SEMI-ANNUAL FINANCIAL STATEMENTS

for the six months ended September 30, 2005

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 30,2005 and 2004

Assets	Millions of yen 2005	Millions of yen 2004	Thousands of U.S.dollars (Note 1) 2005
Property:			
Utility plant and equipment	¥5,302,182	¥5,310,567	$46,921,965
Other plant	256,118	249,786	2,266,531
Construction in progress	141,735	120,067	1,254,292
	5,700,035	5,680,420	50,442,788
Less-			
Contributions in aid of construction	74,004	72,598	654,903
Accumulated depreciation	3,498,651	3,403,935	30,961,513
	3,572,655	3,476,533	31,616,416
Net property (Note 7)	2,127,380	2,203,887	18,826,372
Nuclear fuel	120,578	117,223	1,067,062
Investments and other assets:			
Investment securities (Note 4)	57,421	50,259	508,150
Investments in and advances to non-consolidated subsidiaries and affiliates	88,973	86,887	787,372
Long-term loans to employees	1,834	2,229	16,230
Deferred tax assets	53,333	54,164	471,973
Other assets	15,535	9,185	137,478
Total investments and other assets	217,096	202,724	1,921,203
Current assets:			
Cash and time deposits (Note 3)	15,898	22,187	140,690
Receivables,less allowance for doubtful accounts of ¥678 million ($ 6,000 thousand) in 2005 and ¥783 million in 2004	62,083	66,164	549,407
Inventories,fuel and supplies	36,078	33,804	319,274
Deferred tax assets	10,758	11,599	95,204
Other current assets	23,431	9,514	207,354
Total current assets	148,248	143,268	1,311,929
Total assets	¥2,613,302	¥2,667,102	$23,126,566

See accompanying notes.

Liabilities, Minority Interests and Stockholders' Equity	Millions of yen 2005	Millions of yen 2004	Thousands of U.S. dollars (Note 1) 2005
Long-term debt due after one year (Note 6)	¥1,315,664	¥1,396,478	$11,643,044
Other long-term liabilities due after one year	6,836	8,913	60,496
Employees' severance and retirement benefits	59,912	60,384	530,195
Reserve for reprocessing of irradiated nuclear fuel	107,491	102,396	951,248
Reserve for decommissioning of nuclear power generating plants	43,808	42,688	387,681
Current liabilities:			
Long-term debt due within one year (Note 6)	124,577	143,667	1,102,451
Short-term borrowings	74,620	77,350	660,354
Accounts payable	41,940	36,199	371,150
Accrued income taxes	15,500	20,841	137,168
Accrued expenses	37,492	39,829	331,788
Reserve for loss on discontinued operations	-	2,991	-
Other current liabilities			
(including other long-term liabilities due within one year)	104,477	82,922	924,575
Total current liabilities	398,606	403,799	3,527,486
Reserve for drought	773	1,059	6,840
Minority interests	4,416	5,032	39,080
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	1,641,841
Capital surplus	16,687	16,681	147,673
Retained earnings(Note 12)	468,324	445,644	4,144,460
Net unrealized holding gains on securities	17,313	10,158	153,212
Foreign currency translation adjustments	3	(2)	27
Treasury stock	(12,059)	(11,656)	(106,717)
Total stockholders' equity	675,796	646,353	5,980,496
Total liabilities, minority interests and stockholders' equity	¥2,613,302	¥2,667,102	$23,126,566

SEMI-ANNUAL CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the six months ended September 30, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	2005
Operating revenues (Note 11) :				
Electric	¥467,624	¥469,076	¥451,084	$4,138,265
Other	33,647	28,842	27,113	297,761
	501,271	497,918	478,197	4,436,026
Operating expenses (Note 11):				
Electric	422,915	400,164	399,163	3,742,611
Other	31,735	29,195	30,100	280,840
	454,650	429,359	429,263	4,023,451
Operating income	46,621	68,559	48,934	412,575
Other expenses (income):				
Interest expense	14,383	17,382	19,419	127,283
Interest income	(39)	(46)	(62)	(345)
Gains on sales of securities	(711)	(3,049)	(3,368)	(6,292)
Equity in earnings of affiliated companies	(222)	(181)	(144)	(1,965)
Loss on impairment of fixed assets (Note 7)	–	4,390	–	–
Loss on discontinued operations	–	3,199	–	–
Other, net	(997)	1,726	3,482	(8,823)
	12,414	23,421	19,327	109,858
Special item:				
Reserve for drought	(1,685)	347	1,873	(14,912)
Income before income taxes and minority interests in net income of consolidated subsidiaries	35,892	44,791	27,734	317,629
Provision for income taxes				
Current	10,396	15,828	17,862	92,000
Deferred	2,812	1,131	(7,114)	24,885
	13,208	16,959	10,748	116,885
Income before minority interests in net income of consolidated subsidiaries	22,684	27,832	16,986	200,744
Minority interests in net income of consolidated subsidiaries	96	32	5	850
Net income	¥22,588	¥27,800	¥16,981	$199,894

	Yen			U.S. dollars (Note 1)
	2005	2004	2003	2005
Per share data :				
Net income:				
Basic	¥62.06	¥76.34	¥46.34	$0.55
Diluted	62.06	76.34	46.34	0.55
Interim cash dividends applicable to the period	25.00	25.00	25.00	0.22

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 2005, 2004 and 2003

	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
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)
Balance at March 31, 2005	371,055,259	¥185,528	¥16,685	¥455,821	¥12,130	¥(9)	¥(11,946)
Net income				22,588			
Cash dividends paid (¥25.00 per share)				(9,083)			
Bonuses to directors and statutory auditors				(226)			
Effect of decrease in investments accounted for by the equity method				(1,259)			
Effect of increase in unrealized gross profit by changing holding ratio of subsidiaries				(776)			
Effect of increase of consolidated subsidiaries				1,259			
Surplus from sale of treasury stock			2				
Increase in unrealized holding gains on securities					5,183		
Foreign currency translation adjustments						12	
Treasury stock purchased, net							(113)
Balance at September 30, 2005	371,055,259	¥185,528	¥16,687	¥468,324	¥17,313	¥3	¥(12,059)

	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
Balance at March 31, 2005	$1,641,841	$147,655	$4,033,814	$107,345	$(80)	$(105,717)
Net income			199,894			
Cash dividends paid (¥25.00 per share)			(80,381)			
Bonuses to directors and statutory auditors			(2,000)			
Effect of decrease in investments accounted for by the equity method			(11,142)			
Effect of increase in unrealized gross profit by changing holding ratio of subsidiaries			(6,867)			
Effect of increase of consolidated subsidiaries			11,142			
Surplus from sale of treasury stock		18				
Increase in unrealized holding gains on securities				45,867		
Foreign currency translation adjustments					107	
Treasury stock purchased, net						(1,000)
Balance at September 30, 2005	$1,641,841	$147,673	$4,144,460	$153,212	$27	$(106,717)

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, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S.dollars (Note 1)
	2005	2004	2003	2005
Cash flows from operating activities:				
Income before income taxes and minority interests in net income of consolidated subsidiaries	¥35,892	¥44,791	¥27,734	$317,629
Depreciation	74,705	78,514	87,514	661,106
Loss on impairment of fixed assets	259	4,390	−	2,292
Amortization of nuclear fuel	3,104	3,570	2,515	27,469
Loss on disposal of property	2,383	2,444	3,158	21,089
Increase (decrease) in employees' severance and retirement benefits	563	(21,062)	6,718	4,982
Increase in provision for decommissioning of nuclear power generating plants	932	3,023	241	8,248
Increase (decrease) in provision for reprocessing of irradiated nuclear fuel	5,426	485	(4,281)	48,018
Increase (decrease) in provision for drought	(1,685)	347	1,873	(14,912)
Provision for resereve for loss on discontinued operations	(499)	2,991	−	(4,416)
Interest and dividends income	(597)	(611)	(508)	(5,283)
Interest expense	14,383	17,382	19,419	127,283
Gains on sales of securities	(711)	(3,049)	(3,368)	(6,292)
Increase in notes and accounts receivable	(1,173)	(7,646)	(496)	(10,381)
Decrease (increase) in inventories	(3,810)	(2,703)	(1,375)	(33,717)
Increase (decrease) in notes and accounts payable	(9,849)	2,492	(5,852)	(87,159)
Increase (decrease) in liabilities for defined contribution pension and prepaid	(3,349)	9,932	−	(29,637)
Other	(22,446)	(782)	4,109	(198,637)
Subtotal	93,528	134,508	137,401	827,682
Interest and dividends received	856	836	803	7,575
Interest paid	(14,737)	(17,831)	(19,838)	(130,416)
Income taxes paid	(10,947)	(14,525)	(28,816)	(96,876)
Net cash provided by operating activities	68,700	102,988	89,550	607,965
Cash flows from investing activities:				
Purchase of property	(51,189)	(44,829)	(51,205)	(453,000)
Purchase of investments in securities	(234)	(458)	(1,143)	(2,071)
Proceeds from sale of investment securities	1,027	1,574	4,818	9,089
Purchase of investments in subsidiaries	(590)	−	−	(5,221)
Other	1,269	1,386	2,778	11,230
Net cash used in investing activities	(49,717)	(42,327)	(44,752)	(439,973)
Cash flows from financing activities:				
Proceeds from issue of bonds	−	14,943	39,838	−
Repayment of bonds	−	(55,000)	(65,000)	−
Proceeds from long-term debt	80,000	27,250	50,600	707,965
Repayment of long-term debt	(72,498)	(28,660)	(33,165)	(641,575)
Proceeds from short-term loans	167,550	167,240	164,070	1,482,743
Repayment of short-term loans	(190,890)	(167,440)	(191,160)	(1,689,292)
Proceeds from issue of commercial paper	509,000	424,000	446,000	4,504,425
Repayment of commercial paper	(511,000)	(436,000)	(450,000)	(4,522,124)
Purchase of treasury stock	(124)	(101)	(67)	(1,097)
Cash dividends paid	(9,113)	(9,097)	(9,164)	(80,646)
Other	(8)	8	31	(72)
Net cash used in financing activities	(27,083)	(62,857)	(48,017)	(239,673)
Effect of exchange rate changes on cash and cash equivalents	18	1	−	159
Net decrease in cash and cash equivalents	(8,082)	(2,195)	(3,219)	(71,522)
Cash and cash equivalents at beginning of period	23,877	23,705	24,225	211,301
Increase resulting from merger of equity method affiliate with consolidated subsidiary	−	532	−	−
Cash and cash equivalents at end of period (Note 3)	¥15,795	¥22,042	¥21,006	$139,779

See accompanying notes.

1. Basis of presenting semi-annual consolidated financial statements

The Chugoku Electric Power Co., Inc. (the “Company”) and its consolidated subsidiaries (the “Companies”) maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code (the “Code”) and the Electricity Utilities Industry Law and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP ”), which are different in certain respects 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, 2005, which was ¥113 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, 2005, 24 subsidiaries (23 in 2004, 23 in 2003) were consolidated and excluded10 subsidiaries from consolidation due to immateriality in terms of consolidated total assets, sales and revenues, net income and retained earnings of the consolidated finantial statements.

For the six months ended September 30, 2005, 10 (10 in 2004, 10 in 2003) non-consolidated subsidiaries and 9(10 in 2004, 9 in 2003) affiliates were accounted for by the equity method.

Other than above, 8(9 in 2004, 11 in 2003) 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

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

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

Property and depreciation

Property is stated at cost, which includes interest on borrowed funds during construction, in accordance with rules established by the regulatory authorities. Contributions in aid of construction are deducted from the cost of the related assets when computing depreciation.

Depreciation is computed using the declining-balance method, based on the estimated useful lives of the respective assets in accordance with the corporation tax law.

Easements under power lines, which had previously been non-depreciable assets, are depreciated on the straight-line method for the six months ended September 30, 2005.

Thereby, compared with the previous method, operating income decreased by ¥1,471 million (US$13,018 thousand) and income before income taxes and minority interests in net income of consolidated subsidiaries decreased by ¥1,471 million (US$13,018 thousand) 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 generation of electricity.

Allowance for doubtful accounts

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

Severance and retirement benefits

Under the terms of the retirement plans of the Companies, all employees are entitled to a lump-sum payment at the time of retirement.

The Companies, in general, have also adopted non-contributory funded pension plans which provide 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 periods of the employees (mainly one year). Actual gains and losses are recognized in expenses using a strait-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 the present value amount equivalent to the expense of the reprocessing of irradiated nuclear fuel generated with operation of a nuclear reactor.

In addition, the difference of ¥59,307 million (US$524,841 thousand) 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.

However, fuel without a concrete plan to reprocess (7t) included in the fuel generated this term (12t), was not considered when providing the reserve for the six months ended September 30, 2005.

Formerly, the reserve was provided at 60% of the future reprocessing costs of nuclear fuel which was irradiated.

Thereby, compared with the former method, operating expenses increased by ¥2,930 million (US$25,929 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, 2005.

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 of the personal handy phone voice service business of Energia Communications, Inc., a consolidated subsidiary. The amount is estimated based primarily 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 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, assessment of 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 loss carryforwards and the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Foreign currency translation

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

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2005 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 regulations to economic useful lives.

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

Consolidated tax system

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

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, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Cash and time deposits	¥15,898	¥22,187	$140,690
Less: Time deposits with maturities exceeding three months	(103)	(145)	(911)
Cash and cash equivalents	¥15,795	¥22,042	$139,779

4. Securities

A. The following tables summarize acquisition costs, book values (fair values) of securities with available fair values as of September 30, 2005 and 2004:

Available-for-sale securities

	MIllions of yen						Thousands of U.S. dollars		
	Acquisition cost		Book value		Difference		Acquisition cost	Book value	Difference
	2005	2004	2005	2004	2005	2004	2005		
Equity securities	¥4,852	¥4,968	¥31,397	¥23,535	¥26,545	¥18,567	$42,938	$277,850	$234,912
Bonds	9	35	9	36	0	1	80	80	0
Other	23	116	36	120	13	4	203	318	115
Total	¥4,884	¥5,119	¥31,442	¥23,691	¥26,558	¥18,572	$43,221	$278,248	$235,027

B. Book values of available-for-sale securities with no available fair market value as of September 30, 2005 and 2004 are as follows:

Available-for-sale securities

	Millions of yen		Thousands of U.S. dollars
	Book value	Book value	Book value
	2005	2004	2005
Non-listed equity securities	¥24,474	¥24,556	$216,584
Other	1,417	1,418	12,540
Total	¥25,891	¥25,974	$229,124

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, 2005. 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, 2005. 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, 2005 and 2004 derivatives for hedging foreign currency items and interest swaps were used. Disclosure of information on hedging derivatives is not required except as shown below.

	Millions of yen						Thousands of U.S. dollars		
	Notional amount		Fair value		Gain		Notional amount	Fair value	Gain
	2005	2004	2005	2004	2005	2004	2005		
Currency Swap	¥5,749	¥5,903	¥532	¥16	¥532	¥16	$50,876	$4,708	$4,708

6. Long-term debt

Long-term debt at September 30, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Domestic bonds due serially through 2029 at rates of 0.58% to 5.0%	¥844,800	¥899,800	$7,476,106
Loans from the Development Bank of Japan due serially through 2023 at rates of 0.75% to 5.0%	251,920	284,658	2,229,381
Unsecured loans, principally from banks and insurance companies, due serially through 2032 at rates of 0.16% to 6.45%	343,521	355,687	3,040,008
	1,440,241	1,540,145	12,745,495
Less amount due within one year	(124,577)	(143,667)	(1,102,451)
Total	¥1,315,664	¥1,396,478	$11,643,044

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 ¥2,613,302 million (US$23,126,566 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

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

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

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

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

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

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

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

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

8. Leases

(As lessee)

The Companies lease certain equipment for business use.

Lease payments under non-capitalized finance leases amounted to ¥ 79 million (US$699 thousand), ¥92 million and ¥206 million for the six months ended September 30, 2005, 2004 and 2003 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, 2005 and 2004 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	Finance leases		Operating leases		Finance leases	Operating leases
	2005	2004	2005	2004	2005	2005
Current portion	¥142	¥191	¥199	¥209	$1,256	$1,761
Non-current portion	248	409	22	40	2,195	195
Total	¥390	¥600	¥221	¥249	$3,451	$1,956

(As lessor)

Lease payments received under finance leases, accounted for as operating leases, amounted to ¥183 million (US$1,619 thousand), ¥116 million and ¥110 million for the six months ended September 30, 2005, 2004 and 2003 respectively.

The present values of future minimum lease payments to be received under finance leases as of September 30, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Current portion	¥347	¥267	$3,071
Non-current portion	2,039	913	18,044
Total	¥2,386	¥1,180	$21,115

9. Contingent liabilities

At September 30, 2005, the Companies were contingently liable as guarantor for loans of other companies and employees in the amount of ¥140,069 million (US$1,239,549 thousand), mainly in connection with the Company's procurement of fuel.

At the same date, the Company was also contingently liable with respect to certain domestic bonds, which were assigned to certain banks under debt assumption agreements in the aggregate amount of ¥5,000 million (US$44,248 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 Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The total amount of legal earnings reserve and additional paid-in capital of the Company has reached 25% of common stock, and therefore the Company is not required to provide any more legal earnings reserve. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying financial statements.

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

11. Segment information

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

Depreciation of easements under power lines

As a result of depreciating easements under power lines, which previously had been non-depreciable assets, from April 1, 2005 (Note 2), cost and expenses of the "Electric power" segment increased by ¥1,471 million (US$13,018 thousand) and operating income of the "Electric power" segment decreased by the same amount for the six months ended September 30, 2005.

Reserve for reprocessing of irradiated nuclear fuel

As a result of changing the method of providing for reprocessing of irradiated nuclear fuel (Note 2), cost and expenses of the "Electric power" segment increased by ¥2,930 million (US$25,929 thousand) and operating income of the "Electric power" segment decreased by the same amount for the six months ended September 30, 2005.

Change in useful lives

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

A summary of net sales, costs and expenses and operating income and other information by segment for the six months ended September 30, 2005, 2004 and 2003 is as follows:

	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
Intersegment	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

	Thousands of U.S. dollars						
	2005						
	Electric power	Information and telecommunications	Comprehensive energy supply	Other	Total	Elimination	Consolidated
Operating revenues:							
Outside customers	$4,138,265	$68,354	$55,000	$174,398	$4,436,017	$—	$4,436,017
Intersegment	14,974	85,274	3,805	376,965	481,018	(481,018)	—
Total	4,153,239	153,628	58,805	551,363	4,917,035	(481,018)	4,436,017
Cost and expenses	3,768,876	142,735	55,884	540,814	4,508,309	(484,867)	4,023,442
Operating income	$384,363	$10,893	$2,921	$10,549	$408,726	$3,849	$412,575

	Millions of yen						
	2004						
	Electric power	Information and telecommunications	Comprehensive energy supply	Other	Total	Elimination	Consolidated
Operating revenues:							
Outside customers	¥469,076	¥8,317	¥4,059	¥16,466	¥497,918	¥—	¥497,918
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

	Millions of yen						
	2003						
	Electric power	Information and telecommunications	Comprehensive 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

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, 2005, 2004 and 2003 is not shown due to aggregate overseas sales being less than 10% of total operating revenues.

12. Subsequent events

The following appropriation of retained earnings at September 30, 2005 was approved at the Board of Directors' meeting held on October 31, 2005:

	Millions of yen	Thousands of U.S. dollars
Semi-annual cash dividends, ¥25 ($0.22) per share	¥9,112	$80,637

SEMI-ANNUAL NON-CONSOLIDATED BALANCE SHEETS (UNAUDITED)

The Chugoku Electric Power Co., Inc.
September 30, 2005 and 2004

Assets	Millions of yen 2005	Millions of yen 2004	Thousands of U.S. dollars (Note 1) 2005
Property:			
Plant and equipment	¥5,436,513	¥5,429,678	$48,110,735
Construction in progress	142,849	120,487	1,264,150
	5,579,362	5,550,165	49,374,885
Less-			
Contributions in aid of construction	72,546	71,195	642,000
Accumulated depreciation	3,453,323	3,352,590	30,560,381
	3,525,869	3,423,785	31,202,381
Net property (Note 5)	2,053,493	2,126,380	18,172,504
Nuclear fuel	120,578	117,223	1,067,062
Investments and other assets:			
Investment securities	50,096	43,915	443,327
Investments in and advances to subsidiaries and affiliated companies	41,171	38,241	364,345
Long-term loans to employees	1,719	2,136	15,212
Deferred tax assets	36,161	40,040	320,009
Other assets	12,910	6,399	114,249
Total investments and other assets	142,057	130,731	1,257,142
Current assets:			
Cash and time deposits	8,862	10,371	78,425
Receivables, less allowance for doubtful accounts of ¥590 million ($ 5,221 thousand) in 2005 and ¥715 million in 2004	49,884	55,009	441,451
Inventories, fuel and supplies	25,181	23,274	222,841
Deferred tax assets	8,390	8,543	74,248
Other current assets	19,138	6,477	169,362
Total current assets	111,455	103,674	986,327
Total assets	¥2,427,583	¥2,478,008	$21,483,035

See accompanying notes.

Liabilities and Stockholders' Equity	Millions of yen 2005	2004	Thousands of U.S. dollars (Note 1) 2005
Long-term debt due after one year (Note 4)	¥1,278,370	¥1,357,975	$11,313,009
Other long-term liabilities due after one year	5,914	7,619	52,336
Employees' severance and retirement benefits	49,271	50,397	436,027
Reserve for reprocessing of irradiated nuclear fuel	107,491	102,396	951,248
Reserve for decommissioning of nuclear power generating plants	43,808	42,688	387,681
Current liabilities:			
Long-term debt due within one year (Note 4)	120,151	138,024	1,063,283
Short-term borrowings	65,300	65,950	577,876
Commercial paper	72,000	45,000	637,168
Accounts payable	31,353	26,655	277,460
Accrued income taxes	14,783	20,331	130,823
Accrued expenses	33,169	35,595	293,531
Other current liabilities			
(including other long-term liabilities due within one year)	23,861	25,193	211,159
Total current liabilities	360,617	356,748	3,191,300
Reserve for drought	773	1,059	6,840
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	1,641,841
Capital surplus	16,687	16,681	147,673
Retained earnings (Note 9)	378,010	359,495	3,345,221
Net unrealized holding gains on securities	12,712	8,617	112,496
Treasury stock	(11,598)	(11,195)	(102,637)
Total stockholders' equity	581,339	559,126	5,144,594
Total liabilities and stockholders' equity	¥2,427,583	¥2,478,008	$21,483,035

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

The Chugoku Electric Power Co., Inc.
For the six months ended September 30, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	2005
Operating revenues	¥472,486	¥472,897	¥453,595	$4,181,292
Operating expenses:				
Personnel	62,922	57,379	69,161	556,832
Fuel	84,275	60,881	53,687	745,796
Purchased power	78,951	78,771	67,462	698,681
Depreciation	68,195	72,056	80,272	603,496
Maintenance	40,724	37,507	40,577	360,389
Taxes other than income taxes	30,699	34,126	34,638	271,673
Purchased services	14,613	18,051	14,945	129,319
Other	48,636	46,364	42,044	430,407
	429,015	405,135	402,786	3,796,593
Operating income	43,471	67,762	50,809	384,699
Other expenses (income):				
Interest expense	14,017	16,936	18,939	124,044
Interest income	(27)	(32)	(45)	(239)
Loss on impairment of fixed assets (Note 5)	–	4,089	–	–
Other, net	(1,679)	(1,760)	1,111	(14,858)
	12,311	19,233	20,005	108,947
Income before special item and income taxes	31,160	48,529	30,804	275,752
Special item				
Reserve for drought	(1,685)	347	1,873	(14,912)
Provision for income taxes				
Current	9,233	15,279	16,859	81,708
Deferred	2,775	2,435	(6,760)	24,558
Net income	¥20,837	¥30,468	¥18,832	$184,398

	Yen			U.S. dollars (Note 1)
	2005	2004	2003	2005
Per share data:				
Net income:				
Basic	¥57.16	¥83.54	¥51.33	$0.51
Diluted	57.16	83.54	51.33	0.51
Interim cash dividends applicable to the period	25.00	25.00	25.00	0.22

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 2005, 2004 and 2003

	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, 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)
Balance at March 31, 2005	371,055,259	¥185,528	¥16,685	¥366,407	¥10,411	¥(11,484)
Net income				20,837		
Cash dividends paid(¥25.00 per share)				(9,114)		
Bonuses to directors and statutory auditors				(120)		
Surplus from sale of treasury stock			2			
Increase in unrealized holding gains on securities					2,301	
Treasury stock purchased, net						(114)
Balance at September 30, 2005	371,055,259	¥185,528	¥16,687	¥378,010	¥12,712	¥(11,598)

	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, 2005	$1,641,841	$147,655	$3,242,540	$92,133	$(101,628)
Net income			184,398		
Cash dividends paid ($0.22 per share)			(80,655)		
Bonuses to directors and statutory auditors			(1,062)		
Surplus from sale of treasury stock		18			
Increase in unrealized holding gains on securities				20,363	
Treasury stock purchased, net					(1,009)
Balance at September 30, 2005	$1,641,841	$147,673	$3,345,221	$112,496	$(102,637)

See accompanying notes.

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, 2005, which was ¥113 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

Equity securities issued by subsidiaries and affiliated companies are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of stockholders' equity. Realized gains and losses on the sale of such securities are computed using the moving-average cost. Other securities with no available fair market value are stated at moving-average cost.

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

Easements under power lines, which had previously been non-depreciable assets, are depreciated on the straight-line method for the six months ended September 30, 2005.

Thereby, compared with the previous method, operating income decreased by ¥1,471 million (US$13,018 thousand) and income before income taxes decreased by ¥1,471 million (US$13,018 thousand) for the six months ended September 30, 2005.

Accounting for the impairment of fixed assets

For the six months ended September 30, 2004, the Company adopted the new accounting standard for impairment of fixed assets (“Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets” issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No.6 issued by the Accounting Standards Board of Japan on October 31, 2003).

As a result of the new accounting standard for impairment of fixed assets, income before income taxes decreased by ¥4,089 million for the six months ended September 30, 2004.

Nuclear fuel and amortization

Nuclear fuel is stated at cost less amortization. The amortization of nuclear fuel is computed based on the quantity of heat produced for 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 the year ended March 31, 2004, were computed based on the new plan.
- A part of the current lump-sum retirement benefit plan was shifted to an optional system, under which the employees may choose a defined contribution pension plan or a prepayment plan.

The liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

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

Prior service costs are recognized in expenses within the average of estimated remaining periods of the employees (one year). Actual gains and losses are recognized in expenses using a straight-line basis over 5 years which is within the average of the estimated remaining service period commencing with the following period.

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

Reserve for reprocessing of irradiated nuclear fuel

A reserve for reprocessing of irradiated nuclear fuel, is provided at the present value amount equivalent to the expense of the reprocessing of irradiated nuclear fuel generated with operation of a nuclear reactor.

In addition, the difference of ¥59,307 million (US$524,841 thousand) 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.

However, fuel without a concrete plan to reprocess (7t) included in the fuel generated this term (12t), was not considered when providing the reserve for the six months ended September 30, 2005.

Formerly, the reserve was provided at 60% of the future reprocessing costs of nuclear fuel which was irradiated.

Thereby, compared with the former method, operating expenses increased by ¥2,930 million (US$25,929 thousand) and operating income and income before income taxes decreased by the same amount for the six months ended September 30, 2005.

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.

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 not necessary.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed. In this case, assessment of hedge effectiveness is not necessary.

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

Bond issue expenses

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

Income taxes

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

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2005 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 Companies 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, 2005 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, 2005 and 2004 were as follows:

	Millions of yen						Thousands of U.S.dollars		
	Book value		Fair value		Difference		Book value	Fair value	Difference
	2005	2004	2005	2004	2005	2004	2005		
Equity securities of affiliated companies	¥2,493	¥2,493	¥46,090	¥35,780	¥43,597	¥33,287	$22,062	$407,876	$385,814

4. Long- term debt

Long-term debt at September 30, 2005 and 2004, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Domestic bonds due through 2029 at rates of 0.58% to 4.1%	¥ 845,000	¥ 900,000	$ 7,477,876
Loans from the Development Bank of Japan due through 2023 at rates of 0.75% to 4.95%	233,743	263,589	2,068,522
Unsecured loans, principally from banks and insurance companies, due serially through 2032 at rates of 0.07% to 6.45%	319,778	332,410	2,829,894
	1,398,521	1,495,999	12,376,292
Less amount due within one year	(120,151)	(138,024)	(1,063,283)
Total	¥ 1,278,370	¥ 1,357,975	$ 11,313,009

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

5. Impairment loss on fixed assets

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

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

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

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

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

Impairment losses relating to "construction in progress" with uncertain future cash flows is recognized by individual project. Impairment losses relating to "general facilities" are grouped as to 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 assets 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 ¥529 million (US$4,681 thousand), ¥360 and ¥461million for the six months ended September 30, 2005, 2004 and 2003 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, 2005 and 2004 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	Finance leases		Operating leases		Finance leases	Operating leases
	2005	2004	2005	2004	2005	2005
Current portion	¥ 974	¥ 549	¥ 342	¥ 348	$ 8,619	$3,026
Non-current portion	1,795	1,095	115	46	15,885	1,018
Total	¥ 2,769	¥ 1,644	¥ 457	¥ 394	$24,504	$4,044

7. Contingent liabilities

At September 30, 2005, the Company was contingently liable as guarantor for loans of other companies and employees in the amount of ¥164,866 million(US$1,458,991 thousand), mainly in connection with the Company's procurement of fuel.

At the same date, the Company was also contingently liable with respect to certain domestic bonds, which were assigned to certain banks under debt assumption agreements in the aggregate amount of ¥5,000 million (US$44,248 thousand).

8. 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 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.

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.

9. Subsequent events

The following appropriations of retained earnings at September 30, 2005, were approved at the Board of Directors' meeting held on October 31, 2005:

	Millions of yen	Thousands of U.S. dollars
Semi-annual cash dividends, ¥25 ($0.22) per share	¥9,112	$80,637

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