Financial Review (Consolidated Basis)

Operating Results

Even with a decrease in the volume of retail electricity sales due to intensifying competition caused by liberalization of electricity market, consolidated operating revenue for the year ended March 31, 2019 (fiscal 2018) increased ¥172.9 billion (US$1,558 million) or 8.3% from the previous fiscal year to ¥2,244.3 billion (US$20,220million), mainly due to an increase in wholesale electricity sales beyond our franchise area and to JEPX.

In addition, consolidated operating revenue includes ¥408.3 billion (US$3,679 million), total of grant under act on purchase of renewable energy sourced electricity and surcharge for promoting renewable energy sourced electricity based on Feed-in Tariff Scheme for renewable energy and the self-contracted portion due to introduction of the indirect auction. As this is recorded in expenses as well, it does not affect the Company's income.

Consolidated ordinary income decreased to ¥65.7 billion (US$592 million) (a year-on-year decrease of ¥22.6 billion (US$204 million) or 25.7%), due to an increase of operating expenses caused by the impact of water shortage and an increase in fuel cost because of a rise in fuel price, despite our continuous efforts to streamline the business operation and reduce the entire expenses.

Regarding net income attributable to owners of parent, the Company booked an extraordinary income relating to compensation for damage of restoration delay of Haramachi Thermal Power Station caused by the accident at TEPCO's Fukushima Daiichi Nuclear Power Station and an extraordinary loss in accordance with decision of decommissioning of Onagawa Nuclear Power Station Unit 1.　As a result, net income attributable to owners of parent decreased ¥732 million (US$6 million) or 1.6% from the previous fiscal year to ¥46.4 billion (US$418 million).

Fiscal 2018 results by business segment are as follows.

【Electric power business】

There was an increase in cooling demand resulting from higher temperature in this summer than the same period last year; nevertheless, contract switching due to intensifying competition and a decrease in heating demand due to higher temperature in this winter compared to the previous year decreased retail electricity sales to 68.9TWh, down by 4.3% year-on-year.

Even with a decrease in the volume of retail electricity sales due to intensifying competition caused by liberalization of electricity market, consolidated operating revenue for the year ended March 31, 2019 (fiscal 2018) increased ¥158.3 billion (US$1,426 million) or 8.5% from the previous fiscal year to ¥2,015.9 billion (US$18,163 million), mainly due to an increase in wholesale electricity sales beyond our franchise area and to JEPX.

In addition, consolidated operating revenue includes ¥408.3 billion (US$3,679 million), total of grant under act on purchase of renewable energy sourced electricity and surcharge for promoting renewable energy sourced electricity based on Feed-in Tariff Scheme for renewable energy and the self-contracted portion due to introduction of the indirect auction. As this is recorded in expenses as well, it does not affect the Company's income.

With respect to expenses, operating expenses increased due an increase of operating expenses caused by the impact of water shortage and an increase in fuel cost because of a rise in fuel price, despite our continuous efforts to streamline the business operation and reduce the entire expenses.

As a result, operating income totaled ¥64.8 billion (US$584 million), a decrease of ¥19.1 billion (US$172 million) or 22.8% from the previous fiscal year.

【Construction business】

Operating revenue decreased ¥12.5 billion (US$112 million) or 4.3% from the previous fiscal year to ¥275.8 billion (US$2,485 million), mainly due to the decrease in construction orders related to electrical facilities.

Operating income totaled ¥10.8 billion (US$97 million), a decrease of ¥4.2 billion (US$38 million) or 28.4% from the previous fiscal year, due to operating expenses decreased as a result of the decrease in construction orders.

【Other businesses】

Operating revenue increased ¥6.5 billion (US$58 million) or 3.0% from the previous fiscal year to ¥225.0 billion (US$2,027 million), mainly due to the increased sales in gas business.

Meanwhile, operating expenses increased due to an increase in gas business.

As a result, operating income totaled ¥ 10.7billion (US$97 million), remained at the same level as the previous year.

Capital Expenditure

The Group's capital expenditure in fiscal 2018 (not subject to adjustment) was ¥293.6 billion (US$2,645 million). By segment, the electric power business accounted for ¥265.2 billion (US$2,390 million), the construction business for ¥5.1 billion (US$46 million) and other businesses for ¥23.1 billion (US$208 million).

In the electric power business, we invested in plant and equipment necessary to respond efficiently to long-term demand. Of the capital outlay in the electric power business, ¥110.2 billion (US$993 million) or 41.5% was spent on new construction of power generating units, and ¥140.5 billion (US$1,266 million) or 53.0% was spent on new construction of transmission, transformation, distribution and other facilities. Another ¥14.5 billion (US$130 million) or 5.5% was invested in nuclear fuel.

Assets, Liabilities and Net Assets

Total assets at the end of fiscal 2018 were valued at ¥4,258.6 billion (US$38,369 million), an increase of ¥36.4 billion (US$328 million) or 0.9% from the end of fiscal 2017.

Total liabilities at the end of fiscal 2018 were ¥3,424.9 billion (US$30,857 million), remained at the same level as the previous year.

Net assets at the end of fiscal 2018 came to ¥833.7 billion (US$7,511 million), an increase of ¥35.0 billion (US$315 million) or 4.4% from the end of fiscal 2017, mainly due to an increase in retained earnings as a result of the recording of net income attributable to owners of parent.

As a result, the equity ratio rose to 17.9% from 17.3% in the previous year.

Cash Flows

Cash and cash equivalents at the end of fiscal 2018 were ¥184.9 billion (US$1,666 million), a decrease of ¥57.2 billion (US$515 million) or 23.6% from the end of fiscal 2017.

Cash flows by activity and factors contributing to year-on-year changes are as follows.

【Cash flows from operating activities】

Cash inflow from operating activities decreased ¥61.2 billion (US$551 million) or 18.9% from the previous fiscal year to ¥262.8 billion (US$2,367 million) mainly because of a decrease in depreciation.

【Cash flows from investing activities】

Cash outflow from investing activities decreased ¥23.3 billion (US$210 million) or 8.5% from the previous fiscal year to ¥250.5 million (US$2,257 million) mainly because of a decrease in outflow of purchase of non-current assets.

【Cash flows from financing activities】

Cash outflow from financing activities increased ¥33.0 billion (US$297 million) or 91.0% from the previous fiscal year to ¥69.3 billion (US$624 million), mainly due to an increase in outflow from repayment of loans payable and redemption of bonds.

Business and Other Risks

The following are major risks that could affect the corporate group's performance and financial position. We will focus our efforts on minimizing these risks, and if any should occur, we will take prompt action. The risks shown below were those identified by our company on June 26, 2019, and they may be affected by changes in energy policy and/or electricity system reform in the future.

1. Changes in Nuclear Energy Policy

We think it is necessary to utilize nuclear power generation to some extent, under the basic premise of securing safety, and we have been implementing safety measures in response to new regulatory requirements, in addition to our voluntary and continuing efforts to further enhance safety.

Meanwhile, the circumstances surrounding nuclear power generation have become increasingly severe. If changes in nuclear energy policies and/or regulations affect stable operations of nuclear power stations including long-term suspension of operation, thermal power fuel and other costs may increase, which may have an impact on the results and financial position of our corporate group.

2. Electricity Business Reforms

Progress in Electricity system reforms such as the introduction of new market transactions by the creation of a base load power source market, change in policies based on the Basic Energy Plan, and the subsequent intensified competition with other businesses may affect our performance and financial condition.

3. Fluctuation in Nuclear Power Back-End Costs

The back-end business of nuclear power takes an extremely long time period and has many uncertainties. Despite the risk reduction efforts by the government, costs may vary depending on national energy policy, regulatory reform, changes in estimates of future expenses, the operating status of reprocessing plants, and other factors, which may have an impact on the results and financial condition of our corporate group.

4. Changes in Electric Power Sales Affected by Economic and Climatic Conditions and the Great East Japan Earthquake

In the electric power business, the volume of electricity sales fluctuates due to economic conditions and temperature, as well as the progress of energy conservation. Consequently, the performance of our corporate group could potentially be affected.

The Great East Japan Earthquake on March 11, 2011, seriously affected the Tohoku region. Even though eight years have passed since the earthquake, reconstruction in the region is still underway. The recovery of electricity demand to the level before the earthquake will take some time.

In addition, fluctuation in yearly precipitation affects hydropower output, which may affect our fuel costs. However, we have set aside a reserve for fluctuation in water levels, which allows the Company to make certain adjustments against such impact within balance of reserve, thus limiting the effect on performance.

5. Fluctuations in Fuel Prices

Fuel costs for thermal power generation are affected by fluctuations in CIF prices of coal, LNG, and heavy/crude oil, as well as exchange rates. To diversify the risk caused by fuel price fluctuations, we are making efforts to maintain a well-balanced combination of power sources.

The Fuel Cost Adjustment System, which is designed to reflect fluctuations in fuel prices and exchange rates on electricity rates, applies to electric utilities. However, if fuel and other prices change significantly, our corporate group companies' business performance and financial condition could be affected.

6. Natural Disasters and Operational Problems

Our corporate group companies conduct regular inspections and repair of facilities in order to improve their reliability and provide a stable supply of high-quality electricity. Despite such efforts, large-scale power outages may occur, facilities may be damaged, and power sources could be cut off over a long period of time due to natural disasters, such as earthquakes, tsunami, typhoons, accidents or illegal activities, including terrorism. In such cases, our group companies' business performance and financial condition could be adversely affected.

7. Interest Rate Fluctuations

Our group companies' results and financial status may be affected by future trends in market interest rates and changes in ratings. However, because the balance of interest-bearing liabilities mainly consists of corporate bonds and long-term loans with fixed interest, we believe that the influence of fluctuations in market interest rates is limited.

8. Information Leakage

Our corporate group companies possess a large amount of important information, such as information on individuals and facilities. Our efforts to secure proper handling of important information include the establishment of Standards of Personal Information Protection, education for our employees, and asking our outsourcing contractors for thorough management, to enhance information security. If any problems occur as a result of a leakage of important information, our corporate group companies' results and financial condition could be affected adversely.

9. Businesses other than Electricity Services

In the energy service area, our corporate group companies, while placing emphasis on providing electricity services, have also been supporting Tohoku ESCO projects, which provide integrated services to save energy, and partnering with gas supply businesses. In information and communications and other business areas, we are promoting profitability-focused, highly self-sustaining business operations through careful selection and greater concentration. The performance of these businesses is sometimes affected by changes in the business environment, such as increased competition with other companies and the progress of gas system reforms. For this reason, business performance in areas other than electricity services may affect our corporate group companies' entire results and financial condition.

10. Compliance

We believe that compliance with business ethics and applicable laws and regulations must be a precondition of all business activities. Therefore, our corporate group companies have established systems to ensure strict observation of corporate ethics, laws and regulations, and are making efforts to spread the use of these systems. Despite these efforts, if any violation of business ethics is committed, the reputation of our corporate group may be damaged, adversely affecting our results and financial condition.

Five-Year Summary (Consolidated basis)

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

	Millions of yen				
	2019	2018	2017	2016	2015
Operating results					
Operating revenue	**¥ 2,244,314**	¥ 2,071,380	¥ 1,949,584	¥ 2,095,587	¥ 2,182,075
Operating expenses	**2,160,681**	1,963,714	1,819,161	1,905,828	2,012,335
Operating income	**83,633**	107,665	130,422	189,759	169,739
Interest expenses	**18,762**	21,684	24,420	32,419	53,908
Other expenses (income), net	**(6,626)**	12,468	1,298	4,723	(20,512)
Income before special item and income taxes	**71,497**	73,512	104,704	152,616	136,343
special item	**(1,100)**	1,100	-	-	-
Income before income taxes	**72,598**	72,412	104,704	152,616	136,343
Income taxes	**21,735**	20,260	28,364	48,150	51,915
Net income attributable to non-controlling interests	**4,379**	4,935	6,408	7,140	7,935
Net income attributable to owners of parent	**46,483**	47,216	69,931	97,325	76,493

Sources and application of funds					
Sources:					
Internal funds	**¥ 337,886**	¥ 314,995	¥337,189	¥409,871	¥466,026
External funds:					
Bonds	**99,653**	129,546	139,506	180,565	119,610
Borrowings	**739,900**	225,436	354,465	347,502	363,643
	839,553	354,982	493,971	528,067	483,253
Total	**1,177,439**	669,977	831,160	937,938	949,280
Applications:					
Capital expenditure	**293,614**	303,477	300,921	319,834	263,582
Debt redemption	**883,824**	366,500	530,239	618,104	685,698
Total	**1,177,439**	669,977	831,160	937,938	949,280
Assets and capital					
Total assets	**¥ 4,258,633**	¥ 4,222,163	¥ 4,145,928	¥ 4,152,436	¥ 4,131,217
Property, plant and equipment, net	**3,080,453**	3,002,433	2,983,003	2,949,631	2,931,897
Capital stock	**251,441**	251,441	251,441	251,441	251,441
Total net assets	**833,711**	798,705	755,624	684,393	651,216

	Millions of yen				
	2019	2018	2017	2016	2015
Cash Flows					
Operating activities:					
Net cash provided by operating activities	¥ **262,804**	¥ 324,019	¥ 278,147	¥371,873	¥ 374,212
Investing activities:					
Net cash used in investing activities	**(250,570)**	(273,915)	(256,341)	(250,521)	(247,732)
Financing activities:					
Net cash (used in) provided by financing activities	**(69,307)**	(36,280)	(55,925)	(104,131)	(211,278)
Effect of exchange rate changes on cash and cash equivalents	**(154)**	84	(94)	(66)	(58)
Increase in cash and cash equivalents from newly consolidated subsidiary	**-**	-	-	0	39
Increase in cash and cash equivalents resulting from merger	**-**	-	-	752	-
Cash and cash equivalents at end of the period	**184,942**	242,171	228,262	262,476	244,570

	2019	2018	2017	2016	2015
Electric power sales (GWh)					
Lighting (Residential)	**22,745**	23,889	24,004	23,706	24,266
Power	**46,130**	48,114	50,255	51,351	52,357
Total	**68,876**	72,003	74,258	75,057	76,623

	2019	2018	2017	2016	2015
Plant data					
Generating capacity (MW)					
(Number of plants):					
Hydroelectric	**2,556**	2,555	2,551	2,538	2,549
	(227)	(227)	(227)	(226)	(229)
Thermal *	**12,131**	13,053	12,965	12,725	12,563
	(13)	(13)	(13)	(13)	(13)
Nuclear	**2,750**	3,274	3,274	3,274	3,274
	(2)	(2)	(2)	(2)	(2)
Internal combustion power *	**-**	-	-	-	0
	-	-	-	-	(0)
Renewables	**243**	241	276	276	271
	(19)	(18)	(18)	(18)	(14)
Total	**17,680**	19,124	19,066	18,812	18,658
	(261)	(260)	(260)	(259)	(258)
Substation capacity (MVA)	**78,379**	76,811	75,708	75,211	74,305
Transmission lines (km)	**15,330**	15,281	15,190	15,212	15,181
Distribution lines (km)	**147,934**	147,582	147,078	146,550	145,943

* Intenal combustion power is included in Thermal in the year ended March 31, 2015 and after.

Other data					
Number of employees	**25,032**	25,058	24,771	24,285	24,536

Consolidated Balance Sheets

	March 31,		
	2019	2018	2019
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
Assets			
Property, plant and equipment *(Note 5)*	¥9,799,944	¥ 9,647,360	$ 88,295,738
Less accumulated depreciation	(6,719,491)	(6,644,926)	(60,541,409)
Property, plant and equipment, net	(3,080,453)	3,002,433	(27,754,329)
Nuclear fuel:			
Loaded nuclear fuel	30,591	34,729	275,619
Nuclear fuel in processing	134,490	125,248	1,211,730
Total nuclear fuel	165,081	159,977	1,487,350
Long-term investments *(Notes 6 and 7)*	102,888	110,554	927,002
Net defined benefit asset (*Note 15*)	4,303	4,224	38,769
Deferred tax assets *(Note 19)*	162,696	173,126	1,465,861
Other assets *(Note 10)*	105,573	107,147	951,193
Current assets:			
Cash and deposits *(Notes 6 and 9)*	178,729	187,905	1,610,316
Notes and accounts receivable – trade *(Notes 6 and 12)*	231,841	211,902	2,088,845
Inventories *(Note 11)*	78,789	70,196	709,874
Other current assets	148,275	194,692	1,335,931
Total current assets	637,635	664,697	5,744,977
Total assets	¥ 4,258,633	¥ 4,222,163	$ 38,369,519

	March 31,		
	2019	2018	2019
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Liabilities and net assets			
Long-term debt *(Notes 6 and 14)*	¥2,084,490	¥2,105,601	$18,780,881
Reserve for restoration costs of natural disaster	4,873	4,987	43,904
Net defined benefit liability *(Note 15)*	178,561	178,178	1,608,802
Asset retirement obligations *(Note 16)*	161,929	121,001	1,458,951
Deferred tax liabilities for land revaluation *(Note 13)*	1,373	1,412	12,370
Current liabilities:			
Current portion of non-current liabilities *(Notes 6 and 14)*	321,875	374,094	2,900,036
Notes and accounts payable – trade *(Note 6)*	141,197	143,999	1,272,159
Accrued income taxes	6,708	9,896	60,437
Other advances	252,430	263,798	2,274,349
Reserve for restoration costs of natural disaster	198	135	1,783
Other current liabilities	271,283	219,251	2,444,211
Total current liabilities	993,693	1,011,175	8,952,995
Reserve for fluctuation in water levels	-	1,100	-
Contingent liabilities *(Note 25)*			
Net assets *(Note 26)*:			
Shareholders' equity *(Note 20)*:			
Capital stock, without par value:			
Authorized – 1,000,000,000 shares			
Issued – 502,882,585 shares	251,441	251,441	2,265,438
Capital surplus	22,558	22,433	203,243
Retained earnings	499,132	472,718	4,497,089
Treasury shares; 3,643,599 shares in 2019 and 3,804,644 shares in 2018	(6,788)	(7,101)	(61,158)
Total shareholders' equity	766,343	739,490	6,904,613
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities *(Note 7)*	3,072	6,861	27,678
Deferred losses on hedges *(Note 8)*	(908)	(1,272)	(8,180)
Revaluation reserve for land *(Note 13)*	(854)	(840)	(7,694)
Foreign currency translation adjustments	179	684	1,612
Remeasurements of defined benefit plans *(Note 15)*	(5,666)	(14,562)	(51,049)
Total accumulated other comprehensive income	(4,176)	(9,129)	(37,625)
Subscription rights to shares *(Note 17)*	1,013	957	9,126
Non-controlling interests	70,530	67,387	635,462
Total net assets	833,711	798,705	7,511,586
Total liabilities and net assets	¥4,258,633	¥4,222,163	$38,369,519

See notes to consolidated financial statements.

Consolidated Statements of Income

	Year ended March 31,		
	2019	**2018**	2019
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Operating revenue:			
Electric utility operating revenue	¥2,012,701	¥1,854,398	$18,134,075
Other business operating revenue	231,613	216,981	2,086,791
	2,244,314	2,071,380	20,220,866
Operating expenses *(Note 21 and 23)*:			
Electric utility operating expenses *(Note 22)*	1,943,004	1,763,752	17,506,117
Other business operating expenses	217,676	199,962	1,961,221
	2,160,681	1,963,714	19,467,348
Operating income	83,633	107,665	753,518
Other expenses (income):			
Interest and dividend income	(1,165)	(1,014)	(10,496)
Interest expenses	18,762	21,684	169,042
Impairment loss on non-current assets	-	14,920	-
Compensation income for damage *(Note 24)*	7,900	-	71,177
Loss on decommissioning of Onagawa Nuclear Power Station Unit 1 *(Note 4)*	(2,145)	-	(19,326)
Share of profit of entities accounted for using equity method	(141)	(715)	(1,270)
Other, net	(434)	(722)	(3,910)
	12,135	34,152	109,334
Income before special item and income taxes	71,497	73,512	644,175
Special item:			
Provision of reserve for fluctuation in water levels	(1,100)	1,100	(9,910)
Income before income taxes	72,598	72,412	654,094
Income taxes *(Note 19)*:			
Current	13,861	15,174	124,885
Deferred	7,873	5,085	70,934
	21,735	20,260	195,828
Net income	50,863	52,151	458,266
Net income attributable to non-controlling interests	4,379	4,935	39,454
Net income attributable to owners of parent *(Note 26)*	¥ 46,483	¥ 47,216	$ 418,803

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

	Year ended March 31,		
	2019	**2018**	2019
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Net income	¥50,863	¥52,151	$458,266
Other comprehensive income *(Note 27)*:			
Valuation difference on available-for-sale securities	(3,883)	440	(34,985)
Deferred gains on hedges	363	611	3,270
Foreign currency translation adjustments	(503)	496	(4,531)
Remeasurements of defined benefit plans	8,925	11,352	80,412
Share of other comprehensive income of entities accounted for using equity method	(1)	(0)	(9)
Total other comprehensive income	4,900	12,900	44,148
Comprehensive income	55,763	65,052	502,414
Total comprehensive income attributable to:			
Owners of parent	¥51,450	¥59,577	$463,555
Non-controlling interests	4,312	5,474	38,850

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Year ended March 31, 2019

	Shareholders' equity					Accumulated other comprehensive income								
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
							(Millions of yen)							
Balance at April 1, 2018	¥251,441	¥22,433	¥472,718	¥(7,101)	¥739,490	¥6,861	¥(1,272)	¥ (840)	¥ 684	¥(14,562)	¥(9,129)	¥957	¥67,387	¥798,705
Changes in parent's ownership interests arising from transactions with non-controlling interests		(125)			125									125
Dividends of surplus			(19,966)		(19,966)									(19,966)
Net income attributable to owners of parent			46,483		46,483									46,483
Purchases of treasury shares				(33)	(33)									(33)
Disposal of treasury shares			(117)	347	229									229
Reversal of revaluation reserve for land			13		13									13
Net changes in items other than shareholders' equity						(3,789)	363	(13)	(504)	8,896	4,953	56	3,143	8,152
Balance at March 31, 2019	¥251,441	¥22,558	¥499,132	¥(6,788)	¥766,343	¥3,072	¥(908)	¥(854)	¥179	¥(5,666)	¥ (4,176)	¥1,013	¥70,530	¥833,711

Year ended March 31, 2018

	Shareholders' equity					Accumulated other comprehensive income								
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
							(Millions of yen)							
Balance at April 1, 2017	¥251,441	¥26,558	¥445,547	¥(7,320)	¥716,226	¥6,462	¥(1,883)	¥ (940)	¥ 186	¥(25,371)	¥(21,546)	¥879	¥60,064	¥755,624
Changes in parent's ownership interests arising from transactions with non-controlling interests		(4,125)			(4,125)									(4,125)
Dividends of surplus			(19,961)		(19,961)									(19,961)
Net income attributable to owners of parent			47,216		47,216									47,216
Purchases of treasury shares				(37)	(37)									(37)
Disposal of treasury shares			(99)	256	157									157
Reversal of revaluation reserve for land			15		15									15
Net changes in items other than shareholders' equity						399	611	99	497	10,808	12,416	77	7,322	19,817
Balance at March 31, 2018	¥251,441	¥22,433	¥472,718	¥(7,101)	¥739,490	¥6,861	¥(1,272)	¥(840)	¥684	¥(14,562)	¥ (9,129)	¥957	¥67,387	¥798,705

Year ended March 31, 2019

	Shareholders' equity					Accumulated other comprehensive income								
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
							(Thousands of U.S. dollars) (Note 2)							
Balance at April 1, 2018	$2,265,438	$202,117	$4,259,104	$(63,978)	$6,662,672	$61,816	$(11,460)	$(7,568)	$6,162	$(131,201)	$(82,250)	$8,622	$607,144	$7,196,188
Changes in parent's ownership interests arising from transactions with non-controlling interests		1,126			1,126									1,126
Dividends of surplus			(179,890)		(179,890)									(179,890)
Net income attributable to owners of parent			418,803		418,803									418,803
Purchases of treasury shares				(297)	(297)									(297)
Disposal of treasury shares			(1,054)	3,126	2,063									2,063
Reversal of revaluation reserve for land			117		117									117
Net changes in items other than shareholders' equity						(34,138)	3,270	(117)	(4,540)	80,151	44,625	504	28,317	315,388
Balance at March 31, 2019	$2,265,438	$203,243	$4,497,089	$(61,158)	$6,904,613	$27,678	$(8,180)	$(7,694)	$1,612	$(51,049)	$ (37,625)	$9,126	$635,462	$7,511,586

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Year ended March 31,		
	2019	2018	2019
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
Operating activities			
Income before income taxes	¥ 72,598	¥ 72,412	$ 654,094
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation	215,628	222,016	1,942,769
Decommissioning costs of nuclear power units	7,664	4,628	69,051
Amortization of special account related to nuclear power decommissioning	26	–	234
Loss on retirement of non-current assets	12,636	13,989	113,848
Decrease in net defined benefit liability	(7,266)	(8,009)	(65,465)
Increase in reserve for fluctuation in water levels	(1,100)	1,100	(9,910)
Interest and dividend income	(1,165)	(1,014)	(10,496)
Interest expenses	18,762	21,684	169,042
Changes in operating assets and liabilities:			
Increase in notes and accounts receivable – trade	(27,154)	(21,199)	(244,652)
(Increase) decrease in inventories	(8,589)	(7,291)	(77,385)
Increase (decrease) in notes and accounts payable – trade	(3,603)	12,683	(32,462)
Other	19,804	46,637	178,430
Subtotal	298,240	357,639	2,687,088
Interest and dividend income received	1,164	1,064	10,487
Interest expenses paid	(19,550)	(22,141)	(176,141)
Income taxes paid	(17,050)	(12,542)	(153,617)
Net cash provided by operating activities	262,804	324,019	2,367,816
Investing activities			
Purchase of non-current assets	(272,304)	(287,330)	(2,453,410)
Proceeds from contribution received for construction	21,121	15,315	190,296
Payment of investment and loans receivable	(11,629)	(10,883)	(104,775)
Collection of investments and loans receivable	9,212	9,924	82,998
Other, net	3,029	(941)	27,290
Net cash used in investing activities	(250,570)	(273,915)	(2,257,590)
Financing activities			
Proceeds from long-term loans payable and issuance of bonds	294,266	236,890	2,651,283
Repayment or redemption of long-term loans payable or bonds	(359,896)	(248,122)	(3,242,598)
Decrease in short-term loans payable and commercial papers	21,372	(272)	192,557
Cash dividends paid	(19,871)	(19,849)	(179,034)
Dividends paid to non-controlling interests	(1,061)	(1,050)	(9,559)
Other, net	(4,116)	(3,876)	(37,084)
Net cash used in financing activities	(69,307)	(36,280)	(624,443)
Effect of exchange rate changes on cash and cash equivalents	(154)	84	(1,387)
Net increase (decrease) in cash and cash equivalents	(57,228)	13,908	(515,614)
Cash and cash equivalents at beginning of the period	242,171	228,262	2,181,917
Cash and cash equivalents at end of the period *(Note 9)*	¥ 184,942	¥ 242,171	$ 1,666,294

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

March 31, 2019

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.

Certain amounts previously reported have been reclassified to conform to the current year’s presentation.

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

The accompanying consolidated financial statements include the accounts of the Company and significant subsidiaries (fifty-two as of March 31, 2019 and fifty as of March 31, 2018) controlled directly or indirectly by the Company.

Tohoku-Electric Power Friendly Partners Co.,Inc., which was newly established in the year ended March 31, 2019, was included in the scope of the consolidation.

Yur Solar Zao Company,Ltd. ,all the shares of which were acquired by the Company's consolidated subsidiary YURTEC CORPORATION, changed the name to M・K Corporation and has been included in the scope of consolidation.

The affiliates (five as of March 31, 2019, and five as of March 31, 2018) over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements by equity method.

All significant intercompany balances and transactions have been eliminated in consolidation.

The closing date of the subsidiaries is same as that of the Company.

(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.

The recognition and calculation method of the cost of the assets corresponding to asset retirement obligations concerning decommissioning of specified nuclear power units among non-current assets is described in (i).

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 the 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 the 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 valuation difference, 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) Inventories

Inventories are stated at cost determined by the average method (inventories on the balance sheet are written down when profitability declines).

(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.

The retirement benefit obligation is attributed to each period by the benefit-formula 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 incurred primarily by the straight-line method over periods (one year through fifteen 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) The method to recognize and calculate the cost of the assets corresponding to asset retirement obligations concerning decommissioning of specified nuclear power units

Paragraph 8 of the "Guidance on Accounting Standard for Asset Retirement Obligations" is applied to the assets corresponding to asset retirement obligations concerning decommissioning of specified nuclear power units, and based on the rules of the "Ministerial Ordinance for Reserve for Decommissioning Costs of Nuclear Power Units" (a ministerial ordinance by the Ministry of Economy, Trade and Industry No. 30 issued in 1989), the total estimate of decommissioning costs of nuclear power units is recognized by the straight-line method over the expected operational period of nuclear power units.

(j) Special account related to nuclear power decommissioning

In the event of decommissioning of a nuclear reactor resulting from changes in energy policies, the following assets and costs are posted as or transferred to a special account related to nuclear power decommissioning with the approval of the Minister of Economy, Trade and Industry: (A) The carrying amount of fixed assets requiring maintenance to operate a nuclear power generation equipment at the time of its decommissioning, which excludes the carrying amount of nuclear power special assets. (B) Construction in progress relevant to the nuclear generation facility that are limited to items for which construction will not be completed after the suspension of nuclear reactor operations and book value of the nuclear fuel relevant to the nuclear reactor excepting the estimated disposal price, and (C) Cost of reprocessing of irradiated nuclear fuel generated in connection with the decommissioning of the nuclear reactor, and amount corresponding to costs necessary to dismantle the components of the nuclear fuel. Also, the special account related to nuclear power decommissioning has been amortized by amortization expense of the special account related to nuclear power decommissioning, upon collection of the regulated power fees, based on Article 6 of the Supplementary Provisions of the "Ministerial Ordinance to Partially Revise the Ordinance for Enforcement of the Electricity Business Act and Related Ministerial Ordinances" (a ministerial ordinance by the Ministry of Economy, Trade and Industry No. 77 issued in 2017), after the date of the approval.

(k) The method to recognize the contribution of reprocessing irradiated nuclear fuel

Based on the “Act for Partial Revision of the Spent Nuclear Fuel Reprocessing Implementation Act” (Act No. 40 of 2016, hereinafter referred to as the "Revised Act"), the Company pays an amount corresponding to the volume of spent fuel generated from operation of its nuclear power stations to the Nuclear Reprocessing Organization of Japan as a contribution, and records it as electric utility operating expenses.

The portion of the contribution corresponding to reprocessing of irradiated nuclear fuel is recorded as Manufacturing process in progress related to reprocessing of irradiated nuclear fuel in accordance with the “Revised Act” Article 2.

Through the contribution payment, the Company fulfills its responsibilities to bear the expenses as a nuclear operator. On the other hand, in proportion to the contributions received, the Organization reprocesses the irradiated nuclear fuel.

The balance of the unamortized differences of ¥2,691 million ($24,245 thousand) resulting from the changes in the accounting rules for reserve recognition in the year ended March 31, 2006, is to be paid evenly to the organization as contributions and recorded as operating expenses until the year ending March 31, 2020.

(l) Accounting for the consumption tax
National and local consumption taxes are accounted for using the tax-excluded method.

(m) Change of The method to recognize and calculate the cost of the assets corresponding to asset retirement obligations concerning decommissioning of specified nuclear power units

On April 1, 2018, the “Ministerial Ordinance on Partial amendment of the Ministerial Ordinance for Reserve for Decommissioning Costs of Nuclear Power Units” (a ministerial ordinance by the Ministry of Economy, Trade and Industry No. 17 issued in 2018) was enforced, and the “Ministerial Ordinance for Reserve for Decommissioning Costs of Nuclear Power Units” was revised.
The Company has applied paragraph 8 of the “Guidance on Accounting Standard for Asset Retirement Obligations” to recognition of the costs of the assets corresponding to asset retirement obligations concerning decommissioning of specified nuclear power units, and in accordance with the rules of the “Ministerial Ordinance for Reserve for Decommissioning Costs of Nuclear Power Units”, the total estimate of decommissioning costs of nuclear power units was recognized by the straight-line method over the expected running period and safety storage period of nuclear power units until the year ended March 31, 2018. But following the revisions of the Ministerial Ordinance, since the date of enforcement, the decommissioning costs is recorded over the expected operational period by the straight-line method.
However, in case of decommissioning nuclear reactor following the changes in energy policies, safety rules, and so forth, if an entity obtained authorization of the Minister of Economic, Trade and Industry based on the request from a power generation operator, the decommissioning costs will be recorded over the period of 10 years from the month that includes the date of decommission of the specified nuclear power units on a straight-line method.
As a result, compared to the previous method, operating income and income before income taxes decreased by ¥1,758 million ($ 15,839 thousand) each in the year ended March 31, 2019. Also, Nuclear power generation facilities and asset retirement obligations increased by ¥31,195 million ($ 281,061 thousand). In addition, Net assets per share and Basic net income per share decreased by ¥2.54 ($ 0.022) and Diluted net income per share decreased by ¥2.40 ($ 0.021) compared to the previous method.

(n) Changes upon Application of “Partial Amendments to Accounting Standard for Tax Effect Accounting”

The Company and its consolidated subsidiaries (the “Group”) have applied the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) effective from the beginning of the fiscal year ended March 31, 2019.
Accordingly, as the Group changed the presentation method, deferred tax assets were presented under “Investments and other assets” and deferred tax liabilities were presented under “Non-current liabilities.”
As a result, in the consolidated balance sheet for the previous fiscal year, “Deferred tax assets” under “Current assets” , amounted to ¥54,917million ($ 494,792 thousand), have been reclassified to “Deferred tax assets” under “Investments and other assets”.

(o) Reserve for restoration costs of natural disaster

The reserve for restoration costs of natural disaster is stated at an estimated amount at the year end for the expenses required for recovery of damaged assets, and for contingent losses incurred due to the Great East Japan Earthquake and the torrential rain in Niigata and Fukushima.

(p) 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.

(q) 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.

(r) 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, interest rates and fuel price. 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.

(s) Goodwill

Amortization of goodwill is computed by the straight-line method over a period of five years. In case the amount is immaterial, goodwill is recognized in profit or loss immediately.

(t) 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 Note 20.

2. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥110.99 = U.S. $1.00, the approximate rate of exchange in effect on March 31, 2019 is 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.

3. New Accounting Standard not yet Adopted

On March 30, 2018, the Accounting Standards Board of Japan (ASBJ) issued ASBJ Statement No. 29, “Accounting Standard for Revenue Recognition,” and ASBJ Guidance No. 30, “Implementation Guidance on Accounting Standard for Revenue Recognition.”

These standard and guidance established the accounting and disclosure rule of the revenue from contracts with customers.

The Company plans to apply from the beginning of the fiscal year ended March 31, 2022.

The Company is currently in the process of measuring the effects of applying these standard and guidance.

4. Additional Information

(a) Specified assets for nuclear power and special account related to nuclear power decommissioning, Recording of extraordinary losses

The Company made the decision to decommission Onagawa Unit No.1 at a Board of Directors' meeting held on October 25, 2018. On the same day, the Company submitted an application to the Minister of Ministry of Economy, Trade and Industry (METI) for approval of specified assets for nuclear power and for special account related to nuclear power decommissioning based on the Ordinance on Accounting at Electricity Utilities, approved in November of the same year.
As a result, the Company recorded a carrying amount of ¥4,180 million ($37,661 thousand) for specified assets for nuclear power in regard to the nuclear reactor. In addition, the Company transferred a carrying amount of fixed assets requiring maintenance to operate a nuclear reactor at the time of its decommissioning of ¥9,213 million ($83,007 thousand) (excludes the carrying amount of specified assets for nuclear power and includes the carrying amount of fixed assets recorded as construction in progress that are limited to items for which construction will not be completed after the suspension of nuclear reactor operations) and an amount corresponding to expenses for the decommissioning of nuclear power units totaling ¥15,327 million ($138,093 thousand) (includes contribution expenses for the reprocessing of used fuel generated following the decommissioning of said reactor [excluding electricity costs for the reprocessing of spent fuel] and the necessary expenses for dismantling the components of the nuclear fuel) to a special account related to nuclear power decommissioning, where they were subsequently transferred or recorded. Also, the special account related to nuclear power decommissioning has been amortized by amortization expense of the special account related to nuclear power decommissioning, upon collection of the regulated power fees, based on Article 6 of the Supplementary Provisions of the "Ministerial Ordinance to Partially Revise the Ordinance for Enforcement of the Electricity Business Act and Related Ministerial Ordinances" (a ministerial ordinance by the Ministry of Economy, Trade and Industry No. 77 issued in 2017), after the date of the approval.
The Company recorded ¥2,145 million ($19,326 thousand) extraordinary loss in accordance with decision of decommissioning.

(b) Total estimated costs, and extension of the period to estimate costs of decommissioning a nuclear power facility

The Company made the decision to decommission Onagawa Unit No.1 at a Board of Directors' meeting held on October 25, 2018.
On the same day, the Company submitted an application to the Minister of METI for approval of calculation total estimated costs of decommissioning a nuclear power facility, which based on Clause 1, Article 5 on the Ministerial Ordinance on Provisions for Decommissioning of Nuclear Power Units, and an application was approved on November 28, 2018.

Based on it, on November 28, 2018, the Company submitted an application to the Minister of METI for approval of extension of the period to estimate costs of decommissioning a nuclear power facility, which based on Clause 3, Article 5 on the Ministerial Ordinance on Provisions for Decommissioning of Nuclear Power Units, and an application was approved on December 14, 2018.

As a result, approved total costs less reserved amount will be recorded over the period of 10 years from the month that includes the date of decommission of the specified nuclear power units on a straight-line method.

5. Property, Plant and Equipment

Property, plant and equipment at March 31, 2019 and 2018 were summarized as follows:

	2019	2018	2019
	(Millions of yen)		(Thousands of U.S. dollars)
Hydro power plant	¥ 603,773	¥ 596,811	$ 5,439,886
Thermal power plant	1,890,102	1,894,907	17,029,480
Nuclear power plant	1,467,190	1,420,058	13,219,118
Transmission plant	1,760,859	1,749,093	15,865,023
Transformation plant	861,535	852,943	7,762,275
Distribution plant	1,544,404	1,520,623	13,914,803
General plant	339,204	332,409	3,056,167
Other	934,734	959,033	8,421,785
	9,401,804	9,325,879	84,708,568
Construction work in progress	359,324	311,947	3,237,444
Special account related to nuclear power decommissioning	24,514	—	220,866
Manufacturing process in progress related to reprocessing of irradiated nuclear fuel	14,300	9,533	128,840
Total	¥9,799,944	¥9,647,360	$88,295,738
Contributions in aid of construction	¥ 291,320	¥ 277,849	$ 2,624,740

6. Financial Instruments

(a) Positions of Financial Instruments

The Company procures funds for plant and equipment development and for business operation mainly by bond issuance and bank loans. The Company uses interest-rate swaps to hedge its exposure to adverse fluctuation in interest rates on bonds and long-term loans as well as fuel-price swaps to moderate fuel price fluctuation, not for speculation purposes. A certain consolidated subsidiary utilizes a principal-guaranteed compound financial instrument to be held to maturity for the purpose of efficient management of the fund surplus.

The Company holds marketable and investment securities which are mainly stocks in business partners and bonds to be held to maturity. Though such investments are exposed to the market price volatility risk, fair values and financial positions of issuers relating to such investments are checked on a regular basis.

Notes and accounts receivable – trade are mainly operating receivables of residential, commercial and industrial power sales, thus are exposed to counterpart credit risk. Such risk is being managed by early comprehension and reduction of collection concerns as well as management of due dates and balances based on electric power supply agreements.

Bonds and long-term loans payable are to procure funds for plant and equipment development and funds for redemption. These funds are procured mostly with fixed interest rates; hence, the impact of interest rate changes on the financial performance is limited.

Due dates for most notes and accounts payable – trade are within a year.

Derivative transactions are exposed to counterpart credit risk. However, the Company enters into derivatives transactions only with financial institutions that have high credit ratings in compliance with its internal policies stipulating the authority for transactions and the credit lines.

Fair values of financial instruments include value amounts based on market prices and those based on rational calculation in the case where a market price does not exist. In calculating such value amounts, certain assumptions are adopted, and if based on different assumptions, those calculated value amounts may change. Derivative contract amounts noted below in Note 9 do not denote the market risk from the derivatives themselves. In addition, fair value and valuation gains or losses are reasonably quoted values based on market indicators for valuations and other measures. These are not the amounts that would be received or paid in the future.

(b) Fair Values of Financial Instruments

Carrying values, fair values and unrealized gains or losses as of March 31, 2018 and 2017 were as follows:

At March 31, 2019	Carrying value	Fair value	Unrealized gain (loss)
		(Millions of yen)	
Assets:			
Marketable and investment securities *1	¥ 38,756	¥ 38,696	¥ (59)
Cash and deposits	178,729	178,729	–
Notes and accounts receivable – trade	232,303	232,303	–
Liabilities:			
Bonds payable *2	910,120	923,864	13,743
Long-term loans payable *2	1,430,322	1,496,139	65,817
Notes and accounts payable – trade	141,197	141,197	–
Derivative transactions *3	(1,259)	(1,259)	–

At March 31, 2018	Carrying value	Fair value	Unrealized gain (loss)
		(Millions of yen)	
Assets:			
Marketable and investment securities *1	¥ 89,745	¥ 89,560	¥ (185)
Cash and deposits	187,905	187,905	–
Notes and accounts receivable – trade	212,195	212,195	–
Liabilities:			
Bonds payable *2	930,010	943,838	13,827
Long-term loans payable *2	1,475,300	1,511,371	36,071
Notes and accounts payable – trade	143,999	143,999	–
Derivative transactions *3	(1,763)	(1,763)	–

At March 31, 2019	Carrying value	Fair value	Unrealized gain (loss)
		(Thousands of U.S. dollars)	
Assets:			
Marketable and investment securities *1	$ 349,184	$ 348,644	$ (531)
Cash and deposits	1,610,316	1,610,316	–
Notes and accounts receivable – trade	2,093,008	2,093,008	–
Liabilities:			
Bonds payable *2	8,200,018	8,323,848	123,821
Long-term loans payable *2	12,886,944	13,479,944	592,999
Notes and accounts payable – trade	1,272,159	1,272,159	–
Derivative transactions *3	(11,343)	(11,343)	–

(b) Fair Values of Financial Instruments (continued)

*1. Marketable and investment securities include bonds to be held to maturity (including those which mature within a year) and other securities.

*2. Bonds payable and long-term loans payable include those which are scheduled to be redeemed or paid back within a year.

*3. The amounts denote net liabilities and obligations resulting from derivative transactions.

(Note 1) The method of calculating fair values of financial instruments, and other matters related to marketable and investment securities, and derivative transactions are as follows:

Assets:

Marketable and investment securities

Negotiable certificates of deposit are recorded in carrying values as they are settled in the short term, where their carrying values are proximate to their fair values. Present values of municipal bonds are calculated by discounting the redemption amount using the government bond yield as a discount rate. Fair values of other bonds are the prices indicated by the correspondent financial institutions. Fair values of stocks are based on the exchange share prices. With respect to securities with different holding purposes, please refer to Note 7.

Cash and deposits, Notes and accounts receivable – trade

These assets are recorded in carrying values as they are settled in the short term, where their carrying values are proximate to fair values.

(b) Fair Values of Financial Instruments (continued)

Liabilities:

Bonds payable

The fair values of bonds are calculated based on market prices. Interest-rate swaps subject to special treatment permitted by the accounting standards for financial instruments are included in the hedged bonds and their fair values are determined based on the prices indicated by correspondent financial institutions.

Long-term loans payable

The fair values of loans at fixed interest-rates are calculated based on a method where the total amount of the principal and interest is discounted by the interest rate calculated based on the Company's bonds. The fair values of loans at floating interest-rates are for the short term, reflecting market interest rates; hence, the carrying values approximate fair values. Interest-rate swaps subject to special treatment permitted by the accounting standards for financial instruments are included in the hedged long-term loans and their fair values are determined based on the prices indicated by correspondent financial institutions.

Notes and accounts payable – trade

These are recorded in carrying values as they are settled in the short term, where their carrying values are proximate to their fair values.

Derivative transactions:

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution. Purchase amount and the valuation gain or loss of compound financial instruments are included in marketable and investment securities. Interest-rate swaps subject to special treatment permitted by the accounting standards for financial instruments are accounted for together with the hedged long-term loans and bonds; therefore, the fair values of interest-rate swaps are included in the fair values of those long-term loans and bonds.

(Note 2) Financial instruments for which it was extremely difficult to determine the fair value at March 31, 2019 and 2018 were as follows:

	2019	**2018**	**2019**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unlisted stocks	¥144,724	¥145,028	$1,303,937
Subscription certificate	1,174	1,174	10,577
Other	209	82	1,883
Total	¥146,108	¥146,286	$1,316,406

(b) Fair Values of Financial Instruments (continued)

(Note 3) Redemption schedule of financial bonds and marketable securities with maturity at March 31, 2019 and 2018 were as follows:

At March 31, 2019	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
		(Millions of yen)		
Marketable and investment securities:				
Held-to-maturity debt securities:				
Municipal bonds	¥ 62	¥70	–	¥ –
Corporate bonds	999	–	–	1,000
Negotiable certificates of deposit	4,470	–	–	–
Other	2,000	–	–	8,976
Other securities with maturity dates:				
Corporate bonds	–	–	–	–
Negotiable certificates of deposit	–	–	–	–
Cash and deposits	178,729	–	–	–
Notes and accounts receivable – trade	232,303	–	–	–
Total	¥418,565	¥70	–	¥9,976

At March 31, 2018	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
		(Millions of yen)		
Marketable and investment securities:				
Held-to-maturity debt securities:				
Municipal bonds	¥ 62	¥133	–	¥ –
Corporate bonds	–	–	–	1,000
Negotiable certificates of deposit	3,710	–	–	–
Other	–	–	–	7,934
Other securities with maturity dates:				
Corporate bonds	44	–	–	–
Negotiable certificates of deposit	50,500	–	–	–
Cash and deposits	187,905	–	–	–
Notes and accounts receivable – trade	212,195	–	–	–
Total	¥454,417	¥133	–	¥8,934

(b) Fair Values of Financial Instruments (continued)

At March 31, 2019	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
		(Thousands of U.S. dollars)		
Marketable and investment securities:				
Held-to-maturity debt securities:				
Municipal bonds	$ 558	$630	–	$ –
Corporate bonds	9,000	–	–	9,009
Negotiable certificates of deposit	40,273	–	–	–
Other	18,019	–	–	80,872
Other securities with maturity dates:				
Corporate bonds	–	–	–	–
Negotiable certificates of deposit	–	–	–	–
Cash and deposits	1,610,316	–	–	–
Notes and accounts receivable – trade	2,093,008	–	–	–
Total	$3,771,195	$630	–	$89,881

7. Marketable and Investment Securities

Held-to-maturity debt securities at March 31, 2019 and 2018 were as follows:

At March 31, 2019	Carrying value	Fair value	Unrealized gain (loss)
	(Millions of yen)		
Securities whose fair value exceeds their carrying value:			
Public bonds	¥ 133	¥ 133	¥ 0
Corporate bonds	1,000	1,004	4
Other	4,000	4,138	138
Securities whose carrying value exceeds their fair value:			
Public bonds	–	–	–
Corporate bonds	999	999	(0)
Other	11,446	11,243	(203)
Total	¥17,579	¥17,519	¥(59)

At March 31, 2018	Carrying value	Fair value	Unrealized gain (loss)
	(Millions of yen)		
Securities whose fair value exceeds their carrying value:			
Public bonds	¥ 195	¥ 195	¥ 0
Corporate bonds	1,000	1,008	8
Other	3,000	3,116	116
Securities whose carrying value exceeds their fair value:			
Public bonds	–	–	–
Corporate bonds	–	–	–
Other	8,644	8,334	(309)
Total	¥12,840	¥12,655	¥(185)

At March 31, 2019	Carrying value	Fair value	Unrealized gain (loss)
	(Thousands of U.S. dollars)		
Securities whose fair value exceeds their carrying value:			
Public bonds	$ 1,200	$ 1,204	$ 3
Corporate bonds	9,009	9,045	36
Other	36,039	37,282	1,243
Securities whose carrying value exceeds their fair value:			
Public bonds	–	–	–
Corporate bonds	9,009	9,008	(1)
Other	103,126	101,297	(1,828)
Total	$158,383	$157,843	$(531)

Other securities at March 31, 2019 and 2018 were as follows:

At March 31, 2019	Acquisition cost	Carrying value	Unrealized gain (loss)
		(Millions of yen)	
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥8,215	¥15,087	¥6,871
Securities whose acquisition cost exceeds their carrying value:			
Stock	8,612	6,088	(2,524)
Total	¥16,828	¥21,176	¥4,347

At March 31, 2018	Acquisition cost	Carrying value	Unrealized gain (loss)
		(Millions of yen)	
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥13,796	¥23,557	¥9,761
Securities whose acquisition cost exceeds their carrying value:			
Stock	3,029	2,847	(182)
Others	50,500	50,500	–
Total	¥67,326	¥76,905	¥9,578

At March 31, 2019	Acquisition cost	Carrying value	Unrealized gain (loss)
		(Thousands of U.S. dollars)	
Securities whose carrying value exceeds their acquisition cost:			
Stock	$ 74,015	$135,931	$61,906
Securities whose acquisition cost exceeds their carrying value:			
Stock	77,592	54,851	(22,740)
Total	$151,617	$190,791	$39,165

8. Derivatives

(a) Derivative transactions to which hedge accounting was not applied

With respect to purchase amount and the valuation gain or loss of compound financial instruments, please refer to Notes 6 and 7.

(b) Derivative transactions to which hedge accounting was applied at March 31, 2019 and 2018 were as follows:

Interest-rate swaps:

At March 31, 2019	Hedged item	Contract amount total	Contract amount due after one year	Fair value
		(Millions of yen)		
Basic treatment:				
Pay fixed / Receive floating	Long-term loans	¥94,674	¥ 77,483	¥(1,259)[*1]
Special treatment:				
Pay fixed / Receive floating	Long-term loans	71,052	55,260	[*2]
Total		¥165,726	¥132,743	¥(1,259)

At March 31, 2018	Hedged item	Contract amount total	Contract amount due after one year	Fair value
		(Millions of yen)		
Basic treatment:				
Pay fixed / Receive floating	Long-term loans	¥112,525	¥ 94,674	¥(1,763)[*1]
Special treatment:				
Receive fixed / Pay floating	Bonds	30,000	–	[*2]
Pay fixed / Receive floating	Long-term loans	75,000	71,052	
Total		¥217,525	¥165,726	¥(1,763)

At March 31, 2019	Hedged item	Contract amount total	Contract amount due after one year	Fair value
		(Thousands of U.S. dollars)		
Basic treatment:				
Pay fixed / Receive floating	Long-term loans	$ 852,995	$ 698,107	$(11,343)[*1]
Special treatment:				
Pay fixed / Receive floating	Long-term loans	640,165	497,882	[*2]
Total		$1,493,161	$1,195,990	$(11,343)

*1. The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

*2. Interest-rate swaps subject to special treatment permitted by the accounting standards for financial instruments are accounted for together with the hedged bonds and long-term loans; therefore, the fair values of interest-rate swaps are included in the fair values of those bonds and long-term loans.

9. Cash Flow Information

For the consolidated statements of cash flows, reconciliation between cash and cash equivalents and cash balances on the consolidated balance sheets as of March 31, 2019 and 2018 were as follows:

	2019	2018	2019
	(Millions of yen)		*(Thousands of U.S. dollars)*
Cash and deposits	¥178,729	¥187,905	$1,610,316
Time deposits with maturities of more than three months	(966)	(1,156)	(8,703)
Short-term investments with an original maturity within three months included in other current assets	7,179	55,422	64,681
Cash and cash equivalents	¥184,942	¥242,171	$1,666,294

10. Shares to affiliates

Shares to affiliates of March 31, 2019 and 2018 were ¥97,158 million ($875,376 thousand) and ¥96,946 million.

11. Inventories

Details of inventories are as follows:

	2019	2018	2019
	(Millions of yen)		*(Thousands of U.S. dollars)*
Commercial products and finished goods	¥ 5,473	¥ 5,974	$ 49,310
Work in process	8,843	7,945	79,673
Raw materials and supplies	64,472	56,276	580,881
Total	¥78,789	¥70,196	$709,874

12. Notes and Accounts Receivable – Trade

Notes and accounts receivable – trade at March 31, 2019 and 2018 consisted of the following:

	2019	2018	2019
	(Millions of yen)		*(Thousands of U.S. dollars)*
Notes and accounts receivable – trade	¥232,303	¥212,195	$2,093,008
Less allowance for doubtful accounts	(462)	(292)	(4,162)
Total	¥231,841	¥211,902	$2,088,845

13. Revaluation Reserve for Land

In accordance with "Act on Revaluation of Land" (Act No. 34 of 1998), the land used for business owned by consolidated subsidiaries was valued, and the unrealized gains or losses on the revaluation of land, net of deferred tax, was recorded as "Revaluation reserve for land" within net assets, and the relevant deferred tax was recorded as "Deferred tax liabilities for land revaluation" in liabilities.

(a) The method of revaluation was as follows:

Under Article 2.4, "Order for Enforcement of the Act on Revaluation of Land," the land price for the valuation was determined based on the official notice prices assessed and published by the Commissioner of National Tax Agency of Japan as basis for calculation of Landholding Tax as stipulated in article 16 of the Landholding Tax Law. Appropriate adjustments for the shape of land and the timing of the assessment have been made.

(b) Revaluation Date: March 31, 2002

The difference between the total book value after revaluation and the total fair values as of March 31, 2019 and 2018 were ¥3,950 million ($35,588 thousand) and ¥4,474 million, respectively.

14. Long-Term Debt

At March 31, 2019 and 2018, long-term debt with definite repayment schedule consisted of the following:

	2019	2018	2019
	(Millions of yen)		(Thousands of U.S. dollars)
Bonds in yen due through 2039	¥ 910,120	¥ 930,010	$ 8,200,018
Loans from banks and other financial institutions due through 2036	1,430,322	1,475,300	12,886,944
Other	16,300	14,596	146,860
Subtotal	2,356,743	2,419,907	21,233,831
Less current portion	(312,116)	(363,087)	(2,812,109)
Total	¥2,044,626	¥2,056,819	$18,421,713

Long-term debt payments fall due subsequent to March 31, 2019 were as follows:

Years ending March 31,	(Millions of yen)	(Thousands of U.S. dollars)
2020	¥ 312,116	$ 2,812,109
2021	364,102	3,280,493
2022	265,328	2,390,557
2023	244,273	2,200,855
2024	242,224	2,182,394
2025 and thereafter	928,697	8,367,393
Total	¥2,356,743	$21,233,831

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 Incorporated.

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, 2019 and 2018 were as follows:

	2019	2018	2019
	(Millions of yen)		*(Thousands of U.S. dollars)*
Bonds	¥910,000	¥929,700	$8,198,936
Long-term loans	332,387	365,391	2,994,747

The assets of certain consolidated subsidiaries pledged as collateral for the above long-term debt at March 31, 2019 and 2018 were as follows:

	2019	2018	2019
	(Millions of yen)		*(Thousands of U.S. dollars)*
Land	¥12,346	¥12,467	$111,235
Structures	18,658	22,128	168,105
Machinery and equipment	5,820	7,621	52,437
Other	7,056	7,691	63,573
Total	¥43,883	¥49,909	$395,377

The assets pledged as collateral for the loans of a company, which was invested by the Company at March 31, 2019 and 2018 were as follows:

	2019	2018	2019
	(Millions of yen)		*(Thousands of U.S. dollars)*
Long-term investments	¥254	¥254	$2,288

15. Retirement Benefit Plans

The Company and certain of its subsidiaries have either funded or unfunded defined benefit plans and defined contribution plans, which together cover substantially all full-time employees who meet certain eligibility requirements.

(a) Defined benefit plans (excluding plans calculated in simple and easy ways)

The changes in the defined benefit obligation during the years ended March 31, 2019 and 2018 were as follows:

	2019	2018	2019
	(Millions of yen)		*(Thousands of U.S. dollars)*
Balance as of beginning of the period	¥495,611	¥498,548	$4,465,366
Service cost	14,241	14,255	128,308
Interest cost	2,484	2,525	22,380
Actuarial loss	1,944	3,552	17,515
Retirement benefit paid	(22,175)	(23,208)	(199,792)
Prior service cost	43	(264)	387
Other	204	202	1,838
Balance as of end of the period	¥492,355	¥495,611	$4,436,030

The change in plan assets during the years ended March 31, 2019 and 2018 were as follows:

	2019	2018	2019
	(Millions of yen)		*(Thousands of U.S. dollars)*
Balance as of beginning of the period	¥327,094	¥321,274	$2,947,058
Expected return on plan assets	10,029	9,865	90,359
Actuarial gain	(5,801)	3,757	(52,265)
Contribution by the companies	5,734	5,657	51,662
Retirement benefit paid	(13,515)	(13,640)	(121,767)
Other	179	180	1,612
Balance as of end of the period	¥323,720	¥327,094	$2,916,659

(a) Defined benefit plans (excluding plans calculated in simple and easy ways) (continued)

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, 2019 and 2018 for the Company's and the consolidated subsidiaries' defined benefit plans:

	2019	2018	2019
	(Millions of yen)		*(Thousands of U.S. dollars)*
Defined benefit obligation under funded plans	¥355,713	¥ 357,546	$3,204,910
Plan asset at fair value	(323,720)	(327,094)	(2,916,659)
	31,992	30,452	288,242
Defined benefit obligation under unfunded plans	136,641	138,065	1,231,110
Net amount of liabilities and assets for defined benefits on consolidated balance sheet	168,634	168,517	1,519,362
Net defined benefit liability	172,900	172,704	1,557,797
Net defined benefit asset	(4,265)	(4,187)	(38,426)
Net amount of liabilities and assets for defined benefits on consolidated balance sheet	¥ 168,634	¥ 168,517	$ 1,519,362

The components of retirement benefit expenses for the years ended March 31, 2019 and 2018 were outlined as follows:

	2019	2018	2019
	(Millions of yen)		*(Thousands of U.S. dollars)*
Service cost	¥14,241	¥14,255	$128,308
Interest cost	2,484	2,525	22,308
Expected return on plan assets	(10,029)	(9,865)	(90,359)
Amortization of unrecognized actuarial loss	20,385	15,233	183,665
Amortization of unrecognized prior service cost	(41)	13	(369)
Other	1,708	1,600	15,388
Retirement benefit expenses for defined benefit plans	¥28,748	¥23,762	$259,014

(a) Defined benefit plans (excluding plans calculated in simple and easy ways) (continued)

The components of remeasurements of defined benefit plans for the years ended March 31, 2019 and 2018 were outlined as follows:

	2019	2018	2019
	(Millions of yen)		*(Thousands of U.S. dollars)*
Prior service cost	¥ (85)	¥ 277	$ (765)
Actuarial loss	12,639	15,439	113,875
Total	¥12,553	¥15,717	$113,100

Unrecognized prior service cost and unrecognized actuarial gain/loss included in accumulated other comprehensive income as of March 31, 2019 and 2018 were as follows:

	2019	2018	2019
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unrecognized prior service cost	¥ (15)	¥ (101)	$ (135)
Unrecognized actuarial loss	7,136	19,776	64,294
Total	¥7,121	¥19,675	$64,158

The fair value of plan assets by major category, as a percentage of total plan assets as of March 31, 2019 and 2018 were as follows:

	2019	2018
Bonds	37%	46%
Assets in general account	22%	22%
Stocks	28%	27%
Other	13%	5%
Total	100%	100%

The expected return on plan assets has been estimated based on the current and anticipated allocation of plan assets, and expected rates of long-term return on various assets in each category.

The principal assumptions used in actuarial calculation were as follows:

	2019	2018
Discount rates	0.0% ~1.2 %	0.0% ~ 1.2%
Expected rates of long-term return on plan assets	0.0% ~3.3 %	0.0% ~ 3.3%

(b) Defined benefit plans (calculated in simple and easy ways)

The changes in the defined benefit obligation by simple and easy method during the years ended March 31, 2019 and 2018 were as follows:

	2019	2018	2019
	(Millions of yen)		*(Thousands of U.S. dollars)*
Balance as of beginning of the period	¥5,436	¥5,290	$48,977
Retirement benefit expenses	852	786	7,676
Retirement benefit paid	(571)	(544)	(5,144)
Contribution to the plans	(94)	(96)	(846)
Balance as of end of the period	¥5,622	¥5,436	$50,653

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, 2019 and 2018 for the Company's and the consolidated subsidiaries' defined benefit plans calculated in simple and easy ways:

	2019	2018	2019
	(Millions of yen)		*(Thousands of U.S. dollars)*
Defined benefit obligation under funded plans	¥1,748	¥ 1,750	$ 15,749
Plan asset at fair value	(1,748)	(1,787)	(16,091)
	(38)	(36)	(342)
Defined benefit obligation under unfunded plans	5,661	5,472	51,004
Net amount of liabilities and assets for defined benefits on consolidated balance sheet	5,622	5,436	50,653
Net defined benefit liability	5,661	5,473	51,004
Net defined benefit asset	(38)	(37)	(342)
Net amount of liabilities and assets for defined benefits on consolidated balance sheet	¥ 5,622	¥ 5,436	$ 50,653

Retirement benefit expenses calculated in simple and easy ways for the years ended March 31, 2019 and 2018 were as follows:

2019	2018	2019
(Millions of yen)		*(Thousands of U.S. dollars)*
¥852	¥786	$7,676

(c) Defined contribution plans

Required contribution by the Company and its consolidated subsidiaries for the years ended March 31, 2019 and 2018 were as follows:

2019	2018	2019
(Millions of yen)		*(Thousands of U.S. dollars)*
¥1,839	¥1,837	$16,569

16. Asset Retirement Obligations

(a) Overview of asset retirement obligations

With regards to decommissioning of specified nuclear power units provided mainly in the "Act on the Regulation of Nuclear Source Material, Nuclear Fuel Material and Reactors," related asset retirement obligations were recognized. Paragraph 8 of the "Guidance on Accounting Standard for Asset Retirement Obligations," have been applied to the assets corresponding to asset retirement obligations concerning decommissioning of specified nuclear power units, and based on the rules of the "Ministerial Ordinance for Reserve for Decommissioning Costs of Nuclear Power Units" (a ministerial ordinance by the Ministry of Economy, Trade and Industry No. 30 issued in 1989), the total estimate of decommissioning costs of nuclear power units is recognized by the straight-line method over the expected operational period of nuclear power units.

(b) The calculation method for the amounts of asset retirement obligations

Assuming the expected periods of operation as provided mainly by the "Ministerial Ordinance for Reserve for Decommissioning Costs of Nuclear Power Units" (a ministerial ordinance by the Ministry of Economy, Trade and Industry No. 30 issued in 1989) as estimated utility periods, the amount of asset retirement obligations is recognized by using the discount rate of 2.3%.

(c) Increase/decrease in the total amount of asset retirement obligations for the fiscal years ended March 31, 2019 and 2018.

	2019	2018	2019
	(Millions of yen)		*(Thousands of U.S. dollars)*
Balance as of beginning of the period	¥121,010	¥120,754	$1,090,278
Net changes	41,203	256	371,231
Balance as of end of the period	¥162,214	¥121,010	$1,461,519

17. Stock Options

At the Board of Directors meeting held on June 29, 2010, the Company resolved to grant share subscription rights to its directors as equity-settled share-based compensation type stock option plans pursuant to the Companies Act.

Expenses related to stock options in the amount of ¥282 million ($2,540 thousand) and ¥230 million were recorded under share-based compensation expenses of electric power operating expenses for the years ended March 31, 2019 and 2018, respectively.

The stock options outstanding as of March 31, 2019 were as follows:

	2011 Stock Option	2012 Stock Option	2013 Stock Option	2014 Stock Option
Individuals covered by the plan	17 directors of the Company and 24 executive officers of the Company	17 directors of the Company and 23 executive officers of the Company	16 directors of the Company and 24 executive officers of the Company	15 directors of the Company (excluding an outside director) and 24 executive officers of the Company
Type and number of shares to be issued upon the exercise of the share subscription rights *	165,400 shares of capital stock of the Company	286,900 shares of capital stock of the Company	297,500 shares of capital stock of the Company	218,300 shares of capital stock of the Company
Date of grant	August 2, 2010	August 1, 2011	August 1, 2012	August 1, 2013
Vesting conditions	Not defined	Not defined	Not defined	Not defined
Eligible service period	Not defined	Not defined	Not defined	Not defined
Exercise period	From August 3, 2010 to August 2, 2035	From August 2, 2011 to August 1, 2036	From August 2, 2012 to August 1, 2037	From August 2, 2013 to August 1, 2038

	2015 Stock Option	2016 Stock Option	2017 Stock Option	2018 Stock Option
Individuals covered by the plan	15 directors of the Company (excluding an outside director) and 25 executive officers of the Company	15 directors of the Company (excluding an outside director) and 23 executive officers of the Company	14 directors of the Company (excluding outside directors) and 27 executive officers of the Company	13 directors of the Company (excluding outside directors) and 27 executive officers of the Company
Type and number of shares to be issued upon the exercise of the share subscription rights *	242,300 shares of capital stock of the Company	147,500 shares of capital stock of the Company	195,400 shares of capital stock of the Company	162,900 shares of capital stock of the Company
Date of grant	August 1, 2014	August 3, 2015	August 1, 2016	August 1, 2017
Vesting conditions	Not defined	Not defined	Not defined	Not defined
Eligible service period	Not defined	Not defined	Not defined	Not defined
Exercise period	From August 2, 2014 to August 1, 2039	From August 4, 2015 to August 3, 2040	From August 2, 2016 to August 1, 2041	From August 2, 2017 to August 1, 2042

	2019 Stock Option
Individuals covered by the plan	10 directors of the Company (excluding an outside directors and audit and supervisory committee members) and 34 executive officers of the Company (excluding directors)
Type and number of shares to be issued upon the exercise of the share subscription rights *	215,100 shares of capital stock of the Company
Date of grant	August 1, 2018
Vesting conditions	Not defined
Eligible service period	Not defined
Exercise period	From August 2, 2018 to August 1, 2043

* Number of stock options is converted into number of shares.

The change in the size of stock options was as follows:

	2011 Stock Option	2012 Stock Option	2013 Stock Option	2014 Stock Option
		(Shares)		
Non-vested				
as of March 31, 2018 – Outstanding	22,100	56,500	77,600	80,000
Granted	–	–	–	–
Forfeited	–	–	–	–
Vested	3,600	6,400	18,200	26,700
as of March 31, 2019 – Outstanding	22,100	50,100	59,400	53,300
Vested				
as of March 31, 2018 – Outstanding	–	–	–	–
Vested	3,600	6,400	18,200	26,700
Exercised	3,600	6,400	18,200	26,700
Forfeited	–	–	–	–
as of March 31, 2019 – Outstanding	–	–	–	–

	2015 Stock Option	2016 Stock Option	2017 Stock Option	2018 Stock Option
		(Shares)		
Non-vested				
as of March 31, 2018 – Outstanding	113,100	105,500	160,600	162,900
Granted	–	–	–	–
Forfeited	–	–	–	–
Vested	29,300	29,000	36,700	31,600
as of March 31, 2019 – Outstanding	29,300	76,500	123,900	131,300
Vested				
as of March 31, 2018 – Outstanding	–	–	–	–
Vested	29,300	29,000	36,700	31,600
Exercised	29,300	29,000	36,700	31,600
Forfeited	–	–	–	–
as of March 31, 2019 – Outstanding	–	–	–	–

	2019 Stock Option
	(Shares)
Non-vested	
as of March 31, 2018 – Outstanding	–
Granted	215,100
Forfeited	–
Vested	–
as of March 31, 2019 – Outstanding	215,100
Vested	
as of March 31, 2018 – Outstanding	–
Vested	–
Exercised	–
Forfeited	–
as of March 31, 2019 – Outstanding	–

Unit price information is as follows:

	2011 Stock Option		2012 Stock Option		2013 Stock Option		2014 Stock Option	
	(Yen)	*(U.S. dollars)*	*(Yen)*	*(U.S. dollars)*	*(Yen)*	*(U.S. dollars)*	*(Yen)*	*(U.S. dollars)*
Exercise price	¥ 1	$ 0.009	¥ 1	$ 0.009	¥ 1	$ 0.009	¥ 1	$ 0.009
Weighted average exercise price	1,331	11,992	1,331	11.992	1,331	11.992	1,331	11.992
Weighted average fair value per stock at the granted date	1,608	147.487	821	7.397	480	4.324	1,229	11.073

	2015 Stock Option		2016 Stock Option		2017 Stock Option		2018 Stock Option	
	(Yen)	*(U.S. dollars)*	*(Yen)*	*(U.S. dollars)*	*(Yen)*	*(U.S. dollars)*	*(Yen)*	*(U.S. dollars)*
Exercise price	¥ 1	$ 0.009	¥ 1	$ 0.009	¥ 1	$ 0.009	¥ 1	$ 0.009
Weighted average exercise price	1,331	11.992	1,331	11.992	1,331	11.992	1,331	11.992
Weighted average fair value per stock at the granted date	1,155	10.406	1,713	15.433	1,234	11.116	1,415	12.748

	2019 Stock Option	
	(Yen)	*(U.S. dollars)*
Exercise price	¥ 1	$ 0.009
Weighted average exercise price	–	–
Weighted average fair value per stock at the granted date	1,312	11.820

The estimation method of the fair value of 2019 Stock Option granted in the year ended March 31, 2019 is as follows:

I. The valuation technique used is the Black-Scholes Option pricing model.

II. Assumption used:

Stock price volatility *1	23.242%
Expected period *2	3.251 years
Expected cash dividend *3	¥40 ($0.360) per share
Risk-free interest rate *4	(0.107)%

*1. Stock price volatility is computed based on the past stock prices during the period (From May 2015 to August 2018) corresponding to the expected remaining period (3.251 years).

*2. Estimation is made based on weighted-averaging of the expected remaining service period of each individual to whom subscription rights to shares were granted by the number of subscription rights to shares granted, after calculating the average age of leaving office for each position over the past ten years.

*3. Actual cash dividend for the fiscal year ended March 31, 2018.

*4. Risk-free interest rate refers to yields of Japanese government bonds corresponding to the expected remaining period.

Estimation method of the number of vested stock options

Since it is difficult to estimate the number of stock options to be forfeited in the future on a reasonable basis, the number of the vested options reflects the number of options that have actually forfeited.

18. Dividend policy

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 26, 2019:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Year-end cash dividends (¥20 = U.S.$0.180 per share)	¥9,984	$89,954

19. Income Taxes

The significant components of deferred tax assets and liabilities at March 31, 2019 and 2018 were as follows:

	2019	2018	2019
	(Millions of yen)		*(Thousands of U.S. dollars)*
Deferred tax assets:			
Net defined benefit liability	¥ 50,215	¥ 50,229	$ 452,428
Intercompany profits	26,338	26,473	237,300
Deferred revenues	22,092	23,838	199,044
Asset retirement obligations	23,913	14,784	215,451
Tax loss carryforwards	4,818	11,183	43,409
Other	99,326	95,560	894,909
	226,704	222,069	2,042,562
Valuation allowance	(37,216)	(37,128)	(335,309)
Total deferred tax assets	189,488	184,941	1,707,252
Deferred tax liabilities:			
Assets corresponding to asset retirement obligations	(17,285)	(8,114)	(155,734)
Special account related to nuclear power decommissioning	(6,827)	—	(61,510)
Valuation difference on available-for-sale securities	(1,942)	(2,737)	(17,497)
Other	(738)	(963)	(6,649)
Total deferred tax liabilities:	(26,793)	(11,815)	(241,400)
Net deferred tax assets	¥162,696	¥173,126	$1,465,861

The difference between statutory tax rates and the effective tax rates reflected in the accompanying consolidated statements of income was immaterial, and thus these figures were omitted.

20. 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 capital 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 ($591,679 thousand) was included in retained earnings in the accompanying consolidated financial statements for the year ended March 31, 2019.

21. Reserve for Retirement Benefit Expenses

Retirement benefit expenses for the years ended March 31, 2019 and 2018 were ¥31,440 million ($283,268 thousand) and ¥26,386 million.

22. Operating Expenses

Electric utility operating expenses for the years ended March 31, 2019 and 2018 were as follows:

	2019	2018	2019
	(Millions of yen)		*(Thousands of U.S. dollars)*
Personnel	¥ 160,711	¥ 155,000	$ 1,447,977
Fuel	448,747	371,584	4,043,130
Maintenance	173,878	192,124	1,566,609
Subcontracting fees	45,508	49,710	410,018
Depreciation	194,369	199,998	1,751,229
Purchased power	523,953	405,182	4,720,722
Taxes other than income taxes	87,073	86,820	784,512
Other	308,761	303,331	2,781,881
Total	¥ 1,943,004	¥ 1,763,752	$ 17,506,117

23. Research and Development Costs

Research and development costs for the years ended March 31, 2019 and 2018 were ¥8,743million ($78,772 thousand) and ¥8,648 million, respectively.

24. Extraordinary Gain

Based on the agreement signed with TEPCO, The Company recorded ¥7,900 million ($71,177 thousand) extraordinary income “relating to compensation for damage of restoration delay of Haramachi Thermal Power Station” caused by the accident at TEPCO’s Fukushima Daiichi Nuclear Power Station.

25. Contingent Liabilities

Contingent liabilities at March 31, 2019 and 2018 were as follows:

	2019	2018	2019
	(Millions of yen)		(Thousands of U.S. dollars)
Guarantees of bonds and loans of other companies:			
Japan Nuclear Fuel Limited	¥ 59,517	¥ 63,547	$ 536,237
The Japan Atomic Power Company and other companies	11,731	10,691	105,694
Guarantees of housing loans for employees	45	71	405
Guarantees for transactions of affiliates and other companies	3,392	3,714	30,561
Recourse under debt assumption agreements	50,000	100,000	450,491

26. Amounts Per Share

Basic net income per share is computed based on the net income available for distribution to shareholders of capital stock and the weighted-average number of shares of capital 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 capital 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 capital stock outstanding at the year end.

The amounts per share for the years ended March 31, 2019 and 2018 were as follows:

Years ended March 31,	2019	2018	2019
	(Yen)		(U.S. dollars)
Net income:			
Basic	¥93.12	¥94.61	$0.838
Diluted	87.61	89.60	0.789
Cash dividends applicable to the year	¥40.00	¥40.00	$0.360

At March 31,	2019	2018	2019
	(Yen)		(U.S. dollars)
Net assets	¥1,526.66	¥1,463.42	$13.754

27. Consolidated Statements of Comprehensive Income

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

	2019	2018	2019
	(Millions of yen)		*(Thousands of U.S. dollars)*
Valuation difference on available-for-sale securities:			
Amount recorded during the fiscal year	¥ (5,129)	¥ 556	$ (46,211)
Reclassification adjustments	(0)	44	(0)
Before income tax effect	(5,129)	601	(46,211)
Income tax effect	1,245	(161)	11,217
Valuation difference on available-for-sale securities	(3,883)	440	(34,985)
Deferred gains on hedges:			
Amount recorded during the fiscal year	387	179	3,486
Reclassification adjustments	704	816	6,342
Asset at cost adjustments	(587)	(147)	(5,288)
Before income tax effect	504	848	4,540
Income tax effect	(140)	(237)	(1,261)
Deferred gains on hedges	363	611	3,270
Foreign currency translation adjustments:			
Amount recorded during the fiscal year	(503)	496	(4,531)
Remeasurements of defined benefit plans:			
Amount recorded during the fiscal year	(7,753)	440	(69,853)
Reclassification adjustments	20,307	15,277	182,962
Before income tax effect	12,553	15,717	113,100
Income tax effect	(3,628)	(4,364)	(32,687)
Remeasurements of defined benefit plans	8,925	11,352	80,412
Share of other comprehensive income of entities accounted for using equity method:			
Amount recorded during the fiscal year	(1)	(0)	(9)
Total other comprehensive income	¥4,900	¥12,900	$44,148

28. Segment Information

(a) Overview of reportable segments

The reportable segments of the Company and its consolidated subsidiaries are those units for which separate financial statements can be obtained among the constituent units of the Company and its consolidated subsidiaries and which are regularly examined by the Management Committee for decisions on the allocation of management resources and for assessing business performance.

The Company and its consolidated subsidiaries have operations as an energy service conglomerate with a core of electric power business.

The Company and its consolidated subsidiaries consist of segments based upon energy services and thus the Company designates two segments: the electric power business and the construction business as reportable segment. The electric power business segment involves the electric power supply business. The construction business segment consists of business related to the construction of electrical, telecommunication facilities and buildings, civil engineering, the design and manufacture of electricity supply facilities, and business related to the research, survey and analysis concerning environment preservation.

(b) Basis for calculating sales, profit and loss, assets and other items by reportable segment

The method for accounting process of reportable segments is equivalent to the method described in Note 1 “Summary of Significant Accounting Policies.” Segment performance is evaluated based on operating income or loss. Intersegment sales recorded are based on the third party transaction prices.

(c) Information on amounts of sales, profit or loss, assets and other items by reportable segment

The segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2019 and 2018 were summarized as follows:

	Reportable segment						
Year ended March 31, 2019	Electric power business	Construction business	Subtotal	Other	Total	Reconciling item*	Consolidated total
				(Millions of yen)			
Net sales:							
(1) Net sales to external customers	¥ 2,012,748	¥ 132,590	¥ 2,145,338	¥ 98,975	¥2,244,314	¥ –	¥ 2,244,314
(2) Net intersegment sales	3,164	143,297	146,461	126,035	272,497	(272,497)	–
Total	2,015,912	275,887	2,291,800	225,011	2,516,811	(272,497)	2,244,314
Segment profit	¥ 64,899	¥ 10,837	¥ 75,737	¥ 10,777	¥ 86,515	¥ (2,882)	¥ 83,633
Segment assets	¥ 3,908,894	¥ 247,524	¥ 4,156,419	¥ 387,020	¥4,543,440	¥ (284,806)	¥ 4,258,633
Other items:							
Depreciation	¥ 201,774	¥ 3,825	¥ 205,599	¥ 17,980	¥ 223,580	¥ (7,952)	¥ 215,628
Increase in property, plant, equipment and intangible assets	¥ 265,279	¥ 5,164	¥ 270,444	¥ 23,167	¥ 293,611	¥ (10,320)	¥ 283,291

(c) Information on amounts of sales, profit or loss, assets and other items by reportable segment (continued)

Year ended March 31, 2018	Reportable segment: Electric power business	Reportable segment: Construction business	Reportable segment: Subtotal	Other	Total	Reconciling item*	Consolidated total
				(Millions of yen)			
Net sales:							
(1) Net sales to external customers	¥ 1,854,398	¥ 128,903	¥ 1,983,302	¥ 88,077	¥ 2,071,380	¥ –	¥ 2,071,380
(2) Net intersegment sales	3,208	159,503	162,711	130,423	293,135	(293,135)	–
Total	1,857,606	288,407	2,146,014	218,501	2,364,516	(293,135)	2,071,380
Segment profit	¥ 84,087	¥ 15,129	¥ 99,217	¥ 10,716	¥ 109,934	¥ (2,268)	¥ 107,665
Segment assets	¥ 3,890,474	¥ 243,773	¥ 4,134,247	¥ 372,563	¥ 4,506,811	¥ (284,648)	¥ 4,222,163
Other items:							
Depreciation	¥ 207,156	¥ 3,643	¥ 210,800	¥ 18,922	¥ 229,722	¥ (7,706)	¥ 222,016
Increase in property, plant, equipment and intangible assets	¥ 279,291	¥ 5,409	¥ 284,700	¥ 18,750	¥ 303,451	¥ (9,402)	¥ 294,049

Year ended March 31, 2019	Reportable segment: Electric power business	Reportable segment: Construction business	Reportable segment: Subtotal	Other	Total	Reconciling item*	Consolidated total
				(Thousands of U.S. dollars)			
Net sales:							
(1) Net sales to external customers	$18,134,498	$1,194,612	$19,329,110	$ 891,747	$20,220,866	$ –	$20,220,866
(2) Net intersegment sales	28,507	1,291,080	1,319,587	1,135,552	2,455,149	(2,455,149)	–
Total	18,163,005	2,485,692	20,648,707	2,027,308	22,676,015	(2,455,149)	20,220,866
Segment profit	$ 584,728	$ 97,639	$ 682,376	$ 97,098	$ 779,484	$ (25,966)	$ 753,518
Segment assets	$35,218,434	$ 2,230,146	$37,448,589	$ 3,486,980	$40,935,579	$(2,566,050)	$38,369,519
Other items:							
Depreciation	$ 1,817,947	$ 34,462	$ 1,852,410	$ 161,996	$ 2,014,415	$ (71,646)	$ 1,942,769
Increase in property, plant, equipment and intangible assets	$ 2,390,116	$ 46,526	$ 2,436,651	$ 208,730	$ 2,645,382	$ (92,981)	$ 2,552,401

* Reconciling item includes eliminations of intersegment transactions and other factors.

(Related information)

(a) Information by product and service:

This information is omitted, since similar information is described above.

(b) Information by area:

I. Net sales

This information is omitted, since sales to external customers in Japan exceed 90% of net sales on the consolidated statements of income.

II. Property, plant and equipment

This information is omitted, since amount of property, plant and equipment in Japan exceed 90% of property, plant and equipment on the consolidated statements of balance sheet.

(c) Information by major customer:

Disclosure is omitted, since there are no customers to whom sales exceed 10% of net sales on the consolidated statements of income.

(Information on impairment loss on non-current assets by reportable segment)

	Years ended March 31,		
	2019*1	**2018**	**2019**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Electric power business	—	¥14,608	—
Construction business	—	¥ 110	—
Other businesses *2	—	¥ 201	—
Total	—	¥14,920	—

*1. In the year ended March 31, 2019, this information was of less importance, and thus these figures were omitted.

*2. The amount of other businesses pertained only to manufacturing business.

(Information on amortization of goodwill and amortized balance by reportable segment)

This information is omitted, since the information is of less importance.

(Information on gain on negative goodwill by reportable segment)

None applicable

29. Subsequent Event

Absorption-type Split Agreement for the transfer of a general transmission and distribution business to split preparation company by company split

As announced in September 2018, the Company is examining the division of general transmission and distribution business due to legal unbundling of transmission and distribution division scheduled for April 2020.

By resolution of the board of directors, the Company decided to transfer the general power transmission and distribution business and power generation business in isolated islands which are operated by the Company to a split preparation company, Tohoku Electric Power Network Co., Inc. ("Succeeding Company"), by April 1, 2020 (planned), and the Company has entered into an Absorption-type Company Split Agreement with the Succeeding Company on April 25, 2019.

As to the effectiveness of Company Split, it is a precondition that the relevant government agencies obtain the necessary approval for carrying out the business.

I. Background and purposes of Split

The environment in which the Tohoku EPCO Group operates is undergoing major changes driven by increasing competition across geographic areas and industry sectors following the full liberalization of the retail electricity market in April 2016, as well as other factors such as the development of the electricity market, the spread of the introduction of renewable energy, and accelerating digital innovation.

In order for the Tohoku EPCO Group to continue to grow together with the region, while fulfilling its mission to further public interest, such as stable supply of electric power, in such a drastically changing business environment, the Group is implementing measures to strengthen its financial foundation and enhance revenue based on the Tohoku EPCO Group Medium-Term Management Policies (FY2017 to FY2020), which was formulated in January 2017.

In such a situation, in response to the legal unbundling of transmission and distribution sectors scheduled for April 2020 and in order to create an organizational structure to support further enhancement of the corporate value of the Tohoku EPCO Group, the Company plans to demerge its general power transmission and distribution business and certain other businesses as Tohoku Electric Power Network Co., Inc., a wholly-owned power transmission and distribution subsidiary of the Company (Tohoku Electric Power Co., Inc.), in April 2020. Under the new structure, the Company will continue to operate power generation business and retail electricity business as an operating holding company.

The operating holding company (Tohoku Electric Power Co., Inc.) will be responsible for the development of management strategies of the Group as a whole and the optimal allocation of management resources. In addition, it will provide high-quality comprehensive energy services to customers at a reasonable price by leveraging the synergy arising from the coordination between the power generation divisions and the sales divisions. Through these activities, it will aim to strengthen competitiveness and improve profitability.

Meanwhile, putting safety first, the power transmission and distribution company (Tohoku Electric Power Network Co., Inc.) will accomplish stable supply of electric power in the six prefectures in Tohoku and Niigata Prefecture, while making further efforts to ensure neutrality and fairness and providing relevant and high-quality services. Through these activities, it will continue to aim to realize mutual prosperity with local communities and to improve customer confidence in the company.

Through the creation of an organizational structure outlined above that will enable agile decision making, the Company will strive to strengthen the autonomy and the ability to create value of each business and to enhance the corporate value of the Group as a whole by leveraging group synergy. With all these efforts, under the Tohoku EPCO Group slogan "Yori, Sou, Chikara," the Company will meet the expectations of our customers, local communities, and shareholders.

II. Overview of Split

a. Schedule of Split

Board of directors meeting approving absorption-type company split agreements (the Company)	April 25, 2019
Directors' decision approving absorption-type company split agreement (the Succeeding Company)	April 25, 2019
Execution of absorption-type company split agreements	April 25, 2019
Ordinary general shareholders meeting approving absorption-type company split agreements (the Company)	June 26, 2019
Extraordinary general shareholders meeting approving absorption-type company split agreement (the Succeeding Company)	June 26, 2019
Effective date of absorption-type split	April 1, 2020 (planned)

b. Method of Split

The Split will be absorption-type split in which the Company is the splitting company, and the Company's wholly owned subsidiary Tohoku Electric Power Network Co., Inc. (a preparation company) is the Succeeding Company.

c. Particulars of allotment in Split

In the Split, the Succeeding Company, Tohoku Electric Power Network Co., Inc., will issue 35,480,000 shares of common stock, respectively, and all of those shares will be allotted and delivered to the Company.

d. Handling of splitting Company's new share subscription rights and bonds with new share subscription right

The Company does not transfer or inherit to Tohoku Electric Power Network Co., Inc. the obligations under new share subscription rights or bonds with new share subscription rights although the Company has issued new share subscription rights or bonds with new share subscription rights.

e. Change in stated capital through Split

There will be no change to the Company's stated capital.

f. Rights and duties assumed by the Succeeding Company

In accordance with an absorption-type company split agreement executed with the Company dated April 25, 2019, on the effective date of the Split, Tohoku Electric Power Network Co., Inc. will assume rights and duties held and borne in relation to the Company's general power transmission and distribution business, power generation business in remote islands, and other businesses incidental thereto.

With respect to the assumption of obligations by the Succeeding Company through the Split, the Succeeding Company will assume, and in doing so, release the Company from, such obligations.

The Succeeding Company will not assume obligations associated with existing publicly offered bonds of the Company.

g. Prospects for performance of obligations

It is expected that the Company and the Succeeding Company will still have assets in excess of liabilities after the Split, and presently we do not envision the occurrence of any events that would cause an impediment to the performance of obligations arising after the Split, and for these reasons, we judge there to be no problems with respect to the prospects for the Company and Succeeding Company to perform their obligations after the Split.

III. Overview of business divisions subject to Split

a. Business description of the Company's divisions subject to Split

General power transmission and distribution business, power generation business in isolated islands, and other businesses incidental thereto

b. Operational results of the Company's divisions subject to Split (the fiscal year ended March 2019)

Unconsolidated Sales of Businesses Subject to Split (a)	*Unconsolidated Sales of the Company (b)*	*Ratio (a/b)*
¥189,541 million ($ 1,707,730 thousand)	¥2,025,559 million ($ 18,249,923 thousand)	9.4%

(Note) External sales are stated.

c. Items and amounts of unconsolidated assets and liabilities of the Company to be transferred in Splits (as of March 31, 2019)

Assets		*Liabilities*	
Item	*Amount*	*Item*	*Amount*
Non-current Assets	¥1,844,164 million ($ 16,615,586 thousand)	Non-current Liabilities	¥69,934 million ($ 630,092 thousand)
Current Assets	¥189,971million ($ 1,711,604 thousand)	Current Liabilities	¥297,670million ($ 2,681,953 thousand)
Total	¥2,034,136million ($ 18,327,200 thousand)	Total	¥367,605million ($ 3,312,055 thousand)

(Note) The amounts above were calculated based on the Company’s nonconsolidated balance sheet as of March 31, 2019, and thus the amounts that will actually be transferred will reflect any increases or decreases made to the above amounts up to the day immediately preceding the effective date of the Split.

d. Status of the Company after Split (as of April 1, 2020 (planned))

	Splitting Company	*Succeeding Company*
Trade Name	Tohoku Electric Power Co., Inc.	Tohoku Electric Power Network Co., Inc.
Address	1-7-1 Honcho, Aoba-ku, Sendai, Miyagi, JAPAN	1-7-1 Honcho, Aoba-ku, Sendai, Miyagi, JAPAN
Title and Name of Representative	Hiroya Harada, Representative Director & President	Not yet determined
Business Description	Electricity Business etc	General power transmission and distribution business, power generation business in isolated islands etc
Stated Capital	¥251,441 million ($ 2,265,438 thousand)	¥24,000 million ($ 216,235 thousand)
End of Fiscal Year	March 31	March 31

e. Outlook going forward

Split on the consolidated performance of the Company is immaterial.

As a result of Split, the Company’s income and expenses are mainly related to power generation business and retail electricity business etc.

Building a better working world

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Independent Auditor's Report

The Board of Directors
Tohoku Electric Power Company, Incorporated

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tohoku Electric Power Company, Incorporated and its consolidated subsidiaries as at March 31, 2019, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

Ernst & Young ShinNihon LLC

June 26, 2019
Tokyo, Japan

Non-Consolidated Balance Sheets (Unaudited)

	March 31,		
	2019	**2018**	**2019**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Assets			
Property, plant and equipment	¥ 9,039,691	¥ 8,899,934	$ 81,445,995
Less accumulated depreciation	(6,133,274)	(6,064,166)	(55,259,699)
Property, plant and equipment, net	2,906,417	2,835,767	26,186,296
Nuclear fuel:			
Loaded nuclear fuel	30,591	34,729	275,619
Nuclear fuel in processing	134,490	125,248	1,211,730
Total nuclear fuel	165,081	159,977	1,487,350
Investments in and advances to:			
Subsidiaries and affiliates	196,833	195,268	1,773,430
Other	83,863	92,170	755,590
Total investments and advances	280,696	287,439	2,519,020
Deferred tax assets	120,498	77,344	1,085,665
Other assets	8,242	10,161	74,258
Current assets:			
Cash and deposits	72,154	93,925	650,094
Accounts receivable, less allowance for doubtful accounts	178,410	150,552	1,607,442
Other accounts receivable	105,372	114,958	949,382
Short-term investments	-	50,500	-
Fuel and supplies	56,289	48,665	507,153
Deferred tax assets	-	50,238	-
Other current assets	30,378	26,941	273,700
Total current assets	442,604	535,783	3,987,782
Total assets	¥ 3,906,474	¥ 3,906,474	$ 35,350,400

(U.S. dollar amounts are translated from yen, for convenience, at the rate of ¥110.99 = U.S. $1.00, the approximate rate of exchange at March 31, 2019.)

	March 31,		
	2019	2018	2019
	(Millions of yen)		(Thousands of U.S. dollars)
Liabilities and net assets			
Long-term debt	¥2,061,909	¥2,090,432	$18,577,430
Provision for retirement benefits	133,708	121,288	1,204,685
Reserve for restoration costs of natural disaster	4,873	4,987	43,904
Asset retirement obligations	160,975	120,359	1,450,355
Current liabilities:			
Current portion of non-current liabilities	317,539	366,363	2,860,969
Commercial paper	40,000	18,000	360,392
Accounts payable	123,601	119,440	1,113,622
Accrued income taxes	602	4,326	5,423
Accrued expenses	98,004	87,597	882,998
Other advances	251,911	263,221	2,269,672
Reserve for restoration costs of natural disaster	198	135	1,783
Asset retirement obligations	-	9	-
Other current liabilities	76,037	72,365	685,079
Total current liabilities	907,897	931,461	8,179,989
Reserve for fluctuation in water levels	-	1,100	-
Net assets :			
Shareholders' equity :			
Capital stock, without par value:			
Authorized – 1,000,000,000 shares			
Issued – 502,882,585 shares	251,441	251,441	2,265,438
Capital surplus	26,657	26,657	240,174
Retained earnings	380,532	360,295	3,428,525
Treasury shares, at cost; 3,643,599 shares in 2019 and 3,804,644 shares in 2018	(6,870)	(7,184)	(61,897)
Total shareholders' equity	651,760	631,210	5,872,240
Valuation, translation adjustments:			
Valuation difference on available-for-sale securities	2,312	5,949	20,830
Deferred losses on hedges	(908)	(1,272)	(8,180)
Total valuation and translation adjustments	1,403	4,677	12,640
Subscription rights to shares	1,013	957	9,126
Total net assets	654,178	636,845	5,894,026
Total liabilities and net assets	¥3,923,541	¥3,906,474	$35,350,400

(U.S. dollar amounts are translated from yen, for convenience, at the rate of ¥110.99 = U.S. $1.00, the approximate rate of exchange at March 31, 2019.)

Non-Consolidated Statements of Income (Unaudited)

	Year ended March 31,		
	2019	2018	2019
	(Millions of yen)		*(Thousands of U.S. dollars)*
Operating revenue	¥2,025,559	¥1,869,361	$18,249,923
Operating expenses :			
Personnel expenses	158,410	152,678	1,427,245
Fuel	435,610	359,910	3,924,767
Purchased power	571,881	450,914	5,152,545
Maintenance	170,665	189,634	1,537,661
Depreciation	198,054	203,358	1,784,431
Taxes, etc.	81,936	81,696	738,228
Subcontracting fees	46,179	50,703	416,064
Levy under Act on Purchase of Renewable Energy Sourced Electricity	166,116	158,714	1,496,675
Other	136,420	139,349	1,229,119
	1,965,274	1,786,961	17,706,766
Operating income	60,284	82,399	543,148
Other expenses (income):			
Interest and dividend income	(7,290)	(6,457)	(65,681)
Interest expenses	18,586	21,481	167,456
Gain on sales of securities	-	(5,522)	-
Compensation income for damage	(7,900)	-	(71,177)
Impairment loss on non-current assets		14,608	
Loss on decommissioning of Onagawa Nuclear Power Station Unit 1	2,145	-	19,326
Other, net	2,166	(175)	19,515
	7,708	23,934	69,447
Income before special item and income taxes	52,576	58,465	473,700
Special item:			
Provision of reserve for fluctuation in water level	(1,100)	1,100	(9,910)
Income before income taxes	53,676	57,364	483,611
Income taxes :			
Current	5,224	7,888	47,067
Deferred	8,132	7,656	73,267
	13,356	15,544	120,335
Net income	¥ 40,320	¥ 41,820	$ 363,275

(U.S. dollar amounts are translated from yen, for convenience, at the rate of ¥110.99 = U.S. $1.00, the approximate rate of exchange at March 31, 2019.)

Non-Consolidated Statements of Changes in Equity (Unaudited)

Year's ended March 31, 2019

	Shareholders' equity					Valuation, translation adjustments				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred losses on hedges	Total valuation and translation adjustments	Subscription rights to shares	Total net assets
	(Millions of yen)									
Balance at April 1, 2018	¥251,441	¥26,657	¥ 360,295	¥(7,184)	¥631,210	¥5,949	¥(1,272)	¥4,677	¥957	¥636,845
Dividends of surplus			(19,966)		(19,966)					(19,966)
Net income			40,320		40,320					40,320
Purchases of treasury shares				(33)	(33)					(33)
Disposal of treasury shares			(117)	347	229					229
Net changes in items other than shareholders' equity						(3,637)	363	(3,273)	56	(17,332)
Balance at March 31, 2019	¥251,441	¥26,657	¥ 380,532	¥(6,870)	¥651,760	¥2,312	¥(908)	¥1,403	¥1,013	¥654,178

Year's ended March 31, 2018

	Shareholders' equity					Valuation, translation adjustments				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred losses on hedges	Total valuation and translation adjustments	Subscription rights to shares	Total net assets
	(Millions of yen)									
Balance at April 1, 2017	¥251,441	¥26,657	¥ 338,535	¥(7,402)	¥609,232	¥5,619	¥(1,883)	¥3,735	¥879	¥613,847
Dividends of surplus			(19,961)		(19,961)					(19,961)
Net income			41,820		41,820					41,820
Purchases of treasury shares				(37)	(37)					(37)
Disposal of treasury shares			(99)	256	157					157
Net changes in items other than shareholders' equity						330	611	941	77	1,019
Balance at March 31, 2018	¥251,441	¥26,657	¥ 360,295	¥(7,184)	¥631,210	¥5,949	¥(1,272)	¥4,677	¥957	¥636,845

Year's ended March 31, 2019

	Shareholders' equity					Valuation, translation adjustments				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred losses on hedges	Total valuation and translation adjustments	Subscription rights to shares	Total net assets
	(Thousands of U.S. dollars)									
Balance at April 1, 2018	$2,265,438	$240,174	$3,246,193	$(64,726)	$5,687,088	$53,599	$(11,460)	$42,138	$8,622	$5,737,859
Dividends of surplus			(179,890)		(179,890)					(179,890)
Net income			363,275		363,275					363,275
Purchases of treasury shares				(297)	(297)					(297)
Disposal of treasury shares			(1,054)	3,126	2,063					2,063
Net changes in items other than shareholders' equity						(32,768)	3,270	(29,489)	504	156,158
Balance at March 31, 2019	$2,265,438	$240,174	$3,428,525	$(61,897)	$5,872,240	$20,830	$(8,180)	$12,640	$9,126	$5,894,026

(U.S. dollar amounts are translated from yen, for convenience, at the rate of ¥110.99 = U.S. $1.00, the approximate rate of exchange at March 31, 2019.)