

The full liberalization of the retail electricity market has intensified competition, and the legal unbundling of the power transmission/distribution is scheduled for April 2020. Given these factors, we have revisited our business structure and governance framework, and will take any courses of action needed to quickly and flexibly adapt to the dramatically changing business environment.

Introducing Our In-house Company System

We introduced the in-house company system and revamped our organization in line with the new system in April 2018. The objective of the in-house company system and the restructuring that resulted from it is to develop a business structure that accommodates the dramatic changes in the business environment. The causes of these changes are the deregulation of the retail electricity market that has intensified competition and the legal separation of the power transmission/distribution required by April 2020. Under the new system, the divisions for power generation, transmission and distribution, and retailing have been reorganized into Power Generation and Sales Company and Power Network Company.

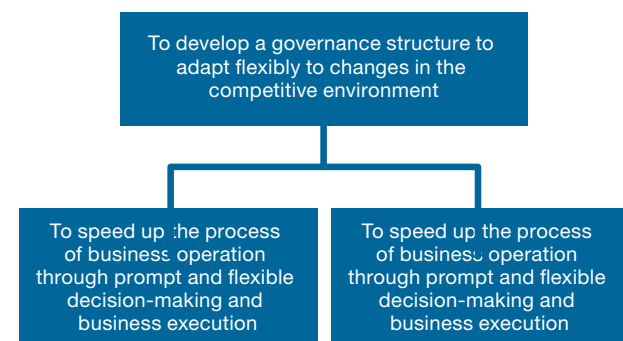
These Companies independently run their operating structures to accurately fulfill their own missions. They also take a proactive approach to their operations to prepare for the upcoming legal separation (company split-up) of the power transmission/distribution, aiming to facilitate smooth organizational transition at the time of the split. We are considering making Power Generation and Sales Company an operating holding company to keep it as an in-house company when the legal separation takes place. In that case, coupled with Power Network Company, our business will consist of two companies.

Revisiting Our Governance Framework for Enhanced Corporate Governance

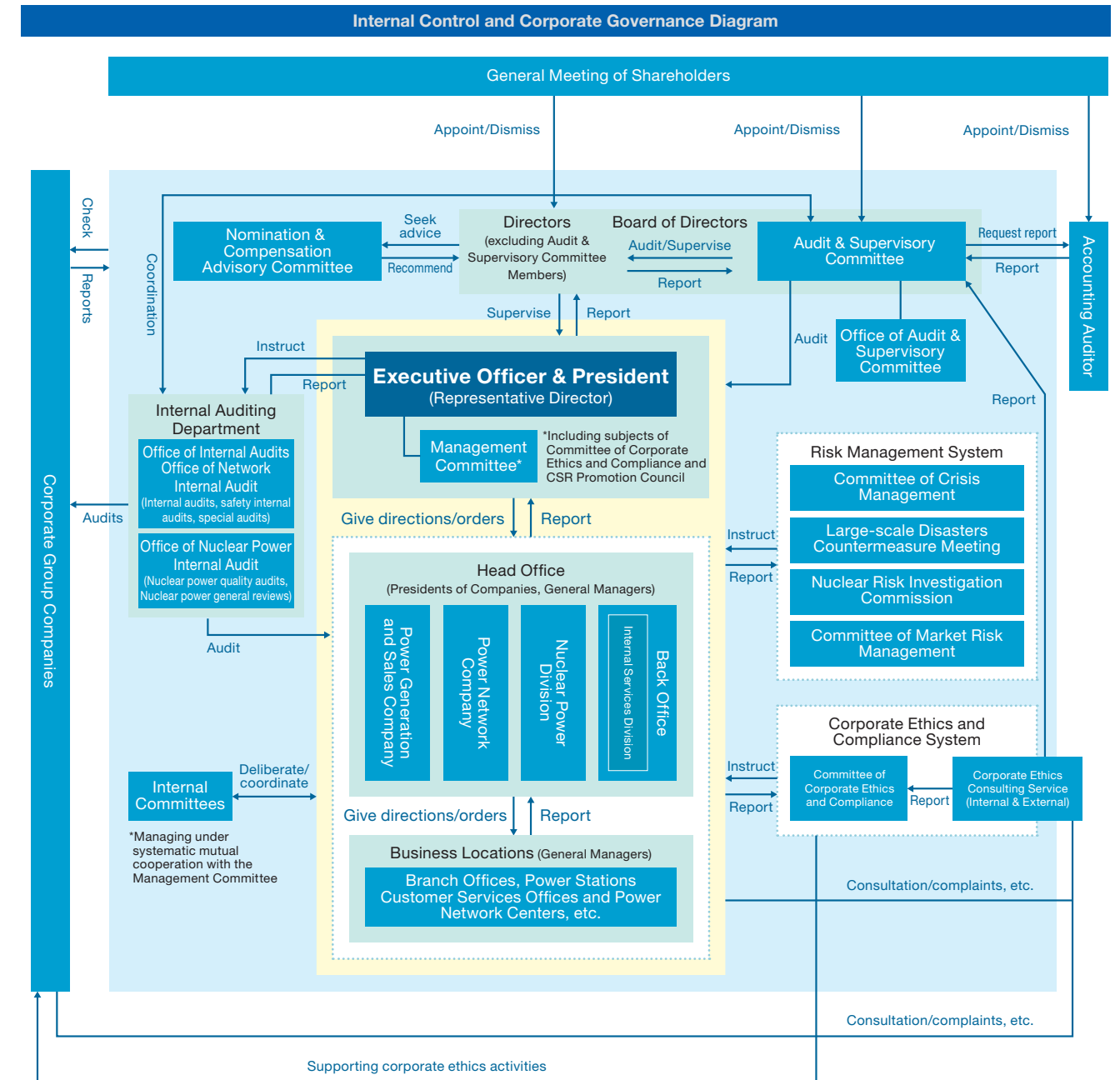
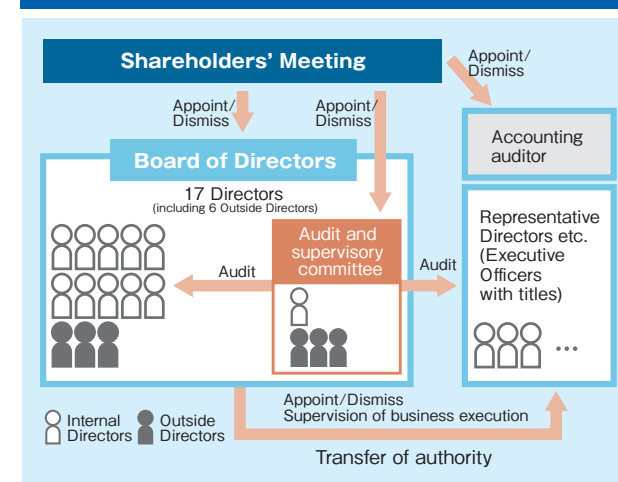
In addition to the organizational change that involved the introduction of the in-house company system, we are also planning changes in our management approach so that we can make decisions and execute operations more quickly, speeding up the whole process of business operation. Moreover, in an effort to further enhance the management function to supervise the status of business execution, we set up new posts called "Executive Officers with titles" (Executive Officer & President, Executive Officer & Vice Presidents, and Managing Executive Officers) in April 2018. We also transitioned to a company with an audit and supervisory committee upon approval from our shareholders at the 94th

Annual Meeting of Shareholders held on June 27, 2018. While we will continue to focus on critical decisions made by the Board of Directors, the Board will delegate part of business execution to individual directors. This means that Executive Officers with titles will be responsible for specific business execution. This structure will more clearly define the "supervisory" and "executive" roles, thereby enabling prompt and flexible decision-making. We will also increase the ratio of outside directors on the Board of Directors to more than one-third as part of our efforts to further reinforce our supervisory function.

Reason of transition to a company with an audit and supervisory committee



Our Governance Framework (conceptual image)



◆ Board of Directors

The Board of Directors consists of 17 Directors including six Outside Directors independent enough to exclude conflicts of interest with general shareholders. It meets once a month in principle to draw up important management-related plans and make decisions on key issues regarding our business execution. At the Board of Directors' meetings, Directors also report on the status of business execution and mutually supervise the performance of their duties.

Furthermore, the Board of Directors has established a framework in which part of the decision-making authority concerning important business execution, based on its resolution, is delegated from the Board to individual Directors, while the Executive Officer & President, Executive Officer & Vice Presidents, and Managing Executive Officers (collectively

the "Executive Officers with titles") are generally responsible for business execution.

Additionally, the Management Committee consisting of Executive Officers with title meets every week in principle to discuss policies and plans for overall business operation and the execution of important business matters in accordance with the basic management policy determined by the Board of Directors.

We have also introduced the in-house company system consisting of Power Generation and Sales Company, Power Network Company, the Nuclear Power Division, and the Internal Services Division to promote the development of appropriate and efficient business processes including seeking autonomy in business operations.

◆ Audits & Supervisory Committee

Three of the four members of the Audit & Supervisory Committee are outside members, thereby ensuring the objectivity and neutrality of its management supervisory function.

Members of the Audit & Supervisory Committee attend meetings of the Board of Directors and the Management Committee and other important meetings, examine important documents, and look into the status of operations and assets of our business offices in order to enhance audits including those on the performance of Directors' duties and the status of development and operation of internal control systems. Members of the Audit & Supervisory Committee endeavor to further improve the effectiveness of audits through, apart from

regular meetings with Representative Directors, exchanging information periodically with the Office of Internal Audits, the Office of Network Internal Audit and the Office of Nuclear Power Internal Audit, which are our internal auditing departments, and the accounting auditors, while strengthening ties with auditors for our affiliates.

Moreover, we have established the post of officer specially assigned to assist audits and supervision. This officer is specifically tasked to assist the Audit & Supervisory Committee in performing its duties. We have also set up the Office of the Audit & Supervisory Committee (consisting of 11 members) as an organizational unit dedicated to assisting the Audit & Supervisory Committee in carrying out its duties.

◆ Internal Audits

At Tohoku Electric Power, the Office of Internal Audits and the Office of Network Internal Audit conduct internal audits of the overall operations related to the effectiveness and validity of organizational systems and administration structures, the economy and efficiency of business operations, the effectiveness and efficiency of activities for facility security, among others. The Office of Nuclear Power Internal Audit performs internal audits for ensuring the safety and improving the reliability of nuclear power generation. The methods of internal audits include interviews with personnel in the target areas (e.g., the Head Office, power plants and Customer

Services Offices), examination of documents, and on-site checks.

The results of internal audits are reported to the Representative Director & President, the Management Committee, and the Board of Directors. Relevant departments are prompted to take corrective action to address problems and any other matters that require rectification. Moreover, the plans and results of internal audits are explained to the members of the Audit & Supervisory Committee, with whom information is exchanged on a regular basis, so as to enhance collaboration with them.

◆ Evaluation of the Effectiveness of the Board of Directors

We conduct an annual questionnaire survey on the effectiveness of the Board of Directors targeted at our Directors and auditors, and report the survey results to the Board of Directors. Based on these results, the Board of Directors shares such information as its understanding of the current situation and its opinions on how to make improvements, evaluates the overall effectiveness of the Board of Directors, and agrees on initiatives and other relevant actions intended to make further improvements in its effectiveness.

In FY2017, based on its deliberations, the Board of Directors reviewed how reports should be made to the Board in order to enhance its supervisory function. It also reviewed how meeting documents should be structured to help Directors make prompt and correct management decisions, and made improvements in how heads-ups and explanations are presented and how meeting documents are prepared in order to help Outside Directors have a clear picture of the matters to be deliberated.

◆ Appointment of Directors

The Representative Director suggests Director candidates to the Nomination & Compensation Advisory Committee. This is to ensure greater objectivity and transparency. The Advisory Committee deliberates the suggestion, and the candidates are accepted or rejected by the resolution of the Board of Directors. If the suggested candidates are members of the Audit & Supervisory Committee, the candidacy receives consent from the Audit & Supervisory Committee before it is presented for deliberation to the Board of Directors.

As for Inside Director candidates, given the characteristics of the electric power business, which requires high levels of expertise and involves a wide range of business domains, we select candidates who are experts in their fields. During the selection process, we consider their technical expertise and practical skills acquired through on-the-ground experience, and make sure the candidates are from various specialized fields rather than a limited range of fields.

As for Outside Director candidates, we select those with practical experience gained through corporate management as well as remarkable insight into socioeconomic trends, both of which help the Board of Directors make the best decisions and appropriately supervise our business management. Regarding Director candidates serving as members of the Audit & Supervisory Committee, we select those capable of properly performing their duties as members of the Committee by drawing on their experience and insight, and of auditing and supervising the Directors' execution of their duties. In the case of Outside Director candidates serving as members of the Audit & Supervisory Committee, we select those capable of conducting objective and impartial audits and supervision. We determine whether Outside Director candidates are independent enough in accordance with the Independence Criteria for Outside Directors we have set.

◆ Remuneration of Directors

Remuneration of Directors (excluding those serving as members of the Audit & Supervisory Committee) consists of monthly compensation, stock compensation-type stock options, and bonuses. To determine the remuneration, the Nomination & Compensation Advisory Committee, which includes more than one Independent Outside Director, conducts deliberations in order to ensure greater objectivity and transparency.

Monthly compensation is set at an appropriate level in consideration of such factors as business results and the business environment, and within the total amount approved at the General Meeting of Shareholders.

Remuneration in the form of stock compensation-type stock options (not applicable to Outside Directors) is set within the total amount approved at the General Meeting of Shareholders. Share subscription rights are granted to each Director as a mid- to long-term financial incentive intended to further

motivate them to help improve mid- to long-term business results and boost corporate value. We link remuneration more closely to our share prices than before, and share with shareholders not only the benefits of rising share prices but also the risks of falling share prices. We determine whether to provide bonuses and how much will be paid in consideration of business results, the business environment and other relevant factors.

The remuneration of Directors serving as members of the Audit & Supervisory Committee consists exclusively of monthly compensation. The payment to each Director serving as a member of Audit & Supervisory Committee is decided through discussion among the Directors serving as members of Audit & Supervisory Committee, and is set within the total amount resolved at the General Meeting of Shareholders.

Risk Management

We deal properly with risks related to business execution according to the details of the risks. We hold departmental meetings or use other internal meeting systems in accordance with relevant internal rules.

We regularly pinpoint and assess risks involved in our business activities. If we find any risks that may have a material impact on our business management, we have countermeasures included in the relevant department's annual business plan, thereby managing the risks within our management cycle. How risks are managed is reported to the Board of Directors or other relevant bodies as necessary.

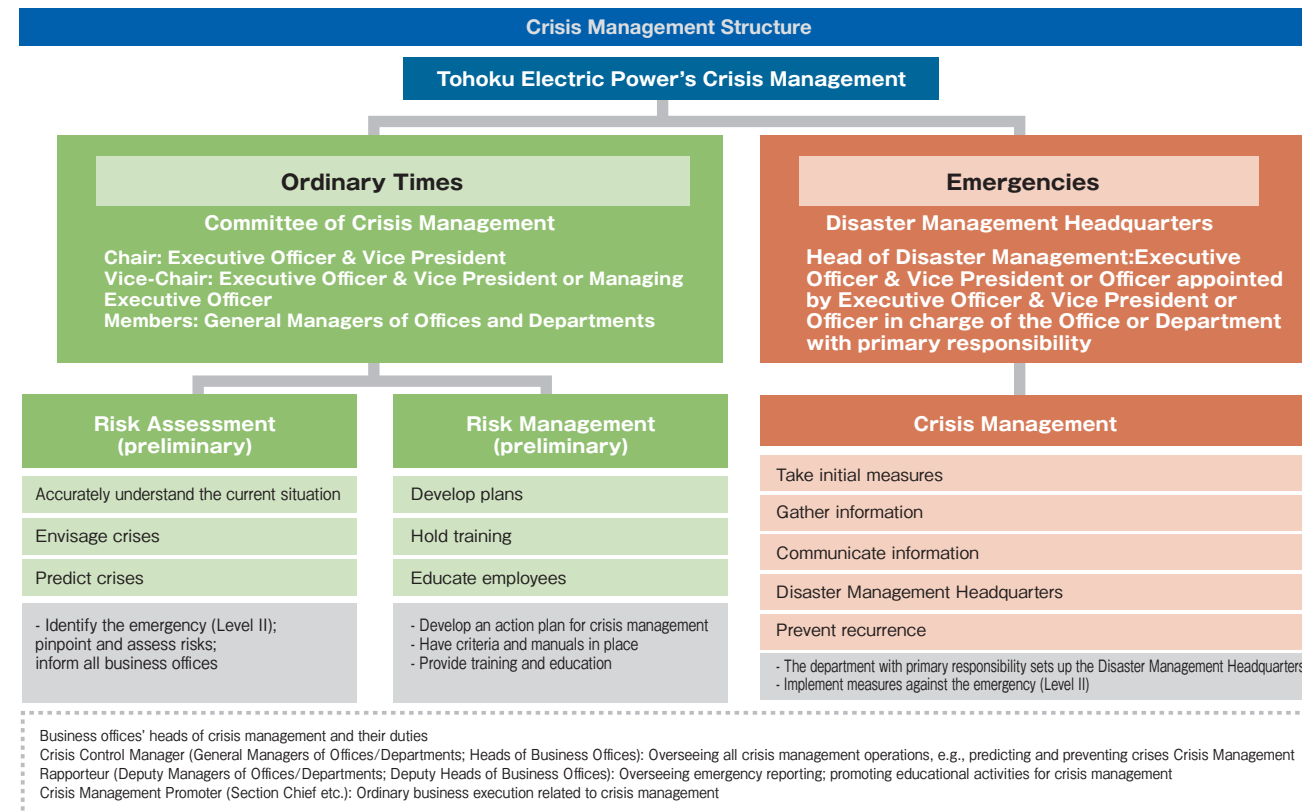
We have risk control standards in place. Our basic stance on crisis management is that we should predict any crises that may have a material impact on our business management in accordance with the standards, so that we act to prevent the crises and that, should any crisis occur, we must minimize the damage inflicted by it. Moreover, as part of our effort to promote crisis management activities, we have the Committee of Crisis Management (chaired by Vice President). The Committee meets biannually to evaluate activities carried out during the fiscal year, share information about risks, and discuss the next year's action plan. The outcome of each meeting is reported to the Management Committee.

At ordinary times, our departments and business offices

prepare themselves well for various crises on their own initiative by providing educational and training programs for their employees. These activities include imparting how to maintain facilities to prevent any crisis from occurring and other preventive measures. The secretariat for the Committee of Crisis Management organizes meetings of key personnel in crisis management, namely Crisis Control Managers, Crisis Management Rapporteurs and Crisis Management Promoters. It also holds lectures as well as educational and training sessions to support the departments' or business offices' independent efforts. Furthermore, we pinpoint and assess significant risks involved in our operations from different angles. That is, we examine these risks to determine whether they are "financial risks," "operational risks," or "emergencies" and assess them accordingly.

We periodically meet the companies in our enterprise group in an effort to raise the whole group's awareness of our crisis management level, thereby promoting close collaboration in activities for crisis management.

If an emergency arises, we immediately take initial measures needed and set up the Disaster Management Headquarters in order to promptly and accurately take all possible courses of action to minimize damage in cooperation with relevant entities.



Corporate Ethics and Compliance System

We believe that legal compliance and corporate ethics are fundamental to all business activities. Hence, we have structures for legal compliance and corporate ethics in place to continually organize educational and monitoring activities. We have launched efforts of this kind across the Tohoku Electric Power Group to facilitate group-wide cooperation and information sharing.

On May 16, 2018, we received operational improvement advice from the Electricity and Gas Market Surveillance Commission for the incorrect adjustment of payments for construction*.

The incorrect adjustment was made for an extended period, and it took us a long time to rectify the error after the incorrect adjustment was discovered.

We consider this a grave incident that could cost us customers' trust. We determined to develop a new process and structure designed to prevent a recurrence of the problem, and reported the decision to the Electricity and Gas Market Surveillance Commission.

We will continue to ensure that the preventive measures we developed after this incident will be carried out, with management involved, thereby preventing any other improper events from occurring. Our departments will also commit themselves to continuing their voluntary security activities which entail compliance with rules and laws by consciously "noticing" errors, "speaking" about them, and "correcting" them as they implement PDCA.

* When our facilities are under construction that needs to be paid for by customers and the construction involves removal of the facilities, we need to subtract the residual value of the removed material to calculate the payment by customers. However, the amount was adjusted without subtracting the residual value.

New Process and Structure

The Operational Review Committee for Power Network Company, chaired by the Head of Power Network Company, has been set up under the Legal Compliance and Corporate Ethics Committee. Power Network Company's basic operations have been reviewed.

