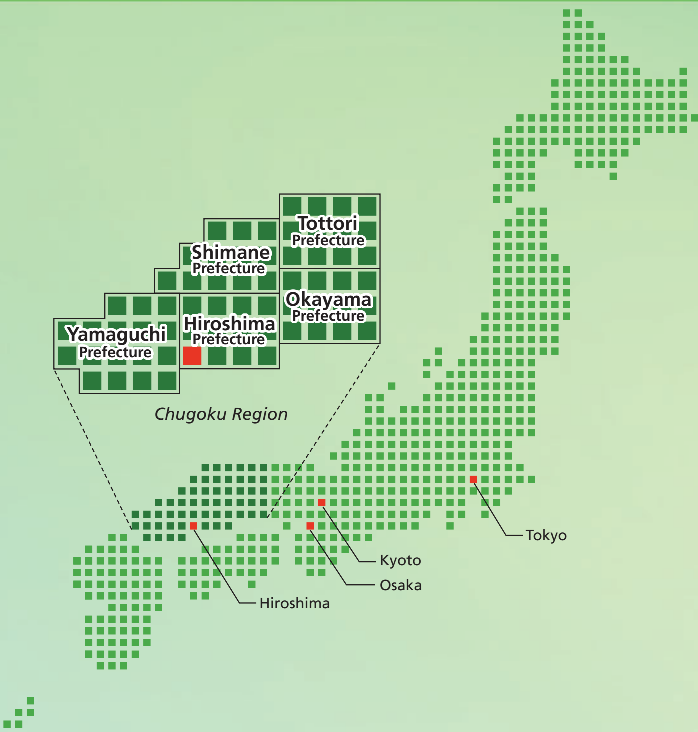
Energia

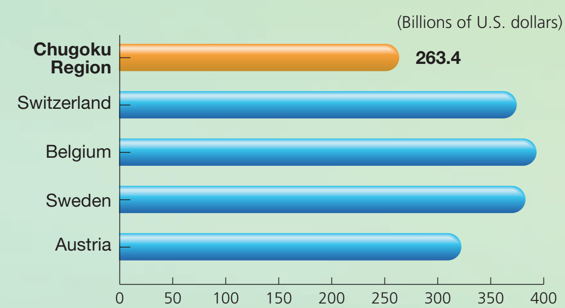
The Chugoku Electric Power Co., Inc.
Annual Report 2008

Profile



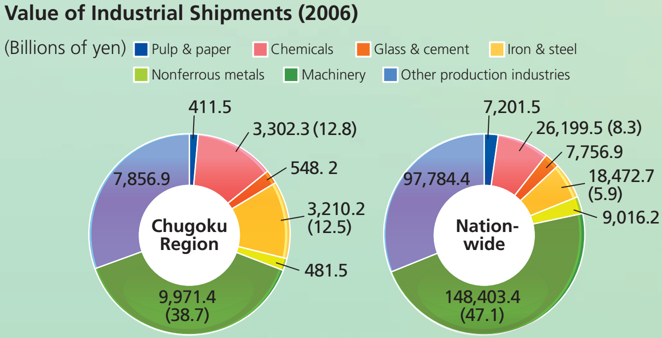
GDP (2005–2006)

The Chugoku region is comparable in size to Austria, Belgium, Switzerland, and Sweden in terms of GDP.



Sources: 1. Ministry of Internal Affairs and Communications [*World in Figures 2008*]
2. Cabinet Office [*Annual Report on Prefectural Accounts 2008*]

Value of Industrial Shipments (2006)



Source: Ministry of Economy, Trade and Industry [*Census of Manufacturers 2006*]
Figures in ( ) represent the percentage distribution.

KEY CONCEPT: Energia
With You and with the Earth

Together with the management philosophy and the code of conduct, this key concept expresses the identity of The Chugoku Electric Power Co., Inc. Energia is derived from Latin, expressing activity, work, and vitality. It is the origin of energy, the supply of which is critical to our operations.

Chugoku Electric Power, with total generating capacity of 11,826MW, provides stable, high-quality electric power services mainly to the Chugoku region, which is located in the western portion of Japan's main island of Honshu. Home to approximately 7.6 million people, the region has a land area of approximately 32,279km^2 and generates an annual gross domestic product of about $263.4 billion.*

We are working to promote our total solutions business—with electric power at its core—by offering products and services that respond to a wide range of customer needs by drawing on the experience, accomplishments, and capabilities of the entire Chugoku Electric Power Group.

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

*Year ended March 31, 2006

Consolidated Financial Highlights

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

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	**2008**
Operating revenues	**¥1,108,354**	¥1,075,575	¥1,040,290	**$11,083,540**
Operating income	**84,416**	88,401	100,095	**844,160**
Net income	**25,271**	37,093	45,167	**252,710**
Total stockholders' equity/Net assets	**711,080**	715,972	695,495	**7,110,800**
Total assets	**2,710,681**	2,680,782	2,655,468	**27,106,810**
Interest-bearing debt	**1,595,098**	1,572,994	1,575,011	**15,950,980**
Per share data (yen and dollars):				
Net income	**69.37**	101.86	123.44	**0.69**
Stockholders' equity	**1,938.37**	1,951.27	1,910.41	**19.38**
Cash dividends	**50.00**	50.00	50.00	**0.50**
Key financial ratios:				
Equity ratio (%)	**26.0**	26.5	26.2	
Return on equity (ROE) (%)	**3.6**	5.3	6.7	
Return on assets (ROA) (%)	**2.0**	2.1	2.4	

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at ¥100 to US$1, the approximate rate of exchange prevailing on March 31, 2008.
2. The Company's fiscal year begins on April 1 and ends on March 31 of the following year. In this report, fiscal 2008 is used to denote the year ended March 31, 2008.

Contents

Cautionary Statement with Regard to Forward-Looking Statements

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

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

Message from the Management

Tadashi Fukuda
Chairperson

Takashi Yamashita
President

Thus far, the Chugoku Electric Power Group has identified "strengthening competitiveness" and "improving its financial structure" as the core management issues that must be addressed to deal with the more intense competition accompanying the liberalization of Japan's electric power industry and to implement full-scale investments in nuclear power generation facilities.

As we have worked to address these core management issues, the environment surrounding our operations has undergone major changes. In the electric power business, attaining energy security and providing stable supplies of electricity have become major issues as (a) the supplies of crude oil, coal, and other fossil fuels have become tighter relative to demand and prices have risen to high levels and (b) the demands of society for "safety," "security," and "trust" have risen in importance. In addition, the global environmental issues have become more serious and have become urgent worldwide issues. In view of the changes in the operating environment taking place right now, we have reviewed and put in order the results of the Group's initiatives to date as well as the issues to be addressed going forward in the medium-to-long term. Following this review, we believed it would be necessary to clarify our new management direction and share this among our Group. Accordingly, we have prepared our new "Group Management Five-Year Vision."

We have positioned the five-year period through the end of fiscal 2013, when our Shimane Nuclear Power Station's Unit No. 3 will go into full-scale operation and thus mark an important milestone for the Group, as a time for strengthening and consolidating (a) trust, which is the foundation for our business activities, and (b) our base of human resources and facilities, which supports our ability to provide future stable supplies of electricity as well as our competitiveness and the quality of our business operations. Accordingly, under the new vision, the Group will unify its efforts and energies to implement initiatives that will enable it to attain its aim, which is to "Create new value with human resources and technology and contribute to social development through sustained growth as well as gain the trust of all," and to reach newly established numerical targets.

Moreover, we are continuing to position the development of nuclear power facilities as a top-priority management issue and will draw on the Group's comprehensive capabilities to achieve this goal. Especially regarding the development of additional facilities at the Kaminoseki Nuclear Power Station location, which will follow the completion of the Shimane Nuclear Power Station's Unit No. 3, these additional facilities have become increasingly important in view of the need to improve energy security, secure economical operation at a time of high fuel prices, and simultaneously contribute to solving the global environmental issues. We will, therefore, move forward steadily on these projects while obtaining the understanding of all concerned, beginning with residents of the areas where the facilities will be located. To this end, we will, of course, take initiatives to ensure the safe and stable operation of the Shimane Nuclear Power Station's units No. 1 and No. 2 while also moving forward with the ongoing assessment of safety in the event of earthquakes and each of the other related issues.

To revitalize our operations to win the trust of all and become a company that is selected by customers as well as respond to the requests of society, we will steadily implement measures to give maximum priority to compliance. In addition, to respond to the expectations of all our stakeholders, we will aim to increase our corporate value. We, therefore, request the continued support and cooperation of our stockholders and other investors.

Tadashi Fukuda Takashi Yamashita

Tadashi Fukuda
Chairperson

Takashi Yamashita
President

Strategy

Group Management Five-Year Vision

The Chugoku Electric Power Group (the Group) has prepared and announced its new Group Management Five-Year Vision, which will cover the five-year period from fiscal 2009 through the end of fiscal 2013, when the Shimane Nuclear Power Station's Unit No. 3 will go into full-scale operation, an important milestone for the Group. This new vision clarifies the management directions that the Group will share and takes account of a range of factors, including the changes in the business environment surrounding the electric power business, an evaluation of previous actions, and the medium- to long-term management issues that the Group will address.

Key Words: Trust, Creation, and Growth

What the Group Will Aim to Accomplish

Create new value with human resources and technology and contribute to social development through sustained growth as well as gain the trust of all

How the Group Positions the Five-Year Period from Fiscal 2009 to Fiscal 2013

A time for strengthening and consolidating

- Trust, which is the foundation for the Group's business activities, and
- Our base of human resources and facilities, which is the source of our ability to create new value

Basic Concepts

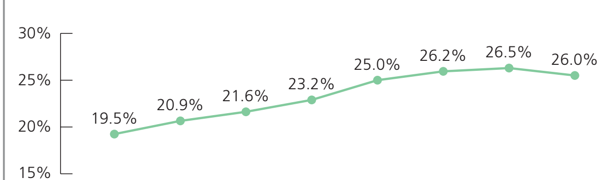
Creating a basis of trust and creation to facilitate growth

Change in Capital Policy Emphasis: From Improvement in Financial Structure to More Efficient Use of Capital

Thus far, the Group has implemented initiatives to strengthen its competitiveness in response to the trend toward liberalization of the electric power industry and placed priority on improving its financial structure. As a result, the Group has reduced its interest-bearing debt and steadily increased its stockholders' equity ratio.

Over the next five years, the Group will make a shift in emphasis from placing top priority on improvement in its financial structure to a policy of increasing capital efficiency and has established a target return on equity (ROE). In the medium-to-long term, the Group will prioritize strengthening its power generation facility base,

The Group's Stockholders' Equity Ratio (Consolidated)



Balance of Interest-Bearing Debt Outstanding (Consolidated)

Shift to Increasing Capital Efficiency

Goal for ROE (Under the Group Management Five-Year Vision, Non-Consolidated) **Fiscal 2013: No less than 5%**

Issue: Improve profitability of facilities to support future profit growth	Specific initiatives
Reduce power generation costs	Increase capacity factor of nuclear and large-scale coal thermal power generation facilities » Proper implementation of preventive maintenance » Shorten periodic inspection length
Achieve balance in composition of power generation sources » Reduce impact of higher fuel prices	Increase efficiency of power generation facilities » Convert Mizushima Unit No. 1 into an LNG combined-cycle system » Introduce high-efficiency steam turbine and other equipment
Reduce CO_2 emissions » Reduce environmental expenditure	Develop additional nuclear power facilities (top priority) » Steady progress toward completion of Shimane Nuclear Power Station's Unit No. 3 » Implement steady progress in construction of the Kaminoseki Nuclear Power Station

Increase ROE

including the development of additional nuclear power plants, to contribute to growth in earnings. In parallel with this, the Group will sustain its current stockholders' equity ratio and increase its capital efficiency through profit growth.

Specific Initiatives

Initiative to Strengthen the Group's Facility Base

The Group will work toward realizing its objectives for its facility base while continuing to increase efficiency, working to maintain service reliability in the medium-to-long term, and pursuing attainment of the "3Es": Energy Security (improve energy security), Environment (solve global environmental issues), and Economy (generate sustainable profits by ensuring the long-term stability of power sources).

Steady Promotion of the Development of Nuclear Power Generation Facilities

The Group has positioned the development of additional nuclear power generation facilities as a top priority, as this will enable the Group to attain the 3Es simultaneously. Accordingly, the Group is devoting its fullest efforts to completing the construction of the Shimane Nuclear Power Station's Unit No. 3 and the development of the Kaminoseki Nuclear Power Station. In pursuing the development of these additional nuclear facilities, the Group is working steadily to build a base of trust with regional communities by maintaining safe and stable operation of the existing Shimane Nuclear Power Station's units No. 1 and No. 2 and by providing timely and accurate disclosure.

The Shimane Nuclear Power Station's Unit No. 3 (1,373MW) is scheduled to begin operating in December 2011. (Approximately 49.8% of construction had been completed by the end of June 2008.)

Increasing the Capacity Factor of Nuclear and Large-Scale Coal Thermal Power Generation Facilities

● Increasing the Capacity Factor of Nuclear Power Generation Facilities

The Group aims to increase the reliability of its nuclear plants through improvements in its maintenance programs. To maintain facilities in sound operating condition at all times, the Group will implement proper preventive maintenance policies, including conducting diagnostics on equipment and planned replacement of equipment based on the results of inspections and the latest technological information and findings.

● Increasing the Capacity Factor of Large-Scale Coal Thermal Power Generation Facilities

For large-scale coal thermal facilities, which are the base for the Group's power supply capabilities, the Group will work to reduce fuel costs through increasing the capacity factor of coal-fired thermal facilities, which have economic advantages, by implementing a number of initiatives. These will include ensuring supply capabilities through appropriate preventive maintenance work, supported by the improvement of inspection devices and systems, while also enhancing the efficiency of periodic inspections and shortening the periods required for construction work.

Increasing the Efficiency of Power Generation Facilities

● Introduction of High-Efficiency Steam Turbines

When existing equipment is scheduled for replacement, the Group will introduce high-efficiency steam turbines and other appropriate equipment to increase the heat efficiency of its thermal power generation facilities.

● Introduction of LNG Combined-Cycle Power Generation

Taking account of the need to respond to global environmental issues, the Group will convert the facilities at the Mizushima Power Station's Unit No. 1 (125MW) from the use of coal to natural gas. At the same time, while making effective use of existing equipment, the Group will upgrade the facilities to high-efficiency, combined-cycle power generation (285MW). (Commencement of operations after conversion is scheduled for April 2009.)

The Mizushima Power Station's Unit No. 1 (currently under conversion from a 125MW coal-fueled power plant to a 285MW LNG combined-cycle thermal power plant)

Ensuring Safety of and Maintaining Reliability in Network and Power Generation Equipment

● Network Equipment

Equipment and facilities constructed in Japan's era of high growth are gradually approaching the time for replacement, and the Group is moving ahead with systematic and efficient renewal and replacement of this older equipment, based on equipment condition diagnostic techniques.

To provide customers with high-quality supplies of electricity, the Group is working to improve the system operation and management of supply and demand as well as strengthening and upgrading its equipment with the aim of maintaining and improving the quality of its power supply.

In addition, to shorten the time of power outages and enhance the quality of power supply, the Group is developing and making use of systems to identify the faulty point during a power outage as quickly as possible and is introducing support programs to restore systems quickly among all the service areas in a balanced way following typhoons and other natural disasters.

● Power Generation Equipment

To provide a high level of assurance regarding the safe operation of nuclear power facilities, the Group has created a QMS,* which is responsible for implementing fully reliable quality assurance activities.

In addition, for maintenance of equipment, the Group has introduced RBM** to implement appropriate policies to maintain operating functions and minimize equipment malfunctions.

In addition to steady and certain implementation of inspection plans, the Group maintains an accurate grasp of the condition of equipment subsequent to its installation and makes sure that information on examples of operating malfunctions and difficulties is made available for reference to all relevant departments and reflected in subsequent inspection plans. In addition, by moving through the "plan, do, check, action" cycle for assuring safety maintenance, the Group is working to ensure the maintenance of high safety standards in its power generation facilities.

*QMS stands for Quality Management System. QMS provides leadership and management for increasing the quality of Group operations.

**RBM stands for Risk Based Maintenance. RBM is a technique for ensuring reliability by conducting assessments of the risks associated with various types of equipment and, depending on the magnitude of these risks, preparing maintenance plans.

Numerical Targets

	Target Items	Numerical Targets	Comments
Profitability	Ordinary income (consolidated)	No less than ¥60 billion/year (average for fiscal 2009 through fiscal 2013)	This target represents the minimum level that should be attained while also steadily and surely implementing all necessary policies related to equipment and facilities.
Soundness	Interest-bearing debt (consolidated)	Approximately ¥1,600 billion (at the end of fiscal 2013)	This target was set from the perspective of moving forward with measures to strengthen the equipment base while not causing any deterioration in the Group's financial structure.
Efficiency	Capital efficiency: ROE (non-consolidated) (ratio of net income to stockholders' equity)	No less than 5% (in fiscal 2013)	The Group has set this target to clarify its stance and meet the expectations of stockholders and investors.
	Asset efficiency: Productivity of equipment (non-consolidated) (electric power sales volume per ¥100 million of electric utility plant and equipment)	Approximately 3.6 million kWh /¥100 million (in fiscal 2013)	This target was established as an indicator for checking on the efficiency of measures to strengthen the equipment base.
Growth potential	Electric power business: Volume of electric power demand developed	No less than 3.5 billion kWh (total for fiscal 2009 through fiscal 2013)	This target was established to encourage efforts toward identifying new sources of demand.
	Other Group businesses: Operating revenues (Note 1) Operating income (Note 2)	No less than ¥600 billion No less than ¥22 billion (totals for fiscal 2009 through fiscal 2013)	These targets were established from the perspective of aiming for stronger initiatives for attaining growth in the Group's business activities.

Notes: 1. Difference between consolidated operating revenues and electric power segment operating revenue
2. Difference between consolidated operating income and electric power segment operating income less operating income from intra-Group transactions

Review of Operations

Efforts at Our Electric Power Business

Management Environment

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

Electric Power Demand Outlook

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

As a result, we forecast that in fiscal 2018, electric power sales volume will amount to 65.5 million MWh, representing an average annual increase of 0.6% (0.6% after adjusting for temperature changes and other factors) between fiscal 2007 and fiscal 2018.

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

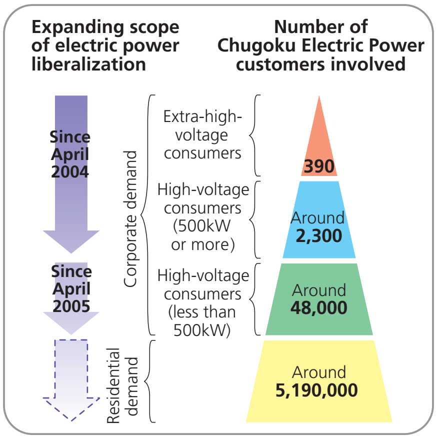
Tapping Demand in the Household Electricity Field

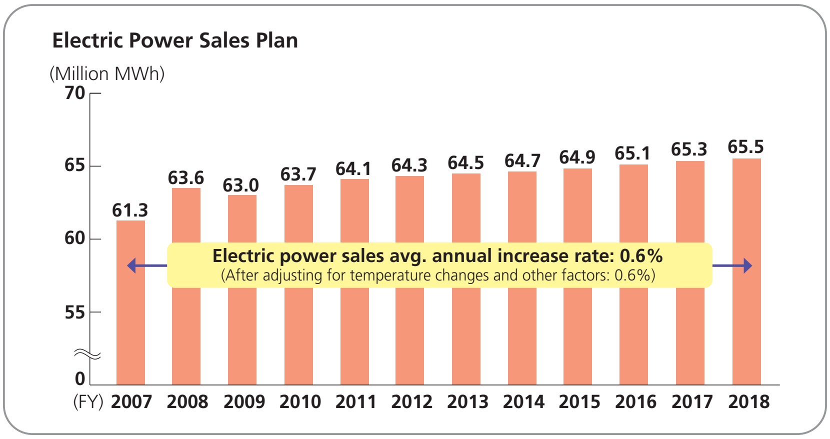
Promoting the Spread of All-Electric Homes

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

All-electric homes presently account for about 40% of all newly built housing in the Chugoku region and, of particular note, over 70% of all newly built detached housing. In this sense, it can be said that all-electric homes have become mainstream. The percentage of all-electric homes among newly built housing in the region in which Chugoku Electric Power is based is among the highest of any electric power company in Japan.

Yet, as all-electric homes still only account for around 10% of the roughly three million existing houses in the Chugoku region, we believe there is great potential for growth in this category of homes,





through both higher penetration into the newly built housing field and the tapping of renovation demand in the existing housing field.

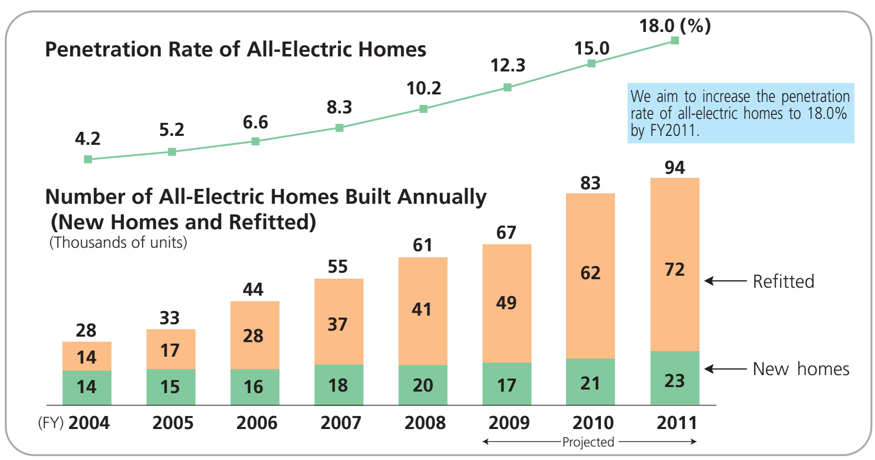
Leveraging the strength of operating in a region with one of the nation's highest ratios of all-electric homes, Chugoku Electric Power is aggressively promoting these homes. By fiscal 2011, we aim to increase the penetration rate to 18.0%.

Easy-to-clean induction-heating cooktop

Convenient and comfortable all-electric kitchen

Increasing the Number of Electric Water Heaters (Aggregate)

In the area of electric water heaters, demand is increasing rapidly for the EcoCute, an environmentally friendly heat pump system—using carbon dioxide refrigerant—that converts atmospheric heat into heat energy. Thanks largely to this demand, electric water heater sales volumes increased 11.1% in fiscal 2008. As a result, the number of electric water heater contracts at the end of fiscal 2008 stood at about 630,000, for a household penetration rate of 20.2%. We are aiming for about 850,000 new electric water heater contracts by the end of fiscal 2011, representing 1.3 times the number of such contracts in fiscal 2008.



Demand Acquisition Targets

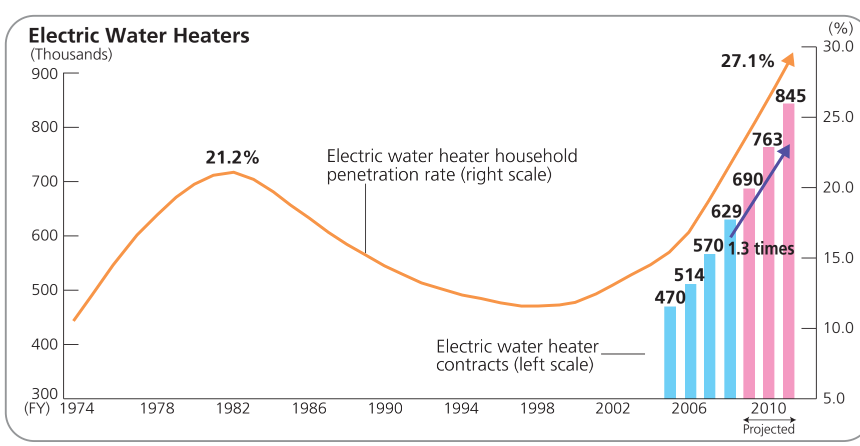
We aim to obtain demand of 2.05 million MWh in the three-year period from fiscal 2009 to fiscal 2011.

Demand by Source

Residential demand	1.48 million MWh
Corporate demand	0.49 million MWh
Self-generation demand	0.08 million MWh

Fiscal 2009 to Fiscal 2011
(Three-year cumulative total)

2.05 million MWh



Rate Reduction Efforts and Providing Contract Menu Diversity

Chugoku Electric Power has a long track record of cutting electricity rates to reflect the results of efforts to improve management efficiency, and the electricity rates it levies on customers have fallen steadily.

While surging fuel prices and other factors are creating an extremely harsh operating environment for Chugoku Electric Power, in September 2008, the Company will revise its rates based on consideration of changes in the operating environment as well as cost savings achieved from management efficiency improvement measures.

Measures were taken to provide a greater diversity of contract menus that customers can choose from to match their lifestyles, including household menus that provide for lower rates during low-demand hours late at night. These menus are also designed to promote more-efficient energy use.

Power Source Development Plans

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

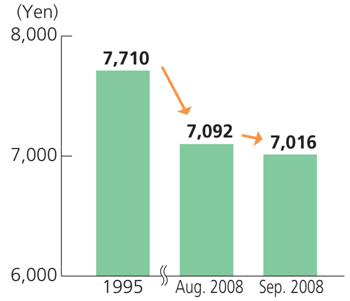
In the Company's fiscal 2009 supply plan, which reflects its power source development plan for the next 10 years, the Company's currently low nuclear ratio in terms of installed generating capacity will meet the national average by the end of fiscal 2018 as a result of the development of the Shimane Nuclear Power Station's Unit No. 3 and the Kaminoseki Nuclear Power Station's Unit No. 1. By doing so, we expect to move closer to the best mix of power sources—a balanced combination of nuclear, coal, and other power facilities.

Efforts in Nuclear Power

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

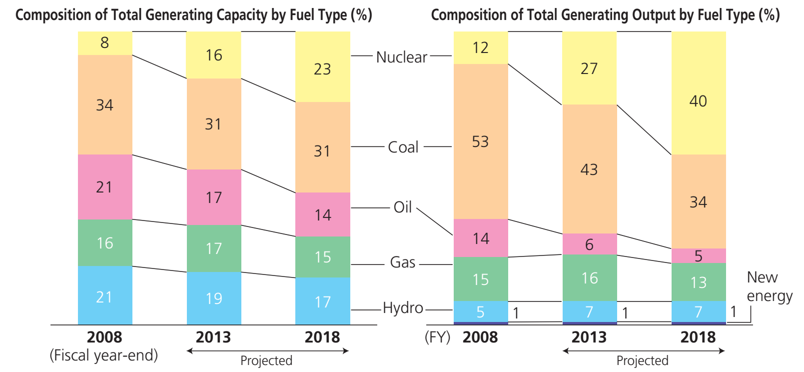
Through the development of nuclear power, we can simultaneously tackle the 3Es—Energy Security (improve energy security), Environment (solve global environmental issues), and Economy (generate sustainable profits by ensuring the long-term stability of power sources).

Household Electric Power Rates per Month (Based on 300kWh use)



Note: Rates include comsumption taxes of 3% in 1995 and 5% in 2008.

Power Source Composition (Including Purchased Power from Other Companies)



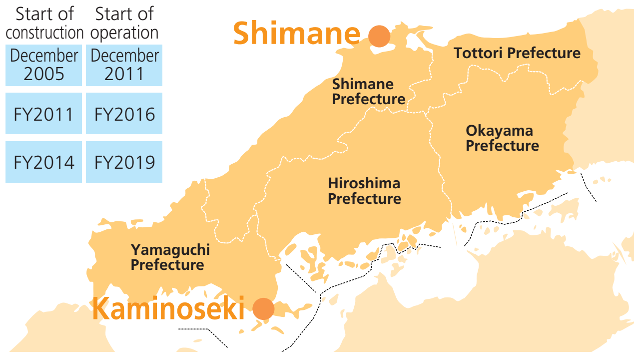
Power Source Development Plan

	April 2009	Dec. 2011	FY2016	FY2018	FY2019
Facility	Mizushima Unit No. 1	Shimane Unit No. 3	Kaminoseki Unit No. 1	Misumi Unit No. 2	Kaminoseki Unit No. 2
Electric Power Categories	Coal (125MW) →LNG (285MW)	Nuclear Power (1,373MW)	Nuclear Power (1,373MW)	Coal (400MW)	Nuclear Power (1,373MW)

Shimane Nuclear Power Station

Development Schedule

	Electricity output	Start of construction	Start of operation
Shimane Unit No. 3	1,373MW	December 2005	December 2011
Kaminoseki Unit No. 1	1,373MW	FY2011	FY2016
Kaminoseki Unit No. 2	1,373MW	FY2014	FY2019



Efforts to Increase Management Efficiency

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

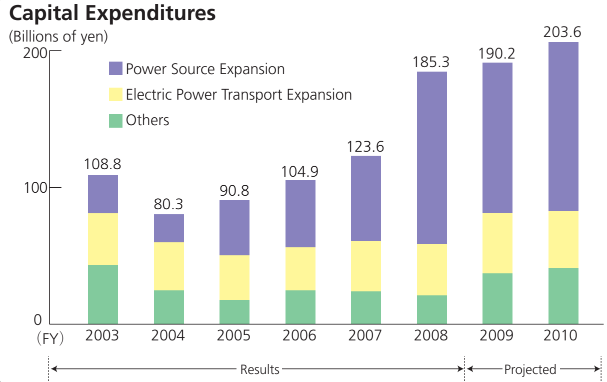
Capital Expenditures

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

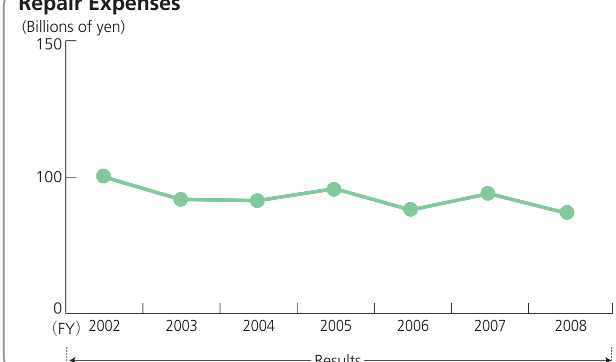
Repair Expenses

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

Capital Expenditures



Repair Expenses



Efficient Capital Facility Utilization (Closing, Suspending, or Refitting Electric Power Plants)

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

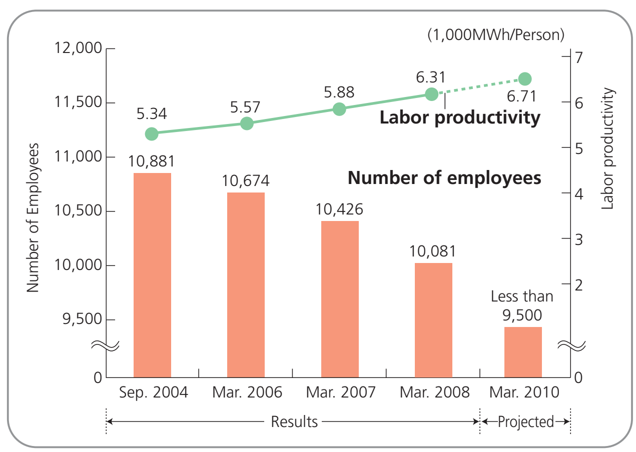
In addition, we are converting the Mizushima Power Station's Unit No. 1 from a facility that uses coal as a source fuel into one that uses natural gas, and we plan to use the existing facilities effectively to refit the unit with the highly efficient combined-cycle system of power generation. These facilities are to come onstream in April 2009.

Enhancing Labor Productivity

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

Companywide Head-Count Target

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



Efforts in Coal Power

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

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

Promotion of Biomass Use

As part of efforts to prevent global warming, we are working to promote the use of new forms of energy. Beginning in August 2007, to attain the required usage levels under the RPS Law,* we began the full-scale use of woody biomass,** which is one promising kind of new energy, in our Shin-Onoda Power Plant's mixed-fuel coal thermal generation facility.

- Reduction in volume of CO_2: Approximately 30,000 tons to 45,000 tons per year
- Power generated: 30 million kWh to 50 million kWh per year

* RPS Law (Renewable Portfolio Standard Law): A special measures law aimed at promoting the use of new forms of energy by electric power companies that requires companies generating electric power to use such new forms of energy to generate a specific ratio of their power output each year.

** Woody biomass is the wood fiber residual material resulting from such activities as the thinning of forestlands, processing of lumber, and disposal of construction waste. The word "biomass" refers to biological resources, such as organic materials derived from animal and plant matter, that are renewable and can be used as a source of energy.

Efforts Outside of Our Electric Power Business

LNG Supply Business

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

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

Going forward, the Group will strengthen the natural gas business, which is expected to grow steadily, and intends to proactively develop its natural gas supply business providing natural gas to city gas companies and industrial-use customers.

Mizushima LNG Station

Overview of Mizushima LNG Station

Facilities: One LNG tank with capacity of 160,000kl (construction now under way to add one more 160,000kl-capacity tank)

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

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

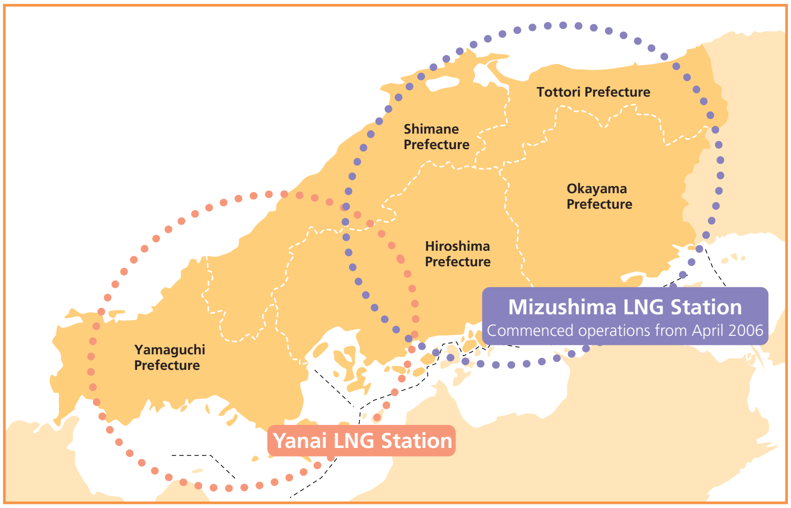
Yanai LNG Station

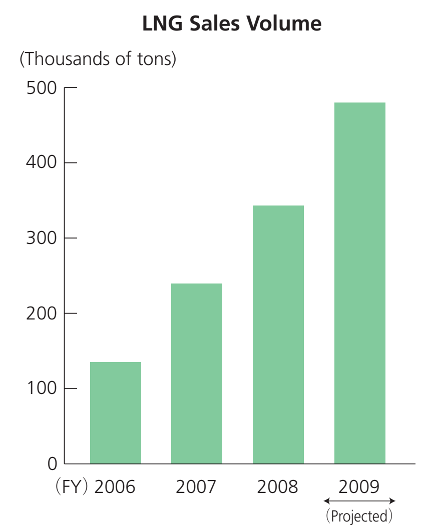
Overview of Yanai LNG Station

Facilities: Six LNG tanks with 80,000kl capacity

Annual LNG volume turnover: About 1.2 million tons

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

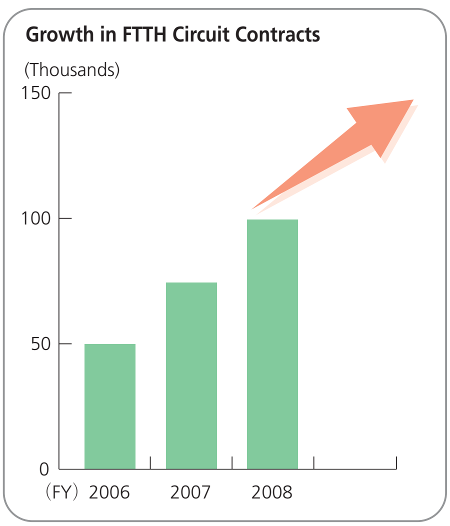




Internet-Related Business

(Information and Telecommunications Business)

The Company's core business for individuals among its information and telecommunications activities is its Internet-related business operations. The Company makes use of its fiber optic cable equipment to provide "fiber to the home" (FTTH) Internet services and fiber optic communications services to its customers in the Chugoku region, and these services have been well received by its customers.



In addition, for corporate customers, the Company offers principally its virtual local area network (V-LAN) Internet telecommunications network services, which provide high-speed, low-cost connectivity to multiple usage points. Going forward, the Company plans to focus on the enhancement of the reliability of its telecommunications circuits and improvement in the information security features of its services, as it offers low-cost, high-quality telecommunications services matched to the needs of its customers.

Business and Lifestyle Support Business

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

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

Manufacturing of Hydraulic Power Generation Equipment

(Electric Power Business Support)

Hydroelectric power generation is environmentally friendly and helps to reduce CO_2 emissions. With this in mind, the Chugoku Electric Power Group offers submersible hydraulic turbine power generators that combine the waterwheel and the power generation unit. Compared with previous hydroelectric generators, these generators can be installed underwater as a single unit, and this feature reduces the costs of construction, such as piping, roofs over the equipment, and other previous requirements. In addition, since the Group makes these generators available in a range of sizes, from 40kW to 600kW units, users can select the unit size that best suits the water flow volume and other operating conditions at their particular installation site.

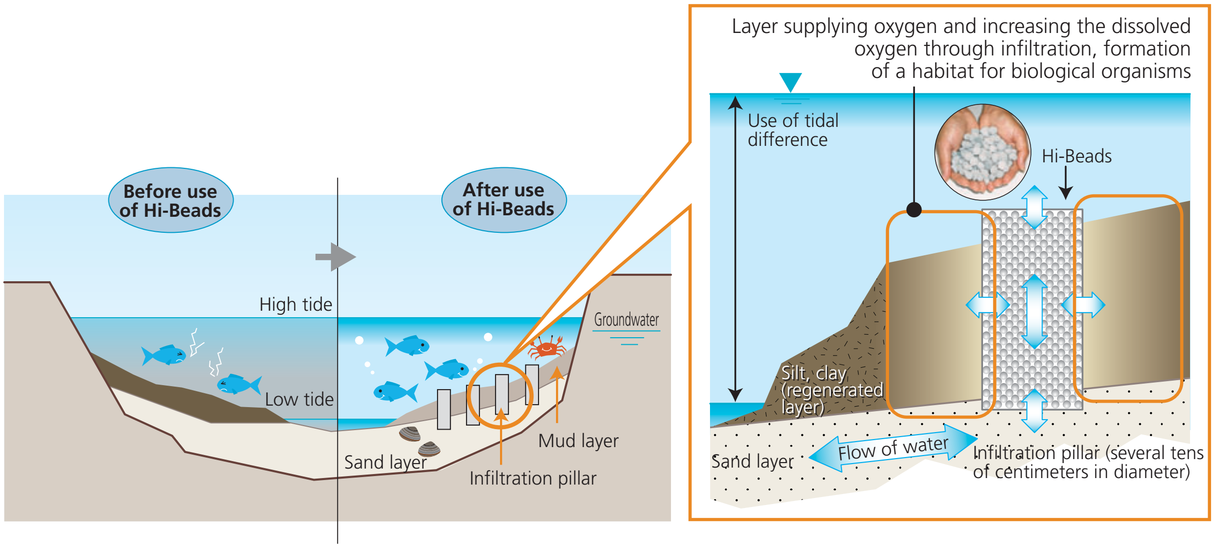
Utilization of Coal Ash

(Environmental Business)

The Chugoku Electric Power Group as a whole is working to expand the effective use of coal ash, which is a by-product of coal thermal power generation plants, by developing and expanding sales of products made from coal ash.

In the rivers running through the Hiroshima City area, mud has been accumulating in the tidal wetlands when the tide recedes and turning into sludge. To improve the quality of the environment in these wetlands, the Group has developed Hi-Beads, which are made from recycled coal ash and improve the quality of river bottoms and enhance the rivers' self-cleansing properties. The Group is currently proceeding with tests of Hi-Beads in the rivers of the Hiroshima area with the goal of expanding the use of this technology.

Tests of this technology involve driving infiltration pillars containing Hi-Beads into the mud. These pillars act to circulate the water contained in the mud and increase the supply of oxygen, thereby improving the river environment.



Technology for Improving River Bottoms Using Infiltration Pillars

Research and Development

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

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

Enhancing Our Competitive Strengths

(1) Electric Vehicle Fleet Tests and Development of Rapid Charging System

To promote the general use of electric vehicles, expected to have such benefits as those related to electric power load leveling and environmental impact reduction, we have worked in cooperation with Mitsubishi Motors Corporation to gather driving data associated with the Company's daily business operations and consider the appropriateness of electric vehicles for use in those operations.

Having developed a high-speed battery charging system and allocated electric vehicle charging system sets to six offices as of February 2008, we are currently considering the optimal means of popularizing such electric vehicles.

(2) Development of Larvae Detection Unit

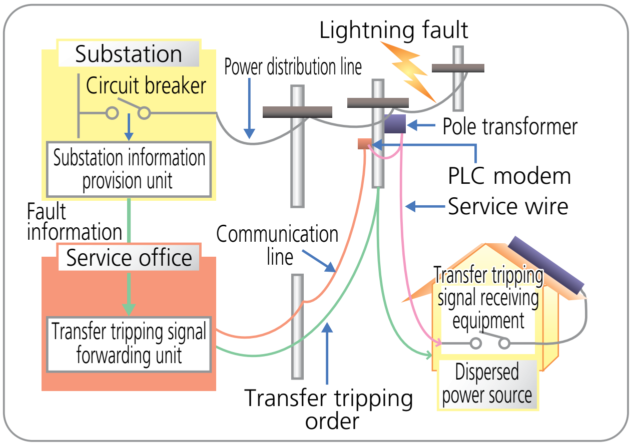
We have developed a kit for quickly and easily detecting the larvae of the barnacle *Megabalanus rosa* and the mussel *Mytilus galloprovincialis* that adhere to thermal power plants' water intake channels. This facilitates the efficient removal of the organisms before they can attach themselves to the channels, thereby helping prevent power plant efficiency declines due to water intake volume drops that result from the presence of organisms adhering to water intake channels.

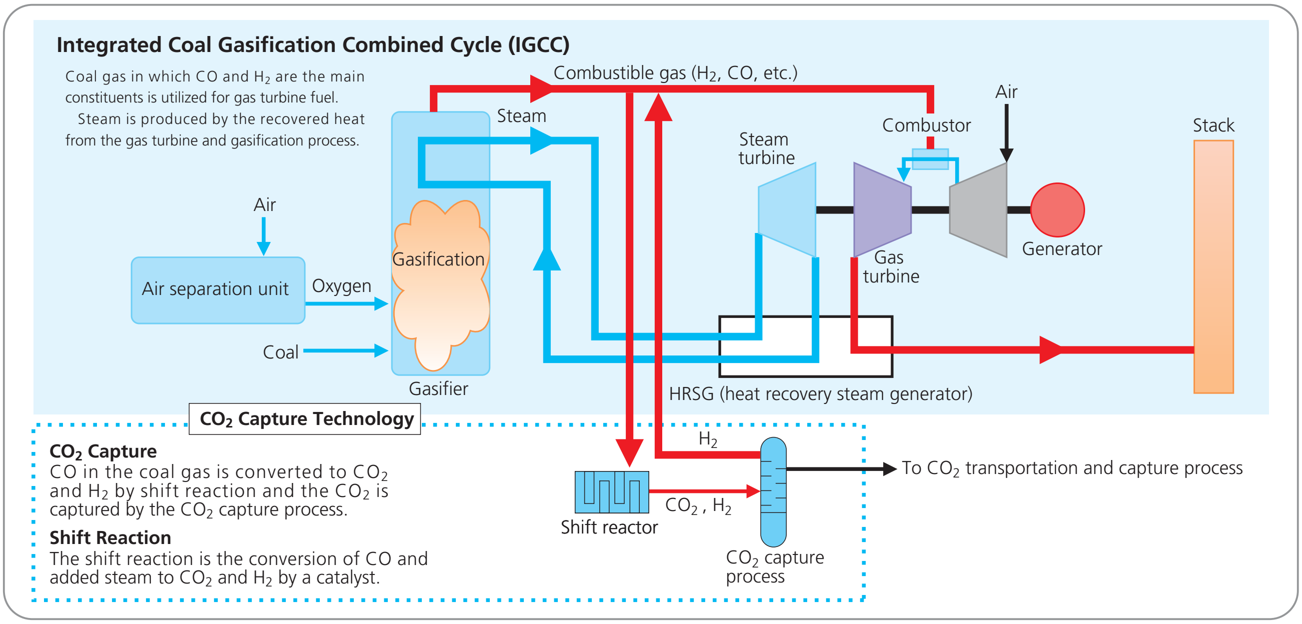
Since 2008, this detection kit has been marketed by Wako Pure Chemical Industries, Ltd.

Providing a Stable Supply of Electricity

Development of Transfer Tripping System for Dispersed Power Sources

While there is concern that the islanding operations of such dispersed power sources as solar power and wind power facilities could expand the impact of power outages, we have developed a transfer tripping system for dispersed power sources that quickly and dependably halts power transmissions from those power sources. The system, which uses low-speed power line communication (PLC) to send signals to dispersed power sources connected to low-voltage systems, is the first of its kind in the world. Going forward, we plan to market this protection system to dispersed power supply source operators.





Conserving the Environment

(1) Joint Large-Scale Demonstration Test of Oxygen-Blown Coal Gasification Technology

Chugoku Electric Power and Electric Power Development Co., Ltd. (J-Power), are cooperatively preparing to begin a large-scale demonstration test of the Japanese oxygen-blown coal gasification technology at the Company's Osaki power station from the latter half of fiscal 2017.

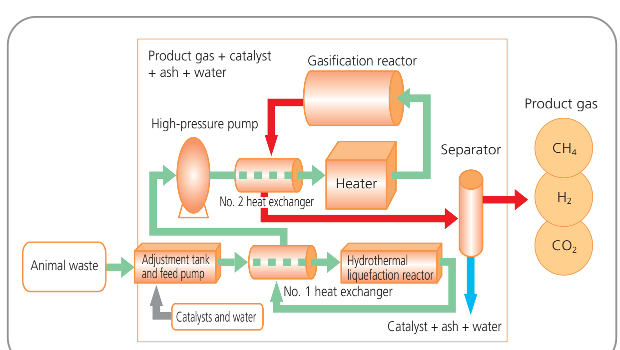
Constructing a 150,000kW-class pilot plant, the test will confirm the reliability, economic efficiency, and operability of the oxygen-blown coal integrated gasification combined cycle. Following that, an application test on the latest CO_2 capture technology will be conducted in efforts to realize innovative zero-emission, high-efficiency, coal-fired power generation.

The development of this technology has been identified as an innovative zero-emission-type, coal-fired power generation technology that simultaneously satisfies criteria for "high-efficiency, coal-fired power generation technology" and the development of "CO_2 capture and storage (CCS) technology," which are included in the Government's *Cool Earth—Innovative Energy Technology Program.*

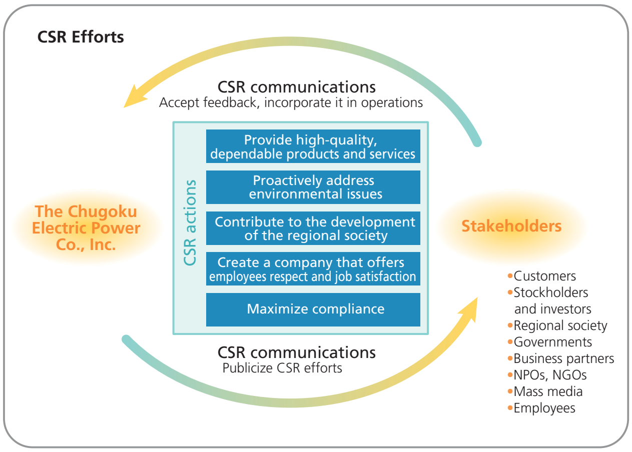
(2) Development of High-Efficiency, High-Temperature, High-Pressure Gasification Technology for Animal Waste

Aiming to develop technologies for utilizing the latent energy of aqueous biomass, by fiscal 2008, we had developed a technology for generating a flammable gas from chicken manure in supercritical water and tested the operation of this technology using a pilot plant. This testing confirmed that almost complete gasification of the chicken manure is possible with this technology and that its process efficiency when employed on a practical scale was 70% or higher.

During fiscal 2009, plans call for verification testing of the pilot plant's long-term continuous operation and expanding the range of aqueous biomass that can be used as feedstock.



Corporate Social Responsibility (CSR)



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

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

Promotion of Compliance

We are steadily implementing countermeasures designed to prevent the recurrence of inappropriate corporate actions and, based on leadership by example on the parts of corporate officers, the Group is making concerted efforts to manage its operations in a manner that promotes outstanding compliance performance. In addition, all officers and employees are endeavoring to give due attention in their daily activities

Compliance Promotion System

Corporate Ethics Committee	As an advisory body to the Board, the committee gathers information on the requests of a wide range of customers and others in regional society and gives advice on how to make corporate operations better reflect those requests. (Information on the issues discussed by the committee is available to the public via the Company's Internet website.)
Compliance Promotion Division	An organizational division (established in February 2008) focused on compliance, risk management, legal issues, etc., it is promoting progress in various kinds of CSR activities.
Compliance Promotion Leaders and Sub-Leaders	These leaders are promoting progress in various kinds of compliance activities at individual offices and other facilities.
EnerGia Group Corporate Ethics Council	This council promotes the sharing of information related to principal ethical issues among the Group.
Corporate Ethics Consultation Counters	Counters established inside and outside the Company respond to reports and requests for consultations regarding the Company and other Group companies.

Principal Programs

Compliance Training	We are continuously implementing compliance training programs for corporate officers and employees, which were strengthened and expanded in fiscal 2008. (These programs include those focused on case studies and discussions.)
Compliance Strengthening Month	Each November, Companywide programs are implemented to promote wider-spread and deeper consciousness of compliance issues and to promote related communication.
Surveys on Workplace Situations and Employee Attitudes	We are continuously conducting surveys on workplace situations and employee attitudes and, based on the results, we are taking such measures as those to reevaluate our problem recurrence prevention countermeasures, etc.

to the Company's three action principles—consulting our consciences, speaking honestly, and actively correcting problems—and thereby earn the trust and confidence of people in the region.

Tackling Environmental Issues

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

We formulated the Chugoku Electric Power Environmental Action Plan and actively tackle environmental issues pertaining to our operating activities, such as our response to global environmental issues and our efforts to create a society that is recycling-oriented.

(1) Our Efforts to Prevent Global Warming

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

Promotion of Nuclear Power Generation

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

Carbon Fund and Greenhouse Gas Reduction Projects

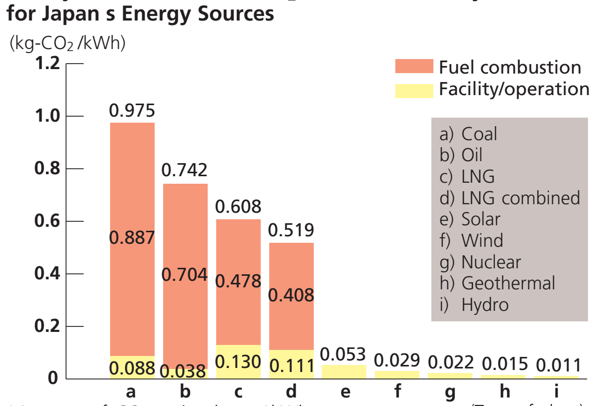
Carbon funds are mechanisms under which capital is collected from investors (governments and corporations of the advanced nations), invested in projects aimed at reducing greenhouse gases in developing

Examples of Carbon Funds and Greenhouse Gas Reduction Projects with Group Participation

Type of Activity	Name of Activity	Expected Volume of CO_2 Credits to Be Obtained
Carbon fund	World Bank Prototype Carbon Fund (PCF) Japan Greenhouse Gas Reduction Fund (JGRF)	To be decided (Note 1)
	Greenhouse Gas-Credit Aggregation Pool (GG-CAP)	To be decided (Note 2)
Individual projects	Greenhouse gas reduction projects in Indonesia, Pakistan, Chile, Brazil, Mongolia, Poland, and China	5.7 million tons of CO_2

Notes: 1. The exact amount has not been determined because of possible increases or decreases depending on the choice of investment projects.
2. The expected volume was announced previously, but the exact amount has not been decided because of the possibility of changes in emission rights that the fund will actually purchase.

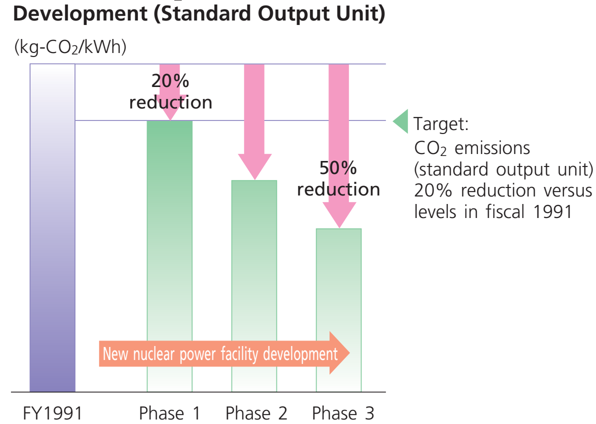
Life Cycle Assessment of CO_2 Emission Intensity* for Japan s Energy Sources



*Amount of CO_2 emitted per 1kWh

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

Reduction in CO_2 Emissions via Nuclear Power Development (Standard Output Unit)



nations and Eastern Europe, and returned to investors in the form of CO_2 credits, or credits for lowering CO_2 emissions.

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

Afforestation in Australia

Each year, Chugoku Electric Power plants *Eucalyptus globulus* trees on such sites as disused grazing land.

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

With a view to effectively utilizing unused energy, we purchase the surplus power generated by waste-to-power and solar power generation facilities. Also, we are buyers of wind power for business purposes on a long-term, stable basis. By taking into account purchasing conditions in this way, we support the spread of new types of energy generation. As of the end of fiscal 2008, Chugoku Electric Power had around 38,000 contracts to purchase electricity from solar power providers, involving the capacity of roughly 140MW.

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

(3) Practicing the Three Rs

Chugoku Electric Power is working to help achieve a recycling-oriented society by practicing the Three Rs (reduce, reuse, recycle) on the various forms of industrial waste it generates in the course of its business activities. In fiscal 2008, the Company efficiently used 97% of the 1.29 million tons of waste it generated through its business activities.

In fiscal 2008, the Company effectively used 97% of the 0.86 million tons of coal ash generated by its coal-fired thermal power stations, using it for cement material, civil engineering material, and the like. A Group company, EnerGia Eco Materia Company, Incorporated, manufactures and sells products made from coal ash and is working on developing new products and expanding the scope of its marketing activities. The Chugoku Electric Power Group as a whole is working to increase its coal ash utilization rate.

Infiltration pillar, made from coal ash products, for improving soil water retention

Contributing to Regional Development

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

A total number of 21,000 employees participated in the Company's social contribution activities in fiscal 2008. This means that, on average, each employee participated in about two such activities in the fiscal year under review.

Environmental Conservation Activities

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

Educational Activities

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

Welfare Activities in Local Communities

In an effort to play a role in improving regional welfare, we inspected, cleaned, and replaced electrical equipment at social welfare facilities and the houses of senior citizens living alone. In addition, we also donated books and other materials to child counseling centers.

Cleaning electrical equipment at a social welfare facility

Foundation Activities

The Chugoku Electric Power Group founded the Electric Technology Research Foundation of Chugoku in 1991 and the EnerGia Culture and Sports Foundation in 1994, and it supports technology-related, cultural, and sport events in the region. In fiscal 2008, the Electric Technology Research Foundation of Chugoku provided 55 grants, totaling ¥44.4 million, and the EnerGia Culture and Sports Foundation provided 172 grants, totaling ¥34.75 million. It also gave awards to three individuals and one organization.

Promoting Communication with Society

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

Customer Feedback System

Each year, Chugoku Electric Power receives over 20,000 messages from customers expressing opinions, requests, and complaints. We strive to take each item of feedback to heart and make the most of it in various ways, including those that enable the improvement of our operations and provision of new services going forward. Accordingly, the Company utilizes a customer feedback system that allows such feedback to be shared by all employees on its digital bulletin board.

Enhancing IR Activities

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

Publishing a Newsletter for Customers

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

Creating a Dynamic Workplace

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

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

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

Corporate Governance

Basic Concepts

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

Our Corporate Organization and Internal Controls System

The Board of Directors comprises 15 directors, including one outside director. The board holds one regular meeting a month, at which it formulates management policies and plans and makes decisions pertaining to the execution of important operations. The board also oversees the directors' execution of their duties through reports and other means. The Management Committee, comprising representative executive directors, meets weekly to fully debate important management issues, including issues to be discussed by the Board of Directors.

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

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

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

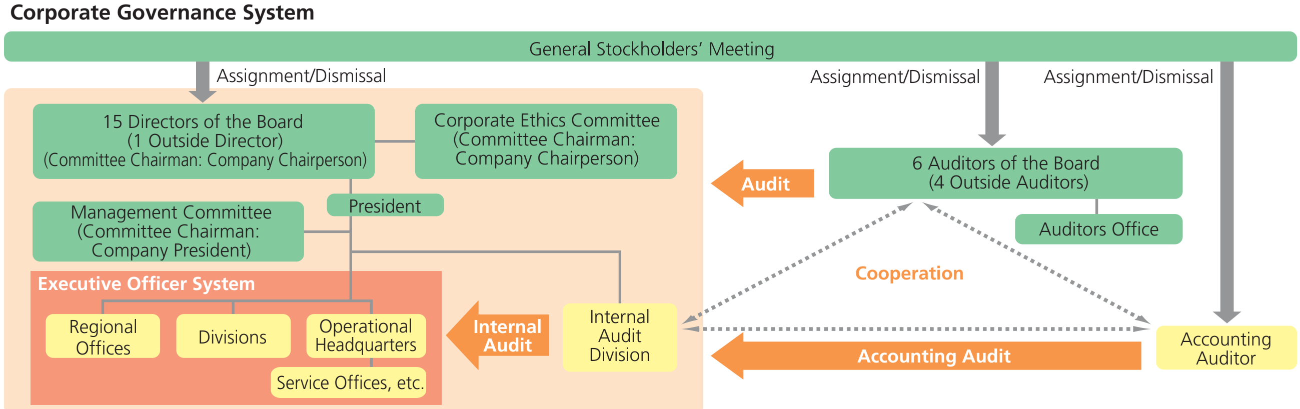
Guided by our Chugoku Electric Power Corporate Ethics Framework, our Corporate Ethics Committee, which is an advisory body to the Board of Directors overseen by the Chairperson and made up of three prominent experts who are not Company employees, discusses important items related to compliance.

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

Review of Compensation Arrangements for Directors and Auditors

The Company has formed a Remuneration Committee, comprising an outside director and two outside auditors

Corporate Governance System



as well as the Chairman and President of the Company. By reflecting the content of the deliberations of this committee in the remuneration for members of management, the Company is endeavoring to increase the objectivity and transparency of management. Please note that, reflecting discussions held by the committee in fiscal 2009, the Company has conducted an overall review of the compensation provided to management. Specific decisions following this review have included the elimination of not only retirement payments for directors and auditors but also bonuses for auditors and outside directors as well as the establishment of a closer correlation between Company performance and bonuses paid to directors.

Board of Directors and Auditors (As of June 28, 2008)

CHAIRPERSON
Tadashi Fukuda

PRESIDENT
Takashi Yamashita

EXECUTIVE VICE PRESIDENTS AND DIRECTORS
Shigeo Suehiro
Masanori Fukuda
Toru Jinde
Hiroshi Fujii

MANAGING DIRECTORS
Tomohide Karita
Shuichi Shirahige
Kazuhisa Fukumoto
Mitsuo Matsui
Yoshio Sano
Yasuhisa Iwasaki
Yoshio Kumano
Hirofumi Obata

DIRECTOR
Kosuke Hayashi

STANDING AUDITORS
Seiki Hawaka
Michiho Nozaka

AUDITORS
Masao Sato
Taka Shiinoki
Michihiko Kikkawa
Kazuhide Watanabe

Organization Chart (As of June 28, 2008)

- Management Committee
- Board of Directors
  - Energy Marketing and Services Division — Service Offices, etc.
  - Power Generation Division — Power Stations, etc.
  - Power System Division — Power Management Offices, etc.
  - Corporate Planning Division
  - Compliance Promotion Division
  - Internal Audit Division
  - Group Management Division
    - Chuden Hospital
  - Human Resources Development Division
    - Health Care Center (Ⅰ · Ⅱ)
  - Public Relations & Environment Affairs Division
  - Property Management Division
  - Information System & Telecommunications Division
    - Central Telecommunications Center
  - Energia Economic & Technical Research Institute
  - Regional Offices (Tottori Office, Shimane Office, Okayama Office, Yamaguchi Office, Tokyo Office)
    - Health Care Center
  - Business Project
- Auditors — Auditors Office

Consolidated Six-Year Summary

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

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2008	2007	2006	2005	2004	2003	**2008**
Operating revenues	**¥1,108,354**	¥1,075,575	¥1,040,290	¥1,011,799	¥ 967,056	¥1,009,279	**$11,083,540**
Operating income	**84,416**	88,401	100,095	125,451	99,586	126,954	**844,160**
Net income	**25,271**	37,093	45,167	47,062	42,888	44,129	**252,710**
Total stockholders' equity/Net assets	**711,080**	715,972	695,495	658,209	629,604	606,834	**7,110,800**
Total assets	**2,710,681**	2,680,782	2,655,468	2,636,363	2,712,376	2,815,189	**27,106,810**
Interest-bearing debt	**1,595,098**	1,572,994	1,575,011	1,613,979	1,728,285	1,839,175	**15,950,980**
Free cash flows (Note 3)	**(6,203)**	24,364	48,765	132,616	132,835	146,669	**(62,030)**
Other financial data							
Per share data (yen and dollars):							
Stockholders' equity (Note 4)	**1,938.37**	1,951.27	1,910.41	1,807.59	1,728.06	1,656.07	**19.38**
Net income:							
Basic	**69.37**	101.86	123.44	128.61	116.63	119.30	**0.69**
Cash dividends	**50.00**	50.00	50.00	50.00	50.00	50.00	**0.50**
Key financial ratios:							
Equity ratio (%)	**26.0**	26.5	26.2	25.0	23.2	21.6	
Return on equity (ROE) (%)	**3.6**	5.3	6.7	7.3	6.9	7.4	
Return on assets (ROA) (%) (Note 5)	**2.0**	2.1	2.4	3.0	2.3	2.9	
Price earnings ratio (PER) (times)	**32.0**	25.9	19.8	15.8	16.0	15.4	

	Millions of kWh					
	2008	2007	2006	2005	2004	2003
Power generated and received						
Generated:						
Hydoelectric	**2,875**	3,719	3,224	4,169	4,008	3,025
Thermal	**40,081**	37,239	35,038	33,170	31,978	31,324
Nuclear	**8,485**	7,937	9,297	7,333	7,705	10,736
Total	**51,441**	48,895	47,559	44,672	43,691	45,085
Bought from other companies	**20,649**	20,251	22,171	23,663	22,285	22,560
Sold to other companies	**(1,593)**	(1,323)	(3,580)	(3,410)	(3,961)	(5,261)
Transmission loss and other	**(6,918)**	(6,564)	(6,649)	(6,785)	(6,581)	(6,537)
Total	**63,579**	61,259	59,501	58,140	55,434	55,847
Electric sales:						
Residential (lighting)	**18,890**	18,136	18,140	17,470	16,667	16,850
Commercial, industrial and other	**2,905**	2,943	3,178	15,565	21,988	22,207
Power consumption by liberalized sector	**41,784**	40,180	38,183	25,105	16,779	16,790
Total	**63,579**	61,259	59,501	58,140	55,434	55,847

Notes: 1. U.S.dollar amounts presented are translated from yen, for convenience only, at the rate of ¥100 = US$1, the exchange rate prevailing on March 31, 2008.
2. Accounting Standard for Presentation of Net Assets in the Balance Sheet
Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, "the New Accounting Standards").
3. Free cash flows represent net of cash flows from operating activities and those from investing activities.
4. Stockholders' equity per share is computed using the number of shares of common stock in issue at the end of each year.
5. ROA = Operating income x (1 – Income tax rate) / Total assets x 100

Consolidated Financial Review

Summary of Operations

In fiscal 2008, ended March 31, 2008, although personal consumption showed little increase, the Japanese economy remained on a course of slow recovery. Against the background of firm domestic and foreign demand, reflected in increased plant and equipment investment and an increase in exports, production activity trended upward. The situation was similar in the Chugoku region.

Non-consolidated sales of electricity increased 3.8% from the previous fiscal year, to 63.6 billion kilowatt hours, due to steady industrial demand and more favorable weather conditions in the latter half of the summer.

Operating revenues of the Chugoku Electric Power Co., Inc. (the "Company"), and its consolidated subsidiaries (the "Companies") for the fiscal year were ¥1,108.4 billion (US$11,083.5 million), up 3.0%, or ¥32.8 billion (US$327.8 million), from fiscal 2007. Net income was ¥25.3 billion (US$252.7 million), a fall of 31.9%, or ¥11.8 billion (US$118.2 million). Free cash flow (net cash provided by operating activities minus net cash used in investing activities) amounted to an outflow of ¥6.2 billion (US$62.0 million).

The Company maintained cash dividends per share at ¥50.00 (US$0.50), in line with management's policy of providing stable returns while enhancing the financial position and otherwise solidifying the Companies' business foundations.

Operating Revenues

As mentioned above, operating revenues for the fiscal year were ¥1,108.4 billion (US$11,083.5 million), up 3.0%, or ¥32.8 billion (US$327.8 million).

Operating revenues from electric power operations amounted to ¥1,013.6 billion (US$10,135.8 million), up 3.8%, or ¥37.0 billion (US$369.5 million).

Operating revenues from other operations such as information and communication businesses and a comprehensive energy supply business fell 4.2%, or ¥4.1 billion (US$41.7 million), to ¥94.8 billion (US$947.8 million).

Operating Expenses and Operating Income

Operating expenses for the term increased 3.7%, or ¥36.7 billion (US$367.7 million), to ¥1,023.9 billion (US$10,239.4 million).

Operating expenses in electric power operations rose 4.1%, or ¥36.8 billion (US$367.0 million), to ¥932.2 billion (US$9,321.5 million). This stemmed from an increase in materials expense due to the rise in fuel prices, although there was an increase in the efficiency of management at large. In operations other than electric power operations, operating expenses were ¥91.8 billion (US$917.8 million), up 0.1%, or ¥0.1 billion (US$0.5 million).

Operating income thus fell 4.5%, or ¥4.0 billion (US$39.8 million), to ¥84.4 billion (US$844.2 million).

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

Total other (income) expenses decreased 7.7%, or ¥2.2 billion (US$21.2 million), to ¥25.5 billion (US$255.5 million).

As a result of these factors, income before income taxes and minority interests in net income of consolidated subsidiaries was down 26.8%, or ¥14.9 billion (US$148.7 million), to ¥40.7 billion (US$407.0 million). Net income decreased 31.9%, or ¥11.8 billion (US$118.2 million), to ¥25.3 billion (US$252.7 million). Net income per share was ¥69.37 (US$0.69), down ¥32.49, from ¥101.86.

Financial Position

Assets

At fiscal year-end, total assets were ¥2,710.7 billion (US$27,106.8 million), up 1.1%, or ¥29.9 billion (US$299.0 million), from the close of the previous term. This was due to increase in construction in progress accompanying the Shimane nuclear power plant extension construction.

Net property stood at ¥2,088.3 billion (US$20,883.5 million), up 1.5%, or ¥31.2 billion (US$312.9 million). Nuclear fuel was ¥133.8 billion (US$1,338.4 million), up 0.1%, or ¥0.0 billion (US$0.7 million). Total investments and other assets amounted to ¥328.8 billion (US$3,287.8 million), up 0.8%, or ¥2.7 billion (US$26.4 million). Total current assets were ¥159.7 billion (US$1,597.1 million), down 2.5%, or ¥4.1 billion (US$41.0 million).

Liabilities, Minority Interests, and Net Assets

Total liabilities were ¥1,999.6 billion (US$19,996.0 million), up 1.8%, or ¥34.8 billion (US$347.9 million). This was due to an increase in short-term and long-term interest-bearing debt as well as an increase in the provision for the depreciation of nuclear power plants. Among these, short-term and long-term interest-bearing debt increased 1.4%, or ¥22.1 billion (US$221.1 million), to ¥1,595.1 billion (US$15,951.0 million). Other liabilities increased 3.2%, or ¥12.7 billion (US$126.9 million), to ¥404.5 billion (US$4,045.1 million).

Total net assets were ¥711.1 billion (US$7,110.8 million), a decrease of 0.7%, or ¥4.9 billion (US$48.9 million). The equity ratio fell 0.5 percentage point, to 26.0%, from 26.5%.

Cash Flows

Net cash provided by operating activities for fiscal 2008 amounted to ¥186.4 billion (US$1,864.2 million), up 18.4%, or ¥29.0 billion (US$289.7 million), compared with the previous period.

Net cash used in investing activities was ¥192.6 billion (US$1,926.2 million), up 44.7%, or ¥59.5 billion (US$595.4 million), mainly because investments in construction in progress increased accompanying the Shimane nuclear power plant extension construction. Free cash flow therefore amounted to minus ¥6.2 billion (US$62.0 million).

Net cash provided by financing activities turned in a positive balance of ¥3.3 billion (US$32.5 million) compared with the negative ¥20.7 billion (US$207.1 million) for the prior year. Procurements of total bonds and long-term debt exceeded repayments, causing the balance to rise ¥24.1 billion (US$241.5 million) compared with the previous fiscal year. Cash dividends paid were ¥18.2 billion (US$182.1 million).

Cash and cash equivalents at end of year totaled ¥17.1 billion (US$170.6 million), a decrease of 21.3%, or ¥4.6 billion (US$46.1 million).

Summary of Cash Flows

	Millions of yen			Thousands of U.S. dollars
Years ended March 31	**2008**	2007	2006	**2008**
Net cash provided by operating activities	**¥186,419**	¥157,447	¥158,097	**$1,864,190**
Net cash used in investing activities	**(192,622)**	(133,083)	(109,332)	**(1,926,220)**
Net cash provided by (used in) financing activities	**3,253**	(20,708)	(55,146)	**32,530**
Effect of exchange rate changes on cash and cash equivalents	**175**	161	78	**1,750**
Net increase (decrease) in cash and cash equivalents	**(2,775)**	3,817	(6,303)	**(27,750)**
Cash and cash equivalents at beginning of year	**21,665**	17,848	23,877	**216,650**
Increase resulting from merger of equity method affiliate with consolidated subsidiary	**—**	—	275	**—**
Increase resulting from consolidation of additional subsidiaries	**22**	—	—	**220**
Decrease resulting from liquidation of consolidated subsidiaries	**(1,855)**	—	—	**(18,550)**
Cash and cash equivalents at end of year	**¥ 17,057**	¥ 21,665	¥ 17,849	**$ 170,570**

Outlook

The Companies expect operating revenues to increase to around ¥1,188.0 billion in fiscal 2009, based on an increase in sales of LNG supply business. Net income is expected to fall to about ¥14.0 billion, due to an increase in the cost of materials following the rise in fuel prices.

Management bases these projections on an exchange rate of ¥104 to US$1 and a crude oil price of US$93.00 per barrel.

Risk Factors

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

The forward-looking statements included below represent estimates as of March 31, 2008.

1. Systemic reform of electric power business

In the electric power business, an amendment was discussed by the Electricity Industry Committee of the Advisory Committee for Natural Resources and Energy in April, 2007. As a result of discussion, full liberalization has been deferred and will be reexamined in five years.

Based on future trends, price and service competition may intensify even more due to further implementation of competitive environmental measures within the current liberalization scope for all high-voltage customers.

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

The Subcommittee on the Promotion of Nuclear Power Investments has established temporary accounting regulations, such as:

- A reserve for the reprocessing costs of irradiated nuclear fuel must be set up (with the exception of fuel disposed of at the Rokkasho reprocessing facility).
- A reserve for the initial investment in nuclear power plant must be set up.

These regulations are valid from fiscal 2006 until a definite reprocessing plan has been established.

It is possible that costs will increase, as all of the costs related to the nuclear fuel cycle have yet to be defined. For example, the treatment of fuel that will never be reprocessed will be discussed after 2010.

It is possible that the results of the companies will be affected by changes in the business environment resulting from legal reforms and intensified competition, as described above.

2. Business other than electric power

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

3. Economic conditions in power supply area

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

4. Seasonal variations in weather

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

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

5. Action of environmental issues

Environmental protection is a crucial management issue at Chugoku Electric Power. We have formulated an Environmental Action Plan, which is being pursued Companywide. In particular, a framework to prevent global warming is being discussed actively all over the world. We are pushing ahead actively to reduce our emissions of greenhouse gases through development of new nuclear power facilities aimed at the best mix of electricity sources and making use of the Kyoto Protocol's mechanisms.

However, trends in global public opinion, movements in foreign exchange rates, and the price of Carbon Credit have the potential to affect the Companies' results and financial condition.

6. Changes in fuel prices

Sources of fuel for the Company's thermal power generation include coal, liquefied natural gas (LNG), and heavy and crude oil. Therefore, fluctuations in energy prices, such as coal, LNG, and heavy and crude oil, and that of foreign exchange rates may affect the Companies' results and financial condition. However, the impact of these factors is considered to be limited, because the Companies are trying to mitigate fuel price fluctuation risk by aiming at diversifying the energy mix and because the fluctuations in fuel prices and foreign exchange rates are reflected in electricity rates through the Fuel Cost Adjustment System.

7. Changes in interest rates

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

8. Cost and liabilities of employees' severance and retirement benefits

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

9. Compliance

The Companies make giving top priority to progressing with compliance in all business operations the foundation of management and are striving for thorough compliance. We take prompt corrective action for the acts of non-compliance. However, if such acts were to occur, there is a possibility that our social credibility will decline and affect the smooth operation of business.

10. Management of business information

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

11. Natural disasters, troubles

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

In the Shimane nuclear plant, to further improve the reliability of earthquake-proof safety, a safety evaluation is being conducted against to the earthquake-proof design review indicators revised in September 2006. The scale of construction required in the future as a result of this evaluation could have the potential to affect the Companies' results and financial condition.

Consolidated Balance Sheets

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
March 31, 2008 and 2007

Assets	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note 1) 2008
Property:			
Utility plant and equipment	**¥5,350,705**	¥5,320,797	**$53,507,050**
Other plant	**267,961**	258,002	**2,679,610**
Construction in progress	**289,226**	194,940	**2,892,260**
	5,907,892	5,773,739	**59,078,920**
Less—			
Contributions in aid of construction	**77,985**	76,034	**779,850**
Accumulated depreciation	**3,741,561**	3,640,643	**37,415,610**
	3,819,546	3,716,677	**38,195,460**
Net property	**2,088,346**	2,057,062	**20,883,460**
Nuclear fuel	**133,841**	133,772	**1,338,410**
Investments and other assets:			
Investment securities (Note 4)	**50,895**	61,025	**508,950**
Funds reserved for reprocessing of irradiated nuclear fuel	**91,115**	93,667	**911,150**
Investments and advances to non-consolidated subsidiaries and affiliates	**86,879**	89,021	**868,790**
Long-term loans to employees	**924**	1,229	**9,240**
Deferred tax assets (Note 12)	**61,101**	56,839	**611,010**
Other assets	**37,868**	24,357	**378,680**
Total investments and other assets	**328,782**	326,138	**3,287,820**
Current assets:			
Cash and time deposits (Note 3)	**17,073**	21,722	**170,730**
Receivables, less allowance for doubtful accounts of ¥793 million ($7,930 thousand) in 2008 and ¥759 million in 2007	**73,510**	73,172	**735,100**
Inventories, fuel and supplies	**48,304**	46,834	**483,040**
Deferred tax assets (Note 12)	**10,437**	12,830	**104,370**
Other current assets	**10,388**	9,252	**103,880**
Total current assets	**159,712**	163,810	**1,597,120**
Total assets	**¥2,710,681**	¥2,680,782	**$27,106,810**

See notes to consolidated finacial statements.

Liabilities and Net Assets	Millions of yen 2008	2007	Thousands of U.S. dollars (Note 1) 2008
Long-term liabilities:			
Long-term debt (Note 6)	**¥1,365,901**	¥1,327,691	**$13,659,010**
Other long-term liabilities	**20,976**	3,842	**209,760**
Employees' severance and retirement benefits (Note 11)	**60,786**	61,547	**607,860**
Retirement allowances for directors and corporate auditors	**1,399**	—	**13,990**
Provision for reprocessing of irradiated nuclear fuel	**100,691**	118,286	**1,006,910**
Provision for reprocessing of irradiated nuclear fuel without a fixed plan to reprocess	**2,753**	1,777	**27,530**
Provision for decommissioning of nuclear power generating plants	**56,547**	47,711	**565,470**
Total long-term liabilities	**1,609,053**	1,560,854	**16,090,530**
Current liabilities:			
Long-term debt due within one year (Note 6)	**126,737**	145,453	**1,267,370**
Short-term borrowings	**67,600**	67,780	**676,000**
Accounts payable	**67,064**	67,085	**670,640**
Accrued income taxes	**7,118**	10,979	**71,180**
Accrued expenses	**41,017**	42,650	**410,170**
Allowance for bonuses to directors and corporate auditors	**191**	221	**1,910**
Other current liabilities, including other long-term liabilities due within one year	**56,940**	64,079	**569,400**
Total current liabilities	**366,667**	398,247	**3,666,670**
Provision for drought	**—**	656	**—**
Provision for depreciation of nuclear power plant	**23,881**	5,053	**238,810**
Contingent liabilities (Note 9)			
Net assets (Note 13):			
Owners' equity			
Common stock :	**185,528**	185,528	**1,855,280**
Authorized—1,000,000,000 shares			
Issued—371,055,259 shares in 2008 and 2007			
Capital surplus	**17,200**	17,192	**172,000**
Retained earnings (Note 15)	**507,554**	500,499	**5,075,540**
Treasury stock (6,815,382 shares in 2008 and 6,729,461 shares in 2007)	**(12,239)**	(12,020)	**(122,390)**
Total owners' equity	**698,043**	691,199	**6,980,430**
Net unrealized holding gains on securities	**7,983**	19,680	**79,830**
Foreign currency translation adjustments	**5**	20	**50**
Minority interests	**5,049**	5,073	**50,490**
Total net assets	**711,080**	715,972	**7,110,800**
Total liabilities and net assets	**¥2,710,681**	¥2,680,782	**$27,106,810**

Consolidated Statements of Income

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	**2008**
Operating revenues (Note 14):				
Electric	**¥1,013,578**	¥ 976,628	¥ 964,071	**$10,135,780**
Other	**94,776**	98,947	76,219	**947,760**
	1,108,354	1,075,575	1,040,290	**11,083,540**
Operating expenses (Note 14):				
Electric	**932,154**	895,445	869,695	**9,321,540**
Other	**91,784**	91,729	70,500	**917,840**
	1,023,938	987,174	940,195	**10,239,380**
Operating income	**84,416**	88,401	100,095	**844,160**
Other expenses (income):				
Interest expense	**30,783**	29,014	28,624	**307,830**
Interest income	**(1,658)**	(1,096)	(124)	**(16,580)**
Gains on sales of securities	**(4)**	(391)	(755)	**(40)**
Equity in earnings of affiliated companies	**(2,248)**	(220)	(1,065)	**(22,480)**
Loss on impairment of fixed assets (Notes 7 and 14)	**—**	—	3,818	**—**
Other, net	**(1,327)**	363	(887)	**(13,270)**
	25,546	27,670	29,611	**255,460**
Special items:				
Provision (reversal) for drought	**(657)**	112	(1,913)	**(6,570)**
Provision for depreciation of nuclear power plant	**18,828**	5,053	—	**188,280**
Income before income taxes and minority interests in net income of consolidated subsidiaries	**40,699**	55,566	72,397	**406,990**
Provision for income taxes: (Note 12)				
Current	**12,443**	20,547	28,811	**124,430**
Deferred	**2,839**	(2,526)	(1,892)	**28,390**
	15,282	18,021	26,919	**152,820**
Income before minority interests in net income of consolidated subsidiaries	**25,417**	37,545	45,478	**254,170**
Minority interests in net income of consolidated subsidiaries	**146**	452	311	**1,460**
Net income	**¥ 25,271**	¥ 37,093	¥ 45,167	**$ 252,710**

	Yen			U.S. dollars (Note 1)
	2008	2007	2006	**2008**
Per share data :				
Net income (basic)	**¥69.37**	¥101.86	¥123.44	**$0.69**
Cash dividends	**50.00**	50.00	50.00	**0.50**

See notes to consolidated finacial statements.

Consolidated Statements of Changes in Net Assets

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the years ended March 31, 2008 and 2007

		Millions of yen							
	Shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on securities	Foreign currency translation adjustments	Minority interests	Total
Balance at March 31, 2006	371,055,259	¥185,528	¥16,700	¥481,823	¥(12,145)	¥23,573	¥16	¥4,661	¥700,156
Net income				37,093					37,093
Cash dividends paid (¥50 per share)				(18,190)					(18,190)
Bonuses to directors and statutory auditors				(227)					(227)
Surplus from sale of treasury stock			495		471				966
Treasury stock purchased, net					(346)				(346)
Decrease in unrealized holding gains on securities			(3)			(3,893)			(3,896)
Foreign currency translation adjustments							4		4
Increase in minority interests								412	412
Balance at March 31, 2007	371,055,259	185,528	17,192	500,499	(12,020)	19,680	20	5,073	715,972
Net income				**25,271**					**25,271**
Cash dividends paid (¥50 per share)				**(18,216)**					**(18,216)**
Surplus from sale of treasury stock			**13**		**45**				**58**
Treasury stock purchased, net					**(264)**				**(264)**
Decrease in unrealized holding gains on securities			**(5)**			**(11,697)**			**(11,702)**
Foreign currency translation adjustments							**(15)**		**(15)**
Increase in minority interests								**(24)**	**(24)**
Balance at March 31, 2008	**371,055,259**	**¥185,528**	**¥17,200**	**¥507,554**	**¥(12,239)**	**¥ 7,983**	**¥ 5**	**¥5,049**	**¥711,080**

	Thousands of U.S. dollars (Note 1)							
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on securities	Foreign currency translation adjustments	Minority interests	Total
Balance at March 31, 2007	**$1,855,280**	**$171,920**	**$5,004,990**	**$(120,200)**	**$196,800**	**$200**	**$50,730**	**$7,159,720**
Net income			**252,710**					**252,710**
Cash dividends paid ($0.5 per share)			**(182,160)**					**(182,160)**
Surplus from sale of treasury stock		**130**		**450**				**580**
Treasury stock purchased, net				**(2,640)**				**(2,640)**
Decrease in unrealized holding gains on securities		**(50)**			**(116,970)**			**(117,020)**
Foreign currency translation adjustments						**(150)**		**(150)**
Increase in minority interests							**(240)**	**(240)**
Balance at March 31, 2008	**$1,855,280**	**$172,000**	**$5,075,540**	**$(122,390)**	**$ 79,830**	**$ 50**	**$50,490**	**$7,110,800**

See notes to consolidated finacial statements.

Consolidated Statements of Cash Flows

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	**2008**
Cash flows from operating activities:				
Income before income taxes and minority interests in net income of consolidated subsidiaries	**¥ 40,699**	¥ 55,566	¥ 72,397	**$ 406,990**
Depreciation	**143,354**	140,933	150,034	**1,433,540**
Loss on impairment of fixed assets	**382**	1,370	3,818	**3,820**
Amortization of nuclear fuel	**6,184**	5,825	6,738	**61,840**
Loss on disposal of property	**8,303**	8,878	7,507	**83,030**
Increase (decrease) in employees' severance and retirement benefits	**(759)**	111	2,050	**(7,590)**
Increase (decrease) in provision for reprocessing of irradiated nuclear fuel	**(17,595)**	11,671	4,551	**(175,950)**
Increase in provision for reprocessing of irradiated nuclear fuel without a fixed plan to reprocess	**976**	1,777	—	**9,760**
Increase in provision for decommissioning of nuclear power generating plants	**8,836**	1,471	3,363	**88,360**
Increase (decrease) in provision for drought	**(657)**	112	(1,913)	**(6,570)**
Increase in provision for depreciation of nuclear power plant	**18,828**	5,053	-	**188,280**
Decrease in provision for reserve for loss on discontinued operations	**—**	—	(1,491)	**—**
Interest and dividend income	**(2,442)**	(1,800)	(845)	**(24,420)**
Interest expense	**30,784**	29,014	28,624	**307,840**
Gains on sales of securities	**—**	(391)	(755)	**—**
Increase (decrease) in funds reserved for reprocessing of irradiated nuclear fuel	**2,552**	(36,709)	(56,959)	**25,520**
Increase in notes and accounts receivable	**(92)**	(7,024)	(3,048)	**(920)**
Decrease (increase) in inventories	**909**	1,362	(9,403)	**9,090**
Increase (decrease) in notes and accounts payable	**(1,556)**	3,904	4,083	**(15,560)**
Decrease in liabilities for defined contribution pension and prepaid pension	**(3,046)**	(3,331)	(3,453)	**(30,460)**
Other	**(5,562)**	(2,256)	4,348	**(55,620)**
Subtotal	**230,098**	215,536	209,646	**2,300,980**
Interest and dividends received	**2,866**	1,907	1,301	**28,660**
Interest paid	**(30,452)**	(28,874)	(28,795)	**(304,520)**
Income taxes paid	**(16,093)**	(31,122)	(24,055)	**(160,930)**
Net cash provided by operating activities	**186,419**	157,447	158,097	**1,864,190**
Cash flows from investing activities:				
Purchase of property	**(193,384)**	(135,911)	(113,333)	**(1,933,840)**
Purchase of investments in securities	**(3,652)**	(2,239)	(572)	**(36,520)**
Proceeds from sale of investment securities	**509**	903	1,463	**5,090**
Purchase of investments in subsidiaries resulting in change in scope of consolidation	**—**	—	(590)	**—**
Other	**3,905**	4,164	3,700	**39,050**
Net cash used in investing activities	**(192,622)**	(133,083)	(109,332)	**(1,926,220)**
Cash flows from financing activities:				
Proceeds from issue of bonds	**104,628**	44,848	—	**1,046,280**
Repayment of bonds	**(100,000)**	(19,900)	(29,900)	**(1,000,000)**
Proceeds from long-term debt	**65,000**	50,000	170,500	**650,000**
Repayment of long-term debt	**(45,479)**	(64,926)	(110,368)	**(454,790)**
Proceeds from short-term loans	**127,690**	161,870	297,670	**1,276,900**
Repayment of short-term loans	**(131,649)**	(163,060)	(326,620)	**(1,316,490)**
Proceeds from issue of commercial paper	**576,500**	614,500	742,000	**5,765,000**
Repayment of commercial paper	**(575,000)**	(625,500)	(780,000)	**(5,750,000)**
Purchase of treasury stock	**(264)**	(346)	(233)	**(2,640)**
Cash dividends paid	**(18,214)**	(18,221)	(18,225)	**(182,140)**
Other	**41**	27	30	**410**
Net cash provided by (used in) financing activities	**3,253**	(20,708)	(55,146)	**32,530**
Effect of exchange rate changes on cash and cash equivalents	**175**	161	78	**1,750**
Net increase (decrease) in cash and cash equivalents	**(2,775)**	3,817	(6,303)	**(27,750)**
Cash and cash equivalents at beginning of year	**21,665**	17,848	23,877	**216,650**
Increase resulting from merger of equity method affiliate with consolidated subsidiary	**—**	—	275	**—**
Increase resulting from consolidation of additional subsidiaries	**22**	—	—	**220**
Decrease resulting from liquidation of consolidated subsidiaries	**(1,855)**	—	—	**(18,550)**
Cash and cash equivalents at end of year (Note 3)	**¥ 17,057**	¥ 21,665	¥ 17,849	**$ 170,570**

See notes to consolidated finacial statements.

Notes to Consolidated Financial Statements

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

1. Basis of presenting consolidated financial statements

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

The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The consolidated statements of change in net asset for the years ended March 31, 2008 and 2007, have been prepared in accordance with the new accounting standard as discussed in Note 2.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2008, which was ¥100 to US$1. The convenience translation should not be construed as representation that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

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

Consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has power of control through majority voting rights or existence of certain conditions evidencing control by the Company. In the elimination of investments in subsidiaries, all the assets and liabilities of a subsidiary, not only to the extent of the Company's share but also including the minority interest share, are evaluated based on fair value at the time the Company acquired control of the subsidiary.

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

For the year ended March 31, 2008, 22 subsidiaries (24 in 2007, 24 in 2006) were consolidated and 5 subsidiaries were excluded from consolidation due to immateriality in terms of consolidated total assets, sales and revenues, net income and retained earnings on the consolidated financial statements.

For the year ended March 31, 2008, 5 (7 in 2007,7 in 2006) non-consolidated subsidiaries and 9 (9 in 2007, 9 in 2006) affiliates were accounted for by the equity method.

For the year ended March 31, 2008, 9 (8 in 2007, 8 in 2006) affiliates were stated at cost without applying the equity method of accounting. If the equity method had been applied for these investments, the amounts of net income and retained earnings of the excluded affiliates would not have had a material effect on the consolidated financial statements.

Inventories, fuel and supplies

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

Securities

Available-for-sale securities for which market value is readily determinable are stated at market value as of the end of the period with unrealized gains and losses, net of applicable deferred tax assets/liabilities, not reflected in earnings but directly reported as a separate component of owners' equity. The cost of securities sold is determined by the moving-average method. Other investments for which market value is not readily determinable are stated primarily at moving-average cost.

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

Property and depreciation

Property is principally stated at cost, which includes interest on borrowed funds during construction, in accordance with rules established by the regulatory authorities. Contributions in aid of construction are deducted from the cost of the related assets when computing depreciation. Depreciation is computed using the declining-balance method, based on the estimated useful lives of the respective assets in accordance with the corporation tax law.

Effective for the year ended March 31, 2008, the Companies adopted the Revision of the Corporation Tax Law and changed the depreciation method for tangible property acquired on or after April 1, 2007. As a result, the effect on the consolidated financial statements was immaterial.

The Companies depreciated the residual book-value equally over five years, with a final limit of the end of the year ended March 31, 2007 for tangible property acquired before March 31, 2007. As a result, operating expense increased by ¥6,953 million (US$69,530 thousand) and operating income and income before income taxes and minority interests in net income of consolidated subsidiaries decreased by the same amount for the year ended March 31, 2008.

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

Nuclear fuel and amortization

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

Allowance for doubtful accounts

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

Allowance for bonuses to directors and corporate auditors

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

As a result, operating expenses increased by ¥191 million (US$1,910 thousand), and operating income and income before income taxes and minority interests in net income of consolidated subsidiaries decreased by the same amount for the year ended March 31, 2008.

Severance and retirement benefits

Under the terms of the retirement plans of the Companies, all employees are entitled to a lump-sum payment at the time of retirement. If the termination is made voluntarily at one of a number of specified ages, the employee is entitled to certain additional payments.

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

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

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

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

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

Provision for reprocessing of irradiated nuclear fuel

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

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

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

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

Also, estimated liabilities related to past generation, which were estimated by using assumptions such as the discount rate, were ¥3,093 million on March 31, 2006. This will be amortized over the periods of generating the irradiated nuclear fuel for which there are concrete reprocessing plans from April 1, 2006. The annual amortization is presented as operating expenses in the statement of income. The amount of liabilities which had not been amortized was ¥1,459 million (US$14,590 thousand) on March 31, 2008.

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

A provision for the reprocessing of irradiated nuclear fuel without a fixed plan to reprocess is provided in the amount of estimated reprocessing costs.

Irradiated nuclear fuel without a fixed plan to reprocess has not yet been included in the provision for the reprocessing of irradiated nuclear fuel. In a temporary measure until a fixed plan has been established, the Ministry of Economy, Trade and Industry is determining a provision for reprocessing costs. This provision is provided on the basis of the estimated reprocessing cost per unit.

Provision for decommissioning of nuclear power plants

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

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

Following the 2005 enforcement of a law concerning nuclear fuel, the clearance level was changed. The clearance level serves as the foundation for calculation of the estimated costs of the provision for the decommissioning of nuclear power plants. The law concerning the provision for the decommissioning of nuclear power plants was revised on March 25, 2008, and the Company provides for the costs of such decommissioning based on that law.

As a result, operating expenses increased by ¥6,190 million (US$61,900 thousand), and operating income and income before income taxes and minority interests in net income of consolidated subsidiaries decreased by the same amount for the year ended March 31, 2008.

Provision for drought

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

Provision for depreciation of nuclear power plants

From the year ended March 31, 2007, in accordance with the Electricity Utilities Industry Law, the Company provides for the provision for depreciation of nuclear power plants based on an ordinance of the Ministry of Economy, Trade and Industry.

A large amount of depreciation expenses are incurred following the startup of a nuclear power plant. A system to set aside a part of the initial investment as a reserve fund was established to equalize the burden of depreciation expenses after commencement of commercial operation.

As a result, the provision for depreciation of nuclear power plant decreased by ¥5,053 million, and the current net income before income taxes decreased by this amount for the year ended March 31, 2007.

Accounting for certain lease transactions

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

Derivatives and hedge accounting

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

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

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

If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency and meets certain hedging criteria, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract 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.

Capitalization of interest expenses

Interest expenses related to debts incurred for the construction of power plants have been capitalized and included in the cost of the related assets pursuant to the accounting regulations under the Electricity Utilities Industry Law.

Retirement allowances for directors and corporate auditors

Although the Companies had previously expensed retirement benefits for directors and corporate auditors in the associated fiscal year, effective for the year ended March 31, 2008, the Companies changed their method of accounting for such retirement benefits to provide a reserve for the amount that would be required if all directors and corporate auditors retired in accordance with the Special Taxation Measures Law (Report No. 42 issued by the Audit /Guarantee business committee on April 13, 2007).

As a result, operating expense increased ¥1,025 million (US$10,250 thousand), and operating income and income before income taxes and minority interest in net income of consolidated subsidiaries decreased by the same amount for the year ended March 31, 2008.

Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of change in value.

Bond issue expenses

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

Income taxes

The Companies use the asset and liability approach to recognize deferred tax assets and liabilities for loss carry forwards and the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Foreign currency translation

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

Consolidated tax system

The Companies apply the consolidated tax system.

Accounting Standard for Presentation of Net Assets in the Balance Sheet

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

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

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

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

If the New Accounting Standards had not been adopted and the previous presentation method for stockholders' equity had been applied, stockholders' equity at March 31, 2007, which comprised common stock, capital surplus, retained earnings, unrealized gains on available-for-sale securities, net of taxes, foreign currency translation adjustments and treasury stock would have been ¥710,899 million.

Accounting Standard for Statement of Changes in Net Assets

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

The Company prepared the accompanying consolidated statement of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards.

3. Cash and cash equivalents

Reconciliations of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows at March 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Cash and time deposits	**¥17,073**	¥21,721	**$170,730**
Less: Time deposits with maturities exceeding three months	**(16)**	(56)	**(160)**
Cash and cash equivalents	**¥17,057**	¥21,665	**$170,570**

4. Securities

A. The following tables summarize acquisition costs and the book values (fair values) of securities with available fair values as of March 31, 2008 and 2007:

Available-for-sale securities with book values exceeding acquisition costs

	Millions of yen						Thousands of U.S. dollars		
	Acquisition cost		Book value		Difference		Acquisition cost	Book value	Difference
	2008	2007	**2008**	2007	**2008**	2007	**2008**	**2008**	**2008**
Equity securities	**¥5,966**	¥4,578	**¥24,821**	¥35,544	**¥18,855**	¥30,966	**$59,660**	**$248,210**	**$188,550**
Bonds	**—**	5	**—**	5	**—**	0	**—**	**—**	**—**
Other	**24**	23	**33**	45	**9**	22	**240**	**330**	**90**
Total	**¥5,990**	¥4,606	**¥24,854**	¥35,594	**¥18,864**	¥30,988	**$59,900**	**$248,540**	**$188,640**

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

	Millions of yen						Thousands of U.S. dollars		
	Acquisition cost		Book value		Difference		Acquisition cost	Book value	Difference
	2008	2007	**2008**	2007	**2008**	2007	**2008**	**2008**	**2008**
Equity securities	**¥1,618**	¥503	**¥1,105**	¥480	**¥(513)**	¥(23)	**$16,180**	**$11,050**	**$(5,130)**
Bonds	**—**	4	**—**	4	**—**	0	**—**	**—**	**—**
Other	**—**	—	**—**	—	**—**	—	**—**	**—**	**—**
Total	**¥1,618**	¥507	**¥1,105**	¥484	**¥(513)**	¥(23)	**$16,180**	**$11,050**	**$(5,130)**

B. Book values of available-for-sale securities with no available fair market values as of March 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	Book value		Book value
	2008	2007	**2008**
Non-listed equity securities	**¥23,805**	¥23,791	**$238,050**
Other	**1,031**	1,064	**10,310**
Total	**¥24,836**	¥24,855	**$248,360**

C. Total sales of available-for-sale securities in the year ended March 31, 2008 amounted to ¥3 million (US$30 thousand), and the related gains amounted to ¥0 million (US$0 thousand), respectively. Total sales of available-for-sale securities in the year ended March 31, 2007 amounted to ¥407 million, and the related gains amounted to ¥391 million. Total sales of available-for-sale securities in the year ended March 31, 2006 amounted to ¥900 million, and the related gains amounted to ¥738 million.

5. Derivatives

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

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

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

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

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

Interest rate swap contracts applying the "exceptional" method in accordance with the Accounting Standard for Financial Instruments are excluded from disclosure in the notes to the consolidated financial statements as of March 31, 2008. Derivative financial instruments accounted for by hedge accounting in accordance with the Accounting Standard for Financial Instruments are also excluded from disclosure in the notes to the consolidated financial statements as of March 31, 2008.

As of March 31, 2008 and 2007, the fair value of derivatives was as follows. Disclosure of information on hedging derivatives is not required except for below.

			Millions of yen						Thousands of U.S. dollars		
			Notional amount		Fair value		Gain		Notional amount	Fair value	Gain
			2008	2007	**2008**	2007	**2008**	2007	**2008**	**2008**	**2008**
Dealings outside a market	Forward exchange contract	US$	**¥8,186**	—	**¥7,856**	—	**¥ (329)**	—	**$81,860**	**$78,560**	**$ (3,300)**
		Euro	**¥3,955**	—	**¥3,940**	—	**¥ (15)**	—	**$39,550**	**$39,400**	**$ (150)**
	Currency swap		**¥4,164**	¥4,871	**¥1,138**	¥1,189	**¥1,138**	¥1,189	**$41,640**	**$11,380**	**$11,380**

6. Long-term debt

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Domestic bonds due through 2029 at rates of 0.58% to 4.1%	**¥ 844,973**	¥ 840,000	**$ 8,449,730**
Loans from the Development Bank of Japan due through 2023 at rates of 0.75% to 5.00%	**221,439**	229,710	**2,214,390**
Unsecured loans, principally from banks and insurance companies, due through 2031 at rates of 0.10% to 6.45%	**426,226**	403,434	**4,262,260**
	1,492,638	1,473,144	**14,926,380**
Less amounts due within one year	**(126,737)**	(145,453)	**(1,267,370)**
Total	**¥1,365,901**	¥1,327,691	**$13,659,010**

At March 31, 2008 and 2007, loans from the Development Bank of Japan amounted to ¥210,824 million (US$2,108,241 thousand) and ¥216,515 million, respectively, and all bonds were secured by a statutory preferential right which gives the creditors a security interest in all assets of the Company, totaling ¥2,525,313 million (US$25,253,130 thousand) and ¥2,479,047 million, respectively, senior to that of general creditors. Some assets of subsidiaries are being used as collateral for loans from financial institutions and other sources.

The annual maturities of long-term debt at March 31, 2008 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2009	¥126,737	$1,267,370
2010	134,766	1,347,660
2011	124,952	1,249,520
2012	137,582	1,375,820
Thereafter	973,602	9,736,020

7. Impairment loss on fixed assets

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

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

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

For the year ended March 31, 2006, the Companies recognized ¥3,818 million of impairment losses on fixed assets, which consisted of the following:

	Millions of yen
	2006
Construction in progress	¥ —
Information and telecommunications equipment	3,336
General facilities, other property, plant and equipment	482
Total	¥3,818

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

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

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

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

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

8. Leases

(As lessee)

The Companies lease certain equipment for business use.

Lease payments under non-capitalized finance leases amounted to ¥118 million (US$1,180 thousand), ¥138 million and ¥159 million for the years ended March 31, 2008, 2007 and 2006, respectively.

The present values of future minimum lease payments under non-capitalized finance leases and future minimum lease payments under operating leases as of March 31, 2008 and 2007 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	Finance leases		Operating leases		Finance leases	Operating leases
	2008	2007	**2008**	2007	**2008**	
Current portion	**¥154**	¥140	**¥ 5**	¥24	**$1,530**	**$ 50**
Non-current portion	**452**	390	**6**	0	**4,520**	**60**
Total	**¥605**	¥530	**¥11**	¥24	**$6,050**	**$110**

(As lessor)

Lease payments received under finance leases, accounted for as operating leases, amounted to ¥354 million (US$3,540 thousand), ¥371 million and ¥379 million for the years ended March 31, 2008, 2007 and 2006, respectively.

The present values of future minimum lease payments to be received under finance leases as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Current portion	**¥ 431**	¥ 382	**$ 4,310**
Non-current portion	**3,305**	2,766	**33,050**
Total	**¥3,736**	¥3,148	**$37,360**

9. Contingent liabilities

At March 31, 2008, the Companies were contingently liable as guarantor for loans of other companies and employees in the amount of ¥135,300 million (US$1,353,000 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$50,000 thousand).

10. Research and development expenses

Research and development expenses charged to operating expenses were ¥6,175 million (US$61,750 thousand), ¥6,481 million and ¥6,648 million for the years ended March 31, 2008, 2007 and 2006, respectively.

11. Employees' severance and pension benefits

The liabilities for employees' severance and retirement benefits included in the liabilities section of the consolidated balance sheets as of March 31, 2008 and 2007 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Projected benefit obligation	**¥(246,015)**	¥(247,628)	**$(2,460,150)**
Fair value of pension assets	**224,144**	238,889	**2,241,440**
	(21,871)	(8,739)	**(218,710)**
Unrecognized pension assets	**—**	—	**—**
Less unrecognized actuarial differences	**(7,267)**	(36,511)	**(72,670)**
Unrecognized prior service costs	**(357)**	79	**(3,570)**
Prepaid pension expense	**31,291**	16,376	**312,910**
Liability for severance and retirement benefits	**¥ (60,786)**	¥ (61,547)	**$ (607,860)**

Included in the consolidated statements of income for the years ended March 31, 2008, 2007 and 2006 are employees' severance and retirement benefit expenses comprised of the following:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	**2008**
Service costs-benefits earned during the year	**¥ 8,291**	¥9,121	¥ 8,939	**$ 82,910**
Interest cost on projected benefit obligation	**4,920**	5,005	5,122	**49,200**
Expected return on plan assets	**(10,413)**	(9,641)	(7,818)	**(104,130)**
Prior service costs	**(76)**	(111)	(111)	**(760)**
Amortization of actuarial losses	**(5,362)**	3,751	10,998	**(53,620)**
Severance and retirement benefit expenses	**(2,640)**	8,125	17,130	**(26,400)**
Defined contribution pension premium, etc.	**721**	735	738	**7,210**
Total	**¥ (1,919)**	¥8,860	¥17,868	**$ (19,190)**

The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years. In the year ended March 31, 2008, the discount rate and the rates of expected return on plan assets used by the Company are 2.0% and mainly 4.5%, respectively.

In the year ended March 31, 2007, the discount rates and the rates of expected return on plan assets used by the Company were 2.0% and mainly 4.5%, respectively.

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

12. Income taxes

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate a statutory rate in Japan of approximately 36% for the years ended March 31, 2008, 2007 and 2006. The Companies' statutory tax rate is lower than companies in other industries because enterprise tax is included in the operating expenses of electrical utilities.

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Deferred tax assets:			
Excess depreciation	**¥16,400**	¥18,397	**$164,000**
Adjustment for unrealized intercompany profits	**13,533**	13,876	**135,330**
Severance and retirement benefits	**10,979**	16,568	**109,790**
Future reprocessing costs of irradiated nuclear fuel	**9,538**	9,907	**95,380**
Provision for depreciation of nuclear power plant	**8,633**	—	**86,330**
Future decommissioning costs of nuclear power generating plants	**6,526**	4,288	**65,260**
Accrued bonuses and other expenses	**5,619**	5,770	**56,190**
Accrued defined contribution pension	**—**	—	**—**
Other	**14,891**	18,298	**148,910**
Total gross deferred tax assets	**86,119**	87,104	**861,190**
Less, valuation allowance	**(7,522)**	(5,469)	**(75,220)**
Total deferred tax assets	**78,597**	81,635	**785,970**
Deferred tax liabilities:			
Unrealized holding gains on securities	**(6,844)**	(11,601)	**(68,440)**
Other	**(215)**	(365)	**(2,150)**
Total deferred tax liabilities	**(7,059)**	(11,966)	**(70,590)**
Net deferred tax assets	**¥71,538**	¥69,669	**$715,380**

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

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

13. Net assets

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

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

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

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

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

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

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

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

At the annual stockholders' meeting held on June 27, 2008, the stockholders approved cash dividends amounting to ¥9,106 million (US$91,062 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2008. Such appropriations are recognized in the period in which they are approved by the stockholders.

14. Segment information

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

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

A summary by segment for the years ended March 31, 2008, 2007 and 2006 is as follows:

	Millions of yen						
	2008						
	Electric power	Information and tele-communications	Comprehensive energy supply	Other	Total	Elimination	Consolidated
Operating revenues:							
Outside customers	**¥1,013,578**	**¥18,456**	**¥26,826**	**¥ 49,494**	**¥1,108,354**	**¥ —**	**¥1,108,354**
Intersegment	**6,044**	**15,789**	**1,723**	**79,770**	**103,326**	**(103,326)**	**—**
Total	**1,019,622**	**34,245**	**28,549**	**129,264**	**1,211,680**	**(103,326)**	**1,108,354**
Cost and expenses	**941,271**	**32,595**	**29,735**	**123,649**	**1,127,250**	**(103,312)**	**1,023,938**
Operating income	**¥ 78,351**	**¥ 1,650**	**¥ (1,186)**	**¥ 5,615**	**¥ 84,430**	**¥ (14)**	**¥ 84,416**
Identifiable assets	**¥2,498,049**	**¥68,650**	**¥20,744**	**¥225,878**	**¥2,813,321**	**¥(102,640)**	**¥2,710,681**
Impairment of fixed assets	**—**	**—**	**85**	**—**	**85**	**297**	**382**
Depreciation expense	**130,501**	**8,243**	**2,576**	**4,024**	**145,344**	**(1,990)**	**143,354**
Capital expenditures	**185,387**	**8,784**	**2,598**	**4,067**	**200,836**	**(2,378)**	**198,458**

	Thousands of U.S. dollars						
	2008						
	Electric power	Information and tele-communications	Comprehensive energy supply	Other	Total	Elimination	Consolidated
Operating revenues:							
Outside customers	**$10,135,780**	**$184,560**	**$268,260**	**$ 494,940**	**$11,083,540**	**$ —**	**$11,083,540**
Intersegment	**60,440**	**157,890**	**17,230**	**797,700**	**1,033,260**	**(1,033,260)**	**—**
Total	**10,196,220**	**342,450**	**285,490**	**1,292,640**	**12,116,800**	**(1,033,260)**	**11,083,540**
Cost and expenses	**9,412,710**	**325,950**	**297,350**	**1,236,490**	**11,272,500**	**(1,033,120)**	**10,239,380**
Operating income	**$ 783,510**	**$ 16,500**	**$ (11,860)**	**$ 56,150**	**$ 844,300**	**$ (140)**	**$ 844,160**
Identifiable assets	**$24,980,490**	**$686,500**	**$207,440**	**$2,258,780**	**$28,133,210**	**$(1,026,400)**	**$27,106,810**
Impairment of fixed assets	**—**	**—**	**850**	**—**	**850**	**2,970**	**3,820**
Depreciation expense	**1,305,010**	**82,430**	**25,980**	**40,240**	**1,453,440**	**(19,900)**	**1,433,540**
Capital expenditures	**1,853,870**	**87,840**	**25,760**	**40,670**	**2,008,360**	**(23,780)**	**1,984,580**

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

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

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

Information for overseas sales of the Companies for the years ended March 31, 2008, 2007 and 2006 is not shown due to aggregate overseas sales being less than 10% of total operating revenues.

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

As a result of changing the method of provision for the reprocessing of irradiated nuclear fuel (Note 2), costs in the "Electric power" segment increased by ¥1,777 million and operating income decreased by the same amount for the year ended March 31, 2007.

As a result of capitalizing the preparation for the provision for the reprocessing of irradiated nuclear fuel (Note 2), costs in the "Electric power" segment increased by ¥6,191 million (US$61,910 thousand) and operating income decreased by the same amount for the year ended March 31, 2008.

15. Subsequent event

The following appropriations of retained earnings at March 31, 2008 were approved at the annual meeting of stockholders held on June 27, 2008:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥25 ($0.25) per share	¥9,106	$91,060
Bonuses to directors and statutory auditors	¥ 191	$ 1,910

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of The Chugoku Electric Power Co., Inc. and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in net assets and cash flows for each of the three years in the period ended March 31, 2008, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Chugoku Electric Power Co., Inc. and subsidiaries as of March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2008, in conformity with accounting principles generally accepted in Japan.

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

(1) As discussed in Note 2 to the consolidated financial statements, effective April 1, 2005, The Chugoku Electric Power Co., Inc. commenced depreciating easements related to lands below transmission lines.

(2) As discussed in Note 2 to the consolidated financial statements, effective April 1, 2005, The Chugoku Electric Power Co., Inc. changed the method of accounting for provision for the reprocessing of irradiated nuclear fuel.

(3) As discussed in Note 2 to the consolidated financial statements, for the year ended March 31, 2007, The Chugoku Electric Power Co., Inc. commenced adopting for the provision for depreciation of nuclear power plants.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Hiroshima, Japan
June 27, 2008

Non-Consolidated Balance Sheets

The Chugoku Electric Power Co., Inc.
March 31, 2008 and 2007

Assets	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note 1) 2008
Property:			
Plant and equipment	**¥5,493,749**	¥5,457,721	**$54,937,490**
Construction in progress	**291,692**	197,109	**2,916,920**
	5,785,441	5,654,830	**57,854,410**
Less—			
Contributions in aid of construction	**75,924**	74,616	**759,240**
Accumulated depreciation	**3,686,470**	3,588,662	**36,864,700**
	3,762,394	3,663,278	**37,623,940**
Net property	**2,023,047**	1,991,552	**20,230,470**
Nuclear fuel	**133,841**	133,772	**1,338,410**
Investments and other assets:			
Investment securities	**45,048**	51,807	**450,480**
Funds reserved for reprocessing of irradiated nuclear fuel	**91,115**	93,667	**911,150**
Investments and advances to subsidiaries and affiliated companies (Note 3)	**29,213**	28,675	**292,130**
Long-term loans to employees	**818**	1,123	**8,180**
Deferred tax assets (Note 8)	**44,715**	40,122	**447,150**
Other assets	**35,447**	22,149	**354,470**
Total investments and other assets	**246,356**	237,543	**2,463,560**
Current assets:			
Cash and time deposits	**12,285**	10,744	**122,850**
Receivables, less allowance for doubtful accounts of ¥678 million ($6,780 thousand) in 2008 and ¥578 million in 2007	**56,492**	51,341	**564,920**
Inventories, fuel and supplies	**32,251**	32,070	**322,510**
Deferred tax assets (Note 8)	**8,338**	10,017	**83,380**
Other current assets	**12,703**	12,008	**127,030**
Total current assets	**122,069**	116,180	**1,220,690**
Total assets	**¥2,525,313**	¥2,479,047	**$25,253,130**

See notes to non-consolidated finacial statements.

Liabilities and Net Assets	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note 1) 2008
Long-term liabilities:			
Long-term debt (Note 4)	**¥1,347,700**	¥1,302,598	**$13,477,000**
Other long-term liabilities	**15,062**	2,304	**150,620**
Employees' severance and retirement benefits	**51,140**	51,077	**511,400**
Retirement allowances for directors and corporate auditors	**1,014**	—	**10,140**
Provision for reprocessing of irradiated nuclear fuel	**100,691**	118,286	**1,006,910**
Provision for reprocessing of irradiated nuclear fuel without a fixed plan to reprocess	**2,753**	1,777	**27,530**
Provision for decommissioning of nuclear power generating plants	**56,547**	47,711	**565,470**
Total long-term liabilities	**1,574,907**	1,523,753	**15,749,070**
Current liabilities:			
Long-term debt due within one year (Note 4)	**119,845**	138,499	**1,198,450**
Short-term borrowings	**64,350**	64,350	**643,500**
Commercial paper	**20,000**	17,000	**200,000**
Accounts payable	**52,756**	49,780	**527,560**
Accrued income taxes	**6,840**	9,993	**68,400**
Accrued expenses	**34,808**	36,934	**348,080**
Allowance for bonuses to directors and corporate auditors	**110**	95	**1,100**
Allowance for business loss of affiliates	**133**	—	**1,330**
Other current liabilities, including other long-term liabilities due within one year	**33,435**	35,044	**334,350**
Total current liabilities	**332,277**	351,695	**3,322,770**
Provision for drought	**—**	656	**—**
Provision for depreciation of nuclear power plant	**23,881**	5,053	**238,810**
Contingent liabilities (Note 6)			
Net assets (Note 9):			
Common stock			
Authorized—1,000,000,000 shares			
Issued—371,055,259 shares in 2008 and 2007	**185,528**	185,528	**1,855,280**
Capital surplus	**16,715**	16,702	**167,150**
Retained earnings (Note 10)	**395,877**	393,369	**3,958,770**
Treasury stock (6,807,673 shares in 2008 and 6,721,673 shares in 2007)	**(12,232)**	(12,013)	**(122,320)**
Net unrealized holding gains on securities	**8,360**	14,304	**83,600**
Total net assets	**594,248**	597,890	**5,942,480**
Total liabilities and net assets	**¥2,525,313**	¥2,479,047	**$25,253,130**

Non-Consolidated Statements of Income

The Chugoku Electric Power Co., Inc.
For the years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	**2008**
Operating revenues	**¥1,038,438**	¥996,007	¥976,835	**$10,384,380**
Operating expenses:				
Personnel	**105,272**	116,529	122,008	**1,052,720**
Fuel	**268,327**	214,559	178,649	**2,683,270**
Purchased power	**154,991**	146,861	161,771	**1,549,910**
Depreciation	**130,501**	128,490	136,569	**1,305,010**
Maintenance	**82,105**	90,001	80,747	**821,050**
Taxes other than income taxes	**61,388**	61,698	61,556	**613,880**
Purchased services	**36,703**	33,465	33,732	**367,030**
Other	**121,316**	126,176	110,001	**1,213,160**
	960,603	917,779	885,033	**9,606,030**
Operating income	**77,835**	78,228	91,802	**778,350**
Other expenses (income):				
Interest expense	**30,232**	28,419	27,855	**302,320**
Interest income	**(1,639)**	(1,076)	(101)	**(16,390)**
Loss on revaluation of investments in subsidiary	**—**	—	12,590	**—**
Other, net	**(2,034)**	(2,110)	(1,452)	**(20,340)**
	26,559	25,233	38,892	**265,590**
Income before special items and income taxes	**51,276**	52,995	52,910	**512,760**
Special items:				
Provision (reversal) for drought	**(657)**	112	(1,913)	**(6,570)**
Provision for depreciation of nuclear power plant	**18,828**	5,053	—	**188,280**
Provision for income taxes:				
Current	**11,929**	16,855	25,863	**119,290**
Deferred	**452**	(2,428)	(1,287)	**4,520**
Net income	**¥ 20,724**	¥ 33,403	¥ 30,247	**$ 207,240**

	Yen			U.S. dollars (Note 1)
	2008	2007	2006	**2008**
Per share data:				
Net income (basic)	**¥56.89**	¥91.67	¥82.66	**$0.57**
Cash dividends	**50.00**	50.00	50.00	**0.50**

See notes to non-consolidated finacial statements.

Non-Consolidated Statements of Changes in Net Assets

The Chugoku Electric Power Co., Inc.
For the years ended March 31, 2008 and 2007

	Shares of common stock	Millions of yen					
		Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on securities	Total
Balance at March 31, 2006	371,055,259	¥185,528	¥16,691	¥378,308	¥(11,693)	¥16,602	¥585,436
Net income				33,403			33,403
Cash dividends paid (¥50 per share)				(18,222)			(18,222)
Bonuses to directors and statutory auditors				(120)			(120)
Surplus from sale of treasury stock			11		25		36
Treasury stock purchased, net					(345)		(345)
Decrease in unrealized holding gains on securities						(2,298)	(2,298)
Balance at March 31, 2007	371,055,259	185,528	16,702	393,369	(12,013)	14,304	597,890
Net income				**20,724**			**20,724**
Cash dividends paid (¥50 per share)				**(18,216)**			**(18,216)**
Bonuses to directors and statutory auditors							
Surplus from sale of treasury stock			**13**		**45**		**58**
Treasury stock purchased, net					**(264)**		**(264)**
Decrease in unrealized holding gains on securities						**(5,944)**	**(5,944)**
Balance at March 31, 2008	**371,055,259**	**¥185,528**	**¥16,715**	**¥395,877**	**¥(12,232)**	**¥ 8,360**	**¥594,248**

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on securities	Total
Balance at March 31, 2007	$1,855,280	$167,020	$3,933,690	$(120,130)	$143,040	$5,978,900
Net income			**207,240**			**207,240**
Cash dividends paid ($0.5 per share)			**(182,160)**			**(182,160)**
Bonuses to directors and statutory auditors						**—**
Surplus from sale of treasury stock		**130**		**450**		**580**
Treasury stock purchased, net				**(2,640)**		**(2,640)**
Decrease in unrealized holding gains on securities					**(59,440)**	**(59,440)**
Balance at March 31, 2008	**$1,855,280**	**$167,150**	**$3,958,770**	**$(122,320)**	**$ 83,600**	**$5,942,480**

See notes to non-consolidated finacial statements.

Notes to Non-Consolidated Financial Statements

1. Basis of presenting non-consolidated financial statements

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

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

The non-consolidated balance sheet as of March 31, 2008, which has been prepared in accordance with the new accounting standard as discussed in Note 2, is presented with the non-consolidated balance sheet as of March 31, 2007 prepared in accordance with the previous presentation rules.

The non-consolidated statements of changes in net assets for the years ended March 31, 2008 and 2007 have been prepared in accordance with the new accounting standard as discussed in Note 2.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2008, which was ¥100 to US$1. The convenience translation should not be construed as representation that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

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

Inventories, fuel and supplies

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

Securities

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

If the market value of equity securities issued by subsidiaries and affiliated companies or available-for-sale securities declines significantly, such securities are stated at fair market value, and the difference between the fair market value and the carrying amount is recognized as a loss in the period of the decline. If the fair market value of equity securities issued by subsidiaries and affiliated companies is not readily available, such securities should be written down to net asset value with a corresponding charge in the non-consolidated statement of income in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

Property and depreciation

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

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

Effective for the year ended March 31, 2008, the Company adopted the Revision of the Corporation Tax Law and changed the depreciation method for tangible property acquired on or after April 1, 2007. As the result, the effect on the non-consolidated financial statements was immaterial.

The Company depreciates the residual book-value equally over five years, with a final limit of the year ended March 31, 2007 for tangible property acquired before March 31, 2007. As a result, operating expense increased by ¥6,608 million (US$66,080 thousand) and operating income and income before income taxes decreased by the same amount for the year ended March 31, 2008.

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

Nuclear fuel and amortization

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

Allowance for doubtful accounts

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

Allowance for bonuses to directors and corporate auditors

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

As a result, operating expenses increased by ¥110 million (US$1,100 thousand), and operating income and income before special items and income taxes decreased by the same amount for the year ended March 31, 2008.

Severance and retirement benefits

Under the terms of the Company's retirement plan, all employees are entitled to a lump-sum payment at the time of retirement. If the termination is made voluntarily at one of a number of specified ages, the employee is entitled to certain additional payments.

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

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

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

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

Provision for reprocessing of irradiated nuclear fuel

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

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

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

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

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

Also, estimated liabilities related to past generation, which were estimated by using assumptions such as the discount rate, were ¥3,093 million on March 31, 2006. This will be amortized over the periods of generating the irradiated nuclear fuel for which there are concrete reprocessing plans from April 1, 2006. The annual amortization is presented as operating expenses in the statement of income. The amount of liabilities which had not been amortized was ¥1,459 million (US$14,590 thousand) on March 31, 2008.

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

A provision for the reprocessing of irradiated nuclear fuel without a fixed plan to reprocess is provided in the amount of estimated reprocessing costs.

Irradiated nuclear fuel without a fixed plan to reprocess has not yet been included in the provision for the reprocessing of irradiated nuclear fuel. In a temporary measure until a fixed plan has been established, the Ministry of Economy, Trade and Industry is determining a provision for reprocessing costs. This provision is provided on the basis of the estimated reprocessing cost per unit.

Provision for decommissioning of nuclear power plants

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

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

Following the 2005 enforcement of a law concerning nuclear fuel, the clearance level was changed. The clearance level serves as the foundation for calculation of the estimated costs of the provision for the decommissioning of nuclear power plants. The law concerning the provision for the decommissioning of nuclear power plants was revised on March 25, 2008, and the Company provides for the costs of such decommissioning based on that law.

As a result, operating expenses increased by ¥6,190 million (US$61,900 thousand), and operating income and income before income taxes and minority interests in net income of consolidated subsidiaries decreased by the same amount for the year ended March 31, 2008.

Provision for drought

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

Provision for depreciation of nuclear power plants

From the year ended March 31, 2007, in accordance with the Electricity Utilities Industry Law, the Company provides for the provision for depreciation of nuclear power plants based on an ordinance of the Ministry of Economy, Trade and Industry.

A large amount of depreciation expenses are incurred following the startup of a nuclear power plant. A system to set aside a part of the initial investment as a reserve fund was established to equalize the burden of depreciation expenses after commencement of commercial operation.

As a result, the provision for depreciation of nuclear power plants decreased by ¥5,053 million, and the current net income before income taxes decreased by this amount for the year ended March 31, 2007.

Accounting for certain lease transactions

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

Derivatives and hedge accounting

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

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

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

If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency and meets certain hedging criteria, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract 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.

Capitalization of interest expenses

Interest expenses related to debts incurred for the construction of power plants have been capitalized and included in the cost of the related assets pursuant to the accounting regulations under the Electricity Utilities Industry Law.

Bond issue expenses

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

Income taxes

The Company uses the asset and liability approach to recognize deferred tax assets and liabilities for loss carryforwards and the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Foreign currency translation

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

Consolidated tax system

The Company applies the consolidated tax system.

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

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

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

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

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

If the New Accounting Standards had not been adopted and the previous presentation method for stockholders' equity had been applied, stockholders' equity at March 31, 2007, which comprised common stock, capital surplus, retained earnings, unrealized gains on available-for-sale securities, net of taxes, foreign currency translation adjustments and treasury stock, would have been ¥597,890 million.

Accounting Standard for Statement of Changes in Net Assets

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

The Company prepared the accompanying non-consolidated statement of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards.

3. Securities

Disclosure of market value information of securities, except for investments in subsidiaries and affiliates, with readily available market values at March 31, 2008, is required only on a consolidated financial basis.

Book values and fair values of equity securities issued by subsidiaries and affiliated companies with available fair values as of March 31, 2008 and 2007 were as follows:

	Millions of yen						Thousands of U.S. dollars		
	Book value		Fair value		Difference		Book value	Fair value	Difference
	2008	2007	**2008**	2007	**2008**	2007		**2008**	
Equity securities of affiliated companies	**¥2,493**	¥2,493	**¥38,218**	¥48,747	**¥35,725**	¥46,254	**$24,930**	**$382,180**	**$357,250**

4. Long-term debt

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Domestic bonds due through 2029 at rates of 0.58% to 4.1%	**¥ 844,973**	¥ 840,000	**$ 8,449,730**
Loans from the Development Bank of Japan due through 2023 at rates of 0.75% to 4.95%	**210,824**	216,515	**2,108,240**
Unsecured loans, principally from banks and insurance companies, due through 2031 at rates of 0.10% to 6.45%	**411,748**	384,582	**4,117,480**
	1,467,545	1,441,097	**14,675,450**
Less amounts due within one year	**(119,845)**	(138,499)	**(1,198,450)**
Total	**¥1,347,700**	¥1,302,598	**$13,477,000**

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

The annual maturities of long-term debt at March 31, 2008 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2009	¥119,845	$1,198,450
2010	128,013	1,280,130
2011	119,876	1,198,760
2012	135,329	1,353,290
Thereafter	964,481	9,644,810

5. 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 ¥606 million (US$6,065 thousand), ¥1,014 million and ¥1,105 million for the years ended March 31, 2008, 2007 and 2006, respectively.

The present values of future minimum lease payments under non-capitalized finance leases and future minimum lease payments under operating leases as of March 31, 2008 and 2007 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	Finance leases		Operating leases		Finance leases	Operating leases
	2008	2007	**2008**	2007	**2008**	
Current portion	**¥ 413**	¥ 598	**¥2**	¥82	**$ 4,130**	**$20**
Non-current portion	**884**	1,203	**0**	0	**8,840**	**0**
Total	**¥1,297**	¥1,801	**¥2**	¥82	**$12,970**	**$20**

6. Contingent liabilities

At March 31, 2008, the Company was contingently liable as guarantor for loans of other companies and employees in the amount of ¥157,816 million (US$1,578,160 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 was assigned to certain banks under debt assumption agreements in the aggregate amount of ¥5,000 million (US$50,000 thousand).

7. Research and development expenses

Research and development expenses charged to operating expenses were ¥5,752 million (US$57,520 thousand), ¥6,285 million and ¥6,354 million for the years ended March 31, 2008, 2007 and 2006, respectively.

8. Income taxes

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Deferred tax assets:			
Severance and retirement benefits	**¥ 7,304**	¥12,621	**$ 73,040**
Excess depreciation	**12,596**	12,831	**125,960**
Future reprocessing costs of irradiated nuclear fuel	**9,538**	9,907	**95,380**
Provision for depreciation of nuclear power plant	**8,632**	—	**86,320**
Loss on revaluation of investments in subsidiary	**—**	—	**—**
Future decommissioning costs of nuclear power generation plants	**6,526**	4,288	**65,260**
Accrued bonuses to employees	**3,835**	3,976	**38,350**
Amortization of deferred charges	**2,640**	3,262	**26,400**
Accrued defined contribution pension	**—**	—	**—**
Others	**11,823**	15,595	**118,230**
Total gross deferred tax assets	**62,894**	62,480	**628,940**
Less, valuation allowance	**(5,107)**	(4,087)	**(51,070)**
Total deferred tax assets	**57,787**	58,393	**577,870**
Deferred tax liabilities:			
Unrealized holding gains on securities	**(4,703)**	(8,099)	**(47,030)**
Other	**(31)**	(155)	**(310)**
Total deferred tax liabilities	**(4,734)**	(8,254)	**(47,340)**
Net deferred tax assets	**¥53,053**	¥50,139	**$530,530**

9. Net assets

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

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

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

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

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

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

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

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

At the annual stockholders' meeting held on June 27, 2008, the stockholders approved cash dividends amounting to ¥9,106 million (US$91,060 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2008. Such appropriations are recognized in the period in which they are approved by the stockholders.

10. Subsequent event

The following appropriations of retained earnings at March 31, 2008 were approved at the annual meeting of stockholders held on June 27, 2008:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥25 ($0.25) per share	¥9,106	$91,060
Bonuses to directors and statutory auditors	¥ 110	$ 1,100

Independent Auditors' Report

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

We have audited the accompanying non-consolidated balance sheets of The Chugoku Electric Power Co., Inc. as of March 31, 2008 and 2007, and the related non-consolidated statements of income, changes in net assets for each of the three years in the period ended March 31, 2008, expressed in Japanese yen. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these non-consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the non-consolidated financial position of The Chugoku Electric Power Co., Inc. as of March 31, 2008 and 2007, and the non-consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2008, in conformity with accounting principles generally accepted in Japan.

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

(1) As discussed in Note 2 to the non-consolidated financial statements, effective April 1, 2005, The Chugoku Electric Power Co., Inc. commenced depreciating easements related to lands below transmission lines.

(2) As discussed in Note 2 to the non-consolidated financial statements, effective April 1, 2005, The Chugoku Electric Power Co., Inc. changed the method of accounting for provision for the reprocessing of irradiated nuclear fuel.

(3) As discussed in Note 2 to the non-consolidated financial statements, for the year ended March 31, 2007, The Chugoku Electric Power Co., Inc. commenced adopting for the provision for depreciation of nuclear power plants.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the non-consolidated financial statements.

KPMG AZSA & Co.

Hiroshima, Japan
June 27, 2008

Major Subsidiaries and Affiliated Companies

(As of March 31, 2008)

Name	Capital (Millions of yen)	Chugoku Electric Power's Ownership (%)	Business
CHUDEN KOGYO CO., LTD.*	¥77	100.0	Contracting out construction and painting projects
CHUDEN PLANT CO., LTD.*	¥200	100.0	Construction of power facilities
CHUGOKU INSTRUMENTS CO., INC.*	¥30	100.0	Assembly and repair of electric power meters
CHUGOKU KIGYO Co., INC.*	¥104	100.0	Realty and leasing
The Chugoku Electric Manufacturing Company, Incorporated*	¥150	100.0	Manufacturing of electric machine tools
CHUDEN KANKYO TECHNOS CO., LTD.*	¥50	100.0	Operation and management of power station equipment
Energia Communications, Inc.*	¥6,000	100.0	Telecommunications business, data processing
EnerGia Business Service Co., Inc.*	¥490	100.0	Financial services for the Group, accounting and personnel-related services
Energia Solution & Service Company, Incorporated*	¥4,653	100.0	Cogeneration, dispersed power sources, fuel sales, and other energy use business
EnerGia Real Estate Co., Inc.*	¥295	100.0	Housing sales, rental business
EnerGia Eco Materia Company, Incorporated*	¥300	100.0	Processing and marketing of products made of coal ash and powdered limestone
OZUKI STEEL INDUSTRIES CO., LTD.*	¥50	80.0	Manufacturing of cast steel products
CHUDEN ENGINEERING CONSULTANTS CO., LTD.*	¥100	80.0	Civil engineering and construction consulting
EnerGia Life & Access Co., Inc.*	¥65	77.7	Water heater sales and leasing
Power Engineering and Training Services, Incorporated*	¥400	72.0	Training in thermal power generation technology, engineering
The EnerGia Logistics Co., Inc.*	¥40	70.0	Logistics and warehousing
International Standard Management Center Inc.*	¥100	66.0	Inspection of quality control and environmental management system
TEMPEARL INDUSTRIAL CO., LTD.*	¥150	56.6	Manufacturing of electric machine tools
CHUGOKU KOATSU CONCRETE INDUSTRIES CO., LTD.*	¥150	50.1	Manufacturing of concrete products
SANKO INC.*	¥30	46.7	Printing, advertising
EnerGia Care Service Co., Inc.*	¥78	33.3	Management of a nursing home, day-care services, home nursing care services
EnerGia Human Resource Solutions Co., Inc.*	¥60	30.0	Personnel dispatching business
Setouchi Joint Thermal Power Co., Ltd.**	¥5,000	50.0	Thermal power generation
CHUGOKU HEALTH AND WELFARE CLUB CO., INC.**	¥50	50.0	Welfare agency services
MIZUSHIMA LNG COMPANY, LIMITED**	¥800	50.0	Accepting consignments to receive, store, convert into gas form, and deliver liquefied natural gas (LNG)
Setouchi Power Corporation	¥100	50.0	Procurement of electric power
CHUDENKO CORPORATION**	¥3,481	41.6	Electrical and telecommunications engineering
MIZUSHIMA LNG SALES COMPANY, LIMITED**	¥175	40.0	Sales of LNG
Hiroshima Cable Television Corp.**	¥1,200	34.9	Cable television broadcasting
Houseplus Chugoku Housing Warranty Corporation Limited** (Note)	¥50	33.3	Functional evaluation and construction confirmation checks for housing
EAML Engineering Company Limited**	¥50	21.8	Manufacturing of instruments for hydroelectric power generation

* Consolidated subsidiary

** Affiliated company accounted for by the equity method

Note: On March 21, 2008, the Company, EnerGia Business Service Co., Inc., and EnerGia Life & Access Co., Inc., sold shares in Houseplus Chugoku Housing Warranty Corporation Limited, which became an equity-method affiliate.

Corporate Data

(As of March 31, 2008)

DATE OF ESTABLISHMENT: May 1, 1951

PAID-IN CAPITAL: ¥185,528 million

NUMBER OF EMPLOYEES: 10,081

LOCATIONS:

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

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

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

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

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

Tokyo Office
8-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005, Japan
Tel: +81-3-3201-1171 Fax: +81-3-5223-8224

NUMBER OF USERS

	(Thousands)
Residential (lighting)	4,645
Industrial and commercial	597
Total	5,242

SUPPLY INFRASTRUCTURE

Power Stations

	Number of Facilities	Generating Capacity (MW)
Hydroelectric	97	2,905
Thermal	12	7,641
Nuclear	1	1,280
Total	110	11,826

Transmission Lines (Route length): 8,168 kilometers

Number of Substations: 455

Distribution Lines (Route length): 81,367 kilometers

Investor Information

(As of March 31, 2008)

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS:

KPMG AZSA & Co.

TRANSFER AGENT AND REGISTRAR:

The Sumitomo Trust & Banking Co., Ltd.

SECURITIES TRADED:

Tokyo Stock Exchange, Osaka Securities Exchange

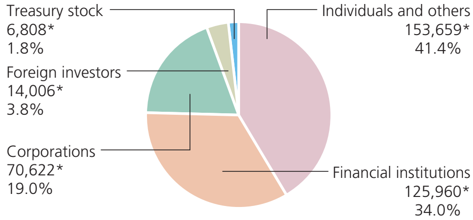
NUMBER OF STOCKHOLDERS:

159,226

COMMON STOCK ISSUED:

371,055,259 shares

DISTRIBUTION OF COMMON STOCK ISSUED:



*Thousands of shares

MAJOR STOCKHOLDERS

Name	Number of Shares Held (thousands)	Percentage (%)
Yamaguchi Pref. Shinko Zaidan	49,505	13.34
Nippon Life Insurance Company	23,148	6.24
The Master Trust Bank of Japan, Ltd. (Trust account)	15,615	4.21
Japan Trustee Services Bank, Ltd. (Trust account)	15,018	4.05
The Sumitomo Trust & Banking Co., Ltd.	7,379	1.99
Mizuho Corporate Bank, Ltd.	5,801	1.56
The Dai-ichi Mutual Life Insurance Company	5,387	1.45
Company's stock investment	5,310	1.43
The Hiroshima Bank, Ltd.	5,092	1.37
Trust & Custody Services Bank, Ltd. (Trust account)	4,506	1.21

STOCK PRICE RANGE ON THE TOKYO STOCK EXCHANGE

Fiscal year	High (yen)	Low (yen)
2008 1st quarter	2,730	2,380
2nd quarter	2,475	2,235
3rd quarter	2,480	2,160
4th quarter	2,390	2,045
2009 1st quarter	2,385	2,115

The Chugoku Electric Power Co., Inc.

4-33, Komachi, Naka-ku, Hiroshima 730-8701, Japan
Tel: +81-82-241-0211 Fax: +81-82-523-6185
http://www.energia.co.jp/

Printed in Japan

This annual report was printed on recycled paper with soy ink.