Meeting Transcript (Presentation)
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Corporate Participants:

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Presentation

Naomi Hirose Tokyo Electric Power Company Holdings, Inc., President

On April 1, 2016, TEPCO introduced a holding company system, under which our three core business division companies will work to strengthen their business management and competitiveness under Tokyo Electric Power Company Holdings, Incorporated.

Our group employees are coming together to fulfill our responsibilities to Fukushima while also aiming to win out against the competition and improve our corporate values.

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

First, I will cover operating revenues. Consolidated and non-consolidated operating revenues decreased 10.8 percent year on year to 6,069.9 billion yen and 11.1 percent to 5,896.9 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 cost increase factors including the suspension of all nuclear power stations and the depreciation of the yen, as a result of the extensive cost reduction efforts for all of TEPCO that continued from the previous year as well as decreased fuel costs due to the low price of crude oil, consolidated and non-consolidated ordinary incomes recorded 325.9 billion yen and 327.5 billion yen, respectively, resulting in profits for the third consecutive year.

For the net income, while extraordinary income from grants-in-aid from Nuclear Damage Compensation and Decommissioning Facilitation Corporation and gain on revision of retirement benefit plan were recorded, TEPCO also recorded expenses for impairment loss with the aim of restructuring our business base, as well as nuclear damage compensations as extraordinary loss. As a result, TEPCO recorded net income of 140.7 billion yen and 143.6 billion yen on consolidated and non-consolidated basis, respectively.

As to FY2016 full-year earnings forecasts, please return to slide 1. FY2016 full-year earnings forecasts 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, all the plants of which are currently offline. We will announce the projections as soon as we are in a position to do so.

I will explain dividend policy. There was no revision from the projection. We decided not to pay out year-end dividend for FY2015 and plan no interim and year-end dividends for FY2016. We deeply apologize for dividends and we sincerely ask for your understanding of and cooperation with our future efforts.

<Slide 4 – Power Demand and Supply>

This slides shows electricity sales volume and total power generated and purchased.

Total electricity sales volume decreased 3.9 percent year on year to 247.1 billion kWh. This is mainly due to decline in demand of liberalized segment.

Detailed data of electricity sales volume and total power generated and purchased are provided on slides 25 and 26.

<Slide 5 – Key Factors Affecting Performance>

Slide 5 presents fluctuation of foreign exchange rate, crude oil prices and LNG prices for FY2015 and FY2014.

The yen kept weakening by approximately 10 yen from FY2014. Also, oil prices and LNG prices decreased approximately 40 dollar/barrel on a year-on-year basis.

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

The electricity sales revenues of FY2015 decreased 770.7 billion yen, 12.8 percent year on year to 5,237.0 billion yen.

This is mainly resulted from

- Approximately 211.0 billion yen decrease in electricity sales volume (approximately 10 billion kWh decline)
- Approximately 745.0 billion yen decrease in fuel cost adjustment
- 167.0 billion yen increase in renewable energy power promotion surcharge

Please see slide 7.

Fuel expenses on the second line from the top decreased 1,035.5 billion yen, 39.1 percent year on year to 1,615.4 billion yen. The decline in fuel expenses more than 1,000 billion yen year-on-year basis is the first time for TEPCO. Fuel expenses for FY2015 also recorded the lowest level since the Fukushima accident.

The major reasons for the large decrease in fuel expense are:

- From a consumption perspective, the reduction in the volume of power produced by thermal power stations which has resulted in a decrease in fuel expenses of approximately 170 billion yen.
- From a pricing perspective, the impact of fluctuations in foreign exchange and CIF which led to a decrease in fuel expenses of approximately 866.0 billion yen. To break down these figures further, the fall in the price of crude oil and LNG, as I mentioned above, resulted in a decrease in costs of approximately 990.0 billion yen, but the influence of the depreciation of the yen actually increased our costs by approximately 124.0 billion yen.

The significant reduction in fuel expenses is not only down to the decrease in fuel unit costs, but also because the Thermal Power Division has made continual, incremental efforts to reduce the periodic inspection period at thermal power stations such as coal fired thermal power stations and high-efficiency LNG thermal power stations which are utilized as the economically-superior base-load thermal power, and these efforts have borne fruit.

As a result of these incremental kaizen efforts, we have achieved a 40 percent reduction in periodic inspection period compared to the prior fiscal year.

Next, maintenance expenses in the third line from the top increased 11.6 billion yen year on year to 389.9 billion yen. This is mainly due to increase for contaminated water management and decommissioning at Fukushima Daiichi Nuclear Power Station, and expansion of introduction of smart meters despite the utmost cost reduction effort.

In addition, other expenses on the fourth line from the bottom increased, mainly due to 1.6 times in the amount of purchases from photovoltaic power generation facilities on a year-on-year basis. As a result, Payment of Act on procurement of renewable electric energy increased 167.0 billion yen.
For your information, general contribution of 56.7 billion yen and special contribution of 70.0 billion yen to Nuclear Damage Compensation and Decommissioning Facilitation Corporation were recorded as other expenses, which were the same amount and 10.0 billion yen increase compared with FY2014, respectively.

<Slide 8 – Increase/Decrease of Consolidated Business Performance (Year-on-Year) >

This slide illustrates breakdown of the fluctuation of consolidated ordinary income from FY2014. TEPCO estimates that the major reason that our current balance is significantly positive is, the same as in the third quarter, the influence of fuel cost adjustments. TEPCO also estimate that this is due to the results of the fully engaging in the kaizen activities such as the reduction in periodic inspection period etc., as mentioned above.

<Slide 9 – Extraordinary Income/Loss (Consolidated)>

This slide shows extraordinary income and loss for FY2015 and FY2014.

First, for the extraordinary income, TEPCO recorded grants-in-aid from Nuclear Damage Compensation and Decommissioning Facilitation Corporation of 699.7 billion yen due to applications for financial assistance in June 2015 and March 2016.

Also, TEPCO recorded gains on revision of retirement benefit plan of 61.0 billion yen and gain on change in equity of 12.2 billion yen, respectively.

Next, as for extraordinary loss, TEPCO recorded the expense for nuclear damage compensation of 678.6 billion yen, mainly due to increase in the estimated amount of compensation for opportunity losses on business, damages due to groundless rumor. TEPCO also recorded impairment loss of 233.3 billion yen, with the aim of restructuring our business base so as to compete in challenging circumstances after the deregulation of all the retail sectors and our transition to a holding company system.

Under the previous integrated system of power generation, transmission and distribution, and sales, and fully distributed cost method, the recovery of all investment in power stations was systematically guaranteed.

However, in order to build the competitive foundations required to survive the tough market environment, we have assessed future profitability on the basis of power transaction contracts among group companies and decided to write down the investment in some of the older power stations and pump-storage hydroelectric power stations where investment recovery is deemed difficult.
Specifically, we have written down total of 44.8 billion yen for nine thermal-power stations including four power stations such as Goi and Oi which began a planned long-term outage in April, 2016 while also writing down 187.6 billion yen for three hydroelectric power stations including the Kannagawa Power Station, a pumped-storage hydroelectric power station.

Please note that these write-downs are simply an accounting write-down of the facility's book value, and the power stations themselves will not be removed from operation.

<Slide 10 – Consolidated Financial Position>

This slide illustrates financial position on consolidated basis. Equity ratio improved 1.5 points to 16.1 percent mainly due to decline in interest-bearing debt and net income recorded. For your information, non-consolidated equity ratio improved 1.6 points to 13.7 percent.

<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 earnings results (slide 12 through 29), the current status and future initiatives of Fukushima Nuclear Power Station (slide 30 through 35), the current status and future efforts of Kashiwazaki-Kariwa Nuclear Power Station (slide 36 through 39), and implementation of the streamlining policy and our efforts towards Nuclear Reform (slide 40 through 42).

<Slide 40 – Implementation of the streamlining policy>

Across the company, we have all been making an effort to engage in more streamlined management through efforts including the reduction of purchasing prices and our purchasing reform, and as a result of these efforts, in FY 2015, we were able to achieve cost reductions of 596.6 billion yen, exceeding our target value of 356.8 billion yen.

In January, 2015, we also invited former Toyota Motor Company senior executive officer Susumu Uchikawa as a special advisor, and he has been instructing us on Toyota's kaizen methods.

As mentioned above, we are working to improve our periodic inspection procedures for thermal power stations. Workflow improvements focus on the preparation required before stopping the generator and working as far as possible to carry out other tasks in parallel while the generator is stopped, and we are also working on improving the execution of each individual task. These efforts are beginning to show themselves numerically in our shorter inspection periods.

We have also received wide-ranging advice from Mr. Uchikawa on everything from the efficiency of work on distribution facilities such as the replacement of transformers down to the improvement of desk work procedures. We are continuing to work together as a TEPCO group to try and double our productivity.

<In the end>

In order to fulfill our responsibility for the accident at the Fukushima Nuclear Power tations, TEPCO needs not only to thrive in the new competitive environment but also to build a robust business foundation that will allow us to fulfill our responsibilities over the long-term.

It is for this among other reasons that during the current fiscal year we need to make sure that the TEPCO Power Grid, Inc., which is projected to secure a stable current balance and cash flow, starts selling corporate bonds. The details of the bond issuance, including the amount and the timing, will be optimized in accordance with market conditions based on the TEPCO Power Grid's capital needs.

At the end of the current fiscal year, the Nuclear Damage Compensation and Decommissioning Facilitation Corporation is scheduled to conduct "Evaluation of Management regarding Responsibility and Competition." We have a large number of issues to address including the acceleration of the pace of reconstruction in Fukushima as well as strengthening the competitiveness of our business.

We are determined to overcome these difficult obstacles, and are doing all we can to take the lead and move forwards under our slogan of "Energy for Every Challenge."

<End of Presentation>