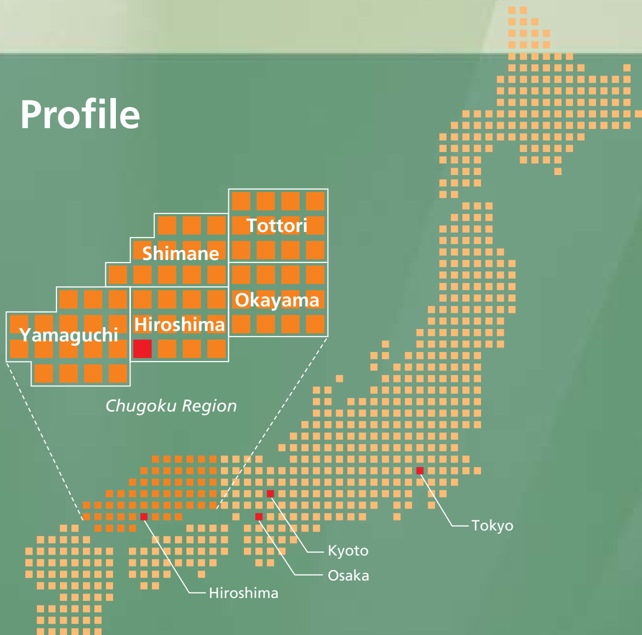
Energia

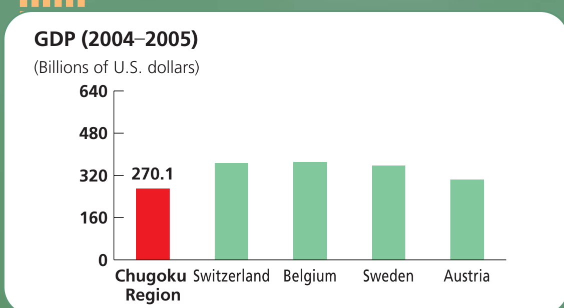
THE CHUGOKU ELECTRIC POWER CO., INC.

ANNUAL REPORT 2007

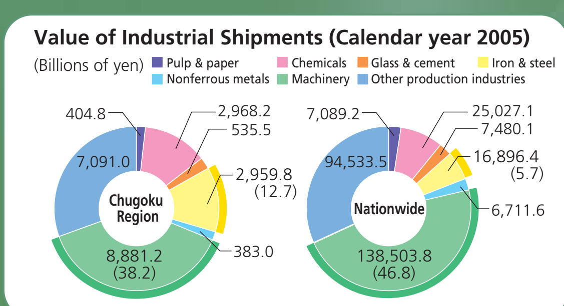
Year Ended March 31, 2007

Profile





Sources: 1. Ministry of Internal Affairs and Communications [*World in Figures 2007*]
2. Cabinet Office [*Annual Report on Prefectural Accounts 2007*]



Sources: Ministry of Economy, Trade and Industry [*Census of Manufacturers 2005*]
Figures in ( ) represent the percentage distribution.

The Chugoku Electric Power Co., Inc., with total generating capacity of 12,201MW, provides stable, high-quality electric power services mainly to the Chugoku region, which is located in the western portion of Japan's main island of Honshu. Home to approximately 7.7 million people, the region has a land area of approximately 32,278km^2 and generates an annual gross domestic product of about $270.1 billion.*

The progressive deregulation of Japan's electric power industry to include retail power supply is expected to bring substantially greater competition in terms of rates charged and services offered. On the other hand, changes in the operating environment are also broadening the scope of business opportunities for Chugoku Electric.

Under our new management plan, implemented Group-wide in April 2006, efforts are under way to attain further increases in efficiency and improve price competitiveness. In addition, we are working to promote our total solutions business—with electric power at its core—by offering products and services that respond to a wide range of customer needs by drawing on the experience, accomplishments, and capabilities of the entire Chugoku Electric Group.

While continuing to take initiatives to ensure stable supplies of electricity and respond proactively to environmental issues, we are aiming to secure the trust of the regional communities we serve and make sure we remain the No. 1 choice among our customers. In tandem with these activities, the Group is striving to increase its corporate value and make the world of EnerGia—a fresh, bright, and warm society, powered by energy and brimming with vitality—a reality.

*Year ended March 31, 2005

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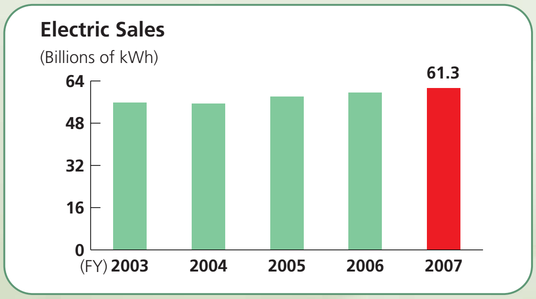
Consolidated Financial Highlights

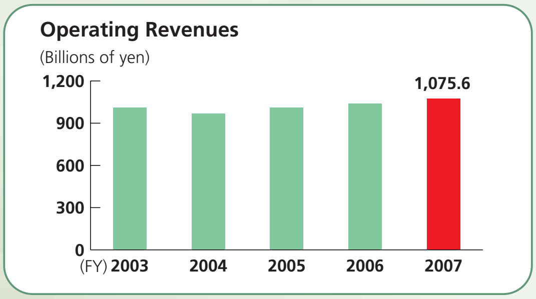
The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
Years ended March 31

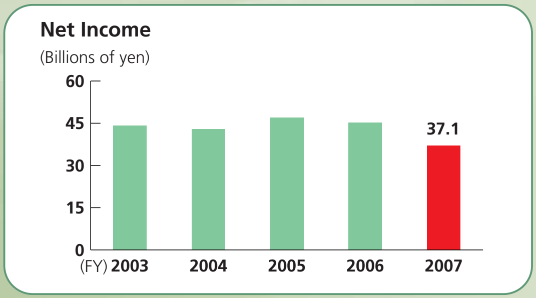
	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	**2007**
For the Year:				
Operating revenues	**¥1,075,575**	¥1,040,290	¥1,011,799	**$ 9,115,042**
Operating income	**88,401**	100,095	125,451	**749,161**
Net income	**37,093**	45,167	47,062	**314,347**
At Year-End:				
Total stockholders' equity/Net assets	**715,972**	695,495	658,209	**6,067,559**
Total assets	**2,680,782**	2,655,468	2,636,363	**22,718,492**
Interest-bearing debt	**1,572,994**	1,575,011	1,613,979	**13,330,458**

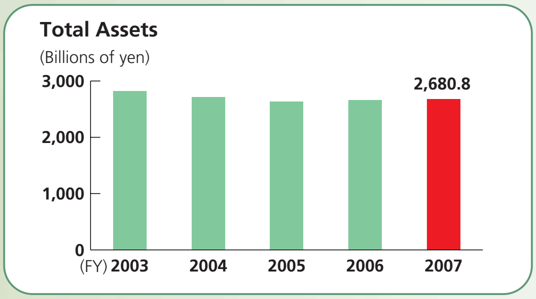
	Yen			U.S. dollars (Note 1)
	2007	2006	2005	**2007**
Per Share Data:				
Net income	**¥ 101.86**	¥ 123.44	¥ 128.61	**$ 0.86**
Stockholders' equity	**1,951.27**	1,910.41	1,807.59	**16.54**
Cash dividends applicable to the year	**50.00**	50.00	50.00	**0.42**
Ratios:				
Stockholders' equity ratio (%)	**26.5**	26.2	25.0	
ROE (%)	**5.3**	6.7	7.3	
ROA (%)	**2.1**	2.4	3.0	

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at ¥118 to U.S.$1.00, the approximate rate of exchange prevailing on March 31, 2007.
2. The Company's fiscal year begins on April 1 and ends on March 31 of the following year. In this report, fiscal 2007 is used to denote the year ended March 31, 2007.









Cautionary Statement with Regard to Forward-Looking Statements

In this annual report, all nonempirical information, including current plans, forecasts, strategies, assurances, and other matters, is intended to project results based on facts available to company management at the time of writing. For this reason, we urge readers not to make investment decisions based solely on the forecasts herein. Economic and other factors may cause actual performance to differ significantly from projections.

Factors affecting performance include, but are not limited to, the systemic reform of electric power business, business other than electric power, economic conditions in the power supply area, seasonal variations in weather, changes in fuel prices, changes in interest rates, the cost and liabilities of employees' severance and retirement benefits, management of personal information, and natural disasters and other such events.

Message from the Management

Tadashi Fukuda
Chairperson

Takashi Yamashita
President

Regarding the series of problems that were brought to light from 2006 pertaining to incongruous monitoring data discovered in reports concerning our electric power generation facilities and inadequacies in our legal compliance procedures, we would like to sincerely apologize to our stockholders and other investors for the considerable concern these procedural irregularities have raised.

We have learned important lessons from this series of problems and seek to live up to public expectations for the thorough implementation of measures to ensure safety at our electric power facilities, the reliable provision of electricity, and the realization of low electric power rates. To accomplish this, all Chugoku Electric Group companies are working together under the leadership of our directors to revitalize and restore trust in the Group by making compliance a top priority in all of our operating activities. We therefore ask for the continued understanding and support of our stockholders and other investors.

Regarding the operating environment facing our Group, the following trends have been observed globally. The sustained rapid economic growth of industrially developing countries could have an enormous impact on global supply/demand for energy in the future, and the current sharp increase in fuel prices and competition to secure energy resources could escalate further and become a chronic feature of energy markets.

Interest in global environment problems is growing around the world. We are committed to reducing our carbon dioxide emission intensity by approximately 20% compared with the fiscal 1991 level over the five years of 2008–2012, the Kyoto Protocol's first commitment period, and we are working to achieve this goal. Debate has commenced in regard to the post-Kyoto Protocol period from 2013, including on a proposal to set a long-term target of reducing greenhouse gas emissions by 50% on a global basis by 2050.

In view of these global trends, we think our response to the issues of attaining energy security and addressing global environment problems will be increasingly important for the Chugoku Electric Group.

Looking at the direction of the electric power business in Japan, we note there are studies under way aimed at finding ways to further improve the competitive environment in preparation for a new set of reforms for the electric power industry. We thus expect the competitive environment in the domestic electric power business to grow fiercer. Amid concerns about the decline in the country's total population coupled with the rise in senior citizens as a proportion of the total populace together with worries about an outflow of people and industry from outlying regions, finding ways to stimulate regional economies is an issue of grave importance for Japan, and the Chugoku region, where we are based, is no exception to this rule. We are, in particular, concerned such trends in the Chugoku region could have an adverse impact on our operations through slowing growth in energy and electric power demand.

The operating environment we face both at home and overseas is thus growing more challenging. In this context, we think the development of nuclear power facilities, an area where we are moving forward, will become increasingly important to our efforts to attain energy security, address global environmental problems, and bolster our competitive strength.

We continue to strive to develop the Shimane Nuclear Power Station's Unit No. 3 and the Kaminoseki Nuclear Power Station's No. 1 and No. 2 units with the utmost efforts, as top management priorities. Consequently, we are doing all we can not only to ensure the safe and stable operation of the Shimane Nuclear Power Station's No. 1 and No. 2 units, but also to address each issue that has been raised, including concerns over earthquake-resistant design.

While concentrating on nuclear power development, we will continue to forge ahead in strengthening our business foundation through measures to secure sources of profit and improve our efficiency as competition among energy suppliers accelerates. In addition, as a company based in the Chugoku region that depends on local economic growth to drive our growth, we are actively collaborating in efforts to support and stimulate the local economy with an eye to our future.

We are working to revitalize our operations so as to be a better company and win the trust of the public by making steady headway in promoting compliance throughout our operations. At the same time, we aim to bolster our operational base and increase our corporate value to meet the expectations of our stakeholders. We, therefore, ask for the continued support and cooperation of our stockholders and other investors.

Tadashi Fukuda

Tadashi Fukuda
Chairperson

Takashi Yamashita

Takashi Yamashita
President

Basic Management Concepts of the Chugoku Electric Group

The operating environment surrounding the Chugoku Electric Group is expected to become even more challenging as the further liberalization of the electric power business, the core business of the Group, leads to greater competition. To prevail over the competition amid such an environment, and to increase its enterprise value and meet the expectations of its various stakeholders, the Group is working together as one in conducting its business activities, based on the Basic Management Concepts of the Chugoku Electric Group and the parent company's Management Policies.

Basic Management Concepts of the Chugoku Electric Group

Goals

- Become a group of companies essential to customers by providing attractive products and services
- Remain a central contributor to the regional economy and build stockholder value
- Stabilize Group employment, bolster the technical capabilities of employees, and energize workplaces

Specific Initiatives

(1) Advance our total solutions* operations

(2) Streamline the operations of the entire Group to efficiently utilize Group management resources

* Total solutions: Offering the package of services from among many options that taken as a whole best suits the specific requirements of each customer

Chugoku Electric's Management Policies

1. Build sustainable profits
   - Reinforce competitiveness by becoming more customer-oriented
   - Strengthen Group management capabilities
2. Secure the trust of all stakeholders, including customers, stockholders, investors, and communities
   - Ensure operational fairness and transparency
   - Resolve public issues
3. Energize employees and restructure operations

Working Together to Enhance Manage

Group Management Goals (consolidated basis)

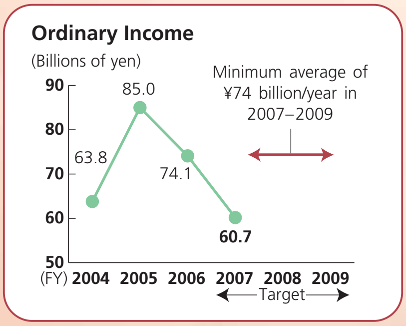
To achieve the Group's consolidated management goals, we are working to expand revenues and further promote management efficiency so as to enhance our earnings power.

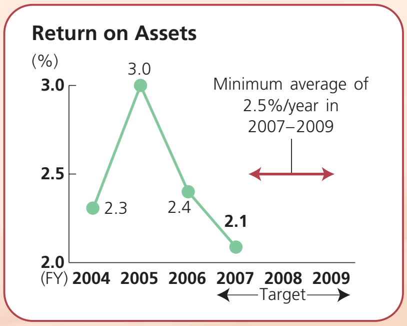
The operating environment for our Group's operations, especially our electric power business, has grown more challenging, and we face a growing number of uncertainties going forward. Against this backdrop, we aim to realize the fundamental concepts drawn from our Group's Basic Management Concepts, increase our corporate value, and live up to the expectations of our customers, stockholders, and other investors, the local communities we serve, our employees, and other stakeholders. To attain these aims, the Chugoku Electric Group has set concrete management goals for the levels of profitability, efficiency, and soundness it seeks to achieve in the three-year period from fiscal 2007 through fiscal 2009.

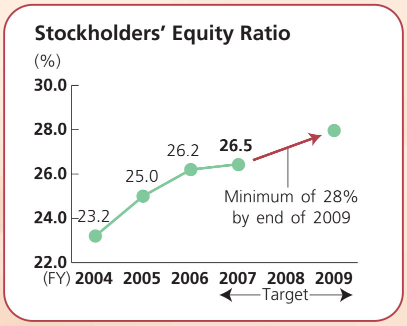
Group Management Goals (Fiscal 2007-Fiscal 2009)

Category		Management Goal (consolidated)
Profitability	Ordinary income	At least ¥74 billion/year (Avg. in FY07–FY09)
Efficiency	Return on assets	At least 2.5%/year (Avg. in FY07–FY09)
Soundness	Stockholders' equity ratio	At least 28% (FY09-end)

Note: Ordinary income is calculated from operating income by subtracting and adding ordinary items such as interest expense and income.
Return on assets is operating income less taxes, divided by total assets, multiplied by 100.
Stockholders' equity ratio (net assets subtracting minority interests) is stockholders' equity divided by total assets, multiplied by 100.







Group Companies Working Together to Enhance Management Strength

Direction of Operations

We intend to meet our customers' increasingly diverse needs and boost profitability by aggressively developing total solutions operations.

- To raise our earnings power, we are prioritizing the investment of management resources into strategic business domains where we aim to leverage the Group's strengths.
- To respond to diversifying customer needs, we have designated, in addition to our core electric power business, four strategic business domains, and we are advancing our total solutions operations in these domains.
- Going forward, we will continue to reinforce our business operations in the Chugoku region and provide various services that contribute to the convenience and comfort of our customers.

Building Group Management Foundations

We are working to construct a medium-term management plan system for the entire Group and thereby augment Group management.

- To achieve the Group management goals, we are pushing ahead in businesses where the Group works together as one, and, to further promote Group management, we began making a full transition to a Groupwide medium-term management planning system in fiscal 2007.
- More specifically, we have classified our Group business areas into five management segments in addition to the accounting disclosure segments, and we are formulating a medium-term management plan that includes specific quantitative targets that reflect policies that have been hammered out for each of these management segments.
- These new classifications will help clarify strategies and roles for each business field, enhance competitiveness and promote efficiency by forming links among Group companies, and create a structure for flexibly and expeditiously allocating management resources throughout the Group in an optimal manner.

Outline of the Medium-Term Management Plan

	Accounting Disclosure Segments				
				Other	
Management Segments	Electric power	Comprehensive energy supply	Information and telecommunications	Environmental, electric power business support, etc.	Business and lifestyle support
Total energy					
Energy marketing & services	●	●		●	
Power generation	●	●		●	
Power system	●			●	
Information and telecommunications			●		
Business and lifestyle support					●

Corporate Governance

Basic Concepts

As our business operations are centered on electricity operations, a vital service to society, we have adopted an auditor system to ensure management decision making and operations execution function concurrently. The construction of a corporate governance structure that allows us to fulfill our social responsibilities by building trust and creating sustainable value is a top management priority. We will continue to enhance corporate governance as part of our efforts to reinforce Group management.

Reforms to Our Management Structure

In June 2007, we made reforms to our management structure to achieve greater transparency and objectivity in our corporate management.

Of these reforms, the decision to separate the Chairperson and President positions is aimed at clearly differentiating between oversight and implementation functions, and the decision to reduce the size of the Board of Directors, shorten the term of service for board members, and introduce an Executive Officer System is aimed at strengthening management functions, starting with those of the Board of Directors, and clarifying the specific responsibilities of management. (For further details, please see the section entitled "Measures to Restore Trust and Rebuild Operations" on pages 9, 10, and 11.)

Our Corporate Organization and Internal Controls System

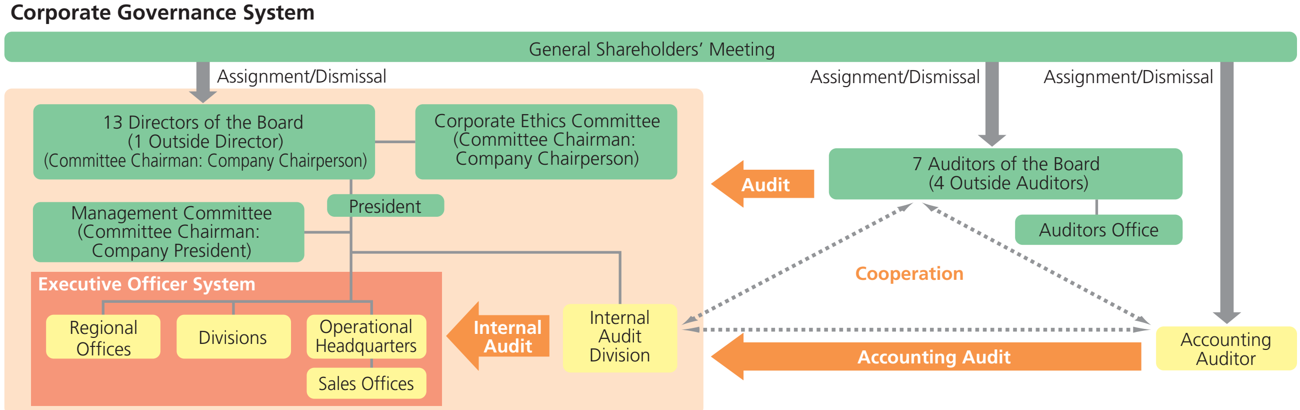
In April 2007, we reviewed and revised our basic policy on upholding and improving the Company's system for ensuring fairness in business operations. In accordance with this policy, we are working to maintain and improve this system.

The Board of Directors comprises 13 directors, including one outside director. The board holds one regular meeting a month, at which it formulates management policies and plans and makes decisions pertaining to the execution of important operations. The board also oversees the directors' execution of their duties through reports and other means. The Management Committee, comprising representative executive directors, meets weekly to fully debate important management issues, including issues to be discussed by the Board of Directors.

The Board of Auditors comprises seven auditors, including four outside auditors. They conduct strict audits of the Company directors' execution of their duties. Our Auditors Office operates independently of the President's purview so as to support auditing functions.

The Internal Audit Division conducts internal audits on the Company and its affiliates, verifies the appropriateness and effectiveness of the internal control system, and issues suggestions for improvement.

Corporate Governance System



Our auditors, accounting auditors, and the Internal Audit Division share the information obtained in the course of their audits with one another and work together in other ways.

Guided by our Chugoku Electric Corporate Ethics Framework, our Corporate Ethics Committee, which is an advisory body to the Board of Directors that is overseen by the Chairperson and is made up of three prominent experts that are not Company employees, discusses important items related to compliance.

We have set up a risk management organization that issues guidance and corrections pertaining to risk management as necessary. On top of that, the Risk Strategies Committee, which the President chairs, meets to discuss policies to tackle key management risks.

Board of Directors and Auditors (As of June 28, 2007)

CHAIRPERSON
Tadashi Fukuda

PRESIDENT
Takashi Yamashita

EXECUTIVE VICE PRESIDENTS AND DIRECTORS
Shigeo Suehiro
Masanori Fukuda
Toru Jinde
Tadashi Watanabe

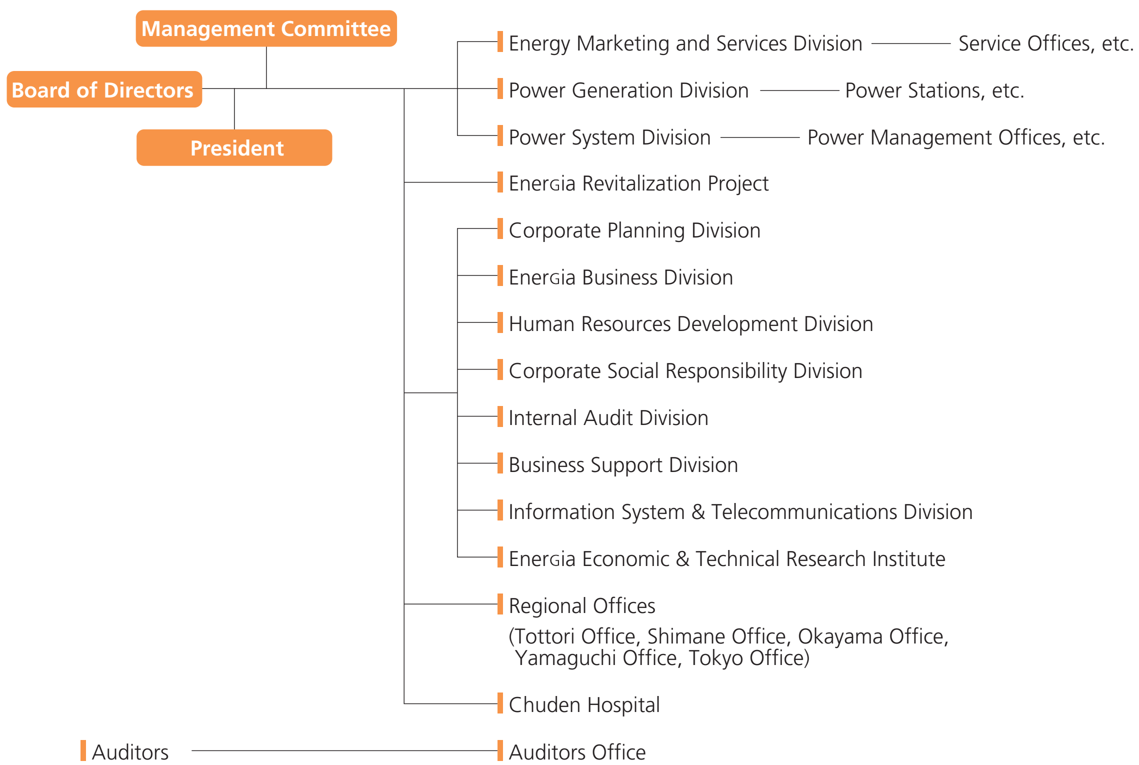
MANAGING DIRECTORS
Hiroshi Fujii
Tomohide Karita
Shuichi Shirahige
Seiki Hawaka
Kazuhisa Fukumoto
Mitsuo Matsui

DIRECTOR
Kosuke Hayashi

STANDING AUDITORS
Junji Oki
Chitoshi Nishiguchi

AUDITORS
Michiho Nozaka
Kazuya Nitta
Hiroshi Nakashima
Taka Shiinoki
Michihiko Kikkawa

Organization Chart (As of June 28, 2007)



Measures to Restore Trust and Rebuild Operations

We have learned important lessons from a series of problems that were brought to light from 2006, and, in response, we have put into place the "Energia Revitalization Program" and adopted "Countermeasures for Preventing Recurrence." These activities are aimed at winning back the trust of our customers and individuals living in the communities we serve and becoming the energy supplier of choice in our home region.

In 2006, incongruous monitoring data were discovered in reports concerning our electric power generation facilities, and a subsequent Company-wide investigation uncovered further incongruous data in other reports. We confirmed that in all cases safety was not compromised. Nevertheless, we have reflected at length on this matter and regret that public trust in our operations has been deeply impaired.

We realize that winning back public trust is a matter of utmost urgency for us, and we have learned important lessons from the series of problems that were brought to light. In response, we have, of course, introduced definite countermeasures to prevent the recurrence of these problems. In addition, the "Energia Revitalization Program" we have adopted will introduce fundamental reforms, including sweeping changes to our management structure as well as our operational administration and organization, aimed at restoring public trust in our operations so that we can once again be the energy supplier of choice in our home region.

I. Energia Revitalization Program

Focusing in particular on the two key areas of (1) management structure and (2) operational administration and organization, we are taking steps to clarify problems, identify key reforms, and advance a series of initiatives, from devising reform plans to implementing them, based on the policies outlined as follows:

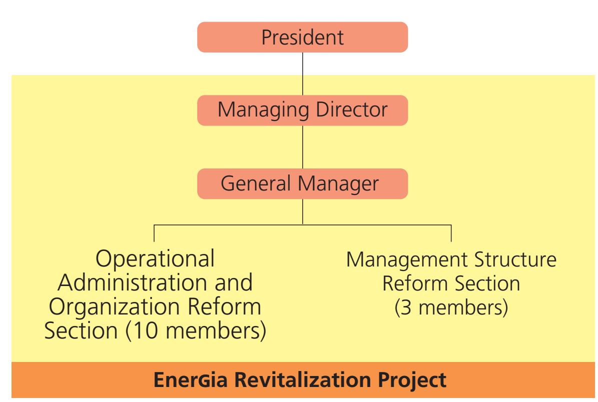
- Identify precisely the causes of our problems, formulate effective reform plans, and implement them;
- Incorporate the objective and expert views of a third-party board into our reform initiatives to ensure they secure broad acceptance among our customers and those living in the region where we operate; and
- Ensure our reform initiatives broadly reflect the views of our employees in a proactive and constructive voice while also tracking closely workplace realities and the mind-set of our employees.

1. Procedures

(1) Establish a Task Force, the "Energia Revitalization Project"

We have formed a task force, the "Energia Revitalization Project," as a dedicated unit reporting directly to the President to advance the reform initiatives throughout the Company steadily and with ample strength. Based on conclusions drawn from an analysis of the causes of the series of problems and an inspection of relevant electric power facilities, the task force is taking steps to comprehend current workplace realities and the thinking of employees so that it can clarify problems, identify ways to reform our operations, formulate reform plans, and then gradually implement them once they are officially decided.

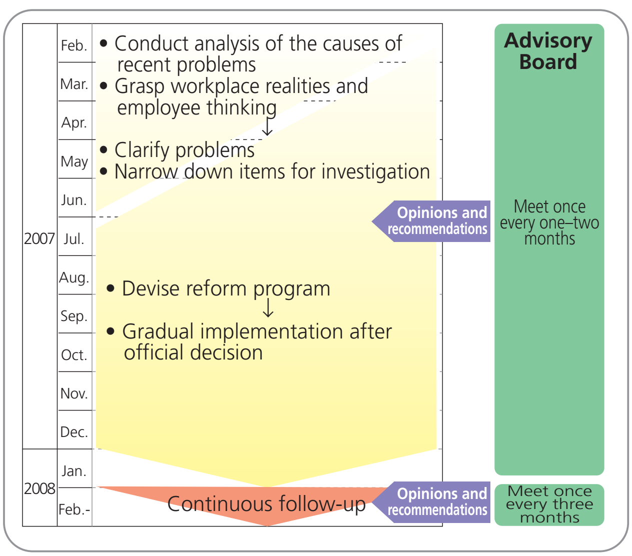
Task Force Structure



(2) Chugoku Electric Power Company Advisory Board

Set up as an advisory body to the task force, the Chugoku Electric Power Company Advisory Board comprises external knowledgeable persons, and, to ensure that reform initiatives gain the acceptance of the general public, the Company will extensively incorporate the objective and expert opinions of the Advisory Board into its reform initiatives. Based on its objective and expert opinions, the Advisory Board is to summarize its observations and submit its recommendations after debating the proper course of action regarding the main points (clarifying problems, identifying ways to make reforms, and devising reform plans) considered by the Task Force.

2. Schedule for Reform Initiatives



3. Reform Measures Carried Out to Date

The plans we outline below are aimed at putting into place an enhanced structure that enables us to grasp precisely the expectations of our customers and the communities we serve so that we can respond to these swiftly.

(1) Management Structure Reforms

We have put into place a series of management structure reforms, which were approved at the June 2007 shareholders' meeting, aimed at achieving greater management efficiency in response to electricity liberalization and attaining greater transparency and objectivity in how we operate.

Measures Adopted at the June 2007 Shareholders' Meeting:

- Define clearly the oversight and implementation functions of senior management (clarify the roles of the Chairperson and President);
- Strengthen the role of the Board of Directors (decrease the size of the board and shorten the tenure of directors to one year); and
- Strengthen implementation functions (create an Executive Vice President position to carry out Companywide tasks and an Executive Officer System).

Issues under Consideration for Fiscal 2008:

- Make effective use of the views of third parties;
- Revamp functions responsible for Companywide tasks; and
- Augment internal control functions.

(2) Strengthen Our Compliance Promotion System

As regards compliance, "Observing laws and regulations and acting within the socially accepted bounds of decency" are among the behavioral guidelines, "EnerGia Will," we drew up in March 2000 and have since enforced. Moreover, in April 2003, we formulated the "Corporate Ethics Platform" on the basis of a deeper commitment to acting in accordance with the spirit of laws and regulations and a sense of ethics, and we have worked to promote compliance with this pledge. In the wake of the aforementioned problems, we have, upon careful reflection, come to the conclusion that these problems stemmed from shortcomings in the importance we placed on corporate ethics, a closed company culture, and a divergence from accepted social practices. We have, therefore, bolstered our existing compliance promotion system to address these problems.

■ Executive Vice President Responsible for Compliance Promotion and Crisis Management

In order to clarify the lines of management responsibility, we have made one of our vice presidents responsible for overseeing compliance promotion as well as risk and crisis management on a Companywide basis and created a crisis management structure that enables us to respond quickly and effectively when emergencies arise.

■ Role of the Corporate Ethics Committee Strengthened

Since we believe the oversight of compliance management should be performed by the Board of Directors, we have changed the Corporate Ethics Committee from an advisory body to the Management Committee to an advisory body to the Board of Directors.

Moreover, we have increased the number of outside committee members from one to three to enhance the Corporate Ethics Committee's transparency and objectivity, and we are reviewing ways to make the committee into a vehicle that is receptive to the social expectations of our customers and the local communities we serve. We will also post summaries of committee deliberations on our Company website.

■ Establishing an Outside Corporate Ethics Consultation Hotline

We recently established a new consultation hotline to accept reports and listen to concerns about problems relating to violations of laws or regulations as well as corporate ethics. The operating policy for this outside hotline stresses effectiveness, and the operating policy for our existing internal hotline for corporate ethics consultation has likewise been revised to reflect this emphasis. As a result, both hotlines accept reports from anonymous callers, although as a general rule we ask callers to disclose their real names.

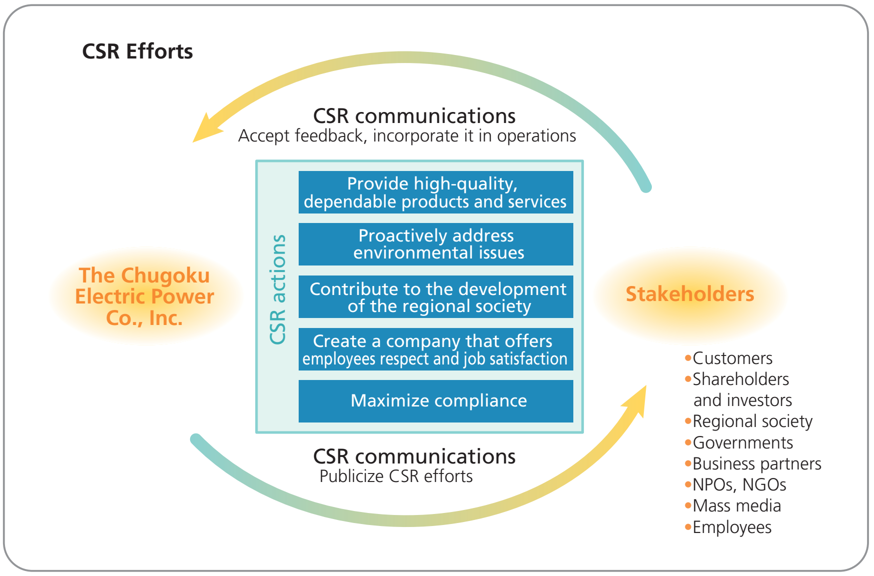
See the section entitled "Promotion of Compliance" on page 12 for details about our CSR Promotion Program.

II. Countermeasures for Preventing Recurrence

We concede our efforts to date to promote compliance have been insufficient, and we seek to live up to public expectations for systematic measures to ensure safety at our electric power facilities, the reliable provision of electricity, and the realization of low electric power rates. To accomplish these, we are determined to fundamentally retool our operations Companywide to make compliance a top priority in all of our operating activities with the aim of instilling in the minds of each of our senior executives and employees the paramount importance of compliance as well as assimilating this thinking into our Company culture and our corporate structures and rules.

The specific countermeasures we have devised for preventing recurrence reflect the three common problems shown by results of a recent review: compliance-awareness-related issues, Company-culture-related issues, and quality-assurance-related issues.

Corporate Social Responsibility (CSR)



Our CSR initiatives at the Chugoku Electric Group are aimed at making us better companies by positioning compliance procedures as a top priority across all our operations.

We consequently formulated the EnerGia Group CSR Action Charter and set the direction for the Group's CSR efforts as well as eight principles to guide the behavior of all Group executives and employees and the operating activities of all Group companies. On this basis, we are moving ahead as a group with an array of CSR initiatives.

Based on a thorough compliance framework that emphasizes corporate ethics and respect for the law, we will as a group put even greater efforts into CSR initiatives, such as those related to supplying high-quality, highly reliable products and services that are predicated on stable power supply, actively addressing environmental issues, and contributing to regional development. We will also proactively issue information about our CSR efforts through the publication of our Group CSR report and related reports and use the feedback we receive on those efforts in formulating future initiatives.

Promotion of Compliance

In response to the aforementioned series of inadequate compliance procedures, we have strengthened our existing compliance promotion system through the improvements outlined below.

Tackling Environmental Issues

We at the Chugoku Electric Group are promoting environmental management through the formulation of an EnerGia Group Environmental Vision, based on the Group's basic environmental policy and environmental action guidelines as well as specific plans for each Group company.

The Company formulated the Chugoku Electric Environmental Action Plan and actively tackles environmental issues pertaining to our operating activities,

Compliance Promotion System

Executive Vice President Responsible for Compliance Promotion and Crisis Management	Responsible for compliance promotion as well as risk and crisis management on a Companywide basis
Corporate Ethics Committee	Debates matters related to compliance promotion
Compliance Promotion Leaders and Sub-Leaders	Support compliance promotion activities in each division
EnerGia Group Corporate Ethics Council	Provides a place for Group companies to share information and consider issues related to compliance
Corporate Ethics Consultation Office	Functions as a hotline that accepts whistle-blowing reports and consultation pertaining to Chugoku Electric and its Group companies

such as our response to global environmental problems and our efforts to create a society that is recycling-oriented.

(1) Our Efforts to Prevent Global Warming

Our Environmental Action Plan sets a target of reducing carbon dioxide emission intensity (emissions per unit of user-end electricity) by approximately 20% on average over fiscal 2009–2013 compared with the fiscal 1991 levels. We are pushing ahead actively to reduce our emissions of greenhouse gases through development of new nuclear power facilities, greater use of LNG, promotion of new sources of energy, and making use of the Kyoto Protocol's mechanisms.

Promotion of Nuclear Power Generation

Nuclear power generation is among our core power sources. It is a superior power source in terms of stability and economy. Moreover, nuclear power generation does not produce carbon dioxide during operation and, therefore, makes a substantial contribution to the prevention of global warming. One of our top priorities is promoting nuclear power generation, and we are moving forward steadily with the development of nuclear power facilities in Shimane and Kaminoseki.

Carbon Fund and Greenhouse Gas Reduction Projects

Carbon funds are mechanisms under which capital is collected from investors (governments and corporations of the advanced nations), invested in projects aimed at reducing greenhouse gases in developing nations and Eastern Europe, and returned to investors in the form of CO_2 credits, or credits for lowering CO_2 emissions.

To help stop global warming, we participate in three carbon funds and are involved in greenhouse gas reduction projects in several countries outside of Japan.

Carbon Funds in Which Chugoku Electric Participates

Name	Size of Investment	Expected Amount of CO_2 Credit	Operating Entity
Prototype Carbon Fund	$7.0 million	To be determined*	World Bank
Japan GHG Reduction Fund	$3.0 million	To be determined*	Japan Carbon Finance, Ltd.
Greenhouse Gas-Credit Aggregation Pool	To be determined*	6.6 million tons of CO_2	Natsource Asset Management Corp.
Greenhouse Gas Reduction Projects in Indonesia, Pakistan, Chile, Brazil, and Mongolia	–	4.81 million tons of CO_2	–

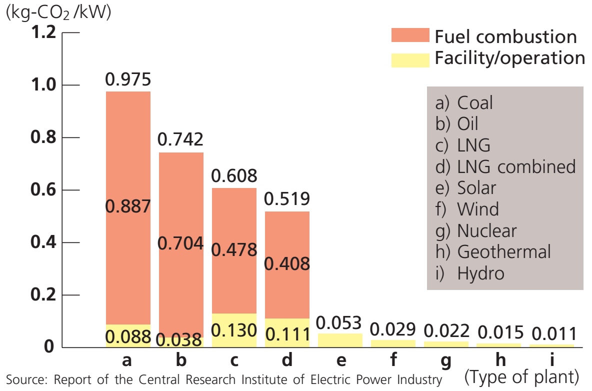
*Amount will depend on projects selected to invest in.

Afforestation in Australia

Each year, Chugoku Electric borrows around 100 hectares of land, such as disused grazing land from local farmers, on which it plants *Eucalyptus globulus* trees.

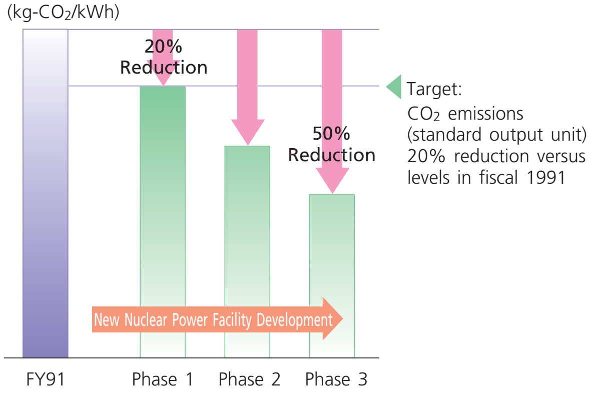
Planted Eucalyptus globulus *trees*

Life Cycle Assessment of CO_2 Emission Intensity for Japan's Energy Sources



Source: Report of the Central Research Institute of Electric Power Industry

Reduction in CO_2 Emissions via Nuclear Power Development (standard output unit)



(2) Purchasing, Developing, and Supporting New Energy Sources

With a view to effectively utilizing unused energy, we purchase the surplus power generated by waste power and solar power generation facilities. Also, we are buyers of wind power for business purposes on a long-term, stable basis. By taking into account purchasing conditions in this way, we support the spread of new types of energy generation. As of the end of fiscal 2007, Chugoku Electric had around 34,000 contracts to purchase electricity from solar power providers, involving the capacity of roughly 130MW.

In addition, we have installed solar power and fuel cell equipment at our offices and are conducting verification tests of such equipment. At the same time, we are considering mixed combustion of woody biomass, such as unused lumber from forest thinning and bamboo, at our coal-fired thermal power stations and developing our own ability to generate electricity using new energy sources.

(3) Practicing the Three Rs

Chugoku Electric is working to help achieve a recycling-oriented society by practicing the Three Rs (reduce, reuse, recycle) on the various forms of industrial waste we generate in the course of our business activities. In fiscal 2007, the Company efficiently used 95% of the 1.22 million tons of waste we generated through our business activities.

Osmotic column, made from coal ash products, for improving soil water retention

In fiscal 2007, the Company effectively used 94% of the coal ash generated by our coal-fired thermal power stations, using it for cement material, civil engineering material, and the like. A Group company, EnerGia Eco Materia Company Incorporated, manufactures and sells products made from coal ash, and is working on developing new products and expanding the scope of its marketing activities. The Chugoku Electric Group as a whole is working to increase its coal ash utilization rate.

Contributing to Regional Development

Chugoku Electric encourages its employees' participation in social contribution activities that focus on the environment, welfare, and education, in line with a management philosophy of contributing to regional development.

Our employees participated in the Company's social contribution activities in about 22,000 cases in total in fiscal 2007. This means that, on average, each employee participated in about two such activities in the fiscal year under review.

Environmental Conservation Activities

We took part in road and riverbank cleanups and forest conservation activities, and we donated trees and flower seedlings to schools and social welfare facilities.

Welfare Activities in Local Communities

In an effort to play a role in improving regional welfare, we engaged in activities that leveraged the special characteristics of our offices. For example, we inspected, cleaned, and replaced electrical equipment at social welfare facilities and the houses of senior citizens living alone. In addition, we also donated books and other materials to child counseling centers and provided PC training to senior citizens.

Cleaning electrical equipment at a social welfare facility

Educational Activities

Leveraging the technology and expertise acquired through electric power operations, we worked to promote an understanding of environmental and energy-related issues, particularly among young people, as well as to increase interest in science.

Foundation Activities

The Chugoku Electric Group founded the Electric Technology Research Foundation of Chugoku in 1991 and the EnerGia Culture and Sports Foundation in 1994, and it supports technology-related, cultural, and sport events in the region. In fiscal 2007, the Electric Technology Research Foundation of Chugoku provided 61 grants, totaling ¥45.2 million, and the EnerGia Culture and Sports Foundation provided 171 grants, totaling ¥34.4 million. It also gave awards to three individuals and one organization.

Promoting Communication with Society

To translate our CSR efforts into greater customer satisfaction and community trust, we think it is essential to proactively disclose information and to accurately incorporate into our business operations feedback from stakeholders, including customers as well as stockholders and other investors.

The feedback that individual employees receive from customers while carrying out their daily duties is shared Companywide and is constantly used to shape efforts aimed at improving operations and providing new services.

Chugoku Electric will continue working to enhance two-way communications between the Company and its stockholders and investors through its IR activities, such as the proactive disclosure of corporate data and the convening of an open general shareholders' meeting.

Customer Feedback System

Each year, Chugoku Electric receives over 15,000 messages from customers expressing opinions, requests, and complaints. To take each item of feedback to heart and utilize it in our services going forward, the Company utilizes a customer feedback system that allows such feedback to be shared by all employees on our digital bulletin board.

Enhancing IR Activities

Through IR activities, such as information disclosure and the holding of Company briefings, Chugoku Electric provides accurate and timely data on the management environment, the Company's financial condition, and forward-looking management strategies. By enhancing two-way communication, we aim to win the further trust and understanding of our stockholders and other investors.

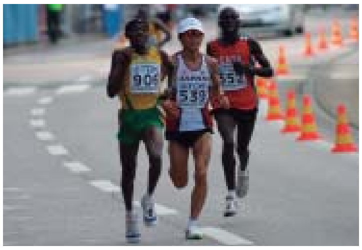
Publishing a Newsletter for Customers

To keep our customers informed of our operating activities, we publish a newsletter called *"EnerGia"* that is distributed to all our customers when a meter reader visits their homes.

Creating a Dynamic Workplace

We have established a fair personnel system that enables employees to have a sense of satisfaction and accomplishment as well as to manifest their abilities and aim for even greater results. At the same time, we are working to support employees in developing their skills in a planned manner and to further invigorate our human resources.

In addition, through the activities of our Company's sports teams, including the track and field team, the women's table tennis team, and the rugby team, we are working to promote a dynamic workplace and to contribute to the development of sports in the region.



A member of our track and field team (center) participates in a competition.

Review of Operations

Efforts at Our Electric Power Business

Measures Aimed at Bolstering Our Operating Base and Competitive Strength

Key Issues that Must Be Addressed:

- Competition among energy suppliers, especially among electric power companies and between electric power and gas companies, is intensifying.
- The sharp rise in fossil fuel prices is squeezing our profits hard, as nuclear power accounts for a low percentage of our total energy output.
- Our CO_2 emissions are notably high on a standard unit basis compared with those of other electric power companies.
- Winning back the confidence of our customers, local communities, and capital markets is imperative for us.

Key Efforts:

- All our efforts depend on regaining the trust of the general public and once again becoming a respected corporate presence through the advancement of our EnerGia Revitalization Program.
- Our ongoing efforts, such as expanding sales and streamlining operations, are producing constant results, and we will continue to press forward with these.
- We consider nuclear power development a top priority among the many issues we are tackling, and, through this, we are striving to simultaneously resolve several issues like global environmental problems and the attainment of an optimal power source mix.

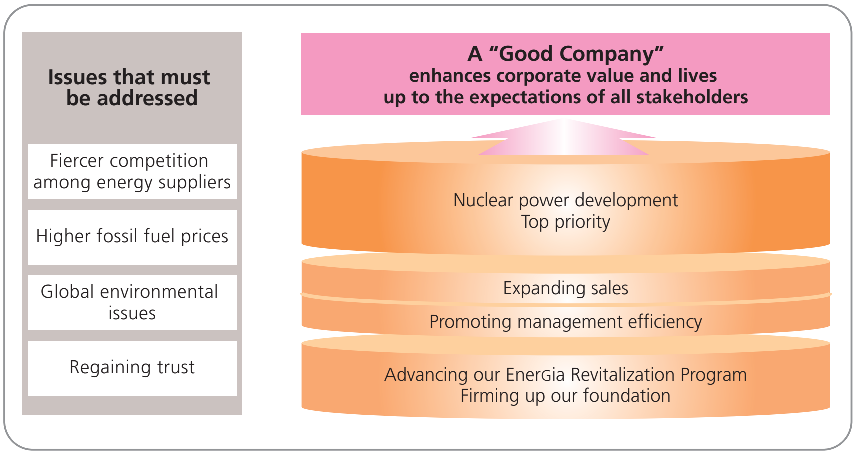
Key Goals:

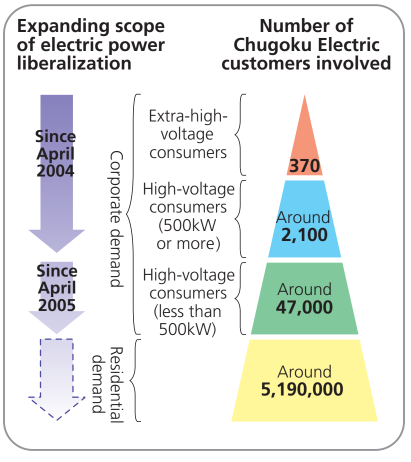
- We seek to become a "good company" by bolstering our management base and ability to compete through the aforementioned efforts, especially nuclear power development, on the assumption we are able to regain the trust of our stakeholders and the public through our Corporate Restoration Program.
- We define a "good company" as one that enhances corporate value and meets the expectations of all stakeholders, including stockholders and other investors.

Management Environment

The deregulation of electric power for retail customers, which began in March 2000, has been proceeding in stages. In April 2005, the scope of deregulation was expanded to include consumers in all high-voltage categories. As a result, around 60% of Chugoku Electric's customers are now free to choose their electric power company.

Since April 2007, authorities





have been studying the progress of deregulation to date, and they are considering the prospect of full deregulation.

Electric Power Demand Outlook

Despite certain factors, such as efforts to reduce power consumption and a decline in the population, we believe electric power sales volume will increase steadily going forward, driven by the advancement of the information society as well as the aging of society, an increased desire to live in comfort, and a shift in energy demand to electricity, stemming from the spread of all-electric homes. By contrast, we look for industrial demand for electric power to trend roughly flat due to slack production in materials industries.

As a result, we forecast that in fiscal 2017, electric power sales volume will amount to 63.5 million MWh, representing an average annual increase of 0.6% (0.7% after correcting for extraordinary temperature changes and other factors) between fiscal 2006 and fiscal 2017.

Demand Acquisition Targets

In this way, we think electric power usage will increase steadily going forward, and, to ensure that electricity sales rise even further, we are taking steps and pursuing sales strategies in a variety of fields, including household electricity and industrial electricity.

Tapping Demand in the Household Electricity Field

Promoting the Spread of All-Electric Homes

As a priority measure for increasing electric power sales in the household electricity field, we are working to increase electric power sales by promoting the spread of all-electric homes.

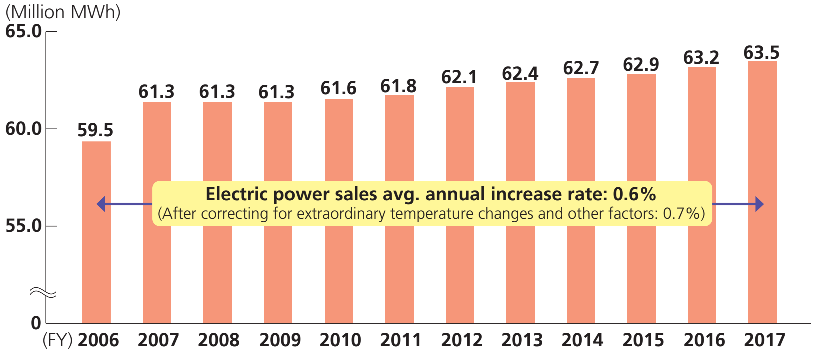
All-electric homes presently account for one-quarter of all newly built housing in the Chugoku region and, of particular note, over half of all newly built detached housing. In this sense, it can be said that all-electric homes have become mainstream. The percentage of all-electric homes among newly built housing in the region in which Chugoku Electric is based is among the highest of any electric power company in Japan.

Yet, as all-electric homes still only account for around 8.4% of the roughly three million existing houses

Convenient and comfortable all-electric kitchen

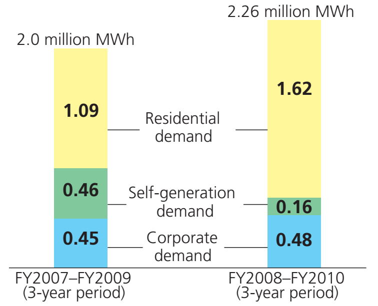
Easy-to-clean induction-heating cooktop

Electric Power Sales Plan



Demand Acquisition Targets

We aim to obtain demand of 2.26 million MWh in the three-year period from fiscal 2008 to fiscal 2010.



in the Chugoku region, we believe there is great potential for growth in this category of homes, through both higher penetration into the newly built housing field and the tapping of renovation demand in the existing housing field.

Leveraging the strength of operating in a region with one of the nation's highest ratios of all-electric homes, Chugoku Electric is aggressively promoting these homes. By fiscal 2010, we aim to increase the penetration rate to 16.0%—the level at which it is widely believed that the spread of a new product becomes self-sustaining.

Increasing the Number of Electric Water Heaters (Aggregate)

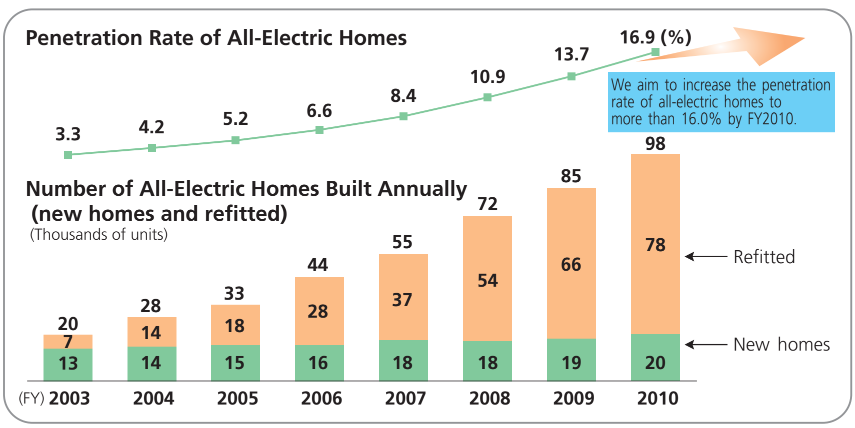
In the area of electric water heaters, demand is increasing rapidly for the EcoCute, an environmentally friendly heat pump system—using carbon dioxide refrigerant—that converts atmospheric heat into heat energy. Thanks largely to this demand, electric water heater sales volumes increased 20.7% in fiscal 2007. As a result, the number of electric water heater contracts at the end of fiscal 2007 stood at about 570,000, for a household penetration rate of 18.7%. We are aiming for 820,000 new electric water heater contracts by the end of fiscal 2010, representing 1.4 times the number of such contracts in fiscal 2007.

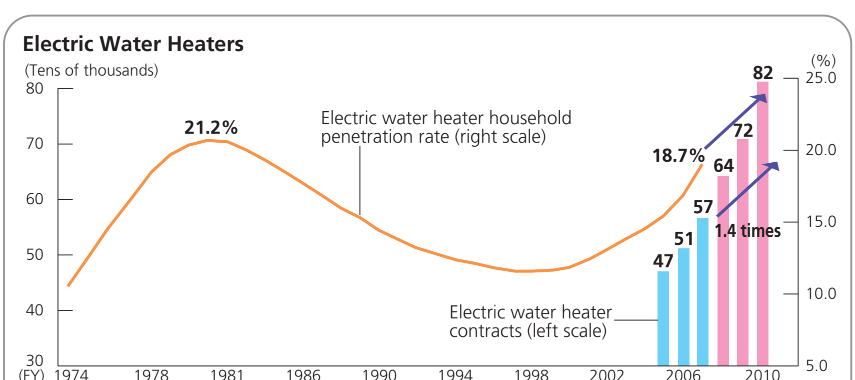
Rate Reduction Leading to Increased Competitiveness

Chugoku Electric has a long track record of cutting electricity rates to reflect the results of efforts to streamline management, and the electricity rates we levy on customers have fallen steadily. In July 1, 2006, we lowered rates for the sixth time since 1995 (when entry into the electric power wholesaling business was deregulated), factoring in not only the cost savings from management streamlining to date, but also maximum efforts to achieve further streamlining going forward.

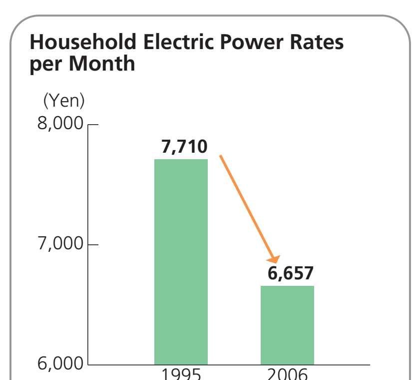
Trends in Household Electric Power Rates

For a household using an average amount of electricity (300kWh of meter rate lighting A), rates are now roughly 14% (around ¥1,000/month) lower than in 1995.





Note: Figures for the number of households in the Chugoku region (the basis for calculating the household penetration rate) are estimates from the *Basic Residents Register Population Handbook* and the national census (the actual figure for 2005 is used for 2006 and thereafter).



Note: Rates do not include fuel cost adjustments. Rates include comsumption taxes of 3% in 1995 and 5% in 2006.

Power Source Development Plans

Electricity demand is expected to increase slowly but steadily going forward. To meet this increased demand, we have formulated a power source development plan in consideration of maintaining stable supply capabilities and forming an efficient facilities network. The plan takes into account that Japan is almost totally reliant on imported resources and thus focuses on diversified sourcing and environmental impact reduction to enhance energy security.

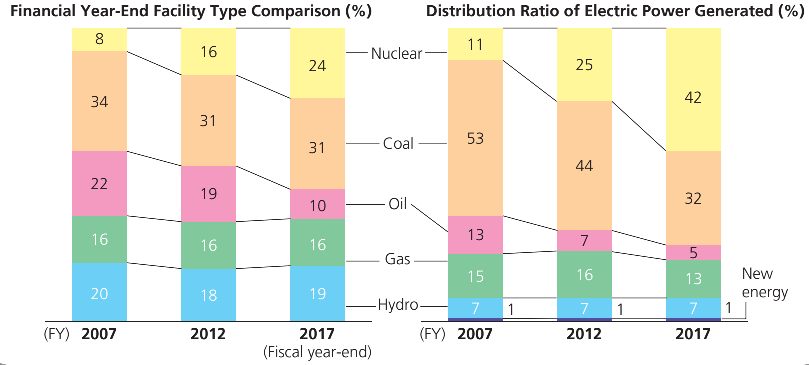
In the Company's fiscal 2008 supply plan, which reflects its power source development plan for the next 10 years, the Company's currently low nuclear ratio in terms of installed generating capacity will meet the national average by the end of fiscal 2017 as a result of the development of the Shimane Nuclear Power Station's Unit No. 3 and the Kaminoseki Nuclear Power Station's Unit No. 1. By doing so, we expect to move closer to the best mix of power sources—a balanced combination of nuclear, thermal, and other power facilities.

Efforts in Nuclear Power

Through the continued safe operation of the Shimane Nuclear Power Station's No. 1 and No. 2 units and proactive information disclosure, we seek to keep the public's trust in the regions where we operate and continue to make progress in developing new nuclear power stations based on the key premise of safe operation while also lowering the impact of this development on our income statement and balance sheet.

Through the development of nuclear power, we can simultaneously tackle the 3Es—a shorthand way of referring to the need to improve energy security, solve environmental issues, and generate sustainable profits by ensuring the long-term stability of power sources.

Power Source Comparison (Including Purchased Power from Other Companies)



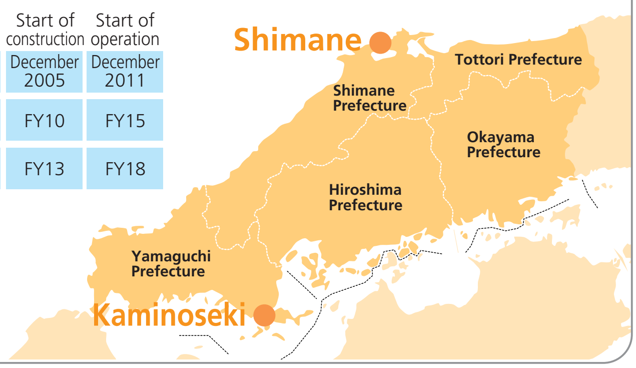
Shimane Nuclear Power Station

Power Source Development Plan

Start of Business	April 2006	April 2009	December 2011	FY2015
Facility	Mizushima Unit No. 3	Mizushima Unit No. 1	Shimane Unit No. 3	Kaminoseki Unit No. 1
Electric Power Categories (MW)	Oil (350) →LNG (340)	Coal (125) →LNG (285)	Nuclear Power (1,373)	Nuclear Power (1,373)

Development Schedule

	Electricity output	Start of construction	Start of operation
Shimane Unit No. 3	1.373 MW	December 2005	December 2011
Kaminoseki Unit No. 1	1.373 MW	FY10	FY15
Kaminoseki Unit No. 2	1.373 MW	FY13	FY18



Efforts to Increase Management Efficiency

To help enhance our competitiveness, we are working to control capital expenditures, repair expenses, and other such operating costs.

Capital Expenditures

In accordance with our Power Source Development Plan, we expect capital expenditures to increase going forward. However, we are working to reduce costs by rationalizing equipment and construction techniques as well as by enhancing the efficiency of contracting and machinery and materials procurement. We are also attempting to utilize equipment and facilities even more efficiently and to control capital expenditures.

Repair Expenses

We intend to curb repair expenses through a revision of replacement and inspection cycles, made possible by improvements in equipment condition diagnosis techniques. In addition, we are working to maximize operating cost management and lower operating costs, with an emphasis on cost-effectiveness.

Enhancing Labor Productivity

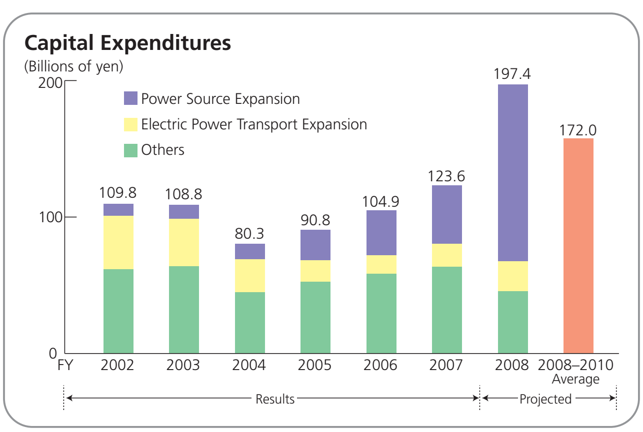
The Chugoku Electric Group is working to significantly increase the efficiency of its operations, with the aim of achieving its Companywide headcount target, which is, in turn, premised on attaining greater labor productivity.

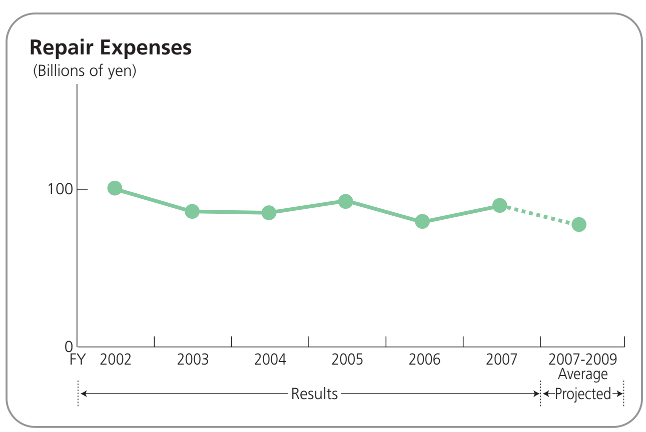
◆Efficient Capital Facility Utilization (closing, suspending, or refitting electric power plants)

○Based on development plans for new nuclear power stations and electricity demand trends over the past several years, we are looking for ways to streamline our use of aging facilities, which require greater spending on maintenance and other operating costs, to the greatest extent possible while maintaining our ability to be a stable supplier. Since April 2007, we have closed down the Kudamatsu Thermal Power Station's Unit No. 2 and suspended operations at the Shimonoseki Thermal Power Station's Unit No. 2, and we are striving for greater efficiency in our power plant operations.

○We are converting the Mizushima Power Station's Unit No. 1 from a facility that uses coal as a source fuel into one that uses natural gas, and we plan to use the existing facilities effectively to refit the unit with the highly efficient combined-cycle system of power generation.

These facilities are to come onstream in April 2009.





Companywide Head-Count Target

The Company has set a head-count target that calls for a reduction in the number of employees by around 1,400, from about 10,900 at the end of September 2004 to a maximum of 9,500 by the end of fiscal 2010.

Lowering Contracting and Machinery and Materials Procurement Costs

Chugoku Electric is working to diversify contracting and machinery and materials procurement and to lower procurement costs by choosing effective ordering methods, such as reverse auctions[1] and the target price method[2].

In addition, the Company is working to further reduce procurement costs, increase procurement operations overall, and achieve stable procurement by conducting supply-chain management (SCM) on a Groupwide basis and expanding joint purchasing and other materials-procurement activities.

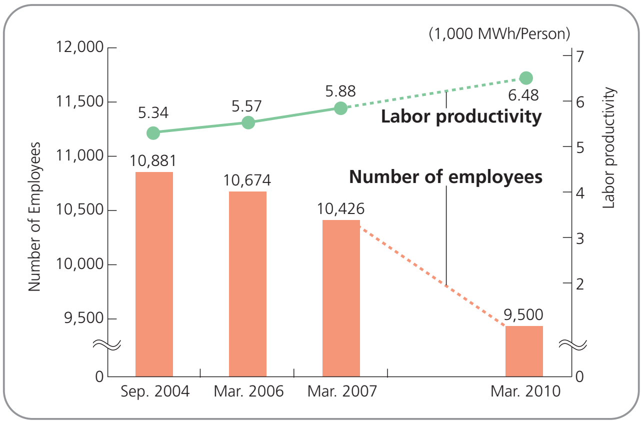
Moreover, the Company publicizes materials-procurement related information on its website and is working to recruit new suppliers and expand open competition by using Internet-based marketplaces. Through these various efforts, the Group intends to further promote the procurement of a wide range of high-quality and economical machinery and materials, from both within Japan and abroad.

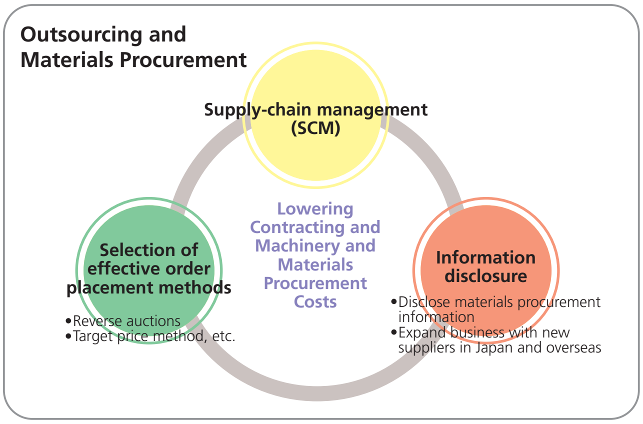
1. Reverse auctions: Internet auctions in which suppliers compete for the right to provide a good, with the lowest bidder winning the auction.
2. Target price method: A method in which the buyer sets and publicizes a suggested procurement price (maximum price) in advance and issues a request for estimates. The supplier submitting the lowest estimate below the published price wins the contract.

Efforts in Coal Power

One of our main power sources is coal, which is superior to other power sources as reserves are abundant, with a high reserve-production ratio, a relatively even geographic distribution, and stable supplies. Moreover, even taking into account the recent surge in the price of coal, it is more economical than other fossil fuels. Chugoku Electric places importance on achieving energy security and, alongside nuclear power, views coal as one of its basic power sources. Going forward, the Company plans to further develop and promote clean-coal technology.

Our efforts to reduce the impact of coal power on the environment include: 1) improving thermal efficiency through integrated gasification combined cycle and other technology, 2) reducing carbon dioxide through the mixed combustion of biomass, 3) efficiently using coal ash, and 4) carrying out long-term R&D in carbon dioxide separation, recovery, and solidification.





Efforts Outside of Our Electric Power Business

LNG Supply Business

LNG supply is the core business of the Chugoku Electric Group's comprehensive energy supply business. In April 2006, the Group commenced operations at the Mizushima LNG Station. Through this new station and the Yanai LNG Station, the Group is able to be a stable supplier of natural gas and LNG to the entire Chugoku region.

We have decided to build an additional storage tank at the Mizushima LNG Station (completion is scheduled for fiscal 2012) on the expectation that sales of natural gas and LNG will remain brisk going forward in light of their modest environmental impact and higher crude oil prices.

Going forward, the Group will strengthen the natural gas business, which is expected to grow steadily, and intends to make the comprehensive energy supply business into an earnings pillar second only to the electric power business.

Overview of Mizushima LNG Station

Mizushima LNG Station

Facilities: One LNG tank with capacity of 160,000kl (plans to add one more 160,000kl-capacity tank)

Annual LNG volume turnover: About 600,000 tons (maximum turnover of about 1.4 million–1.5 million tons after a new tank is completed)

Annual sales volume outside of Group: About 200,000 tons (the remainder is used by Mizushima LNG Station)

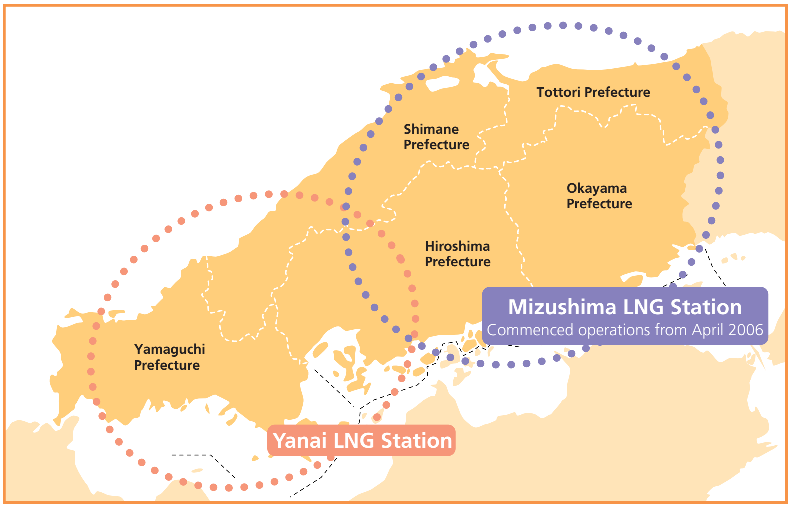
Overview of Yanai LNG Station

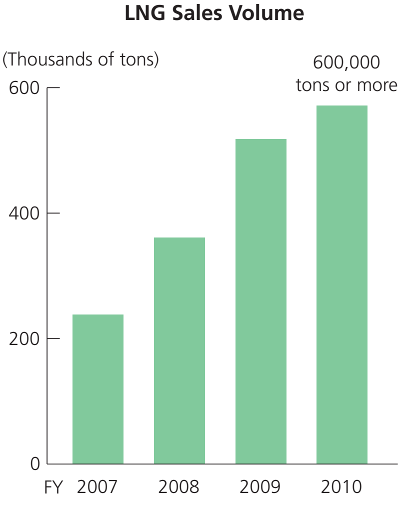
Yanai LNG Station

Facilities: Six LNG tanks with 80,000kl capacity

Annual LNG volume turnover: About 1.2 million tons

Annual sales volume outside of Group: About 200,000 tons (the remainder is used by Yanai LNG Station)





Overseas Business

Our overseas business, which we categorize as in the first field of new businesses, aims to respond to expanding business opportunities and CO_2 reduction targets as well as to enhance the vitality of our corporate activities while also enabling us to make international contributions. Leveraging the strengths of our Group, we seek to press ahead with consulting, training, and global environmental projects (businesses that acquire emission credits that can be used under the Kyoto Mechanisms[1]) in Asia in particular.

Information and Telecommunications Business

To support the provision of safe and reliable services to our customers and provide them with greater convenience and comfort, we make use of information and communications technology (ICT) to offer solutions that meet the needs of our customers.

Examples: Internet-related, V-LAN, and data center businesses

Environmental Business

This business provides services that are friendly to both people and the environment, with a view to achieving a recycling-oriented society.

Examples: Expanding effective use of coal ash

Breakwater blocks made of concrete incorporated with coal ash

Business and Lifestyle Support Business

This business provides optimized support for various business and lifestyle situations, with a view to achieving a safe and comfortable society.

The Group companies offer various services, including logistics operations within the Chugoku Electric Group, ISO assessment and registration operations, benefits services operations, housing guarantee operations, intra-Group financial and accounting services operations, real estate utilization operations, and nursing care operations.

Summary of Our Main Activities

Business	Business Description	Target Countries/Regions
Consulting	Electric power projects through ODA; dispatching of JICA experts, etc.	Indonesia, Cambodia, Myanmar, China, Vietnam, Thailand, and Turkey
	Rehabilitation of hydroelectric power station, design and implementation management of new transformer station construction, etc.	Taiwan
Training	Electric power facility standards Electricity distribution infrastructure design and maintenance Thermal electric power generation technology, etc.	Cambodia
Environmental Projects	CDM[2], JI[3] project discovery and feasibility studies; business development	China, Ukraine, Indonesia, Malaysia

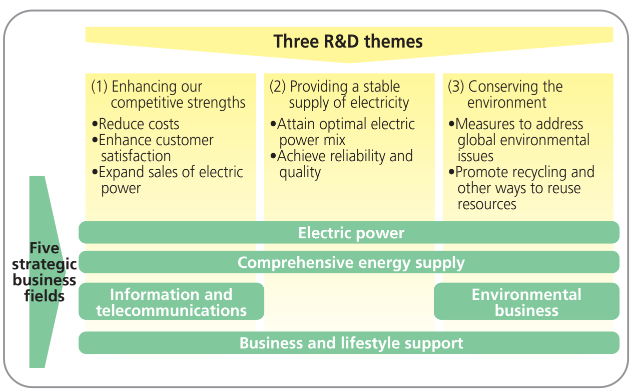
1. The Kyoto Mechanisms refers to a system that enables parties to tackle emission-reduction project costs effectively on a global scale using market mechanisms so as to facilitate the achievement of the emission-reduction targets defined under the Kyoto Protocol. This specifically involves three mechanisms: the Clean Development Mechanism (CDM), Joint Implementation (JI), and Emissions Trading.
2. CDM is a mechanism under the Kyoto Protocol allowing industrialized countries to invest in emission-reducing projects in developing countries and to count this reduction of greenhouse gas emissions toward their own national emission-reduction targets.
3. JI is a mechanism under the Kyoto Protocol allowing industrialized countries to invest in emission-reducing projects in other industrialized countries and to count this reduction of greenhouse gas emissions toward their own national emission-reduction targets.

Research and Development

Aiming to generate steady earnings in the five strategic business fields where we can harness our strengths, including electric power and comprehensive energy provision, we see the following themes as especially important in our R&D initiatives: (1) enhancing our competitive strengths, (2) providing a stable supply of electricity, and (3) conserving the environment.

While closely following R&D trends at national government-affiliated institutions, other major electric power companies, and manufacturers, we are focusing our R&D efforts on the areas we need to tackle to bolster our operations in order to move forward efficiently in our technical research.

Plus, the technical research and economic research units of EnerGia Economic & Research Institute work together to improve the quality of our research by leveraging our technical and economic knowledge in an integrated manner.

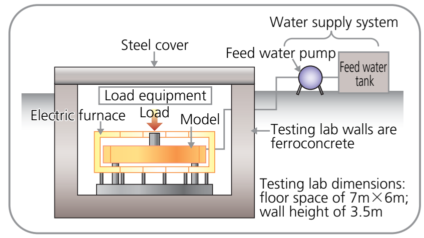


Recent Notable R&D Achievements

1. Enhancing Our Competitive Strengths

(1) Development of Failure Simulation Testing System for Welded Boiler Pipe Joints

Accurately evaluating the residual service life of boiler pipes and optimizing the scheduling of system parts replacement and repair are crucial to ensuring the reliable operation of boilers used in thermal power plants and to reducing maintenance and repair costs. Yet in the case of parts for which specific deterioration mechanisms have not been pinpointed, power plant operators require evaluation techniques that can gauge residual service life with a higher degree of precision. In response, we have developed our own system for creep damage tests[1] using simulated steam pipe models that are approximately the same size as the high-temperature boiler steam pipes[2] in use at our thermal power plants. Using this original system, we are able to test for creep damage through the simultaneous application of higher temperatures, greater internal pressure, and more torque to the test models than those to which actual boiler steam pipes are exposed.

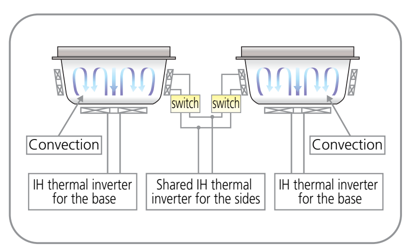


This is the first time that a system developed in Japan successfully replicates all phases of creep damage in boiler steam pipes from degradation through complete fracture. In the future, we intend to develop techniques that gauge the residual service life even more precisely by identifying with greater accuracy the deterioration mechanisms.

1. Creep damage tests: In these tests, a constant level of pressure is applied to a material under high temperatures until rupture to observe the pattern of deformation and structural degradation caused by creep.
2. High-temperature boiler steam pipes: Pipes in a boiler furnace are used to transport pressurized/superheated steam to the steam turbine.

(2) Development and Sale of Commercial-Use Induction-Heating (IH) Rice Cooker Suihan Maisuta

We have developed a commercial-use electric rice cooker for customers that make large quantities of cooked rice, such as schools, hospitals, and food service vendors. This rice cooker, called "Suihan Maisuta," uses an IH thermo-control system to heat the base and sides of its two kettles separately. This design results in uniformly delicious rice.



The two-kettle rice cooker functions as a single unit, using the same IH inverter* to heat the inner sides of the two kettles. This efficient design is aimed at lowering costs.

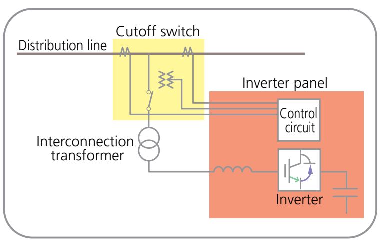
Cleanliness was also a major consideration in the rice cooker's design. We kept the number of protrusions on the surface of the rice cooker to a minimum and created space below it for easy cleanup.

Satake Corporation commenced sales of Suihan Maisuta rice cookers in September 2006.

* An IH rice cooker works by using an inverter to send an electric current through a coil, and the resulting magnetic force heats the kettle.

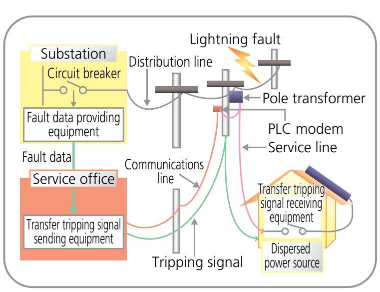
2. Providing a Stable Supply of Electricity

(1) Verification Tests for Multifunction Active Filters



As users increasingly derive energy from dispersed power sources, there is concern this will lead to an increased occurrence of voltage distortions and harmonic effects. In light of this concern, we are proceeding with the development of multifunction active filters that restrict the spread of harmonic effects as well as counter voltage distortions and three-phase voltage imbalances. Going forward, we plan to ascertain the performance and reliability of the filters in addressing each of these problems through a series of filter tests while also seeking ways to reduce costs.

(2) Development of Transfer Tripping Protection for Dispersed Power Sources



There is widespread concern that as electric power supply moves from a unified system to one that includes multiple new energy sources and other dispersed power generation units, independently operating circuit breakers will not be activated and power will continue to flow during service interruptions. The transfer tripping protection we are developing will, when an accident occurs, send a tripping signal directly to all dispersed power sources within the area in which service is to be interrupted. This will shorten the amount of time dispersed power sources operate independently and help ensure that service is interrupted, thereby alleviating concerns regarding the possibility of customers receiving electric shocks, or of power equipment being damaged.

In addition, using power line communication (PLC) as the route for sending the tripping signal makes possible low-cost system construction by eliminating the need to install new signal transmission lines.

This protection, which uses PLC on dispersed power sources connected to low-voltage systems, is the first of its kind in the world. We are moving ahead with development activities to bring this protection system to market as a commercial product.

3. Conserving the Environment

(1) R&D of CO_2 Capture Using Thermal Swing Sublimation (TSS) Technology

When flue gas emissions from a thermal power plant are cooled to about -135°C using LNG at -160°C as the coolant, the CO_2 in the flue gas is converted into dry ice. The TSS method is a technology that separates CO_2 from flue gas emissions by making use of this attribute. We are studying ways to apply this technology to our coal-fired thermal power plants.

(2) Verification Testing of Molten Carbonate Fuel Cells (MCFCs) with CO_2 Capture

We carried out verification tests on the performance of a small test unit (a 10kW-class MCFC), using actual exhaust gas from our Misumi Thermal Power Station, a coal-fired plant with output of 1,000MW, with the aim of developing an MCFC power generation system with CO_2 capture. This is possible because using an MCFC system to generate electric power produces CO_2 condensation.

Going forward, we plan to conduct demonstrations to evaluate the reliability and economic viability of using larger MCFCs.

Consolidated Six-Year Summary

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

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2007	2006	2005	2004	2003	2002	**2007**
Operating revenues	**¥1,075,575**	¥1,040,290	¥1,011,799	¥ 967,056	¥1,009,279	¥1,021,149	**$ 9,115,042**
Operating income	**88,401**	100,095	125,451	99,586	126,954	118,545	**749,161**
Net income	**37,093**	45,167	47,062	42,888	44,129	46,470	**314,347**
Total stockholders' equity/Net assets (Note 2)	**715,972**	695,495	658,209	629,604	606,834	593,752	**6,067,559**
Total assets	**2,680,782**	2,655,468	2,636,363	2,712,376	2,815,189	2,846,207	**22,718,492**
Interest-bearing debt	**1,572,994**	1,575,011	1,613,979	1,728,285	1,839,175	1,904,098	**13,330,458**
Free cash flows (Note 3)	**24,364**	48,765	132,616	132,835	146,669	130,496	**206,475**
Other financial data							
Per share data (yen and dollars):							
Stockholders' equity (Note 4)	**1,951.27**	1,910.41	1,807.59	1,728.06	1,656.07	1,600.41	**16.54**
Net income:							
Basic	**101.86**	123.44	128.61	116.63	119.30	125.25	**0.86**
Diluted	**101.86**	123.44	128.61	116.63	119.30	123.99	**0.86**
Cash dividends	**50.00**	50.00	50.00	50.00	50.00	50.00	**0.42**
Key financial ratios:							
Stockholders' equity ratio (%)	**26.5**	26.2	25.0	23.2	21.6	20.9	
Return on equity (ROE) (%)	**5.3**	6.7	7.3	6.9	7.4	7.9	
Return on assets (ROA) (%) (Note 5)	**2.1**	2.4	3.0	2.3	2.9	2.6	
Price earnings ratio (PER) (times)	**25.9**	19.8	15.8	16.0	15.4	13.8	

	Millions of kWh					
	2007	2006	2005	2004	2003	2002
Power generated and received						
Generated:						
Hydroelectric	**3,719**	3,224	4,169	4,008	3,025	3,678
Thermal	**37,239**	35,038	33,170	31,978	31,324	30,588
Nuclear	**7,937**	9,297	7,333	7,705	10,736	10,267
Total	**48,895**	47,559	44,672	43,691	45,085	44,533
Bought from other companies	**20,251**	22,171	23,663	22,285	22,560	20,656
Sold to other companies	**(1,323)**	(3,580)	(3,410)	(3,961)	(5,261)	(5,251)
Transmission loss and other	**(6,564)**	(6,649)	(6,785)	(6,581)	(6,537)	(6,333)
Total	**61,259**	59,501	58,140	55,434	55,847	53,605
Electric sales:						
Residential (lighting)	**18,136**	18,140	17,470	16,667	16,850	16,384
Commercial, industrial and other	**2,943**	3,178	15,565	21,988	22,207	21,930
Power consumption by liberalized sector	**40,180**	38,183	25,105	16,779	16,790	15,291
Total	**61,259**	59,501	58,140	55,434	55,847	53,605

Notes: 1. U.S. dollar amounts presented are translated from yen, for convenience only, at the rate of ¥118 to U.S.$1.00, the exchange rate prevailing on March 31, 2007.
2. Accounting Standard for Presentation of Net Assets in the Balance Sheet
Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, "the New Accounting Standards").
3. Free cash flows represent net of cash flows from operating activities and those from investing activities.
4. Stockholders' equity per share is computed using the number of shares of common stock in issue at the end of each year.
5. ROA = Operating income x (1 – Income tax rate) / Total assets x 100

Consolidated Financial Review

Summary of Operations

In fiscal 2007, ended March 31, 2007, although personal consumption showed little increase, the Japanese economy continued a loose recovery. While against the background of firm domestic-and-foreign-demand important points, such as plant-and-equipment investment and an increase in export, helped a production activity move in an upward trend. The situation was similar in the Chugoku region.

Non-consolidated sales of electricity increased 3.0% from the previous period, to 61.3 billion kilowatt hours, because the industrial large quantity demand exceeded the track record through every year in the previous year.

Operating revenues of the Chugoku Electric Power Co., Inc. (the "Company"), and its consolidated subsidiaries (the "Group") for the term were ¥1,075.6 billion (US$9,115.0 million), up 3.4%, or ¥35.3 billion (US$299.0 million), from fiscal 2006. Net income was ¥37.1 billion (US$314.3 million), a fall of 17.9%, or ¥8.1 billion (US$68.5 million). Free cash flow (net cash provided by operating activities minus net cash used in investing activities) totaled ¥24.4 billion (US$206.5 million).

The Company maintained cash dividends per share at ¥50.00 (US$0.42), in line with management's policy of providing stable returns while enhancing the financial position and otherwise solidifying the Group's business foundations.

Operating Revenues

As mentioned above, operating revenues for the term were ¥1,075.6 billion (US$9,115.0 million), up 3.4%, or ¥35.3 billion (US$299.0 million).

Operating revenues from electric power operations amounted to ¥976.6 billion (US$8,276.5 million), up 1.3%, or ¥12.5 billion (US$106.4 million), although electricity bills were reduced. Operating revenues from other operations such as information and communication businesses and a comprehensive energy supply business rose 29.8%, or ¥22.7 billion (US$192.6 million), to ¥98.9 billion (US$838.5 million).

Operating Expenses and Operating Income

Operating expenses for the term increased 5.0%, or ¥47.0 billion (US$398.2 million), to ¥987.2 billion (US$8,365.9 million).

Operating expenses in electric power operations rose 3.0%, or ¥25.7 billion (US$218.2 million), to ¥895.4 billion (US$7,588.5 million). This stemmed from an increase in materials expense due to the rise in fuel prices and an increase in cost of provision for reprocessing of irradiated nuclear fuel, although there was increase in efficiency of management at large. In operations other than electric power operations, operating expenses were ¥91.7 billion (US$777.4 million), up 30.1%, or ¥21.2 billion (US$179.9 million).

Operating income thus fell 11.7%, or ¥11.7 billion (US$99.1 million), to ¥88.4 billion (US$749.2 million).

Other (Income) Expenses, Income before Income Taxes and Minority Interests and Net Income

Total other (income) expenses decreased 6.6%, or ¥1.9 billion (US$16.4 million), to ¥27.7 billion (US$234.5 million).

As a result of these factors, income before income taxes and minority interests in net income of consolidated subsidiaries was down 23.2%, or ¥16.8 billion (US$142.6 million), to ¥55.6 billion (US$470.9 million). Net income decreased 17.9%, or ¥8.1 billion (US$68.5 million), to ¥37.1 billion (US$314.3 million). Net income per share was ¥101.86 (US$0.86), down ¥21.58, from ¥123.44.

Financial Position

Assets

At fiscal year-end, total assets were ¥2,680.8 billion (US$22,718.5 million), up 1.0%, or ¥25.3 billion (US$214.5 million), from the close of the previous term. This was due to increase in construction in progress accompanying the Shimane nuclear power plant extension construction.

Net property stood at ¥2,057.1 billion (US$17,423.7 million), down 2.0%, or ¥41.8 billion (US$354.5 million). Nuclear fuel was ¥133.8 billion (US$1,133.7 million), up 9.6%, or ¥11.8 billion (US$99.4 million). Total investments and other assets amounted to ¥326.1 billion (US$2,763.9 million), up 14.7%, or ¥41.8 billion (US$354.9 million). Total current assets were ¥163.8 billion (US$1,388.2 million), up 9.0%, or ¥13.5 billion (US$114.7 million).

Liabilities, Minority Interests and Net Assets

Total liabilities were ¥1,964.8 billion (US$16,650.9 million), up 0.5%, or ¥9.5 billion (US$80.5 million). This was due to increase in provision for reprocessing of irradiated nuclear fuel and starting to add up provision for depreciation of nuclear power plant. Among these, short-term and long-term interest-bearing debt declined 0.1%, or ¥2.0 billion (US$17.1 million), to ¥1,573.0 billion (US$13,330.5 million). Other liabilities increased 3.0%, or ¥11.5 billion (US$97.7 million), to ¥391.8 billion (US$3,320.6 million).

Total net assets were ¥716.0 billion (US$6,067.6 million), up 2.3%, or ¥15.8 billion (US$134.1 million). The equity ratio improved 0.3 percentage points, to 26.5%, from 26.2%.

Cash Flows

Net cash provided by operating activities for fiscal 2007 amounted to ¥157.4 billion (US$1,334.3 million), down 0.4%, or ¥0.7 billion (US$5.5 million), compared with the previous period.

Net cash used in investing activities was ¥133.1 billion (US$1,127.8 million), up 21.7%, or ¥23.8 billion (US$201.3 million), mainly because investments in construction in progress increased accompanying the Shimane nuclear power plant extension construction. Free cash flow therefore amounted to ¥24.4 billion (US$206.5 million).

Net cash used in financing activities was ¥34.5 billion (US$291.8 million), down 62.4%, or ¥20.7 billion (US$175.5 million), as combined debt repayments decreased. Procurements of total bonds and long-term debt exceeded repayments, causing the balance to rise ¥10.1 billion (US$86.2 million) compared with the previous period. Cash dividends paid were ¥18.2 billion (US$154.4 million).

Cash and cash equivalents at end of year totaled ¥21.7 billion (US$183.6 million), up 21.4%, or ¥3.9 billion (US$32.3 million).

Summary of Cash Flows

	Millions of yen			Thousands of U.S. dollars
Years ended March 31	**2007**	2006	2005	**2007**
Net cash provided by operating activities	**¥157,447**	¥158,097	¥228,770	**$1,334,297**
Net cash used in investing activities	**(133,083)**	(109,332)	(96,154)	**(1,127,822)**
Net cash used in financing activities	**(20,708)**	(55,146)	(132,977)	**(175,492)**
Effect of exchange rate changes on cash and cash equivalents	**161**	78	—	**1,364**
Net increase (decrease) in cash and cash equivalents	**3,817**	(6,303)	(361)	**32,347**
Cash and cash equivalents at beginning of year	**17,848**	23,877	23,705	**151,255**
Increase resulting from consolidation of additional subsidiaries	—	275	533	—
Cash and cash equivalents at end of year	**¥ 21,665**	¥ 17,849	¥ 23,877	**$ 183,602**

Outlook

The Group expects operating revenues to increase to around ¥1,080.0 billion in fiscal 2008, based on an increase in sales of LNG supply business. Net income should be about ¥28.0 billion, because of an increase in provision for depreciation of nuclear power plant.

Management bases these projections on an exchange rate of ¥120 to US$1.00 and a crude oil price of US$63.00 per barrel.

Risk Factors

The following primary risk factors to which the Companies are subject may exert a significant influence on investor decisions. The Companies recognize these risk factors, and will try to prevent and address those risks.

The forward-looking statements included below represent estimates as of March 31, 2007.

1. Systemic Reform of Electric Power Business

In the electric power business, the liberalization has been expanded to the extent of all high-voltage customers in April 2005. The liberalization includes an amendment of the transfer supply rules and the establishment of The Japan Electric Power Exchange.

Price and service competition may heat up more and, more, because The Electricity Industry Committee started arguing the next amendment, which involves full liberalization.

The risks on the back-end of the nuclear fuel cycle will be reduced by the Nuclear Waste Fund Law which took effect in October, 2005. This law allows electric fee to cover part of the back-end costs like reprocessing facility displacing expense.

The Subcommittee on Promotion of Nuclear Power Investments has made temporary accounting rules, such as:

- A reserve for reprocessing costs of irradiated nuclear fuel is set up.
  (Except for the fuel which is disposed at The Rokkasho reprocessing facility)
- A reserve for the initial investment in nuclear power plant is set up.

These rules are valid from fiscal 2006 until the definite reprocessing plan is fixed.

It is possible that costs will, increase, because all of the costs on the nuclear fuel cycle are still not defined. That is, the treatment of the fuel never be to reprocessed will be argued after 2010.

It is possible that the results of the companies will be affected by the environmental change like the legal reformation and the competitiveness which are described above.

2. Business Other Than Electric Power

As well as the electric power business, the Companies run "information and telecommunications businesses," "comprehensive energy supply business," "environmental business," and "business and lifestyle support business" as far as regulations and other conditions permit. Although these businesses may be expected to make profits, they have the potential to affect the Companies' results and financial condition in case they do not grow as the Companies expect or that their profitability is reduced through intensifying competition.

3. Economic Conditions in Power Supply Area

The Company supplies electric power mainly in the 5 prefectures of the Chugoku region, and accordingly electricity sales are subject to the influence of economic conditions such as industrial activities in the power supply area. As a result, the economic conditions in the power supply area have the potential to affect the Companies' results and financial condition.

4. Seasonal Variations in Weather

Since electricity sales are subject to demand for air conditioning and heating, temperature in the power supply area has the potential to affect the Companies' results and financial condition.

A decrease in water flow rate could boost the Company's fuel cost through reduction of the Company's proportion of hydropower generation. Therefore the rainfall levels in the water resource areas have the potential to affect the Companies' results and financial condition.

5. Changes in Fuel Prices

Sources of fuel for the Company's thermal power generation include coal, liquefied natural gas (LNG) and heavy and crude oil. Therefore fluctuations in energy prices, such as coal, LNG, and heavy and crude oil, and that of foreign exchange rates may affect the Companies' results and financial condition.

6. Changes in Interest Rates

Future changes in interest rates or credit rating resulting in changes in interest rates on borrowings have the potential to affect the Companies' results and financial condition. However, since most of the debts have been funded as long-term fixed-rate debts (i.e., bonds and loans), the impact of changes in interest rate on the Companies' results and financial condition is expected to be limited.

7. Cost and Liabilities of Employees' Severance and Retirement Benefits

The Companies' cost and liabilities of employees' severance and retirement benefits are accounted based on assumptions for actuarial calculation, such as the discount rate and the expected rate of return on pension assets. Changes in the discount rate and expected rate of return have the potential to affect the Companies' results and financial condition.

8. Management of Business Information

The Companies maintain a large volume of business information on individuals including that of electric power customers. The Companies established internal rules of a basic guideline for information management and a guideline for personal information protection. And then the Companies comply with these rules by promotion of information security measures and rigorously administrate this personal information. However, a lapse in administration of personal information has the potential to affect the Companies' results and financial condition.

9. Natural Disasters, Troubles

The Companies have many properties, plants and equipment, mainly for the electric power business. Natural disasters, such as earthquakes and typhoons, illegal acts including terrorism, and other troubles have the potential to affect the Companies' results and financial condition.

Consolidated Balance Sheets

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**2007**	2006	**2007**
Property:			
Utility plant and equipment	**¥5,320,797**	¥5,296,606	**$45,091,500**
Other plant	**258,002**	254,352	**2,186,458**
Construction in progress	**194,940**	169,176	**1,652,034**
	5,773,739	5,720,134	**48,929,992**
Less—			
Contributions in aid of construction	**76,034**	74,769	**644,356**
Accumulated depreciation	**3,640,643**	3,546,478	**30,852,907**
	3,716,677	3,621,247	**31,497,263**
Net property (Note 7)	**2,057,062**	2,098,887	**17,432,729**
Nuclear fuel	**133,772**	122,046	**1,133,661**
Investments and other assets:			
Investment securities (Note 4)	**61,025**	64,257	**517,161**
Funds reserved for reprocessing of irradiated nuclear fuel	**93,667**	56,959	**793,788**
Investments and advances to non-consolidated subsidiaries and affiliates	**89,021**	90,672	**754,415**
Long-term loans to employees	**1,229**	1,656	**10,415**
Deferred tax assets (Note 12)	**56,839**	54,311	**481,686**
Other assets	**24,357**	16,412	**206,416**
Total investments and other assets	**326,138**	284,267	**2,763,881**
Current assets:			
Cash and time deposits (Note 3)	**21,722**	17,935	**184,085**
Receivables, less allowance for doubtful accounts of ¥759 million ($6,432 thousand) in 2007 and ¥716 million in 2006	**73,172**	66,258	**620,102**
Inventories, fuel and supplies	**46,834**	46,685	**396,898**
Deferred tax assets (Note 12)	**12,830**	11,668	**108,729**
Other current assets	**9,252**	7,722	**78,407**
Total current assets	**163,810**	150,268	**1,388,221**
Total assets	**¥2,680,782**	¥2,655,468	**$22,718,492**

See accompanying notes.

Liabilities, Minority Interests and Stockholders' Equity/Net Assets	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note 1) 2007
Long-term debt due after one year (Note 6)	**¥1,327,691**	¥1,378,515	**$11,251,619**
Other long-term liabilities due after one year	**3,842**	7,167	**32,559**
Employees' severance and retirement benefits (Note 11)	**61,547**	61,436	**521,585**
Provision for reprocessing of irradiated nuclear fuel	**118,286**	106,615	**1,002,424**
Provision for reprocessing of irradiated nuclear fuel without a fixed plan to reprocess	**1,777**	—	**15,059**
Provision for decommissioning of nuclear power generating plants	**47,711**	46,240	**404,331**
Current liabilities:			
Long-term debt due within one year (Note 6)	**145,453**	84,456	**1,232,653**
Short-term borrowings	**67,780**	68,990	**574,407**
Accounts payable	**67,085**	63,195	**568,517**
Accrued income taxes	**10,979**	21,211	**93,042**
Accrued expenses	**42,650**	44,625	**361,441**
Allowance for bonuses to directors and corporate auditors	**221**	—	**1,873**
Other current liabilities, including other long-term liabilities due within one year	**64,079**	72,317	**543,041**
Total current liabilities	**398,247**	354,794	**3,374,974**
Provision for drought	**656**	545	**5,560**
Provision for depreciation of nuclear power plant	**5,053**	—	**42,822**
Minority interests	**—**	4,661	**—**
Contingent liabilities (Note 9)			
Stockholders' equity			
Common stock:	**—**	185,528	**—**
Authorized—1,000,000,000 shares			
Issued—371,055,259 shares			
Capital surplus	**—**	16,700	**—**
Retained earnings	**—**	481,823	**—**
Net unrealized holding gains on securities	**—**	23,573	**—**
Foreign currency translation adjustments	**—**	16	**—**
Treasury stock (7,124,776 shares in 2006)	**—**	(12,145)	**—**
Total stockholders' equity	**—**	695,495	**—**
Net assets (Note 13):			
Owners' equity			
Common stock:			
Authorized—1,000,000,000 shares			
Issued—371,055,259 shares	**185,528**	—	**1,572,271**
Capital surplus	**17,192**	—	**145,695**
Retained earnings (Note 15)	**500,499**	—	**4,241,517**
Treasury stock (6,729,461 shares in 2007)	**(12,020)**	—	**(101,865)**
Total owners' equity	**691,199**	—	**5,857,618**
Net unrealized holding gains on securities	**19,680**	—	**166,780**
Foreign currency translation adjustments	**20**	—	**169**
Minority interests	**5,073**	—	**42,992**
Total net assets	**715,972**	—	**6,067,559**
Total liabilities, minority interests and stockholders' equity/net assets	**¥2,680,782**	¥2,655,468	**$22,718,492**

Consolidated Statements of Income

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	**2007**
Operating revenues (Note 14):				
Electric	**¥ 976,628**	¥ 964,071	¥ 946,612	**$8,276,508**
Other	**98,947**	76,219	65,187	**838,534**
	1,075,575	1,040,290	1,011,799	**9,115,042**
Operating expenses (Note 14):				
Electric	**895,445**	869,695	825,591	**7,588,517**
Other	**91,729**	70,500	60,756	**777,364**
	987,174	940,195	886,347	**8,365,881**
Operating income	**88,401**	100,095	125,452	**749,161**
Other expenses (income):				
Interest expense	**29,014**	28,624	37,570	**245,881**
Interest income	**(1,096)**	(124)	(87)	**(9,288)**
Gains on sales of securities	**(391)**	(755)	(3,078)	**(3,314)**
Equity in earnings of affiliated companies	**(220)**	(1,065)	(1,861)	**(1,864)**
Loss on impairment of fixed assets (Notes 7 and 14)	**—**	3,818	4,447	**—**
Loss on discontinued operations	**—**	—	4,232	**—**
Other, net	**363**	(887)	7,874	**3,077**
	27,670	29,611	49,097	**234,492**
Special items:				
Provision (reversal) for drought	**112**	(1,913)	1,747	**949**
Provision for depreciation of nuclear power plant	**5,053**	—	—	**42,822**
Income before income taxes and minority interests in net income of consolidated subsidiaries	**55,566**	72,397	74,608	**470,898**
Provision for income taxes: (Note 12)				
Current	**20,547**	28,811	26,600	**174,127**
Deferred	**(2,526)**	(1,892)	666	**(21,407)**
	18,021	26,919	27,266	**152,720**
Income before minority interests in net income of consolidated subsidiaries	**37,545**	45,478	47,342	**318,178**
Minority interests in net (loss) income of consolidated subsidiaries	**(452)**	311	280	**(3,831)**
Net income	**¥ 37,093**	¥ 45,167	¥ 47,062	**$ 314,347**

	Yen			U.S. dollars (Note 1)
	2007	2006	2005	**2007**
Per share data:				
Net income:				
Basic	**¥101.86**	¥123.44	¥128.61	**$0.86**
Diluted	**101.86**	123.44	128.61	**0.86**
Cash dividends applicable to the year	**50.00**	50.00	50.00	**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, 2006 and 2005

		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	Total
Balance at March 31, 2004	371,055,259	¥185,528	¥16,680	¥427,159	¥11,810	¥ (4)	¥(11,569)	¥629,604
Net income				47,062				47,062
Cash dividends paid (¥50 per share)				(18,173)				(18,173)
Bonuses to directors and statutory auditors				(227)				(227)
Effect of decrease in investments accounted for by the equity method				(711)				(711)
Effect of merger of consolidated subsidiaries with subsidiaries accounted for by the equity method				711				711
Surplus from sale of treasury stock			5					5
Treasury stock purchased, net							(377)	(377)
Increase in unrealized holding gains on securities					320			320
Foreign currency translation adjustments						(5)		(5)
Balance at March 31, 2005	371,055,259	185,528	16,685	455,821	12,130	(9)	(11,946)	658,209
Net income				45,167				45,167
Cash dividends paid (¥50 per share)				(18,163)				(18,163)
Bonuses to directors and statutory auditors				(226)				(226)
Effect of decrease in investments accounted for by the equity method				(1,278)				(1,278)
Effect of increase in unrealized gross profit by changing holding ratio of subsidiaries				(776)				(776)
Effect of increase of consolidated subsidiaries				1,259				1,259
Effect of merger of consolidated subsidiaries with company accounted for by the equity method				19				19
Surplus from sale of treasury stock			15					15
Treasury stock purchased, net							(199)	(199)
Increase in unrealized holding gains on securities					11,443			11,443
Foreign currency translation adjustments						25		25
Balance at March 31, 2006	371,055,259	¥185,528	¥16,700	¥481,823	¥23,573	¥16	¥(12,145)	¥695,495

Consolidated Statements of Changes in Net Assets

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the year ended March 31, 2007

		Millions of yen							
	Shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on securities	Foreign currency translation adjustments	Minority interests	Total
Balance at March 31, 2006	371,055,259	¥185,528	¥16,700	¥481,823	¥(12,145)	¥23,573	¥16	¥4,661	¥700,156
Net income				**37,093**					**37,093**
Cash dividends paid (¥50 per share)				**(18,190)**					**(18,190)**
Bonuses to directors and statutory auditors				**(227)**					**(227)**
Surplus from sale of treasury stock			**495**		**471**				**966**
Treasury stock purchased, net					**(346)**				**(346)**
Decrease in unrealized holding gains on securities			**(3)**			**(3,893)**			**(3,896)**
Foreign currency translation adjustments							**4**		**4**
Increase in minority interests								**412**	**412**
Balance at March 31, 2007	**371,055,259**	**¥185,528**	**¥17,192**	**¥500,499**	**¥(12,020)**	**¥19,680**	**¥20**	**¥5,073**	**¥715,972**

	Thousands of U.S. dollars (Note 1)							
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on securities	Foreign currency translation adjustments	Minority interests	Total
Balance at March 31, 2006	$1,572,271	$141,525	$4,083,246	$(102,925)	$199,771	$136	$39,500	$5,933,524
Net income			**314,347**					**314,347**
Cash dividends paid ($0.42 per share)			**(154,153)**					**(154,153)**
Bonuses to directors and statutory auditors			**(1,923)**					**(1,923)**
Surplus from sale of treasury stock		**4,195**		**3,992**				**8,187**
Treasury stock purchased, net				**(2,932)**				**(2,932)**
Decrease in unrealized holding gains on securities		**(25)**			**(32,991)**			**(33,016)**
Foreign currency translation adjustments						**33**		**33**
Increase in minority interests							**3,492**	**3,492**
Balance at March 31, 2007	**$1,572,271**	**$145,695**	**$4,241,517**	**$(101,865)**	**$166,780**	**$169**	**$42,992**	**$6,067,559**

See accompanying notes.

Consolidated Statements of Cash Flows

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	**2007**
Cash flows from operating activities:				
Income before income taxes and minority interests in net income of consolidated subsidiaries	**¥ 55,566**	¥ 72,397	¥ 74,608	**$ 470,898**
Depreciation	**140,933**	150,034	157,467	**1,194,347**
Loss on impairment of fixed assets	**1,370**	3,818	4,447	**11,610**
Amortization of nuclear fuel	**5,825**	6,738	5,331	**49,364**
Loss on disposal of property	**8,878**	7,507	9,991	**75,237**
Increase (decrease) in employees' severance and retirement benefits	**111**	2,050	(22,311)	**941**
Increase in provision for reprocessing of irradiated nuclear fuel	**11,671**	4,551	2,691	**98,907**
Increase in provision for reprocessing of irradiated nuclear fuel without a fixed plan to reprocess	**1,777**	—	—	**15,059**
Increase in provision for decommissioning of nuclear power generating plants	**1,471**	3,363	673	**12,466**
Increase (decrease) in provision for drought	**112**	(1,913)	1,747	**949**
Increase in provision for depreciation of nuclear power plant	**5,053**	—	—	**42,822**
Increase (decrease) in provision for reserve for loss on discontinued operations	**—**	(1,491)	1,491	**—**
Interest and dividend income	**(1,800)**	(845)	(762)	**(15,254)**
Interest expense	**29,014**	28,624	37,570	**245,881**
Gains on sales of securities	**(391)**	(755)	(3,073)	**(3,314)**
Increase in funds reserved for reprocessing of irradiated nuclear fuel	**(36,709)**	(56,959)	—	**(311,093)**
Increase in notes and accounts receivable	**(7,024)**	(3,048)	(5,717)	**(59,525)**
Decrease (increase) in inventories	**1,362**	(9,403)	1,536	**11,542**
Increase in notes and accounts payable	**3,904**	4,083	14,265	**33,085**
Increase (decrease) in liabilities for defined contribution pension and prepaid pension	**(3,331)**	(3,453)	9,831	**(28,228)**
Other	**(2,256)**	4,348	6,761	**(19,118)**
Subtotal	**215,536**	209,646	296,546	**1,826,576**
Interest and dividends received	**1,907**	1,301	1,287	**16,161**
Interest paid	**(28,874)**	(28,795)	(39,030)	**(244,695)**
Income taxes paid	**(31,122)**	(24,055)	(30,033)	**(263,745)**
Net cash provided by operating activities	**157,447**	158,097	228,770	**1,334,297**
Cash flows from investing activities:				
Purchase of property	**(135,911)**	(113,333)	(105,882)	**(1,151,788)**
Purchase of investments in securities	**(2,239)**	(572)	(1,977)	**(18,975)**
Proceeds from sale of investment securities	**903**	1,463	6,578	**7,653**
Purchase of investments in subsidiaries resulting in change in scope of consolidation	**—**	(590)	—	**—**
Other	**4,164**	3,700	5,127	**35,288**
Net cash used in investing activities	**(133,083)**	(109,332)	(96,154)	**(1,127,822)**
Cash flows from financing activities:				
Proceeds from issue of bonds	**44,848**	—	14,943	**380,067**
Repayment of bonds	**(19,900)**	(29,900)	(110,000)	**(168,644)**
Proceeds from long-term debt	**50,000**	170,500	30,790	**423,729**
Repayment of long-term debt	**(64,926)**	(110,368)	(84,606)	**(550,220)**
Proceeds from short-term loans	**161,870**	297,670	353,000	**1,371,780**
Repayment of short-term loans	**(163,060)**	(326,620)	(332,490)	**(1,381,864)**
Proceeds from issue of commercial paper	**614,500**	742,000	742,000	**5,207,626**
Repayment of commercial paper	**(625,500)**	(780,000)	(728,000)	**(5,300,847)**
Purchase of treasury stock	**(346)**	(233)	(430)	**(2,932)**
Cash dividends paid	**(18,221)**	(18,225)	(18,209)	**(154,415)**
Other	**27**	30	25	**228**
Net cash used in financing activities	**(20,708)**	(55,146)	(132,977)	**(175,492)**
Effect of exchange rate changes on cash and cash equivalents	**161**	78	—	**1,364**
Net increase (decrease) in cash and cash equivalents	**3,817**	(6,303)	(361)	**32,347**
Cash and cash equivalents at beginning of year	**17,848**	23,877	23,705	**151,255**
Increase resulting from merger of equity method affiliate with consolidated subsidiary	**—**	275	533	**—**
Cash and cash equivalents at end of year (Note 3)	**¥ 21,665**	¥ 17,849	¥ 23,877	**$ 183,602**

See accompanying notes.

Notes to Consolidated Financial Statements

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of The Chugoku Electric Power Co., Inc. ("the Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and the Electricity Utilities Industry Law and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with certain expanded disclosure and the inclusion of the consolidated statement of stockholders' equity for 2006) 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. Certain 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 consolidated balance sheet as of March 31, 2007, which has been prepared in accordance with the new accounting standard as discussed in Note 2 , is presented with the consolidated balance sheet as of March 31, 2006 prepared in accordance with the previous presentation rules.

Also, as discussed in Note 2 , the consolidated statement of changes in net assets for the year ended March 31, 2007 has been prepared in accordance with the new accounting standard. The accompanying consolidated statement of stockholders' equity for the year ended March 31, 2006 was voluntarily prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required to be filed with the Local Finance Bureau.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2007, which was ¥118 to U.S.$1. The convenience translation should not be construed as representation 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 the Company acquired control of the subsidiary.

Investments in non-consolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies of the investees are accounted for using the equity method.

For the years ended March 31, 2007, 24 subsidiaries (24 in 2006:, 23 in 2005) were consolidated and 7 subsidiaries were excluded from consolidation due to immateriality in terms of consolidated total assets, sales and revenues, net income and retained earnings on the consolidated financial statements.

For the years ended March 31, 2007, 7 (7 in 2006:,10 in 2005) non-consolidated subsidiaries and 9 (9 in 2006:, 10 in 2005) affiliates were accounted for by the equity method.

For the years ended March 31, 2007, 8 (8 in 2006:, 9 in 2005) 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 the excluded 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

Available-for-sale securities for which market value is readily determinable are stated at market value as of the end of the period with unrealized gains and losses, net of applicable deferred tax assets/liabilities, not reflected in earnings but directly reported as a separate component of stockholders' 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.

If the market value of equity securities issued by unconsolidated subsidiaries and affiliated companies or 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.

Accounting for the impairment of fixed assets

For the year ended March 31, 2005, the Companies adopted early the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003).

As a result of the new accounting standard for impairment of fixed assets, income before income taxes and minority interests in net income of consolidated subsidiaries decreased by ¥4,447 million for the year ended March 31, 2005.

Property and depreciation

Property is principally 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 in accordance with the corporation tax law.

Easements related to lands below transmission lines, which had previously been non-depreciable assets, are depreciated on the straight-line method commencing in the year ended March 31, 2006. As a result, operating income decreased by ¥2,933 million and income before income taxes decreased by ¥2,934 million for the year ended March 31, 2006.

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

The allowance for doubtful accounts 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 based on the Companies' historical loss rate with respect to remaining receivables.

Allowance for bonuses to directors and corporate auditors

Effective for the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted new accounting standards, "Accounting Standard for Statement of Directors' Bonuses" (Statement No. 4 issued by the Accounting Standards Board of Japan on November 29, 2005).

As a result, operating expenses increased by ¥221 million (US$1,873 thousand), and operating income and income before income taxes and minority interests in net income of consolidated subsidiaries decreased by the same amount for the year ended March 31, 2007.

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.

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

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.

Prior service costs are recognized in expenses mainly in one year within the average of estimated remaining service periods of the employees. Actual gains and losses are recognized in expenses using a straight-line basis over five years which is within the average of the estimated remaining service period commencing with the following period.

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

Provision for reprocessing of irradiated nuclear fuel

A provision for the reprocessing of irradiated nuclear fuel is provided at the present value amount equivalent to the expense of the reprocessing of irradiated nuclear fuel.

Prior to April 1, 2005, the annual provision for the costs of reprocessing irradiated nuclear fuel was calculated to state the related reserve at 60% of the amount that would be required to reprocess all of the irradiated nuclear fuel in accordance with the regulatory authority.

Effective April 1, 2005, the Company adopted a revised accounting standard for provision for the reprocessing of irradiated nuclear fuel. The composition of the back-end costs, such as the decommissioning costs of reprocessing facilities, was estimated in the report published in August 2004 by the Ministry of Economy, Trade and Industry, allowing electric utility providers to estimate liabilities related to such decommissioning costs of reprocessing facilities. In accordance with the changes in the accounting rules applicable to electric utility providers in Japan, the provision is stated at the present value of the amount that would be required to reprocess the irradiated nuclear fuel with definite plans for reprocessing.

As a result, compared with the former method, operating expenses increased by ¥8,714 million and operating income and income before income taxes and minority interests in net income of consolidated subsidiaries decreased by the same amount for the year ended March 31, 2006.

In addition, the difference of ¥59,307 million due to the change in estimating the costs of the reprocessing of irradiated fuel at March 31, 2005 is included in operating expenses equally over 15 years from April 1, 2005.

Also, estimated liabilities related to past generation, which were estimated by using assumptions such as the discount rate, were ¥3,093 million on March 31, 2006. This will be amortized over the periods of generating the irradiated nuclear fuels for which there are concrete reprocessing plans from April 1, 2006. The annual amortization is presented as operating expenses in the income statement. The amount of liabilities which had not been amortized was ¥4,988 million (US$42,271 thousand) on March 31, 2007.

Provision for reprocessing of irradiated nuclear fuel without a fixed plan to reprocess

A provision for reprocessing of irradiated nuclear fuel without a fixed plan to reprocess is provided to the amount of the estimate of the reprocessing cost.

An irradiated nuclear fuel without a fixed plan to reprocess was not an object of the provision for reprocessing of irradiated nuclear fuel so far. The Ministry of Economy added it up as a provision after they examined whether this reprocessing cost to be reserved or not. This step is temporary until a fixed plan jells. This provision is provided on the basis of the estimated reprocessing cost per unit.

As a result, the operating expense increases the ¥1,777 million (US$15,059 thousand),and the operating profit, current profit, and the current net income before income taxes decrease this amount for the year ended March 31, 2007.

Provision for decommissioning of nuclear power plants

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

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

The law concerning the nuclear fuel in 2005 is enforced, the clearance level was changed. The clearance level serves as the foundation of calculation of the estimated cost of the Provision for decommissioning of nuclear power plants. The Ministry of Economy examined whether this clearance level to be changed or not. If a trial calculation is made, the amount of estimate of Abolition cost of nuclear power plant increases for about ¥3,290 million (US$27,881 thousand) in all totals of the electric power supplier. From now on, the calculation method of this estimated cost is due to be released. It has calculated by the conventional method for the year ended March 31, 2007.

Provision for drought

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

Provision for loss on discontinued operations

Provision is made for losses on withdrawal from personal handy phone voice service of Energia Communications, Inc., a consolidated subsidiary. The amount is estimated based primarily on disposal of equipment.

Provision for depreciation of nuclear power plant

For the year ended March 31, 2007 in accordance with the Electricity Utilities Industry Law, the Company provides for the provision for depreciation of nuclear power plant by the based of the ordinance of the Ministry of Economy.

When investment in a nuclear power plant is advanced, after starting operation, a large amount of depreciation expenses will be paid. Then, the system which can equalize the burden of the depreciation expense after commencement of commercial operation was provided by saving a part of initial investment as a reserve fund beforehand.

As a result, the provision for depreciation of nuclear power plant decreases the ¥5,053 million (US$42,822 thousand), and the current net income before income taxes decrease this amount for the year ended March 2007.

Accounting for certain lease transactions

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

Derivatives and hedge accounting

The Companies state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless the 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 the 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:

If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency and meets certain hedging criteria, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract is recognized. In this case, assessment of hedge effectiveness is not necessary.

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. In this case, assessment of hedge effectiveness is not necessary.

If commodity swap contracts are used as hedges and meet certain hedging criteria, the gain or loss is deferred until the gain or loss on the hedged item is recognized. In this case, hedge effectiveness is assessed based on the extent of correlation in recent years using statistical–methods at the inception of the hedge and by comparing the cumulative changes in fair value on an ongoing basis at each period-end. Commodity swap contracts that do not qualify as hedges are stated at current value and unrealized gains or losses are recognized in the statements of income.

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 change in value.

Bond issue expenses

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 loss carryforwards and 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

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rate.

Change in useful lives

For certain fixed assets, Energia Communications, Inc., a consolidated subsidiary, changed the useful lives from those based on income tax regulations to economic useful lives.

As a result of changing the useful lives, income before income taxes and minority interests in net income of consolidated subsidiaries increased by ¥2,810 million for the year ended March 31, 2005.

Consolidated tax system

In the year ended March 31, 2005, the Companies introduced the consolidated tax system.

Accounting Standard for Presentation of Net Assets in the Balance Sheet

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, “Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, “the New Accounting Standards”).

The consolidated balance sheet as of March 31, 2007 prepared in accordance with the New Accounting Standards comprises three sections, which are the assets, liabilities and net assets sections. The consolidated balance sheet as of March 31, 2006 prepared pursuant to the previous presentation rules comprises the assets, liabilities, minority interests and stockholders’ equity sections.

Under the New Accounting Standards, the following items are presented differently at March 31, 2007 compared to March 31, 2006. Minority interests are included in the net assets section at March 31, 2007. Under the previous presentation rules, companies were required to present minority interests in the liabilities section and between the non-current liabilities and the stockholders’ equity sections, respectively.

The adoption of the New Accounting Standards had no impacts on the consolidated statement of income for the year ended March 31, 2007. Also, if the New Accounting Standards had not been adopted at March 31, 2007, the stockholders’ equity amounting to ¥710,899 million (US$ 6,025thousand) would have been presented.

Accounting Standard for Statement of Changes in Net Assets

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, “Accounting Standard for Statement of Changes in Net Assets” (Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, “the Additional New Accounting Standards”).

The Company prepared the accompanying consolidated statement of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. The accompanying consolidated statement of stockholders’ equity for the year ended March 31, 2006, which was voluntarily prepared for inclusion in the consolidated financial statements, has not been adapted to the new presentation rules of 2007.

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, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Cash and time deposits	¥21,721	¥17,935	$184,076
Less: Time deposits with maturities exceeding three months	(56)	(86)	(475)
Cash and cash equivalents	¥21,665	¥17,849	$183,601

4. Securities

A. The following tables summarize acquisition costs and book values (fair values) of securities with available fair values as of March 31, 2007 and 2006:

Available-for-sale 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
	2007	2006	2007	2006	2007	2006	2007		
Equity securities	¥4,578	¥4,885	¥35,544	¥39,118	¥30,966	¥34,233	$38,796	$301,220	$262,424
Bonds	5	9	5	10	0	1	42	42	0
Other	23	24	45	46	22	21	195	381	186
Total	¥4,606	¥4,918	¥35,594	¥39,174	¥30,988	¥34,255	$39,033	$301,643	$262,610

Available-for-sale securities with book values not exceeding acquisition costs

	Millions of yen						Thousands of U.S. dollars		
	Acquisition cost		Book value		Difference		Acquisition cost	Book value	Difference
	2007	2006	2007	2006	2007	2006	2007		
Equity securities	¥503	¥14	¥480	¥14	¥(23)	¥—	$4,263	$4,068	$(195)
Bonds	4	—	4	—	0	—	34	34	0
Other	—	—	—	—	—	—	—	—	—
Total	¥507	¥14	¥484	¥14	¥(23)	¥—	$4,297	$4,102	$(195)

B. Book values of available-for-sale securities with no available fair market value as of March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	Book value		Book value
	2007	2006	2007
Non-listed equity securities	¥23,791	¥23,921	$201,619
Other	1,064	1,064	9,017
Total	¥24,855	¥24,985	$210,636

C. At March 31, 2007, available-for-sale securities with maturities and held-to-maturity debt securities mature as follows:

	Millions of yen			Thousands of U.S. dollars		
	Within one year	Within five years	Total	Within one year	Acquisition five years	Total
Corporate bonds	¥9	¥—	¥9	$76	$—	$76

D. Total sales of available-for-sale securities in the year ended March 31, 2007 amounted to ¥407 million (US$3,449 thousand), and the related gains amounted to ¥391 million (US$3,314 thousand), respectively. Total sales of available-for-sale securities in the year ended March 31, 2006 amounted to ¥900 million, and the related gains amounted to ¥738 million. Total sales of available-for-sale securities in the year ended March 31, 2005 amounted to ¥5,316 million, and the related gains and losses amounted to ¥3,078 million and ¥5 million.

5. Derivatives

The Company and certain of its consolidated subsidiaries enter into currency swap contracts, interest rate swap contracts and weather derivative instruments to mitigate and avoid market risk. The Company adopts hedge accounting for interest rate swap contracts.

The Companies' policy is to hedge risk exposure related to receivables and payables incurred in their business operations (actual demand transactions) and not to enter into contracts for speculative purposes.

Currency swap contracts and interest rate swap contracts are exposed to market risk arising from movements of the market value and weather derivative instruments are exposed to a risk that the Companies might be obliged to pay a certain amount of money, depending on temperature changes. Management believes that the related credit risk arising from the event of nonperformance by counterparties is quite low, since the Companies use only creditable financial institutions and others as counterparties to derivative transactions.

The Company has established a management function independent from the execution function of derivatives and manages derivative transactions adequately in accordance with the internal rules providing authorization limits, methods of execution, reporting and management, etc.

The consolidated subsidiaries require such derivative financial instruments to be authorized by each representative director and executed in compliance with the respective internal rules.

Interest rate swap contracts applying the "exceptional" method in accordance with the Accounting Standard for Financial Instruments are excluded from disclosure in the notes to the consolidated financial statements as of March 31, 2007. Derivative financial instruments accounted for by hedge accounting in accordance with the Accounting Standard for Financial Instruments are also excluded from disclosure in the notes to the consolidated financial statements as of March 31, 2007.

As of March 31, 2007 and 2006, the fair value of derivatives was as follows. Disclosure of information on hedging derivatives is not required except for that below.

	Millions of yen						Thousands of U.S. dollars		
	Notional amount		Fair value		Gain		Notional amount	Fair value	Gain
	2007	2006	**2007**	2006	**2007**	2006	**2007**		
Dealings outside a market									
Currency swap	**¥4,871**	¥5,500	**¥1,189**	¥842	**¥1,189**	¥842	**$41,280**	**$10,076**	**$10,076**

6. Long-term debt

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Domestic bonds due through 2029 at rates of 0.58% to 4.1%	**¥ 840,000**	¥ 814,900	**$ 7,118,644**
Loans from the Development Bank of Japan due through 2023 at rates of 0.75% to 5.00%	**229,710**	246,094	**1,946,696**
Unsecured loans, principally from banks and insurance companies, due through 2032 at rates of 0.568% to 6.45%	**403,434**	401,977	**3,418,932**
	1,473,144	1,462,971	**12,484,272**
Less amounts due within one year	**(145,453)**	(84,456)	**(1,232,653)**
Total	**¥1,327,691**	¥1,378,515	**$11,251,619**

At March 31, 2007 and 2006, loans from the Development Bank of Japan of ¥216,515 million (US$1,834,873 thousand) and ¥230,319 million, respectively, and all bonds were secured by a statutory preferential right which gives the creditors a security interest in all assets of the Company, totaling ¥2,479,047 million (US$21,008,873 thousand) and ¥2,453,332 million, respectively, senior to that of general creditors. Some assets of subsidiaries are being used as collateral for loans from financial institutions and other sources.

The annual maturities of long-term debt at March 31, 2007 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥145,453	$1,232,653
2009	126,739	1,074,059
2010	134,767	1,142,093
2011	124,953	1,058,924
Thereafter	934,278	7,917,610

7. Impairment loss on fixed assets

Since all of the properties currently being used for the electric power generation business are providing cash flows, they are considered one property group. In addition, since there are no signs of decreases in cash flows of these property groups, no loss is recognized.

Since the fixed assets currently used for the information and telecommunication business are generating cash flows, they are also considered one property group. Among these assets, assets in service which are judged as not having a sufficient cash flows estimation period are treated as an independent minimum unit. For these assets, impairment loss is recognized.

The fixed assets currently used for other businesses are considered separately.

For the years ended March 31, 2006 and 2005, the Companies recognized ¥3,818 million and ¥4,447 million of impairment losses on fixed assets which consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Construction in progress	**¥ —**	¥2,313	**$ —**
Information and telecommunications equipment	**3,336**		**28,513**
General facilities, other property, plant and equipment	**482**	2,134	**4,119**
Total	**¥3,818**	¥4,447	**$32,632**

Impairment losses relating to “construction in progress” with uncertain future cash flows are recognized by individual project. Impairment losses relating to “general facilities, other property, plant and equipment” are grouped within respective areas because these assets are supplemental in terms of generating cash flows.

The Companies determine if assets are impaired by comparing their undiscounted expected future cash flows to the carrying amounts in the accounting records.

The Companies recognize impairment losses if the undiscounted expected future cash flows are less than the carrying amount of the asset.

Recoverable amounts in “Information and telecommunications equipment” assets were measured by the reminder price.

Recoverable amounts in other assets groups were measured by the respective net selling prices. The selling prices were based primarily on appraisal valuation.

8. Leases

(As lessee)

The Companies lease certain equipment for business use.

Lease payments under non-capitalized finance leases amounted to ¥138 million (US$1,169 thousand), ¥159 million and ¥184 million for the years ended March 31, 2007, 2006 and 2005, 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, 2007 and 2006 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	Finance leases		Operating leases		Finance leases	Operating leases
	2007	2006	**2007**	2006	**2007**	
Current portion	**¥140**	¥148	**¥24**	¥ 86	**$1,186**	**$203**
Non-current portion	**390**	330	**0**	14	**3,305**	**0**
Total	**¥530**	¥478	**¥24**	¥100	**$4,491**	**$203**

(As lessor)

Lease payments received under finance leases, accounted for as operating leases, amounted to ¥371 million (US$3,144 thousand), ¥379 million and ¥302 million for the years ended March 31, 2007, 2006 and 2005, respectively.

The present values of future minimum lease payments to be received under finance leases as of March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Current portion	**¥ 382**	¥ 371	**$ 3,237**
Non-current portion	**2,766**	2,528	**23,441**
Total	**¥3,148**	¥2,899	**$26,678**

9. Contingent liabilities

At March 31, 2007, the Companies were contingently liable as guarantor for loans of other companies and employees in the amount of ¥135,705 million (US$1,150,042 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 ¥5,000 million (US$42,373 thousand).

10. Research and development expenses

Research and development expenses charged to operating expenses were ¥6,481 million (US$54,924 thousand), ¥6,648 million and ¥8,310 million for the years ended March 31, 2007, 2006 and 2005, respectively.

11. Employees' severance and pension benefits

The liabilities for employees' severance and retirement benefits included in the liabilities section of the consolidated balance sheets as of March 31, 2007 and 2006 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Projected benefit obligation	**¥247,628**	¥264,648	**$2,098,542**
Fair value of pension assets	**237,046**	226,298	**2,008,864**
	10,582	38,350	**89,678**
Unrecognized pension assets	**—**	—	**—**
Less unrecognized actuarial differences	**34,668**	13,042	**293,796**
Unrecognized prior service costs	**79**	32	**669**
Prepaid pension expense	**16,376**	10,012	**138,780**
Liability for severance and retirement benefits	**¥ 61,547**	¥ 61,436	**$ 521,585**

Included in the consolidated statements of income for the years ended March 31, 2007, 2006 and 2005 are employees' severance and retirement benefit expenses comprised of the following:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Service costs-benefits earned during the year	**¥9,121**	¥ 8,939	¥8,753	**$77,297**
Interest cost on projected benefit obligation	**5,005**	5,122	5,037	**42,415**
Expected return on plan assets	**(9,641)**	(7,818)	(6,939)	**(81,703)**
Prior service costs	**(111)**	(111)	(11,371)	**(941)**
Amortization of actuarial losses	**3,751**	10,998	11,349	**31,788**
Severance and retirement benefit expenses	**8,125**	17,130	6,829	**68,856**
Defined contribution pension premium, etc.	**735**	738	717	**6,229**
Total	**¥8,860**	¥17,868	¥7,546	**$75,085**

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, 2007, the discount rate and the rates of expected return on plan assets used by the Company are 2.0% and mainly 4.5%, respectively.

In the year ended March 31, 2006, the discount rates and the rates of expected return on plan assets used by the Company were 1.9% and mainly 4.5%, respectively.

In the year ended March 31, 2005, the discount rates and the rates of expected return on plan assets used by the Company were 2.0% and 0% to 4.5%, respectively.

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, 2007, 2006 and 2005. The Companies' statutory tax rate is lower than companies in other industries because enterprise tax is included in the operating expenses of electrical utilities.

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Deferred tax assets:			
Excess depreciation	**¥18,397**	¥18,958	**$155,906**
Adjustment for unrealized intercompany profits	**13,876**	14,214	**117,593**
Severance and retirement benefits	**16,568**	18,740	**140,407**
Future reprocessing costs of irradiated nuclear fuel	**9,907**	5,660	**83,958**
Future decommissioning costs of nuclear power generating plants	**4,288**	4,288	**36,339**
Accrued bonuses and other expenses	**5,770**	5,899	**48,898**
Accrued defined contribution pension	**—**	2,306	**—**
Other	**18,298**	13,476	**155,068**
Total gross deferred tax assets	**87,104**	83,541	**738,169**
Less, valuation allowance	**(5,469)**	(4,373)	**(46,347)**
Total deferred tax assets	**81,635**	79,168	**691,822**
Deferred tax liabilities:			
Unrealized holding gains on securities	**(11,601)**	(12,813)	**(98,314)**
Other	**(365)**	(376)	**(3,093)**
Total deferred tax liabilities	**(11,966)**	(13,189)	**(101,407)**
Net deferred tax assets	**¥69,669**	¥65,979	**¥590,415**

The following table summarizes the significant differences between the Companies' statutory tax rate and the effective tax rate for financial statement purposes for the year ended March 31, 2007.

	2007
The Companies' statutory tax rate	**36.15%**
Tax credits	**(0.88)**
Non-taxable dividend income	**(0.42)**
Non-deductible expenses	**0.73**
Valuation allowance	**(4.14)**
Other	**0.99**
Effective tax rate	**32.43%**

13. Net assets

As described in Note 2, net assets comprise three subsections, which are the owners' equity, accumulated gains from valuation and translation adjustments and minority interests.

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the stockholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the stockholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock:, they were available for distribution by resolution of the stockholders' meeting. Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

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 Japanese laws and regulations.

At the annual stockholders' meeting held on June 28, 2007, the stockholders approved cash dividends amounting to ¥9,108 million (US$77,186 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2007. Such appropriations are recognized in the period in which they are approved by the stockholders.

14. Segment information

The Companies classify their operations into four segments: "Electric power," "Information and telecommunications," "Comprehensive energy supply" and "Other" from the two previous segments of "Electric power" and "Other."

The "Information and telecommunications" segment involves the information technology business and telecommunications business. The "Comprehensive energy supply" segment involves cogeneration, distributed power sources, heat supply and fuel supply businesses. The "Other" segment involves business and lifestyle support businesses and environmental business.

A summary by segment for the years ended March 31, 2007, 2006 and 2005 is as follows:

	Millions of yen						
	2007						
	Electric power	Information and tele-communications	Comprehensive energy supply	Other	Total	Elimination	Consolidated
Operating revenues:							
Outside customers	¥ 976,628	¥17,236	¥22,125	¥ 59,586	¥1,075,575	¥ —	¥1,075,575
Intersegment	4,972	18,205	2,480	86,154	111,811	(111,811)	—
Total	981,600	35,441	24,605	145,740	1,187,386	(111,811)	1,075,575
Operating expenses	903,356	33,121	23,957	139,078	1,099,512	(112,338)	987,174
Operating income	¥ 78,244	¥ 2,320	¥ 648	¥ 6,662	¥ 87,874	¥ 527	¥ 88,401
Identifiable assets	¥2,453,317	¥70,976	¥18,896	¥241,483	¥2,784,672	¥(103,890)	¥2,680,782
Impairment of fixed assets	60	—	709	37	806	564	1,370
Depreciation expense	128,490	8,466	2,041	4,000	142,997	(2,064)	140,933
Capital expenditures	123,592	8,441	969	2,956	135,958	(1,695)	134,263

	Thousands of U.S. dollars						
	2007						
	Electric power	Information and tele-communications	Comprehensive energy supply	Other	Total	Elimination	Consolidated
Operating revenues:							
Outside customers	$ 8,276,508	$146,068	$187,500	$ 504,966	$ 9,115,042	$ —	$ 9,115,042
Intersegment	42,136	154,279	21,017	730,119	947,551	(947,551)	—
Total	8,318,644	300,347	208,517	1,235,085	10,062,593	(947,551)	9,115,042
Operating expenses	7,655,559	280,686	203,026	1,178,627	9,317,898	(952,017)	8,365,881
Operating income	$ 663,085	$ 19,661	$ 5,491	$ 56,458	$ 744,695	$ 4,466	$ 749,161
Identifiable assets	$20,790,822	$601,492	$160,136	$2,046,466	$23,598,916	$(880,424)	$22,718,492
Impairment of fixed assets	508	—	6,008	314	6,830	4,780	11,610
Depreciation expense	1,088,898	71,746	17,297	33,898	1,211,839	(17,492)	1,194,347
Capital expenditures	1,047,390	71,534	8,212	25,050	1,152,186	(14,364)	1,137,822

	Millions of yen						
	2006						
	Electric power	Information and tele-communications	Comprehensive energy supply	Other	Total	Elimination	Consolidated
Operating revenues:							
Outside customers	¥ 964,071	¥15,563	¥14,180	¥ 46,476	¥1,040,290	¥ —	¥1,040,290
Intersegment	4,759	21,196	1,714	85,030	112,699	(112,699)	—
Total	968,830	36,759	15,894	131,506	1,152,989	(112,699)	1,040,290
Operating expenses	876,975	34,312	15,638	126,674	1,053,599	(113,404)	940,195
Operating income	¥ 91,855	¥ 2,447	¥ 256	¥ 4,832	¥ 99,390	¥ 705	¥ 100,095
Identifiable assets	¥2,428,013	¥71,419	¥20,121	¥240,708	¥2,760,261	¥(104,793)	¥2,655,468
Impairment of fixed assets	—	3,336	—	161	3,497	321	3,818
Depreciation expense	136,569	9,193	1,940	4,441	152,143	(2,109)	150,034
Capital expenditures	104,857	7,441	3,789	3,852	119,939	(2,028)	117,911

	Millions of yen						
	2005						
	Electric power	Information and tele-communications	Comprehensive energy supply	Other	Total	Elimination	Consolidated
Operating revenues:							
Outside customers	¥ 946,612	¥15,930	¥ 8,754	¥ 40,503	¥1,011,799	¥ —	¥1,011,799
Intersegment	5,198	22,282	1,312	84,521	113,313	(113,313)	—
Total	951,810	38,212	10,066	125,024	1,125,112	(113,313)	1,011,799
Operating expenses	832,469	36,872	9,546	120,756	999,643	(113,296)	886,347
Operating income	¥ 119,341	¥ 1,340	¥ 520	¥ 4,268	¥ 125,469	¥ (17)	¥ 125,452
Identifiable assets	¥2,412,777	¥81,905	¥16,889	¥240,278	¥2,751,849	¥(115,486)	¥2,636,363
Impairment of fixed assets	2,313	—	—	358	2,671	1,776	4,447
Depreciation expense	144,622	9,044	1,280	4,092	159,038	(1,571)	157,467
Capital expenditures	90,770	9,446	5,726	5,948	111,890	(2,234)	109,656

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, 2007, 2006 and 2005 is not shown due to aggregate overseas sales being less than 10% of total operating revenues.

As a result of depreciating easements related to lands below transmission lines, which previously had been non-depreciable assets, from April 1, 2005 (Note 2), depreciation expense of the "Electric power" segment increased by ¥2,933 million and operating income decreased by the same amount for the year ended March 31, 2006.

As a result of changing the method of provision for reprocessing of irradiated nuclear fuels (Note 2), cost of the "Electric power" segment increased by ¥8,714 million and operating income decreased by the same amount for the year ended March 31, 2006.

As a result of changing the useful lives of assets of a consolidated subsidiary (Note 2), cost and expenses of the "Information and telecommunications" segment decreased by ¥2,810 million and operating income increased by the same amount for the year ended March 31, 2005.

As a result of capitalizing the provision for reprocessing of irradiated nuclear fuels (Note 2), cost of the "Electric power" segment increased by ¥1,777 million (US$15,059 thousand) and operating income decreased by the same amount for the year ended March 31, 2007.

15. Subsequent events

The following appropriation of retained earnings at March 31, 2007 were approved at the annual meeting of stockholders held on June 28, 2007:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥25 ($0.21) per share	¥9,108	$77,186
Bonuses to directors and statutory auditors	221	1,873

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of The Chugoku Electric Power Co., Inc. and consolidated subsidiaries as of March 31, 2007 and 2006, the related consolidated statements of income for each of the three years in the period ended March 31, 2007, the consolidated statements of changes in net assets for the year ended March 31, 2007, the consolidated statements of stockholders' equity for the year ended March 31, 2006 and 2005,and the consolidated statements of cash flows for each of the three years in the period ended March 31, 2007, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently 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, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2007, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.

(1) As discussed in Note 2 to the consolidated financial statements, effective April 1, 2004, The Chugoku Electric Power Co., Inc. and consolidated domestic subsidiaries adopted early the new accounting standard for impairment of fixed assets.
(2) As discussed in Note 2 to the consolidated financial statements, effective April 1, 2005, The Chugoku Electric Power Co., Inc. commenced depreciating easements related to lands below transmission lines.
(3) As discussed in Note 2 to the consolidated financial statements, effective April 1, 2005, The Chugoku Electric Power Co., Inc. changed the method of accounting for the provision for the reprocessing of irradiated nuclear fuel.
(4) As discussed in Note 2 to the consolidated financial statements, for the year ended March 31, 2007, The Chugoku Electric Power Co., Inc. commenced adopting for the provision for depreciation of nuclear power plant.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Hiroshima, Japan
June 28, 2007

Non-Consolidated Balance Sheets

The Chugoku Electric Power Co., Inc.
March 31, 2007 and 2006

Assets	Millions of yen 2007	2006	Thousands of U.S. dollars (Note 1) 2007
Property:			
Plant and equipment	**¥5,457,721**	¥5,432,111	**$46,251,873**
Construction in progress	**197,109**	171,075	**1,670,415**
	5,654,830	5,603,186	**47,922,288**
Less—			
Contributions in aid of construction	**74,616**	73,301	**632,339**
Accumulated depreciation	**3,588,662**	3,499,156	**30,412,390**
	3,663,278	3,572,457	**31,044,729**
Net property (Note 5)	**1,991,552**	2,030,729	**16,877,559**
Nuclear fuel	**133,772**	122,046	**1,133,661**
Investments and other assets:			
Investment securities	**51,807**	55,345	**439,042**
Funds reserved for reprocessing of irradiated nuclear fuel	**93,667**	56,959	**793,788**
Investments and advances to subsidiaries and affiliated companies (Note 3)	**28,675**	28,574	**243,008**
Long-term loans to employees	**1,123**	1,543	**9,517**
Deferred tax assets (Note 9)	**40,122**	36,950	**340,017**
Other assets	**22,149**	14,039	**187,704**
Total investments and other assets	**237,543**	193,410	**2,013,076**
Current assets:			
Cash and time deposits	**10,744**	11,016	**91,051**
Receivables, less allowance for doubtful accounts of ¥578 million ($4,898 thousand) in 2007 and ¥610 million in 2006	**51,341**	48,965	**435,093**
Inventories, fuel and supplies	**32,070**	28,292	**271,780**
Deferred tax assets (Note 9)	**10,017**	9,461	**84,890**
Other current assets	**12,008**	9,413	**101,763**
Total current assets	**116,180**	107,147	**984,577**
Total assets	**¥2,479,047**	¥2,453,332	**$21,008,873**

See accompanying notes.

Liabilities and Stockholders' Equity/Net Assets	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note 1) 2007
Long-term debt due after one year (Note 4)	**¥1,302,598**	¥1,346,460	**$11,038,966**
Other long-term liabilities due after one year	**2,304**	5,728	**19,525**
Employees' severance and retirement benefits	**51,077**	50,586	**432,856**
Provision for reprocessing of irradiated nuclear fuel	**118,286**	106,615	**1,002,424**
Provision for reprocessing of irradiated nuclear fuel without a fixed plan to reprocess	**1,777**	—	**15,059**
Provision for decommissioning of nuclear power generating plants	**47,711**	46,240	**404,331**
Current liabilities:			
Long-term debt due within one year (Note 4)	**138,499**	77,358	**1,173,720**
Short-term borrowings	**64,350**	64,450	**545,339**
Commercial paper	**17,000**	32,000	**144,068**
Accounts payable	**49,780**	48,549	**421,864**
Accrued income taxes	**9,993**	20,212	**84,686**
Accrued expenses	**36,934**	37,963	**313,000**
Allowance for bonuses to directors and corporate auditors	**95**	—	**805**
Other current liabilities, including other long-term liabilities due within one year	**35,044**	31,190	**296,984**
Total current liabilities	**351,695**	311,722	**2,980,466**
Provision for drought	**656**	—	**5,560**
Provision for depreciation of nuclear power plant	**5,053**	—	**42,822**
Contingent liabilities (Note 7)			
Stockholders' equity			
Common stock			
Authorized—1,000,000,000 shares			
Issued—371,055,259 shares	**—**	185,528	**—**
Capital surplus	**—**	16,691	**—**
Retained earnings	**—**	378,308	**—**
Net unrealized holding gains on securities	**—**	16,602	**—**
Treasury stock (6,600,275 shares in 2006)	**—**	(11,693)	**—**
Total stockholders' equity	**—**	585,436	**—**
Net assets (Note 10):			
Common stock			
Authorized—1,000,000,000 shares			
Issued—371,055,259 shares	**185,528**	—	**1,572,271**
Capital surplus	**16,702**	—	**141,542**
Retained earnings (Note 11)	**393,369**	—	**3,333,636**
Treasury stock (6,721,673 shares in 2007)	**(12,013)**	—	**(101,805)**
Net unrealized holding gains on securities	**14,304**	—	**121,220**
Total net assets	**597,890**	—	**5,066,864**
Total liabilities and stockholders' equity/net assets	**¥2,479,047**	¥2,453,332	**$21,008,873**

Non-Consolidated Statements of Income

The Chugoku Electric Power Co., Inc.
For the years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	**2007**
Operating revenues	**¥996,007**	¥976,835	¥956,690	**$8,440,737**
Operating expenses:				
Personnel	**116,529**	122,008	113,433	**987,534**
Fuel	**214,559**	178,649	128,076	**1,818,297**
Purchased power	**146,861**	161,771	154,910	**1,244,585**
Depreciation	**128,490**	136,569	144,622	**1,088,898**
Maintenance	**90,001**	80,747	92,717	**762,720**
Taxes other than income taxes	**61,698**	61,556	63,266	**522,864**
Purchased services	**33,465**	33,732	38,392	**283,602**
Other	**126,176**	110,001	101,513	**1,069,288**
	917,779	885,033	836,929	**7,777,788**
Operating income	**78,228**	91,802	119,761	**662,949**
Other expenses (income):				
Interest expense	**28,419**	27,855	36,727	**240,839**
Interest income	**(1,076)**	(101)	(61)	**(9,119)**
Loss on impairment of fixed assets (Note 5)	**—**	—	4,089	**—**
Loss on revaluation of investments in subsidiary	**—**	12,590	—	**—**
Other, net	**(2,110)**	(1,452)	4,325	**(17,881)**
	25,233	38,892	45,080	**213,839**
Income before special items and income taxes	**52,995**	52,910	74,681	**449,110**
Special items:				
Provision (reversal) for drought	**112**	(1,913)	1,747	**949**
Provision for depreciation of nuclear power plant	**5,053**	—	—	**42,822**
Provision for income taxes:				
Current	**16,855**	25,863	25,061	**142,839**
Deferred	**(2,428)**	(1,287)	1,374	**(20,576)**
Net income	**¥ 33,403**	¥ 30,247	¥ 46,499	**$ 283,076**

	Yen			U.S. dollars
	2007	2006	2005	**2007**
Per share data:				
Net income:				
Basic	**¥91.67**	¥82.66	¥127.18	**$0.78**
Diluted	**91.67**	82.66	127.18	**0.78**
Cash dividends applicable to the year	**50.00**	50.00	50.00	**0.42**

See accompanying notes.

Non-Consolidated Statements of Stockholders' Equity

The Chugoku Electric Power Co., Inc.
For the years ended March 31, 2006 and 2005

	Shares of common stock	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Treasury stock	Total
		Millions of yen					
Balance at March 31, 2004	371,055,259	¥185,528	¥16,680	¥338,265	¥ 9,029	¥(11,109)	¥538,393
Net income				46,499			46,499
Cash dividends paid (¥50 per share)				(18,237)			(18,237)
Bonuses to directors and statutory auditors				(120)			(120)
Surplus from sale of treasury stock			5				5
Treasury stock purchased, net						(375)	(375)
Increase in unrealized holding gains on securities					1,382		1,382
Balance at March 31, 2005	371,055,259	185,528	16,685	366,407	10,411	(11,484)	567,547
Net income				30,247			30,247
Cash dividends paid (¥50 per share)				(18,226)			(18,226)
Bonuses to directors and statutory auditors				(120)			(120)
Surplus from sale of treasury stock			6				6
Treasury stock purchased, net						(209)	(209)
Increase in unrealized holding gains on securities					6,191		6,191
Balance at March 31, 2006	371,055,259	¥185,528	¥16,691	¥378,308	¥16,602	¥(11,693)	¥585,436

Non-Consolidated Statements of Changes in Net Assets

The Chugoku Electric Power Co., Inc.
For the year ended March 31, 2007

	Shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on securities	Total
		Millions of yen					
Balance at March 31, 2006	371,055,259	¥185,528	¥16,691	¥378,308	¥(11,693)	¥16,602	¥585,436
Net income				**33,403**			**33,403**
Cash dividends paid (¥50 per share)				**(18,222)**			**(18,222)**
Bonuses to directors and statutory auditors				**(120)**			**(120)**
Surplus from sale of treasury stock			**11**		**25**		**36**
Treasury stock purchased, net					**(345)**		**(345)**
Decrease in unrealized holding gains on securities						**(2,298)**	**(2,298)**
Balance at March 31, 2007	**371,055,259**	**¥185,528**	**¥16,702**	**¥393,369**	**¥(12,013)**	**¥14,304**	**¥597,890**

	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on securities	Total
	Thousands of U.S. dollars (Note 1)					
Balance at March 31, 2006	$1,572,271	$141,449	$3,206,000	$(99,093)	$140,695	$4,961,322
Net income			**283,076**			**283,076**
Cash dividends paid ($0.42 per share)			**(154,423)**			**(154,423)**
Bonuses to directors and statutory auditors			**(1,017)**			**(1,017)**
Surplus from sale of treasury stock		**93**		**212**		**305**
Treasury stock purchased, net				**(2,924)**		**(2,924)**
Decrease in unrealized holding gains on securities					**(19,475)**	**(19,475)**
Balance at September 30, 2007	**$1,572,271**	**$141,542**	**$3,333,635**	**$(101,805)**	**$121,220**	**$5,066,863**

See accompanying notes.

Notes to Non-Consolidated Financial Statements

The Chugoku Electric Power Company, Inc.

1. Basis of presenting non-consolidated financial statements

The accompanying non-consolidated financial statements of The Chugoku Electric Power Co., Inc. (“the Company”) have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and the Electricity Utilities Industry Law and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accompanying non-consolidated financial statements have been restructured and translated into English (with certain expanded disclosure and the inclusion of the non-consolidated statement of stockholders’ equity for 2006) 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. Certain supplementary information included in the statutory Japanese language non-consolidated financial statements, but not required for fair presentation, is not presented in the accompanying non-consolidated financial statements.

The non-consolidated balance sheet as of March 31, 2007, which has been prepared in accordance with the new accounting standard as discussed in Note 2 , is presented with the non-consolidated balance sheet as of March 31, 2006 prepared in accordance with the previous presentation rules.

Also, as discussed in Note 2 , the non-consolidated statement of changes in net assets for the year ended March 31, 2007 has been prepared in accordance with the new accounting standard. The accompanying non-consolidated statement of stockholders’ equity for the year ended March 31, 2006 was voluntarily prepared for the purpose of inclusion in the non-consolidated financial statements although such statements were not required to be filed with the Local Finance Bureau.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2007, which was ¥118 to U.S.$1. The convenience translation should not be construed as representation 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 annual non-consolidated financial statements.

Inventories, fuel and supplies

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

Securities

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 moving-average cost. Other securities with no available fair market value are stated at moving-average cost.

If the market value of 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 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 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.

Accounting for the impairment of fixed assets

For the years ended March 31, 2005, the Company adopted early the new accounting standard for impairment of fixed assets (“Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets” issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003).

As a result of the new accounting standard for impairment of fixed assets, income before income taxes decreased by ¥4,089 million for the year ended March 31, 2005.

Property and depreciation

Property is principally 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 in accordance with the corporation tax law.

Easements related to lands below transmission lines, which had previously been non-depreciable assets, are depreciated on the straight-line method commencing in the year ended March 31, 2006. As a result, operating income decreased by ¥2,933 million and income before income taxes decreased by ¥2,934 million for the year ended March 31, 2006.

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

The allowance for doubtful accounts 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 based on the Company's historical loss rate with respect to remaining receivables.

Allowance for bonuses to directors and corporate auditors

Effective for the year ended March 31, 2007, the Company adopted new accounting standards, "Accounting Standard for Statement of Directors' Bonuses" (Statement No. 4 issued by the Accounting Standards Board of Japan on November 29, 2005).

As a result, operating expenses increased by ¥95 million (US$805 thousand), and operating income and income before income taxes decreased by the same amount for the year ended March 31, 2007.

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. If the termination is made voluntarily at one of a number of specified ages, the employee is entitled to certain additional payments.

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.

Prior service costs are recognized in expenses as they arise. Actual gains and losses are recognized in expenses using a straight-line basis over five years which is within the average of the estimated remaining service period commencing with the following period.

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

Provision for reprocessing of irradiated nuclear fuel

A provision for the reprocessing of irradiated nuclear fuel is provided at the present value amount equivalent to the expense of the reprocessing of irradiated nuclear fuel.

Prior to April 1, 2005, the annual provision for the costs of reprocessing irradiated nuclear fuel was calculated to state the related reserve at 60% of the amount that would be required to reprocess all of the irradiated nuclear fuel in accordance with the regulatory authority.

Effective April 1, 2005, the Company adopted a revised accounting standard for provision for the reprocessing of irradiated nuclear fuel. The composition of the back-end costs, such as the decommissioning costs of reprocessing facilities, was estimated in the report published in August 2004 by the Ministry of Economy, Trade and Industry, allowing electric utility providers to estimate liabilities related to such decommissioning costs of reprocessing facilities. In accordance with the changes in the accounting rules applicable to electric utility providers in Japan, the provision is stated at the present value of the amount that would be required to reprocess the irradiated nuclear fuel with definite plans for reprocessing.

As a result, compared with the former method, operating expenses increased by ¥8,714 million and operating income and income before income taxes and minority interests in net income of consolidated subsidiaries decreased by the same amount for the year ended March 31, 2006.

In addition, the difference of ¥59,307 million due to the change in estimating costs of reprocessing of irradiated fuel at March 31, 2005 is included in operating expenses equally over 15 years from April 1, 2005.

Also, estimated liabilities related to past generation, which were estimated by using assumptions such as the discount rate, were ¥3,093 million on March 31, 2006. This will be amortized over the periods of generating the irradiated nuclear fuels for which there are concrete reprocessing plans from April 1, 2006. The annual amortization is presented as operating expenses in the income statement. The amount of liabilities which had not been amortized was ¥4,988 million (US$42,271 thousand) on March 31, 2007.

Provision for reprocessing of irradiated nuclear fuel without a fixed plan to reprocess

A provision for reprocessing of irradiated nuclear fuel without a fixed plan to reprocess is provided to the amount of the estimate of the reprocessing cost.

An irradiated nuclear fuel without a fixed plan to reprocess was not an object of the provision for reprocessing of irradiated nuclear fuel so far. The Ministry of Economy added it up as a provision after they examined whether this reprocessing cost to be reserved or not. This step is temporary until a fixed plan jells. This provision is provided on the basis of the estimated reprocessing cost per unit.

As a result, the operating expense increases the ¥1,777 million (US$15,059 thousand), and the operating profit, current profit, and the current net income before income taxes decrease this amount for the year ended March 31, 2007.

Provision for decommissioning of nuclear power plants

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

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

The law concerning nuclear fuel in 2005 is enforced, though the clearance level was changed. The clearance level serves as the foundation of calculation of the estimated cost of the Provision for decommissioning of nuclear power plants. The Ministry of Economy examined whether this clearance level to be changed or not. If a trial calculation is made, the amount of estimate of Abolition cost of nuclear power plant increases for about ¥3,290 million (US$27,881 thousand) in all totals of the electric power supplier. From now on, the calculation method of this estimated cost is due to be released. It has calculated by the conventional method for the year ended March 31, 2007.

Provision for drought

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

Provision for depreciation of nuclear power plant

In accordance with the Electricity Utilities Industry Law, the Company provides for the provision for depreciation of nuclear power plant by the based of the ordinance of the Ministry of Economy.

When investment in a nuclear power plant is advanced, after starting operation, a large amount of depreciation expenses will be paid. Then, the system which can equalize the burden of the depreciation expense after commencement of commercial operation was provided by saving a part of initial investment as a reserve fund beforehand.

As a result, the provision for depreciation of nuclear power plant decreases the ¥5,053 million (US$42,822 thousand), and the current net income before income taxes decrease this amount for the year ended March 31, 2007.

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 Company states derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless the 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 the 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:

If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency and meets certain hedging criteria, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized. In this case, assessment of hedge effectiveness is not necessary.

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. In this case, assessment of hedge effectiveness is not necessary.

If commodity swap contracts are used as hedges and meet certain hedging criteria, the gain or loss is deferred until the gain or loss on the hedged item is recognized. In this case, hedge effectiveness is assessed based on the extent of correlation in recent years using statistical methods at the inception of the hedge, and by comparing the cumulative changes in fair value on an ongoing basis at each period-end. Commodity swap contracts that do not qualify as hedges are stated at current value and unrealized gains or losses are recognized in the statements of income.

Bond issue expenses

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 loss carryforwards and 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

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the period-end rate.

Consolidated tax system

In the year ended March 31, 2005, the Company introduced the consolidated tax system.

Accounting Standard for Presentation of Changes in Net Assets in the Balance Sheet

Effective from the year ended March 31, 2007, the Company adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, "the New Accounting Standards").

The non-consolidated balance sheet as of March 31, 2007 prepared in accordance with the New Accounting Standards comprises three sections, which are the assets, liabilities and net assets sections. The non-consolidated balance sheet as of March 31, 2006 prepared pursuant to the previous presentation rules comprises the assets, liabilities, minority interests and stockholders' equity sections.

The adoption of the New Accounting Standards had no impacts on the non-consolidated statement of income for the year ended March 31, 2007. Also, if the New Accounting Standards had not been adopted at March 31, 2007, the stockholders' equity amounting to ¥597,890 million (US$5,066,864 thousand) would have been presented.

Accounting Standard for Statement of Changes in Net Assets

Effective from the year ended March 31, 2007, the Company and its non-consolidated adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, "the Additional New Accounting Standards").

The Company prepared the accompanying non-consolidated statement of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. The accompanying non-consolidated statement of stockholders' equity for the year ended March 31, 2006, which was voluntarily prepared for inclusion in the non-consolidated financial statements, has not been adapted to the new presentation rules of 2007.

3. Securities

Disclosure of market value information of securities, except for investments in subsidiaries and affiliates, with readily available market values at March 31, 2007 is required only on a consolidated financial basis.

Book values and fair values of equity securities issued by subsidiaries and affiliated companies with available fair values as of March 31, 2007 and 2006 were as follows:

	Millions of yen						Thousands of U.S. dollars		
	Book value		Fair value		Difference		Book value	Fair value	Difference
	2007	2006	**2007**	2006	**2007**	2006		**2007**	
Equity securities of affiliated companies	**¥2,493**	¥2,493	**¥48,747**	¥50,941	**¥46,254**	¥48,448	**$21,127**	**$413,110**	**$391,983**

4. Long-term debt

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Domestic bonds due through 2029 at rates of 0.58% to 4.1%	**¥ 840,000**	¥ 815,000	**$ 7,118,644**
Loans from the Development Bank of Japan due through 2023 at rates of 0.75% to 4.95%	**216,515**	230,319	**1,834,873**
Unsecured loans, principally from banks and insurance companies, due through 2032 at rates of 0.57% to 6.45%	**384,582**	378,499	**3,259,169**
	1,441,097	1,423,818	**12,212,686**
Less amounts due within one year	**(138,499)**	(77,358)	**(1,173,720)**
Total	**¥1,302,598**	¥1,346,460	**$11,038,966**

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, 2007 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥138,499	$1,173,720
2009	119,847	1,015,653
2010	128,015	1,084,873
2011	119,878	1,015,915
Thereafter	934,858	7,922,525

5. Impairment loss on fixed assets

Since all of the properties currently being used for the electric power generation business are providing cash flows, they are considered one property group.

The fixed assets currently used for other business are considered separately.

In addition, since there are no signs of decreases in the cash flows of these property groups, no loss is recognized.

For the year ended March 31, 2005, the Company recognized ¥4,089 million of impairment losses on fixed assets which consisted of the following:

	Millions of yen
Construction in progress	¥2,313
General facilities	1,776
Total	¥4,089

Impairment losses relating to "construction in progress" with uncertain future cash flows are recognized by individual project. Impairment losses relating to "general facilities" are grouped within respective areas because these assets are supplemental in terms of generating cash flows. The Company determines if assets are impaired by comparing their undiscounted expected future cash flows to their carrying amounts in the accounting records. The Company recognizes impairment losses if the undiscounted expected future cash flows are less than the carrying amount of the asset.

Recoverable amounts in these asset groups were measured by the respective net selling prices. The selling prices were based primarily on appraisal valuation.

6. 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 ¥1,014 million (US$8,593 thousand), ¥1,105 million and ¥994 million for the years ended March 31, 2007, 2006 and 2005, 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, 2007 and 2006 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	Finance leases		Operating leases		Finance leases	Operating leases
	2007	2006	**2007**	2006	**2007**	
Current portion	**¥ 598**	¥ 979	**¥82**	¥228	**$ 5,068**	**$695**
Non-current portion	**1,203**	1,572	**0**	70	**10,195**	**0**
Total	**¥1,801**	¥2,551	**¥82**	¥298	**$15,263**	**$695**

7. Contingent liabilities

At March 31, 2007, the Company was contingently liable as guarantor for loans of other companies and employees in the amount of ¥163,918 million (US$1,389,136 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 ¥5,000 million (US$42,373 thousand).

8. Research and development expenses

Research and development expenses charged to operating expenses were ¥6,285 million (US$53,263 thousand), ¥6,354 million and ¥8,068 million for the years ended March 31, 2007, 2006 and 2005, respectively.

9. Income taxes

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Deferred tax assets:			
Severance and retirement benefits	**¥12,621**	¥14,699	**$106,958**
Excess depreciation	**12,831**	12,790	**108,737**
Future reprocessing costs of irradiated nuclear fuel	**9,907**	5,660	**83,958**
Loss on revaluation of investments in subsidiary	**—**	4,590	**—**
Future decommissioning costs of nuclear power generation plants	**4,288**	4,288	**36,339**
Accrued bonuses to employees	**3,976**	4,115	**33,695**
Amortization of deferred charges	**3,262**	3,740	**27,644**
Accrued defined contribution pension	**—**	2,306	**—**
Others	**15,595**	10,607	**132,161**
Total gross deferred tax assets	**62,480**	62,795	**529,492**
Less, valuation allowance	**(4,087)**	(6,834)	**(34,636)**
Total deferred tax assets	**58,393**	55,961	**494,856**
Deferred tax liabilities:			
Unrealized holding gains on securities	**(8,099)**	(9,400)	**(68,636)**
Other	**(155)**	(150)	**(1,313)**
Total deferred tax liabilities	**(8,254)**	(9,550)	**(69,949)**
Net deferred tax assets	**¥50,139**	¥46,411	**$424,907**

10. Net assets

As described in Note 2, net assets comprises four subsections, which are owners' equity, accumulated gains (losses) from valuation and translation adjustments, share subscription rights and minority interests.

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the stockholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the stockholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the stockholders' meeting. Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

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 Japanese laws and regulations.

At the annual stockholders' meeting held on June 28, 2007, the stockholders approved cash dividends amounting to ¥9,108 million (US$77,186 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2007. Such appropriations are recognized in the period in which they are approved by the stockholders.

11. Subsequent events

The following appropriation of retained earnings at March 31, 2007 were approved at the annual meeting of stockholders held on June 28, 2007:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥25 ($0.21) per share	¥9,108	$77,186
Bonuses to directors and statutory auditors	95	805

Independent Auditors' Report

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

We have audited the accompanying non-consolidated balance sheets of The Chugoku Electric Power Co., Inc. as of March 31, 2007 and 2006, the related non-consolidated statements of income for each of the three years in the period ended March 31, 2007, the non-consolidated statements of changes in net assets for the year ended March 31, 2007, the non-consolidated statements of stockholders' equity for the year ended March 31, 2006 and 2005,and the non-consolidated statements of cash flows for each of the three years in the period ended March 31, 2007, expressed in Japanese yen. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently 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, 2007 and 2006, and the non-consolidated results of its operations for each of the three years in the period ended March 31, 2007, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.

(1) As discussed in Note 2 to the non-consolidated financial statements, effective April 1, 2004, The Chugoku Electric Power Co., Inc. adopted early the new accounting standard for impairment of fixed assets.
(2) As discussed in Note 2 to the non-consolidated financial statements, effective April 1, 2005, The Chugoku Electric Power Co., Inc. commenced depreciating easements related to lands below transmission lines.
(3) As discussed in Note 2 to the non-consolidated financial statements, effective April 1, 2005, The Chugoku Electric Power Co., Inc. changed the method of accounting for the provision for the reprocessing of irradiated nuclear fuel.
(4) As discussed in Note 2 to the non-consolidated financial statements, for the year ended March 31, 2007, The Chugoku Electric Power Co., Inc. commenced adopting for the provision for depreciation of nuclear power plant.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the non-consolidated financial statements.

KPMG AZSA & Co.

Hiroshima, Japan
June 28, 2007

Major Subsidiaries and Affiliated Companies

(As of July 1, 2007)

Name	Capital (Millions of yen)	Chugoku Electric's Ownership (%)	Business
CHUDEN KOGYO CO., LTD.*	¥77	100.0	Contracting out construction and painting projects
CHUDEN PLANT CO., LTD.*	¥200	100.0	Construction of power facilities
CHUGOKU INSTRUMENTS CO., INC.*	¥30	100.0	Assembly and repair of electric power meters
CHUGOKU KIGYO CO., INC.*	¥104	100.0	Realty and leasing
The Chugoku Electric Manufacturing Company, Incorporated*	¥150	100.0	Manufacturing of electric machine tools
CHUDEN KANKYO TECHNOS CO., LTD.*	¥50	100.0	Operation and management of thermal power station equipment
Energia Communications, Inc.*	¥6,000	100.0	Type 1 telecommunications business, data processing
EnerGia Business Service Co., Inc.*	¥490	100.0	Financial services for the Group, accounting and personnel-related services
Energia Solution & Service Company, Incorporated*	¥4,653	100.0	Fuel supply, energy utilization
EnerGia Real Estate Co., Inc.*	¥295	100.0	Housing sales, rental business
EnerGia Eco Materia Company, Incorporated*	¥300	100.0	Processing and marketing of products made of coal ash and powdered limestone
OZUKI STEEL INDUSTRIES CO., LTD.*	¥50	80.0	Manufacturing of cast steel products
CHUDEN ENGINEERING CONSULTANTS CO., LTD.*	¥100	80.0	Civil engineering and construction consulting
EnerGia Life & Access Co., Inc.*	¥65	77.7	Water heater sales, manufacture of power distribution materials
Power Engineering and Training Services, Incorporated*	¥400	72.0	Training in thermal power generation technology, engineering
The Energia Logistics Co., Inc.*	¥40	70.0	Logistics, electric cable drum leasing
International Standard Management Center Inc.*	¥100	66.0	Inspection of quality control and environmental management system
TEMPEARL INDUSTRIAL CO., LTD.*	¥150	56.6	Manufacturing of electric machine tools
CHUGOKU KOATSU CONCRETE INDUSTRIES CO., LTD.*	¥150	50.1	Manufacturing of concrete products
SANKO INC.*	¥30	46.7	Printing, advertising
Houseplus Chugoku Housing Warranty Corporation Limited*	¥50	35.6	Functional evaluation and warranty for housing
EnerGia Care Service Co., Inc.*	¥78	33.3	Management of a nursing home, day-care services, home nursing care services
EnerGia Human Resource Solutions Co., Inc.*	¥60	30.0	Personnel dispatching business
Setouchi Joint Thermal Power Co., Ltd.** (Note 1)	¥5,000	50.0	Thermal power generation
CHUGOKU HEALTH AND WELFARE CLUB CO., INC.**	¥50	50.0	Welfare agency services
MIZUSHIMA LNG COMPANY, LIMITED**	¥200	50.0	Accepting consignments to receive, store, convert into gas form, and deliver liquefied natural gas (LNG)
CHUDENKO CORPORATION**	¥3,481	42.0	Electrical and telecommunications engineering
MIZUSHIMA LNG SALES COMPANY, LIMITED**	¥175	40.0	Procurement of LNG and natural gas
Hiroshima Cable Television Corp.** (Note 2)	¥1,200	34.9	Cable television broadcasting
EAML Engineering Company Limited**	¥50	21.8	Manufacturing of instruments for hydroelectric power generation
Setouchi Power Corporation (Note 3)	¥100	50.0	Procurement of electric power

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

Notes: 1. Fukuyama Joint Thermal Power Co., Ltd., and Mizushima Joint Thermal Power Co., Ltd., merged on July 1, 2006, and the merged entity changed its name to Setouchi Joint Thermal Power Co., Ltd.
2. Hiroshima City Cable Television Co., Ltd., and Hiroshima Cable Vision Co., Ltd., merged on April 1, 2006, and the merged entity changed its name to Hiroshima Cable Television Corp.
3. Established Setouchi Power Corporation on August 22, 2006

Corporate Data

(As of March 31, 2007)

DATE OF ESTABLISHMENT: May 1, 1951

PAID-IN CAPITAL: ¥185,528 million

NUMBER OF EMPLOYEES: 10,426

LOCATIONS:

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

Tottori Office
1-2, Shinhonjicho, Tottori 680-0812, Japan
Tel: +81-857-24-2241 Fax: +81-857-67-3016

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

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

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

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

NUMBER OF USERS

	(Thousands)
Residential (lighting)	4,644
Industrial and commercial	613
Total	5,257

SUPPLY INFRASTRUCTURE

Power Stations

	Number of Facilities	Generating Capacity (MW)
Hydroelectric	97	2,905
Thermal	12	8,016
Nuclear	1	1,280
Total	110	12,201

Transmission Lines (Route length): 8,099 kilometers

Number of Substations: 451

Distribution Lines (Route length): 81,096 kilometers

Investor Information

(As of March 31, 2007)

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS:

KPMG AZSA & Co.

TRANSFER AGENT AND REGISTRAR:

The Sumitomo Trust & Banking Co., Ltd.

SECURITIES TRADED:

Tokyo Stock Exchange, Osaka Securities Exchange

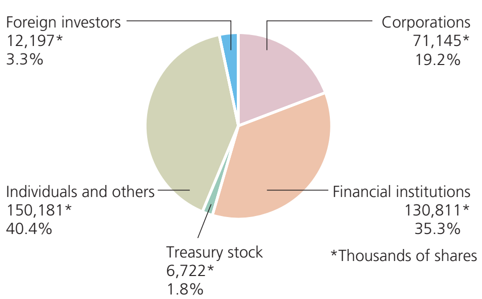
NUMBER OF STOCKHOLDERS:

157,761

COMMON STOCK ISSUED:

371,055,259 shares

DISTRIBUTION OF COMMON STOCK ISSUED:



MAJOR STOCKHOLDERS

Name	Number of Shares Held (thousands)	Percentage (%)
Yamaguchi Pref. Shinko Zaidan	49,505	13.34
Nippon Life Insurance Company	23,148	6.24
The Master Trust Bank of Japan, Ltd. (Trust account)	17,622	4.75
Japan Trustee Services Bank, Ltd. (Trust account)	16,467	4.44
The Sumitomo Trust & Banking Co., Ltd.	7,440	2.01
Mizuho Corporate Bank, Ltd.	5,801	1.56
Company's stock investment	5,388	1.45
The Dai-ichi Mutual Life Insurance Company	5,388	1.45
The Hiroshima Bank, Ltd.	5,092	1.37
Kochi Shinkin Bank	4,326	1.17

STOCK PRICE RANGE ON THE TOKYO STOCK EXCHANGE

Fiscal year	High (yen)	Low (yen)
2007 1st quarter	2,520	2,205
2nd quarter	2,505	2,305
3rd quarter	2,690	2,420
4th quarter	3,010	2,590
2008 1st quarter	2,730	2,380

The Chugoku Electric Power Co., Inc.

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