SEMI-ANNUAL FINANCIAL STATEMENTS

for the six months ended September 30, 2004

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 30,2004 and 2003

Assets	Millions of yen 2004	Millions of yen 2003	Thousands of U.S.dollars (Note 1) 2004
Property:			
Utility plant and equipment	¥5,310,567	¥5,286,063	$48,277,882
Other plant	249,786	232,019	2,270,782
Construction in progress	120,067	135,157	1,091,518
	5,680,420	5,653,239	51,640,182
Less-			
Contributions in aid of construction	72,598	70,785	659,982
Accumulated depreciation	3,403,935	3,277,986	30,944,864
	3,476,533	3,348,771	31,604,846
Net property (Note 7)	2,203,887	2,304,468	20,035,336
Nuclear fuel	117,223	116,249	1,065,664
Investments and other assets:			
Investment securities (Note 4)	50,259	51,748	456,900
Investments in and advances to non-consolidated subsidiaries and affiliates	86,887	83,819	789,882
Long-term loans to employees	2,229	2,486	20,264
Deferred tax assets	54,164	59,498	492,400
Other assets	9,185	6,437	83,500
Total investments and other assets	202,724	203,988	1,842,946
Current assets:			
Cash and time deposits (Note 3)	22,187	21,147	201,700
Receivables,less allowance for doubtful accounts of ¥783 million ($ 7,121 thousand) in 2004 and ¥811 million in 2003	66,164	59,308	601,491
Inventories,fuel and supplies	33,804	35,201	307,309
Deferred tax assets	11,599	8,832	105,445
Other current assets	9,514	12,823	86,491
Total current assets	143,268	137,311	1,302,436
Total assets	¥2,667,102	¥2,762,016	$24,246,382

See accompanying notes.

Liabilities, Minority Interests and Stockholders' Equity	Millions of yen 2004	2003	Thousands of U.S. dollars (Note 1) 2004
Long-term debt due after one year (Note 6)	¥1,396,478	¥1,470,231	$12,695,255
Other long-term liabilities due after one year	8,913	5,258	81,027
Employees' severance and retirement benefits	60,384	85,636	548,945
Reserve for reprocessing of irradiated nuclear fuel	102,396	86,116	930,873
Reserve for decommissioning of nuclear power generating plants	42,688	42,444	388,073
Current liabilities:			
Long-term debt due within one year (Note 6)	143,667	167,399	1,306,064
Short-term borrowings	77,350	82,090	703,182
Accounts payable	36,199	30,349	329,082
Accrued income taxes	20,841	22,451	189,464
Accrued expenses	39,829	41,430	362,082
Reserve for loss on discontinued operations	2,991	−	27,191
Other current liabilities			
(including other long-term liabilities due within one year)	82,922	106,452	753,836
Total current liabilities	403,799	450,171	3,670,901
Reserve for drought	1,059	1,873	9,627
Minority interests	5,032	4,948	45,745
Contingent liabilities (Note 9)			
Stockholders' equity (Note 10)			
Common stock :			
Authorized-1,000,000,000 shares			
Issued-371,055,259 shares	185,528	185,528	1,686,618
Capital surplus	16,681	16,680	151,645
Retained earnings(Note 12)	445,644	410,589	4,051,309
Net unrealized holding gains on securities	10,158	10,124	92,346
Foreign currency translation adjustments	(2)	17	(18)
Treasury stock	(11,656)	(7,599)	(105,964)
Total stockholders' equity	646,353	615,339	5,875,936
Total liabilities, minority interests and stockholders' equity	¥2,667,102	¥2,762,016	$24,246,382

SEMI-ANNUAL CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the six months ended September 30, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	2003	2002	2004
Operating revenues (Note 11) :				
Electric	¥469,076	¥451,084	¥487,501	$4,264,327
Other	28,842	27,113	22,279	262,200
	497,918	478,197	509,780	4,526,527
Operating expenses (Note 11):				
Electric	400,164	399,163	411,756	3,637,855
Other	29,195	30,100	23,971	265,408
	429,359	429,263	435,727	3,903,263
Operating income	68,559	48,934	74,053	623,264
Other expenses (income):				
Interest expense	17,382	19,419	27,576	158,018
Interest income	(46)	(62)	(56)	(418)
Gains on sales of securities	(3,049)	(3,368)	(552)	(27,718)
Equity in earnings of affiliated companies	(181)	(144)	(146)	(1,645)
Loss on impairment of fixed assets (Note 7)	4,390	–	–	39,909
Loss on discontinued operations	3,199	–	–	29,082
Other, net	1,726	3,482	(109)	15,690
	23,421	19,327	26,713	212,918
Special item:				
Reserve for drought	347	1,873	–	3,155
Income before income taxes and minority interests in net income of consolidated subsidiaries	44,791	27,734	47,340	407,191
Provision for income taxes				
Current	15,828	17,862	23,174	143,891
Deferred	1,131	(7,114)	(5,742)	10,282
	16,959	10,748	17,432	154,173
Income before minority interests in net income of consolidated subsidiaries	27,832	16,986	29,908	253,018
Minority interests in net loss (income) of consolidated subsidiaries	(32)	(5)	105	(291)
Net income	¥27,800	¥16,981	¥30,013	$252,727

	Yen			U.S. dollars (Note 1)
	2004	2003	2002	2004
Per share data :				
Net income:				
Basic	¥76.34	¥46.34	¥81.06	$0.69
Diluted	76.34	46.34	81.06	0.69
Interim cash dividends applicable to the period	25.00	25.00	25.00	0.23

See accompanying notes.

SEMI-ANNUAL CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the six months ended September 30 2004, 2003 and 2002

	Shares of common stock	Millions of yen						
		Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock	Common stock held by consolidated subsidiaries
Balance at March 31, 2002	371,055,259	¥185,528	¥16,677	¥377,423	¥14,204	¥-	¥(74)	¥(6)
Net income				30,013				
Cash dividends paid (¥25.00 per share)				(9,251)				
Bonuses to directors and statutory auditors				(242)				
Effect of increase in investments accounted for by the equity method				281				
Effect of newly consolidated subsidiaries				(200)				
Increase in unrealized holding gains on securities					1,203			
Foreign currency translation adjustments						16		
Treasury stock purchased, net							(4,375)	
Treasury stock held by consolidated subsidiaries								6
Balance at September 30, 2002	371,055,259	¥185,528	¥16,677	¥398,024	¥15,407	¥16	¥(4,449)	¥-
Balance at March 31, 2003	371,055,259	¥185,528	¥16,680	¥402,971	¥9,170	¥17	¥(7,532)	¥-
Net income				16,981				
Cash dividends paid (¥25.00 per share)				(9,142)				
Bonuses to directors and statutory auditors				(221)				
Increase in unrealized holding gains on securities					954			
Foreign currency translation adjustments						0		
Treasury stock purchased, net							(67)	
Balance at September 30, 2003	371,055,259	¥185,528	¥16,680	¥410,589	¥10,124	¥17	¥(7,599)	¥-
Balance at March 31, 2004	371,055,259	¥185,528	¥16,680	¥427,159	¥11,810	¥(4)	¥(11,569)	¥-
Net income				27,800				
Cash dividends paid (¥25.00 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					
Decrease in unrealized holding gains on securities					(1,652)			
Foreign currency translation adjustments						2		
Treasury stock purchased, net							(87)	
Balance at September 30, 2004	371,055,259	¥185,528	¥16,681	¥445,644	¥10,158	¥(2)	¥(11,656)	¥-

	Thousands of U.S. dollars (Note 1)						
	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock	Common stock held by consolidated subsidiaries
Balance at March 31, 2004	$1,686,618	$151,636	$3,883,264	$107,364	$(36)	$(105,173)	$-
Net income			252,727				
Cash dividends paid (¥25.00 per share)			(82,618)				
Bonuses to directors and statutory auditors			(2,064)				
Effect of decrease in investments accounted for by the equity method			(6,464)				
Effect of merger of consolidated subsidiaries with subsidiaries accounted for by the equity method			6,464				
Surplus from sale of treasury stock		9					
Decrease in unrealized holding gains on securities				(15,018)			
Foreign currency translation adjustments					18		
Treasury stock purchased, net						(791)	
Balance at September 30, 2004	$1,686,618	$151,645	$4,051,309	$92,346	$(18)	$(105,964)	$-

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, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S.dollars (Note 1)
	2004	2003	2002	2004
Cash flows from operating activities:				
Income before income taxes and minority interests in net income of consolidated subsidiaries	¥44,791	¥27,734	¥47,340	$407,191
Depreciation	78,514	87,514	88,629	713,764
Loss on impairment of fixed assets	4,390	–	–	39,909
Amortization of nuclear fuel	3,570	2,515	4,079	32,455
Loss on disposal of property	2,444	3,158	3,142	22,218
Increase (decrease) in employees' severance and retirement benefits	(21,062)	6,718	7,435	(191,473)
Increase in provision for decommissioning of nuclear power generating plants	3,023	241	1,214	27,482
Increase (decrease) in provision for reprocessing of irradiated nuclear fuel	485	(4,281)	2,502	4,409
Increase in provision for drought	347	1,873	–	3,155
Provision for resereve for loss on discontinued operations	2,991	–	–	27,191
Interest and dividends income	(611)	(508)	(473)	(5,555)
Interest expense	17,382	19,419	27,576	158,018
Gains on sales of securities	(3,049)	(3,368)	(552)	(27,718)
Increase in notes and accounts receivable	(7,646)	(496)	(2,123)	(69,509)
Decrease (increase) in inventories	(2,703)	(1,375)	3,164	(24,573)
Increase (decrease) in notes and accounts payable	2,492	(5,852)	(4,902)	22,655
Increase in liabilities for defined contribution pension and prepaid pension	9,932	–	–	90,291
Other	(782)	4,109	(7,372)	(7,110)
Subtotal	134,508	137,401	169,659	1,222,800
Interest and dividends received	836	803	833	7,600
Interest paid	(17,831)	(19,838)	(27,777)	(162,100)
Income taxes paid	(14,525)	(28,816)	(8,857)	(132,045)
Net cash provided by operating activities	102,988	89,550	133,858	936,255
Cash flows from investing activities:				
Purchase of property	(44,829)	(51,205)	(58,939)	(407,536)
Purchase of investments in securities	(458)	(1,143)	(730)	(4,164)
Proceeds from sale of investment securities	1,574	4,818	797	14,309
Other	1,386	2,778	1,209	12,600
Net cash used in investing activities	(42,327)	(44,752)	(57,663)	(384,791)
Cash flows from financing activities:				
Proceeds from issue of bonds	14,943	39,838	29,870	135,845
Repayment of bonds	(55,000)	(65,000)	(70,000)	(500,000)
Proceeds from long-term debt	27,250	50,600	19,800	247,727
Repayment of long-term debt	(28,660)	(33,165)	(43,572)	(260,545)
Proceeds from short-term loans	167,240	164,070	221,975	1,520,364
Repayment of short-term loans	(167,440)	(191,160)	(244,875)	(1,522,182)
Proceeds from issue of commercial paper	424,000	446,000	333,000	3,854,545
Repayment of commercial paper	(436,000)	(450,000)	(307,000)	(3,963,636)
Purchase of treasury stock	(101)	(67)	(4,158)	(918)
Cash dividends paid	(9,097)	(9,164)	(9,268)	(82,700)
Other	8	31	63	73
Net cash used in financing activities	(62,857)	(48,017)	(74,165)	(571,427)
Effect of exchange rate changes on cash and cash equivalents	1	–	–	9
Net increase (decrease) in cash and cash equivalents	(2,195)	(3,219)	2,030	(19,954)
Cash and cash equivalents at beginning of period	23,705	24,225	20,326	215,500
Increase resulting from merger of equity method affiliate with consolidated subsidiary	532	–	606	4,836
Cash and cash equivalents at end of period (Note 3)	¥22,042	¥21,006	¥22,962	$200,382

See accompanying notes.

NOTES TO SEMI-ANNUAL CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

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 and practices 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 consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of statements of stockholders' equity) 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, 2004, which was ¥110 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 existence of certain conditions evidencing control by the Company. In the elimination of investments in subsidiaries, all the assets and liabilities of a subsidiary, not only to the extent of the Company's share, but also including the minority interest share, are evaluated based on fair value at the time when the Company acquired control of the subsidiary.

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, 2004, 23 subsidiaries (23 in 2003, 19 in 2002) were consolidated and 10 subsidiaries were excluded from consolidation due to immateriality in terms of consolidated total assets, sales and revenues, net income and retained earnings of the consolidated financial statements.

For the six months ended September 30, 2004, 10 (10 in 2003, 8 in 2002) non-consolidated subsidiaries and 10 (9 in 2003, 9 in 2002) affiliates were accounted for by the equity method.

Other than the above, 9 (11 in 2003, 15 in 2002) affiliates were stated at cost without applying the equity method of accounting. If the equity method had been applied for these investments, the amounts of net income and retained earnings of the excluded affiliates would not have had a material effect on the 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

Debt securities designated as held-to-maturity are carried at amortized cost, net of the amount considered not collectible. Other investments 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 held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities declines significantly, such securities are stated at fair market value, and the difference between the fair market value and the carrying amount is recognized as a loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not accounted for by the equity method is not readily available, such securities should be written down to net asset value with a corresponding charge in the consolidated statements of income in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

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 the new accounting standard for impairment of fixed assets, income before income taxes and minority interests in net income of consolidated subsidiaries decreased by ¥4,390 million (US$39,909 thousand) 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.

Nuclear fuel and amortization

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

Allowance for doubtful accounts

The allowance for doubtful accounts is provided in an amount sufficient to cover possible losses on collection. It consists of the estimated uncollectible amount with respect to identified doubtful receivables and an amount calculated based on the Companies' historical loss rate with respect to remaining receivables.

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 a part of 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 time period, and properly reflect employees' capabilities and achievements. Elements of the revised rules applying from April 1, 2004, are as follows:

- The Company has 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 obligations 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 within the average of estimated remaining service periods of the employees (mainly one year). Actuarial 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.

Reserve for reprocessing of irradiated nuclear fuel

A reserve for reprocessing of irradiated nuclear fuel is provided at 60% of the future reprocessing costs of nuclear fuel which is currently irradiated, in accordance with the provisions of the 1995 revision of the Ordinance of the Ministry of International Trade and Industry (now Ministry of Economy, Trade and Industry).

Reserve for decommissioning of nuclear power plants

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

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

Reserve for drought

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

Reserve for loss on discontinued operations

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

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 Companies state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from changes in the fair value of derivative financial instruments until the related gains or losses on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

1. If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,
   (a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the consolidated statements of income in the period which includes the inception date, and
   (b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.
2. If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized. In this case, assessment of hedge effectiveness is omitted.

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 omitted.

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 changes 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 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.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2004 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

Change in useful lives

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

As a result of changing the useful lives, income before income taxes and minority interests in net income of consolidated subsidiaries increased by ¥1,381 million (US$12,555 thousand) 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.

3. Cash and cash equivalents

The reconciliations of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows at September 30, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Cash and time deposits	¥22,187	¥21,147	$201,700
Less: Time deposits with maturities exceeding three months	(145)	(141)	(1,318)
Cash and cash equivalents	¥22,042	¥21,006	$200,382

4. Securities

A. The following tables summarize acquisition costs, book values (fair values) of securities with available fair values as of September 30, 2004 and 2003:

(a) Held-to-maturity debt securities

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Book value	¥-	¥1	$-
Fair value	-	1	-
Difference	¥-	¥-	$-

(b) Available-for-sale securities

	Millions of yen						Thousands of U.S. dollars		
	Acquisition cost		Book value		Difference		Acquisition cost	Book value	Difference
	2004	2003	2004	2003	2004	2003	2004		
Equity securities	¥4,968	¥5,013	¥23,535	¥23,220	¥18,567	¥18,207	$45,164	$213,955	$168,791
Bonds	35	77	36	76	1	(1)	318	327	9
Other	116	25	120	28	4	3	1,054	1,091	37
Total	¥5,119	¥5,115	¥23,691	¥23,324	¥18,572	¥18,209	$46,536	$215,373	$168,837

B. Book values of available-for-sale securities with no available fair market value as of September 30, 2004 and 2003 are as follows:

Available-for-sale securities

	Millions of yen		Thousands of U.S. dollars
	Book value	Book value	Book value
	2004	2003	2004
Non-listed equity securities	¥24,556	¥26,959	$223,236
Other	1,418	1,374	12,891
Total	¥25,974	¥28,333	$236,127

5. Derivatives

The Company and certain of its consolidated subsidiaries enter into 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 a part of commodity swap contracts and weather derivative instruments. Information on hedging instruments and hedged items is disclosed at “Derivatives and hedge accounting” in Note “2. Significant accounting policies”.

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, interest rate swap contracts and commodity swap contracts are exposed to market risk arising from movements of the market value and weather derivative instruments are exposed to a risk that the Companies might be obliged to pay a certain amount of money, depending on temperature changes. Management believes that the related credit risk arising from the event of nonperformance by counterparties is quite low, since the Companies use only creditable financial institutions 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, 2004. 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 semi-annual consolidated financial statements as of September 30, 2004. In addition, those items whose contract amounts and their related revaluation gains or losses are immaterial are omitted from disclosure because they are not significant.

As of September 30, 2004 and 2003 derivatives for hedging foreign currency items and interest swaps were used. 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
	2004	2003	2004	2003	2004	2003	2004		
Currency Swap	¥5,903	¥-	¥16	¥-	¥16	¥-	$53,664	$145	$145

6. Long-term debt

Long-term debt at September 30, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Domestic bonds due serially through 2029 at rates of 0.58% to 5.0%	¥899,800	¥959,800	$8,180,000
Deutsche mark bonds at a rate of 5.625%	-	22,125	-
Loans from the Development Bank of Japan due serially through 2023 at rates of 0.75% to 6.9%	284,658	311,610	2,587,800
Unsecured loans, principally from banks and insurance companies, due serially through 2032 at rates of 0.16% to 6.45%	355,687	344,095	3,233,519
	1,540,145	1,637,630	14,001,319
Less amount due within one year	(143,667)	(167,399)	(1,306,064)
Total	¥1,396,478	¥1,470,231	$12,695,255

All bonds and loans from the Development Bank of Japan are secured by a statutory preferential right which gives the creditors a security interest in all assets of the Company, totaling ¥2,478,008 million (US$22,527,345 thousand), 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

For the six months ended September 30, 2004, the Companies recognized ¥4,390 million (US$39,909 thousand) of impairment losses on fixed assets which consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Construction in progress	¥2,313	$21,027
General facilities, other property, plant and equipment	2,077	18,882
Total	¥4,390	$39,909

Impairment loss relating to "construction in progress" with uncertain future cash flows is recognized by individual project. Impairment losses relating to "general facilities, other property, plant and equipment" are grouped within respective areas because these assets are supplemental in terms of generating cash flows. The Companies determine if assets are impaired by comparing their undiscounted expected future cash flows to their carrying amounts in the accounting records. The Companies recognize impairment losses if the undiscounted expected future cash flows are less than the carrying amount of the asset.

Recoverable amounts in 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 ¥ 92 million (US$836 thousand), ¥206 million and ¥195 million for the six months ended September 30, 2004, 2003 and 2002, 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, 2004 and 2003 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	Finance leases		Operating leases		Finance leases	Operating leases
	2004	2003	2004	2003	2004	2004
Current portion	¥191	¥341	¥209	¥240	$1,736	$1,900
Non-current portion	409	542	40	95	3,719	364
Total	¥600	¥883	¥249	¥335	$5,455	$2,264

(As lessor)

Lease payments received under finance leases, accounted for as operating leases, amounted to ¥116 million (US$1,055 thousand), ¥110 million and ¥72 million for the six months ended September 30, 2004, 2003 and 2002, respectively.

The present values of future minimum lease payments to be received under finance leases as of September 30, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Current portion	¥267	¥228	$2,427
Non-current portion	913	719	8,300
Total	¥1,180	¥947	$10,727

9. Contingent liabilities

At September 30, 2004, the Companies were contingently liable as guarantor for loans of other companies and employees in the amount of ¥134,415 million (US$1,221,955 thousand), mainly in connection with the Company's procurement of fuel.

At the same date, the Company was also contingently liable with respect to certain domestic bonds, which were assigned to certain banks under debt assumption agreements in the aggregate amount of ¥60,000 million (US$545,455 thousand).

10. Stockholders' equity

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

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

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Commercial Code.

11. Segment information

For the six months ended September 30, 2004, the Companies reclassified their operations into four segments; "Electric power", "Information and telecommunications", "Comprehensive energy supply" and "Other" from the two previous segments; "Electric power" and "Other".

The "information and telecommunications" segment involves the information technology business and telecommunication business. The "comprehensive energy supply" segment involves cogeneration , distributed power sources, heat supply and fuel supply business.

A summary of net sales, costs and expenses and operating income by segment for the six months ended September 30, 2004, 2003 (restated to conform to 2004 classifications) and 2002 is as follows:

	Millions of yen						
	2004						
	Electric power	Information and telecommu-nications	Comprehen-sive energy supply	Other	Total	Elimination	Consolidated
Operating revenues:							
Outside customers	¥469,076	¥8,317	¥4,059	¥16,466	¥497,918	¥—	¥497,918
Intersegment	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 (loss)	¥67,540	¥266	372	¥(249)	¥67,929	¥630	¥68,559

	Thousands of U.S. dollars						
	2004						
	Electric power	Information and telecommu-nications	Comprehen-sive energy supply	Other	Total	Elimination	Consolidated
Operating revenues:							
Outside customers	$4,264,327	$75,609	$36,900	$149,691	$4,526,527	$—	$4,526,527
Intersegment	13,700	86,791	3,636	299,800	403,927	(403,927)	—
Total	4,278,027	162,400	40,536	449,491	4,930,454	(403,927)	4,526,527
Cost and expenses	3,664,027	159,982	37,154	451,755	4,312,918	(409,655)	3,903,263
Operating income (loss)	$614,000	$2,418	$3,382	$(2,264)	$617,536	$5,728	$623,264

	Millions of yen						
	2003						
	Electric power	Information and telecommu-nications	Comprehen-sive energy supply	Other	Total	Elimination	Consolidated
Operating revenues:							
Outside customers	¥451,084	¥7,884	¥3,197	¥16,032	¥478,197	¥—	¥478,197
Intersegment	690	9,289	358	31,274	41,611	(41,611)	—
Total	451,774	17,173	3,555	47,306	519,808	(41,611)	478,197
Cost and expenses	401,127	18,517	3,328	48,527	471,499	(42,236)	429,263
Operating income (loss)	¥50,647	¥(1,344)	¥227	¥(1,221)	¥48,309	¥625	¥48,934

	Millions of yen				
	2002				
	Electric power	Other	Total	Elimination	Consolidated
Operating revenues:					
Outside customers	¥487,501	¥22,279	¥509,780	¥—	¥509,780
Intersegment	492	39,985	40,477	(40,477)	—
Total	487,993	62,264	550,257	(40,477)	509,780
Cost and expenses	413,899	62,906	476,805	(41,078)	435,727
Operating income (loss)	¥74,094	¥(642)	¥73,452	¥601	¥74,053

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, 2004, 2003 and 2002 is not shown due to aggregate overseas sales being less than 10% of total operating revenues.

As a result of changing the useful lives (Note 2), cost and expenses of the "Information and telecommunications" segment decreased by ¥1,381 million (US$12,555 thousand) for the six months ended September 30, 2004.

12. Subsequent events

The following appropriation of retained earnings at September 30, 2004 was approved at the Board of Directors' meeting held on November 10, 2004:

	Millions of yen	Thousands of U.S. dollars
Semi-annual cash dividends, ¥25 ($0.23) per share	¥9,117	$82,882

SEMI-ANNUAL NON-CONSOLIDATED BALANCE SHEETS(UNAUDITED)

The Chugoku Electric Power Co.,Inc.
September 30,2004 and 2003

Assets	Millions of yen 2004	Millions of yen 2003	Thousands of U.S.dollars (Note 1) 2004
Property:			
Plant and equipment	¥5,429,678	¥5,399,597	$49,360,709
Construction in progress	120,487	133,926	1,095,336
	5,550,165	5,533,523	50,456,045
Less-			
Contributions in aid of construction	71,195	69,365	647,227
Accumulated depreciation	3,352,590	3,233,409	30,478,091
	3,423,785	3,302,774	31,125,318
Net property (Note 5)	2,126,380	2,230,749	19,330,727
Nuclear fuel	117,223	116,249	1,065,664
Investments and other assets:			
Investment securities	43,915	44,036	399,227
Investments in and advances to subsidiaries and affiliated companies	38,241	38,265	347,645
Long-term loans to employees	2,136	2,389	19,418
Deferred tax assets	40,040	43,871	364,000
Other assets	6,399	3,158	58,173
Total investments and other assets	130,731	131,719	1,188,463
Current assets:			
Cash and time deposits	10,371	9,101	94,282
Receivables,less allowance for doubtful accounts of ¥715 million($ 6,500 thousand)in 2004 and ¥699 million in 2003	55,009	47,924	500,082
Inventories,fuel and supplies	23,274	24,647	211,582
Deferred tax assets	8,543	7,229	77,664
Other current assets	6,477	9,368	58,881
Total current assets	103,674	98,269	942,491
Total assets	¥2,478,008	¥2,576,986	$22,527,345

See accompanying notes.

Liabilities and Stockholders' Equity	Millions of yen 2004	2003	Thousands of U.S.dollars (Note 1) 2004
Long-term debt due after one year (Note 4)	¥1, 357, 975	¥1, 434, 367	$12, 345, 227
Other long-term liabilities due after one year	7, 619	1, 312	69, 264
Employees' severance and retirement benefits	50, 397	76, 202	458, 155
Reserve for reprocessing of irradiated nuclear fuel	102, 396	86, 116	930, 873
Reserve for decommissioning of nuclear power generating plants	42, 688	42, 444	388, 073
Current liabilities:			
Long-term debt due within one year (Note 4)	138, 024	161, 172	1, 254, 764
Short-term borrowings	65, 950	69, 050	599, 545
Commercial paper	45, 000	71, 000	409, 091
Accounts payable	26, 655	21, 535	242, 318
Accrued income taxes	20, 331	21, 500	184, 827
Accrued expenses	35, 595	36, 791	323, 591
Other current liabilities			
(including other long-term liabilities due within one year)	25, 193	24, 696	229, 027
Total current liabilities	356, 748	405, 744	3, 243, 163
Reserve for drought	1, 059	1, 873	9, 627
Contingent liabilities (Note 7)			
Stockholders' equity (Note 8)			
Common stock			
Authorized-1,000,000,000 shares			
Issued-371,055,259 shares	185, 528	185, 528	1, 686, 618
Capital surplus	16, 681	16, 680	151, 645
Retained earnings (Note 9)	359, 495	326, 740	3, 268, 136
Net unrealized holding gains on securities	8, 617	7, 158	78, 337
Treasury stock	(11, 195)	(7, 178)	(101, 773)
Total stockholders' equity	559, 126	528, 928	5, 082, 963
Total liabilities and stockholders' equity	¥2, 478, 008	¥2, 576, 986	$22, 527, 345

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

The Chugoku Electric Power Co., Inc.
For the six months ended September 30, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S.dollars (Note 1)
	2004	2003	2002	2004
Operating revenues	¥472,897	¥453,595	¥489,229	$4,299,064
Operating expenses:				
Personnel	57,379	69,161	65,378	521,627
Fuel	60,881	53,687	52,730	553,464
Purchased power	78,771	67,462	72,746	716,100
Depreciation	72,056	80,272	85,483	655,055
Maintenance	37,507	40,577	40,903	340,973
Taxes other than income taxes	34,126	34,638	35,274	310,236
Purchased services	18,051	14,945	16,788	164,100
Other	46,364	42,044	45,652	421,491
	405,135	402,786	414,954	3,683,046
Operating income	67,762	50,809	74,275	616,018
Other expenses(income):				
Interest expense	16,936	18,939	27,452	153,964
Interest income	(32)	(45)	(43)	(291)
Loss on impairment of fixed assets (Note 5)	4,089	–	–	37,173
Other,net	(1,760)	1,111	98	(16,001)
	19,233	20,005	27,507	174,845
Income before special item and income taxes	48,529	30,804	46,768	441,173
Special item				
Reserve for drought	347	1,873	–	3,155
Provision for income taxes				
Current	15,279	16,859	22,302	138,900
Deferred	2,435	(6,760)	(5,412)	22,136
Net income	¥30,468	¥18,832	¥29,878	$276,982

	Yen			U.S.dollars (Note 1)
	2004	2003	2002	2004
Per share data:				
Net income:				
Basic	¥83.54	¥51.33	¥80.62	$0.76
Diluted	83.54	51.33	80.62	0.76
Interim cash dividends applicable to the period	25.00	25.00	25.00	0.23

See accompanying notes.

SEMI-ANNUAL NON-CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

The Chugoku Electric Power Co., Inc.
For the six months ended September 30 2004,2003 and 2002

	Shares of common stock	Millions of yen				
		Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Treasury stock
Balance at March 31,2002	371,055,259	¥185,528	¥16,677	¥290,116	¥10,383	¥(74)
Net income				29,878		
Cash dividends paid(¥25.00 per share)				(9,275)		
Bonuses to directors and statutory auditors				(120)		
Increase in unrealized holding gains on securities					930	
Treasury stock purchased, net						(4,158)
Balance at September 30,2002	371,055,259	¥185,528	¥16,677	¥310,599	¥11,313	¥(4,232)
Balance at March 31,2003	371,055,259	¥185,528	¥16,680	¥317,201	¥5,719	¥(7,111)
Net income				18,832		
Cash dividends paid(¥25.00 per share)				(9,173)		
Bonuses to directors and statutory auditors				(120)		
Increase in unrealized holding gains on securities					1,439	
Treasury stock purchased, net						(67)
Balance at September 30,2003	371,055,259	¥185,528	¥16,680	¥326,740	¥7,158	¥(7,178)
Balance at March 31,2004	371,055,259	¥185,528	¥16,680	¥338,265	¥9,029	¥(11,109)
Net income				30,468		
Cash dividends paid(¥25.00 per share)				(9,118)		
Bonuses to directors and statutory auditors				(120)		
Surplus from sale of treasury stock			1			
Decrease in unrealized holding gains on securities					(412)	
Treasury stock purchased, net						(86)
Balance at September 30,2004	371,055,259	¥185,528	¥16,681	¥359,495	¥8,617	¥(11,195)

	Thousands of U.S. dollars (Note 1)				
	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Treasury stock
Balance at March 31,2004	$1,686,618	$151,636	$3,075,136	$82,082	$(100,991)
Net income			276,982		
Cash dividends paid ($0.23 per share)			(82,891)		
Bonuses to directors and statutory auditors			(1,091)		
Surplus from sale of treasury stock		9			
Decrease in unrealized holding gains on securities				(3,745)	
Treasury stock purchased, net					(782)
Balance at September 30,2004	$1,686,618	$151,645	$3,268,136	$78,337	$(101,773)

See accompanying notes.

NOTES TO SEMI-ANNUAL NON-CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The Chugoku Electric Power Company, Inc.

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

The accompanying semi-annual financial statements 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 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 (with some expanded descriptions and the inclusion of statements of stockholders' equity) 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 translation 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, 2004, which was ¥110 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

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

Securities

Held-to-maturity debt securities are stated at amortized cost, net of the amount considered not collectible. 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 held-to-maturity debt securities, equity securities issued by subsidiaries and affiliated companies and available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between 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 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.

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 (US$37,173 thousand) 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 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 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 time period, and properly reflect employees' capabilities and achievements. Elements of the revised rules applying from April 1, 2004, are as follows:

- The Company has 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 obligations and other items for 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 within the average of estimated remaining service periods of the employees (one year). Actuarial 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.

Reserve for reprocessing of irradiated nuclear fuel

A reserve for reprocessing of irradiated nuclear fuel is provided at 60% of the future reprocessing costs of nuclear fuel which is currently irradiated, in accordance with the provisions of the 1995 revision of the Ordinance of the Ministry of International Trade and Industry (now Ministry of Economy, Trade and Industry).

Reserve for decommissioning of nuclear power plants

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

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

Reserve for drought

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

For the six months ended September 30, 2002, no reserve was recorded because it was not required.

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 derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company defers recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

1. If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,
   (a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the statements of income in the period which includes the inception date, and
   (b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.
2. If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized. In this case, assessment of hedge effectiveness is omitted.

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 omitted.

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 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.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2004 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

Consolidated tax system

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

3. Securities

Disclosure of market value information of securities, except for investments in subsidiaries and affiliates, with readily available market values at September 30, 2004 is required only in consolidated financial statements.

Book values and fair values of equity securities issued by subsidiaries and affiliated companies with available fair values as of September 30, 2004 and 2003 were as follows:

	Millions of yen						Thousands of U.S. dollars		
	Book value		Fair value		Difference		Book value	Fair value	Difference
	2004	2003	2004	2003	2004	2003	2004		
Equity securities of affiliated companies	¥2,493	¥2,493	¥35,780	¥35,317	¥33,287	¥32,824	$22,664	$325,273	$302,609

4. Long- term debt

Long-term debt at September 30, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Domestic bonds due serially through 2029 at rates of 0.58% to 5.0%	¥ 900,000	¥ 960,000	$ 8,181,818
Deutsche mark bonds at a rate of 5.625%	-	22,125	-
Loans from the Development Bank of Japan due serially through 2023 at rates of 0.75% to 6.9%	263,589	287,649	2,396,264
Unsecured loans, principally from banks and insurance companies, due serially through 2032 at rates of 0.16% to 6.45%	332,410	325,765	3,021,909
	1,495,999	1,595,539	13,599,991
Less amount due within one year	(138,024)	(161,172)	(1,254,764)
Total	¥ 1,357,975	¥ 1,434,367	$ 12,345,227

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

For the six months ended September 30, 2004, the Company recognized ¥4,089 million (US$37,172 thousand) of impairment losses on fixed assets which consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Construction in progress	¥2,313	$21,027
General facilities	1,776	16,146
Total	¥4,089	$37,173

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

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

6. Leases

(As lessee)

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

Lease payments under non-capitalized finance leases amounted to ¥360 million (US$3,273 thousand), ¥461 and ¥403 million for the six months ended September 30, 2004, 2003 and 2002, 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, 2004 and 2003 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	Finance leases		Operating leases		Finance leases	Operating leases
	2004	2003	2004	2003	2004	2004
Current portion	¥ 549	¥ 843	¥ 348	¥ 209	$ 4,991	$3,164
Non-current portion	1,095	1,390	46	—	9,954	418
Total	¥ 1,644	¥ 2,233	¥ 394	¥ 209	$14,945	$3,582

7. Contingent liabilities

At September 30, 2004, the Company was contingently liable as guarantor for loans of other companies in the amount of ¥159,028 million (US$1,445,709 thousand), mainly in connection with the Company's procurement of fuel.

At the same date, the Company was also contingently liable with respect to certain domestic bonds, which were assigned to certain banks under debt assumption agreements in the aggregate amount of ¥60,000 million (US$545,455 thousand).

8. Stockholders' equity

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

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

9. Subsequent events

The following appropriation of retained earnings at September 30, 2004, was approved at the Board of Directors' meeting held on November 10, 2004:

	Millions of yen	Thousands of U.S. dollars
Semi-annual cash dividends, ¥25 ($0.23) per share	¥9,117	$82,882

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