THE CHUGOKU ELECTRIC POWER CO., INC.

Energizing the 21st century

50th

Annual Report 2001

Year Ended March 31, 2001

The Chugoku Electric Power Co., Inc., was established in 1951 and supplies electricity to the Chugoku region of western Japan through an integrated structure that encompasses all stages of power supply, from generation through transmission and distribution.

Chugoku Electric has its head office in the city of Hiroshima and operates approximately 60 business sites, including branch offices, power stations, and sales offices. With approximately 11,000 employees, Chugoku Electric is one of the largest companies in the region.

The Chugoku region covers approximately 32,000 square kilometers and has a population of approximately 7.8 million people. Its annual GDP is approximately US$260 billion, about the same as the national GDP of Switzerland or Belgium.

One distinctive feature of the region is its well-developed transportation infrastructure. Expressways run the length and breadth of the region, strengthening ties both within the Chugoku region and between Chugoku and neighboring regions. In addition, because the region faces both the Seto Inland Sea and the Sea of Japan, it has a history of well-developed maritime transport. Each prefecture of the region has its own public airport, providing easy access to Tokyo and other parts of Japan as well as overseas destinations.

Making the most of this infrastructure, a large number of manufacturing companies, notably those involved in the automotive industry and electronics, and such industries as iron and steel, and chemicals have sited their facilities in the Chugoku region. Numerous development projects are under way in the region, including plans for new cities and the "Technopolis," and even more are expected in the future.

The mission of Chugoku Electric is to reliably supply the electricity necessary for industrial activities and the daily lives of people in the region.

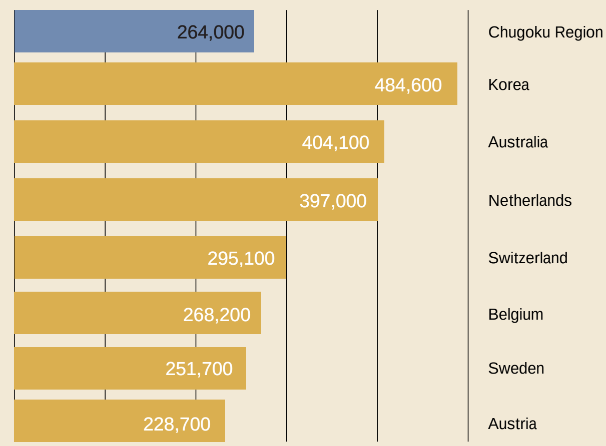
Cautionary Statement with Regard to Forward-Looking Statements

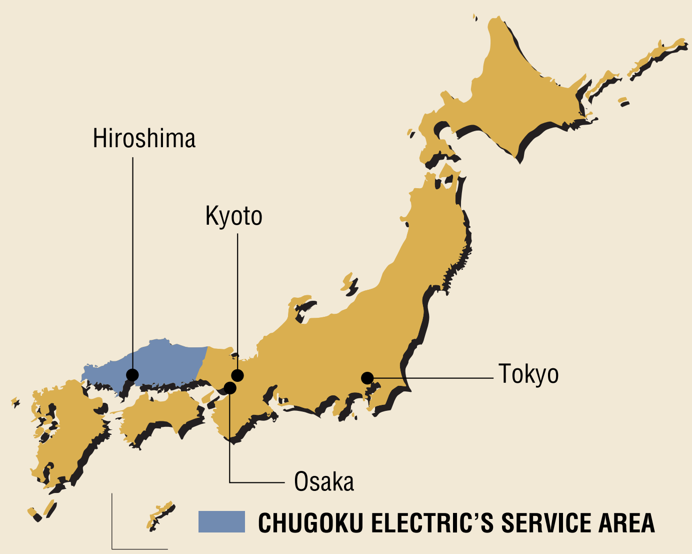
None of the information in this annual report is intended to encourage purchase or sale of shares of the Company.

In this annual report, some information concerning current plans, strategies, and other issues is not historical fact but relates to likely future performance, and as such is subject to elements of risk and uncertainty. For this reason, actual performance may differ from that projected, due to various economic and other factors.

When trading the Company's shares, investors should exercise their own discretion. The Company takes no responsibility whatsoever for any kind of losses resulting from trading shares based on information contained in this annual report.

GDP (1996)
(US$ millions)





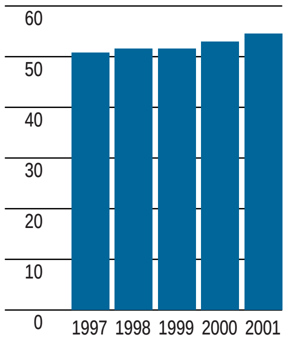
CONTENTS

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2001	2000	1999	2001
For the year:				
Operating revenues	¥1,044,863	¥1,049,440	¥1,039,011	$ 8,426,314
Operating income	126,621	131,444	134,985	1,021,137
Net income	27,202	27,615	29,306	219,371
At year-end:				
Total assets	2,952,869	3,011,101	2,998,389	23,813,460
Total stockholders' equity	575,772	550,856	485,718	4,643,323
Interest-bearing debt	2,014,251	2,104,628	2,165,187	16,243,960

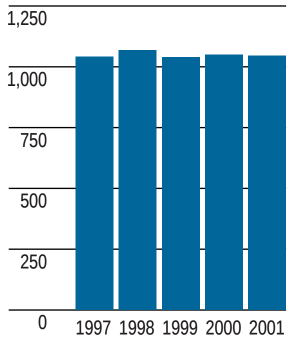
	Yen			U.S. dollars (Note 1)
	2001	2000	1999	2001
Per share data:				
Net income:				
Basic	¥ 73.31	¥ 74.43	¥ 78.98	$ 0.59
Diluted	72.78	73.88	78.32	0.59
Cash dividends applicable to the year	60.00	60.00	50.00	0.48

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at ¥124 to U.S.$1.00, the approximate rate of exchange prevailing on March 30, 2001.
2. The Company's fiscal year begins on April 1 and ends on March 31 of the following year. In this report, fiscal 2001 is used to denote the year ended March 31, 2001.

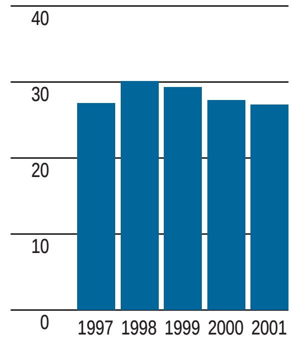
ELECTRICITY SALES
(Billions of kWh)



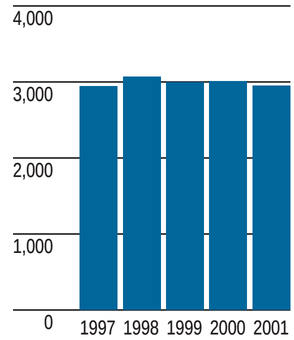
OPERATING REVENUES
(¥ billions)



NET INCOME
(¥ billions)



TOTAL ASSETS
(¥ billions)



Management's Vision for the Age of Market Liberalization

Shitomi Takasu,
Chairperson

Looking Back 50 Years after Our Founding

2001, the first year of a new century, has further significance for our Company—it is our 50th anniversary.

On this occasion, we would like to offer our heartfelt thanks to our customers in the Chugoku region as well as the stockholders and investors who have supported our Company over the decades.

Founded in the chaos of the aftermath of World War II, The Chugoku Electric Power Co., Inc., has moved in step with the region and the nation through the periods of economic and societal recovery and development. At the time of our founding, our total assets were approximately ¥25 billion, a figure that has grown to approximately ¥2.8 trillion today. After years of dedicated effort, Chugoku Electric is now regarded as a power supplier of world-class reliability and quality.

In March 2000, the electric power market in Japan was partially liberalized. This has prompted several new companies to enter, ushering in a period of full-scale competition in the electric power sector. To remain the first choice of our customers, stockholders, and investors, we are committed to consolidating our operating base and strengthening competitiveness without compromising the reliability of supply.

Operating Environment and Results

During fiscal 2001, ended March 31, 2001, despite a rise in private-sector capital investment, domestic personal spending showed no real improvement, as the employment environment remained very harsh. In the second half of the fiscal year, the U.S. economy began to lose steam, making the future course of the Japanese economy harder to discern. Economic conditions in the Chugoku region remained more or less the same as in the rest of Japan.

In this environment, electricity sales of Chugoku Electric increased 3.0% compared with the previous fiscal year, to 54.5 billion kWh, and non-consolidated operating and other revenues decreased ¥3.6 billion, to ¥1,007 billion. Total ordinary expenditures were ¥937.8 billion, a decrease of ¥14.8 billion from the previous fiscal year, and ordinary income rose 19.3%, to ¥69.1 billion.

In October 2000, we cut electricity rates. Our policy of deriving the maximum possible advantages from the fruits of streamlining enabled us to reduce electricity rates by the largest margin in Japan, which was very well received by our customers.

Liberalization

The electric power market was partially liberalized in March 2000, creating competition in the energy market with other energy sources, such as gas and diffused-type power. In response, the Company worked to strengthen its price-competitiveness by adding options to its menu of service charges, lowering electricity rates in 2000, and focusing sales operations with the aim of deepening customers' trust. As a result, Chugoku Electric was able to keep all customer contracts for fiscal 2002 with one exception, which was lost to a new entrant in the electric power industry.

In fact, the Company regards liberalization as an opportunity to gain customers that currently generate their own power, the proportion of which is high in our service area. We are now beginning to see the results of our attempts to persuade such customers to switch to Chugoku Electric by offering an attractive menu of service charges.

Faced with the likelihood that sales competition with new entrants into the electric power industry will intensify, the Company is working to ensure that it remains the supplier of first choice for customers by increasing operating efficiency, strengthening price-competitiveness, increasing the options in its menu of service charges, and further developing its sales operation structure.

Strengthening the Operating Base

The abolition of the ban preventing electric power companies from entering other businesses and other deregulation measures present a golden opportunity for strengthening our operating base. By making full use of Group resources such as equipment, technology, personnel, and customer connections, all gained through our long experience in the electric power industry, we aim to transform ourselves into a comprehensive general lifestyle support enterprise, putting great emphasis on such businesses as information and telecommunications, environmental, and business lifestyle support, as well as electricity supply.

In January 2001, Chugoku Electric established management policies and targets for the Group as a whole and is now bringing all its resources onto a Group footing.

In October 2001, we reconfigured the Company's operations into three divisions as part of an organizational revision. This reform reached down to the branch office level and beyond. We placed service offices, power stations, and power management offices under the direct control of the general managers of the three independent specialized divisions, eliminating middle management functions at the branch office level. This reform aims to enable the Company to respond appropriately and swiftly to changes in the market.

Additionally, in November 2001, we broadened our range of business targets and raised individual targets in anticipation of rapid change in our operating environment. Chugoku Electric is accelerating efforts to strengthen its operating base to bolster its financial structure and business performance so that it can continue to fully meet the expectations of stockholders and investors.

Ensuring a Stable Electricity Supply

The introduction of the principles of competition in our business is prompting thoroughgoing rationalization, but at the same time we are also expected to continue to fulfill our public duties to provide a reliable electricity supply and respect the environment.

Shigeo Shirakura,
President

Responsible for providing energy to the Chugoku region, Chugoku Electric is determined to guarantee a stable, long-term supply of electricity by using the highest-quality plants and equipment in the best combination, with due consideration given to environmental issues. From the standpoint of reducing CO_2 emissions and ensuring energy security, we are making every effort to increase the operating rate of our nuclear power station currently in operation and bring new sites onstream as soon as possible. The Company is also continuing to aggressively pursue R&D in solar and other alternative energy sources and technologies that help protect the environment. As part of that effort, we established the Green Power Fund in October 2000 and are working to encourage the use of natural energy sources.

As the new century unfolds, we are proud to be helping to meet the energy needs of the Chugoku region and aim to ensure that our Company retains the trust of our customers and society at large, remaining customers' first choice as an electricity supplier.

We look forward to the continuing support and understanding of our stockholders and investors.

November 1, 2001

Shitomi Takasu, Chairperson

Shigeo Shirakura, President

Future Challenges for the Electric Power Industry

LIBERALIZATION OF THE ELECTRIC POWER INDUSTRY: OVERVIEW AND ISSUES

How Liberalization Has Affected the Market

■ National Market

As of the end of October 2001, nine companies had made official notifications of intent to enter liberalized areas of the Japanese electric power market and were preparing to enter the retail sector. Currently, electricity auctions are being held, notably by governmental and public institutions.

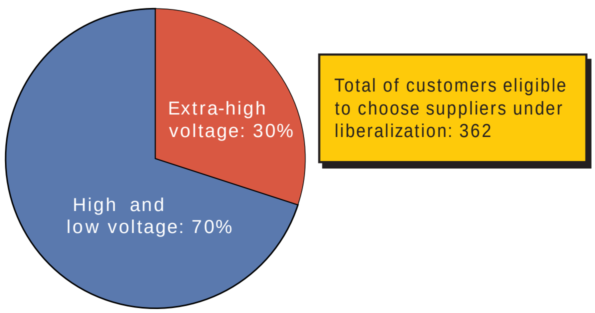
■ Chugoku Electric's Service Area

As of the end of October 2001, 362 of our customers were eligible to choose new suppliers under liberalization, accounting for approximately three-tenths of our electricity sales.

As yet, no company has applied to become a new electricity supplier within Chugoku Electric's service area under liberalization. However, from the beginning of this year several companies made such applications in the western region of Japan, and it is very likely that new entrants will begin making their presence felt in the Chugoku region in the future.

By the end of October 2001, Chugoku Electric had won tenders put out by four governmental and public institutions, including the city of Hiroshima. The Company was the only bidder in each case.

Ratio of Customers Eligible to Choose Suppliers under Liberalization (By Electricity Sales)



Total Electricity Sales in Fiscal 2001 (54.5 billion kWh)

Status of Customer Contracts (Concluded for Fiscal 2002)

Chugoku Electric has renewed contracts with 361 customers, over half being long-term, for fiscal 2002. Only one customer has switched to a new entrant out of the Chugoku region.

The Company is working to increase electricity sales by developing services designed to win over companies that generate their own electricity.

Status of Energy Industry Reforms

In October 2001, the Electricity Industry Committee of the Advisory Committee for Natural Resources and Energy began conducting sessions aimed at charting out the best course for the electricity industry from the perspective of the national economy in the 21st century.

Chugoku Electric will continue to improve operating efficiency and will discuss and implement any changes to its management systems that would enable the Company to adapt to a changing environment.

Marketing Policy

■ Strengthening Price-Competitiveness

On October 1, 2000, Chugoku Electric lowered its electricity rates, reflecting its determination to share the fruits of its successful streamlining measures, including trimming capital investment and maintenance expenses, to the maximum extent possible.

With rate reductions averaging 6.90% (¥1.42 per kWh) for low- and high-voltage electricity customers who are not eligible to choose their supplier, Chugoku Electric has made the biggest cut in electricity rates of any electric power company in Japan. For customers eligible to choose their suppliers under liberalization, Chugoku Electric has, in fact, made two rate cuts; an earlier reduction had been included in the new menu of service charges drawn up at renewal time for fiscal 2001 contracts. In the standard menu, a cut of approximately 10% was offered to commercial users and 5% to industrial users.

In the future, competition with new entrants is likely to intensify. By further speeding up programs to enhance its range of services and streamline management, Chugoku Electric is determined to strengthen its competitiveness and face up to the challenges from the new entrants.

■ Strengthening the Bonds of Trust with Our Customers

To retain customers, in addition to such pricing strategies as a new service menu, Chugoku Electric must provide value-added services through its marketing operations. As part of efforts to deepen customers' trust, the Company is offering various technical services, applying its technologies and expertise.

● Value-Added Services Now Provided

- Facilities Diagnostic Services: The Company's technicians make regular visits to customers to advise on how to maintain and supervise their electricity facilities.
- Energy Conservation Diagnostic Services: Based on surveys and analyses of the energy consumption of customers' equipment, such as air-conditioning, cooling, and lighting, the Company proposes ways to upgrade customers' operations.
- Lightning Forecast Service: Through the Internet, the Company provides customers with real-time forecasts of lightning, which can cause sudden drops in voltage and other problems.
- Customer Support Workshop: This workshop set up by Chugoku Electric makes use of the Company's research and study facilities to handle major customer concerns such as those relating to power receiving equipment.

Customer Support Workshop

■ Strengthening Sales Operations

Chugoku Electric has set up within its Energy Marketing and Services Division a specialist team of consultants to advise and persuade companies that generate their own electricity to switch to Chugoku Electric. Based on the probability of further liberalization in the future and our need to target companies that generate their own electricity, we plan to create a dedicated marketing team for high-voltage electricity customers (500kW or more as per supply contract).

STRENGTHENING OUR OPERATING BASE

All over the world, electricity supply systems have been reformed to increase their efficiency. In this harsh operating climate, Chugoku Electric is determined to gather all its resources as a group, raise corporate value, and improve profitability on a consolidated base. The Company is adopting the following strategies.

Comprehensive Organizational Overhaul

On October 1, 2001, Chugoku Electric unveiled an overhaul of its entire organization based on the introduction of specialized divisions dedicated to handling electricity sales, generation, and distribution—areas in which changes in the operating environment and market risk have arisen due to deregulation and partial liberalization of the electricity retailing business. In this function-based corporate structure, the Company's service offices, power management offices, and other offices have been placed directly under the control of these three divisions, which have clearly designated responsibilities and roles, strengthening the autonomy and independence of each division. In this way, Chugoku Electric can respond to the market more accurately and speedily.

Hitherto, Chugoku Electric has carried out planning and management separately in each region, based on the branch offices in each prefecture within the Chugoku region. However, under the new system, the new energy marketing and services, power generation, and power distribution divisions now encompass all strategic and administrative planning, execution, and management functions.

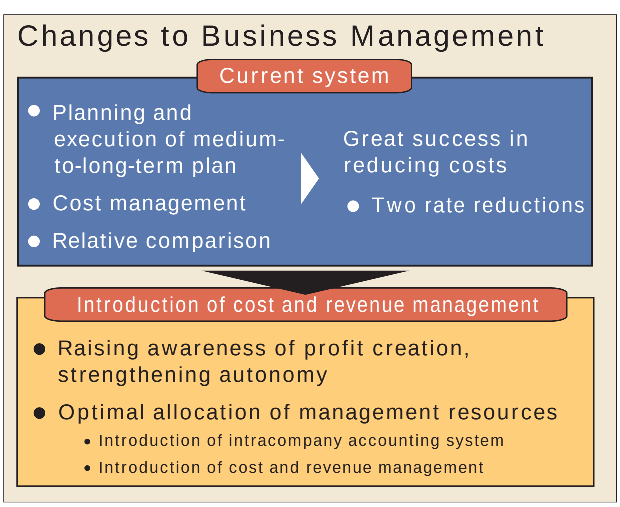
In tandem with the adoption of the divisional system, branch offices responsible for all business management in their ambit have had their roles partially redefined. Repositioned as representative entities for each prefecture of the Chugoku region, their role is now to maintain close relations with customers such as local authorities, public organizations, and enterprises.

With regard to our sales stronghold, we plan to create a customer service system that integrates all companies in the Group. Service centers (small offices that handle business in areas remote from the service offices) are being merged with their nearest service offices to further increase operating efficiency.

Upgrading Business Management

The medium-term management plan begun in fiscal 1999 has achieved great success in reducing costs across the organization. The system of cost management has been converted to one of cost and revenue management at each specialized division. Through this measure, we plan to raise awareness in every division of our organization of the importance of profit creation and make each division more autonomous. Combining this with the optimal allocation of management resources, Chugoku Electric can strengthen both its operating base and price-competitiveness.

With the introduction of cost and revenue management, there is a risk of overemphasis on short-term profitability. In response, Chugoku Electric has increased the range of targets to achieve an appropriate balance.

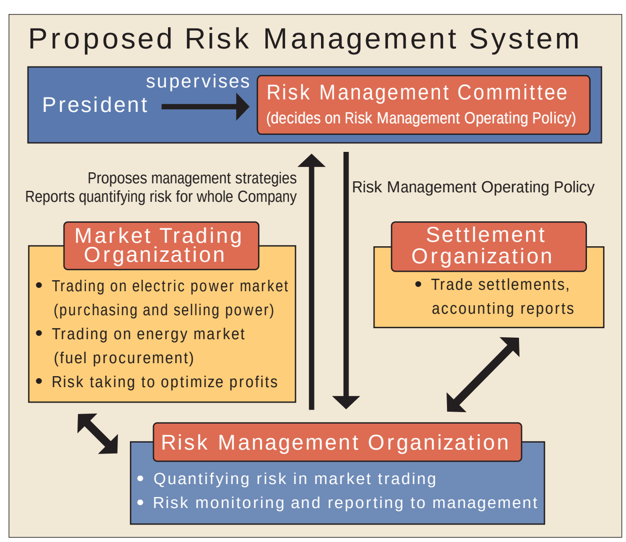


Risk Management

In November 2001, Chugoku Electric set down its stance on and approaches to the issue of risk in a Risk Management Basic Policy designed to elevate individual employees' awareness and recognition of risk.

Monitoring the trends of liberalization, such as the creation of an electric power trading market, Chugoku Electric is developing strategies for responding to anticipated risk, such as market and asset value fluctuation, and is creating a risk management organization. Chugoku Electric is setting up a Risk Management Operating Policy to handle matters that include degree of risk toleration, risk quantification, and hedging methods.

For the moment, each division is identifying sources of risk and discussing and implementing responses based on the Risk Management Basic Policy.

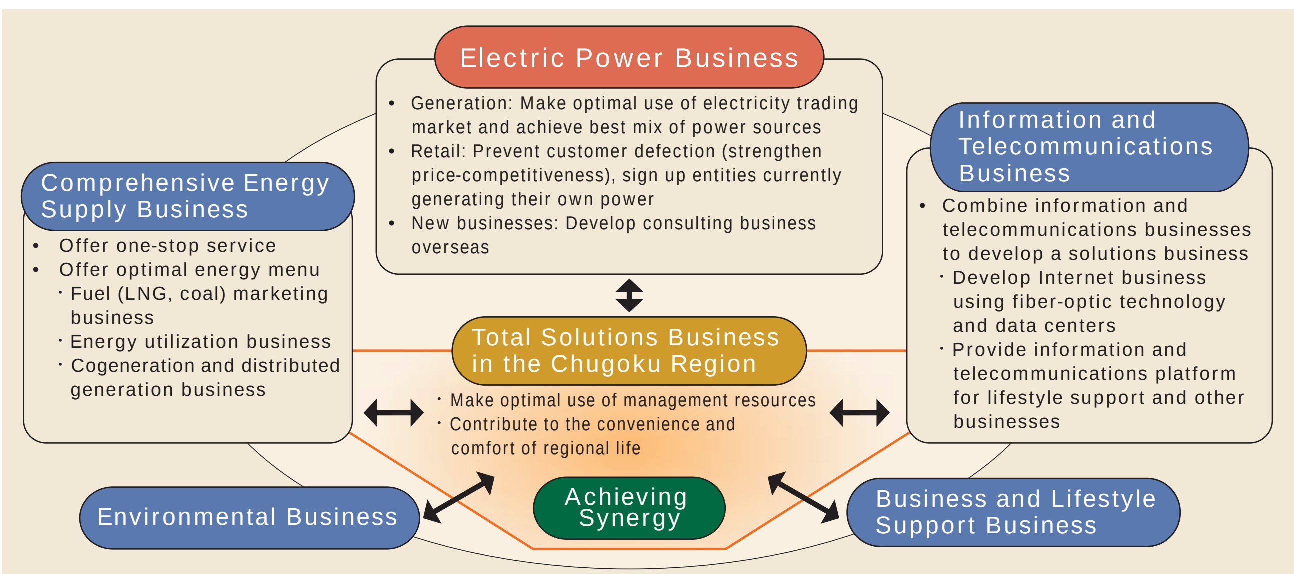


DEVELOPING NEW BUSINESSES

Chugoku Electric's business will continue to remain founded on its customer base in the Chugoku region. Our basic approach is to continue to develop our business in a way that contributes to the convenience and comfort of regional life.

However, deregulation has opened up new opportunities, enabling us to secure additional sources of revenue by entering new business fields.

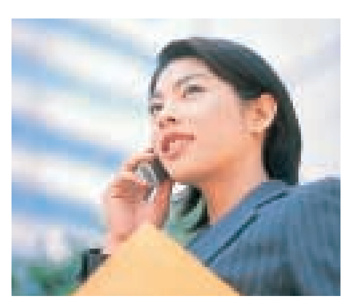
Accordingly, we are transforming ourselves into a total solutions business. With electric power as our core business, we have designated the following strategic business areas: Comprehensive Energy Supply Business, Information and Telecommunications Business, Environmental Business, and Business and Lifestyle Support Business. Furthermore, we will maximize Group resources to develop these businesses aggressively while creating synergistic benefits with our electric power business.



In October 2001, we established Energia Solution & Service Company, Incorporated (ESS), a comprehensive energy supply business. Established to meet various customer needs that cannot be met by an electric power business alone, ESS coordinates with Chugoku Electric to offer energy menus using one-step services.

The new mission of the Information and Telecommunications Business is to provide total solutions using fiber-optic networks to meet various customer needs in the information and telecommunications fields.

From spring 2002, we plan to offer high-speed Internet connections using Fiber to the Home (FTTH, up to 100Mbps), wireless access (up to 3Mbps), and other technologies as well as an attractive range of content delivery services.



Group Management Strategy

● Setting a Group Management Guideline

In January 2001, the Chugoku Electric Group Management Guideline was compiled. While emphasizing consolidated management, this guideline sets out clear directions and targets for Group companies in the medium-to-long term, with the goal of strengthening Group profitability and streamlining operations.

● Group Business Targets to be Met by Fiscal 2006

• Target for the Group as a Whole

To become eligible to be listed on a stock exchange by strengthening the operating base and improving profitability

Company Type	Business Target
Consolidated subsidiaries	To raise fiscal 2006 sales outside the Group to 150% of fiscal 2000 levels, on an aggregate basis
Subsidiaries under the equity method and subsidiaries that are neither consolidated nor accounted for under the equity method	To maintain and increase profits through the expansion of sales outside the Group and streamline operations
Newly established companies	To achieve profitability on an annual basis within three years of establishment and eliminate all accumulated losses within five years

■ Establishment of Business Strategy Committee for Group Companies

The Company is setting up the Business Strategy Committee for Group companies, consisting of top executives of Chugoku Electric and other Group companies. Bringing together the parent and individual Group companies, this body will discuss and decide on actions with regard to such issues facing the Group as unprofitable divisions and measures to strengthen competitiveness.

DIRECTIONS FOR FUTURE BUSINESS

One and a half years have passed since the liberalization of the electricity market was put into effect in March 2000. To respond to the change in our operating environment and survive in this new era of competition, Chugoku Electric aims to remain the power supplier trusted and chosen by customers, stockholders, and investors.

In October 2000, Chugoku Electric lowered electricity rates to reflect the success of efficiency drives, which increased our price-competitiveness. Viewing liberalization as a growth opportunity, Chugoku Electric plans to strengthen its competitiveness in the electricity industry and bolster its revenue base by building up new businesses.

To respond to rapid change in the operating environment, it is urgent that we strengthen our operating base. We are determined to raise corporate value by improving our performance and strengthening our financial base by expanding revenue and accelerating efficiency drives.

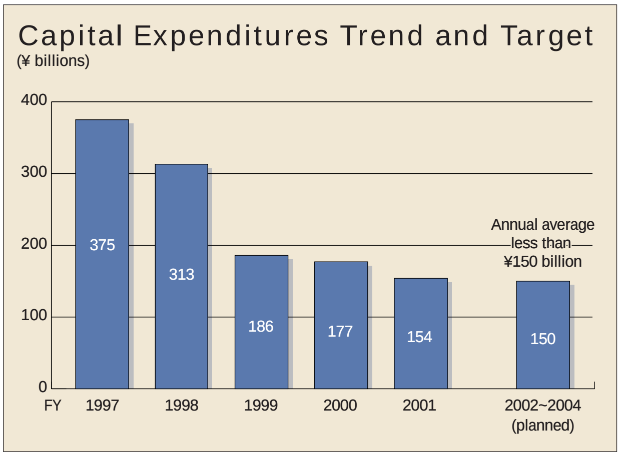
Basic Objectives

- To become more price-competitive and bring Group strength to bear
- To win the trust of customers, stockholders, and investors so as to remain their first choice
- To become a company infused with vigor

Areas Targeted in Streamlining Plan

■ Capital Expenditures

Chugoku Electric is working to improve the efficiency of capital investments by developing and introducing new technology to cut the cost of equipment design and construction and to make more efficient use of existing facilities. The Company plans to hold total capital expenditures in the fiscal 2002–2004 period to an average of approximately ¥150 billion or less in each of the three years.



Maintenance and Operating Expenses

From fiscal 2002 to fiscal 2004, Chugoku Electric intends to keep maintenance expenses at approximately ¥98 billion a year on average, chiefly by enhancing diagnostic technology so that it is not necessary to frequently carry out regular inspections and repair work. Chugoku Electric will keep operating expenses over the same period down to approximately ¥95 billion on average per year by managing costs even more rigorously using the cost-effect method.

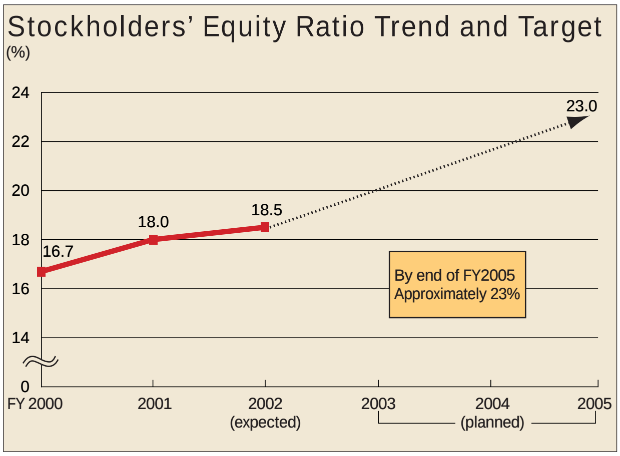
Management Goals

To prepare for coming changes in our operating environment, such as the intensified competition within the energy industry accompanying increased liberalization, Chugoku Electric is accelerating efforts to strengthen its operating base. Following our corporate vision, we revised our management goals in November 2001 and set the following quantitative targets for the period of fiscal 2003 to fiscal 2005.

We have toughened the targets across the board and introduced for the first time return on equity (ROE) and capital costing as indicators.

Stockholders' Equity Ratio

Our long-term goal is to bring our stockholders' equity ratio in line with the Japanese all-industry average of 30%.



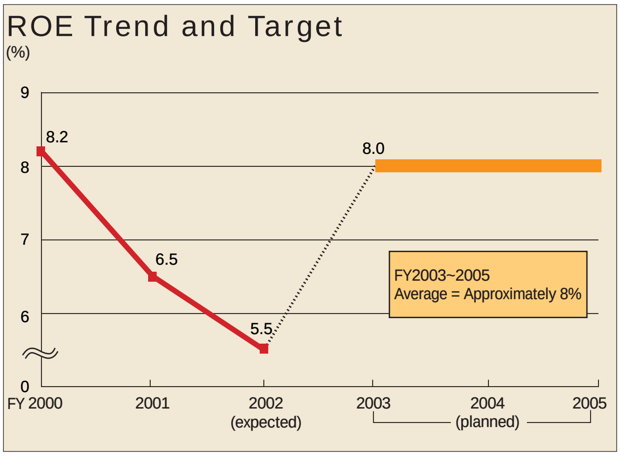
To achieve this, we have set a medium-term target of approximately 23% by the end of fiscal 2005.

Setting of Capital Costing

We are committed to raising ROE, representing the income expected by stockholders and investors, and return on assets (ROA), an indicator of capital efficiency. To achieve these goals, we have introduced capital costing.

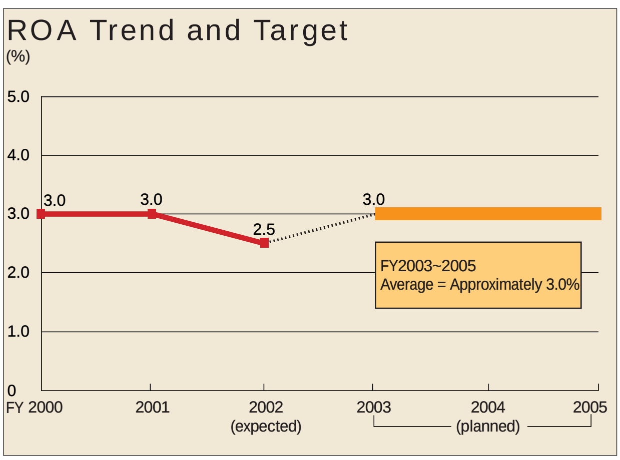
ROE

ROE targets have been newly set to improve the profit ratio yielded by equity capital costs. We have set an annual average ROE target of 8% for the period of fiscal 2003 to fiscal 2005, a level in excess of equity capital costs, which are a part of capital costs.



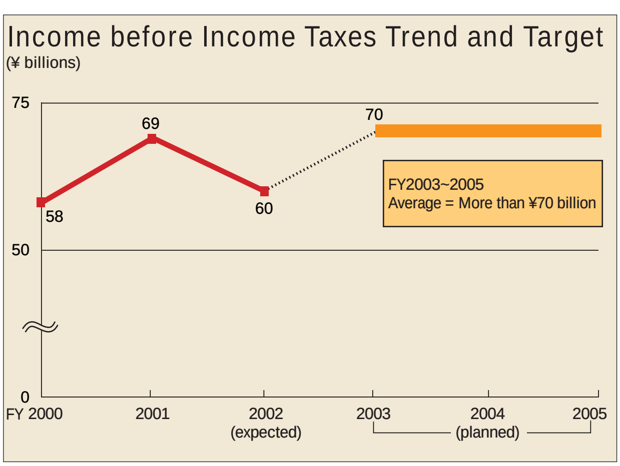
■ ROA

In tandem with the introduction of capital costing, we have changed income to be used for the ROA calculation from income before income taxes to operating income after tax, in order to better appraise asset efficiency in relation to capital costs. In the long term, we aim to create a profit structure in which assets acquired using invested capital are in excess of capital costs. To this end, we have set an ROA target of approximately 3% per annum for the period of fiscal 2003 to fiscal 2005.



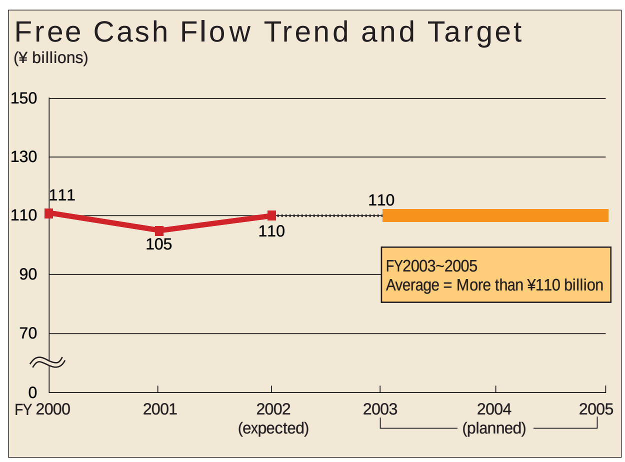
■ Income before Income Taxes

In preparation for changes in our operating environment, we have set an annual income before income taxes target of more than ¥70 billion on average for the period of fiscal 2003 to fiscal 2005, a level that should be sufficient to expedite improvement of the financial position and long-term reduction of electricity rates.



■ Free Cash Flow

When allocating free cash flow, it is necessary to form a general judgement including factors such as the improvement of financial position and dividend payment levels. In light of this, we have changed our definition of free cash flow targets from post- to pre-dividend payment, and have set an annual target of more than ¥110 billion on average for the period of fiscal 2003 to fiscal 2005. In addition to dividend payments, we will give priority in allocation of free cash flow to factors such as strengthening the financial position by reducing interest-bearing debt.



Corporate Philosophy

In 1991, on the 40th anniversary of its founding, Chugoku Electric adopted a corporate philosophy based on the key concept expressed by the slogan "Energia—With You and With the Earth." The word "Energia" conveys the concept of a society that is fresh, bright, warm, and energetic—a society that energy brings about. It also represents the driving force of Chugoku Electric in all its business activities, and the key concept is embodied in the management concept and action guidelines.

The secondary theme, "With You and With the Earth," expresses Chugoku Electric's determination to realize the Energia vision, while putting itself in its customers' place with a global perspective.

Management Concept

Energia

ENERGIA

- Seeking to realize the inherent potential of energy
- Taking pride in winning customers' trust
- Placing top priority on people
- Contributing to the development of the region
- Constantly seeking harmony with nature

Central Control Room at a Nuclear Power Station

Constructing Transmisson Lines

Customer Center at a Sales Office

Working to Ensure a Stable Supply of Electricity

The three main methods of power generation are hydroelectric, thermal, and nuclear—each with its own operational and economic characteristics. By carefully balancing the advantages and disadvantages of these various methods, it is possible to supply electricity reliably and at a reasonable cost.

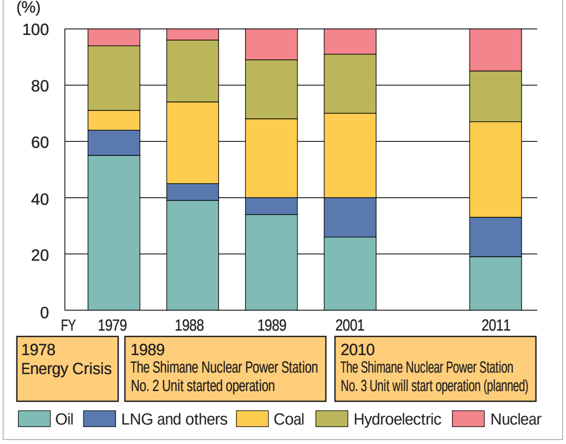
Japan depends on imported resources for approximately 80% of its energy needs. From the viewpoint of energy security, Japan needs to diversify its sources of fuel for generating electricity. In addition, the reduction of CO_2 emissions, in the interests of global environmental protection, must also be taken into consideration. With these perspectives in mind, Chugoku Electric's goal is to create an ideal mix in which nuclear, coal-fired, and other types of power generation each contributes one-third to total generation capacity.

Currently, the ratio of nuclear power to Chugoku Electric's total generation capacity is significantly lower than that of other electric power companies in Japan. Accordingly, the Company is concentrating its efforts on increasing the ratio of nuclear-generated power as soon as possible. In August 2000, the Shimane Nuclear Power Station No. 3 Unit was incorporated into the Japanese government's basic plan for power source development and will begin operations in March 2010. Chugoku Electric is working to build a new nuclear power station in Kaminoseki, the No. 1 Unit of which is to begin operations in fiscal 2013, and the No. 2 Unit to follow in fiscal 2016.

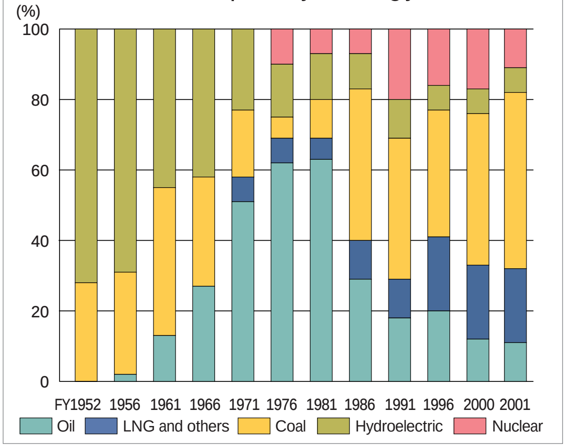
Furthermore, to reliably supply electricity to its customers, Chugoku Electric is working to enhance its power transmission and distribution facilities as well as develop technologies and techniques that allow facilities' maintenance to be performed without disruption to the electricity supply.

As a result of these efforts, Chugoku Electric has maintained its position as one of the leading electric power companies in the world in terms of quality of service.

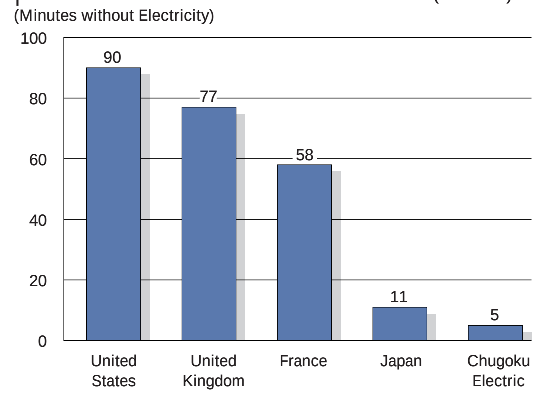
Generation Capacity by Energy Source



Generation Output by Energy Source



Average Duration of Electricity Disruptions per Household on an Annual Basis (FY 1998)



Source: Survey of the Federation of Electric Power Companies

Load-Leveling Measures

The increased use of air-conditioning in homes and commercial buildings has resulted in growing peak load demand in recent years, especially during the daytime in summer. The effect of this lowers the operation efficiency of plant facilities and pushes up the cost of supplying electricity.

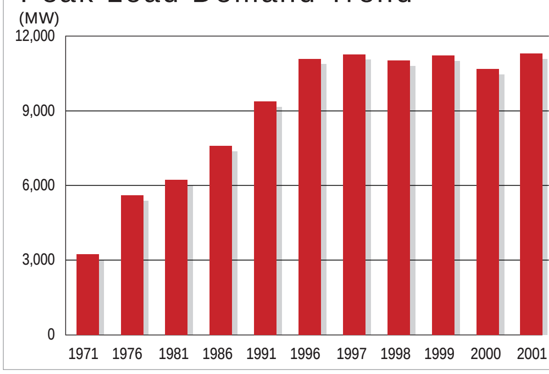
To shift some electricity consumption from the day to the night, Chugoku Electric is encouraging the wider use of ice thermal-storage air-conditioning systems and electric water heaters that use electricity at night, when power demand is lower.

Chugoku Electric is taking other measures to reduce peak loads, such as offering diversified options in its menu of service charges that control use of electricity at peak times and shift demand to other time bands of the day and periods of the year.

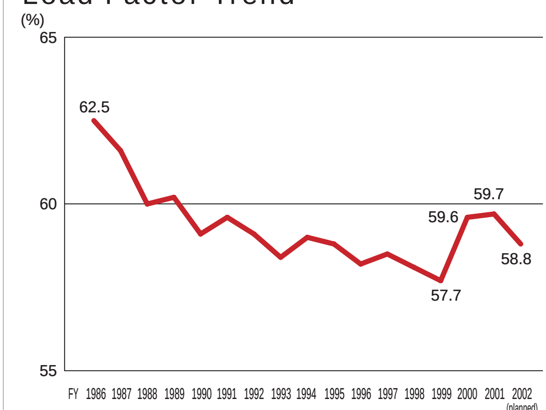
In terms of encouraging the use of electric water heaters, Chugoku Electric has the best record of Japan's electric power companies, and use of ice thermal-storage air-conditioning systems is growing year by year.

The Eco-Ice Promotion Fair

Peak Load Demand Trend

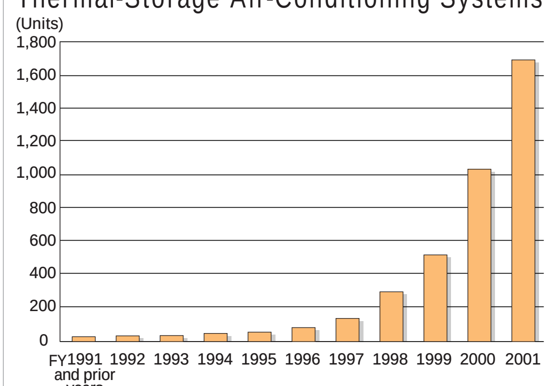


Load Factor Trend



Note: Load Factor = Average Demand (Annual) ÷ Peak Summer Demand
(Values unadjusted for seasonal factors)

Cumulative Sales of Eco-Ice/Ice Thermal-Storage Air-Conditioning Systems



Environmental Activities

Chugoku Electric considers environmental protection a priority management issue. The Company is and will remain committed to reducing its environmental burden and has set 12 quantitive targets to be met by fiscal 2011. These targets relate to such global environmental issues as global warming, the destruction of the ozone layer, and those of local concern, such as air and water pollution.

As a key tool in this effort, the Company has in place at all of its business sites its independently developed "Environment Management System"—based on the ISO 14001 environmental management system standards. The Company's thermal power department completed acquisition of ISO 14001 certification in May 2000, and seven business sites and one department are scheduled to acquire it by fiscal 2003.

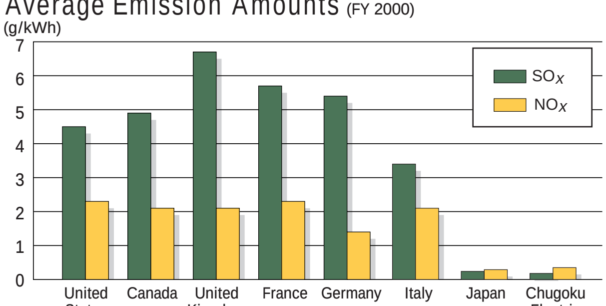
To combat global warming, the Company has worked to develop nuclear power, which does not emit CO_2 during power generating operations, and convert existing coal-powered thermal power stations to LNG. On a global level, Chugoku Electric participates in the Prototype Carbon Fund proposed by the World Bank and is involved in afforestation projects in Australia. The Company is also reducing use of fossil fuels through the introduction of new technology to improve the heat efficiency of thermal power stations and the operating efficiency of nuclear power stations.

In local environmental initiatives, the Company ranks among the world's leaders in the reduction of emissions of such substances as sulfur and nitrogen oxides (SO_X and NO_X), considered the causes of acid rain, through the installation of equipment at thermal power stations that removes sulfur and nitrates from emissions.

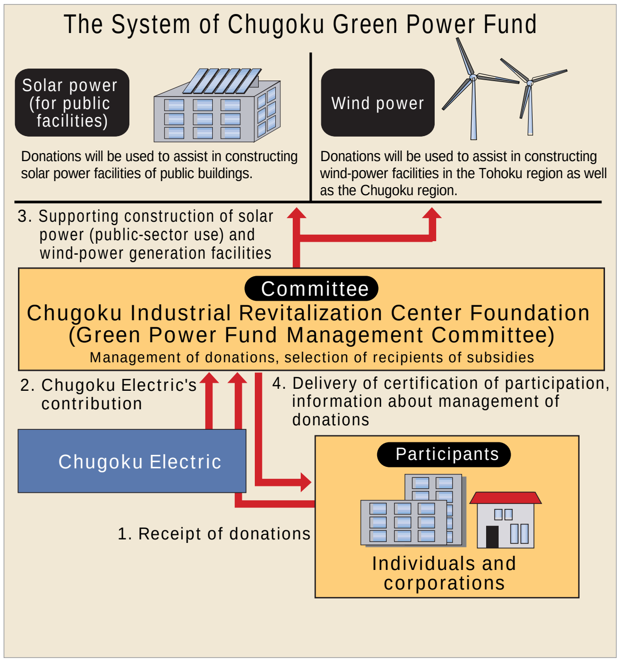
Chugoku Electric is also active in efforts to conserve resources and recycle waste products, as exemplified by the Company's work with coal ash and desulfurized gypsum. About 90% of the industrial waste produced by Chugoku Electric is coal ash and desulfurized gypsum. The Company recycles all desulfurized gypsum and approximately 70% of coal ash. The former is used as a construction material as well as a base material for cement, and the latter can also be used as a base material for cement. In October 2000, Chugoku Electric launched "Hi Beeds," an ocean sand substitute material, and "Geo Seed," a soil improver—both of which are made from coal ash—and will continue to seek new ways of making efficient use of it.

As part of efforts to encourage use of alternative energy sources, in October 2000 Chugoku Electric established the "Green Power Fund," an initiative designed to involve the public. In this project, the Company urges customers to demonstrate their environmental commitment by contributing to subsidies for the construction of solar and wind-power generating facilities. Chugoku Electric is determined to remain actively committed to environment protection.

Comparison of Annual SO_X and NO_X Average Emission Amounts (FY 2000)



Sources: OECD Environmental Data, OECD Energy Balances



Technological Research and Development

Chugoku Electric is conducting a wide range of R&D activities with themes based on mid- and long-range perspectives. These efforts are focused on cutting costs, developing new areas of business, preserving the environment, promoting efficient use of energy and resources, ensuring a stable supply of electricity, and contributing to the development of local communities.

As part of its efforts to lower costs, Chugoku Electric is researching and developing technologies for automating and streamlining maintenance work at power stations, for example by using robots. The Company is also developing high-precision diagnostic methods to help extend the working life of equipment.

As part of its efforts to enter new businesses, the Company built a micro gas turbine, a device that shows promise as a small-scale diffused-type power source, at the Yanai Power Station in April 2000 and has begun tests to evaluate its basic functions.

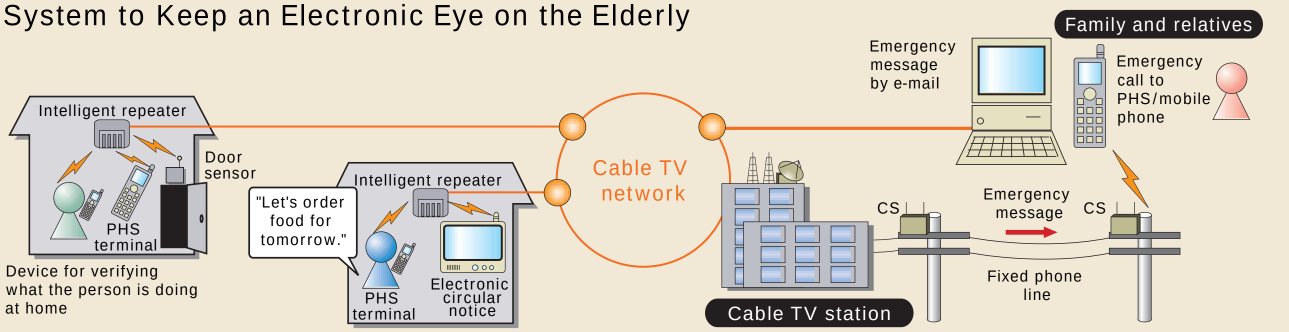
As a response to the challenge of a “graying society” that Japan now faces, the Company is testing its information support system for the aged in their everyday lives, developed jointly with electrical equipment manufacturers and cable TV companies. The system, which uses PHS (Personal Handyphone System) terminals and existing cable TV networks, puts aged people living alone in closer touch with distantly located families.

Moreover, the Company is conducting other R&D activities that accurately reflect the needs of its customers and local communities by strengthening its ties with industrial, educational, and governmental organizations to develop technologies for the preservation of the environment and the efficient use of energy.

Technical Research Center

Micro Gas Turbine

System to Keep an Electronic Eye on the Elderly



Installing sensors in every room makes it possible to monitor the daily behavior patterns of an aged person in his or her home, such as getting up, going to bed, going out, and using the toilet. By referring to such accumulated data, it becomes possible to judge whether the subject’s behavior on a particular day is regular or not.

Contributions to the Community and International Exchange

Chugoku Electric's service area is the Chugoku region of Japan. It is the responsibility of the Company to serve the region as a good corporate citizen and help create an attractive community through the development of the regional economy and culture and the promotion of technology.

To this end, the Company participates in a wide range of community activities that serve the specific needs of the area. Making available its facilities, personnel, expertise, and other resources, the Company hosts concerts, lectures, and exhibitions and supports volunteer activities at welfare facilities and regional promotional activities staged by such local organizations as the Chugoku Economic Federation and the Energia Cultural & Sports Foundation.

The Company celebrates the 50th anniversary of its founding this fiscal year. To express its gratitude to its customers in the Chugoku region, the Company is organizing, in addition to the regular above-mentioned activities, special events under the slogan "Thank you! Chugoku Electric is ready for the challenge of realizing the E-dream (which means 'good dream') and the Energia concept."

As part of the anniversary activities, Chugoku Electric is compiling a list of people with specialist knowledge who can be deployed in the local community as volunteers. This new initiative will be continued after our anniversary, forming ongoing contributions to the local community.

With society becoming more international and global environmental problems coming to the forefront, cross-border exchanges and cooperation are increasingly important for electric power companies. Therefore, the Company actively conducts exchange programs and hosts foreign trainees from overseas electric power companies.

"Dream Concert" Played by a Local Symphony Orchestra


Volunteer Work (Cleaning and inspecting electric appliances for a senior citizen who lives alone)


Orientation Tour of a Substation for Employees of a Malaysian Electric Power Company

Financial Section

	Millions of yen					
	2001	2000	1999	1998	1997	1996
Operating revenues	¥1,044,863	¥1,049,440	¥1,039,011	¥1,068,405	¥1,040,964	¥1,046,352
Net income	27,202	27,615	29,306	30,163	27,230	28,485
Total stockholders' equity	575,772	550,856	485,718	475,380	463,942	455,432
Total assets	2,952,869	3,011,101	2,998,389	3,067,448	2,946,150	2,776,916
Interest-bearing debt	2,014,251	2,104,628	2,165,187	2,210,124	2,165,612	1,943,800
Other financial data						
Per share data (yen):						
Stockholders' equity (*1)	1,551.79	1,484.63	1,309.02	1,281.16	1,250.34	1,227.41
Net income (*2):						
Basic	73.31	74.43	78.98	81.29	73.38	77.53
Diluted	72.78	73.88	78.32	80.57	72.78	76.87
Key financial ratios						
Equity ratio (%)	19.5	18.3	16.2	15.5	15.7	16.4
Return on average equity (ROE) (%)	4.8	5.3	6.1	6.4	5.9	6.3
Return on average assets (ROA) (%)	0.91	0.92	0.97	1.00	0.95	1.06
Price earnings ratio (PER) (times)	23.2	17.4	23.8	23.3	27.9	31.0

	Millions of kWh					
	2001	2000	1999	1998	1997	1996
Power generated and received						
Generated:						
Hydroelectric	3,489	3,506	3,298	4,134	2,973	3,298
Thermal	34,656	35,241	35,699	28,972	32,031	29,977
Nuclear	6,765	10,059	10,702	9,282	8,738	9,161
Total	44,910	48,806	49,699	42,388	43,742	42,436
Bought from other companies	21,185	18,499	13,980	18,862	16,489	17,154
Sold to other companies	(4,779)	(7,840)	(5,757)	(3,610)	(3,434)	(4,048)
Transmission loss and other	(6,813)	(6,551)	(6,310)	(6,047)	(6,003)	(6,141)
Total	54,503	52,914	51,612	51,593	50,794	49,401
Electricity sales:						
Residential (lighting)	16,208	15,749	15,358	14,791	14,623	14,289
Commercial, industrial and other	38,295	37,165	36,254	36,802	36,171	35,112
Total	54,503	52,914	51,612	51,593	50,794	49,401

(*1) Stockholders' equity per share is computed using the number of shares of common stock in issue at the end of each year. Retroactive effect of the stock split is not considered.
(*2) See Note 2 (Amounts per share of common stock) of the consolidated financial statements.

SUMMARY OF OPERATIONS

Although private-sector investment showed signs of recovery during fiscal 2001, ended March 31, 2001, continuing sluggishness in personal spending due mainly to the harsh employment environment as well as a slowdown in the U.S. economy in the latter half of the fiscal year increased doubts about the prospects for the Japanese economy. The same factors worked on the Chugoku region as well.

Against this background, The Chugoku Electric Power Co., Inc., and its consolidated subsidiaries (the “Group”) worked to achieve sustainable improvements in operating efficiency and strengthen its financial position. During the period under review, consolidated operating revenues edged down 0.4%, or ¥4.6 billion, to ¥1,044.9 billion (US$8,426.3 million), while net income slipped 1.5%, or ¥0.4 billion, to ¥27.2 billion (US$219.4 million). Free cash flow (cash flows provided by operating activities minus cash flows used in investing activities) totaled ¥102.6 billion (US$827.7 million). Cash dividends per share were ¥60.00 (US$0.48).

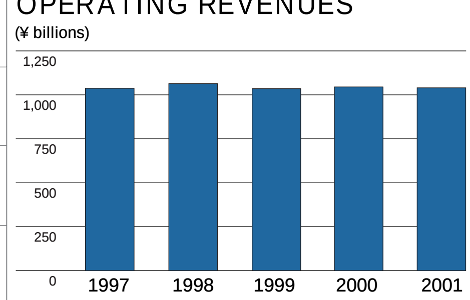
OPERATING REVENUES

Consolidated operating revenues for the period under review declined 0.4%, or ¥4.6 billion, to ¥1,044.9 billion (US$8,426.3 million).

By segment, operating revenues for Electric operations, the principal business of the Group, declined 0.4%, or ¥3.9 billion, to ¥996.9 billion (US$8,039.8 million) after eliminations. Although power sales revenues rose as consumption increased due mainly to greater use of air-conditioning during the year’s hot summer and other factors, other revenues declined from the previous fiscal year because of a cut in electricity rates from October 2000 and such factors as electricity cross-supplying among electricity companies.

Operating revenues for Other operations, which include production and sale of equipment and materials, construction contract work, telecommunications and information processing, and other businesses, declined 1.4%, or ¥0.7 billion, to ¥47.9 billion (US$386.6 million) after eliminations.

OPERATING REVENUES



OPERATING EXPENSES

Operating expenses for the period under review edged up ¥0.2 billion, to ¥918.2 billion (US$7,405.2 million) after eliminations.

Operating expenses for Electric operations shrank 0.1%, or ¥1.2 billion, to ¥859.0 billion (US$6,927.3 million). An increase in fuel expenses due mainly to high crude oil CIF and a reduction in the use of nuclear power was offset principally by a drop in depreciation expenses due to reduced capital investment. Operating expenses for Other operations rose 2.6%, or ¥1.5 billion, to ¥59.3 billion (US$477.9 million), after eliminations.

As a result, operating income fell 3.7%, or ¥4.8 billion, to ¥126.6 billion (US$1,021.1 million).

Other expenses, net, were reduced 10.6%, or ¥8.6 billion, to ¥72.0 billion (US$580.7 million), as the cost of repair work following the Tottori Prefecture and Geiyo earthquakes and other outlays were offset by a reduction in interest paid.

As a result, income before income taxes and minority interests rose 7.4%, or ¥3.8 billion, to ¥54.6 billion (US$440.4 million). However, net income fell 1.5%, or ¥0.4 billion, to ¥27.2 billion (US$219.4 million).

Net income per share, basic, fell ¥1.12, from ¥74.43 to ¥73.31 (US$0.59). Cash dividends applicable to the year were ¥60.00 (US$0.48), the same as in the previous period.

FINANCIAL POSITION

Assets

Total assets as of the end of the period under review fell 1.9%, or ¥58.2 billion, to ¥2,952.9 billion (US$23,813.5 million). An increase in investment securities accompanying the introduction of current value accounting for financial instruments was offset by reduced capital investment and depreciation in Electric operations.

Net property fell 3.3%, or ¥84.3 billion, to ¥2,506.7 billion (US$20,215.0 million). To further streamline Electric operations, the Group made investments to diversify power sources and improve distribution efficiency. The increase in net property accompanying the coming onstream of the Osaki Unit 1 series [1-1] was offset by depreciation at other facilities.

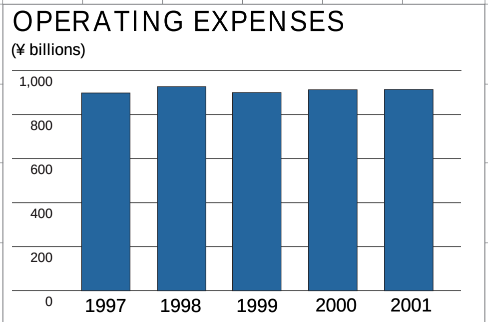
Nuclear fuel climbed 7.8%, or ¥7.5 billion, to ¥104.1 billion (US$839.1 million) due to it being recorded as a processing cost.

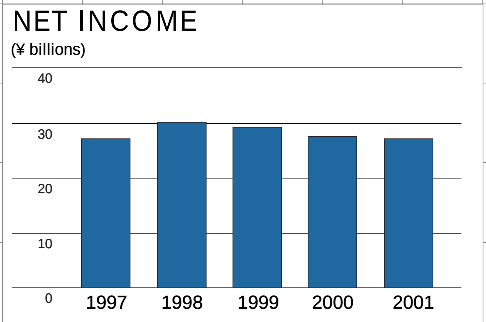
Total investments and other assets rose 7.9%, or ¥14.6 billion, to ¥198.8 billion (US$1,603.4 million) due mainly to an increase in investment securities due to the early adoption of current value accounting for financial instruments.

Total current assets rose 2.9%, or ¥4.0 billion, to ¥143.3 billion (US$1,155.9 million).

Liabilities

Total liabilities were reduced 3.4%, or ¥84.0 billion, to ¥2,372.8 billion (US$19,135.2 million). Short-term and long-term interest-bearing debt fell 4.3%, or ¥90.4 billion, to ¥2,014.3 billion (US$16.244.0 million). Other liabilities rose 1.6%, or ¥5.7 billion, to ¥357.8 billion (US$2,885.5 million) due mainly to recording the net transition obligation of ¥8.2 billion





(US$66.1 million) on the adoption of the new accounting standard for employees' severance and pension benefits.

Minority interests increased 22.8%, or ¥0.8 billion, to ¥4.3 billion (US$34.9 million). Total stockholders' equity rose 4.5%, or ¥24.9 billion, to ¥575.8 billion (US$4,643.3 million), reflecting net unrealized holding gains on securities on the adoption in the fiscal year of current value accounting for financial instruments. The stockholders' equity ratio rose 1.2 percentage points, from 18.3% to 19.5%.

CASH FLOWS

To strengthen its financial base, the Group follows a policy of increasing cash flows provided by operating activities and reducing cash flows used in investing activities.

Cash and cash equivalents at end of year totaled ¥21.1 billion (US$169.8 million), a decrease of ¥4.8 billion (US$38.4 million).

Net cash provided by operating activities during the year fell 9.0%, or ¥25.2 billion, to ¥254.9 billion (US$2,055.4 million). The main factors were an electricity rate cut, which was offset by an increase in overall sales of electricity and streamlining efforts across the Group's management. At the same time, net cash used in investing activities fell 11.7%, or ¥20.1 billion, to ¥152.2 billion (US$1,227.7 million), mainly as a result of more efficient capital investment. Most investment went into the acquisition of property.

Accordingly, free cash flow for the period was ¥102.6 billion (US$827.7 million), providing a resource for the repayment of interest-bearing debt.

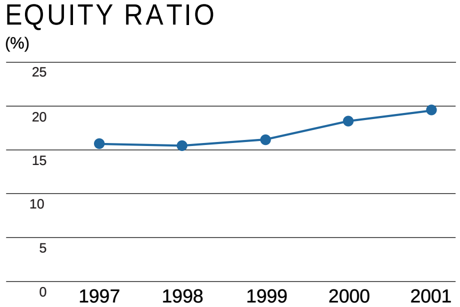
Net cash used in financing activities fell 6.2%, or ¥7.1 billion, to ¥107.4 billion (US$866.1 million) as a result of repayment of long-term borrowings and other efforts to reduce interest-bearing debt. Outflows incurred in the repayment of bonds were more or less counterbalanced by proceeds from the issue of bonds. The balance of other long-term debt declined ¥69.7 billion, as repayments were greater than procurements.

Expenditures for cash dividends paid totaled ¥24.1 billion (US$194.3 million).

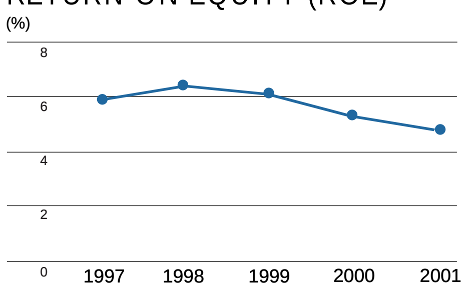
OUTLOOK

Despite continuing efforts to reduce costs through streamlining, the Group anticipates consolidated operating revenues for fiscal 2002 will total ¥1,030.0 billion, short of the previous fiscal year's level, and net income will reach ¥37.0 billion. The main factor for the projected drop in operating revenues is the cut in electricity rates made in October 2000, as Electric operations account for the bulk of consolidated results. These projections are based on an exchange rate of ¥120 to US$1.00 and a crude oil price of US$26 per barrel.

EQUITY RATIO



RETURN ON EQUITY (ROE)



The Chugoku Electric Power Co., Inc. and consolidated subsidiaries
March 31, 2001 and 2000

Assets	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars (Note 1) 2001
Property:			
Utility plant and equipment	¥5,122,658	¥4,947,041	$41,311,758
Other plant	109,608	121,372	883,936
Construction in progress	226,429	291,445	1,826,040
	5,458,695	5,359,858	44,021,734
Less—			
Contributions in aid of construction	63,491	63,487	512,024
Accumulated depreciation	2,888,549	2,705,402	23,294,750
	2,952,040	2,768,889	23,806,774
Net property	2,506,655	2,590,969	20,214,960
Nuclear fuel	104,052	96,514	839,129
Investments and other assets:			
Investment securities (Note 4)	71,285	37,857	574,879
Investments in and advances to non-consolidated subsidiaries and affiliates	79,696	77,670	642,710
Long-term loans to employees	3,530	4,095	28,468
Deferred tax assets (Note 11)	40,348	59,835	325,387
Other assets	3,968	4,798	32,000
Total investments and other assets	198,827	184,255	1,603,444
Current assets:			
Cash and time deposits (Note 3)	22,528	24,804	181,677
Receivables, less allowance for doubtful accounts of ¥859 million ($6,927 thousand) in 2001 and ¥489 million in 2000	61,442	64,808	495,500
Inventories, fuel and supplies	39,637	33,227	319,653
Deferred tax assets (Note 11)	10,311	5,228	83,153
Other current assets	9,417	11,296	75,944
Total current assets	143,335	139,363	1,155,927
Total assets	¥2,952,869	¥3,011,101	$23,813,460

See accompanying notes.

Liabilities and Stockholders' Equity	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars (Note 1) 2001
Long-term debt due after one year (Note 6)	¥1,536,888	¥1,740,345	$12,394,258
Other long-term liabilities due after one year	3,610	10,289	29,113
Employees' retirement benefits	—	67,212	—
Liability for severance and retirement benefits (Note 10)	84,902	—	684,694
Reserve for reprocessing of irradiated nuclear fuel	69,824	65,887	563,097
Reserve for decommissioning of nuclear power generating plants	37,759	36,356	304,508
Current liabilities:			
Long-term debt due within one year (Note 6)	310,923	184,734	2,507,444
Short-term borrowings	166,440	155,549	1,342,258
Commercial paper	—	24,000	—
Accounts payable	58,429	62,190	471,202
Accrued income taxes	11,962	14,028	96,468
Accrued expenses	52,266	57,628	421,500
Reserve for casualty loss	3,612	—	29,129
Other current liabilities (including other long-term liabilities due within one year)	36,150	38,500	291,531
Total current liabilities	639,782	536,629	5,159,532
Minority interests	4,332	3,527	34,935
Commitments and contingent liabilities (Note 8)			
Stockholders' equity (Note 12):			
Common stock, par value ¥500 per share:			
Authorized—1,000,000,000 shares			
Issued—371,055,259 shares	185,528	185,528	1,496,194
Capital surplus	16,677	16,677	134,492
Retained earnings (Note 14)	351,578	348,660	2,835,306
Net unrealized holding gains on securities	21,999	—	177,411
Treasury stock	(4)	(2)	(32)
Common stock held by consolidated subsidiaries	(6)	(7)	(48)
Total stockholders' equity	575,772	550,856	4,643,323
Total liabilities and stockholders' equity	¥2,952,869	¥3,011,101	$23,813,460

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2001	2000	1999	2001
Operating revenues:				
Electric	¥ 996,929	¥1,000,804	¥ 999,345	$8,039,750
Other	47,934	48,636	39,666	386,564
	1,044,863	1,049,440	1,039,011	8,426,314
Operating expenses (Note 9):				
Electric	858,982	860,211	864,089	6,927,274
Other	59,260	57,785	39,937	477,903
	918,242	917,996	904,026	7,405,177
Operating income	126,621	131,444	134,985	1,021,137
Other expenses (income):				
Interest expenses	66,715	81,582	84,047	538,024
Interest income	(190)	(629)	(975)	(1,532)
Losses on sales of securities	—	—	1,507	—
Reversal of reserve for drought	—	—	(688)	—
Equity in (earnings) loss of affiliated companies	(1,646)	664	(2,027)	(13,274)
Casualty loss	6,109	—	—	49,266
Other, net	1,020	(1,031)	3,623	8,226
	72,008	80,586	85,487	580,710
Income before income taxes and minority interests in net income of consolidated subsidiaries	54,613	50,858	49,498	440,427
Provision for income taxes (Note 11):				
Current	24,261	23,614	20,523	195,653
Deferred	2,337	(389)	(230)	18,847
	26,598	23,225	20,293	214,500
Income before minority interests in net income of consolidated subsidiaries	28,015	27,633	29,205	225,927
Minority interests in net income of consolidated subsidiaries	813	18	(101)	6,556
Net income	¥ 27,202	¥ 27,615	¥ 29,306	$ 219,371

	Yen			U.S. dollars (Note 1)
Per share data (Note 2):				
Net income:				
Basic	¥73.31	¥74.43	¥78.98	$0.59
Diluted	72.78	73.88	78.32	0.59
Cash dividends applicable to the year	60.00	60.00	50.00	0.48

See accompanying notes.

	Shares of common stock	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Treasury stock	Common stock held by consolidated subsidiaries
		Millions of yen					
Balance at March 31, 1998	371,055,259	¥185,528	¥16,677	¥273,176	¥ —	¥(1)	¥—
Net income				29,306			
Cash dividends paid (¥50.00 per share)				(18,505)			
Bonuses to directors and statutory auditors				(225)			
Effect of increase in investments accounted for by the equity method				(237)			
Purchase of treasury stock						(1)	
Balance at March 31, 1999	371,055,259	185,528	16,677	283,515	—	(2)	—
Net income				27,615			
Cumulative effect of adopting deferred tax accounting				54,007			
Cash dividends paid (¥50.00 per share)				(18,505)			
Bonuses to directors and statutory auditors				(234)			
Effect of newly consolidated subsidiaries				4,553			
Effect of decrease in investments accounted for by the equity method				237			
Effect of increase in investments accounted for by the equity method				(2,528)			
Purchase of common stock by consolidated subsidiaries							(7)
Balance at March 31, 2000	371,055,259	185,528	16,677	348,660	—	(2)	(7)
Net income				27,202			
Cash dividends paid (¥65.00 per share)				(24,056)			
Bonuses to directors and statutory auditors				(228)			
Adoption of new accounting standard for financial instruments					21,999		
Purchase of treasury stock						(2)	
Sales of common stock by consolidated subsidiaries							1
Balance at March 31, 2001	371,055,259	¥185,528	¥16,677	¥351,578	¥21,999	¥(4)	¥(6)
		Thousands of U.S. dollars (Note 1)					
Balance at March 31, 2000		$1,496,194	$134,492	$2,811,774	$ —	$(16)	$(56)
Net income				219,371			
Cash dividends paid ($0.52 per share)				(194,000)			
Bonuses to directors and statutory auditors				(1,839)			
Adoption of new accounting standard for financial instruments					177,411		
Purchase of treasury stock						(16)	
Sales of common stock by consolidated subsidiaries							8
Balance at March 31, 2001		$1,496,194	$134,492	$2,835,306	$177,411	$(32)	$(48)

See accompanying notes.

The Chugoku Electric Power Co., Inc. and consolidated subsidiaries
For the years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
Cash flows from operating activities:			
Income before income taxes and minority interests in net income of consolidated subsidiaries	¥ 54,613	¥ 50,858	$ 440,427
Depreciation	195,366	210,264	1,575,532
Amortization of nuclear fuel	5,925	10,748	47,782
Loss on disposal of property	8,290	7,319	66,855
Increase (decrease) in employees' retirement benefits	(66,326)	214	(534,887)
Increase in employees' severance and retirement benefits	84,902	—	684,694
Increase in provision for decommissioning of nuclear power generating plants	3,938	5,031	31,758
Increase in provision for reprocessing of irradiated nuclear fuel	1,403	2,203	11,315
Increase in provision for casualty loss	3,612	—	29,129
Interest and dividend income	(829)	(1,396)	(6,685)
Interest expenses	66,715	81,582	538,024
Decrease in notes and accounts receivable	4,368	7,571	35,226
Decrease (increase) in inventories	(4,383)	5,119	(35,347)
Decrease in notes and accounts payable	(1,833)	(2,684)	(14,782)
Other	(9,839)	3,736	(79,347)
Subtotal	345,922	380,565	2,789,694
Interest and dividends received	1,044	1,405	8,419
Interest paid	(67,897)	(84,234)	(547,556)
Income taxes paid	(24,197)	(17,664)	(195,137)
Net cash provided by operating activities	254,872	280,072	2,055,420
Cash flows from investing activities:			
Purchase of property	(155,843)	(177,018)	(1,256,798)
Purchase of investments in securities	(9,221)	(1,129)	(74,363)
Proceeds from sale of investment securities	7,166	3,094	57,790
Other	5,658	2,733	45,629
Net cash used in investing activities	(152,240)	(172,320)	(1,227,742)
Cash flows from financing activities:			
Proceeds from issue of bonds	104,536	164,240	843,032
Repayment of bonds	(105,000)	(213,547)	(846,774)
Proceeds from long-term debt	46,213	52,723	372,685
Repayment of long-term debt	(115,937)	(100,469)	(934,976)
Increase in short-term bank loans	10,892	9,052	87,839
Decrease in commercial paper	(24,000)	(8,000)	(193,548)
Cash dividends paid	(24,098)	(18,529)	(194,339)
Other	(4)	(10)	(32)
Net cash used in financing activities	(107,398)	(114,540)	(866,113)
Net decrease in cash and cash equivalents	(4,766)	(6,788)	(38,435)
Cash and cash equivalents at beginning of year	25,826	32,614	208,274
Cash and cash equivalents at end of year	¥ 21,060	¥ 25,826	$ 169,839

See accompanying notes.

1. Basis of presenting consolidated financial statements

The Chugoku Electric Power Co., Inc. (the "Company") and its consolidated subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code (the "Code"), the Securities and Exchange Law and the Electricity Utilities Industry Law and in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"), which are different from the accounting and disclosure requirements of International Accounting Standards.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company and its consolidated subsidiaries, which were prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated statements of stockholders' equity for 2001, 2000 and 1999 have been prepared for the purpose of inclusion in the accompanying consolidated financial statements, although such statements were not required for domestic purposes and were not filed with the regulatory authorities.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 30, 2001, which was ¥124 to US$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

The following is a summary of the significant accounting policies used in the preparation of the consolidated financial statements:

Consolidation

The Company prepared the consolidated financial statements for the years ended March 31, 2001 and 2000 in accordance with the Revised Accounting Principles for Consolidated Financial Statements (the "Revised Accounting Principles") effective from year ended March 31, 2000.

The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has power of control through majority voting rights or existence of certain conditions evidencing control by the Company. In the elimination of investments in subsidiaries, the portion of the assets and liabilities of a subsidiary attributable to the subsidiary's shares owned by the Company are evaluated based on fair value at the time when the Company acquired control of the subsidiary. The amounts of assets and liabilities attributable to minority stockholders of the subsidiary are determined using the financial statements of the subsidiary.

Investments in non-consolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies of the investees are accounted for using the equity method. Only 20% to 50% owned companies were accounted for by the equity method through the years ended March 31, 1999. The effect of adopting the Revised Accounting Principles is immaterial.

For the year ended March 31, 2001, 5 (5 in 2000) affiliates were accounted for by the equity method.

For the year ended March 31, 2001, investments in 10 non-consolidated subsidiaries and 17 affiliates were stated at cost without applying the equity method of accounting. If the equity method had been applied for these investments, the amounts of net income and retained earnings of these excluded subsidiaries and affiliates would not have had a material effect on the consolidated financial statements.

Accounting for unrealized gains on sale of property between the Company and equity method affiliates

Unrealized gains on sales of property between the Company and equity method affiliates were included as a reduction in the investment account through the years ended March 31, 1999. In accordance with the provisional rule of the JICPA's Accounting Committee Report No. 9 "Practical Guidance for Accounting for Equity Method," the Company, effective from the year ended March 31, 2000, eliminated such unrealized gains by reducing the cost of property in the amount of ¥16,238 million.

Cash flows statements

The Company prepared the 2001 and 2000 consolidated statements of cash flows as required by and in accordance with "Standards for Preparation of Consolidated Cash Flow Statements, etc." effective from the year ended March 31, 2000.

Inventories, fuel and supplies

Inventories, fuel and supplies are stated at cost, determined principally by the weighted average method.

Securities

Prior to April 1, 2000, securities of the Company and its consolidated subsidiaries (the "Companies") were mainly stated at moving-average cost.

Effective April 1, 2000, the Companies adopted the new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999) (the "New Accounting Standard").

Upon applying the New Accounting Standard, all companies are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes (hereafter,"trading securities"), (b) debt securities intended to be held to maturity (hereafter,"held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) for all other securities that are not classified in any of the above categories (hereafter,"available-for-sale securities").

Trading securities are stated at fair market value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of stockholders' equity. Realized gains and losses on the sale of such securities are computed using the moving-average cost.

Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market values are stated at moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities declines significantly, such securities are stated at fair market value, and the difference between the fair market value and the carrying amount is recognized as a loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not accounted for by the equity method is not readily available, such securities should be written down to net asset value with a corresponding charge in the consolidated statements of income in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

As a result of adopting the New Accounting Standard for financial instruments, income before income taxes and minority interests in net income of consolidated subsidiaries decreased by ¥689 million (US$5,556 thousand), including the effect of the New Accounting Standard on the allowance for doubtful accounts.

Property and depreciation

Property is stated at cost, which includes interest on borrowed funds during construction, in accordance with rules established by the regulatory authorities. Contributions in aid of construction are deducted from the cost of the related assets when computing depreciation.

Depreciation is computed using the declining-balance method, based on the estimated useful lives of the respective assets.

Nuclear fuel and amortization

Nuclear fuel is stated at cost less amortization. The amortization of nuclear fuel is computed based on the quantity of heat produced for the generation of electricity.

Allowance for doubtful accounts

Effective April 1, 2000, in accordance with the New Accounting Standard for financial instruments, the Companies revised the method of accounting for the allowance for doubtful accounts, which is provided for in an amount sufficient to cover possible losses on collection.

It consists of the estimated uncollectible amount with respect to identified doubtful receivables and an amount calculated on the Companies' historical loss rate with respect to remaining receivables.

Previously, the allowance for doubtful accounts was stated at the maximum amount permitted to be charged to income under Japanese tax regulations.

The effect on the consolidated income statements of this change was immaterial.

Severance and retirement benefits

Under the terms of the retirement plans of the Companies, all employees are entitled to a lump-sum payment at the time of retirement. Employees terminating their employment with the Companies, either voluntarily or upon reaching mandatory retirement age, are entitled, under most circumstances, to retirement payments based on their rate of pay at the time of termination, length of service and certain other factors.

The Companies have also adopted non-contributory funded pension plans which provide a part of total retirement benefits for employees.

Prior to April 1, 2000, the liability for lump-sum payments was stated at 40%, with respect to the Company, and at 100%, with respect to most of the consolidated subsidiaries, of the amount which would be required if all eligible employees voluntarily retired as of the balance sheet date, less the portion covered by pension plans. The Companies recognized pension expense when, and to the extent, payments were made to the pension plans.

Effective April 1, 2000, the Companies adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits," issued by the Business Accounting Deliberation Council on June 16, 1998 (the "New Accounting Standard").

Under the New Accounting Standard, the liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Companies provided for employees' severance and retirement benefits at March 31, 2001 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at that date.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000 and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥8,150 million (US$65,726 thousand).

The net transition obligation was expensed in the current period.

Prior service costs are recognized in expenses as incurred. Actuarial gains and losses are recognized as expenses in equal amounts primarily over 5 to 16 years commencing with the following period.

As a result of the adoption of the New Accounting Standard, in the year ended March 31, 2001 severance and retirement benefit expenses decreased by ¥15,164 million (US$122,290 thousand), and income before income taxes and minority interests in net income of consolidated subsidiaries increased by ¥15,164 million (US$122,290 thousand) compared with what would have been recorded under the previous accounting standard.

The reason why severance and retirement benefit expenses decreased was mainly due to the expanded application of the Company's early retirement system at September 30, 2000.

Retirement benefits to directors and statutory auditors are charged to income when approved at the stockholders' meeting.

Reserve for reprocessing of irradiated nuclear fuel

A reserve for reprocessing of irradiated nuclear fuel is provided at 60% of the future reprocessing costs of nuclear fuel which is currently irradiated, in accordance with the provisions of the 1995 revision of the Ordinance of the Ministry of International Trade and Industry (now METI).

Reserve for decommissioning of nuclear power plants

In accordance with the provisions of the Accounting Regulations of the Electric Power Industry, the Company provides for the reserve for decommissioning of nuclear power plants by charging to income periodically the future decommissioning costs of nuclear power plants.

The provision is made based on such factors as the estimated total decommissioning costs and the (actual and estimated) total volume of nuclear power generation.

Reserve for drought

The Company is required, under certain conditions, to set up a reserve for drought under the Electricity Utilities Industry Law to stabilize its income position for variations in water levels.

For the years ended March 31, 2001 and 2000, no reserve was recorded because it was not required.

Reserve for casualty loss

Property of the Company suffered damage from the Tottori Prefecture and Geiyo earthquakes.

The Company provided for the estimated expense of repair work following its casualty loss.

Accounting for certain lease transactions

Finance leases which do not transfer ownership to lessees are accounted for in the same manner as operating leases.

Derivatives and hedge accounting

The New Accounting Standard for financial instruments, effective from the year ended March 31, 2001, requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from changes in the fair value of derivative financial instruments until the related gains or losses on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

1. If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,
(a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the consolidated statements of income in the period which includes the inception date, and
(b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.
2. If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

Amortization of consolidation differences

Differences between acquisition cost and the underlying net equity at the time of acquisition are being amortized on a straight-line basis principally over five years.

Consolidation differences arising from investments in The Astel Chugoku Co., Inc., were written-off in the current period.

The effect of this change was to decrease income before income taxes by ¥9,172 million (US$73,968 thousand) for the year ended March 31, 2001.

Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value.

Software

Software cost is mainly charged to income as incurred.

Bond issue expenses and bond issue discounts

Bond issue expenses are charged to income when paid or incurred. Bond issue discounts are charged to interest expense through the maturity of the bonds.

Income taxes

The Companies provided income taxes at the amounts currently payable for the year ended March 31, 1999. In addition, deferred income taxes were recognized only for temporary differences resulting from the elimination of intercompany profits and other consolidation entries. Effective April 1, 1999, the Companies adopted the New Accounting Standard, which recognizes tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The amount of deferred income taxes attributable to the net tax effects of the temporary differences at April 1, 1999 is reflected as an adjustment to the retained earnings brought forward from the previous year. Prior years' financial statements have not been restated.

The cumulative effect of adopting the New Accounting Standard was ¥49,230 million, which, together with adjustments to previously recorded deferred taxes, is directly added to the retained earnings brought forward from March 31, 1999. The effect for the year ended March 31, 2000 was to increase net income by ¥1,081 million.

Foreign currency translation

Effective April 1, 2000, the Companies adopted the revised accounting standard for foreign currency translation, "Opinion Concerning Revision of Accounting Standard for Foreign Currency Translation," issued by the Business Accounting Deliberation Council on October 22, 1999 (the "Revised Accounting Standard"). Under the Revised Accounting Standard, receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rate.

Previously, short-term and long-term monetary assets and liabilities denominated in foreign currencies were translated into Japanese yen at the historical exchange rates.

The effect on the consolidated statements of income of adopting the Revised Accounting Standard was immaterial.

Effect of bank holiday on March 31, 2001

In case the balance sheet date is a bank holiday, notes maturing on the balance sheet date are settled on the following business day and accounted for accordingly.

Amounts per share of common stock

The computations of basic net income per share of common stock are based on the weighted average number of shares in issue during each fiscal year.

The computations of diluted net income per share assume conversion of all diluted convertible bonds at the beginning of the period or a later date of issuance.

Cash dividends per share represent actual amounts applicable to the respective years.

3. Cash and cash equivalents

The reconciliations of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of March 31, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Cash and time deposits	¥22,528	¥24,804	$181,677
Less: Time deposits with maturities exceeding three months	(3,132)	(3,778)	(25,258)
Add: Short-term highly liquid investments with maturities not exceeding three months	1,664	4,800	13,420
Cash and cash equivalents	¥21,060	¥25,826	$169,839

4. Securities

A. The following tables summarize acquisition costs, book values (fair values) of securities with available fair values as of March 31, 2001:

(a) Held-to-maturity debt securities

Securities with available fair values exceeding book values

	Millions of yen	Thousands of U.S. dollars
Book value	¥1	$8
Fair value	1	8
Difference	¥0	$0

(b) Available-for-sale securities

Securities with book values exceeding acquisition costs

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥6,344	¥39,815	¥33,471	$51,161	$321,089	$269,928
Bonds	63	84	21	508	677	169
Other	5	5	0	40	40	0
Total	¥6,412	¥39,904	¥33,492	$51,709	$321,806	$270,097

Other securities

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥755	¥589	¥(166)	$6,089	$4,750	$(1,339)
Bonds	30	30	(0)	242	242	(0)
Other	142	108	(34)	1,145	871	(274)
Total	¥927	¥727	¥(200)	$7,476	$5,863	$(1,613)

B. Book values of securities with no available fair value as of March 31, 2001 are as follows:

(a) Held-to-maturity debt securities

	Millions of yen	Thousands of U.S. dollars
	Book value	Book value
Non-listed domestic securities	¥6	$48
Total	¥6	$48

(b) Available-for-sale securities

	Millions of yen	Thousands of U.S. dollars
	Book value	Book value
Non-listed equity securities	¥21,198	$170,952
Other	8,174	65,919
Total	¥29,372	$236,871

C. Available-for-sale securities with maturities and held-to-maturity debt securities mature as follows:

	Within one year	Within five years	Within ten years	Over ten years	Total
Government bonds	¥ 3	¥ 3	¥—	¥—	¥ 6
Corporate bonds	13	91	10	—	114
Other	—	—	—	—	—
Total	¥16	¥94	¥10	¥—	¥120

D. Total sales of available-for-sale securities sold in the year ended March 31, 2001 amounted to ¥359 million (US$2,895 thousand), and the related gains and losses amounted to ¥152 million (US$1,226 thousand) and ¥1 million (US$8 thousand), respectively.

E. Investment securities and marketable securities as of March 31, 2000 consisted of the following:

	Millions of yen		
	2000		
	Book value per balance sheet	Market value	Unrealized gain (loss)
(Non-current assets)			
Investment securities:			
Market value available:			
Corporate shares	¥ 74,290	¥78,253	¥3,963
Bonds	56	60	4
Other	55	54	(1)
	74,401	¥78,367	¥3,966
Market value not available	38,063		
	¥112,464		
(Current assets)			
Marketable securities:			
Market value available:			
Corporate shares	¥ 15	¥ 34	¥ 19
Bonds	84	138	54
	99	¥ 172	¥ 73
Market value not available	5,732		
	¥ 5,831		

5. Derivatives

The Companies enter into forward foreign exchange contracts, currency swap contracts and interest rate swap contracts to hedge market risk in relation to receivables and payables. The amounts of such transactions are limited to the respective receivables and payables. To minimize credit risk, the Company uses only creditable financial institutions as counterparties to derivative transactions. At March 31, 2000, the Companies did not have any significant unrealized gains or losses on outstanding derivative contracts.

As of March 31, 2001, derivatives for hedging foreign currency items and interest swaps were used. Disclosure of information on hedging derivatives is not required.

6. Long-term debt

Long-term debt at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Domestic bonds due serially through 2029 at rates of 0.6% to 5.35%	¥1,114,800	¥1,114,970	$ 8,990,323
Domestic convertible bonds due in 2002 at a rate of 1.9%	15,750	15,750	127,016
U.S. dollar notes due in 2001 at a rate of 6.25%	27,798	27,798	224,177
Deutsche mark bonds due in 2003 at a rate of 5.625%	22,125	22,125	178,427
Loans from the Development Bank of Japan due serially through 2023 at rates of 1.2% to 6.9%	334,311	361,338	2,696,057
Unsecured loans, principally from banks and insurance companies, due serially through 2032 at rates of 0.3875% to 7.5%	333,027	383,098	2,685,702
	1,847,811	1,925,079	14,901,702
Less amount due within one year	(310,923)	(184,734)	(2,507,444)
Total	¥1,536,888	¥1,740,345	$12,394,258

The indenture covering domestic convertible bonds provides, among other conditions, for (1) conversion into shares of common stock at the conversion price per share of ¥2,951 (US$23.80) after giving effect to the stock split made to stockholders of record as of September 30, 1995 (subject to change in certain circumstances) through March 2002 and (2) redemption at the option of the Company, commencing in April 1995, at prices ranging from 106% to 100% of the principal amount.

All bonds, notes, convertible bonds and loans from the Development Bank of Japan are secured by a statutory preferential right which gives the creditors a security interest in all assets of the Company, totaling ¥2,824,787 million (US$22,780,540 thousand), senior to that of general creditors.

The annual maturities of long-term debt at March 31, 2001 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2002	¥ 310,923	$2,507,444
2003	139,658	1,126,274
2004	181,237	1,461,589
2005	166,189	1,340,234
Thereafter	1,049,804	8,466,161

7. Leases

(As lessee)

The Companies lease certain equipment for business use.

Lease payments under non-capitalized finance leases amounted to ¥858 million (US$6,919 thousand) and ¥934 million for the years ended March 31, 2001 and 2000, respectively.

The present values of future minimum lease payments under non-capitalized finance leases and future minimum lease payments under operating leases as of March 31, 2001 and 2000 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	Finance leases		Operating leases		Finance leases	Operating leases
	2001	2000	2001	2000	2001	2001
Current portion	¥ 819	¥ 792	¥ 75	¥ 75	$ 6,605	$ 605
Non-current portion	3,065	2,947	133	185	24,718	1,073
Total	¥3,884	¥3,739	¥208	¥260	$31,323	$1,678

(As lessor)

Lease payments received under finance leases, accounted for as operating leases, amounted to ¥60 million ($484 thousand) and ¥33 million for the years ended March 31, 2001 and 2000, respectively.

The present values of future minimum lease payments to be received under finance leases as of March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Current portion	¥ 82	¥ 38	$ 661
Non-current portion	267	113	2,153
Total	¥349	¥151	$2,814

8. Commitments and contingent liabilities

At March 31, 2001, the Company had a number of fuel purchase commitments, most of which contain provisions for specified quantities of fuel and for terms when fuel is to be supplied, but purchase prices are contingent upon fluctuations in market prices.

At March 31, 2001, the Companies were contingently liable as guarantor for loans of other companies in the amount of ¥111,407 million ($898,444 thousand), mainly in connection with the Company’s procurement of fuel.

At the same date, the Company was also contingently liable with respect to certain domestic bonds, which were assigned to certain banks under debt assumption agreements, in the aggregate amount of ¥178,940 million (US$1,443,065 thousand).

9. Research and development expenses

Research and development expenses charged to operating expenses were ¥8,317 million (US$67,073 thousand) and ¥9,258 million for the years ended March 31, 2001 and 2000, respectively.

10. Employees’ severance and pension benefits

As explained in Note 2, Significant accounting policies, effective April 1, 2000, the Companies adopted the new accounting standard for employees’ severance and retirement benefits, under which the liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

The liability for severance and retirement benefits included in the liabilities section of the consolidated balance sheets as of March 31, 2001 consists of the following:

	Millions of yen	Thousands of U.S. dollars
Projected benefit obligation	¥234,693	$1,892,685
Fair value of pension assets	135,318	1,091,274
	99,375	801,411
Less unrecognized actuarial differences	(14,682)	(118,403)
Prepaid pension expense	209	1,686
Liability for severance and retirement benefits	¥ 84,902	$ 684,694

Included in the consolidated statement of income for the year ended March 31, 2001 are severance and retirement benefit expenses comprised of the following:

	Millions of yen	Thousands of U.S. dollars
Service costs—benefits earned during the year	¥ 8,683	$ 70,024
Interest cost on projected benefit obligation	6,844	55,194
Expected return on plan assets	(5,240)	(42,258)
Prior service costs	(415)	(3,347)
Net transition obligation	8,150	65,726
Severance and retirement benefit expenses	¥18,022	$145,339

The discount rates and the rates of expected return on plan assets used by the Company are 3% and 1% to 4%, respectively. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years. Past service costs are recognized in expenses as incurred. Actuarial gains/losses are recognized in the consolidated statements of income in equal amounts primarily over 5 to 16 years.

11. Income taxes

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate statutory rates in Japan of approximately 36% for the years ended March 31, 2001 and 2000, respectively. The Company's statutory tax rate is lower than companies in other industries because enterprise tax is included in the operating expenses of electrical utilities.

The following table summarizes the significant differences between the Company's statutory tax rate and the effective tax rate for financial statements purposes for the years ended March 31, 2001 and 2000.

	2001	2000
The Company's statutory tax rate	36.15%	36.15%
Losses in subsidiaries	4.50	5.67
Non-taxable dividend income	(0.54)	(0.92)
Non-deductible expenses	0.82	0.99
Amortization of consolidation differences	8.09	2.16
Other	(0.32)	1.62
Effective tax rate	48.70%	45.67%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Deferred tax assets:			
Excess depreciation	¥16,268	¥14,795	$131,194
Adjustment for unrealized intercompany profits	14,066	14,752	113,435
Carryforward of operating losses	12,168	10,272	98,129
Retirement benefits	—	7,304	—
Severance and retirement benefits	9,563	—	77,121
Amortization of the balance of past service costs of pension plan	—	4,903	—
Future reprocessing costs of irradiated nuclear fuel	4,742	4,742	38,242
Future decommissioning costs of nuclear power generating plants	4,288	4,190	34,581
Other	14,834	14,656	119,629
Total deferred tax assets	75,929	75,614	612,331
Valuation allowance	(13,047)	(10,500)	(105,218)
Net deferred tax assets	62,882	65,114	507,113
Deferred tax liabilities:			
Adjustment of allowance for doubtful accounts with losses offset by gains	(29)	(37)	(234)
Net unrealized holding gains on securities	(12,091)	—	(97,508)
Other	(103)	(14)	(831)
Total deferred tax liabilities	(12,223)	(51)	(98,573)
Net deferred tax assets	¥50,659	¥65,063	$408,540

12. Stockholders' equity

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Commercial Code.

In accordance with the Code, certain issues of shares of common stock, including conversions of convertible bonds, are required to be credited to the common stock account to the extent of the greater of par value or over 50% of the proceeds by resolution of the Board of Directors. The remaining amounts are credited to capital surplus.

Stock splits are allowed under the Code. Generally, such stock splits, including those which have been made by the Company, do not purport to be distributions of earnings and, in Japan, are not taxable to stockholders.

At the current conversion price per share, 5,337 thousand shares of common stock were issuable at March 31, 2001 upon full conversion of the outstanding domestic convertible bonds (see Note 6).

13. Segment information

The Companies' primary business activities include electric and other segments.

A summary of net sales, costs and expenses and operating income and other information by segment for the years ended March 31, 2001 and 2000 is as follows:

	Millions of yen				
	2001				
	Electric	Other	Total	Elimination	Consolidated
Operating revenues:					
Outside customers	¥ 996,929	¥ 47,934	¥1,044,863	¥ —	¥1,044,863
Intersegment	1,241	81,168	82,409	(82,409)	—
Total	998,170	129,102	1,127,272	(82,409)	1,044,863
Cost and expenses	863,192	137,990	1,001,182	(82,940)	918,242
Operating income (loss)	¥ 134,978	¥ (8,888)	¥ 126,090	¥ 531	¥ 126,621
Identifiable assets	¥2,811,617	¥185,288	¥2,996,905	¥(44,036)	¥2,952,869
Depreciation expenses	190,948	6,538	197,486	(2,120)	195,366
Capital expenditures	148,171	5,883	154,054	(3,012)	151,042

	Thousands of U.S. dollars				
	2001				
	Electric	Other	Total	Elimination	Consolidated
Operating revenues:					
Outside customers	$ 8,039,750	$ 386,564	$ 8,426,314	$ —	$ 8,426,314
Intersegment	10,008	654,581	664,589	(664,589)	—
Total	8,049,758	1,041,145	9,090,903	(664,589)	8,426,314
Cost and expenses	6,961,226	1,112,822	8,074,048	(668,871)	7,405,177
Operating income (loss)	$ 1,088,532	$ (71,677)	$ 1,016,855	$ 4,282	$ 1,021,137
Identifiable assets	$22,674,331	$1,494,258	$24,168,589	$(355,129)	$23,813,460
Depreciation expenses	1,539,903	52,726	1,592,629	(17,097)	1,575,532
Capital expenditures	1,194,927	47,444	1,242,371	(24,290)	1,218,081

	Millions of yen				
	2000				
	Electric	Other	Total	Elimination	Consolidated
Operating revenues:					
Outside customers	¥1,000,804	¥ 48,636	¥1,049,440	¥ —	¥1,049,440
Intersegment	1,393	88,223	89,616	(89,616)	—
Total	1,002,197	136,859	1,139,056	(89,616)	1,049,440
Cost and expenses	865,348	142,590	1,007,938	(89,942)	917,996
Operating income (loss)	¥ 136,849	¥ (5,731)	¥ 131,118	¥ 326	¥ 131,444
Identifiable assets	¥2,862,011	¥193,605	¥3,055,616	¥(44,515)	¥3,011,101
Depreciation expenses	203,129	6,993	210,122	(2,184)	207,938
Capital expenditures	186,328	3,578	189,906	(1,882)	188,024

Geographic segment information is not shown due to the Company having no overseas consolidated subsidiaries.

Information for overseas sales of the Company and its consolidated subsidiaries for the years ended March 31, 2001 and 2000 is not shown due to aggregate overseas sales being less than 10% of total operating revenues.

14. Subsequent event

The following appropriation of retained earnings at March 31, 2001 was approved at the annual meeting of stockholders held on June 28, 2001:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥30 ($0.24) per share	¥11,132	$89,774

Report of Independent Certified Public Accountants

To the Board of Directors of
The Chugoku Electric Power Company, Incorporated

We have audited the accompanying consolidated balance sheets of The Chugoku Electric Power Co., Inc. (a Japanese corporation) and its consolidated subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income and stockholders' equity for each of the three years in the period ended March 31, 2001 and the consolidated statements of cash flows for the years ended March 31, 2001 and 2000, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of The Chugoku Electric Power Co., Inc. and its consolidated subsidiaries as of March 31, 2001 and 2000, and the consolidated results of their operations for each of the three years in the period ended March 31, 2001 and their cash flows for the years ended March 31, 2001 and 2000 in conformity with accounting principles generally accepted in Japan applied on a consistent basis during the periods, except as noted in the following paragraphs.

As explained in Note 2, in the year ended March 31, 2001, The Chugoku Electric Power Co., Inc. and its consolidated subsidiaries prospectively adopted new Japanese accounting standards for employees' retirement benefits, financial instruments and foreign currency translation.

As explained in Note 2, in the year ended March 31, 2000, The Chugoku Electric Power Co., Inc. and its consolidated subsidiaries prospectively adopted new Japanese accounting standards for equity method accounting and income taxes.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Asahi & Co.
(A Member Firm of Arthur Andersen)

Hiroshima, Japan
June 28, 2001

Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying consolidated financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

Assets

Assets	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars (Note 1) 2001
Property:			
Plant and equipment	¥5,223,540	¥5,043,270	$42,125,323
Construction in progress	229,655	296,437	1,852,056
	5,453,195	5,339,707	43,977,379
Less—			
Contributions in aid of construction	63,220	63,240	509,839
Accumulated depreciation	2,881,513	2,697,474	23,238,008
	2,944,733	2,760,714	23,747,847
Net property	2,508,462	2,578,993	20,229,532
Nuclear fuel	104,052	96,514	839,129
Investments and other assets:			
Investment securities	67,276	34,182	542,548
Investments in and advances to subsidiaries and affiliated companies (Note 3)	14,283	17,275	115,185
Long-term loans to employees	3,407	3,963	27,476
Deferred tax assets (Note 9)	23,535	40,776	189,798
Other assets	4,266	5,119	34,404
Total investments and other assets	112,767	101,315	909,411
Current assets:			
Cash and time deposits	10,322	13,605	83,242
Receivables, less allowance for doubtful accounts of ¥297 million in 2000 and ¥654 million ($5,274 thousand) in 2001	46,414	50,187	374,306
Inventories, fuel and supplies	25,583	21,023	206,315
Deferred tax assets (Note 9)	12,640	4,347	101,936
Other current assets	4,547	4,048	36,669
Total current assets	99,506	93,210	802,468
Total assets	¥2,824,787	¥2,870,032	$22,780,540

See accompanying notes.

Liabilities and Stockholders' Equity	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars (Note 1) 2001
Long-term debt due after one year (Note 4)	¥1,520,028	¥1,718,445	$12,258,290
Other long-term liabilities due after one year	2,381	9,520	19,202
Employees' retirement benefits	—	53,362	—
Liability for severance and retirement benefits	75,999	—	612,895
Reserve for reprocessing of irradiated nuclear fuel	69,824	65,887	563,097
Reserve for decommissioning of nuclear power generating plants	37,759	36,356	304,508
Current liabilities:			
Long-term debt due within one year (Note 4)	305,862	172,054	2,466,629
Short-term borrowings	149,760	145,449	1,207,742
Commercial paper	—	24,000	—
Accounts payable	43,014	46,377	346,887
Accrued income taxes	10,775	13,060	86,895
Accrued expenses	45,118	51,158	363,855
Reserve for casualty loss	3,612	—	29,129
Reserve for loss on guarantees	9,000	—	72,580
Other current liabilities (including other long-term liabilities due within one year)	42,000	53,735	338,710
Total current liabilities	609,141	505,833	4,912,427
Commitments and contingent liabilities (Note 6)			
Stockholders' equity (Note 10):			
Common stock, par value ¥500 per share:			
Authorized—1,000,000,000 shares			
Issued—371,055,259 shares	185,528	185,528	1,496,194
Capital surplus	16,677	16,677	134,492
Legal reserve	46,382	44,245	374,048
Retained earnings (Note 11)	239,798	234,179	1,933,855
Net unrealized holding gains on securities	21,270	—	171,532
Total stockholders' equity	509,655	480,629	4,110,121
Total liabilities and stockholders' equity	¥2,824,787	¥2,870,032	$22,780,540

See accompanying notes.

The Chugoku Electric Power Co., Inc.
For the years ended March 31, 2001, 2000 and 1999

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2001	2000	1999	2001
Operating revenues	¥998,170	¥1,002,197	¥1,000,160	$8,049,758
Operating expenses (Note 7):				
Personnel	126,759	130,352	124,352	1,022,250
Fuel	116,282	101,933	109,559	937,758
Purchased power	140,424	134,995	134,414	1,132,452
Depreciation	190,948	203,129	204,265	1,539,903
Maintenance	98,771	106,010	100,250	796,540
Taxes other than income taxes	65,598	66,249	65,123	529,016
Purchased services	33,257	35,916	33,827	268,202
Other	91,153	86,764	94,514	735,105
	863,192	865,348	866,304	6,961,226
Operating income	134,978	136,849	133,856	1,088,532
Other expenses (income):				
Interest expense	65,633	80,487	83,496	529,298
Interest income	(122)	(534)	(851)	(984)
Losses on sales of securities	—	—	1,507	—
Reversal of reserve for drought	—	—	(688)	—
Casualty loss (Note 8)	6,127	—	—	49,411
Loss on investment in subsidiaries and affiliates	11,920	—	—	96,129
Other, net	294	(1,065)	3,119	2,371
	83,852	78,888	86,583	676,225
Income before income taxes	51,126	57,961	47,273	412,307
Provision for income taxes:	19,122	20,933	19,187	154,210
Current	22,216	21,653	—	179,161
Deferred	(3,094)	(720)	—	(24,951)
Net income	¥ 32,004	¥ 37,028	¥ 28,086	$ 258,097

	Yen			U.S. dollars (Note 1)
Per share data (Note 2):				
Net income:				
Basic	¥86.25	¥99.79	¥75.69	$0.70
Diluted	85.54	98.88	75.08	0.69
Cash dividends applicable to the year	60.00	60.00	50.00	0.48

See accompanying notes.

	Shares of common stock	Common stock	Capital surplus	Legal reserve	Retained earnings	Net unrealized holding gains on securities
		Millions of yen				
Balance at March 31, 1998	371,055,259	¥185,528	¥16,677	¥40,505	¥165,779	¥ —
Net income					28,086	
Cash dividends paid (¥50.00 per share)					(18,553)	
Bonuses to directors and statutory auditors					(135)	
Transfer to legal reserve				1,870	(1,870)	
Balance at March 31, 1999	371,055,259	185,528	16,677	42,375	173,307	—
Net income					37,028	
Cumulative effect of adopting deferred tax accounting					44,403	
Cash dividends paid (¥50.00 per share)					(18,553)	
Bonuses to directors and statutory auditors					(136)	
Transfer to legal reserve				1,870	(1,870)	
Balance at March 31, 2000	371,055,259	185,528	16,677	44,245	234,179	—
Net income					32,004	
Cash dividends paid (¥65.00 per share)					(24,118)	
Bonuses to directors and statutory auditors					(130)	
Transfer to legal reserve				2,137	(2,137)	
Adoption of new accounting standard for financial instruments						21,270
Balance at March 31, 2001	371,055,259	¥185,528	¥16,677	¥46,382	¥239,798	¥21,270

	Common stock	Capital surplus	Legal reserve	Retained earnings	Net unrealized holding gains on securities
	Thousands of U.S. dollars (Note 1)				
Balance at March 31, 2000	$1,496,194	$134,492	$356,814	$1,888,540	$ —
Net income				258,097	
Cash dividends paid ($0.52 per share)				(194,500)	
Bonuses to directors and statutory auditors				(1,048)	
Transfer to legal reserve			17,234	(17,234)	
Adoption of new accounting standard for financial instruments					171,532
Balance at March 31, 2001	$1,496,194	$134,492	$374,048	$1,933,855	$171,532

See accompanying notes.

1. Basis of presenting non-consolidated financial statements

The Chugoku Electric Power Co., Inc. (the "Company") maintains its accounts and records in accordance with the provisions set forth in the Japanese Commercial Code (the "Code"), the Securities and Exchange Law and the Electricity Utilities Industry Law and in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"), which are different from the accounting and disclosure requirements of International Accounting Standards.

The accompanying non-consolidated financial statements are a translation of the audited non-consolidated financial statements of the Company which were prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law.

In preparing the accompanying non-consolidated financial statements, certain reclassifications have been made in the non-consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The non-consolidated statements of stockholders' equity for 2001, 2000 and 1999 have been prepared for the purpose of inclusion in the accompanying non-consolidated financial statements, although such statements were not required for domestic purposes and were not filed with the regulatory authorities.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 30, 2001, which was ¥124 to US$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

The following is a summary of the significant accounting policies used in the preparation of the non-consolidated financial statements:

Inventories, fuel and supplies

Fuel and supplies are stated at cost, determined principally by the weighted average method.

Securities

Prior to April 1, 2000, the securities of the Company were stated at moving-average cost.

Effective April 1, 2000, the Company adopted the new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999).

Upon applying the New Accounting Standard, all companies are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) for all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

Trading securities are stated at fair market value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of stockholders' equity. Realized gains and losses on the sale of such securities are computed using the moving-average cost.

Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by subsidiaries and affiliated companies and available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as a loss in the period of the decline. If the fair market value of equity securities issued by subsidiaries and affiliated companies not accounted for by the equity method is not readily available, such securities should be written down to net asset value with a corresponding charge in the consolidated statements of income in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

As a result of adopting the New Accounting Standard for financial instruments, income before income taxes decreased by ¥386 million (US$3,113 thousand), including the effect of the new accounting standard on the allowance for doubtful accounts.

Property and depreciation

Property is stated at cost, which includes interest on borrowed funds during construction, in accordance with rules established by the regulatory authorities. Contributions in aid of construction are deducted from the cost of related assets when computing depreciation.

Depreciation is computed using the declining-balance method, based on the estimated useful lives of the respective assets.

Nuclear fuel and amortization

Nuclear fuel is stated at cost less amortization. The amortization of nuclear fuel is computed based on the quantity of heat produced for the generation of electricity.

Allowance for doubtful accounts

Effective April 1, 2000, in accordance with the revised accounting standard for financial instruments, the Company revised the method of accounting for the allowance for doubtful receivables which is provided for in an amount sufficient to cover possible losses on collection. It consists of the estimated uncollectible amount with respect to identified doubtful receivables and an amount calculated on the Company's historical loss rate with respect to remaining receivables.

Previously, the allowance for doubtful accounts was stated at the maximum amount permitted to be charged to income under Japanese tax regulations.

The effect on the income statement of this change was immaterial.

Severance and retirement benefits

Under the terms of the Company's retirement plan, all employees are entitled to a lump-sum payment at the time of retirement. Employees terminating their employment with the Company, either voluntarily or upon reaching mandatory retirement age, are entitled, under most circumstances, to retirement payments based on their rate of pay at the time of termination, length of service and certain other factors. If the termination is made voluntarily at one of a number of specified ages, the employee is entitled to certain additional payments.

The Company has also adopted a non-contributory funded pension plan which provides a part of total retirement benefits for employees with 20 years or more of service and who have reached age 55 or more.

Prior to April 1, 2000, the liability for lump-sum payments was stated at 40% of the amount which would be required if all eligible employees voluntarily retired as of the balance sheet date, less the portion covered by the pension fund. The Company recognized pension expense when, and to the extent, payments were made to the pension plans.

Effective April 1, 2000, the Company adopted the New Accounting Standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits," issued by the Business Accounting Deliberation Council on June 16, 1998 (the "New Accounting Standard").

Under the New Accounting Standard, the liability and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Company provided for employees' severance and retirement benefits at March 31, 2001 based on the estimated amount of projected benefit obligation and the fair value of the plan assets at that date.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2001 and liability for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥12,394 million (US$99,952 thousand).

Actuarial gains and losses are recognized in expenses in equal amounts five years commencing with the following period.

The net transition obligation amounting to ¥12,394 million (US$99,952 thousand) was expensed in the current period.

As a result of the adoption of the New Accounting Standard, in the year ended March 31, 2001, severance and retirement benefit expenses decreased by ¥10,198 million (US$82,242 thousand), and income before income taxes increased by

¥10,198 million (US$82,242 thousand) compared with what would have been recorded under the previous accounting standard.

The reason why severance and retirement benefit expenses decreased was due to the expanded application of the early retirement system at September 30, 2000.

Retirement benefits to directors and statutory auditors are charged to income when approved at the stockholders' meeting.

Reserve for reprocessing of irradiated nuclear fuel

A reserve for reprocessing of irradiated nuclear fuel is provided at 60% of the future reprocessing costs of nuclear fuel which is currently irradiated, in accordance with the provisions of the 1995 revision of the Ordinance of the Ministry of International Trade and Industry.

Reserve for decommissioning of nuclear power plants

In accordance with the provisions of the Accounting Regulations of the Electric Power Industry, the Company provides for the reserve for decommissioning of nuclear power plants by charging to income periodically the future decommissioning costs of nuclear power plants.

The provision is made based on such factors as the estimated total decommissioning costs and the (actual and estimated) total volume of nuclear power generation.

Reserve for drought

The Company is required, under certain conditions, to set up a reserve for drought under the Electric Utilities Industry Law to stabilize its income position for variations in water levels.

For the years ended March 31, 2001 and 2000, no reserve was recorded because it was not required.

Reserve for casualty loss

Property of the Company suffered damage from the Tottori Prefecture and Geiyo earthquakes.

The Company provided for the estimated expenses of repair work following its casualty loss.

Reserve for loss on guarantees

The Company provides a reserve for loss on guarantees at an amount estimated as the Company's share in the losses after consideration of the financial position of the secured companies.

Accounting for certain lease transactions

Finance leases which do not transfer ownership to lessees are accounted for in the same manner as operating leases.

Derivatives and hedge accounting

The new accounting standard for financial instruments, effective from the year ended March 31, 2001, requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company defers recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

1. If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,
   (a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the statements of income in the period which includes the inception date, and
   (b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the

contract) is recognized over the term of the contract.

2. If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

Software

Software cost is mainly charged to income as incurred. In accordance with the provisional rule of the JICPAs' Accounting Committee Report No.12 "Practical Guidance for Accounting Research and Development Costs, etc.," the Company accounts for internal use software which was included in operating expenses and utility plant and equipment used for specific research and development in the same manner in 2001 and 2000 as in 1999.

Bond issue expenses and bond issue discounts

Bond issue discounts are charged to income when paid or incurred. Bond issue discounts are charged to interest expense through the maturity of the bonds.

Income taxes

The Company provided income taxes at the amounts currently payable for the year ended March 31, 1999. Effective April 1, 1999, the Company adopted the new accounting standard, which recognized tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The amount of deferred income taxes attributable to net tax effects of the temporary differences at April 1, 1999 is reflected as an adjustment to the retained earnings brought forward from the previous year. Prior years' financial statements have not been restated.

Foreign currency translation

Effective April 1, 2000, the Company adopted the revised accounting standard for foreign currency translation, "Opinion Concerning Revision of Accounting Standard for Foreign Currency Translation," issued by the Business Accounting Deliberation Council on October 22, 1999 (the "Revised Accounting Standard"). Under the Revised Accounting Standard, receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rate.

Previously, short-term and long-term monetary assets and liabilities denominated in foreign currencies were translated into Japanese yen at the historical exchange rates.

The effect on the statements of income of adopting the Revised Accounting Standard was immaterial.

Amounts per share of common stock

The computations of basic net income per share of common stock are based on the weighted average number of shares in issue during each fiscal year.

The computations of diluted net income per share assume conversion of all dilutive convertible bonds at the beginning of the period or a later date of issuance.

Cash dividends per share represent actual amounts applicable to the respective years.

3. Securities

Disclosure of market value information of securities except for subsidiaries and affiliates with readily available market value at March 31, 2001 was required only on a consolidated basis.

Book values and fair values of equity securities issued by subsidiaries and affiliated companies with available fair values as of March 31, 2001 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Equity securities of subsidiaries	¥ —	¥ —	¥ —	$ —	$ —	$ —
Equity securities of affiliated companies	2,493	36,560	34,067	20,105	294,839	274,734
Total	¥2,493	¥36,560	¥34,067	$20,105	$294,839	$274,734

Disclosure of market value information of other securities at March 31, 2000 was required only on a consolidated basis.

4. Long-term debt

Long-term debt at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Domestic bonds due serially through 2029 at rates of 0.6% to 5.35%	¥1,115,000	¥1,115,000	$ 8,991,935
Domestic convertible bonds due in 2002 at a rate of 1.9%	15,750	15,750	127,016
U.S. dollar notes due in 2001 at a rate of 6.25%	27,798	27,798	224,177
Deutsche mark bonds due in 2003 at a rate of 5.625%	22,125	22,125	178,427
Loans from the Development Bank of Japan due serially through 2023 at rates of 1.2% to 6.9%	330,607	357,346	2,666,186
Unsecured loans, principally from banks and insurance companies, due serially through 2032 at rates of 0.3875% to 7.5%	314,610	352,480	2,537,178
	1,825,890	1,890,499	14,724,919
Less amount due within one year	(305,862)	(172,054)	(2,466,629)
Total	¥1,520,028	¥1,718,445	$12,258,290

The indenture covering domestic convertible bonds provides, among other conditions, for (1) conversion into shares of common stock at the conversion price per share of ¥2,951 (US$23.80) after giving effect to the stock split made to stockholders of record as of September 30, 1995 (subject to change in certain circumstances) through March 2002 and (2) redemption at the option of the Company, commencing in April 1995, at prices ranging from 106% to 100% of the principal amount.

All bonds, notes, convertible bonds and loans from the Development Bank of Japan are secured by a statutory preferential right which gives the creditors a security interest in all assets of the Company senior to that of general creditors.

The annual maturities of long-term debt at March 31, 2001 were as follows:

Year ending March	Millions of yen	Thousands of U.S. dollars
2002	¥ 305,862	$2,466,629
2003	128,314	1,034,790
2004	178,734	1,441,403
2005	165,699	1,336,282
Thereafter	1,047,281	8,445,815

5. Leases

(As lessee)

The Company leases certain equipment for business use, heating power equipment, nuclear power equipment and other assets.

Lease payments under non-capitalized finance leases amounted to ¥634 million (US$5,113 thousand) and ¥887 million for the years ended March 31, 2001 and 2000, respectively.

The present values of future minimum lease payments under non-capitalized finance leases and future minimum lease payments under operating leases as of March 31, 2001 and 2000 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	Finance leases		Operating leases		Finance leases	Operating leases
	2001	2000	2001	2000	2001	2001
Current portion	¥ 514	¥ 559	¥43	¥ 43	$ 4,145	$347
Non-current portion	1,791	933	36	58	14,444	290
Total	¥2,305	¥1,492	¥79	¥101	$18,589	$637

6. Commitments and contingent liabilities

At March 31, 2001, the Company had a number of fuel purchase commitments, most of which contain provisions for specified quantities of fuel and for terms when fuel is to be supplied, but the purchase prices are contingent upon fluctuations in market prices.

At March 31, 2001, the Company was contingently liable as guarantor for loans of other companies in the amount of ¥120,269 million (US$969,911 thousand), mainly in connection with the Company's procurement of fuel.

At the same date, the Company was also contingently liable with respect to certain domestic bonds, which were assigned to certain banks under debt assumption agreements in the aggregate amount of ¥178,970 million (US$1,443,306 thousand).

7. Research and development expenses

Research and development expenses charged to operating expenses were ¥9,232 million (US$74,452 thousand) and ¥9,776 million for the years ended March 31, 2001 and 2000, respectively.

8. Casualty loss

Casualty loss of the Tottori Prefecture and Geiyo earthquakes for the period ended March 31, 2001 consisted of:

	Millions of yen	Thousands of U.S. dollars
	2001	2001
Reserve for casualty loss	¥3,612	$29,129
Repair cost of equipment	2,139	17,250
Other related costs	376	3,032
	¥6,127	$49,411

9. Income taxes

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Deferred tax assets:			
Excess depreciation	¥15,617	¥14,641	$125,944
Future reprocessing costs of irradiated nuclear fuel	4,742	4,742	38,242
Amortization of the balance of past service costs of pension plans	—	4,661	—
Future decommissioning costs of nuclear power generating plants	4,288	4,190	34,581
Retirement benefits	—	3,300	—
Severance and retirement benefits	7,600	—	61,290
Reserve for loss on guarantees	3,254	—	26,242
Other	12,733	13,602	102,685
Total deferred tax assets	48,234	45,136	388,984
Deferred tax liabilities:			
Reserve for overseas investment loss	—	(13)	—
Net unrealized holding gains on securities	(12,042)	—	(97,113)
Other	(17)	—	(137)
Total deferred tax liabilities	(12,059)	(13)	(97,250)
Net deferred tax assets	¥36,175	¥45,123	$291,734

10. Stockholders' equity

In accordance with the Commercial Code, certain issues of shares of common stock, including conversions of convertible bonds, are required to be credited to the common stock account to the extent of the greater of par value or over 50% of the proceeds by resolution of the Board of Directors. The remaining amounts are credited to capital surplus.

Stock splits are allowed under the Code. Generally, such stock splits, including those which have been made by the Company, do not purport to be distributions of earnings and, in Japan, are not taxable to stockholders.

At the current conversion price per share, 5,337 thousand shares of common stock were issuable at March 31, 2001 upon full conversion of the outstanding domestic convertible bonds (see Note 4).

Under the Code, the Company is required to appropriate to legal reserve an amount equal to at least 10% of the total amount of cash dividends plus bonuses to directors and statutory auditors until the reserve equals 25% of common stock. This reserve is not available for dividends but may be used to reduce a deficit by resolution of the stockholders or may be capitalized by resolution of the Board of Directors.

11. Subsequent event

The following appropriations of retained earnings at March 31, 2001 were approved at the annual meeting of stockholders held on June 28, 2001:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥30 ($0.24) per share	¥11,132	$89,774
Bonuses to directors and statutory auditors	125	1,008

Report of Independent Certified Public Accountants

To the Board of Directors of
The Chugoku Electric Power Company, Incorporated

We have audited the accompanying non-consolidated balance sheets of The Chugoku Electric Power Co., Inc. (a Japanese corporation) as of March 31, 2001 and 2000, and the related non-consolidated statements of income and stockholders' equity for each of the three years in the period ended March 31, 2001 expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the non-consolidated financial statements referred to above present fairly the non-consolidated financial position of The Chugoku Electric Power Co., Inc. as of March 31, 2001 and 2000, and the non-consolidated results of its operations for each of the three years in the period ended March 31, 2001, in conformity with accounting principles generally accepted in Japan applied on a consistent basis during the periods, except as noted in the following paragraphs.

As explained in Note 2, in the year ended March 31, 2001 The Chugoku Electric Power Co., Inc. adopted new Japanese accounting standards for employees' retirement benefits, financial instruments and foreign currency translation.

As explained in Note 2, in the year ended March 31, 2000, The Chugoku Electric Power Co., Inc. adopted new Japanese accounting standards for income taxes and software.

Also, in our opinion, the U.S. dollar amounts in the accompanying non-consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Asahi & Co.
(A Member Firm of Arthur Andersen)

Hiroshima, Japan
June 28, 2001

Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

(As of October 1, 2001)

Chairperson

Shitomi Takasu

President

Shigeo Shirakura

Executive Vice Presidents

All aspects of business
Management Support Department Supervisor

Kiyoshi Kamei

All aspects of business
Distributed Generation Business Project
General Manager of Energy Marketing and Services Division
General Manager of Distributed Generation Business Project

Shuzo Kimura

All aspects of business
General Manager of Power Generation Division

Yoshiaki Kato

Managing Directors

Shigeo Suehiro
Environmental Business Project
Deputy General Manager of Power Generation Division
General Manager of Environmental Business Project

Kokichi Otsuka
Environment & Land Affairs, Civil Engineering
General Manager of Environment & Land Affairs Department

Susumu Takato
Telecommunications System, Technical Research Center
General Manager of Power System Division

Seiso Kitano
Human Resources Development, Labor Relations, General Affairs

Tadashi Fukuda
Accounting & Finance, Purchasing & Materials, Economic Research Center
Deputy General Manager of Energy Marketing and Services Division

Takashi Yamashita
Corporate Planning, Wide Area Operations, Public Relations, Management System Development
General Manager of Corporate Planning Department
General Manager of Management System Development Department

Directors

Tatsuaki Terada
Secretary
General Manager of Public Relations Department

Kiichiro Matsumoto
General Manager of General Affairs Department

Yoshitane Okada
General Manager of Power Generation Division (Nuclear Power Operations)

Junji Oki
Internal Audit
General Manager of Human Resources Development Department

Sosaku Urushima
Information System
General Manager of Energy Marketing and Services Division (Distribution)

Masahiro Hosoda
Deputy General Manager of Power System Division
General Manager of Power System Division (General Supervision)

Hiromu Okada
General Manager of Energy Marketing and Services Division (Marketing)

Seiji Maki

Kazuhiko Hisakawa

Kosuke Hayashi

Standing Auditors

Satoshi Nanbu

Hideo Horiuchi

Auditors

Kohei Takata

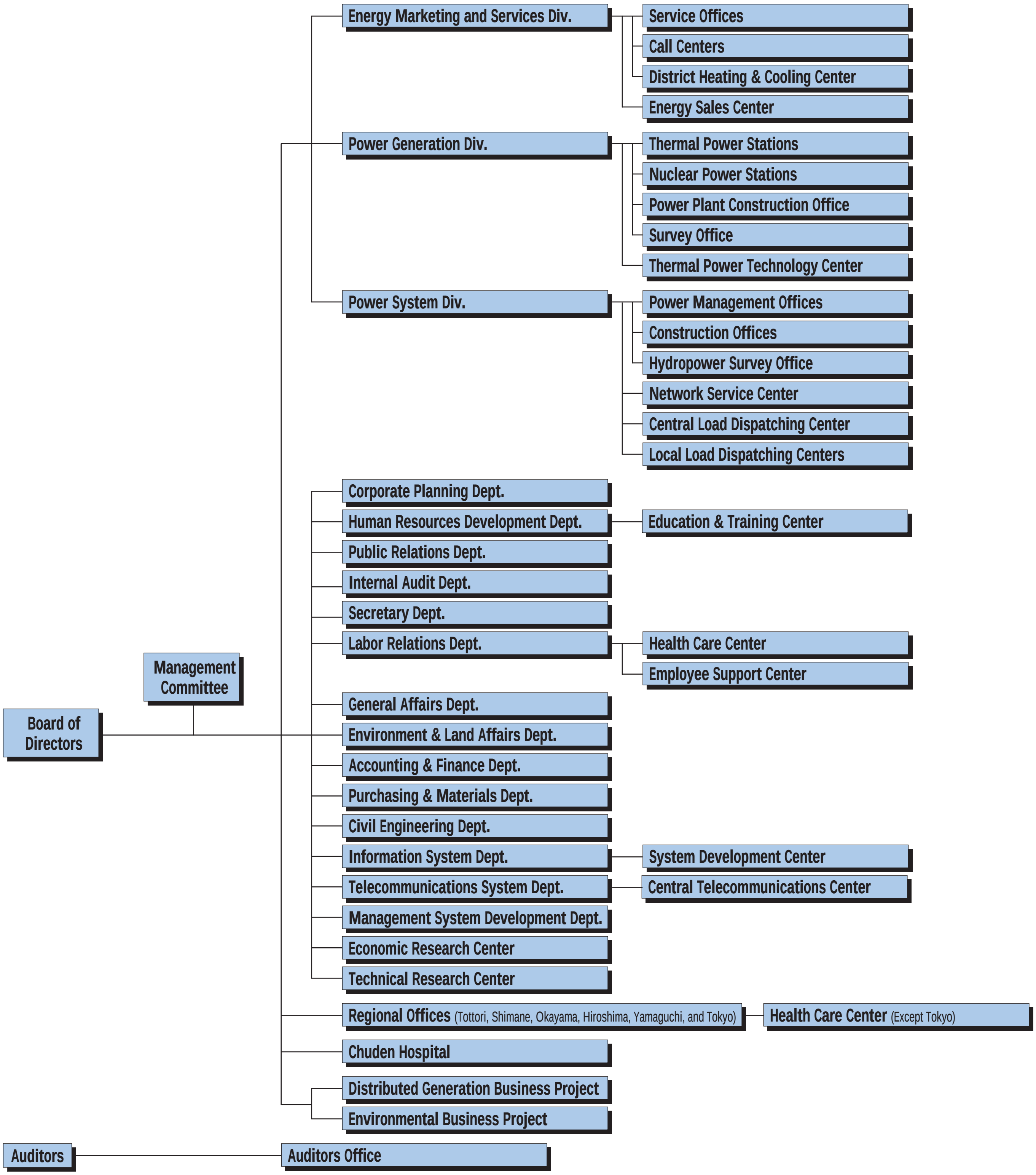
Kazue Ibaragi

Masahiro Yonehara

Kazuya Nitta

ORGANIZATION CHART

(As of October 1, 2001)



(As of March 31, 2001)

THE CHUGOKU ELECTRIC POWER CO., INC.

Date of Establishment
May 1, 1951

Paid-in Capital
¥185,528 million

Number of Employees
11,429 (As of April 1, 2001)

Head Office
4-33 Komachi, Naka-ku, Hiroshima-shi,
Hiroshima 730-8701, Japan
Tel: +81-82-241-0211
Fax: +81-82-523-6185

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Tokyo 100-0005, Japan
Tel: +81-3-3201-1171
Fax: +81-3-3212-1067

Tottori Branch Office
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Tottori 680-8666, Japan
Tel: +81-857-24-2241
Fax: +81-857-67-3016

Shimane Branch Office
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Shimane 690-8514, Japan
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Fax: +81-852-32-0674

Okayama Branch Office
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Okayama 700-8706, Japan
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Fax: +81-86-227-4805

Hiroshima Branch Office
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Hiroshima 730-8691, Japan
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Fax: +81-82-523-4050

Yamaguchi Branch Office
2-3-1 Chuo, Yamaguchi-shi,
Yamaguchi 753-8506, Japan
Tel: +81-83-922-0690
Fax: +81-83-921-3151

Number of Users

Residential (lighting)	4,413,237
Industrial and commercial	696,322
Total	5,109,559

Supply Infrastructure

Power Stations

	Number of Facilities	Generating Capacity (MW)
Hydroelectric	95	2,893
Thermal:		
Steam	9	7,981
Internal combustion	3	34
Nuclear	1	1,280
Total	108	12,188

Transmission Lines (total length)
7,824 kilometers

Number of Substations
382

Distribution Lines (total length)
78,964 kilometers

Investor Information

Independent Certified Public Accountants
Asahi & Co.
(A Member Firm of Arthur Andersen)

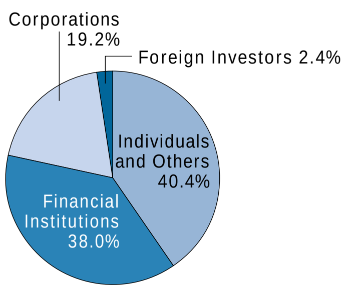
Transfer Agent and Registrar
The Sumitomo Trust & Banking Co., Ltd.

Securities Traded
Tokyo Stock Exchange, Osaka Securities Exchange

Number of Stockholders
165,457

Common Stock Issued
371,055,259 shares

Distribution of Common Stock Issued

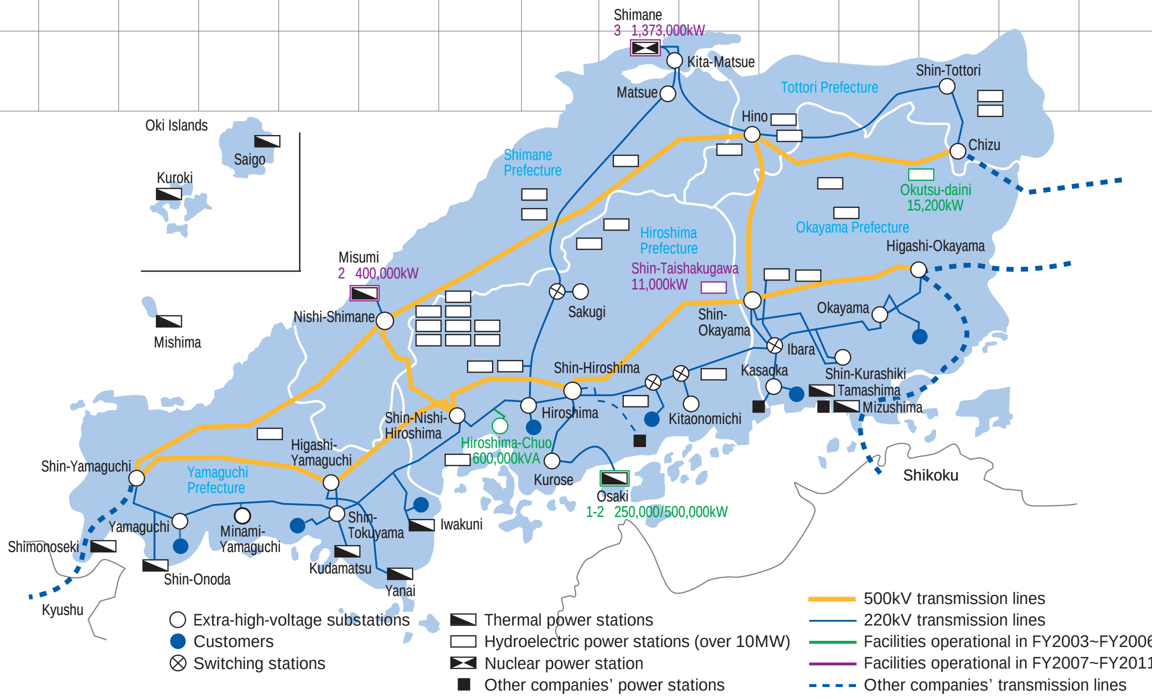


Stock Price Range on the Tokyo Stock Exchange
(¥)

	High	Low
2000 Jan.~Mar.	1,583	1,270
2000 Apr.~June	1,615	1,260
2000 July~Sept.	1,780	1,530
2000 Oct.~Dec.	1,685	1,533
2001 Jan.~Mar.	1,917	1,540
2001 Apr.~June	1,970	1,654

PROPOSED EXTENSIONS TO CHUGOKU ELECTRIC'S POWER GRID
(For Facilities with Capacities of 220kV or More)

(As of July 1, 2001)



Subsidiaries and Associated Companies

(Equity ratio) (As of December 21, 2001)

***CHUDEN KOGYO CO., LTD.** (100.0%)
President: Kiyotaka Wake
Painting, construction, manufacture of power distribution-related materials

***CHUDEN PLANT CO., LTD.** (100.0%)
President: Kenichi Kaikawa
Construction and maintenance of power stations and substations

***CHUGOKU INSTRUMENTS CO., INC.** (100.0%)
President: Katsunori Sugiyama
Assembly and repair of instruments, manufacture of relays

***CHUGOKU KIGYO Co., Inc.** (100.0%)
President: Yoshiki Uemura
Realty, leasing, insurance

***CHUGOKU ELECTRIC MFG. CO., LTD.** (100.0%)
President: Seiji Maki
Manufacture of transformers, condensers, and water heaters

***CHUDEN KANKYO TECHNOS CO., LTD.** (100.0%)
President: Yoshiaki Oda
Operation and management of power station equipment

***Chugoku Information System Service Co., Inc.** (100.0%)
President: Tomomi Suzuki
Data processing, system development and maintenance

***OZUKI STEEL INDUSTRIES CO., LTD.** (80.0%)
President: Yasuhiko Inoue
Manufacturer of cast steel items and power distribution materials

***CHUDEN ENGINEERING CONSULTANTS CO., LTD.** (80.0%)
President: Hiroshi Kita
Survey and design for civil engineering and construction

***The Chuden Access Company, Incorporated** (80.0%)
President: Masahiro Hoshino
Sale of water heaters, sales and distribution agency

***Chuden Life Co., Ltd.** (76.4%)
President: Masaaki Yoshimi
Manufacture of power distribution materials, sale of water heaters, sales and distribution agency

***TEMPEARL INDUSTRIAL CO., LTD.** (56.0%)
President: Kazunori Hiraoka
Manufacture of circuit breakers and distribution boards

***SANKO INC.** (46.7%)
President: Hiroshi Tanaka
Printing, advertising

****Fukuyama Joint Thermal Power Co., Ltd.** (50.0%)
President: Toshiaki Doi
Thermal power generation

****Mizushima Joint Thermal Power Co., Ltd.** (50.0%)
President: Akira Itaya
Thermal power generation

****CHUDENKO CORPORATION** (35.0%)
President: Yukio Inoue
Electrical and telecommunications engineering

****Chugoku Telecommunication Network Co., Inc.** (34.4%)
President: Takao Ikegami
Internal corporate telecommunications and other private line services

****CHUGOKU KOATSU CONCRETE INDUSTRIES CO., LTD.** (33.3%)
President: Masahito Okutani
Manufacture of poles and piles, civil engineering and construction

EAML Engineering Company Limited (18.0%)
President: Katsuto Hashimoto
Manufacture of instruments for hydroelectric power generation

Chuden Business Service Co., Inc. (100.0%)
President: Shitomi Takasu
Financial business for Chugoku Electric Group

Houseplus Chugoku Housing Warranty Corporation Limited (70.6%)
President: Fumio Yoshiya
Evaluation and indication of housing functional quality, construction flaw warranties

International Standard Management Center Inc. (66.0%)
President: Tsuguo Ito
ISO inspection registration

Energia Solution & Service Company, Incorporated (53.0%)
President: Kazuhiko Hisakawa
Sale of coal and LNG, supply of electricity and heat energy

CHUGOKU HEALTH AND WELFARE CLUB CO., INC. (50.0%)
President: Hirofumi Mizota
Welfare agency services

MIZUSHIMA LNG COMPANY, LIMITED (50.0%)
President: Shunsaku Miyake
LNG terminal, storage, gasification and transportation business

* Consolidated subsidiary
** Company accounted for under the equity method

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