Meeting Transcript (Presentation)
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Corporate Participants:

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Presentation

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

【Introduction】

- We wish to offer our sincere apology to local residents and society at large for serious inconveniences and concerns caused by the cable tunnel fire and resulting massive blackout on October 12.
- To prevent recurrence of such an accident, we have set up an 'Accident Investigation Committee' involving external experts at TEPCO Power Grid and a meeting will be held on November 4 to identify the cause of the accident, and conduct reliability assessment of urban power grids.

【Financial Results / Slides 1 – 2 / Key Points】

- In this quarter, TEPCO registered the consolidated operating revenues of 2,643.3 billion yen, down 15.5% year on year, due to a drop in the unit price of electricity resulting from the fuel cost adjustment system.
- While all nuclear reactors remain shut down, we managed to secure the ordinary income of 274.2 billion yen and it achieved profits for the fourth consecutive year, due to a substantial reduction in fuel costs thanks to the decline in fuel prices and the appreciation of the Japanese yen, as well as our Group-wide cost reduction efforts, e.g. keeping the consumption of relatively expensive fuels low.
- The registration of nuclear damage compensation expenditures as extraordinary loss has brought this quarter's net income to 94.1 billion yen and it achieved profits for the fourth consecutive year similarly to the ordinary income result.
- Please go back to Slide 1.
- This fiscal year's financial forecasts is still 'to be determined.' We will inform you of our official forecasts as soon as conditions allow.
- The reference material makes no mention of dividend. Regrettably, as initially predicted, there will be no dividend payment at the end of the second quarter. No dividend payment is also anticipated at the end of this fiscal term.

【Financial Results / Slide 3 / Electricity Sales Volume and Key Factors Affecting Performance】

- Now, let me talk about electric sales volume and key factors affecting performance.
- The decline in electricity demand etc. reduced the amount of electricity sales volume by 3.3% year on year to 119.6 billion kWh.
- Please refer to Slide 22 for detailed data on electricity sales volume.
- The bottom part shows the foreign exchange rate and the prices of crude oil and LNG.
- The value of the Japanese yen has climbed by 16 yen and over from the same period last year.
- The prices of both crude oil and LNG have dropped by 15 US dollars and over compared to the same period last year.

【Financial Results / Slide 4 and 5 / Status of Revenues and Expenses】

- Here is the breakdown of revenues and expenses.
- Similarly to the results of the first quarter, I am presenting these figures, including year-on-year comparisons, based the combined total of four companies that made up the former TEPCO's non-consolidated figure.
- The total of revenues and expenses, on the other hand, is presented as consolidated results, reflecting the performance of subsidiaries and affiliated companies.
- Slide 4 shows the details of revenues.
- The revenue from electricity sales, shown in the second line, totaled 2,211.8 billion yen, down 18.8% and 511.6 billion yen from the same period last year.
- Similarly to the first quarter, the major reasons for this are:
  - ・Approximately 473.0 billion yen decrease compared to the same period last year due to a fall in the unit price of electricity resulting from fuel cost adjustment system
  - ・Approximately 75.0 billion yen decrease in electricity sales volume (approximately 4.1 billion kWh decline)
- The revenue from electricity sales is added with 315.2 billion yen in 'Other Revenues' in the sixth line, half of which represents 'Grant under the Act on Procurement of Renewable Electric Energy', and has 87.8 billion yen in 'Subsidiaries / Affiliated Companies' in the eighth line reflected to come to the ordinary revenues of 2,677.1 billion yen, down 15.4% or 486.5 yen from the same period last year.
- Take a look at Slide 5 on expenses.
- Similarly to the first quarter, with the exception of the increase in 'Other Expenses' due to the increase of payment under the Act on Procurement of Renewable Electric Energy in the ninth line, we managed to reduce all expense items thanks to continuous efforts for cost reduction.
- I would like to explain about the 'Fuel Expenses' in the second line, which registered the largest scale of reduction.
- The substantial drop in crude oil price reduced the fuel expenses for this quarter to 496.2 billion yen, which is 41.8% or 355.7 billion yen lower than the same period last year, when the fuel expenses hit the previous record low since the Great East Japan Earthquake.
- Reasons for the significant drop in fuel expenses are as follows:
  - ・As shown in the bottom part of Slide 3, the exchange rate for the Japanese yen climbed by

16 yen and over. In addition, the prices of both crude oil and LNG dropped by 15 US dollars and over from the same period last year.

- The operation launch and priority operation of high-efficiency thermal power plants increased the thermal efficiency of thermal plants as a whole by 0.9%, which brought down the unit price of power generation. This led to reduced pricing load of 332.0 billion yen.

- The reduced amount of thermal power generation also resulted in the savings of 24.0 billion yen, bringing expenses below the 500 billion-yen level for the first time in decades.
- This figure as added with 68.2 billion yen in ‘Subsidiaries / Affiliated companies’ to obtain ordinary expenses totaling 2,402.9 billion yen, down 14.1% or 395.7 billion yen year-on-year.
- Once again, the highlights of our current balance are as follows:
  - The revenues from electricity sales dropped due to a fall in the unit price of electricity resulting from fuel cost adjustment system as well as the decline in the amount of electricity sales volume.
  - As to the expenses, due to the substantial drop in fuel expenses thanks to the reduction in the prices of crude oil and LNG, as well as continuous efforts for cost reduction, the ordinary income came to 274.2 billion yen and achieved profits for the fourth consecutive year.
- However, this quarter’s ordinary income includes the positive effect of time-lag in the enforcement of the fuel cost adjustment system. In view of the imminent increase of fuel prices, the second half of this year cannot anticipate the level of positive effect experienced in the first half.
- In the second half of the year, we must also make our special contribution to a pool of compensation funds, as well as account for substantial expenses for maintenance and business outsourcing. In any event, continued efforts will be made to improve the balance of revenues and expenses, including all-out efforts for greater cost reduction.

【Financial Results / Slide 6 / Extraordinary Income and Loss (consolidated)】

- No fund was received from the Nuclear Damage Compensation and Decommissioning Facilitation Corporation as we made no request for funding assistance this quarter. However, extraordinary income of 36.4 billion yen was registered as a gain on change in equity following the transfer of the thermal fuel business and overseas power generation business to JERA in July.
- Extraordinary loss of 168.5 billion yen was registered for nuclear damage compensation.

【Financial Results / Slide 7 / Consolidated Fiscal Position】

- The equity ratio as of the end of the second quarter was 17.4%, 1.3 point improvement from the end of March, due to a reduction in interest-bearing debt and registration of quarterly net profit.

【Supplementary Materials（Slide 8 onwards）】

- Slide 8 onwards is supplementary materials.
- These slides provide information about detailed financial results for the second quarter of the

fiscal year ending in March 2017 (Slides 8 – 24), current status and initiatives in place at the Fukushima Daiichi Nuclear Power Station (Slides 25 – 28), current status and initiatives in place at the Kashiwazaki Kariwa Nuclear Power Station (Slides 29 – 32) and other management streamlining measures and nuclear reform initiatives (Slides 33 – 35).

- Slide 36 covers corporate value improvement initiatives by TEPCO Holdings and its core operating companies, including alliances with other companies, as mentioned in a recent press release.

【Conclusion】

- The current status of the issuance of company bonds is as follows:
- The specific timing for issuing the bonds is to be determined based on our revenue – expense balance and the status of fund availability. Since the debate on developing the environment for the nuclear business is due to be summarized by the end of this year, we are considering issuing the bonds after January next year and by the end of this fiscal year.
- In examining the bond’s issuance value, term and other details, we plan to achieve smooth and sustainable bond issuance in view of funding needs, market conditions and the status of consultation with rating agencies.
- In addition to making a decision on integrating existing thermal power operations to JERA this fiscal year, we will continue to promote collaboration and realignment in various fields and industries to completely transform our business model, e.g. using IoT technology and big data to develop more advanced electricity networks, and using energy saving technology to improve the value of energy use.
- Through these initiatives, TEPCO will strive to expand revenues to maximize its corporate value, make utmost efforts to fulfill responsibility and stay competitive at the same time, and meet the evaluation criteria of “Evaluation of Management regarding Responsibility and Competition” conducted by Nuclear Damage Compensation and Decommissioning Facilitation Corporation.

END

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(Note)

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