



ANNUAL REPORT 2010



Dear Stockholders and Investors

We would like to express our sincere gratitude to our stockholders and investors for your extremely generous support.

We would like to proffer our most sincere apology to our shareholders for the concerns raised in relation to the issues stemming from the insufficient inspection of the Shimane Nuclear Power Station that we reported in March 2010. This incident has served to newly remind all the members of the Chugoku Electric Power Group that our business operations are wholly founded on the trust of everyone involved in our operations, and we are concentrating all our efforts on measures to ensure that such problems will never occur again.

When we consider anew the situation in which our group finds itself, it is clear that the severity of our business environment is continuing due to the high-price trend of fossil fuels and the effects that the drop in domestic production caused by the stagnant global economy have had on the consumption of electricity.

With the Basic Law for Prevention of Global Warming receiving cabinet approval in March of this year, and continued efforts to provide specific form to conceptual environmental policies such as domestic emissions trading and environmental taxes, we are fully cognizant of the fact that there will be no turning back the tide of concentrated focus on environmental concerns.

Under such a business environment, we will further our efforts for thorough cost reductions throughout the entire group, as well as setting down further measures that will optimize all of our business activities throughout the entire company. Additionally, we are continually seeking to cultivate new sources of demand by maximizing the application of solutions that further advance contributions to a low-carbon society and energy conservation in the form of measures towards "electrification" in the dual areas of corporate/private life.

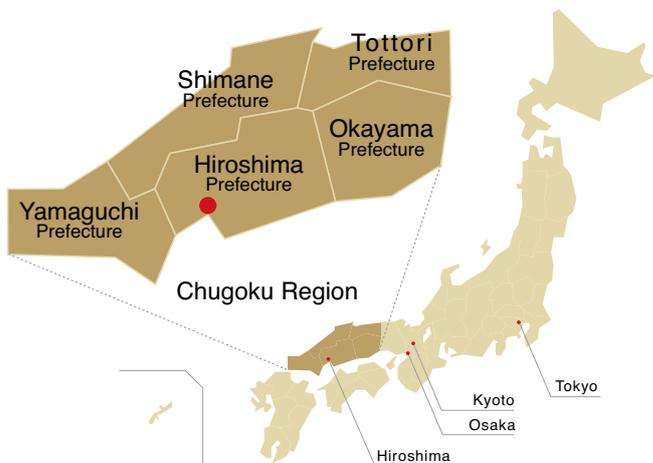
At the same time, we are steadily moving forward with a mid-to long-term perspective toward the strengthening our operating foundations regarding both facilities and personnel, which will be the source of our competitive edge in the future. Such measures will include the development of new nuclear power stations and preventive maintenance to improve the availability of existing nuclear power stations, and passing on to younger employees the technologies and skills needed to support the electric power industry.

The keywords for our "Five-Year Group Management Vision" formulated in March, 2008 are "trust", "creation", and "growth". We will continue to grow while creating new value based on 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 continually strive to meet the expectations of our stockholders and investors. We thank you and look forward to your continued support and cooperation.

Takashi Yamashita

Takashi Yamashita
President





Profile

(as of March 31, 2010)

| | |
|--------------------------|--|
| ■ Date of Establishment | May 1, 1951 |
| ■ Paid-in Capital | 185,528 million yen |
| ■ Common Stock Issued | 371,055,259 |
| ■ Number of Stockholders | 149,989 |
| ■ Number of Employees | 9,802 |
| ■ Energy Sold | 57,911 GWh (FY 2009) |
| ■ Sales Amount | 972.7 billion yen (FY 2009) |
| ■ Service Area | Prefectures of Tottori, Shimane, Okayama, Hiroshima and Yamaguchi, plus portions of prefectures of Hyogo, Kagawa and Ehime |

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) |
|---------------------------------------|-----------------|-------------|-------------|------------------------------------|
| | 2010 | 2009 | 2008 | 2010 |
| Operating revenues | ¥ 1,038,443 | ¥ 1,173,727 | ¥ 1,108,354 | \$11,166,054 |
| Operating income | 81,515 | 15,525 | 84,416 | 876,505 |
| Net(loss) income | 31,002 | (23,576) | 25,271 | 333,355 |
| Total stockholders' equity/Net assets | 679,685 | 663,974 | 711,080 | 7,308,441 |
| Total assets | 2,781,990 | 2,806,112 | 2,710,681 | 29,913,871 |
| Interest-bearing debt | 1,650,859 | 1,717,736 | 1,595,098 | 17,751,172 |
| Key financial ratios: | | | | |
| Equity ratio (%) | 24.3 | 23.5 | 26.0 | |
| Return on equity (ROE) (%) | 4.6 | (3.5) | 3.6 | |
| Return on assets (ROA) (%) (Note3) | 1.9 | 0.4 | 2.0 | |

Notes: 1.U.S. dollar amounts presented are translated from yen,for convenience only,at the rate of ¥93=US\$1,the exchange rate prevailing on March 31,2010.

2.The Company's fiscal year begins on April 1 and ends on March 31 of the following year.In this report,fiscal 2010 is used to denote the year ended March 31,2010.

3.ROA=Operating income × (1-Income tax rate)/Total assets × 100

4.The figures herein are rounded to the nearest million yen or thousand of dollars.

Contents

| | |
|--|----|
| Dear Stockholders and Investors | 1 |
| Profile | 2 |
| Corporate Philosophy | 3 |
| Five-Year Group Business Vision | 4 |
| "Vision for Human Resource Cultivation" and "Equipment Vision" | |
| Working to deliver a stable supply of good-quality electricity | 5 |
| Working to provide lifestyles of abundance and comfort | 11 |
| Working to realize a society that can develop sustainably | 17 |
| Working to live up to your trust in us | 23 |
| Organization Chart and Members of the Board | 29 |
| Corporate Governance | 30 |
| Map of Major Supply Facilities | |
| Financial Section | 31 |
| Major Subsidiaries and Affiliated Companies | 74 |
| Corporate Data/Investor Information | 75 |

Corporate Philosophy

(established in January 1991)

Chugoku Electric's "Corporate Philosophy" indicates the company's vision. It is composed of the company's key concept, management philosophy and code of conduct.

Key Concept

ENERGIA

— With You and with the Earth—

Energia stands for a "new, bright, warm and dynamic society," and signifies Chugoku Electric's attitude towards achieving such a society.

Code of Conduct (revised in March 2000)

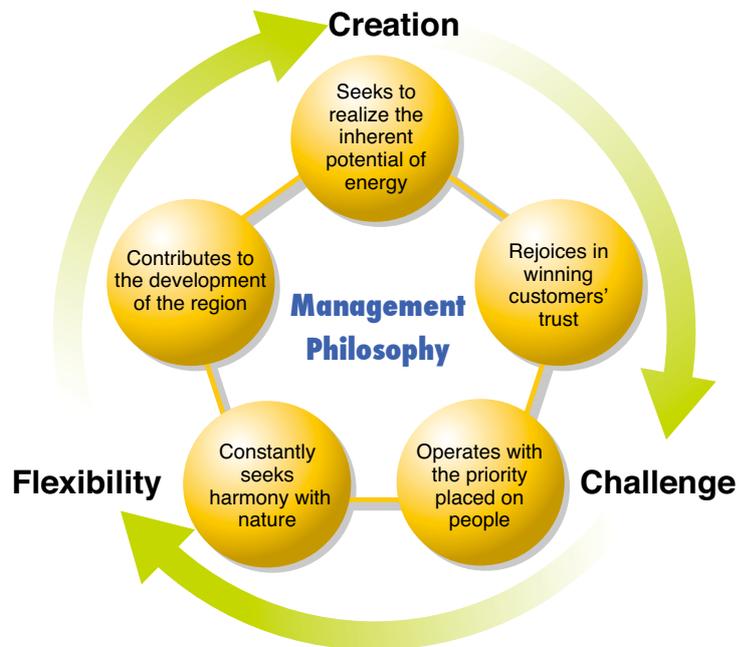
"Energia Will"

We will strive to be a radiant group of people progressing towards the future with a vigorous and challenging spirit, together with creative ideas and flexible thinking.

We will act:

- Promptly
- Without relying on conventional practices
- Voluntarily and responsibly
- Professionally
- Keeping in mind our customers' viewpoints
- Conscious of our stockholders and investors
- To collect and disseminate information to our customers
- As a unified group
- To protect the environment
- With common sense

Management philosophy



Five-Year Group Business Vision (formulated in March 2008)

The Energia Group formulated the Five-Year Group Business Vision in March 2008, and is working with combined efforts to strengthen its business foundation.

■ Corporate group image to aspire to

The Energia Group is to "create new value through the power of people and technology and grow on a continuous basis, so as to be trusted by the public and contribute to the development of society."

■ Action Plan aimed at realizing the corporate group image to aspire to

I. Position assigned to the next five years (fiscal 2008 to 2012)

A period for rendering firm the trust that is the foundation of business operations, and for strengthening the human resource base and facility base that constitute the wellsprings of value creation.

II. Concept

Laying foundations of trust and creativity in order for growth

III. Action Plan

1. So that the Energia Group will be worthy of trust:

Engage steadfastly in operational management that prioritizes compliance, and fulfill the continuing mission as a group, with energy services as the core.

2. So that the Energia Group will be creative:

Cultivate human resources that are able to think and act for themselves, and combine the abilities of individuals together to raise organizational capabilities.

3. So that the Energia Group will continue growing:

Have the group work in unison to strengthen the profit base which is the fount of growth.

—Numerical Targets (Revised March 2010) —

| | Target Items | Numerical Targets |
|--|---|--|
| Soundness | Interest-bearing debt (consolidated) | Approximately ¥1,600 billion (At the end of FY 2012) |
| Growth potential | Volume of electric power demand developed | No less than 3.5 billion kWh (Total for FY 2008 through FY 2012) |
| Reliability and environment-friendliness | Raising of proportion of nuclear power generation | Proportion of nuclear power in total power generated: 25% or more (In FY 2012) |
| | Development of Kaminoseki Nuclear Power Station Unit 1 | Commencement of construction work (In FY 2012) |
| | Development of technology to contribute to realizing low-carbon society | <ul style="list-style-type: none"> •Oxygen injection coal gasification technology: Commencement of construction work on large-scale verification test apparatus •Key technology for smart grid: Practical application of renewable energy coordinating and stabilizing system (In FY 2012) |
| | Maintenance/raising of supply reliability | Accident outage time: around 6 minutes per household (In FY 2012) |
| | Establishment of system for handing on technology and skills | <ul style="list-style-type: none"> •Introduction of advanced engineer and technician accreditation system •Introduction of educational staff system (In FY 2010) |
| | Reduction of CO ₂ emissions per unit of energy generation | CO ₂ emissions per unit of energy generation: Around 20% lower than FY 1990 levels (Average for FY 2008 to FY 2012) |

"Vision for Human Resource Cultivation" and "Equipment Vision" (formulated in July 2008)

So that all its executives and employees can hold in common and put solidly into practice the business orientations concerning human resource cultivation and equipment, the Energia Group has formulated, based on the Five-Year Group Business Vision, the "Vision for Human Resource Cultivation" and "Equipment Vision" which are described below.

■ Vision for Human Resource Cultivation

We formulated this in order to raise the capabilities and organizational skills of employees through strengthening of efforts for human resource cultivation by setting forth the basic policy for human resource cultivation over the medium to long-term together with the orientations for efforts in that regard.

Under this Vision, we systematically carry out development of our employees' capabilities, with the aim of cultivating "Professional human resources that engage in their work with pride and resolution."

■ Equipment Vision

This sets forth specific efforts from a more long-term perspective, together with effort orientations and achievement levels for employees to share in common, in order to respond accurately to recent changes in the business environment and build an equipment base that will hold firm into the future.

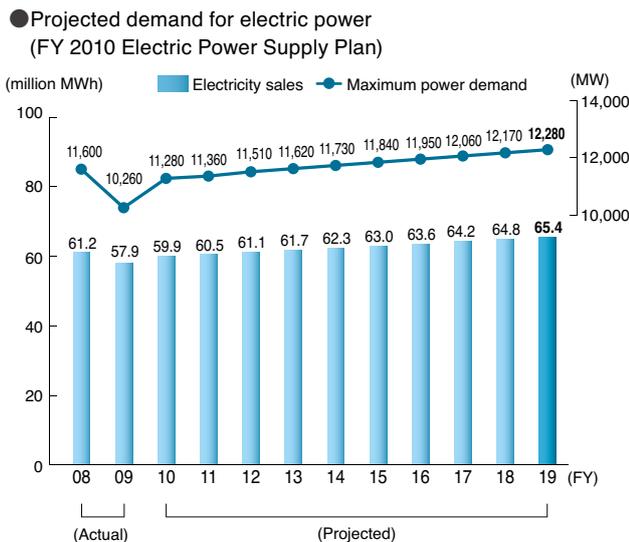
With this Vision we are working to strengthen our equipment foundation, focusing on nuclear power development and responses to equipment aging, with the aim of simultaneously achieving the 3 E's (energy supply stability, economy and environmental preservation) and maintaining equipment and supply reliability levels.

We deliver reassurance alongside electricity.

We have a future-focused facility construction plan, under which we create and upgrade electric power facilities so that electricity shortages will not occur. In all our undertakings from day-to-day operations to action during emergencies we work to deliver a stable and reassuring electric power supply for our customers to use.

Power demand outlook

Despite the influence of advancing energy conservation and a drop in population, living-related demand is expected to go on rising steadily in the future due to advancing computerization and societal aging, increasing orientation toward comfort, and growing popularization of electrical housing. Industrial demand, on the other hand, is likely to increase at no more than a modest pace because of sluggish production growth in material-producing industries, although production levels are expected to rise along with economic recovery.

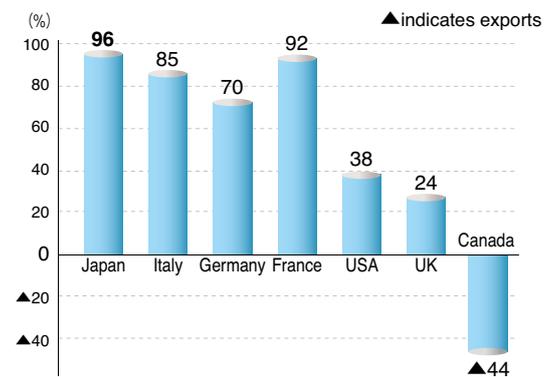


Nearly all of our energy is imported

Japan has meager energy resources, supplying only 4% of its own energy needs. Thus, it depends on imports from overseas for nearly all of its energy. Japan's energy structure is extremely weak in comparison to other developed nations.

In order to deliver a stable supply of high-quality electricity, Chugoku Electric secures reliable supplies of the necessary fuel, also taking into consideration economical and environmental aspects.

● Energy import dependency of major countries (2007) (not taking nuclear power to be domestically produced)



Source: ENERGY BALANCES OF OECD COUNTRIES (2009 Edition), IEA

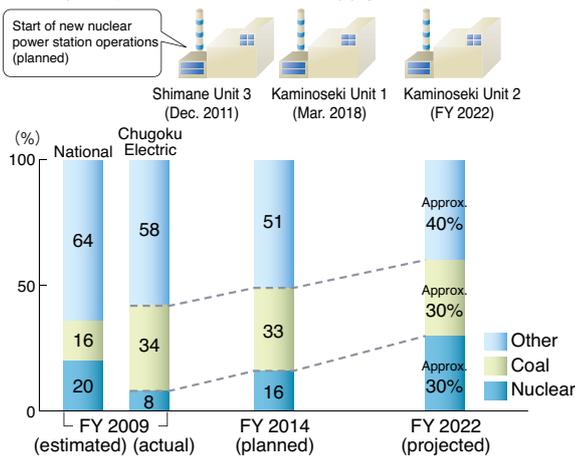


LNG tanker Nizwa bringing LNG produced in Oman to Yanai Power Station

Aiming for optimum mix of power sources

Demand for electric power in the Chugoku Region is forecast to increase at a steady if modest pace. Accordingly, in order to achieve public-interest tasks such as assuring a stable supply of power and taking action in response to global environmental problems, we will be holding nuclear, coal and other (oil, LNG, hydroelectric, etc.) power generation equipment in almost equal proportions and exploiting the advantageous features of each, aiming to realize an "optimum mix of power sources."

● Electric power equipment capability composition ratio and future plan (2010 Electric Power Supply Plan)

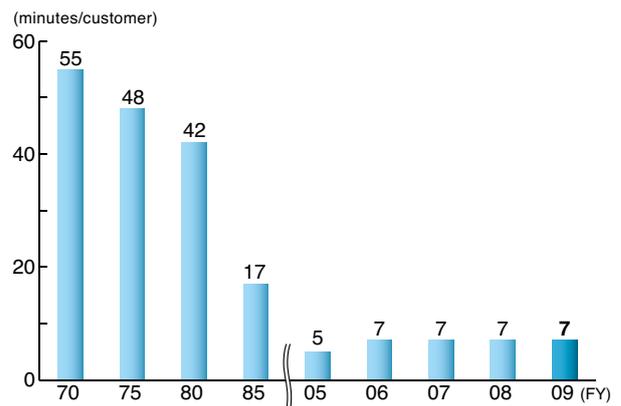


Daily actions

Each power station performs routine checks of its equipment and periodically shuts down operation in order to conduct periodic inspections that examine the soundness of its equipment. In this way, we work to assure supply capacity.

We also regularly determine the status of equipment at substations and on transmission and distribution lines by conducting inspection tours, and carry out optimal improvements of such equipment, including those to enhance economy. Further, we put personnel through training at such facilities in preparation for accidents and disasters. Thus, we make diligent efforts to be able to deliver electricity in a stable supply.

● Trend in the company's annual duration of outage due to accident



※Not including outages due to events designated as natural disasters by public administration.



Training in transmission line restoration work



Inspection tour of a distribution line, also providing training for work in snow conditions

We are moving ahead with developing our nuclear power – while giving top priority to safety – in the interests of stable supply and global warming prevention

Nuclear power is a key technology for securing a stable supply of energy and countering global warming, as it provides superior stability and economy and emits no CO₂ during generation.

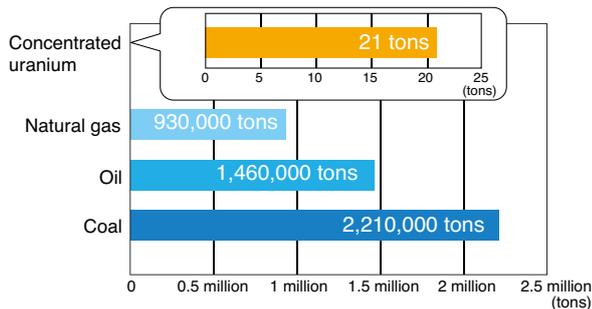
Chugoku Electric is working for safe and stable operation of its Shimane Nuclear Power Station Units 1 and 2, and moving steadily ahead with development of nuclear power generation.

Nuclear power generation: Superior stability of supply

Large quantities of electricity can be generated from a small amount of uranium, which is the fuel used in nuclear power generation. With this type of generation, it is easy to transport and store the fuel.

Furthermore, a single renewal of the fuel at a nuclear power station enables the station to generate electricity for a whole year or longer.

● Fuel required to operate a 1,000MW power station (or one unit of a nuclear power station) for one year

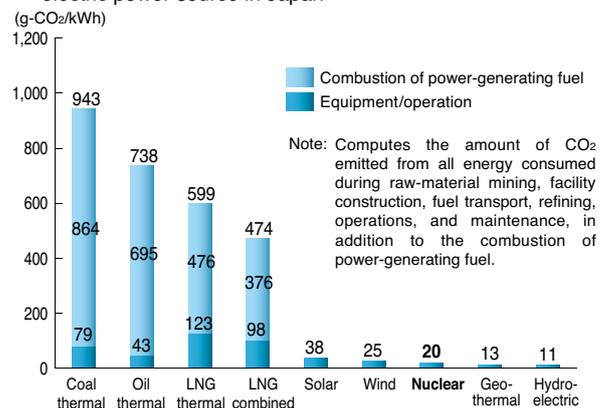


Source: Nuclear Power 2009, Agency for Natural Resources and Energy

Nuclear power generation: Key to CO₂ reduction

Even with nuclear power, CO₂ is emitted as a result of the construction of facilities and transport of fuel. But because CO₂ is not emitted when electricity is being generated, nuclear power is considered a key to reducing emission of greenhouse gases.

● CO₂ emissions per unit of energy generation according to electric power source in Japan



Source: Report from Central Research Institute of Electric Power Industry "Evaluation of Life Cycle CO₂ Emissions of Power Generation Technologies" (July 2010)

Promotion of nuclear power development

Shimane Nuclear Power Station Unit 3 Construction Plan



Construction work in progress on Shimane Nuclear Power Station Unit 3 (Matsue City, Shimane Prefecture)

Development of nuclear power will be the trump card for simultaneously assuring energy security, assuring economical performance amid soaring fuel prices, and resolving global environmental problems. Accordingly, we have ranked nuclear power development as a task of paramount importance for our business, and our group is working with combined efforts to realize construction of Shimane Nuclear Power Station Unit 3 and development of Kaminoseki Nuclear Power Station.

Unit 3 of our Shimane Nuclear Power Station is currently under construction. The construction work began in October 2006 and the unit is scheduled to enter commercial operation in December 2011. Jointly developed by the national government, manufacturers, and electric power companies, this unit's Advanced Boiling Water Reactor (ABWR) is a nuclear reactor with excellent levels of safety and reliability.

The overall progress rate of the construction work was 87.9% as of the end of August 2010.

● Outline information on Shimane Nuclear Power Station Unit 3

| | |
|----------------------------------|-----------------------------|
| Permission for construction plan | December 2005 |
| Start of commercial operations | Scheduled for December 2011 |
| Power output | 1,373 MW |

Kaminoseki Nuclear Power Station Construction Plan



Artist's conception of completed Kaminoseki Nuclear Power Station (Kaminoseki-cho, Yamaguchi Prefecture)

Preparatory construction work for Units 1 and 2 of Kaminoseki Nuclear Power Station began in April 2009, after a permit for reclamation of a public water body had been acquired from the Yamaguchi Prefectural Government in October 2008. Application for permission to install the nuclear reactor for Unit 1 was filed with the Minister of Economy, Trade and Industry in December 2009, and the national government is currently conducting safety examinations pursuant to that application as of end of August 2010.

In constructing this power station, we will keep sea area reclamation and land development to the minimum necessary, and will employ an underwater discharge method whereby the area over which the discharged warm water spreads will be small.

Safety prioritization mechanisms

As concerns operation of our nuclear power stations, we give top priority to assuring safety so that the people who live near the stations, and the people who work in them, are not exposed to radiation. To that end we take earthquake countermeasures for our nuclear power stations at each stage – design, construction and operation, besides also providing them with multiple layers of safety equipment in accordance with the concept of "multilayer protection."

In addition we conduct rigorous education and training and ground the operation of our power stations and maintenance of our facilities in the "safety first" concept. As well as conducting routine safety checks of facilities and equipment, we periodically shut down operation of our power stations in order to conduct periodic inspections of facilities and equipment as required by law.

Operation and Maintenance Training Center

This facility, which is located inside Shimane Nuclear Power Station, enables personnel to acquire basic knowledge and maintenance skills and techniques needed to maintain nuclear power generating equipment. Training involving disassembly, inspection, assembly, and testing of electrical equipment and instruments is systematically conducted.

Nuclear Power Operation Training Simulator

In the Fukada Athletic Park, which neighbors Shimane Nuclear Power Station, we have installed simulators that can simulate the configuration and operation of the control panels, nuclear reactors, turbines, and generators used by the Shimane Units 2 and 3. They enable repeated training with a sense of realism.



Simulator Room for Shimane Unit 3

Outline information on Kaminoseki Nuclear Power Station Unit 1 & Unit 2

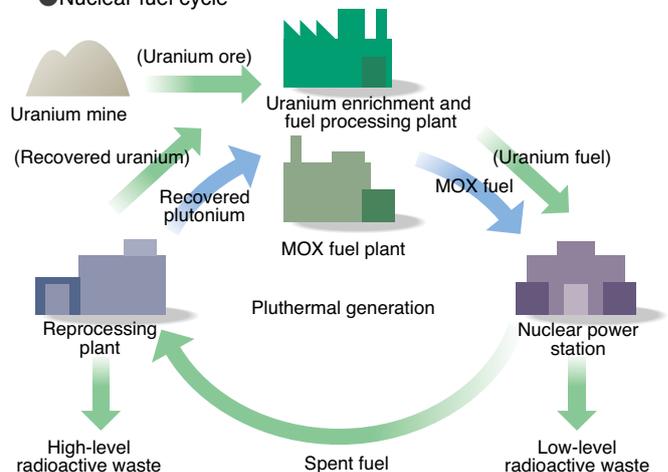
| | Unit 1 | Unit 2 |
|----------------------------------|--------------------------|-----------------------|
| Permission for construction plan | Scheduled for June 2012 | Scheduled for FY 2017 |
| Start of commercial operations | Scheduled for March 2018 | Scheduled for FY 2022 |
| Power output | 1,373 MW | 1,373 MW |

Pluthermal plan for Shimane Nuclear Power Station

Pluthermal generation enables reprocessing of spent fuel for reuse, and we consider it important to advance pluthermal generation robustly in the interests of effective reuse of limited uranium resources and securing a stable energy supply. Accordingly we are currently proceeding with preparations for implementing pluthermal generation at Unit 2 of our Shimane Nuclear Power Station by FY 2015.

We will be continuing to work toward achieving pluthermal generation, with the continued understanding of the public and with the top priority given to safety.

Nuclear fuel cycle



We strive to increase management efficiency.

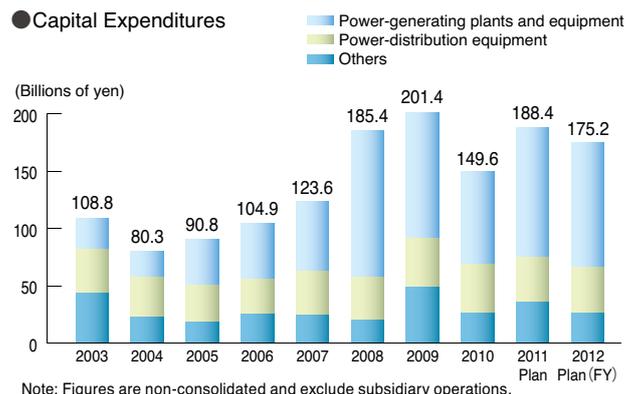
We strive to strengthen competitiveness by promoting efficiency-enhancing activities such as SCM throughout our entire group, consequently, we will control capital expenditures and operating cost.

Note : Supplier Chain Management

This refers to perceiving the overall supply chain from Chugoku Electric Power and Pert/material manufacturers to construction companies as a "Single Chain", and analyzing and reviewing this chain as a means to reform and improve our business process.

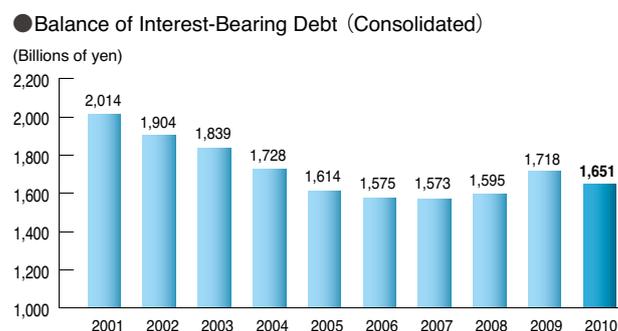
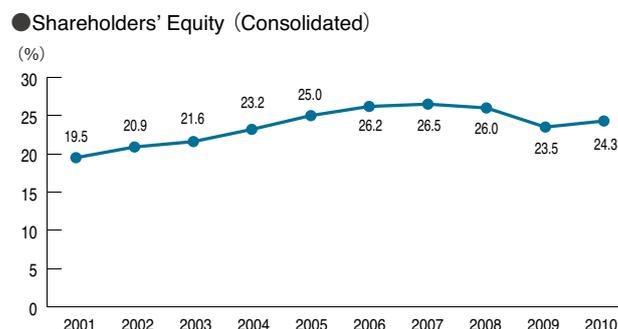
Capital Expenditures

Now is the time to strengthen equipment foundation needed to underpin stable profits over the medium to long term. Although we expect that capital expenditures will remain at high levels as we progress to full-scale implementation of new nuclear power plant development, we will strive to control costs and evenly distribute expenditures by maintaining a rational approach to design and project execution, and by limiting projects to those that have already been planned.



Ensuring of financial ground

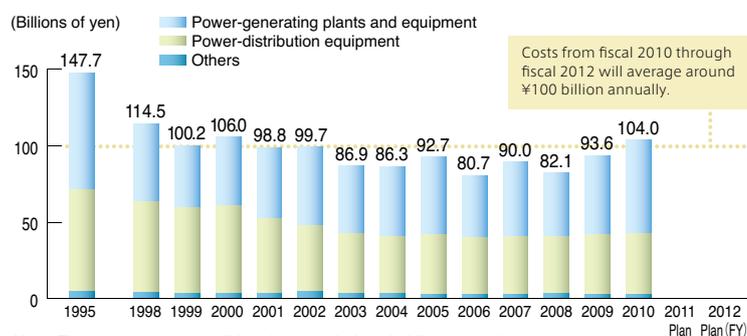
Ever since the process of deregulation began in the electric power industry, we have prepared for heightened competition and adopted a full-scale approach to nuclear power development. We have also prioritized efforts to improve the Group's financial standing. Consequently, the rewards have been a reduction in interest-bearing debt and a steadily rising equity-ratio. We believe that the next step should be to maintain our prevailing financial position while gradually raising capital efficiency.



Repair Expenses

We steadily repair aging power stations and electric power transport facilities in order to maintain supply reliability, while also aiming to reduce and even-out repair expenses by reviewing replacement and inspection cycles, made possible by improvements in equipment condition diagnostic techniques.

● Repair Expenses





Working to provide lifestyles of abundance and comfort

Offering proposals for comfortable lifestyles

In order to provide lifestyles of abundance and comfort, we offer a variety of proposals for products, services and so forth that can benefit customers, based on the expert knowledge we have built up over the years.

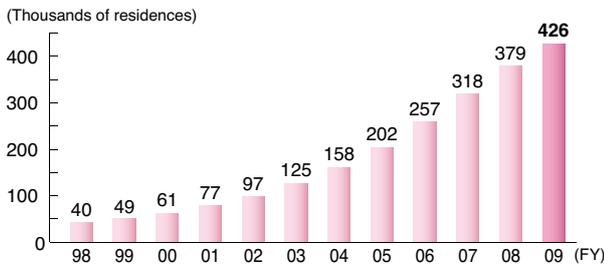
Proposals for ecological and comfortable lifestyles

Amid increasing social needs for the realization of a low-carbon society, completely electrical housing is able to realize ecological yet comfortable – and inexpensive – lifestyles.

Meeting all of a home's heat source needs with electricity by means of equipment such as Eco Cute water heaters, high-efficiency air conditioners and electric cooking heaters, completely electrical housing is showing a year on year rise in popularity thanks to the reassurance, cleanliness and economy it offers.

With the progressive aging of society and the rise in environmental awareness over recent years, increasing numbers of people have been opting to go completely electric, not only for newly constructed housing but also for renovation of existing residences.

● Trend in selection of electrical housing (cumulative)



An electric cooking heater – it warms up quickly, has strong heating power, and is simple to look after

■ Support for completely electrical housing

To enable customers to live more economically in completely electrical housing, the "Family Time" electricity rate plan offers two choices to fit the customer's lifestyle (refer to page 13).

Also, we perform for free a simulation (estimation) of lighting and heating costs with electrical housing. Further, we are implementing activities aimed at raising customer satisfaction. For customers who adopt completely electrical housing, these include after-sales services and completely-electrical kitchen experience lessons by our "home consultants*."

*Home consultants: Staff members who are hired by contract to promote understanding of completely electrical housing by providing consulting services pertaining to the use of electric cooking heaters, electric water heaters, and other equipment.



Cooking lesson by a home consultant (lady on the right)

Friendly to the global environment

Around 30% of the energy consumed in a home is used for hot water for baths and so forth, and another 25% or so is used for heating.

Replacing water heaters and heating systems with high energy efficiency equipment helps to protect the global environment.

■ Eco Cute: economical and environmentally friendly water heater

Eco Cute is a water heater system that extracts heat efficiently from the atmosphere with a heat pump and uses such heat as its input thermal energy. It can yield three times or more thermal energy than the input electrical energy, enabling users to heat water efficiently and economically.

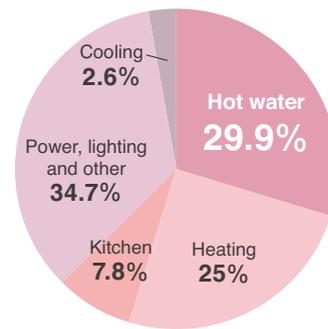
Offering superior energy conservation and environmental performance, Eco Cute has become rapidly popular, with a cumulative total of 222,000 units installed in our service area from the start of commercial production in 2001 up to the end of FY 2009.

■ Promoting utilization of air conditioners for heating

Over recent years, air conditioners using heat pumps have achieved a dramatic improvement in energy-saving performance, similar to that of Eco Cute. Such air conditioners are also environmentally friendly. Their electricity consumption has improved, decreasing roughly 40% in the past 14 years. This makes them economical, so that more and more homes are using these air conditioners not only for cooling in summertime but also as the main home heating equipment in wintertime.

Further, besides possessing improved heating capability, the air conditioners of recent times are also equipped with convenient functions such as air purification and automatic cleaning of filters, for enhanced comfort.

● Home energy consumption by application

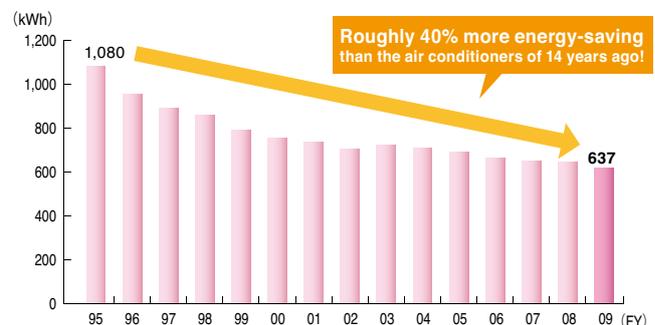


Source: Handbook of Energy and Economic Statistics in Japan 2009, The Institute of Energy Economics, Japan



Eco Cute, the efficient and economical water heater (heat pump unit (on the left) and storage unit)

● Trend in air conditioners' power consumption for heating operation



Source: Data issued by the Japan Refrigeration and Air Conditioning Industry Association (Simple average figures for typical energy-saving type wall-hung air conditioner-heaters of 2.8 kW cooling capacity class)

Old-time house completely electric renovation PR facility "Iwami Asumi-kan"

In October 2009, we opened to the public an old-time house completely electric renovation PR facility "Iwami Asumi-kan," which utilizes an old-time house in the city of Oda in Shimane Prefecture as a site for people to actually experience a concrete instance of completely electric renovation.

Located inside the "Iwami Ginzan Remains and Cultural Scenery" World Cultural Heritage Site, this old-time house built 120 years ago has been renovated by means of the latest electric cooking heaters, Eco Cute, and other high energy-saving performance electric equipment of the latest types so as to be completely electric. This renovation has enhanced the house's residential capabilities while leaving unchanged the traditional aura of its exterior, offering a safe and comfortable dwelling.

Opening hours: 10 A.M. to 4 P.M.

(closed Wednesdays, Thursdays, and during the year-end and New Year vacation)



Exterior view of "Iwami Asumi-kan"

Striving for a fuller range of electricity rate plans

We are working hard to provide customer satisfaction in such ways as making available various home electricity rate plans to suit varied customer lifestyles.

About our electricity rates

Diverse electricity rate plans

We offer a selection of rate plans that customers can choose from according to their electricity usage styles.

These plans offer advantageous rates for customers whose electricity usage styles are conducive to efficient energy utilization such as load-leveling*.

Currently we offer 11 different plans for families and other customers who use electricity at low voltages (100 to 200 volts).

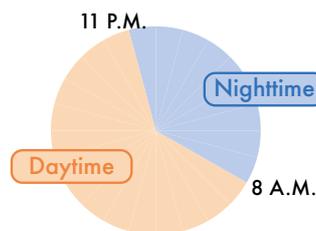
*Refers to efforts to narrow the disparity in electricity use patterns between seasons and time zones, through measures such as drawing peak-time demand into other time zones and promoting effective utilization of electricity in seasons and time zones that have lower levels of demand, in order to use power supply facilities efficiently.

Example of menu plans for families

○ "Economy Nighttime" Time-of-Use Lighting Service

For rate calculation, each day is divided into two time zones - daytime and nighttime.

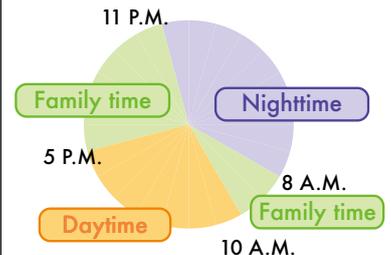
Compared to the regular rate plan (Residential Lighting A), a higher rate is set for daytime use, and a lower rate is set for nighttime use, with this plan.



○ "Family Time" - Plan I Seasonal Time-of-Use Lighting Service "Family Time" - Plan II Type 2 Seasonal Time-of-Use Lighting Service

For rate calculation, electricity use is divided into two seasons - summertime and the rest of the year, and into three time zones - daytime, family time, and nighttime.

Compared to the regular rate plan (Residential Lighting A), a higher rate is set for daytime use, and lower rates are set for nighttime and family time use, with these plans.



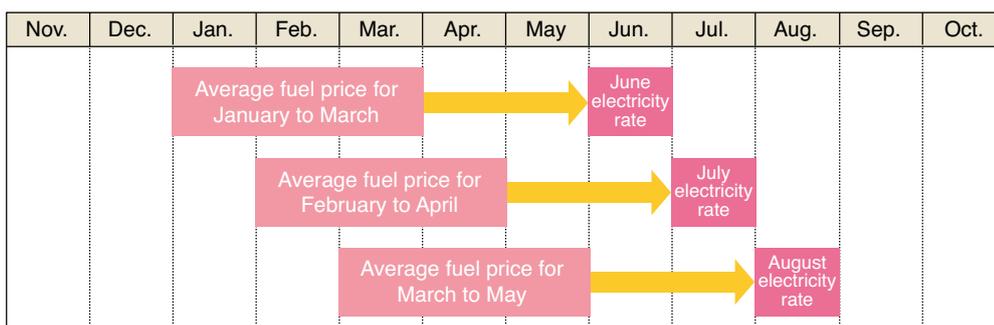
Revision of fuel cost adjustment system

The fuel cost adjustment system was introduced with the purpose of reflecting in electricity rates the fluctuations in the prices of the crude oil, LNG (liquefied natural gas) and coal fuels used for thermal power generation.

Previously we used to calculate a fuel cost adjustment unit, and use it to adjust our electricity rates, every three months. But in view of recent changed circumstances, such as the drastic and sudden fluctuations in fuel prices, we have now shortened the period for application of the fuel cost adjustment unit from three months to one month, in order to reflect fuel price fluctuations more swiftly in our electricity rates, and to level out the variation in the electricity rates. The shortened period has been applied to the rates since May 2009.

The "Notification of Amount of Electricity Used" that customers receive each month when their meter is read states the fuel cost adjustment unit that is applicable to the month's electricity rate. In addition, when a fuel cost adjustment has been made to the electricity rate, we notify customers of the adjustment sum via their electricity bills or other notice.

Conceptualized representation of fuel price calculation period and electricity rate application period



We aim to enhance our customer service.

We are working hard to enhance service to our customers by responding accurately and rapidly to their needs so as to give even greater customer satisfaction.

Enhancement of customer service

■ Establishment of Customer Centers

Our Okayama and Hiroshima Customer Centers are places where customers can consult, make inquiries, and request start and discontinuance of electricity service when they move house.

These Customer Centers represent an enhancement of our customer service, enabling us to field customers' inquiries speedily, determine and analyze their needs accurately, reflect such needs promptly in our services, and so forth.



Customer Center

■ Fuller service through the Internet

On our website, customers can get estimates of their electricity rates, reference their past charges and how much power they have used, and apply for contract formalities when they move house.

Electricity rate estimates are also available on our mobile phone accessible website.

● Services available over the Internet

| Service | Description |
|---|--|
| Reference to past electricity charges and energy consumption amount ^{※1} | Provides a table or graph showing the trend in the customer's electricity charges and energy consumption over the past 15 months. |
| Upcoming charge estimate ^{※2} | Provides an estimate of charges based on the customer's input. |
| Alternative rate plan "simulation" | Shows how the charges would change if the customer switched to a different rate plan ^{※2} , as well as showing changes in utilization of Economy Nighttime and Family Time |
| Home moving formality service | Customers can use this service to start and terminate their electricity contract when they move house. Period of service availability: From 60 days before the scheduled date of the move, up until 2 working days before the move |

※1: In the interest of protecting personal information, customers must register with the website in order to reference electricity charge and energy consumption amount.

※2: Customers with high-voltage contracts must register with the website in order to use this service.

Availability hours · Referencing of electricity charges and energy consumption amount: available from 8 A.M. to 9 P.M.
· Other service items: available 24 hours a day

● Outline of the Customer Centers

| Center | Area served |
|---------------------------|--|
| Okayama Customer Center | Prefectures of Tottori, Shimane, and Okayama, plus portions of prefectures of Hyogo and Kagawa |
| Hiroshima Customer Center | Prefectures of Hiroshima and Yamaguchi, plus portions of Ehime Prefecture |

Business hours: weekdays 9 A.M. to 8 P.M.

※Service is also provided outside the business hours in cases of outage or other emergency.

Telephone : Two freedial services are available:

"Advice and Inquiry Freedial" and "House Move Freedial"

※To respond more speedily to customers' inquiries and other calls, the "Advice and Inquiry Freedial" service uses recorded spoken directions that guide callers in pushing the buttons on their phones so as to specify the type of matter they are calling about and connect to an appropriate staff member at the Customer Center.

The freedial numbers vary depending on the districts where the customers reside.

Please consult the details of the freedial services which can be found on the "Notification of Amount of Electricity Used" which is delivered to customers every month when the meters are read.

The "Home moving formality service" page on our website

We aim to be a business group that contributes to the region

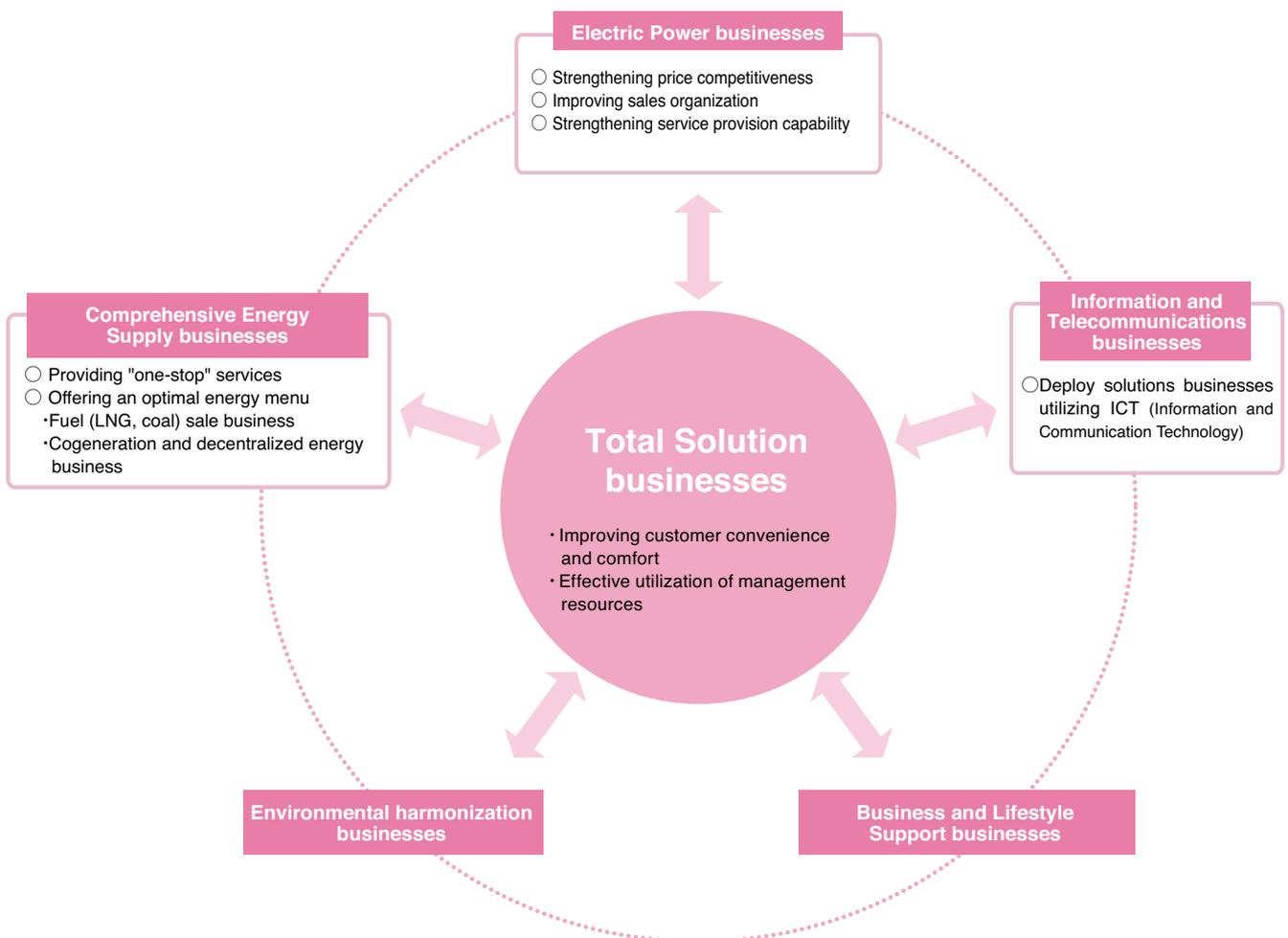
The group is proceeding with development and provision of highly competitive, attractive products and services by working in unison to determine customer needs and by utilizing the group's business resources to the maximum extent. Our aim is an Energia Group that grows continually through gaining customer satisfaction.

Development of Total Solution business

We will raise profitability by intensively investing management resources into areas of business in which we can utilize the group's strengths (strategic areas of business).

Specifically, we have established four strategic areas of business in addition to the group's core electricity business, and are developing our Total Solution business within such areas so as to meet customer's diversifying needs.

In the future as before, we will provide services that contribute to the improvement of comfort and convenience for our customers while making the Chugoku region the basis of our business expansion.



Some of our businesses

■ Natural gas supply business (Comprehensive Energy Supply)

The natural gas supply business is the core of our comprehensive energy supply operations. The group companies Energia Solution & Service Company, Incorporated and MIZUSHIMA LNG SALES COMPANY, LIMITED are the main players in our natural gas supply business delivering liquefied natural gas (LNG) to gas companies and industrial customers throughout the Chugoku region.

At our Mizushima LNG base, we are proceeding with installation of an additional LNG tank and laying of a gas pipeline to Okayama, working to raise supply stability to even higher levels.



LNG tanker trucks parked after arrival at Yanai Power Station

■ Nursing care business (Business and Lifestyle Support)

Responding to the region's needs for nursing care services, Energia Care Service Co., Inc. offers extensive services for the elderly, ranging from home care to elderly homes.

At the company's day care service center "Energia Care Tanna" (in Minami Ward in Hiroshima City) opened in July 2008, great efforts are made to promote health in elderly people through brief (two hours at a time) exercise programs specialized for rehabilitation, which are given by physiotherapists.



"Energia Care Tanna" day service center

■ Real estate utilization business (Business and Lifestyle Support)

In order to contribute to more affluent living for our customers by effectively using the real estate that the Energia Group possesses, the Energia Real Estate Co., Inc. is working at business operations that encompass housing land development, subdivision and sale of detached housing, and construction and management of rental accommodation and rental offices.

In 2004 the company opened a full-fledged urban-style public bath complex "Honoyu" in Minami Ward in Hiroshima City, offering full enjoyment of the genuine warmth that comes from bathing in natural hot spring water. The second "Honoyu" complex, is currently under construction and is scheduled to be opened in the spring of 2011 in Rakurakuen in Saeki Ward in Hiroshima City .



Projected appearance of the completed "Honoyu Rakurakuen" (tentative name)

■ Internet related business (Information and Telecommunications)

Internet related business has a central role among those of the Energia Group's information and telecommunications businesses that are oriented toward individual customers.

Utilizing optic fiber facilities, Energia Communications, Inc. offers a set of triple services comprising Internet connection, telephone and broadcasting services.

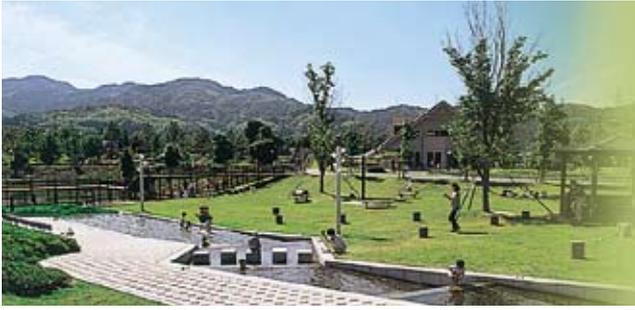
For corporate customers, the company offers an Ethernet telecommunications network service that links multiple bases together at high speed and low cost, a two-way high-definition video transmission service, a network security service, and other services besides.

Internet connection service

MEGA
EGG



MEGA EGG won top place for "Best Carrier (Chugoku Area)" in the "RBB Today Broadband Awards 2009" and for "Provider in Chugoku-Shikoku Area" in the "FY 2010 ORICON Customer Satisfaction Rankings."



Working to realize a society
that can develop sustainably

We are further enhancing our efforts to tackle environmental problems.

Besides actively engaging with various environmental problems – primarily through measures to counter global warming – Chugoku Electric is aiming for the realization of a society that can develop sustainably.

Chugoku Electric Environmental Action Plan

In January 1993 Chugoku Electric formulated the "Chugoku Electric Environmental Action Plan," on the basis of which it has been actively tackling various environmental problems facing its business activities, including the global warming problem, the formation of a recycling society, and consideration for biodiversity.

In particular, we have set medium-term priority targets for "reduction of CO₂ emissions per unit of energy generation" and "endeavors for zero waste emission," items for which there is high social demand, and are carrying out a variety of efforts toward achieving those targets.

Basic Environmental Policy

As an enterprise involved in energy, Chugoku Electric acts with a stance of valuing the environment at all times in accordance with the three policies below, so as to realize a society that can develop sustainably through simultaneous achievement of environmental preservation, economic growth, and energy security.

1. Actively tackle issues such as promoting the formation of the recycling society and promoting preservation of the regional environment, especially through measures to counter global warming.
2. Actively develop two-way communication with the region and community, in such ways as dialog and activities concerning environmental preservation.
3. Soundly practice environmental management, giving top priority to compliance.

Environmental Action Plan

I. Promotion of global warming countermeasures (Supply of electricity)

- (1) Development of new nuclear power forming the central pillar of global warming countermeasures
- (2) Continuance of safe operation of nuclear power stations and raising of their capacity factor
- (3) Expansion of LNG utilization and raising of thermal power station thermal efficiency
- (4) Expansion of utilization of hydroelectric power, photovoltaic power, wind power and other renewable energies and promotion of their spread
- (5) Efficient application of transmission and distribution facilities
(International endeavors)
- (6) Provision of technological assistance for coal-fired thermal power generation overseas
- (7) Application of the Kyoto Mechanisms which will contribute to warming countermeasures on a global scale
(Research and development, etc.)
- (8) Advanced technology development in CO₂ countermeasure fields such as Integrated Coal Gasification Combined Cycle (IGCC) and CO₂ separation/recovery
(Other)
- (9) Curbing of emissions of HCFCs and other gases that are the subjects of regulation with the purpose of protecting the ozone layer

II. Promotion of formation of recycling society

- (1) Promotion of the 3R's – most importantly reduction of occurrence of wastes, plus their reuse and recycling
- (2) Active purchase and use of "green products"
- (3) Advanced technology development in waste effective utilization fields

III. Promotion of preservation of regional environment

- (1) Lowering of environmental loads on the atmosphere and water bodies, etc.
- (2) Prevention of noise, vibration, soil pollution and foul odors, and harmonization with scenery
- (3) Proper control of chemical substances such as PCBs and asbestos
- (4) Consideration for biodiversity – including implementation of environmental assessments – that is tailored to the region's characteristics

IV. Spreading and promotion of energy conservation

- (1) Proposing of energy saving measures – such as heat pumps – that will contribute to customer comfort and convenience
- (2) Practice of "eco office activities" inside the company
- (3) Adoption of electric automobiles for use as the company's business vehicles

V. Promotion of environmental communication

- (Two-way communication)
- (1) Active disclosure and publishing of information, and implementation of public consultation activities
- (Partnership with the community)
- (2) Support for environmental and energy education carried out at elementary and junior high schools and elsewhere
 - (3) Voluntary implementation of environmental preservation activities and participative assistance for local events
 - (4) Technological assistance for developing countries and promotion of international exchange, through hosting of research students from overseas, etc.

VI. Practice of environmental management

- (1) Rigorous abidance by environmental legislation, conventions, and the like
- (2) Continual improvement of the Environmental Management System (EMS)
- (3) Enhancement of environmental education and training for employees
- (4) Strengthening of collaboration with the group companies and coordination with business partners

We are making active efforts for prevention of global warming

Action for the global warming problem is an important task for the electric utility industry, which emits about 30% of the CO₂ produced in Japan.

For its part, Chugoku Electric is moving actively forward with nuclear power development, and furthermore is actively engaging in expanding LNG utilization, promoting introduction of new energies, and making other efforts toward "reduction of CO₂ emissions per unit of energy generation" so as to counter global warming.

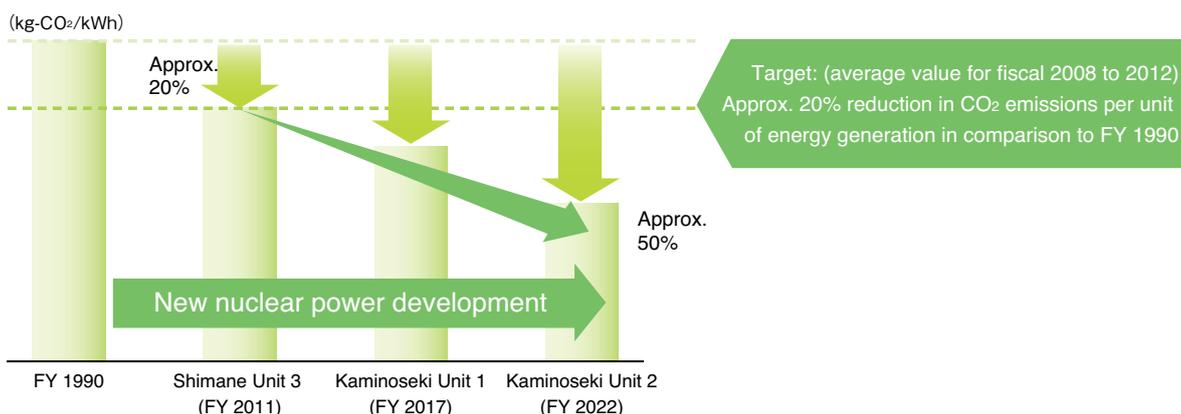
Efforts to counter global warming

CO₂ emission reducing effect of nuclear power development

When Shimane Nuclear Power Station's Unit 3 currently under construction starts commercial operation, Chugoku Electric's CO₂ emissions per unit of energy generation will decrease by approximately 20% in comparison to the level of fiscal 1990.

Further, emissions are expected to decrease to approximately 50% of that level with the entry into commercial operation of Kaminoseki Nuclear Power Station's Units 1 and 2.

●CO₂ emission reducing effect of nuclear power development (conceptualization of projections)



Expanding use of LNG

LNG (liquefied natural gas) generates no soot, dust or sulphur oxides when it burns, and has the merit of producing lower CO₂ emissions in comparison to oil, coal and other fossil fuels. Thus it is an effective fuel for preventing atmospheric pollution and reducing CO₂ emissions.

●Modification of Mizushima Power Station's Unit 1 to LNG combined cycle generation equipment

The fuel used by Mizushima Power Station's Unit 1 has been converted from coal to LNG, and in addition the unit has been modified into equipment employing the LNG combined cycle* generation method. The modified unit commenced commercial operation on April 8, 2009.

This modification has yielded operation with thermal efficiency as high as around 50%, and in conjunction with the fuel conversion (oil to LNG) carried out on the station's Unit 3 in 2006, has the effect of reducing CO₂ emission by around one million tons annually.

*Generation method combining a gas turbine and a steam turbine in a system where the gas turbine's exhaust heat is recovered by an exhaust heat recovery boiler, which generates steam that turns the steam turbine.

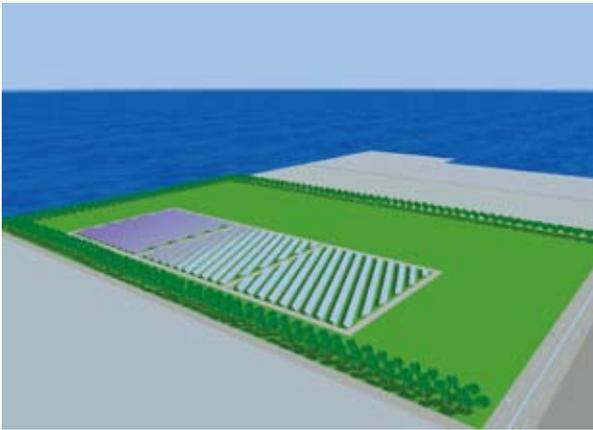


Panoramic view of Mizushima Power Station's Unit 1

■ Development of mega solar (large-scale photovoltaic) power generation

As one of its efforts to tackle environmental problems such as global warming, Chugoku Electric is moving forward with development of mega solar power generation. Our rough target is to generate around 10 MW from this source by FY 2020.

As a part of such effort, we are building our first ever mega solar power station (Fukuyama Photovoltaic Power Station) on land owned by the company in Minooki District of Fukuyama City, Hiroshima Prefecture, aiming to have the station enter operation in December 2011. With an output on the order of 3 MW, it is projected to generate around 3,340 MWh of electricity per year, equivalent to the annual amount of electricity used by about 900 homes. We expect this to enable a reduction of some 2,000 tons per year in the company's CO₂ emissions.



Artist's conception of a mega solar installation

■ International efforts

As international efforts toward global warming prevention, we participate in the "Carbon Funds" and greenhouse gas reduction projects, and also carry out support in the field.

● Participation in Carbon Funds and greenhouse gas reduction projects

We make contributions to the Carbon Funds, and furthermore participate actively in greenhouse gas reduction projects such as the Clean Development Mechanism (CDM^{*1}) and Joint Implementation (JI^{*2}) being carried out in countries abroad.

These efforts gain us CO₂ emission credit, and by reducing emissions of greenhouse gases in developing nations, etc., they also contribute to warming prevention on a global scale.

*1 CDM: Mechanism whereby an advanced country carries out global warming countermeasures in a developing country and counts their effects as going toward achieving the target for its own reduction of greenhouse gas emissions.

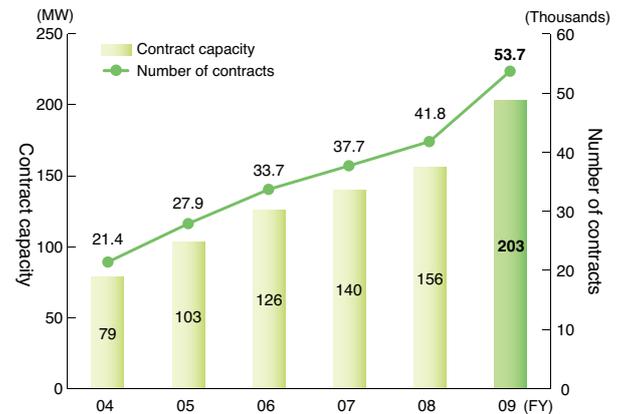
*2 JI: Mechanism whereby an advanced country carries out global warming countermeasures in a developed country and counts their effects as going toward achieving the target for its own reduction of greenhouse gas emissions.

■ Purchase of power from new energy generation (photovoltaic power and wind power generations)

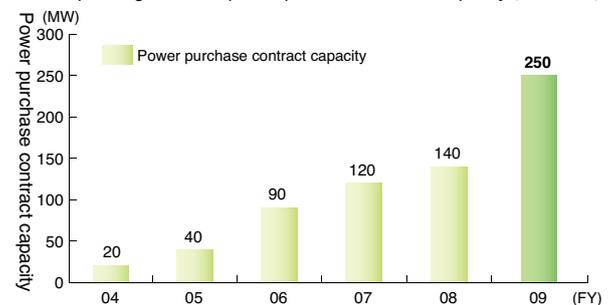
We support the popularization of new energy by purchasing surplus power from photovoltaic generation and power from wind power generation.

November 2009 saw the inauguration of the "New Purchasing System for Photovoltaic Power." Under this new purchasing system, electric power companies purchase surplus power from photovoltaic generation at prices determined by the national government, and the costs of such purchases are borne by all electricity users.

● Number of contracts for purchase of power from photovoltaic power generation, and contract capacities (cumulative)



● Wind power generation power purchase contract capacity (cumulative)



Hydropower project (Brazil)

We are actively promoting the formation of a recycling society.

With the aim of achieving "Zero Waste Emission*," Chugoku Electric is actively promoting measures called the 3R's: reducing the amount of wastes, recycling and reusing them.

* Zero Emission: Activity that seeks to effectively utilize all kinds of wastes, so as to make the amount disposed of as landfill approach zero. Chugoku Electric has set the target of "lowering to 1% or less the proportion of the total volume of industrial and non-industrial waste from business places that is disposed of as landfill."

Efforts for Zero Emission

Chugoku Electric has established a goal of increasing the recycling rate of company-generated waste to 99% or higher by 2012.

The volume of waste we produced in FY 2009 was approximately 917,000 tons. Of that amount, 908,000 tons was effectively utilized, making an effective utilization rate of 99.0%.

● Volume of industrial waste produced (by Chugoku Electric*) and effective utilization

[unit: 1,000 t]

| Item | Volume produced | Volume effectively used | Volume disposed of | Effective utilization rate (%) | |
|------------------|--------------------------|-------------------------|--------------------|--------------------------------|-------|
| Industrial waste | Coal ash | 667 | 665 | 2 | 99.6 |
| | Gypsum | 191 | 191 | — | 100.0 |
| | Construction waste, etc. | 57 | 51 | 6 | 88.9 |
| General waste | 1.7 | 1.2 | 0.5 | 69.8 | |
| Total | 917 | 908 | 9 | 99.0 | |

*Waste produced in the course of directly-managed work, where Chugoku Electric counts as the producing business.

Effective utilization of coal ash

94% of the waste that Chugoku Electric produces is accounted for by coal ash and desulfurization gypsum from thermal power stations.

In FY 2009, 667,000 tons of coal ash were produced by our five coal-fired thermal power stations. Of that amount, 99.6% has been effectively utilized. To give a breakdown of how the coal ash was put to use: 44% was utilized for cement raw material, 21% for civil engineering material, and 35% for land development material.

Efforts for treatment to render PCB harmless

PCB (polychlorinated biphenyl) waste has been determined to be harmful to human health and the environment, and we store such waste under strict conditions in conformance with the Storage Standards for Specially Controlled Industrial Waste.

We carry out treatment of insulating oil that contains minute amounts of PCB at our "Insulating Oil Recycling Center," and of containers used in pole transformers, from which oil containing minute amounts of PCB has been extracted, at our "Pole Transformer Recycling Center." We plan to complete all such treatment in July 2016.

Further, we plan to commission the Japan Environmental Safety Corporation (JESCO) to treat high-concentration PCB.



Insulating Oil Recycling Center



Pole Transformer Recycling Center

We are engaged in a wide range of activities for promoting the spread of environmental technology and for its research and development.

We are actively moving ahead with efforts aimed at research, development and introduction of advanced technologies that will contribute to prevention of global warming and to efficient utilization of energy, and with technological assistance for countries overseas.

■ Advanced technology development in CO₂ countermeasure fields such as Integrated Coal Gasification Combined Cycle (IGCC)

Chugoku Electric is tackling development of integrated coal gasification combined cycle (IGCC) generation, which enables low carbon levels in coal-fired thermal power generation through high levels of efficiency and cleanliness.

In July 2009, we set up via joint capital investment with Electric Power Development Co., Ltd. a new company "OSAKI COOLGEN CORPORATION" whose purpose is to conduct large-scale verifactory testing of "oxygen-blown coal gasification combined cycle (oxygen-blown IGCC) technology[※]."

OSAKI COOLGEN will start building a demonstration plant with 170 MW class output inside our Osaki Power Station's premises in March 2013. In 2017 the company will begin demonstration testing to verify this oxygen-blown IGCC system's reliability, economy and operability. Subsequently it is to conduct testing on application of the latest CO₂ separation and recovery techniques.

※ Technology that gasifies coal using oxygen, thereby manufacturing a product gas with carbon monoxide and hydrogen as its main constituents, and generates electricity in a combined cycle using a gas turbine and a steam turbine. This technology promises to reduce CO₂ emissions through high generation efficiency, and moreover has the potential to be applied as a CO₂ separation/recovery technique. Hence, if it is brought into practical use, this technology is expected to effect a major advance toward Zero Emission in coal-fired power generation.

■ Development of electricity generation technology using biomass fuel in Cambodia

Since June 2009, Chugoku Electric has been one member of a group of three bodies – the other two being the National Institute of Advanced Industrial Science and Technology (AIST) and Hiroshima Environment Laboratory Co., Ltd. – that has been conducting power generation experiments with a diesel engine electricity generator that uses fuel oil extracted from *Jatropha*, an plant that is not suitable for eating. The experiments are being carried out with aid from the New Energy and Industrial Technology Development Organization (NEDO) and in collaboration with the Institute of Technology of Cambodia and other institutions.

This project, which Chugoku Electric ranks as advanced technological development for CO₂ reduction, will advance rural electrification in Cambodia as well as contributing to the improvement of that country's R&D capability which will be indispensable for its self-sustaining development.



Experimental apparatus

Efforts toward assuring biodiversity

Chugoku Electric possesses a large number of facilities in order to fulfill its social mission of providing a stable supply of electricity, and in constructing and operating those facilities we exert no small impact on the global environment through land modification, emission of CO₂ and wastes, and in other ways.

Resolved to keep such impacts to the lowest levels possible, we have made it one of our business principles to "Constantly seeks harmony with the environment," in accordance with which we engage in environmental preservation that is suited to our region's special characteristics.

At our thermal power stations and nuclear power stations, we engage in greening of the premises that pays careful attention to harmony with the surrounding natural scenery, and the grown trees and shrubs that result from those efforts furnish habitats and feeding grounds for the wildfowl that live in the environs.

In 2000 we installed nestboxes in two places on the smoke stack of Shin-Onoda Power Station, where falcons had been found to be breeding inside the site. Since then, two or three young falcons have been reared in the nestboxes almost every year. This is the first time in Japan that falcons have ever bred in an artificial nestbox, and the case is widely known for its extreme rarity.



Falcon rearing its chicks in a nestbox 50 m above the ground

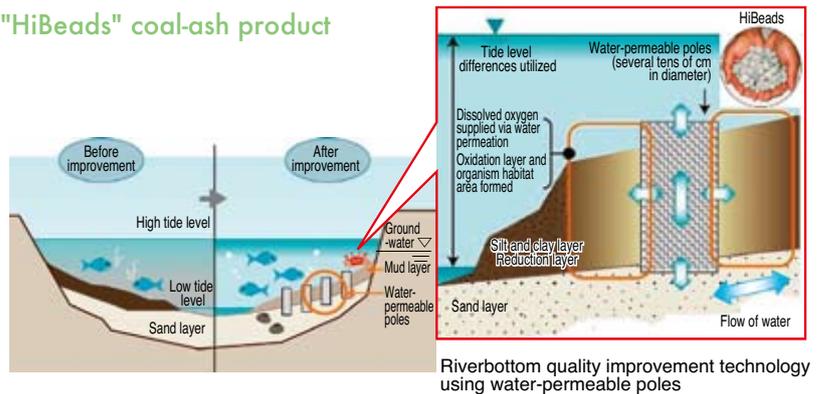


Shin-Onoda Power Station (Sanyo-Onoda City, Yamaguchi Prefecture)

■ Efforts to improve riverbottom mud with "HiBeads" coal-ash product

Since FY 2004, Chugoku Electric has been engaged in research and development of riverbottom quality improvement technology that uses our "HiBeads" recycled coal-ash product. Verificatory testing of this technology is being conducted in stretches of the Kyu-Otagawa and Tenmagawa Rivers that flow through Hiroshima City.

Water-permeable poles containing "HiBeads" make use of tidal level differences and groundwater flow to cause the water around them to circulate. Thanks to this, they have the effect of stimulating supply of oxygen to the riverbottom soil, which promises to improve the habitats of Shijimi clams and other organisms in mud flats.



■ Construction of large-size wave-dissipating blocks using recycled concrete

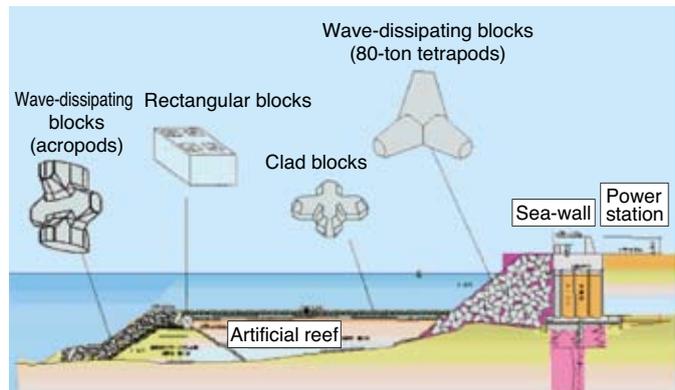
The large-size wave-dissipating blocks used in construction of the sea-walls, etc., for the construction work of Shimane Nuclear Power Station's Unit 3 are all made from concrete that has recycled material making up 90% or more of its ingredients. (There are some 8,800 such blocks, weighing around 20 to 80 tons each.)

Dubbed "NA (Neo Ash) concrete," this recycled concrete has been developed by Chugoku Electric. The use of recycled materials such as the coal ash discharged from our coal-fired thermal power stations, and the metallic slag that is produced as waste when copper, iron and other materials are refined in plants, has drastically reduced the volume of natural materials such as cement, sand and gravel that we use.

Also, by using seawater instead of tap water for the concrete, we have reduced the amount of tap water that we use.



Wave-dissipating blocks



Adoption of electric vehicles for use as the company's business vehicles

Electric vehicles are a promising means of countering global warming, and in order to encourage widespread demand for them we intend to take the lead by adopting a cumulative total of 700 electric vehicles by FY 2020. That will amount to roughly 40% of the business vehicles we possess (excluding special vehicles and trucks).

In the interest of creating initial demand, we have set ourselves a particular target of a cumulative total of 200 electric vehicles – mainly low displacement vehicles – by 2012.

Electric vehicles emit no CO₂ at all when they are driven, and the CO₂ emissions that they entail – including the CO₂ per unit of energy generation during generation of the electricity to run them – amounts to around one third of the CO₂ emissions of gasoline automobiles of the same class*. Thus, they promise to make a large contribution to CO₂ emission reduction in the transportation sector.

By adopting 700 electric vehicles, with their superb environmental performance, as our business vehicles it is projected to yield an annual reduction of some 600 tons of CO₂.

*Comparison of CO₂ emission amounts per km of travel in a Mitsubishi Motors Corporation "i-MiEV" and a low displacement gasoline car.



Electric vehicle being recharged by quick charge equipment



Working to live up to
your trust in us

We are promoting management that accords top priority to compliance.

Taking the past series of improper incidents as a valuable lesson, and firm in our resolve never again to repeat them, we are united as a group in promoting management that accords top priority to compliance, with our executives leading by example.

We are soundly implementing efforts for compliance promotion

After introspecting on the series of improper incidents involving our generation facilities that came to light from the fall of 2006 onward, we determined to make "placing top priority on compliance in every business activity" the foundation of our management, and in June 2007 announced our resolve and stance in that regard through a "Declaration of Compliance Management Promotion."

In the future as before, we will be aiming to be a company that everyone can trust, by soundly implementing efforts for compliance promotion and entrenching the "top priority for compliance" attitude in the consciousness of each and every employee and in our corporate ethos.

■ Chugoku Electric Corporate Code of Ethics

Toward building the relationships of trust with the community that will form the foundation for the company's business activities, we have formulated the "Chugoku Electric Corporate Code of Ethics" setting forth what actions are appropriate for Chugoku Electric as a corporation, and the employees who work in it, to take. Rigorous adherence to this code is being enforced.

■ Corporate Ethics Committee

As an advisory body for the Board of directors, the Corporate Ethics Committee conducts discussions on matters relating to compliance, and where necessary offers proposals and opinions. Experts from outside the company are included in the membership, so that the committee receives information on social demands from a wide range of the community. The committee holds four meetings per year as a rule. Overviews of its proceedings are published on our website.

■ Main compliance promotion measures

- In order to have the "top priority for compliance" consciousness permeate among all of us from top management to individual employees, we are implementing measures and other actions throughout the company so as not to allow the lessons of the past to fade from our minds. For example, we are carrying out "compliance training" and the like education on a continuous basis, and furthermore have designated November of every year as "Compliance Emphasis Month."
- We have set up "Corporate Ethics Inquiry Centers" in our internal promotion departments and at external legal offices. At these Inquiry Centers, people can have consultations anonymously. Those using this consultation service are rigorously protected to put them beyond reach of penalization.
- We are engaged in autonomous efforts such as conducting workplace situation and employee consciousness surveys targeting all employees on a long-term basis, and feeding back the survey results for utilization in discussions and training at individual workplaces.
- We are periodically holding "Energia Group Corporate Ethics Liaison Conferences" in order to foster information sharing and awareness regarding compliance promotion, both inside Chugoku Electric and among the group companies.

Declaration of Compliance Management Promotion

The Chugoku Electric Power Co., Inc. will unite the efforts of the whole company to engage in promotion of compliance management, with our executive setting the example.

- We recognize that "compliance" means "valuing and abiding by social norms including ethics and morality," and that engagement therewith is indispensable in order for an enterprise to continue its existence in the community.
- Based on such recognition, we will work with our whole strength to promote management that takes as its foundation "to place priority on compliance in managing every business activity," so as to meet the community's demands for thoroughgoing securing of power facility safety, stable supply of electricity, and low electricity rates.
- In order to realize "placing top priority on compliance," we will abide by the code of conduct in the Chugoku Electric Corporate Code of Ethics, practicing daily the "three actions" therein as requiring particular observance.

1. Consulting our consciences

- ◆ We will be aware of our own actions and examine them in the light of our social consciences.
- ◆ We will consult the rules without fail whenever we have any doubts about our work.

2. Speaking honestly

- ◆ We will not keep doubts and problems to ourselves, but will talk them over with others in our workplaces and among organizational units.
- ◆ We will explain matters voluntarily and appropriately to customers and the community.

3. Actively correcting things

- ◆ Where matters have been handled inappropriately, we will actively correct them without delay.
- ◆ We will endeavor to revise any rules that do not match actual circumstances.

We are aiming to have nuclear power stations which can be trusted.

In March 2010, we announced that inspection of some equipment of Shimane Nuclear Power Station Unit 1 and 2 had not been conducted according to the plans that we ourselves had formulated, and that the equipment had nevertheless been used beyond the scheduled inspection date. Subsequently we conducted inspections and investigations with the united efforts of the whole company, and in June we presented a report on the investigation results and recurrence prevention measures to the national government.

Our aim in the time ahead is to have nuclear power stations which can be trusted. To that end, the whole company is uniting its efforts to implement those recurrence prevention measures.

■ Overview of the investigation results

To investigate whether inspection had been conducted according to plan, etc., we consulted the Inspection Plan Chart*, which is used to manage inspection plans, and the inspection result records. We found as a result that a total of 511 pieces of equipment had been used beyond their scheduled inspection date without being inspected. Besides that, we also found a total of 1,160 pieces of equipment to have nonconformance in their inspection records, such as the actual results of their inspections not being reflected in the Inspection Plan Chart.

※Inspection Plan Chart: Chart in which are entered the inspection contents and frequency prescribed by Chugoku Electric, the results of inspections, and schedule for periodic inspections, etc., concerning the generation facilities at Shimane Nuclear Power Station.

■ Cause analysis

(1) Main direct causes

- When the Inspection Plan Chart was drawn up, the inspection dates were determined without an adequate basis in the past inspection results, and some of the inspection results were entered incorrectly.
- On occasions when materials required for inspections could not be arranged for, procedures for the appropriate alterations to the Inspection Plan Chart were not carried out.
- The application rules for the Inspection Plan Chart were applied so that even if inspection had not been conducted, it could be entered as having been conducted in the absence of any notification to the contrary.

(2) Underlying causes

- Mechanisms for responding promptly and appropriately to changes in the government's inspection system were inadequate.
- Mechanisms for carrying out nonconformance* management appropriately and soundly were inadequate.
- The "culture of reporting" to one another, and the employees' adoption of the attitude of "asking their own questions at all times," were inadequate.

※Nonconformance: Used in a broad sense to mean a state of affairs that differs from how matters ought to be.

■ Recurrence prevention measures

(1) Recurrence prevention measures for direct causes

The recurrence prevention measures that we have taken with regard to the direct causes include correction of the nonconforming places in the Inspection Plan Chart, improvements in the operational procedures for inspection plans, and revision of the procedural documents.

(2) Recurrence prevention measures for underlying causes

For the underlying causes, we are engaged in taking recurrence prevention countermeasures that center on "Enhancement of the nuclear power quality management system" and "Promotion of activities to foster nuclear power safety culture*."

※Safety culture: Ethos and temperament whereby an organization and its individuals accord top priority to safety.

○Enhancement of the nuclear power quality management system

- Improvement of the nonconformance management process
We have implemented education of power station personnel in the necessity of and standards for nonconformance management, and furthermore have appointed persons at power stations to carry out nonconformance management operations on a full-time basis.

- Strengthening of operational management mechanisms in our nuclear power sector

We have set up a "Nuclear Power Safety Information Review Commission" composed of members from Head Office and the power station, and a "Nuclear Power Sector Strategy Council" that has overall control of important issues in the nuclear power sector, in order to respond speedily to changes in the government's inspection system and so forth.

○Promotion of nuclear power safety culture fostering activities

We are proceeding with activities to foster across the company (and also in affiliated and partner companies) an appreciation of the importance of nuclear power for our business and of the value of a safety culture that incorporates the perspectives of the regional community.

Concrete measures in this regard are to be deliberated and put into action by the newly established "Nuclear Power Reinforcement Project," which will reflect proposals from a "Nuclear Power Safety Culture Experts Conference" that has a core membership of external experts – six local and five general experts – and from other groups.

Further, we have designated June 3 of every year as "Nuclear Power Safety Culture Day," on which the company as a whole will take cognizance of the importance of safety culture, besides also engaging in enhanced dialog activities with the local people and endeavoring to raise awareness.



Nuclear Power Safety Culture Experts Conference

■ Enhancement of information disclosure

In addition to the operational information and trouble events we have published hitherto on our website and elsewhere, we will be disclosing all information pertaining to matters that are judged to constitute nonconformances.

Also, we will be actively releasing overviews of the Nuclear Power Safety Culture Experts Conference's proposals, information on the state of efforts aimed at fostering a safety culture, and other pertinent information.

We are promoting even better communication with our customers and the community.

The valuable opinions and comments sent in by our customers are pooled among all our employees and put to use in raising our customer service levels. Moreover, we release a wide variety of information including information about Chugoku Electric's endeavors, corporate information, and more.

Making use of "customer feedback" to raise service levels

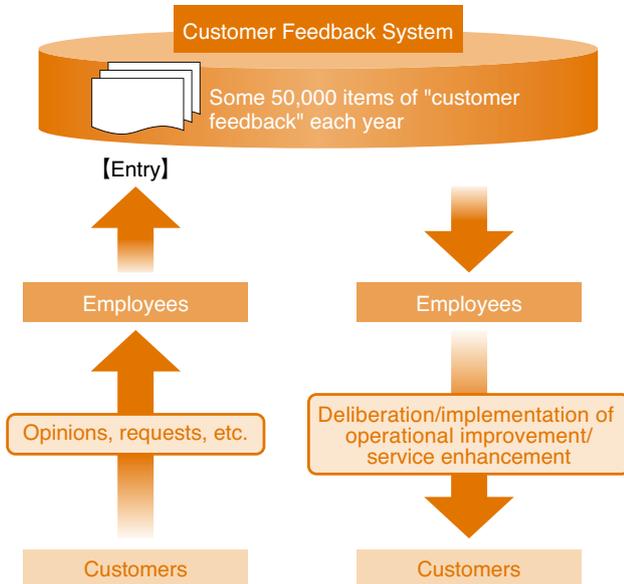
Putting customer feedback to use

Each year the company receives some 50,000 comments including opinions, requests and criticism. This "customer feedback" is entered in our "Customer Feedback System," via which it is shared by all employees*.

By utilizing this system, we strive to transmit rapidly inside the company the comments we receive from customers, and furthermore to make use of their opinions, requests and other feedback to come up with improvements and further raise the levels of our customer service.

*Customer feedback is shared in ways that keep customers' personal information anonymous.

Sharing of "customer feedback"



Advisors and internet monitors

In order to actively obtain customers' opinions, we recruit internet monitors from a broad range of the public, request opinion leaders such as representatives from local corporations, local governments, and other local organizations to serve as advisors to Chugoku Electric, and have these persons give us their candid comments at meetings and other venues. Such comments are shared throughout the company via the "Customer Feedback System," and put to use in our subsequent business activities.



Advisor Meeting

あなたの“声”をお聞かせください!!

**エネルギアインターネット
モニターを募集します**

中国電力では、より一層のお客さまサービス向上を目指し、当社にお寄せいただくお客さまのご意見・ご要望を積極的に業務に反映するよう努めています。このたび募集するモニターの皆様には、インターネットによるアンケート等を通じて、当社に対し、広くご意見をいただきます。
あなたの貴重な“声”を、ぜひお聞かせください。

募集対象…当社サービス区域にお住まいの20歳以上の方で、インターネットおよび電子メールを日本語でご利用できる方
*機材・接続等の経費用については、すべてモニター様のご負担とさせていただきます。また、中国電力およびグループ企業の社員（同業系族を含む）は応募できません。

募集人数…500名（応募多数の場合は抽選のうえ、電子メールにて結果をお知らせします）

活動内容…①アンケートへの回答（年3回、各20問程度）
②発電所等の施設見学（任意参加。費用は当社負担）
その他、電気に関する情報等をメールマガジンでお知らせします。

謝礼…アンケート1回につき、500円の図書カードを1枚進呈

モニター期間…平成22年10月～平成24年9月（2年間）

応募締切…平成22年6月10日（木）

応募方法…当社ホームページの申込専用ページより応募ください。
<http://www.energia.co.jp/monitor/>

◆お問い合わせは、エネルギアインターネットモニター係まで
TEL **082-523-6180** FAX **082-523-6185**
（電話受付時間：月～金の9:00～17:00）
電子メール: Tmonitor@pnet.energia.co.jp

※個人情報の取り扱いについて
ご応募の際にいただいた、氏やお客さまに関する情報は、エネルギアインターネットモニターの募集・運営にのみ利用させていただきます。第三者（当社と関係のない第三者）に個人情報を提供していただくことは、ありません。詳しくは、当社ホームページの申込専用ページをご覧ください。

Article recruiting internet monitors in the May 2010 issue of our communication newsletter "EnerGia," which is distributed when meters are read around six times per year. (Recruitment has closed.)

Efforts to disseminate information

Accurate information is disseminated speedily through press releases, various publications, our website, and other means.

We also provide via radio, television, magazine advertisements and the like, all kinds of information relating to Chugoku Electric's responses to environmental problems, the need for nuclear power, and other company matters, as well as information pertaining to electricity, such as PR materials on energy conservation and prevention of electric shock accidents.

Website

Our website is a mechanism for linking the customer to us. It disseminates information of many kinds, including electricity and energy information, environmental information, company information, information that is useful in day-to-day living, and information tailored to the local area.

The website also publishes information on the operational status of Shimane Nuclear Power Station Units 1 and 2, featuring live video of the nuclear reactor building and turbine building interiors. Besides that, it offers a wealth of other information on our nuclear power generation. For example, concerning Kaminoseki Nuclear Power Station currently under construction, it gives an overview of the construction work and descriptions of the environmental preservation measures to be taken during the construction period.



Website page (redesigned in December 2009) introducing Kaminoseki Nuclear Power Station

Blogs

With the purpose of rounding out our communication with our customers, we run blogs that are open for the public to read. These include the "Runners Blog" giving information about our athletics team's activities, and the "Social Contribution Activity Diary" giving information about our employees' social contribution activities. Through features such as customer comment posting, these blogs make for multiway communication.



Provision of information during natural disasters

In the event of a large-scale outage occurring across an extensive area due to a typhoon or other natural disaster, we disseminate information via our regular website and website accessed from mobile phones.

During such events we work to deliver reassurance to our customers at the earliest possible moment by speedily providing information on the outage situation, damage status of electricity facilities, and so on.



Disaster information on our website (Sample page)



In the event of an outage, customers can use this site to check out information via their mobile phones

Improvement of IR (Investor Relations) activities

All our stockholders and investors are valued stakeholders for our company, and we consider them important partners for effecting the business expansion with which we aim to raise our corporate value.

Through our IR activities we provide timely and accurate information on the business environment and financial situation facing the company, the management strategy aimed at for the future, and so forth. Moreover, we are looking to gain even greater understanding and trust from our stockholders and investors by enhancing two-way communication with them.

We engage in activities rooted in the local region.

As an enterprise that takes its region to be its basis, Chugoku Electric has as one of its business principles to "Contribute to the development of the region" and engages in many different social contribution activities, including those for education, social welfare and environmental preservation, which are rooted in the region and involve the participation of employees.

■ Environmental preservation activities

As efforts to help preserve the region's environment, we engage in clean-ups of roads, parks, seashores and so forth, and in maintenance of forest. In addition, we plant trees and distribute flower seedlings at schools and social welfare facilities.



Using a bucket truck to clean a streetlamp



Maintenance work on a bamboo grove

■ Social welfare activities

With the aim of supporting independence in the elderly and enhancing social well-being, we visit the homes of elderly people living alone, and social welfare facilities, carrying out electric equipment inspection, interaction with the people, and other activities with an "electrical" flavor representing our principal business.



Inspecting electric equipment on a visit to an elderly person's home

■ Regional development activities

We engage in regional development activities through research and surveys concerning industry and economy and publication of PR pamphlets aimed at supporting regional vitalization, besides also participating in local festivals, mounting displays at region-promoting events and getting involved in other region-promoting activities in collaboration with NPOs and volunteer organizations, etc.



Participating in a local festival (Bakan Festival)

■ Educational support activities

We engage in educational support activities so as to improve understanding of global environmental and energy problems among children, who will form the next generation, and to raise their interest in and concern for science. These activities are dubbed the "Wakuwaku E-School" and comprise classes in the environment and energy held at various venues, as well as classes given at schools and study tours of our facilities.



Demonstrating an experiment to teach the mechanisms of hydroelectric power

■ Symbolic sports

Chugoku Electric dedicates efforts to three sports as its symbolic sports: athletics, women's table tennis, and rugby. Through these, we engage in community-based activities for sports promotion. For example, these teams work to raise the level of sports in the region, by each giving classes and seminars in their particular sport.



Energia Runners School



Energia Table Tennis Class



Athletics team



Rugby team

■ Communication with our region

In Tottori, Shimane, Okayama and Yamaguchi, we have established for the people of the region PR Halls as interaction spaces for learning about energy and nuclear power generation, electric kitchens for hands-on cooking experiences, exhibition space that is available rent-free, and various other attractions.

■ Art, culture and sports activities

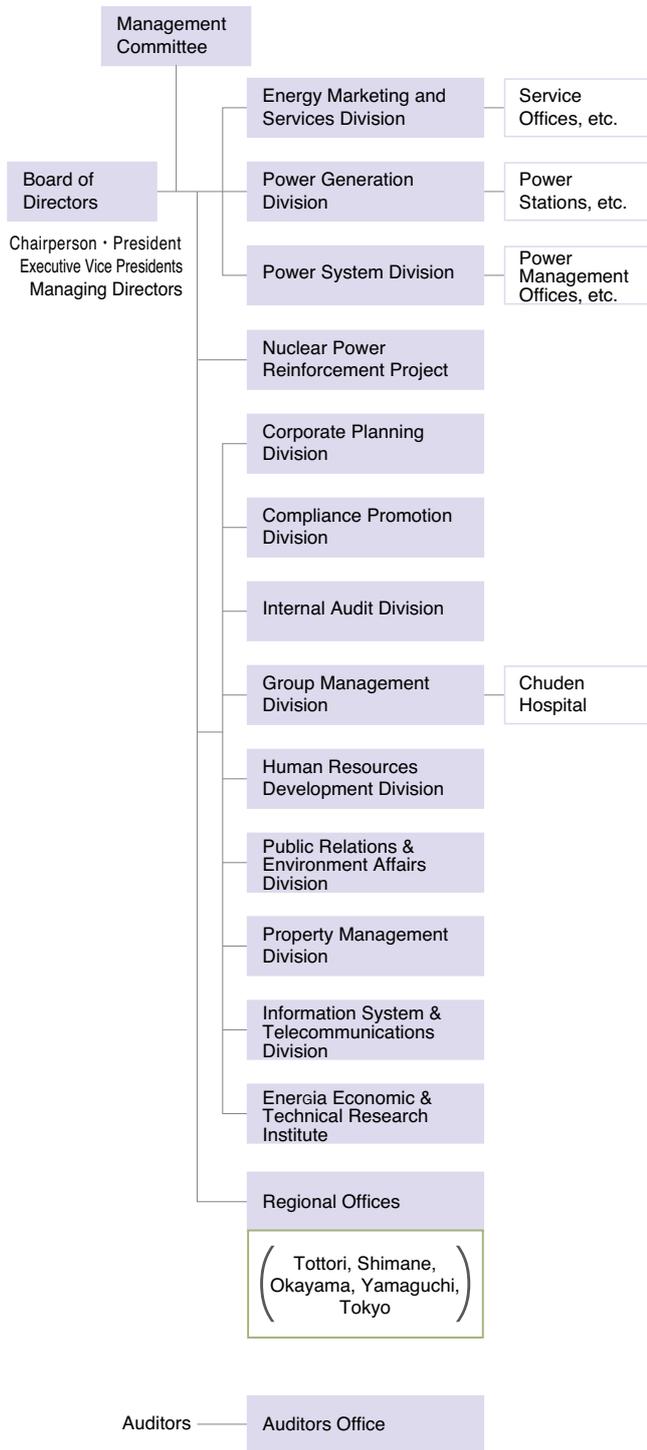
We engage in promotion and support for art, culture and sports through the holding of concerts, culture lectures, sports tournaments and so forth.



Sports tournament in a local community

Organization Chart

(as of June 29, 2010)



Members of the Board

(as of June 29, 2010)



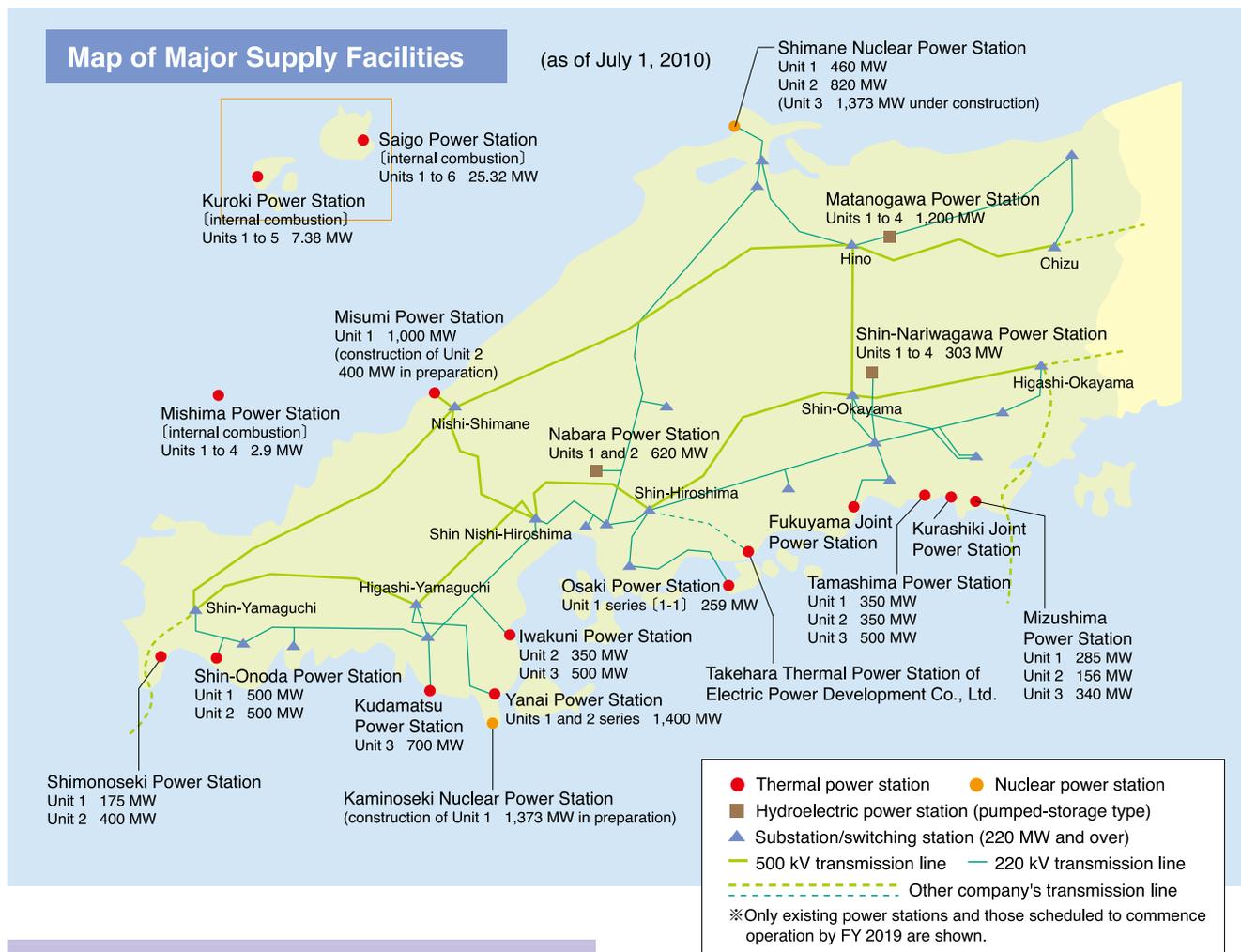
Chairperson: Tadashi Fukuda

President: Takashi Yamashita

| | |
|--------------------------|-------------------|
| Chairperson | Tadashi Fukuda |
| President | Takashi Yamashita |
| Executive Vice President | Toru Jinde |
| Executive Vice President | Hiroshi Fujii |
| Executive Vice President | Mitsuo Matsui |
| Executive Vice President | Tomohide Karita |
| Managing Director | Shuichi Shirahige |
| Managing Director | Kazuhisa Fukumoto |
| Managing Director | Yasuhisa Iwasaki |
| Managing Director | Yoshio Kumano |
| Managing Director | Hirofumi Obata |
| Managing Director | Mareshige Shimizu |
| Managing Director | Satoshi Kumagai |
| Managing Director | Masaki Ono |
| Director (part-time) | Kosuke Hayashi |
| Standing Auditor | Seiki Hawaka |
| Standing Auditor | Michiho Nozaka |
| Auditor | Masao Sato |
| Auditor (part-time) | Taka Shiinoki |
| Auditor (part-time) | Kazuhide Watanabe |

Map of Major Supply Facilities

(as of July 1, 2010)



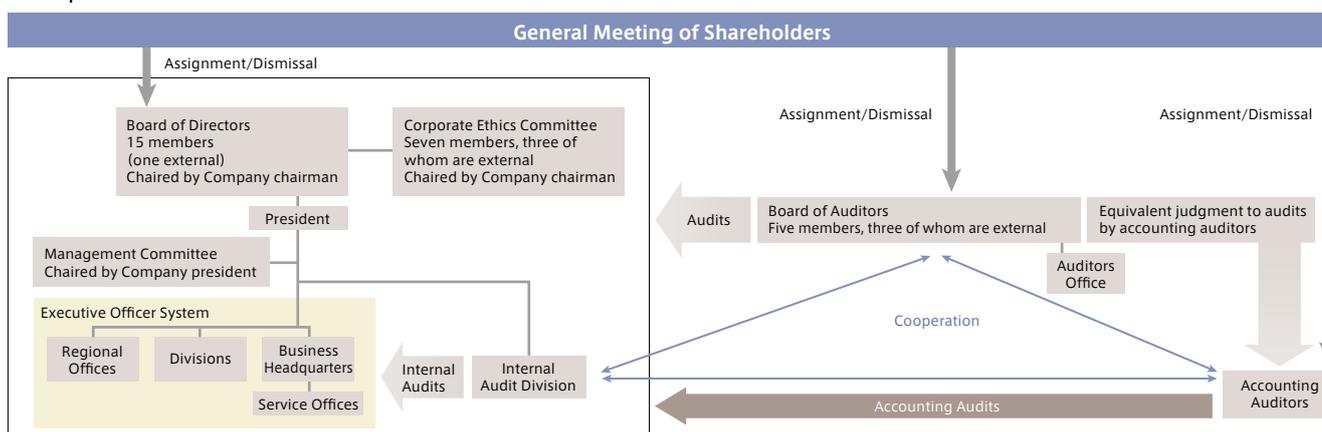
Corporate Governance

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 Controls



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) |
|---|-----------------|-------------|-------------|-------------|-------------|---------------------------------------|
| | 2010 | 2009 | 2008 | 2007 | 2006 | 2010 |
| Operating revenues | ¥ 1,038,443 | ¥ 1,173,727 | ¥ 1,108,354 | ¥ 1,075,575 | ¥ 1,040,290 | \$11,166,054 |
| Operating income | 81,515 | 15,525 | 84,416 | 88,401 | 100,095 | 876,505 |
| Net (loss) income | 31,002 | (23,576) | 25,271 | 37,093 | 45,167 | 333,355 |
| Total stockholders' equity/Net assets | 679,685 | 663,974 | 711,080 | 715,972 | 695,495 | 7,308,441 |
| Total assets | 2,781,990 | 2,806,112 | 2,710,681 | 2,680,782 | 2,655,468 | 29,913,871 |
| Interest-bearing debt | 1,650,859 | 1,717,736 | 1,595,098 | 1,572,994 | 1,575,011 | 17,751,172 |
| Free cash flows (Note 3) | 90,548 | (82,848) | (6,203) | 24,364 | 48,765 | 973,634 |
| Other financial data | | | | | | |
| Per share data (yen and dollars): | | | | | | |
| Stockholders' equity (Note 4) | 1,855.16 | 1,809.91 | 1,938.37 | 1,951.27 | 1,910.41 | 19.95 |
| Net (loss) income: | | | | | | |
| Basic | 85.14 | (64.73) | 69.37 | 101.86 | 123.44 | 0.92 |
| Cash dividends | 50.00 | 50.00 | 50.00 | 50.00 | 50.00 | 0.54 |
| Key financial ratios: | | | | | | |
| Equity ratio (%) | 24.3 | 23.5 | 26.0 | 26.5 | 26.2 | |
| Return on equity (ROE) (%) | 4.6 | (3.5) | 3.6 | 5.3 | 6.7 | |
| Return on assets (ROA) (%) (Note 5) | 1.9 | 0.4 | 2.0 | 2.1 | 2.4 | |
| Price earnings ratio (PER) (times) (Note 6) | 21.8 | — | 32.0 | 25.9 | 19.8 | |

| | Millions of kWh | | | | |
|---|-----------------|---------|---------|---------|---------|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| Power generated and received | | | | | |
| Generated: | | | | | |
| Hydroelectric | 2,978 | 3,044 | 2,875 | 3,719 | 3,224 |
| Thermal | 33,230 | 36,671 | 40,081 | 37,239 | 35,038 |
| Nuclear | 9,585 | 7,131 | 8,485 | 7,937 | 9,297 |
| Total | 45,793 | 46,846 | 51,441 | 48,895 | 47,559 |
| Purchased power (NET) | 18,482 | 20,903 | 20,649 | 20,251 | 22,171 |
| Interchanged power (NET) | 15 | (16) | (1,593) | (1,323) | (3,580) |
| Transmission loss and other | (6,379) | (6,511) | (6,918) | (6,564) | (6,649) |
| Total | 57,911 | 61,222 | 63,579 | 61,259 | 59,501 |
| Electric sales: | | | | | |
| Residential (lighting) | 18,547 | 18,737 | 18,890 | 18,136 | 18,140 |
| Commercial, industrial and other | 2,582 | 2,737 | 2,905 | 2,943 | 3,178 |
| Power consumption by liberalized sector | 36,782 | 39,748 | 41,784 | 40,180 | 38,183 |
| Total | 57,911 | 61,222 | 63,579 | 61,259 | 59,501 |

Notes: 1. U.S.dollar amounts presented are translated from yen, for convenience only, at the rate of ¥93=US\$1, the exchange rate prevailing on March 31, 2010

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), 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), (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 fiscal year ended March 31, 2010, although the state of the Japanese economy had been picking up steadily as a whole, it was only self-sustaining and remained in a difficult situation. Private consumption had been in a weak tone, while exports were increasing moderately and industrial production was picking up. The situation was similar in the Chugoku region.

Consolidated sales of electricity decreased 5.4% from the previous fiscal year, to 57.9 billion kilowatt hours.

Operating revenues of the Chugoku Electric Power Co., Inc. (the "Company"), and its consolidated subsidiaries (together with the Company, called "the Companies") for the fiscal year were ¥1,038.4 billion (US\$11,166.1 million), down 11.5%, or ¥135.3 billion (US\$1,454.6 million), from fiscal 2009. Net income was ¥31.0 billion (US\$333.3 million), up ¥54.6 billion (US\$586.8 million). Free cash flow (net cash provided by operating activities minus net cash used in investing activities) amounted to an inflow of ¥90.5 billion (US\$973.6 million).

The Company maintained cash dividends per share at ¥50.00 (US\$0.54), in line with management's policy of providing stable returns while solidifying the Group's business foundations.

Operating Revenues

As mentioned above, operating revenues for the fiscal year were ¥1,038.4 billion (US\$11,166.1 million), down 11.5%, or ¥135.3 billion (US\$1,454.6 million).

Operating revenues from electric power operations amounted to ¥946.1 billion (US\$10,173.1 million), down 11.4%, or ¥122.0 billion (US\$1,312.1 million).

Operating revenues from other operations such as information and telecommunication businesses and a comprehensive energy supply business were down 12.6%, or ¥13.3 billion (US\$142.5 million), to ¥92.3 billion (US\$993.0 million).

Operating Expenses and Operating Income

Operating expenses for the term decreased 17.4%, or ¥201.3 billion (US\$2,164.2 million), to ¥956.9 billion (US\$10,289.6 million).

Operating expenses in electric power operations were down 17.6%, or ¥186.5 billion (US\$2,004.9 million), to ¥871.0 billion (US\$9,365.5 million). This stemmed from a decrease in materials expense due to the decline in fuel prices and the decrease in sales of electricity. In operations other than electric power operations, operating expenses were ¥85.9 billion (US\$924.0 million), down 14.7%, or ¥14.9 billion (US\$159.3 million).

Operating income thus increased 425.1%, or ¥66.0 billion (US\$709.6 million), to ¥81.5 billion (US\$876.5 million).

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

Total other (income) expenses decreased 32.1%, or ¥11.1 billion (US\$119.7 million), to ¥23.5 billion (US\$252.7 million).

As a result of these factors, income before income taxes and minority interests in net income of consolidated subsidiaries was up ¥80.4 billion (US\$864.5 million), to ¥48.7 billion (US\$523.8 million). Net income increased ¥54.6 billion (US\$586.8 million), to ¥31.0 billion (US\$333.3 million). Net income per share was ¥85.14 (US\$0.92), up ¥149.87, from minus ¥64.73.

Financial Position

Assets

At fiscal year-end, total assets were ¥2,782.0 billion (US\$29,913.9 million), down 0.9%, or ¥24.1 billion (US\$259.3 million), from the close of the previous term. This was due to the fact that amount of new equipment summing up was less than depreciation expenses despite of increase in construction in progress accompanying the Shimane nuclear power Station's units No.3 extension construction.

Fixed property stood at ¥2,085.8 billion (US\$22,427.5 million), down 0.5%, or ¥10.3 billion (US\$110.7 million). Nuclear fuel was ¥156.8 billion (US\$1,685.8 million), up 0.9%, or ¥1.4 billion (US\$14.6 million). Total investments and other assets amounted to ¥326.2 billion (US\$3,507.9 million), up 1.9%, or ¥5.9 billion (US\$64.1 million). Total current assets were ¥213.2 billion (US\$2,292.6 million), down 9.0%, or ¥21.2 billion (US\$227.4 million).

Liabilities, Minority Interests and Net Assets

Total liabilities were ¥2,102.3 billion (US\$22,605.4 million), down 1.9%, or ¥39.8 billion (US\$428.3 million). This was due to decrease in short-term and long-term interest-bearing debt despite of an increase in the provision for depreciation of nuclear power plant. Among these, short-term and long-term interest-bearing debt decreased 3.9%, or ¥66.8 billion (US\$719.1 million), to ¥1,650.9 billion (US\$17,751.2 million). Other liabilities increased 6.4%, or ¥27.0 billion (US\$290.8 million), to ¥451.4 billion (US\$4,854.3 million).

Total net assets were ¥679.7 billion (US\$7,308.4 million), an increase of 2.4%, or ¥15.7 billion (US\$168.9 million). The equity ratio rose 0.8 percentage points, to 24.3%, from 23.5%.

Cash Flows

Net cash provided by operating activities for fiscal 2010 amounted to ¥247.7 billion (US\$2,663.3 million), up 65.0%, or ¥97.6 billion (US\$1,049.1 million), compared with the previous period.

Net cash used in investing activities was ¥157.1 billion (US\$1,689.6 million), down 32.6%, or ¥75.9 billion (US\$815.4 million), mainly because equipment investments decreased. Free cash flow therefore amounted to ¥90.5 billion (US\$973.6 million).

Net cash provided by financing activities turned in a negative balance of ¥87.9 billion (US\$945.2 million) compared with the positive ¥91.1 billion (US\$980.0 million) for the prior year. By the repayments exceeded the procurements, bonds and long-term debt decreased ¥39.6 billion (US\$426.1 million). Cash dividends paid were ¥18.2 billion (US\$195.8 million).

Cash and cash equivalents at end of year totaled ¥27.8 billion (US\$299.0 million), up 10.3%, or ¥2.6 billion (US\$27.9 million).

Summary of Cash Flows

| Years ended March 31 | Millions of yen | | | Thousands of U.S. dollars |
|--|------------------|-----------|-----------|---------------------------|
| | 2010 | 2009 | 2008 | 2010 |
| Net cash provided by operating activities | ¥247,685 | ¥150,120 | ¥186,419 | \$2,663,280 |
| Net cash used in investing activities | (157,137) | (232,968) | (192,622) | (1,689,646) |
| Net cash provided by (used in) financing activities | (87,905) | 91,138 | 3,253 | (945,215) |
| Effect of exchange rate changes on cash and cash equivalents | (43) | (137) | 175 | (462) |
| Net increase (decrease) in cash and cash equivalents | 2,600 | 8,153 | (2,775) | 27,957 |
| Cash and cash equivalents at beginning of year | 25,210 | 17,057 | 21,665 | 271,075 |
| 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 | ¥27,810 | ¥25,210 | ¥17,057 | \$299,032 |

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, 2010.

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, within the current liberalization scope for all high-voltage customers, price and service competition may intensify even more due to competitive environmental measures.

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 “comprehensive energy supply business,” “information and telecommunications businesses,” “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.

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 CO₂ 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 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.

In March 2010, the Nuclear and Industrial Safety Agency was informed that some equipment at the Shimane Nuclear Power Station had been used beyond the inspection period set independently by the Company. Local governments (Shimane Prefecture and City of Matsue) were also informed at this time. Shimane No1. have shut down from March 31, 2010 to perform overall inspection. Shimane No2. have shutdown from March 18, 2010 for the 16th periodic overhaul. It is unclear when those nuclear plants will be restart their operation, and it has the potential to affect the Companies' results and financial condition. The above-mentioned description is estimated as of March 31, 2010.

Consolidated Balance Sheets

The Chugoku Electric Power Co.,Inc. and Consolidated Subsidiaries
March 31,2010 and 2009

| Assets | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|-------------------|------------|---------------------------------------|
| | 2010 | 2009 | 2010 |
| Property: | | | |
| Utility plant and equipment | ¥5,376,060 | ¥5,345,127 | \$57,807,097 |
| Other plant | 283,332 | 275,168 | 3,046,581 |
| Construction in progress | 440,834 | 389,087 | 4,740,150 |
| | 6,100,226 | 6,009,382 | 65,593,828 |
| Less- | | | |
| Contributions in aid of construction | 81,983 | 79,260 | 881,537 |
| Accumulated depreciation | 3,932,486 | 3,834,066 | 42,284,796 |
| | 4,014,469 | 3,913,326 | 43,166,333 |
| Net property | 2,085,757 | 2,096,056 | 22,427,495 |
| Nuclear fuel | 156,783 | 155,425 | 1,685,839 |
| Investments and other assets: | | | |
| Investment securities (Note 4,5) | 47,090 | 40,592 | 506,344 |
| Fund reserved reprocessing of irradiated nuclear fuel (Note 4) | 83,778 | 87,242 | 900,839 |
| Investments to non-consolidated subsidiaries and affiliates | 86,628 | 84,186 | 931,484 |
| Long-term loans to employees | 544 | 695 | 5,849 |
| Deferred tax assets (Note 12) | 72,118 | 67,340 | 775,462 |
| Other assets | 36,078 | 40,216 | 387,936 |
| Total investments and other assets | 326,236 | 320,271 | 3,507,914 |
| Current assets: | | | |
| Cash and time deposits (Note 3,4) | 54,626 | 55,226 | 587,376 |
| Receivables,less allowance for doubtful accounts of ¥763 million (\$ 8,204 thousand) in 2010 and ¥869 million in 2009 (Note 4) | 68,428 | 79,475 | 735,785 |
| Inventories,fuel and supplies | 52,811 | 58,807 | 567,860 |
| Deferred tax assets (Note 12) | 10,070 | 16,772 | 108,280 |
| Other current assets | 27,279 | 24,080 | 293,322 |
| Total current assets | 213,214 | 234,360 | 2,292,623 |
| Total assets | ¥2,781,990 | ¥2,806,112 | \$29,913,871 |

See notes to consolidated financial statements

| Liabilities and Net Assets | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|--------------------|-------------|------------------------------------|
| | 2010 | 2009 | 2010 |
| Long-term liabilities: | | | |
| Long-term debt (Note 4,7) | ¥ 1,393,804 | ¥ 1,424,580 | \$14,987,140 |
| Employees' severance and retirement benefits (Note 11) | 60,871 | 60,314 | 654,527 |
| Retirement allowances for directors and corporate auditors | 385 | 403 | 4,140 |
| Provision for reprocessing of irradiated nuclear fuel | 94,626 | 98,229 | 1,017,484 |
| Provision for reprocessing of irradiated nuclear fuel without a fixed plan to reprocess | 4,634 | 3,411 | 49,828 |
| Provision for decommissioning of nuclear power generating plants | 61,346 | 58,641 | 659,634 |
| Other long-term liabilities | 23,216 | 24,059 | 249,634 |
| Total long-term liabilities | 1,638,882 | 1,669,637 | 17,622,387 |
| Current liabilities: | | | |
| Long-term debt due within one year (Note 4,7) | 126,418 | 135,125 | 1,359,333 |
| Short-term borrowings (Note 4) | 72,270 | 67,430 | 777,097 |
| Commercial Paper (Note 4) | 40,000 | 73,500 | 430,107 |
| Accounts payable (Note 4) | 71,587 | 68,866 | 769,753 |
| Accrued income taxes | 21,734 | 6,208 | 233,699 |
| Accrued expenses | 42,247 | 43,658 | 454,269 |
| Allowance for bonuses to directors and corporate auditors | 70 | 59 | 753 |
| Other current liabilities, including other long-term liabilities due within one year | 43,341 | 41,192 | 466,032 |
| Total current liabilities | 417,667 | 436,038 | 4,491,043 |
| Provision for drought | — | — | — |
| Provision for depreciation of nuclear power plant | 45,756 | 36,463 | 492,000 |
| Contingent liabilities (Note 9) | | | |
| Net assets (Note 13): | | | |
| Stockholders' equity | | | |
| Common stock : | 185,528 | 185,528 | 1,994,924 |
| Authorized-1,000,000,000 shares | | | |
| Issued-371,055,259 shares in 2010 and 2009 | | | |
| Capital surplus | 17,218 | 17,216 | 185,140 |
| Retained earnings (Note 15) | 478,607 | 465,812 | 5,146,312 |
| Treasury Stock (6,926,174 shares in 2010 and 6,905,137 shares in 2009) | (12,506) | (12,464) | (134,473) |
| Total stockholders' equity | 668,847 | 656,092 | 7,191,903 |
| Net unrealized holding gains on securities | 6,741 | 3,292 | 72,484 |
| Net unrealized loss on hedges | — | (231) | — |
| Foreign currency translation adjustments | (71) | (73) | (763) |
| Minority interests | 4,168 | 4,894 | 44,817 |
| Total net assets | 679,685 | 663,974 | 7,308,441 |
| Total liabilities and net assets | ¥ 2,781,990 | ¥ 2,806,112 | \$29,913,871 |

Consolidated Statements of Operations

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the years ended March 31, 2010, 2009 and 2008

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|------------------|------------|------------|---------------------------------------|
| | 2010 | 2009 | 2008 | 2010 |
| Operating revenues (Note 14) : | | | | |
| Electric | ¥946,096 | ¥1,068,127 | ¥1,013,578 | \$10,173,075 |
| Other | 92,347 | 105,600 | 94,776 | 992,979 |
| | 1,038,443 | 1,173,727 | 1,108,354 | 11,166,054 |
| Operating expenses (Note 14): | | | | |
| Electric | 870,995 | 1,057,451 | 932,154 | 9,365,538 |
| Other | 85,933 | 100,751 | 91,784 | 924,011 |
| | 956,928 | 1,158,202 | 1,023,938 | 10,289,549 |
| Operating income | 81,515 | 15,525 | 84,416 | 876,505 |
| Other expenses (income): | | | | |
| Interest expense | 28,429 | 29,318 | 30,783 | 305,688 |
| Interest income | (1,587) | (1,580) | (1,658) | (17,064) |
| Gains on sales of securities | (162) | (355) | (4) | (1,742) |
| Equity in losses (earnings) of affiliated companies | (1,737) | 3,666 | (2,248) | (18,677) |
| Other, net | (1,437) | 3,583 | (1,327) | (15,452) |
| | 23,506 | 34,632 | 25,546 | 252,753 |
| Special item: | | | | |
| Provision (reversal) for drought | — | — | (657) | — |
| Provision for depreciation of nuclear power plant | 9,293 | 12,582 | 18,828 | 99,924 |
| (Loss) income before income taxes and minority interests in net income of consolidated subsidiaries | 48,716 | (31,689) | 40,699 | 523,828 |
| Provision for income taxes: (Note 12) | | | | |
| Current | 17,544 | 1,347 | 12,443 | 188,645 |
| Deferred | 734 | (9,356) | 2,839 | 7,893 |
| | 18,278 | (8,009) | 15,282 | 196,538 |
| (Loss) income before minority interests in net income of consolidated subsidiaries | 30,438 | (23,680) | 25,417 | 327,290 |
| Minority interests in net loss (income) of consolidated subsidiaries | (564) | (104) | 146 | (6,065) |
| Net (loss) income | ¥31,002 | ¥(23,576) | ¥25,271 | \$333,355 |

| | Yen | | | U.S. dollars (Note 1) |
|---------------------------|--------|----------|--------|-----------------------|
| | 2010 | 2009 | 2008 | 2010 |
| Per share data : | | | | |
| Net (loss) income (Basic) | ¥85.14 | ¥(64.73) | ¥69.37 | \$0.92 |
| Cash dividends | 50.00 | 50.00 | 50.00 | 0.54 |

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, 2010 and 2009

| | 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 |
| Balance at March 31, 2008 | 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 |
| Net changes other than stockholders'equity | | | | | | (4,691) | (231) | (78) | (155) | (5,155) |
| Balance at March 31, 2009 | 371,055,259 | ¥185,528 | ¥17,216 | ¥465,812 | ¥(12,464) | ¥3,292 | ¥(231) | ¥(73) | ¥4,894 | ¥663,974 |
| Net income | | | | 31,002 | | | | | | 31,002 |
| Cash dividends paid (¥50 per share) | | | | (18,207) | | | | | | (18,207) |
| Surplus from sale of treasury stock | | | 2 | | 30 | | | | | 32 |
| Treasury stock purchased, net | | | | | (72) | | | | | (72) |
| Change of scope of consolidation | | | | | | | | | | — |
| Net changes other than stockholders'equity | | | | | | 3,449 | 231 | 2 | (726) | 2,956 |
| Balance at March 31, 2010 | 371,055,259 | ¥185,528 | ¥17,218 | ¥478,607 | ¥(12,506) | ¥6,741 | ¥— | ¥(71) | ¥4,168 | ¥679,685 |

| | 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 | |
| Balance at March 31, 2009 | \$1,994,924 | \$185,118 | \$5,008,731 | \$(134,022) | \$35,398 | \$(2,484) | \$(785) | \$52,624 | \$7,139,504 | |
| Net income | | | 333,355 | | | | | | 333,355 | |
| Cash dividends paid (\$0.54 per share) | | | (195,774) | | | | | | (195,774) | |
| Surplus from sale of treasury stock | | 22 | | 323 | | | | | 345 | |
| Treasury stock purchased, net | | | | (774) | | | | | (774) | |
| Change of scope of consolidation | | | | | | | | | — | |
| Net changes other than stockholders'equity | | | | | 37,086 | 2,484 | 22 | (7,807) | 31,785 | |
| Balance at March 31, 2010 | \$1,994,924 | \$185,140 | \$5,146,312 | \$(134,473) | \$72,484 | \$— | \$(763) | \$44,817 | \$7,308,441 | |

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, 2010, 2009 and 2008

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|--|------------------|------------|-----------|---------------------------------------|
| | 2010 | 2009 | 2008 | 2010 |
| Cash flows from operating activities: | | | | |
| (Loss) income before income taxes and minority interests in net income of consolidated subsidiaries | ¥48,716 | ¥ (31,689) | ¥40,699 | \$523,828 |
| Depreciation | 131,641 | 139,287 | 143,354 | 1,415,495 |
| Loss on impairment of fixed assets | 1,669 | 1,689 | 382 | 17,946 |
| Amortization of nuclear fuel | 6,790 | 5,275 | 6,184 | 73,011 |
| Equity in losses (earnings) of affiliated companies | (1,737) | 3,666 | (2,248) | (18,677) |
| Loss on disposal of property | 7,086 | 7,102 | 8,303 | 76,193 |
| Increase (decrease) in employees' severance and retirement benefits | 557 | (473) | (759) | 5,989 |
| Increase (decrease) in provision for reprocessing of irradiated nuclear fuel | (3,603) | (2,462) | (17,595) | (38,742) |
| Increase (decrease) in provision for reprocessing of irradiated nuclear fuel without a fixed plan to reprocess | 1,224 | 658 | 976 | 13,161 |
| Increase (decrease) in provision for decommissioning of nuclear power generating plants | 2,705 | 2,094 | 8,836 | 29,086 |
| Increase (decrease) in provision for drought | — | — | (657) | — |
| Increase (decrease) in provision for depreciation of nuclear power plant | 9,293 | 12,582 | 18,828 | 99,925 |
| Interest and dividend income | (2,294) | (2,443) | (2,442) | (24,667) |
| Interest expense | 28,429 | 29,319 | 30,784 | 305,688 |
| Decrease (increase) in funds reserved for reprocessing of irradiated nuclear fuel | 3,463 | 3,874 | 2,552 | 37,237 |
| Decrease (increase) in notes and accounts receivable | 6,604 | (3,391) | (92) | 71,011 |
| Decrease (increase) in inventories | 7,593 | (8,573) | 909 | 81,645 |
| Increase (decrease) in notes and accounts payable | (643) | (3,158) | (1,556) | (6,914) |
| Decrease in liabilities for defined contribution pension and prepaid pension | — | — | (3,046) | — |
| Other | 22,285 | 30,937 | (3,314) | 239,624 |
| Subtotal | 269,778 | 184,294 | 230,098 | 2,900,839 |
| Interest and dividends received | 2,869 | 2,975 | 2,866 | 30,849 |
| Interest paid | (28,731) | (29,460) | (30,452) | (308,935) |
| Income taxes refund (paid) | 3,769 | (7,689) | (16,093) | 40,527 |
| Net cash provided by operating activities | 247,685 | 150,120 | 186,419 | 2,663,280 |
| Cash flows from investing activities: | | | | |
| Purchase of property | (156,065) | (207,739) | (193,384) | (1,678,118) |
| Purchase of investments in securities | (70,597) | (59,341) | (3,652) | (759,108) |
| Proceeds from sale of investment securities | 66,215 | 29,628 | 509 | 711,989 |
| Other | 3,310 | 4,484 | 3,905 | 35,591 |
| Net cash used in investing activities | (157,137) | (232,968) | (192,622) | (1,689,646) |
| Cash flows from financing activities: | | | | |
| Proceeds from issue of bonds | 69,782 | 144,558 | 104,628 | 750,344 |
| Repayment of bonds | (70,000) | (40,000) | (100,000) | (752,688) |
| Proceeds from long-term debt | 25,900 | 48,800 | 65,000 | 278,495 |
| Repayment of long-term debt | (65,126) | (86,752) | (45,479) | (700,280) |
| Proceeds from short-term loans | 178,780 | 177,250 | 127,690 | 1,922,366 |
| Repayment of short-term loans | (173,730) | (178,080) | (131,649) | (1,868,065) |
| Proceeds from issue of commercial paper | 301,500 | 627,500 | 576,500 | 3,241,935 |
| Repayment of commercial paper | (335,000) | (582,500) | (575,000) | (3,602,150) |
| Purchase of treasury stock | (72) | (283) | (264) | (774) |
| Cash dividends paid | (18,207) | (18,210) | (18,214) | (195,774) |
| Other | (1,732) | (1,145) | 41 | (18,624) |
| Net cash provided by (used in) financing activities | (87,905) | 91,138 | 3,253 | (945,215) |

| | 2010 | 2009 | 2008 | 2010 |
|--|----------------|---------|---------|------------------|
| Effect of exchange rate changes on cash and cash equivalents | (43) | (137) | 175 | (462) |
| Net increase (decrease) in cash and cash equivalents | 2,600 | 8,153 | (2,775) | 27,957 |
| Cash and cash equivalents at beginning of year | 25,210 | 17,057 | 21,665 | 271,075 |
| 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) | ¥27,810 | ¥25,210 | ¥17,057 | \$299,032 |

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 (together with the Company, called "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, 2010, which was ¥93 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, 2010, 21 subsidiaries (21 in 2009, 22 in 2008) 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, 2010, 6 non-consolidated subsidiaries (6 in 2009, 5 in 2008) and 11 affiliates (10 in 2009, 9 in 2008) were accounted for by the equity method.

For the year ended March 31, 2010, 9 affiliates (9 in 2009, 8 in 2008) were stated at cost without applying the equity method of accounting. Even 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. 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. Available-for-sale securities 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 book value 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 operations 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

Depreciation of property, plant and equipment is computed using the declining-balance method, while amortization of intangible fixed asset is computed by the straight-line method, based on the life periods stipulated by the Corporation Tax Act.

Nuclear fuel and amortization

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

Allowance for doubtful accounts

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

Employees' severance and retirement benefits

The Companies have defined benefits plans. On some occasions, employees are entitled to certain additional payments upon retirement.

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 differences are recognized in expenses using a straight-line method over five years within the average of the estimated remaining service period.

Effective for the fiscal year ended March 31, 2010, the Companies adopted "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (Accounting Standards Board of Japan ("ASBJ") Statement No.19 issued on July 31, 2008). The new accounting standard requires domestic companies to use year-end rates of long-term government bonds or high-grade bonds when calculating projected benefit obligation for defined benefit plans.

Previously, domestic companies were allowed to use a discount rate that was determined after considering interest fluctuations of long-term government bonds or high-grade bonds for a certain period. The change had no impact on the statements of operations for the year ended March 31, 2010. Also, the difference in projected benefit obligation at March 31, 2010 calculated pursuant to the new accounting standard and the previous accounting standard amounted to minus ¥1,244 million (minus US\$13,376 thousand).

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.

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 fiscal year 2008 is ¥3,306 million of the term evenness.

The difference in estimated costs will be amortized over the periods of generating the irradiated nuclear fuel for which there are concrete reprocessing plans, starting from the following fiscal year. The unrecognized difference in estimated costs was ¥1,382 million (US\$14,860 thousand) on March 31, 2010.

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.

Provision for decommissioning of nuclear power generating plants

A provision for decommissioning of nuclear power generating plants is provided for future decommissioning costs of nuclear power generating plants based on the proportion of the current generation of electric power to the estimated total generation of electric power of each plants.

Provision for drought

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

Provision for depreciation of nuclear power plant

In accordance with the Electricity Utilities Industry Law, the Company provides for the provision for depreciation of nuclear power plant to equalize the burden of depreciation expenses after commencement of commercial operation, based on an ordinance of the Ministry of Economy, Trade and Industry.

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 cash flow change of the means for hedging and the total cash flow change of

the hedged item 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 operations.

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.

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.

Foreign currency transaction

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

Consolidated tax system

The Companies apply the consolidated tax system.

Accounting Standard for Construction Contracts

Prior to the year ended March 31, 2010, the Companies recognized revenues and costs of construction contracts mainly using the completed-contract method. Effective for the year ended March 31, 2010, the domestic companies adopted the "Accounting Standard for Construction Contracts" (Accounting Standards Board of Japan ("ASBJ") Statement No.15, issued on December 27, 2007) and the "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No.18, issued on December 27, 2007). Accordingly, when the outcome of individual contracts can be estimated reliably, the domestic companies apply the percentage-of-completion method to work commencing during the year ended March 31, 2010, otherwise the completed-contract method is applied.

The change had no material impact on the consolidated financial statements.

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, 2010 and 2009 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|----------|---------------------------|
| | 2010 | 2009 | 2010 |
| Cash and time deposits | ¥ 54,626 | ¥ 55,226 | \$587,376 |
| Time deposits with maturities exceeding three months | (30,016) | (30,016) | (322,753) |
| Other current assets (short-term investments to be redeemed three months or less) | 3,200 | — | 34,409 |
| Cash and cash equivalents | ¥ 27,810 | ¥ 25,210 | \$299,032 |

4. Financial instruments

Current fiscal year (for the year ended March 31, 2010)

1. Issues related to financial instruments

(1) Approach to financial instruments

Most of the Companies' business consists of electric power business, and fund that is necessary for capital investment and operation is raised from bonds, long-term borrowings, short-term borrowings and commercial paper (CP), based on plans.

Fund management involves only highly safe monetary assets based on plans.

The derivative transactions are only for receivables and payables (actual demand transactions) arising from the business of the Company and a part of consolidated subsidiaries. There is no transaction for speculative purposes.

(2) Details and risk of financial instruments, and our risk management structure

Long-term investments (available-for-sale securities) consist of stocks of companies that share business interests with us, and the fair value of stocks and financial condition of the relevant companies are investigated on a regular basis.

The amount of fund reserved reprocessing of irradiated nuclear fuel is calculated in accordance with "Creation and Management of Reserve Funds for the Reprocessing of Spent Fuel at Nuclear Power Stations" (Law No. 48, May 20, 2005) in order to appropriately reprocess spent fuel generated in the course of operating particular nuclear reactors.

Most of notes receivable and accounts receivable consist of receivables for electricity charges, and are exposed to customers' credit risk. For the relevant risk, each customers' due date and balance are controlled in accordance with power supply conditions.

Bonds and loan payable are procured mainly for capital investment. Since many interest-bearing debts consist of long-term funds with fixed interest (bonds and long-term borrowings), the fluctuation of market interest rates' may have limited impact on our business result. A part of the long-term fund is used for derivative transactions (interest rate swap) as a means to hedge risk (to mitigate or avoid market fluctuation risk).

Due dates of the most notes payable and accounts payable are within one year.

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 contract 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, interest rate swap contracts and commodity swap contracts are exposed to market risk arising from the fluctuation 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.

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

Although bonds and loans payable are exposed to liquidity risk, the Companies manage liquidity risk by creating monthly cash management, ensuring liquidity that is necessary for operation of the Companies, and diversifying financing methods.

(3) Supplemental explanation for financial instruments' fair value

The fair value of financial instruments includes a market value, or a reasonably calculated value when the relevant instruments does not have a market value. Since value calculation reflects variation factors, the relevant value may change depending on preconditions.

Please note that in terms of contract amount for derivative transactions described in "2. Issues related to fair value of financial instruments", the amount itself does not indicate market risk for derivative transactions.

2. Issues related to fair value of financial instruments

The following are book values, fair values and the differences as of March 31, 2010. Please note that items whose fair value is difficult to evaluate are not included (See Note b).

| | Millions of yen | | |
|--|-----------------|-------------|------------|
| | Book value | Fair value | Difference |
| Assets | | | |
| (1) Long-term investment: Available-for-sale securities | ¥ 20,609 | ¥ 20,609 | ¥ - |
| (2) Fund reserved reprocessing of irradiated nuclear fuel | 83,778 | 83,778 | - |
| (3) Cash and time deposits | 54,626 | 54,626 | - |
| (4) Notes receivable and accounts receivable | 62,564 | 62,564 | - |
| (5) Others (current asset): Debt securities held to maturity | 3,200 | 3,200 | - |
| Liabilities | | | |
| (6) Bonds | ¥ 949,978 | ¥ 1,005,170 | ¥ 55,192 |
| (7) Long-term borrowings | 570,088 | 591,695 | 21,607 |
| (8) Short-term borrowings | 72,270 | 72,270 | - |
| (9) Commercial Paper | 40,000 | 40,000 | - |
| (10) Notes payable and accounts payable | 43,847 | 43,847 | - |
| (11) Derivative transactions | (1,551) | (1,551) | - |

| | Thousands of U.S. dollars | | |
|---|---------------------------|---------------------|------------------|
| | Book value | Fair value | Difference |
| Assets | | | |
| (1) Long-term investment : Available-for-sale securities | \$221,602 | \$221,602 | \$— |
| (2) Fund reserved reprocessing of irradiated nuclear fuel | 900,839 | 900,839 | — |
| (3) Cash and time deposits | 587,376 | 587,376 | — |
| (4) Notes receivable and accounts receivable | 672,731 | 672,731 | — |
| (5) Others (current asset) : Debt securities held to maturity | 34,409 | 34,409 | — |
| Liabilities | | | |
| (6) Bonds | \$10,214,817 | \$10,808,280 | \$593,463 |
| (7) Long-term borrowings | 6,129,978 | 6,362,312 | 232,334 |
| (8) Short-term borrowings | 777,097 | 777,097 | — |
| (9) Commercial Paper | 430,107 | 430,107 | — |
| (10) Notes payable and accounts payable | 471,473 | 471,473 | — |
| (11) Derivative transactions | (16,677) | (16,677) | — |

(Note a) Issues related evaluation method for financial instruments' fair value, securities and derivative transactions

(1) Long-term investment: Available-for-sale securities

Their values depend on Stock Exchange quotations.

For the difference between book value of available-for-sale securities and their acquisition cost, please refer to the notes in "5.Securities".

(2) Fund reserved reprocessing of irradiated nuclear fuel

Amount of fund reserved reprocessing of irradiated nuclear fuel is calculated in accordance with "Creation and Management of Reserve Funds for the Reprocessing of Spent Fuel at Nuclear Power Stations" (Law No. 48, May 20, 2005) in order to appropriately reprocess spent fuel generated in the course of operating particular nuclear reactors.

In order to redeem the relevant reserve, it is necessary to follow the redemption plan for fund reserved reprocessing of irradiated nuclear fuel, which was approved by Minister of Economy, Trade and Industry. Because the book value is based on the current value for the potential redemption amount as of the end of the current fiscal year, its fair value is also estimated by the relevant book value.

(3) Cash and time deposits, (4) Note receivable and account receivable, and (5) Others (current asset): Debt securities held to maturity

Since these are settled in short time, as well as their values are more or less equal to the book value, the relevant book value is quoted. Please note that for the difference between book value and fair value of debt securities held to maturity, please refer to note of "5.Securities".

(6) Bonds

The bonds with market value are valued as such. The bonds without market value are valued based on terms projected as if they were being newly issued. Some bonds are subject to special treatment of interest rate swaps (notes in "6.Derivatives and hedge accounting"), these are valued based on the same terms and conditions applied to the relevant interest-rate swap transactions.

(7) Long-term borrowings

The values of long-term borrowings are calculated using terms as if the borrowings were new loans. Some long-term borrowings are subject to special treatment of interest rate swaps (notes in "6.Derivatives and hedge accounting"), these are valued based on the same terms and conditions applied to the relevant interest-rate swap transactions.

(8) Short-term borrowings, (9) Commercial Paper, and (10) Notes payable and accounts payable

Since these are settled in short time, as well as their values are more or less equal to the book value, the relevant book value is quoted.

(11) Derivative transactions

Please refer to notes in "6.Derivatives and hedge accounting".

(Note b) Financial instruments whose fair values may be difficult to estimate

| | Millions of yen | Thousands of U.S. dollars |
|-----------------|-----------------|---------------------------|
| | Book value | |
| Unlisted stocks | ¥21,338 | \$229,441 |
| Other | 1,025 | 11,021 |
| Total | ¥22,363 | \$240,462 |

Since the above do not have market value, it is hard to estimate their cash flow in the future, as well as to estimate their fair value. Hence, they are not included in "(1) Long-term investment : Available-for-sale securities".

(Note c) Anticipated redemptions after consolidated account settlements for monetary claims and debt securities held to maturity

| | Millions of yen | Thousands of U.S. dollars |
|---|-----------------|---------------------------|
| | Within 1 year | |
| Long-term investment: | | |
| Available-for-sale securities with maturity | ¥— | \$— |
| Fund reserved reprocessing of irradiated nuclear fuel | 12,287 | 132,118 |
| Cash and time deposits | 54,626 | 587,376 |
| Notes receivable and accounts receivable | 62,564 | 672,731 |
| Others (current asset) : | | |
| Debt securities held to maturity | 3,200 | 34,409 |
| Total | ¥132,677 | \$1,426,634 |

(Note d) Anticipated redemptions after consolidated account settlements for bonds, long-term borrowings, and other interest-bearing debts

| | Millions of yen | | | | | |
|-----------------------|---------------------------|----------------|-----------------|-----------------|-----------------|--------------|
| | Within 1 year | 1 year—2 years | 2 years—3 years | 3 years—4 years | 4 years—5 years | Over 5 Years |
| Bonds | ¥70,000 | ¥80,000 | ¥75,000 | ¥80,000 | ¥130,000 | ¥515,000 |
| Long-term borrowings | 56,378 | 63,008 | 78,244 | 93,240 | 39,844 | 239,374 |
| Short-term borrowings | 72,270 | — | — | — | — | — |
| Commercial Paper | 40,000 | — | — | — | — | — |
| Total | ¥238,648 | ¥143,008 | ¥153,244 | ¥173,240 | ¥169,844 | ¥754,374 |
| | Thousands of U.S. dollars | | | | | |
| | Within 1 year | 1 year—2 years | 2 years—3 years | 3 years—4 years | 4 years—5 years | Over 5 Years |
| Bonds | \$752,688 | \$860,215 | \$806,452 | \$860,215 | \$1,397,850 | \$5,537,634 |
| Long-term borrowings | 606,215 | 677,505 | 841,333 | 1,002,581 | 428,430 | 2,573,914 |
| Short-term borrowings | 777,097 | — | — | — | — | — |
| Commercial Paper | 430,107 | — | — | — | — | — |
| Total | \$2,566,107 | \$1,537,720 | \$1,647,785 | \$1,862,796 | \$1,826,280 | \$8,111,548 |

(Note e) Bonds and long-term borrowings includes the ones whose payment is due within one year.

(Note f) Receivables and liabilities generated from derivative transactions are shown in net amount. When the total amount is minus (liabilities), such amount is shown in parentheses ().

(Additional Information)

Effective for the fiscal year ended March 31, 2010, "Accounting Standard for Financial Instruments" (Accounting Standards Board of Japan ("ASBJ") Statement No.10 issued on March 10, 2008) and "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19, issued on March 10,2008) have been applied.

5. Securities

The following tables summarize securities descriptions in the previous fiscal year (for the year ended March 31, 2009)

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

| | Millions of yen | | |
|-------------------|------------------|------------|------------|
| | Acquisition cost | Book value | Difference |
| | 2009 | 2009 | 2009 |
| Equity securities | ¥3,587 | ¥15,126 | ¥11,539 |
| Bonds | — | — | — |
| Other | 9 | 10 | 1 |
| Total | ¥3,596 | ¥15,136 | ¥11,540 |

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

| | Millions of yen | | |
|-------------------|------------------|------------|------------|
| | Acquisition cost | Book value | Difference |
| | 2009 | 2009 | 2009 |
| Equity securities | ¥4,285 | ¥3,087 | ¥(1,198) |
| Bonds | — | — | — |
| Other | 14 | 12 | (2) |
| Total | ¥4,299 | ¥3,099 | ¥(1,200) |

B. Total sales of available-for-sale securities for the year ended March 31, 2009

| | Millions of yen | | |
|-------------------------------|-----------------|------------|------------|
| | Sales amount | Total gain | Total loss |
| Available-for-sale securities | ¥2,859 | ¥355 | ¥— |

C. Details and book values of available-for-sale securities with no available fair values:

| | Millions of yen |
|----------------|-----------------|
| | Book value |
| | 2009 |
| Unlisted stock | ¥21,229 |
| Other | 1,036 |
| Total | ¥22,265 |

Securities descriptions for the current fiscal year (for the year ended March 31, 2010) are as follows:

A. Debt securities held to maturity

| Categories | Millions of yen | | |
|---|-----------------|------------|------------|
| | Book value | Fair value | Difference |
| Debt securities held to maturity with fair values exceeding book values | | | |
| National and local government bonds, etc. | ¥— | ¥— | ¥— |
| Corporate bonds | — | — | — |
| Other | — | — | — |
| Subtotal | ¥— | ¥— | ¥— |
| Debt securities held to maturity with fair values not exceeding book values | | | |
| National and local government bonds, etc. | ¥— | ¥— | ¥— |
| Corporate bonds | — | — | — |
| Other | 3,200 | 3,200 | — |
| Subtotal | ¥3,200 | ¥3,200 | ¥— |
| Total | ¥3,200 | ¥3,200 | ¥— |

| Categories | Thousands of U.S. dollars | | |
|---|---------------------------|------------|------------|
| | Book value | Fair value | Difference |
| Debt securities held to maturity with fair values exceeding book values | | | |
| National and local government bonds, etc. | \$— | \$— | \$— |
| Corporate bonds | — | — | — |
| Other | — | — | — |
| Subtotal | \$— | \$— | \$— |
| Debt securities held to maturity with fair values not exceeding book values | | | |
| National and local government bonds, etc. | \$— | \$— | \$— |
| Corporate bonds | — | — | — |
| Other | 34,409 | 34,409 | — |
| Subtotal | \$34,409 | \$34,409 | \$— |
| Total | \$34,409 | \$34,409 | \$— |

B. Available-for-sale securities

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

| | Millions of yen | | |
|-------------------|---------------------------|------------------|------------------|
| | Book value | Acquisition cost | Difference |
| | 2010 | | |
| Equity securities | ¥ 18,469 | ¥ 4,821 | ¥ 13,648 |
| Bonds | — | — | — |
| Other | 21 | 17 | 4 |
| Total | ¥ 18,490 | ¥ 4,838 | ¥ 13,652 |
| | Thousands of U.S. dollars | | |
| | Book value | Acquisition cost | Difference |
| | 2010 | | |
| Equity securities | \$198,591 | \$51,839 | \$146,752 |
| Bonds | — | — | — |
| Other | 226 | 183 | 43 |
| Total | \$198,817 | \$52,022 | \$146,795 |

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

| | Millions of yen | | |
|-------------------|---------------------------|------------------|------------------|
| | Book value | Acquisition cost | Difference |
| | 2010 | | |
| Equity securities | ¥ 2,119 | ¥ 2,921 | ¥ (802) |
| Bonds | — | — | — |
| Other | — | — | — |
| Total | ¥ 2,119 | ¥ 2,921 | ¥ (802) |
| | Thousands of U.S. dollars | | |
| | Book value | Acquisition cost | Difference |
| | 2010 | | |
| Equity securities | \$22,785 | \$31,409 | \$(8,624) |
| Bonds | — | — | — |
| Other | — | — | — |
| Total | \$22,785 | \$31,409 | \$(8,624) |

Since unlisted stocks (¥22,363 million (US\$240,462 thousand) in book value) have no market value, as well as there is no way of estimating their cash flow in the future, it is difficult to evaluate their fair value. Hence, unlisted stocks are not included in the above "Available-for-sale securities".

(Additional Information)

Effective for the fiscal year ended March 31, 2010, "Accounting Standard for Financial Instruments" (Accounting Standards Board of Japan ("ASBJ") Statement No.10 issued on March 10, 2008) and "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19, issued on March 10, 2008) have been applied.

6. Derivatives and hedge accounting

Current fiscal year (for the year ended March 31, 2010)

A. Derivative transactions where hedge accounting is not applied

For the derivative transactions where hedge accounting is not applied, their contract amount by transaction types on consolidated account date, principal amount determined by contract, their fair value, their unrealized gains or loss, and how to calculate their fair value are as follows:

<Currencies>

| | | Millions of yen | | | | |
|----------------------------|--|--------------------|---------------------------------------|---------------|----------------------------|----------------|
| Categories | Type of transaction | Amount of contract | Amount of contract longer than 1 year | Fair value | Unrealized gains or losses | |
| Transaction outside market | Forward foreign exchange contracts | USD Long | ¥9,208 | ¥6,560 | ¥ (624) | ¥ (624) |
| | | EURO Long | 11,102 | 8,155 | (1,350) | (1,350) |
| | Currency swaps (received in USD/paid in JPY) | 2,661 | 1,952 | 422 | 422 | |

| | | Thousands of U.S. dollars | | | | |
|----------------------------|--|---------------------------|---------------------------------------|-----------------|----------------------------|-------------------|
| Categories | Type of transaction | Amount of contract | Amount of contract longer than 1 year | Fair value | Unrealized gains or losses | |
| Transaction outside market | Forward foreign exchange contracts | USD Long | \$99,011 | \$70,538 | \$ (6,710) | \$ (6,710) |
| | | EURO Long | 119,376 | 87,688 | (14,516) | (14,516) |
| | Currency swaps (received in USD/paid in JPY) | 28,613 | 20,989 | 4,538 | 4,538 | |

(Note a) Calculation of fair value depends on the value offered by financial institutions.

B. Derivative transaction where hedge accounting is applied

For derivative transactions where hedge accounting is applied, their contract amount by transaction types on consolidated account date, and principal amount determined by contract are as follows:

| | | Millions of yen | | | |
|--|--|------------------------------|--------------------|---------------------------------------|------------|
| Hedge accounting method | Type of transaction | Items to be hedged | Amount of contract | Amount of contract longer than 1 year | Fair value |
| Special treatment of interest rate swaps | Interest-rate swap | | | | |
| | Fixed-rate receipt & flexible-rate payment | Bonds & long-term borrowings | ¥91,943 | ¥91,229 | (Note b) |
| | Fixed-rate payment & flexible-rate receipt | | 141,000 | 101,000 | (Note b) |

| Hedge accounting method | Type of transaction | Items to be hedged | Thousands of U.S. dollars | | Fair value |
|--|--|------------------------------|---------------------------|---------------------------------------|------------|
| | | | Amount of contract | Amount of contract longer than 1 year | |
| | Interest-rate swap | | | | |
| Special treatment of interest rate swaps | Fixed-rate receipt & flexible-rate payment | Bonds & long-term borrowings | \$988,634 | \$980,957 | (Note b) |
| | Fixed-rate payment & flexible-rate receipt | | 1,516,129 | 1,086,022 | (Note b) |

(Note b) Since interest-rate swap that is treated in "Special treatment of interest rate swaps" are treated together with hedged bonds and long-term borrowings, the relevant fair value is included in the fair value of the bonds and long-term borrowings.

(Additional Information)

Effective for the fiscal year ended March 31, 2010, "Accounting Standard for Financial Instruments" (Accounting Standards Board of Japan ("ASBJ") Statement No.10 issued on March 10, 2008) and "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19, issued on March 10,2008) have been applied.

7. Long-term debt

Long-term debt at March 31, 2010 and 2009 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|--|--------------------|-------------|---------------------------|
| | 2010 | 2009 | 2010 |
| Domestic bonds due through 2029 at rates of 0.58% to 4.1% | ¥ 949,978 | ¥ 949,975 | \$10,214,817 |
| Loans from the Development Bank of Japan, other banks and insurance companies due through 2031 | 570,088 | 609,714 | 6,129,978 |
| Lease obligations | 156 | 16 | 1,678 |
| | 1,520,222 | 1,559,705 | 16,346,473 |
| Less amounts due within one year | (126,418) | (135,125) | (1,359,333) |
| Total | ¥ 1,393,804 | ¥ 1,424,580 | \$14,987,140 |

At March 31, 2010 and 2009 loans from the Development Bank of Japan in amount of ¥ 195,526 million (US\$2,102,430 thousand) and ¥ 205,812 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 ¥ 2,587,480 million (US\$27,822,366 thousand) and ¥ 2,611,188 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, 2010 were as follows:

| Year ending March 31 | Millions of yen | Thousands of U.S. dollars |
|----------------------|-----------------|---------------------------|
| 2011 | ¥ 126,378 | \$1,358,903 |
| 2012 | 143,008 | 1,537,720 |
| 2013 | 153,244 | 1,647,785 |
| 2014 | 173,240 | 1,862,796 |
| Thereafter | 924,218 | 9,937,828 |

8. Leases

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.

(As lessee)

Lease payments under non-capitalized finance leases amounted to ¥87 million (US\$935 thousand), ¥108 million and ¥118 million for the years ended March 31, 2010, 2009 and 2008, 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, 2010 and 2009 were as follows:

| | Millions of yen | | | | Thousands of U.S. dollars | |
|---------------------|-----------------|------|------------------|------|---------------------------|------------------|
| | Finance leases | | Operating leases | | Finance leases | Operating leases |
| | 2010 | 2009 | 2010 | 2009 | 2010 | |
| Current portion | ¥68 | ¥87 | ¥0 | ¥5 | \$731 | \$0 |
| Non-current portion | 75 | 144 | — | 1 | 807 | — |
| Total | ¥143 | ¥231 | ¥0 | ¥6 | \$1,538 | \$0 |

(As lessor)

Lease payments received under non-capitalized finance leases amounted to ¥368 million (US\$3,957 thousand), ¥384 million and ¥354 million for the years ended March 31, 2010, 2009 and 2008, respectively.

The present values of future minimum lease payments to be received under non-capitalized finance leases as of March 31, 2010 and 2009 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---------------------|-----------------|--------|---------------------------|
| | 2010 | 2009 | 2010 |
| Current portion | ¥345 | ¥373 | \$3,710 |
| Non-current portion | 2,539 | 2,889 | 27,301 |
| Total | ¥2,884 | ¥3,262 | \$31,011 |

9. Contingent liabilities

At March 31, 2010, the Companies were contingently liable as guarantors for loans of other companies and employees in the amount of ¥136,943 million (US\$1,472,505 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\$53,763 thousand).

10. Research and development expenses

Research and development expenses charged to operating expenses were ¥6,456 million (US \$69,419 thousand), ¥6,268 million and ¥6,175 million for the years ended March 31, 2010, 2009 and 2008, respectively.

11. Employees' severance and retirement benefits

The liabilities for employees' severance and retirement benefits included in the liabilities section of the consolidated balance sheets as of March 31, 2010 and 2009 consist of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|-------------|---------------------------|
| | 2010 | 2009 | 2010 |
| Projected benefit obligation | ¥ (243,509) | ¥ (243,304) | \$ (2,618,376) |
| Fair value of plan assets | 210,805 | 190,755 | 2,266,720 |
| | (32,704) | (52,549) | (351,656) |
| Unrecognized actuarial differences | 945 | 26,465 | 10,161 |
| Unrecognized prior service costs | (156) | (217) | (1,677) |
| Prepaid pension expense | 28,956 | 34,013 | 311,355 |
| Employees' severance and retirement benefits | ¥ (60,871) | ¥ (60,314) | \$ (654,527) |

Included in the consolidated statements of income for the years ended March 31, 2010, 2009 and 2008 are employees' severance and retirement benefit expenses comprised of the following:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|-----------------|---------|-----------|---------------------------|
| | 2010 | 2009 | 2008 | 2010 |
| Service costs-benefits earned during the year | ¥ 7,821 | ¥ 8,003 | ¥ 8,291 | \$ 84,097 |
| Interest cost on projected benefit obligation | 5,083 | 4,896 | 4,920 | 54,656 |
| Expected return on plan assets | (1,030) | (1,240) | (10,413) | (11,075) |
| Amortization of actuarial differences | 1,798 | (5,569) | (5,362) | 19,333 |
| Amortization of prior service costs | (63) | (68) | (76) | (678) |
| Severance and retirement benefit expenses | 13,609 | 6,022 | (2,640) | 146,333 |
| Defined contribution pension premium, etc. | 687 | 695 | 721 | 7,387 |
| Total | ¥ 14,296 | ¥ 6,717 | ¥ (1,919) | \$ 153,720 |

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. For the year ended March 31, 2010, the discount rate and the rates of expected return on plan assets used by the Company are 2.2% and mainly 0.5%, respectively.

For the year ended March 31, 2009, the discount rates and the rates of expected return on plan assets used by the Company were 2.1% and mainly 0.5%, respectively.

For 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.

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, 2010, 2009 and 2008. 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, 2010 and 2009 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|----------|---------------------------|
| | 2010 | 2009 | 2010 |
| Deferred tax assets: | | | |
| Provision for depreciation of nuclear power plant | ¥ 16,541 | ¥ 13,181 | \$177,860 |
| Excess depreciation | 15,802 | 14,212 | 169,914 |
| Adjustment for unrealized intercompany profits | 12,744 | 12,768 | 137,032 |
| Employees' severance and retirement benefits | 11,901 | 9,845 | 127,968 |
| Provision for reprocessing of irradiated nuclear fuel | 9,312 | 9,688 | 100,129 |
| Provision for decommissioning of nuclear power generating plants | 6,526 | 6,526 | 70,172 |
| Accrued bonuses and other expenses | 5,623 | 5,697 | 60,462 |
| Amount exceeding amortization of deferred assets | 2,304 | — | 24,774 |
| Loss carryforward | — | 7,800 | — |
| Other | 15,818 | 16,968 | 170,087 |
| Total gross deferred tax assets | 96,571 | 96,685 | 1,038,398 |
| Less, valuation allowance | (9,280) | (8,524) | (99,785) |
| Total deferred tax assets | 87,291 | 88,161 | 938,613 |
| Deferred tax liabilities: | | | |
| Unrealized holding gains on securities | (4,876) | (3,824) | (52,430) |
| Other | (227) | (225) | (2,441) |
| Total deferred tax liabilities | (5,103) | (4,049) | (54,871) |
| Net deferred tax assets | ¥ 82,188 | ¥ 84,112 | \$883,742 |

For the year ended March 31, 2010, since the difference between the Companies' statutory tax rate and effective income tax rate is 5/100 or less, the causes of the difference are not explained.

13. Net assets

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 prices of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Company Law, in cases where a dividend distribution of surplus is made, companies are required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends as additional paid-in capital or as legal earnings reserve until the total of these equals 25% of common stock. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Neither additional paid-in capital nor legal earnings reserve can be distributed as dividend. However, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, which are potentially available for dividends.

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

At the annual stockholders' meeting held on June 29, 2010, the stockholders approved cash dividends amounting to ¥9,103 million (US\$97,882 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2010. 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 telecommunication" segment involves telecommunication business and information processing business. The "Comprehensive energy supply" segment involves fuel supply businesses and power and heat supply business. The "Other" segment involves business and lifestyle support businesses and environmental business.

A summary by segment for the years ended March 31, 2010, 2009 and 2008 is as follows:

| | Millions of yen | | | | | | |
|----------------------------|-----------------|------------------------------------|-----------------------------|----------|------------|-------------|--------------|
| | 2010 | | | | | | |
| | Electric power | Information and telecommunications | Comprehensive energy supply | Other | Total | Elimination | Consolidated |
| Operating revenues: | | | | | | | |
| Outside customers | ¥946,096 | ¥20,925 | ¥31,205 | ¥40,217 | ¥1,038,443 | ¥— | ¥1,038,443 |
| Intersegment | 4,504 | 12,887 | 2,432 | 91,890 | 111,713 | (111,713) | — |
| Total | 950,600 | 33,812 | 33,637 | 132,107 | 1,150,156 | (111,713) | 1,038,443 |
| Cost and expenses | 879,957 | 29,160 | 31,613 | 127,193 | 1,067,923 | (110,995) | 956,928 |
| Operating income (loss) | ¥70,643 | ¥4,652 | ¥2,024 | ¥4,914 | ¥82,233 | ¥(718) | ¥81,515 |
| Identifiable assets | ¥2,559,849 | ¥66,084 | ¥20,461 | ¥234,849 | ¥2,881,243 | ¥(99,253) | ¥2,781,990 |
| Impairment of fixed assets | — | 94 | — | 252 | 346 | 1,323 | 1,669 |
| Depreciation expense | 119,275 | 7,280 | 2,514 | 4,259 | 133,328 | (1,687) | 131,641 |
| Capital expenditures | 149,610 | 8,309 | 1,340 | 3,071 | 162,330 | (2,687) | 159,643 |

| | Thousands of U.S. dollars | | | | | | |
|----------------------------|---------------------------|------------------------------------|-----------------------------|-------------|--------------|---------------|--------------|
| | 2010 | | | | | | |
| | Electric power | Information and telecommunications | Comprehensive energy supply | Other | Total | Elimination | Consolidated |
| Operating revenues: | | | | | | | |
| Outside customers | \$10,173,075 | \$225,000 | \$335,538 | \$432,441 | \$11,166,054 | \$— | \$11,166,054 |
| Intersegment | 48,430 | 138,570 | 26,151 | 988,064 | 1,201,215 | (1,201,215) | — |
| Total | 10,221,505 | 363,570 | 361,689 | 1,420,505 | 12,367,269 | (1,201,215) | 11,166,054 |
| Cost and expenses | 9,461,903 | 313,548 | 339,925 | 1,367,667 | 11,483,043 | (1,193,494) | 10,289,549 |
| Operating income (loss) | \$759,602 | \$50,022 | \$21,764 | \$52,838 | \$884,226 | \$(7,721) | \$876,505 |
| Identifiable assets | \$27,525,258 | \$710,581 | \$220,011 | \$2,525,258 | \$30,981,108 | \$(1,067,237) | \$29,913,871 |
| Impairment of fixed assets | — | 1,011 | — | 2,709 | 3,720 | 14,226 | 17,946 |
| Depreciation expense | 1,282,527 | 78,280 | 27,032 | 45,795 | 1,433,634 | (18,139) | 1,415,495 |
| Capital expenditures | 1,608,710 | 89,344 | 14,409 | 33,021 | 1,745,484 | (28,893) | 1,716,591 |

| | Millions of yen | | | | | | |
|----------------------------|-----------------|------------------------------------|-----------------------------|----------|------------|-------------|--------------|
| | 2009 | | | | | | |
| | Electric power | Information and telecommunications | Comprehensive energy supply | Other | Total | Elimination | Consolidated |
| Operating revenues: | | | | | | | |
| 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 (loss) | ¥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 |

| | Millions of yen | | | | | | |
|----------------------------|-----------------|------------------------------------|-----------------------------|----------|------------|-------------|--------------|
| | 2008 | | | | | | |
| | Electric power | Information and telecommunications | Comprehensive energy supply | Other | Total | Elimination | Consolidated |
| Operating revenues: | | | | | | | |
| Outside customers | ¥1,013,578 | ¥18,456 | ¥26,826 | ¥49,494 | ¥1,108,354 | ¥— | ¥1,108,354 |
| Intersegment | 6,044 | 15,789 | 1,723 | 79,770 | 103,326 | (103,326) | — |
| Total | 1,019,622 | 34,245 | 28,549 | 129,264 | 1,211,680 | (103,326) | 1,108,354 |
| Cost and expenses | 941,271 | 32,595 | 29,735 | 123,649 | 1,127,250 | (103,312) | 1,023,938 |
| Operating income (loss) | ¥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 |

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, 2010, 2009 and 2008 is not shown due to aggregate overseas sales being less than 10% of total operating revenues.

15. Subsequent event

The following appropriations of retained earnings at March 31, 2010 were approved at the annual meeting of stockholders held on June 29, 2010:

| | Millions of yen | Thousands of U.S. dollars |
|---|-----------------|---------------------------|
| Year-end cash dividends, ¥25 (\$0.27) per share | ¥9,103 | \$97,882 |

Independent Auditors' Report

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, 2010 and 2009, 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, 2010, 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, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2010, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 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 29, 2010

Non-Consolidated Balance Sheets

The Chugoku Electric Power Co., Inc.
March 31, 2010 and 2009

| Assets | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|-------------------|------------|---------------------------------------|
| | 2010 | 2009 | 2010 |
| Property: | | | |
| Plant and equipment | ¥5,524,903 | ¥5,490,561 | \$59,407,559 |
| Construction in progress | 445,169 | 391,847 | 4,786,764 |
| | 5,970,072 | 5,882,408 | 64,194,323 |
| Less- | | | |
| Contributions in aid of construction | 80,458 | 78,006 | 865,140 |
| Accumulated depreciation | 3,864,191 | 3,771,661 | 41,550,441 |
| | 3,944,649 | 3,849,667 | 42,415,581 |
| Net property | 2,025,423 | 2,032,741 | 21,778,742 |
| Nuclear fuel | 156,783 | 155,425 | 1,685,839 |
| Investments and other assets: | | | |
| Investment securities | 43,246 | 37,141 | 465,011 |
| Funds reserved for reprocessing of irradiated nuclear fuel | 83,778 | 87,242 | 900,839 |
| Investments to subsidiaries and affiliated companies (Note 3) | 29,886 | 29,394 | 321,355 |
| Long-term loans to employees | 425 | 581 | 4,570 |
| Deferred tax assets (Note 8) | 56,102 | 50,838 | 603,247 |
| Other assets | 33,738 | 37,638 | 362,774 |
| Total investments and other assets | 247,175 | 242,834 | 2,657,796 |
| Current assets: | | | |
| Cash and time deposits | 47,317 | 48,592 | 508,785 |
| Receivables, less allowance for doubtful accounts of ¥592 million (\$6,366 thousand) in 2010 and ¥730 million in 2009 | 52,074 | 63,318 | 559,935 |
| Inventories, fuel and supplies | 35,678 | 40,364 | 383,634 |
| Deferred tax assets (Note 8) | 7,449 | 13,707 | 80,097 |
| Other current assets | 15,581 | 14,207 | 167,538 |
| Total current assets | 158,099 | 180,188 | 1,699,989 |
| Total assets | ¥2,587,480 | ¥2,611,188 | \$27,822,366 |

See notes to non-consolidated financial statements

| Liabilities and Net Assets | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|-----------------|------------|------------------------------------|
| | 2010 | 2009 | 2010 |
| Long-term liabilities: | | | |
| Long-term debt (Note 4) | ¥1,371,815 | ¥1,403,119 | \$14,750,699 |
| Employees' severance and retirement benefits | 51,659 | 50,923 | 555,473 |
| Provision for reprocessing of irradiated nuclear fuel | 94,626 | 98,229 | 1,017,484 |
| Provision for reprocessing of irradiated nuclear fuel without a fixed plan to reprocess | 4,634 | 3,411 | 49,828 |
| Provision for decommissioning of nuclear power generating plants | 61,346 | 58,641 | 659,635 |
| Other long-term liabilities | 16,419 | 17,043 | 176,548 |
| Total long-term liabilities | 1,600,499 | 1,631,366 | 17,209,667 |
| Current liabilities: | | | |
| Long-term debt due within one year (Note 4) | 121,302 | 128,369 | 1,304,323 |
| Short-term borrowings | 69,300 | 64,300 | 745,161 |
| Commercial paper | 40,000 | 65,000 | 430,108 |
| Accounts payable | 56,538 | 55,965 | 607,936 |
| Accrued income taxes | 21,046 | 5,813 | 226,301 |
| Accrued expenses | 37,596 | 37,301 | 404,258 |
| Other current liabilities, including other long-term liabilities due within one year | 36,721 | 33,973 | 394,849 |
| Total current liabilities | 382,503 | 390,721 | 4,112,936 |
| Provision for drought | — | — | — |
| Provision for depreciation of nuclear power plant | 45,756 | 36,463 | 492,000 |
| Contingent liabilities (Note 6) | | | |
| Net Assets (Note 9): | | | |
| Common stock | 185,528 | 185,528 | 1,994,925 |
| Authorized-1,000,000,000 shares | | | |
| Issued-371,055,259 shares in 2010 and 2009 | | | |
| Capital surplus | 16,733 | 16,731 | 179,925 |
| Retained earnings (Note 10) | 362,677 | 358,366 | 3,899,752 |
| Treasury stock (6,918,463 shares in 2010 and 6,897,428 shares in 2009) | (12,500) | (12,456) | (134,409) |
| Net unrealized loss on hedges | — | (231) | — |
| Net unrealized holding gains on securities | 6,284 | 4,700 | 67,570 |
| Total net assets | 558,722 | 552,638 | 6,007,763 |
| Total liabilities and net assets | ¥2,587,480 | ¥2,611,188 | \$27,822,366 |

Non-Consolidated Statements of Operations

The Chugoku Electric Power Co., Inc.
For the years ended March 31, 2010, 2009 and 2008

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|--|-----------------|------------|------------|------------------------------------|
| | 2010 | 2009 | 2008 | 2010 |
| Operating revenues | ¥972,774 | ¥1,107,457 | ¥1,038,438 | \$10,459,935 |
| Operating expenses: | | | | |
| Personnel | 112,423 | 110,767 | 105,272 | 1,208,850 |
| Fuel | 194,828 | 317,061 | 268,327 | 2,094,925 |
| Purchased power | 150,254 | 208,521 | 154,991 | 1,615,634 |
| Depreciation | 119,275 | 126,408 | 130,501 | 1,282,527 |
| Maintenance | 103,952 | 93,645 | 82,105 | 1,117,763 |
| Taxes other than income taxes | 57,098 | 59,352 | 61,388 | 613,957 |
| Purchased services | 44,186 | 44,044 | 36,703 | 475,118 |
| Other | 120,034 | 136,686 | 121,316 | 1,290,688 |
| | 902,050 | 1,096,484 | 960,603 | 9,699,462 |
| Operating income | 70,724 | 10,973 | 77,835 | 760,473 |
| Other expenses (income): | | | | |
| Interest expense | 27,934 | 28,767 | 30,232 | 300,366 |
| Interest income | (1,578) | (1,565) | (1,639) | (16,968) |
| Other, net | (919) | 86 | (2,034) | (9,882) |
| | 25,437 | 27,288 | 26,559 | 273,516 |
| (Loss) income before special item and income taxes | 45,287 | (16,315) | 51,276 | 486,957 |
| Special items: | | | | |
| Provision (reversal) for drought | — | — | (657) | — |
| Provision for depreciation of nuclear power plant | 9,293 | 12,582 | 18,828 | 99,925 |
| Provision for income taxes: | | | | |
| Current | 13,510 | (308) | 11,929 | 145,269 |
| Deferred | (34) | (9,289) | 452 | (366) |
| Net (loss) income | ¥22,518 | ¥(19,300) | ¥20,724 | \$242,129 |

| | Yen | | | U.S. dollars (Note 1) |
|---------------------------|---------------|----------|--------|-----------------------|
| | 2010 | 2009 | 2008 | 2010 |
| Per share data: | | | | |
| Net (loss) income (Basic) | ¥61.84 | ¥(52.99) | ¥56.89 | \$0.66 |
| Cash dividends | 50.00 | 50.00 | 50.00 | 0.54 |

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, 2010 and 2009

| | 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 | Total |
| Balance at March 31, 2008 | 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) |
| Net changes other than stockholders'equity | | | | | | (3,660) | (231) | (3,891) |
| Balance at March 31, 2009 | 371,055,259 | ¥185,528 | ¥16,731 | ¥358,366 | ¥(12,456) | ¥4,700 | ¥(231) | ¥552,638 |
| Net income | | | | 22,518 | | | | 22,518 |
| Cash dividends paid (¥50 per share) | | | | (18,207) | | | | (18,207) |
| Surplus from sale of treasury stock | | | 2 | | 29 | | | 31 |
| Treasury stock purchased, net | | | | | (73) | | | (73) |
| Net changes other than stockholders'equity | | | | | | 1,584 | 231 | 1,815 |
| Balance at March 31, 2010 | 371,055,259 | ¥185,528 | ¥16,733 | ¥362,677 | ¥(12,500) | ¥6,284 | ¥— | ¥558,722 |

| | 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 | Total | |
| Balance at March 31, 2009 | \$1,994,925 | \$179,903 | \$3,853,398 | \$(133,936) | \$50,538 | \$(2,484) | \$5,942,344 | |
| Net income | | | 242,129 | | | | 242,129 | |
| Cash dividends paid (\$0.54 per share) | | | (195,775) | | | | (195,775) | |
| Surplus from sale of treasury stock | | | 22 | | 312 | | 334 | |
| Treasury stock purchased, net | | | | | (785) | | (785) | |
| Net changes other than stockholders'equity | | | | | 17,032 | 2,484 | 19,516 | |
| Balance at March 31, 2010 | \$1,994,925 | \$179,925 | \$3,899,752 | \$(134,409) | \$67,570 | \$— | \$6,007,763 | |

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 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, 2010, which was ¥93 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 non-consolidated financial statements.

Inventories, fuel and supplies

Inventories, fuel and supplies are stated at cost, determined principally by the weighted average method. Inventories with lower profitability have been written down.

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 as of the year end. 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. Available-for-sale 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 book value 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 statements of operations 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

Depreciation of property, plant and equipment is computed using the declining-balance method, while amortization of intangible fixed assets is computed by straight-line method, based on the life periods stipulated by the Corporation Tax Act.

Nuclear fuel and amortization

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

Allowance for doubtful accounts

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

Employees' severance and retirement benefits

The Company has defined benefits plans. On some occasions, employees are entitled to certain additional payments upon retirement.

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

Prior service costs are recognized in expenses within the average of estimated remaining periods of the employees (one year). Actuarial differences 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.

Effective for the fiscal year ended March 31, 2010, the Company adopted the "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (Accounting Standards Board of Japan ("ASBJ") Statement No.19 issued on July 31, 2008). The new accounting standard requires domestic companies to use year-end rates of long-term government bonds or high-grade bonds when calculating projected benefit obligation for defined benefit plans. Previously, domestic companies were allowed to use the discount rate that was determined after considering interest fluctuations of long-term government bonds or high-grade bonds for a certain period. The change had no impact on the statements of operations for the year ended March 31, 2010. Also, the difference in projected benefit obligation at March 31, 2010 calculated pursuant to the new accounting standard and the previous accounting standard amounted to minus ¥960 million (minus US\$10,323 thousand).

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 fiscal year 2008 is ¥3,306 million of the term evenness.

The difference in estimated costs will be amortized over the periods of generating the irradiated nuclear fuel for which there are concrete reprocessing plans, starting from the following fiscal year. The unrecognized difference in estimated costs was ¥1,382 million (US\$14,860 thousand) on March 31, 2010.

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.

Provision for decommissioning of nuclear power generating plants

A provision for decommissioning of nuclear power generating plants is provided for future decommissioning costs of nuclear power generating plants based on the proportion of the current generation of electric power to the estimated total generation of electric power of each plants.

Provision for drought

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

Provision for depreciation of nuclear power plant

In accordance with the Electricity Utilities Industry Law, the Company provides for the provision for depreciation of nuclear power plant to equalize the burden of depreciation expenses after commencement of commercial operation, based on an ordinance of the Ministry of Economy, Trade and Industry.

Derivatives and hedge accounting

The Company adopts deferred hedge processing and states derivative financial instruments at fair value and recognizes changes in the fair value as gains or losses unless the derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company defers recognition of gains or losses resulting from changes in 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 cash flow change of the means for hedging and the total cash flow change of the hedged item 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 operations.

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.

Foreign currency transaction

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

Consolidated tax system

The Company applies the consolidated tax system.

3. Securities

Previous fiscal year (as of March 31, 2009)

Available-for-sale equity securities issued by subsidiaries and affiliates

| Categories | Millions of yen | | |
|---------------------------------|-----------------|-----------------|-----------------|
| | Book value | Fair value | Difference |
| Equity securities of affiliates | ¥ 2,493 | ¥ 33,343 | ¥ 30,850 |

Current fiscal year (as of March 31, 2010)

Equity securities issued by subsidiaries and affiliates

| Categories | Millions of yen | | |
|---------------------------------|-----------------|-----------------|-----------------|
| | Book value | Fair value | Difference |
| Equity securities of affiliates | ¥ 2,493 | ¥ 29,078 | ¥ 26,585 |

| Categories | Thousands of U.S. dollars | | |
|---------------------------------|---------------------------|------------------|------------------|
| | Book value | Fair value | Difference |
| Equity securities of affiliates | \$26,806 | \$312,666 | \$285,860 |

(Note) Equity securities issued by subsidiaries and affiliates, whose fair value seems to be difficult to evaluate

| Categories | Millions of yen | Thousands of U.S. dollars |
|-----------------------------------|-----------------|---------------------------|
| | Book value | |
| Equity securities of subsidiaries | ¥ 16,740 | \$180,000 |
| Equity securities of affiliates | 6,669 | 71,710 |

Since these securities have no market value, as well as there is no way of estimating their cash flow in the future, it is difficult to evaluate their fair value. Hence, they are not included in the "Equity securities issued by subsidiaries and affiliates".

(Additional Information)

Effective for the fiscal year ended March 31, 2010, "Accounting Standard for Financial Instruments" (Accounting Standards Board of Japan ("ASBJ") Statement No.10 issued on March 10, 2008) and "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19, issued on March 10, 2008) have been applied.

4. Long-term debt

Long-term debt at March 31, 2010 and 2009 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|--|--------------------|-------------|---------------------------|
| | 2010 | 2009 | 2010 |
| Domestic bonds due through 2029 at rates of 0.58% to 4.1% | ¥ 949,978 | ¥ 949,975 | \$10,214,817 |
| Loans from the Development Bank of Japan, other banks and insurance companies due through 2031 | 543,139 | 581,513 | 5,840,205 |
| | 1,493,117 | 1,531,488 | 16,055,022 |
| Less amounts due within one year | (121,302) | (128,369) | (1,304,323) |
| Total | ¥ 1,371,815 | ¥ 1,403,119 | \$14,750,699 |

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, 2010 were as follows:

| Year ending March 31 | Millions of yen | Thousands of U.S. dollars |
|----------------------|-----------------|---------------------------|
| 2011 | ¥ 121,302 | \$1,304,323 |
| 2012 | 136,755 | 1,470,484 |
| 2013 | 151,415 | 1,628,118 |
| 2014 | 165,735 | 1,782,097 |
| Thereafter | 917,932 | 9,870,237 |

5. Leases

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

(As lessee)

Lease payments under non-capitalized finance leases amounted to ¥ 300 million (US\$3,226 thousand), ¥ 411 million and ¥ 606 million for the years ended March 31, 2010, 2009 and 2008, respectively.

The present values of future minimum lease payments under non-capitalized finance leases as of March 31, 2010 and 2009 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---------------------|-----------------|-------|---------------------------|
| | 2010 | 2009 | 2010 |
| Finance leases | | | |
| Current portion | ¥ 151 | ¥ 295 | \$1,624 |
| Non-current portion | 418 | 569 | 4,494 |
| Total | ¥ 569 | ¥ 864 | \$6,118 |

6. Contingent liabilities

At March 31, 2010, the Company was contingently liable as guarantor for loans of other companies and employees in the amount of ¥158,052 million (US\$1,699,484 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\$53,763 thousand).

7. Research and development expenses

Research and development expenses charged to operating expenses were ¥6,254 million (US \$67,247 thousand), ¥6,032 million and ¥5,752 million for the years ended March 31, 2010, 2009 and 2008, respectively.

8. Income taxes

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2010 and 2009 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|----------|------------------------------|
| | 2010 | 2009 | 2010 |
| Deferred tax assets: | | | |
| Provision for depreciation of nuclear power plant | ¥ 16,541 | ¥ 13,181 | \$177,860 |
| Excess depreciation | 14,800 | 13,391 | 159,140 |
| Provision for reprocessing of irradiated nuclear fuel | 9,312 | 9,688 | 100,129 |
| Employees' severance and retirement benefits | 8,377 | 6,345 | 90,075 |
| Provision for decommissioning of nuclear power generating plants | 6,526 | 6,526 | 70,172 |
| Accrued bonuses and other expenses | 3,684 | 3,726 | 39,613 |
| Loss carryforward | — | 4,958 | — |
| Other | 15,626 | 15,762 | 168,022 |
| Total gross deferred tax assets | 74,866 | 73,577 | 805,011 |
| Less, valuation allowance | (7,743) | (6,363) | (83,258) |
| Total deferred tax assets | 67,123 | 67,214 | 721,753 |
| Deferred tax liabilities: | | | |
| Unrealized holding gains on securities | (3,528) | (2,631) | (37,936) |
| Other | (44) | (38) | (473) |
| Total deferred tax liabilities | (3,572) | (2,669) | (38,409) |
| Net deferred tax assets | ¥63,551 | ¥64,545 | \$683,344 |

For the year ended March 31, 2010, since the difference between the Companies' statutory tax rate and effective income tax rate is 5/100 or less, the causes of the difference are not explained.

9. Net Assets

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 prices of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Company Law, in cases where a dividend distribution of surplus is made, companies are required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends as additional paid-in capital or as legal earnings reserve until the total of these equals 25% of common stock. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Neither additional paid-in capital nor legal earnings reserve can be distributed as dividend. However, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, 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 29, 2010, the stockholders approved cash dividends amounting to ¥9,103 million (US\$97,882 thousand). Such appropriations have not been accrued in the non-consolidated financial statements as of March 31, 2010. 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, 2010 were approved at the annual meeting of stockholders held on June 29, 2010:

| | Millions of yen | Thousands of U.S. dollars |
|---|-----------------|------------------------------|
| Year-end cash dividends, ¥25 (\$0.27) per share | ¥9,103 | \$97,882 |

Independent Auditors' Report

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, 2010 and 2009, and the related non-consolidated statements of operations, changes in net assets for each of the three years in the period ended March 31, 2010, 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, 2010 and 2009, and the non-consolidated results of their operations for each of the three years in the period ended March 31, 2010, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 2010 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 29, 2010

Major Subsidiaries and Affiliated Companies

As of March 31, 2010

| 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 Co.,Inc.* | ¥ 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 |
| Power Engineering and Training Services, Incorporated* | ¥ 288 | 100.0 | Training in thermal power generation technology, engineering |
| 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 |
| The Energia Logistics Co.,Inc.* | ¥ 40 | 70.0 | Logistics and warehousing |
| TEMPERL 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 |
| Osaki Coolgen Corporation** | ¥ 490 | 50.0 | Development of coal gasification technology,Co2 separation and recovery |
| CHUDENKO CORPORATION** | ¥ 3,481 | 41.6 | Electrical and telecommunications engineering |
| MIZUSHIMA LNG SALES COMPANY,LIMITED** | ¥ 175 | 40.0 | Sales of LNG |
| Houseplus Chugoku Housing Warranty Corporation Limited** | ¥ 50 | 33.3 | Functional evaluation and construction confirmation checks for housing |
| Hiroshima Cable Television Corp.** | ¥ 1,200 | 29.0 | Cable television broadcasting |
| 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: Osaki Coolgen Corporation is an equity method affiliate of Chugoku Electric Power which was established as a joint venture of Chugoku Electric Power and J-POWER/Electric Power Development Co.,Ltd. on July 29,2009.

Corporate Data

LOCATIONS:

Head Office

4-33, Komachi, Naka-ku, Hiroshima 730-8701, Japan
Tel:+81-82-241-0211

Tottori Office

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

Shimane Office

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

Okayama Office

11-1, Uchisange 1-chome, Kita-ku Okayama 700-8706, Japan
Tel:+81-86-222-6731

Yamaguchi Office

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

Tokyo Office

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

NUMBER OF USERS

| | |
|---------------------------|------------------|
| Residential (lighting) | 4,682,115 |
| Industrial and commercial | 514,483 |
| Total | 5,196,598 |

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): 8,297 kilometers

Number of Substations: 464

Distribution Lines (Route length): 81,850 kilometers

Note: As of March 31, 2010

Investor Information

As of March 31, 2010

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS:

KPMG AZSA & Co.

TRANSFER AGENT AND REGISTRAR:

The Sumitomo Trust & Banking Co., Ltd.

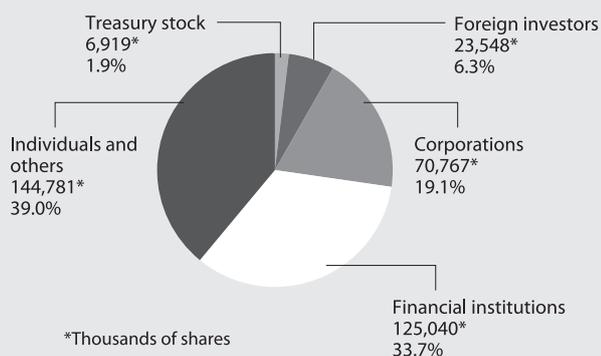
SECURITIES TRADED:

Tokyo Stock Exchange, Osaka Securities Exchange

NUMBER OF STOCKHOLDERS: 149,989

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 |
| The Master Trust Bank of Japan,Ltd. (Trust account) | 14,009 | 3.8 |
| Japan Trustee Services Bank,Ltd. (Trust account) | 11,946 | 3.3 |
| Mizuho Corporate Bank,Ltd. | 5,801 | 1.6 |
| Company stock investment | 5,677 | 1.6 |
| The Dai-ichi Life Insurance Company,Limited* | 5,374 | 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, 2010

*The Dai-ichi Life Insurance Company Limited reorganized from a mutual life insurance company to a joint stock corporation as of April 1, 2010.

STOCK PRICE RANGE ON THE TOKYO STOCK EXCHANGE

| Fiscal year | | High (yen) | Low (yen) |
|-------------|-------------|------------|-----------|
| 2010 | 1st quarter | 2,140 | 1,921 |
| | 2nd quarter | 2,045 | 1,964 |
| | 3rd quarter | 1,990 | 1,707 |
| | 4th quarter | 1,885 | 1,746 |
| 2011 | 1st quarter | 1,852 | 1,714 |
| | 2nd quarter | 1,871 | 1,647 |

MEMO

The Chugoku Electric Power Co., Inc.

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