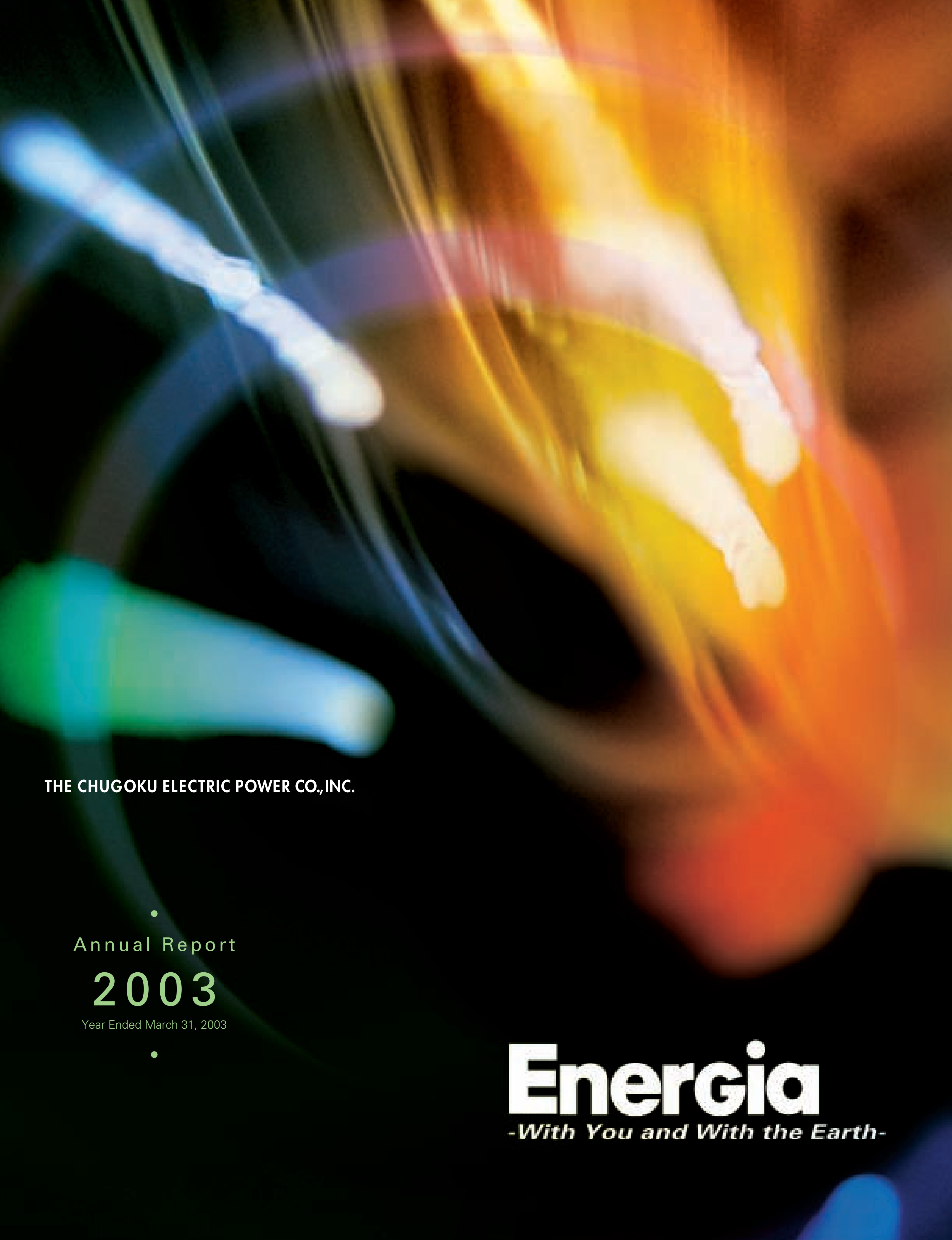


THE CHUGOKU ELECTRIC POWER CO.,INC.

Annual Report 2003

Year Ended March 31, 2003

Energia

-With You and With the Earth-

Profile

Located in western Japan, the Chugoku region covers about 32,000 square kilometers, and has a population of around 7.8 million. It is characterized by its moderately warm climate around the year, and is richly blessed with nature, including the serene Seto Inland Sea. The area has an annual GDP of approximately US$260 billion, making it comparable to the economies of Switzerland or Belgium.

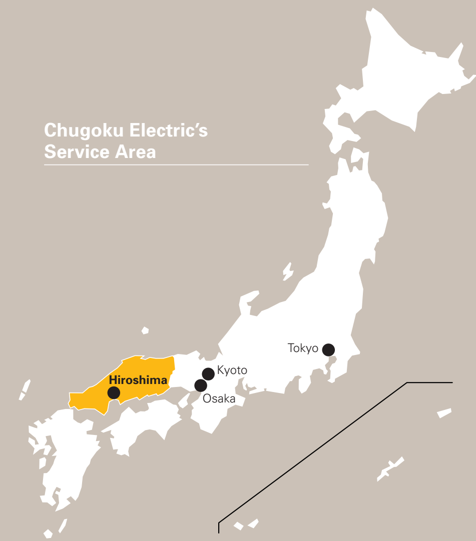
Since its establishment in 1951, the Chugoku Electric Power Co., Inc. has developed its businesses based on the fundamental mission of providing the industries and citizens of the Chugoku region with stable supplies of high-quality electricity at low rates, via an integrated operating structure comprising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

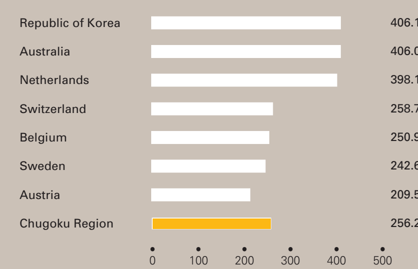
Benefiting from such a climate, numerous manufacturers, particularly in the automotive and electronics industries, and in materials-related industries such as steel and chemicals, have established production facilities in the Chugoku region. With the support of the national and local governments, projects 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.

Chugoku Electric's Service Area



GDP (1999)
(Billions of U.S. dollars)



Sources: Annual Report on National Accounts and Annual Report on Prefectural Accounts, Cabinet Office

Chugoku Electric's Corporate Philosophy
(Formulated in 1991)

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

Management Concepts

Based on our key concept of Energia—With You and With the Earth—Chugoku Electric has set the following five tenets as its corporate philosophy, making them fundamentals for all its corporate activities.

- 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

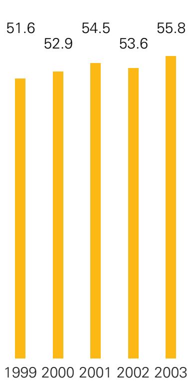
The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
Years ended March 31

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2003	2002	2001	**2003**
For the year:				
Operating revenues	**¥1,009,279**	¥1,021,149	¥1,044,863	**$ 8,481,336**
Operating income	**126,954**	118,545	126,621	**1,066,840**
Net income	**44,129**	46,470	27,202	**370,832**
At year-end:				
Total assets	**2,815,189**	2,846,207	2,952,869	**23,657,050**
Total stockholders' equity	**606,834**	593,752	575,772	**5,099,445**
Interest-bearing debt	**1,839,175**	1,900,098	2,012,672	**15,455,252**

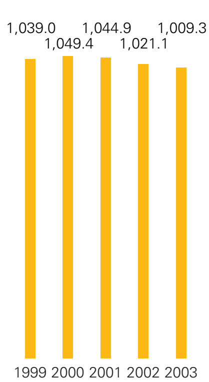
	Yen			U.S. dollars (Note 1)
	2003	2002	2001	**2003**
Per share data:				
Net income:				
Basic	**¥119.30**	¥125.25	¥73.31	**$1.00**
Diluted	**119.30**	123.99	72.78	**1.00**
Cash dividends applicable to the year	**50.00**	50.00	60.00	**0.42**

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at ¥119 to U.S.$1.00, the approximate rate of exchange prevailing on March 31, 2003.
2. The Company's fiscal year begins on April 1 and ends on March 31 of the following year. In this report, fiscal 2003 is used to denote the year ended March 31, 2003.

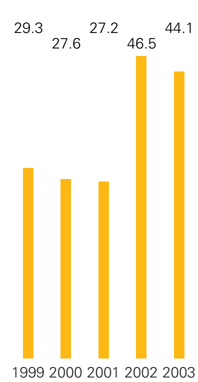
Electricity Sales
(Billions of kWh)



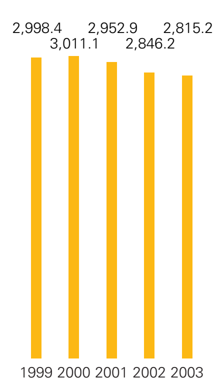
Operating Revenues
(Billions of yen)



Net Income
(Billions of yen)



Total Assets
(Billions of yen)



Message from the Management

The fiscal year ended March 31, 2003 was an important year for the Chugoku Electric Group, as we made clear our path to the future and prepared our business base amid industry liberalization.

Aiming at becoming a total solutions provider capable of wide-ranging solutions to the diversified needs of regional customers, the Group sought to expand its core electric power business while moving aggressively into the four strategic business domains of Comprehensive Energy Supply, Information and Telecommunications, the Environment, and Business and Lifestyle Support.

FISCAL 2003 BUSINESS RESULTS AND MANAGEMENT OBJECTIVES

Due mainly to non-consolidated results, consolidated operating revenues in the year ended March 2003 declined by 1.2%, year on year, to ¥1,009.3 billion. Operating income rose by 7.1% to ¥127.0 billion and net income declined by 5.0% to ¥44.1 billion in a reaction to the previous term's corporate tax reduction incident to liquidation of a consolidated subsidiary.

On a non-consolidated basis, though the year saw a 4.2% increase in electricity sales volume, implementation of a rate reduction starting in October 2002 sent operating revenues down by 0.7% to ¥965.5 billion. Operating income rose by 7.9% to ¥126.3 billion due to enhanced overall management efficiency led by lower depreciation expenses, repair costs and other facilities-related outlays. Net income rose by 86.7% to ¥45.7 billion.

For the three years through fiscal 2005, we are well on the way to achieving the management targets (non-consolidated basis) shown in the table. Although ordinary income (see note) fell short in fiscal 2003 due to rate reductions, our efforts to hold down capital investment and otherwise enhance efficiency yielded steady results. Accordingly, ROE and free cash flow targets were achieved.

Progress Toward Management Targets (Non-Consolidated)

	Target (FY 2003–2005 Average)	FY2003 (Actual)	FY2004 (Estimates)
Stockholders' Equity Ratio	Around 23% (End of FY2005)	19.7%	Around 21.5%
ROE (Return on Equity)	Around 8%	9.0%	Around 7.5%
ROA	Around 3%	3.0%	Around 2.5%
Ordinary Income	¥ 70 billion or more	¥ 66.7 billion	Around ¥ 60 billion
Free Cash Flows	¥110 billion or more	¥150.2 billion	Around ¥115 billion

Note: 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.

KEY MEASURES ADOPTED IN THIS FISCAL YEAR

In the fiscal year under review, Chugoku Electric implemented electric power rate revision, strengthened the marketing framework and enhanced risk management.

While the electric power rates were reduced in October 2002 to strengthen the Company's competitive edge, the rate menu was simultaneously expanded to accommodate diversification of customers' needs and lifestyles. In strengthening our marketing framework, we positioned dedicated essential staff for high-volume users (consuming 500kW or more; eligible for future liberalization), and developed proactive proposal activity prioritizing customers, so that we can provide total solutions through "one-stop" services to customers. For risk management, we established a Company-wide risk management system. Concurrently, in order to further improve compliance management from the standpoint of more thoroughgoing corporate governance, we considered introducing such measures as setting up a Corporate Ethics Committee and a Corporate Ethics Counseling Unit, as well as forming a Corporate Ethics Platform that sets codes of conduct for the Company and its employees. Since April 2003, we started to implement these measures.

In the fiscal year under review, inadequate self-inspections of nuclear power stations of Tokyo Electric Power Company (TEPCO) were reported. Following these incidents, Chugoku Electric made a thorough inspection of its Shimane Nuclear Power Station and confirmed that inspections had been conducted properly and that measures to prevent impropriety had worked appropriately.


Shitomi Takasu, Chairperson Shigeo Shirakura, President

MANAGEMENT ISSUES FOR THE FUTURE AND OUR DETERMINATION

Since electric power partial liberalization began in March 2000, there has been a steady increase in business opportunities in tandem with deregulation. Leveraging the technology, facilities and personnel we have heretofore accumulated in the electric power business, we intend to seize and expand these opportunities as a Group in order to meet the expectations of our customers, stockholders and investors.

In October 2002, we established a Basic Management Concept of the Chugoku Electric Group, with a common slogan of "My Best Choice, EnerGia." This made clear our determination as a unified Group to leap forward to a new business environment, and our objective to become an indispensable corporate group that is our customers' first choice.

Non-Group revenues of our consolidated subsidiaries are targeted to increase 1.5-fold, from ¥40 billion in fiscal 2000 to ¥60 billion in fiscal 2006. In addition, in May 2003 we set new consolidated management objectives for profitability, efficiency and financial soundness. To achieve them, it is necessary that we draw forth the full potential of the Group and reinforce its overall profitability. Toward this end, we will review each member company's business content from a Group-wide perspective, and shift management resources to businesses with competitive capabilities. As such, we will study and implement strategic reorganizations and amalgamations by using a "focus and select" approach.

To fulfill our management accountabilities, we will accelerate these measures with strong determination and a view to future profitability.

Partial liberalization of the electric power market now accounts for about 30% of electricity sales volume. In April 2004, this is seen at about 40% and a year later at about 60%. Based on assessments of these trends, study on full-scale power sector liberalization in Japan is to start in 2007. The Chugoku Electric Group is determined to capitalize on these changes in the business environment to move steadily forward in its operation of customer-first businesses.

Going forward, we earnestly request the continued understanding and support of investors and our stockholders for the Company and the Group.

June 27, 2003

Shitomi Takasu, Chairperson

Shigeo Shirakura, President

Choices for a leap towards growth

Mr. Shirakura, President, discusses the future of Chugoku Electric.

Under the deregulation and liberalization of the Japanese electric power industry, Chugoku Electric is trying to win its way by pursuing customer-oriented, convenient services. The President leading Chugoku Electric, Mr. Shigeo Shirakura, talks about his choices as the top management.

LEVERAGING LIBERALIZATION OF THE ELECTRICITY MARKET

Q. The Revised Electricity Utilities Industry Law was enacted to promote the liberalization of the industry. How do you evaluate it?

A. I highly regard its course toward a Japanese-style liberalization, which maintains the benefit of the integrated system of power generation and transmission, as we advocated, while introducing fair competition. It followed discussions lasting approximately one year at the Electricity Industry Committee of the Advisory Committee for Natural Resources and Energy.

However, we must put the customer's benefit first when pursuing liberalization. We must carefully ensure that we do not cause any inconvenience, such as failure of stable supply, for the customers.

Q. How will Chugoku Electric respond to the liberalization of the electricity market?

A. We will work on three tasks: 1) strengthening price competitiveness, 2) strengthening sales operations and 3) diversification of value added services, so that the customers continue to select us as their power provider.

For strengthening price competitiveness, we are making efforts to reduce electric power rates by persistently curtailing costs and improving operating efficiency. We are also introducing diversified price schedules to fit in with each customer's electricity consumption profile.

We are strengthening our sales operations in terms of "reinforcing customer services," "enhancing technology proposals" and "building up strategic functionality." We increased the number of sales staff in our Energy Marketing and Services Division at the headquarters by 30 and also allocated 50 dedicated sales staff to Service Offices to offer tailor-made proposals for high-voltage users of more than 500kW, who would be affected by the upcoming deregulation.

To diversify value-added services, we offer a facility-diagnosing service, an energy-saving diagnosing service and a thunder (lightning) forecast service, leveraging our technology and know-how. In addition, we will endeavor to enhance customer satisfaction by providing total solutions for energy issues in cooperation with Energia Solution & Service Company, Incorporated (ESS) and Power Engineering and Training Services, Incorporated (PET) as well as other subsidiaries.

Value Added Services Currently Provided

Services	Description	Number of Cases FY2002	FY2003
Facility-diagnosing service	• Support service in maintenance and management of the customers' facilities. • Proposed for customers who are affected by the liberalization. On-site diagnosing available on demand.	Cases conducted: 284	Cases conducted: 331
Energy-saving diagnosing service	• Measurement and Analysis of customers' energy utilization and conduct of various consultations, such as improvement of operations, facility repairs and the introduction of more efficient facilities for energy and cost- savings.	Cases conducted: 14	Cases conducted: 77
Lightning forecast service	• Providing 24 hour lightning forecast via the Internet through real-time data transmission from our thunder positioning system to the Japan Weather Association.	Enrollment: (as of the end of March 2003) 257	
Various workshops	• Conducting workshops for customers at our training venue.	Workshops held: 9	Workshops held: 11
	• Conducting workshops for customers focusing on issues of customers' interest such as electricity receiving facilities.	—	Workshops held: 28

Note: Facility-diagnosing service, lightning forecast service and various workshops are for the customers who are directly affected by the liberalization. Energy-saving diagnosing service is for the customers who consume high-voltage volume as well as the customers who are most affected by the liberalization.

Business Description of ESS and PET

	ESS	PET
Description	1. Fuel sales 2. Electricity and thermal energy supply 3. Planning and development of high efficiency systems	1. Technological training 2. Engineering 3. IT Solutions 4. Experiment and research

Q. How will you answer consumers' expectations for increased competition and reduced price following the liberalization, which on the other hand give rise to stockholders' and investors' concerns over the Company's profits and performance?

A. It is natural to see changes in the competition caused by the liberalization. However, one thing never changes—that is the fact that our business is supported by our customers. There is no need to restate the importance of price competitiveness to survive the age of severe competition. Customers, however, do not select a certain electric utility company solely based on the price. In addition to competitive prices, I believe that the most important factors are understanding customers' needs and providing value-added services to meet those needs. Take a plant, for example. Our customers are the "roots" of our business. Liberalization and competition without customers are meaningless, just like flowers do not bloom without their roots. What we should do now is to take root in our local customers. In order to be trusted even more and to become their first choice, we will continue to improve our price competitiveness through enhanced efficiency and to develop services that meet their needs.

Flowers will bloom when they are firmly rooted. We should be able to reward our stockholders and investors when we have a fully blossomed flower.

Q. That means taking the liberalization as a favorable breeze rather than an unfavorable wind, doesn't it?

A. It does, indeed. With respect to business opportunities, we stand to gain considerably from the liberalization. Before the deregulation, we could only provide electricity. However, as we are now allowed to offer other services, we are able to package a variety of appealing products for our customers. In my opinion, this is a customer-oriented leveraging of the liberalization.

POTENTIALLY ACQUIRABLE DEMAND

Q. The Chugoku region is known for its high dependence on large-scale non-utility power generation. Do you see that as an opportunity to increase electricity sales volume?

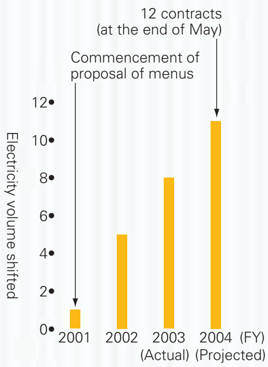
A. The ratio of large-scale non-utility generation was 57.8% in fiscal 2003. As we encouraged customers to convert from non-utility generation to procurement of our electricity, 14 customers who are not directly affected by the deregulation, or about 8000kW, and 12 customers who are directly affected by the deregulation, or about 240,000kW were converted to procure utility-generated electricity. As a result, the share of non-utility generation in total electricity demand has fallen to 34.2%.

To encourage conversion from non-utility generation to utility generation, enhancement of solution services is as important as improvement of price competitiveness. Since fiscal 2003, our Group has already secured four orders to install cogeneration systems at hospitals or hotels. We handle their operation, maintenance, management and fuel procurement for the customers. There are another two cases of installing heat storage air-conditioning systems at public agencies and the like, and we undertook the operation, maintenance and management of the machines for them.

Leveraging long-standing customers' trust, our Group is making further proposals to meet the individual customer's needs. On a Group-wide basis, we are proceeding with "proposal-based" activities that meet the individual customer's needs, such as marketing of installing electricity systems to corporate headquarters operating multiple outlets, as well as offering total solutions, mainly cogeneration options to customers with large energy demand, such as big shopping centers, hotels and hospitals.

Electricity Volume Shifted from Non-utility Generation of Customers eligible for Liberalization

(100 million kWh)



Ratio of Non-utility Power Generation

	Fiscal 2001	Fiscal 2002	Fiscal 2003
Large-Scale Non-utility Generation	58.4%	59.3%	57.8%
Non-utility Generation in Total Electricity Demand	34.8%	34.8%	34.2%

Q. The Company's efforts to improve corporate efficiency are indispensable to attract customers, aren't they?

A. In the Chugoku area, material-based industry has a large weight in the economy, and the level of electricity price affects greatly the cost of goods produced. Therefore, attaining lower electric power price by continuous efficiency improvement is the key to the revitalization of the local economy.

The Company reduced electric power prices in October 2002. This was attained by various cost curtailment measures such as controlled capital investment, reduction of repair cost and improved labor productivity due to a reduced labor force. For example, the Company's capital investment in fiscal 2003, at ¥108.8 billion, was as much as ¥32.4 billion less than originally projected. Repair cost at ¥86.9 billion was again reduced by ¥6.6 billion from the original plan. The workforce is to be reduced by 1,000 (approximately 10%) from around 10,600 in fiscal 2001 to 9,600 in fiscal 2006.

The cost savings from these measures are allocated to repay interest-bearing liabilities, so that our total interest-bearing liabilities are decreasing steadily.

Operating Performance

(Capital Investment/Repair Cost/Labor Productivity/Interest-Bearing Liabilities)

Q. What is the aim of the "Basic Management Concept of the Chugoku Electric Group" set in October 2002?

A. The operating environment that the Chugoku Electric Group faces is dramatically changing amidst the deregulation allowing utility companies to conduct non-electricity business, while the focus of corporate evaluation is shifting to consolidated groups. In this situation, we need to show our clear management direction and to share that with all Group employees in order to steadily develop the business operations, thereby building customers' and stockholders' trust.

From this perspective, we reviewed the "Management Principles of the Chugoku Electric Group" and summarized the results as the "Basic Management Concept of the Chugoku Electric Group." We employed new management targets with respect to consolidated profitability, efficiency and financial soundness, in addition to our target of increasing non-group revenues of consolidated subsidiaries in fiscal 2006 to ¥60 billion, 1.5 times more than ¥40 billion in fiscal 2000.

When I assumed the office of President, I showed what the group management should be by quoting a Chinese proverb, which translates as "create new business and defend existing business." "Defending existing business" translates to strengthening our Company's core electric power business, while "creating new business" means proactively embarking on new businesses through the Group companies around the core. I believe a good balance of these two will build an even stronger Chugoku Electric Group.

New Group Target

The Basic Management Concept of the Chugoku Electric Group (October 2002)

Action Plans
- Extending total solutions business based on our slogan, "My Best Choice, EnerGia"
- Efficient utilization of the Group's management resources

▶

Goals
- To become a Group considered to be indispensable by customers
- To increase stockholders' value while contributing to revitalization of local economy

▼

New Group Management Targets (May 2003)

- The Chugoku Electric Group employs new management targets in respect of consolidated profitability, efficiency and financial soundness.

		Target (FY 2004–2006 Average)
Profitability	Ordinary Income (see note on page 2)	¥72 billion or more / year
Efficiency	ROA (Return on Assets: Ratio of after-tax operating income to total assets)	Around 3%
Financial Soundness	Stockholders' Equity Ratio	Around 26% (at the end of fiscal 2006)
	Free Cash Flows	¥95 billion or more / year

Group Management Target
(For Group companies excluding Chugoku Electric)

(January 2001)

Type	Management Targets (at the end of Fiscal 2006)
Consolidated subsidiaries	Expanding total revenue not attributable to the Group to ¥60 billion in fiscal 2006, 1.5 times more than ¥40 billion in fiscal 2000.
Equity method affiliates Non-consolidated subsidiaries Non-equity-method affiliates	Expanding total revenue not attributable to the Group Securing and expanding profits by improving operating efficiency
New companies	Attaining profitability in the first three years after establishment and eliminating cumulative losses within five years

The Chugoku Electric Group
(52 companies as of the end of March 2003)

Chugoku Electric, subsidiaries (31) and affiliates (20)			
Chugoku Electric	Consolidated companies (40)		Non-consolidated affiliates (11)
	Consolidated (21)	Equity method (19)	

Q. Please elaborate on the progress of the business development as a Group, such as comprehensive energy supply.

A. The liberalization has enabled us to become involved in a wider range of businesses. At the moment, the Company is accelerating the development of new projects under the four strategic business areas, which are Comprehensive Energy Supply, Information and Telecommunications, the Environment, and Business and Lifestyle Support, in addition to the main Electric Power business. Since April 2002, we have established two entities related to the Comprehensive Energy Supply business, another two in the Environment business, as well as another two in the Business and Lifestyle Support business. In the Information and Telecommunications business, we are active in expanding the ISP connections service area.

As a new, innovative endeavor, we plan to establish the Energia Management School by utilizing the Company's intellectual property assets and the facilities of our training centers. We are also trying to expand our consulting activities, mainly in Southeast Asian countries, while studying the possibility to enter IPP (independent power producer) projects.

Q. Information and Telecommunications services utilizing electric companies' infrastructure are now in the spotlight. How do you see the future?

A. Chugoku Information System Service Co., Inc. (CIS) and Chugoku Telecommunication Network Co., Inc. (CTNet) will merge in July 2003 under the new name of Energia Communications, Inc. We intend to improve operating efficiency, strengthen the management base and competitiveness in order to reap maximum benefits from the synergy.

In addition to the existing ISP service, MEGA EGG, high quality and highly reliable private telephone line service and information system development, we plan to provide community-based comprehensive life support service by coordinating dual-mode picture transmission and internet telephone service of MEGA EGG with nursing and welfare services.

However, our brand in this Information and Telecommunications business is not as strong as those of the major telecommunication companies. Therefore, we intend to pursue a different approach rather than simply emulating their strategies.

PROVIDING THE BEST ENERGY ALL OVER THE REGION AND GAINING TRUST

Q. Mr. Shirakura, what do you think are the strengths and weaknesses of Chugoku Electric?

A. As strength and weakness are two sides of the same coin, it depends on management capabilities. Geopolitically, the Chugoku area is the center of western Japan bordering on the Kansai, Kyushu and Shikoku. This could work either favorably or unfavorably. If Kansai or Kyushu swallows our entire energy potential, we will be left in a void. We must devise measures to prevent such a situation.

At the moment, nearly 60% of our large customers have their own power generating facilities. I have already explained our approach to such non-utility generation, which has been in competition with our service for a long time. The liberalization opened a window. With our more than five million customer accounts, there are emerging opportunities for the total solutions business to obtain maximum synergy from our electricity business.

Afforestation Project

- Chugoku Electric promotes planting of eucalyptuses (10,000 ha.) in Victoria, Australia, with a group of companies including Marubeni Corporation. The project is estimated to be able to absorb 0.3 million tons-CO_2 annually.
- Project period: 1999 to 2028 (30 years)
- Chugoku Electric's contribution: ¥350 million (projected maximum)
- Contribution period: 2000–2008 (9 times)
- Afforestation up to 2002 (Chugoku Electric only): approximately 406 ha. (about 410,000 trees)

Q. More and more companies are actively working on environmental issues. What is Chugoku Electric's policy?

A. The term "Environmental Management" is often heard these days. In my opinion, however, the odd thing is that such a clear concept didn't exist in the past. Corporate activities need both arteries and veins just like a human body. Although corporate activities without such veins are quite impossible, we had only devoted ourselves to the works of arteries. As indicated in our Company's Corporate Identity "ENERGIA—With You and With the Earth—," our management philosophy includes harmony with nature. I myself was once in charge of taking countermeasures for NOx and SOx emissions. Reducing environmental impact is an important corporate responsibility.

In November 2002, we reviewed the Environmental Action Plans of Chugoku Electric to be more actively involved in the environmental issues and started to take steps toward solving the problem of global warming by promoting nuclear power generation, reduction of CO_2 emission at offices, and the establishment of a recycling-based society through purchasing environment-friendly products and following the 3R (Reduce, Reuse and Recycle) policy.

Traditionally, the Japanese people had wisdom to live in harmony with nature. In the Edo Period from the 17th to 19th century, there was a saying that meant "cut a tree and create a forest." This meant maintaining viable vegetation by clearing away undergrowth and lopping off branches. There should be a variety of approaches to environmental issues, not merely conserving nature. I believe there must be a way to learn from our ancestors and to work actively toward nature.

Q. What do you do to ensure your reliability from the perspective of customers, stockholders/investors and the local community?

A. Throughout its history, Chugoku Electric has endeavored to optimize energy sources and has provided high quality electricity to customers to ensure a stable supply of energy. Today, as a tribute to its heavy social responsibility, a fair and transparent corporate governance is required of the Company.

In July 2002, we established a Company-wide risk management system to cope with the changing business climate, such as the liberalization of the electricity market. It also aims to improve our employees' risk-awareness and create common understanding among them. We drafted the Chugoku Electric Corporate Ethics Platform to establish a code of conduct for the corporation and its employees. We also established the Corporate Ethics Committee, which examines compliance-related issues, and the Corporate Ethics Counseling Unit, which employees can consult about issues pertaining to violation of laws and regulations as well as corporate ethics.

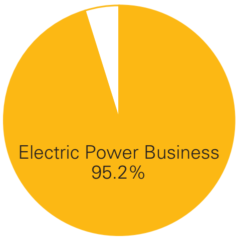
Maintaining a favorable relationship with our stakeholders including the customers, stockholders and investors as well as the local community is an indispensable basis for performing our public responsibility. As a sound corporate citizen in the local community, we pledge to fulfill our responsibility and ensure mutual prosperity by encouraging various activities such as the promotion of industry and technology, culture and sports, environmental conservation and welfare.

Social Contribution Activities
Preparing Roosts for the *Nabezuru* Crane

Review of Operations

ELECTRIC POWER BUSINESS

Operating Revenues



Overview of electric power operations

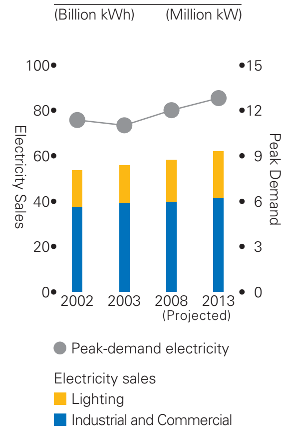
Electricity sales in fiscal 2003 rose by 4.2% to 55.8 billion kWh, due to increased heating demand resulting from a colder winter and a recovery in production because of the favorable exports to Asia.

In the medium to long term, consumer-sector demand is expected to increase steadily due to ongoing computerization and aging of the population as well as increased demands for amenities. On the other hand, industrial-sector demand is expected to remain largely steady due to sluggish growth in the raw material industry.

As a result, electricity sales in fiscal 2013 are forecast to reach 62 billion kWh, at an average annual growth rate between fiscal 2002 and 2013 of 1.3% (1.4% when adjusted for climatic fluctuation).

Peak-demand electricity is seen to grow at a comparable rate to electricity sales to reach 12.82 million kW in fiscal 2013. The average rate of annual growth from fiscal 2002 to 2013 is projected to be 1.1% (1.4% when adjusted for climatic fluctuation). The annual load level is expected to remain quite steady, as efforts to flatten the demand curve are likely to offset negative factors such as an increase in consumer-sector demand and sluggish growth in industrial-sector demand.

Electricity Sales and Peak Demand



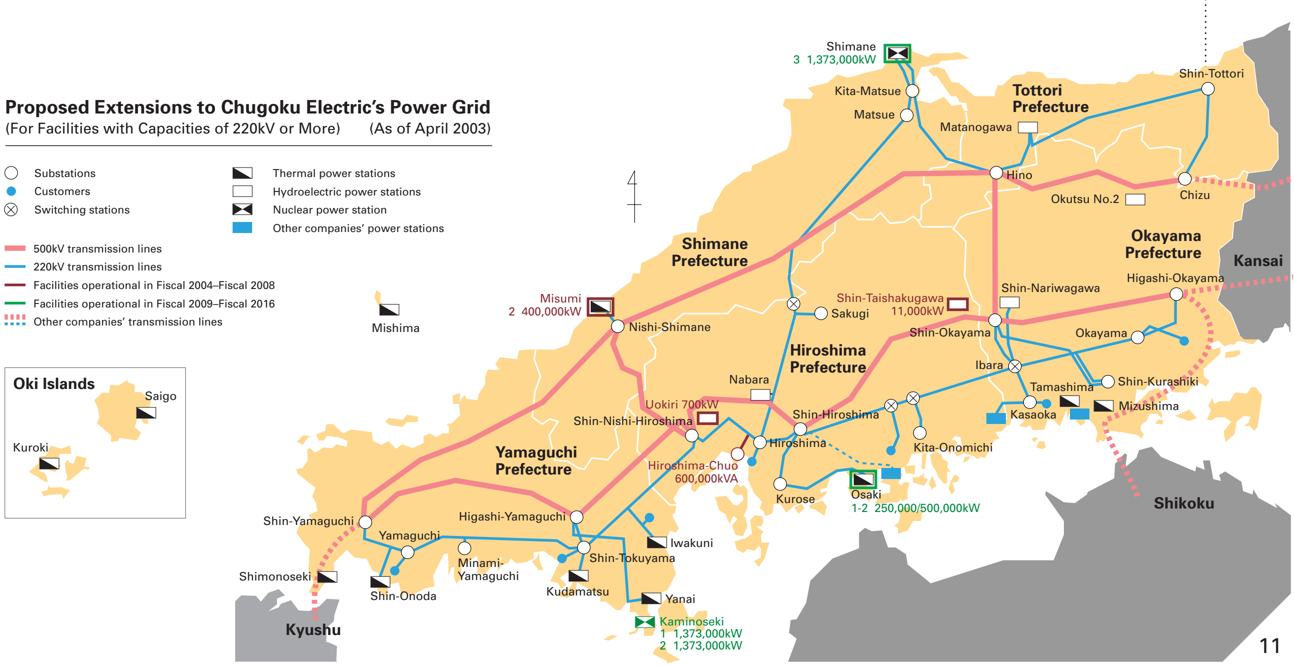
Power generation

Achieving optimally-mixed energy sources

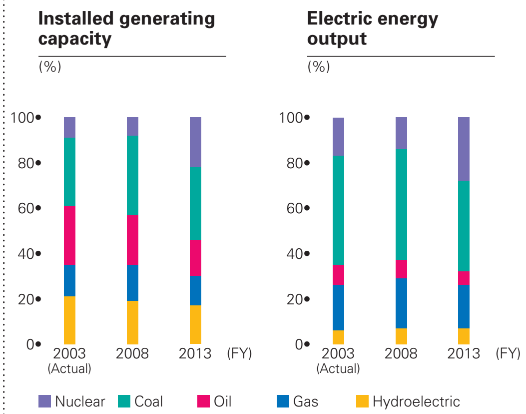
Rather than rely on a single fuel, Chugoku Electric is developing energy sources based on the concept of achieving the optimal mix to ensure stable electric power supply well into the future. In fiscal 2003, nuclear power accounted for just 17% of our total power output, significantly less than the levels 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.

In nuclear power, following the Shimane Nuclear Power Station No. 3 unit (1,373,000 kW), which is scheduled to begin commercial operations in March 2010, the Kaminoseki Nuclear Power Station No. 1 and No. 2 units (1,373,000 kW each) are scheduled to start commercial operations in fiscal 2013 and 2016, respectively.

Proposed Extensions to Chugoku Electric's Power Grid
(For Facilities with Capacities of 220kV or More) (As of April 2003)

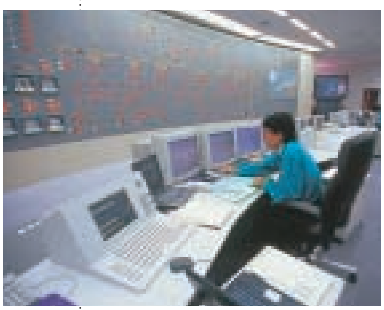


Breakdown of electricity sources
(including power purchased)



Apart from nuclear power, the Okutsu No. 2 Hydroelectric Power Station (15,200 kW) started its commercial operations in September 2002. The Uokiri Hydroelectric Power Station (700 kW), which we took over from Hiroshima Prefecture, began its commercial operations in April 2003. Several new plants will commence commercial operations in the future. These include the Shin-Taishakugawa Hydroelectric Power Station (11,000 kW) in June 2006, the Misumi Thermal Power Station No. 2 unit (400,000 kW; coal-fired) in July 2007 and No. 2 unit of the No. 1 series at the Osaki Thermal Power Station (250,000/500,000 kW; coal-fired) in December 2008.

LNG (liquefied natural gas), which is one energy source for thermal power generation, offers several environmental advantages over other fossil fuels, as it is virtually sulfur-free and gives off less carbon dioxide emissions. We are planning to shift from oil to LNG-based thermal generation at the Mizushima Thermal Power Plant No. 3 unit (350,000 kW; oil-fired) in April 2006.

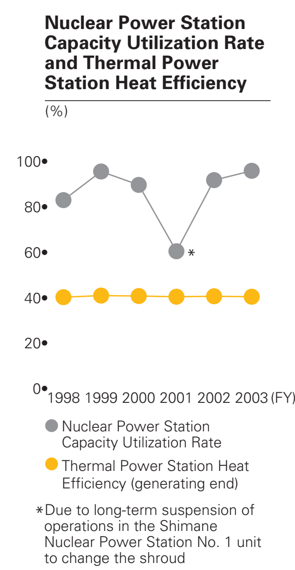


Raising generation capacity utilization rate and thermal efficiency

We are endeavoring Company-wide 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 rates (hereinafter simply referred to as “utilization rate”) at our nuclear power plants, enhanced heat efficiency at our thermal power stations, and more effective use of hydroelectric resources.

Improving utilization rate of nuclear power plants by 1% lowers carbon dioxide emissions by approximately 80,000 tons per annum, while reducing fuel consumption by the equivalent of 30,000 kiloliters of crude oil. The fact that we suffer hardly any unplanned facility downtime periods from equipment breakdowns or other problems is helping us raise the utilization rate of our nuclear facilities. Through efficiency-enhancement measures, we have reduced the number of downtime days needed for regular inspections. As a result, in fiscal 2003, we achieved a utilization rate of 95.7%, 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) as well as by effectively choosing and utilizing high-efficient power stations in our operation. Since fiscal 1997, we have maintained a high thermal efficiency level of over 40%.



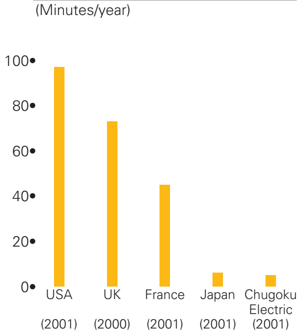
Electric power transmission and distribution

Building highly stable and efficient networks

Electricity generated at power plants travels a long route via transmission lines, transformer substations and distribution lines (collectively: the grid) before it reaches customers’ homes and offices. To reliably supply customers with high-quality electric power, electric utilities must construct power transmission facilities that can sustain demand increases in keeping with long-range plans.

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 power transmission line routes. Following the 1980 completion of the Sanyo Route 500,000-volt power transmission line, in June 2001, we completed and began full-scale operations of the San-in Route line.

International Comparison of Accidental Power Outage Time per Home



Source: The Federation of Electric Power Companies of Japan

As electricity demand steadily increases in large metropolitan areas, transformer substations must be centrally located in these areas to ensure stable electricity supplies. In recent years, it has become difficult to acquire the necessary land, so that electric power companies must increasingly resort to underground substation construction. However, the construction costs for underground facilities are higher than for those above ground. At our Hiroshima Chuo Substation, currently under construction (operations slated to commence in June 2004), we have made equipment more compact and have worked on the overall facility layout, reducing the underground construction area by approximately 30% and greatly reducing costs.

Our grid transmission and distribution division is supported by the strategic facility reinforcement and a thorough check-up and maintenance by our staff. Accidental power outage in areas covered by Chugoku Electric has reached a remarkably low average of five minutes per home in fiscal 2003.

Sales (marketing)

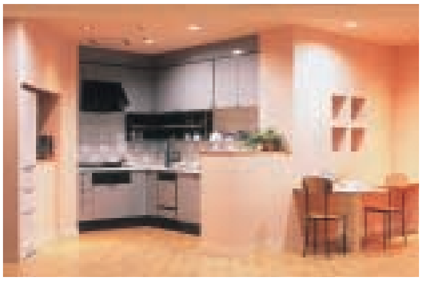
Developing operations based on total solutions

Chugoku Electric is strengthening its marketing framework in order to promote its total solutions proposal from three perspectives: reinforcing customer services; enhancing technological proposal capability; and building up strategic functionality.

Specifically, our head office staff in the Energy Marketing and Services Division and dedicated sales staff in our Service Offices, who act as the key interface to the customer, offer individual "one-stop" services to customers consuming high-voltage of 500kW or more.

In order to support our total solutions proposal activities, both strategically and technologically, we also have established a marketing section, which outlines marketing strategy and conducts market trend research, and the technology support section, which conducts energy diagnosis.

Promoting proliferation of electrified houses



Electrified houses, where all the light and heat is supplied by electricity, now accounts for around 25% of the region's newly constructed housing. While the number of fresh house construction is on the decrease, electrified houses accounts for as much as around 40% of newly built detached houses. This is the result of Chugoku Electric vigorously promoting its adaptation to housing manufacturers. In fiscal 2003, the number of electrified housing starts rose by 26.4% to around 20,300 units.

We will further publicize the convenience and comfort of electrified houses and optimal price menu and improve the electrification adaptation rate for multi-family housing and renovated housing.

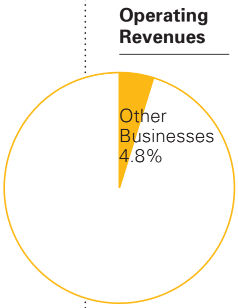
Promotion of load leveling

The level of electricity usage fluctuates according to the hours of the day and seasons. Such fluctuation creates overloads for electric power companies that map out supply plans according to their peak demand.

Measures to flatten the demand curve throughout the day or year contribute to the improvements in utilization rate and also benefit customers through anticipated cost reductions.

In order to actively shift peak demand to other hours of the day, we are promoting the use of products that leverage night-time electricity consumption such as electric water heaters and "Eco-Ice," ice thermal-storage air conditioning systems. In fiscal 2003, the number of electric water heater sales rose by 5.9% to exceed 31,300 units.

OTHER BUSINESSES



Strengthening Group profitability

In addition to our core electric power business, we are accelerating development of new business in four strategic domains: Comprehensive Energy Supply, Information and Telecommunications, the Environment, and Business and Lifestyle Support.

Since April 2002, we have established two new companies each in the Comprehensive Energy Supply, the Environment, and Business and Lifestyle Support business domains, while expanding further the Internet service connection areas in the Information and Telecommunications business domain. Following partial liberalization of the electric power market in March 2000, we created 13 new companies up through June 2003.

Group objectives have been determined from the standpoint with stress placed on consolidated management, with subsidiaries' operating revenues (not attributable to the Group) targeted to rise 1.5-fold from ¥40 billion in fiscal 2000 to ¥60 billion in fiscal 2006.

New business developments in:

Comprehensive Energy Supply

Power Engineering and Training Services, Incorporated, established in April 2002, offers: training in thermal power generation technologies; marketing of training materials; and consulting, engineering and software sales business.

Mizushima LNG Sales Company, Limited, established also in April 2002, engages in marketing of LNG and natural gas to city gas utilities and industrial customers in the Chugoku region, in conjunction with the start-up of commercial operations at the Mizushima LNG Station in April 2006.

Information and Telecommunications

As part of our plan to strengthen the Information and Telecommunications business, Chugoku Information System Service Co., Inc. (CIS; offering Internet connection services, information system development, and optical fiber core line leasing service) and Chugoku Telecommunication Network Co., Inc. (CTNet; providing dedicated telecommunication line services) will be merged in July 2003, newly as Energia Communications, Inc.

The Environment

Bab-Hitachi & Energia Allied Techno-Research Co., Ltd., established in October 2002, offers dioxin measurement and analysis as its main service.

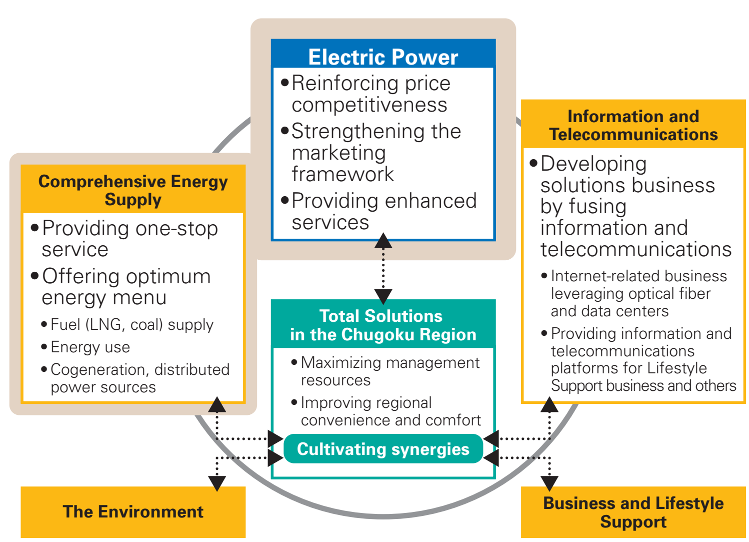
EnerGia Eco Materia Company, Incorporated (EnerGia Eco Materia), established in April 2003, makes practical use of coal ash—a by-product of coal-fired thermal power generation, as well as processes and markets powdered limestone used for desulfurization at thermal power stations.

Business and Lifestyle Support

The Energia Logistics Co., Inc., established in February 2003, consolidates intra-Group transport of equipment for power distribution, documents and others in order to optimize Group-wide logistics.

EnerGia Care Service Co., Inc., established in April 2003, will construct a private nursing home on Company-owned land in Hiroshima city, and provides private nursing services, daily care and home nursing services for the authorized persons of 65 years or older to receive special care.

Business development concept



RESEARCH AND DEVELOPMENT, ENVIRONMENTAL PRESERVATION AND SOCIAL CONTRIBUTIONS

Focusing on R&D for more effective outcomes

Centered on its Technology Research Center, Chugoku Electric is involved in effective research and development activities. Our efforts concentrate on the five themes of: reducing electricity costs and maintaining a stable supply, offering one-stop services by recommending an optimal energy menu, reducing environmental impact by technologies that improve recycling ratio, consolidating and streamlining the information and telecommunications platform as well as developing our information and telecommunications solutions business, and focusing on R&D activities to match the regional business and lifestyle needs.

Technology Research Center

As for the research on practical use, we are emphasizing cost effectiveness, strengthening ties between the governmental, academic and the industrial sectors, and accelerating development by setting project completion times within three years. We have also formed the Group Technology Research Committee to establish a system that backs up our Group technology development.

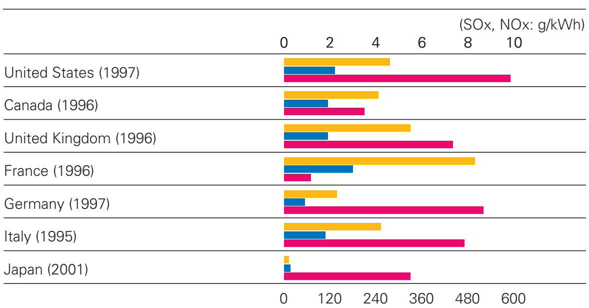
One example of these successful results is the Jellyfish Processing System, co-developed with the Hiroshima University and Mitsubishi Heavy Industries, Ltd. Thermal and nuclear power plants, which require significant amounts of sea water for cooling their facilities, have struggled to come to grips with jellyfish, which occasionally block water inlets. This system dissolves accumulated jellyfish using degrading enzymes extracted from sea bacteria and emits far less solid waste compared with conventional measures such as solar drying or steam heat processing. Also, these plants enjoy the benefits of reducing running costs.

We have also started accepting outsourced research projects, providing consulting services and renting out research equipment in order to make full use of our Technology Research Center.

Volume of Industrial Waste Produced and Recycled (FY2003)

Type of Industrial Waste	Volume Produced (10,000 t)	Volume Recycled (10,000 t)	Volume Treated (10,000 t)	Effective Use Percentage (%)
Coal ash	63.6	44.6	19.0	70.1
Heavy crude oil ash	0.6	0.4	0.2	67.0
Desulfurizing gypsum	23.2	23.2	0	100.0
Construction waste materials	5.6	4.9	0.7	87.8
Metal scrap	1.2	1.0	0.2	84.0
Other	1.9	0.5	1.3	24.3
Total	96.1	74.6	21.4	77.6

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

Wide-ranging environmental protection activities

Chugoku Electric has formulated an Environmental Action Plan and been promoting environmental management system based on the ISO 14001 international standard in order to actively tackle increasingly diversified and complicated environmental problems.

In April 2002, we set up the Chugoku Electric Environmental Discussion Group, comprising experts from other organizations, to seek views on our environmental protection activities.

In August 2002, we outlined EnerGia Green Purchase Guidelines, under which we specifically procure environment-friendly products and services ranging from office equipment to electric materials and devices. In November, we also reviewed the Environmental Action Plans of Chugoku Electric, and started to take steps toward solving the problem of global warming by promoting nuclear power generation, reducing CO_2 emission at office, and adhering to the 3R (Reduce, Reuse, Recycle) policy, so that a recycling-based society is to be established. In particular, our Group company EnerGia Eco Materia provides solutions for the effective use of coal ash—a by-product of thermal power plants—in soil improvement as well as in civil engineering construction materials.

Developing energy sources for the future

Chugoku Electric also promotes trial operations of solar and wind power generation to examine its cost and reliability. In order to promote the use of such natural energy, we have supported operations of the Chugoku 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. Moreover, in order to pursue the early realization of next generation clean energy sources, we have made an effort in studying molten carbonate fuel cells, which have a higher power generation efficiency rate, as a large-scale alternative to fossil fuel-fired power generation.

Closely linked to our communities through social contribution activities

Chugoku Electric is promoting extensive activities to contribute to local communities, as we cherish our relationship with them.

Philanthropic activities by our entire workforce were launched to commemorate Chugoku Electric's 50th anniversary in 2001 and continued thereafter. With the theme of "environment, welfare and education," all of our 10,000 employees participate in local cleanups and other sociable activities in nursing homes, as well as electricity education classes where children can enjoy learning about electric power.

In May 2002, we commenced operations of the EnerGia Volunteer Personnel Bank to expand public service or volunteer activities of our employees.

We also promote, among other things, international exchanges by holding charity concerts, called EnerGia Dream Concert, four times a year and generate funds for foreign exchange students.

Together with some affiliates, Chugoku Electric has 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.

Chugoku Electric not only contributes to the society through its various business operations, but also provides benefits for the region as a whole to improve its culture by investing its abundant human resources and facilities.

Group employees participate in river cleaning activities bringing fish-breeding experience to kindergarten children.

EnerGia Dream Concert

Contents

Consolidated 6-Year Summary

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

	Millions of yen					
	2003	2002	2001	2000	1999	1998
Operating revenues	**¥1,009,279**	¥1,021,149	¥1,044,863	¥1,049,440	¥1,039,011	¥1,068,405
Operating income	**126,954**	118,545	126,621	131,444	134,985	137,051
Net income	**44,129**	46,470	27,202	27,615	29,306	30,163
Total stockholders' equity	**606,834**	593,752	575,772	550,856	485,718	475,380
Total assets	**2,815,189**	2,846,207	2,952,869	3,011,101	2,998,389	3,067,448
Interest-bearing debt	**1,839,175**	1,900,098	2,012,672	2,104,628	2,165,187	2,210,124
Free cash flows (*1)	**146,669**	130,496	102,632	107,752	—	—
Other financial data						
Per share data (yen):						
Stockholders' equity (*2)	**1,656.07**	1,600.41	1,551.79	1,484.63	1,309.02	1,281.16
Net income (*3):						
Basic	**119.30**	125.25	73.31	74.43	78.98	81.29
Diluted	**119.30**	123.99	72.78	73.88	78.32	80.57
Cash dividends	**50.00**	50.00	60.00	60.00	50.00	50.00
Key financial ratios:						
Equity ratio (%)	**21.6**	20.9	19.5	18.3	16.2	15.5
Return on equity (ROE) (%)	**7.4**	7.9	4.8	5.3	6.1	6.4
Return on assets (ROA) (%)	**1.56**	1.60	0.91	0.92	0.97	1.00
Price earnings ratio (PER) (times)	**15.4**	13.8	23.2	17.4	23.8	23.3

	Millions of kWh					
	2003	2002	2001	2000	1999	1998
Power generated and received						
Generated:						
Hydroelectric	**3,025**	3,678	3,489	3,506	3,298	4,134
Thermal	**31,324**	30,588	34,656	35,241	35,699	28,972
Nuclear	**10,736**	10,267	6,765	10,059	10,702	9,282
Total	**45,085**	44,533	44,910	48,806	49,699	42,388
Bought from other companies	**22,560**	20,656	21,185	18,499	13,980	18,862
Sold to other companies	**(5,261)**	(5,251)	(4,779)	(7,840)	(5,757)	(3,610)
Transmission loss and other	**(6,537)**	(6,333)	(6,813)	(6,551)	(6,310)	(6,047)
Total	**55,847**	53,605	54,503	52,914	51,612	51,593
Electricity Sales:						
Residential (lighting)	**16,850**	16,384	16,208	15,749	15,358	14,791
Commercial, industrial and other	**22,207**	21,930	22,155	21,603	36,254	36,802
Power consumption by liberalized sector	**16,790**	15,291	16,140	15,562	—	—
Total	**55,847**	53,605	54,503	52,914	51,612	51,593

(*1) Free cash flows represent net of cash flows from operating activities and those from investing activities.
(*2) Stockholders' equity per share is computed using the number of shares of common stock in issue at the end of each year.
(*3) See Note 2 (Amounts per share of common stock) of the consolidated financial statements.

Summary of Operations

In the fiscal year 2003, ended March 31, 2003, conditions in the Japanese economy remained generally severe. There were some signs of recovery from increased production as a result of favorable exports, but domestic demand, such as consumer spending, remained sluggish amid no improvements in the overall employment situation. The Chugoku region experienced a more or less similar situation.

Against this background, the Chugoku Electric Power Co., Inc. and its consolidated subsidiaries (the "Group") strove to strengthen the corporate structure by reinforcing cost competitiveness and by improving their financial positions so as to prevail against the heightened competition.

Consolidated operating revenues in fiscal 2003 totaled ¥1,009.3 billion (US$8,481.3 million), a decrease of 1.2%, or ¥11.9 billion (US$99.7 million), from the previous fiscal year. Net income totaled ¥44.1 billion (US$370.8 million), a decrease of 5.0%, or ¥2.3 billion (US$19.7 million). Free cash flow (net cash flows provided by operating activities minus net cash flows used in investing activities) amounted to ¥146.7 billion (US$1,232.5 million). Cash dividends per share were ¥50.00 (US$0.42).

Operating Revenues

As stated above, consolidated operating revenues slipped 1.2%, or ¥11.9 billion (US$99.7 million), to ¥1,009.3 billion (US$8,481.3 million).

By segment, operating revenues for Electric power operations, the Group's principal business, after eliminations, decreased 1.1%, or ¥10.4 billion (US$86.9 million), to ¥961.0 billion (US$8,075.6 million). This partly reflected the effects of a price reduction for electric power implemented in October 2002.

Operating revenues for Other operations, after eliminations, amounted to ¥48.3 billion (US$405.7 million), down 3.1%, or ¥1.5 billion (US$12.8 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 2003, after eliminations, decreased 2.2%, or ¥20.3 billion (US$170.4 million), to ¥882.3 billion (US$7,414.5 million).

By segment, operating expenses for Electric power operations, after eliminations, amounted to ¥832.3 billion (US$6,993.9 million), a decline of 2.3%, or ¥19.6 billion (US$164.5 million). This was due to a decrease in depreciation and repair costs.

Operating expenses for Other operations totaled ¥50.0 billion (US$420.6 million) after eliminations, a decrease of 1.4%, or ¥0.7 billion (US$5.9 million).

Operating income thus came in at ¥127.0 billion (US$1,066.8 million), up 7.1%, or ¥8.4 billion (US$70.7 million).

Other expenses totaled ¥55.0 billion (US$462.1 million), down 7.6%, or ¥4.5 billion (US$37.9 million), due in part to construction costs for the Kaminoseki nuclear power station No.1 appropriated for reverse book entries, despite increased interest payments.

As a result, consolidated income before income taxes rose 21.9%, or ¥12.9 billion (US$108.6 million), to ¥72.0 billion (US$604.7 million). Consolidated net income totaled ¥44.1 billion (US$370.8 million), down 5.0%, or ¥2.3 billion (US$19.7 million).

On a consolidated basis, net income per share fell ¥5.95 to ¥119.30 (US$1.00) from ¥125.25 in fiscal 2002.

The Group has decided to pay dividends per share of ¥50.00 (US$0.42) to reinforce the business base by improving the Group's financial structure, under the basic principle of continuing to provide stable dividends.

Financial Position

Assets

Total assets of the Group at the close of fiscal 2003 amounted to ¥2,815.2 billion (US$23,657.1 million), down 1.1%, or ¥31.0 billion (US$260.7 million). This was partly due to the depreciation of existing equipment in the Group's Electric power operations.

On net property, the Group is working to trim its assets, such as by further effectively using existing facilities and equipment, centered on Electric power operations and by selling unused land. Net property totaled ¥2,361.9 billion (US$19,847.8 million), down 1.8%, or ¥44.2 billion (US$371.9 million).

Nuclear fuel increased 6.6%, or ¥7.3 billion (US$61.5 million), to ¥117.9 billion (US$990.4 million).

Total investments and other assets totaled ¥198.8 billion (US$1,671.0 million), up 2.0%, or ¥3.8 billion (US$32.3 million).

Total current assets totaled ¥136.6 billion (US$1,147.9 million), up 1.5%, or ¥2.1 billion (US$17.4 million).

Liabilities

Total liabilities of the Group amounted to ¥2,203.4 billion (US$18,516.3 million), down 2.0%, or ¥44.5 billion (US$374.1 million). Of this total, short and long-term interest-bearing debt declined 3.4%, or ¥64.9 billion (US$545.6 million), to ¥1,839.2 billion (US$15,455.3 million) as the Group pursued capital investments within the scope of its internal funding capabilities. Other liabilities increased ¥20.4 billion (US$171.5 million), or 5.9%, to ¥364.3 billion (US$3,061.0 million), centered on the Group's liability for retirement benefits, its reserve funds for the reprocessing of irradiated nuclear fuel and for the decommissioning of nuclear power generating plants.

Minority interests rose 9.2%, or ¥0.4 billion (US$3.5 million) to ¥4.9 billion (US$41.4 million).

Total stockholders' equity increased 2.2%, or ¥13.1 billion (US$109.9 million), to ¥606.8 billion (US$5,099.4 million), and the stockholders' equity ratio rose to 21.6%, a rise of 0.7 percentage points from 20.9% 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.

Net cash provided by operating activities amounted to ¥269.6 billion (US$2,265.1 million), up 6.4%, or ¥16.1 billion (US$135.5 million). This reflected the improved efficiency throughout the Group's management despite the effects of the October 2002 reduction in electric power prices.

On the other hand, net cash used in investing activities was about the same as the prior year at ¥122.9 billion (US$1,032.6 million). This was due to the Group's further efforts to enhance efficiency in capital investment despite the influence from the increased investing and financing.

As a result of the above two activities, the Group's free cash flows stood at ¥146.7 billion (US$1,232.5 million), which became a funding source for the repayment of interest-bearing debt.

Summary of Cash Flows

Years ended March 31

	Millions of yen		
	2003	2002	2001
Net cash provided by operating activities	**¥269,543**	¥253,418	¥254,872
Net cash used in investing activities	**(122,874)**	(122,922)	(152,240)
Net cash used in financing activities	**(143,376)**	(131,230)	(107,398)
Net increase (decrease) in cash and cash equivalents	**3,293**	(734)	(4,766)
Cash and cash equivalents at beginning of year	**20,326**	21,060	25,826
Increase resulting from consolidation of additional subsidiaries	**606**	—	—
Cash and cash equivalents at end of year	**¥ 24,225**	¥ 20,326	¥ 21,060

Net cash used in financing activities increased 9.3%, or ¥12.1 billion (US$102.1 million), to 143.4 billion (US$1,204.8 million), as a result of efforts to reacquire the Group's shares and paying dividends, as well as to reduce interest-bearing debt. Repayments of both bonds and long-term debt exceeded procurements, causing the balance to drop ¥133.2 billion (US$1,119.7 million). Expenditures for cash dividends paid came in at ¥18.5 billion (US$155.3 million).

The Group's cash and cash equivalent stood at ¥24.2 billion (US$203.6 million), up 19.2%, or ¥3.9 billion (US$32.8 million).

Outlook

In the next fiscal year, the Group will continue its efforts to reduce costs through enhanced operational efficiency. However, owing mainly to the October 2002 reduction in electric power prices in the Group's Electric power operations, which accounts for the majority of the Group's consolidated revenues, the Group forecasts year-on-year decreases in consolidated net sales, to ¥980.0 billion, and consolidated net income to ¥40.0 billion.

These forecasts are based on an exchange rate of around ¥120 to US$1.00 and a crude oil price of around US$26.00 per barrel.

Consolidated Balance Sheets

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
March 31, 2003 and 2002

Assets	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars (Note 1) 2003
Property:			
Utility plant and equipment	**¥5,274,360**	¥5,220,451	**$44,322,353**
Other plant	**222,757**	123,540	**1,871,908**
Construction in progress	**138,915**	149,468	**1,167,352**
	5,636,032	5,493,459	**47,361,613**
Less—			
Contributions in aid of construction	**69,264**	64,249	**582,050**
Accumulated depreciation	**3,204,883**	3,023,069	**26,931,790**
	3,274,147	3,087,318	**27,513,840**
Net property	**2,361,885**	2,406,141	**19,847,773**
Nuclear fuel	**117,860**	110,539	**990,420**
Investments and other assets:			
Investment securities (Note 5)	**48,527**	54,058	**407,790**
Investments in and advances to non-consolidated subsidiaries and affiliates	**85,958**	83,497	**722,336**
Long-term loans to employees	**2,627**	2,929	**22,076**
Deferred tax assets	**54,298**	47,568	**456,286**
Other assets	**7,443**	6,958	**62,545**
Total investments and other assets	**198,853**	195,010	**1,671,033**
Current assets:			
Cash and time deposits (Note 3)	**24,372**	20,550	**204,807**
Receivables, less allowance for doubtful accounts of ¥768 million ($6,454 thousand) in 2003 and ¥927 million in 2002	**58,860**	63,828	**494,622**
Inventories, fuel and supplies	**34,248**	35,598	**287,798**
Deferred tax assets	**7,764**	6,575	**65,244**
Other current assets	**11,347**	7,966	**95,353**
Total current assets	**136,591**	134,517	**1,147,824**
Total assets	**¥2,815,189**	¥2,846,207	**$23,657,050**

See accompanying notes.

Liabilities and Stockholders' Equity	Millions of yen 2003	2002	Thousands of U.S. dollars (Note 1) 2003
Long-term debt due after one year (Note 7)	**¥1,463,028**	¥1,614,710	**$12,294,353**
Other long-term liabilities due after one year	**4,781**	5,421	**40,177**
Employees' severance and retirement benefits (Note 11)	**78,918**	78,202	**663,176**
Reserve for reprocessing of irradiated nuclear fuel	**90,398**	83,043	**759,647**
Reserve for decommissioning of nuclear power generating plants	**42,203**	39,746	**354,647**
Current liabilities:			
Long-term debt due within one year (Note 7)	**182,167**	132,008	**1,530,815**
Short-term borrowings	**109,080**	109,380	**916,639**
Commercial paper	**78,000**	44,000	**655,462**
Accounts payable	**42,209**	48,572	**354,697**
Accrued income taxes	**33,692**	11,793	**283,126**
Accrued expenses	**42,351**	47,209	**355,891**
Other current liabilities (including other long-term liabilities due within one year)	**36,607**	33,865	**307,622**
Total current liabilities	**524,106**	426,827	**4,404,252**
Minority interests	**4,921**	4,506	**41,353**
Commitments and contingent liabilities (Note 9)			
Stockholders' equity (Note 13)**:**			
Common stock			
Authorized—1,000,000,000 shares			
Issued—371,055,259 shares	**185,528**	185,528	**1,559,059**
Capital surplus	**16,680**	16,677	**140,168**
Retained earnings (Note 16)	**402,971**	377,423	**3,386,311**
Net unrealized holding gains on securities	**9,170**	14,204	**77,059**
Foreign currency translation adjustments	**17**	—	**143**
Treasury stock (4,625,714 shares in 2003 and 400,865 shares in 2002)	**(7,532)**	(74)	**(63,295)**
Common stock held by consolidated subsidiaries	**—**	(6)	**—**
Total stockholders' equity	**606,834**	593,752	**5,099,445**
Total liabilities and stockholders' equity	**¥2,815,189**	¥2,846,207	**$23,657,050**

Consolidated Statements of Income

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2003	2002	2001	**2003**
Operating revenues:				
Electric	**¥ 961,002**	¥ 971,344	¥ 996,929	**$8,075,647**
Other	**48,277**	49,805	47,934	**405,689**
	1,009,279	1,021,149	1,044,863	**8,481,336**
Operating expenses (Note 10)**:**				
Electric	**832,274**	851,849	858,982	**6,993,899**
Other	**50,051**	50,755	59,260	**420,597**
	882,325	902,604	918,242	**7,414,496**
Operating income	**126,954**	118,545	126,621	**1,066,840**
Other expenses (income):				
Interest expense	**56,885**	50,857	66,715	**478,025**
Interest income	**(117)**	(154)	(190)	**(983)**
Gains on sales of securities	**(4,969)**	(1,033)	(153)	**(41,756)**
Equity in earnings of affiliated companies	**(1,203)**	(3,256)	(1,646)	**(10,109)**
Casualty loss	**—**	—	6,109	**—**
Write-off of consolidation adjustments account	**3,426**	—	—	**28,790**
Other, net	**972**	13,095	1,173	**8,167**
	54,994	59,509	72,008	**462,134**
Income before income taxes and minority interests in net income of consolidated subsidiaries	**71,960**	59,036	54,613	**604,706**
Provision for income taxes (Note 12)**:**				
Current	**33,157**	9,648	24,261	**278,630**
Deferred	**(5,274)**	2,718	2,337	**(44,319)**
	27,883	12,366	26,598	**234,311**
Income before minority interests in net income of consolidated subsidiaries	**44,077**	46,670	28,015	**370,395**
Minority interests in net loss (income) of consolidated subsidiaries	**52**	(200)	(813)	**437**
Net income	**¥ 44,129**	¥ 46,470	¥ 27,202	**$ 370,832**

	Yen			U.S. dollars (Note 1)
Per share data (Note 2)**:**				
Net income:				
Basic	**¥119.30**	¥125.25	¥73.31	**$1.00**
Diluted	**119.30**	123.99	72.78	**1.00**
Cash dividends applicable to the year	**50.00**	50.00	60.00	**0.42**

See accompanying notes.

Consolidated Statements of Stockholders' Equity

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the years ended March 31, 2003, 2002 and 2001

		Millions of yen						
	Shares of common stock	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock	Common stock held by consolidated subsidiaries
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			
Ttreasury 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)			
Treasury stock							(70)	
Balance at March 31, 2002	371,055,259	185,528	16,677	377,423	14,204	—	(74)	(6)
Net income				44,129				
Cash dividends paid (¥50.00 per share)				(18,427)				
Bonuses to directors and statutory auditors				(242)				
Effect of newly consolidated subsidiaries				(193)				
Effect of increase in investments accounted for by the equity method				281				
Decrease in unrealized holding gains on securities					(5,034)			
Surplus from sale of treasury stock			3					
Foreign currency translation adjustments						17		
Treasury stock							(7,458)	
Decrease in treasury stock held by consolidated subsidiaries								6
Balance at March 31, 2003	**371,055,259**	**¥185,528**	**¥16,680**	**¥402,791**	**¥ 9,170**	**¥17**	**¥(7,532)**	**¥—**

		Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock	Common stock held by consolidated subsidiaries
Balance at March 31, 2002	$1,559,059	$140,143	$3,171,622	$119,361	$ —	$ (622)	$(50)
Net income			370,832				
Cash dividends paid ($0.42 per share)			(154,849)				
Bonuses to directors and statutory auditors			(2,034)				
Effect of newly consolidated subsidiaries			(1,621)				
Effect of increase in investments accounted for by the equity method			2,361				
Decrease in unrealized holding gains on securities				(42,302)			
Surplus from sale of treasury stock		25					
Foreign currency translation adjustments					143		
Treasury stock						(62,673)	
Decrease in treasury stock held by consolidated subsidiaries							50
Balance at March 31, 2003	**$1,559,059**	**$140,168**	**$3,386,311**	**$ 77,059**	**$143**	**$(63,295)**	**$ —**

See accompanying notes.

Consolidated Statements of Cash Flows

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2003	2002	2001	**2003**
Cash flows from operating activities:				
Income before income taxes and minority interests in net income of consolidated subsidiaries	**¥ 71,960**	¥ 59,036	¥ 54,613	**$ 604,706**
Depreciation	**173,648**	185,516	195,366	**1,459,227**
Amortization of nuclear fuel	**8,127**	8,154	5,925	**68,294**
Write-off of consolidation adjustments account	**3,426**	—	—	**28,790**
Loss on disposal of property	**9,756**	7,027	8,290	**81,983**
Increase (decrease) in employees' severance and retirement benefits	**569**	(6,700)	18,576	**4,782**
Increase in provision for decommissioning of nuclear power generating plants	**2,458**	1,986	3,938	**20,655**
Increase in provision for reprocessing of irradiated nuclear fuel	**7,355**	13,219	1,403	**61,807**
Increase (decrease) in provision for casualty loss	**—**	(3,612)	3,612	**—**
Interest and dividend income	**(609)**	(755)	(829)	**(5,118)**
Interest expense	**56,885**	50,857	66,715	**478,025**
Gains on sales of securities	**(4,969)**	(1,033)	(153)	**(41,756)**
Decrease (increase) in notes and accounts receivable	**5,477**	(3,243)	4,368	**46,025**
Decrease (increase) in inventories	**4,480**	1,938	(4,383)	**37,647**
Decrease in notes and accounts payable	**(3,475)**	(1,683)	(1,833)	**(29,202)**
Other	**2,704**	8,997	(9,686)	**22,723**
Subtotal	**337,792**	319,704	345,922	**2,838,588**
Interest and dividends received	**1,260**	1,203	1,044	**10,588**
Interest paid	**(58,277)**	(52,434)	(67,897)	**(489,723)**
Income taxes paid	**(11,232)**	(15,055)	(24,197)	**(94,386)**
Net cash provided by operating activities	**269,543**	253,418	254,872	**2,265,067**
Cash flows from investing activities:				
Purchase of property	**(127,830)**	(131,011)	(155,843)	**(1,074,202)**
Purchase of investments in securities	**(9,860)**	(6,707)	(9,221)	**(82,858)**
Proceeds from sale of investment securities	**8,577**	7,250	7,166	**72,076**
Cash of a newly consolidated subsidiary (Note 4)	**1,467**	—	—	**12,328**
Other	**4,772**	7,546	5,658	**40,101**
Net cash used in investing activities	**(122,874)**	(122,922)	(152,240)	**(1,032,555)**
Cash flows from financing activities:				
Proceeds from issue of bonds	**59,764**	149,402	104,536	**502,218**
Repayment of bonds	**(135,000)**	(248,548)	(105,000)	**(1,134,454)**
Proceeds from long-term debt	**39,304**	70,622	46,213	**330,286**
Repayment of long-term debt	**(97,313)**	(73,168)	(115,937)	**(817,756)**
Increase (decrease) in short-term bank loans	**(14,600)**	(53,060)	10,892	**(122,689)**
Increase (decrease) in commercial paper	**34,000**	44,000	(24,000)	**285,714**
Purchase of treasury stock	**(11,153)**	(160)	(166)	**(93,723)**
Cash dividends paid	**(18,481)**	(20,398)	(24,098)	**(155,303)**
Other	**103**	80	162	**867**
Net cash used in financing activities	**(143,376)**	(131,230)	(107,398)	**(1,204,840)**
Net increase (decrease) in cash and cash equivalents	**3,293**	(734)	(4,766)	**27,672**
Cash and cash equivalents at beginning of year	**20,326**	21,060	25,826	**170,807**
Increase resulting from consolidation of additional subsidiaries	**606**	—	—	**5,092**
Cash and cash equivalents at end of year (Note 3)	**¥ 24,225**	¥ 20,326	¥ 21,060	**$ 203,571**

See accompanying notes.

1. Basis of presenting consolidated financial statements

The Chugoku Electric Power Co., Inc. (the "Company") and its consolidated subsidiaries (the "Companies") maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code (the "Code") 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 consolidated financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying consolidated 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 consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the readers outside Japan, using the prevailing exchange rate at March 31, 2003, which was ¥119 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 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, all the assets and liabilities of a subsidiary, not only to the extent of the Company's share, but also including the minority interest share, are evaluated based on fair value at the time when the Company acquired control of the subsidiary. (Full goodwill method) The Company changed the method of the elimination of investments in subsidiaries from partial goodwill method to full goodwill method in the current annual period. However this change has no effect on the financial statements.

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.

For the year ended March 31, 2003, 21 subsidiaries (14 in 2002 and 2001) were consolidated and 19 (5 in 2002 and 2001) non-consolidated subsidiaries and affiliates were accounted for by the equity method.

For the year ended March 31, 2003, investments in no (12 in 2002, 10 in 2001) non-consolidated subsidiaries and 11 (18 in 2002, 17 in 2001) 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 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 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 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, in general, 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 provide for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets.

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, 2003, 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 Chugoku Telecommunication Network Co., Inc. were written-off for the year ended March 31, 2003.

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.

Income taxes

The Companies use the asset and liability approach 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.

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

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.

Effective April 1, 2002, the Companies adopted the new accounting standard for earnings per share (Accounting Standard Board Statement No. 2, “Accounting Standard for Earnings per Share”, issued by the Accounting Standards Board of Japan on September 25, 2002).

Earnings per share for the previous year would have been reported as follows, if this new accounting standard was applied retroactively.

	For the year ended March 31, 2002
Net income per share:	
Basic	¥124.71
Diluted	123.46

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

Accounting standard for treasury stock and reduction of statutory reserves

Effective April 1, 2002, the Companies adopted the new accounting standard for treasury stock and reduction of statutory reserves (Accounting Standards Board Statement No. 1, “Accounting Standard for Treasury Stock and Reduction of Statutory Reserves”, issued by the Accounting Standards Board of Japan on February 21, 2002).

The effect on the consolidated statements of income of adopting this new accounting standard was immaterial.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2003 presentation. These changes had no impact on previously reported results of operations or shareholders’ equity.

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, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Cash and time deposits	**¥24,372**	¥20,550	**$204,807**
Less: Time deposits with maturities exceeding three months	**(147)**	(244)	**(1,236)**
Add: Short-term highly liquid investments with maturities not exceeding three months	**—**	20	**—**
Cash and cash equivalents	**¥24,225**	¥20,326	**$203,571**

4. A summary of assets and liabilities of the newly consolidated subsidiary

For the year ended March 31, 2003, the Company acquired the shares of The Chugoku Telecommunication Network Co., Inc., which was previously accounted for by the equity method, by means of a stock exchange contract.

A summary of assets and liabilities at the time of the acquisition and the related acquisition income is as follows:

	Millions of yen
Fixed assets	50,757
Current assets	3,779
Long-term liabilities	(24,184)
Current liabilities	(28,596)
Consolidation adjustments account	2,976
Retained earnings	1,592
Prior year investment	(2,205)
Additional investment	4,119
Treasury stock distributed to the stockholders of the subsidiary in exchange for the subsidiary's stocks	(4,116)
Net capital surplus	3
Cash and cash equivalents held by the acquired subsidiary	1,467
Cash-in-flow from the acquisition of the subsidiary	1,467

5. Securities

A. The following tables summarize acquisition costs, book values (fair values) of securities with available fair market values as of March 31, 2003 and 2002:

(a) Held-to-maturity debt securities

Securities with available fair values exceeding book values

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
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
	2003	2002	**2003**	2002	**2003**	2002		**2003**	
Equity securities	**¥3,660**	¥3,569	**¥17,677**	¥26,309	**¥14,017**	¥22,740	**$30,756**	**$148,546**	**$117,790**
Bonds	**39**	25	**40**	31	**1**	6	**328**	**336**	**8**
Other	**—**	1	**—**	1	**—**	0	**—**	**—**	**—**
Total	**¥3,699**	¥3,595	**¥17,717**	¥26,341	**¥14,018**	¥22,746	**$31,084**	**$148,882**	**$117,798**

Other securities

	Millions of yen						Thousands of U.S. dollars		
	Acquisition cost		Book value		Difference		Acquisition cost	Book value	Difference
	2003	2002	**2003**	2002	**2003**	2002		**2003**	
Equity securities	**¥2,419**	¥3,565	**¥2,247**	¥3,193	**¥(172)**	¥(372)	**$20,328**	**$18,882**	**$(1,446)**
Bonds	**38**	52	**36**	50	**(2)**	(2)	**319**	**303**	**(16)**
Other	**25**	47	**23**	32	**(2)**	(15)	**210**	**194**	**(16)**
Total	**¥2,482**	¥3,664	**¥2,306**	¥3,275	**¥(176)**	¥(389)	**$20,857**	**$19,379**	**$(1,478)**

B. Book values of available-for-sale securities with no available fair market value as of March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	Book value		Book value
	2003	2002	**2003**
Non-listed equity securities	**¥26,617**	¥22,883	**$223,672**
Other	**1,756**	1,428	**14,756**
Total	**¥28,373**	¥24,311	**$238,428**

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	Total
Government bonds	¥ 1	¥—	¥ 1
Corporate bonds	36	40	76
Other	—	—	—
Total	¥37	¥40	¥77

D. Total sales of available-for-sale securities in the year ended March 31, 2003 amounted to ¥5,274 million (US$44,319 thousand), and the related gains amounted to ¥4,960 million (US$41,681 thousand). Total sales of available-for-sale securities in the year ended March 31, 2002 amounted to ¥1,074 million, and the related gains and losses amounted to ¥1,033 million and ¥6 million, respectively. Total sales of available-for-sale securities 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.

6. Derivatives

The Companies enter into forward foreign exchange contracts, currency swap contracts, interest rate swap contracts and commodity 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 Companies use only creditable financial institutions as counterparties to derivative transactions.

As of March 31, 2003 and 2002, derivatives for hedging foreign currency items and interest swaps were used. Disclosure of information on hedging derivatives is not required.

As of March 31, 2003 derivatives for commodity swaps were used. Information on these derivatives is not disclosed because it is not significant.

7. Long-term debt

Long-term debt at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Domestic bonds due serially through 2029 at rates of 0.58% to 5.0%	**¥ 984,800**	¥1,059,800	**$ 8,275,630**
Deutsche mark bonds due in 2003 at a rate of 5.625%	**22,125**	22,125	**185,924**
Loans from the Development Bank of Japan due serially through 2023 at rates of 1.1% to 6.9%	**322,786**	334,856	**2,712,488**
Unsecured loans, principally from banks and insurance companies, due serially through 2032 at rates of 0.26% to 7.2%	**315,484**	329,937	**2,651,126**
	1,645,195	1,746,718	**13,825,168**
Less amount due within one year	**(182,167)**	(132,008)	**(1,530,815)**
Total	**¥1,463,028**	¥1,614,710	**$12,294,353**

All bonds and loans from the Development Bank of Japan are secured by a statutory preferential right which gives the creditors a security interest in all assets of the Company, totaling ¥2,629,834 million (US$22,099,445 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, 2003 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2004	¥ 182,167	$1,530,815
2005	152,170	1,278,739
2006	144,723	1,216,160
2007	67,245	565,084
Thereafter	1,098,890	9,234,370

8. Leases

(As lessee)

The Companies lease certain equipment for business use.

Lease payments under non-capitalized finance leases amounted to ¥397 million (US$3,336 thousand), ¥546 million and ¥858 million for the years ended March 31, 2003, 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 ,2003 and 2002 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	Finance leases		Operating leases		Finance leases	Operating leases
	2003	2002	**2003**	2002	**2003**	**2003**
Current portion	**¥354**	¥182	**¥293**	¥163	**$2,975**	**$2,462**
Non-current portion	**462**	187	**101**	144	**3,882**	**849**
Total	**¥816**	¥369	**¥394**	¥307	**$6,857**	**$3,311**

(As lessor)

Lease payments received under finance leases, accounted for as operating leases, amounted to ¥165 million (US$1,387 thousand), ¥112 million and ¥60 million for the years ended March 31, 2003, 2002 and 2001, respectively.

The present values of future minimum lease payments to be received under finance leases as of March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Current portion	**¥202**	¥138	**$1,698**
Non-current portion	**561**	438	**4,714**
Total	**¥763**	¥576	**$6,412**

9. Commitments and contingent liabilities

At March 31, 2003, the Companies were contingently liable as guarantor for loans of other companies in the amount of ¥120,420 million (US$1,011,933 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 ¥170,931 million (US$1,436,395 thousand).

10. Research and development expenses

Research and development expenses charged to operating expenses were ¥8,629 million (US$72,513 thousand), ¥9,986 million and ¥8,317 million for the years ended March 31, 2003, 2002 and 2001, respectively.

11. 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, 2003 and 2002 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Projected benefit obligation	**¥270,212**	¥255,237	**$2,270,689**
Fair value of pension assets	**138,496**	138,657	**1,164,832**
	131,716	116,580	**1,106,857**
Less unrecognized actuarial differences	**(56,796)**	(38,802)	**(477,277)**
Unrecognized prior service costs	**551**	—	**4,630**
Prepaid pension expense	**3,447**	424	**28,966**
Liability for severance and retirement benefits	**¥ 78,918**	¥ 78,202	**$663,176**

Included in the consolidated statements of income for the years ended March 31, 2003, 2002 and 2001 are severance and retirement benefit expenses comprised of the following:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Service costs—benefits earned during the year	**¥ 9,417**	¥ 8,806	¥ 8,683	**$ 79,135**
Interest cost on projected benefit obligation	**6,336**	6,966	6,844	**53,244**
Expected return on plan assets	**(892)**	(5,277)	(5,240)	**(7,496)**
Prior service costs	**(138)**	(127)	(415)	**(1,160)**
Amortization of actuarial losses	**8,360**	2,951	—	**70,252**
Net transition obligation	**—**	—	8,150	**—**
Severance and retirement benefit expenses	**¥23,083**	¥13,319	¥18,022	**$193,975**

In the year ended March 31, 2003, the discount rate and the rates of expected return on plan assets used by the Company are 2.2% and 0.5% to 3.5%, 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.

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.

In the year ended March 31, 2001, the discount rates and the rates of expected return on plan assets used by the Company are 3.0% 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.

12. 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, 2003, 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, 2003, 2002 and 2001:

	2003	2002	2001
The Companies' statutory tax rate	**36.15%**	36.15%	36.15%
Losses in subsidiaries	**1.36**	(13.18)	4.50
Non-taxable dividend income	**(0.22)**	(0.58)	(0.54)
Non-deductible expenses	**0.45**	0.58	0.82
Amortization of consolidation differences	**1.72**	—	8.09
Gains on change in interests in a subsidiary	**(1.04)**	—	—
Other	**0.33**	(2.02)	(0.32)
Effective tax rate	**38.75%**	20.95%	48.70%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Deferred tax assets:			
Excess depreciation	**¥16,929**	¥16,763	**$142,261**
Adjustment for unrealized intercompany profits	**12,591**	13,363	**105,807**
Carryforward of operating losses	**1,782**	407	**14,975**
Severance and retirement benefits	**14,018**	8,980	**117,798**
Future reprocessing costs of irradiated nuclear fuel	**4,742**	4,742	**39,849**
Future decommissioning costs of nuclear power generating plants	**4,288**	4,288	**36,034**
Other	**13,847**	12,914	**116,360**
Total deferred tax assets	**68,197**	61,457	**573,084**
Valuation allowance	**(2,849)**	(1,351)	**(23,941)**
Net deferred tax assets	**65,348**	60,106	**549,143**
Deferred tax liabilities:			
Adjustment of allowance for doubtful accounts with losses offset by gains	**(45)**	(53)	**(378)**
Net unrealized holding gains on securities	**(5,188)**	(8,466)	**(43,597)**
Other	**(6)**	(7)	**(50)**
Total deferred tax liabilities	**(5,239)**	(8,526)	**(44,025)**
Net deferred tax assets	**¥60,109**	¥51,580	**$505,118**

13. Stockholders' equity

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

Effective October 1, 2001, the Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The total amount of legal earnings reserve and additional paid-in capital of the Company has reached 25% of common stock, and therefore the Company is not required to provide any more legal earnings reserve. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying financial statements.

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.

14. 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, 2003, 2002 and 2001 is as follows:

	Millions of yen				
	2003				
	Electric	Other	Total	Elimination	Consolidated
Operating revenues:					
Outside customers	¥ 961,002	¥ 48,277	¥1,009,279	¥ —	¥1,009,279
Intersegment	1,559	90,115	91,674	(91,674)	—
Total	962,561	138,392	1,100,953	(91,674)	1,009,279
Cost and expenses	836,601	138,477	975,078	(92,753)	882,325
Operating income (loss)	¥ 125,960	¥ (85)	¥ 125,875	¥ 1,079	¥ 126,954
Identifiable assets	¥2,601,004	¥263,663	¥2,864,667	¥(49,478)	¥2,815,189
Depreciation expense	166,822	8,561	175,383	(1,735)	173,648
Capital expenditures	108,755	18,547	127,302	(2,442)	124,860

	Thousands of U.S. dollars				
	2003				
	Electric	Other	Total	Elimination	Consolidated
Operating revenues:					
Outside customers	$ 8,075,647	$ 405,689	$ 8,481,336	$ —	$ 8,481,336
Intersegment	13,101	757,269	770,370	(770,370)	—
Total	8,088,748	1,162,958	9,251,706	(770,370)	8,481,336
Cost and expenses	7,030,261	1,163,672	8,193,933	(779,437)	7,414,496
Operating income (loss)	$ 1,058,487	$ (714)	$ 1,057,773	$ 9,067	$ 1,066,840
Identifiable assets	$21,857,176	$2,215,656	$24,072,832	$(415,782)	$23,657,050
Depreciation expense	1,401,866	71,941	1,473,807	(14,580)	1,459,227
Capital expenditures	913,908	155,857	1,069,765	(20,521)	1,049,244

	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 expense	180,066	6,874	186,940	(1,424)	185,516
Capital expenditures	109,780	25,464	135,244	(11,904)	123,340

	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 expense	190,948	6,538	197,486	(2,120)	195,366
Capital expenditures	148,171	5,883	154,054	(3,012)	151,042

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, 2003, 2002 and 2001 is not shown due to aggregate overseas sales being less than 10% of total operating revenues.

15. Significant acquisition

At the Board of Directors' meeting which commenced on November 20, 2002, the Company decided to acquire all of the stock of Chugoku Telecommunication Network Co., Inc. to make it a wholly owned subsidiary through an equity swap. On the same day, the Company signed the agreement for the exchange of stock with Chugoku Telecommunication Network Co., Inc.

Following this agreement, the actual equity swap took place on March 1, 2003.

(1) Purpose of the equity swap
The Companies have positioned their Information and Telecommunications operations as one of the main pillars for developing new business and has made a wholehearted effort in promoting it. By fully consolidating Chugoku Telecommunication Network Co., Inc., which plays a core role in the Group's Information and Telecommunications operations, the Companies aim to further clarify management accountability in an increasingly competitive market climate. At the same time, the Company aims to further strengthen its cooperation with Chugoku Telecommunication Network Co., Inc., and to develop projects in a swift and strategic manner.

(2) Conditions for the equity swap
The Company has allotted 29.6 shares of its common stock to one share of common stock of Chugoku Telecommunication Network Co., Inc.

(3) Number of shares allotted in the equity swap
The Company's common stock: 2,450,880 shares

(4) Chugoku Telecommunication Network Co., Inc.'s assets and liabilities (As of March 31, 2003)

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 3,780	$ 31,765
Fixed assets	50,757	426,529
Total assets	¥54,537	$458,294

	Millions of yen	Thousands of U.S. dollars
Current liabilities	¥28,597	$240,311
Long-term liabilities	24,184	203,227
Stockholders' equity	1,756	14,756
Total liabilities and stockholders' equity	¥54,537	$458,294

16. Subsequent events

The following appropriations of retained earnings at March 31, 2003 were approved at the annual meeting of stockholders held on June 27, 2003:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥25 ($0.21) per share	¥9,173	$77,084
Bonuses to directors and statutory auditors	120	1,008

Independent Auditor's Report

To the Stockholders and 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. and subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended March 31, 2003, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Chugoku Electric Power Co., Inc. and subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2003, in conformity with accounting principles generally accepted in Japan as described in Note 1 to the consolidated financial statements.

Without qualifying our opinion, we draw attention to the following.
As discussed in Note 2 to the consolidated financial statements, effective April 1, 2000, The Chugoku Electric Power Co., Inc. and subsidiaries adopted the new Japanese accounting standards for financial instruments and employees' retirement benefits and the revised Japanese accounting standard for foreign currency translation.

The consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

Asahi & Co.

Hiroshima, Japan
June 27, 2003

Non-Consolidated Balance Sheets

The Chugoku Electric Power Co., Inc.
March 31, 2003 and 2002

Assets	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars (Note 1) 2003
Property:			
Plant and equipment	¥5,387,228	¥5,327,125	$45,270,824
Construction in progress	137,223	152,864	1,153,134
	5,524,451	5,479,989	46,423,958
Less—			
Contributions in aid of construction	67,847	63,791	570,143
Accumulated depreciation	3,164,796	3,022,673	26,594,924
	3,232,643	3,086,464	27,165,067
Net property	2,291,808	2,393,525	19,258,891
Nuclear fuel	117,860	110,539	990,420
Investments and other assets:			
Investment securities	42,967	46,988	361,067
Investments in and advances to subsidiaries and affiliated companies (Note 3)	38,329	27,959	322,092
Long-term loans to employees	2,527	2,816	21,235
Deferred tax assets (Note 8)	38,497	31,550	323,504
Other assets	3,395	3,633	28,530
Total investments and other assets	125,715	112,946	1,056,428
Current assets:			
Cash and time deposits	10,612	11,326	89,176
Receivables, less allowance for doubtful accounts of ¥640 million ($5,378 thousand) in 2003 and ¥713 million in 2002	43,091	46,030	362,109
Inventories, fuel and supplies	25,864	26,010	217,345
Deferred tax assets (Note 8)	6,658	5,582	55,950
Other current assets	8,226	3,225	69,126
Total current assets	94,451	92,173	793,706
Total assets	¥2,629,834	¥2,709,183	$22,099,445

See accompanying notes.

Liabilities and Stockholders' Equity	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars (Note 1) 2003
Long-term debt due after one year (Note 4)	**¥1,434,667**	¥1,610,083	**$12,056,025**
Other long-term liabilities due after one year	**1,410**	1,672	**11,849**
Employees' severance and retirement benefits	**69,774**	69,400	**586,336**
Reserve for reprocessing of irradiated nuclear fuel	**90,398**	83,043	**759,647**
Reserve for decommissioning of nuclear power generating plants	**42,203**	39,745	**354,647**
Current liabilities:			
Long-term debt due within one year (Note 4)	**173,833**	129,676	**1,460,782**
Short-term borrowings	**90,450**	106,850	**760,084**
Commercial paper	**78,000**	44,000	**655,462**
Accounts payable	**29,067**	34,801	**244,261**
Accrued income taxes	**32,761**	10,424	**275,303**
Accrued expenses	**38,590**	42,515	**324,286**
Other current liabilities (including other long-term liabilities due within one year)	**30,664**	34,344	**257,679**
Total current liabilities	**473,365**	402,610	**3,977,857**
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	**1,559,059**
Capital surplus	**16,680**	16,677	**140,168**
Retained earnings (Note 10)	**317,201**	290,116	**2,665,555**
Net unrealized holding gains on securities	**5,719**	10,383	**48,059**
Treasury stock (Note 2) (4,133,685 shares in 2003 and 39,016 shares in 2002)	**(7,111)**	(74)	**(59,757)**
Total stockholders' equity	**518,017**	502,630	**4,353,084**
Total liabilities and stockholders' equity	**¥2,629,834**	¥2,709,183	**$22,099,445**

Non-Consolidated Statements of Income

The Chugoku Electric Power Co., Inc.
For the years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2003	2002	2001	2003
Operating revenues	¥965,499	¥972,535	¥998,170	$8,113,437
Operating expenses (Note 7):				
Personnel	127,697	122,866	126,759	1,073,084
Fuel	110,466	105,956	116,282	928,286
Purchased power	141,496	146,075	140,424	1,189,042
Depreciation	166,822	180,066	190,948	1,401,866
Maintenance	86,855	99,705	98,771	729,874
Taxes other than income taxes	64,736	65,089	65,598	544,000
Purchased services	36,184	35,163	33,257	304,067
Other	104,949	100,599	91,153	881,924
	839,205	855,519	863,192	7,052,143
Operating income	126,294	117,016	134,978	1,061,294
Other expenses (income):				
Interest expense	56,646	50,244	65,633	476,017
Interest income	(88)	(109)	(122)	(739)
Casualty loss	—	—	6,127	—
Loss on investments in subsidiaries and affiliated companies	—	17,150	11,920	—
Other, net	(1,944)	12,473	294	(16,337)
	54,614	79,758	83,852	458,941
Income before income taxes	71,680	37,258	51,126	602,353
Provision for income taxes:				
Current	31,368	7,584	22,216	263,597
Deferred	(5,382)	5,205	(3,094)	(45,227)
Net income	¥ 45,694	¥ 24,469	¥ 32,004	$ 383,983

	Yen			U.S. dollars (Note 1)
Per share data (Note 2):				
Net income:				
Basic	¥123.70	¥65.95	¥86.25	$1.04
Diluted	123.70	65.52	85.54	1.04
Cash dividends applicable to the year	50.00	50.00	60.00	0.42

See accompanying notes.

Non-Consolidated Statements of Stockholders' Equity

The Chugoku Electric Power Co., Inc.
For the years ended March 31, 2003, 2002 and 2001

		Millions of yen				
	Shares of common stock	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Treasury stock
Balance at March 31, 2000	371,055,259	¥185,528	¥16,677	¥278,424	¥ —	¥ —
Net income				32,004		
Cash dividends paid (¥65.00 per share)				(24,118)		
Bonuses to directors and statutory auditors				(130)		
Adoption of new accounting standard for financial instruments					21,270	
Balance at March 31, 2001	371,055,259	185,528	16,677	286,180	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						(74)
Balance at March 31, 2002	371,055,259	185,528	16,677	290,116	10,383	(74)
Net income				45,694		
Cash dividends paid (¥50.00 per share)				(18,489)		
Bonuses to directors and statutory auditors				(120)		
Decrease in unrealized holding gains on securities					(4,664)	
Treasury stock						(7,037)
Transfer to capital surplus			3			
Balance at March 31, 2003	**371,055,259**	**¥185,528**	**¥16,680**	**¥317,201**	**¥ 5,719**	**¥(7,111)**

	Thousands of U.S. dollars (Note 1)				
	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Treasury stock
Balance at March 31, 2002	$1,559,059	$140,143	$2,437,950	$87,252	$ (622)
Net income			383,983		
Cash dividends paid ($0.42 per share)			(155,370)		
Bonuses to directors and statutory auditors			(1,008)		
Decrease in unrealized holding gains on securities				(39,193)	
Treasury stock					(59,135)
Transfer to capital surplus		25			
Balance at March 31, 2003	**$1,559,059**	**$140,168**	**$2,665,555**	**$48,059**	**$(59,757)**

See accompanying notes.

1. Basis of presenting non-consolidated financial statements

The Chugoku Electric Power Co., Inc. (the "Company") maintains its accounts and records in accordance with the provisions set forth in the Japanese Commercial Code (the "Code") 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 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 outside Japan, using the prevailing exchange rate at March 31, 2003, which was ¥119 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 were 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 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 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 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 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 plan.

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 provides for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2001 and the liabilities 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 within the average of estimated remaining periods of the employees (over 5 years), and actuarial gains and losses are recognized in expenses using a straight-line basis within the average of the estimated remaining services periods (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 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, 2003, 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 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.

Bond issue expenses and bond issue discounts

Bond issue expenses are charged to income when paid or incurred.

Income taxes

The Company uses the asset and liability approach 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.

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.

Effective April 1, 2002, the Company adopted the new accounting standard for earnings per share (Accounting Standard Board Statement No. 2, "Accounting Standard for Earnings per Share", issued by the Accounting Standards Board of Japan on September 25, 2002).

Earnings per share for the previous year would have been reported as follows, if this new accounting standard was applied retroactively.

	For the year ended March 31, 2002
Net income per share:	
Basic	¥65.62
Diluted	65.20

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, 2003 and 2002. In prior years it had been included in current assets.

Effective April 1, 2002, the Company adopted the new accounting standard for treasury stock and reduction of statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and Reduction of Statutory Reserves", issued by the Accounting Standards Board of Japan on February 21, 2002).

The effect on the statements of income of adopting this new accounting standard was immaterial.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2003 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

3. Securities

Disclosure of market value information of securities, except for investments in subsidiaries and affiliates, with readily available market values at March 31, 2003 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, 2003 and 2002 were as follows:

	Millions of yen						Thousands of U.S. dollars		
	Book value		Fair value		Difference		Book value	Fair value	Difference
	2003	2002	**2003**	2002	**2003**	2002		**2003**	
Equity securities of affiliated companies	**¥2,493**	¥2,493	**¥26,323**	¥40,484	**¥23,830**	¥37,991	**$20,950**	**$221,202**	**$200,252**

4. Long-term debt

Long-term debt at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Domestic bonds due serially through 2029 at rates of 0.58% to 5.0%	**¥ 985,000**	¥1,060,000	**$ 8,277,311**
Deutsche mark bonds due in 2003 at a rate of 5.625%	**22,125**	22,125	**185,924**
Loans from the Development Bank of Japan due serially through 2023 at rates of 1.2% to 6.9%	**297,379**	331,440	**2,498,984**
Unsecured loans, principally from banks and insurance companies, due serially through 2032 at rates of 0.26% to 7.2%	**303,996**	326,194	**2,554,588**
	1,608,500	1,739,759	**13,516,807**
Less amount due within one year	**(173,833)**	(129,676)	**(1,460,782)**
Total	**¥1,434,667**	¥1,610,083	**$12,056,025**

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

The annual maturities of long-term debt at March 31, 2003 were as follows:

Year ending March	Millions of yen	Thousands of U.S. dollars
2004	¥173,833	$1,460,782
2005	145,698	1,224,353
2006	140,346	1,179,378
2007	64,253	539,941
Thereafter	1,084,370	9,112,353

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 ¥849 million (US$7,134 thousand), ¥598 million and ¥634 million for the years ended March 31, 2003, 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, 2003, 2002 and 2001 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	Finance leases		Operating leases		Finance leases	Operating leases
	2003	2002	**2003**	2002	**2003**	**2003**
Current portion	**¥ 884**	¥ 560	**¥267**	¥120	**$ 7,428**	**$2,244**
Non-current portion	**1,710**	1,605	**—**	3	**14,370**	**—**
Total	**¥2,594**	¥2,165	**¥267**	¥123	**$21,798**	**$2,244**

6. Commitments and contingent liabilities

At March 31, 2003, the Company was contingently liable as guarantor for loans of other companies in the amount of ¥119,837 million (US$1,007,034 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 ¥170,941 million (US$1,436,479 thousand).

7. Research and development expenses

Research and development expenses charged to operating expenses were ¥8,371 million (US$70,345 thousand), ¥9,899 million and ¥9,232 million for the years ended March 31, 2003, 2002 and 2001, respectively.

8. Income taxes

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Deferred tax assets:			
Excess depreciation	**¥15,977**	¥16,006	**$134,260**
Future reprocessing costs of irradiated nuclear fuel	**4,742**	4,742	**39,849**
Future decommissioning costs of nuclear power generating plants	**4,288**	4,288	**36,033**
Severance and retirement benefits	**11,446**	6,926	**96,185**
Reserve for bonuses to employees	**3,009**	2,590	**25,286**
Other	**8,940**	8,466	**75,126**
Total deferred tax assets	**48,402**	43,018	**406,739**
Deferred tax liabilities:			
Net unrealized holding gains on securities	**(3,238)**	(5,879)	**(27,209)**
Other	**(9)**	(7)	**(76)**
Total deferred tax liabilities	**(3,247)**	(5,886)	**(27,285)**
Net deferred tax assets	**¥45,155**	¥37,132	**$379,454**

9. Stockholders' equity

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

Effective October 1, 2001, the Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The total amount of legal earnings reserve and additional paid-in capital of the Company has reached to 25% of common stock, and therefore the Company is not required to provide legal any more earnings reserve. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying financial statements.

10. Subsequent events

The following appropriations of retained earnings at March 31, 2003, were approved at the annual meeting of stockholders held on June 27, 2003:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥25 ($0.21) per share	¥9,173	$77,084
Bonuses to directors and statutory auditors	120	1,008

Independent Auditors' Report

To the Stockholders and 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. as of March 31, 2003 and 2002, and the related non-consolidated statements of income and stockholders' equity for each of the three years in the period ended March 31, 2003, expressed in Japanese yen. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the non-consolidated financial position of The Chugoku Electric Power Co., Inc. as of March 31, 2003 and 2002, and the non-consolidated results of its operations for each of the three years in the period ended March 31, 2003, in conformity with accounting principles generally accepted in Japan as described in Note 1 to the non-consolidated financial statements.

Without qualifying our opinion, we draw attention to the following.
As discussed in Note 2 to the non-consolidated financial statements, effective April 1, 2000, The Chugoku Electric Power Co., Inc. adopted the new Japanese accounting standards for financial instruments and employees' retirement benefits and the revised Japanese accounting standard for foreign currency translation.

The non-consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the non-consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the non-consolidated financial statements.

Asahi & Co.

Hiroshima, Japan
June 27, 2003

Board of Directors and Auditors

(As of June 27, 2003)

Chairperson

Shitomi Takasu

President

Shigeo Shirakura

Executive Vice Presidents

Susumu Takato
All aspects of business
Telecommunications System
General Manager of Power Generation Division

Tadashi Fukuda
All aspects of business
Economic Research Center
General Manager of Energy Marketing and Services Division

Takashi Yamashita
All aspects of business
Management Support Departments Supervisor
Energia Business Development

Managing Directors

Shigeo Suehiro
Technical Research Center
Deputy General Manager of Power Generation Division

Kokichi Otsuka
General Affairs, Environment & Land Affairs, Civil Engineering

Tatsuaki Terada
Public Relations, Secretary, Accounting & Finance, Purchasing & Materials

Yoshitane Okada
Power Generation Division (Nuclear Power, Nuclear Power Construction)

Junji Oki
Human Resources Development, Internal Audit, Labor Relations

Masahiro Hosoda
General Manager of Power System Division

Hiromu Okada
Corporate Planning, Wide Area Operations, Management System Development
Deputy General Manager of Energy Marketing and Services Division

Directors

Masaharu Arakawa
General Manager of Public Relations Department

Mitsuaki Kumano
Information System
General Manager of Energia Business Development Department

Masanori Fukuda
General Manager of Human Resources Development Department

Hiroshi Fujii
General Manager of Corporate Planning Department
General Manager of Management System Development Department

Toru Jinde
Deputy General Manager of Power System Division
General Manager, Power System Division (Power System Operation)

Tadashi Watanabe
General Manager, Energy Marketing and Services Division (Marketing)

Kosuke Hayashi

Standing Auditors

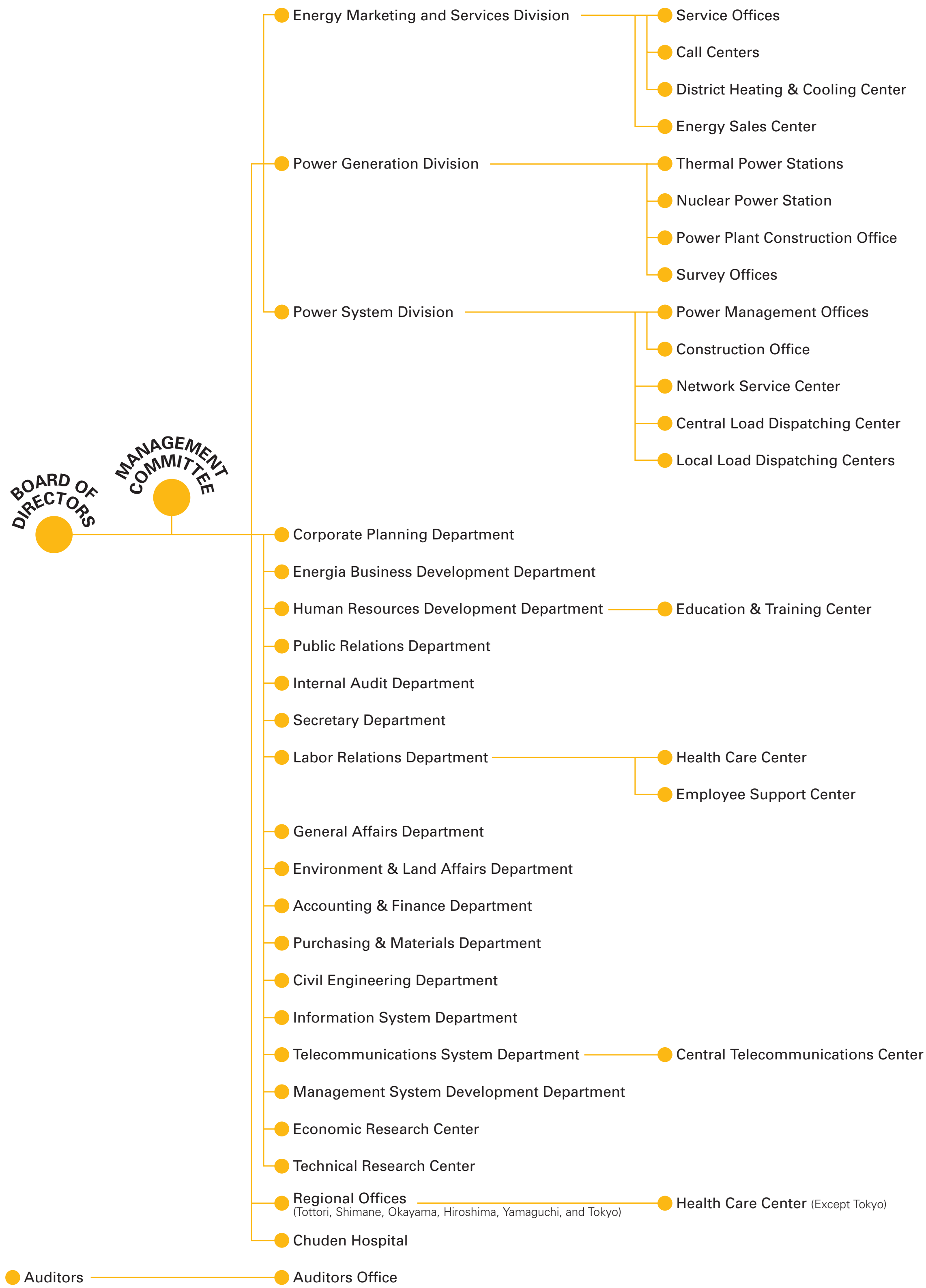
Satoshi Nanbu
Kohei Takata

Auditors

Chitoshi Nishiguchi
Kazue Ibaragi
Masahiro Yonehara
Kazuya Nitta

Organization Chart

(As of July 1, 2003)



Corporate Data

(As of March 31, 2003)

Date of Establishment May 1, 1951

Paid-in Capital ¥185,528 million

Number of Employees 11,001

Location

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

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

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

Number of Users

Residential (lighting)	4,496,775
Industrial and commercial	675,052
Total	5,171,827

Supply Infrastructure

Power Stations

	Number of Facilities	Generating Capacity (MW)
Hydroelectric	94	2,900
Thermal:		
Steam	9	7,981
Internal combustion	3	34
Nuclear	1	1,280
Total	107	12,195

Transmission Lines (total length)	8,050 kilometers
Number of Substations	431
Distribution Lines (total length)	79,622 kilometers

Major Subsidiaries and Affiliated Companies

(As of July 1, 2003)

Name	Capital (Millions of yen)	President	Chugoku Electric's Ownership (%)	Business
CHUDEN KOGYO CO., LTD.*	¥50	Kiyotaka Wake	100.0	Manufacture of electrical equipment and painting materials, painting, construction
CHUDEN PLANT CO., LTD.*	¥200	Seiso Kitano	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
Energia Communications, Inc.*	¥6,000	Tomomi Suzuki	100.0	Type 1 telecommunications business, data processing
EnerGia Business Service Co., Inc.*	¥490	Kiyoshi Kamei	100.0	Financial services for the Group Accounting and personnel-related services
EnerGia Real Estate Co., Inc.*	¥295	Kokichi Otsuka	100.0	Housing sales, rental business
EnerGia Eco Materia Company, Incorporated*	¥300	Shigeo Suehiro	100.0	Processing and marketing of products made of coal ash and powdered limestone
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
Chuden Life Co., Ltd.*	¥15	Masaaki Yoshimi	76.4	Manufacture of power distribution materials
Power Engineering and Training Services, Incorporated*	¥400	Kunitake Tanaka	72.0	Training in thermal power generation technology, engineering
The Energia Logistics Co., Inc.*	¥40	Tatsuaki Terada	70.0	Logistics, electric cable drum lease
International Standard Management Center Inc.*	¥100	Tsuguo Ito	66.0	Inspection of quality control and environmental management system
EnerGia Nuclear Technology Co., Inc.*	¥100	Yoshitane Okada	60.0	Maintenance and engineering of nuclear power stations
TEMPEARL INDUSTRIAL CO., LTD.*	¥150	Sosaku Urushima	56.6	Manufacture of electric machine tools
Energia Solution & Service Company, Incorporated*	¥1,000	Kazuhiko Hisakawa	53.0	Fuel supply, energy utilization
SANKO INC.*	¥30	Hiroshi Tanaka	46.7	Printing, advertising
Houseplus Chugoku Housing Warranty Corporation Limited*	¥50	Fumio Yoshiya	35.6	Functional evaluation and warranty for housing
EnerGia Care Service Co., Inc.*	¥78	Hiroshi Tanaka	33.3	Management of a nursing home, daycare services, and home nursing care services
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
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 and natural gas sales
CHUDENKO CORPORATION**	¥3,481	Yoshiaki Kato	39.0	Electrical and telecommunications engineering
CHUGOKU KOATSU CONCRETE INDUSTRIES CO., LTD.**	¥150	Kiichiro Matsumoto	33.3	Manufacture of concrete products
EAML Engineering Company Limited**	¥50	Katsuto Hashimoto	20.1	Manufacture of instruments for hydroelectric power generation
Bab-Hitachi & Energia Allied Techno-Research Co., Ltd.**	¥40	Yoshiaki Oda	5.0	Dioxin measurement and analysis

* Consolidated subsidiary
** Affiliated company accounted for by the equity method

Investor Information
(As of March 31, 2003)

Independent Certified Public Accountants
Asahi & Co.

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

Securities Traded
Tokyo Stock Exchange, Osaka Securities Exchange

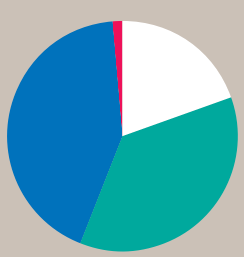
Number of Stockholders
166,752

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	22,763	6.1
The Master Trust Bank of Japan, Ltd. (trust account)	14,253	3.8
Mizuho Corporate Bank, Ltd.	9,907	2.7
The Dai-ichi Mutual Life Insurance Company	8,054	2.2
Shinsei Bank, Limited	6,187	1.7
Japan Trustee Services Bank, Ltd. (trust account)	5,219	1.4
The Hiroshima Bank, Ltd.	5,092	1.4
Company's Stock Investment	5,012	1.4
The Sumitomo Trust & Banking Co., Ltd.	4,986	1.3

Distribution of Common Stock Issued



Corporations 19.53%
Financial Institutions 36.43%
Individuals and Others 42.66%
Foreign Investors 1.38%

Distribution of Common Stock

	Number of shares held (thousands)	Percentage (%)
Corporations	72,469	19.53
Financial Institutions	135,196	36.43
Individuals and Others	158,280	42.66
Foreign Investors	5,110	1.38
Total	371,055	100.00

Stock Price Range on the Tokyo Stock Exchange

Fiscal year		High (yen)	Low (yen)
2003	1st Q	¥1,784	¥1,622
	2nd Q	1,768	1,653
	3rd Q	1,745	1,651
	4th Q	1,895	1,740
2004	1st Q	1,947	1,808

Energia

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