Meeting Transcript (Presentation)

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Event Name: TEPCO Investor Meeting for FY2015 Second Quarter Earnings Results

Corporate Participants:

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Presentation

Seiichi Fubasami Tokyo Electric Power Company, Inc., Managing Executive Officer

We sincerely apologize that the accident occurred at our Fukushima Daiichi Nuclear Power Station still cause anxiety and worry to our shareholders and investors as well as people in the areas around the power station.

In this material, I would like to explain second quarter earnings results for the fiscal year ending March 31, 2016 (fiscal 2015) that TEPCO has just announced. First of all, I would like to cover summary of our earnings results on slide 2 and 3.

<Slides 1 through 3 – Key Points of FY2015 2nd Quarter Earnings Results>

First, I will cover operating revenues. Consolidated and non-consolidated operating revenues decreased 6.2 percent year on year to 3,128.1 billion yen and 6.4 percent to 3,050.0 billion yen, respectively, mainly due to a decline in the unit electricity sales price resulting from the fuel cost adjustments.

Regarding expenses, in spite of the suspension of all nuclear power stations, while using less expensive fuel as well as decrease in fuel price limited the influence of increasing fuel expenses resulting from yen depreciation, extensive cost reduction efforts on a company-wide level were implemented. Consequently, consolidated and non-consolidated ordinary incomes recorded 365.1 billion yen and 338.4 billion yen, respectively.

For the second quarter earnings, while expenses for nuclear damage compensations of 465.2 billion yen were recorded as extraordinary loss, TEPCO also recorded extraordinary income from grants-in-aid from Nuclear Damage Compensation and Decommissioning Facilitation Corporation of 426.7 billion yen. As a result, TEPCO recorded net income of 279.4 billion yen and 258.8 billion yen on consolidated and non-consolidated basis, respectively.

Please return to slide 1. Fiscal 2015 full-year earnings forecast has been left as “to be determined”, because the present situation makes it difficult to release an operation plan for Kashiwazaki-Kariwa Nuclear Power Station. We will announce the projection as soon as we are in a position to do so.

Please go on to the slide 4.

<Slide 4 – FY2015 2nd Quarter Electricity Sales Volume, Total Power Generated and Purchased>

This slide shows electricity sales volume and total power generated and purchased. Total electricity sales volume decreased 2.5 percent year on year to 123.6 billion kWh. This is mainly due to decline in demand of liberalized segment resulting from the delayed recovery of production level.

Detailed data of electricity sales volume and total power generated and purchased are provided on slide 23 and 24. Please go on to slide 5.

<Slide 5 – Key Factors Affecting Performance >

Slide 5 presents fluctuation of foreign exchange rate, crude oil prices and LNG prices for the first half of FY2015 and that of FY2014. The yen kept weakening by approximately 19 yen from the corresponding period of FY2014. Also, crude oil prices and LNG prices decreased approximately 50 dollar/barrel and approximately 40 dollar/barrel on a year-on-year basis, respectively.

Please see the slide 6.

<Slide 6 and 7 – The Status of Income and Expenditure >

The electricity sales revenues of the second quarter of FY2015 decreased 233.3 billion yen, 7.9 percent year on year to 2,723.5 billion yen. This is mainly resulted from approximately 256.0 billion yen decrease in fuel cost adjustments and approximately 69.0 billion yen decline in electricity sales volume, despite of 80.6 billion yen increase in energy power promotion surcharge.

Please see the slide 7. Fuel expenses on the second line from the top decreased 434.0 billion yen, 33.7 percent year on year to 851.9 billion yen.

- As for positive factors, there were approximately 475.0 billion yen decrease in expenses due to decline in crude oil price and LNG price.
- Furthermore there was approximately 72.0 billion yen decrease in expenses as the result of decline of the thermal power generation.
- On the other side, one of the negative factors was the depreciation of yen. This yen’s depreciation led to approximately 113.0 billion yen increase in expenses.

As a result, fuel expenses for the second quarter has recorded the lowest level since the Fukushima accident.

Next, maintenance expenses in the third line from the top increased 27.5 billion yen, 21.3 percent to 157.2 billion yen compared with the corresponding period of FY2014. This is mainly due to increase in expenses for contaminated water management at Fukushima Daiichi Nuclear Power Station and expansion of introduction of smart meters despite the utmost cost reduction effort.
In addition, power purchasing costs on the fifth line and other expenses on the ninth line increased, mainly due to 1.6 times in the amount of purchases from photovoltaic power generation facilities on a year-on-year basis.

- Power purchasing costs increased 53.1 billion yen due to increase in purchasing cost from photovoltaic power generation facilities.
- Other expenses increased with the effect of 80.6 billion yen increase in payment of Act on procurement of renewable electric energy.

Please see the slide 8.

<Slide 8 – Increase/Decrease of Consolidated Business Performance>

This slide provides a breakdown of the factors leading to fluctuation in consolidated ordinary income since the corresponding period in FY2014.
Of the factors which resulted in a significant increase in earnings for the first half, 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 since the second half of FY2014, was reflected in electricity sales revenue certain months after the fuel cost adjustments.
In other words, while the decline in fuel prices immediately leads to decrease fuel expenses, the impact reflects in the electricity sales revenue through the fuel cost adjustments three to five months later than the fuel price decline. In this first half, the time lag is estimated to contribute to approximately 221.0 billion yen increase in profits.

Please look at the slide 9.

<Slide 5 – Extraordinary Income/Loss>

This slide shows year on year extraordinary income and loss.
First, for the extraordinary income, TEPCO recorded grants-in-aid from Nuclear Damage Compensation and Decommissioning Facilitation Corporation of 426.7 billion yen due to applications for financial assistance in June 2015.
Next, as for extraordinary loss, TEPCO recorded the expense for nuclear damage compensation of 465.2 billion yen, mainly due to increase in the estimated amount of compensation for opportunity losses on businesses, damages due to groundless rumor and additional compensation for mental distress.

Please see the slide 10.

<Slide 10 – Consolidated Financial Position>

This slide illustrates financial position on consolidated basis. Equity ratio improved 1.9 points to 16.5 percent mainly due to decline in interest-bearing debt and net income recorded.
Next, please go on to the slide 11.

<Slide 11 – Consolidated Cash Flow>

This slide shows the overview of consolidated cash flow.

<Supplemental Material (After slide 12)>

The following slides introduce detailed information in fiscal 2015 second quarter earnings results (slides 12 through 27), implementation of the streamlining policy, our efforts towards Nuclear Reform, new company brand after the transition to a holding company system, operational alliances in retail sector (slides 28 through 32), the current status and the future initiatives of Fukushima Nuclear Power Station (slides 33 through 38), and the current status and future efforts of Kashiwazaki-Kaiwa Nuclear Power Station (slides 39 through 42).

Please move to slide 28.

<Slide 28 – Implementation of the Streamlining policy>

In the New Comprehensive Special Business Plan, TEPCO set the numerical targets of cost reduction. The Productivity Doubling Committee established in September 2014 works to accelerate activities for doubling TEPCO's productivity directed by Mr. Uchikawa, Special Advisor of TEPCO, who was a former managing director at Toyota.
Please go on to the slide 31.

<Slide 31 – TEPCO Group Company Branding for the new Holding Company System>

TEPCO will make the transition to a holding company system in April 2016, aiming to optimize entire TEPCO Group through adopting the independent account for each business subsidiary, clarifying responsibility as well as proceeding to develop each subsidiary's business.

As preparation of the transition, a new brand for TEPCO Group was released. The new brand slogan is "The Energy for Every Challenge". "Challenge" signifies our determination to survive in the competition while fulfilling our responsibilities. "Energy" represents not only our business domain of electricity or gas, but also our passion and power to support each person's challenge in society.

Next please look at slide 32.

<Slide 32 – Operational Alliance with Other Companies in Retail Sector>

There is only 5 months left till the beginning of full liberalization in April 2016. TEPCO hopes to be continuously a company chosen by customers in a new competitive era of energy industry.
As shown in slide 32, TEPCO will win out over the competition and increase TEPCO's corporate value through operational alliances with various companies with which a synergistic effect can be generated while having an affinity with electric power.

<In the end>
The factors which recorded a large profit for this first half is mainly due to a "systematic time lag" resulting from the fuel cost adjustments.
On the other hand, it is estimated that expenses in the second half of fiscal 2015 will drastically increase compared to the first half considering the factors that;

- there will be larger amount of expenses for maintenance and business outsourcing to be recorded in the second half than that in first half as there tends to be more receipt of goods or services contracted at the end of a fiscal year, and
- there are expenses to be recorded en bloc on the forth quarter such as special contribution.

Also, judging from the current movement of fuel prices, the same level of revenues with the effect of systematic time lag as this first half cannot be expected. Accordingly, the environment involving us remains severe.
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 public bond market as planned.
Additionally, the strong sense of responsibility and commitment will be never forgotten even after the company split-up. TEPCO pledge to pursue robust innovations that will address the needs of our customers and business partners as well as stable power supply. Retaining our new company brand slogan "The Energy for Every Challenges", we are committed to achieve difficult challenges such as fulfillment of responsibility for Fukushima and survival in the competition.

I would like to sincerely ask your understanding and support.

<End of Presentation>

Disclaimer:
In the meeting upon which this event transcript is based, Tokyo Electric Power Company may make projections or other forward-looking statements regarding a variety of items. As such, these statements are not historical facts but rather predictions about the future, which inherently involve risks and uncertainties, and these risks and uncertainties could cause the company's actual results to differ materially from the forward-looking statements (performance projections) herein. Although the company may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

(Note)
Please note that the above to be an accurate and complete translation of the original Japanese version prepared for the convenience of our English-speaking investors. In case of any discrepancy between the translation and the Japanese original, the latter shall prevail.