SEMI-ANNUAL FINANCIAL STATEMENTS

for the six months ended September 30, 2007

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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SEMI-ANNUAL CONSOLIDATED BALANCE SHEETS (UNAUDITED)

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
September 30, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	2007	2006	2007
Property:			
Utility plant and equipment	¥5, 340, 827	¥5, 329, 418	$46, 441, 974
Other plant	259, 134	256, 698	2, 253, 339
Construction in progress	255, 233	165, 194	2, 219, 417
	5, 855, 194	5, 751, 310	50, 914, 730
Less-			
Contributions in aid of construction	75, 839	75, 556	659, 470
Accumulated depreciation	3, 697, 716	3, 604, 700	32, 154, 052
	3, 773, 555	3, 680, 256	32, 813, 522
Net property	2, 081, 639	2, 071, 054	18, 101, 208
Nuclear fuel	133, 073	120, 875	1, 157, 157
Investments and other assets:			
Investment securities (Note 4)	56, 490	61, 429	491, 217
Funds reserved for reprocessing of irradiated nuclear fuel	89, 723	56, 476	780, 200
Investments and advances to non-consolidated subsidiaries and affiliates	88, 047	87, 492	765, 626
Long-term loans to employees	1, 055	1, 459	9, 174
Deferred tax assets	59, 154	51, 996	514, 383
Other assets	38, 586	19, 876	335, 530
Total investments and other assets	333, 055	278, 728	2, 896, 130
Current assets:			
Cash and time deposits (Note 3)	20, 568	16, 648	178, 852
Receivables, less allowance for doubtful accounts of ¥812 million (US$7,061 thousand) in 2007 and ¥762 million in 2006	74, 382	67, 432	646, 800
Inventories, fuel and supplies	46, 359	55, 085	403, 122
Deferred tax assets	10, 926	11, 189	95, 009
Other current assets	23, 330	21, 227	202, 870
Total current assets	175, 565	171, 581	1, 526, 653
Total assets	¥2, 723, 332	¥2, 642, 238	$23, 681, 148

See notes to semi-annual consolidated financial statements.

Liabilities and Net Assets	Millions of yen 2007	2006	Thousands of U.S. dollars (Note 1) 2007
Long-term debt (Note 6)	¥1, 356, 621	¥1, 403, 186	$11, 796, 704
Other long-term liabilities	20, 166	3, 764	175, 357
Employees' severance and retirement benefits	60, 716	62, 347	527, 965
Retirement allowances for directors and corporate auditors	1, 235	–	10, 739
Provision for reprocessing of irradiated nuclear fuel	101, 562	105, 517	883, 148
Provision for reprocessing of irradiated nuclear fuel without a fixed plan to reproces	2, 255	–	19, 609
Provision for decommissioning of nuclear power generating plants	48, 668	47, 196	423, 200
Current liabilities:			
Long-term debt due within one year (Note 6)	183, 732	52, 132	1, 597, 670
Short-term borrowings	67, 790	68, 130	589, 478
Accounts payable	57, 165	49, 125	497, 087
Accrued income taxes	10, 643	19, 875	92, 548
Accrued expenses	39, 944	40, 311	347, 339
Other current liabilities, including other long-term liabilities due within one year	40, 420	62, 956	351, 478
Total current liabilities	399, 694	292, 529	3, 475, 600
Provision for drought	–	2, 831	–
Provision for depreciation of nuclear power plant	20, 240	–	176, 000
Contingent liabilities (Note 8)			
Net assets:			
Owners' equity			
Common stock	185, 528	185, 528	1, 613, 287
Capital surplus	17, 194	17, 187	149, 513
Retained earnings	501, 451	509, 581	4, 360, 443
Treasury stock	(12, 156)	(11, 815)	(105, 704)
Total owners' equity	692, 017	700, 481	6, 017, 539
Net unrealized holding gains on securities	15, 078	19, 560	131, 113
Foreign currency translation adjustments	32	11	278
Minority interests	5, 048	4, 816	43, 896
Total net assets	712, 175	724, 868	6, 192, 826
Total liabilities and net assets	¥2, 723, 332	¥2, 642, 238	$23, 681, 148

SEMI-ANNUAL CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the six months ended September 30, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	2007
Operating revenues (Note 9):				
Electric	¥489, 828	¥492, 534	¥467, 624	$4, 259, 374
Other	42, 562	39, 483	33, 647	370, 104
	532, 390	532, 017	501, 271	4, 629, 478
Operating expenses (Note 9):				
Electric	446, 971	422, 374	422, 915	3, 886, 704
Other	40, 406	36, 959	31, 735	351, 357
	487, 377	459, 333	454, 650	4, 238, 061
Operating income	45, 013	72, 684	46, 621	391, 417
Other expenses (income):				
Interest expense	15, 418	14, 345	14, 383	134, 070
Interest income	(815)	(435)	(39)	(7, 087)
Gain on sales of securities	–	–	(711)	–
Equity in losses (earnings) of affiliated companies	(334)	1, 437	(222)	(2, 905)
Other, net	(848)	(384)	(997)	(7, 374)
	13, 421	14, 963	12, 414	116, 704
Special item:				
Provision (reversal) for drought	(657)	2, 286	(1, 685)	(5, 713)
Provision for depreciation of nuclear power plant	15, 187	–	–	132, 061
Income before income taxes and minority interests in net income of consolidated subsidiaries	17, 062	55, 435	35, 892	148, 365
Provision for income taxes:				
Current	5, 293	14, 358	10, 396	46, 026
Deferred	1, 638	3, 816	2, 812	14, 244
	6, 931	18, 174	13, 208	60, 270
Income before minority interests in net income of consolidated subsidiaries	10, 131	37, 261	22, 684	88, 095
Minority interests in net income of consolidated subsidiaries	71	195	96	617
Net income	¥10, 060	¥37, 066	¥22, 588	$87, 478

	Yen			U.S. dollars (Note 1)
	2007	2006	2005	2007
Per share data:				
Net income:				
Basic	¥27. 62	¥101. 83	¥62. 06	$0. 24
Interim cash dividends applicable to the period	25. 00	25. 00	25. 00	0. 22

See notes to semi-annual consolidated financial statements.

SEMI-ANNUAL CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (UNAUDITED)

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the six months ended September 30, 2007,2006 and 2005

		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	Total
Balance at March 31, 2005	371, 055, 259	¥185, 528	¥16, 685	¥455, 821	¥(11, 946)	¥12, 130	¥26	¥(9)	¥4, 853	¥663, 088
Net income				22, 588						22, 588
Cash dividends paid (¥25 per share)				(9, 083)						(9, 083)
Bonuses to directors and statutory auditors				(226)						(226)
Effect of decrease in investments accounted										−
for by the equity method				(1, 259)						(1, 259)
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
Surplus from sale of treasury stock			2							2
Treasury stock purchased, net					(113)					(113)
Increase in unrealized holding gains on securities						5, 183				5, 183
Increase in unrealized gains on hedging derivatives on a gross basis							32			32
Foreign currency translation adjustments								12		12
Decrease in minority interests									(437)	(437)
Balance at September 30, 2005	371, 055, 259	¥185, 528	¥16, 687	¥468, 324	¥(12, 059)	¥17, 313	¥58	¥3	¥4, 416	¥680, 270
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, 066						37, 066
Cash dividends paid (¥25 per share)				(9, 081)						(9, 081)
Bonuses to directors and statutory auditors				(227)						(227)
Surplus from sale of treasury stock			487							487
Treasury stock purchased, net					330					330
Decrease in unrealized holding gains on securities						(4, 013)				(4, 013)
Foreign currency translation adjustments								(5)		(5)
Increase in minority interests									155	155
Balance at September 30, 2006	371, 055, 259	¥185, 528	¥17, 187	¥509, 581	¥(11, 815)	¥19, 560	¥−	¥11	¥4, 816	¥724, 868
Balance at March 31, 2007	371, 055, 259	¥185, 528	¥17, 192	¥500, 499	¥(12, 020)	¥19, 680	¥−	¥20	¥5, 073	¥715, 972
Net income				10, 060						10, 060
Cash dividends paid (¥25 per share)				(9, 108)						(9, 108)
Surplus from sale of treasury stock			7		23					31
Treasury stock purchased, net					(159)					(159)
Decrease in unrealized holding gains on securities			(5)			(4, 602)				(4, 607)
Foreign currency translation adjustments								12		12
Increase in minority interests									(25)	(25)
Balance at September 30, 2007	371, 055, 259	¥185, 528	¥17, 194	¥501, 451	¥(12, 156)	¥15, 078	¥−	¥32	¥5, 048	¥712, 175

	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	Total
Balance at March 31, 2007	$1, 613, 287	$149, 496	$4, 352, 165	$(104, 522)	$171, 130	$−	$174	$44, 113	$6, 225, 843
Net income			87, 478						87, 478
Cash dividends paid ($0.22 per share)			(79, 200)						(79, 200)
Surplus from sale of treasury stock		61		200					270
Treasury stock purchased, net				(1, 382)					(1, 382)
Decrease in unrealized holding gains on securities		(44)			(40, 017)				(40, 061)
Foreign currency translation adjustments							104		104
Increase in minority interests								(217)	(217)
Balance at September 30, 2007	$1, 613, 287	$149, 513	$4, 360, 443	$105, 704	$131, 113	$−	$278	$43, 896	$6, 192, 826

See notes to semi-annual consolidated financial statements.

SEMI-ANNUAL CONSOLIDATED STATEMENTS OF CASH FLOW (UNAUDITED)

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the six months ended September 30, 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	¥17, 062	¥55, 435	¥35, 892	$148, 365
Depreciation	71, 569	69, 515	74, 705	622, 339
Loss on impairment of fixed assets	73	630	259	635
Amortization of nuclear fuel	3, 018	3, 054	3, 104	26, 243
Loss on disposal of property	2, 503	2, 474	2, 383	21, 765
Increase (decrease) in employees' severance and retirement benefits	(829)	911	563	(7, 209)
Increase (decrease) in provision for reprocessing of irradiated nuclear fuel	(16, 724)	(1, 098)	5, 426	(145, 426)
Increase in provision for reprocessing of irradiated nuclear fuel without a fixed planto reprocess	478	−	−	4, 157
Increase in provision for decommissioning of nuclear power generating plants	958	956	932	8, 330
Increase (decrease) in provision for drought	(657)	2, 286	(1, 685)	(5, 713)
Increase in provision for depreciation of nuclear power plant	15, 187	−	−	132, 061
Decrease in provision for reserve for loss on discontinued operations	−	−	(499)	−
Interest and dividend income	(1, 379)	(967)	(597)	(11, 991)
Interest expense	15, 418	14, 345	14, 383	134, 070
Gain on sales of securities	−	−	(711)	−
Decrease in reserve funds for reprocessing of irradiated nuclear fuel	3, 945	483	−	34, 304
Increase in notes and accounts receivable	(2, 852)	(3, 523)	(1, 173)	(24, 800)
Decrease (increase) in inventories	1, 758	(7, 676)	(3, 810)	15, 287
Decrease in notes and accounts payable	(3, 657)	(9, 549)	(9, 849)	(31, 800)
Decrease in liabilities for defined contribution pension and prepaid pension	(3, 047)	(3, 215)	(3, 349)	(26, 496)
Other	(8, 084)	(9, 610)	(22, 446)	(70, 297)
Subtotal	94, 740	114, 451	93, 528	823, 826
Interest and dividends received	1, 557	960	856	13, 539
Interest paid	(14, 952)	(14, 302)	(14, 737)	(130, 017)
Income taxes paid	(5, 338)	(17, 320)	(10, 947)	(46, 418)
Net cash provided by operating activities	76, 007	83, 789	68, 700	660, 930
Cash flows from investing activities:				
Purchase of property	(111, 407)	(55, 817)	(51, 189)	(968, 757)
Purchase of investments in securities	(7, 213)	(499)	(234)	(62, 722)
Proceeds from sale of investment securities	354	105	1, 027	3, 078
Purchase of investments in subsidiaries	−	−	(590)	−
Other	2, 688	2, 439	1, 269	23, 374
Net cash used in investing activities	(115, 578)	(53, 772)	(49, 717)	(1, 005, 026)
Cash flows from financing activities:				
Proceeds from issue of bonds	59, 774	34, 883	−	519, 774
Repayment of bonds	−	(19, 900)	−	−
Proceeds from long-term debt	35, 000	15, 000	80, 000	304, 348
Repayment of long-term debt	(25, 267)	(37, 753)	(72, 498)	(219, 713)
Proceeds from short-term loans	79, 520	128, 120	167, 550	691, 478
Repayment of short-term loans	(81, 589)	(128, 980)	(190, 890)	(709, 470)
Proceeds from issue of commercial paper	366, 000	360, 500	509, 000	3, 182, 609
Repayment of commercial paper	(384, 000)	(374, 000)	(511, 000)	(3, 339, 130)
Purchase of treasury stock	(159)	(126)	(124)	(1, 383)
Cash dividends paid	(9, 108)	(9, 111)	(9, 113)	(79, 200)
Other	14	4	(8)	122
Net cash provided (used) in financing activities	40, 185	(31, 363)	(27, 083)	349, 435
Effect of exchange rate changes on cash and cash equivalents	102	69	18	887
Net decrease (increase) in cash and cash equivalents	716	(1, 277)	(8, 082)	6, 226
Cash and cash equivalents at beginning of period	21, 665	17, 849	23, 877	188, 391
Increase resulting from merger of equity method affiliate with consolidated subsidiary	22	−	−	191
Decrease resulting from liquidation of consolidated subsidiaries	(1, 854)	−	−	(16, 121)
Cash and cash equivalents at end of period (Note 3)	¥20, 549	¥16, 572	¥15, 795	$178, 687

See notes to semi-annual consolidated financial statements.

1. Basis of presenting semi-annual consolidated financial statements

The accompanying consolidated financial statements of the Chugoku Electric Power Co., Inc. ("the Company") and its consolidated subsidiaries ("the Companies") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments 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 of 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 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 Financial Instruments and Exchange Law. Certain 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 consolidated statements of changes in net assets for the years ended September 30, 2007 and 2006 have been prepared in accordance with the new accounting standard as discussed in Note 2. 2005 was voluntarily prepared for the purpose of inclusion in the semi-annual consolidated financial statements although such statements were not required to be filed with the Local Finance Bureau.

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, 2007, which was ¥115 to U.S.$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

The following is a summary of the significant accounting policies used in the preparation of the 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, 2007, 23 subsidiaries (24 in 2006, 24 in 2005) were consolidated and 5 subsidiaries were excluded from consolidation due to the immateriality of consolidated total assets, sales and revenues, net income and retained earnings on the semi-annual consolidated financial statements.

For the six months ended September 30, 2007, 5 (7 in 2006, 10 in 2005) non-consolidated subsidiaries and 8 (9 in 2006, 9 in 2005) affiliates were accounted for by the equity method.

For the six months ended September 30, 2007, 8 (8 in 2006, 8 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 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 owners' 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.

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.

Effective for the six months ended September 30, 2007, the Companies adopted the Revision of the corporation tax law and changed depreciation method of tangible property which started operation on and after April 1, 2007. As a result, the effect on the semi-annual consolidated financial statements was immaterial.

The Companies depreciate the residual book-value in five years equally about what depreciation has ended to a final depreciable limit by the end of the year ended March 31, 2007 among the tangible property started operating before March 31, 2007. As a result, operating expense increased by ¥3,510 million (US$30,522 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 six months ended September 30, 2007.

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

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 within the average of estimated remaining periods of the employees (mainly one year). Actuarial gains and losses are recognized in expenses using a straight-line method 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 statements of 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.

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 statements of income. The amount of liabilities which had not been amortized was ¥4,947 million (US$43,017 thousand) on September 30, 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 covered by 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.

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 statements of income for 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.

The law about 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$28,609 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 September 30, 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.

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 statements of income when paid or incurred.

Income taxes

The Companies use the asset and liability approach to recognize deferred tax assets and liabilities for loss carry forwards 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.

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

Effective for the six months ended September 30, 2006, the Companies 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.

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, 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 ￥720,052 million.

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.

Retirement allowances for directors and corporate auditors

Although the Companies had appropriated retirement benefits for directors and corporate auditors for the expense of the expenditure fiscal year, effective for the six months ended September 30, 2007, the Companies changed their method of accounting for such retirement benefits to provide for the reserve at the amount that would be required if all directors and corporate auditors retired in accordance with the regulation on the audit about the allowance on Special Taxation Measures Law and the reserve fund or an allowance on special law and reserve for retirement benefits for directors and corporate auditors (Report No.42 issued by the Audit /Guarantee business committee on April 13, 2007).

As a result, operating expense increases ¥907 million (US$7,887 thousand), and operating income and income before income taxes and minority interest in net income of consolidated subsidiaries decreased by the same amount for the six months ended September 30, 2007.

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, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Cash and time deposits	¥20,568	¥16,648	$178,852
Less: Time deposits with maturities exceeding three months	(19)	(76)	(165)
Cash and cash equivalents	¥20,549	¥16,572	$178,687

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, 2007 and 2006:

	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	¥6,084	¥4,886	¥31,507	¥36,347	¥25,423	¥31,461	$52,904	$273,974	$221,070
Bonds	4	9	4	9	△0	0	35	35	△0
Other	24	24	43	43	19	19	209	374	165
Total	¥6,112	¥4,919	¥31,554	¥36,399	¥25,442	¥31,480	$53,148	$274,383	$221,235

B. Book values of available-for-sale securities with no available fair market value as of September 30, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Book value		Book value
	2007	2006	2007
Non-listed equity securities	¥23,819	¥23,871	$207,122
Other	1,022	1,064	8,887
Total	¥24,841	¥24,935	$216,009

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 are exposed to market risk arising from movements of the market value and weather derivative instruments are exposed to the risk that the Companies might be obliged to pay certain amounts 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 semi-annual consolidated financial statements as of September 30, 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 September 30, 2007.

As of September 30, 2007 and 2006, 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
	2007	2006	2007	2006	2007	2006	2007		
Dealings outside a market									
Currency swap	¥4,468	¥5,145	¥1,197	¥781	¥1,197	¥781	$38,852	$10,409	$10,409

6. Long-term debt

Long-term debt at September 30, 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%	¥899,974	¥830,000	$7,825,861
Loans from the Development Bank of Japan due through 2023 at rates of 0.75% to 5.0%	225,541	234,579	1,961,226
Unsecured loans, principally from banks and insurance companies, due through 2031 at rates of 0.10% to 6.45%	414,837	390,739	3,607,278
	1,540,352	1,455,318	13,394,365
Less amounts due within one year	(183,731)	(52,132)	(1,597,661)
Total	¥1,356,621	¥1,403,186	$11,796,704

At September 30, 2007 and 2006, loans from the Development Bank of Japan in the total amount of ¥225,541 million (US$1,961,226 thousand) and ¥220,094 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 ¥2,532,722 million (US$22,023,670 thousand) and ¥2,442,873 million at September 30, 2007 and 2006, 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. Leases

[As lessee]

The Companies lease certain equipment for business use.

Lease payments under non-capitalized finance leases amounted to ¥59 million (US$513 thousand), ¥73 million and ¥79 million for the six months ended September 30, 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 September 30, 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	2007
Current portion	¥151	¥138	¥9	¥56	$1,313	$78
Non-current portion	434	372	8	6	3,774	70
Total	¥585	¥510	¥17	¥62	$5,087	$148

[As lessor]

Lease payments received under finance leases, accounted for as operating leases, amounted to ¥175 million (US$1,522 thousand), ¥199 million and ¥183 million for the six months ended September 30, 2007, 2006 and 2005, respectively.

The present values of future minimum lease payments to be received under finance leases as of September 30, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Current portion	¥382	¥407	$3,322
Non-current portion	2,723	3,091	23,678
Total	¥3,105	¥3,498	$27,000

8. Contingent liabilities

At September 30, 2007, the Companies were contingently liable as guarantor for loans of other companies and employees in the amount of ¥131,921 million (US$1,147,139 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 a debt assumption agreement in the aggregate amount of ¥5,000 million (US$43,478 thousand).

9. Segment information

The Companies classify their operations into four segments: “Electric power,” “Information and telecommunications,” “Comprehensive energy supply” 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, 2007, 2006 and 2005 is as follows:

	Millions of yen						
	2007						
	Electric power	Information and telecommunications	Comprehensive energy supply	Other	Total	Elimination	Consolidated
Operating revenues:							
Outside customers	¥489,828	¥9,044	¥12,161	¥21,357	¥532,390	¥—	¥532,390
Inter-segment	2,224	7,112	693	40,153	50,182	(50,182)	—
Total	492,052	16,156	12,854	61,510	582,572	(50,182)	532,390
Cost and expenses	451,004	15,412	12,809	58,523	537,748	(50,371)	487,377
Operating income	¥41,048	¥744	¥45	¥2,987	¥44,824	¥189	¥45,013

	Thousands of U.S. dollars						
	2007						
	Electric power	Information and telecommunications	Comprehensive energy supply	Other	Total	Elimination	Consolidated
Operating revenues:							
Outside customers	$4,259,374	$78,643	$105,748	$185,713	$4,629,478	$—	$4,629,478
Inter-segment	19,339	61,843	6,026	349,157	436,365	(436,365)	—
Total	4,278,713	140,486	111,774	534,870	5,065,843	(436,365)	4,629,478
Cost and expenses	3,921,774	134,017	111,383	508,896	4,676,070	(438,009)	4,238,061
Operating income	$356,939	$6,469	$391	$25,974	$389,773	$1,644	$391,417

	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

	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

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, 2007, 2006 and 2005 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 method of depreciation that depreciate the residual book-value in five years equally about what depreciation has ended to a final depreciable limit by the end of the year ended March 31, 2007 among the tangible property started operating before March 31, 2007 (No.2), operating expense of “Electric power” segment increased by ¥3,333 million (US$28,983 thousand) and operating income decreased by same amount for the six months ended September 30, 2007. In addition, the effect on the semi-annual consolidated financial statements of segments other than “Electric power” is immaterial.

10. Subsequent events

The following appropriation of retained earnings at September 30, 2007 was approved at the Board of Directors’ meeting held on October 31, 2007:

	Millions of yen	Thousands of U.S. dollars
Semi-annual cash dividends of ¥25 (US$0.22) per share	¥9,107	$79,191

SEMI-ANNUAL NON-CONSOLIDATED BALANCE SHEETS (UNAUDITED)

The Chugoku Electric Power Co., Inc.
September 30, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	2007	2006	2007
Property:			
Plant and equipment	¥5, 477, 407	¥5, 465, 431	$47, 629, 626
Construction in progress	256, 929	167, 351	2, 234, 165
	5, 734, 336	5, 632, 782	49, 863, 791
Less-			
Contributions in aid of construction	74, 433	74, 103	647, 243
Accumulated depreciation	3, 642, 561	3, 554, 602	31, 674, 444
	3, 716, 994	3, 628, 705	32, 321, 687
Net property	2, 017, 342	2, 004, 077	17, 542, 104
Nuclear fuel	133, 073	120, 875	1, 157, 157
Investments and other assets:			
Investment securities	48, 600	53, 070	422, 609
Funds reserved for reprocessing of irradiated nuclear fuel	89, 723	56, 476	780, 200
Investments and advances to subsidiaries and affiliated companies (Note 3)	28, 614	28, 675	248, 817
Long-term loans to employees	954	1, 346	8, 296
Deferred tax assets	42, 513	34, 665	369, 678
Other assets	36, 317	17, 532	315, 800
Total investments and other assets	246, 721	191, 764	2, 145, 400
Current assets:			
Cash and time deposits	15, 236	10, 437	132, 487
Receivables, less allowance for doubtful accounts of ¥683 million (US$5,939 thousand) in 2007 and ¥629 million in 2006	60, 843	52, 500	529, 070
Inventories, fuel and supplies	28, 635	32, 699	249, 000
Deferred tax assets	8, 340	9, 158	72, 522
Other current assets	22, 532	21, 363	195, 930
Total current assets	135, 586	126, 157	1, 179, 009
Total assets	¥2, 532, 722	¥2, 442, 873	$22, 023, 670

See notes to semi-annual non-consolidated financial statements.

Liabilities and Net Assets	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note 1) 2007
Long-term debt (Note 4)	¥1, 335, 019	¥1, 374, 600	$11, 608, 861
Other long-term liabilities	16, 188	2, 413	140, 765
Employees' severance and retirement benefits	50, 614	51, 299	440, 122
Provision for reprocessing of irradiated nuclear fuel	101, 562	105, 517	883, 148
Provision for reprocessing of irradiated nuclear fuel without a fixed plan to reprocess	2, 255	−	19, 609
Provision for decommissioning of nuclear power generating plants	48, 668	47, 196	423, 200
Retirement allowances for directors and corporate auditors	903	−	7, 852
Current liabilities:			
Long-term debt due within one year (Note 4)	176, 747	44, 234	1, 536, 931
Short-term borrowings	64, 350	64, 350	559, 565
Commercial paper	5, 000	19, 000	43, 478
Accounts payable	44, 711	37, 058	388, 791
Accrued income taxes	10, 100	19, 251	87, 826
Accrued expenses	34, 926	35, 223	303, 704
Other current liabilities, including other long-term liabilities due within one year	27, 612	28, 473	240, 105
Total current liabilities	363, 446	247, 589	3, 160, 400
Provision for drought	−	2, 831	−
Provision for depreciation of nuclear power plant	20, 240	−	176, 000
Contingent liabilities (Note 6)			
Net assets:			
Common stock	185, 528	185, 528	1, 613, 287
Capital surplus	16, 710	16, 695	145, 304
Retained earnings (Note 7)	392, 134	405, 835	3, 409, 861
Treasury stock	(12, 150)	(11, 809)	(105, 652)
Net unrealized holding gains on securities	11, 605	15, 179	100, 913
Total net assets	593, 827	611, 428	5, 163, 713
Total liabilities and net assets	¥2, 532, 722	¥2, 442, 873	$22, 023, 670

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

The Chugoku Electric Power Co., Inc.
For the six months ended September 30, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	2007
Operating revenues	¥499, 856	¥499, 899	¥472, 486	$4, 346, 574
Operating expenses:				
Personnel	54, 140	58, 754	62, 922	470, 783
Fuel	119, 666	97, 397	84, 275	1, 040, 574
Purchased power	79, 397	73, 668	78, 951	690, 409
Depreciation	65, 296	63, 374	68, 195	567, 791
Maintenance	43, 657	40, 865	40, 724	379, 626
Taxes other than income taxes	30, 517	31, 242	30, 699	265, 365
Purchased services	15, 536	14, 711	14, 613	135, 096
Other	50, 809	51, 061	48, 636	441, 817
	459, 018	431, 072	429, 015	3, 991, 461
Operating income	40, 838	68, 827	43, 471	355, 113
Other expenses (income):				
Interest expense	15, 136	14, 045	14, 017	131, 617
Interest income	(805)	(425)	(27)	(7, 000)
Other, net	(1, 035)	(474)	(1, 679)	(9, 000)
	13, 296	13, 146	12, 311	115, 617
Income before special item and income taxes	27, 542	55, 681	31, 160	239, 496
Special item:				
Provision (reversal) for drought	(657)	2, 286	(1, 685)	(5, 713)
Provision for depreciation of nuclear power plant	15, 187	–	–	132, 061
Provision for income taxes:				
Current	4, 325	13, 245	9, 233	37, 609
Deferred	814	3, 392	2, 775	7, 078
Net income	¥7, 873	¥36, 758	¥20, 837	$68, 461

	Yen			U.S. dollars (Note 1)
	2007	2006	2005	2007
Per share data:				
Net income:				
Basic	¥21. 61	¥100. 86	¥57. 16	$0. 19
Interim cash dividends applicable to the period	25. 00	25. 00	25. 00	0. 22

See notes to semi-annual non-consolidated financial statements.

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

The Chugoku Electric Power Co., Inc.
For the six months ended September 30, 2007, 2006 and 2005

	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	Total
Balance at March 31, 2005	371, 055, 259	¥185, 528	¥16, 685	¥366, 407	¥(11, 484)	¥10, 411	¥26	¥567, 573
Net income				20, 837				20, 837
Cash dividends paid (¥25 per share)				(9, 114)				(9, 114)
Bonuses to directors and statutory auditors				(120)				(120)
Surplus from sale of treasury stock			2					2
Treasury stock purchased, net					(114)			(114)
Increase in unrealized holding gains on securities						2, 301		2, 301
Increase in unrealized gains on hedging derivatives on a gross basis							32	32
Balance at September 30, 2005	371, 055, 259	¥185, 528	¥16, 687	¥378, 010	¥(11, 598)	¥12, 712	¥58	¥581, 397
Balance at March 31, 2006	371, 055, 259	¥185, 528	¥16, 691	¥378, 308	¥(11, 693)	¥16, 602	¥–	¥585, 436
Net income				36, 758				36, 758
Cash dividends paid (¥25 per share)				(9, 111)				(9, 111)
Bonuses to directors and statutory auditors				(120)				(120)
Surplus from sale of treasury stock			4					4
Treasury stock purchased, net					(116)			(116)
Decrease in unrealized holding gains on securities						(1, 423)		(1, 423)
Balance at September 30, 2006	371, 055, 259	¥185, 528	¥16, 695	¥405, 835	¥(11, 809)	¥15, 179	¥–	¥611, 428
Balance at March 31, 2007	371, 055, 259	¥185, 528	¥16, 702	¥393, 369	¥(12, 013)	¥14, 304	¥–	¥597, 890
Net income				7, 873				7, 873
Cash dividends paid (¥25 per share)				9, 108				(9, 108)
Surplus from sale of treasury stock			8		22			30
Treasury stock purchased, net					(159)			(159)
Decrease in unrealized holding gains on securities						(2, 699)		(2, 699)
Balance at September 30, 2007	371, 055, 259	¥185, 528	¥16, 710	¥392, 134	¥(12, 150)	¥11, 605	¥–	¥593, 827

	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	Total
Balance at March 31, 2007	$1, 613, 287	$145, 234	$3, 420, 600	$(104, 461)	$124, 383	$–	$5, 199, 043
Net income			68, 461				68, 461
Cash dividends paid ($0.22 per share)			(79, 200)				(79, 200)
Surplus from sale of treasury stock		70		191			261
Treasury stock purchased, net				(1, 383)			(1, 383)
Decrease in unrealized holding gains on securities					(23, 470)		(23, 470)
Balance at September 30, 2007	$1, 613, 287	$145, 304	$3, 409, 861	$(105, 653)	$100, 913	$–	$5, 163, 712

See notes to semi-annual non-consolidated financial statements.

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 Financial Products Instruments and Exchange Law and its related accounting regulations, 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 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 Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language semi-annual non-consolidated financial statements, but not required for fair presentation is not presented in the accompanying semi-annual non-consolidated financial statements.

The non-consolidated statements of changes in net assets for the years ended September 30, 2007 and 2006 have been prepared in accordance with the new accounting standard as discussed in Note 2. 2005 was voluntarily prepared for the purpose of inclusion in the semi-annual non-consolidated financial statements although such statements were not required to be filed with the Local Finance Bureau.

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, 2007, which was ¥115 to U.S.$1.00.

The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

The following is a summary of the significant accounting policies used in the preparation of the 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 owners' 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 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.

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.

Effective for the six months ended September 30, 2007, the Company adopted the Revision of the corporation tax law and changed depreciation method of tangible property which started operation on and after April 1, 2007. As the result, the effect on the semi-annual non-consolidated financial statements was immaterial.

The Company depreciates the residual book-value in five years equally about what depreciation has ended to a final depreciable limit by the end of the year ended March 31, 2007 among the tangible property started operating before March 31, 2007. As the result, operating expense increased by ¥3,354 million (US$29,165 thousand) and operating income and income before income taxes decreased by the same amount for the six months ended September 30, 2007.

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.

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 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. Actuarial gains and losses are recognized in expenses using a straight-line method over 5 years which is within the average of the estimated remaining service period commencing with the following period.

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 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 statements of income. The amount of liabilities which had not been amortized was ¥4,947 million (US$43,017 thousand) on September 30, 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.

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 statements of income for 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.

The law about 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$28,609 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 September 30, 2007.

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.

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.

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 statements of income when paid or incurred.

Income taxes

The Company uses the asset and liability approach to recognize deferred tax assets and liabilities for loss carry forwards 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.

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

Effective for the six months ended September 30, 2006, the Company 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.

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, 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 ￥611,428 million.

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.

Retirement allowances for directors and corporate auditors

Although the Company had appropriated retirement benefits for directors and corporate auditors for the expense of the expenditure fiscal year, effective for the six months ended September 30, 2007, the Company changed its method of accounting for such retirement benefits to provide for the reserve at the amount that would be required if all directors and corporate auditors retired in accordance with the regulation on the audit about the allowance on Special Taxation Measures Law and the reserve fund or an allowance on special law and reserve for retirement benefits for directors and corporate auditors (Report No.42 issued by the Audit/Guarantee business committee on April 13, 2007).

As a result, operating expense increases ¥903 million (US$7,852 thousand), and operating income and income before income taxes decreased by the same amount for the six months ended September 30, 2007.

3. Securities

Disclosure of market value information for securities, except for investments in subsidiaries and affiliates, with readily available market values at September 30, 2007 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, 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	¥50,697	¥44,238	¥48,204	¥41,745	$21,678	$440,843	$419,165

4. Long- term debt

Long-term debt at September 30, 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%	¥899,974	¥830,000	$7,825,861
Loans from the Development Bank of Japan due through 2023 at rates of 0.75% to 4.95%	213,635	220,094	1,857,695
Unsecured loans, principally from banks and insurance companies, due through 2031 at rates of 0.10% to 6.45%	398,157	368,740	3,462,235
	1,511,766	1,418,834	13,145,791
Less amounts due within one year	(176,747)	(44,234)	(1,536,930)
Total	¥1,335,019	¥1,374,600	$11,608,861

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. Leases

(As lessee)

The Company leases certain equipment for business use, including general equipment, thermal power equipment and other assets.

Lease payments under non-capitalized finance leases amounted to ¥321 million (US$2,791 thousand), ¥537 and ¥529 million for the six months ended September 30, 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 September 30, 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	2007
Current portion	¥515	¥760	¥28	¥145	$4,478	$243
Non-current portion	1,017	1,348	0	28	8,844	0
Total	¥1,532	¥2,108	¥28	¥173	$13,322	$243

6. Contingent liabilities

At September 30, 2007, the Company was contingently liable as guarantor for loans of other companies and employees in the amount of ¥152,050 million (US$1,322,174 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$43,478 thousand).

7. Subsequent events

The following appropriations of retained earnings at September 30, 2007, were approved at the Board of Directors' meeting held on October 31, 2007:

	Millions of yen	Thousands of U.S. dollars
Semi-annual cash dividends of ¥25 ($0.22) per share	¥9,107	$79,191

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Printed in Japan