

# Investors Meeting for FY 2006 Management Plan

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The Chugoku Electric Power Co., Inc.

April 7, 2005

In this presentation, the term “Fiscal Year 2006” describes the period which ended March, 2006.



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# . Management Plan

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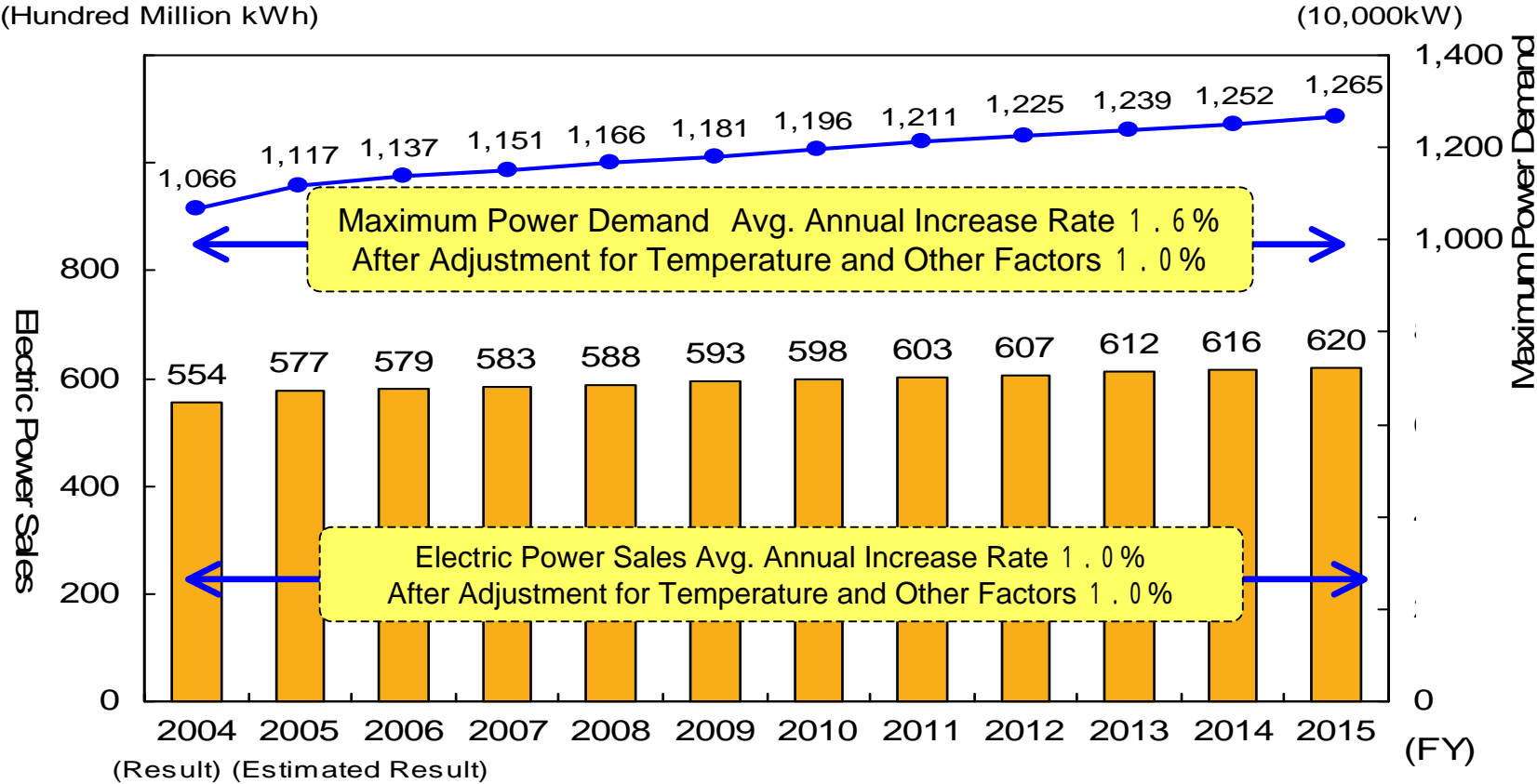
# 1 . Electricity Power Sales Plan

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# Electricity Power Sales Plan

**Electric Power demand will exhibit slow but steady increase in the mid-to-long term**

Estimated Electricity Sales and Maximum Power Demand



<b>Average Annual Increase Rate FY2004-2015</b> (After Adjustment for Temperature and Other Factors)	Living - Related Demand	1 . 7 %
	Industrial Demand	0 . 0 %

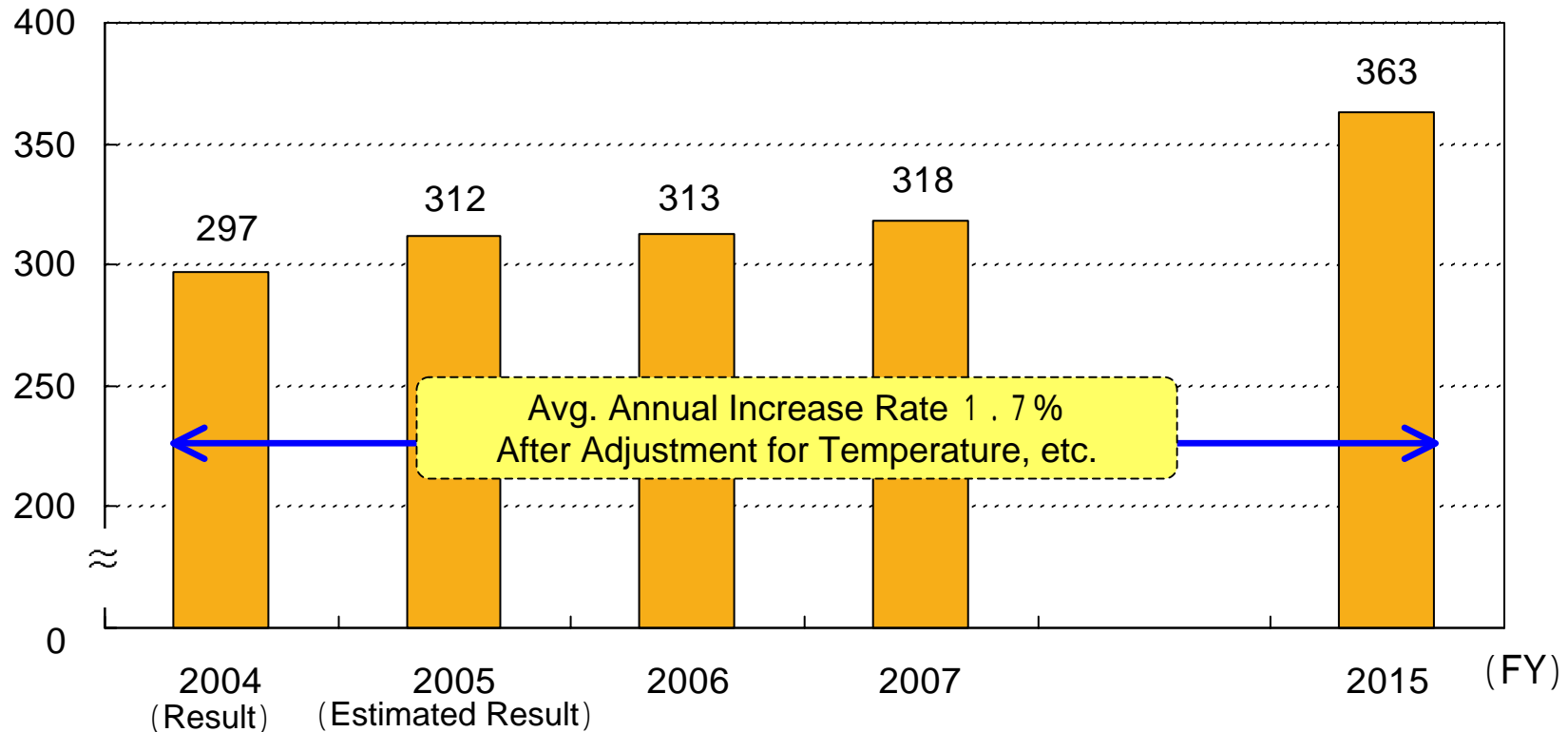


# Trends for Living - Related Demand

**Stable Growth due not only to the development of an aging and information society and the increased amenity, but also to the increased diffusion of electrical housing**

Estimated Living - Related Demand

(Hundred Million kWh)



**Average Annual Increase Rate FY2004-2015**  
(After Adjustment for Temperature and Other Factors)

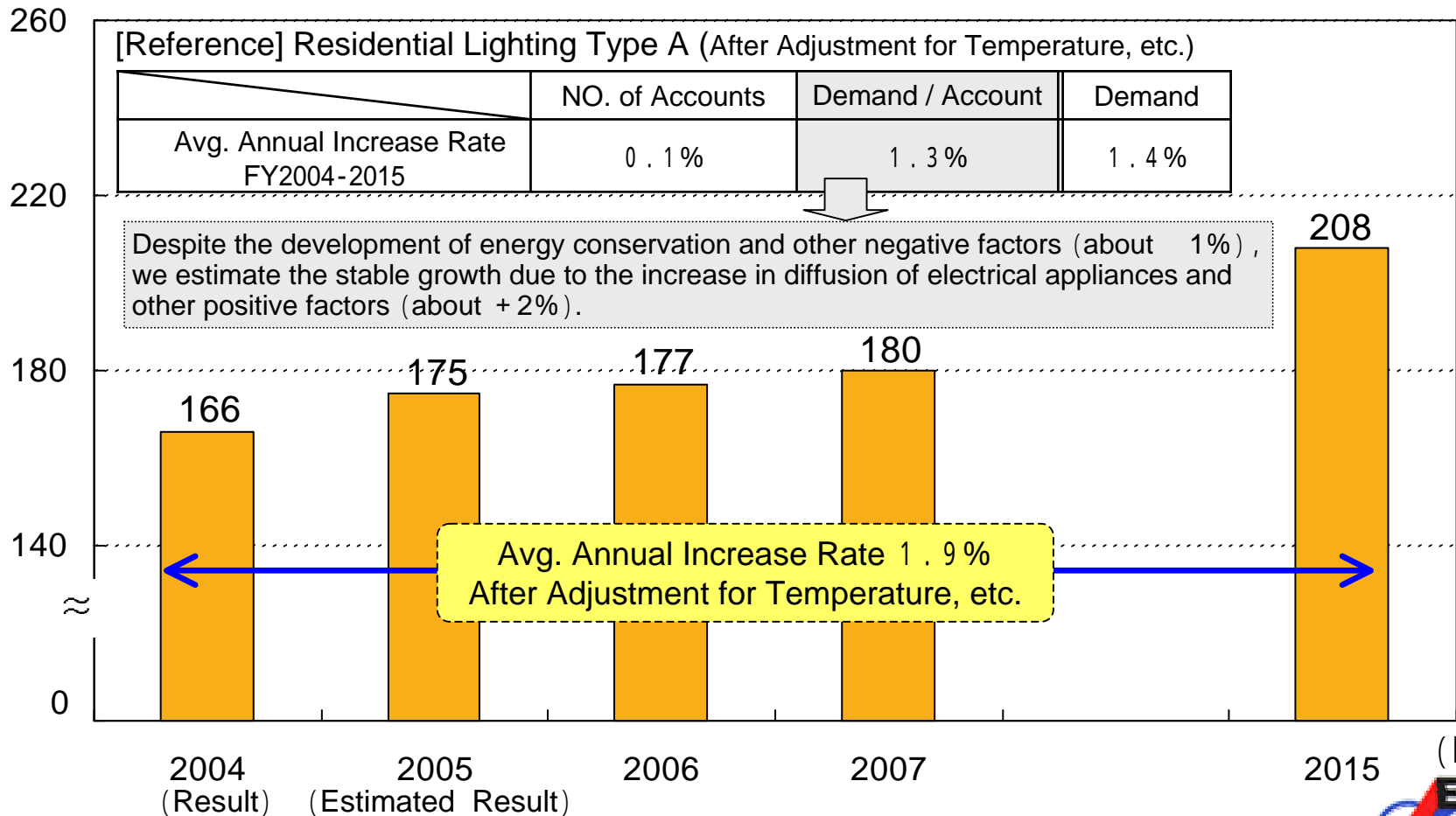
Lighting	1.9%
Commercial Power Use	1.9%

# Trends for Electrical Lighting

**Stable Growth due to the increased amenity and diffusion of electrical housing despite the development of energy conservation and the decline in population**

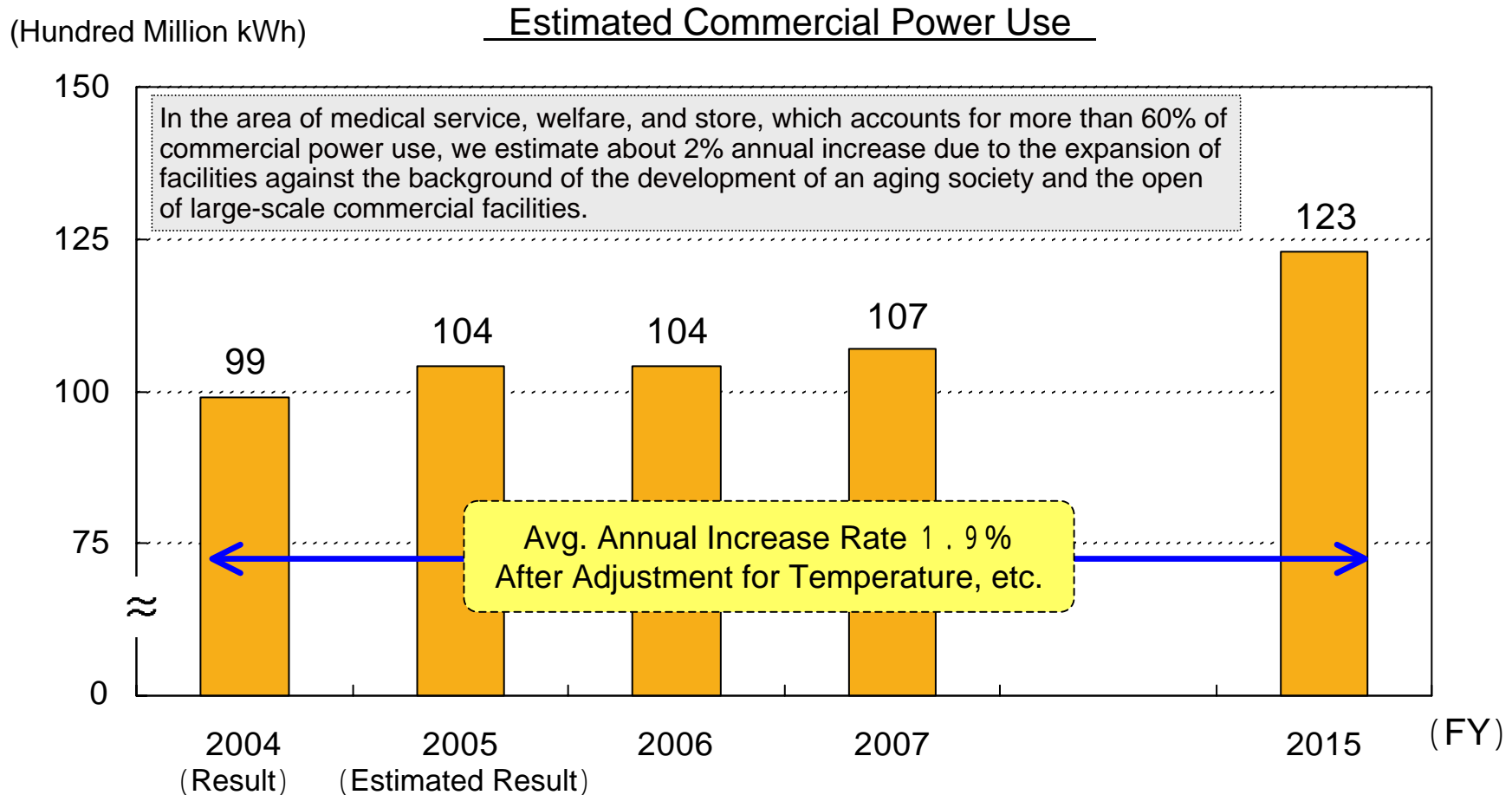
Estimated Electric Power Demand for Residential Lighting

(Hundred Million kWh)



# Trends in Commercial Power Use

**Stable Growth due to expansion of medical and welfare facilities and opening large-scale stores**

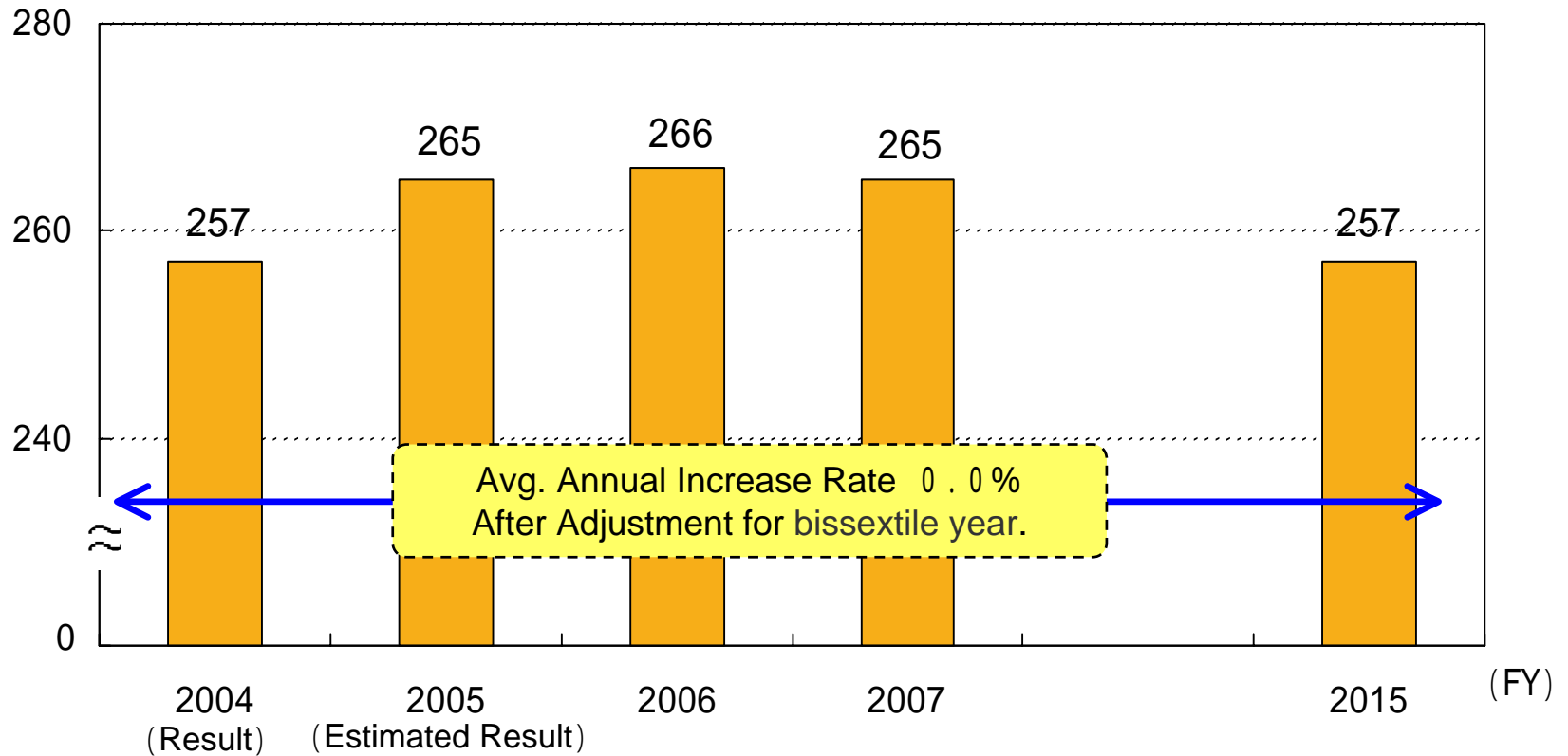


# Trends in Industrial Demand

Remain flat due to little increase in material-producing industry, etc. despite the increase in processing industry expected

Estimated Industrial Demand

(Hundred Million kWh)

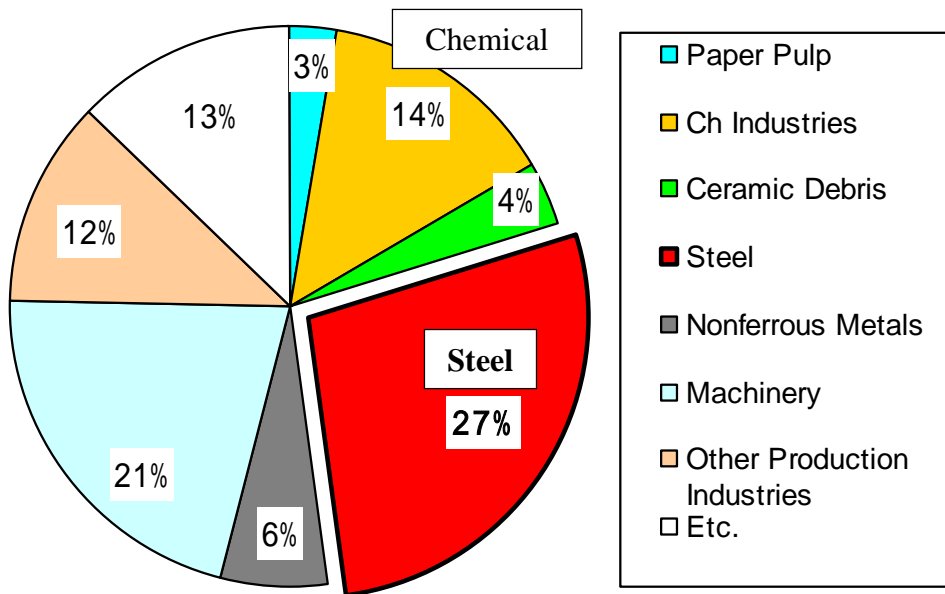


# (Reference) Percentage Distribution of Large Industrial Power, Classified by Industry

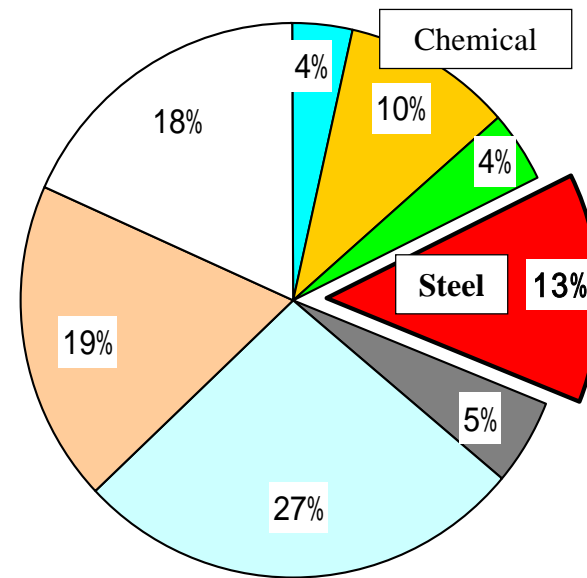
**Material producing industry (steel and chemical) in Chugoku region accounts for a comparatively high percentage of large industrial power**

Percentage Distribution of Large Industrial Power, Classified by Industry  
(2004 Calendar year)

[Chugoku Region]



[National Statistics]



Source: The Federation of Electric Power Companies of Japan



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## 2 . Power Source Development Plan

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# Features of FY2006 Plan

Plan with consideration for the promotion of diversification of power sources based on the maintenance of stable supply and the efficient use of facilities and the response to global environmental issues

## Power Source Development Plan

(Note: Red type indicates areas of modification from the FY2005 plan)

[Units: 10,000kW]

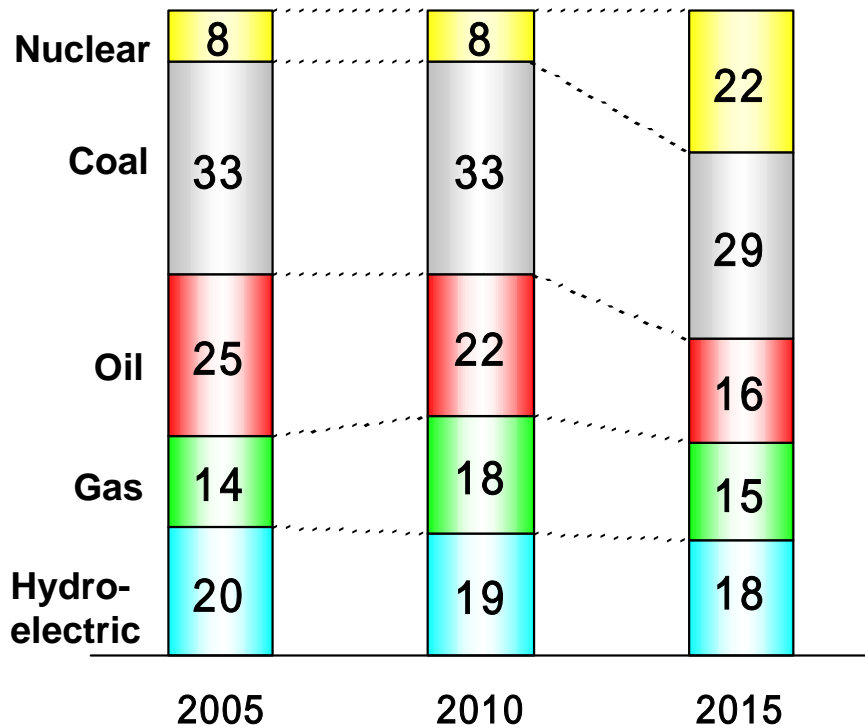
Classification		Fiscal Year												
		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 ~	
Power Source Development Plan	Chugoku Electric	Hydroelectric Power			Shintaishakugawa 1.1 <b>Kawahira 0.011</b>									
		Thermal Power			Mizushima 3 35 34 Petroleum LNG		Mizushima 1 12.5 26.5 Coal LNG						Misumi 2 40 Coal FY2018 <b>Osaki 1-2 25 / 50 Coal FY2019</b>	
		Nuclear Power							<b>Shimane3 137.3</b>		<b>Kaminoseki1 137.3</b>	<b>Kaminoseki 2 137.3 FY2018</b>		
	Other Companies								Oma 9.3/138.3 Nuclear Power					
Supply and Demand Balance	Supply Power	10,000 kW	1,270	1,279	1,291	1,312	1,317	1,329	1,329	1,329	1,393	1,393	1,393	
	Maximum Demand Power	10,000 kW	1,117	1,137	1,151	1,166	1,181	1,196	1,211	1,225	1,239	1,252	1,265	
	Supply Reserve	%	13.6	12.5	12.2	12.5	11.5	11.1	9.7	8.5	12.4	11.3	10.1	

# Power Source Comparison

[Including Purchased Power from Other Companies]

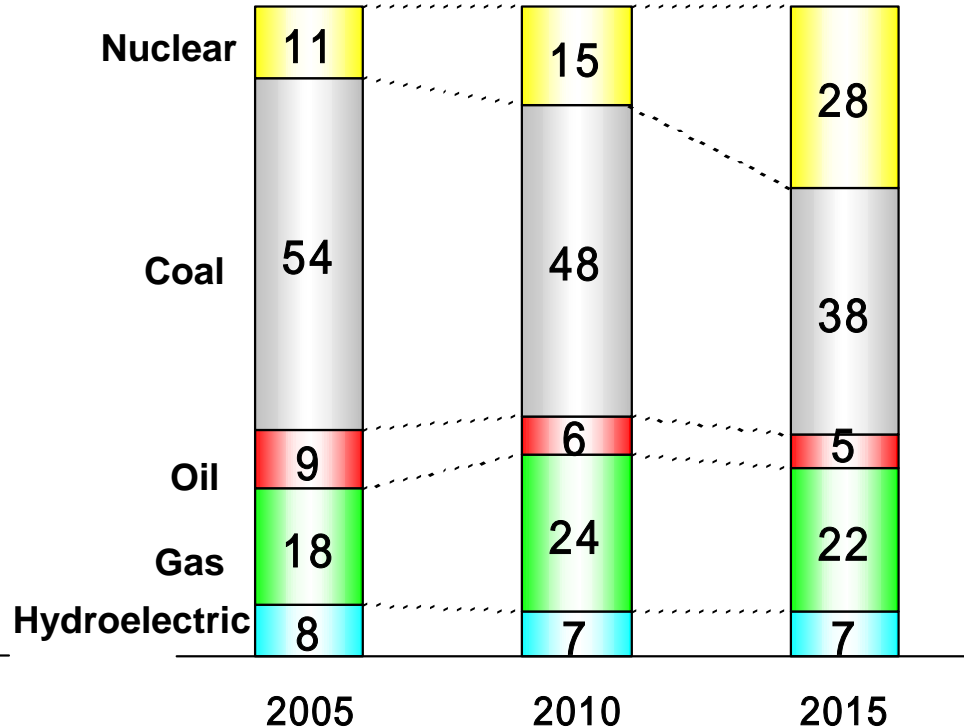
The diversification of power sources will better be balanced by the start of operations at Shimane No.3 and Kaminoseki No.1 at the end of FY2015.

[ Financial Year End Facility Type Comparison (%) ]



(Estimated Results)

[ Distribution Ratio of Electric Power Generated (%) ]



(Estimated Results)



# Conditions of Nuclear Power Development

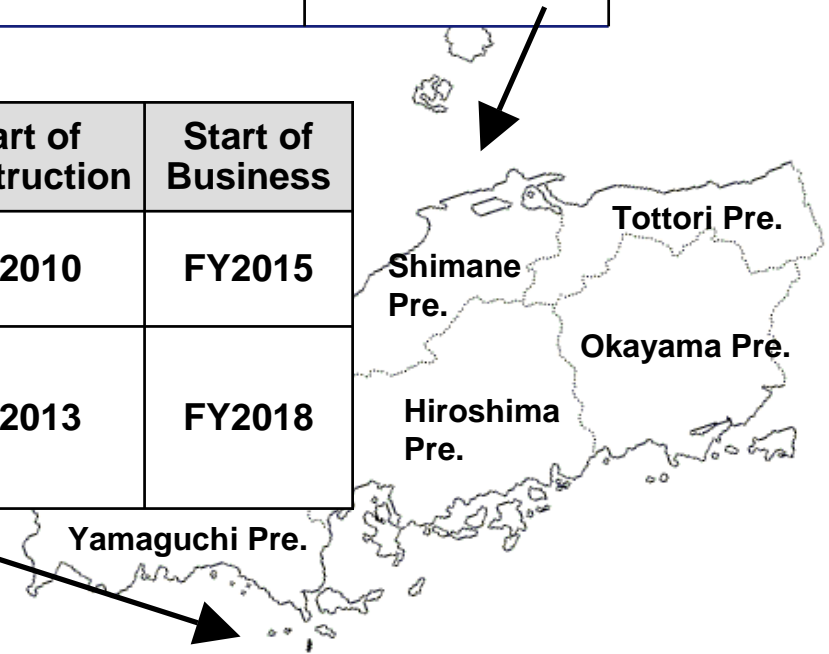
The development of new nuclear power is the most important issue for the management of the stable maintenance of long - term energy, economic issues, and global environmental issues.

## 【 Shimane No. 3 】

Output (10,000kW)	Conditions	Start of Construction	Start of Business
137.3	<ul style="list-style-type: none"> <li>■ Preparatory work is underway.</li> <li>■ Supplementary documents for the Application for Permission to Construct / Alter a Nuclear Reactor have been submitted.</li> </ul>	September 2005	December 2011

## 【Kaminoseki】

	Output (10,000kW)	Conditions	Start of Construction	Start of Business
No. 1	137.3	<ul style="list-style-type: none"> <li>■ Land belonging to the Hachiman Temple has been acquired.</li> <li>■ Permission and approval formalities are underway prior to beginning detailed surveys to obtain the data necessary for the Application for Permission to Construct a Nuclear Reactor.</li> </ul>	FY2010	FY2015
No. 2	137.3		FY2013	FY2018



## **3 . Response to Global Environmental Issues**

Maximum effort to achieve our goal for the reduction of CO2 emissions

## Our Goal for the Reduction of CO2 Emissions

Reduce CO2 emissions per unit production\* in FY2011 by about 20% from FY1991 levels.

\*CO2 emission per electricity sale (kg-CO2 /kWh)

### Measures to Achieve Our Goal

- Improvement of nuclear power facility utilization rates, as a prerequisite for maintaining safety
- Fuel conversion to LNG (Mizushima No. 1 and No. 3)
- Promotion of the introduction and proliferation of new energy
- Development of new technologies
- Application of Kyoto mechanism

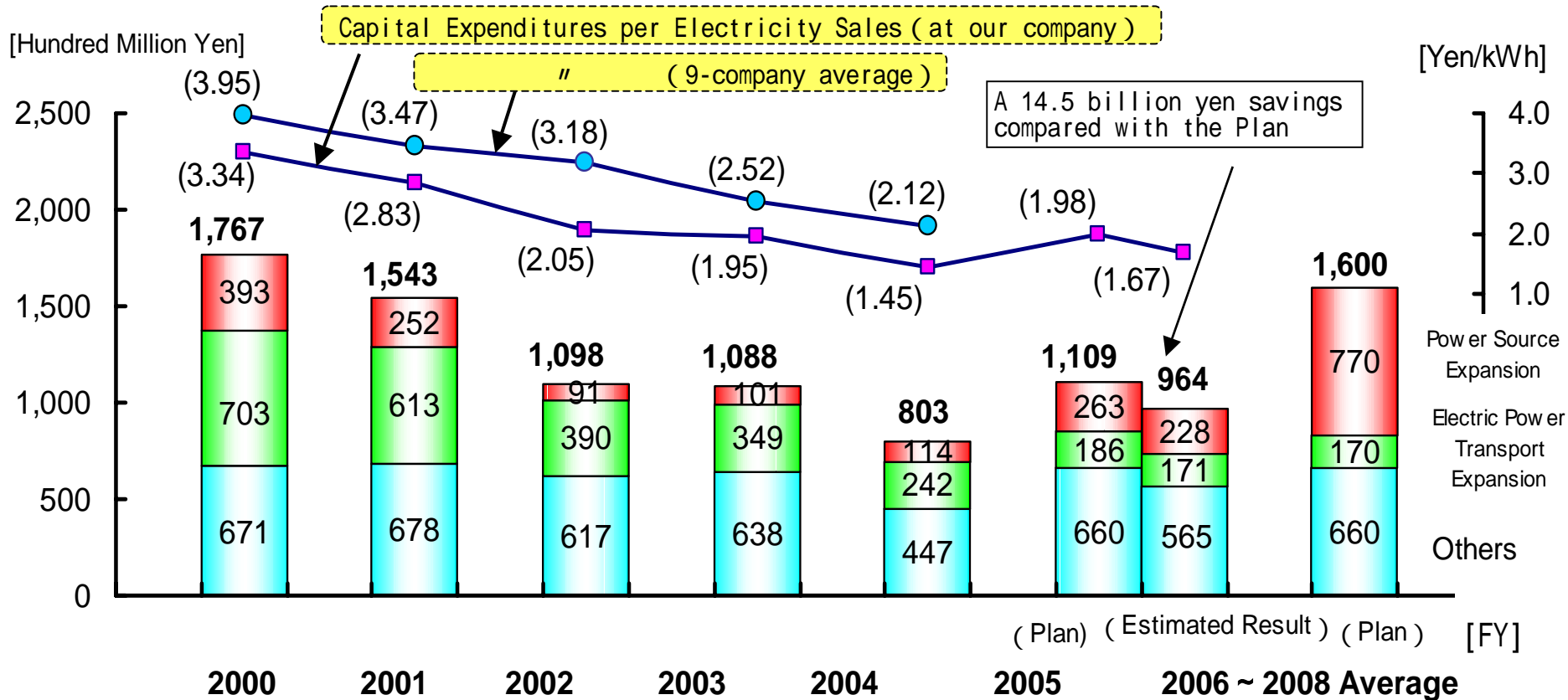
## 4 . Efforts to Increase Management Efficiency

# Controlling Capital Expenditures

Capital expenditures for FY2006 – 2008 will increase pursuant to the Power Source Development Plan, but will be curbed via rationalization of equipment and construction techniques together with enhanced efficiency of contracting and machinery/materials procurement etc.

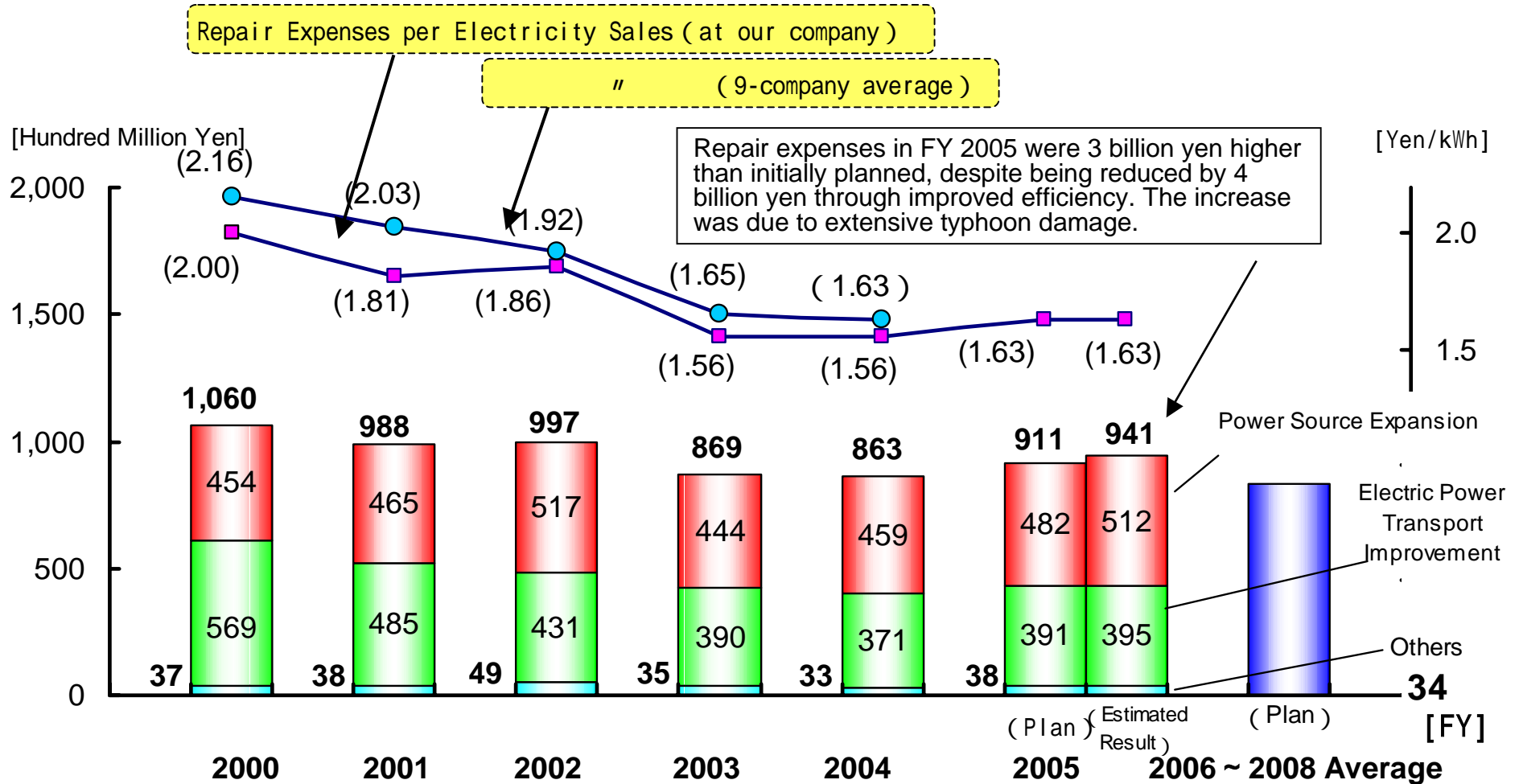


Capital Expenditures FY2006 ~ 2008 : 160 billion yen (3-year average)



# Controlling Repair Expenses

Repair expenses for FY 2006-2008 will increase insofar as maintenance expenses will rise due to aging of equipment, but will be curbed via a revision of replacement and inspection cycles made possible by improvements in machine condition diagnosis techniques.

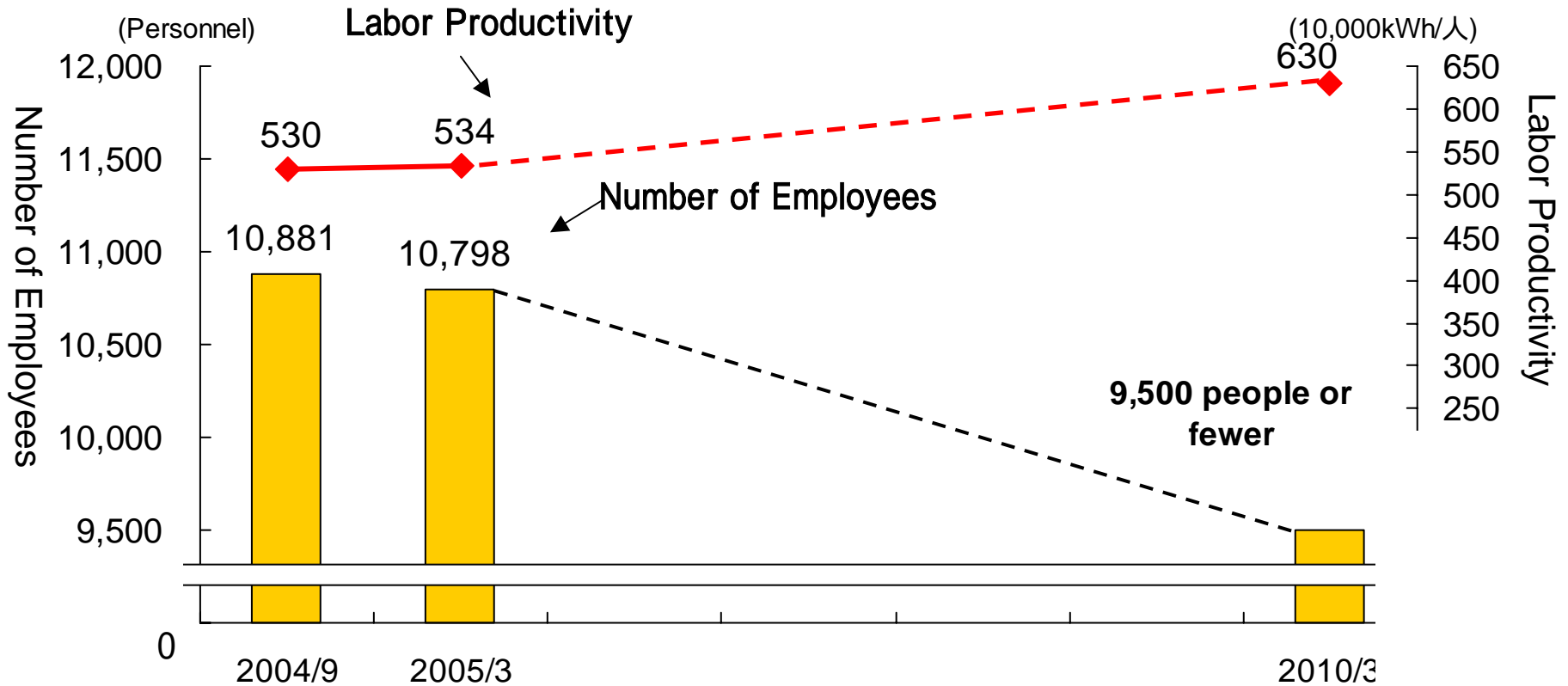


# Labor Productivity Enhancement

- **New company - wide staff target have been set with the aim of further enhancing labor productivity.**

Around 1,400 staff are to be cut from the approximate total of 10,900 employees (enrolled personnel) obtaining at the end of September 2004, with the aim of achieving an organization of no more than 9,500 persons by the end of FY 2010

- **In order to achieve the staff target, improvements in operational management will be implemented together with streamlining of staff.**



Labor Productivity = Electric Power Sales Quantity / Number of Employees

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# . Responses to Management Subjects

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# 1 . Business Strategy

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# Basic Strategy

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# Effects Resulting From the Expansion of the Range of Liberalization

	March, 2000 	April, 2004 	April, 2005
<b>Range of Liberalization</b>	2,000kW or Greater 2,000V or Greater	500kW or Greater	50kW or Greater
<b>Ratio of liberalized electricity sales to total electricity sales</b>	<b>Approx. 30%</b>	<b>Approx. 40%</b>	<b>Approx. 60%</b>
<b>Ratio of Income from liberalized electricity sales to total Income from Electricity sales</b>	<b>Approx. 20%</b>	<b>Approx. 30%</b>	<b>Approx. 50%</b>
<b>Number of Customers</b>	<b>370</b> (As of April 1, 2005)	<b>Approx. 2,700</b> (As of April 1, 2005)	<b>Approx. 49,000</b> (As of September 30, 2004)

Electricity Sales and Income : FY 2004

**“pancaking” of transmission tariffs removed, Wholesale Electric Power Exchange established**

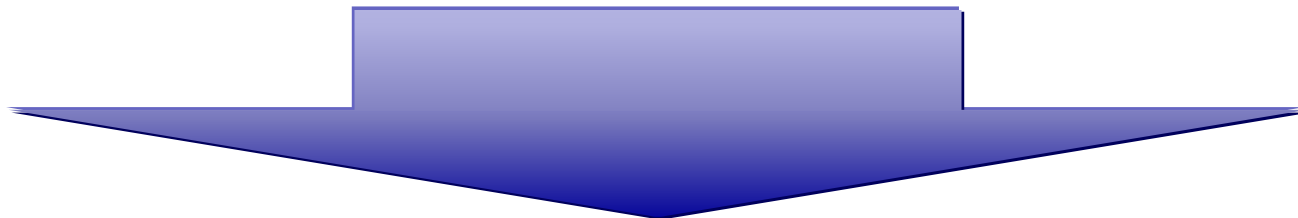
**Nation-wide market price will be formed and the competitive environment is intensified**



## Change in the Business Environment

- Expansion of scope of liberalization
- Diversification of user needs, increased alternatives
- Higher awareness of environment and energy conservation

Important to raise all-around competitiveness including service and quality as well as prices



**Basic Strategy**

Practice CRM with the aim of becoming the “close partner” of customers  
~ Satisfied customers will choose the Energia Group ~

## Strengthening Two-Way Communication

Determining needs through informational exchange with customers



### Development of Total Solutions

Promotion of total solution proposal activities pivoted around “solution of issues” rather than the sales standpoint adopted heretofore.

### Enhancement of Service and Quality

Provision of service commensurate with the levels customers expect, on the basis of low prices and stable supply.

Continuous implementation of the CRM cycle



Result:

Increased 『kWh』 and 『Group sales』



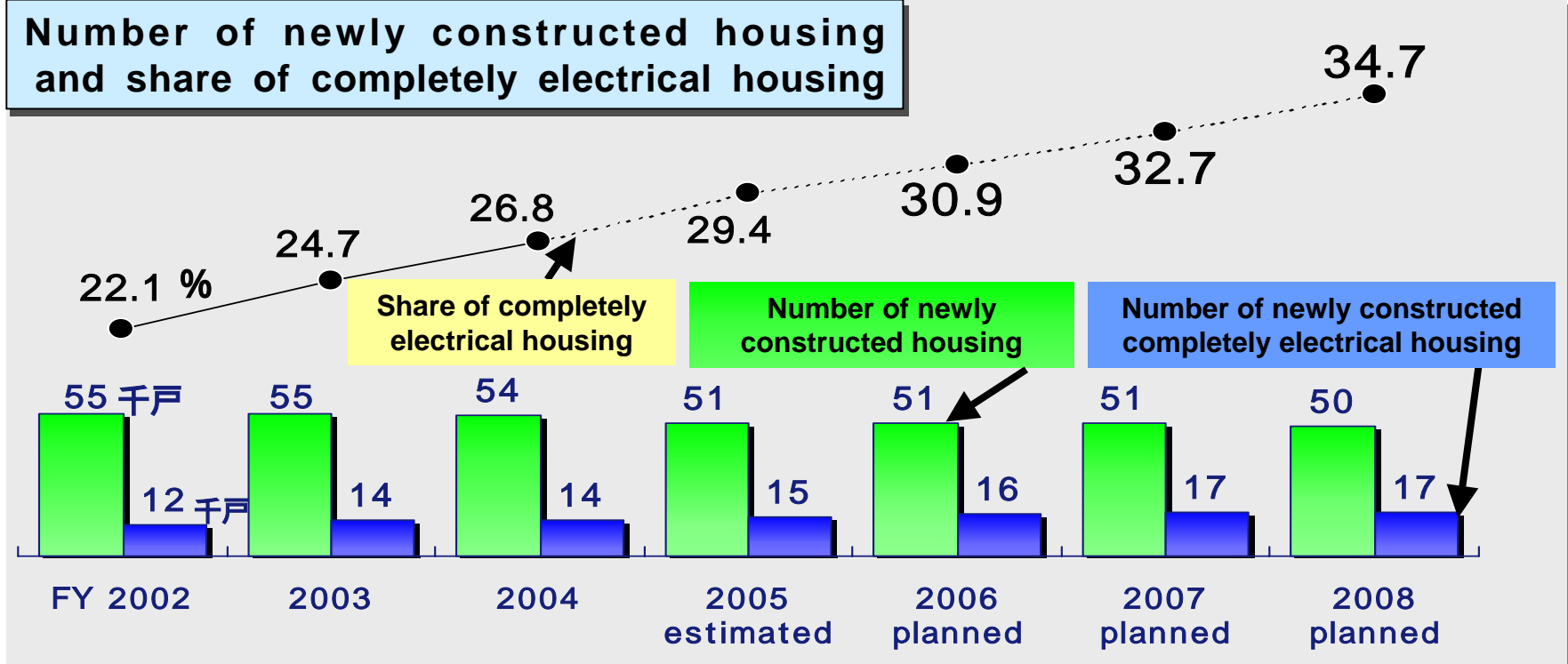
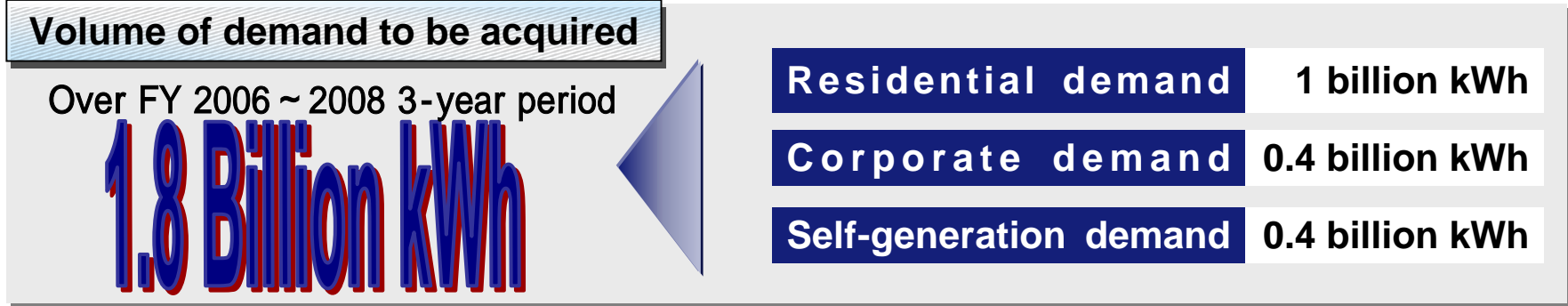
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# Sales Target

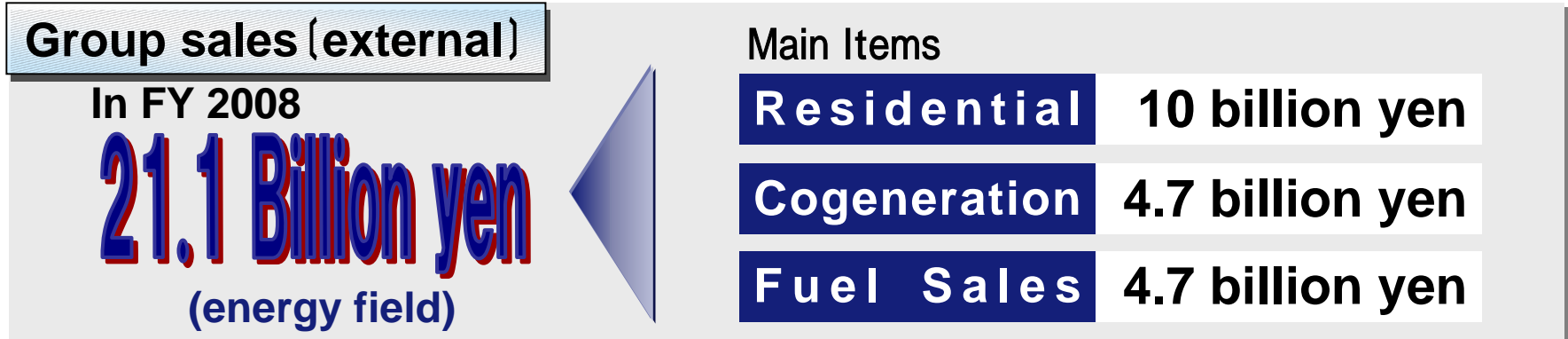
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# Demand Acquisition Target



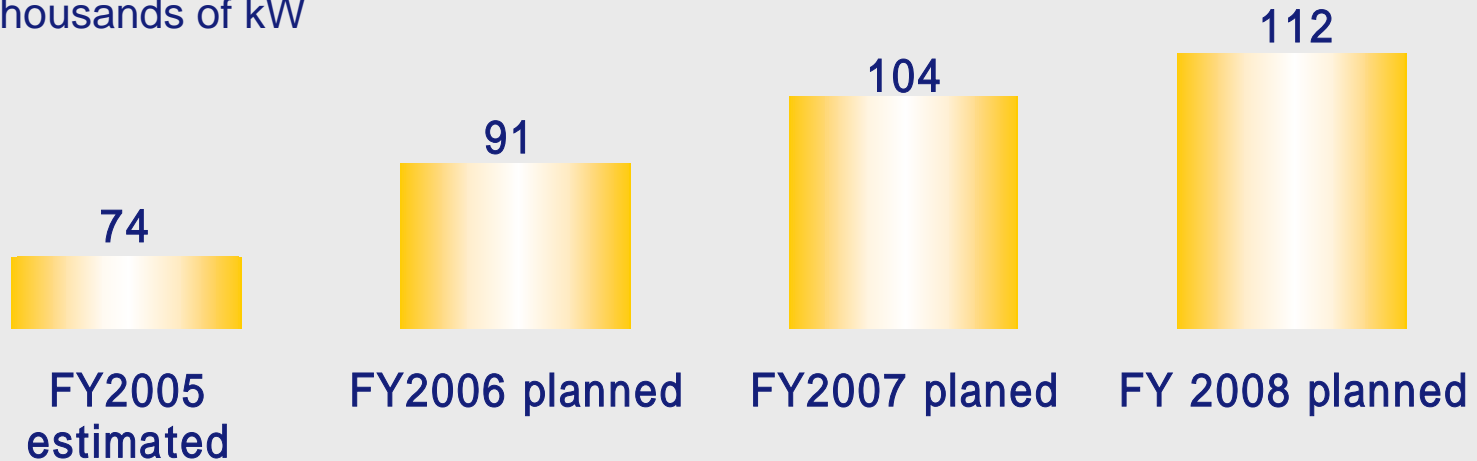
# Group Sales Target for Energy Field



**ESS (Energia Solution and Service Co., Inc.) performance and future prospect**

**[Cogeneration Sales Plan]**

Units: thousands of kW



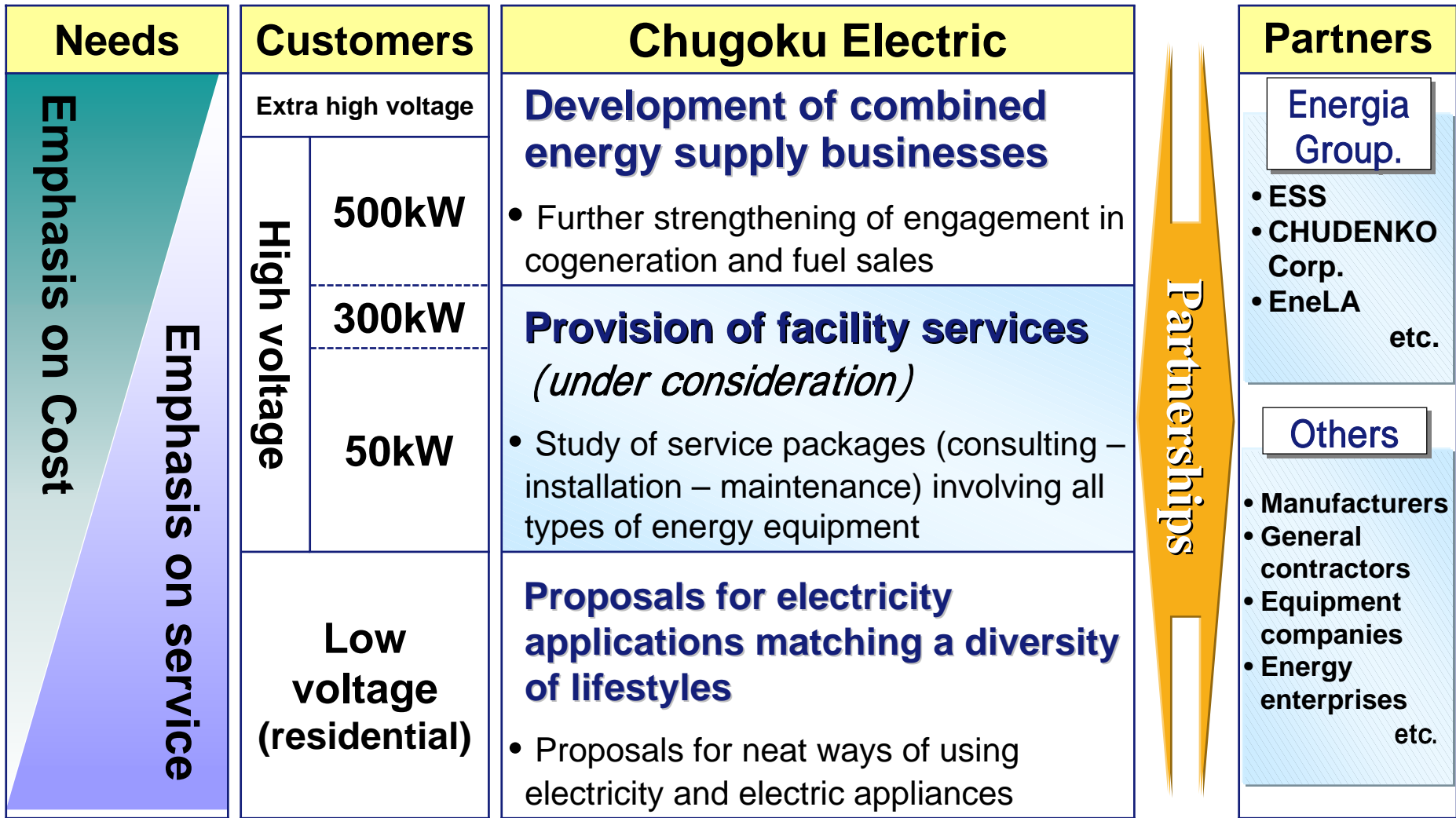
# Approach for the Achievement of Sales Target

■ Determine needs through optimal two-way communication with each customer

<p><b>Needs Determination</b></p> <p><i>“Direct” approach using individual responses</i></p> <p><i>“Indirect” approach using market responses</i></p>	<b>Customers</b>		<b>Chugoku Electric</b>	
	Extra high voltage		<p><b>Solution Advisers (dedicated sales staff)</b>                  One-to-one sales via direct customer visits mainly by Solution Advisers/                  Advisers increased by 70 (to total 200 staff)</p>	
	High voltage	500kW	<p><i>One-to-one sales via telephone, etc. (under consideration)</i></p>	
		300kW		
	50kW	<p><b>Route sales</b></p> <ul style="list-style-type: none"> <li>• Facility design companies</li> <li>• Building contractors etc.</li> </ul>	<p><b>Energy Planners</b></p> <p>( ex. Personnel charged with proposals for daily life energy and systems )</p> <p>Efficient responses utilizing diverse channels, mainly via Energy Planners.                  Planners increased by 90 (to total 480 staff)</p>	
	Low voltage (residential)	<p><b>Home consultants</b>  <i>(implemented 2005)</i>                  Consultants increased by 100 ( to total 260 staff)</p>	<p><b>Customer Centers</b></p>	



■ Developing optimal total solutions built around environmental performance enhancement and energy conservation



“Proposals for electricity applications matching a diversity of lifestyles”  
”Diffusion of completely electrical housing”  
- “e-FIT for living” completely electrical housing -

## *Important items for implementation*

Strengthening measures for self - sustaining growth of completely electrical housing

### Measures for end user

- Create “word-of-mouth promoters” via strengthening of home consultant activities(increase staff by 100)
  - Enhance after-sales service for customers who go for “all-electric”
- Enhance media PR for completely electrical housing, centering around catchphrase “e-FIT for living”
  - Strengthen media approaches such as TV commercials, renovate websites, etc.

### Measures for sub-user

- Expand route sales to include major building contractors and renovation companies, etc., which have room for greater electricity use  
(increase staff by 55)
- Raise sales capabilities via enhanced education utilizing on-the- job training  
Etc.

## Charge reductions in recent years

' 4 reductions implemented in last 10 years

' Comparison of electric utilities' charge indexes – percentages of 1989 charge levels

	2002 level (index)
Hokkaido	73
Tohoku	75
Tokyo	80
Chubu	81
Hokuriku	78
Kansai	84
<b>Chugoku</b>	<b>75</b>
Shikoku	76
Kyushu	76

A reduction rate ranking among the top

Indexes are our company's estimates

## ■ Overview of April, 2005 reduction

New levels were set in consideration of the following factors:

- Market prices in the liberalized section
- Our company's revenue situation
- Achievement of management goals

Charge levels comparing favorably with those of other power services

**Regulated section** (lighting, low-voltage power)

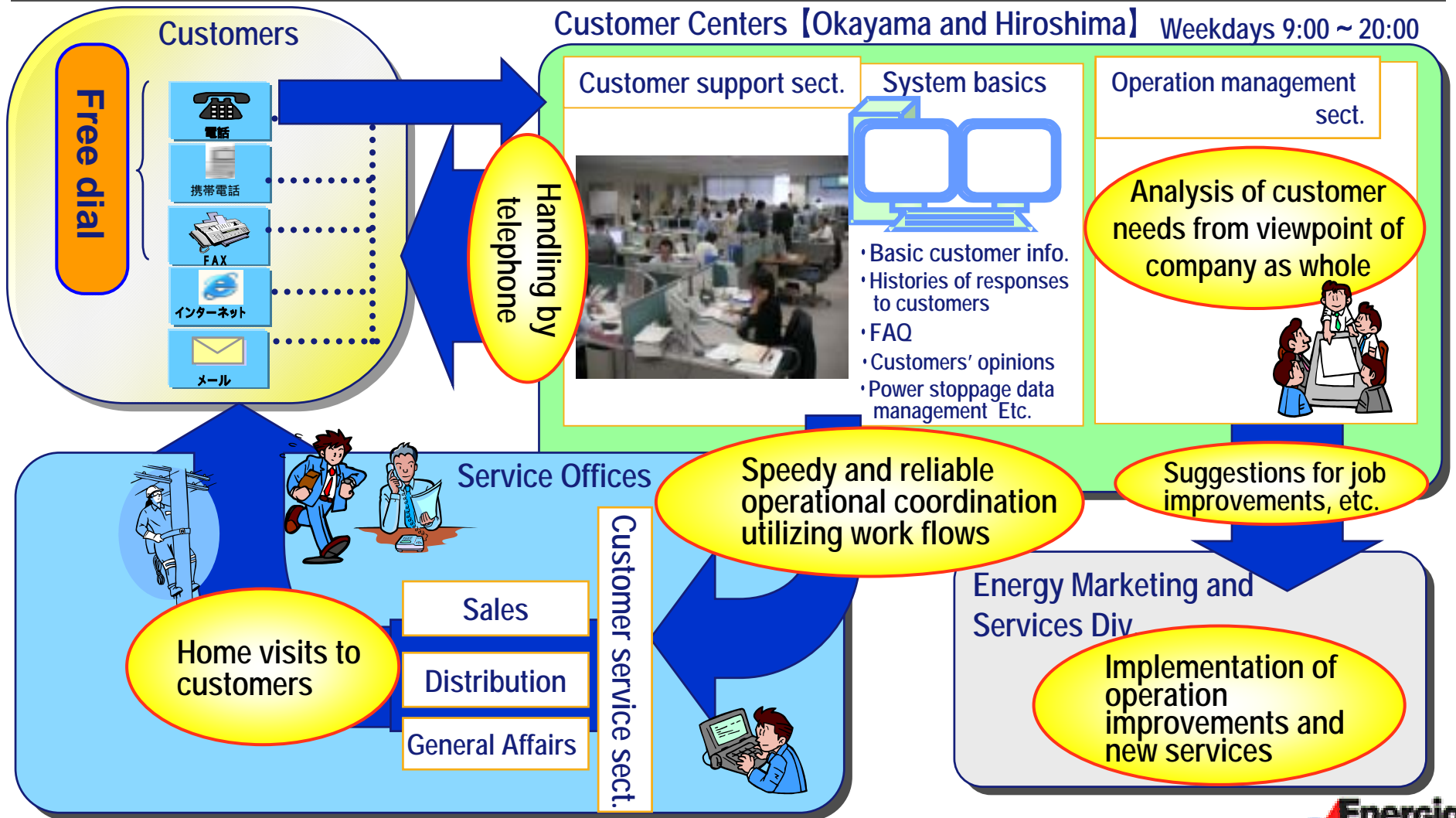
Reduction rate : 3.53%

Amount of reduction for standard household :  
222yen/month

**Liberalized section** (high and extra high voltage power)

Orientation is for charge levels that can hold their own against competitors in line with changes in the market environment

■ Enhancement and strengthening of customer services with Customer Centers as core

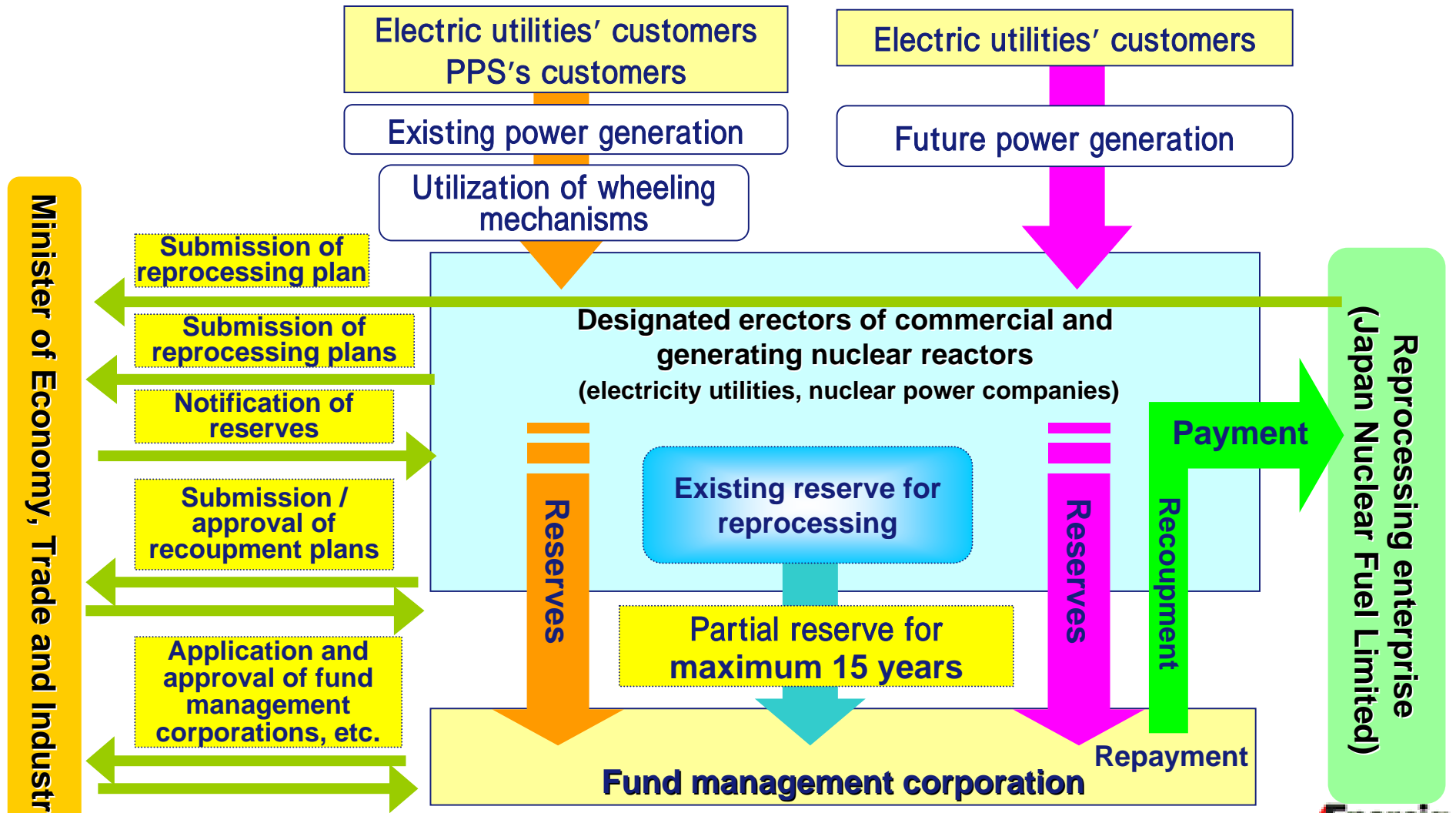


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## 2 . Nuclear Power Related Subjects

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## Basic Scheme of the Back-end Bill



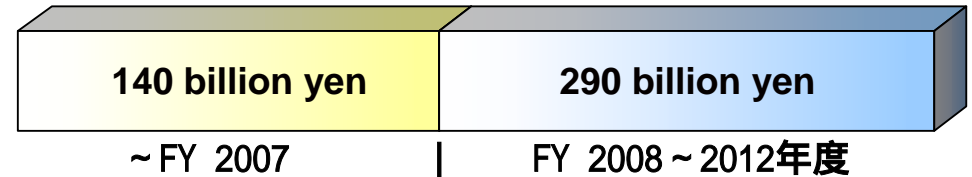
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Investment will increase in FY 2007 as the Shimane Unit No. 3 Addition Project gets fully underway, but its funding will be restricted to our own resources.

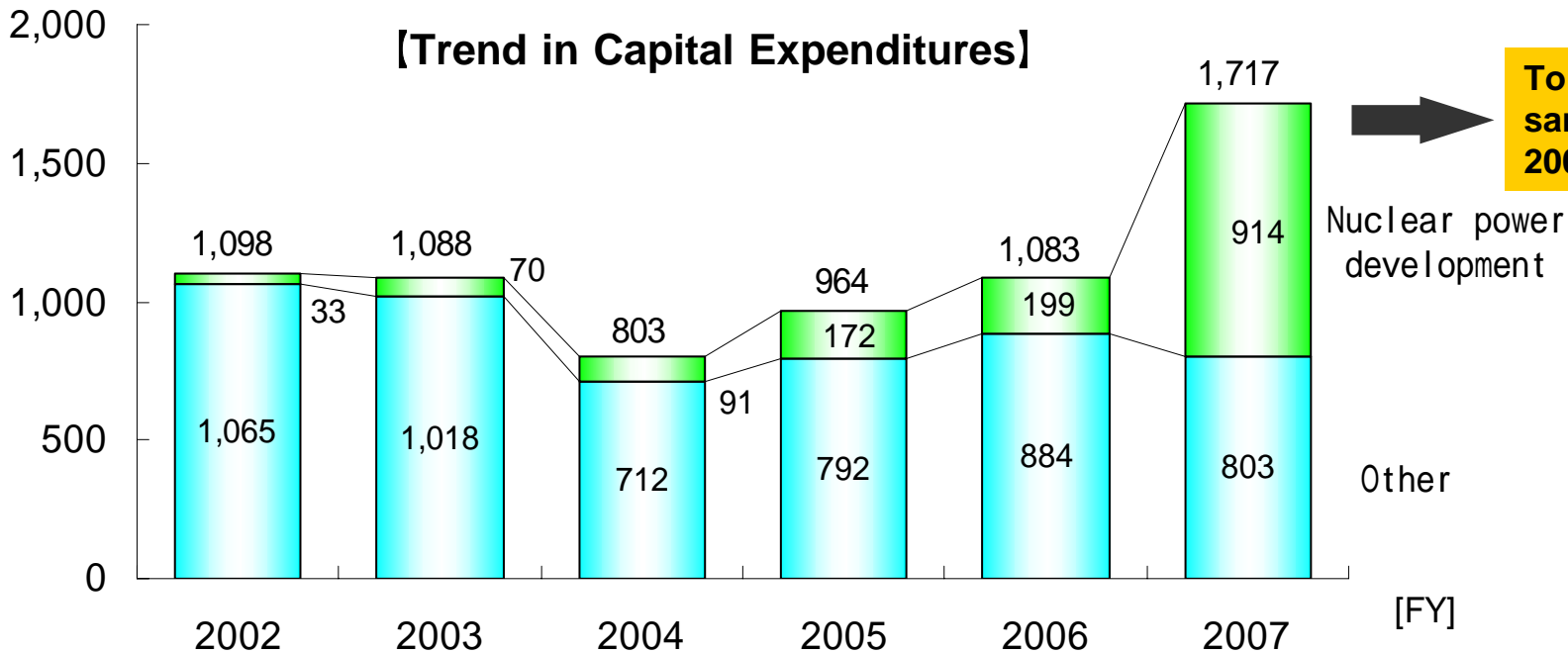
### Shimane Unit No. 3

Total project cost 430 billion yen



[100 million yen]

### [Trend in Capital Expenditures]



To continue at same level in FY 2008 onward



## 3 . Management Goal

# Achievement of Non - Consolidated Management Goals

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## ◆ Non – Consolidated Management Goals (set in November, 2001)

Thanks to further enhancements in management efficiency, it is a near certainty that each of the goals will be achieved.

	<b>Goals</b> (FY2003 ~ 2005 Avg.)	<b>FY 2003</b> (Result)	<b>FY 2004</b> (Result)	<b>FY 2005</b> (Estimate)
<b>Equity Ratio</b>	<b>Approx. 23%</b> (End of the FY2005)	<b>19.7%</b>	<b>21.4%</b>	<b>23.0%</b>
<b>ROE</b> (Return on Equity)	<b>Approx. 8%</b>	<b>9.0%</b>	<b>7.5%</b>	<b>8.4%</b>
<b>ROA</b> (Return on Assets after Taxes)	<b>Approx. 3%</b>	<b>3.0%</b>	<b>2.5%</b>	<b>3.0%</b>
<b>Ordinary Profit</b>	<b>Over 70 Billion Yen</b> per Year	<b>66.7 Billion</b> Yen	<b>61.1 Billion</b> Yen	<b>78.0 Billion</b> Yen
<b>Free Cash Flow</b> (Before dividend)	<b>Over 110 Billion</b> Yen per Year	<b>150.2 Billion</b> Yen	<b>140.7 Billion</b> Yen	<b>120.0 Billion</b> Yen



# Achievement of Consolidated Management Goals

## ◆ Consolidated Management Goals (set in May, 2003)

Up to the present moment, matters have been proceeding more or less on course toward achievement of the Consolidated Management Goals.

	<b>Goals</b> (FY2004 ~ 2006 Avg.)	<b>FY 2004</b> (Result)	<b>FY 2005</b> (Estimate)
<b>Ordinary Profit</b>	<b>Over 72 Billion Yen</b> per Year	<b>63.8 Billion Yen</b>	<b>82.0 Billion Yen</b>
<b>ROA</b> (Return on Assets after Taxes)	<b>Approx. 3%</b>	<b>2.3%</b>	<b>-</b>
<b>Equity Ratio</b>	<b>Approx. 26%</b> (End of the FY2006)	<b>23.2%</b>	<b>-</b>
<b>Free Cash Flow</b>	<b>Over 95 Billion Yen</b> per Year	<b>132.8 Billion Yen</b>	<b>-</b>

## Target for Group – External Sales

### ◆ Target for Group - External Sales (set in January, 2001)

For sales outside the Group by the consolidated subsidiaries as a whole, the target was to increase the sales from the FY 2000 sales level (40 billion yen) to a level 1.5 times higher (60 billion yen) by the end of FY 2006

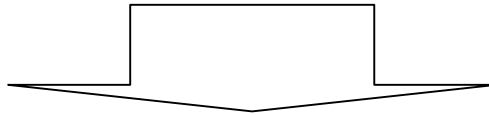
- Thanks to active promotion of new business and strengthening of sales activities by the Group working in unison, the target was virtually achieved 1 year ahead of schedule in FY 2005.
- It is aimed to expand the sales even further in FY 2006.

	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005 [estimate]
Group - External Sales	39.4billion	39.8billion	43.1billion	46.6billion	55.4billion	60.0billion

Since all of the current Group Business Goals are scheduled for achievement by the end of FY 2006, new business goals for FY 2007 onward aiming for further development of the Chugoku Electric Power Group will be formulated in the fall of 2005 after due examination for the state of achievement of the current goals.

## Purpose

- Optimal allocation of group management resources based on business profitability assessments, etc.
- Strong and systematic promotion of group-wide cost reductions and attainment of profit.



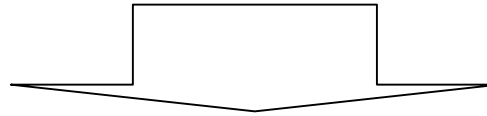
## Reconstruction of Group Governance Network

**From the standpoint of group optimization, authority and responsibility for all parties are being organized, with Chugoku Electric Power role in strategy, and group companies' roles in execution, having been clarified.**

## Promotion of Group Midterm Planning

**In order to achieve group management goals , the PDCA cycle will be properly put into practice and controlled. (to be introduced as of FY2006, to be initiated on a full-scale as of FY2007)**

## Reconstruction of Group Governance Network



- **Strengthening of Consolidated Management through Group-Wide Strategic Decision-Making**
  - Clarification of our mission in aiming for achievement of group management goals
  - The penetration of management strategy and the rationalization of resource allocation, in aiming for group optimization
- **Formulation of Responsible Organization Aiming for Strengthening of Competitiveness in each Enterprise**
  - Promotion of group internal efficiency through the strengthening of relationships between companies
  - Enhancement of market response ability, through an external sales shift for management resources
- **Strengthening of the Group-Wide Monitoring System**
  - Establishment of an effective & efficient group internal auditing system/process

## Promotion of the Group Midterm Planning System

- Setting up segments by function in total energy business domains
- Evaluating the profitability of each segment & each company's business section
- Promoting policies for inter-business relationships for each segment  
(supply chain management activities, group external sales expansion policies, etc. )

**A diagram:  
management / disclosure  
segments**

**【Management Segments】**

Total energy	Energy marketing & service
	Power generation
	Power system
Information and telecommunications	
Business / lifestyle support	

Disclosure Segments				
Electricity	Total energy supply	Information and communications	Others	
			(Environment) (Electrical business support, etc.)	(Business / lifestyle support)

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