SEMI-ANNUAL FINANCIAL STATEMENTS

for the six months ended September 30, 2006

THE CHUGOKU ELECTRIC POWER CO.,INC

JAPAN

Cautionary Statement with Regard to Forward-Looking Statements

In this semi-annual report, all non-empirical information, including current plants, 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.

Many factors could affect Chugoku Electric's business results, including economic conditions related to the Company's business, currency fluctuations, fuel price fluctuations, climatic conditions affecting electric power sales and trends in the liberalization of the Japanese electric power industry.

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（ＣＯＮＳＯＬＩＤＡＴＥ　ＦＩＮＡＮＣＩＡＬ　ＳＴＡＴＥＭＥＮＴＳ）

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SEMI-ANNUAL CONSOLIDATED BALANCE SHEETS (UNAUDITED)

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
September 30, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	2006	2005	2006
Property:			
Utility plant and equipment	¥5, 329, 418	¥5, 302, 182	$45, 550, 581
Other plant	256, 698	256, 118	2, 194, 000
Construction in progress	165, 194	141, 735	1, 411, 915
	5, 751, 310	5, 700, 035	49, 156, 496
Less-			
Contributions in aid of construction	75, 556	74, 004	645, 778
Accumulated depreciation	3, 604, 700	3, 498, 651	30, 809, 402
	3, 680, 256	3, 572, 655	31, 455, 180
Net property (Note 7)	2, 071, 054	2, 127, 380	17, 701, 316
Nuclear fuel	120, 875	120, 578	1, 033, 120
Investments and other assets:			
Investment securities (Note 4)	61, 429	57, 421	525, 034
Funds reserved for reprocessing of irradiated nuclear fuel	56, 476	–	482, 701
Investments and advances to non-consolidated subsidiaries and affiliates	87, 492	88, 973	747, 795
Long-term loans to employees	1, 459	1, 834	12, 470
Deferred tax assets	51, 996	53, 333	444, 410
Other assets	19, 876	15, 535	169, 881
Total investments and other assets	278, 728	217, 096	2, 382, 291
Current assets:			
Cash and time deposits (Note 3)	16, 648	15, 898	142, 291
Receivables, less allowance for doubtful accounts of ¥762 million (US$6,513 thousand) in 2006 and ¥678 million in 2005	67, 432	62, 083	576, 342
Inventories, fuel and supplies	55, 085	36, 078	470, 812
Deferred tax assets	11, 189	10, 758	95, 632
Other current assets	21, 227	23, 431	181, 427
Total current assets	171, 581	148, 248	1, 466, 504
Total assets	¥2, 642, 238	¥2, 613, 302	$22, 583, 231

See accompanying notes.

Liabilities and Net Assets	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note 1) 2006
Long-term debt due after one year (Note 6)	¥1, 403, 186	¥1, 315, 664	$11, 993, 043
Other long-term liabilities due after one year	3, 764	6, 836	32, 171
Employees' severance and retirement benefits	62, 347	59, 912	532, 880
Provision for reprocessing of irradiated nuclear fuel	105, 517	107, 491	901, 855
Provision for decommissioning of nuclear power generating plants	47, 196	43, 808	403, 385
Current liabilities:			
Long-term debt due within one year (Note 6)	52, 132	124, 577	445, 573
Short-term borrowings	68, 130	74, 620	582, 308
Accounts payable	49, 125	41, 940	419, 872
Accrued income taxes	19, 875	15, 500	169, 872
Accrued expenses	40, 311	37, 492	344, 538
Other current liabilities, including other long-term liabilities due within one year	62, 956	104, 419	538, 085
Total current liabilities	292, 529	398, 548	2, 500, 248
Provision for drought	2, 831	773	24, 197
Contingent liabilities (Note 9)			
Net assets (Note 10):			
Owners' equity			
Common stock	185, 528	185, 528	1, 585, 709
Capital surplus	17, 187	16, 687	146, 897
Retained earnings (Note 12)	509, 581	468, 324	4, 355, 393
Treasury stock	(11, 815)	(12, 059)	(100, 983)
Total owners' equity	700, 481	658, 480	5, 987, 016
Accumulated gains (losses) from revaluation and translation adjustments			
Net unrealized holding gains on securities	19, 560	17, 313	167, 180
Unrealized gains on hedging derivative on a gross basis	–	58	–
Foreign currency translation adjustments	11	3	94
Total accumulated gains (losses) from revaluation and translation adjustments	19, 571	17, 374	167, 274
Minority interests	4, 816	4, 416	41, 162
Total net assets	724, 868	680, 270	6, 195, 452
Total liabilities and net assets	¥2, 642, 238	¥2, 613, 302	$22, 583, 231

SEMI-ANNUAL CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the six months ended September 30, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	2006
Operating revenues (Note 11):				
Electric	¥492, 534	¥467, 624	¥469, 076	$4, 209, 692
Other	39, 483	33, 647	28, 842	337, 462
	532, 017	501, 271	497, 918	4, 547, 154
Operating expenses (Note 11):				
Electric	422, 374	422, 915	400, 164	3, 610, 034
Other	36, 959	31, 735	29, 195	315, 889
	459, 333	454, 650	429, 359	3, 925, 923
Operating income	72, 684	46, 621	68, 559	621, 231
Other expenses (income):				
Interest expense	14, 345	14, 383	17, 382	122, 607
Interest income	(435)	(39)	(46)	(3, 718)
Gain on sales of securities	–	(711)	(3, 049)	–
Equity in losses (earnings) of affiliated companies	1, 437	(222)	(181)	12, 282
Loss on impairment of fixed assets (Note 7)	–	–	4, 390	–
Loss on discontinued operations	–	–	3, 199	–
Other, net	(384)	(997)	1, 726	(3, 282)
	14, 963	12, 414	23, 421	127, 889
Special item:				
Provision (reversal) for drought	2, 286	(1, 685)	347	19, 539
Income before income taxes and minority interests in net income of consolidated subsidiaries	55, 435	35, 892	44, 791	473, 803
Provision for income taxes:				
Current	14, 358	10, 396	15, 828	122, 718
Deferred	3, 816	2, 812	1, 131	32, 615
	18, 174	13, 208	16, 959	155, 333
Income before minority interests in net income of consolidated subsidiaries	37, 261	22, 684	27, 832	318, 470
Minority interests in net income of consolidated subsidiaries	195	96	32	1, 667
Net income	¥37, 066	¥22, 588	¥27, 800	$316, 803

	Yen			U.S. dollars (Note 1)
	2006	2005	2004	2006
Per share data:				
Net income:				
Basic	¥101. 83	¥62. 06	¥76. 34	$0. 87
Diluted	101. 83	62. 06	76. 34	0. 87
Interim cash dividends applicable to the period	25. 00	25. 00	25. 00	0. 21

See accompanying notes.

SEMI-ANNUAL CONSOLIDATED STATEMENTS OF NET ASSETS (UNAUDITED)

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the six months ended September 30, 2006, 2005 and 2004

		Millions of yen							
	Shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on securities	Unrealized gains on hedging derivatives on a gross basis	Foreign currency translation adjustments	Minority interests
Balance at March 31, 2004	371,055,259	¥185,528	¥16,680	¥427,159	¥(11,569)	¥11,810	¥1	¥(4)	¥5,025
Net income				27,800					
Cash dividends paid (¥25 per share)				(9,088)					
Bonuses to directors and statutory auditors				(227)					
Effect of decrease in investments accounted for by the equity method				(711)					
Effect of merger of consolidated subsidiaries with subsidiaries accounted for by the equity method				711					
Surplus from sale of treasury stock			1						
Treasury stock purchased, net					(87)				
Decrease in unrealized holding gains on securities						(1,652)			
Increase in unrealized gains on hedging derivatives on a gross basis							34		
Foreign currency translation adjustments								2	
Increase in minority interests									7
Balance at September 30, 2004	371,055,259	¥185,528	¥16,681	¥445,644	¥(11,656)	¥10,158	¥35	¥(2)	¥5,032
Balance at March 31, 2005	371,055,259	¥185,528	¥16,685	¥455,821	¥(11,946)	¥12,130	¥26	¥(9)	¥4,853
Net income				22,588					
Cash dividends paid (¥25 per share)				(9,083)					
Bonuses to directors and statutory auditors				(226)					
Effect of decrease in investments accounted for by the equity method				(1,259)					
Effect of increase in unrealized gross profit by changing holding ratio of subsidiaries				(776)					
Effect of increase of consolidated subsidiaries				1,259					
Surplus from sale of treasury stock			2						
Treasury stock purchased, net					(113)				
Increase in unrealized holding gains on securities						5,183			
Increase in unrealized gains on hedging derivatives on a gross basis							32		
Foreign currency translation adjustments								12	
Decrease in minority interests									(437)
Balance at September 30, 2005	371,055,259	¥185,528	¥16,687	¥468,324	¥(12,059)	¥17,313	¥58	¥3	¥4,416
Balance at March 31, 2006	371,055,259	¥185,528	¥16,700	¥481,823	¥(12,145)	¥23,573	¥–	¥16	¥4,661
Net income				37,066					
Cash dividends paid (¥25 per share)				(9,081)					
Bonuses to directors and statutory auditors				(227)					
Surplus from sale of treasury stock			487						
Treasury stock purchased, net					330				
Decrease in unrealized holding gains on securities						(4,013)			
Foreign currency translation adjustments								(5)	
Increase in minority interests									155
Balance at September 30, 2006	371,055,259	¥185,528	¥17,187	¥509,581	¥(11,815)	¥19,560	¥–	¥11	¥4,816

	Thousands of U.S. dollars (Note 1)							
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on securities	Unrealized gains on hedging derivatives on a gross basis	Foreign currency translation adjustments	Minority interests
Balance at March 31, 2006	$1,585,709	$142,735	$4,118,146	$(103,803)	$201,479	$–	$137	$39,838
Net income			316,803					
Cash dividends paid ($0.21 per share)			(77,615)					
Bonuses to directors and statutory auditors			(1,941)					
Surplus from sale of treasury stock		4,162						
Treasury stock purchased, net				2,820				
Decrease in unrealized holding gains on securities					(34,299)			
Foreign currency translation adjustments							(43)	
Increase in minority interests								1,324
Balance at September 30, 2006	$1,585,709	$146,897	$4,355,393	$(100,983)	$167,180	$–	$94	$41,162

See accompanying notes.

SEMI-ANNUAL CONSOLIDATED STATEMENTS OF CASH FLOW (UNAUDITED)

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the six months ended September 30, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S.dollars (Note 1)
	2006	2005	2004	2006
Cash flows from operating activities:				
Income before income taxes and minority interests in net income of consolidated subsidiaries	¥55, 435	¥35, 892	¥44, 791	$473, 803
Depreciation	69, 515	74, 705	78, 514	594, 145
Loss on impairment of fixed assets	630	259	4, 390	5, 385
Amortization of nuclear fuel	3, 054	3, 104	3, 570	26, 103
Loss on disposal of property	2, 474	2, 383	2, 444	21, 145
Increase (decrease) in employees' severance and retirement benefits	911	563	(21, 062)	7, 786
Increase (decrease) in provision for reprocessing of irradiated nuclear fuel	(1, 098)	5, 426	485	(9, 385)
Increase in provision for decommissioning of nuclear power generating plants	956	932	3, 023	8, 171
Increase (decrease) in provision for drought	2, 286	(1, 685)	347	19, 538
Increase (decrease) in provision for reserve for loss on discontinued operations	−	(499)	2, 991	−
Interest and dividend income	(967)	(597)	(611)	(8, 265)
Interest expense	14, 345	14, 383	17, 382	122, 607
Gain on sales of securities	−	(711)	(3, 049)	−
Decrease in reserve funds for reprocessing of irradiated nuclear fuel	483	−	−	4, 128
Increase in notes and accounts receivable	(3, 523)	(1, 173)	(7, 646)	(30, 111)
Increase in inventories	(7, 676)	(3, 810)	(2, 703)	(65, 607)
Increase (decrease) in notes and accounts payable	(9, 549)	(9, 849)	2, 492	(81, 615)
Increase (decrease) in liabilities for defined contribution pension and prepaid pension	(3, 215)	(3, 349)	9, 932	(27, 479)
Other	(9, 610)	(22, 446)	(782)	(82, 136)
Subtotal	114, 451	93, 528	134, 508	978, 213
Interest and dividends received	960	856	836	8, 205
Interest paid	(14, 302)	(14, 737)	(17, 831)	(122, 239)
Income taxes paid	(17, 320)	(10, 947)	(14, 525)	(148, 034)
Net cash provided by operating activities	83, 789	68, 700	102, 988	716, 145
Cash flows from investing activities:				
Purchase of property	(55, 817)	(51, 189)	(44, 829)	(477, 068)
Purchase of investments in securities	(499)	(234)	(458)	(4, 265)
Proceeds from sale of investment securities	105	1, 027	1, 574	897
Purchase of investments in subsidiaries	−	(590)	−	−
Other	2, 439	1, 269	1, 386	20, 846
Net cash used in investing activities	(53, 772)	(49, 717)	(42, 327)	(459, 590)
Cash flows from financing activities:				
Proceeds from issue of bonds	34, 883	−	14, 943	298, 145
Repayment of bonds	(19, 900)	−	(55, 000)	(170, 085)
Proceeds from long-term debt	15, 000	80, 000	27, 250	128, 205
Repayment of long-term debt	(37, 753)	(72, 498)	(28, 660)	(322, 675)
Proceeds from short-term loans	128, 120	167, 550	167, 240	1, 095, 043
Repayment of short-term loans	(128, 980)	(190, 890)	(167, 440)	(1, 102, 393)
Proceeds from issue of commercial paper	360, 500	509, 000	424, 000	3, 081, 196
Repayment of commercial paper	(374, 000)	(511, 000)	(436, 000)	(3, 196, 581)
Purchase of treasury stock	(126)	(124)	(101)	(1, 077)
Cash dividends paid	(9, 111)	(9, 113)	(9, 097)	(77, 872)
Other	4	(8)	8	34
Net cash used in financing activities	(31, 363)	(27, 083)	(62, 857)	(268, 060)
Effect of exchange rate changes on cash and cash equivalents	69	18	1	590
Net decrease in cash and cash equivalents	(1, 277)	(8, 082)	(2, 195)	(10, 915)
Cash and cash equivalents at beginning of period	17, 849	23, 877	23, 705	152, 556
Increase resulting from merger of equity method affiliate with consolidated subsidiary	−	−	532	−
Cash and cash equivalents at end of period (Note 3)	¥16, 572	¥15, 795	¥22, 042	$141, 641

See accompanying notes.

1. Basis of presenting semi-annual consolidated financial statements

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

The accompanying semi-annual consolidated financial statements have been restructured and translated into English from the semi-annual consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language semi-annual consolidated financial statements, but not required for fair presentation is not presented in the accompanying semi-annual consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the readers outside Japan, using the prevailing exchange rate on September 30, 2006, which was ¥117 to U.S.$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange. As discussed in Note 2, the consolidated statement of changes in net assets for 2005 has been 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 prior to 2006.

2. Significant accounting policies

The following is a summary of the significant accounting policies used in the preparation of the semi-annual consolidated financial statements.

Consolidation

The accompanying semi-annual 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 the 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 six months ended September 30, 2006, 24 subsidiaries (24 in 2005, 23 in 2004) were consolidated and 7 subsidiaries were excluded from consolidation due to the immateriality of consolidated total assets, sales and revenues, net income and retained earnings on the consolidated financial statements.

For the six months ended September 30, 2006, 7 (10 in 2005, 10 in 2004) non-consolidated subsidiaries and 9 (9 in 2005, 10 in 2004) affiliates were accounted for by the equity method.

For the six months ended September 30, 2006, 8 (8 in 2005, 9 in 2004) affiliates were stated at cost without applying the equity method of accounting. If the equity method had been applied for these investments, the amount of net income and retained earnings of the excluded affiliates would not have had a material effect on the semi-annual 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 shareholders' equity. The cost of securities sold is determined by the moving-average method. Other investments for which market value is not readily determinable are stated primarily at moving-average cost.

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 six months ended September 30, 2004, 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 new accounting standard for impairment of fixed assets, income before income taxes and minority interests in net income of consolidated subsidiaries decreased by ¥4,390 million for the six months ended September 30, 2004.

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 with the six months ended September 30, 2005. As a result, operating income decreased by ¥1,471 million and income before income taxes and minority interests in net income of consolidated subsidiaries decreased by ¥1,471 million for the six months ended September 30, 2005.

Nuclear fuel and amortization

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

Allowance for doubtful accounts

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 on the Companies’ historical loss rate with respect to remaining receivables.

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.

Prior to April 1, 2003, the Company had adopted a tax-qualified retirement pension plan to cover a certain portion of its employees’ retirement benefit plans. In March 2004, however, the Company revised its rules related to retirement benefit and pension plans to mitigate the effect of the retirement benefit and pension plans on the corporate accounts, stably maintain and operate these plans for a long period of time, and properly reflect employees’ capabilities and achievements. Elements of the revised rules applying from April 1, 2004 are as follows:

- The Company shifted from a qualified retirement pension plan to a cash balance plan, which is a hybrid pension plan based on variable interest rates, enabling the Company to flexibly respond to market interest rate fluctuations. As the related rules were revised in March 2004, retirement benefit obligation and other items for the year ended March 31, 2004 were computed based on the new plan.
- A part of the current lump-sum retirement benefit plan was shifted to an optional system under which the employees may choose a defined contribution pension plan or a prepayment plan.

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 periods of the employees. Actual gains and losses are recognized in expenses using a straight-line basis over 5 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 reprocessing of irradiated nuclear fuel is provided at the present value amount equivalent to the expense of the reprocessing of irradiated nuclear fuel.

However, 6 tons out of 12 tons of irradiated nuclear fuel which was derived during this period is not covered with reserves because there is no definite reprocessing plan and accurate estimation is not possible. The total amount of irradiated nuclear fuel which is not covered with reserves, including that which was derived prior to April 1, 2006, is 21 tons.

Prior to April 1, 2005, the annual provision for the cost 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 reprocessing of irradiated nuclear fuel. The composition of the back-end costs, such as 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 ¥2,930 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 six months ended September 30, 2005.

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 amount will be amortized over the periods of generating irradiated nuclear fuels for which there are concrete reprocessing plans from April 1, 2006. The annual amortization is presented as operating expense in the income statement. The amount of liabilities which had not been amortized was ¥3,067 million (US$26,214 thousand) on September 30, 2006.

In May 2005, the Law on the Creation and Management of Reserve Funds for the Reprocessing of Spent Fuel at Nuclear Power Stations was issued and an independent fund managing body was set up. According to the new law, the Company contributed to the reserve funds in year ended March 31, 2006. The contributed amount consisted of provision for reprocessing of nuclear fuel and the unfunded parts of reprocessing costs for the irradiated nuclear fuel which was derived before April 2005.

Provision for decommissioning of nuclear power plants

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

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

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 the personal handy phone voice service business of Energia Communications, Inc., a consolidated subsidiary. The amount is estimated based primarily on the cost of the disposal of equipment.

Accounting for certain lease transactions

Finance leases in 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 period-end rate.

Reclassification and restatement

Certain prior year amounts have been reclassified to conform to the current year presentation. Also, as described in Note 2, previously presented stockholders’ equity and certain other balance sheet items for 2005 and the consolidated statement of stockholders’ equity for 2005, which was voluntarily prepared for the purpose of inclusion in the 2005 consolidated financial statements, have been restated to conform to the new accounting standards adopted in 2006. These reclassifications and restatements had no impact on previously reported results of operations.

Change in useful lives

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

As a result of changing the basis for determining useful lives, income before income taxes and minority interests in net income of consolidated subsidiaries increased by ¥1,381 million for the six months ended September 30, 2004.

Consolidated tax system

In the six months ended September 30, 2004, the Companies introduced the consolidated tax system.

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

Effective for the six months ended September 30, 2006, the Company and its consolidated subsidiaries adopted new accounting standards, “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”).

Under the New Accounting Standards, the balance sheet comprises the assets, liabilities and net assets sections. Previously, the balance sheet comprised the assets, liabilities, minority interests and stockholders’ equity sections.

The net assets section comprises three subsections, which are owners’ equity, accumulated gains from valuation and translation adjustments and minority interests, as applicable.

The net assets section includes items which were not included in the previously presented stockholders` equity section. The accumulated gains from the valuation and translation adjustments section include unrealized gains on hedging derivatives, net of taxes. Prior to 2006, unrealized gains on hedging derivatives were included in liabilities and related income tax effects were not considered. Minority interests were presented between non-current liabilities and the previously presented stockholders’ equity.

The previously presented stockholders’ equity and certain other balance sheet items for 2005 have been restated to conform to the 2006 presentation. As a result, minority interests amounting to ￥4,416 million are included in the net assets section as of September 30, 2005. Also, unrealized gains on hedging derivatives at September 30, 2005 amounting to ￥58 million are included in the net assets section on a gross basis and without considering the related income tax effects.

If the New Accounting Standards had not been adopted and the previous presentation method for stockholders’ equity had been applied, stockholders’ equity at September 30, 2005 and 2006, which comprised common stock, capital surplus, retained earnings, unrealized gains on available-for-sale securities, net of taxes, foreign currency translation adjustments and treasury stock, would have been ￥675,796 million and ￥720,052 million (US$6,154,290 thousand), respectively.

Accounting Standard for Statement of Changes in Net Assets

Effective for the six months ended September 30, 2006, the Company and its consolidated subsidiaries adopted new accounting standards, “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 “New Accounting Standards”). Previously, consolidated statements of stockholders’ equity were prepared for purposes of inclusion in the consolidated financial statements, although such statements were not required in Japan.

Based on the reclassification of the previously presented stockholders` equity and certain other balance sheet items for 2005, as discussed in Note 2, the consolidated statement of changes in net assets for 2005 has been prepared in accordance with the New Accounting Standards, except that the 2005 unrealized gains on hedging derivatives are presented without considering the income tax effects. As result, minority interests of ￥4,416 million, which were not included in the 2005 consolidated statement of stockholders’ equity, are now presented in the consolidated statement of changes in net assets. Also, unrealized gains on hedging derivatives amounting to ￥58 million at September 30, 2005, which were included in liabilities in 2005, are presented in the consolidated statement of changes in net assets.

Examination of the equalization of the cost of reprocessing of irradiated nuclear fuel and construction of nuclear power station

Irradiated nuclear fuel for which there is no definite reprocessing plan is not covered with reserves.

However, according to the “Nuclear Energy National Plan” (Report by the Nuclear Energy Subcommittee of Sectional Committee on Electric Utility of the Advisory Committee on Natural Resources and Energy on August 8, 2006), an accounting system which provides for the cost of reprocessing as provision would be introduced in the year ended March 31, 2007 as a provisional measure until a more permanent plan for the reprocessing of irradiated fuel is fixed.

Also, by the report, for the purpose of equalizing the depreciation burden of nuclear power stations, an accounting system which saves a part of the construction cost as provision would be introduced in the year ended March 31, 2007.

A comprehensive system to account for the depreciation of nuclear power stations is under examination in the Sectional Committee on Electric Utility.

3. Cash and cash equivalents

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 September 30, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash and time deposits	¥16,648	¥15,898	$142,291
Less: Time deposits with maturities exceeding three months	(76)	(103)	(650)
Cash and cash equivalents	¥16,572	¥15,795	$141,641

4. Securities

A. The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available fair values as of September 30, 2006 and 2005:

	Millions of yen						Thousands of U.S. dollars		
	Acquisition cost		Book value		Difference		Acquisition cost	Book value	Difference
	2006	2005	2006	2005	2006	2005	2006		
Equity securities	¥4,886	¥4,852	¥36,347	¥31,397	¥31,461	¥26,545	$41,761	$310,658	$268,897
Bonds	9	9	9	9	0	0	77	77	0
Other	24	23	43	36	19	13	205	368	163
Total	¥4,919	¥4,884	¥36,399	¥31,442	¥31,480	¥26,558	$42,043	$311,103	$269,060

B. Book values of available-for-sale securities with no available fair market value as of September 30, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Book value		Book value
	2006	2005	2006
Non-listed equity securities	¥23,871	¥24,474	$204,026
Other	1,064	1,417	9,094
Total	¥24,935	¥25,891	$213,120

5. Derivatives

The Company and certain of its consolidated subsidiaries enter into forward foreign exchange contracts, currency swap contracts, interest rate swap contracts, commodity swap contracts and weather derivative instruments to mitigate and avoid market risk. The Company adopts hedge accounting for these derivatives, except for currency swap contracts, some commodity swap contracts and weather derivative instruments.

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.

Forward foreign exchange contracts, currency swap contracts, interest rate swap contracts and commodity swap contracts are exposed to market risk arising from movements in market value, and weather derivative instruments are exposed to the risk that the Companies might be obliged to pay certain amounts of money resulting from 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 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, 2006. 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 September 30, 2006.

As of September 30, 2006 and 2005, the fair value of derivatives was as follows (Disclosure of information on hedging derivatives is not required except for below.):

	Millions of yen						Thousands of U.S. dollars		
	Notional amount		Fair value		Gain		Notional amount	Fair value	Gain
	2006	2005	2006	2005	2006	2005	2006		
Currency swap	¥5,145	¥5,749	¥781	¥532	¥781	¥532	$43,974	$6,675	$6,675

6. Long-term debt

Long-term debt at September 30, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Domestic bonds due through 2029 at rates of 0.58% to 4.1%	¥830,000	¥844,800	$7,094,017
Loans from the Development Bank of Japan due through 2023 at rates of 0.75% to 5.0%	234,579	251,920	2,004,949
Unsecured loans, principally from banks and insurance companies, due through 2032 at rates of 0.27% to 6.45%	390,739	343,521	3,339,650
	1,455,318	1,440,241	12,438,616
Less amounts due within one year	(52,132)	(124,577)	(445,573)
Total	¥1,403,186	¥1,315,664	$11,993,043

At September 30, 2006 and 2005, loans from the Development Bank of Japan in the total amount of ¥220,094 million (US$1,881,145 thousand) and ¥233,743 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, which totaled ¥2,442,873 million (US$20,879,256 thousand) and ¥2,427,583 million at September 30, 2006 and 2005 respectively, senior to that of general creditors. Some assets of subsidiaries are being used as collateral for loans from financial institutions and other sources.

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.

Since the fixed assets currently being used for information and telecommunication businesses are generating cash flows, they are also considered one property group.

In addition, since there are no signs of decrease in the cash flows of these property groups, no loss has been recognized.

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

For the six months ended September 30, 2004, the Companies recognized ¥4,390 million of impairment losses on fixed assets which consisted of the following:

	Millions of yen
Construction in progress	¥2,313
General facilities, other property, plant and equipment	2,077
Total	¥4,390

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 as to 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 their carrying amounts in the accounting records. The Companies recognize impairment loss 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.

8. Leases

[As lessee]

The Companies lease certain equipment for business use.

Lease payments under non-capitalized finance leases amounted to ¥73 million (US$624 thousand), ¥79 million and ¥92 million for the six months ended September 30, 2006, 2005 and 2004 respectively.

The present values of future minimum lease payments under non-capitalized finance leases and future minimum lease payments under operating leases as of September 30, 2006 and 2005 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	Finance leases		Operating leases		Finance leases	Operating leases
	2006	2005	2006	2005	2006	2006
Current portion	¥138	¥142	¥56	¥199	$1,180	$479
Non-current portion	372	248	6	22	3,179	51
Total	¥510	¥390	¥62	¥221	$4,359	$530

[As lessor]

Lease payments received under finance leases, accounted for as operating leases, amounted to ¥199 million (US$1,701 thousand), ¥183 million and ¥116 million for the six months ended September 30, 2006, 2005 and 2004 respectively.

The present values of future minimum lease payments to be received under finance leases as of September 30, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Current portion	¥407	¥347	$3,478
Non-current portion	3,091	2,039	26,419
Total	¥3,498	¥2,386	$29,897

9. Contingent liabilities

At September 30, 2006, the Companies were contingently liable as guarantor for loans of other companies and employees in the amount of ¥139,152 million (US$1,189,333 thousand), mainly in connection with the Company's procurement of fuel.

At the same date, the Company was also contingently liable with respect to a domestic bond, which was assigned to a bank under a debt assumption agreement in the aggregate amount of ¥5,000 million (US$42,735 thousand).

10. Net Assets

As described in Note 2, net assets comprises three subsections: owners' equity, accumulated gains from valuation and translation adjustments, and minority interests.

Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code").

Under the 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 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 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 shareholders' 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 shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, additional paid-in capital and legal earnings reserve may be transferred to retained earnings by the resolution of the shareholders' meeting as long as the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock. 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 the Law.

At the board of directors’ meeting held on October 31, 2006, the stockholders resolved to pay cash dividends amounting to ¥9,110 million (US$77,863 thousand). Such appropriations have not been accrued in the consolidated financial statements as of September 30, 2006. Such appropriations are recognized in the period in which they were resolved.

11. 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 six months ended September 30, 2006, 2005 and 2004 is as follows:

	Millions of yen						
	2006						
	Electric power	Information and telecommunications	Comprehensive energy supply	Other	Total	Elimination	Consolidated
Operating revenues:							
Outside customers	¥492,534	¥8,260	¥9,332	¥21,891	¥532,017	¥—	¥532,017
Inter-segment	1,657	8,731	855	40,161	51,404	(51,404)	—
Total	494,191	16,991	10,187	62,052	583,421	(51,404)	532,017
Cost and expenses	425,364	15,785	9,888	60,083	511,120	(51,787)	459,333
Operating income	¥68,827	¥1,206	299	¥1,969	¥72,301	¥383	¥72,684

	Thousands of U.S. dollars						
	2006						
	Electric power	Information and telecommunications	Comprehensive energy supply	Other	Total	Elimination	Consolidated
Operating revenues:							
Outside customers	$4,209,692	$70,598	$79,761	$187,103	$4,547,154	$—	$4,547,154
Inter-segment	14,162	74,624	7,308	343,256	439,350	(439,350)	—
Total	4,223,854	145,222	87,069	530,359	4,986,504	(439,350)	4,547,154
Cost and expenses	3,635,589	134,915	84,513	513,530	4,368,547	(442,624)	3,925,923
Operating income	$588,265	$10,307	$2,556	$16,829	$617,957	$3,274	$621,231

	Millions of yen						
	2005						
	Electric power	Information and telecommunications	Comprehensive energy supply	Other	Total	Elimination	Consolidated
Operating revenues:							
Outside customers	¥467,624	¥7,724	¥6,215	¥19,707	¥501,270	¥—	¥501,270
Inter-segment	1,692	9,636	430	42,597	54,355	(54,355)	—
Total	469,316	17,360	6,645	62,304	555,625	(54,355)	501,270
Cost and expenses	425,883	16,129	6,315	61,112	509,439	(54,790)	454,649
Operating income	¥43,433	¥1,231	330	¥1,192	¥46,186	¥435	¥46,621

	Millions of yen						
	2004						
	Electric power	Information and telecommunications	Comprehensive energy supply	Other	Total	Elimination	Consolidated
Operating revenues:							
Outside customers	¥469,076	¥8,317	¥4,059	¥16,466	¥497,918	¥—	¥497,918
Inter-segment	1,507	9,547	400	32,978	44,432	(44,432)	—
Total	470,583	17,864	4,459	49,444	542,350	(44,432)	497,918
Cost and expenses	403,043	17,598	4,087	49,693	474,421	(45,062)	429,359
Operating income	¥67,540	¥266	372	¥(249)	¥67,929	¥630	¥68,559

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

Information for overseas sales of the Companies for the six months ended September 30, 2006, 2005 and 2004 is not shown because aggregate overseas sales were 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 ¥1,471 million and operating income decreased by the same amount for the six months ended September 30, 2005.

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 ¥2,930 million and operating income decreased by the same amount for the six months ended September 30, 2005.

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 ¥1,381 million and operating income increased by the same amount for the six months ended September 30, 2005.

12. Subsequent events

The following appropriation of retained earnings at September 30, 2006 was approved at the Board of Directors’ meeting held on October 31, 2006:

	Millions of yen	Thousands of U.S. dollars
Semi-annual cash dividends of ¥25 (US$0.21) per share	¥9,110	$77,863

SEMI-ANNUAL NON-CONSOLIDATED BALANCE SHEETS (UNAUDITED)

The Chugoku Electric Power Co., Inc.
September 30, 2006 and 2005

Assets	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note 1) 2006
Property:			
Plant and equipment	¥5,465,431	¥5,436,513	$46,713,085
Construction in progress	167,351	142,849	1,430,351
	5,632,782	5,579,362	48,143,436
Less-			
Contributions in aid of construction	74,103	72,546	633,359
Accumulated depreciation	3,554,602	3,453,323	30,381,214
	3,628,705	3,525,869	31,014,573
Net property (Note 5)	2,004,077	2,053,493	17,128,863
Nuclear fuel	120,875	120,578	1,033,120
Investments and other assets:			
Investment securities	53,070	50,096	453,590
Funds reserved for reprocessing of irradiated nuclear fuel	56,476	–	482,701
Investments and advances to subsidiaries and affiliated companies (Note 3)	28,675	41,171	245,085
Long-term loans to employees	1,346	1,719	11,504
Deferred tax assets	34,665	36,161	296,282
Other assets	17,532	12,910	149,846
Total investments and other assets	191,764	142,057	1,639,008
Current assets:			
Cash and time deposits	10,437	8,862	89,205
Receivables, less allowance for doubtful accounts of ¥629 million (US$5,376 thousand) in 2006 and ¥590 million in 2005	52,500	49,884	448,718
Inventories, fuel and supplies	32,699	25,181	279,479
Deferred tax assets	9,158	8,390	78,274
Other current assets	21,363	19,138	182,589
Total current assets	126,157	111,455	1,078,265
Total assets	¥2,442,873	¥2,427,583	$20,879,256

See accompanying notes.

Liabilities and Net Assets	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note 1) 2006
Long-term debt due after one year (Note 4)	¥1, 374, 600	¥1, 278, 370	$11, 748, 718
Other long-term liabilities due after one year	2, 413	5, 914	20, 624
Employees' severance and retirement benefits	51, 299	49, 271	438, 453
Provision for reprocessing of irradiated nuclear fuel	105, 517	107, 491	901, 855
Provision for decommissioning of nuclear power generating plants	47, 196	43, 808	403, 385
Current liabilities:			
Long-term debt due within one year (Note 4)	44, 234	120, 151	378, 068
Short-term borrowings	64, 350	65, 300	550, 000
Commercial paper	19, 000	72, 000	162, 393
Accounts payable	37, 058	31, 353	316, 735
Accrued income taxes	19, 251	14, 783	164, 538
Accrued expenses	35, 223	33, 169	301, 051
Other current liabilities, including other long-term liabilities due within one year	28, 473	23, 803	243, 360
Total current liabilities	247, 589	360, 559	2, 116, 145
Provision for drought	2, 831	773	24, 197
Contingent liabilities (Note 7)			
Net assets (Note 8):			
Owners' equity			
Common stock	185, 528	185, 528	1, 585, 709
Capital surplus	16, 695	16, 687	142, 692
Retained earnings (Note 9)	405, 835	378, 010	3, 468, 675
Treasury stock	(11, 809)	(11, 598)	(100, 932)
Total owners' equity	596, 249	568, 627	5, 096, 144
Accumulated gains (losses) from revaluation and translation adjustments			
Net unrealized holding gains on securities	15, 179	12, 712	129, 735
Unrealized holding gains on hedging derivatives on a gross basis	–	58	–
Total accumulated gains (losses) from revaluation and translation adjustments	15, 179	12, 770	129, 735
Total net assets	611, 428	581, 397	5, 225, 879
Total liabilities and net assets	¥2, 442, 873	¥2, 427, 583	$20, 879, 256

SEMI-ANNUAL NON-CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

The Chugoku Electric Power Co., Inc.
For the six months ended September 30, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	2006
Operating revenues	¥499, 899	¥472, 486	¥472, 897	$4, 272, 641
Operating expenses:				
Personnel	58, 754	62, 922	57, 379	502, 171
Fuel	97, 397	84, 275	60, 881	832, 453
Purchased power	73, 668	78, 951	78, 771	629, 641
Depreciation	63, 374	68, 195	72, 056	541, 658
Maintenance	40, 865	40, 724	37, 507	349, 274
Taxes other than income taxes	31, 242	30, 699	34, 126	267, 026
Purchased services	14, 711	14, 613	18, 051	125, 735
Other	51, 061	48, 636	46, 364	436, 418
	431, 072	429, 015	405, 135	3, 684, 376
Operating income	68, 827	43, 471	67, 762	588, 265
Other expenses (income):				
Interest expense	14, 045	14, 017	16, 936	120, 043
Interest income	(425)	(27)	(32)	(3, 632)
Loss on impairment of fixed assets (Note 5)	–	–	4, 089	–
Other, net	(474)	(1, 679)	(1, 760)	(4, 052)
	13, 146	12, 311	19, 233	112, 359
Income before special item and income taxes	55, 681	31, 160	48, 529	475, 906
Special item:				
Provision (reversal) for drought	2, 286	(1, 685)	347	19, 538
Provision for income taxes:				
Current	13, 245	9, 233	15, 279	113, 205
Deferred	3, 392	2, 775	2, 435	28, 992
Net income	¥36, 758	¥20, 837	¥30, 468	$314, 171

	Yen			U.S. dollars (Note 1)
	2006	2005	2004	2006
Per share data:				
Net income:				
Basic	¥100. 86	¥57. 16	¥83. 54	$0. 86
Diluted	100. 86	57. 16	83. 54	0. 86
Interim cash dividends applicable to the period	25. 00	25. 00	25. 00	0. 21

See accompanying notes.

SEMI-ANNUAL NON-CONSOLIDATED STATEMENTS OF NET ASSETS (UNAUDITED)

The Chugoku Electric Power Co., Inc.
For the six months ended September 30, 2006, 2005 and 2004

	Shares of common stock	Millions of yen: Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on securities	Unrealized gains on hedging derivatives on a gross basis
Balance at March 31, 2004	371, 055, 259	¥185, 528	¥16, 680	¥338, 265	¥(11, 109)	¥9, 029	¥1
Net income				30, 468			
Cash dividends paid (¥25 per share)				(9, 118)			
Bonuses to directors and statutory auditors				(120)			
Surplus from sale of treasury stock			1				
Treasury stock purchased, net					(86)		
Decrease in unrealized holding gains on securities						(412)	
Increase in unrealized gains on hedging derivatives on a gross basis							34
Balance at September 30, 2004	371, 055, 259	¥185, 528	¥16, 681	¥359, 495	¥(11, 195)	¥8, 617	¥35
Balance at March 31, 2005	371, 055, 259	¥185, 528	¥16, 685	¥366, 407	¥(11, 484)	¥10, 411	¥26
Net income				20, 837			
Cash dividends paid (¥25 per share)				(9, 114)			
Bonuses to directors and statutory auditors				(120)			
Surplus from sale of treasury stock			2				
Treasury stock purchased, net					(114)		
Increase in unrealized holding gains on securities						2, 301	
Increase in unrealized gains on hedging derivatives on a gross basis							32
Balance at September 30, 2005	371, 055, 259	¥185, 528	¥16, 687	¥378, 010	¥(11, 598)	¥12, 712	¥58
Balance at March 31, 2006	371, 055, 259	¥185, 528	¥16, 691	¥378, 308	¥(11, 693)	¥16, 602	¥–
Net income				36, 758			
Cash dividends paid (¥25 per share)				(9, 111)			
Bonuses to directors and statutory auditors				(120)			
Surplus from sale of treasury stock			4				
Treasury stock purchased, net					(116)		
Decrease in unrealized holding gains on securities						(1, 423)	
Balance at September 30, 2006	371, 055, 259	¥185, 528	¥16, 695	¥405, 835	¥(11, 809)	¥15, 179	¥–

	Thousands of U.S. dollars (Note 1): Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on securities	Unrealized gains on hedging derivatives on a gross basis
Balance at March 31, 2006	$1, 585, 709	$142, 658	$3, 233, 402	$(99, 940)	$141, 897	$–
Net income			314, 171			
Cash dividends paid ($0.21 per share)			(77, 872)			
Bonuses to directors and statutory auditors			(1, 026)			
Surplus from sale of treasury stock		34				
Treasury stock purchased, net				(992)		
Decrease in unrealized holding gains on securities					(12, 162)	
Balance at September 30, 2006	$1, 585, 709	$142, 692	$3, 468, 675	$(100, 932)	$129, 735	$–

See accompanying notes.

1. Basis of presenting semi-annual non-consolidated financial statements

The accompanying semi-annual financial statements of The Chugoku Electric Power Company, 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, the Electricity Utilities Industry Law and in conformity with accounting principles generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards.

The accompanying semi-annual non-consolidated financial statements have been restructured and translated into English from the semi-annual non-consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language non-consolidated financial statements, but not required for fair presentation is not presented in the accompanying financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the readers outside Japan, using the prevailing exchange rate on September 30, 2006, which was ¥117 to U.S.$1.00.

The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange. As discussed in Note 2, the non-consolidated statement of changes in net assets for 2005 has been 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 prior to 2006.

2. Significant accounting policies

The following is a summary of the significant accounting policies used in the preparation of the semi-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 the 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 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 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.

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 with the six months ended September 30, 2005. As a result, operating income decreased by ¥1,471 million and income before income taxes decreased by ¥1,471 million for the six months ended September 30, 2005.

Accounting for the impairment of fixed assets

For the six months ended September 30, 2004, 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 six months ended September 30, 2004.

Nuclear fuel and amortization

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

Allowance for doubtful accounts

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.

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

Prior to April 1, 2003, the Company had a tax-qualified retirement pension plan to cover a certain portion of its employees' retirement benefit plans. In March 2004, however, the Company revised its rules related to retirement benefit and pension plans to mitigate the effect of the retirement benefit and pension plans on the corporate accounts, stably maintain and operate these plans for a long period, and properly reflect employees' capabilities and achievements. Elements of the revised rules applying of time April 1, 2004 are as follows:

- The Company shifted from a qualified retirement pension plan to a cash balance plan, which is a hybrid pension plan based on variable interest rates, enabling the Company to flexibly respond to market interest rate fluctuations. As the related rules were revised in March 2004, retirement benefit obligation and other items for the year ended March 31, 2004 were computed based on the new plan.
- A part of the current lump-sum retirement benefit plan was shifted to an optional system under which the employees may choose a defined contribution pension plan or a prepayment plan.

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 5 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.

However, 6 tons out of 12 tons of irradiated nuclear fuel which was derived during this period is not covered with reserves because there is no definite reprocessing plan and an accurate estimation is not possible. The total amount of irradiated nuclear fuel which is not covered with reserves, including that which was derived prior to April 1, 2006, is 21 tons.

Prior to April 1, 2005, the annual provision for the cost 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 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 ¥2,930 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 six months ended September 30, 2005.

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 expense in the income statement. The amount of liabilities which had not been amortized was ¥3,067 million (US$26,214 thousand) on September 30, 2006.

In May 2005, the Law on the Creation and Management of Reserve Funds for the Reprocessing of Spent Fuel at Nuclear Power Stations was issued and an independent fund managing body was set up. According to the new law, the Company contributed to the reserve funds in year ended on March 31, 2006. The contributed amount consisted of provision for the reprocessing of nuclear fuel and the unfunded parts of reprocessing costs for the irradiated nuclear fuel which was derived before April 2005.

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 a reserve for the decommissioning of nuclear power plants by periodically charging to income the future decommissioning costs of nuclear power plants.

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

Provision for drought

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

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 recognizes 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 losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts is 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 gain or loss 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.

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.

Reclassification and restatement
Certain prior year amounts have been reclassified to conform to the current year presentation. Also, as described in Note 2, previously presented stockholders' equity and certain other balance sheet items for 2005 and the non-consolidated statement of stockholders' equity for 2005, which was voluntarily prepared for the purpose of inclusion in the 2005 non-consolidated financial statements, have been restated to conform to the new accounting standards adopted in 2006.These reclassifications and restatement had no impact on previously reported results of operations.

Consolidated tax system
In the six months ended September 30, 2004, the Companies introduced the consolidated tax system.

Accounting Standard for Presentation of Changes in Net Assets in the Balance Sheet
Effective for the six months ended September 30, 2006, the Company and its consolidated subsidiaries adopted new accounting standards, "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").

Under the New Accounting Standards, the balance sheet comprises the assets, liabilities and net assets sections. Previously, the balance sheet comprised the assets, liabilities, minority interests and stockholders' equity sections.

The net assets section comprises two subsections, owners' equity and accumulated gains from valuation, as applicable.

The net assets section includes items which were not included in the previously presented stockholders` equity section. The accumulated gains from the valuation and translation, adjustment section include unrealized gains on hedging derivatives, net of taxes. Prior to 2006, unrealized gains on hedging derivatives were included in liabilities and related income tax effects were not considered.

The previously presented stockholders' equity and certain other balance sheet items for 2005 have been restated to conform to the 2006 presentation. As a result, unrealized gains on hedging derivatives at September 30, 2005 amounting to ￥58 million are included in the net assets section on a gross basis and without considering the related income tax effects.

If the New Accounting Standards had not been adopted and the previous presentation method for the stockholders' equity had been applied, the stockholders' equity at September 30, 2005 and 2006, which comprised common stock, capital surplus, retained earnings, unrealized gains on available-for-sale securities, net of taxes, and treasury stock, would have been ￥581,339 million and ￥611,428 million (US$5,225,879 thousand), respectively.

Accounting Standard for Statement of Changes in Net Assets
Effective for the six months ended September 30, 2006, the Company adopted new accounting standards, "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 "New Accounting Standards"). Previously, non-consolidated statements of stockholders' equity were prepared for purposes of inclusion in the non-consolidated financial statements, although such statements were not required in Japan.

Based on the reclassification of the previously presented stockholders` equity and certain other balance sheet items for 2005 as discussed in Note 2, the non-consolidated statement of changes in net assets for 2005 has been prepared in accordance with the New Accounting Standards, except that the 2005 unrealized gains on hedging derivatives are presented without considering the income tax effects. As result, unrealized gains on hedging derivatives amounting to ￥58 million at September 30, 2005, which were included in liabilities in 2005, are presented in the non-consolidated statement of changes in net assets.

Examination of the equalization of the cost of reprocessing of irradiated nuclear fuel and construction of nuclear power station

Irradiated nuclear fuel for which there is no definite reprocessing plan is not covered with reserves.

However, according to the "Nuclear Energy National Plan" (Report by the Nuclear Energy Subcommittee of Sectional Committee on Electric Utility of the Advisory Committee on Natural Resources and Energy on August 8, 2006), an accounting system which provides for the cost of reprocessing as provision would be introduced in the year ended March 31, 2007 as a provisional measure until a more permanent plan for the reprocessing of irradiated fuel is fixed.

Also, by the report, for the purpose of equalizing the depreciation burden of nuclear power stations, an accounting system which saves a part of the construction cost as provision would be introduced in the year ended March 31, 2007.

A comprehensive system to account for the depreciation of nuclear power stations is under examination in the Sectional Committee on Electric Utility.

3. Securities

Disclosure of market value information for securities, except for investments in subsidiaries and affiliates, with readily available market values at September 30, 2006 is required only on a consolidated basis.

Book values and fair values of equity securities issued by subsidiaries and affiliated companies with available fair values as of September 30, 2006 and 2005 were as follows:

	Millions of yen						Thousands of U.S. dollars		
	Book value		Fair value		Difference		Book value	Fair value	Difference
	2006	2005	2006	2005	2006	2005	2006		
Equity securities of affiliated companies	¥2,493	¥2,493	¥44,238	¥46,090	¥41,745	¥43,597	$21,308	$378,103	$356,795

4. Long- term debt

Long-term debt at September 30, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Domestic bonds due through 2029 at rates of 0.58% to 4.1%	¥830,000	¥845,000	$7,094,017
Loans from the Development Bank of Japan due through 2023 at rates of 0.75% to 4.95%	220,094	233,743	1,881,145
Unsecured loans, principally from banks and insurance companies, due through 2032 at rates of 0.27% to 6.45%	368,740	319,778	3,151,624
	1,418,834	1,398,521	12,126,786
Less amounts due within one year	(44,234)	(120,151)	(378,068)
Total	¥1,374,600	¥1,278,370	$11,748,718

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.

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 businesses are considered separately. In addition, since there are no signs of decrease in the cash flows of these property groups, no loss was recognized for the six months ended September 30, 2006.

For the six months ended September 30, 2004, the Company recognized ¥4,089 million of impairment losses on fixed assets which consisted of the following:

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

Impairment losses relating to "construction in progress" with uncertain future cash flows were recognized by individual project. Impairment losses relating to "general facilities" were grouped within respective areas because these assets were 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 loss if the undiscounted expected future cash flows are less than the carrying amount of the asset.

Recoverable amounts 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 ¥537 million (US$4,590 thousand), ¥529 and ¥360 million for the six months ended September 30, 2006, 2005 and 2004 respectively.

The present values of future minimum lease payments under non-capitalized finance leases and future minimum lease payments under operating leases as of September 30, 2006 and 2005 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	Finance leases		Operating leases		Finance leases	Operating leases
	2006	2005	2006	2005	2006	2006
Current portion	¥760	¥974	¥145	¥342	$6,496	$1,240
Non-current portion	1,348	1,795	28	115	11,521	239
Total	¥2,108	¥2,769	¥173	¥457	$18,017	$1,479

7. Contingent liabilities

At September 30, 2006, the Company was contingently liable as guarantor for loans of other companies and employees in the amount of ¥165,920 million (US$1,418,120 thousand), mainly in connection with the Company's procurement of fuel.

At the same date, the Company was also contingently liable with respect to a domestic bond, which was assigned to a bank under a debt assumption agreement in the aggregate amount of ¥5,000 million (US$42,735 thousand).

8. Net Assets

As described in Note 2, net assets comprises two subsections, owners' equity and accumulated gains from valuation.

Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code").

Under the 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 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 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 shareholders' 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 shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, additional paid-in capital and legal earnings reserve may be transferred to retained earnings by the resolution of the shareholders' meeting as long as the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock. 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 the Law.

At the board of directors' meeting held on October 31, 2006, the stockholders resolved to pay cash dividends amounting to ￥9,110 million (US$77,863 thousand). Such appropriations have not been accrued in the consolidated financial statements as of September 30, 2006. Such appropriations are recognized in the period in which they were resolved.

9. Subsequent events

The following appropriations of retained earnings at September 30, 2006, were approved at the Board of Directors' meeting held on October 31, 2006:

	Millions of yen	Thousands of U.S. dollars
Semi-annual cash dividends of ¥25 ($0.21) per share	¥9,110	$77,863

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