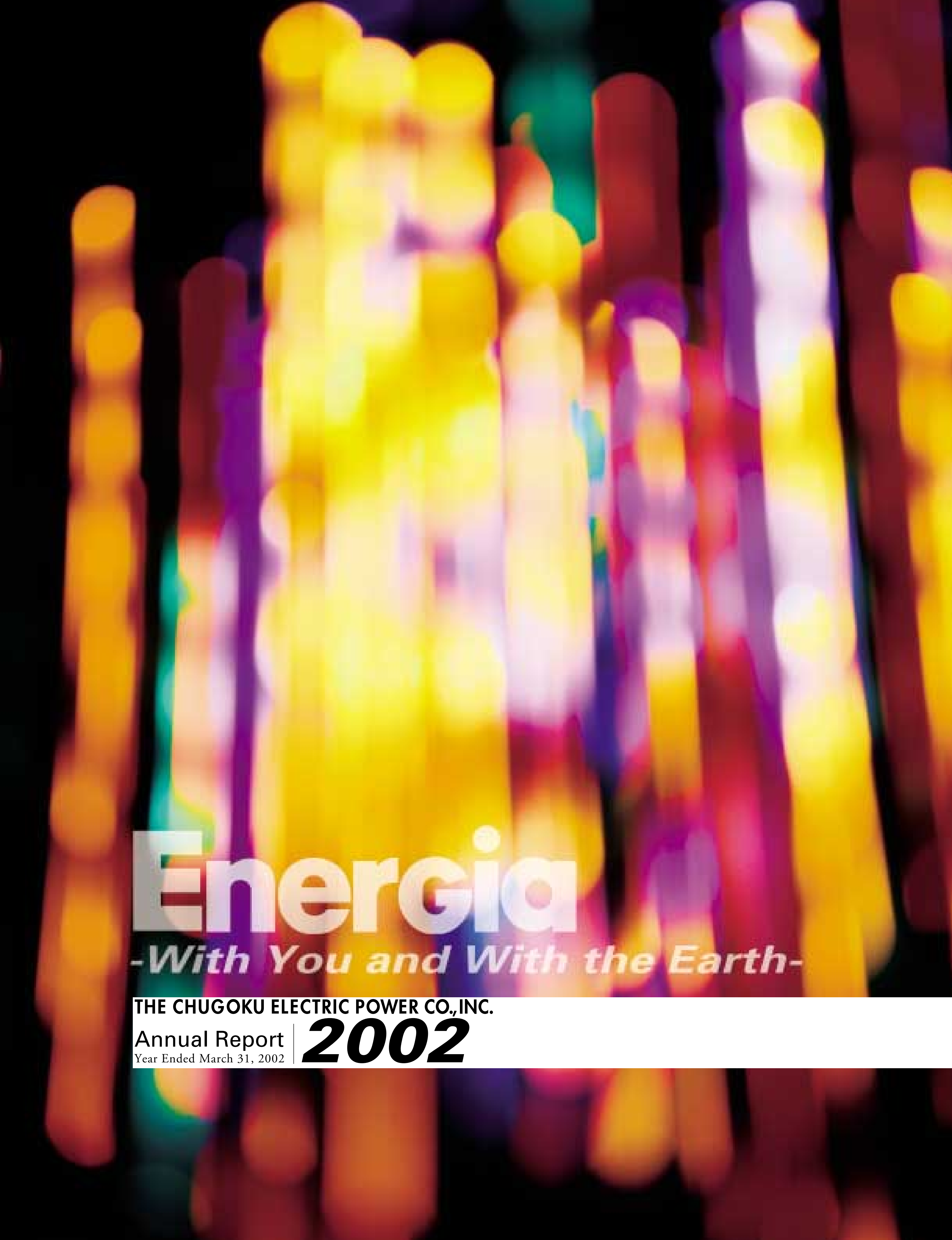


Energia

-With You and With the Earth-

THE CHUGOKU ELECTRIC POWER CO.,INC.

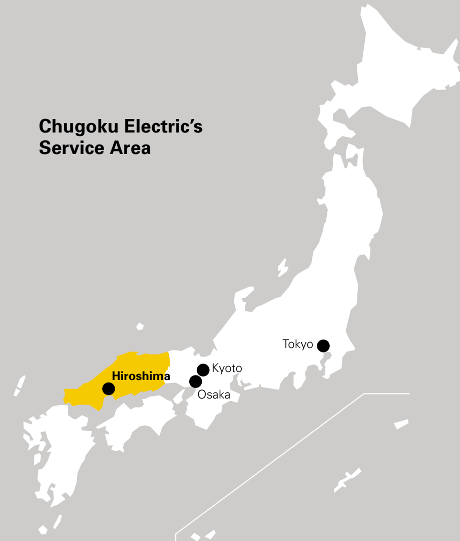
Annual Report 2002

Year Ended March 31, 2002

Profile

Since its establishment in 1951, The Chugoku Electric Power Co., Inc., has developed its businesses based on the fundamental mission of providing the industries and citizens of the Chugoku region with stable supplies of high-quality electricity at low rates, via an integrated operating structure comprising power generation, transmission and distribution.

The head office of Chugoku Electric is in Hiroshima. The Company operates approximately 60 business sites, including Regional Offices, Power Stations, Service Offices and Power Management Offices. Employing approximately 11,000 people, Chugoku Electric is one of the largest companies in the region.



Located in western Japan, the Chugoku region covers about 32,000 square kilometers, and has a population of around 7.8 million. The area has an annual GDP of approximately US$210 billion, making it comparable to the economies of Austria.

A well-developed transportation infrastructure is one of the Chugoku region's most distinctive features. Expressways running the area's length and breadth streamline the movements of people and goods both within and with neighboring regions. Because the region faces both the Seto Inland Sea and the Sea of Japan, it also boasts an advanced maritime transport infrastructure. Public airports operate in each prefecture of the region, giving access to Tokyo, other parts of Japan, and the world.

Taking advantage of these foundations, numerous manufacturers, particularly in the automotive and electronics industries, and in materials-related industries such as steel and chemicals, have established production facilities in the Chugoku region. With the support of the national and local governments, projects are underway to create new businesses and industries through collaborations between these companies and universities in the region, greatly enhancing the promise of the Chugoku region into the future.

Chugoku Electric is maximizing the management resources it has amassed in its electric power operations to make the Chugoku region a more comfortable and convenient place to live and work. While pursuing our core business of supplying electric power, we are also actively developing new businesses in the four strategic domains of comprehensive energy supply, information and telecommunications, the environment, and business and lifestyle support. Through these activities, we continue to face the challenge of becoming a total solutions provider.

Energia

Chugoku Electric's Corporate Philosophy
(Formulated in 1991)

Key Concept: Energia —With You and With the Earth—

Management Concepts
• Seeks to realize the inherent potential of energy
• Rejoices in winning its customers' trust
• Operates with the priority placed on people
• Contributes to the development of the region
• Constantly seeks harmony with nature

Contents

Cautionary Statement with Regard to Forward-Looking Statements
In this annual report, all information not based on historical results, including that concerning current plans, forecasts, strategies, assurances and other matters, is intended as projections related to future results, and is based on information available to company management at the time of writing. For this reason, readers are strongly urged not to make investment decisions based solely on the results forecasts contained herein. Actual performance may differ significantly from projections, owing to economic and other factors.

Specific significant factors with the potential to influence business results include economic conditions related to Chugoku Electric's business domains, currency fluctuations, fuel price fluctuations, climatic conditions that affect electric power sales, and trends in the liberalization of the Japanese electric power industry. However, these are not the only factors that might influence the Company's performance.

Consolidated Financial Highlights

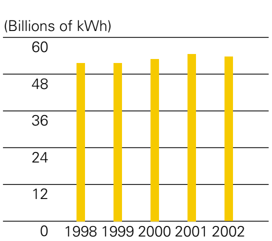
The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
Years ended March 31

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2002	2001	2000	2002
For the year:				
Operating revenues	¥1,021,149	¥1,044,863	¥1,049,440	$ 7,677,812
Operating income	118,545	126,621	131,444	891,316
Net income	46,470	27,202	27,615	349,398
At year-end:				
Total assets	2,846,207	2,952,869	3,011,101	21,400,053
Total stockholders' equity	593,752	575,772	550,856	4,464,301
Interest-bearing debt	1,900,098	2,012,672	2,104,628	14,286,451

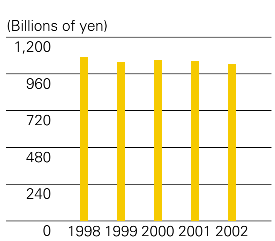
	Yen			U.S. dollars (Note 1)
	2002	2001	2000	2002
Per share data:				
Net income:				
Basic	¥125.25	¥73.31	¥74.43	$0.94
Diluted	123.99	72.78	73.88	0.93
Cash dividends applicable to the year	50.00	60.00	60.00	0.38

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at ¥133 to U.S.$1.00, the approximate rate of exchange prevailing on March 29, 2002.
2. The Company's fiscal year begins on April 1 and ends on March 31 of the following year. In this report, fiscal 2002 is used to denote the year ended March 31, 2002.

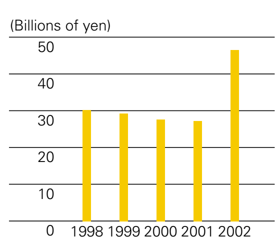
Electricity Sales



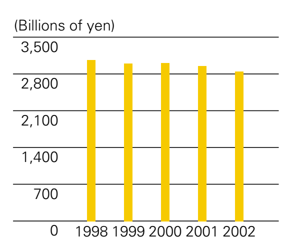
Operating Revenues



Net Income



Total Assets



Fiscal 2002, ended March 31, 2002, heralded new beginnings for Chugoku Electric.

The Company celebrated its 50th anniversary on May 1, 2001, as part of which it is pursuing a corporate image as a total solutions provider for customers in the Chugoku region. We are making full use of our management resources to achieve this objective. While pursuing our core business of supplying electric power, we are also actively developing business in the fields of comprehensive energy supply, information and telecommunications, the environment, and business and lifestyle support.

Since start of liberalization of the domestic electric power industry in March 2000, we have faced increasing competition from new participants in the industry. At the same time, competition with other electricity suppliers and different energy sources, such as gas and diversified power, has intensified.

To win in this harsh competitive environment and achieve its targeted corporate image, the Group will continue to maximize its comprehensive strengths, reinforce its management foundations, develop new businesses, and improve the value of Group companies, thereby winning the trust of customers, stockholders, and investors.

Results and Fulfillment of Management Objectives

Looking at consolidated business results for fiscal 2002, operating revenues decreased ¥23.7 billion from the previous fiscal year, to ¥1,021.1 billion. On the other hand, net income expanded ¥19.3 billion, to ¥46.5 billion, mainly owing to significant reductions in cost of sales and other expenses—resulting from successful efforts to improve management efficiency—and a major drop in corporate taxes following the liquidation of a subsidiary. On a non-consolidated basis, operating revenues slipped ¥25.6 billion, to ¥972.5 billion. The main causes of this decline were the effects of the October 2000 reduction in electricity rates and the first year-on-year decrease in the volume of electricity sales in 15 years. This situation resulted from a decline in industrial demand for power in the steel and most other manufacturing sectors in the Chugoku region under the influence of the prolonged economic slump in Japan. Non-consolidated net income fell ¥7.5 billion, to ¥24.5 billion, mostly because of a special loss resulting from factors such as the aforementioned liquidation of a subsidiary.

On the other hand, management progressed toward non-consolidated goals established in May 2000 for the period from fiscal 2001 through fiscal 2003. In the year under review, the Company concluded that it was on track to meet objectives for its equity ratio, return-on-assets (ROA), ordinary income (see note 2 on page 5) and free cash flow (after dividends). In November 2001, management set new objectives set for fiscal 2003 through fiscal 2005, raising the standards of specific targets while establishing a new return-on-equity (ROE) target.

Improving Management Efficiency

In fiscal 2002, Chugoku Electric's progress toward meeting non-consolidated management objectives surpassed original projections, mainly owing to the effects of existing efficiency-enhancement measures and the implementation of new action plans. In capital investment, in particular, new technologies facilitated the improvement of equipment designs and construction techniques. We also decreased contract and materials procurement costs to their lowest levels in five years. We applied funds from investment curtailments in-house, prioritizing debt repayments and other initiatives to enhance our financial position. At fiscal year-end, therefore, non-consolidated interest-bearing debt was down ¥85.0 billion from 12 months earlier.

Enhancing Organization and Group Management

In October 2001, to more precisely and rapidly respond to changes in the operating environment, we restructured our organization, establishing the new Energy Marketing and Services, Power Generation, and Power System divisions, as well as departments for the administration and support of these operations. We also set specific goals and clarified the roles and responsibilities of the new divisions. In July 2001, we established the Management System Development Department to formulate plans to revamp our administrative systems by the summer of 2003.

In addition, to promote Group management efficiency, we are studying resolutions to the issues faced by individual Group companies and looking into a groupwide reorganization of our business structure.

Reinforcing and Expanding Electric Power Business

Two years have passed since the partial liberalization of the retail electric power market in Japan.

To ensure that customers continue to select Chugoku Electric for their power needs, we believe it is important to strengthen our price competitiveness through further efficiency enhancement activities, and reinforce our relationship of trust with customers by meeting their broad needs, diversifying our rates and services, and strengthening and expanding our sales capabilities.

We view the high ratio of non-utility users in our service area as an opportunity for business growth. We are focusing marketing efforts on these companies, for example, proposing new rate options to increase our power sales.

New Business Developments

We have positioned the fields of comprehensive energy supply, information and telecommunications, the environment, and business and lifestyle support as the four strategic businesses of the Chugoku Electric Group. We are working to strengthen our foundations in these areas, for example, by establishing new companies.

In the comprehensive energy supply business, we established Energia Solution & Service Company, Incorporated (ESS), in October 2001. In December 2001, we established MIZUSHIMA LNG COMPANY, LIMITED. In April 2002, we also created MIZUSHIMA LNG SALES COMPANY, LIMITED, and Power Engineering and Training Services, Incorporated (PET).

Shitomi Takasu, Chairperson Shigeo Shirakura, President

In the information and telecommunications business, we launched a fixed-rate Internet connection service using fiber-optic lines and advanced telecommunications technologies through Chugoku Information System Service Co., Inc. (CIS), in February 2002.

In the area of business and lifestyle support, in February 2002 we established Energia Real Estate Co., Inc., to pursue businesses using our land holdings.

Future Management Issues

At meetings of the Electricity Industry Committee of the Advisory Committee for Natural Resources and Energy, which commenced in November 2001, deliberations have focused on ways to optimize Japan's electric power supply system.

To serve existing customers while securing new power demand, thereby becoming a competitive winner, we plan to implement rate reductions in October 2002. With competition set to intensify in the years ahead, we will continue efforts to secure stable profits and achieve a solid corporate structure by strengthening our competitiveness, establishing firm revenue foundations from new businesses and promoting further management efficiency.

We will also strive to be the kind of company that people trust and prefer to other options by strictly observing regulations while reinforcing investor and public relations activities to ensure fair and transparent management. We will continue to fulfill our responsibilities as a good corporate citizen by working on countermeasures to such environmental issues as global warming, while contributing to social progress by promoting the economy and culture of the Chugoku region as a company involved in the energy industry.

Our basic dividend policy is to maintain stable annual dividends of ¥50 per share and secure in-house funds while improving stockholders' equity, thereby enhancing enterprise value. We will apply the stock repurchase limit agreed to at today's annual meeting of stockholders in our dynamic equity policy.

We ask for your continued support and encouragement for our activities in the years ahead.

June 27, 2002

Shitomi Takasu
Chairperson

Shigeo Shirakura
President

Changes in the Operating Environment and Management Issues

Q. Two years have passed since the start of electricity retail sales liberalization in March 2000. To what extent has this partial liberalization affected the Chugoku region?

A. The number of users of extra-high-voltage electricity in the region, those affected by the partial liberalization, totaled 364 in fiscal 2002, equal to 15.3 billion kWh in terms of sales volume. Of this total, 363 users are contracted customers of Chugoku Electric, and about 60% of these contracts are for long-term service.

In addition, although government, public and other organizations in our service area have held biddings for electric power supply, we were the sole participant in each case in both fiscal 2002 and 2003 (10 facilities or four organizations in Hiroshima and other parts of the region). For these reasons, the influence of partial liberalization has been very slight in our region.

However, new participants in the industry are becoming more active, and some of our current customers are planning to open bidding for power supply in fiscal 2004, leading to a forecast of increasing competition for sales in our service area. In this environment, Chugoku Electric is working to reinforce its services and improve management efficiency, thereby strengthening its competitiveness.

Q. At meetings of the Electricity Industry Committee of the Advisory Committee for Natural Resources and Energy held since November 2001, deliberations have been held on the optimal power supply system for Japan. What are your views on future changes in the operating environment, and how will you respond to developments in industry liberalization?

A. In addition to companies that have entered the market using surplus electricity generated in-house, we are seeing cases of new participants constructing power generation plants. Competition with diversified power sources and gas companies is also growing, leading me to think that we have entered the age of full-scale competition.

I understand that the objective of electric power liberalization is to increase the profits of customers, which leads to profits for the nation as a whole. However, questions remain. For example, will customers be ready to accept responsibility for the consequences of their choices in a market with expanded options? How will public-interest issues such as stable supplies and universal service be resolved? How will elements vital to the supply of power, including an integrated and balanced generation, transmission and distribution structure, be maintained? However, if a sufficient level of consensus is achieved, we are ready to take a positive stance toward the ultimate goal of full-scale liberalization of the electric power industry.

For Chugoku Electric and the Chugoku Electric Group to win amidst the competition brought about by liberalization, we are considering a variety of measures to ensure that customers continue to select us. We must, of course, be cost-competitive in such an intense environment, but customers will not make their choices solely on the basis of price. In the future, in addition to cost-competitiveness, the key will lie in the extent to which suppliers can understand customer needs, and respond with high-value-added services. Providing solutions based on the intellectual assets of the Chugoku Electric Group is of the utmost importance. The "plus alpha" range, or the perception of value, differs from customer to customer. Liberalization of the electric power industry has partially opened retail sales of electricity, but deregulation has also allowed us to go beyond our traditional power generation and supply businesses. In this aspect, we are working to win against the competition by applying our geographical advantage and the assets we have amassed to date to support our customers while becoming a total solutions company for the Chugoku region. From this viewpoint, Chugoku Electric is emphasizing the development of highly receptive employees who can accurately gauge customer needs. While promoting a reformation of employee awareness throughout our operations, we will actively apply our human resources to new businesses.

Q. When you assumed the office of president in June 2001, you explained your management policy with the key phrase "Establishment and Succession" of businesses. Would you explain what you meant by this slogan?

A. What I meant is that, for Chugoku Electric to succeed in an environment of full-scale competition, we must protect the position of our core businesses in the Chugoku region by reinforcing our cost competitiveness and further strengthening our products and services. At the same time, in new business areas, in which we can maximize the Chugoku Electric Group's management resources and achieve synergistic effects with our core electric power activities, we must actively pioneer and develop new business fields. In terms of "succession," in order to build a strong corporate structure that can secure stable profits, we also need to promote further management efficiency, reduce interest-bearing debt and implement other measures to improve our financial condition. Furthermore, to prepare for expanded management risk in the future, we have established a Basic Risk Management Policy to comprehensively control risk and take strategic countermeasures.

Management Strategy and Vision

Q. How far have you come in terms of meeting your management targets? In particular, will there be any effects from the planned reduction in electricity prices in fiscal 2003? You also moved the non-consolidated targets of Chugoku Electric up by one year in November 2001. What led to this move, and why did you make it?

A. To prepare for the risks generated by liberalization, including financial risks, in May 2000 we set management targets for the three-year period from fiscal 2001 to fiscal 2003. These targets were intended to help us improve our business results and financial condition. Steadfast efforts toward these goals led to the forecast that we would meet them.

To make sure we would be ready for new developments in liberalization, and to accelerate activities to enhance our results and financial condition, in November 2001 we reviewed our progress and set new, higher targets for the fiscal 2003–2005 period. These new goals introduce the concept of the cost of capital and add ROE as a management objective. To evaluate equity efficiency in terms of capital cost, we revised the income result used to calculate our ROA from ordinary income (see note 2) to operating income after taxes. In order to set dividends based on a comprehensive consideration of financial structure improvement and new business development, we began calculating free cash flow before dividend payments, rather than afterwards, as we had done previously. I think that we will fall behind our targets for fiscal 2003, owing mainly to the planned reduction in electricity prices, but I am fully confident that we will compensate for this with efficiency-enhancement measures through fiscal 2004 and 2005, achieving all of the new targets we have established.

Previous Management Targets (Non-Consolidated)

	Target (Fiscal 2001–2003)	Fiscal 2001	Fiscal 2002	Fiscal 2001–2002
Equity ratio	About 20% by end–fiscal 2003	18.0%	18.6%	18.6% at end–fiscal 2002
ROA (ordinary income basis)	Above 2% avg.	2.4%	2.1%	2.3%
Ordinary income	Above ¥60.0 billion avg.	¥69.1 billion	¥59.0 billion	¥64.1 billion
Free cash flow (post-dividend)	Above ¥70.0 billion avg.	¥84.7 billion	¥85.5 billion	¥85.1 billion

New Targets (Non-Consolidated)

	Target (Fiscal 2003–2005)	Fiscal 2003 Forecast	Fiscal 2002 (Based on new target standards)
Equity ratio	About 23% by end–fiscal 2005	About 19.5%	18.6%
ROE	About 8% avg.	About 7.5%	4.8%
ROA (operating income after taxes basis)	About 3% avg.	About 2.5%	2.7%
Ordinary income	Above ¥70.0 billion avg.	About ¥58.0 billion	¥59.0 billion
Free cash flow (pre-dividend)	Above ¥110.0 billion avg.	About ¥120.0 billion	¥124.9 billion

Notes 1: ROE in fiscal 2002 was relatively low owing to extraordinary losses.

2: Chugoku Electric prepares individual financial statements in accordance with the Commercial Code of Japan, the Securities Exchange Act, the Electric Utilities Industry Law, and generally accepted accounting principles. As such, some items in these statements differ from or do not appear in statements prepared according to international accounting standards. For this reason, "ordinary income" does not appear in the financial statements and notes of this annual report, which are prepared solely for the convenience of readers outside of Japan.

Q. Chugoku Electric implemented a three-division operating structure in October 2001 in line with a comprehensive review of its organization. What was the aim of this move?

A. Again, an organization that can respond rapidly to market needs and changes in the operating environment is necessary to beat the competition in the age of liberalization. We completely reevaluated our operating structure from this standpoint.

To be specific, we established the Energy Marketing and Services Division by merging the former Sales and Distribution departments; the Power Generation Division, which combines the former Nuclear Power Siting Promotion Headquarters, Nuclear Power Headquarters, Thermal Power, and Fuel departments; and the Power System Division (power transmission), merging the former Electrical Engineering, and Power System Operation departments. The general manager of each division has the authority to make his own decisions on strategy, business planning, implementation and management, organization, and human resources, on a scale including Service Offices, Power Stations and Power Management Offices under his jurisdiction. Through this move, we clarified the responsibilities and roles, and introduced revenue and expense management structures for each division. This set-up has made our divisions more autonomous and independent, and has raised their desire to generate profits while allowing the company as a whole to rationalize the apportionment of management resources.

It is my personal belief that we have gone beyond the age when the management level alone led corporate progress. I think that the ideal today is for each section and individual employee to think independently, take action and become a driving force for growth. With this awareness in place, I think that each of our three divisions should make the most of their combined strengths in years to come.

Meanwhile, to strengthen our functions for setting strategy throughout Chugoku Electric, and managing and supporting our three divisions, we restructured our management support departments and strengthened the functions of specialized departments. Our management support departments are filling the role of studying applications of our intellectual assets and defining the optimal structure of the Chugoku Electric Group as a whole.

In addition, we reviewed the functions of our branch offices, which previously existed between the headquarters and customers' sites and had jurisdiction over our sales offices and other sites in individual prefectures. We reorganized this structure into a network of regional offices responsible for maintaining close community links as on-site representatives of Chugoku Electric. Furthermore, we are currently considering plans to reduce the number of and integrate our Service Centers and other sales sites.

Q. Please tell our readers more about Group management targets, and activities to improve the profitability of Group companies and enhance management efficiency.

A. In terms of Group management, we have set the goal of expanding the sales of consolidated subsidiaries to companies outside of the Group to ¥60.0 billion per year by fiscal 2006. This figure is 1.5 times the result for fiscal 2000, which came to about ¥40.0 billion. To this end, we are actively establishing companies to undertake new businesses and implementing other plans to raise our results.

In June 2001, we established the Business Strategy Committee for Group Companies, comprising members from the top management of Chugoku Electric and Group companies. This committee studies countermeasures for specific issues in order to resolve the problems of unprofitable departments in Group companies. Plans formed in fiscal 2002 to revitalize six Group companies are being reflected in individual management plans. The committee will continue these kinds of activities in fiscal 2003, and it also plans to begin looking into business structure reforms at Group companies. Chuden Business Service, a subsidiary established in April 2001, is now working to improve the efficiency of Group management by establishing an effective in-Group funding structure. Starting in April 2002, the company is centrally processing the accounting and other general administrative functions of Group companies.

Strategies in Individual Businesses

Q. The ratio of non-utility generation users among large industry in the Chugoku region is approximately 60%, one of the highest percentages in Japan. What is your strategy for capturing the electricity demand from these users?

A. I see the high ratio of non-utility generation as an equally high potential to win new demand. For customers who possess their own power generation facilities, we are implementing sales activities designed to encourage a shift to Chugoku Electric, including proposals and plans that integrate diverse price options and value-added services. In fiscal 2002, these efforts made it possible to win 11 new large customers in the liberalized sector and 12 in the regulated sector, all of which have either halted or suspended their internal generation activities.

One special characteristic of non-utility generation in our service area is the presence of numerous large non-utility generation facilities that effectively use surplus steam and gas by-products from facilities such as steel works and petrochemical complexes for industrial use. Generation facilities are usually constructed together with the plants and complexes, meaning that many currently in use are quite old or in need of equipment maintenance and replacement, or present problems in terms of the environment and the advancing age of engineers with the expertise and experience to work on them. At Chugoku Electric, while working to win these customers over to procuring our electricity, we are also creating new business opportunities by offering maintenance and support services for third-party generation facilities, bringing us one step closer to our goal of becoming a comprehensive energy supplier. ESS, established in October 2001, provides services related to the maintenance and upkeep of equipment at cogeneration facilities, and also markets fuel to such facilities. In April 2002, we also opened PET, which is providing operational support services for non-utility generation facilities.

Q. What is your thinking on new business development, particularly comprehensive energy supply?

A. The four strategic areas we have set for development are the comprehensive energy supply business, information and telecommunications business, environmental business, and business and lifestyle support business. We are actively establishing companies and pioneering new businesses in these fields. To disperse the risk involved in new business development and take advantage of the synergies possible through tie-ups with companies in other areas, we are cooperating and forming alliances with such competitors as gas companies, trading companies and telecommunications companies.

Sales Activities Targeting Non-Utility Generation Demand

1. Strengthen Cost Competitiveness
- Achieve electricity fee structure that can compete with non-utility generation costs

2. Reinforce and Expand Customized Proposals (for Customers to Switch to Chugoku Electric)
- Expand dedicated sales force from 50 to 100 employees (by February 2003)
- Actively promote technology-based sales (provide customers with facility and energy efficiency diagnoses and lightning forecast services)
- Strengthen in-house sales capabilities through improved training

3. Enhance and Expand Fee Menus and Services
- Propose fee menus designed to capture non-utility generation demand
- Study new service development, including countermeasures for sudden voltage drops/power outage, and consignment-based installation and management of electric power-receiving facilities

4. Other Services
- Sell fuels, including LNG and coal (ESS)
- Provide operational support services to non-utility generation users (PET)
- Provide steam generated at Chugoku Electric's thermal power stations

In the comprehensive energy supply business, ESS is providing LNG from Chugoku Electric's Yanai Power Station and coal from the Kudamatsu Coal Center of Nippon Oil Corporation (formerly Nippon Mitsubishi Oil Corporation). ESS is also marketing gas/steam cogeneration facilities and, at the R&D center scheduled for completion in April 2003, will work with approximately 10 manufacturers on wide-ranging projects, including clean energy and high-energy-efficiency equipment and systems, and resource recycling. We established MIZUSHIMA LNG in December 2001 to manage the Mizushima LNG Station, scheduled to open in 2006, and in April 2002 launched MIZUSHIMA LNG SALES, which will handle LNG sales from the site. These moves give us LNG sales bases in both the east (Mizushima) and west (Yanai) of the Chugoku region. Meanwhile, PET is planning to pursue businesses taking advantage of Chugoku Electric's thermal generation technologies.

Q. What is in store for your information and telecommunications business?

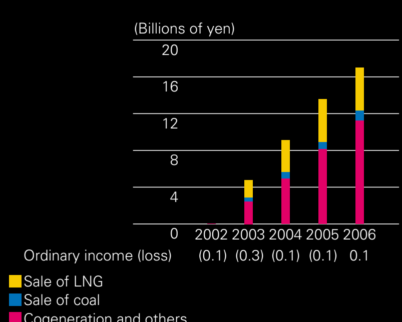
A. Subsidiary CIS, has begun leasing our optical fiber core lines and providing data center operations, and in February 2002 commenced its MEGA EGG Internet connection service, a fixed-fee service offering fiber-to-the-home (FTTH), wireless, and PHS (Personal Handyphone System) connection options. The initial service area is limited, but we intend to expand it in the future, and gain subscribers by offering strong contents, including regional information, movies, music and games online. In this area, Chugoku Telecommunication Network Co., Inc. (CTNet) is providing dedicated connection and other services, and we are pursuing a business plan that could include a merger of the two providers. In October 2001, the PHS operations of ASTEL Chugoku Corporation, a consolidated subsidiary, were transferred to CIS, after which the subsidiary was liquidated in January 2002.

The Future Shape of Chugoku Electric

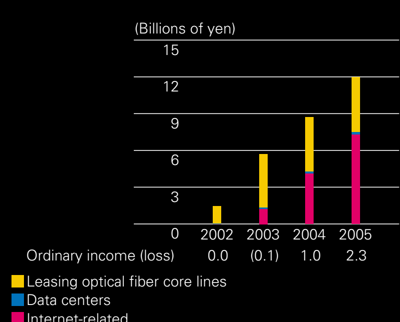
Q. What kind of company would you like Chugoku Electric to be in the mid to long term? What needs to be done most of all to make this vision a reality?

A. To win against the competition, we must be the kind of company that can speedily and flexibly respond to changes in its operating environment and the needs of its customers. At the same time, I think we also have to have our feet firmly placed on the ground to be a company of both austerity and fortitude. I would like to make Chugoku Electric a high-value company that appeals to all of its stakeholders, from shareholders and investors to

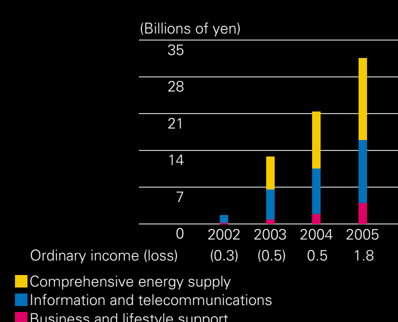
Revenue and Ordinary Income (Loss) Forecasts for Fuel Supply/Energy Use (ESS)



Revenue and Ordinary Income (Loss) Forecasts for Information and Telecommunications Businesses (CIS)



Overall Revenue and Ordinary Income (Loss) Forecasts for New Businesses



Operating and Future New Businesses

Strategic Business Domain	*Business Contents*	*Notes*
Comprehensive Energy Supply	*Fuel Supply/Energy Use*	*October 2001: Establish ESS*
	Steam Supply	*November 2001: Start Operations*
	LNG Station Management and LNG Sales	*September 2000: Commence supplies of LNG to Yamaguchi Gohdoh Gas Co., Ltd.* *December 2001: Establish MIZUSHIMA LNG* *April 2002: Establish MIZUSHIMA LNG SALES* *April 2006: Mizushima LNG operations scheduled to begin*
	Electricity and Heat Supply (through Diversified Power)	*April 2002: Begin supplying electricity and heat to NEC Hiroshima, Ltd.*
	Making Use of The Former Thermal Power Technology Center	*April 2002: Establish PET*
Information and Telecommunications	*Data Center*	*November 2000: Begin operations* *October 2001: Transfer data center operations to CIS*
	Optical Fiber Core Leasing	*December 2000: Begin operations* *December 2001: Transfer optical fiber core leasing operations to CIS*
	Internet-Related	*February 2002: CIS launches Internet connection service*
The Environment	*Effective Use of Coal Ash (Construction Materials: Ocean Sand Substitute and Others)*	*October 2000: Begin supplies of Hi Beeds and others*
Business and Lifestyle Support	*ISO Inspection and Registration*	*July 2000: Establish International Standard Management Center Inc.*
	Proxy Welfare Services	*July 2000: Establish CHUGOKU HEALTH AND WELFARE CLUB CO., INC.*
	Home Warranty	*August 2000: Establish Houseplus Chugoku Housing Warranty Corporation Limited*
	Financing for Chugoku Electric Group and General Administrative Services, including Accounting Services	*April 2001: Establish Chuden Business Service*
	Chgoku Electric Real Estate Application	*February 2002: Establish EnerGia Real Estate*

customers and employees. The most important factors I see in this pursuit are our intellectual assets, from technologies and know-how to information and personnel. A major issue for us in years to come will be how effectively we can reconfigure and apply the intellectual assets we have amassed to date, and turn them into viable businesses. PET has targeted electric power companies in Southeast and Southwest Asia, where economic growth is strong and numerous low-risk official development assistance projects are underway, applying Chugoku Electric's thermal generation and information technology (IT) expertise to provide new consulting services. In the future, I would also like to actively develop new businesses based on intellectual assets garnered through our in-house facilities—including the Technical Research Center, the Economic Research Center, and the Education & Training Center—and environmental activities, such as coal ash recycling technologies. The Chugoku region might present geographical limits, but businesses created with our intellectual assets are boundless, and therefore present high potential.

"Contributing to the development of the region" is one of Chugoku Electric's management principles, which is why we will continue to seek coexistence and mutual prosperity with the region we serve by actively promoting social contribution activities throughout the Group. Particularly because we are an electric power company, regional development forms the foundation of our own growth. In addition to building cost competitiveness, to win and maintain the confidence of the Chugoku region, our management foundation, we will dynamically contribute to the economy, technologies and culture of the region.

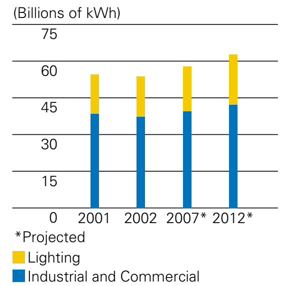
Accountability to stakeholders is becoming even more important with the liberalization of retail electricity sales. For this reason, we will continue to enhance our public affairs and investor relations activities, providing financial information on a timely basis and seeking opportunities to interact with stockholders and investors. By keeping our management transparent, we will work to keep the trust of our stockholders, investors and customers.

Electric Power

Topics

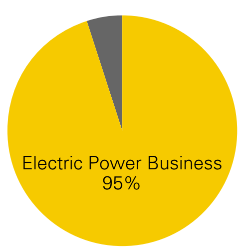
Trends in Power Demand in the Chugoku Region

Electricity Sales

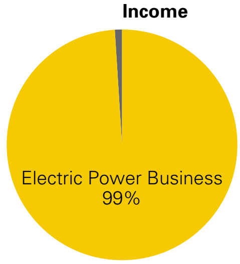


Electricity sales in fiscal 2002 decreased to 53.6 billion kWh from the previous year's level, the first year-on-year drop in 15 years, as economic sluggishness brought down industrial demand in the steel and almost every other sector. On the other hand, expectations of a steady increase in consumer-sector demand lead to a forecast of an annual average increase in overall demand of about 1.3% in the period from fiscal 2001 to fiscal 2012.

Sales



Operating Income



Introduction of Divisional Structure

In October 2001, Chugoku Electric reorganized its operations, adopting a structure comprising the Energy Marketing and Services, Power Generation, and Power System (power transmission) divisions.

Sales Structure Reinforcement

In efforts to reinforce its sales structure, Chugoku Electric is actively working both to ensure that customers continue choosing Chugoku Electric and to win new customers among non-utility users.

For example, we are tailoring service proposals to precisely meet the needs of users under liberalization. Account managers, including high-level management members in some cases, have been assigned to each of these customers to make well-organized sales efforts possible.

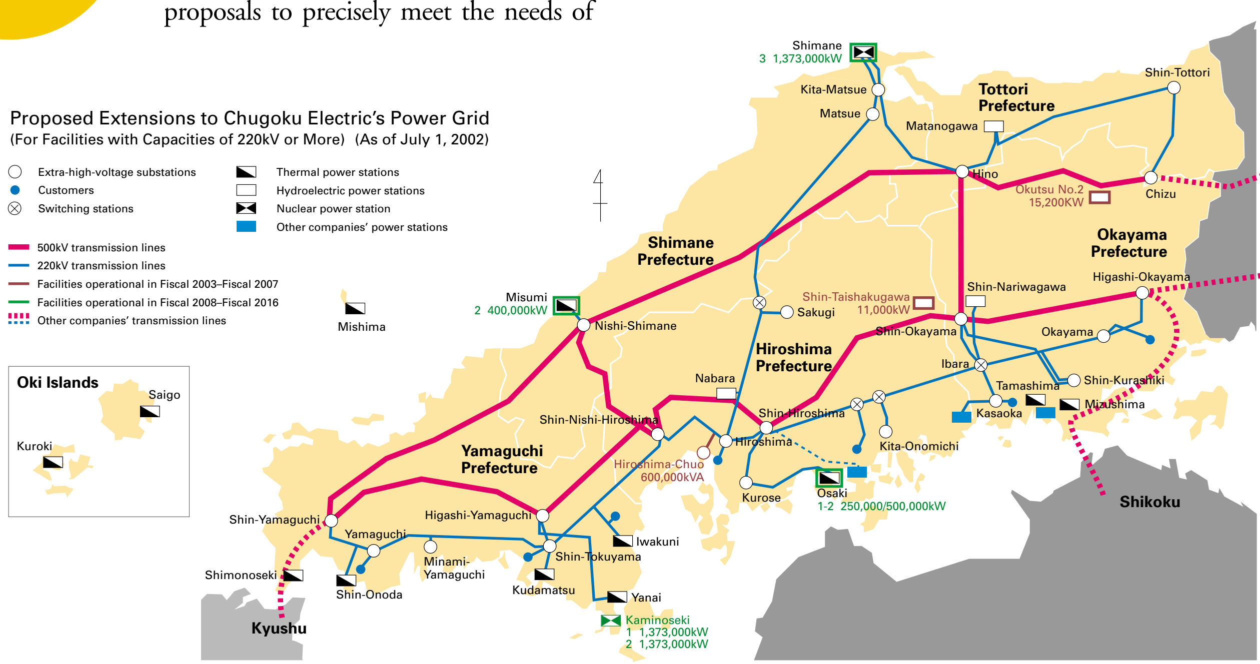
In addition, in light of the potential expansion of liberalization and strengthening measures targeting non-utility users, in February 2002 we assigned 50 sales employees dedicated to customers receiving high-voltage electricity. Plans are for the assignment of another 50 such employees in February 2003.

To win customers, we are emphasizing not only cost competitiveness, but also the offering of high-value-added services. To strengthen bonds of trust with our customers, we are now providing technology-based services applying the technologies and know-how we have amassed through the years, including facility diagnosis services.

To reinforce such high-value-added services, in November 2001 we established the in-house Marketing Strategy Study Committee with a mission including service menu development.

Electricity Rate Reduction

In October 2000, Chugoku Electric implemented an electricity price reduction of 6.9%, the highest in the industry. We plan to once again lower power rates in October 2002 as a means to enhance our competitiveness. In implementing this reduction, we are considering competition with Power Producer and Suppliers and diversified power sources.



Power Generation

Developing Power Sources to Optimize Energy Mix

Rather than rely on a single fuel, Chugoku Electric is developing energy sources based on the concept of achieving the optimal mix to ensure stable electric power supplies into the future. In fiscal 2002, nuclear power accounted for just 17% of our total power output, significantly less than the levels of Japan's other electric utilities. We are now working to realize a well-balanced power generating capacity comprising one-third each of nuclear, coal-fired and other types of facilities.

Under our current energy source development plan, several new plants will commence commercial operations in the next few years. These include the Okutsu No. 2 Hydroelectric Power Station in September 2002, the Shin-Taishakugawa Hydroelectric Power Station in June 2006, the Misumi Thermal Power Station No. 2 Unit (coal-fired) in July 2007, and the No. 2 Unit of the No. 1 Series (coal-fired) at the Osaki Thermal Power Station in December 2008.

In nuclear power, following the Shimane Nuclear Power Station No. 3 Unit, which is scheduled to begin commercial operations in March 2010, the Japanese government incorporated the Kaminoseki Nuclear Power Station No. 1 and No. 2 units in its basic plan for power source development in June 2001. Under the plan, commercial operations are scheduled to start at the Kaminoseki No. 1 Unit in fiscal 2013, and the No. 2 Unit in fiscal 2016.

LNG, which is one energy source for thermal generation, offers several environmental advantages over other fossil fuels, as it is virtually sulfur-free and causes far lower carbon dioxide emissions. Chugoku Electric is also working to shift from oil to LNG-based thermal generation, starting with the Mizushima Thermal Power Plant No. 3 Unit in April 2006.

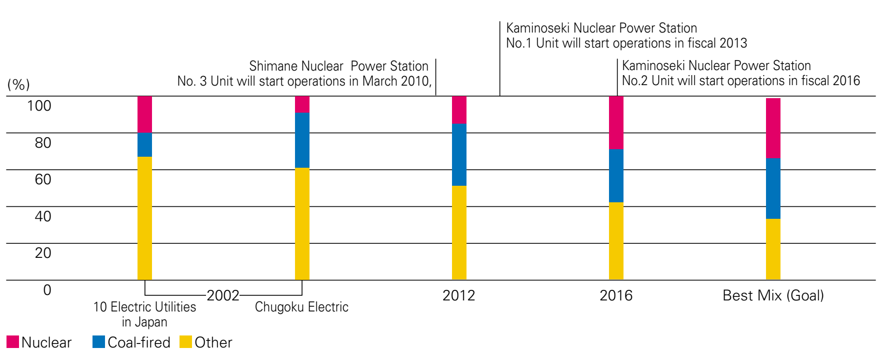
Raising Generation Capacity Utilization Factors and Thermal Efficiency

We are endeavoring companywide to reduce emissions of carbon dioxide and other greenhouse gases that cause global warming. In this area, our Power Generation Division promotes nuclear power development, as well as improved generation capacity utilization factors (hereinafter utilization factors) at our nuclear power plants, enhanced heat efficiency at our thermal power stations, and more effective use of hydroelectric resources.

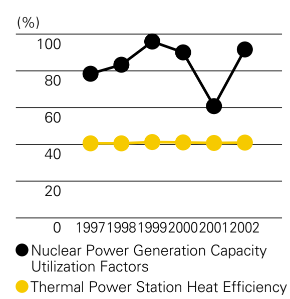
Improving the utilization factors of nuclear power plants cuts carbon dioxide emissions and lowers other fuel consumption. A 1% improvement lets us lower carbon dioxide emissions by about 80,000 tons annually and reduce fuel consumption by the equivalent of 30,000 kiloliters of crude oil. The fact that we suffer relatively few unplanned facility downtime periods from equipment breakdowns or other problems is helping us raise the utilization factors of our facilities. Through efficiency-enhancement measures, we have reduced the number of downtime days needed for regular inspections. As a result, in fiscal 2002 we achieved a utilization factor of 91.6%, one of the highest in Japan.

In terms of the heat efficiency of thermal power stations, we aim to improve results by employing highly efficient generating techniques, such as pressurized-fluidized bed combustion generation, LNG combined-cycle generation and super-super-critical pressure generation. In fiscal 1997, we achieved a thermal efficiency of 40.1%, becoming the first player in the domestic industry to surpass 40%. We maintained a high level in the period under review, at 40.5%.

Current and Planned Composition of Energy Souces



Nuclear Power Generation Capacity Utilization Factors and Thermal Power Station Heat Efficiency



Electricity Transmission, Distribution and Sales

Maintaining Well-Planned Transmission Facilities Matched to Electricity Demand

Electricity generated at power plants travels a long route via transmission lines, transformer substations and distribution lines before it reaches customers' homes and offices. To reliably supply its customers with high-quality electric power, electric utilities must construct power transmission facilities that constantly match demand increases in accordance with long-range plans.

Route No. 2 500,000-volt power transmission lines

To meet demand growth in our service area and increasing demand for inter-regional power interchange, Chugoku Electric has worked to create two 500,000-volt transmission line routes. Following the 1980 completion of the Sanyo Route 500,000-volt transmission line, in June 2001 we completed and began full-scale operations of the San-in Route line.

Such factors as rising living standards and urban redevelopment steadily increase electricity demand in large metropolitan areas. Transformer substations must be centrally located in these areas to ensure stable electricity supplies, but in recent years it has become difficult to acquire necessary land, leading electric companies to increasingly construct underground substations. The construction costs for underground facilities are higher than for those above ground. At our Hiroshima Chuo Substation, currently under construction (operations should commence in June 2004), we have made equipment more compact and have worked on the overall facility layout, reducing the underground construction area by about 30%, and greatly reducing costs.

Lowering Transmission Loss Rates

Reducing loss rates from transmission and distribution reduces the volume of electricity needed from power plants, thus lowering carbon dioxide emissions and fuel consumption. For this reason, Chugoku Electric has worked for many years to raise the voltage of its transmission and distribution lines. To further reduce loss rates, we are expanding our 500,000-volt transmission and 22,000-volt distribution lines, adopting low-loss equipment, and introducing automatic power supply systems to cut the loss ratio in our transmission lines and 6,000-volt distribution lines. Furthermore, we are establishing a route-planning support system to determine optimal power transmission paths for new customers, particularly large users, and plan future routes, including facility construction where required, for areas in which new demand is forecast to emerge.

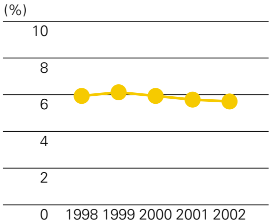
Load-Leveling Measures

In recent years, growing use of air-conditioners in homes and commercial facilities has increased peak-load demand, especially during summer daytimes. Leveling the electricity load by improving energy consumption and enhancing operating efficiency cuts supply costs and carbon dioxide emissions.

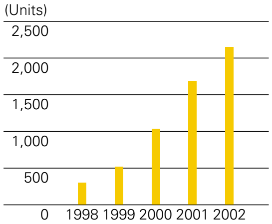
To this end, Chugoku Electric is actively shifting peak demand to other hours of the day and promoting load leveling or encouraging the effective use of electricity during low-use time slots and increasing electricity demand itself.

Specifically, we are proposing fee system options for customers who use electricity efficiently, and are also promoting the use of related products, such as electric water heaters, "Eco-Vendor" energy-saving vending machines, "Eco-Ice" thermal-storage air-conditioning systems and natural-cooling (carbon dioxide) heat-pump electric hot-water supply equipment.

Transmission and Distribution Line Loss Ratios



Eco-Ice Installations

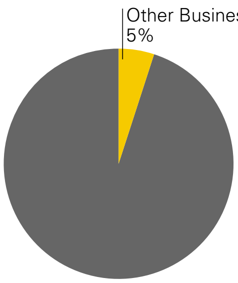


Other Businesses

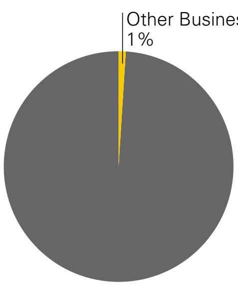
Chugoku Electric Group

The Chugoku Electric Group comprises 52 group companies, including 27 subsidiaries and 24 affiliates (as of July 1, 2002). To secure and expand the profitability of the Group by expanding sales to third parties and enhancing efficiency, we have set specific management goals to be achieved by Group companies by the end of March 2006.

Sales



Operating Income



With the aim of improving Group management efficiency, in June 2001 we set up the Business Strategy Committee for Group Companies. In April 2001, we established Chuden Business Service to commence effective funding activities between Group companies. Furthermore, this company began centrally processing the Group's accounting operations in April 2002.

To maximize the Group's management resources and synergistic effects with electric power activities, we have positioned the comprehensive energy supply, information and telecommunications, environment, and business and lifestyle support businesses as strategic sectors in the effort to develop our presence as a total solutions provider.

Following is an outline of significant recent activities in our new businesses and Group companies.

Comprehensive Energy Supply Business

In October 2001, we established ESS with the mission of marketing LNG and coal as power generation fuels for non-utility users from bases at the Yanai LNG Station of Chugoku Electric and Nippon Oil's Kudamatsu Coal Center. The company is also pursuing activities from the provision of non-utility generation facilities to facility operation and maintenance, and is planning and developing highly efficient facilities to make full use of the advantages offered by LNG.

In activities related to LNG supply from our Mizushima LNG Station, which is due to open in 2006, in December 2001 we established MIZUSHIMA LNG to operate and manage the station. MIZUSHIMA LNG SALES was established to handle LNG marketing based on this station.

Also in April 2002, we launched PET, which is applying Chugoku Electric's thermal power generation technologies to offer training and consulting services to non-utility power users. The company is also planning a unique training program combining Internet-based e-learning (virtual training) and on-site training activities at Chugoku Electric facilities.

Information and Telecommunications Business

CIS is our consolidated subsidiary active in the optical fiber core leasing, data center and Internet connection businesses. In February 2002, this company began using its optical fiber network to provide the MEGA EGG Internet connection service, which offers a fixed connection fee and the choice of three access methods: FTTH, wireless and PHS. In addition, in October 2001 CIS took over the operations of subsidiary ASTEL Chugoku, which we liquidated in January 2002.

CTNet, an affiliate under the equity method, is involved in dedicated and Internet connection services using optical fiber, as well as frame-relay services. This company also began offering ADSL broadband connection services to Internet service providers in July 2001.

Business and Lifestyle Support Business

Energia Real Estate, a subsidiary established in February 2002, is pursuing its operations using land owned by Chugoku Electric. Among its operations, this company is marketing full-scale electrical housing constructed according to high-level standards for environmental consideration and saving energy.

Environmental Preservation

Pursuing an Environmental Management System Based on International Standards

Environmental protection is a crucial management issue at Chugoku Electric. We have formulated an Environmental Action Plan, which is being pursued companywide and incorporates our Basic Environmental Policy. In April 2001, we configured and began operations of a companywide environmental management system based on ISO 14001 international standards for environmental management and headed by Chugoku Electric's president. To further enhance this system, we are seeking ISO 14001 certification for our model offices. In addition, we are promoting environmental communication, for example, through third-party evaluations of our activities by the Environmental Discussion Group, which was established in April 2002 comprising members from regional educational institutions, official organizations, and the media.

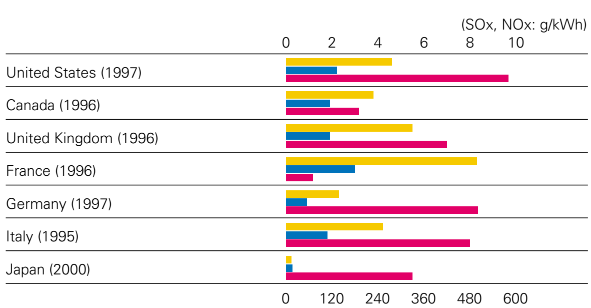
Wide-Ranging Environmental Activities

In its environmental activities, Chugoku Electric focuses on specific themes, including response to global and regional environmental problems, conserving resources and recycling, and developing and adopting new technologies. We have set specific targets for each theme to be achieved by the close of fiscal 2011.

Volume of Industrial Waste Produced and Recycled (2002)

Type of Industrial Waste	Volume Produced (10,000 t)	Volume Recycled (10,000 t)	Volume Treated (10,000 t)	Effective Use Percentage (%)
Coal ash	68.86	55.63	13.23	80.8
Heavy crude oil ash	0.51	0.38	0.13	74.5
Desulfurized gypsum	22.31	22.31	0	100.0
Construction waste materials	4.21	3.13	1.01	74.3
Metal scrap	1.04	0.88	0.16	84.6
Other	2.24	0.18	1.78	8.0
Total	99.17	82.51	16.31	83.2

SOx, NOx and CO_2 Emissions from Power Generation



Sources: Environmental Data Compendium 1999, OECD and Energy Balances of OECD Countries, OECD
Figures for Japan: The Federation of Electric Power Companies Japan (FEPC)
Figures for CO_2 emissions: figures in fiscal 2000

To respond to global environmental problems by cutting emissions of carbon dioxide, we are promoting nuclear power generation and thermal power plants that adopt generation methods with high heat efficiency. We are also raising the efficiency of power plant facilities, and effectively using hydroelectric power, while reducing power losses from electricity transmission and distribution. Internationally, we are participating in the Prototype Carbon Fund proposed by the World Bank and in an afforestation project in Australia.

In terms of the regional environment, we have long pursued research to develop technologies that cut emissions of substances thought to cause acid rain, such as sulfur and nitrogen oxides. As a result, we boast world-class technologies that remove sulfur and nitrates from emissions at thermal power plants. In constructing, maintaining, and managing electricity transmission and distribution facilities, we ensure that our facilities do not harm local environments or urban landscapes by using facility layouts and taking other measures to harmonize with the environment.

Chugoku Electric endeavors to reduce and recycle industrial waste. We are striving to use coal ash more efficiently. In addition to starting production of our Hi Beeds ocean sand substitute material for use in coastal construction projects, we commercialized our Geo Seed soil-improving material and NA-Crete (Neo Ash-Crete), a new type of concrete.

In new technology development, to promote natural energy sources offering the superb environmental feature of zero carbon dioxide emissions during power generation, we are implementing practical tests related to solar and wind power generation. We are also procuring electricity provided by new energy sources, including waste, solar, and wind power generation. In October 2000, we cooperated in the establishment of the Green Power Fund, which collects donations for the construction of solar and wind power facilities, thereby encouraging community participation in the expansion of natural energy sources.

Hi Beeds

Trial foundation enhancement construction using alternative materials

Research and Development

Wide-Ranging Research from Mid-to-Long-Range Perspectives

Technology Research Center

Centered on its Technology Research Center, Chugoku Electric is involved in a wide range of R&D activities based on mid- and long-range perspectives. Our efforts concentrate on the five themes of: restraining capital investment and enhancing operational efficiency, developing new businesses, environmental preservation and promoting the efficient use of energy and resources, ensuring stable electricity supplies and maintaining reliability levels, and responding to the needs of customers and contributing to regional development.

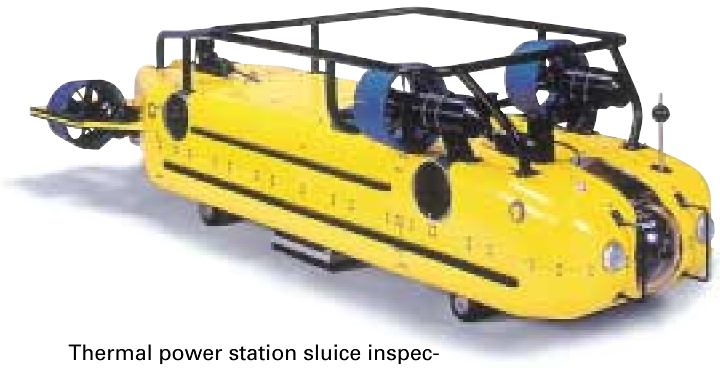
Work on restraining capital investment and enhancing operational efficiency includes technological development. Areas we are researching include technologies to raise the efficiency of facility operation and maintenance, automate processes to lower labor requirements, examine the status of facilities and equipment—including lifecycle assessments to precisely determine equipment life spans—and achieve electricity load-leveling.

In new business development, we are performing R&D for PHS usage expansion and "last-one-mile" access. We are also developing technologies related to optimal generation methods for diversified power. Furthermore, we are conducting R&D to commercialize high-potential research results.

In response to the liberalization of the electric power industry in Japan, we are implementing R&D projects to give us a competitive edge. These initiatives include researching hydrogen, a high-potential energy source.

Links with Companies, Educational Institutions, and Governmental Organizations

In a project commissioned from Japan's New Energy and Industrial Technology Development Organization, we have commenced R&D on coal–plant biomass mixed-firing technologies. In April 2003, ESS plans to open an R&D center in the Soft Business Park, located in Matsue City, Shimane Prefecture, as a product development, sales, and service base. The new facility will work with around 10 other makers to develop high-efficiency power generation systems and resource-recycling techniques. The Chugoku Electric Group will strengthen these and other links with external companies, educational institutions and governmental organizations while actively engaging in R&D activities to meet the needs of its customers and the region it serves.



Thermal power station sluice inspection and cleaning robot

Social Contributions

Extensive Social Contributions Using Abundant Management Resources

Contributing to society is another important management challenge, which is why Chugoku Electric applies its abundant human resources, facilities, experience, and other management resources to benefit the region and improve its culture.

From the sponsorship of concerts, lectures and exhibitions to volunteer work at welfare facilities and the homes of senior citizens living alone, and regional tree-planting and cleanup projects, the scope of our activities is extensive. To support the development of the Chugoku region, we assist local organizations, such as the Chugoku Economic Federation, the Industrial Development Center for Chugoku, and the Chugoku Regional Research Center. Chugoku Electric and affiliates established the Electric Technology Research Foundation of Chugoku in April 1991, and the EnerGia Culture and Sports Foundation in October 1994. Through these organizations, we contribute to the development of technology, culture, and sports in the Chugoku region.

EnerGia Dream Concert

Volunteer Activities by Employees

In May 2001, Chugoku Electric celebrated its 50th anniversary. To commemorate this event and express our gratitude to our customers in the region, we implemented "Philanthropy Activities by 10,000 People," a project designed to emphasize the value of becoming personally involved in community activities. All of our 10,000 employees participated in cleanups, electricity education classes, and other community-interchange programs. We plan to continue activities under this project into the future.

We also use volunteer activities as a chance for our employees to apply their expertise for the region. In February 2002, we established a volunteer registration system and set up the EnerGia Volunteer Personnel Bank. Employee volunteers register their areas of expertise, which the bank can then apply in various activities that meet regional needs by acting as go-between and introduction agency.

Actively Promoting International Interchange

In this area, we sponsor charity concerts, and provide housing assistance to foreign exchange students in the region, to suport them and encourage interchange with the regional community. In addition, the offices of the Honorary Consulate of Canada in Hiroshima and the Hiroshima Canada Association are located within our headquarters building, allowing us to assist exchanges between Canada and Japan. In line with increasing internationalization and the deepening problem of global warming, border-spanning interchange and cooperation between electric power companies is becoming more important than ever. At Chugoku Electric, we signed an agreement related to technology exchange with Kuosheng Nuclear Power Station of Taiwan Power Company. We also actively pursue international personnel and technological interchange, for example, by dispatching engineers to, and accepting trainees from overseas electric utilities via such organizations as Japan Electric Power Information Center, Inc.

Signing ceremony for the technology exchange agreement with Kuosheng Nuclear Power Station of Taiwan Power Company

Contents

Consolidated 6-Year Summary

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
Years ended March 31

	Millions of yen					
	2002	2001	2000	1999	1998	1997
Operating revenues	¥1,021,149	¥1,044,863	¥1,049,440	¥1,039,011	¥1,068,405	¥1,040,964
Operating income	118,545	126,621	131,444	134,985	137,051	138,142
Net income	46,470	27,202	27,615	29,306	30,163	27,230
Total stockholders' equity	593,752	575,772	550,856	485,718	475,380	463,942
Total assets	2,846,207	2,952,869	3,011,101	2,998,389	3,067,448	2,946,150
Interest-bearing debt	1,900,098	2,012,672	2,104,628	2,165,187	2,210,124	2,165,612
Free cash flows	130,496	102,632	107,752	—	—	—
Other financial data						
Per share data (yen):						
Stockholders' equity (*1)	1,600.41	1,551.79	1,484.63	1,309.02	1,281.16	1,250.34
Net income (*2):						
Basic	125.25	73.31	74.43	78.98	81.29	73.38
Diluted	123.99	72.78	73.88	78.32	80.57	72.78
Cash dividends	50.00	60.00	60.00	50.00	50.00	50.00
Key financial ratios:						
Equity ratio (%)	20.9	19.5	18.3	16.2	15.5	15.7
Return on equity (ROE) (%)	7.9	4.8	5.3	6.1	6.4	5.9
Return on assets (ROA) (%)	1.60	0.91	0.92	0.97	1.00	0.95
Price earnings ratio (PER) (times)	13.8	23.2	17.4	23.8	23.3	27.9

	Millions of kWh					
	2002	2001	2000	1999	1998	1997
Power generated and received						
Generated:						
Hydroelectric	3,678	3,489	3,506	3,298	4,134	2,973
Thermal	30,588	34,656	35,241	35,699	28,972	32,031
Nuclear	10,267	6,765	10,059	10,702	9,282	8,738
Total	44,533	44,910	48,806	49,699	42,388	43,742
Bought from other companies	20,656	21,185	18,499	13,980	18,862	16,489
Sold to other companies	(5,251)	(4,779)	(7,840)	(5,757)	(3,610)	(3,434)
Transmission loss and other	(5,483)	(6,813)	(6,551)	(6,310)	(6,047)	(6,003)
Total	53,605	54,503	52,914	51,612	51,593	50,794
Electricity Sales:						
Residential (lighting)	16,384	16,208	15,749	15,358	14,791	14,623
Commercial, industrial and other	21,930	22,155	21,603	36,254	36,802	36,171
Power consumption by liberalized sector	15,291	16,140	15,562	—	—	—
Total	53,605	54,503	52,914	51,612	51,593	50,794

(*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

In fiscal 2002, ended March 31, 2002, conditions in the Japanese economy remained severe. A worsening employment situation kept personal spending sluggish. In addition, low domestic demand caused a decreasing trend in manufacturing activities, while corporate capital spending dropped significantly in the second half of the year. These nationwide factors affected the Chugoku region, as well.

In this operating environment, The Chugoku Electric Power Co., Inc. and its consolidated subsidiaries (the "Group") strove to strengthen the corporate structure by reinforcing cost competitiveness and improving their financial positions, thereby positioning themselves to become competitive winners.

Consolidated operating revenues in fiscal 2002 totaled ¥1,021.1 billion (US$7,677.8 million), a decrease of 2.3%, or ¥23.7 billion (US$178.3 million), from the previous fiscal year. However, net income increased 70.8%, or ¥19.3 billion (US$144.9 million), to ¥46.5 billion (US$349.4 million). Free cash flow (net cash flows provided by operating activities minus net cash flows used in investing activities) amounted to ¥130.5 billion (US$981.2 million). Cash dividends per share were ¥50.00 (US$0.38).

Operating Revenues

As stated above, consolidated operating revenues slipped 2.3%, or ¥23.7 billion (US$178.3 million), to ¥1,021.1billion (US$7,677.8 million).

By segment, operating revenues for Electric operations, the Group's principle business, after eliminations, decreased 2.6%, or ¥25.6 billion (US$192.4 million), to ¥971.3 billion (US$7,303.3 million). This reflected the continuing effects of a price reduction for electric power implemented in October 2000 and a year-on-year drop in contract demand for extra-high-voltage electricity.

Operating revenues for Other operations, after eliminations, amounted to ¥49.8 billion (US$374.5 million), a rise of 3.9%, or ¥1.9 billion (US$14.1 million). These operations include the production and sale of equipment and materials, construction contract activities, telecommunications and information processing, and other businesses.

Operating Expenses

On a consolidated basis, operating expenses for fiscal 2002, after eliminations, decreased 1.7%, or ¥15.6 billion (US$117.6 million), to ¥902.6 billion (US$6,786.5 million).

Operating expenses for Electric operations, after eliminations, amounted to ¥851.8 billion (US$6,404.9 million), a decline of 0.8%, or ¥7.1 billion (US$53.6 million). Factors in this result included a decrease in fuel expenses, owing mainly to expanded operations at the Shimane Nuclear Power Station and a decrease in depreciation. Operating expenses for Other operations totaled ¥50.8 billion (US$381.6 million) after eliminations, a decrease of 14.4%, or ¥8.5 billion (US$63.9 million).

Operating income was thus ¥118.5 billion (US$891.3 million), a decline of 6.4%, or ¥8.1 billion (US$60.7 million).

Other expenses, net contracted 17.4%, or ¥12.5 billion (US$94.0 million), to ¥59.5 billion (US$447.4 million), mainly owing to a decrease in interest paid, although the Group incurred losses on the closing of an affiliated company and on the valuation of marketable securities.

As a result, consolidated income before income taxes expanded 8.1%, or ¥4.4 billion (US$33.3 million), to ¥59.0 billion (US$443.9 million), and consolidated net income totaled ¥46.5 billion (US$349.4 million), a jump of 70.8%, or ¥19.3 billion (US$144.9 million). A primary factor in this result was a decrease in income taxes following the liquidation of a subsidiary.

Net income per share, basic, rose ¥51.94 (US$0.39), to ¥125.25 (US$0.94), from ¥73.31 (US$0.55) in fiscal 2001.

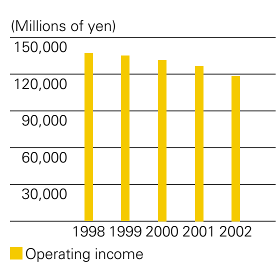
Management cut cash dividends per share in fiscal 2002 to ¥50.00 (US$0.38), from ¥60.00 (US$0.45) a year earlier, to help reinforce cash reserves and stabilize management foundations, including the Group's financial structure.

Financial Position

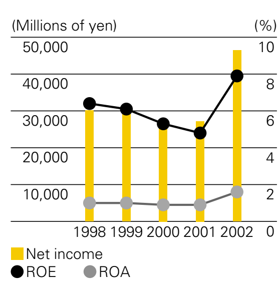
Assets

Total assets of the Group at the close of fiscal 2002 amounted to ¥2,846.2 billion (US$21,400.1 million), off 3.6%, or ¥106.7 billion (US$802.0 million). Key factors in this result were the depreciation of existing equipment in the Group's Electric operations and a reduction in capital investment.

Operating Income



Net Income, ROE and ROA



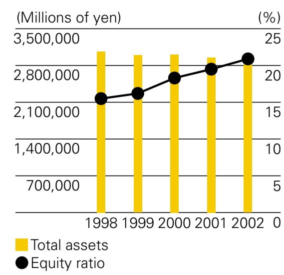
Net property decreased 4.0%, or ¥100.5 billion (US$755.7 million), to ¥2,406.1 billion (US$18,091.3 million). In this area, the Group is working to trim its assets, such as by more effectively using existing facilities and equipment, centered on Electric operations, and by selling unused land.

Nuclear fuel increased 6.2%, or ¥6.5 billion (US$48.8 million), to ¥110.5 billion (US$831.1 million). Total investments and other assets declined 1.9%, or ¥3.8 billion (US$28.7 million), to ¥195.0 billion (US$1,466.2 million). Total current assets totaled ¥134.5 billion (US$1,011.4 million), a drop of 6.2%, or ¥8.8 billion (US$66.3 million).

Liabilities

Total liabilities of the Group amounted to ¥2,247.9 billion (US$16,901.9 million), a decrease of 5.3%, or ¥124.8 billion. Of this total, short and long-term interest-bearing debt declined 5.6%, or ¥112.6 billion (US$846.4 million), to ¥1,900.1 billion (US$14,286.5 million), as the Group pursued capital investments within the scope of its internal funding capabilities. Other liabilities dropped 3.4%, or ¥12.2 billion (US$92.1 million), to ¥347.8 billion (US$2,615.4 million), centered on the Group's liability for severance and retirement benefits, and its reserve for the reprocessing of irradiated nuclear fuel.

Total Assets and Equity Ratio



Summary of Cash Flows

Years ended March 31

	Millions of yen		
	2002	2001	2000
Cash flows from operating activities:			
Net cash provided by operating activities	¥253,418	¥254,872	¥280,072
Cash flows from investing activities:			
Net cash used in investing activities	(122,922)	(152,240)	(172,320)
Cash flows from financing activities:			
Net cash used in financing activities	(131,230)	(107,398)	(114,540)
Net decrease in cash and cash equivalents	(734)	(4,766)	(6,788)
Cash and cash equivalents at beginning of year	21,060	25,826	32,614
Cash and cash equivalents at end of year	¥ 20,326	¥ 21,060	¥ 25,826

Minority interests advanced 4.0%, or ¥0.2 billion (US$1.3 million), to ¥4.5 billion (US$33.9 million).

Total stockholders' equity increased 3.1%, or ¥18.0 billion (US$135.2 million), to ¥593.8 billion (US$4,464.3 million), and the stockholders' equity ratio was 20.9%, a rise of 1.4 percentage point from 19.5% a year earlier.

Cash Flows

The Group works under a policy of increasing cash flows provided by operating activities and reducing cash flows used in investing activities to strengthen its financial base.

Cash and cash equivalents at end of year amounted to ¥20.3 billion (US$152.8 million), a decrease of 3.5%, or ¥0.7 billion (US$5.5 million) from a year earlier.

Net cash provided by operating activities slipped 0.6%, or ¥1.5 billion (US$10.9 million), to ¥253.4 billion (US$1,905.4 million). The results of efficiency improvements throughout the Group's management fell below the effects of the October 2000 reduction in electric power prices and a decrease in sales of electric power from the previous fiscal year.

On the other hand, net cash used in investing activities fell 19.3%, or ¥29.3 billion (US$220.4 million), to ¥122.9 billion (US$924.2 million), mainly because of efforts to enhance the efficiency of capital investments, which centered on the acquisition of property for Electric operations and other uses.

In this environment, the Group's free cash flows stood at ¥130.5 billion (US$981.2 million), which became a resource to repay interest-bearing debt.

Net cash used in financing activities expanded 22.2%, or ¥23.8 billion (US$179.2 million), to ¥131.2 billion (US$986.7 million), as a result of efforts to reduce interest-bearing debt, including the repayment of bonds. Repayments of both bonds and long-term debt exceeded procurements, causing the balance to drop ¥101.1 billion (US$760.1 million). Expenditures for cash dividends paid came to ¥20.4 billion (US$153.4 million).

Outlook

In fiscal 2003, the Group will continue efforts to reduce costs through enhanced operational efficiency. However, owing mainly to a planned reduction in electric power rates in the Group's Electric operations, which accounts for the majority of the Group's consolidated revenues, the Group forecasts year-on-year decreases in consolidated net sales, to ¥1,010.0 billion, and consolidated net income, to ¥39.0 billion.

These forecasts are based on an exchange rate of ¥130 to US$1.00, and a crude oil price of US$25.00 per barrel.

Consolidated Balance Sheets

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	2002	2001	2002
Property:			
Utility plant and equipment	¥5,220,451	¥5,122,658	$39,251,511
Other plant	123,540	109,608	928,872
Construction in progress	149,468	226,429	1,123,820
	5,493,459	5,458,695	41,304,203
Less—			
Contributions in aid of construction	64,249	63,491	483,075
Accumulated depreciation	3,023,069	2,888,549	22,729,842
	3,087,318	2,952,040	23,212,917
Net property	2,406,141	2,506,655	18,091,286
Nuclear fuel	110,539	104,052	831,120
Investments and other assets:			
Investment securities (Note 4)	54,058	71,285	406,451
Investments in and advances to non-consolidated subsidiaries and affiliates	83,497	79,696	627,797
Long-term loans to employees	2,929	3,530	22,023
Deferred tax assets (Note 11)	47,568	40,348	357,654
Other assets	6,958	3,968	52,316
Total investments and other assets	195,010	198,827	1,466,241
Current assets:			
Cash and time deposits (Note 3)	20,550	22,528	154,511
Receivables, less allowance for doubtful accounts of ¥927 million ($6,970 thousand) in 2002 and ¥859 million in 2001	63,828	61,442	479,910
Inventories, fuel and supplies	35,598	39,637	267,654
Deferred tax assets (Note 11)	6,575	10,331	49,436
Other current assets	7,966	9,417	59,895
Total current assets	134,517	143,335	1,011,406
Total assets	¥2,846,207	¥2,952,869	$21,400,053

See accompanying notes.

Liabilities and Stockholders' Equity	Millions of yen 2002	2001	Thousands of U.S. dollars (Note 1) 2002
Long-term debt due after one year (Note 6)	¥1,614,710	¥1,536,888	$12,140,677
Other long-term liabilities due after one year	5,421	3,610	40,759
Employees' severance and retirement benefits (Note 10)	78,202	84,902	587,985
Reserve for reprocessing of irradiated nuclear fuel	83,043	69,824	624,383
Reserve for decommissioning of nuclear power generating plants	39,746	37,759	298,842
Current liabilities:			
Long-term debt due within one year (Note 6)	132,008	310,923	992,541
Short-term borrowings	109,380	166,440	822,406
Commercial paper	44,000	—	330,827
Accounts payable	48,572	58,429	365,203
Accrued income taxes	11,793	11,962	88,669
Accrued expenses	47,209	52,266	354,955
Reserve for casualty loss	—	3,612	—
Other current liabilities (including other long-term liabilities due within one year)	33,865	36,150	254,625
Total current liabilities	426,827	639,782	3,209,226
Minority interests	4,506	4,332	33,880
Commitments and contingent liabilities (Note 8)			
Stockholders' equity (Note 12)**:**			
Common stock			
Authorized—1,000,000,000 shares			
Issued—371,055,259 shares	185,528	185,528	1,394,947
Capital surplus	16,677	16,677	125,391
Retained earnings (Note 14)	377,423	351,578	2,837,767
Net unrealized holding gains on securities	14,204	21,999	106,797
Treasury stock	(74)	(4)	(556)
Common stock held by consolidated subsidiaries	(6)	(6)	(45)
Total stockholders' equity	593,752	575,772	4,464,301
Total liabilities and stockholders' equity	¥2,846,207	¥2,952,869	$21,400,053

Consolidated Statements of Income

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the years ended March 31, 2002, 2001 and 2000

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2002	2001	2000	2002
Operating revenues:				
Electric	¥ 971,344	¥ 996,929	¥1,000,804	$ 7,303,338
Other	49,805	47,934	48,636	374,474
	1,021,149	1,044,863	1,049,440	7,677,812
Operating expenses (Note 9)**:**				
Electric	851,849	858,982	860,211	6,404,880
Other	50,755	59,260	57,785	381,616
	902,604	918,242	917,996	6,786,496
Operating income	118,545	126,621	131,444	891,316
Other expenses (income):				
Interest expense	50,857	66,715	81,582	382,383
Interest income	(154)	(190)	(629)	(1,158)
Equity in (earnings) losses of affiliated companies	(3,256)	(1,646)	664	(24,481)
Casualty loss	—	6,109	—	—
Losses on revaluation of securities	4,680	—	—	35,188
Other, net	7,382	1,020	(1,031)	55,504
	59,509	72,008	80,586	447,436
Income before income taxes and minority interests in net income of consolidated subsidiaries	59,036	54,613	50,858	443,880
Provision for income taxes (Note 11)**:**				
Current	9,648	24,261	23,614	72,542
Deferred	2,718	2,337	(389)	20,436
	12,366	26,598	23,225	92,978
Income before minority interests in net income of consolidated subsidiaries	46,670	28,015	27,633	350,902
Minority interests in net income of consolidated subsidiaries	200	813	18	1,504
Net income	¥ 46,470	¥ 27,202	¥ 27,615	$ 349,398

	Yen			U.S. dollars (Note 1)
Per share data (Note 2)**:**				
Net income:				
Basic	¥125.25	¥73.31	¥74.43	$0.94
Diluted	123.99	72.78	73.88	0.93
Cash dividends applicable to the year	50.00	60.00	60.00	0.38

See accompanying notes.

Consolidated Statements of Stockholders' Equity

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the years ended March 31, 2002, 2001 and 2000

		Millions of yen					
	Shares of common stock	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Treasury stock	Common stock held by consolidated subsidiaries
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)
Net income				46,470			
Cash dividends paid (¥55.00 per share)				(20,355)			
Bonuses to directors and statutory auditors				(270)			
Decrease in unrealized holding gains on securities					(7,795)		
Purchase of treasury stock						(70)	
Balance at March 31, 2002	371,055,259	¥185,528	¥16,677	¥377,423	¥14,204	¥(74)	¥(6)

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Treasury stock	Common stock held by consolidated subsidiaries
Balance at March 31, 2001	$1,394,947	$125,391	$2,643,444	$165,406	$(30)	$(45)
Net income			349,398			
Cash dividends paid ($0.41 per share)			(153,045)			
Bonuses to directors and statutory auditors			(2,030)			
Decrease in unrealized holding gains on securities				(56,609)		
Purchase of treasury stock					(526)	
Balance at March 31, 2002	$1,394,947	$125,391	$2,837,767	$106,797	$(556)	$(45)

See accompanying notes.

Consolidated Statements of Cash Flows

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the years ended March 31, 2002, 2001 and 2000

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2002	2001	2000	2002
Cash flows from operating activities:				
Income before income taxes and minority interests in net income of consolidated subsidiaries	¥ 59,036	¥ 54,613	¥ 50,858	$ 443,880
Depreciation	185,516	195,366	210,264	1,394,857
Amortization of nuclear fuel	8,154	5,925	10,748	61,308
Loss on disposal of property	7,027	8,290	7,319	52,835
Increase (decrease) in employees' severance and retirement benefits	(6,700)	18,576	214	(50,376)
Increase in provision for decommissioning of nuclear power generating plants	1,986	3,938	5,031	14,932
Increase in provision for reprocessing of irradiated nuclear fuel	13,219	1,403	2,203	99,391
Increase (decrease) in provision for casualty loss	(3,612)	3,612	—	(27,158)
Interest and dividend income	(755)	(829)	(1,396)	(5,677)
Interest expense	50,857	66,715	81,582	382,383
Decrease (increase) in notes and accounts receivable	(3,243)	4,368	7,571	(24,383)
Decrease (increase) in inventories	1,938	(4,383)	5,119	14,571
Decrease in notes and accounts payable	(1,683)	(1,833)	(2,684)	(12,654)
Other	7,964	(9,839)	3,736	59,880
Subtotal	319,704	345,922	380,565	2,403,789
Interest and dividends received	1,203	1,044	1,405	9,045
Interest paid	(52,434)	(67,897)	(84,234)	(394,241)
Income taxes paid	(15,055)	(24,197)	(17,664)	(113,195)
Net cash provided by operating activities	253,418	254,872	280,072	1,905,398
Cash flows from investing activities:				
Purchase of property	(131,011)	(155,843)	(177,018)	(985,045)
Purchase of investments in securities	(6,707)	(9,221)	(1,129)	(50,429)
Proceeds from sale of investment securities	7,250	7,166	3,094	54,511
Other	7,546	5,658	2,733	56,737
Net cash used in investing activities	(122,922)	(152,240)	(172,320)	(924,226)
Cash flows from financing activities:				
Proceeds from issue of bonds	149,402	104,536	164,240	1,123,323
Repayment of bonds	(248,548)	(105,000)	(213,547)	(1,868,782)
Proceeds from long-term debt	70,622	46,213	52,723	530,992
Repayment of long-term debt	(73,168)	(115,937)	(100,469)	(550,135)
Increase (decrease) in short-term bank loans	(53,060)	10,892	9,052	(398,947)
Increase (decrease) in commercial paper	44,000	(24,000)	(8,000)	330,827
Cash dividends paid	(20,398)	(24,098)	(18,529)	(153,368)
Other	(80)	(4)	(10)	(601)
Net cash used in financing activities	(131,230)	(107,398)	(114,540)	(986,691)
Net decrease in cash and cash equivalents	(734)	(4,766)	(6,788)	(5,519)
Cash and cash equivalents at beginning of year	21,060	25,826	32,614	158,346
Cash and cash equivalents at end of year	¥ 20,326	¥ 21,060	¥ 25,826	$ 152,827

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"). Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying financial statements are intended for use by those who are informed about Japanese accounting principles and practices. The accompanying financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of statements of stockholders' equity) from the consolidated financial statements of the Company 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. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation is not presented in the accompanying financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the readers using the prevailing exchange rate at March 29, 2002, which was ¥133 to U.S.$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 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. Effective April 1, 2001, the financial statements of Chuden Business Service Co., Inc. are included in the accompanying consolidated financial statements as the company was established at April 12, 2001.

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.

For the year ended March 31, 2002, 5 (5 in 2001, 5 in 2000) affiliates were accounted for by the equity method.

For the year ended March 31, 2002, investments in 12 (10 in 2001, 7 in 2000) non-consolidated subsidiaries and 18 (17 in 2001, 19 in 2000) 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.

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 "Accounting Standards for Financial Instruments" ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999). As a result, debt securities designated as held-to-maturity are carried at amortized cost. Other investments for which market value is readily determinable are stated at market value as of the end of the year with unrealized gains and losses, net of applicable deferred tax assets/liabilities, not reflected in earnings but directly reported as a separate component of shareholders' equity. The cost of securities sold is determined by the moving-average method. Other investments for which market value is not readily determinable are stated primarily at 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, including the effect of the new accounting standard on the allowance for doubtful accounts, for the year ended March 31, 2001.

Property and depreciation

Property is stated at cost, which includes interest on borrowed funds during construction, in accordance with rules established by 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 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 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, 2002 and 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 liability for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥8,150 million. The net transition obligation was expensed for the year ended March 31, 2001.

Prior service costs are recognized in expenses as incurred. Actuarial gains and losses are recognized as expenses in equal amounts over 5 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, and income before income taxes and minority interests in net income of consolidated subsidiaries increased by ¥15,164 million 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 Ministry of Economy, 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 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, 2002 and 2001, 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. For the year ended March 31, 2001, the Company provided for the estimated expenses 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 for the year ended March 31, 2001. The effect of this change was to decrease income before income taxes by ¥9,172 million 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.

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.

The cumulative effect of adopting the new accounting standard was ¥49,230 million, which, together with adjustments to previously recorded deferred taxes, was 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 holidays on March 31, 2002 and 2001

In case the balance sheet dates are bank holidays, 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 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. 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 at March 31, 2002 and 2001 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Cash and time deposits	¥20,550	¥22,528	$154,511
Less: Time deposits with maturities exceeding three months	(244)	(3,132)	(1,834)
Add: Short-term highly liquid investments with maturities not exceeding three months	20	1,664	150
Cash and cash equivalents	¥20,326	¥21,060	$152,827

4. Securities

A. The following tables summarize acquisition costs, book values (fair values) of securities with available fair market values as of March 31, 2002 and 2001:

(a) Held-to-maturity debt securities

Securities with available fair values exceeding book values

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Book value	¥1	¥1	$8
Fair value	1	1	8
Difference	¥0	¥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
	2002	2001	2002	2001	2002	2001		2002	
Equity securities	¥3,569	¥6,344	¥26,309	¥39,815	¥22,740	¥33,471	$26,834	$197,812	$170,978
Bonds	25	63	31	84	6	21	188	233	45
Other	1	5	1	5	0	0	8	8	0
Total	¥3,595	¥6,412	¥26,341	¥39,904	¥22,746	¥33,492	$27,030	$198,053	$171,023

Other securities

	Millions of yen						Thousands of U.S. dollars		
	Acquisition cost		Book value		Difference		Acquisition cost	Book value	Difference
	2002	2001	2002	2001	2002	2001		2002	
Equity securities	¥3,565	¥755	¥3,193	¥589	¥(372)	¥(166)	$26,805	$24,008	$(2,797)
Bonds	52	30	50	30	(2)	(0)	391	376	(15)
Other	47	142	32	108	(15)	(34)	353	240	(113)
Total	¥3,664	¥927	¥3,275	¥727	¥(389)	¥(200)	$27,549	$24,624	$(2,925)

B. Book values of securities with no available fair value as of March 31, 2002 and 2001 are as follows:

(a) Held-to-maturity debt securities

	Millions of yen		Thousands of U.S. dollars
	Book value		Book value
	2002	2001	2002
Non-listed bonds	¥2	¥6	$15

(b) Available-for-sale securities

	Millions of yen		Thousands of U.S. dollars
	Book value		Book value
	2002	2001	2002
Non-listed equity securities	¥22,883	¥21,198	$172,052
Other	1,428	8,174	10,737
Total	¥24,311	¥29,372	$182,789

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

	Millions of yen				
	Within one year	Within five years	Within ten years	Over ten years	Total
Government bonds	¥2	¥1	¥—	¥—	¥ 3
Corporate bonds	—	47	9	—	56
Other	—	—	—	—	—
Total	¥2	¥48	¥9	¥—	¥59

D. Total sales of available-for-sale securities sold in the year ended March 31, 2002 amounted to ¥1,074 million (US$8,075 thousand), and the related gains and losses amounted to ¥1,033 million (US$7,767 thousand) and ¥6 million (US$45 thousand), respectively. And total sales of available-for-sale securities sold in the year ended March 31, 2001 amounted to ¥359 million, and the related gains and losses amounted to ¥152 million and ¥1 million respectively.

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.

As of March 31, 2002 and 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, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Domestic bonds due serially through 2029 at rates of 0.6% to 5.35%	¥1,059,800	¥1,114,800	$ 7,968,421
Domestic convertible bonds due in 2002 at a rate of 1.9%	—	15,750	—
U.S. dollar notes due in 2001 at a rate of 6.25%	—	27,798	—
Deutsche mark bonds due in 2003 at a rate of 5.625%	22,125	22,125	166,353
Loans from the Development Bank of Japan due serially through 2023 at rates of 1.2% to 6.9%	334,856	334,311	2,517,714
Unsecured loans, principally from banks and insurance companies, due serially through 2032 at rates of 0.3875% to 7.2%	329,937	333,027	2,480,730
	1,746,718	1,847,811	13,133,218
Less amount due within one year	(132,008)	(310,923)	(992,541)
Total	¥1,614,710	¥1,536,888	$12,140,677

The indenture covering the domestic convertible bonds provided, among other conditions, for conversion into shares of common stock at the conversion price per share of ¥2,951 (US$22.19).

All bonds, notes 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 ¥2,709,183 million (US$20,369,797 thousand), senior to that of general creditors. Some assets of subsidiaries are being used as collateralized for loans from financial institutions and other sources.

The annual maturities of long-term debt at March 31, 2002 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2003	¥132,008	$ 992,541
2004	180,923	1,360,323
2005	182,843	1,374,759
2006	155,843	1,171,752
Thereafter	963,093	7,241,302

7. Leases

(As lessee)

The Companies lease certain equipment for business use.

Lease payments under non-capitalized finance leases amounted to ¥546 million (US$4,105 thousand) and ¥858 million for the years ended March 31, 2002 and 2001, 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 ,2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars	Millions of yen		Thousands of U.S. dollars
	Finance leases		Finance leases	Operating leases		Operating leases
	2002	2001	2002	2002	2001	2002
Current portion	¥182	¥ 819	$1,368	¥163	¥ 75	$1,225
Non-current portion	187	3,065	1,406	144	133	1,083
Total	¥369	¥3,884	$2,774	¥307	¥208	$2,308

(As lessor)

Lease payments received under finance leases, accounted for as operating leases, amounted to ¥112 million (US$842 thousand) and ¥60 million for the years ended March 31, 2002 and 2001, respectively.

The present values of future minimum lease payments to be received under finance leases as of March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Current portion	¥138	¥ 82	$1,038
Non-current portion	438	267	3,293
Total	¥576	¥349	$4,331

8. Commitments and contingent liabilities

At March 31, 2002, 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, 2002, the Companies were contingently liable as guarantor for loans of other companies in the amount of ¥115,329 million (US$867,135 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$1,345,414 thousand).

9. Research and development expenses

Research and development expenses charged to operating expenses were ¥9,986 million (US$75,083 thousand) and ¥8,317 million for the years ended March 31, 2002 and 2001, 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 liabilities for severance and retirement benefits included in the liabilities section of the consolidated balance sheets as of March 31, 2002 and 2001 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Projected benefit obligation	¥255,237	¥234,693	$1,919,075
Fair value of pension assets	138,657	135,318	1,042,534
	116,580	99,375	876,541
Less unrecognized actuarial differences	(38,802)	(14,682)	(291,744)
Prepaid pension expense	424	209	3,188
Liability for severance and retirement benefits	¥ 78,202	¥ 84,902	$ 587,985

Included in the consolidated statements of income for the years ended March 31, 2002 and 2001 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Service costs—benefits earned during the year	¥ 8,806	¥ 8,683	$ 66,211
Interest cost on projected benefit obligation	6,966	6,844	52,376
Expected return on plan assets	(5,277)	(5,240)	(39,677)
Prior service costs	(127)	(415)	(955)
Amortization of actuarial losses	2,951	—	22,188
Net transition obligation	—	8,150	—
Severance and retirement benefit expenses	¥13,319	¥18,022	$100,143

In the year ended March 31, 2002, the discount rate and the rates of expected return on plan assets used by the Company were 2.5% and 1.0% to 4.0%, 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 years.

11. Income taxes

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate a statutory rate in Japan of approximately 36% for the years ended March 31, 2002 and 2001. The Companies' 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 Companies' statutory tax rate and the effective tax rate for financial statements purposes for the years ended March 31, 2002 and 2001:

	2002	2001
The Companies' statutory tax rate	36.15%	36.15%
Losses in subsidiaries	(13.18)	4.50
Non-taxable dividend income	(0.58)	(0.54)
Non-deductible expenses	0.58	0.82
Amortization of consolidation differences	—	8.09
Other	(2.02)	(0.32)
Effective tax rate	20.95%	48.70%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Deferred tax assets:			
Excess depreciation	¥16,763	¥16,268	$126,037
Adjustment for unrealized intercompany profits	13,363	14,066	100,474
Carryforward of operating losses	407	12,168	3,060
Severance and retirement benefits	8,980	9,563	67,519
Future reprocessing costs of irradiated nuclear fuel	4,742	4,742	35,654
Future decommissioning costs of nuclear power generating plants	4,288	4,288	32,241
Other	12,914	14,834	97,098
Total deferred tax assets	61,457	75,929	462,083
Valuation allowance	(1,351)	(13,047)	(10,158)
Net deferred tax assets	60,106	62,882	451,925
Deferred tax liabilities:			
Adjustment of allowance for doubtful accounts with losses offset by gains	(53)	(29)	(398)
Net unrealized holding gains on securities	(8,466)	(12,091)	(63,654)
Other	(7)	(103)	(53)
Total deferred tax liabilities	(8,526)	(12,223)	(64,105)
Net deferred tax assets	¥51,580	¥50,659	$387,820

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 at least or 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.

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, 2002, 2001 and 2000 is as follows:

	Millions of yen				
	2002				
	Electric	Other	Total	Elimination	Consolidated
Operating revenues:					
Outside customers	¥ 971,344	¥ 49,805	¥1,021,149	¥ —	¥1,021,149
Intersegment	1,191	85,756	86,947	(86,947)	—
Total	972,535	135,561	1,108,096	(86,947)	1,021,149
Cost and expenses	855,519	134,388	989,907	(87,303)	902,604
Operating income	¥ 117,016	¥ 1,173	¥ 118,189	¥ 356	¥ 118,545
Identifiable assets	¥2,684,591	¥204,814	¥2,889,405	¥(43,198)	¥2,846,207
Depreciation expenses	180,066	6,874	186,940	(1,424)	185,516
Capital expenditures	109,780	25,464	135,244	(11,904)	123,340

	Thousands of U.S. dollars				
	2002				
	Electric	Other	Total	Elimination	Consolidated
Operating revenues:					
Outside customers	$ 7,303,338	$ 374,474	$ 7,677,812	$ —	$ 7,677,812
Intersegment	8,955	644,782	653,737	(653,737)	—
Total	7,312,293	1,019,256	8,331,549	(653,737)	$ 7,677,812
Cost and expenses	6,432,474	1,010,436	7,442,910	(656,414)	6,786,496
Operating income	$ 879,819	$ 8,820	$ 888,639	$ 2,677	$ 891,316
Identifiable assets	$20,184,895	$1,539,955	$21,724,850	$(324,797)	$21,400,053
Depreciation expenses	1,353,880	51,684	1,405,564	(10,707)	1,394,857
Capital expenditures	825,413	191,459	1,016,872	(89,504)	927,368

	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

	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 Companies for the years ended March 31, 2002 and 2001 is not shown due to aggregate overseas sales being less than 10% of total operating revenues.

14. Subsequent events

The following appropriation of retained earnings at March 31, 2002 was approved at the annual meeting of stockholders held on June 27, 2002:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥25 ($0.19) per share	¥9,275	$69,737
Bonuses to directors and statutory auditors	120	902

Report of Independent Certified Public Accountants

To the Stockholders and the Board of Directors of
The Chugoku Electric Power Co., Inc.

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, 2002 and 2001, and the related consolidated statements of income, stockholders' equity and cash flows for the three years in the period ended March 31, 2002, 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, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2002 in conformity with accounting principles generally accepted in Japan (Note 1) applied on a consistent basis during the periods, except as noted in the following paragraph.

As explained in Note 2, The Chugoku Electric Power Co., Inc. and its consolidated subsidiaries prospectively adopted new Japanese accounting standards for consolidation and equity method accounting and income taxes in the year ended March 31, 2000, and new Japanese accounting standards for financial instruments and employees' retirement benefits and the revised Japanese accounting standards for foreign currency translation in the year ended March 31, 2001.

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.

Hiroshima, Japan
June 27, 2002

Non-Consolidated Balance Sheets

The Chugoku Electric Power Co., Inc.
March 31, 2002 and 2001

Assets	Millions of yen 2002	Millions of yen 2001	Thousands of U.S. dollars (Note 1) 2002
Property:			
Plant and equipment	¥5,327,125	¥5,223,540	$40,053,572
Construction in progress	152,864	229,655	1,149,353
	5,479,989	5,453,195	41,202,925
Less—			
Contributions in aid of construction	63,791	63,220	479,631
Accumulated depreciation	3,022,673	2,881,513	22,726,865
	3,086,464	2,944,733	23,206,496
Net property	2,393,525	2,508,462	17,996,429
Nuclear fuel	110,539	104,052	831,120
Investments and other assets:			
Investment securities	46,988	67,276	353,293
Investments in and advances to subsidiaries and affiliated companies (Note 3)	27,959	14,283	210,218
Long-term loans to employees	2,816	3,407	21,173
Deferred tax assets (Note 8)	31,550	23,535	237,218
Other assets	3,633	4,266	27,316
Total investments and other assets	112,946	112,767	849,218
Current assets:			
Cash and time deposits	11,326	10,322	85,158
Receivables, less allowance for doubtful accounts of ¥713 million ($5,361 thousand) in 2002 and ¥654 million in 2001	46,030	46,414	346,090
Inventories, fuel and supplies	26,010	25,583	195,564
Deferred tax assets (Note 8)	5,582	12,640	41,970
Other current assets	3,225	4,547	24,248
Total current assets	92,173	99,506	693,030
Total assets	¥2,709,183	¥2,824,787	$20,369,797

See accompanying notes.

Liabilities and Stockholders' Equity	Millions of yen 2002	Millions of yen 2001	Thousands of U.S. dollars (Note 1) 2002
Long-term debt due after one year (Note 4)	¥1,610,083	¥1,520,028	$12,105,887
Other long-term liabilities due after one year	1,672	2,381	12,571
Employees' severance and retirement benefits	69,400	75,999	521,805
Reserve for reprocessing of irradiated nuclear fuel	83,043	69,824	624,383
Reserve for decommissioning of nuclear power generating plants	39,745	37,759	298,835
Current liabilities:			
Long-term debt due within one year (Note 4)	129,676	305,862	975,008
Short-term borrowings	106,850	149,760	803,383
Commercial paper	44,000	—	330,827
Accounts payable	34,801	43,014	261,662
Accrued income taxes	10,424	10,775	78,376
Accrued expenses	42,515	45,118	319,662
Reserve for casualty loss	—	3,612	—
Reserve for loss on guarantee	—	9,000	—
Other current liabilities (including other long-term liabilities due within one year)	34,344	42,000	258,225
Total current liabilities	402,610	609,141	3,027,143
Commitments and contingent liabilities (Note 6)			
Stockholders' equity (Note 9)**:**			
Common stock			
Authorized—1,000,000,000 shares			
Issued—371,055,259 shares	185,528	185,528	1,394,947
Capital surplus	16,677	16,677	125,391
Legal reserve	46,382	46,382	348,737
Retained earnings (Note 10)	243,734	239,798	1,832,586
Net unrealized holding gains on securities	10,383	21,270	78,068
Treasury stock (Note 2)	(74)	—	(556)
Total stockholders' equity	502,630	509,655	3,779,173
Total liabilities and stockholders' equity	¥2,709,183	¥2,824,787	$20,369,797

Non-Consolidated Statements of Income

The Chugoku Electric Power Co., Inc.
For the years ended March 31, 2002, 2001 and 2000

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2002	2001	2000	2002
Operating revenues	¥972,535	¥998,170	¥1,002,197	$7,312,293
Operating expenses (Note 7)**:**				
Personnel	122,866	126,759	130,352	923,805
Fuel	105,956	116,282	101,933	796,662
Purchased power	146,075	140,424	134,995	1,098,308
Depreciation	180,066	190,948	203,129	1,353,880
Maintenance	99,705	98,771	106,010	749,662
Taxes other than income taxes	65,089	65,598	66,249	489,391
Purchased services	35,163	33,257	35,916	264,383
Other	100,599	91,153	86,764	756,383
	855,519	863,192	865,348	6,432,474
Operating income	117,016	134,978	136,849	879,819
Other expenses (income):				
Interest expense	50,244	65,633	80,487	377,774
Interest income	(109)	(122)	(534)	(819)
Casualty loss	—	6,127	—	—
Losses on revaluation of securities	4,680	—	—	35,188
Loss on investments in subsidiaries and affiliated companies	17,150	11,920	—	128,947
Other, net	7,793	294	(1,065)	58,594
	79,758	83,852	78,888	599,684
Income before income taxes	37,258	51,126	57,961	280,135
Provision for income taxes:				
Current	7,584	22,216	21,653	57,023
Deferred	5,205	(3,094)	(720)	39,135
Net income	¥ 24,469	¥ 32,004	¥ 37,028	$ 183,977

	Yen			U.S. dollars (Note 1)
Per share data (Note 2)**:**				
Net income:				
Basic	¥65.95	¥86.25	¥99.79	$0.50
Diluted	65.52	85.54	98.88	0.49
Cash dividends applicable to the year	50.00	60.00	60.00	0.38

See accompanying notes.

Non-Consolidated Statements of Stockholders' Equity

The Chugoku Electric Power Co., Inc.
For the years ended March 31, 2002, 2001 and 2000

	Shares of common stock	Common stock (Millions of yen)	Capital surplus (Millions of yen)	Legal reserve (Millions of yen)	Retained earnings (Millions of yen)	Net unrealized holding gains on securities (Millions of yen)	Treasury stock (Millions of yen)
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	—
Net income					24,469		
Cash dividends paid (¥55.00 per share)					(20,408)		
Bonuses to directors and statutory auditors					(125)		
Decrease in unrealized holding gains on securities						(10,887)	
Treasury stock (Note 2)							(74)
Balance at March 31, 2002	**371,055,259**	**¥185,528**	**¥16,677**	**¥46,382**	**¥243,734**	**¥10,383**	**¥(74)**

	Common stock (Thousands of U.S. dollars (Note 1))	Capital surplus	Legal reserve	Retained earnings	Net unrealized holding gains on securities	Treasury stock
Balance at March 31, 2001	$ 1,394,947	$ 125,391	$ 348,737	$ 1,802,992	$159,925	$ —
Net income				183,977		
Cash dividends paid ($0.41 per share)				(153,443)		
Bonuses to directors and statutory auditors				(940)		
Decrease in unrealized holding gains on securities					(81,857)	
Treasury stock (Note 2)						(556)
Balance at March 31, 2002	**$1,394,947**	**$125,391**	**$348,737**	**$1,832,586**	**$ 78,068**	**$(556)**

See accompanying notes.

1. Basis of presenting non-consolidated financial statements

The Chugoku Electric Power Co., Inc. (the "Company") maintains 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"). Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying financial statements are intended for use by those who are informed about Japanese accounting principles and practices. The accompanying non-consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of statements of stockholders' equity) from the non-consolidated financial statements of the Company translation of the audited non-consolidated financial statements of the Company 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. Some supplementary information included in the statutory Japanese language non-consolidated financial statements, but not required for fair presentation is not presented in the accompanying financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the readers, using the prevailing exchange rate at March 29, 2002, which was ¥133 to U.S.$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 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 is not readily available, such securities should be written down to net asset value with a corresponding charge in the non-consolidated statement 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, 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 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 liabilities 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, 2002 and 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, 2001 and liability for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥12,394 million. The net transition obligation amounting to ¥12,394 million was expensed in the year ended March 31, 2001.

Prior service costs are recognized in expenses in equal amounts over the average of estimated remaining periods of the employees (5 years), and actuarial gains and losses are recognized in expenses using a straight-line basis over the average of the estimated remaining services periods (5 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 benefits expenses decreased by ¥10,198 million, and income before income taxes increased by ¥10,198 million 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 Ministry of Economy, 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 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 year ended March 31, 2002 and 2001, 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. For the year ended March 31, 2001, the Company provided for the estimated expenses of repair work following its casualty loss.

Reserve for loss on guarantees

The Company provided 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 for the year ended March 31, 2001.

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 2002 and 2001 as in 2000.

Bond issue expenses and bond issue discounts

Bond issue discounts are charged to income when paid or incurred. Bond issue discounts are changed 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.

The cumulative effect of adopting the new accounting standard was ¥44,414 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 ¥720 million.

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.

Treasury stock

In accordance with the Revised Regulations of Financial Statements, the Company reports treasury stock as deduction in the stockholders' equity, at March 31, 2002. In prior years it had been included in current assets.

3. Securities

Disclosure of market value information of securities except for investments in subsidiaries and affiliates with readily available market values at March 31, 2002 is 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, 2002 and 2001 were as follows:

	Millions of yen						Thousands of U.S. dollars		
	Book value		Fair value		Difference		Book value	Fair value	Difference
	2002	2001	2002	2001	2002	2001		2002	
Equity securities of affiliated companies	¥2,493	¥2,493	¥40,484	¥36,560	¥37,991	¥34,067	$18,744	$304,391	$285,647

4. Long-term debt

Long-term debt at March 31, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Domestic bonds due serially through 2029 at rates of 0.6% to 5.35%	¥1,060,000	¥1,115,000	$ 7,969,925
Domestic convertible bonds due in 2002 at a rate of 1.9%	—	15,750	—
U.S. dollar notes due in 2001 at a rate of 6.25%	—	27,798	—
Deutsche mark bonds due in 2003 at a rate of 5.625%	22,125	22,125	166,353
Loans from the Development Bank of Japan due serially through 2023 at rates of 1.2% to 6.9%	331,440	330,607	2,492,030
Unsecured loans, principally from banks and insurance companies, due serially through 2032 at rates of 0.3875% to 7.2%	326,194	314,610	2,452,587
	1,739,759	1,825,890	13,080,895
Less amount due within one year	(129,676)	(305,862)	(975,008)
Total	¥1,610,083	¥1,520,028	$12,105,887

The indenture covering the domestic convertible bonds provided, among other conditions, for conversion into shares of common stock at the conversion price per share of ¥2,951 (US$22.19).

All bonds, notes 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, 2002 were as follows:

Year ending March	Millions of yen	Thousands of U.S. dollars
2003	¥129,676	$ 975,008
2004	180,097	1,354,113
2005	182,062	1,368,887
2006	155,310	1,167,744
Thereafter	962,938	7,240,135

5. Leases

(As lessee)

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

Lease payments under non-capitalized finance leases amounted to ¥598 million (US$4,496 thousand) and ¥634 million for the years ended March 31, 2002 and 2001, 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, 2002 and 2001 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	Finance leases		Operating leases		Finance leases	Operating leases
	2002	2001	2002	2001	2002	2002
Current portion	¥ 560	¥ 514	¥120	¥43	$ 4,210	$902
Non-current portion	1,605	1,791	3	36	12,068	23
Total	¥2,165	¥2,305	¥123	¥79	$16,278	$925

6. Commitments and contingent liabilities

At March 31, 2002, 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, 2002, the Company was contingently liable as guarantor for loans of other companies in the amount of ¥115,309 million (US$866,985 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$1,345,639 thousand).

7. Research and development expenses

Research and development expenses charged to operating expenses were ¥9,899 million (US$74,429 thousand) and ¥9,232 million for the years ended March 31, 2002 and 2001, respectively.

8. Income taxes

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Deferred tax assets:			
Excess depreciation	¥16,006	¥15,617	$120,346
Future reprocessing costs of irradiated nuclear fuel	4,742	4,742	35,654
Future decommissioning costs of nuclear power generating plants	4,288	4,288	32,241
Severance and retirement benefits	6,926	7,600	52,075
Reserve for loss on guarantees	—	3,254	—
Reserve for bonuses to employees	2,590	—	19,474
Other	8,466	12,733	63,654
Total deferred tax assets	43,018	48,234	323,444
Deferred tax liabilities:			
Net unrealized holding gains on securities	(5,879)	(12,042)	(44,203)
Other	(7)	(17)	(53)
Total deferred tax liabilities	(5,886)	(12,059)	(44,256)
Net deferred tax assets	¥37,132	¥36,175	$ 27,188

9. 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 at least 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.

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 capital surplus and the reserve equal 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.

10. Subsequent events

The following appropriations of retained earnings at March 31, 2002, were approved at the annual meeting of stockholders held on June 27, 2002:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥25 ($0.19) per share	¥9,276	$69,744
Bonuses to directors and statutory auditors	120	902

Report of Independent Certified Public Accountants

To the Stockholders and the Board of Directors of
The Chugoku Electric Power Co., Inc.

We have audited the accompanying non-consolidated balance sheets of The Chugoku Electric Power Co., Inc. (a Japanese corporation) as of March 31, 2002 and 2001, and the related non-consolidated statements of income and stockholders' equity for each of the three years in the period ended March 31, 2002 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, 2002 and 2001, and the non-consolidated results of their operations for each of the three years in the period ended March 31, 2002, in conformity with accounting principles generally accepted in Japan (Note 1) applied on a consistent basis during the periods, except as noted in the following paragraph.

As explained in Note 2, The Chugoku Electric Power Co., Inc. prospectively adopted new Japanese accounting standards for income taxes and software in the year ended March 31, 2000, and new Japanese accounting standards for financial instruments and employees' retirement benefits and the revised Japanese accounting standards for foreign currency translation in the year ended March 31, 2001.

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.

Hiroshima, Japan
June 27, 2002

Board of Directors and Auditors

(As of June 27, 2002)

Chairperson

Shitomi Takasu

President

Shigeo Shirakura

Executive Vice Presidents

Kiyoshi Kamei

All aspects of business

Management Support Department Supervisor

General Manager of Energia Business Development Department

Shuzo Kimura

All aspects of business

General Manager of Energy Marketing and Services Division

Yoshiaki Kato

All aspects of business

General Manager of Power Generation Division

Managing Directors

Shigeo Suehiro

Deputy General Manager of Power Generation Division

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, Economic Research Center

Deputy General Manager of Energy Marketing and Services Division

Takashi Yamashita

Corporate Planning, Wide Area Operations, Management System Development

General Manager of Corporate Planning Department

General Manager of Management System Development Department

Tatsuaki Terada

Secretary, Public Relations, Purchasing & Materials

General Manager of Public Relations Department

Directors

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)

Kosuke Hayashi

Standing Auditors

Satoshi Nanbu

Hideo Horiuchi

Auditors

Kohei Takata

Kazue Ibaragi

Masahiro Yonehara

Kazuya Nitta

Organization Chart

(As of July 1, 2002)

- Board of Directors
- Management Committee
  - Energy Marketing and Services Division
    - Service Offices
    - Call Center
    - District Heating & Cooling Center
    - Energy Sales Center
  - Power Generation Division
    - Thermal Power Stations
    - Nuclear Power Station
    - Power Plant Construction Office
    - Survey Offices
  - Power System Division
    - Power Management Offices
    - Construction Offices
    - Network Service Center
    - Central Load Dispatching Center
    - Local Load Dispatching Centers
  - Corporate Planning Department
  - Energia Business Development Department
  - Human Resources Development Department
    - Education & Training Center
  - Public Relations Department
  - Internal Audit Department
  - Secretary Department
  - Labor Relations Department
    - Health Care Center
    - Employee Support Center
  - General Affairs Department
  - Environment & Land Affairs Department
  - Accounting & Finance Department
  - Purchasing & Materials Department
  - Civil Engineering Department
  - Information System Department
    - System Development Center
  - Telecommunications System Department
    - Central Telecommunications Center
  - Management System Development Department
  - Economic Research Center
  - Technical Research Center
  - Regional Offices (Tottori, Shimane, Okayama, Hiroshima, Yamaguchi, and Tokyo)
    - Health Care Center (Except Tokyo)
  - Chuden Hospital
- Auditors
  - Auditors Office

Corporate Data

(As of March 31, 2002)

Date of Establishment
May 1, 1951

Paid-in Capital
¥185,528 million

Number of Employees
11,042

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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1-8-2 Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan
Tel: +81-3-3201-1171 Fax: +81-3-3212-1067

Tottori Office
1-2 Shinhonjimachi, Tottori-shi, Tottori 680-8666, Japan
Tel: +81-857-24-2241 Fax: +81-857-67-3016

Shimane Office
115 Horomachi, Matsue-shi, Shimane 690-8514, Japan
Tel: +81-852-27-1113 Fax: +81-852-77-3002

Okayama Office
1-11-1, Uchisange, Okayama-shi, Okayama 700-8706, Japan
Tel: +81-86-222-6731 Fax: +81-86-227-4805

Hiroshima Office
6-12 Koamicho, Naka-ku, Hiroshima-shi, Hiroshima 730-8691, Japan
Tel: +81-82-503-4300 Fax: +81-82-503-4302

Yamaguchi 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)	4,456,122
Industrial and commercial	687,620
Total	5,143,742

Supply Infrastructure

Power Stations

	Number of Facilities	Generating Capacity (MW)
Hydroelectric	93	2,884
Thermal:		
Steam	9	7,981
Internal combustion	3	34
Nuclear	1	1,280
Total	106	12,179

Transmission Lines (total length) 8,014 kilometers
Number of Substations 423
Distribution Lines (total length) 79,311 kilometers

Major Subsidiaries and Affiliated Companies

(As of July 1, 2002)

Name	Capital (Millions of yen)	President	Equity ratio (%)	Business
CHUDEN KOGYO CO., LTD.*	¥50	Kiyotaka Wake	100.0	Manufacture of electrical equipment and painting materials, painting, construction
CHUDEN PLANT CO., LTD.*	¥200	Kenichi Kaikawa	100.0	Construction of power facilities
CHUGOKU INSTRUMENTS CO., INC.*	¥30	Katsunori Sugiyama	100.0	Assembly and repair of electric power meters
CHUGOKU KIGYO Co., Inc.*	¥104	Yoshiki Uemura	100.0	Realty and leasing
CHUGOKU ELECTRIC MFG. CO., LTD.*	¥150	Seiji Maki	100.0	Manufacture of electric machine tools
CHUDEN KANKYO TECHNOS CO., LTD.*	¥50	Yoshiaki Oda	100.0	Operation and management of thermal power station equipment
Chugoku Information System Service Co., Inc.*	¥6,000	Tomomi Suzuki	100.0	Data processing, system development, telecommunications
OZUKI STEEL INDUSTRIES CO., LTD.*	¥50	Yasuhiko Inoue	80.0	Manufacture of cast steel products
CHUDEN ENGINEERING CONSULTANTS CO., LTD.*	¥100	Hiroshi Kita	80.0	Civil engineering and construction consulting
The Chuden Access Company, Incorporated*	¥50	Masahiro Hoshino	80.0	Water heater sales, sales and distribution agency
Chuden Life Co., Ltd.*	¥15	Masaaki Yoshimi	76.4	Manufacture of power distribution materials
TEMPEARL INDUSTRIAL CO., LTD.*	¥150	Kazunori Hiraoka	56.0	Manufacture of electric machine tools
SANKO INC.*	¥30	Hiroshi Tanaka	46.7	Printing, advertising
Fukuyama Joint Thermal Power Co., Ltd.**	¥5,000	Toshiaki Doi	50.0	Thermal power generation
Mizushima Joint Thermal Power Co., Ltd.**	¥4,000	Akira Itaya	50.0	Thermal power generation
CHUDENKO CORPORATION**	¥3,481	Yukio Inoue	37.4	Electrical and telecommunications engineering
Chugoku Telecommunication Network Co., Inc.**	¥6,315	Takao Ikegami	34.4	Telecommunications
CHUGOKU KOATSU CONCRETE INDUSTRIES CO., LTD.**	¥150	Masahito Okutani	33.3	Manufacture of concrete products
EAML Engineering Company Limited**	¥50	Katsuto Hashimoto	18.0	Manufacture of instruments for hydroelectric power generation
Chuden Business Service Co., Inc.*	¥490	Shitomi Takasu	100.0	Financial services for Chugoku Electric Group, accounting services
Enercia Real Estate Co., Inc.*	¥295	Kokichi Otsuka	100.0	Chugoku Electric real estate application
Power Engineering and Training Services, Incorporated*	¥400	Kunitake Tanaka	80.0	Training in thermal power generation technology
International Standard Management Center Inc.*	¥100	Tsuguo Ito	66.0	ISO inspection and registration
Energia Solution & Service Company, Incorporated*	¥1,000	Kazuhiko Hisakawa	53.0	Fuel supply, energy use
CHUGOKU HEALTH AND WELFARE CLUB CO., INC.**	¥50	Hirofumi Mizota	50.0	Welfare agency services
MIZUSHIMA LNG COMPANY, LIMITED**	¥200	Shunsaku Miyake	50.0	LNG station management
MIZUSHIMA LNG SALES COMPANY, LIMITED**	¥50	Shunsaku Miyake	40.0	LNG sales
Houseplus Chugoku Housing Warranty Corporation Limited*	¥50	Fumio Yoshiya	35.6	Warranties for housing

* Consolidated subsidiary
** Affiliated companies accounted for under the equity method

Investor Information

(As of March 31, 2002)

Independent Certified Public Accountants

Asahi & Co.

Transfer Agent and Registrar

The Sumitomo Trust & Banking Co., Ltd.

Securities Traded

Tokyo Stock Exchange, Osaka Securities Exchange

Number of Stockholders

168,727

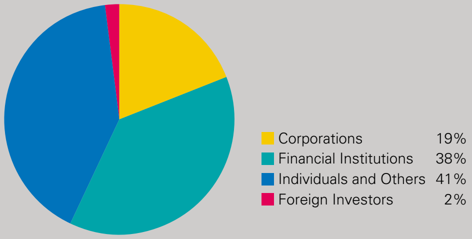
Common Stock Issued

371,055,259 shares

Major Stockholders

Name	Number of shares held (thousands)	Percentage (%)
Yamaguchi Pref. Shinko Zaidan	49,505	13.3
Nippon Life Insurance Company	23,179	6.2
The Industrial Bank of Japan, Limited	15,402	4.2
Shinsei Bank, Limited	9,987	2.7
The Dai-ichi Mutual Life Insurance Company	8,949	2.4
The Sumitomo Trust & Banking Co., Ltd.	7,763	2.1
The Hiroshima Bank, Ltd.	4,915	1.3
Japan Trustee Services Bank, Ltd. (trust account)	4,803	1.3
Company's Stock Investment	4,753	1.3
The Mitsubishi Trust and Banking Corporation (trust account)	4,473	1.2

Distribution of Common Stock



Distribution of Common Stock

	Number of shares held (thousands)	Percentage (%)
Corporations	71,852	19.36
Financial Institutions	139,416	37.57
Individuals and Others	153,283	41.32
Foreign Investors	6,504	1.75
Total	371,055	100.00

Stock Price Range on the Tokyo Stock Exchange

Fiscal year		High (yen)	Low (yen)
2002	1st Q	¥1,970	¥1,654
	2nd Q	2,040	1,801
	3rd Q	2,085	1,799
	4th Q	1,940	1,726
2003	1st Q	1,784	1,622

Energia

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