Financial Section 2018

Year Ended March 31, 2018

Contents

Hokkaido Electric Power Co., Inc.

Analysis of Operating Performance, etc.

Analysis of Operating Performance

In the fiscal year ended March 31, 2018, operating revenue of Hokkaido Electric Power Co., Inc. Group (hereafter "the HEPCO Group") increased by ¥30,273 million (+4.3%) from the previous year to ¥733,050 million on a consolidated basis.

Meanwhile, operating expenses increased by ¥23,990 million (+3.6%) from the previous year to ¥699,324 million.

Consequently, operating profit increased by ¥6,283 million (+22.9%) from the previous year to ¥33,726 million on a consolidated basis. Profit attributable to owners of parent increased by ¥7,756 million (+88.2%) from the previous year to ¥16,549 million.

Electric Power Segment

Operating revenue in the electric power segment during the current fiscal year increased by ¥26,054 million (+3.9%) year on year to ¥701,526 million. This was due to impacts of fuel cost adjustment system attributable to higher fuel prices and impacts of the feed-in tariff (FIT) scheme for renewable energy, despite a decrease in electricity sales. Electricity sales decreased by 7.5% from the previous year, in part due to the effect of customers switching to other suppliers.

Meanwhile, operating expenses increased by ¥19,828 million (+3.0%) year on year to ¥671,831 million. This was due to an increase in fuel costs attributable to higher fuel prices and a shortage of water, as well as the impacts of the FIT scheme for renewable energy, despite a decrease in repair costs attributable to a fall in the number of thermal power units undergoing periodic inspections and ongoing efforts to thoroughly enhance the efficiency of overall operating activities.

Consequently, operating profit increased by ¥6,225 million (+26.5%) from the previous year to ¥29,694 million on a consolidated basis.

Other

Operating revenue from other business increased by ¥4,219 million (+15.5%) year on year to ¥31,524 million, due chiefly to increased sales in the construction industry.

Operating expenses, meanwhile, increased by ¥4,161 million (+17.8%) from the previous year to ¥27,492 million, mainly because of increased sales costs in the construction industry.

As a result, operating profit for other business increased by ¥57 million (+1.4%) from the previous year to ¥4,031 million.

Analysis of Financial Position

(Assets)

As of March 31, 2018, total assets stood at ¥1,915,908 million, up ¥86,369 million (+4.7%) from the previous year.

This was primarily due to an increase in construction in progress, such as new construction of the Ishikariwan Shinko Power Station Unit 1 (thermal power facility), and an increase in cash and deposits, despite a decrease in electric utility plant and equipment attributable to depreciation.

(Liabilities)

Total liabilities were ¥1,702,917 million, up ¥73,400 million (+4.5%) from the previous year.

This was primarily due to an increase in interest-bearing debt.

(Net assets)

Net assets totaled ¥212,991 million, up ¥12,968 million (+6.5%) from the previous year.

This was primarily due to posting profit attributable to owners of parent, despite the payment of cash dividends.

As a result, the shareholders' equity ratio increased by 0.2 points from 10.3% of the previous year to 10.5% at the end of current fiscal year.

Analysis of Cash Flows

Cash and cash equivalents at year-end stood at ¥116,087 million, up ¥28,059 million (+31.9%) from the previous year.

(Cash Flows from Operating Activities)

Net cash provided by operating activities increased by ¥39,973 million (+59.6%) from the previous year to a net inflow of ¥107,054 million. This was primarily due to an increase in profit before income taxes and a decrease in consumption taxes paid.

(Cash Flows from Investing Activities)

Net cash used in investing activities increased by ¥138 million (+0.1%) from the previous year to a net outflow of ¥145,355 million. This was primarily due to an increase in the purchase of non-current assets despite an increase in proceeds from contribution received for construction.

(Cash Flows from Financing Activities)

Net cash provided by financing activities increased by ¥9,002 million (+15.7%) from the previous year to a net inflow of ¥66,360 million. This was primarily due to an increase in interest-bearing debt.

Information concerning Capital Resources and Liquidity of Funds

Demand for funds at the HEPCO Group are primarily for capital expenditure and debt redemption. In addition to self-funding, funds are procured through the issuance of bonds and loans from financial institutions. Commercial papers are also used for short-term capital demand.

In the procurement of funds, in addition to managing funds properly based on monthly cashflow projections, adequate liquidity is ensured through overdraft agreements and commitment line agreements.

Consolidated Balance Sheets

Hokkaido Electric Power Co., Inc. and Consolidated Subsidiaries
as of March 31, 2018 and 2017

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Non-current assets	**¥1,671,645**	¥1,624,832	**$15,770,235**
Electric utility plant and equipment (Notes 4 and 5)	**1,056,830**	1,070,863	**9,970,094**
Hydroelectric power production facilities	**215,962**	226,540	**2,037,377**
Thermal power production facilities	**79,297**	75,534	**748,084**
Nuclear power production facilities	**196,545**	210,736	**1,854,198**
Transmission facilities	**161,159**	158,576	**1,520,367**
Transformation facilities	**81,786**	77,359	**771,566**
Distribution facilities	**278,585**	277,806	**2,628,160**
General facilities	**38,730**	39,065	**365,377**
Other electric utility plant and equipment	**4,763**	5,243	**44,933**
Other non-current assets (Notes 4 and 5)	**54,835**	55,132	**517,311**
Construction in progress	**281,409**	231,716	**2,654,801**
Construction in progress	**277,699**	231,352	**2,619,801**
Retirement in progress	**218**	364	**2,056**
Special account related to reprocessing of spent nuclear fuel	**3,491**	—	**32,933**
Nuclear fuel	**176,264**	162,767	**1,662,867**
Nuclear fuel in processing	**176,264**	162,767	**1,662,867**
Investments and other assets	**102,306**	104,352	**965,150**
Long-term investments (Note 6)	**53,926**	56,889	**508,735**
Net defined benefit asset (Note 15)	**15,080**	12,572	**142,264**
Deferred tax assets (Note 16)	**30,812**	32,987	**290,679**
Other	**4,288**	3,661	**40,452**
Allowance for doubtful accounts	**(1,802)**	(1,758)	**(17,000)**
Current assets	**244,262**	204,706	**2,304,358**
Cash and deposits (Note 11)	**116,087**	88,027	**1,095,160**
Notes and accounts receivable-trade	**67,622**	57,037	**637,943**
Inventories	**41,257**	36,508	**389,216**
Deferred tax assets (Note 16)	**7,112**	5,744	**67,094**
Other	**13,114**	18,187	**123,716**
Allowance for doubtful accounts	**(931)**	(798)	**(8,783)**
Total Assets	**¥1,915,908**	¥1,829,539	**$18,074,603**

See notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Non-current liabilities	**¥1,271,845**	¥1,247,515	**$11,998,537**
Bonds payable (Notes 6 and 13)	**630,000**	611,900	**5,943,396**
Long-term loans payable (Notes 6 and 13)	**512,277**	505,146	**4,832,801**
Net defined benefit liability (Note 15)	**37,458**	38,875	**353,377**
Asset retirement obligations (Note 17)	**79,717**	77,773	**752,047**
Deferred tax liabilities (Note 16)	**3**	—	**28**
Other	**12,388**	13,820	**116,867**
Current liabilities	**429,771**	379,770	**4,054,443**
Current portion of long-term debt (Notes 6 and 13)	**212,106**	187,226	**2,001,000**
Short-term loans payable (Note 13)	**53,250**	52,370	**502,358**
Commercial papers (Note 13)	**20,000**	—	**188,679**
Notes and accounts payable-trade	**39,329**	40,816	**371,028**
Accrued taxes	**14,154**	7,388	**133,528**
Other	**90,931**	91,968	**857,839**
Reserves under the special laws	**1,299**	2,231	**12,254**
Reserve for fluctuation in water levels	**1,299**	2,231	**12,254**
Total liabilities	**1,702,917**	1,629,516	**16,065,254**
Net assets (Note 1):			
Shareholders' equity	**201,456**	187,727	**1,900,528**
Capital stock	**114,291**	114,291	**1,078,216**
Capital surplus	**46,750**	46,750	**441,037**
Retained earnings	**58,611**	44,875	**552,933**
Treasury stock	**(18,197)**	(18,190)	**(171,669)**
Accumulated other comprehensive income	**(44)**	1,132	**(415)**
Valuation difference on available-for-sale securities	**3,398**	4,391	**32,056**
Remeasurements of defined benefit plans (Note 15)	**(3,442)**	(3,258)	**(32,471)**
Non-controlling interests	**11,578**	11,162	**109,226**
Total net assets	**212,991**	200,022	**2,009,349**
Total Liabilities and Net Assets	**¥1,915,908**	¥1,829,539	**$18,074,603**

See notes to consolidated financial statements.

Consolidated Statements of Operations

Hokkaido Electric Power Co., Inc. and Consolidated Subsidiaries
Fiscal years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Operating revenues	**¥733,050**	¥702,776	**$6,915,566**
Electric utility operating revenue	**701,526**	675,471	**6,618,169**
Other business operating revenue	**31,524**	27,305	**297,396**
Operating expenses (Note 8)	**699,324**	675,333	**6,597,396**
Electric utility operating expenses	**671,831**	652,002	**6,338,028**
Other business operating expenses	**27,492**	23,331	**259,358**
Operating profit	**33,726**	27,443	**318,169**
Non-operating income	**2,229**	2,598	**21,028**
Dividend income	**656**	709	**6,188**
Interest income	**9**	666	**84**
Share of profit of entities accounted for using equity method	**121**	218	**1,141**
Other	**1,441**	1,003	**13,594**
Non-operating expenses	**16,534**	17,438	**155,981**
Interest expenses	**14,217**	15,123	**134,122**
Other	**2,316**	2,314	**21,849**
Ordinary revenue	**735,279**	705,375	**6,936,594**
Ordinary expenses	**715,858**	692,771	**6,753,377**
Ordinary profit	**19,421**	12,603	**183,216**
Provision or reversal of reserve for fluctuation in water levels	**(931)**	1,208	**(8,783)**
Provision of reserve for fluctuation in water levels	**—**	1,208	**—**
Reversal of reserve for fluctuation in water levels	**(931)**	—	**(8,783)**
Extraordinary loss	**—**	1,638	**—**
Extraordinary loss of disaster	**—**	1,638	**—**
Profit before income taxes	**20,352**	9,755	**192,000**
Income taxes-current	**1,869**	1,180	**17,632**
Income taxes-deferred	**1,320**	(681)	**12,452**
Total income taxes (Note 16)	**3,190**	498	**30,094**
Profit	**17,162**	9,257	**161,905**
Profit attributable to non-controlling interests	**612**	463	**5,773**
Profit attributable to owners of parent	**¥ 16,549**	¥ 8,793	**$ 156,122**

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Hokkaido Electric Power Co., Inc. and Consolidated Subsidiaries
Fiscal years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Profit	**¥17,162**	¥9,257	**$161,905**
Other comprehensive income			
Valuation difference on available-for-sale securities	**(1,024)**	2,826	**(9,660)**
Remeasurements of defined benefit plans	**(195)**	(1,192)	**(1,839)**
Total other comprehensive income (Note 9)	**(1,219)**	1,634	**(11,500)**
Comprehensive income	**15,943**	10,891	**150,405**
Comprehensive income attributable to：			
owners of parent	**15,373**	10,423	**145,028**
non-controlling interests	**¥ 570**	¥ 468	**$ 5,377**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Hokkaido Electric Power Co., Inc. and Consolidated Subsidiaries

Fiscal years ended March 31, 2018 and 2017

	Millions of yen									
	Shareholders' equity					Accumulated other comprehensive income				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available -for-sale securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non - controlling interests	Total net assets
Balance as of April 1, 2016............................	¥114,291	¥49,998	¥40,766	¥(18,184)	¥186,872	¥1,570	¥(2,067)	¥(497)	¥10,847	¥197,222
Dividends of surplus..................................			(4,684)		(4,684)					(4,684)
Profit attributable to owners of parent			8,793		8,793					8,793
Purchase of treasury stock............................				(3,254)	(3,254)					(3,254)
Disposal of treasury stock............................		(1)		1	0					0
Cancellation of treasury stock........................		(3,245)		3,245	—					—
Change in ownership interest of parent due to transactions with non-controlling interests		(0)			(0)					(0)
Net changes of items other than shareholders' equity................................						2,821	(1,191)	1,629	314	1,944
Total changes of items during the period..............	—	(3,247)	4,108	(6)	854	2,821	(1,191)	1,629	314	2,799
Balance as of April 1, 2017............................	¥114,291	¥46,750	¥44,875	¥(18,190)	¥187,727	¥4,391	¥(3,258)	¥1,132	¥11,162	¥200,022
Dividends of surplus..................................			(2,813)		(2,813)					(2,813)
Profit attributable to owners of parent			16,549		16,549					16,549
Purchase of treasury stock				(8)	(8)					(8)
Disposal of treasury stock............................		(1)		1	0					0
Cancellation of treasury stock........................					—					—
Change in ownership interest of parent due to transactions with non-controlling interests		1			1					1
Net changes of items other than shareholders' equity................................						(993)	(183)	(1,176)	415	(760)
Total changes of items during the period..............	—	0	13,736	(7)	13,729	(993)	(183)	(1,176)	415	12,968
Balance as of March 31, 2018............................	¥114,291	¥46,750	¥58,611	¥(18,197)	¥201,456	¥3,398	¥(3,442)	¥(44)	¥11,578	¥212,991

	Thousands of U.S. dollars (Note 1)									
	Shareholders' equity					Accumulated other comprehensive income				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available -for-sale securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non - controlling interests	Total net assets
Balance as of April 1, 2017	$1,078,216	$441,037	$423,349	$(171,603)	$1,771,009	$41,424	$(30,735)	$10,679	$105,301	$1,887,000
Dividends of surplus			(26,537)		(26,537)					(26,537)
Profit attributable to owners of parent			156,122		156,122					156,122
Purchase of treasury stock				(75)	(75)					(75)
Disposal of treasury stock		(9)		9	0					0
Cancellation of treasury stock					—					—
Change in ownership interest of parent due to transactions with non-controlling interests		9			9					9
Net changes of items other than shareholders' equity						(9,367)	(1,726)	(11,094)	3,915	(7,169)
Total changes of items during the period	—	0	129,584	(66)	129,518	(9,367)	(1,726)	(11,094)	3,915	122,339
Balance as of March 31, 2018	$1,078,216	$441,037	$552,933	$(171,669)	$1,900,528	$32,056	$(32,471)	$(415)	$109,226	$2,009,349

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Hokkaido Electric Power Co., Inc. and Consolidated Subsidiaries
Fiscal years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Cash flows from operating activities:			
Profit before income taxes	**¥ 20,352**	¥ 9,755	**$ 192,000**
Depreciation and amortization	**83,760**	85,534	**790,188**
Decommissioning costs of nuclear power units	**2,533**	2,524	**23,896**
Loss on retirement of noncurrent assets	**3,546**	2,394	**33,452**
Increase (decrease) in net defined benefit liability	**(4,223)**	(5,580)	**(39,839)**
Increase (decrease) in provision for reprocessing of irradiated nuclear fuel	**—**	(3,357)	**—**
Interest and dividend income	**(665)**	(1,376)	**(6,273)**
Interest expenses	**14,217**	15,123	**134,122**
Decrease (increase) in reserve fund for reprocessing of irradiated nuclear fuel	**—**	4,313	**—**
Decrease (increase) in notes and accounts receivable-trade	**(10,575)**	4,027	**(99,764)**
Increase (decrease) in notes and accounts payable-trade	**(1,418)**	(770)	**(13,377)**
Increase (decrease) in accrued expenses	**6,178**	(2,609)	**58,283**
Increase (decrease) in accrued consumption taxes	**9,753**	(8,611)	**92,009**
Payments of accrued contributions for reprocessing of irradiated nuclear fuel	**—**	(9,414)	**—**
Other, net	**(2,064)**	(7,421)	**(19,471)**
Subtotal	**121,395**	84,531	**1,145,235**
Interest and dividend income received	**711**	1,616	**6,707**
Interest expenses paid	**(14,494)**	(15,203)	**(136,735)**
Income taxes paid	**(557)**	(3,863)	**(5,254)**
Net cash provided by (used in) operating activities	**107,054**	67,081	**1,009,943**
Cash flows from investing activities:			
Purchase of noncurrent assets	**(152,696)**	(147,513)	**(1,440,528)**
Proceeds from contribution received for construction	**7,246**	3,513	**68,358**
Payments of investment and loans receivable	**(1,152)**	(2,826)	**(10,867)**
Collection of investment and loans receivable	**1,016**	1,496	**9,584**
Other, net	**229**	112	**2,160**
Net cash provided by (used in) investing activities	**(145,355)**	(145,216)	**(1,371,273)**
Cash flows from financing activities:			
Proceeds from issuance of bonds	**159,477**	129,524	**1,504,500**
Redemption of bonds	**(97,241)**	(30,000)	**(917,367)**
Proceeds from long-term loans payable	**76,300**	91,500	**719,811**
Repayment of long-term loans payable	**(89,117)**	(124,672)	**(840,726)**
Proceeds from short-term loans payable	**180,575**	170,179	**1,703,537**
Repayment of short-term loans payable	**(179,671)**	(170,085)	**(1,695,009)**
Proceeds from issuance of commercial papers	**70,000**	—	**660,377**
Redemption of commercial papers	**(50,000)**	—	**(471,698)**
Cash dividends paid	**(2,824)**	(4,710)	**(26,641)**
Other, net	**(1,138)**	(4,378)	**(10,735)**
Net cash provided by (used in) financing activities	**66,360**	57,357	**626,037**
Net increase (decrease) in cash and cash equivalents	**28,059**	(20,777)	**264,707**
Cash and cash equivalents at beginning of period	**88,027**	108,805	**830,443**
Cash and cash equivalents at end of period (Note 11)	**¥116,087**	¥ 88,027	**$1,095,160**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Hokkaido Electric Power Co., Inc. and Consolidated Subsidiaries
March 31, 2018

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Hokkaido Electric Power Co.,Inc. (the “Company”) and its consolidated subsidiaries are prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law of Japan, the Electricity Utilities Industry Law and their related accounting regulations and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards (“IFRS”).

The United States dollar amounts included in these consolidated financial statements and notes thereto represent the arithmetical results of translating Japanese yen into U.S. dollar amounts on the basis of ¥106=US$1, the approximate rate of exchange on March 31, 2018. Such translation is provided solely for the convenience of the readers and should not be construed as representations that the Japanese yen amounts have been, could have been or could be converted, realized or settled in U.S. dollars at that or any other rate.

Amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements do not necessarily agree with the sums of the individual amounts.

The Company’s fiscal year begins on April 1 and ends on March 31.

The Corporation Law of Japan stipulates that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the legal capital surplus) and retained earnings (other than the legal retained earnings) be transferred to the legal capital surplus or the legal retained earnings, respectively, until the sum of the legal capital surplus and the legal retained earnings equals 25% of the capital stock.

The legal capital surplus and the legal retained earnings are not available for dividends but may be transferred to other capital surplus or other retained earnings upon approval of the shareholders’ meeting.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

2. Summary of Significant Accounting Policies

(a) Basis of consolidation

The accompanying consolidated financial statements as of March 31, 2018 include the accounts of the Company and following nine significant subsidiaries, controlled directly or indirectly by the Company (the “Companies”):

- Hokkai Electrical Construction
- Hokkaido Electric Meter Industry
- HOKUDEN KOGYO
- Hokkaido Power Engineering
- The Tomatoh Coal Center
- HOKUDEN ECO-ENERGY
- Hokuden Service
- Hokkaido Telecommunication Network
- Hokuden Information Technology

Unconsolidated subsidiaries as of March 31, 2018 are as follows:

- HOKUDEN SOGO SEKKEI
- HOKUDEN ASSOCIA
- Hokkaido Records Management
- ITES

These subsidiaries are excluded from the scope of consolidation because their total assets, operating revenue, profit (loss) and retained earnings are immaterial to the consolidated financial statements.

The Company applies the equity method to the following two companies of the four unconsolidated subsidiaries:

- HOKUDEN SOGO SEKKEI
- HOKUDEN ASSOCIA

The remaining unconsolidated subsidiaries (e.g.,Hokkaido Records Management) and affiliates (e.g.,SAPPORO NEXIS) are not included in the scope of application of the equity method as there would not have been any material effect on the accompanying consolidated financial statements.

(b) Investment securities

Held-to-maturity bonds are stated at amortized cost, determined by the straight-line method. Available-for-sale securities are evaluated at the fair value as of the balance sheet date.

Non-marketable securities classified as available-for-sale securities are stated at cost determined by the moving-average method.

(c) Inventories

Inventories are stated at the lower of cost, determined principally by the average method or net realizable value.

(d) Depreciation and amortization

Property, plant and equipment are depreciated primarily based on the declining-balance method. Intangibles are amortized by the straight-line method.

Useful life of assets is based on the Corporation Tax Act.

(e) Allowance for doubtful accounts

To prepare for the potential credit losses, the Companies provide the allowance for doubtful accounts based on the historical ratio of actual credit losses to the total receivables and the amount of uncollectible receivables estimated on the individual basis.

(f) Reserve for fluctuation in water levels

Pursuant to the provisions of Article 16(3) of the Supplementary Provisions of the Act for Partial Revision of the Electricity Business Act, etc. (Act No. 72 of 2014), to provide for losses caused by fluctuation in water levels, the Company has recorded a reserve up to the limit, calculated according to the standards stipulated in Article 36 of the Electricity Business Act (Act No. 170 of 1964; hereinafter referred to as the Former Act) prior to the revision by the provisions of Article 1 of the above Act applied by reading that it shall still remain in force.

(g) Accounting method for retirement benefits

Net defined benefit liability and net defined benefit asset for employees are recorded mainly at the amount calculated based on the retirement benefit obligation on the fair value of the pension plan asset as of balance sheet date.

To calculate the retirement benefit obligation, the estimated amount of retirement benefits is set to the end of the consolidated fiscal year under review primarily based on the benefit formula.

Prior service costs are amortized primarily using the straight-line method over periods (five years) shorter than the average remaining service period.

Actuarial gains and losses are amortized primarily using the straight-line method over periods (five years) shorter than the average remaining service period from the year following the year in which the gains or losses are recognized.

(h) Goodwill

Goodwill is amortized using the straight-line method over five years.

(i) Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of cash flows is composed of cash on hand, deposits that can be withdrawn on demand and highly-liquid investments with a maturity of three-month or less.

(j) Method for calculating contributions required for the reprocessing of irradiated nuclear fuel in the generation of nuclear power

Regarding the cost for reprocessing irradiated nuclear fuel in the generation of nuclear power, based on Article 4(1) of the Act for Partial Revision of the Spent Nuclear Fuel Reprocessing Fund Act (Act No. 40 of 2016; hereinafter referred to as the "Revised Act"), contributions that were calculated depending on the amount of irradiated nuclear fuel arising from the operation of a nuclear power station are recorded as an operating expense. In addition, contributions related to the reprocessing of spent nuclear fuel in accordance with the provisions of Article 2 of the Revised Act are recorded in the special account related to reprocessing of spent nuclear fuel. By paying the contributions to the Nuclear Reprocessing Organization of Japan (hereinafter referred to as "NuRO"), the obligation of the cost burden to nuclear operators is fulfilled, and NuRO performs the reprocessing.

With respect to differences arising from the change in the accounting standard in the fiscal year ended March 31, 2006 related to the provision for reprocessing of irradiated nuclear fuel, based on Article 4 of the Supplementary Provisions of the Ministerial Ordinance for Partial Revision of the Electricity Business Accounting Regulations, etc. (Ordinance of the Ministry of Economy, Trade and Industry No. 94 of 2016; hereinafter referred to as the "Revised Ministerial Ordinance"), the Company is recording a uniform amount of ¥1,668 million each consolidated fiscal year until the fiscal year ended March 31, 2020 as a contribution for irradiated nuclear fuel under operating expenses.

(k) Asset retirement obligations related to decommissioning nuclear power units

Total estimated costs of decommissioning nuclear power units are expensed using the straight-line method over a timeline calculated by adding the expected safe storage period to the estimated operating period of the power generating facilities in line with the Guidance on Accounting Standard for Asset Retirement Obligations (ASBJ Guidance No.21, March 31, 2008) and the Ordinance Regarding Provision for the Decommissioning of Nuclear Power Units (Ordinance of the Ministry of International Trade and Industry No.30 of 1989).

(Additional information)

The Ordinance Partially Amending the Ordinance Regarding Provision for the Decommissioning of Nuclear Power Units (Ordinance of the Ministry of Economy, Trade and Industry No. 17 of 2018) came into force on April 1, 2018. As a consequence, the Ordinance Regarding Provision for the Decommissioning of Nuclear Power Units was amended, and the method for expensing total estimated costs will be limited to the straight-line method over the estimated operating periods from the date of this enforcement.

However, in the event a nuclear reactor is decommissioned as a consequence of changes to the energy policy, safety regulations, etc., under the condition if the Minister of Economy, Trade and Industry approves an application made by the operator of the power generation facility, total estimated costs will be expensed using the straight-line method over a period from the month in which the nuclear power unit is decommissioned until the month in which ten years have elapsed.

(l) Consumption taxes

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

(m) Application of the consolidated tax payment system

The consolidated tax payment system has been applied from the current fiscal year.

3. Accounting Standards issued but not yet Adopted

The following accounting standards were issued but not yet adopted by the Companies as of March 31, 2018.

Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan Statement No.29, issued on March 30, 2018)
Implementation Guidance on Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan Guidance No.30, issued on March 30, 2018)

(a) Overview

The accounting standard and implementation guidance stipulate the accounting process and disclosure for revenue arising from contracts with customers.

(b) Scheduled date of adoption

The Companies expect to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

(c) Impact of the adoption of the accounting standard and implementation guidance

The impact of adopting the accounting standard and implementation guidance was undetermined at the time of preparing these consolidated financial statements.

4. Accumulated Depreciation of Property, Plant and Equipment

Accumulated depreciations of property, plant and equipment as of March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
	¥2,906,846	¥2,838,659	**$27,423,075**

5. Reduction Entry of Property, Plant and Equipment

Reduction entries of property, plant and equipment as of March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Contribution of aid of construction	**¥ 72,722**	¥ 71,973	**$ 686,056**

6. Pledged Assets and Secured Liabilities

All assets of the Company and certain consolidated subsidiaries are pledged as general mortgage collateral for following bonds and loans from the Development Bank of Japan Inc.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
The Company:			
Bonds	**¥771,900**	¥709,141	**$7,282,075**
Loans from the Development Bank of Japan Inc.	**132,336**	138,300	**1,248,452**
Certain consolidated subsidiaries:			
Loans from the Development Bank of Japan Inc.	**¥ 60**	¥ 119	**$ 566**

As part of the Company's long-term investments, rights of pledge have been established as collateral for borrowings from financial institutions located in the areas where the Company participates in power generation projects outside of Hokkaido.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Long-term investments (stock)	**¥ 108**	¥ 108	**$ 1,018**

7. Contingent Liabilities

Contingent Liabilities as of March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Guarantees of bonds and loans of Japan Nuclear Fuel Limited	**¥ 40,024**	¥ 43,214	**$ 377,584**
Guarantees of housing and other loans of the Companies' employees	**6,736**	8,292	**63,547**

8. R&D Expenditures

Total R&D expenditures included in the consolidated statements of operations for the fiscal years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
R&D Expenditures	**¥ 2,348**	¥ 2,346	**$ 22,150**

9. Consolidated Statements of Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Valuation difference on available-for-sale securities:			
Amount arising during the year	**¥ (1,417)**	¥ 3,911	**$ (13,367)**
Reclassification adjustments	**—**	(0)	**—**
Before tax effect	**(1,417)**	3,911	**(13,367)**
Tax effect	**(393)**	1,085	**(3,707)**
Valuation difference on available-for-sale securities	**(1,024)**	2,826	**(9,660)**
Remeasurements of defined benefit plans:			
Amount arising during the year	**798**	(1,293)	**7,528**
Reclassification adjustments	**(1,110)**	(1,727)	**(10,471)**
Before tax effect	**(311)**	(3,021)	**(2,933)**
Tax effect	**(116)**	(1,829)	**(1,094)**
Remeasurements of defined benefit plans	**(195)**	(1,192)	**(1,839)**
Total other comprehensive income	**¥ (1,219)**	¥ 1,634	**$ (11,500)**

10. Stock Issued and Treasury Stock

Changes in number of stock issued and treasury stock for the years ended March 31, 2018 and 2017 are as follows:

(a) Stock issued

(1) Common stock

	2018	2017
Beginning of year	**215,291,912**	215,291,912
End of year	**215,291,912**	215,291,912

(2) Class A preferred stock

	2018	2017
Beginning of year	**470**	500
Decrease due to purchase and cancellation of treasury stock	—	(30)
End of year	**470**	470

(b) Treasury stock

(1) Common stock

	2018	2017
Beginning of year	**9,763,908**	9,755,611
Increase due to purchases of fractional shares	**11,106**	9,324
Decrease due to sales of fractional shares	**(944)**	(1,027)
End of year	**9,774,070**	9,763,908

(2) Class A preferred stock

	2018	2017
Beginning of year	**—**	—
Increase due to purchase of treasury stock	**—**	30
Decrease due to cancellation of treasury stock	**—**	(30)
End of year	**—**	—

11. Supplementary Cash Flow Information

A reconciliation of the year-end balance of cash and cash equivalents in the consolidated statements of cash flows and the corresponding balance sheet items as of March 31, 2018 and 2017 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Cash and deposits	**¥116,087**	¥88,027	**$1,095,160**
Cash and cash equivalents	**¥116,087**	¥88,027	**$1,095,160**

12. Leases

(a) Finance lease transactions that do not involve the transfer of ownership

Finance lease transactions that do not involve the transfer of ownership commencing March 31, 2008 or earlier are accounted for in a manner similar to operating lease transactions.

For these financial leases, pro forma information of the leased assets and lease obligations "as if capitalized" basis as of March 31, 2018 and 2017 is as follows:

Lessee:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Acquisition cost	**¥ 30**	¥ 30	**$ 283**
Accumulated depreciation	**22**	20	**207**
Net leased assets	**¥ 7**	¥ 9	**$ 66**

	Millions of yen		Thousands of U.S. dollars
Lease obligation	**2018**	2017	**2018**
Due within one year	**¥ 2**	¥ 2	**$ 18**
Due after one year	**5**	7	**47**
Total	**¥ 7**	¥ 9	**$ 66**

*Acquisition cost and lease obligation above include the amount equivalent to interest because that amount is not significant.

	Millions of yen		Thousands of U.S. dollars
Amount equivalent to depreciation expenses	**2018**	2017	**2018**
	¥ 2	¥ 2	**$ 18**

*Amount equivalent to depreciation expense is determined by straight-line method over the lease period assuming that the residual value equals to zero.

(b) Operating lease transactions

Lessee:

Future minimum lease payments subsequent to March 31, 2018 and 2017 for non-cancelable operating leases are as follows:

	Millions of yen		Thousands of U.S. dollars
Operating leases	**2018**	2017	**2018**
Due within one year	**¥ 379**	¥ 428	**$ 3,575**
Due after one year	**299**	593	**2,820**
Total	**¥ 679**	¥ 1,022	**$ 6,405**

13. Financial Instruments

(a) Policy for financial Instruments

Based on capital investment and other plans for the electricity-related business, the Company raises necessary funds through the issuance of bonds and loans from financial institutions, and invests temporary surplus funds in short-term deposits and other. It also acquires short-term operating funds through loans from banks and the issuance of commercial papers.

The Company uses derivative transactions in order to avoid or reduce the risk of market-price fluctuations related to business activities and not as speculative instruments to profit from price differentials caused by future market-price fluctuations.

(b) Details on financial instruments, related risks and risk management system

Securities are primarily stocks in companies with whom the Company has business relationships. Although such stocks are exposed to market price fluctuation risk and the credit risk of their issuing companies, the Company regularly ascertains the market value of these securities and monitors the financial standing of the issuing companies.

Notes and accounts receivable are exposed to the credit risk of customers, but the Company manages account-due dates, remaining quantities and accounts for each customer in accordance with electricity supply contracts and other relevant regulations.

Some of the Company's long-term loans payable carry floating interest rates, and are therefore exposed to the risk of interest-rate fluctuations. However, since the majority of the Company's loans are based on fixed interest rates, such risk is considered limited.

Most notes and accounts payable-trade are due within one year.

Bonds payable, loans, commercial papers and trade payables are exposed to liquidity risk, but the Company manages these items through monthly cashflow projections and other methods.

(c) Supplementary explanation of matters concerning the fair value and other of financial instruments

The fair value of financial instruments based on their quoted market price, if available. When there is no quoted market price available, the fair value is determined based on reasonable estimates. Estimates of fair value contain uncertainties because they employ variable factors and assumptions.

(d) Fair value of financial instruments

The carrying amounts, fair values and their differences for financial instruments recorded in the consolidated balance sheets as of March 31, 2018 and 2017 are as follows:

	Millions of yen						Thousands of U.S. dollars		
	2018			2017			**2018**		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
(1) Securities*2									
Available-for-sale securities	**¥ 13,549**	**¥ 13,549**	**¥ —**	¥ 14,967	¥ 14,967	¥ —	**$ 127,820**	**$ 127,820**	**$ —**
(2) Cash and deposits	**116,087**	**116,087**	**—**	88,027	88,027	—	**1,095,160**	**1,095,160**	**—**
(3) Notes and accounts receivable-trade	**67,622**	**67,622**	**—**	57,037	57,037	—	**637,943**	**637,943**	**—**
(4) Bonds payable*3	**(771,900)**	**(787,437)**	**15,537**	(709,139)	(727,985)	18,846	**(7,282,075)**	**(7,428,650)**	**146,575**
(5) Long-term loans payable*3	**(581,411)**	**(596,755)**	**15,344**	(594,228)	(611,312)	17,084	**(5,485,009)**	**(5,629,764)**	**144,754**
(6) Short-term loans payable	**(53,250)**	**(53,250)**	**—**	(52,370)	(52,370)	—	**(502,358)**	**(502,358)**	**—**
(7) Commercial papers	**(20,000)**	**(20,000)**	**—**	—	—	—	**(188,679)**	**(188,679)**	**—**
(8) Notes and accounts payable-trade	**¥(39,329)**	**¥(39,329)**	**¥ —**	¥(40,816)	¥(40,816)	¥ —	**$ (371,028)**	**$ (371,028)**	**$ —**

*1 Financial instruments whose fair values are not readily determinable are not included in the table above (See Note B).
*2 Recorded under "Long-term investments" in the consolidated balance sheets.
*3 Including those recorded under "Current portion of long-term debt" in the consolidated balance sheet.

Note A: Investment securities and Methods for estimating the fair value of financial instruments

(1) Investment securities

The fair value of equity securities is determined by their market price. The fair value of debt securities are determined by market price or those provided by correspondent financial institutions. For further information on investment securities by holding intent, see note14.Investment Securities below.

(2) Cash and deposits, and (3) Notes and accounts receivable-trade

The fair values for these items are determined as their respective carrying amount because they are settled within a short time and their fair value approximates their carrying amount.

(4) Bonds payable

The fair value of bonds payable is according to their market prices.

(5) Long-term loans payable

The fair value of long-term loans payable bearing floating interest rates are based on the carrying amount because they reflect market interest rates within a short time, and fair values therefore approximates carrying amount.

The fair value of long-term loans payable bearing fixed interest rates is computed based on the present value of the overall principal and interest discounted at the interest rate assumed for a new borrowing with similar terms.

(6) Short-term loans payable, (7) Commercial papers, and (8) Notes and accounts payable-trade

The fair value of these items is determined as their respective carrying amount because they are settled within a short time and their fair value therefore approximates their carrying amount.

Note B: Financial instruments whose fair value is not readily determinable as of March 31, 2018 and 2017.

Carrying amount	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars 2018
Unlisted stocks	**¥ 28,527**	¥ 28,545	**$ 269,122**
Investment securities	**690**	690	**6,509**
Other	**¥ 242**	¥ 2	**$ 2,283**

These financial instruments have no market price, and it is expected that estimation of future related cash flows would involve excessive costs. Since their fair value is not readily determinable, they are not included in (1) Securities—Available-for-sale securities above.

Note C: Scheduled redemptions for monetary receivables subsequent to March 31, 2018 and 2017.

	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars 2018
Cash and deposits			
Within one year	**¥ 116,087**	¥ 88,027	**$ 1,095,160**
Notes and accounts receivable-trade			
Within one year	**¥ 67,622**	¥ 57,037	**$ 637,943**

Note D: Scheduled payments on bonds payable, long-term loans payable and other interest-bearing debts subsequent to March 31, 2018 and 2017.

2018	Millions of yen: Bonds payable	Millions of yen: Long-term loans payable	Thousands of U.S. dollars: Bonds payable	Thousands of U.S. dollars: Long-term loans payable
2019	**¥ 141,900**	**¥ 69,133**	**$ 1,338,679**	**$ 652,198**
2020	**80,000**	**95,772**	**754,716**	**903,509**
2021	**110,000**	**56,769**	**1,037,735**	**535,556**
2022	**30,000**	**80,971**	**283,018**	**763,877**
2023	**40,000**	**44,162**	**377,358**	**416,622**
Thereafter	**¥ 370,000**	**¥ 234,603**	**$ 3,490,566**	**$ 2,213,235**

Other interest-bearing debts are short-term loans payable due within a year.

2017	Millions of yen: Bonds payable	Millions of yen: Long-term loans payable
2018	¥ 97,241	¥ 89,082
2019	141,900	69,033
2020	80,000	95,672
2021	100,000	55,869
2022	30,000	65,271
Thereafter	¥ 260,000	¥ 219,300

Other interest-bearing debts are short-term loans payable due within a year.

14. Investment Securities

Information on investment securities for which fair value is available in the consolidated balance sheets as of March 31, 2018 and 2017 is as follows:

(a) Available-for-sale securities:

	Millions of yen						Thousands of U.S. dollars		
	2018			2017			**2018**		
	Acquisition cost	Fair value	Difference	Acquisition cost	Fair value	Difference	Acquisition cost	Fair value	Difference
Unrealized gain									
Stocks	**¥8,344**	**¥13,543**	**¥5,198**	¥7,764	¥14,510	¥6,745	**$78,716**	**$127,764**	**$49,037**
Unrealized loss									
Stocks	**7**	**5**	**(1)**	587	456	(130)	**66**	**47**	**(9)**
Total	**¥8,352**	**¥13,549**	**¥5,196**	¥8,352	¥14,967	¥6,614	**$78,792**	**$127,820**	**$49,018**

(b) Available-for-sale securities sold during the year:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Sales proceeds	**¥ 10**	¥ 0	**$ 94**
Realized gains	**—**	0	**—**
Realized losses	**¥ —**	¥ 0	**$ —**

15. Provision for Retirement Benefits

(a) Overview of retirement benefits plans

To provide employee retirement benefits, the Company and its consolidated subsidiaries have savings-type and non-savings-type defined benefit and defined contribution plans.

A cash balance plan is chiefly used for defined benefit corporate pension plans (savings-type). In this balance plan, participants have their own hypothetical accounts corresponding to their contributions and funds for pension payments. These accounts are credited with interest credit, which is primarily based on trends in market interest rates, and with pay credit, which is based on the participant's rank and years of service.

Under lump-sum payment plans (non-savings-type), the Company and some of its consolidated subsidiaries use a system in which points are awarded based on employee rank and years of service as well as trends in market interest rates, and lump-sum payments are made based on the number of points accumulated.

Certain consolidated subsidiaries use a short-cut method for computing net defined benefit liabilities and retirement benefit expenses in their defined benefit corporate pension plans and lump-sum payment plans.

(b) Defined benefit plans

(1) Reconciliation for opening and closing balances of retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Retirement benefit obligation at beginning of period	**¥176,938**	¥178,640	**$1,669,226**
Service costs	**4,934**	4,952	**46,547**
Interest costs	**1,994**	2,040	**18,811**
Actuarial loss recognized	**702**	2,424	**6,622**
Retirement benefit payment	**(10,500)**	(11,119)	**(99,056)**
Retirement benefit obligations at end of period	**¥174,069**	¥176,938	**$1,642,160**

(2) Reconciliation for opening and closing balances of pension assets

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Pension assets at beginning of period	**¥150,636**	¥149,778	**$1,421,094**
Expected return on pension assets	**3,009**	2,926	**28,386**
Actuarial gain recognized	**1,500**	1,130	**14,150**
Contributions by business operators	**3,232**	3,432	**30,490**
Retirement benefit payment	**(6,687)**	(6,631)	**(63,084)**
Pension assets at end of period	**¥151,691**	¥150,636	**$1,431,047**

(3) Reconciliation between retirement benefit obligations/pension assets at end of period and net defined benefit liabilities/assets reported on consolidated balance sheet

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Retirement benefit obligations in savings-type plans	**¥138,547**	¥140,282	**$1,307,047**
Pension assets	**(151,691)**	(150,636)	**(1,431,047)**
Total	**(13,144)**	(10,353)	**(124,000)**
Retirement benefit obligations in non-savings-type plans	**35,522**	36,655	**335,113**
Net liabilities and assets reported on consolidated balance sheet	**22,378**	26,302	**211,113**
Net defined benefit liabilities	**37,458**	38,875	**353,377**
Net defined benefit assets	**(15,080)**	(12,572)	**(142,264)**
Net liabilities and assets reported on consolidated balance sheet	**¥ 22,378**	¥ 26,302	**$ 211,113**

(4) Retirement benefit expenses and breakdowns

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Service costs	**¥4,934**	¥4,952	**$46,547**
Interest costs	**1,994**	2,040	**18,811**
Expected return on pension assets	**(3,009)**	(2,926)	**(28,386)**
Amortization of actuarial loss	**(1,650)**	(2,317)	**(15,566)**
Amortization of prior service costs	**540**	589	**5,094**
Retirement benefit expenses incurred in relation to defined benefit plans	**¥ 2,809**	¥ 2,339	**$26,500**

(5) Remeasurement of defined benefit plans

The breakdown for remeasurement of defined benefit plans (before applicable tax effect) is as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Prior service costs	**¥ 540**	¥ 589	**$ 5,094**
Actuarial loss	**(852)**	(3,611)	**(8,037)**
Total	**¥ (311)**	¥ (3,021)	**$ (2,933)**

(6) Accumulated remeasurement of defined benefit plans

The breakdown for accumulated remeasurement of defined benefit plans (before applicable tax effect and non-controlling interests) is as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Unrecognized prior service costs	**¥ —**	¥ 540	**$ —**
Unrecognized actuarial loss	**4,618**	3,766	**43,566**
Total	**¥ 4,618**	¥4,307	**$ 43,566**

(7) Matters related to pension assets

・Major breakdown of pension assets

Ratios of major categories to total pension assets are as follows:

	%	
	2018	2017
Bonds	**54**	55
Stocks	**16**	14
Life insurance company general accounts	**28**	29
Others	**2**	2
Total	**100**	100

・Determination of expected long-term rate of return on pension assets

The expected long-term rate of return on pension assets is determined based on past performance, trends in financial markets and in consideration of the operation policy focusing on bonds and life insurance company general accounts from the viewpoint of securing stable earnings.

(8) Matters related to basis for actuarial calculations

Basis for major actuarial calculations

	2018	2017
Discount rate	**Principally 1.1%**	Principally 1.1%
Expected long-term rate of return on pension assets	**Principally 2.0%**	Principally 2.0%

(c) Defined contribution plans

Required contributions by the Company and its consolidated subsidiaries to defined contribution plans were ¥779 million in the previous fiscal year and are ¥781 million ($7,367 thousand) in the current fiscal year.

16. Income Taxes

(a) Components of deferred tax assets and deferred tax liabilities as of March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Deferred tax assets:			
Operating loss carried forward	**¥ 73,434**	¥ 76,560	**$ 692,773**
Depreciation and amortization	**15,374**	14,520	**145,037**
Asset retirement obligations	**6,938**	7,041	**65,452**
Net defined benefit liability	**6,389**	7,544	**60,273**
Other	**18,277**	19,175	**172,424**
Deferred tax assets subtotal	**120,413**	124,842	**1,135,971**
Valuation allowance	**(77,288)**	(80,335)	**(729,132)**
Total deferred tax assets	**43,124**	44,506	**406,830**
Deferred tax liabilities:			
Assets corresponding to asset retirement obligations	**(3,314)**	(3,481)	**(31,264)**
Valuation difference on available-for-sale securities	**(1,472)**	(1,866)	**(13,886)**
Other	**(415)**	(425)	**(3,915)**
Total deferred tax liabilities	**(5,202)**	(5,774)	**(49,075)**
Net deferred tax assets	**¥ 37,922**	¥ 38,732	**$ 357,754**

(b) Reconciliation of differences between the statutory tax rate and the effective tax rate

	%	
	2018	2017
Statutory tax rate	**28.20**	28.20
Adjustment for:		
Valuation allowance	**(14.86)**	(25.48)
Difference in tax rates of consolidated subsidiaries	**1.39**	2.13
Permanently non-deductible expenses	**1.07**	1.74
Other	**(0.13)**	(1.48)
Effective tax rate	**15.67**	5.11

17. Asset Retirement Obligations

Asset retirement obligations in the consolidated balance sheets

(a) Outline of asset retirement obligations

The Company records asset retirement obligations for the decommissioning of specified nuclear power plant facilities prescribed in the Act of the Regulation of Nuclear Source Material, Nuclear Fuel Material and Reactors. Total estimated costs of decommissioning nuclear power units are charged as expenses using the straight-line method over a timeline calculated by adding the expected safe storage period to the estimated operating period of the power generating facilities in line with the Ordinance Regarding Provision for the Decommissioning of Nuclear Power Units (Ordinance of the Ministry of International Trade and Industry No.30 of 1989).

(Additional information)

The Ordinance Partially Amending the Ordinance Regarding Provision for the Decommissioning of Nuclear Power Units (Ordinance of the Ministry of Economy, Trade and Industry No. 17 of 2018) came into force on April 1, 2018. As a consequence, the Ordinance Regarding Provision for the Decommissioning of Nuclear Power Units was amended, and the method for expensing total estimated costs will be limited to the straight-line method over the estimated operating periods from the date of this enforcement.

(b) Calculation method for asset retirement obligations

The Company uses the remaining number of years calculated by deducting the number of years after the start of operation from the estimated operating periods of the generation facilities plus the expected safe storage period for each specified nuclear power plant facility as the expected period until expenditure. The discount rate of 2.3% is used for the calculation.

However, if the amount applied as the provision for nuclear power unit decommissioning as calculated based on the Ordinance Regarding Provision for the Decommissioning of Nuclear Power Units exceeds the amount calculated as explained above, the amount based on the ordinance is posted.

(c) Changes in asset retirement obligations for the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Balance at beginning of fiscal year	**¥ 77,773**	¥ 75,926	**$ 733,707**
Changes in fiscal year	**1,943**	1,847	**18,330**
Balance at end of fiscal year	**¥ 79,717**	¥ 77,773	**$ 752,047**

18. Segment Information

(a) Overview of reportable segments

The Company identifies its reportable segment as the component that constitutes the business for which discrete financial information is available and is regularly reviewed by the Board of Directors to assess its performance.

The Company's reportable segment is its electric utility business, on which its business activities are centered. Its other business includes electrical and telecommunications works, general management of buildings, civil engineering and construction, regular inspection, maintenance and repair work at power plants.

(b) Calculation methods for sales, profit/loss, assets and other items by reportable segment

The accounting methods for reported business segments are the same as those presented in the notes to consolidated financial statements. Reported segment income is based on operating profit. Intersegment sales are based on fair market values.

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

Reportable segment information about operations as of and for the fiscal year ended March 31, 2018 is as follows:

	Millions of yen			
	2018			
	Reportable segment Electric utility	Other	Adjustments (Note 1)	Consolidated (Note 2)
Sales to customers	**¥ 701,526**	**¥ 31,524**	**¥ —**	**¥ 733,050**
Intersegment sales	**1,153**	**96,751**	**(97,905)**	**—**
Total operating revenue	**702,680**	**128,276**	**(97,905)**	**733,050**
Operating profit	**27,400**	**5,644**	**682**	**33,726**
Assets	**1,860,802**	**122,493**	**(67,387)**	**1,915,908**
Depreciation and amortization	**78,233**	**6,415**	**(888)**	**83,760**
Capital investments	**¥ 115,443**	**¥ 7,159**	**¥ (435)**	**¥ 122,167**

	Thousands of U.S. dollars			
	2018			
	Reportable segment Electric utility	Other	Adjustments (Note 1)	Consolidated (Note 2)
Sales to customers	**$ 6,618,169**	**$ 297,396**	**$ —**	**$ 6,915,566**
Intersegment sales	**10,877**	**912,745**	**(923,632)**	**—**
Total operating revenue	**6,629,056**	**1,210,150**	**(923,632)**	**6,915,566**
Operating profit	**258,490**	**53,245**	**6,433**	**318,169**
Assets	**17,554,735**	**1,155,594**	**(635,726)**	**18,074,603**
Depreciation and amortization	**738,047**	**60,518**	**(8,377)**	**790,188**
Capital investments	**$ 1,089,084**	**$ 67,537**	**$ (4,103)**	**$ 1,152,518**

1. The segment income adjustment of ¥682 million ($6,433 thousand), asset adjustment of ¥(67,387) million ($(635,726) thousand), depreciation and amortization adjustment of ¥(888) million ($(8,377) thousand), and capital investment adjustment of ¥(435) million ($(4,103) thousand) are due to the elimination of intersegment transactions.
2. Segment income is adjusted with operating profit in the consolidated financial statements.

Reportable segment information about operations as of and for the fiscal year ended March 31, 2017 is as follows:

	Millions of yen			
	2017			
	Reportable segment Electric utility	Other	Adjustments (Note 1)	Consolidated (Note 2)
Sales to customers	¥ 675,471	¥ 27,305	¥ —	¥ 702,776
Intersegment sales	1,162	103,467	(104,629)	—
Total operating revenue	676,633	130,772	(104,629)	702,776
Operating profit	20,089	5,897	1,455	27,443
Assets	1,776,481	119,422	(66,364)	1,829,539
Depreciation and amortization	80,175	6,318	(960)	85,534
Capital investments	¥ 141,279	¥ 6,618	¥ (579)	¥ 147,318

1. The segment income adjustment of ¥1,455 million, asset adjustment of ¥(66,364) million, depreciation and amortization adjustment of ¥(960) million, and capital investment adjustment of ¥(579) million are due to the elimination of intersegment transactions.
2. Segment income is adjusted with operating profit in the consolidated financial statements.

19. Transactions with Related Parties

No matters to report.

20. Amounts per Share

Information on amounts per share for the years ended March 31, 2018 and 2017 is as follows:

	yen		U.S. dollars
Per share of capital stock	**2018**	2017	**2018**
Net assets	**¥742.64**	¥681.53	**$7.00**
Profit	**¥ 71.84**	¥ 34.09	**$0.67**

1. Diluted profit per share is not provided for the fiscal years ended March 31, 2018 and 2017 as there are no dilutive securities in those years.
2. The basis for calculation of profit per share will be as stated below.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Profit attributable to owners of parent	**¥16,549**	¥8,793	**$156,122**
Amount not attributable to ordinary shareholders	**1,786**	1,786	**16,849**
[Of that, the amount of preferred dividends]	**[1,786]**	[1,786]	**[16,849]**
Profit attributable to owners of parent for ordinary shares	**¥14,763**	¥7,007	**$139,273**

	Thousands of shares	
	2018	2017
Average number of shares over period for ordinary shares	**205,522**	205,532

21. Subsequent Events

(Issuance of Class-B Preferred Stock by third-party allotment)

At a Board of Directors meeting held on April 27, 2018, HEPCO resolved to refer the issuance of Class-B Preferred Stock via a third-party allotment (hereinafter referred to as "the Class-B Preferred Stock") for consideration at the annual shareholders' meeting to be held on June 27, 2018, where it was approved.

(a) Outline of the issuance of the Class-B Preferred Stock

(1) Payment (issuance) date	July 31, 2018	
(2) Number of new shares to be issued	470 (Class-B Preferred Stock)	
(3) Issue price	100,000,000 yen/share	
(4) Amount of funds procured	47,000,000,000 yen	
(5) Preferred dividend	3,000,000 yen annually/share	
(6) Method of offering or allotment	Third-party allotment	
(7) Allottee	Development Bank of Japan Inc.	400 shares
	Mizuho Bank, Ltd.	70 shares
(8) Amount of capital increase	23,500,000,000 yen	
(9) Amount of legal capital surplus increase	23,500,000,000 yen	

(b) Use of funds
After the estimated issuance cost is deducted from the total issue price (¥47,000,000,000), the approximate proceeds (¥46,780,000,000) will be allocated to a part of fund for acquisition of Class-A Preferred Stock (¥47,596,964,390) issued by HEPCO (hereinafter referred to as “the Class-A Preferred Stock”).

(c) Other important matters
Shareholders holding the Class-B Preferred Stock may receive dividends prior to common shareholders.

The Class-B Preferred Stock will not dilute the common stock because it does not come with voting rights for shareholders’ meetings, nor does it come with call provisions or put options using common stock as consideration.

(Reduction of capital stock and legal capital surplus concurrent with stock issuance)
At the Board of Directors meeting held on April 27, 2018, HEPCO resolved to reduce the full amount of the increase in capital stock and legal capital surplus associated with incorporating the issue price of the Class-B Preferred Stock into capital stock and legal capital surplus.

(a) Purpose of reducing capital stock and legal capital surplus
In order to secure an adequate Distributable Amount necessary for acquiring the Class-A Preferred Stock, a decision was taken to reduce capital stock and legal capital surplus at the same time as issuing the Class-B Preferred Stock, and to transfer an amount equivalent to other capital surplus, which constitutes the Distributable Amount.

(b) Outline of capital stock and legal capital surplus reduction
(1) Amount of capital stock reduction
 ¥23,500,000,000
 Details: ¥23,500,000,000, corresponding to the capital stock increase from the issuance of the Class-B Preferred Stock
(2) Amount of legal capital surplus reduction
 ¥23,500,000,000
 Details: ¥23,500,000,000, corresponding to the legal capital surplus increase from the issuance of the Class-B Preferred Stock
(3) Method of capital stock and legal capital surplus reduction
 HEPCO will reduce capital stock and legal capital surplus as outlined above in accordance with Article 447(1)–(3) and Article 448(1)–(3) of the Companies Act of Japan, and will transfer the amounts equivalent to the reductions to other capital surplus.

(c) Schedule for capital stock and legal capital surplus reduction

April 27, 2018	Resolution by Board of Directors
May 21, 2018	Public announcement of creditor objection period
June 21, 2018	Deadline for submission of creditor objections
July 31, 2018	Effective date (scheduled)

(d) Other important matters
The reduction of capital stock and legal capital surplus will become effective on condition that the issuance of the Class-B Preferred Stock takes effect. In addition, the capital stock and legal capital surplus reduction will not result in a reduction in the number of shares outstanding.

(Acquisition and cancellation of Class-A Preferred Stock)
At the Board of Directors meeting held on April 27, 2018, HEPCO resolved to acquire the Class-A Preferred Stock pursuant to Article 12.8 of its articles of incorporation (provisions concerning acquisition for monetary consideration) and to cancel the Class-A Preferred Stock pursuant to Article 178 of the Companies Act.

(a) Reasons for acquisition
HEPCO will acquire the Class-A Preferred Stock because acquiring the Class-A Preferred Stock after issuing the Class-B Preferred Stock will enable HEPCO to reduce the burden of preferred dividend while maintaining capital adequacy.

(b) Details of matters concerning acquisition

(1) Class of the target stock	Class-A Preferred Stock issued by Hokkaido Electric Power Co., Inc.
(2) Number of shares acquired	470 shares
(3) Acquisition price	¥101,270,137 per share The acquisition price above has been calculated in accordance with the stipulations of the HEPCO's articles of incorporation. (Formula for base price) Monetary consideration acquisition price per share = ¥100,000,000 + Cumulative unpaid Class-A preferred dividend amount + Previous business year unpaid Class-A preferred dividend amount + Current business year unpaid Class-A preferred dividend amount Note, since there is no cumulative unpaid Class-A preferred dividend amount or previous business year unpaid Class-A preferred dividend amount, these amounts are zero.
(4) Total acquisition price	¥47,596,964,390
(5) Buy-back from	Development Bank of Japan Inc.
(6) Scheduled date of acquisition	July 31, 2018

(c) Details of matters concerning cancellation

(1) Class of the target stock	Class-A Preferred Stock issued by Hokkaido Electric Power Co., Inc.
(2) Number of shares cancelled	470 shares
(3) Scheduled date of cancellation	July 31, 2018

(d) Other important matters
The acquisition and cancellation of the Class-A Preferred Stock will become effective on condition that the issuance of the Class-B Preferred Stock and the concurrent reduction of capital stock and legal capital surplus take effect.

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Independent Auditor's Report

The Board of Directors
Hokkaido Electric Power Co., Inc.

We have audited the accompanying consolidated financial statements of Hokkaido Electric Power Co., Inc. (the "Company") and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2018, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries as at March 31, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

Ernst & Young ShinNihon LLC

June 28, 2018
Sapporo, Japan