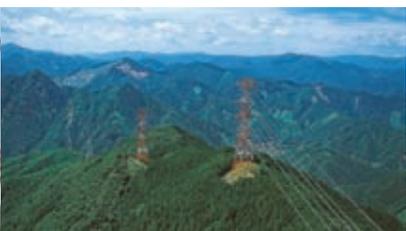


The Chugoku Electric Power Co., Inc.  
Annual Report 2009



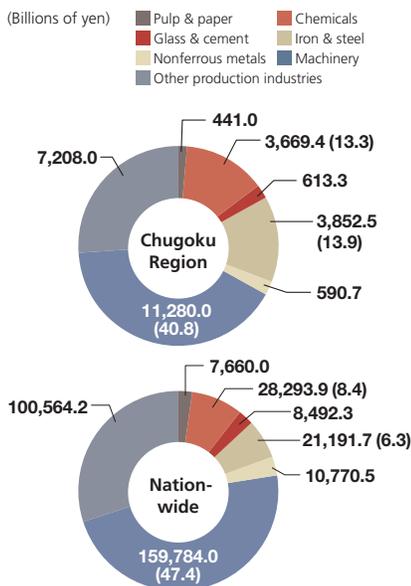


**KEY CONCEPT: Energia**

# 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.

**Value of Industrial Shipments 2007**



Source: Ministry of Economy, Trade and Industry [Census of Manufacturers 2007] Figures in ( ) represent the percentage distribution.

Chugoku Electric Power, with total generating capacity of 11,986MW, 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 7.7 million people, the region has a land area of approximately 32,280km<sup>2</sup> and generates an annual gross domestic product of about \$257.1 billion\*.

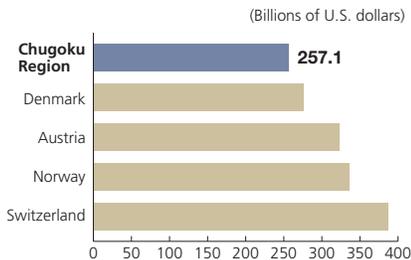
We are working to promote our total solutions business—with electric power at its core—by offering products and services that respond to a wide range of customer needs by drawing on the experience, accomplishments and capabilities of the entire Chugoku Electric Power Group.

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, 2007

**GDP (2006—2007)**

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



Sources:  
1. Ministry of Internal Affairs and Communications [World in Figures 2009]  
2. Cabinet Office [Annual Report on Prefectural Accounts 2009]



# Consolidated Financial Highlights

## 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)
	2009	2008	2007	2009
Operating revenues	<b>¥1,173,727</b>	¥1,108,354	¥1,075,575	<b>\$11,976,806</b>
Operating income	<b>15,525</b>	84,416	88,401	<b>\$158,418</b>
Net (loss) income	<b>(23,576)</b>	25,271	37,093	<b>(240,571)</b>
Total stockholders' equity/Net assets	<b>663,974</b>	711,080	715,972	<b>6,775,245</b>
Total assets	<b>2,806,112</b>	2,710,681	2,680,782	<b>28,633,796</b>
Interest-bearing debt	<b>1,717,736</b>	1,595,098	1,572,994	<b>17,527,918</b>
<b>Per share data (yen and dollars):</b>				
Stockholders' equity	<b>1,809.91</b>	1,938.37	1,951.27	<b>18.47</b>
Net (loss) income:				
Basic	<b>(64.73)</b>	69.37	101.86	<b>(0.66)</b>
Cash dividends	<b>50.00</b>	50.00	50.00	<b>0.51</b>
<b>Key financial ratios:</b>				
Equity ratio (%)	<b>23.5</b>	26.0	26.5	
Return on equity (ROE) (%)	<b>(3.5)</b>	3.6	5.3	
Return on assets (ROA) (%)	<b>0.4</b>	2.0	2.1	

Notes: 1. U.S. dollar amounts presented are translated from yen, for convenience only, at the rate of ¥98=US\$1, the exchange rate prevailing on March 31, 2009.

2. The Company's fiscal year begins on April 1 and ends on March 31 of the following year. In this report, fiscal 2009 is used to denote the year ended March 31, 2009.

### 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 the 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.

## Contents

Dear Stockholders and Investors	3
An Interview with the President	5
Solutions to Prevailing Challenges	16
Strengthening Equipment Foundation	17
Cultivating Demand for Electricity	22
Addressing Environmental Issues	24
Group Operations	28
Technology Development and Intellectual Property Activities	30
Corporate Social Responsibility	34
Corporate Governance	37
Financial Section	39
Major Subsidiaries and Affiliated Companies	76
Corporate Data/Investor Information	77

## Dear Stockholders and Investors

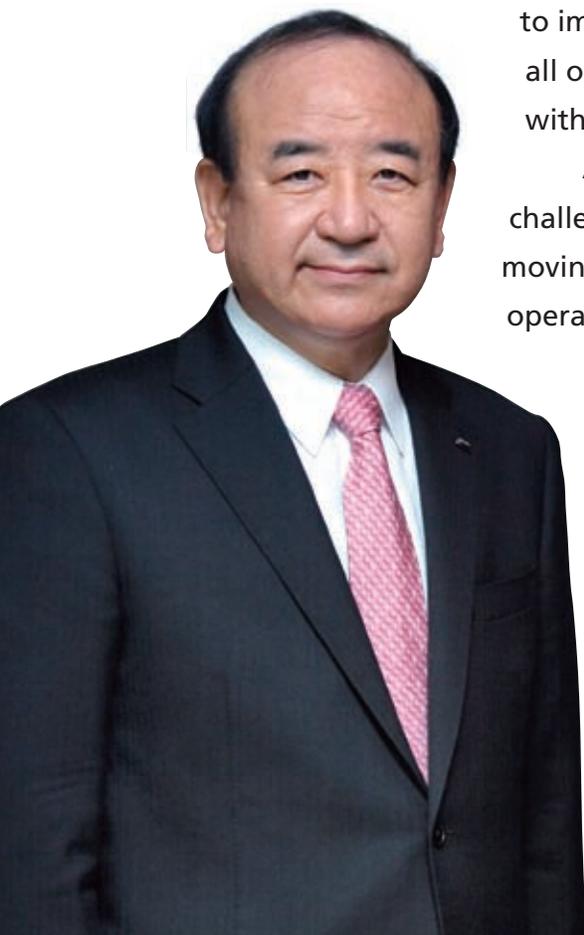
We would like to express our sincere gratitude to our stockholders and investors for your kind consideration.

Regarding the comprehensive results for the Group during the previous fiscal year, although the fuel cost adjustment system allowed an increase in revenue due to heightened collection of electricity charges, a substantial growth in raw material costs due to rising fuel prices resulted in our first negative earnings since adopting consolidated accounting.

When we consider once again the situation in which the Group finds itself, it is clear that the severity of the business environment is increasing due to significant fluctuations in fuel prices, such as crude oil and coal, and the effects that the drop in domestic production caused by the stagnant global economy have had on the consumption of electricity. Furthermore, we must ensure the stability of long-term energy and find solutions to worsening global environmental problems.

We will further our efforts for thorough cost reductions groupwide to improve earnings as soon as possible, and increase efficiency in all operations throughout the Company while moving forward with the development of demand for electricity.

At the same time, to fully resolve all remaining business challenges and ensure stable profits for the future, we are steadily moving forward with a mid- to long-term plan to strengthen our operating foundations regarding both facilities and personnel, which will be the source of our competitive edge in the future. Such measures will include the development of new nuclear power stations and preventive maintenance



Tadashi Fukuda  
Chairperson

to improve the availability of existing nuclear power stations, and passing on technologies and skills that support the electric power industry.

Furthermore, Japan has committed to a mid-term goal to reduce CO<sub>2</sub> emissions. The Group will make every effort to help achieve a low-carbon society through the development of new nuclear power stations, effective use of renewable energy such as the development of large-scale photovoltaic power generation, promotion of efficient use of electricity and promotion of the widespread use of high-efficiency equipment through programs such as EcoCute.

The keywords for the Five-Year Group Management Vision formulated in March of last year are “trust,” “creation” and “growth.” We will continue to grow while creating new value with the skills and technical capabilities of each individual employee in the Group, based on the trust we receive from our stakeholders. In doing so, we will meet the expectations of our stockholders and investors. We thank you and look forward to your continued support and cooperation.

*Tadashi Fukuda*

Tadashi Fukuda  
Chairperson

*Takashi Yamashita*

Takashi Yamashita  
President



Takashi Yamashita  
President

## An Interview with the President

### Q1 Fiscal 2009 results for the Group were plunged into the red—the first since Chugoku Electric Power adopted consolidated accounting—and must have been incredibly difficult to believe. What is your view of the situation?

The losses—an ordinary loss and a net loss—in fiscal 2009 marked the first losses for the Group since Chugoku Electric Power adopted fiscal accounting on a consolidated basis in fiscal 1994. It was indeed a regrettable development and on behalf of top

management, I extend my sincere apologies to stockholders for this disappointing performance.

Several factors were behind the shift into the red. We must gain a firm handle on the obvious issues and take resolute steps to resolve them.

### Q2 What exactly are those issues?

Fiscal 2009 results reflect an unavoidable increase in expenses, an increase that overtook income. The four issues that tipped the profit balance into the red zone are as follows: 1) skyrocketing fossil fuel prices; 2) a huge decrease in electricity sales, due to the recession; 3) a prolonged periodical inspection of Unit No. 2 at the Shimane Nuclear Power Station; and 4) higher costs

associated with our environmental action plan to address global warming concerns.

We are already implementing measures designed to address these specific issues, with the overriding objectives being a return to profitability as quickly as possible and the formation of stable sources of profit over the medium to long term.

#### Addressing Fiscal 2009 Issues

Issue	Impact	Approach
Skyrocketing fossil fuel prices	Surging fossil fuel prices in the first half of fiscal 2009 drove up the cost of raw materials	Alleviate the impact of fluctuating fuel prices on fiscal results by maintaining a well-balanced power-generating structure, supported particularly by the expansion of nuclear power facilities
Huge decrease in volume of electricity sales	The economic slowdown that has lingered from the second half of fiscal 2009 precipitated a drastic decline in demand for electricity from industrial-use customers, which trimmed billing amounts	Cultivate new demand and maintain this higher level by promoting electric water heaters and all-electric homes (homes equipped with electric appliances only)
Prolonged periodical inspection at a nuclear power station	Cracks were discovered in the reactor recirculation pipes of Unit No. 2 at the Shimane Nuclear Power Station, causing the periodical inspection to run about four months longer than expected. Generating volume was increased at a thermal power station to maintain stable power supply to customers, leading to higher raw material costs	Enhance the preventative maintenance plan to boost the medium- to long-term nuclear power utilization rate
Higher costs associated with the environmental action plan	Costs associated with the environmental action plan to address global warming concerns grew with the booking of carbon credit amortization expenses (Note 1)	Utilize carbon credits as scheduled and strategically, with the following two goals in mind: 1. Steadily work toward a voluntary target (Note 2) 2. Lower CO <sub>2</sub> emissions intensity, which is higher than that of other electric power companies, to the peer level and meet customers' requests for green power production

**Notes:**

1. The Company is unlikely to achieve a sizable reduction in its CO<sub>2</sub> emissions intensity—the amount of CO<sub>2</sub> emitted per kilowatt hour of electricity sold—before Unit No. 3 at the Shimane Nuclear Power Station goes on line, currently scheduled for December 2011. In the meantime, the Company will obtain carbon credits, a recognized method for reducing the corporate burden of CO<sub>2</sub> emissions, to keep the Group's emissions intensity level in check. In fiscal 2009, the Company amortized carbon credit expenses for the first time at a little more than ¥20 billion.
2. Management has set a voluntary target for CO<sub>2</sub> emissions intensity reduction. The goal is to bring average annual CO<sub>2</sub> emissions intensity down 20% over five years from fiscal 2009 through fiscal 2013—that is, from April 1, 2008, through March 31, 2013—relative to fiscal 1991.



Takashi Yamashita  
President

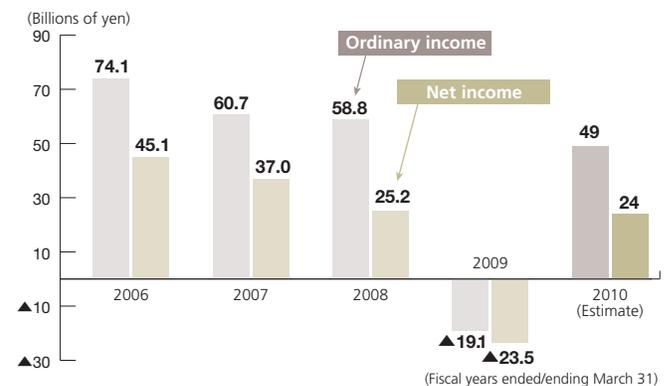
### Q3 What is the performance forecast for fiscal 2010?

The challenges of fiscal 2009 have continued into fiscal 2010, as evidenced by lackluster electricity sales due to the persistently difficult business environment.

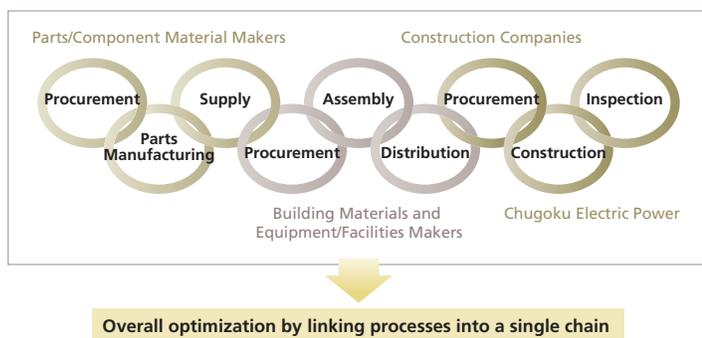
Against this backdrop, we remain committed to realizing a quick recovery to profitability. Toward this end, we are reinforcing activities designed to cultivate new demand for electricity by stressing the benefits of electric water heaters and encouraging wider interest in the construction of all-electric homes. We are also firmly embracing approaches, especially supply chain management—which involves all companies under the Group umbrella—to achieve greater cost-cutting benefits.

I believe these efforts will deliver ordinary profit of ¥49 billion in fiscal 2010.

#### Fiscal 2010 Consolidated Outlook



#### Groupwide Cost-Cutting



#### Supply Chain Management

We see all participants in procurement—from parts and building material makers to construction companies, including our own building material and technology divisions—as links in a chain, and we are taking a closer look at the inherent processes, rechecking the steps and revising administrative steps to make procurement more cost- and time-efficient.

We are aggressively promoting access among companies utilizing this approach in an effort to trim overall procurement-related expenditures, particularly subcontracting and building material costs.

Examples are detailed on page 21.

## Q4 The Five-Year Group Management Vision was drafted in March 2008. What was it that prompted the Company to implement this plan?

As deregulation unfolded in the electric power industry, competition intensified. Concurrently, investment in nuclear power development has moved into high gear. To address these aspects of the operating environment, management initially prioritized efforts to sharpen the Group's price competitiveness and improve its financial position to cover the necessary capital spending of nuclear power development.

However, the backdrop for the electric power business—the core operations of the Group—has changed quite considerably. What the future has in store is anyone's guess. Although we may not encounter as many business risks as industry deregulation, the conditions remain challenging. Consider volatility in fossil fuel prices, a tightening energy supply-and-demand scenario and the increasing obligation to participate in solutions to global environmental problems.

The challenges that characterize the operating environment for the electric power industry are no longer

limited to competition and matters of efficiency. The times demand a balanced perspective that objectively addresses supply stability and compatibility between corporate activities and the environment, in addition to the traditional issues of competition and efficiency.

Management studied the Group and identified two areas requiring attention: aging power-generation equipment and transport facilities; and a matter of concern to perpetuate the technologies and techniques known and used by experienced employees throughout the Group to run facilities. It was clear that we had to reinforce operations on two fronts: plant and equipment, and human resources.

Once we knew what had to be done, we needed a new management direction to guide our efforts. The Five-Year Group Management Vision is the crystallization of strategies designed to reinforce the building blocks of a strong Group foundation.

## Q5 Describe the corporate image and activities of The Five-Year Group Vision.

Through the management vision, the Group will become recognized as "a trustworthy organization that creates new value through the power of people and technology to ensure sustainable growth, and in so doing, contribute to social development." The keywords are "trust," "creation" and "growth."

We have given ourselves until fiscal 2013 to achieve this status, and the crowning glory will be Unit No. 3 at the Shimane Nuclear Power Station. The new facility, currently under construction, will go into full-scale operation in fiscal 2013 and mark a major milestone in our development. With Unit No. 3 on line, we will extend our prospects in terms of our ability to ensure a stable supply of electricity, competitiveness, and our

### What the Group will Aim to Accomplish

The Energia Group will create new value through the power of people and technology to ensure sustainable growth, and in so doing, earn the trust of all stakeholders, from customers, stockholders and investors to communities, and contribute to social development.



### How the Group Positions the Five-Year Period

(from Fiscal 2009 to Fiscal 2013)

This is the time for strengthening and consolidating trust—the cornerstone of business—and for enriching the sources that create value, namely, plant, equipment and human resources.

### Concept

Lay a foundation for corporate growth with the building blocks of trust and value creation.

commitment to minimize the impact of our operations on the environment.

During the five years of the management vision, we

will lay the groundwork for corporate growth with the building blocks of trust and value creation and cement a solid structure for future success.

**Q6 You said that the operational start of Unit No. 3 at the Shimane Nuclear Power Plant will extend the Group's prospects in terms of stable supply of electricity, competitiveness and reduced environmental impact. Please elaborate.**

First of all, the fuel for nuclear power generation is uranium, which is in far more stable supply than either crude oil or natural gas and therefore improves supply stability. Also, from a competitive perspective, the operation of nuclear power facilities lessens the cost of generating power at a nuclear power station is lower than at other types of power facilities, and it lessens the impact of fluctuating fuel prices because the burden of fuel costs, which represents a large component of power production costs, is lighter.

From a green perspective, Unit No. 3 will help bring Groupwide CO<sub>2</sub> emissions intensity down 20% relative to fiscal 1991. Lower emissions will minimize the impact of power generation and distribution on the environment.

Unit No. 3 might be seen as a turning point for Chugoku Electric Power, in that it will reshape the way we operate.

Construction is more than 75% complete, as of October 31, 2009, and the project is progressing right on schedule. The facility is expected to go into operation

in December 2011, and toward this end we continue to direct concerted efforts to ensure smooth activation, based on trust in the community. This is being achieved through the safe and secure operation of existing units, No. 1 and No. 2 and through timely and accurate information disclosure to the public.

**Construction of Unit No. 3 at the Shimane Nuclear Power Station**



A reactor pressure vessel is swung into place by crane in July 2009.



**Q7 In July 2008, management drafted a vision for the fostering of human resources to underpin realization of the Five-Year Group Management Vision. You feel quite strongly about human resources. How is this feeling incorporated into the personnel development vision?**

For the Company, and the Group as a whole, to respond accurately to changes in the operating environment, satisfy the diversifying needs of customers and address evolving social requirements, it is vital that employees possess the ability to think situations through on their own and act accordingly. Equally important is the integration of individual strengths to enhance the overall capabilities of the organization.

A significant question for our technology divisions is how to perpetuate the technologies and techniques needed to run facilities and operate and maintain equipment.

At one time, the Group pursued higher management efficiency, primarily by streamlining its roster of technicians and essential personnel and relying on the expertise of external service providers to compensate for any insufficiencies. The strategies delivered results, namely, lower expenses and a firmer financial footing. But over time this approach led to problems, most notably a decrease in the opportunity to acquire skills in the workplace, as experienced technicians retired, the number of projects dwindled and more work was outsourced.

To ensure that accumulated technologies and techniques stay with the Group, even when veteran employees are gone, we are currently taking stock of these assets. Based on this review, we will implement various policies to sustain and upgrade technological capabilities and specialized know-how.

I want an experienced, competent workforce that tackles job responsibilities with pride and will. I firmly believe that reinforcing the skills of employees will underpin the successful development of Group activities.

**Five-Year Group Management Vision, Personnel Development Vision and Facilities Vision**



\* Energy security, economy and environmental compatibility

## Q8 What is happening with the plant and equipment vision?

The goal of the plant and equipment vision is to achieve the 3Es—that is, energy security, economy and environmental conservation—and maintain reliability in the provision of electricity. This is vital to cementing our place in the future.

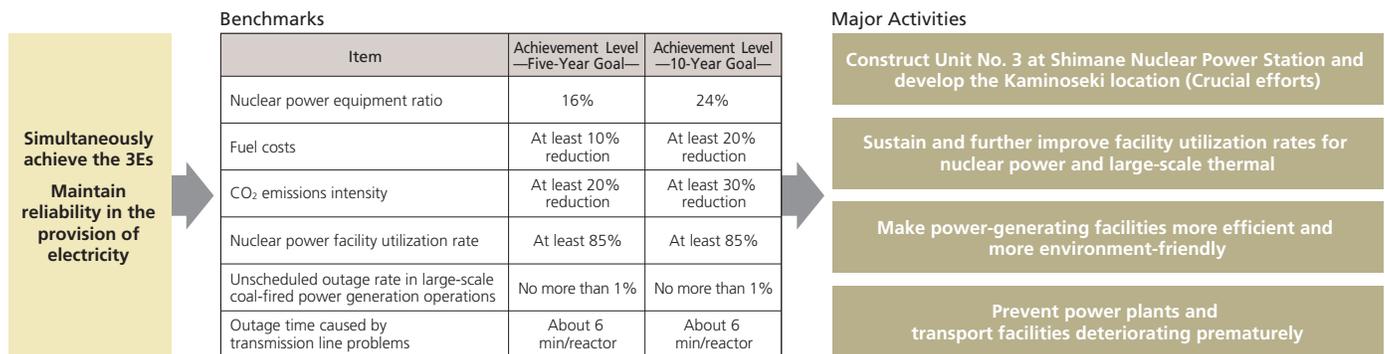
The plant and equipment vision sets quantitative targets, such as a nuclear power facilities ratio five years after Unit No. 3 at the Shimane Nuclear Power Station goes into operation and 10 years after Unit No. 1 at the Kaminoseki Nuclear Power Station goes into operation; a drop in CO<sub>2</sub> emissions intensity; and supply stability through reliable power-generation equipment and

transport facilities.

Steady progress in nuclear power development is integral to achieving these targets. Unit No. 3 at the Shimane Nuclear Power Station and the units at the Kaminoseki location will be the showpieces of this strategy, and on-schedule completion of these facilities is crucial to success.

We are also prioritizing efforts to sustain and further improve facility utilization rates for nuclear power and large-scale thermal, make power-generating facilities more efficient and more environment-friendly, and prevent power plants and transport facilities from aging.

### Plant and Equipment Vision



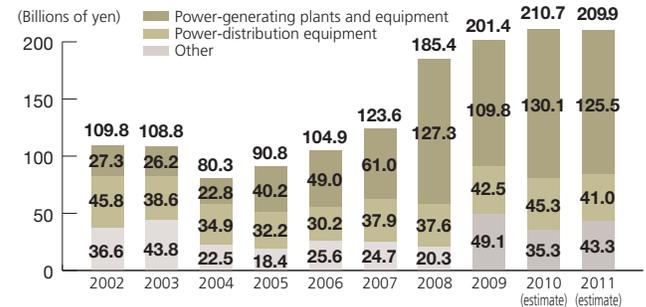
# Q9

## Efforts to strengthen equipment foundation will require funds for capital investment and thus increase facilities-related costs. This could worsen fiscal performance and undermine financial standing. How will management deal with this possibility?

Now is the time to strengthen equipment foundation needed to underpin stable profits over the medium to long term. Naturally, as we pursue this strategy, we will strive to keep costs under control and evenly distribute funds, primarily by taking a practical approach to designs and project execution methods and by limiting projects to those that have been already planned out for the Group.

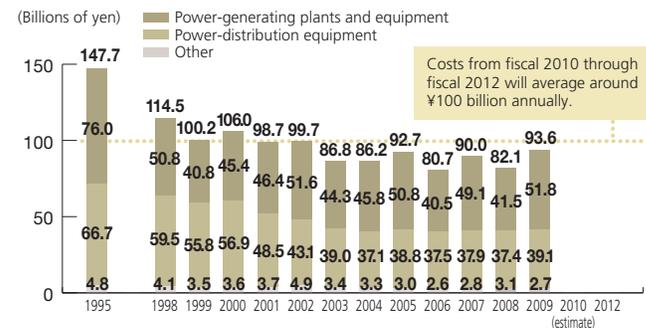
The Five-Year Group Management Vision contains numerical targets, such as ordinary income and the balance of interest-bearing debt. These are not randomly chosen targets but specifically selected key indicators that demonstrate the underlying correlation between strengthen equipment and human resources and a stable financial footing. It is, of course, our intention to reach these targets and thereby substantiate the achievement of our vision.

### Capital Expenditures



Note: Figures are non-consolidated and exclude subsidiary operations. (Years ended/ending March 31)

### Repair Costs



Note: Figures are non-consolidated and exclude subsidiary operations. (Years ended/ending March 31)

### Five-Year Group Management Vision Numerical Targets

	Item	Target	Rationale
Profitability	Ordinary income (consolidated)	At least ¥60 billion/year (average for fiscal 2009 through fiscal 2013)	Represents minimum level that will still facilitate steady implementation of strategies, particularly investment in essential plants and equipment
Financial Soundness	Interest-bearing debt (consolidated)	About ¥1.6 trillion (end of fiscal 2013)	A level viewed as sufficient to support upgrades to plants and equipment without eroding financial standing
Efficiency	Capital efficiency Return-on-equity (non-consolidated) Ratio of net income to shareholders' equity	At least 5% (fiscal 2013)	A level that reflects management's attitude toward shareholders and investors and efforts to meet stakeholders' expectations
	Asset efficiency Plant and equipment Productivity (non-consolidated) Electricity sales per billion yen of plant and equipment	About 36,000 MWh/billion yen (fiscal 2013)	Will function as an indicator of efficiency in efforts to enhance plant and equipment status
Growth	Electric power business Demand creation	At least 3.5 billion kWh (total for fiscal 2009 through fiscal 2013)	Reflects management's intention to elicit new demand sources
	Group businesses other than electric power business Operating revenues (Note 1) Operating income (Note 2)	At least ¥600 billion At least ¥22 billion (totals for fiscal 2009 through fiscal 2013)	Reflects management's intention to extend the Group's presence into areas that will contribute to higher growth

Notes: 1. Difference between consolidated operating revenues and operating revenues from the electric power business.  
2. Difference between consolidated operating income and operating income from the electric power business less operating income from transactions within the Group.

## Q10 Why does the Five-Year Group Management Vision state a new ROE target?

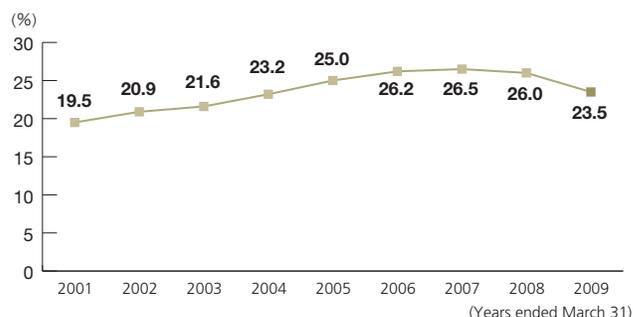
Ever since the process of deregulation began in the electric power industry, we have prepared for heightened competition and a full-scale approach to nuclear power development. We have also prioritized efforts to improve the Group's financial standing. The rewards have been a reduction in interest-bearing debt and a steadily rising equity ratio.

Given these results, as well as changes in our operating environment, which emphasize a balanced perspective that objectively addresses supply stability and compatibility between corporate activities and the environment in addition to the traditional issues of competition and efficiency, we felt that the next step should be to maintain our prevailing financial position while gradually raising capital efficiency. The ROE target in the management vision demonstrates this intention concretely to shareholders and investors.

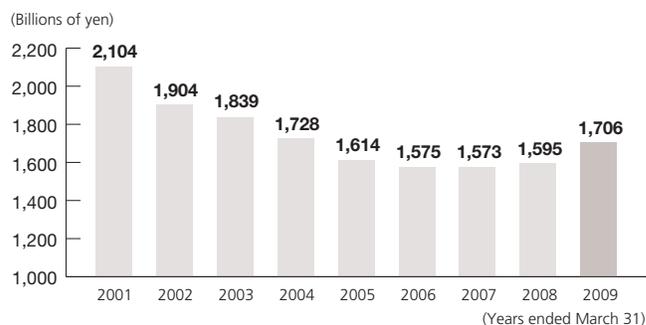
As I mentioned earlier, efforts to strengthen equipment foundation will probably foster an increase in facilities-related costs for the time being. Consequently, we cannot expect a dramatic improvement in ROE. By confidently implementing measures to boost sales and spur management efficiency, we should be able to achieve the stated targets by the time the Five-Year Group Management Vision has been completed.

I must point out that putting Unit No. 3 into operation at the Shimane Nuclear Power Station is sure to promote stable profitability over the medium to long term. Once this status is in play, a higher ROE will certainly be possible.

Shareholders' Equity (Consolidated)



Balance of Interest-Bearing Debt (Consolidated)



## Q11 Chugoku Electric Power has constantly reduced its electricity rates. Is the trend going to continue?

For quite a while, successful efforts to boost management efficiency allowed the Company to steadily cut the rates it charges for electricity. Over a 10-year period, from 1996, we implemented a rate reduction once every two years.

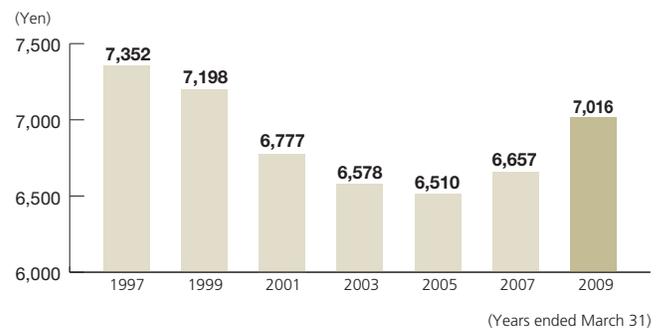
Unfortunately, skyrocketing fuel prices caused raw material costs to soar in fiscal 2007, overshadowing the cost savings achieved through efficiency measures and prompting us to increase rates in fiscal 2008.

We aim to keep regional customers happy by providing inexpensive electricity and will also strive to achieve rates that compare favorably with those of other energy providers.

Aside from pricing, on the service front we have expanded our contract menus so that customers can select a program best suited to their respective electricity

usage patterns. We have also teamed up with other Group companies to aggressively promote marketing activities fine-tuned to demand trends. Diverse options will continue to make Chugoku Electric Power the electric utility of choice in the region.

**Household Electricity Rates (Based on 300kWh usage)**  
(Electricity rates after implementation of rate revision)



## Q12 Activities to curb global warming in the post-Kyoto Protocol period are in full swing. What role will Chugoku Electric Power assume in solving outstanding issues?

Global warming is caused by greenhouse gases, such as CO<sub>2</sub>. This environmental problem requires action across national and regional boundaries if society is to realize sustainable development.

In Japan, as in many countries, various initiatives have been put forward, including medium-term targets announced by the national government for the post-Kyoto Protocol period. It is certainly our intention to do all we can to contribute to the achievement of national targets while maintaining a stable supply of electricity to our customers.

Our best approach to reduce CO<sub>2</sub> emissions is through additional development of nuclear power facilities, which emit no CO<sub>2</sub> when generating power. Through the three units being built—Unit No. 3 at the Shimane Nuclear

Power Station and the two new units at the Kaminoseki Nuclear Power Station—we expect to cut CO<sub>2</sub> emissions intensity by about 50% relative to the level recorded in fiscal 1991.

Coal, meanwhile, is an abundant resource distributed relatively evenly worldwide and is less expensive than other fossil fuels. The Group has therefore placed coal-fired power stations alongside nuclear power stations as its primary power-generating facilities. But for coal-fired power stations to retain this key status, we must overcome the drawback of high CO<sub>2</sub> emissions from this power source.

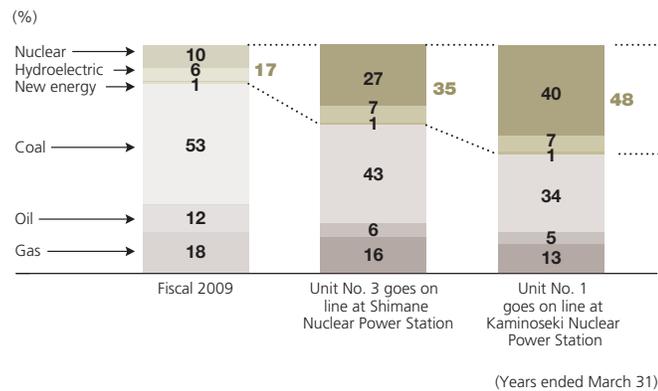
Toward this end, we are exploring new technologies, especially coal gasification and CO<sub>2</sub> separation and recovery methods, that will raise thermal efficiency

and produce clean coal with lower carbon content. In addition, we are keen to expand applications for renewable energy through procurement of solar- and wind-based power and the development of power generated by large-scale photovoltaic systems.

At Chugoku Electric Power, zero-emission power sources include nuclear, hydroelectric and new energy. By 2015, when Unit No. 1 goes into operation at the Kaminoseki Nuclear Power Station, zero-emission power

sources will account for almost 50% of the Company's total power sources. By 2020, when Unit No. 2 is set to start up, the percentage will probably be closer to 60%. This falls in line with the direction outlined in Japan's action plan for a low-carbon society, wherein more than 50% of power is generated from zero-emission power sources, including nuclear energy, by the end of March 2021.

### Power Source Comparison



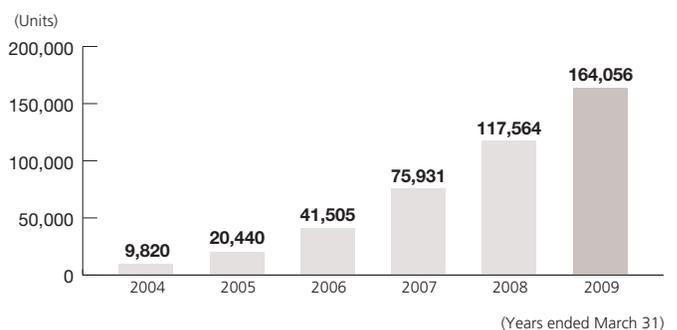
#### Improving the zero-emission power source ratio through nuclear power development

Zero-Emission Power Source Ratio  
The ratio of power generated from zero-emission power sources, which combines nuclear, hydroelectric and new energy options, should hover near 50%, when Unit No. 1 at the Kaminoseki Nuclear Power Station goes into operation.

In this way, we will aggressively tackle global warming from a power supply perspective in the delivery of electricity to our customers. We will also promote effective measures to address global warming from a power use perspective by customers through the wider installation of EcoCute high-efficiency water heaters, support for energy-saving programs at home and more rides in electric vehicles.

The realization of an electric society shaped from both the supplier and user positions will contribute to the formation of a low-carbon society.

### EcoCute Installations (Aggregate)



## Q13 What are your thoughts on future returns to shareholders?

Except for a brief period, Chugoku Electric Power has always paid a dividend of ¥50 per share. We showed losses in fiscal 2009, but shareholders received the traditional payout of ¥50 per share again. We will continue with this stable dividend in the future.

I am fully aware of the major expectations that shareholders and investors have with regard to enhanced returns to shareholders. But at the present time, to promote stable profitability down the road, we must expand plant and equipment capacity, particularly Unit No. 3 at the Shimane Nuclear Power Station, and to

develop our human resources, which cause fiscal results and cash flow remain severe situation. Consequently, it may be some time before conditions permit us to boost returns to shareholders. I ask for your patience and understanding.

I am confident, however, that the completion of Unit No. 3 at the Shimane Nuclear Power Station and the stable operation of this facility will generate long-term profits. As profits grow, we will acquire the flexibility to consider additional returns to shareholders.

## Q14 Finally, what kind of company do you want Chugoku Electric Power to be?

I want the Company to be a “good company,” on many levels. A “good company” satisfies the requirements of customers in local communities by keeping rates low, preventing interruptions in power and providing environment-friendly power. It also pleases shareholders and investors by sharing the profits generated through these operations. When stakeholders are happy, employees are motivated to work harder.

Directors, including myself, will take the lead in setting to strengthen equipment, including nuclear

power plant, and human resources, it enable Chugoku Electric Power to have strong competitiveness.

We will confidently address ways to build a stronger foundation for plant, equipment and personnel development, and meet the expectations of stakeholders.

The constant support and cooperation of all stakeholders, from shareholders and customers to employees and people in the communities where we operate, is and always will be indispensable to our success.



## Solutions to Prevailing Challenges

A breakdown of the energy sources used by Chugoku Electric Power to generate electricity shows a high percentage of fuel types for thermal power generation and a low percentage for nuclear power generation. Consequently, the Company's operations risk significant impact from issues beyond management's control, namely, evolving energy trends—particularly the current phase of volatility in fossil fuel prices and concerns over a tighter supply-and-demand situation for fossil fuels—and increasing pressure to address fossil fuel-related global environmental concerns, especially greenhouse gas emissions.

In addition, issues have surfaced that require attention on a Groupwide basis, particularly the need to replace and renew aging power-generation equipment and transmission lines.

On top of efforts to deal with the root causes of these issues, we aim to simultaneously achieve the 3Es—energy security, economy and environmental conservation—and ensure a reliable supply of electricity. We will accomplish this objective by restructuring power generation and supply facilities on a Groupwide basis, with an emphasis on nuclear power development.

However, we face another challenge, the lackluster demand for electricity, especially among industrial customers. This is a consequence of the global recession, which took hold in the second half of 2008, and the

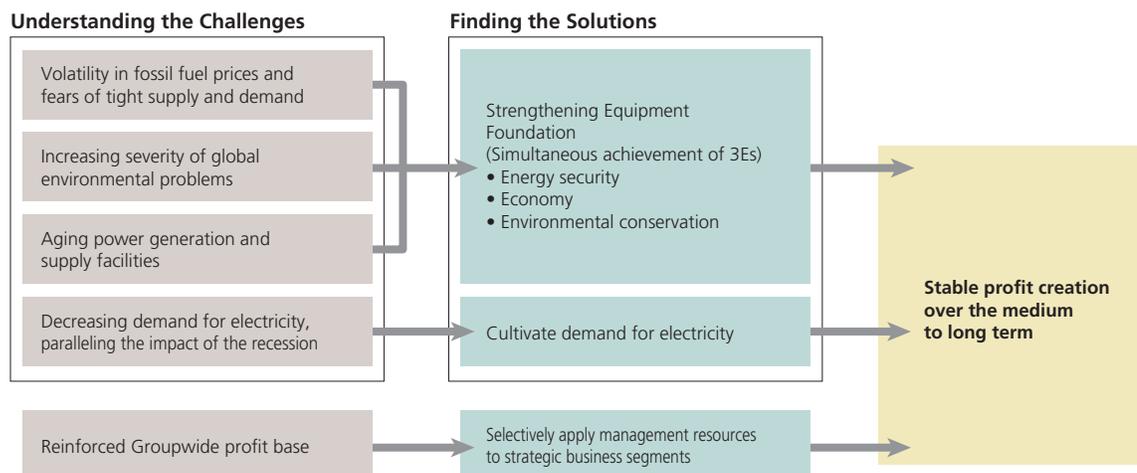
trickle-down effect on manufacturing activities in the Chugoku region.

The Group has always been a pioneer. Ahead of other companies, we promoted electric water heaters and all-electric homes and successfully increased demand for electricity. But to keep demand on an upward path, we must consistently strive to make electric power more attractive to the market, regardless of the economic climate.

Meanwhile, in Group businesses outside the realm of the electric power business, we seek to improve profitability by selectively applying management resources in strategic business segments where Group expertise will really pay off.

Matching the aforementioned solutions to prevailing challenges must be complemented by a resolute commitment to fulfilling social responsibility, which will establish the Group as a trustworthy organization and create sustainable corporate value. This entails thorough compliance, participation in corporate social responsibility (CSR) initiatives—especially activities that benefit the Chugoku region—and corporate governance that demonstrates management transparency and objectivity.

Solutions to prevailing challenges are highlighted below.



# Strengthening Equipment Foundation

A breakdown of the energy sources used by Chugoku Electric Power to generate electricity shows a high percentage of fuel types for thermal power generation and a low percentage for nuclear power generation. Consequently, the Company's operations risk significant impact from issues beyond management's control, namely, evolving energy trends—particularly the current phase of volatility in fossil fuel prices and concerns over a tighter supply-and-demand situation for fossil fuels—and increasing pressure to address fossil fuel-related global environmental concerns, especially greenhouse gas emissions.

Fossil fuel prices had been charting a gradual upward path over the past few years. However, after soaring to an all-time high in the summer of 2008, prices plummeted and thus began a period of volatile price fluctuations.

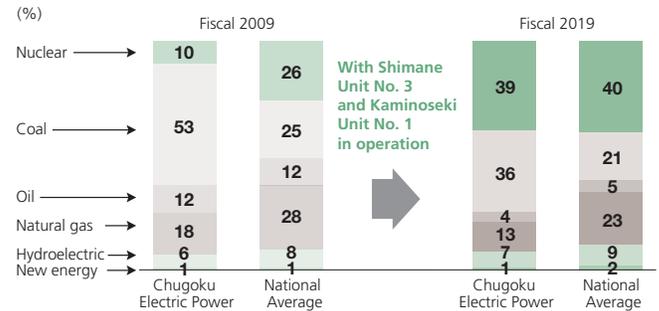
The situation is unlikely to improve. Demand for fossil fuels is high and still rising, spurred largely by rapid economic growth in developing countries, especially China and India. Against this backdrop, supply could shrink and the stable procurement of fossil fuels at the low prices of the past will become increasingly difficult.

There is also the issue of global warming. We voluntarily established a target for CO<sub>2</sub> emissions intensity and are seeking an average annual decrease

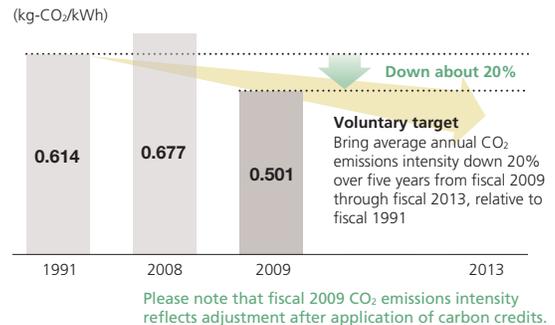
Our commitment to lower emissions will not end in fiscal 2013. Various external initiatives for implementation in fiscal 2014 and beyond have been proposed, including medium-term targets announced by the national government, to enable Japan to meet its obligations under the post-Kyoto Protocol framework. These initiatives could impose even tougher CO<sub>2</sub> emissions limits than we are now working toward and we must be prepared for this possibility.

Therefore, we will lower CO<sub>2</sub> emissions intensity from two fronts: supply-oriented strategies, such as nuclear

## Power Source Composition

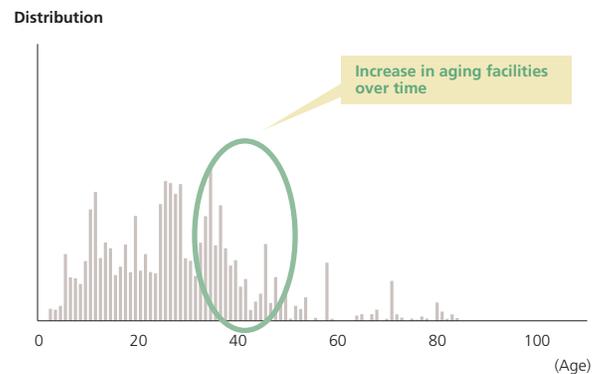


## CO<sub>2</sub> Emissions Intensity



of 20% over five years from fiscal 2009 through fiscal 2013, relative to fiscal 1991. Measures necessary to achieve steady progress toward this target are currently being implemented throughout the Group.

## Example: Age of Transmission Lines



power development—a structural move exemplified by the addition of three units, one at the Shimane Nuclear Power Station and two units at the planned Kaminoseki Nuclear Power Station—and demand-oriented strategies, such as energy-saving and load-leveling approaches. However, as we pursue these strategies we must still be able to guarantee a stable supply of electricity to customers.

The power generation and supply facilities that have supported the Group’s ability to ensure a stable supply of electricity are growing old. To preserve and further polish our electric supply reliability, we must level out the volume of work and execute planned repair and maintenance of older facilities to extend service life.

## Steady Progress on Nuclear Power Development

The fuel for nuclear power generation is uranium. This energy source is superior to oil and natural gas in terms of energy stability, largely because it is relatively evenly distributed, geographically speaking, in the countries where it is processed and the countries they are politically and economically sound.

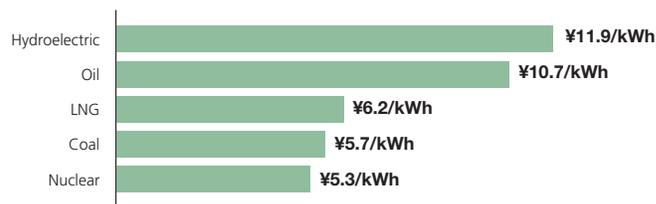
In addition, from a back-end cost perspective, nuclear power presents economic advantages over other methods of generating power because of provisions to account for liabilities. Back-end costs comprise expenses associated with reprocessing used nuclear fuel, disposing of irradiated waste and decommissioning nuclear power facilities.

Additional merits are that the cost of using nuclear fuel to generate power represents a smaller share of total power-generation costs and that prices are much less susceptible to fluctuation.

Nuclear power is environmentally friendly. Facilities emit almost no CO<sub>2</sub> when generating power, and CO<sub>2</sub> discharged during other stages associated with nuclear power—from extraction of uranium to the construction

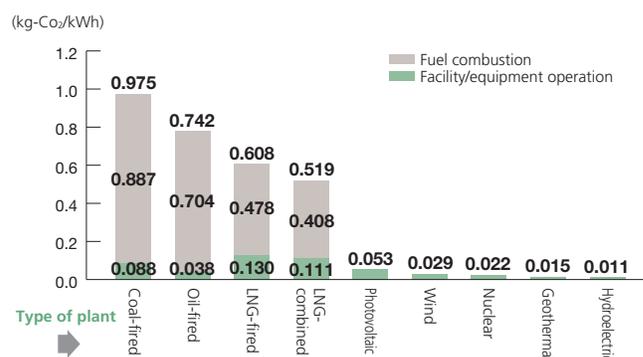
To address the root causes of the challenges faced by the Group today, we will strive toward simultaneous achievement of energy security, economy and environmental conservation—the 3Es—and reinforce our electric supply reliability. We will accomplish these goals by emphasizing steady progress on nuclear power development, prioritizing efforts to sustain and further improve facility utilization rates for nuclear power and large-scale thermal, increase the use of LNG and make power-generating facilities more efficient, and countermeasures against aging power generation facilities. As we pursue these measures, we will promote a Groupwide program of efficiency-enhancing activities.

Cost of Generating Power by Energy Source



Source: Electricity Industry Committee’s Cost Subcommittee Review (January 2004)

CO<sub>2</sub> Emissions Intensity\* by Fuel Source in Japan



\*Amount of CO<sub>2</sub> emitted per kilowatt hour of electricity sold

Source: Prepared from a report compiled by the Central Research Institute of the Electric Power Industry

Note: Life cycle assessment CO<sub>2</sub> emissions are CO<sub>2</sub> emissions produced by all activities of electric power companies, from construction and operation of power generation and supply facilities to waste disposal.

of power plants, shipment and processing of fuel, and even through facility operation and maintenance—is incredibly low.

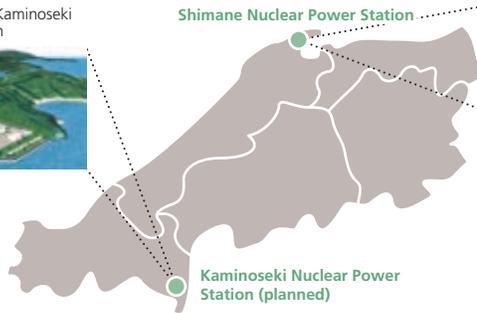
For the Group, nuclear power development is a key advantage and an extremely crucial step to realizing energy security and economy while achieving maximum reduction in CO<sub>2</sub> emissions. Consequently, nuclear power development is a top management priority, and concerted efforts are being directed toward the

completion of Unit No. 3 at the Shimane Nuclear Power Station and the planned construction of the Kaminoseki Nuclear Power Station.

We are making steady progress, supported by trust in the community. We have earned this trust through the safe and secure operation of the two existing units at the Shimane Nuclear Power Station and through timely and accurate information disclosure to the public.

**Nuclear Power Development Sites**

Concept drawing of Kaminoseki Nuclear Power Station



Shimane Unit No. 3 under construction



Nuclear Power Development Schedule

	Output	Start of Construction	Commercial Operations
Shimane Unit No. 3	1.373 million kW	December 2005	December 2011
Kaminoseki Unit No. 1	1.373 million kW	June 2012	March 2018
Kaminoseki Unit No. 2	1.373 million kW	Fiscal 2018	Fiscal 2023

**Sustain and Further Improve Facility Utilization Rates for Nuclear Power and Large-Scale Coal-Fired Power Plants**

Coal presents superior energy security over oil and natural gas, because it offers longer minable duration—that is, reserves and production—and it is found extensively around the world, primarily in countries where the political situation is stable. The price is also attractive, making the mineral relatively less expensive than other fossil fuels. Therefore, thermal stands alongside nuclear power as a primary source of generated power for the Group.

Seeking to maintain electric supply reliability over the medium to long term and reduce power-generation costs, the Group has embraced measures to sustain and further improve facility utilization rates for nuclear power and large-scale coal-fired power plants.

At nuclear power stations, we are enforcing policies

and structural designs that ensure safety at facilities in the event of an earthquake, based on the 2006 revision of earthquake-resistant Design Examination guidelines set by the national government. For safe and secure operations at nuclear power stations, we undertake regular preventative maintenance, based on the results of daily spot checks and more in-depth inspections as well as information on operating tests conducted at power plants at domestic and abroad and the latest technical findings.

Appropriate preventative maintenance is also a priority at large-scale coal-fired power plants, along with efforts to make periodical inspection more efficiently and shorten the time needed for periodical work, largely through upgraded inspection devices and the installation

of inspection systems.

For example, during periodical inspection of Misumi Unit No. 1, a 1 million kW coal-fired facility, in 2008 additional ceiling crane equipment and new turbine inspection equipment helped shrink work time from the anticipated 125 days to just 79. By getting the facility back into operation more quickly than planned, we saved about ¥15.0 billion in fuel costs that would otherwise have been spent to maintain power supply through production at other facilities.

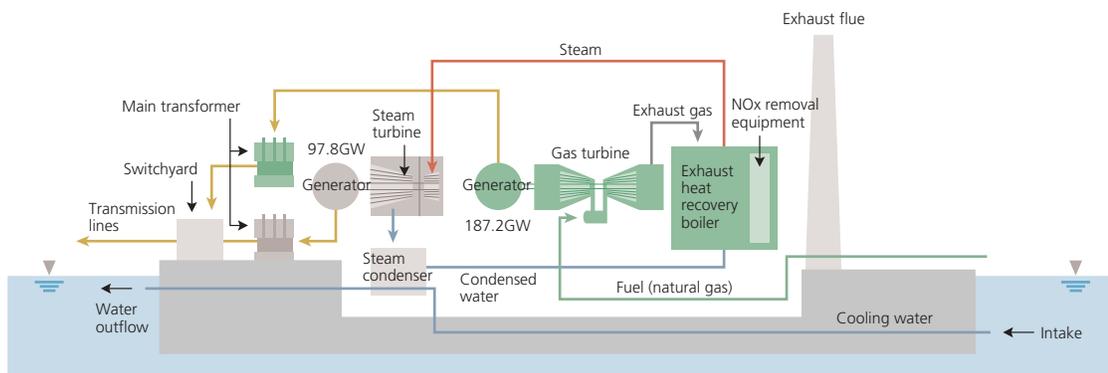
#### Enhanced Inspection and Repair Capabilities at the Misumi Power Station

New	Details
Additional ceiling crane equipment	Additional crane equipment for turbine dismantling and assembly shortened waiting time on crane work
Installation of turbine inspection equipment	Installation of turbine inspection equipment at the power station allowed concurrent inspection with the manufacturer and trimmed inspection time

## Increase the Use of LNG and Make Power-Generation Facilities More Efficient

Along with conversion from oil and coal in favor of LNG as the fuel source for power generation, we will utilize combined-cycle systems and high-efficiency gas turbines to make power-generation facilities and equipment more efficient. We will also strive to conserve fuel and reduce CO<sub>2</sub> emissions.

In April 2006, Mizushima Unit No. 3 was switched from oil to LNG. In April 2009, Mizushima Unit No. 1 was switched from coal to LNG, followed by the introduction of a high-efficiency combined-cycle system. These conversions have greatly improved power generation efficiency.



Note: ■ represents equipment installed for the conversion of Unit No. 1

#### Equipment Summary for Mizushima No. 1 and No. 3

	Mizushima Unit No. 1 (April 2009 conversion)		Mizushima Unit No. 3 (April 2006 conversion)	
	Before conversion	After conversion	Before conversion	After conversion
Fuels used	Coal	LNG	Heavy oil, crude oil	LNG
Power generation method	Steam generation	Combined-cycle	Steam generation	Steam generation
Output (thousands of kW)	125	285	350	340
Generating efficiency	About 38%	About 50%	About 38%	About 37%
CO <sub>2</sub> emissions intensity (kg-CO <sub>2</sub> /kWh)	1.008	0.376	0.680	0.484

## Countermeasures Against Aging Power Generation and Transport Facilities

We are prioritizing plant and equipment replacements and repairs to ensure our ability to maintain a reliable supply of electricity to customers despite an increasing percentage of older fixed assets in operation, particularly cables, wires and towers. Such measures are implemented sensibly, based on a carefully determined

degree of deterioration and the expected life of the respective facilities. Issues related to essential personnel at construction companies, including members of the Chugoku Electric Power Group, limit the amount of work that can be accomplished at one time, so we emphasize planned work to level out the workload.

## Promote a Groupwide Program of Efficiency-Enhancing Activities

To control the inevitable rise in capital expenditures and facilities-related costs that accompany efforts to strengthen equipment foundation, we seek rationalized design and working methods at Group companies as well as those that are involved in projects with us.

We also emphasize SCM to foster greater efficiency,

with a spotlight on joint procurement. Since introducing SCM in 2004, we have gradually expanded the scope of activities. Currently, our emphasis is on SCM for products and services that will cut procurement costs and underpin stable procurement.

### SCM(\*) Activities in the Spotlight

(\*)SCM: Supply Chain Management

Items	Contents
Watt-hour meters	Lower costs by reducing inventory and reviewing methods used to transport instruments
Line wire work	Raise efficiency by leveling out the workload
Large-scale transformers	Cut costs by revising specifications and leveling delivery times
Inspection and repair of thermal power stations	Shorten time of periodical inspection work at large-scale coal-fired thermal power stations
Painting	Improve efficiency by optimizing work schedules and leveling out the workload
Information system maintenance	Boost efficiency with a focus on revised maintenance procedures

# Cultivating Demand for Electricity

We believe residential electric demand will increase volume steadily, but gradually, going forward over the medium to long term, driven by the advancement of the information society as well as the aging of society, an increased desire to live in comfort, and shift in energy demand to electricity stemming from the spread of all-electric homes.

By contrast, we assume industrial electric demand's trend as roughly flat due to slack production in materials makers and so huge increase in overall electric power sales is not expected.

Business conditions, on a downward trend since the second half of 2008, are at the root of a major year-on-year decline in electric power sales volume, particularly

## Cultivating New Demand

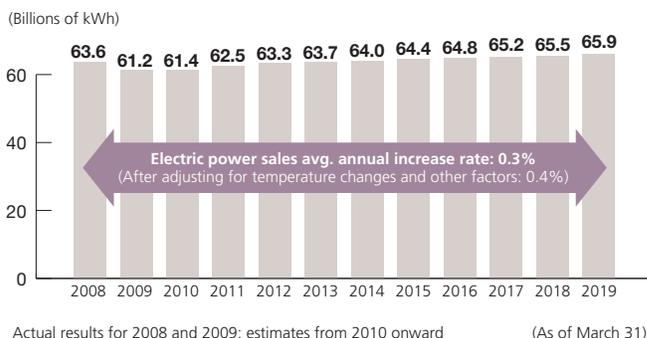
Chugoku Electric Power has set a goal to boost the combined demand from household and corporate customers to 2 billion kWh over three years from fiscal 2010 through fiscal 2012. Various measures will be implemented to reach this goal.

In the corporate demand, we will recommend energy-saving, low-CO<sub>2</sub> solutions that effectively utilize electric power. These solutions hinge on high-efficiency heat pumps for air-conditioning and hot water systems and a switch to all-electric equipment in commercial facilities, particularly food service equipment.

To increase electric power sales in the household sector, we are working to increase electric power sales by promoting the spread of all-electric homes. Currently, 40% of all newly built residences in the Chugoku region are all-electric, and the percentage jumps above 70% if the comparison is restricted to newly built detached homes.

To promote the spread of all-electric homes, we are

### Changes in Electric Power Sales Volume

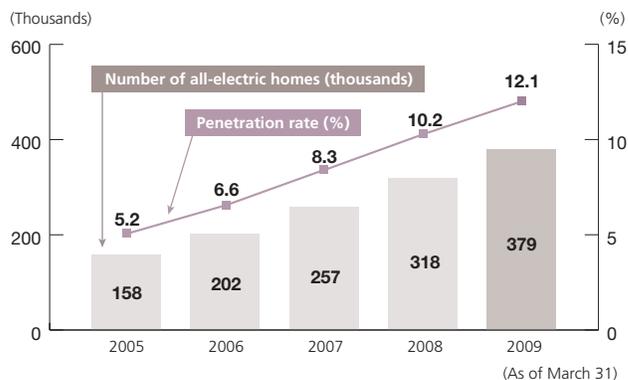


noticeable in the demand trends of industrial customers. In response, we are working to cultivate demand in various fields such as households and the manufacturing industry.

### Demand Development Target



### Total Number of All-Electric Homes and Penetration Rate



recognizing as a leading company in which introduced the promotion system to spread all-electric home and established solid ties with home builders and electric



appliance makers and retailers.

Our efforts have been rewarded. Customers who opted for all-electric homes have been suitably impressed by the cost savings and enhanced convenience and comfort of this housing style. This support has pushed the penetration rate for all-electric homes in our service area to about 12%, the highest level anywhere in Japan.

However, with about roughly three million existing houses in the Chugoku region, there is plenty of room to raise the rate further.

To capitalize on this potential, we will emphasize strategies to raise the ratio of all-electric homes in the newly built home category and cultivate the renovation market for an all-electric refit.

# Addressing Environmental Issues

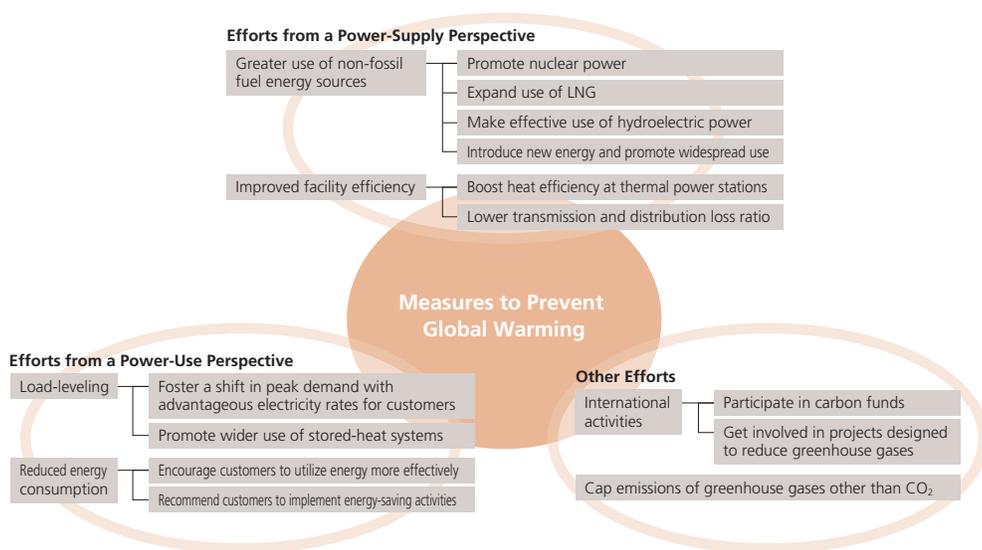
CO<sub>2</sub> emissions and various waste products from Group operations are inevitable in the course of providing electricity to customers. Consequently, we emphasize measures to lower CO<sub>2</sub> emissions intensity and achieve

zero waste as part an active approach to global warming concerns and the formation of a recycling-oriented society, respectively.

## Solutions to Global Warming Concerns

The Group is tackling global warming from two perspectives: power supply, with a focus on greater use of non-fossil fuel energy sources and improved facility efficiency; and power use, with an emphasis on load-leveling and reduced energy consumption.

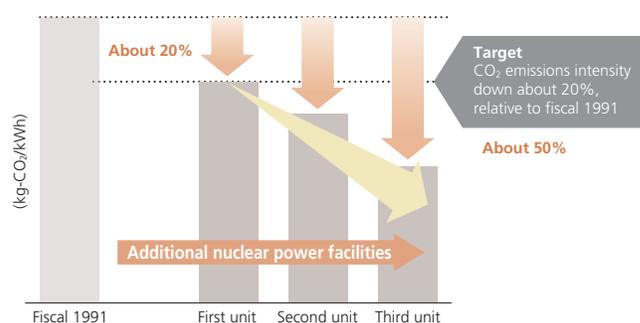
As a complementary measure, we will acquire carbon credits through participation in carbon funds and projects designed to reduce greenhouse gases.



For the Group, the development of nuclear power facilities is a trump card, a central strategy to combat global warming. When Shimane Unit No. 3 goes on line, CO<sub>2</sub> emissions intensity is expected to decrease by about 20%, relative to the level in fiscal 1991. Even greater reduction is anticipated—a drop of 50%, relative to fiscal 1991—when Kaminoseki No. 1 and No. 2 units go into operation.

Information on other supply-side activities, such as sustaining and further improving the utilization rate of nuclear power stations and large-scale thermal, wider use of LNG and enhanced efficiency at power generation facilities, is provided on pages 19-20.

### Positive Impact of Nuclear Power Development on CO<sub>2</sub> Emissions Intensity



We continue here with a description of new energy options and our efforts to encourage widespread use of these fossil fuel alternatives as well as background on projects designed to reduce greenhouse gases.

## New Energy and Wider Use

The Group is working to realize wider use of new energy. Activities include the purchase of new energy, such as solar and wind power, and the construction of large-scale photovoltaic systems (mega-solar power plants).

## Reaching Required Usage of New Energy

The Renewable Portfolio Standard Law serves to promote new energy by obligating electric power companies to derive at least a certain ratio of their electric power from new energy sources. Based on this law, Chugoku Electric Power is actively working to achieve mandatory usage of new energy while keeping costs in mind.

## Solar Power

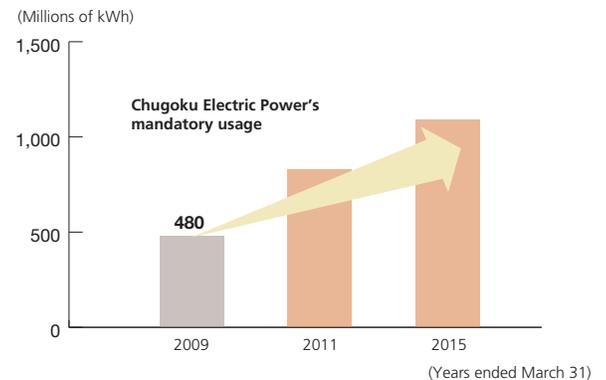
Since fiscal 1993, we have been expanding the use of solar power through an independent purchasing menu with sales prices equivalent to our own. We have also installed solar power equipment at our offices and are actively involved in the development of mega-solar power plants.

We expect to have about 10,000 kW derived from mega-solar power by fiscal 2021. The first step toward this will be the construction of a 3,000 kW mega-solar power plant in Fukuyama, Hiroshima Prefecture, which should go into operation in fiscal 2013.

## Wind Power

We maintain contracts with wind farms for interconnections providing 420,000 kW. Seeking to expand this amount, we considered interconnectable volume and found the upper limit to be 620,000 kW. We will therefore be looking for an additional 100,000 kW in fiscal 2010 and again in fiscal 2011.

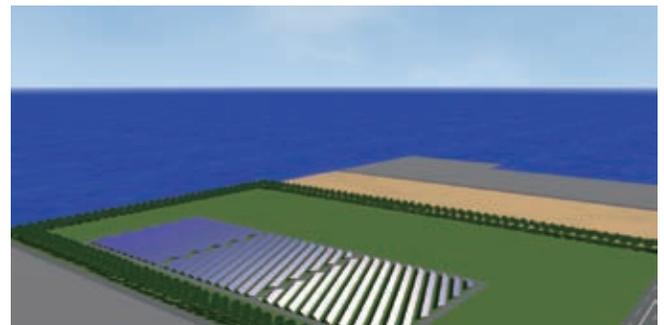
## Mandatory Usage of New Energy Sources



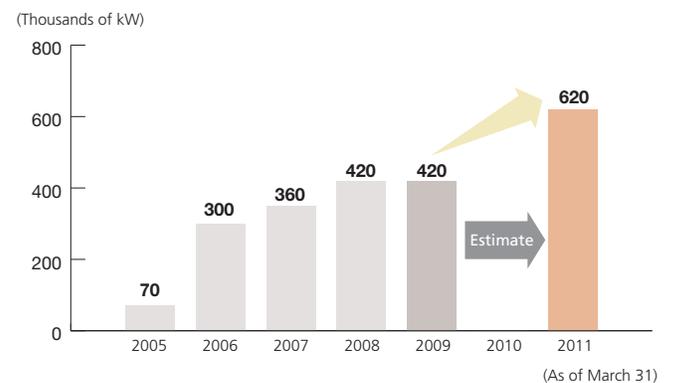
## Construction Plan for Fukuyama Solar Power Plant (provisional name)

Location	Minooki, Fukuyama, Hiroshima Prefecture
Output	3,000 kW
Annual generated energy (expected)	About 3.15 million kWh (enough to meet the typical electric power needs of about 900 households for a year)
CO <sub>2</sub> reduction	2,000 t-CO <sub>2</sub> /year
Construction start	Fiscal 2011 (expected)
Start of operations	Fiscal 2013 (expected)

## Concept drawing of Fukuyama solar Power Plant



## Wind Power Delivery Volume within Chugoku Electric Power's Service Area



## Biomass

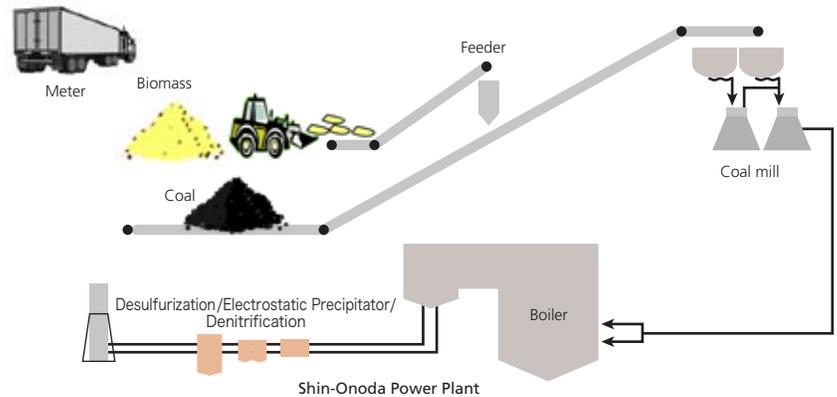
At this thermal, unprocessed timber from forest thinning operations and other woody biomass are mixed with coal as the combustible fuel for generating electric power.

### Woody Biomass Chips



Chips are splintered through cutting or pulverizing.

### Biomass Generated Energy Structure at Shin-Onoda Power Plant



### Results Achieved\* at the Shin-Onoda Power Plant (about 20,000 – 30,000 t/year)

- CO<sub>2</sub> reduction ..... About 30,000 – 45,000 t-CO<sub>2</sub>/year
- Energy generated from woody biomass ..... 30 million – 50 million kWh/year

\*The amounts of energy generated and CO<sub>2</sub> reduction noted are based on field trials and assume year-long use of a 3% woody biomass mixture. Actual values could differ.

## Promote Projects Designed to Reduce Greenhouse Gases

It takes a significant amount of time to achieve a reduction in CO<sub>2</sub> emissions through the restructuring of facilities, such as nuclear power development. Therefore, Chugoku Electric Power takes an active position in Clean Development Mechanisms and Joint Implementation—

that is, contribution into carbon funds and projects undertaken overseas to reduce greenhouse gases. Utilizing Kyoto Protocol mechanisms, we can apply the carbon credits acquired through these activities to decrease our CO<sub>2</sub> emissions intensity.

### Carbon Funds and Projects to Reduce Greenhouse Gases

Type		Activity	Carbon Credit Purchasing Contract Volume (Millions of tons)
Carbon fund		<ul style="list-style-type: none"> <li>• World Bank Prototype Carbon Fund</li> <li>• Japan Greenhouse Gas Reduction Fund</li> <li>• Greenhouse Gas-Credit Aggregation Pool</li> </ul>	— (Note 1)
Projects undertaken overseas to reduce greenhouse gases	Project participation	<ul style="list-style-type: none"> <li>• Indonesia: Small-scale hydroelectric power generation</li> <li>• China: Wind power generation, recovery of waste heat</li> <li>• Brazil: Small-scale hydroelectric power generation, bagasse-based power generation (Note 2)</li> <li>• Mongolia: Small-scale hydroelectric power generation</li> <li>• Poland: Utilization of coal mine methane gas</li> </ul>	Approximately 29 (Note 4)
	Credit purchase	<ul style="list-style-type: none"> <li>• India: Recovery and destruction of HFCs (Note 3)</li> <li>• China: Recovery and destruction of HFCs, hydroelectric power generation</li> <li>• Chile: Recovery and destruction of nitrogen suboxide, recovery and incineration of methane from garbage landfills</li> <li>• Pakistan: Recovery and destruction of nitrogen suboxide</li> </ul> <p>etc.</p>	

Notes: 1. Amounts are not disclosed due to confidentiality of information in respective contracts.  
 2. Power generation using as fuel the fibrous residue remaining after sugar cane, primarily, is crushed to extract the juice.  
 3. Hydrofluorocarbons are a greenhouse gas and a by-product of the hydrochlorofluorocarbon (alternative refrigerant) manufacturing process.  
 4. The amount of carbon credits actually acquired might change, due to the implementation status of respective projects.

## Toward a Recycling-Oriented Society

We contribute to the realization of a recycling-oriented society by practicing the Three Rs of waste management—reduce, reuse and recycle. Striving for zero waste status, we maintain various measures designed to boost the recycling rate for waste generated by operations, excluding radioactive waste, above 99% by fiscal 2013.

To achieve zero waste status, we have prioritized efforts to expand effective utilization of coal ash as a material for civil engineering projects, improve

### Example of Efforts to Expand Effective Utilization of Coal Ash

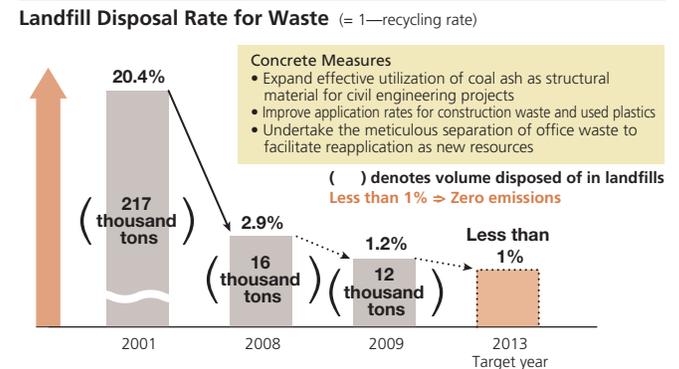
Burning coal to generate electric power produces coal ash, which can be used to make soil remediation materials and civil engineering and construction building materials for public works projects. Recycling coal ash this way helps reduce the amount that would otherwise end up in a landfill.

A prime example of our efforts to utilize coal ash is the development of technology to improve riverbed conditions in our community.

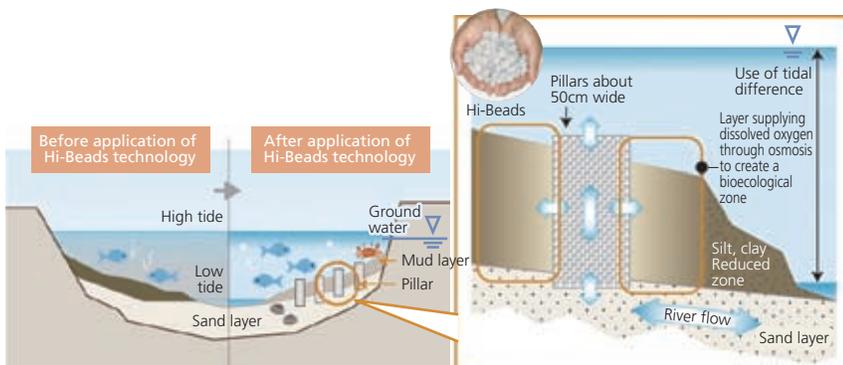
At low tide, rivers running through the city of Hiroshima reveal increasingly muddy buildup at the water's edge. As the sludge accumulates, the rivers

cannot maintain their inherent filtering ability, which leads to eutrophication. We developed a technology to control this problem using Hi-Beads of recycled coal ash for riverbed remediation. The technology is being tested on rivers in Hiroshima, with the intention of wider application further down the road.

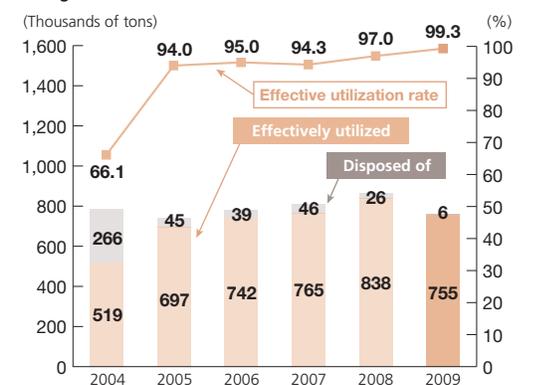
With this technology, Hi-Beads are formed into pillars, which are driven into the muddy flats to promote circulation of mud-trapped water and increase the supply of oxygen to improve the tidal environment.



(As of March 31)



### Changes in Coal Ash Volume and Effective Utilization Rate



(As of March 31)

# Group Operations

To address the diversifying needs of customers, adding electric power business—the Group’s core segment—we selectively invest management resources into strategic businesses where we can maximize the Group’s expertise.

Prudent application of such resources underpins the provision of services that enhance customers convenience and comfort while boosting the Group’s profitability.

## LNG Sales Business (Comprehensive Energy Supply Business)

We regard the comprehensive energy supply business as second only to the electric power business as a vital pillar of the Group’s operations. Particularly core business of this segment is LNG sales business deliver a stable supply of natural gas to industrial customers and city gas companies throughout the Chugoku region from the Mizushima and Yanai LNG stations.

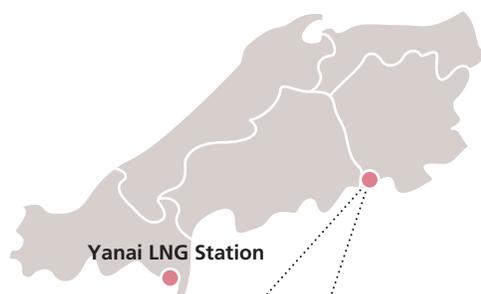
As an energy source exerting minimal impact on the environment, LNG is expected to attract increasing attention and contribute to higher sales. We will meet rising demand with a suitable facilities and equipment infrastructure. On this point, we will execute expansion of another tank at the Mizushima LNG Station and construction of a gas pipeline between Mizushima and Okayama in fiscal 2012.

### Overview of Mizushima LNG Station

- Facilities: One existing LNG tank with 160,000kl capacity and another tank of equal capacity currently under construction
- Annual volume turnover: About 600,000 tons. The amount will double once the second tank is in use
- Annual sales: About 200,000 tons sold outside the Group. (The rest is used by the Mizushima Power Station.)

### Overview of Yanai LNG Station

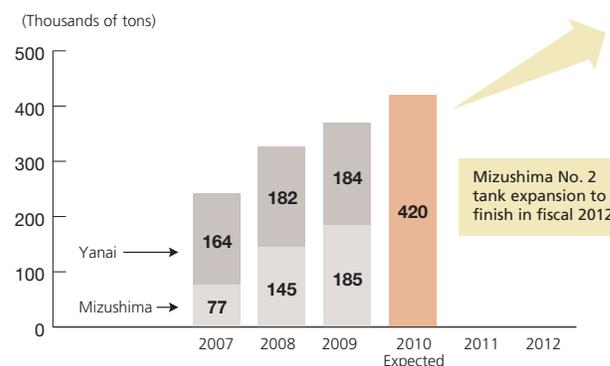
- Facilities: Six LNG tanks, each with 80,000kl capacity
- Annual volume turnover: About 1,500,000 tons
- Annual sales: About 200,000 tons sold outside the Group. (The rest is used by the Yanai Power Station.)



Mizushima LNG Station



### LNG Sales Volume



(As of March 31)

## Internet-Related Business (Information and Telecommunications Business)

Another pillar of non-electric power operations is the information and telecommunications business. Core business of this segment is Internet-related services provided by Energia Communications, Inc. This company caters to individuals and corporate customers in the Chugoku region and offers a wide assortment of services utilizing optical fibers and information and telecommunication technology.

For individuals, Energia Communications markets a package featuring fiber optic phone service and a fiber to the home Internet service dubbed "Mega Egg."

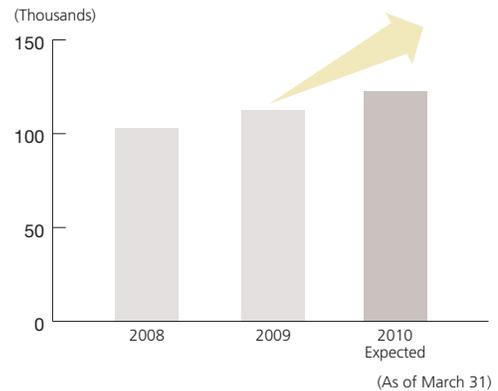
For corporate customers, the company focuses on Internet telecommunications network services with high-speed, low-cost connectivity to multiple points.

On the performance front, services for corporate customers continued to deliver steady profits, while results from Internet services were squeezed by persistent challenges. Nevertheless, thanks to an increase in subscribers and efforts to cut costs, Energia

Communications retains its position in the black.

The company remains committed to providing high-quality, reasonably priced information and telecommunications services geared to the needs of its customers.

**Number of Fiber to the Home Line Contracts**



# Technology Development and Intellectual Property Activities

## Technology Development

Chugoku Electric Power emphasizes the development of environment-oriented technologies to realize a low-carbon society.

### Large-Scale Demonstration Test of Oxygen-Blown Coal Gasification Technology

Osaki CoolGen Corporation, a joint investment by Chugoku Electric Power Co., Inc. and Electric Power Development Co., Ltd., will construct a 170MW-class pilot plant at the Company's Osaki Power Station (Osakikamijima-cho, Toyota-gun, Hiroshima) and then proceed with testing to verify the reliability, economic efficiency and operability of an oxygen-blown integrated coal gasification combined cycle (IGCC) system. Osaki CoolGen will then proceed with the testing of the application of the latest CO<sub>2</sub> separation and recovery technologies. The results will have implications for integrated coal gasification fuel cell (IGFC) technology.

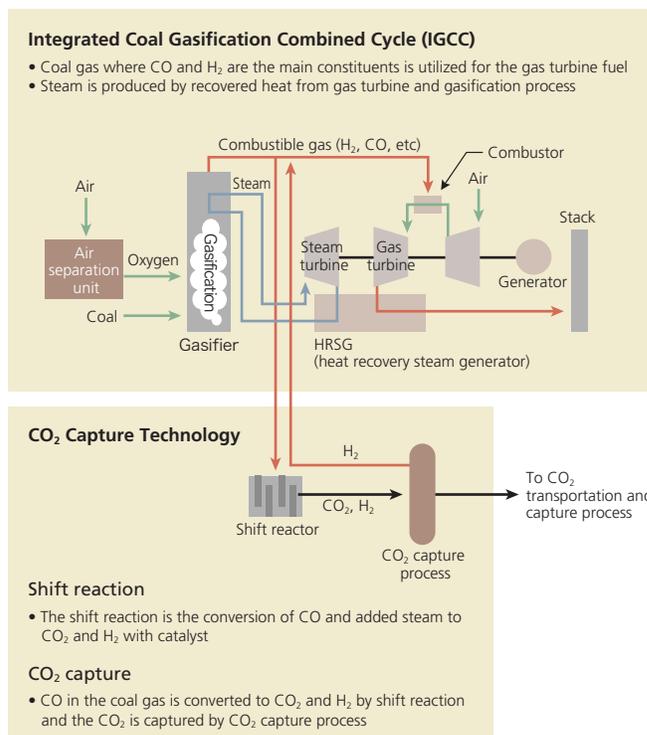
The above technical developments have been cited as part of an innovative zero-emission thermal power generation project that concurrently satisfies the requirements of the government's Cool Earth Innovative Energy Technology Program for high-efficiency coal gasification power generation technology and CO<sub>2</sub> capture and storage technology, and cited as The Cool

### Development of a Quick Charger for Electric Vehicles

We are involved in R&D geared toward widespread use of electric vehicles, and to this end, we have spotlighted methods that we expect will reduce environmental impact and achieve load-leveling.

We know that an infrastructure for fast and easy charging when out and about is essential if electric vehicles are to attract the interest of the general public. We began research on a quick charger in fiscal 2007.

In February 2008, we delivered research-use electric



Gen Project, which is raised as a new chapter of the government's clean coal strategy.



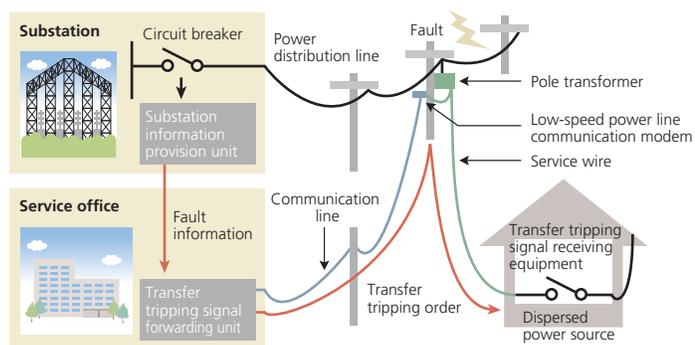
vehicles to service offices and installed test-use quick charger at these locations to determine aspects in need of improvement, from a convenience perspective, that could only be recognized through actual business-use

### Development of a Transfer Tripping System for Dispersed Power Sources

In the future, dispersed power sources will become more prevalent as ordinary households install equipment for generating power from new energy sources such as solar power, and these systems will undoubtedly be connected to our power grid.

In the event of a power outage, a safety device normally kicks in and automatically stops the transfer from dispersed energy sources. However, when a large number of points are connected to the grid, the safety devices at all locations may not activate because some power sources will still be supplying power despite the general outage elsewhere. Such circumstances pose the risk of electrocution to customers and the potential for equipment damage.

To prevent this from happening, we developed a system to transmit a stop message to power sources and quickly trip the connection between them and our power lines. We are working toward the practical application of this system.



conditions.

In July 2009, Tempearl Industrial Co., Ltd., a Group company, began selling the quick charger.

### Technology for Effective Utilization of Coal Ash as a Structural Material in Civil Engineering Projects

On page 27, under Toward a Recycling-Oriented Society, in the Addressing Environmental Issues section, we presented the example of soil remediation materials that use coal ash. We have also used coal ash in the development of concrete products, such as the wave-dissipating blocks that protected the shoreline around Shimane Nuclear Power Station's Unit No. 3 which is under construction. These concrete blocks contained more than 90% recycled material, including coal ash.

From a waste-reduction perspective, we are working on the research for a wide-ranging recycle; the development of recycled power distribution poles made from smashed-discarded poles and coal ash. This concrete which contains these recycled material can be used to make the poles that support power distribution lines. In this effort, we aim to utilize waste material, substantiating our commitment to research that covers the entire spectrum of recycling.



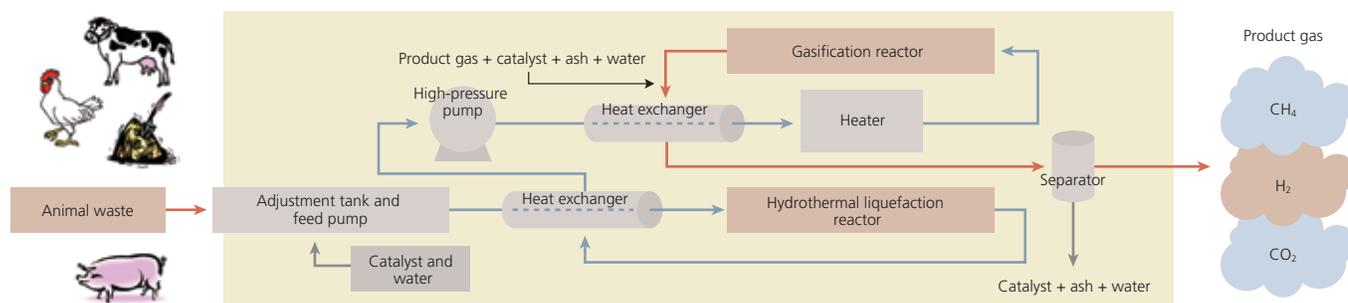
## High-Efficiency, High-Temperature, and High-Pressure Gasification Technology for Animal Waste

Effective application of animal waste as an energy source is needed in Japan, owing to increasing imported fertilizer and enforcement of a law on appropriate treatment and optimization of livestock manure. Conventional technology for utilizing animal waste as an energy source takes too much time for gasification and too much cost and energy for disposing its residue.

In response, we are fine-tuning a method to enhance the solubility of animal waste—by increasing fluidity through the addition of catalysts and hydrothermal

liquefaction—and pursuing a high-temperature, high-pressure gasification technique to achieve nearly complete gasification of organic materials in a short period. The results of our research are sure to underpin technology that will expedite the conversion of animal waste into energy with less residue. Currently, it works on the stable driving and the cost down.

Currently, we are working on the stable driving and reducing the cost.



## Intellectual Property Activities

Every aspect of the Group's operations, including R&D, benefits from various intellectual activities of employees, and therefore, we recognize these intellectual assets—technologies, know-how and ideas—are vital to corporate growth. With this in mind, we aggressively promote a strategy of protecting these assets through intellectual property rights.

This strategy is integral to the success of the Five-Year Group Management Vision and its primary objective is to create new value through the power of people and technology.

The underlying goals of this strategy are to expand profits by capturing new value and to ensure corporate longevity, in other words, the stable development of our existing business.

## Expanding Profits

We strive to improve our competitive position in the market and boost our corporate value by ensuring the rights from the intellectual assets gained through all aspects of business and utilizing them.

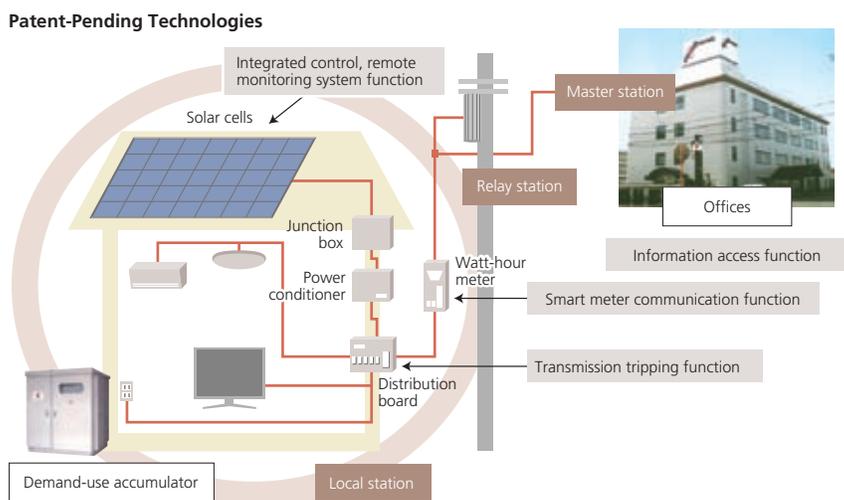
For example, as a result of our activities that foster new value, we have patented several technologies responding to wider use of new energy—including dispersed power system—which is attracting attention for its contribution to a low-carbon society.

## Technology Responding to Wider Use of New Energy

If dispersed energy system, such as households using photovoltaic systems to generate power, become more pervasive, we assume that it will be difficult to manage

our power grid with the existing central load-dispatching protocols. Therefore, we are working on several technologies to apply to our grid when a large number of dispersed energy systems are connected.

Specifically, we have developed methods on supply and demand adjustment, including customer loads. A prime example is the transfer tripping system for dispersed energy sources, which is highlighted on page 31 under Technology Development. We have applied for patents on these methods.



(Adopted from an image on the Japan Photovoltaic Energy Association Web site)

### Corporate Longevity—Stable Development of Existing Businesses

Being the first to obtain a patent on a new technology with positive business implications, such as cost reductions, precludes the possibility that another company will force our operations to stop due to a patent infringement.

For example, when we applied an alternative manufacturing method for tetrapods, which protect the shoreline by vanishing waves, to the Shimane Unit No. 3 expansion project, we successfully lowered the cost of the construction. Acquiring appropriate patents on new technologies that will be applied to our various operations keep our businesses from the risks of injunction. By our estimates, those risks are added up to be ¥18 billion in fiscal 2008.

### Patent Status

Reflecting an enthusiastic approach to intellectual property activities within the Group since fiscal 2004, the number of patent applications jumped up from 90 in fiscal 2003 to more than 1,000 by fiscal 2006, and has remained around the 1,000 mark. This approach has driven the aggregate number of patents held\* above 4,500, as of March 31, 2009, and based on this definition of the aggregated number of patents, we are the No. 1 holder among Japan's 10 electric power companies.

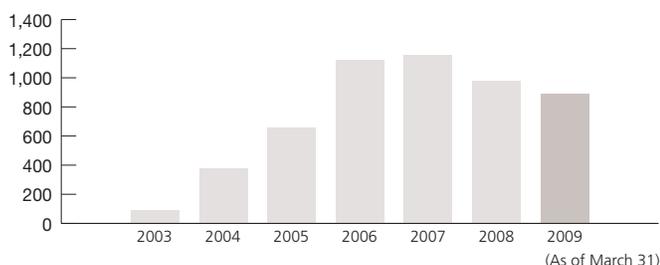
In addition, as of March 31, 2009, the number of inventors in the company is about 2,600, and this fact goes to show that our intellectual activities are not limited to a certain number of staffs only.

### Intellectual Property Report

To enable stakeholders, including shareholders, to gain a better understanding of the activities we undertake and management's thoughts regarding day-to-day operations, R&D and intellectual property within the Group, we released the Energia Group Intellectual Property Report 2008 in January 2009. We were the first in the domestic electric power industry to produce an intellectual property report.

#### Number of Patent Applications Groupwide

(Number)



# Corporate Social Responsibility

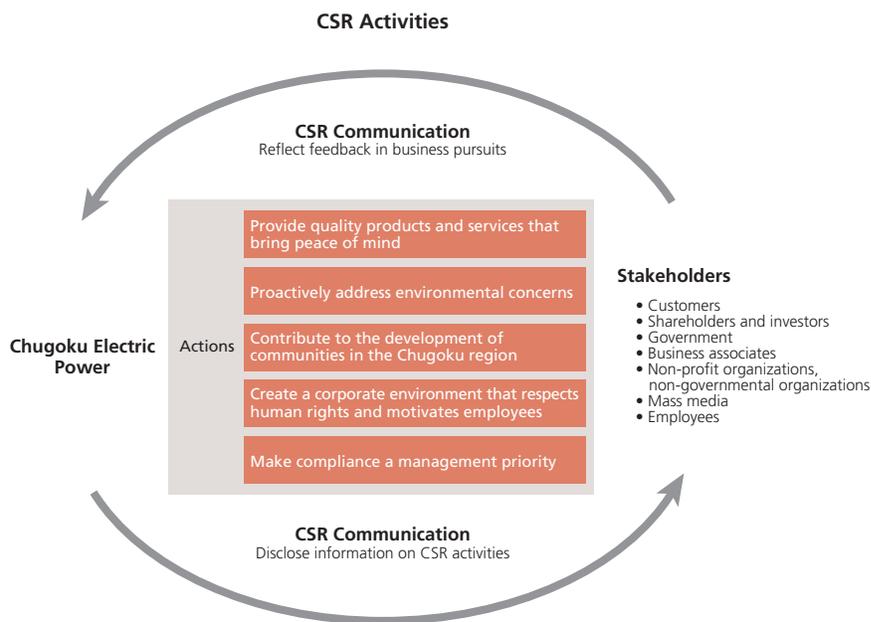
## CSR Activities

The entire Group is involved in CSR activities, guided by the Energia Group CSR Action Charter and the eight principles that established the direction for CSR activities and overall business pursuits and set the tone for accepted behavior by executives and employees throughout the Group.

A comprehensive commitment to compliance—defined as respect for social standards, including business ethics and morals, and adherence to such standards—forms the foundation of CSR activities. This perspective permeates efforts to provide customers with quality products and services that provide peace of mind, based on the stable supply of electric power, and fosters resourceful solutions to environmental problems as well as

effective contributions to regional development.

We take a positive approach to CSR-related information disclosure, exemplified by the Group CSR Report, and we incorporate feedback from stakeholders on our activities to enhance the results of future initiatives.



## CSR Promotion Committee

To expedite CSR activities, Chugoku Electric Power established the CSR Promotion Committee and created a structure that allows management to reflect comments collected by the committee from stakeholders on the Company's activities in the planning of future pursuits.

## Promoting Compliance

In June 2007, Chugoku Electric Power presented its Compliance Management Promotion Declaration to employees and the public. In it, we stated that compliance in all aspects of operations is the cornerstone of a well-managed company. Based on leadership by

example on the parts of corporate officers, all officers and employees are endeavoring to give due attention in their daily activities to the Company's three action principles—consulting our consciences, speaking honestly and actively correcting problems.

### Principal Activities

#### Steady implementation of measures based on a compliance promotion plan

- We have formulated a Companywide compliance promotion plan covering each division, and promote a Plan → Do → Check → Act (PDCA) cycle for measures, including efforts to protect personal information.

#### Conduct compliance training

- We are continuously implementing compliance training programs for corporate officers and employees and encourage result-generating activities matched to respective workplace conditions and requirements through an expanded menu of training choices.

#### Implement surveys on workplace situations and employees attitudes to ascertain workplace compliance status and employee awareness

- We ascertain compliance status and awareness of compliance issues among employees in each workplace. Surveys results will be forwarded quickly to the respective workplaces to prompt each location to take a hands-on approach to making changes for the better.

#### Compliance Awareness Month (every November)

- We implement measures Companywide to elicit greater awareness of compliance issues.

## Contributing to the Development of Communities in the Chugoku Region

Seeking to grow along with the region, we encourage employees to take part in activities that benefit society, especially locally rooted events, with an emphasis on the environment, welfare and education.

In fiscal 2009, about 16,000 employees were involved in social contribution activities. This works out to an annual participation rate of about 1.7 times per employee.

### Environmental Protection Activities

Activities to protect the natural environment in the Chugoku region include road and riverbank cleanup campaigns and forest conservation projects, as well as tree and flower donations for planting in public places, such as schools and social welfare facilities.

### Local Welfare Activities

Seeking to play even a small part in enhancing the welfare of citizens in the Chugoku region, we send our employees to social welfare facilities and the homes of seniors living alone to inspect, clean and replace electric power equipment. We also donate books and other materials to counseling centers for children.

### Educational Activities

We strive to utilize the know-how and technologies we have accumulated in the electric power business in activities geared particularly toward young people, to foster greater understanding of the global environment and energy-related issues and to create interest in the sciences.

### Foundation Activities

Chugoku Electric Power and members of the Group established the Electric Technology Research Foundation of Chugoku in 1991 and the Energia Culture and Sports Foundation in 1994 to support the development of technology, sports and culture in the region.

In fiscal 2009, the Electric Technology Research Foundation of Chugoku extended 46 grants worth a total of ¥36.8 million and recognized two individuals with awards. The Energia Culture and Sports Foundation provided 174 grants worth a total of ¥35.0 million and recognized three individuals with awards.



# Corporate Governance

## Basic Concept

With the electric power business—a vital service to society—at the core of Chugoku Electric Power's operations, a management structure that integrates the functions of decision making and execution of operations is essential to expedite responses to market conditions and preserve the integrity of the Company, the Group and overall operations. Consequently, the Company has adopted the corporate auditor system.

We know that building a reputation of trust with stakeholders and continuously creating value for them enhances our ability to fulfill the social responsibilities incumbent upon corporate citizens. Establishing a governance structure to support these efforts is therefore a top management priority. With this in mind, we strive to enhance corporate governance along with measures to strengthen Group management.

## Corporate Structure and Internal Control System

The Board of Directors comprises 15 members, one of whom is external. The board meets once a month to decide on management plans and policies as well as the execution of business activities. The board also monitors the execution duties by directors, primarily through reports describing the execution of business activities.

The Management Committee, on which representative directors sit, meets every week, in principle. The committee duly discusses important management issues, including those that will be addressed later by the Board of Directors.

The Board of Auditors comprises five corporate auditors, three of whom are external. Corporate auditors perform strict audits on the execution of duties by the Company's directors to determine status. To support auditors in these activities, the Company established its Auditors' Office, which is independent from the president.

The Internal Audit Division conducts internal audits of the Company and its affiliates, verifies the

appropriateness and effectiveness of the internal control system, and offers suggestions for improvement.

Corporate auditors, accounting auditors and the Internal Audit Division exchange information gathered in the course of their respective auditing activities and cooperate as necessary.

Chugoku Electric Power established a corporate ethics framework and, to address important issues related to compliance, the Company created the Corporate Ethics Committee as an advisory body to the Board of Directors. This committee is headed by the Company chairman and includes three prominent experts from outside the Company.

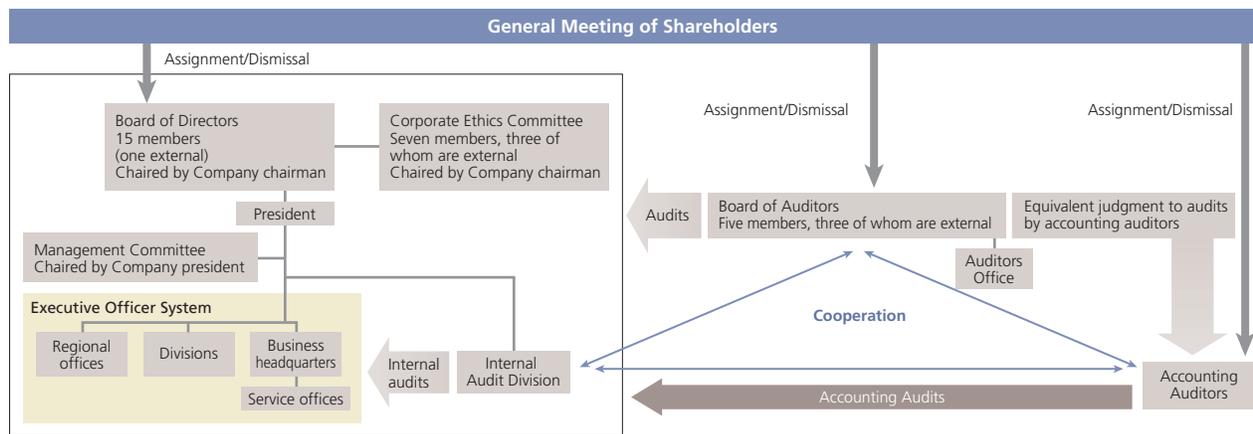
The Company installed a supervisory structure for risk management that offers guidance and adjustments pertaining to risk management as required. In addition, the Company set up the Risk Strategies Committee, chaired by the president, to consider responses to major business risks from an overall perspective.

## Review of Remuneration System for Directors and Auditors

Chugoku Electric Power created its Remuneration Committee, with outside director and auditor participation to join the president and the chairman. The Company expects to improve management objectivity and transparency by applying the content discussed at Remuneration Committee meetings to any arrangements for director compensation.

In fiscal 2009, a review of the Company's remuneration system for directors led to the termination of directors' retirement benefits and an end to bonuses for auditors and outside directors. In addition, bonuses for directors are now linked to corporate performance. Because of the losses incurred in fiscal 2009, directors will not receive any bonuses in fiscal 2010.

### Corporate Structure and Internal Controls



### Board of Directors and Auditors

#### CHAIRPERSON

Tadashi Fukuda

#### PRESIDENT

Takashi Yamashita

#### EXECUTIVE VICE PRESIDENTS AND DIRECTORS

Masanori Fukuda  
Toru Jinde  
Hiroshi Fujii  
Mitsuo Matsui

#### MANAGING DIRECTORS

Tomohide Karita  
Shuichi Shirahige  
Kazuhisa Fukumoto  
Yoshio Sano  
Yasuhisa Iwasaki  
Yoshio Kumano  
Hirofumi Obata  
Mareshige Shimizu

#### DIRECTOR

Kosuke Hayashi

#### STANDING AUDITORS

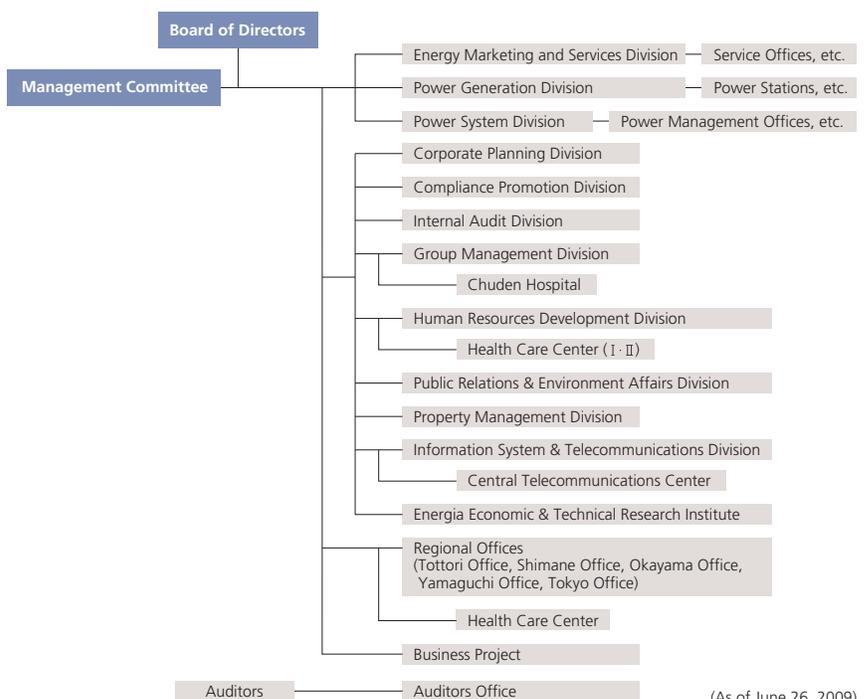
Seiki Hawaka  
Michiho Nozaka

#### AUDITORS

Masao Sato  
Taka Shiinoki  
Kazuhide Watanabe

(As of June 26, 2009)

### Organization Chart



(As of June 26, 2009)

# Consolidated Five-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)
	2009	2008	2007	2006	2005	2009
Operating revenues	<b>¥1,173,727</b>	¥1,108,354	¥1,075,575	¥1,040,290	¥1,011,799	<b>\$11,976,806</b>
Operating income	<b>15,525</b>	84,416	88,401	100,095	125,451	<b>158,418</b>
Net (loss) income	<b>(23,576)</b>	25,271	37,093	45,167	47,062	<b>(240,571)</b>
Total stockholders' equity/Net assets	<b>663,974</b>	711,080	715,972	695,495	658,209	<b>6,775,245</b>
Total assets	<b>2,806,112</b>	2,710,681	2,680,782	2,655,468	2,636,363	<b>28,633,796</b>
Interest-bearing debt	<b>1,717,736</b>	1,595,098	1,572,994	1,575,011	1,613,979	<b>17,527,918</b>
Free cash flows (Note 3)	<b>(82,848)</b>	(6,203)	24,364	48,765	132,616	<b>(845,388)</b>
<b>Other financial data</b>						
<b>Per share data (yen and dollars):</b>						
Stockholders' equity (Note 4)	<b>1,809.91</b>	1,938.37	1,951.27	1,910.41	1,807.59	<b>18.47</b>
Net (loss) income:						
Basic	<b>(64.73)</b>	69.37	101.86	123.44	128.61	<b>(0.66)</b>
Cash dividends	<b>50.00</b>	50.00	50.00	50.00	50.00	<b>0.51</b>
<b>Key financial ratios:</b>						
Equity ratio (%)	<b>23.5</b>	26.0	26.5	26.2	25.0	
Return on equity (ROE) (%)	<b>(3.5)</b>	3.6	5.3	6.7	7.3	
Return on assets (ROA) (%) (Note 5)	<b>0.4</b>	2.0	2.1	2.4	3.0	
Price earnings ratio (PER) (times) (Note 6)	<b>-</b>	32.0	25.9	19.8	15.8	

	Millions of kWh				
	2009	2008	2007	2006	2005
<b>Power generated and received</b>					
<b>Generated:</b>					
Hydroelectric	<b>3,044</b>	2,875	3,719	3,224	4,169
Thermal	<b>36,671</b>	40,081	37,239	35,038	33,170
Nuclear	<b>7,131</b>	8,485	7,937	9,297	7,333
<b>Total</b>	<b>46,846</b>	51,441	48,895	47,559	44,672
Purchased from other companies	<b>20,903</b>	20,649	20,251	22,171	23,663
Sold to other companies	<b>(16)</b>	(1,593)	(1,323)	(3,580)	(3,410)
Transmission loss and other	<b>(6,511)</b>	(6,918)	(6,564)	(6,649)	(6,785)
<b>Total</b>	<b>61,222</b>	63,579	61,259	59,501	58,140
<b>Electric sales:</b>					
Residential (lighting)	<b>18,737</b>	18,890	18,136	18,140	17,470
Commercial, industrial and other	<b>2,737</b>	2,905	2,943	3,178	15,565
Power consumption by liberalized sector	<b>39,748</b>	41,784	40,180	38,183	25,105
<b>Total</b>	<b>61,222</b>	63,579	61,259	59,501	58,140

Notes: 1. U.S. dollar amounts presented are translated from yen, for convenience only, at the rate of ¥98=US\$1, the exchange rate prevailing on March 31, 2009.

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 × (1 - Income tax rate) / Total assets × 100

6. PER at the period on March, 2009 has not been described for the net deficit for the period.

# Consolidated Financial Review

## Summary of Operations

The first half of the fiscal year ended March 31, 2009, the Japanese economy changed in a gradual deceleration tendency by the sudden rise of the resource price such as crude oil. But, the latter half worldwide finance crisis occurred and business has deteriorated rapidly as personal consumption changes to a decrease besides the productive activity gets stagnate in the background of a decrease in export. The situation was similar in the Chugoku region.

Non-consolidated sales of electricity decreased 3.7% from the previous fiscal year, to 61.2 billion kilowatt hours, due to the decrease of industrial demand etc.

Operating revenues of the Chugoku Electric Power Co., Inc. (the "Company"), and its consolidated subsidiaries (the "Companies") for the fiscal year were ¥1,173.7 billion (US\$11,976.8 million), up 5.9%, or ¥65.3 billion (US\$667.1 million), from fiscal 2008. Net loss was ¥23.6 billion (US\$240.6 million), a fall of 193.3%, or ¥48.9 billion (US\$498.5 million). Free cash flow (net cash provided by operating activities minus net cash used in investing activities) amounted to an outflow of ¥82.8 billion (US\$845.4 million).

The Company maintained cash dividends per share at ¥50.00 (US\$0.51), in line with management's policy of providing stable returns while enhancing the financial position and otherwise solidifying the Group's business foundations.

## Operating Revenues

As mentioned above, operating revenues for the fiscal year were ¥1,173.7 billion (US\$11,976.8 million), up 5.9%, or ¥65.3 billion (US\$667.1 million).

Operating revenues from electric power operations amounted to ¥1,068.1 billion (US\$10,899.3 million), up 5.4%, or ¥54.5 billion (US\$556.7 million).

Operating revenues from other operations such as information and communication businesses and a comprehensive energy supply business rose 11.4%, or ¥10.8 billion (US\$110.4 million), to ¥105.6 billion (US\$1,077.5 million).

## Operating Expenses and Operating Income

Operating expenses for the term increased 13.1%, or ¥134.3 billion (US\$1,370.1 million), to ¥1,158.2 billion (US\$11,818.4 million).

Operating expenses in electric power operations rose 13.4%, or ¥125.3 billion (US\$1,278.5 million), to ¥1,057.5 billion (US\$10,790.3 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 ¥100.8 billion (US\$1,028.1 million), up 9.8%, or ¥9.0 billion (US\$91.5 million).

Operating income thus fell 81.6%, or ¥68.9 billion (US\$703.0 million), to ¥15.5 billion (US\$158.4 million).

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

Total other (income) expenses increased 35.6%, or ¥9.1 billion (US\$92.7 million), to ¥34.6 billion (US\$353.4 million).

As a result of these factors, income before income taxes and minority interests in net income of consolidated subsidiaries was down 177.9%, or ¥72.4 billion (US\$738.7 million), to minus ¥31.7 billion (US\$323.4 million). Net income decreased 193.3%, or ¥48.9 billion (US\$498.5 million), to minus ¥23.6 billion (US\$240.6 million). Net income per share was minus ¥64.73 (US\$0.66), down ¥134.10, from ¥69.37.

## Financial Position

### Assets

At fiscal year-end, total assets were ¥2,806.1 billion (US\$28,633.8 million), up 3.5%, or ¥95.4 billion (US\$973.8 million), from the close of the previous term. This was due to increase in construction in progress accompanying the Shimane nuclear power Station's units No.3 extension construction.

Fixed property stood at ¥2,096.1 billion (US\$21,388.3 million), up 0.4%, or ¥7.8 billion (US\$78.6 million). Nuclear fuel was ¥155.4 billion (US\$1,586.0 million), up 16.1%, or ¥21.6 billion (US\$220.3 million). Total investments and other assets amounted to ¥320.3 billion (US\$3,268.1 million), down 2.6%, or ¥8.5 billion (US\$86.8 million). Total current assets were ¥234.4 billion (US\$2,391.4 million), up 46.7%, or ¥74.7 billion (US\$761.7 million).

### Liabilities, Minority Interests and Net Assets

Total liabilities were ¥2,142.1 billion (US\$21,858.5 million), up 7.1%, or ¥142.5 billion (US\$1,454.4 million). This was due to increase in short-term and long-term interest-bearing debt as well as an increase in the provision for depreciation of nuclear power plant. Among these, short-term and long-term interest-bearing debt increased 7.7%, or ¥122.6 billion (US\$1,251.4 million), to ¥1,717.7 billion (US\$17,527.9 million). Other liabilities increased 4.9%, or ¥19.9 billion (US\$203.1 million), to ¥424.4 billion (US\$4,330.7 million).

Total net assets were ¥664.0 billion (US\$6,775.2 million), a decrease of 6.6%, or ¥47.1 billion (US\$480.7 million). The equity ratio fell 2.5 percentage points, to 23.5%, from 26.0%.

### Cash Flows

Net cash provided by operating activities for fiscal 2009 amounted to ¥150.1 billion (US\$1,531.8 million), down 19.5%, or ¥36.3 billion (US\$370.4 million), compared with the previous period.

Net cash used in investing activities was ¥233.0 billion (US\$2,377.2 million), up 20.9%, or ¥40.4 billion (US\$411.7 million), mainly because investments in construction in progress increased accompanying the Shimane nuclear power plant extension construction. Free cash flow therefore amounted to minus ¥82.8 billion (US\$845.4 million).

Net cash provided by financing activities was ¥91.1 billion (US\$930.0 million), up 2,801.6%, or ¥87.7 billion (US\$896.8 million) compared with the previous fiscal year, by procurements of bonds and CP. Cash dividends paid were ¥18.2 billion (US\$185.8 million).

Cash and cash equivalents at end of year totaled ¥25.2 billion (US\$257.2 million), up 47.8%, or ¥8.1 billion (US\$83.1 million).

### Summary of Cash Flows

Years ended March 31	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Net cash provided by operating activities	<b>¥150,120</b>	¥186,419	¥157,447	<b>\$1,531,837</b>
Net cash used in investing activities	<b>(232,968)</b>	(192,622)	(133,083)	<b>(2,377,224)</b>
Net cash provided by (used in) financing activities	<b>91,138</b>	3,253	(20,708)	<b>929,980</b>
Effect of exchange rate changes on cash and cash equivalents	<b>(137)</b>	175	161	<b>(1,399)</b>
Net increase (decrease) in cash and cash equivalents	<b>8,153</b>	(2,775)	3,817	<b>83,194</b>
Cash and cash equivalents at beginning of year	<b>17,057</b>	21,665	17,848	<b>174,051</b>
Increase resulting from consolidation of additional subsidiaries	–	22	–	–
Decrease resulting from liquidation of consolidated subsidiaries	–	(1,855)	–	–
Cash and cash equivalents at end of year	<b>¥25,210</b>	¥17,057	¥21,665	<b>\$257,245</b>

# 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, 2009.**

## **1. Systemic reform of electric power business**

In the electric power business, the basic report of the Electricity Industry Committee in the Advisory Committee for Natural Resources and Energy was arranged in March, 2008, and 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 system measures by the country. This measure allows electric fee to cover part of the back-end costs like reprocessing facility displacing expense. And the temporary accounting rules for a reserve of reprocessing costs of irradiated nuclear fuel (except for the fuel which is disposed at The Rokkasho reprocessing facility) is set up. This rule is valid until the definite reprocessing plan is fixed.

It is possible that costs will increase, as all of the costs related to the nuclear fuel cycle have yet to be defined.

It is possible that the results of the companies will be affected by the environmental change like the legal reformation and the competitiveness which are 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 hydropower 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, 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 fluctuation in fuel prices and foreign exchange rates are reflected in electricity rates through the Fuel Cost Adjustment System.

In February, 2009 the time period until the fuel price fluctuation is reflected in the electric price has been shortened by revising law.

## **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.

When the trouble occurs in a nuclear power plant and power generation is stopped, the cost of the procurement of the alternative thermal power fuel and CO<sub>2</sub> exhaust credit, etc., is generated, and it has 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, 2009 and 2008

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
<b>Property:</b>			
Utility plant and equipment	<b>¥5,345,127</b>	¥5,350,705	<b>\$54,542,112</b>
Other plant	<b>275,168</b>	267,961	<b>2,807,837</b>
Construction in progress	<b>389,087</b>	289,226	<b>3,970,276</b>
	<b>6,009,382</b>	5,907,892	<b>61,320,225</b>
Less—			
Contributions in aid of construction	<b>79,260</b>	77,985	<b>808,776</b>
Accumulated depreciation	<b>3,834,066</b>	3,741,561	<b>39,123,122</b>
	<b>3,913,326</b>	3,819,546	<b>39,931,898</b>
Net property (Note 7)	<b>2,096,056</b>	2,088,346	<b>21,388,327</b>
<b>Nuclear fuel</b>	<b>155,425</b>	133,841	<b>1,585,969</b>
<b>Investments and other assets:</b>			
Investment securities (Note 4)	<b>40,592</b>	50,895	<b>414,204</b>
Fund reserved reprocessing of irradiated nuclear fuel	<b>87,242</b>	91,115	<b>890,224</b>
Investments to non-consolidated subsidiaries and affiliates	<b>84,186</b>	86,879	<b>859,041</b>
Long-term loans to employees	<b>695</b>	924	<b>7,092</b>
Deferred tax assets (Note 12)	<b>67,340</b>	61,101	<b>687,143</b>
Other assets	<b>40,216</b>	37,868	<b>410,367</b>
Total investments and other assets	<b>320,271</b>	328,782	<b>3,268,071</b>
<b>Current assets:</b>			
Cash and time deposits (Note 3)	<b>55,226</b>	17,073	<b>563,531</b>
Receivables, less allowance for doubtful accounts of ¥869 million (\$8,867 thousand) in 2009 and ¥793 million in 2008	<b>79,475</b>	73,510	<b>810,970</b>
Inventories, fuel and supplies	<b>58,807</b>	48,304	<b>600,071</b>
Deferred tax assets (Note 12)	<b>16,772</b>	10,437	<b>171,143</b>
Other current assets	<b>24,080</b>	10,388	<b>245,714</b>
Total current assets	<b>234,360</b>	159,712	<b>2,391,429</b>
Total assets	<b>¥2,806,112</b>	¥2,710,681	<b>\$28,663,796</b>

See notes to consolidated financial statements

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
<b>Long-term liabilities:</b>			
Long-term debt (Note 6)	¥1,424,580	¥1,365,901	\$14,536,530
Employees' severance and retirement benefits (Note 11)	60,314	60,786	615,449
Retirement allowances for directors and corporate auditors	403	1,399	4,112
Provision for reprocessing of irradiated nuclear fuel	98,229	100,691	1,002,337
Provision for reprocessing of irradiated nuclear fuel without a fixed plan to reprocess	3,411	2,753	34,806
Provision for decommissioning of nuclear power generating plants	58,641	56,547	598,378
Other long-term liabilities	24,059	20,976	245,500
Total long-term liabilities	1,669,637	1,609,053	17,037,112
<b>Current liabilities:</b>			
Long-term debt due within one year (Note 6)	135,125	126,737	1,378,826
Short-term borrowings	67,430	67,600	688,061
Commercial Paper	73,500	28,500	750,000
Accounts payable	68,866	67,064	702,714
Accrued income taxes	6,208	7,118	63,347
Accrued expenses	43,658	41,017	445,490
Allowance for bonuses to directors and corporate auditors	59	191	602
Other current liabilities, including other long-term liabilities due within one year	41,192	28,440	420,327
Total current liabilities	436,038	366,667	4,449,367
Provision for drought	–	–	–
Provision for depreciation of nuclear power plant	36,463	23,881	372,072
Contingent liabilities (Note 9)			
<b>Net assets (Note 13):</b>			
<b>Owners' equity</b>			
Common stock:	185,528	185,528	1,893,143
Authorized–1,000,000,000 shares			
Issued–371,055,259 shares in 2009 and 2008			
Capital surplus	17,216	17,200	175,673
Retained earnings (Note 15)	465,812	507,554	4,753,184
Treasury Stock (6,905,137 shares in 2009 and 6,815,382 shares in 2008)	(12,464)	(12,239)	(127,184)
Total owners' equity	656,092	698,043	6,694,816
Net unrealized holding gains on securities	3,292	7,983	33,592
Net unrealized loss on hedges	(231)	–	(2,357)
Foreign currency translation adjustments	(73)	5	(745)
Minority interests	4,894	5,049	49,939
Total net assets	663,974	711,080	6,775,245
Total liabilities and net assets	¥2,806,112	¥2,710,681	\$28,633,796

# Consolidated Statements of Operations

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries  
For the years ended March 31, 2009, 2008 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2009	2008	2007	2009
<b>Operating revenues (Note 14):</b>				
Electric	¥1,068,127	¥1,013,578	¥976,628	\$10,899,255
Other	105,600	94,776	98,947	1,077,551
	<b>1,173,727</b>	1,108,354	1,075,575	<b>11,976,806</b>
<b>Operating expenses (Note 14):</b>				
Electric	1,057,451	932,154	895,445	10,790,316
Other	100,751	91,784	91,729	1,028,072
	<b>1,158,202</b>	1,023,938	987,174	<b>11,818,388</b>
<b>Operating income</b>	<b>15,525</b>	84,416	88,401	<b>158,418</b>
<b>Other expenses (income):</b>				
Interest expense	29,318	30,783	29,014	299,163
Interest income	(1,580)	(1,658)	(1,096)	(16,122)
Gains on sales of securities	(355)	(4)	(391)	(3,622)
Equity in losses (earnings) of affiliated companies	3,666	(2,248)	(220)	37,408
Other, net	3,583	(1,327)	363	36,561
	<b>34,632</b>	25,546	27,670	<b>353,388</b>
<b>Special item:</b>				
Provision (reversal) for drought	–	(657)	112	–
Provision for depreciation of nuclear power plant	12,582	18,828	5,053	128,387
<b>Income before income taxes and minority interests in net income of consolidated subsidiaries</b>	<b>(31,689)</b>	40,699	55,566	<b>(323,357)</b>
<b>Provision for income taxes: (Note 12)</b>				
Current	1,347	12,443	20,547	13,745
Deferred	(9,356)	2,839	(2,526)	(95,469)
	<b>(8,009)</b>	15,282	18,021	<b>(81,724)</b>
<b>Income before minority interests in net income of consolidated subsidiaries</b>	<b>(23,680)</b>	25,417	37,545	<b>(241,633)</b>
<b>Minority interests in net loss (income) of consolidated subsidiaries</b>	<b>(104)</b>	146	452	<b>(1,062)</b>
Net (loss) income	<b>¥(23,576)</b>	¥25,271	¥37,093	<b>\$(240,571)</b>
				U.S. dollars (Note 1)
	<b>2009</b>	2008	2007	<b>2009</b>
<b>Per share data:</b>				
Net (loss) income (Basic)	¥(64.73)	¥69.37	¥101.86	\$(0.66)
Cash dividends	50.00	50.00	50.00	0.51

See notes to consolidated financial statements

# Consolidated Statements of Cash Flows

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries  
For the years ended March 31, 2009, 2008 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2009	2008	2007	2009
<b>Cash flows from operating activities:</b>				
(Loss) income before income taxes and minority interests in net income of consolidated subsidiaries	<b>¥(31,689)</b>	¥40,699	¥55,566	<b>\$(323,357)</b>
Depreciation	<b>139,287</b>	143,354	140,933	<b>1,421,296</b>
Loss on impairment of fixed assets	<b>1,689</b>	382	1,370	<b>17,235</b>
Amortization of nuclear fuel	<b>5,275</b>	6,184	5,825	<b>53,827</b>
Equity in losses (earnings) of affiliated companies	<b>3,666</b>	(2,248)	(220)	<b>37,408</b>
Loss on disposal of property	<b>7,102</b>	8,303	8,878	<b>72,469</b>
Increase (decrease) in employees' severance and retirement benefits	<b>(473)</b>	(759)	111	<b>(4,827)</b>
Increase (decrease) in provision for reprocessing of irradiated nuclear fuel	<b>(2,462)</b>	(17,595)	11,671	<b>(25,122)</b>
Increase in provision for reprocessing of irradiated nuclear fuel without a fixed plan to reprocess	<b>658</b>	976	1,777	<b>6,714</b>
Increase in provision for decommissioning of nuclear power generating plants	<b>2,094</b>	8,836	1,471	<b>21,367</b>
Increase (decrease) in provision for drought	-	(657)	112	-
Increase in provision for depreciation of nuclear power plant	<b>12,582</b>	18,828	5,053	<b>128,388</b>
Interest and dividend income	<b>(2,443)</b>	(2,442)	(1,800)	<b>(24,929)</b>
Interest expense	<b>29,319</b>	30,784	29,014	<b>299,173</b>
Gains on sales of securities	-	-	(391)	-
Increase (decrease) in funds reserved for reprocessing of irradiated nuclear fuel	<b>3,874</b>	2,552	(36,709)	<b>39,531</b>
Increase in notes and accounts receivable	<b>(3,391)</b>	(92)	(7,024)	<b>(34,602)</b>
Decrease (increase) in inventories	<b>(8,573)</b>	909	1,362	<b>(87,480)</b>
Increase (decrease) in notes and accounts payable	<b>(3,158)</b>	(1,556)	3,904	<b>(32,224)</b>
Decrease in liabilities for defined contribution pension and prepaid pension	-	(3,046)	(3,331)	-
Other	<b>30,937</b>	(3,314)	(2,036)	<b>315,684</b>
Subtotal	<b>184,294</b>	230,098	215,536	<b>1,880,551</b>
Interest and dividends received	<b>2,975</b>	2,866	1,907	<b>30,357</b>
Interest paid	<b>(29,460)</b>	(30,452)	(28,874)	<b>(300,612)</b>
Income taxes paid	<b>(7,689)</b>	(16,093)	(31,122)	<b>(78,459)</b>
<b>Net cash provided by operating activities</b>	<b>150,120</b>	186,419	157,447	<b>1,531,837</b>
<b>Cash flows from investing activities:</b>				
Purchase of property	<b>(207,739)</b>	(193,384)	(135,911)	<b>(2,119,786)</b>
Purchase of investments in securities	<b>(59,341)</b>	(3,652)	(2,239)	<b>(605,520)</b>
Proceeds from sale of investment securities	<b>29,628</b>	509	903	<b>302,327</b>
Other	<b>4,484</b>	3,905	4,164	<b>45,755</b>
<b>Net cash used in investing activities</b>	<b>(232,968)</b>	(192,622)	(133,083)	<b>(2,377,224)</b>
<b>Cash flows from financing activities:</b>				
Proceeds from issue of bonds	<b>144,558</b>	104,628	44,848	<b>1,475,082</b>
Repayment of bonds	<b>(40,000)</b>	(100,000)	(19,900)	<b>(408,163)</b>
Proceeds from long-term debt	<b>48,800</b>	65,000	50,000	<b>497,959</b>
Repayment of long-term debt	<b>(86,752)</b>	(45,479)	(64,926)	<b>(885,224)</b>
Proceeds from short-term loans	<b>177,250</b>	127,690	161,870	<b>1,808,673</b>
Repayment of short-term loans	<b>(178,080)</b>	(131,649)	(163,060)	<b>(1,817,143)</b>
Proceeds from issue of commercial paper	<b>627,500</b>	576,500	614,500	<b>6,403,061</b>
Repayment of commercial paper	<b>(582,500)</b>	(575,000)	(625,500)	<b>(5,943,877)</b>

	2009	2008	2007	2009
Purchase of treasury stock	(283)	(264)	(346)	(2,888)
Cash dividends paid	(18,210)	(18,214)	(18,221)	(185,816)
Other	(1,145)	41	27	(11,684)
<b>Net cash provided by (used in) financing activities</b>	<b>91,138</b>	<b>3,253</b>	<b>(20,708)</b>	<b>929,980</b>
Effect of exchange rate changes on cash and cash equivalents	(137)	175	161	(1,399)
Net increase (decrease) in cash and cash equivalents	8,153	(2,775)	3,817	83,194
Cash and cash equivalents at beginning of year	17,057	21,665	17,848	174,051
Increase resulting from consolidation of additional subsidiaries	-	22	-	-
Decrease resulting from liquidation of consolidated subsidiaries	-	(1,855)	-	-
Cash and cash equivalents at end of year (Note 3)	<b>¥25,210</b>	<b>¥17,057</b>	<b>¥21,665</b>	<b>\$257,245</b>

See notes to consolidated financial statements

# Consolidated Statements of Changes in Net Assets

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries  
For the years ended March 31, 2009 and 2008

	Millions of yen									
	Shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on securities	Net unrealized loss on hedges	Foreign currency translation adjustments	Minority interests	Total
<b>Balance at March 31, 2007</b>	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)
<b>Balance at March 31, 2008</b>	371,055,259	¥185,528	¥17,200	¥507,554	¥(12,239)	¥7,983	–	¥5	¥5,049	¥711,080
Net loss				(23,576)						(23,576)
Cash dividends paid (¥50 per share)				(18,211)						(18,211)
Surplus from sale of treasury stock			16		58					74
Treasury stock purchased, net					(283)					(283)
Change of scope of consolidation				45						45
Decrease in unrealized holding gains on securities						(4,691)	(231)			(4,922)
Foreign currency translation adjustments								(78)		(78)
Increase in minority interests									(155)	(155)
<b>Balance at March 31, 2009</b>	<b>371,055,259</b>	<b>¥185,528</b>	<b>¥17,216</b>	<b>¥465,812</b>	<b>¥(12,464)</b>	<b>¥3,292</b>	<b>¥(231)</b>	<b>¥(73)</b>	<b>¥4,894</b>	<b>¥663,974</b>

	Thousands of U.S. dollars (Note 1)									
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on securities	Net unrealized loss on hedges	Foreign currency translation adjustments	Minority interests	Total	
<b>Balance at March 31, 2008</b>	\$1,893,143	\$175,510	\$5,179,123	\$(124,888)	\$81,459	–	\$51	\$51,520	\$7,255,918	
Net loss			(240,571)						(240,571)	
Cash dividends paid (\$0.42 per share)			(185,827)						(185,827)	
Surplus from sale of treasury stock		163		592					755	
Treasury stock purchased, net				(2,888)					(2,888)	
Change of scope of consolidation			459						459	
Decrease in unrealized holding gains on securities					(47,867)	(2,357)			(50,224)	
Foreign currency translation adjustments							\$(796)		(796)	
Increase in minority interests								(1,581)	(1,581)	
<b>Balance at March 31, 2009</b>	<b>\$1,893,143</b>	<b>\$175,673</b>	<b>\$4,753,184</b>	<b>\$(127,184)</b>	<b>\$33,592</b>	<b>\$(2,357)</b>	<b>\$(745)</b>	<b>\$49,939</b>	<b>\$6,775,245</b>	

See notes to consolidated financial 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 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, 2009, which was ¥98 to U.S. \$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, 2009, 21 subsidiaries (22 in 2008, 24 in 2007) were consolidated and 6 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, 2009, 6 (5 in 2008, 7 in 2007) non-consolidated subsidiaries and 10 (9 in 2008, 9 in 2007) affiliates were accounted for by the equity method.

For the year ended March 31, 2009, 9 (9 in 2008, 8 in 2007) 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. Since this fiscal year, inventories with lower profitability have been written down.

## **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 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.

## **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 Director Bonus" (Statement No.4 issued by the Accounting Standards Board of Japan on November 29, 2005).

As a result, operating expenses increased by ¥191 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, 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 ¥51,533 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. The amount of summing up since this fiscal year is ¥3,306 million of the term evenness. The difference of ¥59,307 million due to the change in estimating the costs of reprocessing irradiated nuclear fuel decreased to ¥51,533 million. The effect of this change on profit and loss is immaterial.

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 statements of income. The amount of liabilities which had not been amortized was ¥1,459 million (US\$14,888 thousand) on March 31, 2009.

### **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, 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**

Non-capitalized finance leases were accounted for in the same manner as operating leases, but in this fiscal year they are computed by usual sales transaction.

Non-capitalized finance leases before March 31, 2008 have been accounted for in the same manner as operating leases. The effect on the consolidated financial statements was immaterial.

### **Derivatives and hedge accounting**

The Companies adopt deferred processing and 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.

It goes by comparing the total of the cash flow change of the means for hedging and the total of the cash flow change of the hedge object in the quarterly about the efficacy evaluation of the hedge.

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, 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 incurred.

### **Income taxes**

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

### **Foreign currency translation**

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

### **Consolidated tax system**

The Companies apply the consolidated tax system.

### Reclassification in Liabilities for 2008

Due to the change in the classification in Liabilities, the amounts of Commercial paper and other current liabilities for 2008 were restated.

### 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, 2009 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Cash and time deposits	¥55,226	¥17,073	\$563,531
Less: Time deposits with maturities exceeding three months	(30,016)	(16)	(306,286)
Cash and cash equivalents	¥25,210	¥17,057	\$257,245

### 4. Securities

A. The following tables summarize acquisition cost and the book values (fair values) of securities with available fair values as of March 31, 2009 and 2008:

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
	2009	2008	2009	2008	2009	2008			
Equity securities	¥3,587	¥5,966	¥15,126	¥24,821	¥11,539	¥18,855	\$36,602	\$154,347	\$117,745
Bonds	–	–	–	–	–	–	–	–	–
Other	9	24	10	33	1	9	92	102	10
Total	¥3,596	¥5,990	¥15,136	¥24,854	¥11,540	¥18,864	\$36,694	\$154,449	\$117,755

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
	2009	2008	2009	2008	2009	2008			
Equity securities	¥4,285	¥1,618	¥3,087	¥1,105	¥(1,198)	¥(513)	\$43,724	\$31,500	\$(12,224)
Bonds	–	–	–	–	–	–	–	–	–
Other	14	–	12	–	¥(2)	–	143	122	\$(20)
Total	¥4,299	¥1,618	¥3,099	¥1,105	¥(1,200)	¥(513)	\$43,867	\$31,622	\$(12,244)

B. Book values of available-for-sale securities with no available fair market values as of March 31, 2009 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Non-listed equity securities	¥21,229	¥23,805	\$216,622
Other	1,036	1,031	10,571
Total	¥22,265	¥24,836	\$227,193

C. Total sales of available-for-sale securities in the year ended March 31, 2009 amounted to ¥2,859 million (US\$29,173 thousand), and the related gains amounted to ¥355 million (US\$3,622 thousand), respectively. Total sales of available-for-sale securities in the year ended March 31, 2008 amounted to ¥3 million, and the related gains amounted to ¥0 million.

## 5. Derivatives

The Company and certain of its consolidated subsidiaries enter into forward exchange contracts, currency swap contracts, interest rate swap contracts, commodity swap contracts and weather derivative instruments to mitigate and avoid market risk. The Company adopts hedge accounting for interest rate swap contracts, and a part of forward exchange contracts and commodity 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, forward exchange 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, 2009. 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, 2009.

As of March 31, 2009 and 2008, 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 (Loss)		Notional amount	Fair value	Gain (Loss)
			2009	2008	2009	2008	2009	2008	2009		
Dealings outside a market	Forward exchange contract	US\$	<b>¥11,662</b>	¥8,186	<b>¥11,354</b>	¥7,856	<b>¥(308)</b>	¥(329)	<b>\$119,000</b>	<b>\$115,857</b>	<b>\$(3,143)</b>
		Euro	<b>¥9,750</b>	¥3,955	<b>¥8,449</b>	¥3,940	<b>¥(1,301)</b>	¥(15)	<b>\$99,490</b>	<b>\$86,214</b>	<b>\$(13,276)</b>
	Currency swap	<b>¥3,371</b>	¥4,164	<b>¥482</b>	¥1,138	<b>¥482</b>	¥1,138	<b>\$34,398</b>	<b>\$4,918</b>	<b>\$4,918</b>	

## 6. Long-term debt

Long-term debt at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Domestic bonds due through 2029 at rates of 0.58% to 4.1%	<b>¥949,975</b>	¥844,973	<b>\$9,693,622</b>
Loans from the Development Bank of Japan due through 2023 at rates of 0.75% to 5.00%	<b>213,939</b>	221,439	<b>2,183,051</b>
Unsecured loans, principally from banks and insurance companies, due through 2031 at rates of 0.10% to 6.45%	<b>395,775</b>	426,226	<b>4,038,520</b>
Lease obligations	<b>16</b>	–	<b>163</b>
Less amounts due within one year	<b>1,559,705</b>	1,492,638	<b>15,915,356</b>
	<b>(135,125)</b>	(126,737)	<b>(1,378,826)</b>
Total	<b>¥1,424,580</b>	¥1,365,901	<b>\$14,536,530</b>

At March 31, 2009 and 2008, loans from the Development Bank of Japan in total amount of ¥205,812 million (US\$2,100,122 thousand) and ¥210,824 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 ¥2,611,188 million (US\$26,644,776 thousand) and ¥2,525,313 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, 2009 were as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. dollars
2010	¥135,121	\$1,378,786
2011	126,378	1,289,571
2012	143,008	1,459,265
2013	153,244	1,563,714
Thereafter	1,001,937	10,223,847

## 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 flow, 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.

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.

Non-capitalized finance leases before March 31, 2008 have been accounted for in the same manner as operating leases.

Lease payments under non-capitalized finance leases amounted to ¥108 million (US\$1,102 thousand), ¥118 million and ¥138 million for the years ended March 31, 2009, 2008 and 2007, 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, 2009 and 2008 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	Finance leases		Operating leases		Finance leases	Operating leases
	2009	2008	2009	2008	2009	
Current portion	<b>¥87</b>	¥154	<b>¥5</b>	¥5	<b>\$888</b>	<b>\$51</b>
Non-current portion	<b>144</b>	452	<b>1</b>	6	<b>1,469</b>	<b>10</b>
Total	<b>¥231</b>	¥605	<b>¥6</b>	¥11	<b>\$2,357</b>	<b>\$61</b>

### (As lessor)

Lease payments received under finance leases, accounted for as operating leases, amounted to ¥384 million (US\$3,806 thousand), ¥354 million and ¥371 million for the years ended March 31, 2009, 2008 and 2007, respectively.

The present values of future minimum lease payments to be received under finance leases as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Current portion	<b>¥373</b>	¥431	<b>\$3,806</b>
Non-current portion	<b>2,889</b>	3,305	<b>29,480</b>
Total	<b>¥3,262</b>	¥3,736	<b>\$33,286</b>

## 9. Contingent liabilities

At March 31, 2009, the Companies were contingently liable as guarantor for loans of other companies and employees in the amount of ¥136,787 million (US\$1,395,786 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\$51,020 thousand).

## 10. Research and development expenses

Research and development expenses charged to operating expenses were ¥6,268 million (US\$63,959 thousand), ¥6,175 million and ¥6,481 million for the years ended March 31, 2009, 2008 and 2007, 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, 2009 and 2008 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Projected benefit obligation	¥(243,304)	¥(246,015)	<b>\$(2,482,694)</b>
Fair value of pension assets	190,755	224,144	<b>1,946,480</b>
	<b>(52,549)</b>	(21,871)	<b>(536,214)</b>
Less unrecognized actuarial differences	26,465	(7,267)	<b>270,051</b>
Unrecognized prior service costs	(217)	(357)	<b>(2,214)</b>
Prepaid pension expense	34,013	31,291	<b>347,071</b>
Liability for severance and retirement benefits	<b>¥(60,314)</b>	¥(60,786)	<b>\$(615,448)</b>

Included in the consolidated statements of income for the years ended March 31, 2009, 2008 and 2007 are employees' severance and retirement benefit expenses comprised of the following:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Service costs-benefits earned during the year	¥8,003	¥8,291	¥9,121	<b>\$81,663</b>
Interest cost on projected benefit obligation	4,896	4,920	5,005	<b>49,959</b>
Expected return on plan assets	(1,240)	(10,413)	(9,641)	<b>(12,653)</b>
Prior service costs	(68)	(76)	(111)	<b>(694)</b>
Amortization of actuarial losses	(5,569)	(5,362)	3,751	<b>(56,826)</b>
Severance and retirement benefit expenses	6,022	(2,640)	8,125	<b>(61,449)</b>
Defined contribution pension premium, etc	695	721	735	<b>7,092</b>
Total	<b>¥6,717</b>	¥(1,919)	¥8,860	<b>\$(68,541)</b>

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, 2009, the discount rate and the rates of expected return on plan assets used by the Company are 2.1% and mainly 0.5%, respectively.

In the year ended March 31, 2008, 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, 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.

## 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, 2009, 2008 and 2007. 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, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
<b>Deferred tax assets:</b>			
Excess depreciation	<b>¥14,212</b>	¥16,400	<b>\$145,020</b>
Provision for depreciation of nuclear power plant	<b>13,181</b>	8,633	<b>134,500</b>
Adjustment for unrealized intercompany profits	<b>12,768</b>	13,533	<b>130,286</b>
Severance and retirement benefits	<b>9,845</b>	10,979	<b>100,459</b>
Future reprocessing costs of irradiated nuclear fuel	<b>9,688</b>	9,538	<b>98,857</b>
Loss carryforward	<b>7,800</b>	—	<b>79,592</b>
Future decommissioning costs of nuclear power generating plants	<b>6,526</b>	6,526	<b>66,592</b>
Accrued bonuses and other expenses	<b>5,697</b>	5,619	<b>58,133</b>
Other	<b>16,968</b>	14,891	<b>173,143</b>
Total gross deferred tax assets	<b>96,685</b>	86,119	<b>986,582</b>
Less, valuation allowance	<b>(8,524)</b>	(7,522)	<b>(86,980)</b>
Total deferred tax assets	<b>88,161</b>	78,597	<b>899,602</b>
<b>Deferred tax liabilities:</b>			
Unrealized holding gains on securities	<b>(3,824)</b>	(6,844)	<b>(39,020)</b>
Other	<b>(225)</b>	(215)	<b>(2,296)</b>
Total deferred tax liabilities	<b>(4,049)</b>	(7,059)	<b>(41,316)</b>
Net deferred tax assets	<b>¥84,112</b>	¥71,538	<b>¥858,286</b>

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, 2009.

	Millions of yen
	2009
The Companies' statutory tax rate	36.15%
Equity in earnings of affiliates	(4.18)
Valuation allowance	(3.17)
Intercompany profits	(1.29)
Non-deductible expenses	(0.65)
Other	(1.59)
Effective tax rate	25.27%

### 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 26, 2009, the stockholders approved cash dividends amounting to ¥9,104 million (US\$92,898 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2009. 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, 2009, 2008 and 2007 is as follows:

Millions of yen							
2009							
	Electric power	Information and telecommunications	Comprehensive energy supply	Other	Total	Elimination	Consolidated
<b>Operating revenues:</b>							
Outside customers	¥1,068,127	¥19,677	¥40,442	¥45,481	¥1,173,727	–	¥1,173,727
Intersegment	7,934	14,174	2,934	84,543	109,585	(109,585)	–
Total	1,076,061	33,851	43,376	130,024	1,283,312	(109,585)	1,173,727
Cost and expenses	1,065,940	30,343	42,061	125,789	1,264,133	(105,931)	1,158,202
Operating income	¥10,121	¥3,508	¥1,315	¥4,235	¥19,179	¥(3,654)	¥15,525
Identifiable assets	¥2,585,581	¥65,641	¥23,058	¥233,348	¥2,907,628	¥(101,516)	¥2,806,112
Impairment of fixed assets	–	–	–	–	–	1,689	1,689
Depreciation expense	126,407	7,539	2,629	4,402	140,977	(1,690)	139,287
Capital expenditures	201,401	6,625	1,722	3,675	213,423	(1,645)	211,778

Thousands of U.S. dollars							
2009							
	Electric power	Information and telecommunications	Comprehensive energy supply	Other	Total	Elimination	Consolidated
<b>Operating revenues:</b>							
Outside customers	\$10,899,255	\$200,786	\$412,673	\$464,092	\$11,976,806	–	\$11,976,806
Intersegment	80,959	144,632	29,939	862,684	1,118,213	(1,118,214)	–
Total	10,980,214	345,418	442,612	1,326,776	13,095,020	(1,118,214)	11,976,806
Cost and expenses	10,876,939	309,622	429,194	1,283,561	12,899,316	(1,080,928)	11,818,388
Operating income	\$103,275	\$35,796	\$13,418	\$43,215	\$195,704	\$(37,286)	\$158,418
Identifiable assets	\$26,383,480	\$669,806	\$235,286	\$2,381,102	\$29,669,674	\$(1,035,878)	\$28,633,796
Impairment of fixed assets	–	–	–	–	–	17,235	17,235
Depreciation expense	1,289,867	76,929	26,827	44,918	1,438,541	(17,245)	1,421,296
Capital expenditures	2,055,112	67,602	17,571	37,500	2,177,785	(16,786)	2,161,000

Millions of yen							
2008							
	Electric power	Information and telecommunications	Comprehensive energy supply	Other	Total	Elimination	Consolidated
<b>Operating revenues:</b>							
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

	Millions of yen						Consolidated
	2007						
	Electric power	Information and telecommunications	Comprehensive energy supply	Other	Total	Elimination	
<b>Operating revenues:</b>							
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

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, 2009, 2008 and 2007 is not shown due to aggregate overseas sales being less than 10% of total operating revenues.

As a result of changing the method of provision for the reprocessing of irradiated nuclear fuels (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 fuels (Note 2), costs in the “Electric power” segment increased by ¥6,191 million 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, 2009 were approved at the annual meeting of stockholders held on June 26, 2009:

	Millions of Yen	Thousands of U.S. dollars
Year-end cash dividends, ¥25 (\$0.25) per share	¥9,103	\$92,888

# 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, 2009 and 2008, and the related consolidated statements of operations, changes in net assets and cash flows for each of the three years in the period ended March 31, 2009, 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, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2009, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to 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, 2009 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 26, 2009

# Non-Consolidated Balance Sheets

The Chugoku Electric Power Co., Inc.  
March 31, 2009 and 2008

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
<b>Property:</b>			
Plant and equipment	<b>¥5,490,561</b>	¥5,493,749	<b>\$56,026,132</b>
Construction in progress	<b>391,847</b>	291,692	<b>3,998,439</b>
	<b>5,882,408</b>	5,785,441	<b>60,024,571</b>
Less—			
Contributions in aid of construction	<b>78,006</b>	75,924	<b>795,979</b>
Accumulated depreciation	<b>3,771,661</b>	3,686,470	<b>38,486,337</b>
	<b>3,849,667</b>	3,762,394	<b>39,282,316</b>
Net property (Note 5)	<b>2,032,741</b>	2,023,047	<b>20,742,255</b>
<b>Nuclear fuel</b>	<b>155,425</b>	133,841	<b>1,585,970</b>
<b>Investments and other assets:</b>			
Investment securities	<b>37,141</b>	45,048	<b>378,990</b>
Funds reserved for reprocessing of irradiated nuclear fuel	<b>87,242</b>	91,115	<b>890,224</b>
Investments to subsidiaries and affiliated companies (Note 3)	<b>29,394</b>	29,213	<b>299,939</b>
Long-term loans to employees	<b>581</b>	818	<b>5,929</b>
Deferred tax assets (Note 8)	<b>50,838</b>	44,715	<b>518,755</b>
Other assets	<b>37,638</b>	35,447	<b>384,061</b>
Total investments and other assets	<b>242,834</b>	246,356	<b>2,477,898</b>
<b>Current assets:</b>			
Cash and time deposits	<b>48,592</b>	12,285	<b>495,837</b>
Receivables, less allowance for doubtful accounts of ¥730 million (\$7,449 thousand) in 2009 and ¥678 million in 2008	<b>63,318</b>	56,492	<b>646,102</b>
Inventories, fuel and supplies	<b>40,364</b>	32,251	<b>411,878</b>
Deferred tax assets (Note 8)	<b>13,707</b>	8,338	<b>139,867</b>
Other current assets	<b>14,207</b>	12,703	<b>144,969</b>
Total current assets	<b>180,188</b>	122,069	<b>1,838,653</b>
Total assets	<b>¥2,611,188</b>	¥2,525,313	<b>\$26,644,776</b>

See notes to non-consolidated financial statements

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
<b>Long-term liabilities:</b>			
Long-term debt (Note 4)	<b>¥1,403,119</b>	¥1,347,700	<b>\$14,317,541</b>
Employees' severance and retirement benefits	<b>50,923</b>	51,140	<b>519,622</b>
Retirement allowances for directors and corporate auditors	–	1,014	–
Provision for reprocessing of irradiated nuclear fuel	<b>98,229</b>	100,691	<b>1,002,337</b>
Provision for reprocessing of irradiated nuclear fuel without a fixed plan to reprocess	<b>3,411</b>	2,753	<b>34,806</b>
Provision for decommissioning of nuclear power generating plants	<b>58,641</b>	56,547	<b>598,378</b>
Other long-term liabilities	<b>17,043</b>	15,062	<b>173,908</b>
Total long-term liabilities	<b>1,631,366</b>	1,574,907	<b>16,646,592</b>
<b>Current liabilities:</b>			
Long-term debt due within one year (Note 4)	<b>128,369</b>	119,845	<b>1,309,888</b>
Short-term borrowings	<b>64,300</b>	64,350	<b>656,123</b>
Commercial paper	<b>65,000</b>	20,000	<b>663,266</b>
Accounts payable	<b>55,965</b>	52,756	<b>571,071</b>
Accrued income taxes	<b>5,813</b>	6,840	<b>59,316</b>
Accrued expenses	<b>37,301</b>	34,808	<b>380,622</b>
Allowance for bonuses to directors and corporate auditors	–	110	–
Allowance for business loss of affiliates	–	133	–
Other current liabilities, including other long-term liabilities due within one year	<b>33,973</b>	33,435	<b>346,663</b>
Total current liabilities	<b>390,721</b>	332,277	<b>3,986,949</b>
Provision for drought	–	–	–
Provision for depreciation of nuclear power plant	<b>36,463</b>	23,881	<b>372,072</b>
Contingent liabilities (Note 6)			
<b>Net Assets (Note 9):</b>			
Common stock	<b>185,528</b>	185,528	<b>1,893,143</b>
Authorized–1,000,000,000 shares			
Issued–371,055,259 shares in 2009 and 2008			
Capital surplus	<b>16,731</b>	16,715	<b>170,724</b>
Retained earnings (Note 10)	<b>358,366</b>	395,877	<b>3,656,796</b>
Treasury stock (6,897,428 shares in 2009 and 6,807,673 shares in 2008)	<b>(12,456)</b>	(12,232)	<b>(127,102)</b>
Net unrealized loss on hedges	<b>(231)</b>		<b>(2,357)</b>
Net unrealized holding gains on securities	<b>4,700</b>	8,360	<b>47,959</b>
Total net assets	<b>552,638</b>	594,248	<b>5,639,163</b>
Total liabilities and net assets	<b>¥2,611,188</b>	¥2,525,313	<b>\$26,644,776</b>

# Non-Consolidated Statements of Operations

The Chugoku Electric Power Co., Inc.

For the years ended March 31, 2009, 2008 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2009	2008	2007	2009
<b>Operating revenues</b>	<b>¥1,107,457</b>	¥1,038,438	¥996,007	<b>\$11,300,582</b>
<b>Operating expenses:</b>				
Personnel	<b>110,767</b>	105,272	116,529	<b>1,130,276</b>
Fuel	<b>317,061</b>	268,327	214,559	<b>3,235,316</b>
Purchased power	<b>208,521</b>	154,991	146,861	<b>2,127,765</b>
Depreciation	<b>126,408</b>	130,501	128,490	<b>1,289,878</b>
Maintenance	<b>93,645</b>	82,105	90,001	<b>955,561</b>
Taxes other than income taxes	<b>59,352</b>	61,388	61,698	<b>605,633</b>
Purchased services	<b>44,044</b>	36,703	33,465	<b>449,429</b>
Other	<b>136,686</b>	121,316	126,176	<b>1,394,755</b>
	<b>1,096,484</b>	960,603	917,779	<b>11,188,613</b>
<b>Operating income</b>	<b>10,973</b>	77,835	78,228	<b>111,969</b>
<b>Other expenses (income):</b>				
Interest expense	<b>28,767</b>	30,232	28,419	<b>293,541</b>
Interest income	<b>(1,565)</b>	(1,639)	(1,076)	<b>(15,969)</b>
Other, net	<b>86</b>	(2,034)	(2,110)	<b>877</b>
	<b>27,288</b>	26,559	25,233	<b>278,449</b>
<b>Income before special item and income taxes</b>	<b>(16,315)</b>	51,276	52,995	<b>(166,480)</b>
<b>Special items:</b>				
Provision (reversal) for drought	–	(657)	112	–
Provision for depreciation of nuclear power plant	<b>12,582</b>	18,828	5,053	<b>128,388</b>
<b>Provision for income taxes:</b>				
Current	<b>(308)</b>	11,929	16,855	<b>(3,143)</b>
Deferred	<b>(9,289)</b>	452	(2,428)	<b>(94,786)</b>
Net (loss) income	<b>(19,300)</b>	¥20,724	¥33,403	<b>(196,939)</b>

	Yen			U.S. dollars (Note 1)
	2009	2008	2007	2009
<b>Per share data:</b>				
Net (loss) income (Basic)	<b>¥(52.99)</b>	¥56.89	¥91.67	<b>\$(0.54)</b>
Cash dividends	<b>50.00</b>	50.00	50.00	<b>0.51</b>

See notes to non-consolidated financial statements

# Non-Consolidated Statements of Changes in Net Assets

The Chugoku Electric Power Co., Inc.  
For the years ended March 31, 2009 and 2008

	Millions of yen							Total
	Shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on securities	Net unrealized loss on hedges	
<b>Balance at March 31, 2007</b>	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)
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)
<b>Balance at March 31, 2008</b>	371,055,259	¥185,528	¥16,715	¥395,877	¥(12,232)	¥8,360	–	¥594,248
Net loss				(19,300)				(19,300)
Cash dividends paid (¥50 per share)				(18,211)				(18,211)
Surplus from sale of treasury stock			16		58			74
Treasury stock purchased, net					(282)			(282)
Decrease in unrealized holding gains on securities						(3,660)	¥(231)	(3,891)
<b>Balance at March 31, 2009</b>	<b>371,055,259</b>	<b>¥185,528</b>	<b>¥16,731</b>	<b>¥358,366</b>	<b>¥(12,456)</b>	<b>¥4,700</b>	<b>¥(231)</b>	<b>¥552,638</b>

	Thousands of U.S. dollars (Note 1)							Total
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on securities	Net unrealized loss on hedges		
<b>Balance at March 31, 2008</b>	\$1,893,143	\$170,561	\$4,039,562	\$(124,816)	\$85,306	–	\$6,063,756	
Net loss			(196,939)				(196,939)	
Cash dividends paid (\$0.51 per share)			(185,827)				(185,827)	
Surplus from sale of treasury stock		163		592			755	
Treasury stock purchased, net				(2,878)			(2,878)	
Decrease in unrealized holding gains on securities					(37,347)	(2,357)	(39,704)	
<b>Balance at March 31, 2009</b>	<b>\$1,893,143</b>	<b>\$170,724</b>	<b>\$3,656,796</b>	<b>\$(127,102)</b>	<b>\$47,959</b>	<b>\$(2,357)</b>	<b>\$5,639,163</b>	

See notes to non-consolidated financial statements

# Notes to Non-Consolidated Financial Statements

The Chugoku Electric Power Company, Inc.

## 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, 2009, 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, 2008, prepared in accordance with the previous presentation rules.

The non-consolidated statements of changes in net assets for the years ended March 31, 2009 and 2008 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, 2009, which was ¥98 to U.S. \$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 were stated at cost, determined principally by the weighted average method. Since this fiscal year, they have been computed at cost, method of cutting down book value due to profitability decrease. The effect on the non-consolidated financial statements was immaterial.

### 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 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 the result, operating expense increased by ¥6,608 million and operating income and income before income taxes decreased by the same amount for the year ended March 31, 2008.

The useful lives of respective assets were changed based on the corporation tax law after the revision of the corporation tax law in this fiscal year.

### **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, 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. Actual 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.

The difference of ¥51,533 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. The amount of summing up since this fiscal year is ¥3,306 million of the term evenness.

The difference of ¥59,307 million due to the change in estimating the costs of reprocessing irradiated nuclear fuel decreased to ¥51,533 million. The effect of this change on profit and loss is immaterial.

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 ¥4,997 million (US\$50,990 thousand) on March 31, 2009.

### **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 statements 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, 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 amount for the year ended March 31, 2007.

### **Accounting for certain lease transactions**

Non-capitalized finance leases were accounted for in the same manner as operating leases, but in this fiscal year they are computed by usual sales transaction.

Non-capitalized finance leases before March 31, 2008 have been accounted for in the same manner as operating leases. The effect on the non-consolidated financial statements was immaterial.

### **Derivatives and hedge accounting**

The Company adopts deferred hedge processing and states 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.

It goes by comparing the total of the cash flow change of the means for hedging and the total of the cash flow change of the hedge object in the quarterly about the efficacy evaluation of the hedge.

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 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.

## 3. Securities

Disclosure of market value information of securities, except for investments in subsidiaries and affiliates, with readily available market values at March 31, 2009, 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, 2009 and 2008 were as follows:

	Millions of yen						Thousands of U.S. dollars		
	Book value		Fair value		Difference		Book value	Fair value	Difference
	2009	2008	2009	2008	2009	2008	2009		
Equity securities of affiliated companies	<b>¥2,493</b>	¥2,493	<b>¥33,343</b>	¥38,218	<b>¥30,850</b>	¥35,725	<b>\$25,439</b>	<b>\$340,235</b>	<b>\$314,796</b>

## 4. Long-term debt

Long-term debt at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Domestic bonds due through 2029 at rates of 0.58% to 4.1%	<b>¥949,975</b>	¥844,973	<b>\$9,693,622</b>
Loans from the Development Bank of Japan due through 2023 at rates of 0.75% to 4.95%	<b>205,812</b>	210,824	<b>2,100,122</b>
Unsecured loans, principally from banks and insurance companies, due through 2031 at rates of 0.10% to 6.45%	<b>375,701</b>	411,748	<b>3,833,684</b>
	<b>1,531,488</b>	1,467,545	<b>15,627,429</b>
Less amounts due within one year	<b>(128,369)</b>	(119,845)	<b>(1,309,888)</b>
Total	<b>¥1,403,119</b>	¥1,347,700	<b>\$14,317,541</b>

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, 2009 were as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. dollars
2010	¥128,369	\$1,309,888
2011	121,303	1,237,786
2012	136,756	1,395,469
2013	151,415	1,545,051
Thereafter	993,645	10,139,235

## 5. Leases (As lessee)

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

Non-capitalized finance leases before March 31, 2008 have been accounted for in the same manner as operating leases.

Lease payments under non-capitalized finance leases amounted to ¥411 million (US\$4,194 thousand), ¥606 million and ¥1,014 million for the years ended March 31, 2009, 2008 and 2007, 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, 2009 and 2008 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	Finance leases		Operating leases		Finance leases	Operating leases
	2009	2008	2009	2008	2009	
Current portion	<b>¥295</b>	¥413	–	¥2	<b>\$3,010</b>	–
Non-current portion	<b>569</b>	884	–	–	<b>5,806</b>	–
Total	<b>¥864</b>	¥1297	–	¥2	<b>\$8,816</b>	–

## 6. Contingent liabilities

At March 31, 2009, the Company was contingently liable as guarantor for loans of other companies and employees in the amount of ¥165,145 million (US\$1,685,153 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\$51,020 thousand).

## 7. Research and development expenses

Research and development expenses charged to operating expenses were ¥6,032 million (US\$61,551 thousand), ¥5,752 million and ¥6,285 million for the years ended March 31, 2009, 2008 and 2007, respectively.

## 8. Income taxes

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
<b>Deferred tax assets:</b>			
Excess depreciation	<b>¥13,391</b>	¥12,596	<b>\$136,643</b>
Provision for depreciation of nuclear power plant	<b>13,181</b>	8,632	<b>134,500</b>
Future reprocessing costs of irradiated nuclear fuel	<b>9,688</b>	9,538	<b>98,857</b>
Future decommissioning costs of nuclear power generation plants	<b>6,526</b>	6,526	<b>66,592</b>
Severance and retirement benefits	<b>6,345</b>	7,304	<b>64,745</b>
Loss carryforward	<b>4,958</b>	–	<b>50,592</b>
Accrued bonuses to employees	<b>3,726</b>	3,835	<b>38,020</b>
Other	<b>15,762</b>	14,463	<b>160,837</b>
Total gross deferred tax assets	<b>73,577</b>	62,894	<b>750,786</b>
Less, valuation allowance	<b>(6,363)</b>	(5,107)	<b>(64,929)</b>
Total deferred tax assets	<b>67,214</b>	57,787	<b>685,857</b>
<b>Deferred tax liabilities:</b>			
Unrealized holding gains on securities	<b>(2,631)</b>	(4,703)	<b>(26,847)</b>
Other	<b>(38)</b>	(31)	<b>(388)</b>
Total deferred tax liabilities	<b>(2,669)</b>	(4,734)	<b>(27,235)</b>
Net deferred tax assets	<b>¥64,545</b>	¥53,053	<b>\$658,622</b>

## 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.

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 26, 2009, the stockholders approved cash dividends amounting to ¥9,103 million (US\$92,888 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2009. 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, 2009 were approved at the annual meeting of stockholders held on June 26, 2009:

	Millions of Yen	Thousands of U.S. dollars
Year-end cash dividends, ¥25 (\$0.25) per share	¥9,103	\$92,888

# 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, 2009 and 2008, and the related non-consolidated statements of operations, changes in net assets for each of the three years in the period ended March 31, 2009, 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, 2009 and 2008, and the non-consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2009, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to 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, 2009 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 26, 2009

# Major Subsidiaries and Affiliated Companies

As of March 31, 2009

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
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
Okayama Pipeline Corporation	¥400	50.0	Gas piping business
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**	¥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

Notes: 1. Okayama Pipeline Corporation is an equity method affiliate of Chugoku Electric Power which was established as a joint venture of Chugoku Electric Power and Nippon Oil Corporation on July 22, 2008.

2. International Standard Management Center Inc. is no longer an affiliate of Chugoku Electric Power due to the sale of all shares on January 23, 2009.

# Corporate Data

As of March 31, 2009

**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 680-8666, 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)	4,664
Industrial and commercial	581
Total	5,245

## SUPPLY INFRASTRUCTURE

Power Stations	Number of Facilities	Generating Capacity (MW)
Hydroelectric	97	2,905
Thermal (Note)	12	7,801
Nuclear	1	1,280
Total	110	11,986

**Transmission Lines (Route length):** 8,253 kilometers

**Number of Substations:** 460

**Distribution Lines (Route length):** 81,577 kilometers

Note: As of April 8, 2009

# Investor Information

As of September 30, 2009

## INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS:

KPMG AZSA & Co.

## TRANSFER AGENT AND REGISTRAR:

The Sumitomo Trust & Banking Co., Ltd.

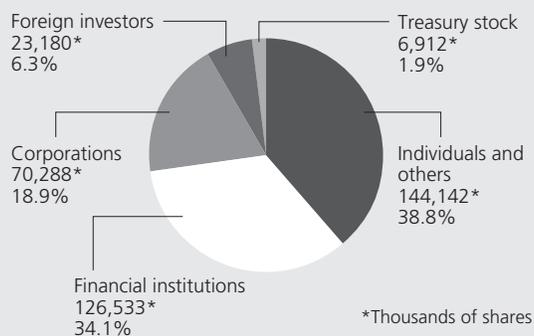
## SECURITIES TRADED:

Tokyo Stock Exchange, Osaka Securities Exchange

**NUMBER OF STOCKHOLDERS:** 150,831

**COMMON STOCK ISSUED:** 371,055,259 shares

## DISTRIBUTION OF COMMON STOCK ISSUED:



## MAJOR STOCKHOLDERS

Name	Number of Shares Held (thousands)	Percentage (%)
Yamaguchi Pref. Shinko Zaidan	49,505	13.6
Nippon Life Insurance Company	23,148	6.4
Japan Trustee Services Bank, Ltd. (Trust account 4G)	13,902	3.8
Japan Trustee Services Bank, Ltd. (Trust account)	12,979	3.6
The Master Trust Bank of Japan, Ltd. (Trust account)	12,938	3.6
Mizuho Corporate Bank, Ltd.	5,801	1.6
The Dai-ichi Mutual Life Insurance Company	5,374	1.5
Company stock investment	5,309	1.5
The Hiroshima Bank, Ltd.	5,092	1.4
The Sumitomo Trust & Banking Co., Ltd.	4,986	1.4

Note: As of March 31, 2009

## STOCK PRICE RANGE ON THE TOKYO STOCK EXCHANGE

Fiscal year	High (yen)	Low (yen)
2009 1st quarter	2,380	2,140
2nd quarter	2,490	2,175
3rd quarter	2,475	1,815
4th quarter	2,370	2,015
2010 1st quarter	2,140	1,921
2nd quarter	2,045	1,964

# Memo

**The Chugoku Electric Power Co., Inc.**

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