

# Top Message

*Hiroya Harada*

**Hiroya Harada**  
President



**“Yori, Sou, Chikara”  
(Literally, “The Strength to Work Alongside”)**

Under our corporate slogan “Yori, sou, Chikara,” We will speed up the process of change in order to ensure that we meet our customers’ and local communities’ expectations.

## Taking changes in the business environment as opportunities for further growth

The deregulation of the retail electricity market has put us into a more challenging business environment than ever. Competition has been intensifying, and naturally, the six prefectures in Tohoku and Niigata prefecture—the region in which our business has been based since its inception—are not immune. We need to make further efforts to become our customers’ first choice of power supplier. We have also seen the advance of information technologies such as IoT, AI and big data, which have caused waves of innovation in all industries. In the energy business, these technological innovations have begun to change business models and competitive structures. We must keep introducing new services and additional value for our customers by making changes in our business environment into opportunities for growth.

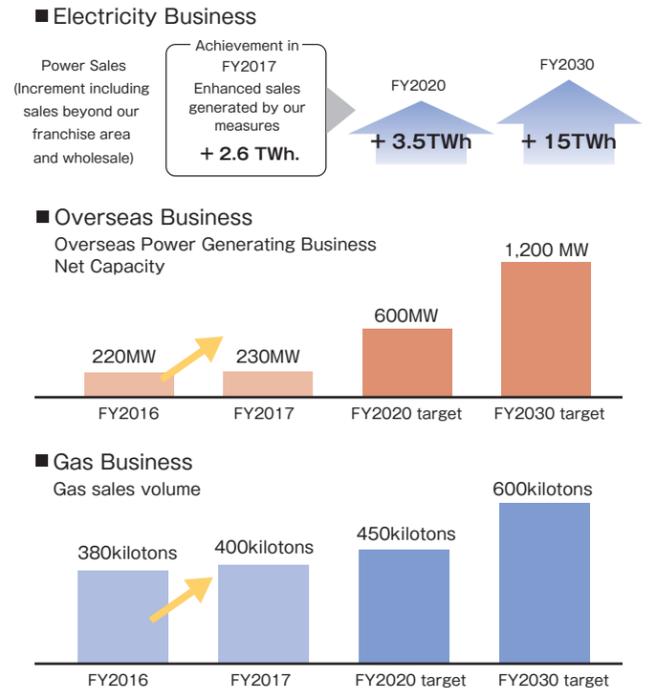
## Based on the Tohoku Electric Power Group Medium-Term Management Policy, we will strive to increase earnings and improve efficiency.

Amid the dramatically changing business environment, we have consistently made efforts in accordance with the Tohoku Electric Power Group’s Medium-Term Management Policy for FY2017 – FY2020. To increase sales of electricity in the six prefectures in Tohoku and Niigata prefecture, we have built stronger relationships with our customers and offered appealing, well-developed rate plans and new services, thereby boosting our price- and nonprice-competitiveness. In an effort to expand sales of electricity to regions outside these prefectures, we worked to increase the number of customers of Yorisou Denki, the rate plan for consumers living in the Tokyo metropolitan area. In March 2018, we invested in Tokyu Power Supply to improve and diversify



Lantau Dedap Geothermal Power Plant under construction (Republic of Indonesia)

## Progress of Our Quantitative Target Set in Our Mid-Term Management Policies



our approaches related to sales activities and increase sales of electricity outside our home region. Furthermore, through Synergia Power, which we co-founded with Tokyo Gas, we are boosting out efforts to make proposals to customers who need extra-high and high voltage electricity in Kanto (mainly in northern Kanto), the region that includes Tokyo and its environs. We have also joined overseas projects. We invested in the Rantau Dedap Geothermal Power Project in Sumatra, Indonesia, in March 2018, the first geothermal power generation project we have ever participated in. As for our gas business, we began to supply LNG to Toyota Motor East Japan and Denso Iwate located in the Central Iwate Industrial Park, and in August 2018, we brought the LNG shipping facilities at the Shin-Sendai Thermal Power Station into operation. In addition to these efforts to increase our revenue, we set up the Council for Management Efficiency Enhancement, on which I serve as chairman, to continue our commitment to efficient management. We are working on a revamp of the purchasing process for materials and services to achieve the goals of “a 15% reduction in procurement cost” and “an increase in orders placed through competitive bidding to around 35%.” We have also developed Noshiro Thermal Power Station Unit 3 and Joetsu Thermal Power Station Unit 1 and replaced or shut down aging thermal power stations to optimize our energy mix, thereby boosting our structural cost competitiveness. In addition, we actively adopt Robotic Process Automation (RPA) to enhance the efficiency of our daily operations. We will continue to work toward the goals specified in the Medium-Term Management Policy through these efforts.

## Outline of fiscal 2017's financial results

FY2017 was the first year covered by our medium-term management policy. The financial results for the fiscal year show that, although sales of electricity (in the retail market) dropped, overall sales increased by ¥121.7 billion (6.2%) from the previous year to ¥2.713 trillion. This is owing to a rise in sales of electricity to other companies through the Japan Electric Power Exchange and wholesaling.

On the other hand, while we tried to reduce overall expenses, an increase in fuel costs due to rising fuel prices pushed up ordinary expenses. This caused ordinary income to drop by ¥16.2 billion (15.5%) from the previous year to ¥88.4 billion.

Furthermore, we decided to remove the emergency power sources set up for immediate supply after the Great East Japan Earthquake from the FY2018 Electric Supply Plan. The expenses for shutting them down were recorded as an extraordinary loss, which caused profit attributable to owners of the parent to decrease by ¥22.7 billion (32.5%) from the previous year to ¥47.2 billion.

## We will steadily advance new efforts to achieve sustainable growth and restart our nuclear power plants.

We must continue to meet the challenge of launching new efforts to increase our revenue in order to achieve sustainable growth in the highly competitive environment. In April 2018, Tohoku Electric Power Energy Trading began operation as one of these new initiatives. We set up the company as a launching pad for the acquisition of the skills and know-how needed for market transactions that will help boost our revenue for future growth and development. Moreover, we have decided to start a "virtual power plant



(VPP) verification project" in Sendai. The project is part of our efforts to proactively adapt to change in the business environment triggered by advances in the latest information technologies (e.g., IoT and AI). We also aim to develop new business models designed to improve our customer service and expand our business areas through this project. We will be conducting verification of the plant's function to adjust a supply-and-demand balance of dispersion-type power sources such as solar energy and other renewable energy sources.

These renewable energy sources help increase the energy self-sufficiency rate, and above all, they are excellent for the environment. As a provider of electricity systems in the six Tohoku prefectures and Niigata prefecture, we will continue to harness more of the renewable energy sources while we proceed with our group-wide efforts to develop and use these resources.

Nuclear power is also vital in terms of energy security, developing a low-carbon society and economic efficiency. We believe that we will need to maintain a certain proportion of nuclear power generation, with the highest priority given to safety. Construction work is currently in progress as a safety measure at the Onagawa and Higashidori Nuclear Power Stations prior to their resumption of operations. We will not only ensure that these power stations meet the new regulatory standards but also continue our independent efforts that take account of the features of the stations and incorporate the latest knowledge. Moreover, since gaining the consent of local communities is of utmost importance for restarting nuclear reactors, each of our employees will be interacting with local people to ensure that we are available any time the need for dialogue arises.

As a major change in the electricity business, the legal unbundling of the power transmission/distribution is scheduled in FY2020. For an electricity company to continue growing in such a dramatically changing business climate, it must constantly review its operating structure. Hence, we adopted the in-house company system in April this year to prepare for the legal separation. In June, we transitioned to a "company with audit and supervisory committee" and set up new posts called "Executive Officers in Managerial Positions" responsible for business execution. Moreover, we increased the proportion of outside directors on the company's board of directors to at least one-third to ensure the transparency of our business management. All these efforts are aimed at improving our governance system, thereby ensuring quick and flexible decision-making and business execution. We also plan to supervise business execution more rigorously and strengthen the Group's solidarity as we continue our efforts to improve our governance system.

## We will strive to respond to the expectations of our stakeholders.

We are determined to enhance our corporate value as a group-wide effort through projects and investments for our future growth, so that resulting higher share prices will meet our shareholders' expectations.

We are unable to provide detailed projections of dividends for the next fiscal year and beyond at this moment. However, we do plan to consider the current year's performance and the projection of mid- and long-term income and expenditure to acquire an overall view, so that we will deliver a certain level of returns to our shareholders in accordance with our business achievements.

## We work together as the Tohoku Electric Power Group to promote CSR.

Environmental, social and governance (ESG) investing has been attracting a lot of attention lately. In the international community, countries are trying to meet the challenge of helping achieve the Sustainable Development Goals (SDGs) that the United Nations Summit adopted in 2015. In the six Tohoku prefectures and Niigata prefecture where we are based, the negative effects of the declining birthrate and aging population constitute major issues. This means that we are facing global and local issues that we must tackle to develop a sustainable society.

We believe that corporate social responsibility (CSR) serves as the foundation of all business activities. Hence, we have worked on initiatives designed to fulfill our social responsibility in accordance with the Tohoku Electric Power Group's CSR Promotion Policy. We will continue our efforts that local communities expect us to make as a community-based company, such as assisting in regional rejuvenation projects. We are also determined to operate our business in ways that adapt to change in the social environment and fully consider new issues that society faces.



Conversation during a business office visit

As the "reform of working practices" represents, ways of working for better work-life balance have become more important than ever. The driving force of our growth is each of our employees, who are our indispensable assets. We will increase opportunities for our female staff to reach their potential and create a workplace culture that supports employees in balancing work and family as our way to promote diversity among our workforce. We believe that this will encourage them to take up challenges as growth opportunities. We plan to launch more activities that motivate them to reach their full potential.

In July 2018, we established Tohoku Electric Power Friendly Partners with the aim of further encouraging the employment of people with disabilities. We will continue to promote diversity in the Group as well as in the region through initiatives such as this.

While we focus more on CSR, there have been several incidents since last year that caused trouble for our customers, including incorrectly calculated contributions for construction they had paid. We sincerely apologize for the inconveniences these incidents caused our customers. After I learned of the incidents, I told all employees to consider what would be best for customers and local communities and to offer our services faithfully. With our renewed awareness that earning stakeholders' trust is more important than anything else, we will continue engaging in honest and fair business activities as we work toward sustainable development of the Group and society.

## Toward the realization of "Yori, Sou, Chikara" by making changes into opportunities.

Our management philosophy is to "prosper with local communities" and "use creativity in business management." We have adapted to change in the business climate and grown with local communities in accordance with this philosophy.

The Great East Japan Earthquake in 2011 devastated our power generation infrastructure and distribution facilities, but employees of our group companies joined hands to rise above the disaster. However, many local communities still have a long way to go before full recovery, although some parts of the devastated areas have been reconstructed and some livelihoods revived. As a local electricity company based in the disaster-stricken region, we will continue to actively assist regional rejuvenation measures and support the recovery efforts by ensuring a steady supply of electricity.

We anticipate more dramatic change in the business environment surrounding us. We take the change as an opportunity to drive group-wide transformation under our corporate slogan "Yori, sou, Chikara" (literally, "The Strength to Work Alongside") We will offer services that suit our customers' needs and launch efforts that support local communities in order to enhance our corporate value and meet our customers' and shareholders' expectations.