

Chapter summary

Sales increased due to higher net system energy demand in FY 2008. However, as a result of rising fuel costs caused by soaring prices and drought, we witnessed a decline in profit for the first time in two years. The financial data clearly outlined HEPCO's efforts to secure the amount of capital investment necessary to ensure a stable power supply and enable lower electricity rates. Under the Mid-Term Management Policy (FY 2009 – 2011), we are making every effort to restore public trust and improve the infrastructure of electric power supply systems.

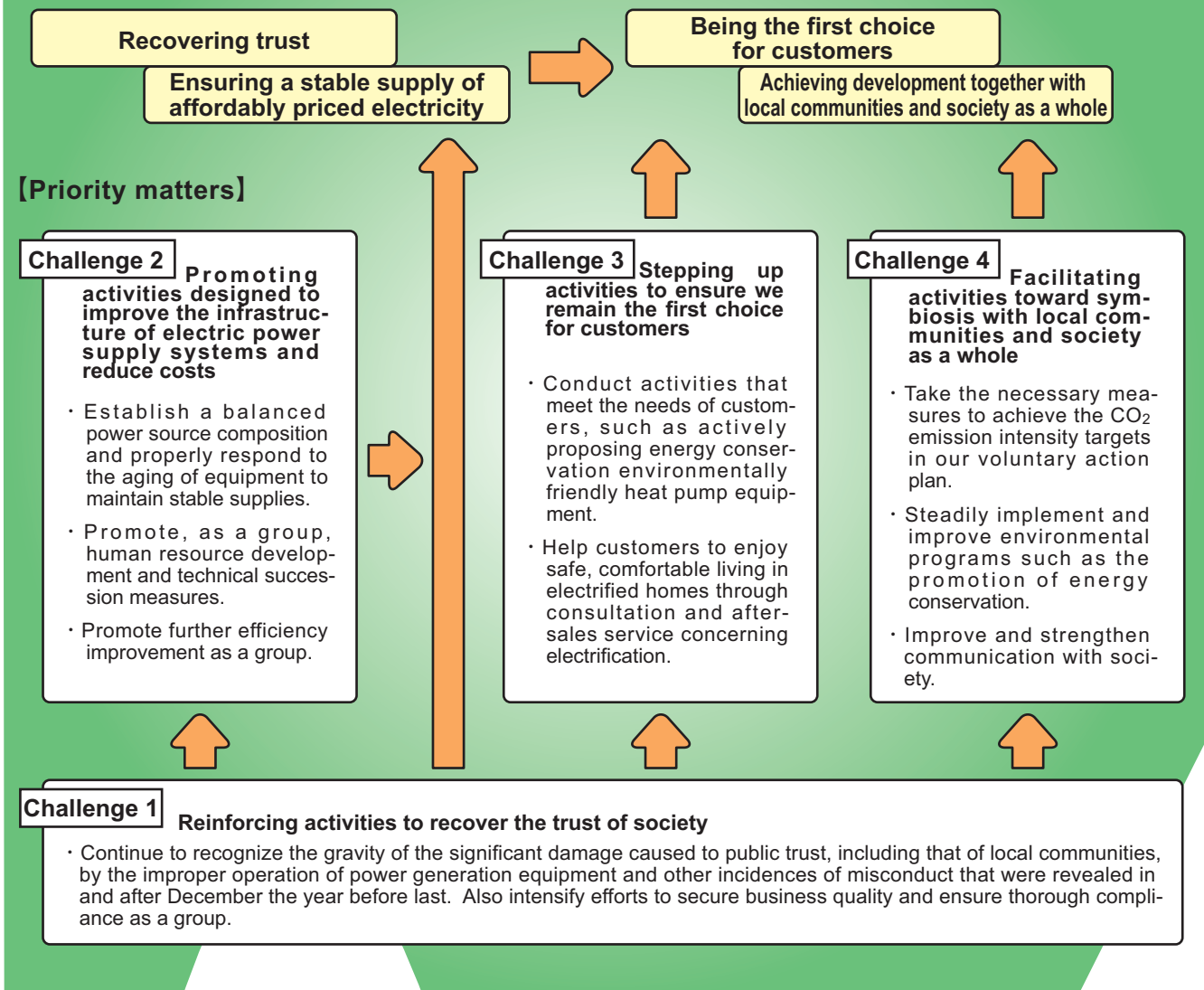
Mid-Term Management Policy (FY 2009 – 2011)

Amid the changing business environment surrounding the HEPCO Group (such as soaring prices for oil and other fuels and worsening global environmental problems), we have established a new Mid-Term Management Policy (FY 2009 – 2011) to represent the guiding principles of our business operation for the next three years. The policy has four goals: 1. recovering customer trust; 2. improving the infrastructure of electric power supply systems and reducing costs; 3. ensuring that we remain the first choice for customers; 4. achieving symbiosis with local communities and society as a whole. We will make every effort to achieve these goals from FY 2009 onward.

- Significant loss of trust due to improper operation of power generation equipment, etc.
- Environmental problems such as global warming
- Skyrocketing costs of resources and energy, such as oil prices

2008 – 2010

We will make every effort to recover the trust of local communities and society as a whole. We also plan to reinforce the foundations of electric power supply systems by, for example, starting the commercial operation of Tomari Power Station Unit No. 3 according to schedule.



Outline of Business Performance in FY 2008

Demand

Residential, commercial and industrial demand increased by 2.0% thanks to the enhanced popularity of all-electric homes and increased heating demand due to lower wintertime temperatures than in the previous year.

Specified-scale demand increased by 3.7% due to the new opening of large-scale retail stores, favorable productive activities in the iron and steel/paper and pulp industries, and the changeover from private power generation to power purchasing because of soaring oil prices. As a result, net system energy demand rose by 3.0%.

Supply

The water flow rate in the current fiscal year was 90.4%, which was lower than average. The utilization factor of Date Thermal Power Station decreased due to the stoppage of fuel pipelines, and in September last year the operation of Tomari Power Station Unit No. 1 was suspended due to the failed activation of its emergency

diesel power generator. However, we maintained a stable supply by increasing the operation of other thermal power stations.

Balance

● Earnings

Despite the effects of a reduction in electricity rates as of July 1, 2006, earnings from residential, commercial and industrial electricity rose by 9.2 billion yen (1.8%) due to an increase in net system energy demand. Total ordinary revenue, including other income, increased by 9.1 billion yen (1.7%).

● Expenses

Personnel expenses decreased by 16.6 billion yen (-21.5%) due to a reduction in the retirement allowance. Fuel costs and charges for purchased electricity increased by 39.2 billion yen (28.4%) because of skyrocketing fuel prices, an increase in net system energy demand and drought. Maintenance expenses increased by 6.2 billion yen (9.2%), due in part to the increased number of units undergoing regular inspections at thermal power stations. Depreciation costs increased by 1.9 billion yen (3.1%) because of tax system revisions, despite

the depletion effect of fixed-rate depreciation. Interest expenses decreased by 0.1 billion yen (-1.3%) because of the early repayment of high-interest-rate liabilities. Despite our efforts to enhance the efficiency of overall management, other expenses increased by 3.2 billion yen (2.7%) due to an increase in commission charges. As a result, total ordinary expenditure rose by 33.9 billion yen (7.0%).

● Profits

The results outlined above combined to cause a decrease of 24.7 billion yen (-45.4%) in ordinary income to 29.7 billion yen. We recorded support expenses for the dissolution of the operations of associated companies and the amount of underfunded allowance for the dismantling of nuclear power generation facilities following legal changes to the reporting of extraordinary losses. Accordingly, post-tax current net income decreased by 18.0 billion yen (-53.7%) to 15.5 billion yen.

■ Net system energy demand

(Unit: million kWh)

		FY 2008 (A)	FY 2007 (B)	Change (A) - (B)	Year-on-year variation (%) (A) / (B)
Other than specified-scale demand	Residential	11,795	11,640	155	101.3
	Commercial and industrial	2,293	2,168	125	105.8
	Total	14,088	13,808	280	102.0
Specified-scale demand		18,357	17,704	653	103.7
Total		32,445	31,512	933	103.0

■ Amount of electricity supplied

(Unit: million kWh)

		FY 2008 (A)	FY 2007 (B)	Change (A) - (B)	Year-on-year variation (%) (A) / (B)
HEPCO	(Water flow rate %)	(90.4)	(103.9)	(△13.5)	
	Hydroelectric power	3,063	3,517	△454	87.1
	Thermal power	18,955	17,154	1,801	110.5
	(Utilization factor %)	(89.7)	(93.0)	(△3.3)	
	Nuclear power	9,122	9,437	△315	96.7
Total		31,140	30,108	1,032	103.4
Electricity from other utilities		5,245	5,241	4	100.1
Interchanged power		△60	△48	△12	125.5
For pumping		△65	△67	2	96.7
Total		36,260	35,234	1,026	102.9

Note: Previously erroneous figures regarding electricity from other utility companies and interchanged power in FY 2007 have been corrected.

■ Balance comparison chart

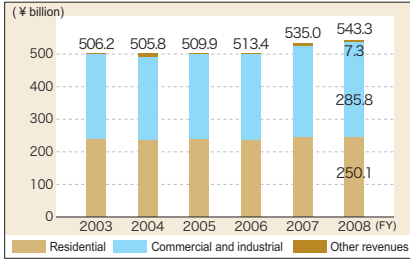
(Unit: ¥ million)

		FY 2008 (A)	FY 2007 (B)	Change (A) - (B)	Year-on-year variation (%) (A) / (B)
Ordinary revenue	Residential	250,120	248,606	1,513	100.6
	Commercial and industrial	285,895	278,112	7,782	102.8
	(Subtotal)	(536,015)	(526,719)	(9,296)	(101.8)
	Other	10,424	10,534	△109	99.0
	[Sales]	[543,345]	[535,003]	[8,341]	[101.6]
	Total	546,440	537,254	9,186	101.7
Ordinary expenditure	Personnel	60,620	77,223	△16,602	78.5
	Fuel and electricity purchased	177,619	138,330	39,289	128.4
	Maintenance	74,482	68,225	6,256	109.2
	Depreciation	64,703	62,765	1,938	103.1
	Interest due	13,172	13,349	△176	98.7
	Other	126,070	122,802	3,268	102.7
Total		516,669	482,696	33,973	107.0
[Operating income]		[41,116]	[69,386]	[△28,270]	[59.3]
Ordinary income		29,770	54,557	△24,787	54.6
Provision for (reversal of) reserve for fluctuations in water level		△2,292	1,320	△3,612	—
Extraordinary loss		7,055	—	7,055	—
Pretax current net income		25,008	53,237	△28,229	47.0
Income tax		9,430	19,581	△10,151	48.2
Current net income		15,577	33,655	△18,078	46.3

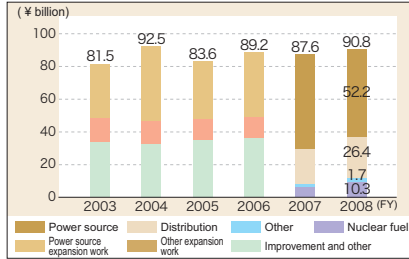
Operating income refers to the income that a company earns from its main business, while ordinary income refers to the income from ordinary continuous activities, including its main business. Current net income refers to the income that ultimately remains in the company after subtracting a range of costs, extraordinary profits and losses, taxes, etc.

Financial Data

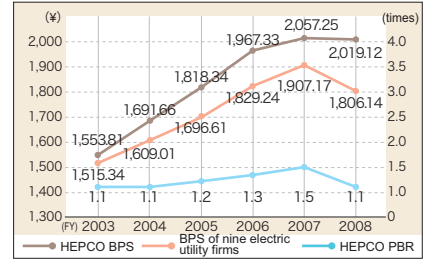
Changes in sales



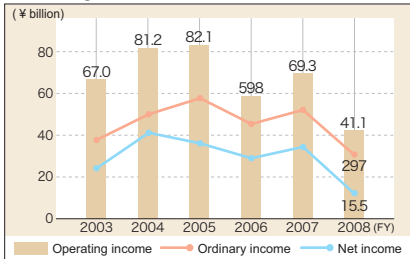
Changes in capital expenditure



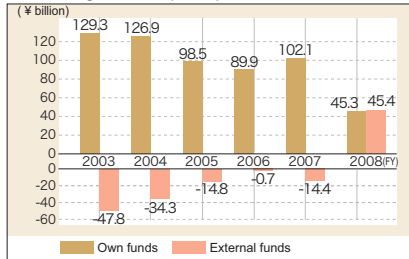
Book Value Per Share (BPS) and Price Book Value Ratio (PBR)



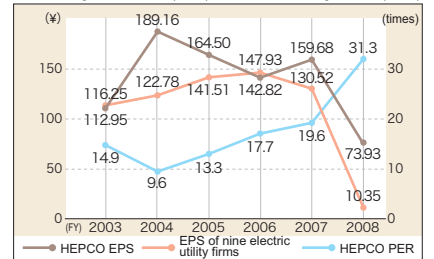
Changes in income



Changes in capital procurement



Earnings Per Share (EPS) and Price Earnings Ratio (PER)



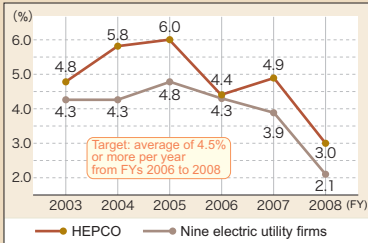
*BPS is calculated by dividing the company's net assets amount (shareholders' equity) by the shares authorized and indicates interest of shareholders' equity per share.
 *PBR is calculated by dividing the share price by the shareholders' equity (net assets) per share. Generally, the PBR standard is considered as the lower limit of the share price.
 *EPS is calculated by dividing the current net income by the average number of shares outstanding. This indicates the ultimate post-tax net income vis-à-vis per share.

*PER is calculated by dividing the current share price by the earnings per share, and is a measure of the price paid for a share relative to the profit earned per share.
 *Residential sales refer to the sales from ordinary households, street lights and so forth, while commercial and industrial sales are the sales other than residential ones, such as business and industrial sales. Other sales are obtained through interchange for other utility companies, for example.

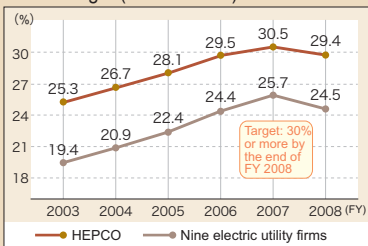
Achievements of the Mid-Term Management Policy (FY 2006 – 2008)

Management indicators

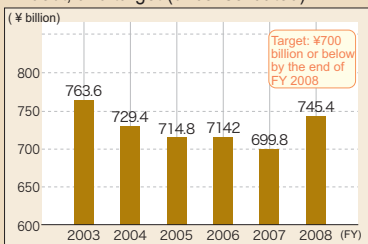
Changes in ROA and the target (consolidated)



Changes in the shareholders' equity ratio, and target (consolidated)

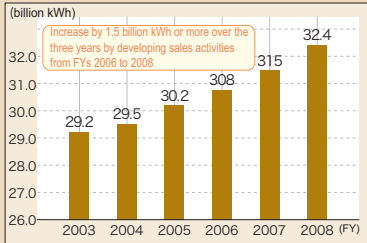


Changes in balance of interest-bearing debt, and target (unconsolidated)



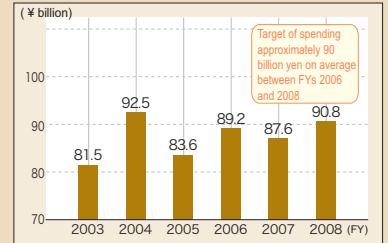
Sales target

Changes in net system energy demand, and target

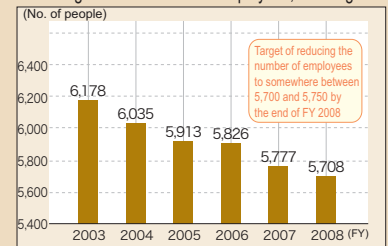


Targets for efficiency improvement

Changes in amount of capital investment, and target



Changes in the number of employees, and target



Return on Asset

Also known as ROA, Return on Assets refers to the figure calculated by dividing the operating income by total assets, and is an indicator for measuring comprehensive profitability by determining how much profit has been made through efficient utilization of the total assets invested. Formula: return on assets = ratio of profit to net sales (operating income/sales) x sales to total assets ratio (sales/total assets)

Net worth ratio

This is an indicator of financial stability, and is calculated by dividing equity capital by total assets. Formula: net worth ratio = equity capital/total assets

Nine electric utility companies

Hokkaido Electric Power Co., Tohoku Electric Power Co., Tokyo Electric Power Co., Chubu Electric Power Co., Hokuriku Electric Power Co., Kansai Electric Power Co., Chugoku Electric Power Co., Shikoku Electric Power Co. and Kyushu Electric Power Co.