Explanation of FY2016 Financial Results for Institutional Investors and Analysts

Date: Friday, April 28, 2017

Corporate Participants:

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Materials:

FY2016 Financial Results and the 2016 Achievements in Improving Management Efficiency

Presentation

【Slides 1 & 2: Key Points of FY2016 Financial Results】

- ○ A key point demonstrated in these financial results is that although ordinary revenue decreased due to a lower unit price of electricity resulting from fuel cost adjustments, TEPCO Holdings, Inc. achieved an ordinary income profit for the fourth consecutive year thanks to a decline in fuel prices and our continued extensive cost reduction efforts throughout the TEPCO Group.
- ○ Also, I deeply apologize that we were not able to make a distribution for FY2016, and we have no plans for interim or year-end dividends in FY2017.
- ○ As of the current point in time, our FY2017 full-year earnings forecast is still pending.
- ○ Please see Slide 2 for details on our consolidated financial results.
- ○ Operating revenue decreased to ¥5,357.7 billion, a decline of 11.7% year-on-year, and ordinary income fell 30.2% to ¥227.6 billion so that, with the extraordinary income and loss that was booked, net income fell 5.7% to ¥132.8 billion.

【Slide 3: Electricity Sales Volume and Key Factors Affecting Performance】

- ○ Slide 3 shows the electricity sales volume and key factors affecting performance.
- ○ With regard to the upper table displaying electricity sales volume, demand for electricity decreased slightly, which, along with other factors, led to a 2.2% decline year-on-year for a total of 241.5 billion kWh.
- ○ Later in the presentation, I will touch on key factors affecting performance shown in the lower table.

【Slides 4 & 5: Status of Income and Expenditures】

- ○ Slides 4 and 5 present our ordinary revenue and expenses.
- ○ Just as before, the breakdowns of revenue and expenses include comparisons against the previous year and are given as total results for the four companies that used to be one as the former Tokyo Electric Power Company (Non-consolidated).

- ○ The totals for revenue and expenses reflect subsidiary and consolidation adjustments, and are presented as consolidated figures.
- ○ I would now like to explain ordinary revenue, which is shown on Slide 4.
- ○ Electricity sales revenue, listed on the second row, decreased ¥810.8 billion or 15.5% year-on-year to end at ¥4,426.2 billion.
- ○ As shown in the bubble to the right of the table, a major factor in this decrease was a lower unit price of electricity resulting from fuel cost adjustments, to which a decrease of ¥772 billion is attributable under the previous year.
- ○ When ¥674 billion in “other revenue” listed in the sixth row, of which subsidies pursuant to the Act on Special Measures Concerning Procurement of Electricity from Renewable Energy Sources by Electricity Utilities accounting for approximately 40%, is added to electricity sales revenue and the ¥155.1 billion from “subsidies/affiliated companies” in eighth row is reflected, ordinary revenue ended at ¥5,420 billion, or a decrease of 11.7% or ¥721 billion year-on-year.
- ○ Please see Slide 5 for the figures related to ordinary expenses.
- ○ With the exception of an increase in “other expenses” listed in ninth row due to the increase in payments pursuant to the Act on Special Measures Concerning Procurement of Electricity from Renewable Energy Sources by Electricity Utilities, our continuing group-wide efforts to reduce costs reduced all expense items.
- ○ Of these items, I would like to discuss “fuel expenses” listed in second row which showed the largest decrease.
- ○ “Fuel expenses” decreased by 28%, or ¥452.9 billion year-on-year, due to the significant decline in fuel prices and were at their lowest level in the past decade, resulting in fuel expenses of ¥1,162.4 billion for the term.
- ○ The principal factors behind this decrease are:
  - ・As shown in the table at the bottom of Slide 3, the exchange rate shifted so that the Japanese yen was ¥11.8 stronger than the previous year. In addition crude oil prices were 1.3USD and LNG prices were 10USD lower than the year before.
  - ・Efficiency of our thermal power plants improved 0.8% and power generating unit costs were brought down, resulting in a decrease of approximately ¥440 billion.
- ○ Ordinary expenses, which reflect ¥149.1 billion from “subsidiaries/affiliated companies,” ended at ¥5,192.4 billion, a decrease of 10.7% or ¥622.7 billion year-on-year.
- ○ As a result, ordinary income, which is given on the last line, was ¥227.6 billion, our fourth consecutive year showing a profit.
- ○ Our earnings forecast, which was released at the end of January, estimated ordinary income to be ¥291 billion, a figure which did not include special contributions.
- ○ Although a simple comparison is not possible with ordinary income as presented here due to the ¥110 billion in special contributions to the Nuclear Damage Compensation and Decommissioning Facilitation Corporation (NDF) having been booked at the end of March, if we assume that these contributions are not factored in, then ordinary income would have been ¥337.6 billion, an improvement of ¥46.6 billion.

【Slide 6: Extraordinary Income/Loss (Consolidated)】

- Following an application for financial support presented to the NDF in December 2016, ¥294.2 billion in grants-in-aid, which is the same amount as the third quarter, and a ¥36.4 billion gain on a change in equity following the transfer of business to JERA in July of last year, which has been the same amount since the second quarter, were booked, so extraordinary income was ¥330.6 billion.
- On the other hand, with respect to extraordinary losses, an extraordinary loss on disaster of ¥19.3 billion was booked due to an increase in the estimated expenses for decommissioning as well as an extraordinary loss on expenses for nuclear damage compensation of ¥392 billion.

【Slide 7: Consolidated Financial Position】

- As with other nuclear operators, we were required to contribute (¥894.5 billion) to the Nuclear Reprocessing Organization of Japan for a reserve fund for reprocessing irradiated nuclear fuel in the third quarter, and we saw a decrease in our total assets, and our net assets increased due to the booking of net income for the term such that our equity ratio improved 3 points since the end of the previous accounting year to 19.1%.

【Supplemental Material (Slide 8 onward)】

- Slide 8 and later slides present supplemental material.

【Summary】

- I would like to look back at our financial position over the past five years since I took over as president. Please take a look at the "2016 Achievements in Improving Management Efficiency." (Japanese only)
- As is also shown in the table on the bottom of page 1, we have achieved reductions totaling ¥767.3 billion through structural reforms of our materials procurement and kaizen-based productivity improvements.
- Although not given in the material you have, we have implemented cost reductions on the order of an average of ¥600 billion or more each year for a cumulative total of ¥3,789.2 billion (target total: ¥2,667.2 billion), surpassing our goal by ¥1,120 billion.
- In addition, please look at the table on the middle of page 3 which shows our financial position since the earthquake.
- We overcame the ordinary losses recorded in FY2011 and FY2012 and have achieved a profit for four consecutive years through FY2016. We have also decreased the amount of interest-bearing debt by more than ¥2,300 billion since the end of FY2011 and our equity ratio has rebounded 14 points, which combined with other factors have dramatically improved our financial situation. Also, in March, we were also able to meet the expectations of our investors and issued our first corporate bonds since the earthquake.

○ This fiscal year, several pressing issues that we must deal with are near at hand, including doing everything we can to procure funds in preparation for over ¥620 billion in bond redemptions, as well as concentrating our efforts on evaluating the examination documents for Kashiwazaki-Kariwa Nuclear Power Station as we proceed with preparations for an amended application.

○ In addition, together with the NDF, we are currently consolidating our application for certification of the "Revised Version of the New Comprehensive Special Business Plan," an outline of which was released in March.

○ Lastly, TEPCO Holdings, Inc. will make sure that we have a sustainable revenue-generating base and we will work all out to increase the corporate value of our entire group, and move forward with our utmost efforts so that even after the transition to a new management the results of these endeavors will be able to be shared with our shareholders and investors.

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