

Policy of Management Streamlining etc. Based on the TEPCO Management and Finance Investigation Committee Report

October 28, 2011

The Nuclear Damage Compensation Facilitation Corporation
Tokyo Electric Power Company

On October 3, 2011, the TEPCO Management and Finance Investigation Committee ("the Committee") wrapped up the items for TEPCO to work on in the course of the management streamlining etc.

(<http://www.cas.go.jp/seisaku/keieizaimutyousa/dai10/siryou1.pdf>)

The Nuclear Damage Compensation Facilitation Corporation ("the Corporation") and TEPCO will steadily carry out the items regarding streamlining the management etc. and items provided by a deeper review of those items as follows:

The categories of the future specific action plan in light of the policy are as follows:

A: Items, specific measures of which will be immediately carried out, after consideration and the implementation scheme of the items involving the Corporation will be established and specified action plans are reviewed.

B: Items, specific measures of which will be immediately carried out, after consideration and the implementation scheme of the items involving the Corporation will be established and action plans are drawn up in November.

C: Items, the consideration scheme of which will be established involving the Corporation, and the deadline of the conclusion of and the approach regarding which will be decided in November. The setup of the consideration will be also settled in November.

Item		Report		Response Policy	Classification
Item name	Content	Chapter	Description		
Capital Investment	Construction and replacement of power stations	2.1.3.3	When planning new and long-term power development and replacement of existing facilities, capital investment should be made effectively by actively considering the effective use of other power companies' power sources such as Independent Power Producers ("IPP") .	As described in the Committee Report, when planning construction and replacement of power stations, TEPCO will suppress and streamline capital investment by the full use of other power companies' power sources such as Independent Power Producers ("IPP").	B
Capital Investment	Transmission and distribution facilities	2.1.4.2	The current investment plan in transmission and distribution facilities set up by TEPCO basically follows the original plan, not being revised enough reflecting the impacts from the earthquake such as decreasing power supply facilities in Fukushima area and emergency power supply equipment additionally installed in Chiba and Kashima. Therefore, the investment plan should be reviewed whether there is any excess or tightness in light of the current capacity factor of transmission and distribution facilities, then when necessary, the investment plan should be revised based on the changes of the situation due to the earthquake.	As described in the Committee Report, regarding the transmission and distribution facilities, reevaluated the current capital investment plan and revise when necessary, based on network power flow alterations due to the change of energy sources following the earthquake.	B

		2.1.4.3	When examining the future investment plan in transmission and distribution facilities, large investments included in the investment in the extension of the core network (FY2011 ~ 2020 Total JPY483.8bil), such as Nishi-Jobu Trunk Line (Total investment:JPY91.5bil, Already paid out: JPY49.8bil), transmission network in Chiba area (Total investment: JPY59.1 bil, Already paid out: 0), maintenance of common ducts (Total investment:JPY119.2bil, Already paid out: JPY68.3bil), should be specifically examined.		
Capital Investment	Maintenance expenses	2.1.5	Comparing past results, the future maintenance expenses plan is slightly at high level. However, as stated below, the maintenance expenses will be in a declining trend due to the effect of reducing unit price. However, from the viewpoint of securing stable supply, we need to check if any essential maintenance plan has been overlooked.	As described in the Committee Report, from the viewpoint of securing stable supply, on the condition that it is verified whether any essential maintenance has been overlooked, TEPCO will make sure to continuously withhold unnecessary/non-urgent maintenance and also reduce unit price via Procurement Reforms described later.	B
Cost Cut	Comprehensive Plan (Including "Tentative Policy on Business Operations and Management Streamlining" provided by TEPCO)	2.2.2	Since all the costs should be calculated by "Quantity"x "Unit Price", each "Reduction of Quantity" and "Reduction of Unit Price" can be reviewed for cost cut measures. It is necessary to consider the improvement of cost structure as well, because the reduction of "Quantity" by merely putting off such cost described above is not sufficient for example, the reduction of maintenance costs could cause problems in securing stable supply.	As described in the Committee Report, cost reduction over JPY2 trillion and 5,455 billion over ten years shall be achieved, (including cost reductions described in "Tentative Policy on Business Operations and Management Streamlining" provided by TEPCO) with the reduction of "Quantity" and the reduction of "Unit Price" regarding all kinds of costs.	B
Cost Cut	Procurement Expenses of Materials and Services	2.3.2	<ul style="list-style-type: none"> ·Revise order placing measures with affiliated companies ·Revise transaction structure with business partners ·Standardization for specifications and design methods within TEPCO group 	As described in the Committee Report, as for procurement expenses for materials and services, cost cut measures shall be implemented, including by (1) revision of order placing measures with affiliated companies, (2) revision of the transaction structures and order placing measures with business partners, and (3) standardization of specifications and design methods in TEPCO group, etc. In addition, TEPCO will suppress depreciation expenses by optimizing the investment plan based on the revision of the capital investment plan.	B
Cost Cut	Expenses of Power Purchase and Fuel Procurement	2,3,2	<ul style="list-style-type: none"> ·Revision of power purchase price ·Reduction of fuel costs from the medium and long-term point of view. 	As described in the Committee Report, reduction of expenses of power purchase and fuel procurement, i) revision of the power purchase price such as short time power purchase price (including the reduction of power supply cost by utilizing Japan Electric Power Exchange (JEPX)) ii) reduction of fuel costs in the middle and long-term point of view, etc. should be implemented.	B
		6.2.2	The Corporation shall continuously verify whether TEPCO runs its business efficiently utilizing trades at Japan Electric Power Exchange (JPEX) continuously taking the trade cost and supply demand situation etc into consideration.		
		2.2.3	Cross-industrial standardization of design and specification of facilities, which are impossible to be implemented by TEPCO only, should be considered in the future continuously.		

Cost Cut	Cross-Industrial Procurement	2.2.3	One of the tasks TEPCO should work on is the joint purchase and interexchange of fuel etc. among overseas power companies whose demand peak periods are different from that of TEPCO. It should be continuously considered in the future.	As described in the Committee Report, the cross-industrial cost cut measures, (1) standardization of design and specification of facilities that each electric power company has established on its own (standardization of smart meters, etc.), (2) cross-industrial reorganization of affiliated companies of each electric power company, (3) jointly purchase of fuel and interexchange of fuel, etc. should be implemented.	C
		2.3.5	Not only the streamlining management by TEPCO only, but also the cross-industrial streamlining jointly by other electric power companies should be considered to implement further cost reduction in middle and long-term as follows; [Middle and long-term cost reduction measures together with other electric power companies] · Standardization of design and specification of facilities that each electric power company has developed on its own. · Cross-industrial reorganization of affiliated companies of electric power companies		
Cost Cut	Other expense	2.2.3	The other expenses include a variety of small amount expenses. With the understanding of the past expenses, we examined possibilities of cost reduction such as miscellaneous expense, research expense, electricity sales and promotion expense, office supplies expense, training expense, etc, which may require careful check whether their expense should be considered as a basis for calculation of electricity prices, item by item. In addition, TEPCO have contributed research funding and donation into related organizations. Taking into consideration of joint contribution with other electric power companies, efforts to reduce these costs as the whole industry should be continuously considered in the future.	As described in the Committee Report, TEPCO will reduce all the expenses including donation and research funding to the related organization.	B
Cost Cut	Cost Reduction in affiliated companies	2.3.6	On incorporating the reduction on the sales and variable costs, which are associated with the loss of trade with TEPCO, the affiliates should incorporate the reduction of sales and variable costs due to the reduction of business with TEPCO and urgently improve their financial performance in response to the sales reduction by such as the reduction of external service cost by in-house production, withholding unnecessary/non-urgent investment and reduction of personnel cost across the board.	As described in the Committee Report, the affiliated companies will also conduct the cost cut measures such as (1) the reduction of external service cost by in-house production, (2) withholding unnecessary/non-urgent investment and (3) reduction of personnel cost across the board, in order to improve their financial performance urgently in response to the reduction of sales to TEPCO.	B
	Personnel	2.4.2.2	Approximately 3,600 personnel cuts by the end of FY2013 planned by TEPCO is to be generally evaluated as reasonable in scale. TEPCO is considering reducing personnel by the combination of the natural reduction such as suspension of recruitment and age-limit retirement, and voluntary retirement. Considering the peak period of business related to nuclear damage compensation, the Committee determined that TEPCO's personnel reduction method and timing is reasonable.	As described in the Committee Report, TEPCO will cut approx. 7,400 employees (in the whole TEPCO group) and approx. 3,600 employees (non-consolidated basis) compared with the beginning of FY 2011	B

Cost Cut	Expense (Number of Personnel)	2.4.2.3	When preparing the Special Business Plan and considering the more detail of the reduction headcount and the timing in the future, the Committee expects the Corporation to discuss them taking care of the long-term perspective including the future arrangement of age-specific personnel, the long-term relationship between management and labor, and prevention of the loss of qualified personnel.	As described in the Committee Report, TEPCO will review a concrete schedule of personnel cut etc based on a long-term perspective including the future of age-specific personnel organization, long-term relationship between management and labor, and prevention of the loss of qualified personnel.	C
Cost Cut	Personnel Expense (salaries and bonus)	2.4.3.3	TEPCO has implemented reduction of salaries and bonuses after the earthquake.	As described in the Committee Report, as for salaries and bonuses, TEPCO will continue an annual earnings cut across the board conducted since June, 2011, for the time being. (Supervisory Employee: Total annual salaries: by 25%, Base annual salaries: by 10%, Performance salaries (Bonuses): by 62%. General Employee: Total annual salaries: by 20%, Base monthly salaries: by 5%, Bonuses: by 50% or more)	A
			Regarding the duration of the salaries and bonuses reduction conducted by TEPCO after the earthquake, the Committee expects the Corporation and TEPCO discuss it together with the new personnel system considering the situation of payment of special contribution by TEPCO.		
			Regarding the future salary, TEPCO is considering to shift to a new personnel evaluation system in 2 years to maintain employee motivation while maintaining 5 percent reduction of the total personnel expenses level. As for the introduction of the system, it is difficult to evaluate it because the details are not specified at this moment, but the Committee thinks that the Corporation should verify its reasonableness once the detailed design becomes clear.	As described in the Committee Report, as for the basic annual salary for supervisory employees and the monthly salary for general employees, TEPCO will shift to a new personnel evaluation system in 2 years to maintain employee motivation while maintaining the recently reduced total personnel expenses level.	C
			Regarding the bonuses, TEPCO assumes that present reduction rate level (50% reduction for general employees) will be maintained for the meanwhile. If the 5% reduction of salaries only is maintained and the bonuses are restored completely to the original, the remuneration level will be in the table. It is at high level compared with the average of large companies as well as all industries while it is necessary to promote activation of the human resources in TEPCO. Based on the above, the Committee expects that necessary discussions between the Corporation and TEPCO on the timing and range of restoring bonuses in consideration of the payment situation of special contribution by TEPCO be held.	As described in the Committee Report, TEPCO will consider the schedule and level of restoring bonuses that has been reduced after the earthquake in consideration of the above-described new personnel evaluation system together with the status of the special contribution payments etc.	

			As for the premium rate of overtime work, it is desirable to reduce the rate from 30 % on weekday at present to 25 % which is the bottom limit required by law. TEPCO is planning to do so.	As described in the Committee Report, TEPCO will reduce the premium rate of overtime work to 25 % on weekdays, which is the legal bottom limit.	A
Cost Cut	Personnel Expenses (pension benefit)	2.4.4.6	Regarding the defined benefit pension plan, TEPCO is considering to reduce the lower limit of the interest rate on lump sum paid annuity and whole life annuity for both active employees and beneficial owners. Negotiation with the union etc. will be necessary on the concrete procedure as described above. More than two thirds of respective agreements of retirees will be necessary to reduce pension benefit for them. In the process of developing the Special Business Plan in the future, TEPCO should seriously consider a definite plan for the system change in the context of the minimization of public burden and situation of employee pension in whole streamlining measures, etc. to obtain wide public understanding.	As described in the Committee Report, regarding the defined benefit corporate pension, TEPCO will work to reduce the lower limit of the interest rate on lump sum paid annuity (to 1.5% for active employee and 2.25% for beneficial owners) and whole life annuity (by 30%) for both active employees and beneficial owners (retirees) and target the introduction of a new pension system before the end of FY 2012.	B
Cost Cut	Personnel Expenses (welfare)	2.4.5.2	The Committee got reasonable answers such as (1)reduction of the company contribution percentage of health insurance to the same level as other companies, (2)abolishment of the asset-building pension scheme (abolishment of the guaranteed rate), abolishment of the "Refreshment" asset-building scheme (residence asset-building will remain), (3)reduction of incentives in the employee stock ownership plan, and (4)reducing contents of the cafeteria plan from TEPCO.	As described in the Committee Report, TEPCO will conduct cost reduction such as (1)reduction of the company contribution percentage of health insurance, (2)abolishment of the asset-building pension scheme (abolishment of the guaranteed rate), abolishment of the "Refreshment" asset-building scheme, (3)reduction of incentives in the employee stock ownership plan, and (4)reducing contents of the cafeteria plan, etc.	A
		2.5	TEPCO (non-consolidated basis) originally planned to sell real estate equivalent to JPY 100 billion at market price. As a result of classification and the joint due diligence with TEPCO of real estate owned by TEPCO and its affiliated companies based on the necessity for the electricity business, feasibility for sales, and the characteristics of it, the Committee proposes that real estates equivalent to JPY 247.2 billion at market price should be sold and that real estates which can not be sold due to the constraints should be effectively used including rent. Regarding the real estates to be sold, the Corporation should monitor whether each property will be sold economically reasonably. Regarding the real estates not to be sold, it should monitor whether they will be effectively used/disposed.	As described in the Committee Report, the Corporation monitors that the sales of real estates to be sold follows economic rationality, the real estates not to be sold are effectively used. The real estates of JPY 247.2 billion should be completed within 3 years except for time consuming redevelopment projects.	A

Sales of Assets	Immovable Estates	2.5.1	The estates are considered to be sold within 3 years in principle, except for items such as time consuming redevelopment projects, in consideration of necessity for cash flow, avoidance of decrease in value by rushed sale.		
		2.5.1	<p>Based on the discussion with TEPCO, the Committee decided policy on sales of three real estates which have headquarters' function:</p> <p>Toshin building: To be sold Shin-saiwaibashi building: It is difficult to sell the building, but overground floors should be rented as much as possible since no important facilities to secure stable supply are installed on the overground floors. A specific plan will be developed. Main building: Important facilities to secure stable supply and the telecommunication tower to be installed. In order to avoid security risk, risks such as fire when it is rented to others, the building is to be continuously used as the headquarters.</p>	As described in the Committee Report, sales policy on three real estates which have headquarters' functions are as follows: (1) Toshin building: To be sold, (2) Shin-saiwaibashi building: To begin the study on the rental scheme, (3) Main building: To be used by TEPCO.	A((1), (3)) B((2))
Sales of Assets	Marketable Securities	2.5	Most of marketable securities will be sold and the amount will be JPY 330.1 billion. At present, marketable securities not sold yet are not negligible, the Corporation needs to monitor whether the sales plan will be steadily achieved.		
		2.5.2	<p>In the TEPCO's streamlining program, TEPCO established the basic idea that TEPCO group's business be limited to the assets and the organizations essential to the electric power business and decided to streamline management and organization structures drastically. In particular, marketable securities will be sold in principle except for the securities essential for the electricity business. Among these, TEPCO plans to sell listing stocks within this year, and regarding unlisted shares, sell mainly profitable shares within this year. Other shares will be also sold as soon as possible in consideration of each business. TEPCO's affiliate companies will be treated as the same.</p> <p>TEPCO originally planned to sell the marketable securities of JPY 270 billion for the next three years, but in consideration of the survey of the Committee, the marketable securities to be sold for the next three years were identified as JPY 330.1 billion, 315 items.</p>	As described in the Committee Report, the Corporation should monitor whether sales plan will be achieved, and in principle, TEPCO will sell the securities equivalent to JPY 330.1 billion within 3 years. Securities owned by TEPCO's subsidiaries should be also sold off within 3 years.	A

Sales of Assets	Subsidiary/affiliated companies	2.5	With regard to business/affiliated companies, TEPCO originally planned to sell them at a value equivalent to JPY 230 billion. Since the estimation criteria were unclear, the task force reconsidered the sales range and reevaluated the price from scratch. As a result the Committee estimates the sales equivalent to JPY 130.1 billion. In addition, based on the discussion with partners on the timing and the percentage of sales of those companies, TEPCO will in discussion with the Corporation, consider the feasibility and the terms and conditions of sales.	As described in the Committee Report, with regard to subsidiary/affiliated companies, (1) TEPCO will sell those companies to be sold within 3 years, (2) TEPCO will also in principle decide within this year whether TEPCO will continue the businesses of companies determined not to be sold.	A((1)) C((2))
		2.6.1.2	While there were time restrictions, business/affiliated companies were classified whether the business is to be continued or not. The Corporation should consider whether such classification fits the foundation of the Special Business Plan and whether there are any unique elements to be considered in classification of each affiliated company such as discussions with partners or exceptional circumstances in the business.		
		2.6,1,3	The eight (8) affiliated companies which must be considered in middle and long term viewpoints should be classified by the Corporation because the final classification needs discussions with partners, and review the business growth after the Special Business Plan has been established.		
			Regarding the timeframe of sales of affiliated companies, TEPCO should sell them within 3 years in principle, including the period necessary for the discussion with buyers and partners. However, if special consideration is required in special circumstances such as the case that they have beneficial roles, the timing of the sale should be judged appropriately.		

Sales of Assets	Incidental business	2.6.2.2	<p>As the result of review on the incidental businesses respectively, the operation plan of incidental business is shown in the below table. There are three categories based on general situations.</p> <p>1) Business which the existing electric power facility is used and substantially unified to electric power business. continued</p> <p>2) The businessscale which should be downsized in the point of the relationship with the electric power business but and are necessary to be continued in relation to outside stakeholders. downsized and continued</p> <p>3) Business which is not necessary to be continued for the electric power business and is not necessary to be continued by TEPCO itself discontinued</p>	<p>As reported in the Committee Report, regarding TEPCO' s incidental businesses,</p> <p>1) gas business and heat (steam) supply business will be continued 2) real-estate rental businesses and energy facility service businesses and consulting businesses will be downscaled, 3) home network businesses and power supply stand businesses are classified as “discontinued operations” and a disposal policy should be prepared.</p>	B
Request cooperation from Stakeholders	Financial institutions	5.1.1	<p>As reported in 4.2.3, TEPCO will request financial institutions to maintain the balance of outstanding debt incurred before March 31 except for the emergency loans for the long period of 10 years.. It should be considered by the Corporation in the process of establishing the Special Business Plan whether this request of cooperation from financial institutions is appropriate. The trial calculation of the above-mentioned consolidated net asset value is based on the fund delivery from the Nuclear Damage Compensation Facilitation Corporation for the compensation payouts. This approach might be controversial, and considerations reflecting the conclusion are also necessary.</p>	<p>As of the end of September, TEPCO has loans totaling JPY 3,815.9 billion, consisting of JPY 3,411.9 billion long-term loans and JPY 404 billion short-term loans, from 66 financial institutions. Regarding the short-term debt, as the result of request for cooperation from financial institutions, these loans will be refinanced when they become due. On the other hand, regarding the long-term debt, TEPCO has repaid it in accordance with loan agreements. Among the loans mentioned above, JPY 1,965 billion are emergency loans from major financial institutions after the earthquake (hereinafter, Emergency Loan).</p> <p>As described in the Committee Report, in order to secure funds for the nuclear damage compensation payouts, TEPCO's basic approach to their debt is to request financial institutions as stakeholders of TEPCO to maintain the long-term credit line by refinancing etc., and to restore the credit outstanding debt amount as of March 2011, as well as to increase credit to cooperate with TEPCO's funding plan. Based on this approach, TEPCO will seek the following forms of cooperation from financial institutions until the comprehensive Special Business Plan is approved.</p> <p>TEPCO requests all related institutions to maintain TEPCO's credit by advancing loans for repayments at the time of the approval of this Emergency Special Business Plan by the relevant ministers. In other words, regarding short-term debt, TEPCO requests refinancing at the same amount in principal. Regarding long-term debt whose due date comes before the approval of a Comprehensive Special Business Plan, TEPCO seeks refinancing of the principal when it becomes due.</p> <p>In order to realize speedy and appropriate implementation of compensation payouts for nuclear damage, TEPCO requests the Development Bank of Japan to establish a credit line (commitment line, etc.) for short-term loan(s) amounting to JPY 300 billion as soon as possible, for purpose of compensation payouts to the afflicted.</p> <p>TEPCO requests major related financial institutions it has a relation with expand the purpose of the Emergency Loan.</p>	A

Request cooperation from Stakeholders	Shareholders	5.1.2	<p>The first request for cooperation to shareholders is not to pay dividends continuously (the period of non-dividends should be decided after the discussion with the Corporation). In this regards, the final dividends of FY2010 were zero, and the interim/final dividends of FY2011 will be also zero.</p> <p>Second, as the result of the review for subscription for shares under the Corporation, if TEPCO needs a capital injection from the Corporation, it would be necessary that shareholders should support the proposal regarding capital injection and stock dilution in a resolution of the shareholders' meeting.</p>	As reported in the Committee Report, TEPCO will continue to not payout dividends for the time being.	A
Business responsibilities	How to fulfill business responsibilities	5.2	<p>It is a matter to be judged in the future with comprehensive consideration of the verification result of the accident investigation and verification committee and the management's handling of the accident, whether or not TEPCO management has legal responsibilities. Before that, however, as TEPCO will receive large amounts of injections of public funds from the Corporation and will call for the cooperation of related parties, TEPCO management should fulfill certain business responsibilities from a moral point of view whether or not TEPCO management has legal responsibilities, and that should be explained in the Special Business Plan.</p> <p>It is preferable that the business responsibilities are fulfilled at TEPCO by means of the resignation or retirement of the Directors, the reduction of the Directors' compensations and the forsaking of the retirement allowances of the Directors etc. The adequacy and the reasonability of those means should be a matter for the Corporation to judge.</p> <p>In terms of the clarification of the business responsibilities in TEPCO, the President and the Executive Vice President in charge of nuclear power at the time resigned in June 2011 and the Directors' remunerations have been cut by 50% for April and by 100% for May and after (for the Representative Directors), by 40% for April and by 60% for May and after (for the Managing Directors), by 40% for April and after (for Executive Officers) . However, TEPCO should seriously consider how to fulfill further business responsibilities with the Corporation according to the future situation.</p>	The current reduction of the Directors' remunerations will be continued. How to clarify further business responsibilities including the resignation of the Directors and the waiver of the retirement allowances of the Directors will be concluded in "the Comprehensive Special Business Plan".	—

Following items, which are not mentioned in the report by independent committee, are also examined on duty of the Nuclear Damage Compensation Facilitation Corporation and TEPCO.

Item		Report		Response Policy	Classification
Item name	Content	Chapter	Description		
Sales of assets	Assets for electric power business	Not mentioned in the report	—	In view of stable supply and economic reasonableness, TEPCO will consider some options such as sales of assets for the electricity business (power facilities).	C
Strategic business development	Future business deployment	Not mentioned in the report	—	In order to conduct strategic business development (securing interest of natural resources, smart meters, etc), TEPCO will ask for the recommendation of new business plans from outside as well, and will consider concrete measures such as implementing a good proposal.	C