

Financial Review (Consolidated Basis)

Operating Results

Electricity sales (retail) decreased due to the impact of intensified competition resulting from liberalization of retail electricity market. On the other hand, the amount of electricity (wholesale) sold outside the six prefectures in Tohoku and Niigata Prefecture increased. As a result, consolidated operating revenue for the year ended March 31, 2020 (fiscal 2019) rose ¥2.0 (US\$18 million) billion or 0.1% year-on-year to ¥2,246.3 billion (US\$20,641 million).

In addition, consolidated operating revenue includes ¥495.9 billion (US\$4,557 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.

Ordinary income increased ¥34.2 billion (US\$314 million) or 52.1% to ¥99.9 billion (US\$918 million). While the volume of electricity (retail) sales declined, the fuel cost reduced due to the launch of operation for Noshiro Thermal Power Station No.3 and our efforts to further improve productivity and efficiency as our corporate group companies, as well as the impact of the time lag of the fuel cost adjustment system.

Extraordinary losses of ¥6.1 billion (US\$56 million) were recorded, including expenses required to restore damaged equipment due to Typhoon Hagibis (typhoon 19). As a result, net income attributable to owners of the parent rose ¥16.5 billion (US\$152 million) or 35.7% to ¥63.0 billion (US\$579 million).

Fiscal 2019 results by business segment are as follows.

【Electric power business】

For fiscal 2019, heating demand decreased from the previous year due to warmer days in winter than the previous fiscal year. In addition, intensified competition resulted in switching of contracts and industrial production decreased. As a result, our electricity sales volume (retail) was 67.2 TWh, down 2.5% from the previous fiscal year.

On the other hand, electricity sales (wholesale) increased 8.8% from the previous fiscal year to 17.7 TWh, due to an increase in wholesale sales outside the six prefectures in Tohoku and Niigata Prefecture.

As a result, our total electric power sales decreased 0.3% year-on-year to 84.8 TWh.

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, 2020 (fiscal 2019) increased ¥9.7 billion (US\$89 million) or 0.5% from the previous fiscal year to ¥2,025.6 billion (US\$18,613 million), mainly due to an increase in wholesale electricity sales beyond our franchise area.

Operating income increased ¥36.2 billion (US\$332 million) or 55.8% to ¥101.1 billion (US\$929 million) driven by reduction in fuel cost due to the launch of operation for Noshiro Thermal Power Station No.3 and our efforts to further improve productivity and efficiency, as well as the impact of the time lag of the fuel cost adjustment system.

【Construction business】

While public investment remained robust and private capital investment continued to increase against the backdrop of high corporate profits, labor and material costs continued to rise due to intensifying competition for orders and increasing demand for the Olympics.

Our consolidated subsidiary, YURTEC CORPORATION, has expanded its business by increasing earnings in Kanto region, improving sales for renovations of the aged facilities, and strengthening overseas business.

As a result, operating revenue decreased ¥2.7 billion (US\$24 million) or 1.0% from the previous fiscal year to ¥273.1 billion (US\$2,510 million), mainly due to the decrease in power-related work despite an increase in general-purpose work including overseas.

Operating income totaled ¥8.7 billion (US\$80 million), a decrease of ¥2.1 billion (US\$19 million) or 19.6% from the previous fiscal year, due to an increase in information system-related expenses despite a decrease in construction costs.

【Other businesses】

Operating revenue increased ¥3.2 billion (US\$29 million) or 1.4% from the previous fiscal year to ¥228.2 billion (US\$2,097 million), mainly due to an increase in services and information and telecommunications businesses.

Operating income totaled ¥ 9.7 billion (US\$89 million), a decrease of ¥1.0 billion (US\$9 million) or 10.0% from the previous fiscal year, due to a decrease in profits caused by a decrease in product sales in the manufacturing industry.

Capital Expenditure

The Group's capital expenditure in fiscal 2019 (not subject to adjustment) was ¥344.7 billion (US\$3,167 million). By segment, the electric power business amounts to ¥322.7 billion (US\$2,965 million), the construction business for ¥4.5 billion (US\$41 million) and other businesses for ¥17.4 billion (US\$ 159million).

In the electric power business, we invested in plant and equipment necessary to efficiently respond to long-term demand. Of the capital outlay in the electric power business, ¥169.5 billion (US\$1,558 million) or 52.5% was spent on new construction of power generating units, and ¥136.5 billion (US\$1,254 million) or 42.3% was spent on new construction of transmission, transformation, distribution and other facilities. Another ¥16.6 billion (US\$152 million) or 5.1% was invested in nuclear fuel.

Assets, Liabilities and Net Assets

Total assets at the end of fiscal 2019 were valued at ¥4,323billion (US\$39,723 million), an increase of ¥64.4 billion (US\$592 million) or 1.5% from the end of fiscal 2018. This is due to an increase in fixed assets in the electric power business due to the launch of operation for Noshiro Thermal Power Station No.3.

Total liabilities at the end of fiscal 2019 were ¥3,458.9 billion (US\$31,782 million), an increase of ¥34 billion (US\$312 million) or 1.0% from the end of fiscal 2018. This is due to an increase in interest-bearing debt to be used for power plant construction.

Net assets at the end of fiscal 2019 came to ¥864.1 billion (US\$7,940 million), an increase of ¥30.4 billion (US\$279 million) or 3.7% from the end of fiscal 2018. This was due to an increase in retained earnings due to the recording of net income attributable to owners of the parent.

As a result, the equity ratio rose 0.4% to 18.3% from the previous fiscal year.

Cash Flows

Cash and cash equivalents at the end of fiscal 2019 were ¥252.3 billion (US\$2,318 million), an increase of ¥67.3 billion (US\$619 million) or 36.4% from the end of fiscal 2018.

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 ¥108.7 billion (US\$998 million) or 41.4% from the previous fiscal year to ¥371.5 billion (US\$3,413 million) mainly because of the impact of the time lag of the fuel cost adjustment system.

【Cash flows from investing activities】

Cash outflow from investing activities increased ¥60 billion (US\$551 million) or 24.0% from the previous fiscal year to ¥310.6 billion (US\$2,854 million) mainly because of an increase in capital investment due to new construction work for Noshiro Thermal Power Plant No.3 and Joetsu Thermal Power Plant No.1.

【Cash flows from financing activities】

Cash outflow from financing activities was ¥6.7 billion (US\$61 million) due to an increase in interest-bearing debt for the construction of power plants and an increase in issuance of corporate bonds. In the previous consolidated fiscal year, expenditure was ¥69.3 billion (US\$636 million).

Business and Other Risks

In order to ensure steady supply of electricity, power stations and power network facilities are essential for providing the electricity services that is the business core for our corporate group companies. Any troubles caused by damage to the facilities or long-term suspension of power supply may become the significant risk in business management. We fulfill our social mission to supply electricity that is indispensable for our day-to-day lives and industrial activities. Therefore, we recognize there is regulatory risk which is significant for the business environment and in accordance with the change of energy policy and/or electricity system reform. In addition, another important aspect is the market risk because fossil fuel cost that is the major cost for the electricity business is largely affected by the fluctuation of foreign exchange and CIF price such as crude oil.

When risks become apparent, the result and financial position of our corporate group may be affected. Therefore, we will focus our efforts on minimizing these risks, and if any should occur, we will take prompt action.

The following are major risks that could affect the corporate group's performance and financial position. The risks shown below were those identified by our company on June 25, 2019, but all the risks are not included here. Our corporate group's business may be affected by the current unknown risk or other risks that haven't been seen as serious ones at present.

We periodically conduct operational and financial risk assessments, recognize, analyze and evaluate risks, and consider countermeasures.

We have also established a committee headed by Directors to deal with important risks and to manage the various risks appropriately, and we are working to prevent them from happening.

1. Risks in Business management including Facilities

a. Natural Disasters and Facilities Incidents

Due to natural disasters, such as earthquakes, tsunamis, typhoons, accidents or illegal activities, including terrorism and cyberattack, facilities including other company's receiving stations that we use may be damaged, and power sources could be cut off over a long period of time. In such cases, our group companies' business performance and financial condition could be adversely affected because of cost for restoring the facilities and increasing power generation.

Our corporate group companies conduct regular inspections and repair of facilities, take towards cybersecurity strategy, and improve their reliability in order to reduce risk for facilities and provide a stable supply of high-quality electricity.

2. Risks in business environment such as regulation risks

a. Electricity Business Reforms

A non-fossil fuel energy value trading market and a base load power source market that have already been launched, Progress in Electricity system reforms such as the introduction of new market transactions including supply-demand adjustment market and capacity market that is expected to be launched for the future, change in policies based on the Basic Energy Plan, and the subsequent intensified competition with other businesses, increasing countermeasures of facilities due to tightening environment regulation may affect our performance and financial condition for a long time. Therefore, we will continuously monitor the future trend in terms of the national energy policies and system change surrounding electricity businesses.

b. Changes in Nuclear Energy Policy

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 where we receive electricity, including long-term suspension of operation, thermal power fuel and other costs may continue to increase, which may have an impact on the results and financial position of our corporate group.

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.

Under a certain pre-conditions, in case that Onagawa Nuclear Power Station No.2 and Higashidori Nuclear Power Station No.1 restart their operation, the annual cost of thermal fuel is estimated to decline by ¥30 billion and ¥20 billion respectively.

c. 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.

Therefore, we will continue to focus on the national energy policy as well as related regulatory measures concerning the back-end business of nuclear power.

d. Risks concerning Climate Change

The impact of climate change such as increasing damage of facilities due to severe natural disaster may have an effect on our corporate groups' results and financial position for a long time.

In the midst of the situation that the transition towards low carbon society is required globally, we recognize that operation of coal-thermal power station and fuel purchasing are limited. It is still essential to use the coal-thermal power in order to supply stable electricity under the appropriate energy mix.

Regarding risks concerning climate change, we continuously take steps to reduce CO2 emission both in demand and supply and improve resilience against natural disaster, while expanding the development of renewable energy.

3. Market Risks including Price Fluctuation Risks

a. Demand and Sales Price Fluctuation

In the electric power business, the volume of electricity sales and transmission and prices of electricity fluctuates due to intensifying competition because of full liberalization of the retail market, aging and shrinking population, economic conditions and temperature, as well as the progress of energy conservation. Consequently, there may be a serious impact on the performance of our corporate group.

The Great East Japan Earthquake on March 11, 2011, seriously affected the Tohoku region. Even though nine 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 order to expand the sales volume within Tohoku and beyond our franchise area, our corporate group companies seek to expand the retail and wholesale in Kanto area and lower the risk for our corporate group's financial results.

b. 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. 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 the fuel and other prices change significantly, our corporate group companies' business performance and financial condition could be affected.

To diversify the risk caused by fuel price fluctuations, we are making efforts to maintain a well-balanced combination of power sources.

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.

The following shows our thermal costs, which are estimated based on a certain precondition. Every US dollar per barrel change in crude oil price impacts the thermal costs by ¥2.6 billion annually. When foreign exchange rate fluctuates by ¥1 against US\$1.00, the annual impact of ¥3 billion is estimated. It is estimated to be ¥0.8 billion annually, when the flow rate changes by one percent. As these figures may be affected by the status of operation at thermal power stations, they are not determined only by fuel costs and foreign exchange rate.

c. Interest Rate Fluctuations

The balance of interest-bearing liabilities for the current fiscal year on consolidated basis amounted to ¥2412.6 billion. In order to alleviate the impact due to interest rate fluctuations, we basically receive funds at fixed interest rates. Our group companies' results and financial status may be affected by future trends in market interest rates and changes in ratings. It is estimated to be ¥3.4 billion annually when the interest rate fluctuates by 1 percent. 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.

d. Fluctuations due to Retirement Benefit Expenses and Debts

Retirement benefit expenses and debts are calculated based on the preconditions on an actuarial basis such as discount rate and long-term expected rate of return on assets. There is a possibility that our financial results of our corporate group companies may be affected by fluctuation of discount rate and investment return.

Therefore, we strive for mitigating risks on finance through decreasing our group's whole projected benefit obligations by reducing risk through diversified investment of pension fund and introducing defined contribution plan, and make endeavor for alleviating the impact on our financial results.

4. Other Risks

a. Information Leakage

Our corporate group companies possess a large amount of important information, such as information on individuals and facilities. 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 due to payment for damage compensation and decreasing social credibility. 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.

b. Compliance

If any violation of business ethics is committed, the reputation of our corporate group may be damaged, adversely affecting our results and financial condition.

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.

b. The COVID-19 Pandemic

If the coronavirus continues to circulate around the world for a long time, our corporate group companies' business and financial status may be affected due to lowering volume of consumption and stagnated production activities that results in declining electricity demand.

In case that the virus spreads out in our workplace such as power stations, it is essential to secure the number of operators. If the pandemic situation worsens, there may be an impact on fuel procurement.

We have prepared for the pandemic outbreak, and developed a Business Continuity Plan to maintain stable supply of electricity. By each phase, we will implement the business management while streamlining the businesses that can be downsized or suspended step by step. Additionally, we will secure stable procurement by diversifying fuel sources. While seeking stable supply of electricity and reducing the risk of suspension, we will respond to business environment that may change for the mid-to-long term.

Five-Year Summary (Consolidated basis)

Tohoku Electric Power Co., Inc. and Consolidated Subsidiaries

Years ended March 31

	Millions of yen				
	2020	2019	2018	2017	2016
Operating results					
Operating revenue	¥ 2,246,369	¥ 2,244,314	¥ 2,071,380	¥ 1,949,584	¥ 2,095,587
Operating expenses	2,130,018	2,160,681	1,963,714	1,819,161	1,905,828
Operating income	116,350	83,633	107,665	130,422	189,759
Interest expenses	17,331	18,762	21,684	24,420	32,419
Other expenses (income), net	(5,251)	6,626	(12,468)	(1,298)	(4,723)
Income before special item and income taxes	93,768	71,497	73,512	104,704	152,616
special item	-	(1,100)	1,100	-	-
Income before income taxes	93,768	72,598	72,412	104,704	152,616
Income taxes	28,702	21,735	20,260	28,364	48,150
Net income attributable to non-controlling interests	1,991	4,379	4,935	6,408	7,140
Net income attributable to owners of parent	63,074	46,483	47,216	69,931	97,325
Sources and application of funds					
Sources:					
Internal funds	¥ 313,138	¥ 337,886	¥ 314,995	¥337,189	¥409,871
External funds:					
Bonds	234,261	99,653	129,546	139,506	180,565
Borrowings	383,181	739,900	225,436	354,465	347,502
	617,442	839,553	354,982	493,971	528,067
Total	930,580	1,177,439	669,977	831,160	937,938
Applications:					
Capital expenditure	344,741	293,614	303,477	300,921	319,834
Debt redemption	585,839	883,824	366,500	530,239	618,104
Total	930,580	1,177,439	669,977	831,160	937,938
Assets and capital					
Total assets	¥ 4,323,099	¥ 4,258,633	¥ 4,222,163	¥ 4,145,928	¥ 4,152,436
Property, plant and equipment, net	3,135,004	3,080,453	3,002,433	2,983,003	2,949,631
Capital stock	251,441	251,441	251,441	251,441	251,441
Total net assets	864,177	833,711	798,705	755,624	684,393

	Millions of yen				
	2020	2019	2018	2017	2016
Cash Flows					
Operating activities:					
Net cash provided by operating activities	¥ 371,525	¥ 262,804	¥ 324,019	¥ 278,147	¥371,873
Investing activities:					
Net cash used in investing activities	(310,627)	(250,570)	(273,915)	(256,341)	(250,521)
Financing activities:					
Net cash (used in) provided by financing activities	6,719	(69,307)	(36,280)	(55,925)	(104,131)
Effect of exchange rate changes on cash and cash equivalents	(237)	(154)	84	(94)	(66)
Increase in cash and cash equivalents from newly consolidated subsidiary	-	-	-	-	0
Increase in cash and cash equivalents resulting from merger	-	-	-	-	752
Cash and cash equivalents at end of the period	252,322	184,942	242,171	228,262	262,476

	2020	2019	2018	2017	2016
Electric power sales (GWh)					
Lighting (Residential)	21,813	22,745	23,889	24,004	23,706
Power	45,354	46,130	48,114	50,255	51,351
Retail Electricity Sales	67,167	68,876	72,003	74,258	75,057
Wholesale Electricity Sales	17,652	16,220	13,650	8,846	8,874
Total	84,819	85,096	85,653	83,104	83,931

	2020	2019	2018	2017	2016
Plant data					
Generating capacity (MW)					
(Number of plants):					
Hydroelectric	2,556	2,556	2,555	2,551	2,538
	(227)	(227)	(227)	(227)	(226)
Thermal *	12,031	12,131	13,053	12,965	12,725
	(13)	(13)	(13)	(13)	(13)
Nuclear	2,750	2,750	3,274	3,274	3,274
	(2)	(2)	(2)	(2)	(2)
Internal combustion power *	-	-	-	-	-
	-	-	-	-	-
Renewables	243	243	241	276	276
	(19)	(19)	(18)	(18)	(18)
Total	17,580	17,680	19,124	19,066	18,812
	(261)	(261)	(260)	(260)	(259)
Substation capacity (MVA)	79,404	78,379	76,811	75,708	75,211
Transmission lines (km)	15,364	15,330	15,281	15,190	15,212
Distribution lines (km)	148,348	147,934	147,582	147,078	146,550

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

Other data					
Number of employees	24,870	25,032	25,058	24,771	24,285

Consolidated Balance Sheets

	March 31,		
	2020	2019	2020
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 2)</i>
Assets			
Property, plant and equipment <i>(Note 5)</i>	¥9,975,072	¥9,799,944	\$91,657,373
Less accumulated depreciation	<u>(6,840,068)</u>	<u>(6,719,491)</u>	<u>(62,850,941)</u>
Property, plant and equipment, net	3,135,004	3,080,453	28,806,432
Nuclear fuel:			
Loaded nuclear fuel	30,591	30,591	281,089
Nuclear fuel in processing	<u>143,740</u>	<u>134,490</u>	<u>1,320,775</u>
Total nuclear fuel	174,331	165,081	1,601,865
Long-term investments <i>(Notes 6 and 7)</i>	99,462	102,888	913,920
Defined benefit asset <i>(Note 15)</i>	3,844	4,303	35,321
Deferred tax assets <i>(Note 19)</i>	159,568	162,696	1,466,213
Other assets <i>(Note 10)</i>	106,870	105,573	981,990
Current assets:			
Cash and deposits <i>(Notes 6 and 9)</i>	244,010	178,729	2,242,120
Notes and accounts receivable – trade <i>(Notes 6 and 12)</i>	224,182	231,841	2,059,928
Inventories <i>(Note 11)</i>	67,374	78,789	619,075
Other current assets	<u>108,450</u>	<u>148,275</u>	<u>996,508</u>
Total current assets	644,017	637,635	5,917,642
Total assets	<u>¥4,323,099</u>	<u>¥4,258,633</u>	<u>\$39,723,412</u>

	March 31,		
	2020	2019	2020
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 2)</i>
Liabilities and net assets			
Long-term debt <i>(Notes 6 and 14)</i>	¥2,094,987	¥2,084,490	\$19,250,087
Reserve for restoration costs of natural disaster	5,061	4,873	46,503
Defined benefit liability <i>(Note 15)</i>	189,968	178,561	1,745,548
Asset retirement obligations <i>(Note 16)</i>	165,848	161,929	1,523,918
Deferred tax liabilities for land revaluation <i>(Note 13)</i>	1,330	1,373	12,220
Current liabilities:			
Current portion of non-current liabilities <i>(Notes 6 and 14)</i>	372,388	321,875	3,421,740
Notes and accounts payable – trade <i>(Note 6)</i>	144,616	141,197	1,328,824
Accrued income taxes	14,330	6,708	131,673
Other advances	205,984	252,430	1,892,713
Reserve for restoration costs of natural disaster	2,613	198	24,009
Other current liabilities	261,791	271,283	2,045,503
Total current liabilities	<u>1,001,724</u>	<u>993,693</u>	<u>9,204,484</u>
Total liabilities	<u>3,458,921</u>	<u>3,424,921</u>	<u>31,782,789</u>
Contingent liabilities <i>(Note 25)</i>			
Net assets <i>(Note 26)</i> :			
Shareholders' equity <i>(Note 20)</i> :			
Capital stock, without par value:			
Authorized – 1,000,000,000 shares			
Issued – 502,882,585 shares	251,441	251,441	2,310,401
Capital surplus	22,390	22,558	205,733
Retained earnings	542,187	499,132	4,981,962
Treasury shares; 3,643,599 shares in 2019 and 3,804,644 shares in 2018	(6,564)	(6,788)	(60,314)
Total shareholders' equity	<u>809,454</u>	<u>766,343</u>	<u>7,437,783</u>
Accumulated other comprehensive income:			
Unrealized holding gain on available-for-sale securities <i>(Note 7)</i>	197	3,072	1,810
Unrealized loss from hedging instruments <i>(Note 8)</i>	(618)	(908)	(5,678)
Revaluation reserve for land <i>(Note 13)</i>	(895)	(854)	(8,223)
Foreign currency translation adjustments	(288)	179	(2,646)
Remeasurements of defined benefit plans <i>(Note 15)</i>	(16,727)	(5,666)	(153,698)
Total accumulated other comprehensive income	<u>(18,332)</u>	<u>(4,176)</u>	<u>(168,446)</u>
Subscription rights to shares <i>(Note 17)</i>	1,120	1,013	10,291
Non-controlling interests	71,935	70,530	660,985
Total net assets	<u>864,177</u>	<u>833,711</u>	<u>7,940,613</u>
Total liabilities and net assets	<u>¥4,323,099</u>	<u>¥4,258,633</u>	<u>\$39,723,412</u>

See notes to consolidated financial statements.

Consolidated Statements of Income

	Year ended March 31,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
Operating revenue:			
Electric utility operating revenue	¥2,022,251	¥2,012,701	\$18,581,742
Other business operating revenue	224,117	231,613	2,059,331
	<u>2,246,369</u>	<u>2,244,314</u>	<u>20,641,082</u>
Operating expenses (Note 21 and 23):			
Electric utility operating expenses (Note 22)	1,916,492	1,943,004	17,609,960
Other business operating expenses	213,525	217,676	1,962,004
	<u>2,130,018</u>	<u>2,160,681</u>	<u>19,571,974</u>
Operating income	116,350	83,633	1,069,098
Other income (expense):			
Interest and dividend income	1,167	1,165	10,723
Interest expenses	(17,331)	(18,762)	(159,248)
Compensation income for damage	–	7,900	–
Contingent loss (Note 24)	(550)	–	(5,053)
Loss on disaster (Note 24)	(5,648)	–	(51,897)
Loss on decommissioning of Onagawa Nuclear Power Station Unit 1	–	(2,145)	–
Gain on sale of securities	3,249	–	29,853
Share of profit of entities accounted for using equity method	534	141	4,906
Other, net	(4,003)	(434)	(36,782)
	<u>(22,582)</u>	<u>(12,135)</u>	<u>(207,497)</u>
Income before special item and income taxes	93,768	71,497	861,600
Special item:			
Provision of reserve for fluctuation in water levels	–	(1,100)	–
Income before income taxes	93,768	72,598	861,600
Income taxes (Note 19):			
Current	20,414	13,861	187,576
Deferred	8,287	7,873	76,146
	<u>28,702</u>	<u>21,735</u>	<u>263,732</u>
Net income	<u>65,065</u>	<u>50,863</u>	<u>597,859</u>
Net income attributable to non-controlling interests	1,991	4,379	18,294
Net income attributable to owners of parent (Note 26)	<u>¥63,074</u>	<u>¥46,483</u>	<u>\$579,564</u>

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

	Year ended March 31,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
Net income	¥65,065	¥50,863	\$597,859
Other comprehensive income (Note 27):			
Unrealized holding gain on available-for-sale securities	(2,939)	(3,883)	(27,005)
Unrealized gain from hedging instruments	290	363	2,664
Foreign currency translation adjustments	(470)	(503)	(4,318)
Remeasurements of defined benefit plans	(11,019)	8,925	(101,249)
Share of other comprehensive income of entities accounted for using equity method	(2)	(1)	(18)
Total other comprehensive income	(14,141)	4,900	(129,936)
Comprehensive income	50,924	55,763	467,922
Total comprehensive income attributable to:			
Owners of parent	¥48,959	¥51,450	\$449,866
Non-controlling interests	1,965	4,312	18,055

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

	Year ended March 31, 2020													
	Shareholders' equity					Accumulated other comprehensive income								
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Unrealized holding gain on available-for-sale securities	Unrealized loss from hedging instruments	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, 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
Changes in parent's ownership interests arising from transactions with non-controlling interests		(168)			(168)									(168)
Dividends of surplus			(19,971)		(19,971)									(19,971)
Net income attributable to owners of parent			63,074		63,074									63,074
Purchases of treasury shares				(20)	(20)									(20)
Disposal of treasury shares			(88)	244	155									155
Reversal of revaluation reserve for land			41		41									41
Net changes in items other than shareholders' equity						(2,875)	290	(41)	(468)	(11,061)	(14,156)	107	1,404	(12,644)
Balance at March 31, 2020	¥251,441	¥22,390	¥542,187	¥(6,564)	¥809,454	¥197	¥(618)	¥(895)	¥(288)	¥(16,727)	¥ (18,332)	¥1,120	¥71,935	¥864,177
	Year ended March 31, 2019													
	Shareholders' equity					Accumulated other comprehensive income								
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Unrealized holding gain on available-for-sale securities	Unrealized loss from hedging instruments	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, 2020													
	Shareholders' equity					Accumulated other comprehensive income								
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Unrealized holding gain on available-for-sale securities	Unrealized loss from hedging instruments	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, 2019	\$2,310,401	\$207,277	\$4,586,345	\$(62,372)	\$7,041,652	\$28,227	\$(8,343)	\$(7,847)	\$1,644	\$(52,062)	\$(38,371)	\$9,308	\$648,074	\$7,660,672
Changes in parent's ownership interests arising from transactions with non-controlling interests		(1,543)			(1,543)									(1,543)
Dividends of surplus			(183,506)		(183,506)									(183,506)
Net income attributable to owners of parent			579,564		579,564									579,564
Purchases of treasury shares				(183)	(183)									(183)
Disposal of treasury shares			(808)	2,242	1,424									1,424
Reversal of revaluation reserve for land			376		376									376
Net changes in items other than shareholders' equity						(26,417)	2,664	(376)	(4,300)	(101,635)	(130,074)	983	12,900	(116,181)
Balance at March 31, 2020	\$2,310,401	\$205,733	\$4,981,962	\$(60,314)	\$7,437,783	\$1,810	\$(5,678)	\$(8,223)	\$(2,627)	\$(153,698)	\$(168,446)	\$10,291	\$660,985	\$7,940,613

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Year ended March 31,		
	2020 <i>(Millions of yen)</i>	2019	2020 <i>(Thousands of U.S. dollars)</i> <i>(Note 2)</i>
Operating activities			
Income before income taxes	¥ 93,768	¥ 72,598	\$ 861,600
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	227,019	215,628	2,085,996
Decommissioning costs of nuclear power units	7,269	7,664	66,792
Amortization of special account related to nuclear power decommissioning	63	26	578
Loss on retirement of non-current assets	13,577	12,636	124,754
Increase (decrease) in net defined benefit liability	(6,465)	(7,266)	(59,404)
Increase (decrease) in reserve for fluctuation in water levels	-	(1,100)	-
Interest and dividend income	(1,167)	(1,165)	(10,723)
Interest expenses	17,331	18,762	159,248
Changes in operating assets and liabilities:			
(Increase) decrease in notes and accounts receivable – trade	4,009	(27,154)	36,837
(Increase) decrease in inventories	11,022	(8,589)	101,277
Increase (decrease) in notes and accounts payable – trade	4,111	(3,603)	37,774
Increase (decrease) in deposits received	25,735	21,983	236,469
Other	4,322	(2,179)	39,713
Subtotal	400,597	298,240	3,680,942
Interest and dividend income received	1,168	1,164	10,732
Interest expenses paid	(17,448)	(19,550)	(160,323)
Income taxes paid	(12,791)	(17,050)	(117,531)
Net cash provided by operating activities	371,525	262,804	3,413,810
Investing activities			
Purchase of non-current assets	(317,323)	(272,304)	(2,915,767)
Payment of investment and loans receivable	(15,191)	(11,629)	(139,584)
Collection of investments and loans receivable	16,233	9,212	149,159
Other, net	5,653	24,150	51,943
Net cash used in investing activities	(310,627)	(250,570)	(2,854,240)
Financing activities			
Proceeds from long-term loans payable and issuance of bonds	384,603	294,266	3,533,979
Repayment or redemption of long-term loans payable or bonds	(313,039)	(359,896)	(2,876,403)
Increase (decrease) in short-term loans payable and commercial papers	(39,944)	21,372	(367,031)
Cash dividends paid	(19,918)	(19,871)	(183,019)
Cash dividends paid to non-controlling interests	(1,054)	(1,061)	(9,684)
Other, net	(3,927)	(4,116)	(36,083)
Net cash provided by (used in) financing activities	6,719	(69,307)	61,738
Effect of exchange rate changes on cash and cash equivalents	(237)	(154)	(2,177)
Net increase (decrease) in cash and cash equivalents	67,379	(57,228)	619,121
Cash and cash equivalents at beginning of the period	184,942	242,171	1,699,365
Cash and cash equivalents at end of the period <i>(Note 9)</i>	¥252,322	¥184,942	\$2,318,496

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

March 31, 2020

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 rounded down to the nearest million yen. 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 entities as of March 31, 2020 and fifty-two entities as of March 31, 2019) controlled directly or indirectly by the Company.

Tohoku Electric Power Network Co., Inc., which was newly established in the year ended March 31, 2020, was included in the scope of the consolidation.

MIYAGI DENSETU CORPORATION, which was a consolidated subsidiary of the Company in the previous fiscal year, was merged with TECS MIYAGI CORPORATION and DAIYU DENKO CORPORATION, which were also consolidated subsidiaries of the Company. It changed the company name to YURTEC MIYAGI SERVICE CORPORATION after the absorption-type merger. AIZU-GAISI Co., Inc. was excluded from the scope of consolidation from the current fiscal year due to the sale of a part of the shares held by the Company.

The affiliates (five entities as of March 31, 2020 and 2019) 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 principally 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).

Of intangible fixed assets, software for internal use is amortized by the straight-line method over the estimated useful lives (five years).

(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 unrealized holding gain, 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.

Certain subsidiaries use a simplified method for calculating retirement benefit expenses and related assets and liabilities.

(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 resulting from the changes in the accounting rules for reserve recognition in the year ended March 31, 2006, has been paid evenly to the organization as contributions and recorded as operating expenses through the year ended March 31, 2020.

Aforementioned accounting treatment was completed in the current fiscal year.

(l) Accounting for the consumption tax

National and local consumption taxes are accounted for by using the tax-excluded method.

(m) Reserve for restoration costs of natural disaster

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

(n) Income taxes

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

(o) Foreign currency translation

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

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

(p) Derivatives and hedging transactions

The Company has entered into various derivatives transactions in order to manage certain risk arising from adverse fluctuation in foreign currency exchange rates, 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.

(q) 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.

(r) 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 ¥108.83 = U.S. \$1.00, the approximate rate of exchange in effect on March 31, 2020 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

(a) On March 31, 2020, 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 those standard and guidance from the beginning of the fiscal year ending March 31, 2022.

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

(b) On March 31, 2020, the Accounting Standards Board of Japan (ASBJ) issued ASBJ Statement No. 24, "Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections."

The purpose is to show the outline of the accounting principles and procedures adopted when the relevant accounting standards are not clear.

The Company plans to apply the standard from the end of the fiscal year ending March 31, 2021

(c) On March 31, 2020, the Accounting Standards Board of Japan (ASBJ) issued ASBJ Statement No. 31, "Accounting Standard for Disclosure of Accounting Estimates."

It is intended to disclose information which contribute to the understanding of users of financial statements regarding the content of accounting estimates for items that have a risk of having a significant impact on the financial statements for the next fiscal year out of the amounts recorded in the financial statements for the current fiscal year.

The Company plans to apply the standard from the end of the fiscal year ending March 31, 2021.

4. Additional Information

(a) Transactions under Common Control

On April 1, 2020, the Company transferred the general power transmission and distribution business and power generation business in isolated islands through company splits to Tohoku Electric Power Network Co., Inc.

The above transactions were treated as transactions under common control in accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No.21, January 16, 2019) and other applicable standards.

The amounts of assets and liabilities transferred through company splits (as of April 1, 2020) are as follow:

<i>Assets</i>		<i>Liabilities</i>	
<i>Item</i>	<i>Amount</i>	<i>Item</i>	<i>Amount</i>
Non-current Assets	¥1,828,465 million (\$16,801,111 thousand)	Non-current Liabilities	¥64,414 million (\$591,877 thousand)
Current Assets	¥192,875million (\$1,772,259 thousand)	Current Liabilities	¥273,360million (\$2,511,807 thousand)
Total	¥2,021,341million (\$18,573,380 thousand)	Total	¥337,774million (\$3,103,684 thousand)

(b) Accounting estimates of the impact due to the spread of COVID-19

As we can't foresee how COVID-19 will spread and when it will settle down, the impact on power demand and other factors can't be predicted. However, at the end of the current fiscal year, we are considering the possibility of recovering deferred tax assets assuming that there will be no significant change in profitability.

If COVID-19 spreads for a long time and has a large impact on electricity demand, it may affect the judgment of collectability of deferred tax assets, etc., and may have a significant impact on the business performance of our group after the next fiscal year.

5. Property, Plant and Equipment

Property, plant and equipment at March 31, 2020 and 2019 are summarized as follows:

	2020	2019	2020
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Hydro power plant	¥ 616,999	¥ 603,773	\$ 5,669,383
Thermal power plant	1,951,543	1,890,102	17,932,031
Nuclear power plant	1,469,191	1,467,190	13,499,871
Transmission plant	1,778,481	1,760,859	16,341,826
Transformation plant	865,989	861,535	7,957,263
Distribution plant	1,581,445	1,544,404	14,531,333
General plant	317,734	339,204	2,919,544
Other	990,214	934,734	9,098,722
	<u>9,571,599</u>	<u>9,401,804</u>	<u>87,950,004</u>
Accumulated depreciation	6,840,068	6,719,491	62,850,941
Subtotal	<u>2,731,531</u>	<u>2,682,313</u>	<u>25,099,062</u>
Construction work in progress	357,778	359,324	3,287,494
Special account related to nuclear power decommissioning	24,451	24,514	224,671
Manufacturing process in progress related to reprocessing of irradiated nuclear fuel	21,243	14,300	195,194
Total	<u>¥ 3,135,004</u>	<u>¥ 3,080,453</u>	<u>\$ 28,806,432</u>
Contributions in aid of construction	¥ 303,793	¥ 291,320	\$ 2,791,445

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 shares of common stock of 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 counterparty 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 counterparty 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 8 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 on the balance sheets, fair values and unrealized gains or losses as of March 31, 2020 and 2019 are shown in the following table. the following table does not include financial instruments for which it is extremely difficult to determine the fair value.

At March 31, 2020	Carrying value	Fair value	Unrealized gain (loss)
<i>(Millions of yen)</i>			
Assets:			
Marketable and investment securities *1	¥ 34,486	¥ 34,136	¥ (350)
Cash and deposits	244,010	244,010	–
Notes and accounts receivable – trade	224,649	224,649	–
Liabilities:			
Bonds payable *2	1,050,051	1,056,171	6,120
Long-term loans payable *2	1,362,607	1,385,239	22,631
Notes and accounts payable – trade	144,616	144,616	–
Derivative transactions *3	(866)	(866)	–
At March 31, 2019	Carrying value	Fair value	Unrealized gain (loss)
<i>(Millions of yen)</i>			
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, 2020	Carrying value	Fair value	Unrealized gain (loss)
<i>(Thousands of U.S. dollars)</i>			
Assets:			
Marketable and investment securities *1	\$ 316,879	\$ 313,663	\$ (3,216)
Cash and deposits	2,242,120	2,242,120	–
Notes and accounts receivable – trade	2,064,219	2,064,219	–
Liabilities:			
Bonds payable *2	9,648,543	9,704,778	56,234
Long-term loans payable *2	12,520,509	12,728,466	207,948
Notes and accounts payable – trade	1,328,824	1,328,824	–
Derivative transactions *3	(7,957)	(7,957)	–

(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 liability position 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 quoted market 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 quoted market prices.

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, 2020 and 2019 are as follows:

	2020	2019	2020
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unlisted stocks	¥152,141	¥144,724	\$1,397,969
Subscription certificate	1,427	1,174	13,112
Other	1,171	209	10,759
Total	<u>¥154,741</u>	<u>¥146,108</u>	<u>\$1,421,859</u>

(b) Fair Values of Financial Instruments (continued)

(Note 3) Redemption schedule of financial bonds and marketable securities with maturity at March 31, 2020 and 2019 are as follows:

At March 31, 2020	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
	<i>(Millions of yen)</i>			
Marketable and investment securities:				
Held-to-maturity debt securities:				
Municipal bonds	¥ 23	¥ 70	¥17	¥ –
Corporate bonds	2,999	–	–	–
Negotiable certificates of deposit	4,250	–	–	–
Other	2,000	1,000	–	6,957
Cash and deposits	244,010	–	–	–
Notes and accounts receivable – trade	224,649	–	–	–
Total	¥477,932	¥ 1,070	¥17	¥6,957
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
	<i>(Millions of yen)</i>			
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
Cash and deposits	178,729	–	–	–
Notes and accounts receivable – trade	232,303	–	–	–
Total	¥418,565	¥70	–	¥9,976

(b) Fair Values of Financial Instruments (continued)

At March 31, 2020	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
	<i>(Thousands of U.S. dollars)</i>			
Marketable and investment securities:				
Held-to-maturity debt securities:				
Municipal bonds	\$ 211	\$ 643	\$156	\$ –
Corporate bonds	27,556	–	–	–
Negotiable certificates of deposit	39,051	–	–	–
Other	18,377	9,188	–	63,925
Cash and deposits	2,242,120	–	–	–
Notes and accounts receivable – trade	2,064,219	–	–	–
Total	<u>\$4,391,546</u>	<u>\$9,831</u>	<u>\$156</u>	<u>\$63,925</u>

Held-to-maturity debt securities at March 31, 2020 and 2019 are as follows:

At March 31, 2020	Carrying value	Fair value	Unrealized gain (loss)
	<i>(Millions of yen)</i>		
Securities whose fair value exceeds their carrying value:			
Public bonds	¥ 110	¥ 110	¥ –
Corporate bonds	–	–	–
Other	3,000	3,118	118
Securities whose carrying value exceeds their fair value:			
Public bonds	–	–	–
Corporate bonds	2,999	2,999	–
Other	11,207	10,738	(469)
Total	<u>¥17,318</u>	<u>¥16,967</u>	<u>¥(350)</u>
	Carrying value	Fair value	Unrealized gain (loss)
	<i>(Millions of yen)</i>		
Securities whose fair value exceeds their carrying value:			
Public bonds	¥ 133	¥ 133	¥ –
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	–
Other	11,446	11,243	(203)
Total	<u>¥17,579</u>	<u>¥17,519</u>	<u>¥ (59)</u>
	Carrying value	Fair value	Unrealized gain (loss)
	<i>(Thousands of U.S. dollars)</i>		
Securities whose fair value exceeds their carrying value:			
Public bonds	\$ 1,014	\$ 1,018	\$ 4
Corporate bonds	–	–	–
Other	27,565	28,650	1,084
Securities whose carrying value exceeds their fair value:			
Public bonds	–	–	–
Corporate bonds	27,564	27,560	(4)
Other	102,977	98,667	(4,309)
Total	<u>\$ 159,128</u>	<u>\$155,903</u>	<u>\$(3,216)</u>

Other securities at March 31, 2020 and 2019 are as follows:

At March 31, 2020	Acquisition cost	Carrying value	Unrealized gain (loss)
	<i>(Millions of yen)</i>		
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥ 6,703	¥10,847	¥4,144
Securities whose acquisition cost exceeds their carrying value:			
Stock	10,082	6,320	(3,761)
Total	<u>¥16,786</u>	<u>¥17,168</u>	<u>¥ 382</u>
At March 31, 2019	Acquisition cost	Carrying value	Unrealized gain (loss)
	<i>(Millions of yen)</i>		
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	<u>¥16,828</u>	<u>¥21,176</u>	<u>¥4,347</u>
At March 31, 2020	Acquisition cost	Carrying value	Unrealized gain (loss)
	<i>(Thousands of U.S. dollars)</i>		
Securities whose carrying value exceeds their acquisition cost:			
Stock	\$ 61,591	\$ 99,669	\$38,077
Securities whose acquisition cost exceeds their carrying value:			
Stock	92,639	58,072	(34,558)
Total	<u>\$154,240</u>	<u>\$157,750</u>	<u>\$ 3,510</u>

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.

Currency-related transaction:

At March 31, 2020	Notional amount		Fair value ^{*1}	Unrealized gain (loss)
	Maturing within one year	Maturing after one year		
	<i>(Millions of yen)</i>			
Forward foreign exchange contracts:				
Buying U.S. dollars	¥3,203	–	¥(17)	¥(17)
Selling U.S. dollars	1,075	–	8	8
Total	<u>¥4,278</u>	<u>–</u>	<u>¥ (9)</u>	<u>¥ (9)</u>
At March 31, 2019	(None applicable)			

At March 31, 2020	Notional amount		Fair value ^{*1}	Unrealized gain (loss)
	Maturing within one year	Maturing after one year		
	<i>(Thousands of U.S. dollars)</i>			
Forward foreign exchange contracts:				
Buying U.S. dollars	\$29,431	–	\$(156)	\$(156)
Selling U.S. dollars	9,877	–	73	73
Total	<u>\$39,309</u>	<u>–</u>	<u>\$ (82)</u>	<u>\$ (82)</u>

*1. The fair value of derivative transactions is based on forward foreign exchange rate and other methods.

(b) Derivative transactions for which hedge accounting are applied

Currency-related transactions:

<u>At March 31, 2020</u>	Hedged item	Notional amount		Fair value* ¹
		Maturing within one year	Maturing after one year	
		<i>(Millions of yen)</i>		
Basic treatment:				
Currency swaps Pay Japanese yen / Receive U.S. dollars	Fuel purchase fund	¥5,047	–	¥2
Forward exchange transactions Buying U.S. dollars	Fuel purchase fund	1,075	–	(8)
Total		<u>¥6,122</u>	<u>–</u>	<u>¥(6)</u>

At March 31, 2019 (None applicable)

<u>At March 31, 2020</u>	Hedged item	Notional amount		Fair value* ¹
		Maturing within one year	Maturing after one year	
		<i>(Thousands of U.S. dollars)</i>		
Basic treatment:				
Pay Japanese yen / Receive U.S. dollars	Fuel purchase fund	\$46,375	–	\$ 18
Forward exchange transactions Buying U.S. dollars	Fuel purchase fund	9,877	–	(73)
Total		<u>\$56,252</u>	<u>–</u>	<u>\$(55)</u>

*1. The fair value of derivative transactions is based on forward foreign exchange rate and other methods.

Interest-related transactions:

At March 31, 2020	Hedged item	Notional amount		Fair value* ¹
		Maturing within one year	Maturing after one year	
<i>(Millions of yen)</i>				
Basic treatment:				
Interest rate swaps Pay fixed / Receive floating	Long-term loans	¥ 77,483	¥20,690	¥(582)
Special treatment:				
Interest rate swaps Pay fixed / Receive floating	Long-term loans	55,260	39,468	* ²
Total		¥132,743	¥60,158	¥ (582)

At March 31, 2019	Hedged item	Notional amount		Fair value* ¹
		Maturing within one year	Maturing after one year	
<i>(Millions of yen)</i>				
Basic treatment:				
Interest rate swaps Pay fixed / Receive floating	Long-term loans	¥ 94,674	¥ 77,483	¥ (1,259)
Special treatment:				
Interest rate swaps Pay fixed / Receive floating	Long-term loans	71,052	55,260	* ²
Total		¥165,726	¥132,743	¥ (1,259)

At March 31, 2020	Hedged item	Notional amount		Fair value* ¹
		Maturing within one year	Maturing after one year	
<i>(Thousands of U.S. dollars)</i>				
Basic treatment:				
Interest rate swaps Pay fixed / Receive floating	Long-term loans	\$ 711,963	\$190,113	\$(5,347)
Special treatment:				
Interest rate swaps Pay fixed / Receive floating	Long-term loans	507,764	362,657	* ²
Total		\$1,219,728	\$552,770	\$(5,347)

*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.

8. Derivatives (continued)

Commodity related transactions:

<u>At March 31, 2020</u>	<u>Hedged item</u>	<u>Notional amount</u>		<u>Fair value*¹</u>
		<u>Maturing within one year</u>	<u>Maturing after one year</u>	
<i>(Millions of yen)</i>				
Basic treatment:				
Commodity futures transactions				
Pay fixed / Receive floating	Fuel	¥606	–	¥(269)
Total		¥606	–	¥(269)

At March 31, 2019 (None applicable)

<u>At March 31, 2020</u>	<u>Hedged item</u>	<u>Contract amount</u>		<u>Fair value*¹</u>
		<u>Maturing within one year</u>	<u>Maturing after one year</u>	
<i>(Thousands of U.S. dollars)</i>				
Basic treatment:				
Commodity futures transactions				
Pay fixed / Receive floating	Fuel	\$5,568	–	\$ (2,471)
Total		\$5,568	–	\$ (2,471)

*1. The fair value of derivative transactions is based on forward foreign exchange rate and other methods.

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, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>	<u>2020</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Cash and deposits	¥244,010	¥178,729	\$2,242,120
Time deposits with maturities of more than three months	(1,804)	(966)	(16,576)
Short-term investments with an original maturity within three months included in other current assets	10,116	7,179	92,952
Cash and cash equivalents	<u>¥252,322</u>	<u>¥184,942</u>	<u>\$2,318,496</u>

10. Shares to affiliates

Shares to affiliates of March 31, 2020 and 2019 are ¥98,773 million (\$907,589 thousand) and ¥97,158 million, respectively.

11. Inventories

Details of inventories at March 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>	<u>2020</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Commercial products and finished goods	¥ 4,874	¥ 5,473	\$ 44,785
Work in process	7,176	8,843	65,937
Raw materials and supplies	55,322	64,472	508,334
Total	<u>¥67,374</u>	<u>¥78,789</u>	<u>\$619,075</u>

12. Notes and Accounts Receivable – Trade

Notes and accounts receivable – trade at March 31, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>	<u>2020</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Notes and accounts receivable – trade	¥224,649	¥232,303	\$2,064,219
Less allowance for doubtful accounts	(466)	(462)	(4,281)
Total	<u>¥224,182</u>	<u>¥231,841</u>	<u>\$2,059,928</u>

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, 2020 and 2019 are ¥3,467 million (\$31,857 thousand) and ¥3,950 million, respectively.

14. Long-Term Debt

At March 31, 2020 and 2019, long-term debt with definite repayment schedule consisted of the following:

	<u>2020</u>	<u>2019</u>	<u>2020</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Bonds in yen due through 2039	¥ 1,050,051	¥ 910,120	\$ 9,648,543
Loans from banks and other financial institutions due through 2039	1,362,607	1,430,322	12,520,509
Other	17,798	16,300	163,539
Subtotal	<u>2,430,458</u>	<u>2,356,743</u>	<u>22,332,610</u>
Less current portion	<u>(361,365)</u>	<u>(312,116)</u>	<u>(3,320,453)</u>
Total	<u>¥2,069,092</u>	<u>¥2,044,626</u>	<u>\$19,012,147</u>

Long-term debt payments fall due subsequent to March 31, 2020 are as follows:

<u>Years ending March 31,</u>	<u><i>(Millions of yen)</i></u>	<u><i>(Thousands of U.S. dollars)</i></u>
2021	¥ 361,365	\$ 3,320,453
2022	266,685	2,450,473
2023	279,689	2,569,962
2024	253,306	2,327,538
2025	286,199	2,629,780
2026 and thereafter	983,211	9,034,374
Total	<u>¥2,430,458</u>	<u>\$22,332,610</u>

14. Long-Term Debt (continued)

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 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, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>	<u>2020</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Bonds	¥1,050,000	¥910,000	\$9,648,074
Long-term loans	307,867	332,387	2,828,879

The assets of certain consolidated subsidiaries pledged as collateral for the above long-term debt at March 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>	<u>2020</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Land	¥10,495	¥12,346	\$ 96,434
Structures	12,760	18,658	117,247
Machinery and equipment	3,863	5,820	35,495
Other	1,950	7,056	17,917
Total	<u>¥29,071</u>	<u>¥43,883</u>	<u>\$267,123</u>

The assets pledged as collateral for the loans of a company, which was invested by the Company at March 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>	<u>2020</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Long-term investments	¥986	¥254	\$9,060

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.

Certain subsidiaries use a simplified method for calculating retirement benefit expenses and related assets and liabilities.

(a) Defined benefit plans (excluding plans calculated by the simplified method)

The changes in the defined benefit obligation during the years ended March 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>	<u>2020</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance as of beginning of the period	¥492,355	¥495,611	\$4,524,074
Service cost	14,272	14,241	131,140
Interest cost	2,454	2,484	22,548
Actuarial loss	382	1,944	3,510
Retirement benefit paid	(21,519)	(22,175)	(197,730)
Prior service cost	-	43	-
Other	309	204	2,839
Balance as of end of the period	<u>¥488,254</u>	<u>¥492,355</u>	<u>\$4,486,391</u>

The change in plan assets during the years ended March 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>	<u>2020</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance as of beginning of the period	¥323,720	¥327,094	\$2,974,547
Expected return on plan assets	9,626	10,029	88,449
Actuarial loss	(18,283)	(5,801)	(167,995)
Contribution by the companies	5,709	5,734	52,457
Retirement benefit paid	(13,341)	(13,515)	(122,585)
Other	243	179	2,232
Balance as of end of the period	<u>¥307,674</u>	<u>¥323,720</u>	<u>\$2,827,106</u>

15. Retirement Benefit Plans (continued)

(a) Defined benefit plans (excluding plans calculated by the simplified method) (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, 2020 and 2019 for the Company's and the consolidated subsidiaries' defined benefit plans:

	<u>2020</u>	<u>2019</u>	<u>2020</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Defined benefit obligation under funded plans	¥353,223	¥355,713	\$3,245,639
Plan asset at fair value	<u>(307,674)</u>	<u>(323,720)</u>	<u>(2,827,106)</u>
	45,548	31,992	418,524
Defined benefit obligation under unfunded plans	<u>135,031</u>	<u>136,641</u>	<u>1,240,751</u>
Net amount of liabilities and assets for defined benefits on consolidated balance sheet	<u>180,579</u>	<u>168,634</u>	<u>1,659,275</u>
Defined benefit liability	184,389	172,900	1,694,284
Defined benefit asset	<u>(3,809)</u>	<u>(4,265)</u>	<u>(34,999)</u>
Net amount of liabilities and assets for defined benefits on consolidated balance sheet	<u>¥ 180,579</u>	<u>¥ 168,634</u>	<u>\$ 1,659,275</u>

The components of retirement benefit expenses for the years ended March 31, 2020 and 2019 are outlined as follows:

	<u>2020</u>	<u>2019</u>	<u>2020</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Service cost	¥14,272	¥14,241	\$131,140
Interest cost	2,454	2,484	22,548
Expected return on plan assets	(9,626)	(10,029)	(88,449)
Amortization of unrecognized actuarial loss	3,457	20,385	31,765
Amortization of unrecognized prior service cost	(57)	(41)	(523)
Other	<u>1,403</u>	<u>1,708</u>	<u>12,891</u>
Retirement benefit expenses for defined benefit plans	<u>¥11,903</u>	<u>¥28,748</u>	<u>\$109,372</u>

15. Retirement Benefit Plans (continued)

(a) Defined benefit plans (excluding plans calculated by the simplified method) (continued)

The components of remeasurements of defined benefit plans included in other comprehensive income (before tax effect) for the years ended March 31, 2020 and 2019 are outlined as follows:

	<u>2020</u>	<u>2019</u>	<u>2020</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Prior service cost	¥ (57)	¥ (85)	\$ (523)
Actuarial gain and loss	(15,209)	12,639	(139,750)
Total	<u>¥(15,266)</u>	<u>¥12,553</u>	<u>\$(140,273)</u>

Unrecognized prior service cost and unrecognized actuarial gain/loss included in accumulated other comprehensive income as of March 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>	<u>2020</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unrecognized prior service cost	¥ 42	¥ (15)	\$ 385
Unrecognized actuarial loss	22,346	7,136	205,329
Total	<u>¥22,388</u>	<u>¥7,121</u>	<u>\$205,715</u>

The fair value of plan assets by major category as a percentage of total plan assets as of March 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Bonds	38%	37%
Life insurance general account	23%	22%
Stocks	25%	28%
Other	14%	13%
Total	<u>100%</u>	<u>100%</u>

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 are as follows:

	<u>2020</u>	<u>2019</u>
Discount rates	0.0% ~1.2 %	0.0% ~1.2 %
Expected rates of long-term return on plan assets	0.0% ~3.2 %	0.0% ~3.3 %

15. Retirement Benefit Plans (continued)

(b) Defined benefit plans (calculated by the simplified method)

The changes in the defined benefit obligation by the simplified method during the years ended March 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>	<u>2020</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance as of beginning of the period	¥5,622	¥5,436	\$51,658
Retirement benefit expenses	967	852	8,885
Retirement benefit paid	(699)	(571)	(6,422)
Contribution to the plans	(103)	(94)	(946)
Other	(242)	-	(2,223)
Balance as of end of the period	<u>¥5,544</u>	<u>¥5,622</u>	<u>\$50,941</u>

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, 2020 and 2019 for the Company's and the consolidated subsidiaries' defined benefit plans calculated by the simplified method:

	<u>2020</u>	<u>2019</u>	<u>2020</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Defined benefit obligation under funded plans	¥1,690	¥1,748	\$15,528
Plan asset at fair value	(1,724)	(1,786)	(15,841)
	(34)	(38)	(312)
Defined benefit obligation under unfunded plans	5,578	5,661	51,254
Net amount of liabilities and assets for defined benefits on consolidated balance sheet	5,544	5,622	50,941
Net defined benefit liability	5,578	5,661	51,254
Net defined benefit asset	(34)	(38)	(312)
Net amount of liabilities and assets for defined benefits on consolidated balance sheet	<u>¥5,544</u>	<u>¥5,622</u>	<u>\$50,941</u>

Retirement benefit expenses calculated by the simplified method for the years ended March 31, 2020 and 2019 are as follows:

<u>2020</u>	<u>2019</u>	<u>2020</u>
<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
¥967	¥852	\$8,885

15. Retirement Benefit Plans (continued)

(c) Defined contribution plans

Required contribution by the Company and its consolidated subsidiaries for the years ended March 31, 2020 and 2019 are as follows:

<u>2020</u>	<u>2019</u>	<u>2020</u>
<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
¥1,807	¥1,839	\$16,603

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, 2020 and 2019.

	<u>2020</u>	<u>2019</u>	<u>2020</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance as of beginning of the period	¥162,214	¥121,010	\$1,490,526
Net changes	3,962	41,203	36,405
Balance as of end of the period	<u>¥166,176</u>	<u>¥162,214</u>	<u>\$1,526,931</u>

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 ¥259 million (\$2,379 thousand) and ¥282 million are recorded under share-based compensation expenses of electric power operating expenses for the years ended March 31, 2020 and 2019, respectively.

The stock options outstanding as of March 31, 2020 are 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

17. Stock Options (continued)

	2019 Stock Option	2020 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)	10 directors of the Company (excluding an outside directors and audit and supervisory committee members) and 35 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	271,400 shares of capital stock of the Company
Date of grant	August 1, 2018	August 1, 2019
Vesting conditions	Not defined	Not defined
Eligible service period	Not defined	Not defined
Exercise period	From August 2, 2018 to August 1, 2043	From August 2, 2019 to August 1, 2044

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

17. Stock Options (continued)

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

	2011 Stock Option	2012 Stock Option	2013 Stock Option	2014 Stock Option
	<i>(Shares)</i>			
Non-vested				
as of March 31, 2019 – Outstanding	18,500	50,100	59,400	53,300
Granted	–	–	–	–
Forfeited	–	–	–	–
Vested	3,000	12,200	12,700	10,300
as of March 31, 2020 – Outstanding	15,500	37,900	46,700	43,000
Vested				
as of March 31, 2019 – Outstanding	–	–	–	–
Vested	3,000	12,200	12,700	10,300
Exercised	3,000	12,200	12,700	10,300
Forfeited	–	–	–	–
as of March 31, 2020 – Outstanding	–	–	–	–
	2015 Stock Option	2016 Stock Option	2017 Stock Option	2018 Stock Option
	<i>(Shares)</i>			
Non-vested				
as of March 31, 2019 – Outstanding	83,800	76,500	123,900	131,300
Granted	–	–	–	–
Forfeited	–	–	–	–
Vested	15,800	11,500	14,600	20,000
as of March 31, 2020 – Outstanding	68,000	65,000	109,300	111,300
Vested				
as of March 31, 2019 – Outstanding	–	–	–	–
Vested	15,800	11,500	14,600	20,000
Exercised	15,800	11,500	14,600	20,000
Forfeited	–	–	–	–
as of March 31, 2020 – Outstanding	–	–	–	–

17. Stock Options (continued)

	2019 Stock Option	2020 Stock Option
	<i>(Shares)</i>	
Non-vested		
as of March 31, 2019 – Outstanding	215,100	–
Granted	–	271,400
Forfeited	–	–
Vested	26,500	–
as of March 31, 2020 – Outstanding	188,600	271,400
Vested		
as of March 31, 2019 – Outstanding	–	–
Vested	26,500	–
Exercised	26,500	–
Forfeited	–	–
as of March 31, 2020 – Outstanding	–	–

Unit price information is as follows:

	2011 Stock Option		2012 Stock Option		2013 Stock Option		2014 Stock Option	
	<i>(Yen)</i>	<i>(U.S. dollars)</i>	<i>(Yen)</i>	<i>(U.S. dollars)</i>	<i>(Yen)</i>	<i>(U.S. dollars)</i>	<i>(Yen)</i>	<i>(U.S. dollars)</i>
Exercise price	¥ 1	\$ 0.009	¥ 1	\$ 0.009	¥ 1	\$ 0.009	¥ 1	\$ 0.009
Weighted average exercise price	1,102	10.125	1,102	10.125	1,102	10.125	1,102	10.125
Weighted average fair value per stock at the granted date	1,608	14.775	821	7.543	480	4.410	1,229	11.292

	2015 Stock Option		2016 Stock Option		2017 Stock Option		2018 Stock Option	
	<i>(Yen)</i>	<i>(U.S. dollars)</i>	<i>(Yen)</i>	<i>(U.S. dollars)</i>	<i>(Yen)</i>	<i>(U.S. dollars)</i>	<i>(Yen)</i>	<i>(U.S. dollars)</i>
Exercise price	¥ 1	\$ 0.009	¥ 1	\$ 0.009	¥ 1	\$ 0.009	¥ 1	\$ 0.009
Weighted average exercise price	1,102	10.125	1,102	10.125	1,102	10.125	1,102	10.125
Weighted average fair value per stock at the granted date	1,155	10.612	1,713	15.740	1,234	11.338	1,415	13.001

	2019 Stock Option		2020 Stock Option	
	<i>(Yen)</i>	<i>(U.S. dollars)</i>	<i>(Yen)</i>	<i>(U.S. dollars)</i>
Exercise price	¥ 1	\$ 0.009	¥ 1	\$ 0.009
Weighted average exercise price	1,102	10.125	–	–
Weighted average fair value per stock at the granted date	1,312	12.055	957	8.793

17. Stock Options (continued)

The estimation method of the fair value of 2020 Stock Option granted in the year ended March 31, 2020 is as follows:

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

II. Assumption used:

Stock price volatility ^{*1}	19.789%
Expected holding period ^{*2}	2.684 years
Expected cash dividend ^{*3}	¥40 (\$0.367) per share
Risk-free interest rate ^{*4}	(0.212)%

*1. Stock price volatility is computed based on the past stock prices during the period (From November 2016 to August 2019) corresponding to the expected remaining period (2.684 years).

*2. Estimation is made based on weighted-average 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, 2019.

*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 been forfeited.

18. Dividend policy

The following appropriations of retained earnings, which have not been reflected in the accompanying consolidated financial statements, are approved at a general meeting of the shareholders of the Company held on June 25, 2020:

	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Year-end cash dividends (¥20 = U.S.\$0.183 per share)	¥9,986	\$91,757

19. Income Taxes

The significant components of deferred tax assets and liabilities at March 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>	<u>2020</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Deferred tax assets:			
Defined benefit liability	¥ 53,348	¥ 50,215	\$ 490,195
Intercompany profits	25,728	26,338	236,405
Deferred revenues	20,478	22,092	188,165
Asset retirement obligations	23,318	23,913	214,260
Net operating loss carryforwards	2,052	4,818	18,855
Other	98,487	99,326	904,961
	<u>223,414</u>	<u>226,704</u>	<u>2,052,871</u>
Valuation allowance	(38,025)	(37,216)	(349,398)
Total deferred tax assets	<u>185,388</u>	<u>189,488</u>	<u>1,703,464</u>
Deferred tax liabilities:			
Assets corresponding to asset retirement obligations	(16,449)	(17,285)	(151,143)
Special account related to nuclear power decommissioning	(6,809)	(6,827)	(62,565)
Unrealized holding gain on available-for-sale securities	(1,172)	(1,942)	(10,769)
Other	(1,389)	(738)	(12,763)
Total deferred tax liabilities:	<u>(25,821)</u>	<u>(26,793)</u>	<u>(237,259)</u>
Net deferred tax assets	<u>¥159,568</u>	<u>¥162,696</u>	<u>\$1,466,213</u>

The effective tax rates reflected in the accompanying consolidated statements of income differ from the statutory tax rates for the years ended March 31, 2020 and 2019 for the following reasons:

	<u>2020</u>	<u>2019</u>
Statutory tax rates	27.85%	27.85%
Effect of:		
Unrecognized tax effect on unrealized profit elimination	1.68	1.93
Valuation allowance	0.86	0.01
Different tax rates applied to consolidated subsidiaries	0.73	1.14
Tax credit	(0.73)	(1.10)
Other, net	0.22	0.11
Effective tax rates	<u>30.61%</u>	<u>29.94%</u>

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) should 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 (\$577,598 thousand) was included in retained earnings in the accompanying consolidated financial statements for the year ended March 31, 2020.

21. Reserve for Retirement Benefit Expenses and Provision for disaster recovery costs

Reserve for retirement benefit expenses and Provision for disaster recovery costs for the years ended March 31, 2020 and 2019 are as follows:

Years ended March 31,	2020	2019	2020
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Reserve for retirement benefit expenses	¥14,678	¥ 31,440	\$ 134,870
Provision for disaster recovery costs	¥ 3,258	¥ —	\$ 29,936

22. Operating Expenses

Electric utility operating expenses for the years ended March 31, 2020 and 2019 are as follows:

	2020	2019	2020
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Personnel	¥ 144,023	¥ 160,711	\$ 1,323,375
Fuel	376,730	448,747	3,461,637
Maintenance	162,446	173,878	1,492,658
Subcontracting fees	49,268	45,508	452,706
Depreciation and amortization	204,818	194,369	1,881,999
Purchased power	582,476	523,953	5,352,163
Taxes other than income taxes	85,792	87,073	788,312
Other	310,935	308,761	2,857,070
Total	¥1,916,492	¥1,943,004	\$17,609,960

23. Research and Development Costs

Research and development costs included in selling, general and administrative expenses and manufacturing costs for the years ended March 31, 2020 and 2019 are ¥8,593 million (\$78,958 thousand) and ¥8,743 million, respectively.

24. Extraordinary losses

Typhoon Hagibis caused equipment damage such as inundation of the hydro power equipment and tilting and collapse of utility poles at the Company and its consolidated subsidiaries.

Due to this disaster, the Company recorded a contingent loss on property of ¥550 million (\$5,053 thousand) as a book value of lost assets and a loss on disaster of ¥5,648 million (\$51,897 thousand) as a disaster recovery cost for disaster-affected equipment.

25. Contingent Liabilities

Contingent liabilities at March 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>	<u>2020</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Guarantees of bonds and loans of other companies:			
Japan Nuclear Fuel Limited	¥53,960	¥59,517	\$495,819
The Japan Atomic Power Company and other companies	11,797	11,731	108,398
Guarantees of housing loans for employees	27	45	248
Guarantees for transactions of affiliates and other companies	10,736	3,392	98,649
Recourse under debt assumption agreements	—	50,000	—
Total	<u>¥76,520</u>	<u>¥124,685</u>	<u>\$703,114</u>

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 excluding subscription rights shares and non-controlling interests and the number of shares of capital stock outstanding at the year end.

The amounts per share for the years ended March 31, 2020 and 2019 are as follows:

Years ended March 31,	2020	2019	2020
	<i>(Yen)</i>		<i>(U.S. dollars)</i>
Net income:			
Basic	¥126.32	¥93.12	\$1.160
Diluted	117.38	87.61	1.078
Cash dividends applicable to the year	¥40.00	¥40.00	\$0.367
At March 31,	2020	2019	2020
	<i>(Yen)</i>		<i>(U.S. dollars)</i>
Net assets	¥1,584.30	¥1,526.66	\$14.557

27. Consolidated Statements of Comprehensive Income

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

	<u>2020</u>	<u>2019</u>	<u>2020</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unrealized holding gain on available-for-sale securities:			
Amount recorded during the fiscal year	¥ (4,015)	¥ (5,129)	\$ (36,892)
Reclassification adjustments	9	(0)	82
Before income tax effect	(4,006)	(5,129)	(36,809)
Income tax effect	1,066	1,245	9,795
Unrealized holding gain on available-for-sale securities	<u>(2,939)</u>	<u>(3,883)</u>	<u>(27,005)</u>
Unrealized gain (loss) from hedging instruments:			
Amount recorded during the fiscal year	(65)	387	(597)
Reclassification adjustments	605	704	5,559
Asset at cost adjustments	(139)	(587)	(1,277)
Before income tax effect	401	504	3,684
Income tax effect	(111)	(140)	(1,019)
Unrealized gain (loss) from hedging instruments	<u>290</u>	<u>363</u>	<u>2,664</u>
Foreign currency translation adjustments:			
Amount recorded during the fiscal year	(470)	(503)	(4,318)
Remeasurements of defined benefit plans:			
Amount recorded during the fiscal year	(18,672)	(7,753)	(171,570)
Reclassification adjustments	3,405	20,307	31,287
Before income tax effect	(15,266)	12,553	(140,273)
Income tax effect	4,247	(3,628)	39,024
Remeasurements of defined benefit plans	<u>(11,019)</u>	<u>8,925</u>	<u>(101,249)</u>
Share of other comprehensive income of entities accounted for using equity method:			
Amount recorded during the fiscal year	(2)	(1)	(18)
Total other comprehensive income	<u>¥(14,141)</u>	<u>¥4,900</u>	<u>\$(129,936)</u>

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, 2020 and 2019 are summarized as follows:

Year ended March 31, 2020	Reportable segment			Other	Total	Reconciling item*	Consolidated total
	Electric power business	Construction business	Subtotal				
	<i>(Millions of yen)</i>						
Net sales:							
(1) Net sales to external customers	¥ 2,022,411	¥126,217	¥ 2,148,629	¥ 97,740	¥ 2,246,369	¥ –	¥ 2,246,369
(2) Net intersegment sales	3,265	146,952	150,218	130,516	280,735	(280,735)	–
Total	2,025,677	273,169	2,298,847	228,256	2,527,104	(280,735)	2,246,369
Segment profit	¥ 101,114	¥ 8,712	¥ 109,827	¥ 9,702	¥ 119,530	¥ (3,179)	¥ 116,350
Segment assets	¥ 3,943,957	¥255,390	¥ 4,199,347	¥414,948	¥ 4,614,295	¥ (291,196)	¥ 4,323,099
Other items:							
Depreciation	¥ 212,816	¥ 3,815	¥ 216,631	¥ 18,889	¥ 235,521	¥ (8,501)	¥ 227,019
Increase in property, plant, equipment and intangible assets	¥ 322,768	¥ 4,567	¥ 327,335	¥ 17,403	¥ 344,739	¥ (11,731)	¥ 333,008

28. Segment Information (continued)

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

Year ended March 31, 2019	Reportable segment			Other	Total	Reconciling item*	Consolidated total
	Electric power business	Construction business	Subtotal				
<i>(Millions of yen)</i>							
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

Year ended March 31, 2020	Reportable segment			Other	Total	Reconciling item*	Consolidated total
	Electric power business	Construction business	Subtotal				
<i>(Thousands of U.S. dollars)</i>							
Net sales:							
(1) Net sales to external customers	\$18,583,212	\$ 1,159,762	\$19,742,984	\$ 898,097	\$20,641,082	\$ –	\$20,641,082
(2) Net intersegment sales	30,000	1,350,289	1,380,299	1,199,264	2,579,573	(2,579,573)	–
Total	18,613,222	2,510,052	21,123,284	2,097,362	23,220,656	(2,579,573)	20,641,082
Segment profit	\$ 929,100	\$ 80,051	\$ 1,009,161	\$ 89,148	\$ 1,098,318	\$ (29,210)	\$ 1,069,098
Segment assets	\$36,239,612	\$ 2,346,687	\$38,586,299	\$ 3,812,808	\$42,399,108	\$(2,675,696)	\$39,723,412
Other items:							
Depreciation	\$ 1,955,490	\$ 35,054	\$ 1,990,544	\$ 173,564	\$ 2,164,118	\$ (78,112)	\$ 2,085,996
Increase in property, plant, equipment and intangible assets	\$ 2,965,799	\$ 41,964	\$ 3,007,764	\$ 159,909	\$ 3,167,683	\$ (107,791)	\$ 3,059,891

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

Independent Auditor's Report

The Board of Directors
Tohoku Electric Power Company, Incorporated

Opinion

We have audited the accompanying consolidated financial statements of Tohoku Electric Power Company, Incorporated and its subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2020, and the consolidated statement of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

Audit and Supervisory Committee is responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain 'reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Conflicts of Interest

We have no interest in the Group which should be disclosed in accordance with the Certified Public Accountants Act.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

June 25, 2020



Shigeru Sekiguchi
Designated Engagement Partner
Certified Public Accountant



Morio Sato
Designated Engagement Partner
Certified Public Accountant



Daisuke Arikura
Designated Engagement Partner
Certified Public Accountant

Non-Consolidated Balance Sheets (Unaudited)

	March 31,		
	2020	2019	2020
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Assets			
Property, plant and equipment	¥ 9,150,636	¥ 9,039,691	\$ 84,081,925
Less accumulated depreciation	(6,209,621)	(6,133,274)	(57,057,989)
Property, plant and equipment, net	2,941,014	2,906,417	27,023,927
Nuclear fuel:			
Loaded nuclear fuel	30,591	30,591	281,089
Nuclear fuel in processing	143,740	134,490	1,320,775
Total nuclear fuel	174,331	165,081	1,601,865
Investments in and advances to:			
Subsidiaries and affiliates	213,818	196,833	1,964,697
Other	79,058	83,863	726,435
Total investments and advances	292,876	280,696	2,691,132
Deferred tax assets	112,807	120,498	1,036,543
Other assets	7,821	8,242	71,864
Current assets:			
Cash and deposits	126,485	72,154	1,162,225
Accounts receivable, less allowance for doubtful accounts	177,105	178,410	1,627,354
Other accounts receivable	71,393	105,372	656,004
Short-term investments	-	-	-
Fuel and supplies	47,269	56,289	434,337
Deferred tax assets	-	-	-
Other current assets	11,671	30,378	107,240
Total current assets	433,925	442,604	3,987,181
Total assets	¥ 3,962,777	¥ 3,923,541	\$ 36,412,542

(U.S. dollar amounts are translated from yen, for convenience, at the rate of ¥108.83 = U.S. \$1.00, the approximate rate of exchange at March 31, 2020.)

	March 31,		
	2020	2019	2020
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Liabilities and net assets			
Long-term debt	¥2,075,552	¥2,061,909	\$19,071,506
Provision for retirement benefits	130,225	133,708	1,196,591
Reserve for restoration costs of natural disaster	5,061	4,873	46,503
Asset retirement obligations	165,136	160,975	1,517,375
Current liabilities:			
Current portion of non-current liabilities	367,455	317,539	3,376,412
Commercial paper	-	40,000	-
Accounts payable	133,449	123,601	1,226,215
Accrued income taxes	8,837	602	81,200
Accrued expenses	85,357	98,004	784,314
Other advances	205,310	251,911	1,886,520
Reserve for restoration costs of natural disaster	2,588	198	23,780
Asset retirement obligations	-	-	-
Other current liabilities	100,091	76,037	919,700
Total current liabilities	<u>903,091</u>	<u>907,897</u>	<u>8,298,180</u>
Reserve for fluctuation in water levels	-	-	-
Net assets :			
Shareholders' equity :			
Capital stock, without par value:			
Authorized – 1,000,000,000 shares			
Issued – 502,882,585 shares	251,441	251,441	2,310,401
Capital surplus	26,657	26,657	244,941
Retained earnings	412,131	380,532	3,786,924
Treasury shares, at cost; 3,643,599 shares in 2019 and 3,804,644 shares in 2018	(6,646)	(6,870)	(61,067)
Total shareholders' equity	<u>683,583</u>	<u>651,760</u>	<u>6,281,200</u>
Valuation, translation adjustments:			
Valuation difference on available-for-sale securities	(569)	2,312	(5,228)
Deferred losses on hedges	(424)	(908)	(3,895)
Total valuation and translation adjustments	<u>(993)</u>	<u>1,403</u>	<u>(9,124)</u>
Subscription rights to shares	1,120	1,013	10,291
Total net assets	<u>683,710</u>	<u>654,178</u>	<u>6,282,366</u>
Total liabilities and net assets	<u>¥3,962,777</u>	<u>¥3,923,541</u>	<u>\$36,412,542</u>

(U.S. dollar amounts are translated from yen, for convenience, at the rate of ¥108.83 = U.S. \$1.00, the approximate rate of exchange at March 31, 2020.)

Non-Consolidated Statements of Income (Unaudited)

	Year ended March 31,		
	2020	2019	2020
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Operating revenue	¥2,031,978	¥2,025,559	\$18,671,120
Operating expenses :			
Personnel expenses	141,669	158,410	1,301,745
Fuel	364,054	435,610	3,345,162
Purchased power	627,592	571,881	5,766,718
Maintenance	158,407	170,665	1,455,545
Depreciation	208,903	198,054	1,919,535
Taxes, etc.	80,651	81,936	741,073
Subcontracting fees	49,902	46,179	458,531
Levy under Act on Purchase of Renewable Energy			
Sourced Electricity	165,205	166,116	1,518,009
Other	141,564	136,420	1,300,781
	<u>1,937,952</u>	<u>1,965,274</u>	<u>17,807,148</u>
Operating income	94,026	60,284	863,971
Other income (expenses):			
Interest and dividend income	5,588	7,290	51,346
Interest expenses	(17,148)	(18,586)	(157,566)
Compensation income for damage	-	7,900	-
Contingent loss	(468)	-	(4,300)
Loss on disaster	(5,351)	-	(49,168)
Loss on decommissioning of Onagawa Nuclear Power Station Unit 1	-	(2,145)	-
Other, net	(4,453)	(2,166)	(40,917)
	<u>(21,833)</u>	<u>(7,708)</u>	<u>(200,615)</u>
Income before special item and income taxes	72,193	52,576	663,355
Special item:			
Provision of reserve for fluctuation in water level	-	(1,100)	-
Income before income taxes	72,193	53,676	663,355
Income taxes :			
Current	12,102	5,224	111,200
Deferred	8,431	8,132	77,469
	<u>20,533</u>	<u>13,356</u>	<u>188,670</u>
Net income	<u>¥ 51,659</u>	<u>¥ 40,320</u>	<u>\$ 474,676</u>

(U.S. dollar amounts are translated from yen, for convenience, at the rate of ¥108.83 = U.S. \$1.00, the approximate rate of exchange at March 31, 2020.)

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
	<i>(Millions of yen)</i>									
Balance at April 1, 2019	¥251,441	¥26,657	¥ 380,532	¥(6,870)	¥651,760	¥2,312	¥(908)	¥1,403	¥1,013	¥654,178
Dividends of surplus			(19,971)		(19,971)					(19,971)
Net income			51,659		51,659					51,659
Purchases of treasury shares				(20)	(20)					(20)
Disposal of treasury shares			(88)	244	155					155
Net changes in items other than shareholders' equity						(2,881)	484	(2,397)	107	(2,290)
Balance at March 31, 2020	¥251,441	¥26,657	¥ 412,131	¥(6,646)	¥683,583	¥(569)	¥(424)	¥(993)	¥1,120	¥683,710
	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
	<i>(Millions of yen)</i>									
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, 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
	<i>(Thousands of U.S. dollars)</i>									
Balance at April 1, 2019	\$2,310,401	\$244,941	\$3,496,572	\$(63,125)	\$5,988,789	\$21,244	\$(8,343)	\$12,891	\$9,308	\$6,011,007
Dividends of surplus			(183,506)		(183,506)					(183,506)
Net income			474,676		474,676					474,676
Purchases of treasury shares				(183)	(183)					(183)
Disposal of treasury shares			(808)	2,242	1,424					1,424
Net changes in items other than shareholders' equity						(26,472)	4,447	(22,025)	983	(21,041)
Balance at March 31, 2020	\$2,310,401	\$244,941	\$3,786,924	\$(61,067)	\$6,281,200	\$(5,228)	\$(3,895)	\$(9,124)	\$10,291	\$6,282,366

(U.S. dollar amounts are translated from yen, for convenience, at the rate of ¥108.83 = U.S. \$1.00, the approximate rate of exchange at March 31, 2020.)