–
Increase in cash and cash equivalents upon inclusion of additional subsidiaries in consolidation	–	853	–	23,157	–
Cash and cash equivalents at end of the year	124,359	119,073	112,622	106,075	95,079

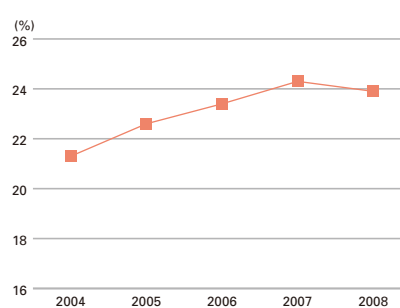
	2008	2007	2006	2005	2004
<b>Plant data</b>					
Generating capacity (MW)					
(Number of plants):					
Hydroelectric	2,540	2,537	2,538	2,531	2,491
	(229)	(228)	(228)	(224)	(221)
Thermal	11,831	12,176	11,643	11,649	11,626
	(19)	(19)	(19)	(19)	(18)
Nuclear	3,274	3,274	3,274	2,174	2,174
	(2)	(2)	(2)	(1)	(1)
Total	17,645	17,987	17,455	16,354	16,290
	(250)	(249)	(249)	(244)	(240)
Substation capacity (MVA)	64,510	63,684	61,835	60,945	58,661
Transmission lines (km)	14,817	14,736	14,682	14,709	14,787
Distribution lines (km)	142,603	141,834	140,981	140,139	139,330

<b>Other data</b>					
Number of employees	22,266	22,422	22,417	22,627	18,289

**Total Assets**



**Equity Ratio**



# Five-Year Summary (Non-Consolidated basis)

 Tohoku Electric Power Co., Inc  
 Years ended March 31

	Millions of yen				
	2008	2007	2006	2005	2004
<b>Operating results</b>					
Operating revenues	¥1,595,922	¥1,546,745	¥1,498,759	¥1,455,336	¥1,447,607
Operating expenses	1,542,268	1,438,434	1,420,819	1,310,326	1,280,539
Operating income	53,653	108,311	77,940	145,009	167,068
Interest expense	44,696	45,329	44,468	49,997	67,036
Other expenses (income), net	558	(13,781)	(52,409)	21,728	25,287
Income before special item and income taxes	8,399	76,762	85,881	73,284	74,744
Special item	6,194	(4,275)	(2,333)	(2,204)	(3,631)
Income before income taxes	14,593	72,487	83,547	71,079	71,113
Income taxes, current	3,454	28,490	15,945	36,132	32,768
Income taxes, deferred	4,364	(783)	14,060	(10,775)	(9,712)
Net income	6,774	44,780	53,542	45,721	48,056

## Sources and application of funds

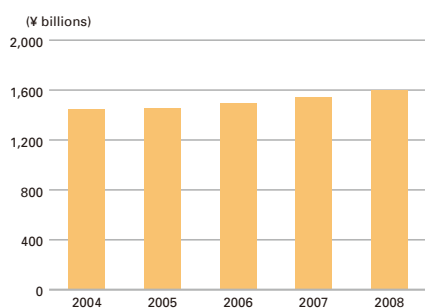
Sources:					
Internal funds	¥ 284,268	¥ 212,325	¥ 122,912	¥ 363,408	¥ 301,216
External funds:					
Bonds	89,695	119,583	139,517	39,853	139,435
Borrowings	847,340	851,280	855,280	748,200	904,020
	937,035	970,863	994,797	788,053	1,043,455
Total	1,221,303	1,183,188	1,117,709	1,151,462	1,344,671
Applications:					
Capital expenditures	214,178	182,295	188,476	225,313	188,594
Debt redemption	1,007,125	1,000,892	929,233	926,149	1,156,077
Total	1,221,303	1,183,188	1,117,709	1,151,462	1,344,671

## Assets and capital

Total assets	¥3,675,908	¥3,709,377	¥3,759,037	¥3,757,983	¥3,814,323
Property, plant and equipment, net	2,834,933	2,893,715	2,982,319	3,091,733	3,161,758
Common stock	251,441	251,441	251,441	251,441	251,441
Total net assets	845,126	874,540	862,977	839,452	820,494
Common stock data:					
Number of Shareholders	241,211	238,655	245,131	261,638	257,075
Number of Share issued (thousands)	502,883	502,883	502,883	502,883	502,883
Price range *(yen):					
High	¥ 3,040	¥ 3,500	¥ 2,785	¥ 2,010	¥ 1,942
Low	2,245	2,300	1,942	1,750	1,714

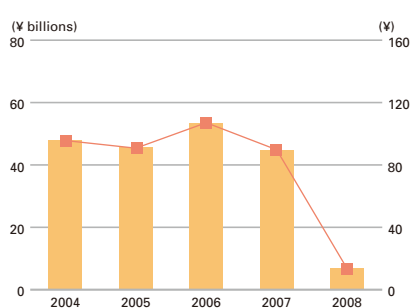
\*Tokyo Stock Exchange

## Operating Revenues

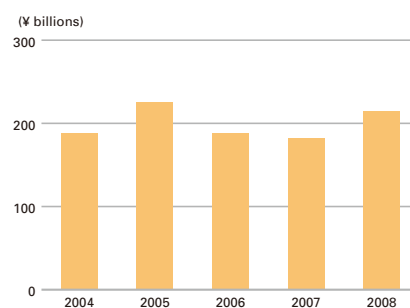


## Net Income & Net Income per Share

■ Net Income (left scale) ■ Net Income Per Share (right scale)



## Capital Expenditures



	2008	2007	2006	2005	2004
<b>Electric power sales (millions of kWh)</b>					
Residential .....	25,073	24,291	24,355	23,612	22,793
Commercial and industrial:					
Commercial .....	–	–	–	11,108	13,909
Small-scale industrial .....	3,246	3,257	3,511	11,611	11,407
Large-scale industrial .....	–	–	–	–	7,585
Other .....	1,100	1,045	1,213	1,531	1,609
	<b>4,346</b>	4,302	4,724	24,250	34,510
Total <sup>★1</sup> .....	<b>29,419</b>	28,593	29,079	47,862	57,303
Deregulated segment <sup>★2</sup> .....	<b>54,653</b>	52,357	50,585	29,467	17,244
Total electric power sales .....	<b>84,072</b>	80,950	79,664	77,329	74,547

★1 Excluding the deregulated segment.

★2 Deregulated segment is constituted by customers who use a supply system with a contracted demand of 2,000kW or above from 2002 to 2004, 500kW or above in 2005, and 50kW or above after 2006.

<b>Peak load (MW)</b>	15,045	14,761	15,200	14,552	13,535
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#### Plant data

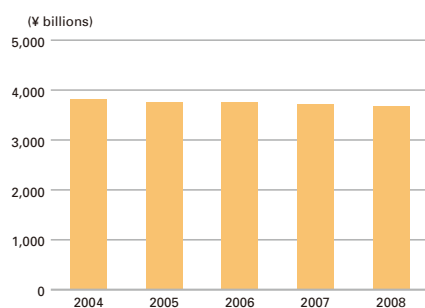
Generating capacity (MW)					
(Number of plants):					
Hydroelectric .....	2,417	2,414	2,415	2,415	2,414
	(211)	(210)	(210)	(210)	(210)
Thermal .....	11,107	11,453	10,919	10,926	10,926
	(17)	(17)	(17)	(17)	(17)
Nuclear .....	3,274	3,274	3,274	2,174	2,174
	(2)	(2)	(2)	(1)	(1)
Total .....	<b>16,798</b>	17,141	16,609	15,514	15,514
	(230)	(229)	(229)	(228)	(228)
Substation capacity (MVA) .....	64,510	63,684	61,835	60,945	58,661
Transmission lines (km) .....	14,817	14,736	14,682	14,709	14,787
Distribution lines (km) .....	142,603	141,834	140,981	140,139	139,330

#### Other data

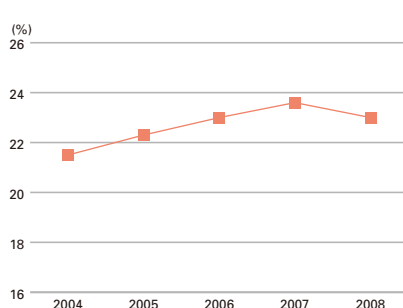
Number of customers (Excluding the deregulated segment):					
Residential .....	6,728,626	6,712,975	6,676,463	6,627,228	6,580,162
Commercial and industrial .....	936,682	952,118	965,552	1,045,739	1,066,438
Total .....	<b>7,665,308</b>	7,665,093	7,642,015	7,672,967	7,646,600
Number of employees <sup>★</sup> .....	11,376	11,344	11,423	11,662	11,840

★ Not including on loan or leave.

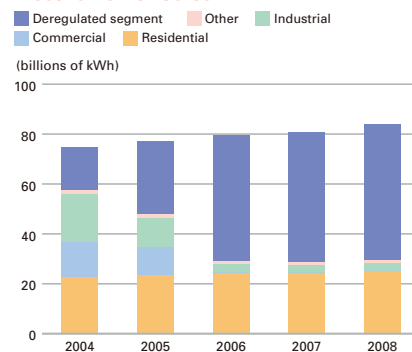
#### Total Assets



#### Equity Ratio



#### Electric Power Sales





# Consolidated Balance Sheets

Tohoku Electric Power Co., Inc. and Consolidated Subsidiaries  
March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
<b>Assets</b>			
<b>Property, plant and equipment</b> (Note 4) .....	<b>¥8,274,919</b>	¥8,198,125	<b>\$82,584,021</b>
Less accumulated depreciation .....	<b>(5,218,433)</b>	(5,072,679)	<b>(52,080,169)</b>
Property, plant and equipment, net (Note 7) .....	<b>3,056,485</b>	3,125,446	<b>30,503,842</b>
<b>Nuclear fuel:</b>			
Loaded nuclear fuel .....	<b>32,043</b>	37,234	<b>319,790</b>
Nuclear fuel under processing .....	<b>108,732</b>	104,277	<b>1,085,149</b>
Total nuclear fuel .....	<b>140,775</b>	141,511	<b>1,404,940</b>
<b>Long-term investments</b> (Notes 5 and 7) .....	<b>79,582</b>	90,879	<b>794,231</b>
<b>Fund for reprocessing costs of irradiated nuclear fuel</b> .....	<b>106,016</b>	104,522	<b>1,058,043</b>
<b>Deferred income taxes</b> (Note 9) .....	<b>154,252</b>	155,473	<b>1,539,441</b>
<b>Other assets</b> (Note 7) .....	<b>97,526</b>	95,618	<b>973,313</b>
<b>Current assets:</b>			
Cash and cash equivalents (Note 7) .....	<b>124,359</b>	119,073	<b>1,241,107</b>
Trade notes receivable and amounts due from customers, less allowance for uncollectible receivables (Notes 6 and 7) .....	<b>138,722</b>	128,513	<b>1,384,451</b>
Deferred income taxes (Note 9) .....	<b>16,664</b>	16,642	<b>166,307</b>
Inventories (Note 7) .....	<b>69,378</b>	60,326	<b>692,395</b>
Other current assets (Notes 7 and 8) .....	<b>50,071</b>	31,322	<b>499,710</b>
Total current assets .....	<b>399,195</b>	355,879	<b>3,983,982</b>
<b>Total assets</b> .....	<b>¥4,033,835</b>	¥4,069,331	<b>\$40,257,834</b>

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
<b>Liabilities and net assets</b>			
<b>Long-term debt</b> (Note 7) .....	<b>¥ 1,918,941</b>	¥1,966,347	<b>\$19,151,107</b>
<b>Accrued retirement benefits</b> (Note 8) .....	<b>188,484</b>	204,599	<b>1,881,077</b>
<b>Reserve for reprocessing costs of irradiated nuclear fuel</b> .....	<b>109,470</b>	113,269	<b>1,092,514</b>
<b>Pre-reserve for reprocessing costs of irradiated nuclear fuel</b> .....	<b>5,591</b>	3,126	<b>55,798</b>
<b>Reserve for decommissioning costs of nuclear power units</b> .....	<b>49,007</b>	38,426	<b>489,091</b>
<b>Deferred income taxes</b> (Note 9) .....	<b>110</b>	424	<b>1,097</b>
<b>Deferred income taxes on revaluation adjustments</b> .....	<b>2,748</b>	2,921	<b>27,425</b>
<b>Current liabilities:</b>			
Short-term borrowings (Note 7) .....	<b>56,148</b>	55,985	<b>560,359</b>
Current portion of long-term debt (Note 7) .....	<b>218,969</b>	292,357	<b>2,185,319</b>
Trade notes and accounts payable .....	<b>164,650</b>	116,526	<b>1,643,213</b>
Accrued income taxes .....	<b>7,605</b>	22,037	<b>75,898</b>
Other current liabilities .....	<b>283,705</b>	201,364	<b>2,831,387</b>
Total current liabilities .....	<b>731,079</b>	688,272	<b>7,296,197</b>
<b>Reserve for fluctuation in water levels</b> .....	<b>13,049</b>	19,262	<b>130,229</b>
<b>Contingent liabilities</b> (Note 14)			
<b>Net assets</b> (Note 15):			
Shareholders' equity (Note 10):			
Common stock, without par value:			
Authorized – 1,000,000,000 shares			
Issued – 502,882,585 shares .....	<b>251,441</b>	251,441	<b>2,509,391</b>
Capital surplus .....	<b>26,678</b>	26,678	<b>266,247</b>
Retained earnings (Note 18) .....	<b>688,795</b>	701,309	<b>6,874,201</b>
Treasury stock, at cost; 4,165,293 shares in 2008 and 4,003,069 shares in 2007 .....	<b>(7,925)</b>	(7,498)	<b>(79,091)</b>
Valuation, translation adjustments and other:			
Net unrealized holding gain on securities (Note 5) .....	<b>5,477</b>	11,827	<b>54,660</b>
Revaluation adjustments .....	<b>(1,196)</b>	(1,074)	<b>(11,936)</b>
Foreign currency translation adjustments .....	<b>961</b>	950	<b>9,590</b>
Minority interests in consolidated subsidiaries .....	<b>51,120</b>	49,046	<b>510,179</b>
Total net assets .....	<b>1,015,352</b>	1,032,681	<b>10,133,253</b>
Total liabilities and net assets .....	<b>¥ 4,033,835</b>	¥ 4,069,331	<b>\$40,257,834</b>

See notes to consolidated financial statements.

# Consolidated Statements of Income

Tohoku Electric Power Co., Inc. and Consolidated Subsidiaries  
Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
<b>Operating revenues:</b>			
Electric power .....	¥1,584,074	¥1,539,130	\$15,809,121
Other .....	218,546	189,166	2,181,097
	<u>1,802,621</u>	<u>1,728,296</u>	<u>17,990,229</u>
<b>Operating expenses (Note 12):</b>			
Electric power (Note 11) .....	1,515,390	1,417,639	15,123,652
Other .....	206,812	176,721	2,063,992
	<u>1,722,203</u>	<u>1,594,361</u>	<u>17,187,654</u>
Operating income .....	80,417	133,935	802,564
<b>Other expenses (income):</b>			
Interest and dividend income .....	(3,005)	(2,140)	(29,990)
Interest expense .....	45,947	46,934	458,552
Provision for decommissioning costs of nuclear power units for prior periods .....	5,792	–	57,804
Other, net .....	(1,059)	(9,981)	(10,568)
	<u>47,674</u>	<u>34,813</u>	<u>475,788</u>
Income before special item, income taxes and minority interests .....	32,743	99,121	326,776
<b>Special item:</b>			
(Reversal of) provision for reserve for fluctuation in water levels .....	(6,213)	4,276	(62,005)
Income before income taxes and minority interests .....	<u>38,956</u>	<u>94,845</u>	<u>388,782</u>
<b>Income taxes (Note 9):</b>			
Current .....	14,086	36,452	140,578
Deferred .....	4,450	1,850	44,411
	<u>18,537</u>	<u>38,303</u>	<u>185,000</u>
<b>Minority interests in earnings of consolidated subsidiaries</b> .....	3,124	3,368	31,177
<b>Net income (Note 15)</b> .....	<u>¥ 17,294</u>	<u>¥ 53,173</u>	<u>\$ 172,594</u>

See notes to consolidated financial statements.



# Consolidated Statements of Changes in Net Assets

Tohoku Electric Power Co., Inc. and Consolidated Subsidiaries  
Years ended March 31, 2008 and 2007

	Millions of yen										
	Number of shares of common stock	Shareholders' equity				Valuation, translation adjustments and other				Minority interests in consolidated subsidiaries	Total net assets
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Revaluation adjustments	Foreign currency translation adjustments			
<b>Balance at March 31, 2006</b> .....	502,882,585	¥251,441	¥26,655	¥678,359	¥(7,058)	¥14,503	¥(1,043)	¥ 80	¥46,266	¥1,009,206	
Cash dividends paid .....				(29,937)						(29,937)	
Bonuses to directors and corporate auditors .....				(318)						(318)	
Net income .....				53,173						53,173	
Purchases of treasury stock ..					(476)					(476)	
Disposal of treasury stock ..			23		35					59	
Reversal of revaluation adjustments .....				31			(31)			-	
Net change during the year ..						(2,676)		870	2,779	973	
<b>Balance at March 31, 2007</b> .....	502,882,585	251,441	26,678	701,309	(7,498)	11,827	(1,074)	950	49,046	1,032,681	
Cash dividends paid .....				(29,930)						(29,930)	
Net income .....				17,294						17,294	
Purchases of treasury stock ..					(426)					(426)	
Reversal of revaluation adjustments .....				122			(122)			-	
Net change during the year ..						(6,350)		10	2,073	(4,266)	
<b>Balance at March 31, 2008</b> .....	<b>502,882,585</b>	<b>¥251,441</b>	<b>¥26,678</b>	<b>¥688,795</b>	<b>¥(7,925)</b>	<b>¥ 5,477</b>	<b>¥ (1,196)</b>	<b>¥961</b>	<b>¥51,120</b>	<b>¥1,015,352</b>	

	Thousands of U.S. dollars (Note 3)										
		Shareholders' equity				Valuation, translation adjustments and other				Minority interests in consolidated subsidiaries	Total net assets
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Revaluation adjustments	Foreign currency translation adjustments			
<b>Balance at March 31, 2007</b> .....	\$2,509,391	\$266,247	\$6,999,091	\$(74,830)	\$118,033	\$(10,718)	\$9,481	\$489,481	\$10,306,197		
Cash dividends paid .....			(298,702)						(298,702)		
Net income .....			172,594						172,594		
Purchases of treasury stock ..				(4,251)					(4,251)		
Reversal of revaluation adjustments .....			1,217			(1,217)			-		
Net change during the year ..					(63,373)		99	20,688	(42,574)		
<b>Balance at March 31, 2008</b> .....	<b>\$2,509,391</b>	<b>\$266,247</b>	<b>\$6,874,201</b>	<b>\$(79,091)</b>	<b>\$ 54,660</b>	<b>\$(11,936)</b>	<b>\$9,590</b>	<b>\$510,179</b>	<b>\$10,133,253</b>		

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Tohoku Electric Power Co., Inc. and Consolidated Subsidiaries  
Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
<b>Operating activities</b>			
Income before income taxes and minority interests .....	¥ 38,956	¥ 94,845	\$ 388,782
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization .....	274,207	278,157	2,736,596
Provision for accrued retirement benefits .....	(16,115)	(12,984)	(160,828)
Loss on sales and disposal of property, plant and equipment .....	18,327	15,442	182,904
(Reversal of) provision for reserve for reprocessing costs of irradiated nuclear fuel .....	(3,799)	7,295	(37,914)
Provision for pre-reserve for reprocessing costs of irradiated nuclear fuel .....	2,464	3,126	24,590
Provision for reserve for decommissioning costs of nuclear power units .....	10,581	2,275	105,598
(Reversal of) provision for reserve for fluctuation in water levels .....	(6,213)	4,276	(62,005)
Interest and dividend income .....	(3,005)	(2,140)	(29,990)
Interest expense .....	45,947	46,934	458,552
Increase in fund for reprocessing costs of irradiated nuclear fuel .....	(1,494)	(43,056)	(14,910)
Changes in operating assets and liabilities:			
Amounts due from customers .....	(51,507)	(51,260)	(514,041)
Accounts payable .....	48,297	2,644	482,005
Other operating assets and liabilities .....	(11,629)	(3,880)	(116,057)
Subtotal .....	345,018	341,676	3,443,293
Interest and dividends received .....	2,851	1,643	28,453
Interest paid .....	(42,251)	(42,366)	(421,666)
Income taxes paid .....	(28,518)	(24,769)	(284,610)
Net cash provided by operating activities .....	277,100	276,182	2,765,469
<b>Investing activities</b>			
Acquisitions of property, plant and equipment .....	(233,459)	(199,853)	(2,329,930)
Contributions received in aid of construction .....	79,364	3,302	792,055
Increase in investments and advances .....	(7,291)	(1,346)	(72,764)
Changes in other assets and liabilities .....	2,252	306	22,475
Net cash used in investing activities .....	(159,133)	(197,591)	(1,588,163)
<b>Financing activities</b>			
Proceeds from long-term loans and issuance of bonds .....	164,529	203,695	1,642,005
Repayment or redemption of long-term loans or bonds .....	(255,301)	(196,607)	(2,547,914)
Increase (decrease) in short-term borrowings and commercial paper .....	9,163	(48,946)	91,447
Purchases of treasury stock .....	(426)	(476)	(4,251)
Cash dividends .....	(29,883)	(29,924)	(298,233)
Cash dividends to minority shareholders .....	(717)	(717)	(7,155)
Other .....	(38)	(26)	(379)
Net cash used in financing activities .....	(112,675)	(73,004)	(1,124,500)
Effect of exchange rate changes on cash and cash equivalents .....	(4)	10	(39)
Net increase in cash and cash equivalents .....	5,286	5,597	52,754
Cash and cash equivalents at beginning of the year .....	119,073	112,622	1,188,353
Increase in cash and cash equivalents upon inclusion of additional subsidiaries in consolidation .....	-	853	-
Cash and cash equivalents at end of the year .....	¥124,359	¥119,073	\$1,241,107

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Tohoku Electric Power Co., Inc. and Consolidated Subsidiaries  
March 31, 2008

## 1. Summary of Significant Accounting Policies

### (a) Basis of preparation

The accompanying consolidated financial statements of Tohoku Electric Power Company, Incorporated (the "Company") and its consolidated subsidiaries have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan and are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

As permitted by the Financial Instruments and Exchange Law, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

### (b) Principles of consolidation and accounting for investments in affiliates

The accompanying consolidated financial statements include the accounts of the Company and all companies controlled directly or indirectly by the Company. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. All significant intercompany balances and transactions have been eliminated in consolidation.

The differences between the cost and the underlying net equity of investments in consolidated subsidiaries at the dates of acquisition are, as a rule, amortized over a period of five years.

### (c) Property, plant and equipment

Property, plant and equipment are generally stated at cost.

Depreciation of property, plant and equipment is computed by the declining-balance method over the estimated useful lives of the respective assets. Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to income when incurred.

Amortization of easements is computed by the straight-line method based on the estimated useful lives of the power transmission lines.

### (d) Nuclear fuel

Nuclear fuel is stated at cost less accumulated amortization. The amortization of loaded nuclear fuel is computed based on the proportion of heat production for current year to the total heat production estimated over the life of the nuclear fuel.

### (e) Marketable and investment securities

Marketable and investment securities are classified into three categories depending on the holding purpose: i) trading securities, which are held for the purpose of earning capital gains in the short-term, ii) held-to-maturity debt securities, which a company has the positive intent to

hold until maturity, and iii) other securities, which are not classified as either of the aforementioned categories.

Held-to-maturity debt securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

### (f) Fuel and supplies

Fuel (oil, gas and coal) and supplies are stated at cost determined by the average method.

### (g) Cash equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

### (h) Employees' retirement benefits

Accrued retirement benefits for employees have been provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the year end, as adjusted for the unrecognized actuarial gain or loss and unrecognized prior service cost.

The retirement benefit obligation is attributed to each period by the straight-line method over the estimated remaining years of service of the eligible employees.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over periods (principally 1 year through 15 years) which are shorter than the average remaining years of service of the employees participating in the plan.

Prior service cost is primarily charged or credited to income when incurred.

### (i) Reserve for reprocessing costs of irradiated nuclear fuel

The reserve is stated at the present value of the amount that would be required to reprocess only the irradiated nuclear fuel actually planned to be reprocessed. The cumulative effect of the adoption of the revised accounting standard of ¥45,015 million (\$449,251 thousand) as of April 1, 2005 is being amortized over fifteen years starting from the year ended March 31, 2006. The balance of the unrecognized costs at March 31, 2008 is ¥36,012 million (\$359,401 thousand).

The unrecognized estimation gain of ¥700 million (\$6,986 thousand) at March 31, 2008 resulting from the difference in discount rate will be recognized over a period for which irradiated fuel actually planned to be reprocessed are generated.

### (j) Pre-reserve for reprocessing costs of irradiated nuclear fuel

The pre-reserve is stated at the present value of the amount that would be required to reprocess the irradiated nuclear fuel without a definite plan for reprocessing.

The costs needed to reprocess irradiated nuclear fuel without a definite plan for reprocessing attribute to the year



ended March 31, 2006 are recorded as operating expenses for the year ended March 31, 2007.

## **(k) Reserve for decommissioning costs of nuclear power units**

The Company, as required by a regulatory authority which is an advisory body to the Ministry of Economy, Trade and Industry, records a reserve for decommissioning costs of nuclear power units. Provision is made for the cost of future disposition of nuclear power units in proportion to the ratio of their current generation of electric power to the estimated total generation of electric power over the life of each unit.

With respect to decommissioning costs of nuclear power units, since a reasonable method for estimating cost increases under the revised clearance level of radioactive waste was established and the relevant Ministry of Economy, Trade and Industry Ordinance was revised in March 2008 with respect to the calculation method for estimating decommissioning costs of each unit, the estimated total reserve for decommissioning costs of nuclear power units of the Company for the year ended March 31, 2008 was calculated in accordance with the revised ordinance.

This resulted in recognition of an additional ¥6,327 million (\$63,143 thousand) of reserve for decommissioning costs of nuclear power units and decrease in income before income taxes and minority interests by the same amount, of which ¥5,792 million (\$57,804 thousand) was included in "other expenses" as the amount corresponding to the power production volume over the past years.

## **(l) Reserve for fluctuation in water levels**

To offset fluctuation in income caused by varying water levels, the Company and its consolidated subsidiaries are required under the Electric Utility Law to record a reserve for fluctuation in water levels.

## **(m) Leases**

The Company and its consolidated subsidiaries lease certain equipment under noncancelable lease agreements referred to as finance leases. Finance leases other than those which transfer the ownership of the leased property to the lessee are accounted for as operating leases.

## **(n) Income taxes**

Deferred tax assets and liabilities have been recognized in the consolidated financial statements with respect to the differences between financial reporting and the tax bases of the assets and liabilities, and were measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

## **(o) Foreign currency translation**

All monetary assets and liabilities, both short-term and long-term, denominated in foreign currencies are translated into yen at the exchange rates prevailing at the balance sheet dates, and the resulting gain or loss is included in income.

The revenue and expense accounts of foreign subsidiaries are translated into yen at the average rates

of exchange prevailing during the year. The balance sheet accounts are translated into yen at the rates of exchange in effect at the balance sheet date, except for the components of shareholders' equity which are translated at their historical exchange rates. Adjustments resulting from this translation process are accumulated in a separate component of net assets.

## **(p) Derivatives and hedging transactions**

The Company has entered into various derivatives transactions in order to manage certain risk arising from adverse fluctuation in foreign currency exchange rates and interest rates. Derivatives are carried at fair value with any changes in unrealized gain or loss charged or credited to operations, except for those which meet the criteria for deferral hedge accounting or special treatment as permitted by the accounting standard for financial instruments. Receivables and payables hedged by qualified derivatives are translated at the corresponding foreign exchange contract rates.

## **(q) Appropriation of retained earnings**

Under the Corporation Law of Japan, the appropriation of retained earnings with respect to a given financial year is made by resolution of the shareholders at a general meeting to be held subsequent to the close of the financial year. The accounts for that year do not, therefore, reflect such appropriations. See Notes 10 and 18.

## **2. Accounting Change**

### **Depreciation method for depreciable assets**

Effective April 1, 2007, following the revision of the Corporation Tax Law, the Company has applied the depreciation method based on the revised Corporation Tax Law to depreciable assets acquired on or after April 1, 2007. This resulted in recognition of an additional ¥1,980 million (\$19,760 thousand) of depreciation and amortization costs, and decrease in income before income taxes and minority interests by the same amount.

Effective April 1, 2007, following the revision of the Corporation Tax Law, the Company has adopted a method in which the remaining value of tangible fixed assets acquired on or before March 31, 2007 is evenly depreciated over a period of five years beginning the year following the year in which accumulated depreciation reached the depreciable limit.

This resulted in recognition of an additional ¥11,248 million (\$112,255 thousand) of depreciation and amortization costs, and decrease in income before income taxes and minority interests by the same amount.

## **3. U.S. Dollar Amounts**

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥100.20 = U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2008, has been used in translation. The inclusion of such amounts is not intended to

imply that yen have been or could be readily converted, realized or settled in U.S. dollars at that or any other rate.

#### 4. Property, Plant and Equipment

Property, plant and equipment at March 31, 2008 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Hydro power plant	¥ 535,031	¥ 529,497	\$ 5,339,630
Thermal power plant	1,738,915	1,798,184	17,354,441
Nuclear power plant	1,286,226	1,283,882	12,836,586
Transmission plant	1,416,887	1,384,535	14,140,588
Transformation plant	750,639	732,237	7,491,407
Distribution plant	1,260,884	1,208,521	12,583,672
General plant	326,964	339,600	3,263,113
Other	777,163	760,504	7,756,117
	<b>8,092,712</b>	<b>8,036,963</b>	<b>80,765,588</b>
Construction work			
in progress	182,207	161,162	1,818,433
Total	<b>¥8,274,919</b>	<b>¥8,198,125</b>	<b>\$82,584,021</b>

Contributions in aid of construction, which were deducted from the cost of property, plant and equipment at March 31, 2008 and 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
	¥ 202,167	¥ 195,087	\$ 2,017,634

#### 5. Marketable Securities and Investment Securities

Held-to-maturity debt securities for which market prices were available at March 31, 2008 and 2007 were as follows:

Year ended March 31, 2008	Millions of yen		
	Carrying value	Market value	Unrealized gain (loss)
Securities whose market value exceeds their carrying value:			
Other	¥ -	¥ -	¥ -
Securities whose carrying value exceeds their market value:			
Other	4,881	4,549	(332)
Total	<b>¥4,881</b>	<b>¥4,549</b>	<b>¥(332)</b>

Year ended March 31, 2007	Millions of yen		
	Carrying value	Market value	Unrealized gain (loss)
Securities whose market value exceeds their carrying value:			
Other	¥4,499	¥4,604	¥104
Securities whose carrying value exceeds their market value:			
Other	2,000	1,658	(341)
Total	<b>¥6,499</b>	<b>¥6,263</b>	<b>¥(236)</b>

Year ended March 31, 2008	Thousands of U.S. dollars		
	Carrying value	Market value	Unrealized gain (loss)
Securities whose market value exceeds their carrying value:			
Other	\$ -	\$ -	\$ -
Securities whose carrying value exceeds their market value:			
Other	48,712	45,399	(3,313)
Total	<b>\$48,712</b>	<b>\$45,399</b>	<b>\$(3,313)</b>

Other securities for which market prices were available at March 31, 2008 and 2007 were as follows:

Year ended March 31, 2008	Millions of yen		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥14,682	¥24,502	¥9,819
Securities whose acquisition cost exceeds their carrying value:			
Stock	3,196	2,929	(267)
Total	<b>¥17,879</b>	<b>¥27,431</b>	<b>¥9,552</b>

Year ended March 31, 2007	Millions of yen		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥14,766	¥33,753	¥18,986
Securities whose acquisition cost exceeds their carrying value:			
Stock	1,112	1,024	(87)
Total	<b>¥15,879</b>	<b>¥34,778</b>	<b>¥18,899</b>

Year ended March 31, 2008	Thousands of U.S. dollars		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	\$146,526	\$244,530	\$97,994
Securities whose acquisition cost exceeds their carrying value:			
Stock	31,896	29,231	(2,664)
Total	<b>\$178,433</b>	<b>\$273,762</b>	<b>\$95,329</b>

Sales of securities classified as other securities amounted to ¥8 million (\$79 thousand) with an aggregate gain of ¥4 million (\$39 thousand) for the year ended March 31, 2008.

Sales of securities classified as other securities amounted to ¥53 million with an aggregate gain of ¥39 million and loss of ¥0 million for the year ended March 31, 2007.

Investment securities stated at cost at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Held-to-maturity:			
Certificates of deposit	¥5,490	¥-	\$54,790
Municipal bonds	877	1,051	8,752
Other	10	10	99
Other securities:			
Unlisted stocks	37,476	34,054	374,011
Subscription certificate	1,180	1,180	11,776
Capital subscribed	942	875	9,401

The redemption schedule for other securities with maturity dates and held-to-maturity debt securities at March 31, 2008 and 2007 is summarized as follows:

	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
At March 31, 2008				
Municipal bonds	¥ 73	¥280	¥327	¥ 195
Other	5,490	10	-	5,000
Total	¥5,564	¥290	¥327	¥5,195

	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
At March 31, 2007				
Municipal bonds	¥173	¥287	¥331	¥ 258
Other	500	10	-	6,000
Total	¥674	¥297	¥331	¥6,258

	Thousands of U.S. dollars			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
At March 31, 2008				
Municipal bonds	\$ 728	\$2,794	\$3,263	\$ 1,946
Other	54,790	99	-	49,900
Total	\$55,528	\$2,894	\$3,263	\$51,846

## 6. Trade Notes Receivable and Amounts Due from Customers

Trade notes receivable and amounts due from customers at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Trade notes receivable and amounts due from customers	¥140,655	¥129,494	\$1,403,742
Less allowance for uncollectible receivables	(1,933)	(980)	(19,291)
Total	¥138,722	¥128,513	\$1,384,451

## 7. Short-Term Borrowings and Long-Term Debt

Short-term borrowings are principally secured. The related weighted-average interest rates for the years ended March 31, 2008 and 2007 were approximately 1.062% and 0.769%, respectively.

At March 31, 2008 and 2007, long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Bonds in yen due through 2020	¥1,260,524	¥1,320,067	\$12,580,079
Loans from banks and other financial institutions due through 2022	674,155	705,100	6,728,093
Other	203,230	233,537	2,028,243
Subtotal	2,137,910	2,258,705	21,336,427
Less current portion	(218,969)	(292,357)	(2,185,319)
Total	¥1,918,941	¥1,966,347	\$19,151,107

Long-term debt payments fall due subsequent to March 31, 2008 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2009	¥ 218,969	\$ 2,185,319
2010	199,030	1,986,327
2011	251,631	2,511,287
2012 and thereafter	1,468,279	14,653,483
Total	¥2,137,910	\$21,336,427

All assets of the Company are subject to certain statutory preferential rights established to secure the bonds and loans from The Development Bank of Japan.

Certain of the agreements relating to long-term debt stipulate that the Company is required to submit proposals for the appropriation of retained earnings and to report other significant matters, if requested by the lenders, for their review and approval prior to presentation to the shareholders. No such requests have ever been made.

Secured long-term debt at March 31, 2008 was as follows:

	Millions of yen	Thousands of U.S. dollars
Bonds	¥1,260,671	\$12,581,546
Long-term loans	269,060	2,685,229

The assets of certain consolidated subsidiaries pledged as collateral for the above long-term debt at March 31, 2008 were as follows:

	Millions of yen	Thousands of U.S. dollars
Land	¥12,535	\$125,099
Buildings	37,686	376,107
Machinery and equipment	21,566	215,229
Other	9,875	98,552
Total	¥81,665	\$815,019

## 8. Retirement Benefit Plans

The Company and certain of its subsidiaries have defined benefit plans, such as defined benefit pension plans, funded non-contributory tax-qualified retirement pension plans and a lump-sum retirement benefits plan, which together cover substantially all full-time employees who meet certain eligibility requirements. Certain subsidiaries have defined contribution plans.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets at March 31, 2008 and 2007 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Retirement benefit obligation	¥(481,065)	¥(480,381)	\$(4,801,047)
Plan assets at fair value	271,345	304,094	2,708,033
Unfunded retirement benefit obligation	(209,719)	(176,286)	(2,093,003)
Unrecognized actuarial loss (gain)	23,374	(26,669)	233,273
Unrecognized prior service cost	(250)	(286)	(2,495)
Prepaid pension cost	(1,888)	(1,357)	(18,842)
Accrued retirement benefits	¥(188,484)	¥(204,599)	\$(1,881,077)

The components of retirement benefit expenses for the years ended March 31, 2008 and 2007 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Service cost	¥19,654	¥17,148	\$196,147
Interest cost	9,487	9,335	94,680
Expected return on plan assets	(7,275)	(7,227)	(72,604)
Amortization of unrecognized actuarial gain	(15,073)	(14,288)	(150,429)
Amortization of unrecognized prior service cost	(35)	(35)	(349)
Contributions paid for defined contribution plans	786	762	7,844
Total	¥ 7,542	¥ 5,694	\$ 75,269

The principal assumptions used in determining the retirement benefit obligation and other components of the Company's and the consolidated subsidiaries' plans are shown below:

	2008	2007
Discount rates	2.0% – 2.5%	2.0% – 2.5%
Expected rates of return on plan assets	0.0% – 2.5%	0.0% – 4.2%
Period for amortization of unrecognized prior service cost	1year – 15years	1year – 15years
Period for amortization of unrecognized actuarial gain or loss	1year – 15years	1year – 15years
Method of allocation of estimated retirement benefits	Equally over the period	Equally over the period

## 9. Income Taxes

The Company and consolidated subsidiaries are subject to several taxes based on earnings, which, in the aggregate, resulted in a statutory tax rate of approximately 36% for both 2008 and 2007. Other major consolidated subsidiaries are subject to several taxes based on earnings, which, in the aggregate, resulted in statutory tax rate of approximately 40% for both 2008 and 2007.

The significant components of deferred tax assets and liabilities at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred tax assets:			
Accrued retirement benefits	¥ 68,689	¥ 74,662	\$ 685,518
Deferred charges	15,333	17,189	153,023
Intercompany profits	34,945	35,261	348,752
Other	67,207	60,544	670,728
	186,176	187,658	1,858,043
Valuation allowance	(10,833)	(7,652)	(108,113)
Total deferred tax assets	¥175,343	¥180,006	\$1,749,930
Deferred tax liabilities:			
Unrealized holding gain on other securities	(3,540)	(6,928)	(35,329)
Other	(996)	(1,385)	(9,940)
Total deferred tax liabilities	(4,537)	(8,314)	(45,279)
Net deferred tax assets	¥170,806	¥171,692	\$1,704,650

The effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2008 and 2007 differ from the statutory tax rate for the following reasons:

	2008	2007
Statutory tax rate	35.98%	35.98%
Effect of:		
Valuation allowance	8.10	2.83
Difference of tax rate in consolidated subsidiaries	2.93	1.06
Permanently non-deductible expenses for tax purposes such as entertainment expenses	–	1.01
Intercompany profits	2.24	0.99
Tax credit for research and development costs, IT investments and others	(2.07)	(1.15)
Other, net	0.40	(0.34)
Effective tax rates	47.58%	40.38%

Following the revision of the tax regulations of Miyagi Prefecture to raise the corporate enterprise tax rate for local development, the Company has applied the revised statutory effective tax rate to the calculation of deferred tax assets and liabilities of some consolidated subsidiaries. This resulted in recognition of an additional ¥49 million (\$489 thousand) of net deferred tax assets. Income taxes-deferred decreased by ¥51 million (\$508 thousand) and the net unrealized holding gain on securities also decreased by ¥2 million (\$19 thousand) for the year ended March 31, 2008.



## 10. Shareholders' Equity

The Corporation Law of Japan (the "Law") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the common stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

The legal reserve of ¥62,860 million (\$627,345 thousand) was included in retained earnings in the accompanying consolidated financial statements for the year ended March 31, 2008.

## 11. Operating Expenses

Operating expenses in the electricity business for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Personnel	¥ 141,117	¥ 136,499	\$ 1,408,353
Fuel	392,902	328,119	3,921,177
Purchased power	265,282	260,633	2,647,524
Maintenance	203,913	176,606	2,035,059
Depreciation	229,340	236,914	2,288,822
Taxes other than income taxes	92,425	92,534	922,405
Subcontracting fees	47,804	44,521	477,085
Other	142,605	141,811	1,423,203
Total	¥1,515,390	¥1,417,639	\$15,123,652

## 12. Research and Development Costs

Research and development costs for the years ended March 31, 2008 and 2007 were ¥9,192 million (\$91,736 thousand) and ¥9,036 million, respectively.

## 13. Leases

### (a) Lessees' accounting

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased machinery and equipment at March 31, 2008 and 2007, which would have been reflected in the balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Acquisition costs	¥7,234	¥4,048	\$72,195
Accumulated depreciation	1,429	1,194	14,261
Net book value	¥5,804	¥2,854	\$57,924

For the years ended March 31, 2008 and 2007, lease payments relating to finance leases accounted for as operating leases amounted to ¥692 million (\$6,906 thousand) and ¥631 million, respectively, which equaled the depreciation expense of the leased assets computed by the straight-line method over the respective lease terms with no residual value.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2008 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2009	¥ 814	\$ 8,123
2010 and thereafter	5,405	53,942
Total	¥6,220	\$62,075

Future minimum lease payments subsequent to March 31, 2008 for noncancelable operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2009	¥ 83	\$ 828
2010 and thereafter	174	1,736
Total	¥258	\$2,574

### (b) Lessors' accounting

The following amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets relating to finance leases accounted for as operating leases at March 31, 2008 and 2007:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Acquisition costs	¥6,487	¥5,091	\$64,740
Accumulated depreciation	3,088	1,935	30,818
Net book value	¥3,399	¥3,155	\$33,922

For the years ended March 31, 2008 and 2007, lease income relating to finance leases accounted for as operating leases amounted to ¥891 million (\$8,892 thousand) and ¥770 million, respectively.

For the years ended March 31, 2008 and 2007, depreciation of assets leased under finance leases accounted for as operating leases amounted to ¥881 million (\$8,792 thousand) and ¥753 million, respectively.

Future minimum lease income (including the interest portion thereon) subsequent to March 31, 2008 for finance leases accounted for as operating leases is summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2009	¥ 941	\$ 9,391
2010 and thereafter	2,102	20,978
Total	¥3,044	\$30,379

## 14. Contingent Liabilities

At March 31, 2008, the Company and its consolidated subsidiaries were contingently liable as co-guarantors of loans of other companies, primarily in connection with the procurement of fuel, in the amount of ¥97,664 million (\$974,690 thousand), and as guarantors of employees' housing loans in the amount of ¥937 million (\$9,351 thousand).

At March 31, 2008, the Company assigned to banks its obligation to make payments of its bonds amounting to ¥20,000 million (\$199,600 thousand) in the aggregate plus interest on the principal of its bonds due through 2014 at a rate of 4.65%. In this connection, the Company made deposits with the banks in fulfillment of the related obligation. The deposits and the bonds have thus been excluded from the accompanying consolidated balance sheet at March 31, 2008.

## 15. Amounts Per Share

Basic net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Diluted net income per share is computed based on the net income available for distribution to the shareholders and the weighted-average number of shares of common stock outstanding during the year assuming full conversion of the convertible bonds. Net assets per share are computed based on the net assets available for distribution to the shareholders and the number of shares of common stock outstanding at the year end.

The amounts per share for the years ended March 31, 2008 and 2007 were as follows:

Year ended March 31,	Yen		U.S. dollars
	2008	2007	2008
Net income:			
Basic .....	<b>¥34.67</b>	¥106.57	<b>\$0.346</b>
Diluted .....	-	-	-
Cash dividends applicable to the year...	<b>¥60.00</b>	¥ 60.00	<b>\$0.598</b>

At March 31,	Yen		U.S. dollars
	2008	2007	2008
Net assets .....	<b>¥1,933.42</b>	¥1,971.69	<b>\$19.295</b>

Since either the Company or its consolidated subsidiary did not have potentially dilutive securities at March 31, 2008 and 2007, diluted net income per share was not disclosed.

## 16. Derivatives

The Company utilizes forward foreign exchange contracts solely in order to hedge against the risk of fluctuation in foreign currency exchange rates and to stabilize its future cash flows relating to debts denominated in foreign currencies relating to its operations.

The Company also utilizes interest-rate swaps to hedge its exposure to adverse fluctuation in interest rates and to manage

its future cash flows relating to the principal and interest payments on bonds.

A certain consolidated subsidiary utilizes principal-guaranteed compound financial instrument for the purpose of efficient management of fund surplus.

The Company has entered into various derivatives transactions solely in order to hedge against certain risks in compliance with its internal policies. The Company does not utilize derivatives for speculative trading purposes.

A certain consolidated subsidiary utilizes only principal-guaranteed instrument, and does not utilize it for speculative trading purposes.

The Company is exposed to the risk of credit loss in the event of nonperformance by the counterparties to these derivatives positions, but considers the risk of any such loss to be minimal because the Company enters into derivatives transactions only with financial institutions which have high credit ratings.

The Company enters into, monitors and manages its derivatives positions based on its own internal policies.

The notional amounts and the estimated fair value of the derivatives positions at March 31, 2008 and 2007 were as follows:

	Millions of yen		
	Notional amounts	Fair value	Gain from valuation
At March 31, 2008			
Currency swaps:			
U.S. dollars .....	¥ -	¥ -	¥ -

	Millions of yen		
	Notional amounts	Fair value	Gain from valuation
At March 31, 2007			
Currency swaps:			
U.S. dollars .....	<b>¥50,759</b>	<b>¥5,396</b>	<b>¥5,396</b>

	Thousands of U.S. dollars		
	Notional amounts	Fair value	Gain from valuation
At March 31, 2008			
Currency swaps:			
U.S. dollars .....	\$ -	\$ -	\$ -

## 17. Segment Information

The segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2008 and 2007 is summarized as follows:

Year ended March 31, 2008	Millions of yen					Consolidated total
	Electric utility business	Construction business	Other	Total	Eliminations of intersegment transactions or corporate	
Net sales:						
(1)Net sales to outside customers	¥1,584,074	¥137,457	¥ 81,088	¥1,802,621	¥ -	¥1,802,621
(2)Net intersegment sales	2,539	145,566	137,565	285,671	(285,671)	-
Total	1,586,613	283,024	218,653	2,088,292	(285,671)	1,802,621
Operating expenses	1,530,275	271,408	205,743	2,007,427	(285,223)	1,722,203
Operating income	¥ 56,338	¥ 11,615	¥ 12,910	¥ 80,865	¥ (447)	¥ 80,417
Total assets	¥3,664,165	¥248,443	¥377,578	¥4,290,187	¥ (256,352)	¥4,033,835
Depreciation	¥ 247,646	¥ 3,401	¥ 30,838	¥ 281,886	¥ (7,678)	¥ 274,207
Capital expenditures	¥ 218,160	¥ 2,907	¥ 24,749	¥ 245,817	¥ (7,955)	¥ 237,861

Year ended March 31, 2007	Millions of yen					Consolidated total
	Electric utility business	Construction business	Other	Total	Eliminations of intersegment transactions or corporate	
Net sales:						
(1)Net sales to outside customers	¥1,539,130	¥116,663	¥ 72,502	¥1,728,296	¥ -	¥1,728,296
(2)Net intersegment sales	2,415	133,831	128,207	264,454	(264,454)	-
Total	1,541,546	250,495	200,710	1,992,751	(264,454)	1,728,296
Operating expenses	1,431,721	241,016	186,664	1,859,401	(265,040)	1,594,361
Operating income	¥ 109,824	¥ 9,478	¥ 14,046	¥ 133,349	¥ 585	¥ 133,935
Total assets	¥3,697,080	¥245,198	¥381,027	¥4,323,306	¥(253,974)	¥4,069,331
Depreciation	¥ 253,506	¥ 3,398	¥ 28,930	¥ 285,835	¥ (7,678)	¥ 278,157
Capital expenditures	¥ 183,217	¥ 3,018	¥ 24,323	¥ 210,559	¥ (7,612)	¥ 202,946

Year ended March 31, 2008	Thousands of U.S. dollars					Consolidated total
	Electric utility business	Construction business	Other	Total	Eliminations of intersegment transactions or corporate	
Net sales:						
(1)Net sales to outside customers	\$15,809,121	\$1,371,826	\$ 809,261	\$17,990,229	\$ -	\$17,990,229
(2)Net intersegment sales	25,339	1,452,754	1,372,904	2,851,007	(2,851,007)	-
Total	15,834,461	2,824,590	2,182,165	20,841,237	(2,851,007)	17,990,229
Operating expenses	15,272,205	2,708,662	2,053,323	20,034,201	(2,846,536)	17,187,654
Operating income	\$ 562,255	\$ 115,918	\$ 128,842	\$ 807,035	\$ (4,461)	\$ 802,564
Total assets	\$36,568,512	\$2,479,471	\$3,768,243	\$42,816,237	\$(2,558,403)	\$40,257,834
Depreciation	\$ 2,471,516	\$ 33,942	\$ 307,764	\$ 2,813,233	\$ (76,626)	\$ 2,736,596
Capital expenditures	\$ 2,177,245	\$ 29,011	\$ 246,996	\$ 2,453,263	\$ (79,391)	\$ 2,373,862

## 18. Subsequent Event

The following appropriations of retained earnings, which have not been reflected in the accompanying consolidated financial statements, were approved at a meeting of the shareholders of the Company held on June 27, 2008:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends		
(¥30 = U.S.\$0.299 per share)	¥14,961	\$149,311

# Report of Independent Auditors



■ Certified Public Accountants  
Hibiya Kokusai Bldg.  
2-2-3, Uchisaiwai-cho  
Chiyoda-ku, Tokyo, Japan 100-0011  
C.P.O. Box 1196, Tokyo, Japan 100-8641

■ Tel: 03 3503 1100  
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## Report of Independent Auditors

The Board of Directors  
Tohoku Electric Power Company, Incorporated

We have audited the accompanying consolidated balance sheets of Tohoku Electric Power Company, Incorporated and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tohoku Electric Power Company, Incorporated and consolidated subsidiaries at March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

*Ernst & Young Shin Nihon*

June 27, 2008



# Non-Consolidated Balance Sheets

Tohoku Electric Power Co., Inc.  
March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
<b>Assets</b>			
<b>Property, plant and equipment</b> (Note 4) .....	<b>¥7,507,776</b>	¥7,441,984	<b>\$74,927,904</b>
Less accumulated depreciation .....	<b>(4,672,843)</b>	(4,548,268)	<b>(46,635,159)</b>
Property, plant and equipment, net (Note 6) .....	<b>2,834,933</b>	2,893,715	<b>28,292,744</b>
<b>Nuclear fuel:</b>			
Loaded nuclear fuel .....	<b>32,043</b>	37,234	<b>319,790</b>
Nuclear fuel under processing .....	<b>108,732</b>	104,277	<b>1,085,149</b>
Total nuclear fuel .....	<b>140,775</b>	141,511	<b>1,404,940</b>
<b>Investments in and advances to:</b>			
Subsidiaries and affiliates (Notes 6 and 7) .....	<b>183,800</b>	183,531	<b>1,834,331</b>
Other (Note 6) .....	<b>68,730</b>	77,730	<b>685,928</b>
Total investments and advances .....	<b>252,531</b>	261,262	<b>2,520,269</b>
<b>Fund for reprocessing costs of irradiated nuclear fuel</b> .....	<b>106,016</b>	104,522	<b>1,058,043</b>
<b>Deferred income taxes</b> (Note 8) .....	<b>101,427</b>	101,879	<b>1,012,245</b>
<b>Other assets</b> (Note 6) .....	<b>4,505</b>	3,383	<b>44,960</b>
<b>Current assets:</b>			
Cash (Note 6) .....	<b>55,020</b>	55,003	<b>549,101</b>
Amounts due from customers, less allowance for uncollectible receivables (Notes 5 and 6) .....	<b>87,613</b>	78,347	<b>874,381</b>
Fuel and supplies (Note 6) .....	<b>41,405</b>	35,257	<b>413,223</b>
Deferred income taxes (Note 8) .....	<b>11,091</b>	11,727	<b>110,688</b>
Other current assets (Note 6) .....	<b>40,586</b>	22,766	<b>405,049</b>
Total current assets .....	<b>235,717</b>	203,102	<b>2,352,465</b>
<b>Total assets</b> .....	<b>¥3,675,908</b>	¥3,709,377	<b>\$36,685,708</b>

See notes to non-consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
<b>Liabilities and net assets</b>			
<b>Long-term debt</b> (Note 6) .....	<b>¥1,862,152</b>	¥1,897,517	<b>\$18,584,351</b>
<b>Accrued retirement benefits</b> .....	<b>145,892</b>	160,561	<b>1,456,007</b>
<b>Reserve for reprocessing costs of irradiated nuclear fuel</b> .....	<b>109,470</b>	113,269	<b>1,092,514</b>
<b>Pre-reserve for reprocessing costs of irradiated nuclear fuel</b> .....	<b>5,591</b>	3,126	<b>55,798</b>
<b>Reserve for decommissioning costs of nuclear power units</b> .....	<b>49,007</b>	38,426	<b>489,091</b>
<b>Current liabilities:</b>			
Short-term borrowings .....	<b>54,440</b>	54,440	<b>543,313</b>
Current portion of long-term debt (Note 6) .....	<b>199,233</b>	272,291	<b>1,988,353</b>
Commercial paper .....	<b>91,000</b>	82,000	<b>908,183</b>
Accounts payable .....	<b>126,478</b>	74,559	<b>1,262,255</b>
Accrued income taxes .....	-	16,020	-
Accrued expenses .....	<b>41,852</b>	40,074	<b>417,684</b>
Other current liabilities .....	<b>132,680</b>	63,371	<b>1,324,151</b>
Total current liabilities .....	<b>645,685</b>	602,758	<b>6,443,962</b>
<b>Reserve for fluctuation in water levels</b> .....	<b>12,981</b>	19,176	<b>129,550</b>
<b>Contingent liabilities</b> (Note 12)			
<b>Net assets</b> (Note 13):			
Shareholders' equity (Note 9):			
Common stock, without par value:			
Authorized - 1,000,000,000 shares			
Issued - 502,882,585 shares .....	<b>251,441</b>	251,441	<b>2,509,391</b>
Capital surplus .....	<b>26,657</b>	26,657	<b>266,037</b>
Legal reserve .....	<b>62,860</b>	62,860	<b>627,345</b>
Retained earnings (Note 15) .....	<b>507,365</b>	530,521	<b>5,063,522</b>
Treasury stock, at cost; 4,165,293 shares in 2008 and 4,003,069 shares in 2007 .....	<b>(8,007)</b>	(7,580)	<b>(79,910)</b>
Valuation, translation adjustments and other:			
Net unrealized holding gain on securities .....	<b>4,809</b>	10,640	<b>47,994</b>
Total net assets .....	<b>845,126</b>	874,540	<b>8,434,391</b>
<b>Total liabilities and net assets</b> .....	<b>¥3,675,908</b>	¥3,709,377	<b>\$36,685,708</b>

See notes to non-consolidated financial statements.

# Non-Consolidated Statements of Income

Tohoku Electric Power Co., Inc.  
Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
<b>Operating revenues</b> .....	<b>¥1,595,922</b>	¥1,546,745	<b>\$15,927,365</b>
<b>Operating expenses</b> (Note 10):			
Personnel expenses .....	139,293	134,695	1,390,149
Fuel .....	387,000	320,792	3,862,275
Purchased power .....	298,828	293,911	2,982,315
Maintenance .....	205,179	173,376	2,047,694
Depreciation .....	231,879	239,424	2,314,161
Taxes other than income taxes .....	86,162	86,350	859,900
Subcontracting fees .....	50,831	47,100	507,295
Other .....	143,094	142,782	1,428,083
	<b>1,542,268</b>	1,438,434	<b>15,391,896</b>
Operating income .....	<b>53,653</b>	108,311	<b>535,459</b>
<b>Other expenses (income):</b>			
Interest and dividend income .....	(3,180)	(2,420)	(31,736)
Interest expense .....	44,696	45,329	446,067
Provision for decommissioning costs of nuclear power units for prior periods .....	5,792	—	57,804
Other, net .....	(2,054)	(11,360)	(20,499)
	<b>45,254</b>	31,548	<b>451,636</b>
Income before special item and income taxes .....	<b>8,399</b>	76,762	<b>83,822</b>
<b>Special item:</b>			
(Reversal of) provision for reserve for fluctuation in water levels .....	(6,194)	4,275	(61,816)
Income before income taxes .....	<b>14,593</b>	72,487	<b>145,638</b>
<b>Income taxes</b> (Note 8):			
Current .....	3,454	28,490	34,471
Deferred .....	4,364	(783)	43,552
	<b>7,818</b>	27,706	<b>78,023</b>
<b>Net income</b> (Note 13) .....	<b>¥ 6,774</b>	¥ 44,780	<b>\$ 67,604</b>

See notes to non-consolidated financial statements.

# Non-Consolidated Statements of Changes in Net Assets

Tohoku Electric Power Co., Inc.  
Years ended March 31, 2008 and 2007

Millions of yen									
	Number of shares of common stock	Shareholders' equity					Treasury stock, at cost	Valuation, translation adjustments and other Net unrealized holding gain on securities	Total net assets
		Common stock	Capital surplus	Legal reserve	Retained earnings				
<b>Balance at March 31, 2006</b>	502,882,585	¥251,441	¥26,657	¥62,860	¥515,778	¥(7,104)	¥13,343	¥862,977	
Cash dividends paid					(29,940)			(29,940)	
Bonuses to directors and corporate auditors					(97)			(97)	
Net income					44,780			44,780	
Purchases of treasury stock						(476)		(476)	
Net change during the year							(2,702)	(2,702)	
<b>Balance at March 31, 2007</b>	502,882,585	251,441	26,657	62,860	530,521	(7,580)	10,640	874,540	
Cash dividends paid					(29,930)			(29,930)	
Net income					6,774			6,774	
Purchases of treasury stock						(426)		(426)	
Net change during the year							(5,831)	(5,831)	
<b>Balance at March 31, 2008</b>	<b>502,882,585</b>	<b>¥251,441</b>	<b>¥26,657</b>	<b>¥62,860</b>	<b>¥507,365</b>	<b>¥(8,007)</b>	<b>¥4,809</b>	<b>¥845,126</b>	

Thousands of U.S. dollars (Note 3)									
	Common stock	Shareholders' equity					Treasury stock, at cost	Valuation, translation adjustments and other Net unrealized holding gain on securities	Total net assets
		Capital surplus	Legal reserve	Retained earnings					
<b>Balance at March 31, 2007</b>	\$2,509,391	\$266,037	\$627,345	\$5,294,620		\$(75,648)	\$106,187	\$8,727,944	
Cash dividends paid				(298,702)				(298,702)	
Net income				67,604				67,604	
Purchases of treasury stock						(4,251)		(4,251)	
Net change during the year							(58,193)	(58,193)	
<b>Balance at March 31, 2008</b>	<b>\$2,509,391</b>	<b>\$266,037</b>	<b>\$627,345</b>	<b>\$5,063,522</b>		<b>\$(79,910)</b>	<b>\$47,994</b>	<b>\$8,434,391</b>	

See notes to non-consolidated financial statements.



# Notes to Non-Consolidated Financial Statements

Tohoku Electric Power Co., Inc.  
March 31, 2008

## 1. Summary of Significant Accounting Policies

The accompanying non-consolidated financial statements of Tohoku Electric Power Company, Incorporated (the "Company") have been compiled from the non-consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan and are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

As permitted by the Financial Instruments and Exchange Law, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying non-consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

The accompanying non-consolidated financial statements have been prepared on the same basis as the accounting policies discussed in Note 1 to the consolidated financial statements except that these financial statements relate to the Company only, with investments in subsidiaries and affiliates being stated substantially at cost.

## 2. Accounting Change

### Depreciation method for depreciable assets

Effective April 1, 2007, following the revision of the Corporation Tax Law, the Company has applied the depreciation method based on the revised Corporation Tax Law to depreciable assets acquired on or after April 1, 2007. This resulted in recognition of an additional ¥1,700 million (\$16,966 thousand) of depreciation and amortization costs, and decrease in income before income taxes by the same amount.

Effective April 1, 2007, following the revision of the Corporation Tax Law, the Company has adopted a method in which the remaining value of tangible fixed assets acquired on or before March 21, 2007 is evenly depreciated over a period of five years beginning the year following the year in which accumulated depreciation reached the depreciable limit.

This resulted in recognition of an additional ¥8,572 million (\$85,548 thousand) of depreciation and amortization costs, and decrease in income before income taxes by the same amount.

## 3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥100.20= U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2008, has been used in translation. The inclusion of such amounts is not intended to imply that yen have been or could be readily converted, realized or settled in U.S. dollars at that or any other rate.

## 4. Property, Plant and Equipment

Property, plant and equipment at March 31, 2008 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Hydro power plant	¥ 484,723	¥ 478,887	\$ 4,837,554
Thermal power plant	1,555,381	1,617,222	15,522,764
Nuclear power plant	1,291,036	1,288,638	12,884,590
Internal combustion power plant	27,375	25,939	273,203
Transmission plant	1,452,802	1,419,302	14,499,021
Transformation plant	781,240	762,121	7,796,806
Distribution plant	1,362,604	1,306,513	13,598,842
General plant	354,243	366,120	3,535,359
Property leased to others	501	501	5,000
Other	20,082	18,966	200,419
	<b>7,329,994</b>	<b>7,284,214</b>	<b>73,153,632</b>
Construction work in progress	177,782	157,769	1,774,271
Total	<b>¥7,507,776</b>	<b>¥7,441,984</b>	<b>\$74,927,904</b>

Contributions in aid of construction, which were deducted from the cost of property, plant and equipment at March 31, 2008 and 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
	¥189,921	¥182,860	\$1,895,419

## 5. Amounts Due from Customers

Amounts due from customers, less allowance for uncollectible receivables at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Amounts due from customers	¥88,106	¥78,758	\$879,301
Less allowance for uncollectible receivables	(493)	(410)	(4,920)
Total	<b>¥87,613</b>	<b>¥78,347</b>	<b>\$874,381</b>

## 6. Assets Pledged as Collateral

All assets of the Company are subject to certain statutory preferential rights established to secure the bonds and loans from The Development Bank of Japan.

Secured long-term debt at March 31, 2008 was as follows:

	Millions of yen	Thousands of U.S. dollars
Bonds	<b>¥1,260,971</b>	<b>\$12,584,540</b>
Long-term loans	<b>232,964</b>	<b>2,324,990</b>

## 7. Securities

The carrying and market value of the common stock of Yurtec Corp., a subsidiary, included in investments in and advances to subsidiaries and affiliates at March 31, 2008 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Carrying value	<b>¥ 5,978</b>	¥ 5,978	<b>\$ 59,660</b>
Market value	<b>19,981</b>	23,659	<b>199,411</b>
Unrealized gain	<b>¥14,002</b>	¥17,680	<b>\$139,740</b>

## 8. Income Taxes

The Company is subject to corporation and inhabitants' taxes based on earnings, which, in the aggregate, resulted in a statutory tax rate of approximately 36% for both 2008 and 2007.

The significant components of the Company's deferred tax assets and liabilities at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred tax assets:			
Accrued retirement benefits	<b>¥ 52,492</b>	¥ 57,769	<b>\$ 523,872</b>
Deferred charges	<b>15,230</b>	17,079	<b>151,996</b>
Other	<b>56,732</b>	50,493	<b>566,187</b>
	<b>124,454</b>	125,342	<b>1,242,055</b>
Valuation allowance	<b>(8,798)</b>	(5,726)	<b>(87,804)</b>
Total deferred tax assets	<b>115,656</b>	119,616	<b>1,154,251</b>
Deferred tax liabilities:			
Unrealized holding gain on securities	<b>(3,082)</b>	(6,009)	<b>(30,758)</b>
Other	<b>(53)</b>	—	<b>(528)</b>
Total deferred tax liabilities	<b>(3,136)</b>	(6,009)	<b>(31,297)</b>
Net deferred tax assets	<b>¥112,519</b>	¥113,606	<b>\$1,122,944</b>

The effective tax rates reflected in the accompanying statements of income for the year ended March 31, 2008 and 2007 differ from the statutory tax rate for the following reasons:

	2008	2007
Statutory tax rate	<b>35.98%</b>	35.98%
Effect of:		
Valuation allowance	<b>20.28</b>	2.80
Permanently non-deductible expenses for tax purposes such as entertainment expenses	<b>2.23</b>	0.77
Tax credit for research and development costs	<b>(3.84)</b>	(0.80)
Tax credit for IT investments	<b>(1.31)</b>	(0.63)
Other, net	<b>0.24</b>	0.10
Effective tax rates	<b>53.58%</b>	38.22%

## 9. Shareholders' Equity

The Corporation Law of Japan (the "Law") provides that an amount equal to 10% of the amount to be disbursed as distribution of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the common stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

Retained earnings at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Appropriated retained earnings:			
Reserve for cost fluctuation adjustments	<b>¥103,000</b>	¥103,000	<b>\$1,027,944</b>
Reserve for depreciation of Higashi Niigata Thermal Power Station Unit 4-2 Series	<b>5,000</b>	10,000	<b>49,900</b>
Reserve for general purposes	<b>332,400</b>	306,400	<b>3,317,365</b>
Unappropriated retained earnings	<b>66,965</b>	111,121	<b>668,313</b>
Total	<b>¥507,365</b>	¥530,521	<b>\$5,063,522</b>

## 10. Research and Development Costs

Research and development costs for the years ended March 31, 2008 and 2007 were ¥8,283 million (\$82,664 thousand) and ¥8,096 million, respectively.

## 11. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased machinery and equipment at March 31, 2008 and 2007, which would have been reflected in the balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Acquisition costs .....	<b>¥16,698</b>	¥16,521	<b>\$166,646</b>
Accumulated depreciation .....	<b>7,731</b>	7,133	<b>77,155</b>
Net book value .....	<b>¥ 8,966</b>	¥ 9,387	<b>\$ 89,481</b>

For the years ended March 31, 2008 and 2007, lease payments relating to finance leases accounted for as operating leases amounted to ¥3,004 million (\$29,980 thousand) and ¥3,016 million, respectively, which equaled the depreciation expense of the leased assets computed by the straight-line method over the respective lease terms with no residual value.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2008 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2009 .....	<b>¥2,920</b>	<b>\$29,141</b>
2010 and thereafter .....	<b>6,046</b>	<b>60,339</b>
Total .....	<b>¥8,966</b>	<b>\$89,481</b>

## 12. Contingent Liabilities

At March 31, 2008, the Company was contingently liable as a co-guarantor of loans of other companies, primarily in connection with the procurement of fuel, in the amount of ¥106,200 million (\$1,059,880 thousand), and as guarantor of employees' housing loans in the amount of ¥906 million (\$9,041 thousand).

At March 31, 2008, the Company assigned to banks its obligation to make payments of its bonds amounting to ¥20,000 million (\$199,600 thousand) in the aggregate plus interest on the principal of its bonds due through 2014 at a rate of 4.65%. In this connection, the Company made deposits with the banks in fulfillment of the related obligation. The deposit and the bonds have thus been excluded from the accompanying non-consolidated balance sheet at March 31, 2008.

## 13. Amounts Per Share

Basic net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Diluted net income per share is computed based on the net income available for distribution to the shareholders and the weighted-average number of shares of common stock outstanding during the year assuming full conversion of the convertible bonds. Net assets per share are computed based on the net assets available for distribution to the shareholders and the number of shares of common stock outstanding at the year end.

The amounts per share for the years ended March 31, 2008 and 2007 were as follows:

Year ended March 31,	Yen		U.S. dollars
	2008	2007	2008
Net income:			
Basic .....	<b>¥13.58</b>	¥89.75	<b>\$0.135</b>
Diluted .....	-	-	-
Cash dividends applicable to the year...	<b>60.00</b>	60.00	<b>0.598</b>

At March 31,	Yen		U.S. dollars
	2008	2007	2008
Net assets .....	<b>¥1,694.60</b>	¥1,753.01	<b>\$16.912</b>

Since the Company did not have potentially dilutive securities at March 31, 2008 and 2007, diluted net income per share was not disclosed.

## 14. Derivatives

The Company utilizes forward foreign exchange contracts solely in order to hedge against the risk of fluctuation in foreign currency exchange rates and to stabilize its future cash flows relating to debts denominated in foreign currencies relating to its operations.

The Company also utilizes interest-rate swaps to hedge its exposure to adverse fluctuation in interest rates and to manage its future cash flows relating to the principal and interest payments on bonds.

The Company has entered into various derivatives transactions solely in order to hedge against certain risks in compliance with its internal policies. The Company does not utilize derivatives for speculative trading purposes.

The Company is exposed to the risk of credit loss in the event of nonperformance by the counterparties to these derivatives positions, but considers the risk of any such loss to be minimal because the Company enters into derivatives transactions only with financial institutions which have high credit ratings.

The Company enters into, monitors and manages its derivatives positions based on its own internal policies.

The notional amounts and the estimated fair value of the derivatives positions at March 31, 2008 and 2007 were as follows:

At March 31, 2008	Millions of yen		
	Notional amounts	Fair value	Gain from valuation
Currency swaps:			
U.S. dollars .....	¥ -	¥ -	¥ -

At March 31, 2007	Millions of yen		
	Notional amounts	Fair value	Gain from valuation
Currency swaps:			
U.S. dollars .....	¥50,759	¥5,396	¥5,396

At March 31, 2008	Thousands of U.S. dollars		
	Notional amounts	Fair value	Gain from valuation
Currency swaps:			
U.S. dollars .....	\$ -	\$ -	\$ -

## 15. Subsequent Event

The following appropriations of retained earnings, which have not been reflected in the accompanying non-consolidated financial statements, were approved at a meeting of the shareholders of the Company held on June 27, 2008:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends .....	¥14,961	\$149,311
(¥30=U.S.\$0.299 per share)		



# Report of Independent Auditors



■ Certified Public Accountants  
Hibiya Kokusai Bldg.  
2-2-3, Uchisaiwai-cho  
Chiyoda-ku, Tokyo, Japan 100-0011  
C.P.O. Box 1196, Tokyo, Japan 100-8641

■ Tel: 03 3503 1100  
Fax: 03 3503 1197

## Report of Independent Auditors

The Board of Directors  
Tohoku Electric Power Company, Incorporated

We have audited the accompanying non-consolidated balance sheets of Tohoku Electric Power Company, Incorporated as of March 31, 2008 and 2007, and the related non-consolidated statements of income and changes in net assets for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the non-consolidated financial position of Tohoku Electric Power Company, Incorporated at March 31, 2008 and 2007, and the non-consolidated results of its operations for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

A handwritten signature in cursive script that reads 'Ernst &amp; Young ShinNihon'.

June 27, 2008

# ADDENDUM

A Brief Backgrounder on the Tohoku Region and Related Corporate Data

## C o n t e n t s

52	Tohoku Region – Full of Development Potential
54	Tohoku Electric Power in Comparison with 10 Japanese Electric Power Companies
54	Facts and Figures about Main Subsidiaries
55	Board of Directors
56	Non-Consolidated Corporate Data
56	Directory
57	Power Supply Network



## Tohoku Region – Full of Development Potential

Our management philosophy can be summed up in the two phrases “prospering together with the local community” and “creating new corporate value.” On this basis of this philosophy, we consider the development of the Tohoku region to be a key element in Tohoku Electric Power Company’s development.

The Tohoku Economic Federation, an association of businesses in the Tohoku region, has been playing a leading role in organizing activities to facilitate regional development by actively attracting new companies to the area.

Together with the Tohoku Economic Federation, Tohoku Electric Power Company is a central figure in such initiatives. As a result of our efforts, over the past decade almost 20% of the new plants constructed in Japan have been built in the Tohoku region.

In addition, over the past year, businesses in the auto and semiconductor-related industries have decided to establish operations in the Tohoku region. These industries in particular need the support of a web of other industries and thus have the effect of revitalizing local businesses.

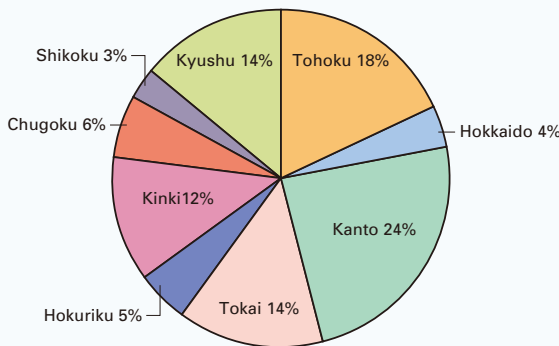
In recent years, Tohoku’s infrastructure, such as roads and ports, has rapidly been developed, enabling smooth distribution.

Furthermore, the region is situated a short distance from and has the shortest ocean transportation route to Russia, a country whose economy is expected to expand in the future.

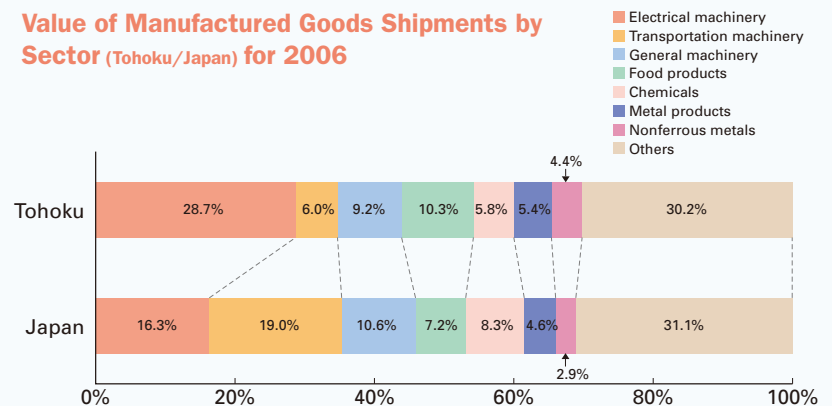
Such conditions make the Tohoku region a viable production center and an advantageous location from which to conduct shipping trade.

**Regional proportions of the number of newly established businesses**

Total from 1997 to 2007



**Value of Manufactured Goods Shipments by Sector (Tohoku/Japan) for 2006**



The share of electrical machinery in the Tohoku region amounts to about 30% and is uniquely larger than that in the entire Japan.

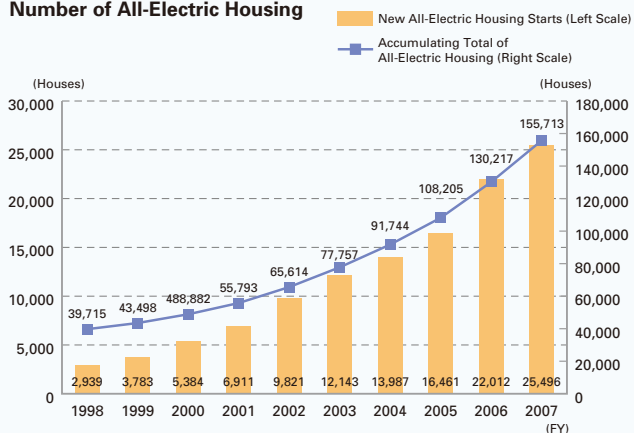




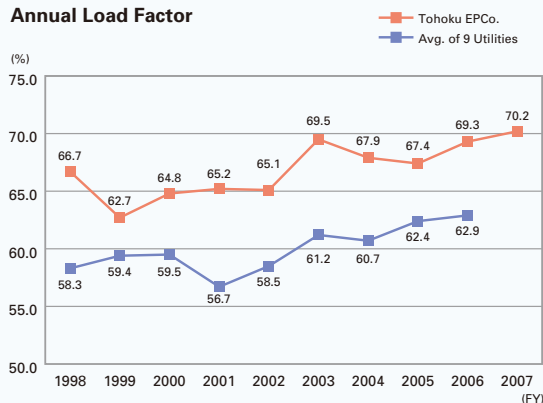
Additionally, with respect to household demand, we have successfully promoted all-electric housing by targeting newly built residential homes.

As a result, an environment where there is strong year-round demand for electricity has been created, the annual load factor is high and facilities are constructed and operated efficiently.

#### Number of All-Electric Housing

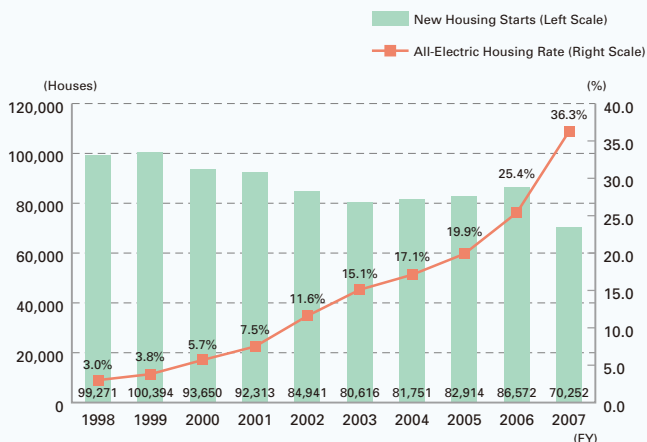


#### Annual Load Factor

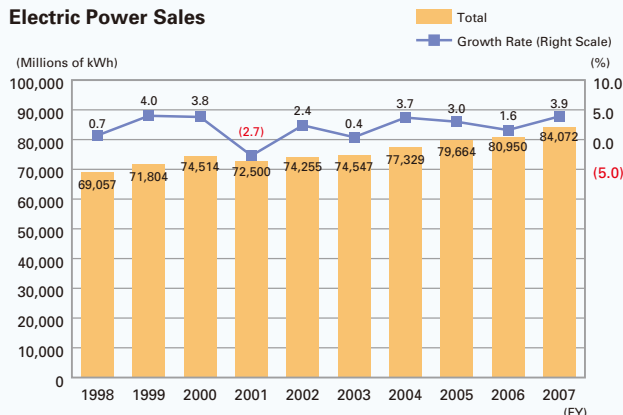


The growth rate of electric power sales over the years from fiscal 1998 to fiscal 2007 was 21.7%, which is far above the average growth rate of 15.1% of electricity sales in Japan.

This trend is expected to continue, based on the trend in new plant construction and further promotion of all-electric housing.



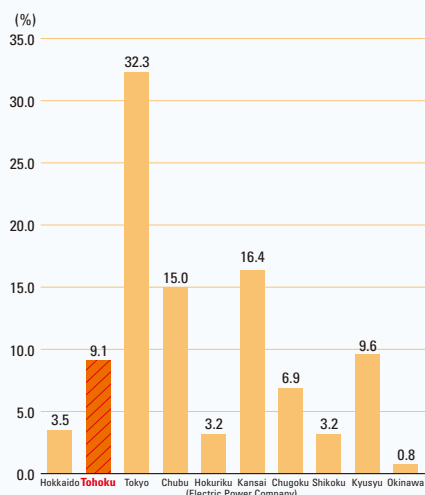
#### Electric Power Sales



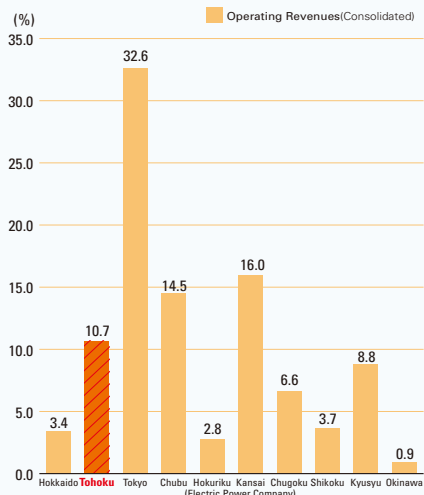


### Tohoku Electric Power in Comparison with 10 Japanese Electric Power Companies

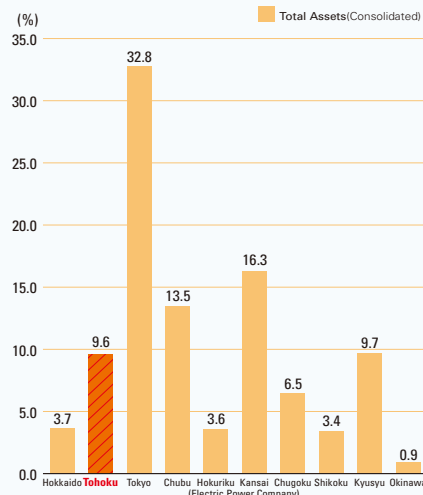
Percentage Shares of Electric Power Sales by EPCo  
(10 Japanese EPCOs' total for FY 2007=100%)



Percentage Shares of Operating Revenues by EPCo  
(10 Japanese EPCOs' total for FY 2007=100%)



Percentage Shares of Total Assets by EPCo  
(10 Japanese EPCOs' total for FY 2007=100%)



### Facts and Figures about Main Subsidiaries

(as of March, 2008)

Company	Date of Establishment	Equity Ownership (%)	Paid-in Capital (Millions of yen)
<b>1. Electric Power Business : Generation and supply of electricity</b>			
Tousei Kougyo Co., Inc.	Jan. 26, 1953	100.0	5,270
Sakata Kyodo Power Co., Ltd.	Apr. 2, 1973	100.0	25,500
Tohoku Natural Energy Development Co., Ltd.	Feb. 28, 2000	74.7	300
Tohoku Hydropower & Geothermal Energy Co., Inc.	Oct. 12, 1984	75.0	2,000
Joban Joint Power Co., Ltd.*	Dec. 23, 1955	49.1	56,000
Arakawa Hydro-Electric Power Co., Ltd.*	Apr. 22, 1960	50.0	350
Soma Kyodo Power Co., Ltd.*	Jun. 1, 1981	50.0	112,800
<b>2. Construction Business : Upgrading and expanding of facilities, construction for equipment maintenance</b>			
Yurtec Corp.	Oct. 10, 1944	47.9	7,803
Tohoku Electric Power Engineering & Construction Co., Inc.	Feb. 1, 1959	100.0	1,000
Tohoku Ryokka Kankyohozen Co., Ltd.	Apr. 1, 1972	100.0	50
<b>3. Gas Business : Supply of LNG to generate power</b>			
Nihonkai LNG Co., Ltd.	Aug. 26, 1978	42.3	12,000
<b>4. Information Processing, Telecommunication Business : Telecommunication business through the use of communication equipments and technologies</b>			
Tohoku Intelligent Telecommunication Co., Inc.	Oct. 27, 1992	100.0	10,000
Tohoku Information Systems Co., Inc.	Jul. 1, 2001	100.0	96
<b>5. Other Business</b>			
Kitanihon Electric Cable Co., Ltd.	Jul. 11, 1946	60.7	135
Tsuken Electric Ind Co., Ltd.	Nov. 19, 1946	81.7	100
Higashi Nihon Kougyou Co., Inc.	Nov. 2, 1953	100.0	1,000

\* Equity Method Applied Affiliates

## Board of Directors

(as of June, 2008)

### Chairman of the Board



Keiichi Makuta

### President



Hiroaki Takahashi

### Executive Vice Presidents



Tsuneo Saito



Takeo Nishi



Masayuki Oyama



Mitsuru Suzuki

### Managing Directors



Yukio Endo



Harumasa Kodama



Kazunori Watanabe



Toshiya Kishi



Nobuaki Abe

#### Directors

Kyonosuke Sasaki  
Eiji Hayasaka  
Yasuo Yahagi  
Takeo Umeda  
Kazuo Morishita

#### Standing Auditors

Isao Ishikawa  
Fumiaki Maekawa

#### Auditors

Sakuya Fujiwara  
Ikuo Uno  
Ikuo Kaminishi

## Non-Consolidated Corporate Data

### Tohoku Electric Power Co., Inc.

(as of March, 2008)

<b>Registered Head Office</b>	1-7-1 Honcho, Aoba-ku, Sendai, Miyagi 980-8550, Japan URL: <a href="http://www.tohoku-epco.co.jp">http://www.tohoku-epco.co.jp</a>			
<b>Date Established</b>	May 1, 1951			
<b>Paid-in Capital</b>	¥251,441 million			
<b>Common Stock</b>	Authorized: 1,000,000,000 shares Issued: 502,882,585 shares			
<b>Common Stock Price Range</b>	FY 2007		FY 2006	
(Tokyo Stock Exchange)	High	Low	High	Low
<b>First quarter</b>	¥3,040	¥2,660	¥2,770	¥2,300
<b>Second quarter</b>	¥2,875	¥2,370	¥2,695	¥2,375
<b>Third quarter</b>	¥2,770	¥2,245	¥3,020	¥2,580
<b>Fourth quarter</b>	¥2,690	¥2,330	¥3,500	¥2,885
<b>Cash Dividends</b>	FY 2007	FY 2006		
<b>Interim</b>	¥30.00	¥30.00		
<b>Year-end</b>	¥30.00	¥30.00		
<b>Total</b>	¥60.00	¥60.00		
<b>Number of Shareholders</b>	241,211			
<b>Number of Employees</b>	11,376 (Not including on loan or leave.)			
<b>Number of Customers</b>	7,665,308			
(Excluding the deregulated segment)				
<b>Service Area</b>	79,534 square kilometers			
<b>Transfer Agent</b>	Mitsubishi UFJ Trust and Banking Corporation 1-4-5, Marunouchi, Chiyoda-ku, Tokyo 100-8212, Japan			
<b>Directory</b>				
<b>Head Office</b>	1-7-1 Honcho, Aoba-ku, Sendai, Miyagi 980-8550, Japan Telephone: +81-(0)22-225-2111 or +81-(0)22-799-6086 Facsimile: +81-(0)22-225-2550			
<b>Aomori Branch</b>	2-12-19 Minatomachi, Aomori, Aomori 030-8560, Japan Telephone: +81-(0)17-742-2191 Facsimile: +81-(0)17-744-2140			
<b>Iwate Branch</b>	1-25 Konyacho, Morioka, Iwate 020-8521, Japan Telephone: +81-(0)19-653-2115 Facsimile: +81-(0)19-653-5980			
<b>Akita Branch</b>	5-15-6 Sanno, Akita, Akita 010-0951, Japan Telephone: +81-(0)18-863-3151 Facsimile: +81-(0)18-823-4945			
<b>Miyagi Branch</b>	5th Floor, Sumitomo Seimei Sendai-Chuo Bldg., 4-6-1 Chuo, Aoba-ku, Sendai, Miyagi 980-6005, Japan Telephone: +81-(0)22-225-2141 Facsimile: +81-(0)22-213-4211			
<b>Yamagata Branch</b>	2-1-9 Honcho, Yamagata, Yamagata 990-8691, Japan Telephone: +81-(0)23-641-1321 Facsimile: +81-(0)23-641-5982			
<b>Fukushima Branch</b>	2-35 Okitamacho, Fukushima, Fukushima 960-8522, Japan Telephone: +81-(0)24-522-9151 Facsimile: +81-(0)24-521-2120			
<b>Niigata Branch</b>	84 Gobancho, Kamiokawamae-dori, Chuo-ku, Niigata, Niigata 951-8633, Japan Telephone: +81-(0)25-223-3151 Facsimile: +81-(0)25-222-6447			
<b>Tokyo Branch</b>	5th Floor, Daini-Tekko Bldg., 1-8-2 Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan Telephone: +81-(0)3-3231-3501 Facsimile: +81-(0)3-3201-4832			

## Power Supply Network

### Major Facilities

(as of March 31, 2008)

<b>Power Stations (Total)</b>	<b>230</b>	<b>16.80GW</b>
Hydro	211	2.42 GW
Thermal (including geothermal and internal combustion)	17	11.11 GW
Nuclear	2	3.27 GW
<b>Transmission Facilities</b>		
Line Length	14,817km	
Circuit Length	23,838km	
Supports	58,459	
<b>Substations</b>		
<b>609</b>	<b>64.51 GVA</b>	
<b>Distribution Facilities</b>		
Line Length	142,603km	
Circuit Length	570,518km	
Supports	3,000,866	

- ▲ Major hydroelectric power station
- ▲ Thermal, geothermal or nuclear power station
- ▲ Other company's power station
- Major substation
- Other company's major substation
- Other company's AC/DC converter station
- Major switching station
- Other company's major switching station
- Transmission line (500 kV)
- Transmission line (275 kV)
- Transmission line (154 kV)
- Other company's transmission line







### *Hanamiyama Park*

"Mt. Hanamiyama" in Fukushima City, Fukushima Prefecture is famous as a cherry-blossom viewing spot. Beginning with fragrant wintersweet in early spring, yoshino cherry, golden bells, flowering quince, Japanese cornelian cherry, magnolia, and then peach bloom, and compete for beauty with each other. The charm of this mountain is in a beautiful spectacle just like a picture that shows the words "profusion of flowers."

It is also well-known that Shotaro Akiyama, a representative photographer of Japan, praised the area as "Shangri-La' in Fukushima," and visited every year.

This mountain is personally-owned by a flower farmer, and the father and son of the farm built the park over a long time since they wished that everybody could enjoy their pretty flowers, and opened it to the public for free.

## **Tohoku Electric Power Co., Inc.**

1-7-1 Honcho, Aoba-ku, Sendai, Miyagi 980-8550, Japan

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Facsimile: +81-(0)22-225-2550

URL: <http://www.tohoku-epco.co.jp>

