Explanation of TEPCO FY2015 First Quarter Earnings Results

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*Investor meeting will not be held regarding these results.

Here is an explanation of the FY2015 first quarter results released today.

■ Overview (Slides 1~12)

【Slides 1~3: Key Points concerning FY2015 1Q Earnings Results and Full-Year Forecast】

○ The first slides cover operating revenues. Consolidated operating revenues decreased 1.1 percent year-on-year to 1,551.6 billion yen and non-consolidated operating revenues declined 1.4 percent year-on-year to 1,510.9 billion yen, mainly due to a decrease in the unit electricity sales price resulting from fuel cost adjustments.

○ With regard to expenses, although the yen has depreciated amid the suspension of all nuclear power stations, there has been a significant reduction in fuel expenses due to the decline in the price of crude oil since last year, and we have continued to strive to reduce costs companywide. Consequently, consolidated and non-consolidated ordinary incomes recorded profits of 214.1 billion yen and 202.0 billion yen, respectively.

○ As for net income attributable to owners of the parent company, while extraordinary income from grants-in-aid of 426.7 billion yen dispersed by the Nuclear Damage Compensation and Decommissioning Facilitation Corporation(NDF) was booked, TEPCO also recorded expenses for nuclear damage compensation of 405.6 billion yen resulting from the Great East Japan Earthquake as an extraordinary loss. The result was that TEPCO ended the quarter with net income of 203.3 billion yen on a consolidated basis and 194.6 billion yen on a non-consolidated basis.

○ With regard to the FY2015 full-year earnings forecast, TEPCO is not in a position where we are able to present an operational plan for the Kashiwazaki-Kariwa Nuclear Power Station, at which all units are currently in shutdown, and it is also difficult to offer a projection on the situation. Therefore, operating revenue, ordinary income and net income attributable to owners of the parent company are pending, and we will provide prompt notification as soon as we are able to furnish an earnings forecast.

【Slide 4: Power Demand and Supply】

○ Please see the total electricity sales volume for April-June 2015. Total electricity sales volume decreased 1.9 percent year-on-year to 58.6 billion kWh. This was mainly due to a decrease in liberalized segment resulting from the delayed recovery of production levels.

○ Detailed data on electricity sales volume as well as total power generated and purchased are provided in slides 22 and 23.

【Slide 5: Key Factors Affecting Performance】

○ Slide 5 shows the change in the foreign exchange rate as well as the prices of crude oil and LNG. In comparison to the corresponding period during the previous year, the JPY is 19 yen lower. The price of crude oil has fallen approximately 50USD and the price of LNG about 40USD from the same period a year ago.

【Slides 6~7: Status of Income and Expenditures (Non-Consolidated)】

○ Please see slide 6. Electricity sales revenue for the term was 1,349.9 billion yen, a decrease of 35.5 billion yen or 2.6 percent year-on-year. Although there was an increase in revenue of approximately 34.0 billion yen due to the renewable energy power promotion surcharge, the final figure was the result of a decrease in revenue of approximately 26.0 billion yen due to a decline in electricity sales volume as well as a decrease in revenue of approximately 46.0 billion yen due to the effects of fuel cost adjustments.

○ Please see slide 7. Fuel expenses were 401.8 billion yen, which is a decrease of 35.7 percent or 223.1 billion yen year-on-year.

• A more detailed breakdown shows that the yen's depreciation mentioned earlier was a factor increasing fuel expenses. Fluctuation in the exchange rate has pushed the JPY down more than 19 yen since the same period a year ago, which has in turn resulted in a cost increase of approximately 58.0 billion yen.

• On the other hand, factors decreasing fuel expenses include a reduction in the price of crude oil mentioned earlier, which has resulted in decreased expenses of approximately 239.0 billion yen as well as a reduction of approximately 42.0 billion yen due to a decline in thermal power generation.

As a result, fuel expenses for the first quarter were at their lowest level since the Great East Japan Earthquake occurred.

○ Next, an explanation is provided of the principal expenditure that increased.

○ Maintenance expenses were 71.6 billion yen or an increase of 22.4 percent year-on-year. Although we have continued to strive to reduce costs to the maximum extent, this was due, among other factors, to an increase in expenses for contaminated water and decommissioning measures at Fukushima Daiichi Nuclear Power Station.

○ In addition, power purchasing costs and other expenses increased, mainly due to a significant increase in the quantity purchased from photovoltaic power generation facilities as a result of the feed-in tariff scheme for renewable energy.

【Slide 8: Increase/Decrease in Consolidated Business Performance】

○ This slide provides a breakdown of the factors leading to fluctuation in consolidated operating revenues and ordinary income since the corresponding period in FY2014. The principal factors are shown in slides 6 and 7. Of these factors, time lag caused by fuel cost adjustment system had an 180.0 billion yen effect.

【Slide 9: Extraordinary Income/Loss (Consolidated)】

○ The slide shows extraordinary income and loss for the first quarter of FY2015 and FY2014.

○ For extraordinary income, TEPCO recorded grants-in-aid from NDF, applications for which were presented in June, of 426.7 billion yen. As for extraordinary loss, TEPCO booked 405.6 billion yen in nuclear damage compensation, which reflects, among other things, an increase in the amount estimated in additional compensation for mental distress as well as lump-sum indemnification for damage caused by groundless rumors and opportunity losses on businesses, which are in line with a decision made by the Cabinet.

【Slide 10: Consolidated Financial Position】

○ Total assets were 14,177.5billion yen as of June 30, 2015, mainly due to a decline in cash and deposits. Total liabilities were 11,837.7 billion yen as of the same day, mainly on account of a decline in interest-bearing debt. Additionally, net assets were 2,339.8 yen, mainly due to the recording of net income. As a result, TEPCO's equity ratio improved 1.7 points to 16.3 percent.

■Supplemental Material (Slide 11 on)

○ The following slides furnish more detailed information on the FY2015 first-quarter earnings results (slides 11-25), implementation of the streamlining policy and TEPCO's nuclear reform efforts, operational alliances with other companies in the retail sector, and the re-expansion of our overseas operations (slides 26-30), the current status and future initiatives at Fukushima Daiichi Nuclear Power Station including measures to address contaminated water issues (slides 31-37), and the current status and future initiatives to be implemented at the Kashiwazaki-Kariwa Nuclear Power Station including our efforts addressing examinations for compliance under the new regulatory requirements (slides 38-41).

【Slide 29: Operational Alliances with Other Companies in the Retail Sector】

○ TEPCO has begun studying the formation of alliances with a variety of companies ahead of full liberalization of the retail sector, which will be implemented in April 2016. In the future as well, we will proceed to review alliances with various companies where a synergistic effect can be created while basing such alliances on an affinity with electric power.

【Slide 30: Resumption and Expansion of Overseas Business】

○ This slide shows TEPCO's efforts in regard to our overseas businesses. We will further reinforce our operating base with the aim of increasing earnings, and will actively expand our overseas operations so that we may utilize the technology and know-how, which we have developed both in Japan and around the world, to offer a contribution to the global community.

■In Closing

- ○ Of the factors which resulted in a significant increase in earnings for the quarter, there was a systematic "time lag" in that the impact of the reduced fuel expense burden, principally the rapid decline in the price of crude oil, was reflected in electricity sales revenue 3 to 5 months after the fuel cost adjustments.
- ○ As such, although this quarter was profitable, the same level of earnings as the present term cannot be expected if the fall in crude oil and LNG prices since the end of last year is fully reflected in electricity rates from the second quarter on as a result of fuel cost adjustments. In addition, the possibility of earnings deteriorating further may not be negated either as a result of movements in the exchange rate or fuel prices.

The entire TEPCO Group will continue to come together and do everything we can to double productivity and we will strive to improve our balance sheet to return to the bond market as planned.

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