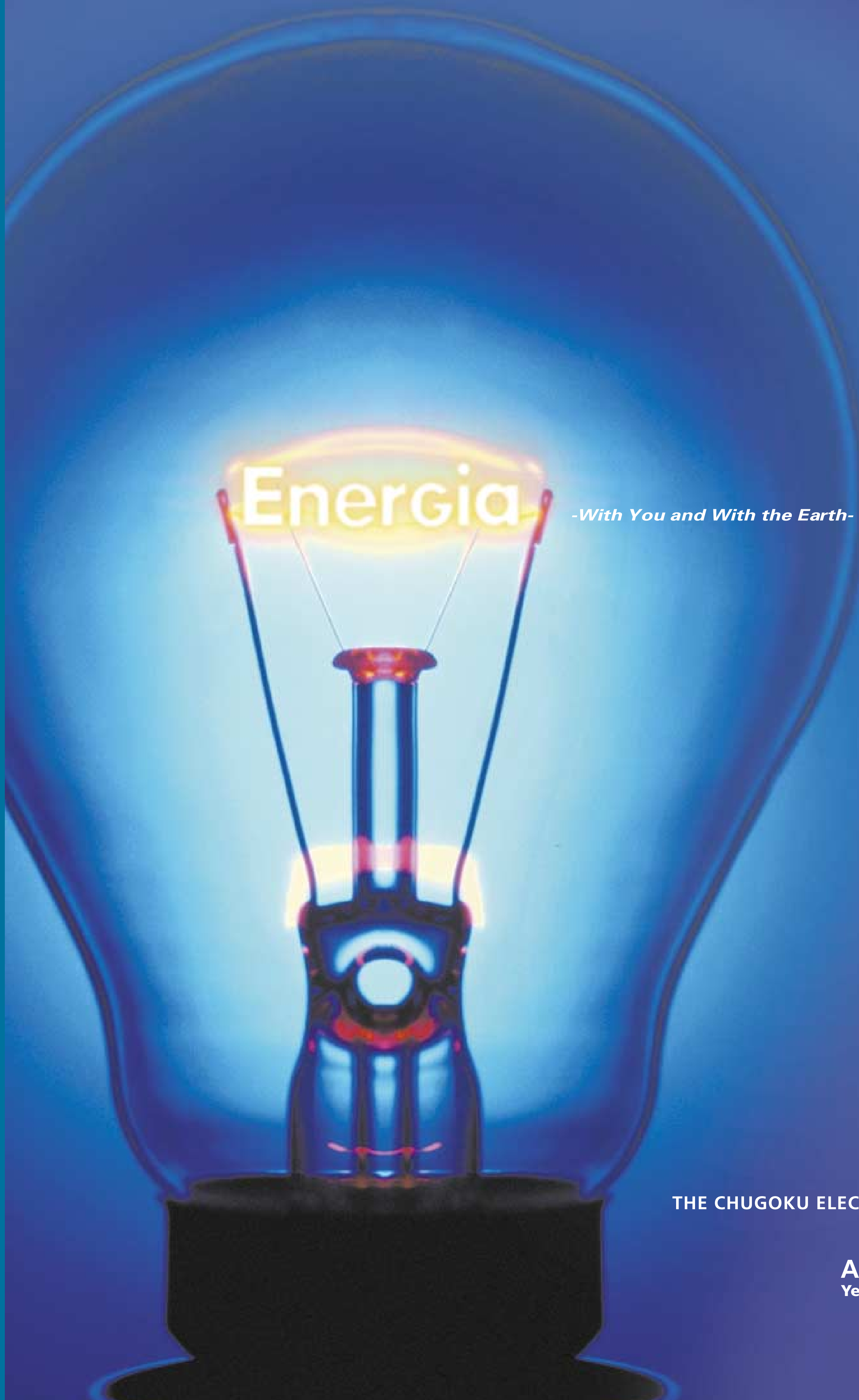


-With You and With the Earth-

THE CHUGOKU ELECTRIC POWER CO., INC.

ANNUAL REPORT
Year Ended March 31, 2004

2004

PROFILE

Since its establishment in 1951, the Chugoku Electric Power Co., Inc., has provided people, mainly in the Chugoku region of western Japan, with stable supplies of electricity through its integrated power generation, transmission and distribution.

Through its head office in Hiroshima, the Company operates approximately 60 business sites, including regional offices, power stations, service offices and power management offices. Its 10,000 employees take great pride and pleasure in helping power the regional economy.

In March 2000, the Japanese government began partial deregulation of the electric power business, ushering in full-fledged competition. The Chugoku Electric Group, comprising Chugoku Electric and its 55 subsidiaries and affiliates, is marshalling its entire resources to meet this challenge and remain the power supplier of choice.

CHUGOKU ELECTRIC'S CORPORATE PHILOSOPHY

Chugoku Electric's corporate philosophy has three components: an overarching key concept, a five-point management philosophy and a 10-point code of conduct.

Energia

KEY CONCEPT: ENERGIA—With You and With the Earth—

Together with the management philosophy and code of conduct, this key concept expresses the identity of Chugoku Electric. Energia is derived from Latin, expressing activity, work and vitality. It is the origin of energy, the supply of which is critical to our operations. Energia also expresses our desire to help create a brighter, more dynamic society.

MANAGEMENT PHILOSOPHY

- Seeks to realize the inherent potential of energy
- Rejoices in winning customers' trust
- Operates with the priority placed on people
- Contributes to the development of the region
- Constantly seeks harmony with nature

CODE OF CONDUCT

We will strive to be a radiant group of people who will progress toward the future with a vigorous and challenging spirit, and with creative ideas and flexible thinking.

We will act:
- Quickly
- Without relying on conventional practices
- Voluntarily and responsibly
- Professionally
- From the perspective of our customers
- While remaining aware of our stockholders and investors
- To collect and disseminate information to our customers
- As a unified group
- To protect the environment
- With common sense

CONTENTS

Cautionary Statement with Regard to Forward-Looking Statements

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

Many factors could affect Chugoku Electric's business results, including economic conditions related to the Company's businesses, currency fluctuations, fuel price fluctuations, climatic conditions affecting electric power sales and trends in the liberalization of the Japanese electric power industry.

Consolidated Financial Highlights

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

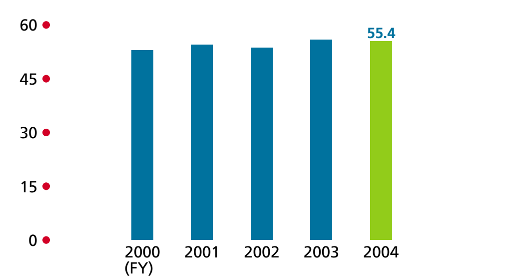
	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	2003	2002	**2004**
For the year:				
Operating revenues	**¥ 967,056**	¥1,009,279	¥1,021,149	**$ 9,298,615**
Operating income	**99,586**	126,954	118,545	**957,558**
Net income	**42,888**	44,129	46,470	**412,385**
At year-end:				
Total assets	**2,712,376**	2,815,189	2,846,207	**26,080,538**
Total stockholders' equity	**629,604**	606,834	593,752	**6,053,885**
Interest-bearing debt	**1,728,285**	1,839,175	1,900,098	**16,618,125**

	Yen			U.S. dollars (Note 1)
	2004	2003	2002	**2004**
Per share data:				
Net income:				
Basic	**¥116.63**	¥119.30	¥125.25	**$1.12**
Diluted	**116.63**	119.30	123.99	**1.12**
Cash dividends applicable to the year	**50.00**	50.00	50.00	**0.48**

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at ¥104 to U.S.$1.00, the approximate rate of exchange prevailing on March 31, 2004.
2. The Company's fiscal year begins on April 1 and ends on March 31 of the following year. In this report, fiscal 2004 is used to denote the year ended March 31, 2004.

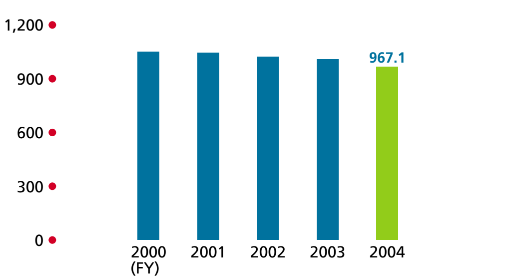
Electricity Sales

(Billions of kWh)



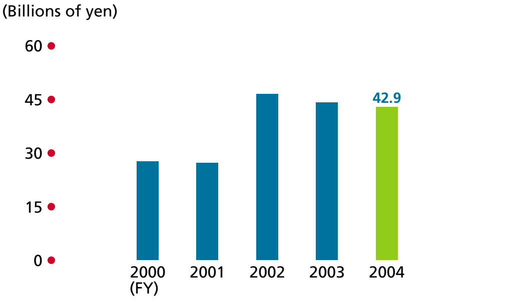
Operating Revenues

(Billions of yen)



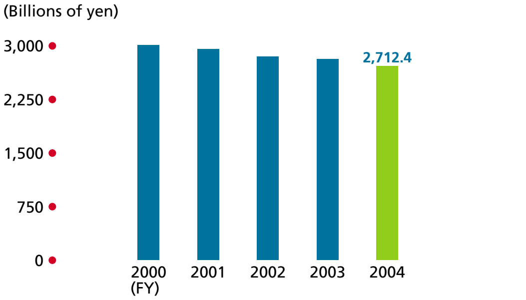
Net Income

(Billions of yen)



Total Assets

(Billions of yen)



Message from the Management

Shitomi Takasu
Chairperson

Shigeo Shirakura
President

Fiscal 2004, ended March 31, 2004, saw the Chugoku Electric Group's consolidated operating revenues and earnings decline. This was due mainly to a downturn in the electric power business, with revenues in that segment dropping because of lower electricity rates and unusually cool summer and warm winter temperatures.

Phased deregulation and competition with various energy systems, particularly decentralized electric power, have transformed our operating environment. With growth in power demand slowing, we have entered an era of full-fledged competition beyond the traditional boundaries of electricity, gas and other energy sources. We expect the pace of change to accelerate for us and all other energy providers.

We are overcoming these challenges by drawing on our technical and human resources and the customer trust we have built over more than half a century.

CHUGOKU ELECTRIC'S STRENGTHS: PROVIDING TOTAL SOLUTIONS

At first glance, one would expect advancing liberalization, deregulation and the changing operating environment to increase our operational risks and threaten our existence as an energy supplier. In our view, however, these changes offer numerous business opportunities. We are taking full advantage of our prospects to remain the provider of choice by marshalling Group management resources and striving even harder to offer total solutions for customer needs. Optimal solutions go beyond supplying electricity to include installing, operating and maintaining cogeneration systems, transformer equipment and air conditioning and other facilities, as well as constructing and operating information and telecommunications networks.

> We are taking full advantage of our prospects to remain the provider of choice.

POWERING OUR FUTURE THROUGH QUALITY HUMAN RESOURCES

Electricity is essential to people and industry alike. We thus consider it our social mission to ensure steady supplies of electricity to all who live and work in our operating area. In our daily efforts to ensure such stability, we take pride in delivering convenience and comfort to the local community. This is why we provide world-class quality. A good example is our annual outage periods, which are less than one-tenth the average in the United States. We believe our impressive human resources and organizational capacity will allow us to overcome even greater changes on the horizon.

We have reorganized ahead of such developments so we can accelerate decision making and operate even more efficiently. In 2001, for example, we switched from a structure in which head office manages regional offices that in turn oversee service offices, to a structure arranged by function, by consolidating these offices within the Power

Generation, Power System, and Energy Marketing and Services divisions. These divisions administer revenues and expenses, thus cutting costs while enhancing operations to speed up responsiveness.

In June 2004, we reorganized our administrative support divisions to improve management efficiency. We elevated the heads of the Corporate Planning, Human Resources Development and other divisions to senior executive status to streamline decision making and reinforce our strategies. We also established the Corporate Social Responsibility Division, which is responsible for compliance, our disclosure and environmental programs and otherwise contributing to the community.

BUILDING ON COMMUNITY TRUST

Community understanding and cooperation is essential to all aspects of our electric power business, from building power stations to constructing distribution networks. Furthermore, local economic progress is boosting demand for electricity and helping our businesses grow. We therefore see ourselves as moving forward with the community, having valued the trust of our customers ever since our establishment half a century ago. We are working to further reinforce our position through Group social contributions, a keen awareness of our responsibilities as a community member and an underlying commitment to business ethics, including through rigorous compliance with laws and regulations.

Consolidated and Non-Consolidated Forecasts for Fiscal 2005

(Billions of yen)

(FY)	2005 (Forecast)	2004 (Actual)	Increase
Operating revenues	¥980 (920)	¥967.1 (912.8)	¥12.9 (7.2)
Operating income	107 (106)	99.6 (99.4)	7.4 (6.6)
Net income	46 (48)	42.9 (39.5)	3.1 (8.5)

Notes:
1. Non-consolidated figures are in parentheses.
2. Forecasts assume:
   - electricity sales volume of approximately 56 billion kilowatt hours
   - a foreign exchange rate of ¥110 to $1.00
   - a crude oil cost, insurance and freight (CIF) price of $30 per barrel.

> We see ourselves as moving forward with the community.

OUTLOOK FOR FISCAL 2005

In fiscal 2005, we expect to post higher consolidated and non-consolidated revenues and earnings by enhancing management efficiency and boosting sales of electric power.

We are well aware that the advent of full-fledged competition will make the operating environment even more challenging. Nonetheless, we are confident that the trust of our customers, the ability of our people to properly tackle issues and the responsiveness of our organization will allow us to prosper. Maintaining customer trust will remain a top management priority as we continue to improve and reorganize our human and organizational resources in a changing socioeconomic environment.

As our employees pursue their daily mission of ensuring stable and inexpensive supplies of electricity, they all know the Company is critical for the Chugoku region. We are confident that the trust our customers have in our business operations will increase Group earnings and boost shareholder value.

We seek the ongoing encouragement and support of stockholders and investors as we draw on our commitment to our customers by aggressively deploying management policies that address our changing operating environment.

June 29, 2004

Shitomi Takasu, Chairperson

Shigeo Shirakura, President

Chugoku Electric’s Operating Environment

This section of the annual report profiles Japan’s electric power industry and the conditions in Chugoku Electric’s service area.

JAPAN’S CHANGING ELECTRIC POWER INDUSTRY

On March 25, 1878, Japan’s first electric lamps were switched on. Eight years later, in 1886, the nation’s electric power industry began with the establishment of its first electric power company. Demand for electricity soared as Japan rapidly industrialized, leading to the creation of numerous power companies around Japan.

The government nationalized these utilities during World War II. After the war, to ensure stable electricity supplies, the electric power industry was reorganized. In 1951, nine electric power companies were established to monopolize distribution, as well as generate, transmit and guarantee the stability of electricity supplies in nine service areas. Today, there are 10 such companies.

The electric power industry has run the gamut of change, from complete freedom in its early days to nationalization and postwar local monopolization. It is now poised to return to a freely competitive sphere.

LIBERALIZATION

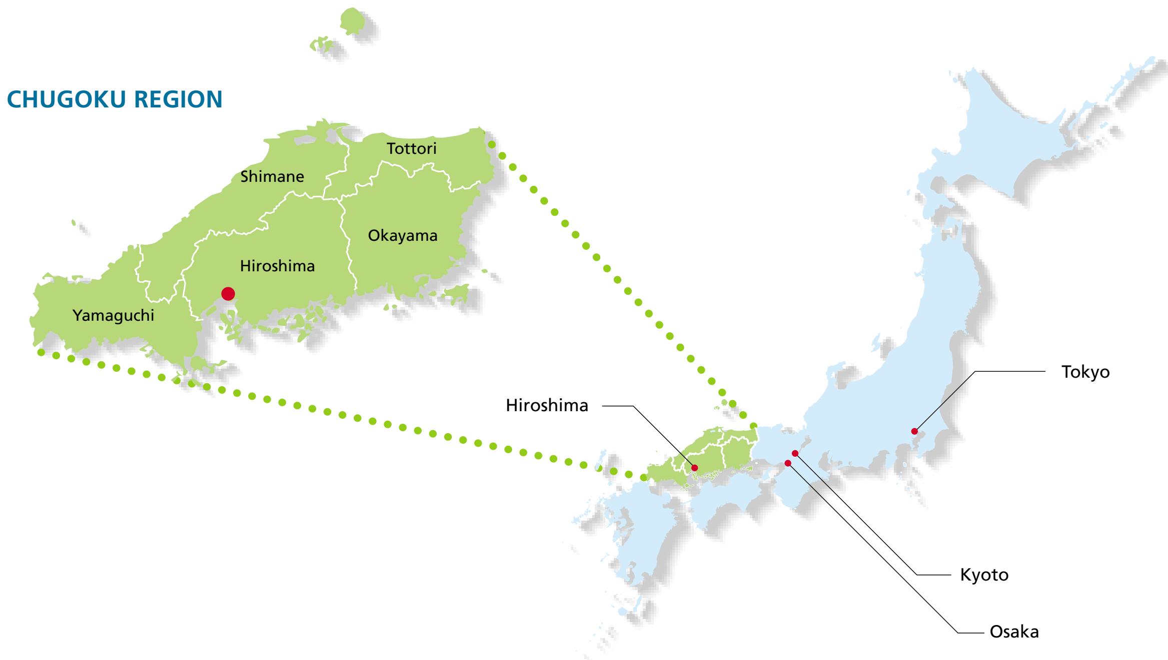
The liberalization of Japan’s electric power industry is designed to benefit customers and the nation as a whole by ushering in competitive principles, thereby lowering electricity rates and improving service levels. The issue of deregulation in Japan has stimulated exhaustive debate over the implications of electricity being a critical, yet nonstorable, source of energy for daily living, as well as how such change will affect the nation as an importer of the majority of its energy resources.

The 1995 revision of the Electricity Utilities Law liberalized entry to the wholesale power market. In March 2000, the government deregulated the supply of electricity to extra-high-voltage consumers of 2,000 kilowatts or more. The scope of liberalization expanded in April 2004, and will further broaden in April 2005. Deliberation on full competition will begin in 2007.

Japan’s electric power industry is now poised to return to a freely competitive sphere.

Expanding Scope of Electric Power Liberalization (As of March 31, 2004)

Expanding scope of liberalization	March 2000	April 2004	April 2005	Deliberation on full deregulation from 2007
Contract demand	2,000 kilowatts	500 kilowatts	50 kilowatts	
Customers covered	**Extra-high-voltage consumers** (2,000 kilowatts or more) • Large plants • Department stores • Hotels	**High-voltage consumers** (50–2,000 kilowatts) • Small and medium-sized plants • Supermarkets • Small and medium-sized office buildings		**Low-voltage consumers** (For low-voltage electricity, lighting, etc.) • Small plants • Small shops • Households
Number of Chugoku Electric customers involved	**Around 370**	**Around 2,200**	**Around 46,000**	**Around 5 million**
Chugoku Electric’s power volume sales share (aggregate shares in parentheses)	**Around 30%**	**Around 10% (40%)**	**Around 20% (60%)**	**Around 40%**



The Chugoku region ranks economically alongside Sweden and Austria.

OUR OPERATING AREA

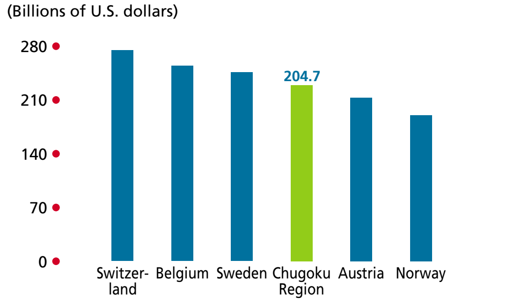
Chugoku Electric serves an area of western Japan that is roughly 350 kilometers from east to west and 150 kilometers from north to south. This area is 31,900 square kilometers, accounting for 8.4% of Japan's landmass. The Chugoku Mountains stretch from west to east. Seto Inland Sea is in the south, with the Japan Sea to the north.

The area abounds in nature and is full of historical and cultural significance. Hiroshima, where we are headquartered, is renowned for its commitment to global peace, having suffered the horrors of nuclear holocaust. The city is home to the Hiroshima Peace Memorial (Genbaku Dome), which became a World Heritage site in 1996.

The Chugoku region is home to 7.7 million people, representing around 6% of Japan's population. In 2001, its gross domestic product (GDP) was about $204.7 billion, or 5.6% of Japan's. The region thus ranks economically alongside Sweden and Austria. Its heavy industries, including steelmaking, cement and shipbuilding industries, cluster near the Seto Inland Sea. Many companies in the region are in sectors related to the automotive and iron and steel industries. A large number need steam in production processes so they can produce their own electricity with steam turbines. A higher proportion of companies here therefore supply their own power than in any other service region of Japan. Such heavy self-dependence offers excellent businesses opportunities for Chugoku Electric, enabling us to create new demand by proposing new solutions for these large power consumers.

GDP (2001)

(Billions of U.S. dollars)



Sources: *Annual Report on National Accounts* and *Annual Report on Prefectural Accounts*, Cabinet Office

Management Policies

1. BASIC MANAGEMENT POLICIES OF THE CHUGOKU ELECTRIC GROUP

(1) Operating Environment Perspectives

- Management risks include rapidly intensifying competition in the electric utilities industry, massive cash expenditures to cover full-fledged investments in nuclear power development, and moves to institute a carbon tax.
- The Group is creating new management resources through its efficiency initiatives, while deregulatory developments are broadening business opportunities.
- The products and services that Group companies offer are becoming less competitive, and there is business overlap within the Group.
- Stakeholders are prioritizing consolidated performance over the parent company's performance alone.

(2) Basic Management Concepts of the Chugoku Electric Group

- Win customers' trust so that people buy more of the Chugoku Electric Group's products and services and we become a supplier of choice
- Acknowledge that it is critical to satisfy customers' needs and provide total solutions through products and services that deliver the right quality, reliability and price

Goals

- Become an attractive and essential provider of products and services
- Remain a central contributor to the local economy and build shareholder value
- Stabilize Group employment, bolster the technical capabilities of employees and energize workplaces

2. PARENT COMPANY'S MANAGEMENT POLICIES

Chugoku Electric must generate profits amid fair competition while fulfilling its role as a member of the local community.

We will maintain and strengthen our business activities in the years ahead while contributing to regional social development in keeping with the Basic Management Policies of the Chugoku Electric Group. We will accordingly work with all Group members to listen closely to our customers, and will tackle the following three challenges to manage our operations.

(1) Build sustainable profits

(i) Reinforce competitiveness by becoming more customer-oriented

(ii) Strengthen Group management capabilities

(2) Secure the trust of all stakeholders, including customers, stockholders, investors and the community

(i) Ensure operational fairness and transparency

(ii) Address public issues

(3) Energize employees and restructure operations

3. NUMERICAL TARGETS

Group Management Objectives
(excluding parent company, as of January 2001)

All Group companies shall establish their own management objectives in line with the following targets for their respective categories, deploy policies to reach their goals and strive to meet operating, profitability and other listing requirements.

We have cultivated such new areas as comprehensive energy supply and information and telecommunications while strengthening Group marketing to reach our objectives.

Category	Management Target (End of Fiscal 2006)
Consolidated subsidiaries	Expand sales outside Group from ¥40 billion recorded in fiscal 2000, to ¥60 billion
Equity-method affiliates Non-consolidated subsidiaries Companies not subject to equity method	Expand sales outside Group and secure and build earnings by enhancing operational efficiency
New companies	Become profitable three years after establishment and eliminate accumulated losses in five years

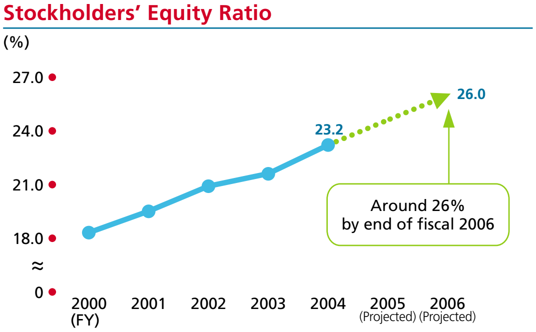
Group Management Objectives
(including parent company, as of May 2003)

Management established the following consolidated targets for fiscal 2004 through 2006 to make the Group more profitable, efficient and healthy.

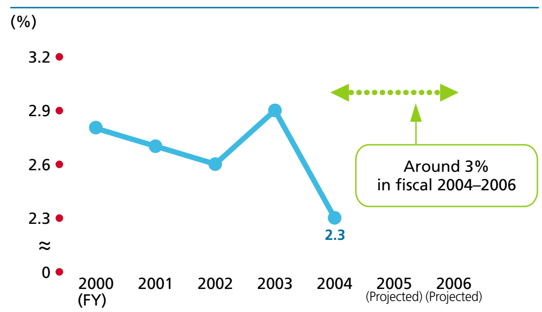
Stockholders' equity ratio	Around 26% by end of fiscal 2006
Return on assets	Around 3% in fiscal 2004–2006
Ordinary income	Average at least ¥72 billion in fiscal 2004–2006
Free cash flows	Average at least ¥95 billion in fiscal 2004–2006

CONSOLIDATED PERFORMANCE DATA

Stockholders' Equity Ratio

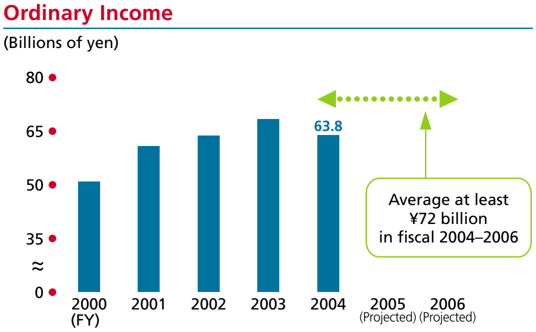


Return on Assets*

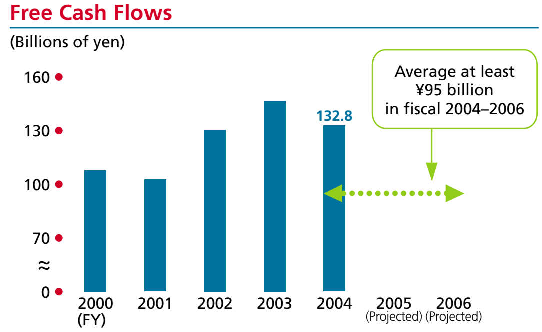


* Operating income x (1 – Income tax rate) / Total assets x 100

Ordinary Income



Free Cash Flows



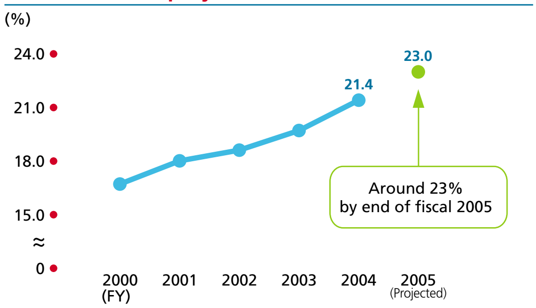
Parent Company Management Objectives (as of November 2001)

Management established the following targets for fiscal 2003 through 2005 to prepare for changes in the operating environment by improving the Company's operating results, financial position and management foundations.

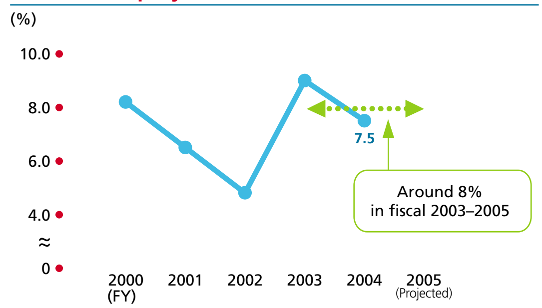
Stockholders' equity ratio	Around 23% by end of fiscal 2005
Return on equity	Around 8% in fiscal 2003–2005
Return on assets	Around 3% in fiscal 2003–2005
Ordinary income	Average at least ¥70 billion in fiscal 2003–2005
Free cash flows	Average at least ¥110 billion in fiscal 2003–2005

NON-CONSOLIDATED PERFORMANCE DATA

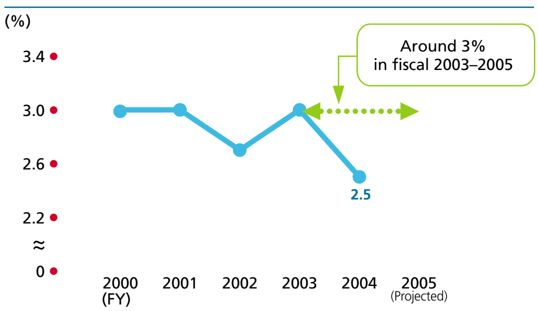
Stockholders' Equity Ratio



Return on Equity

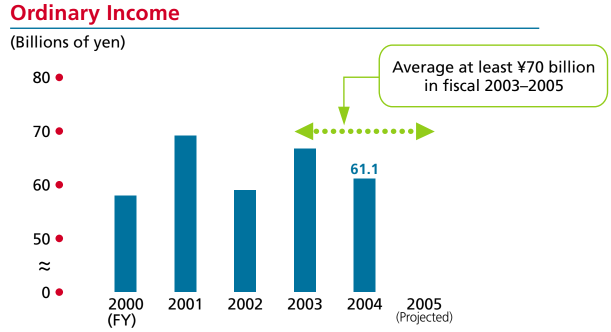


Return on Assets*

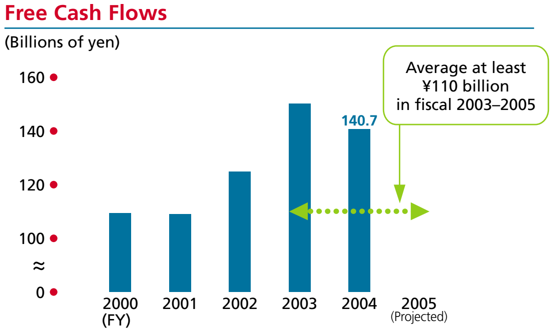


* Operating income x (1 – Income tax rate) / Total assets x 100

Ordinary Income



Free Cash Flows

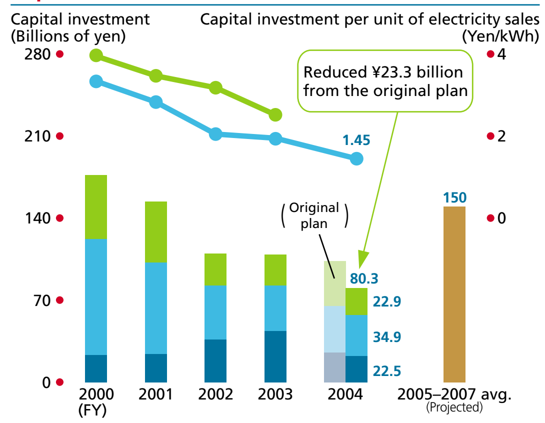


EFFORTS TO BOLSTER MANAGEMENT EFFICIENCY

- We are striving to cut costs by developing and deploying new technologies, designs and construction techniques while investing in our facilities to use them more effectively.
- Although we expect maintenance expenses to rise as facilities age, we are constraining maintenance spending by improving facilities analysis technologies to review inspection and replacement cycles.
- We have established targets for all personnel so we can bolster price competitiveness and allocate human resources to cultivate new businesses and otherwise tackle new management challenges, thus enhancing operational efficiency.
- We will deploy funds raised through these endeavors to repay and steadily reduce interest-bearing liabilities.

NON-CONSOLIDATED PERFORMANCE DATA

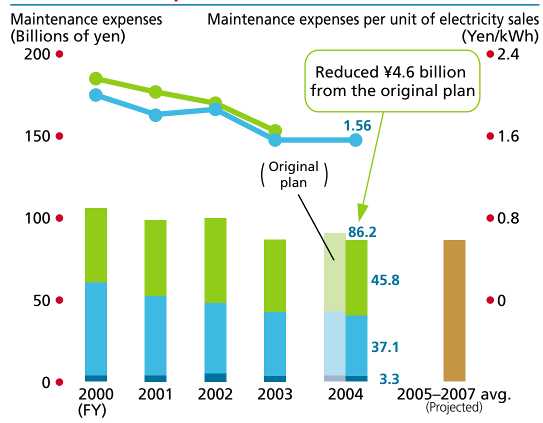
Capital Investment



Left scale:
Power generation / Power transmission and distribution / Other

Right scale:
Chugoku Electric / Average of nine domestic electric power companies

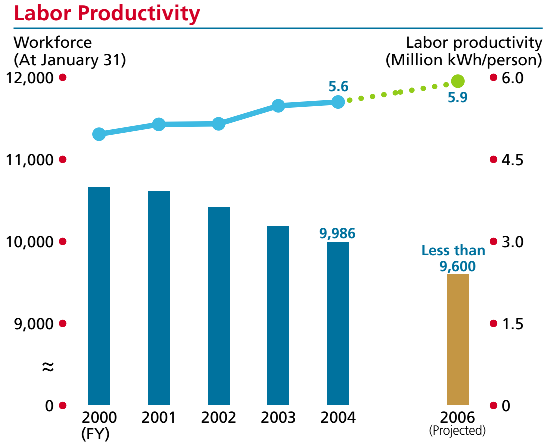
Maintenance Expenses



Left scale:
Power generation / Power transmission and distribution / Other

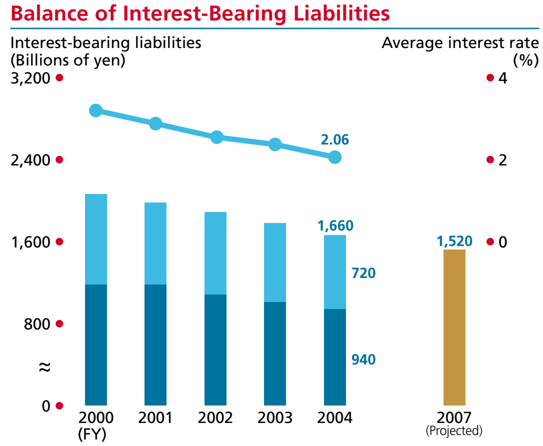
Right scale:
Chugoku Electric / Average of nine domestic electric power companies

Labor Productivity



Workforce / Labor productivity

Balance of Interest-Bearing Liabilities



Balance of interest-bearing liabilities (Bonds)
Balance of interest-bearing liabilities (Loans)
Average interest rate

Electric Power Business

Overview of electric power operations

In fiscal 2004, electricity sales declined 0.7%, to 55.4 billion kilowatt hours. This was due mainly to the unusually mild summer and winter, which suppressed residential demand. Furthermore, many large industrial power consumers expanded their private electric power generating facilities.

Electric power accounted for 93.7% of consolidated operating revenues in the year under review. Segment revenues dropped 5.7%, or ¥54.5 billion, to ¥906.5 billion, mainly owing to rate reductions and the lower electricity sales volume. Operating income for this segment fell 21.1%, or ¥26.6 billion, to ¥99.4 billion, offsetting overall management initiatives to enhance efficiency.


Misumi Thermal Power Station (Coal)

REGIONAL DEMAND FORECASTS

In the medium to long term, we expect sluggish production growth in materials industries and progress in energy-saving programs to affect demand for electric power in the Chugoku region. Nonetheless, we project mild expansion in demand following a return to sustained economic expansion, a greater reliance on information technology, the pursuit of comfort and the spread of all-electric homes, which will prompt further reliance on electricity as a key energy source.

(1) Electricity sales

We project electricity sales of 61.8 billion kilowatt hours for fiscal 2014. This would represent an average growth rate of 0.9% (or 1.0% after adjusting for climatic fluctuations) from fiscal 2003.

(2) Peak demand

Peak demand should rise from 10.66 million kilowatts in fiscal 2004, to 12.76 million kilowatts in fiscal 2014. Growth between fiscal 2003 and 2014 should average 1.3% (1.2% after adjusting for climatic changes).

Electricity Sales and Peak Demand

(FY)	2003	2004	2005 (Projected)	2006 (Projected)	2009 (Projected)	2014 (Projected)	Average annual growth from fiscal 2003 to 2014
Electricity sales (Billion kWh)	55.8	55.4	56.0	56.6	58.5	61.8	0.9%
Year-on-year growth (%)	4.2%	-0.7%	1.0%	1.0%	1.1%	1.1%	—
Peak demand (Million kW)	11.02	10.66	11.43	11.58	12.04	12.76	1.3%

POWER DEVELOPMENT PLANS

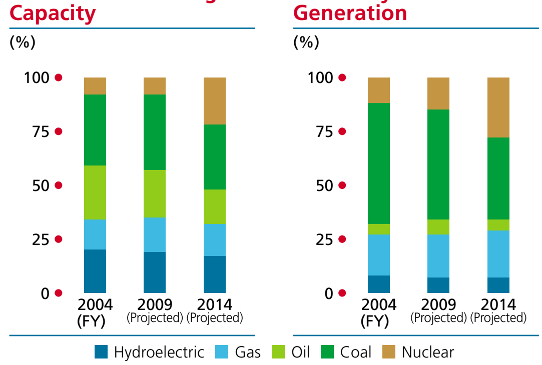
We have formulated power development plans to serve steadily expanding demand by maintaining stable supply capabilities through an efficient facilities network. Our plans consider Japan's almost total reliance on imported resources, focusing on environmental impact reduction initiatives and diversified sourcing to enhance energy security.

Nuclear power currently accounts for significantly less of our total power output than that of our Japanese counterparts, although it is an increasing priority for us. We consider nuclear power essential to diversifying our energy mix, with another important benefit being that it does not emit carbon dioxide during operation.

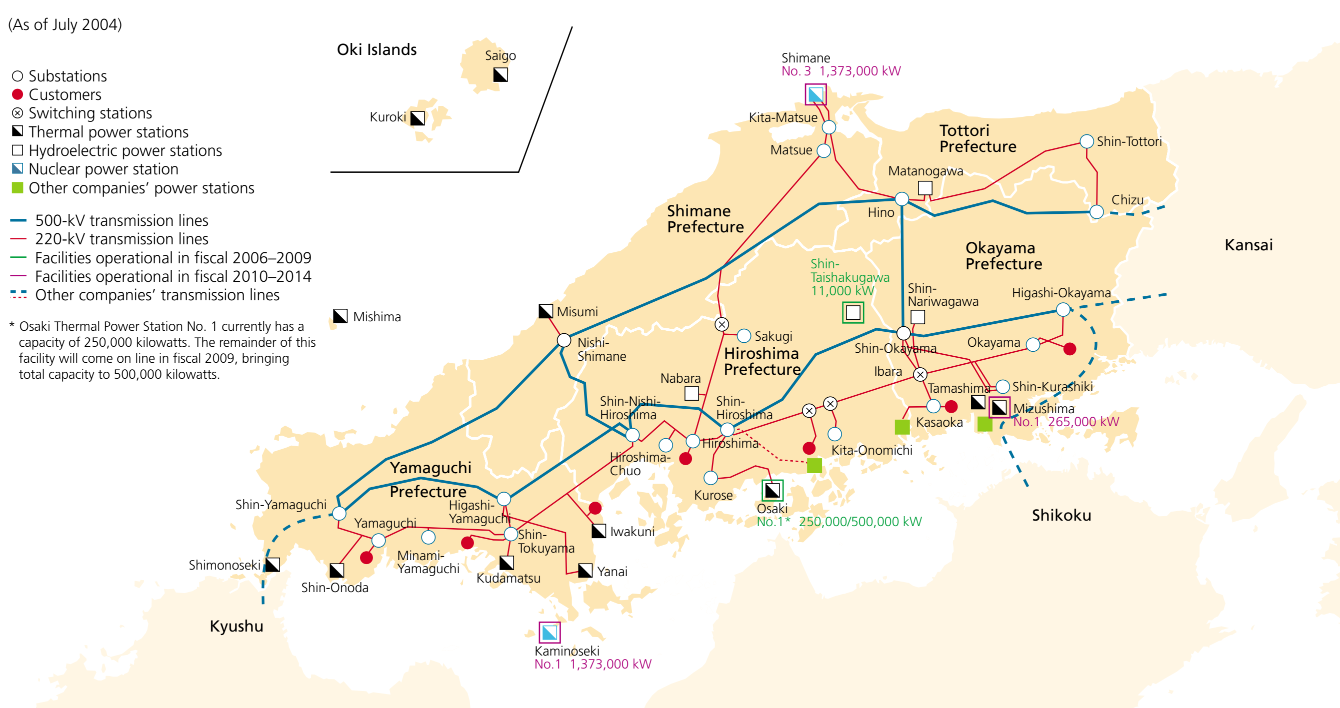
We intend to launch commercial operations at the Shimane Nuclear Power Station No. 3 unit (1,373,000 kilowatts) in March 2011 and at the Kaminoseki Nuclear Power Station No. 1 unit (also 1,373,000 kilowatts) in fiscal 2014.

Yanai Thermal Power Station (LNG)

Installed Generating Capacity | **Electricity Generation**



Proposed Extensions to Chugoku Electric's Power Grid
(For Facilities with Capacities of 220 Kilovolts or More)



REINFORCING MARKETING AHEAD OF LIBERALIZATION

In February 2004, we again strengthened our marketing capabilities to solidify our relationships with customers.

For industrial and commercial customers, we bolstered specific proposals and energy analyses for consumers of extra-high-voltage power. For lighting customers, we concentrated marketing on apartments and condominiums and renovations to serve growing demand for homes in which electricity supplies all light and heat.

We are strengthening our marketing capability through a plan to allocate 50 more marketing employees to each of these fields over three years from February 2004.

PROMOTING LOAD LEVELING

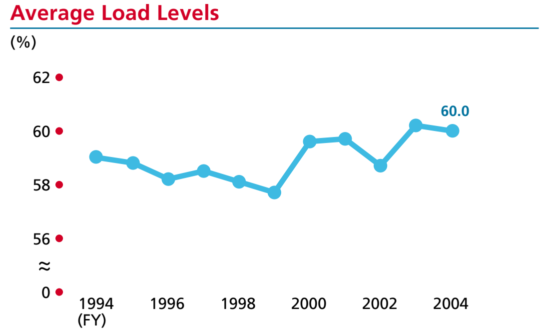
To ensure supply stability, electric power companies must maintain generating capacities that exceed peak demand projections. Power usage levels fluctuate according to the time of day and the season. We have taken steps to flatten the demand curve to improve the operating efficiency of our facilities and reduce costs. We have performed well in expanding the use of ice thermal storage air conditioning systems and electric water heaters fueled by nighttime power.

The proportion of all-electric homes in our service area has grown steadily in recent years. In fiscal 2004, 26.8% of all new homes and 46.0% of all new detached homes in our service area were all-electric, ranking us near the top among Japanese electric power companies.

Unit Sales of Electric Water Heaters and Number of All-Electric Homes Constructed

(FY)	2000	2001	2002	2003	2004
Unit sales of electric water heaters	25,934	28,606	29,576	31,315	36,997
Number of all-electric homes constructed	9,359	11,659	16,087	20,328	27,973

Average Load Levels



IMPROVING CUSTOMER CONVENIENCE

In 2003, we completed a three-year project to establish two call centers to centralize the processing of customer relocation and other procedures. This has greatly enhanced efficiency and customer convenience by allowing people in our operating area to terminate their contracts or restart them elsewhere with a single phone call.

Okayama Call Center

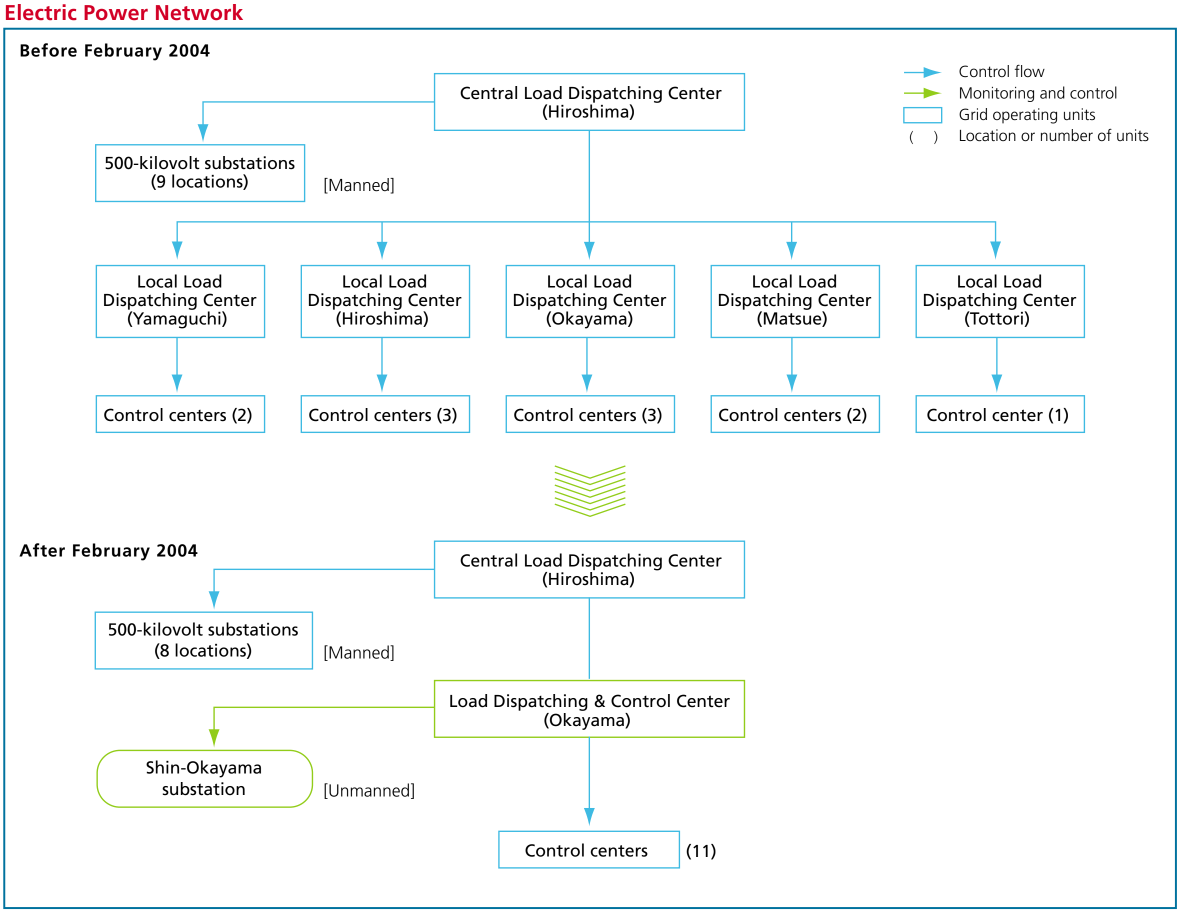
LOAD DISPATCHING & CONTROL CENTER INAUGURATED

Our power grid comprises power stations, transmission lines, transformer substations and distribution lines. Various maintenance units ensure we can provide electricity stably around the clock.

In February 2004, we launched operations at our Load Dispatching & Control Center in Okayama Prefecture, consolidating the management of five local load dispatching centers in each of our prefectures and enhancing operational stability and efficiency. The new facility oversees dispatch for the 220-kilovolt systems throughout our service area, as well as for our principal 110-kilovolt system in Okayama Prefecture, and monitors our unmanned 500-kilovolt Shin-Okayama substation. The remaining eight 500-kilovolt substations will also become unmanned and monitored by the Load Dispatching & Control Center, thereby further enhancing operational efficiency.

Load Dispatching & Control Center (Okayama)

Electric Power Network



Other Business

Overview of other operations

Other businesses accounted for 6.3% of consolidated operating revenues in fiscal 2004. Segment operating revenues surged 25.5%, or ¥12.3 billion, to ¥60.6 billion. Operating loss also increased, however, from ¥85 million to ¥907 million.

This segment encompasses the maintenance and inspection of power facilities to ensure stable electricity supplies and the cultivation of new businesses.

The strategic domains for these new businesses are: comprehensive energy supply, information and telecommunications, the environment, and business and lifestyle support. Each of these fields synergizes with our core electric power operations and allows us to provide total solutions to our customers.

In cultivating new businesses, we aim to fully deploy the Group's ample technological, infrastructural and other resources to satisfy diverse customer needs and bolster Group revenues and earnings.

GROUP OVERVIEW

(1) Total solutions businesses

New business development goals

>> Ensure progress of the Chugoku Electric Group and increase convenience and comfort for the community

>> Concentrate management resources in strategic fields that draw on our strengths to ensure financial and operational progress

Future targets

>> Harness synergies with our electric power operations to cultivate four strategic domains that allow us to provide total solutions and satisfy diverse customer requirements

>> Through our new domains, continue to contribute to the convenience and comfort of customers in our service area

[Companies established in fiscal 2004]

>> **Environment**

In April 2003, we established EnerGia Eco Materia Company, Incorporated. This subsidiary draws on our coal ash technologies to produce and sell coal powder and other products from coal ash. This company contributes to the creation of a recycling-oriented society while helping reduce our thermal power generating costs.

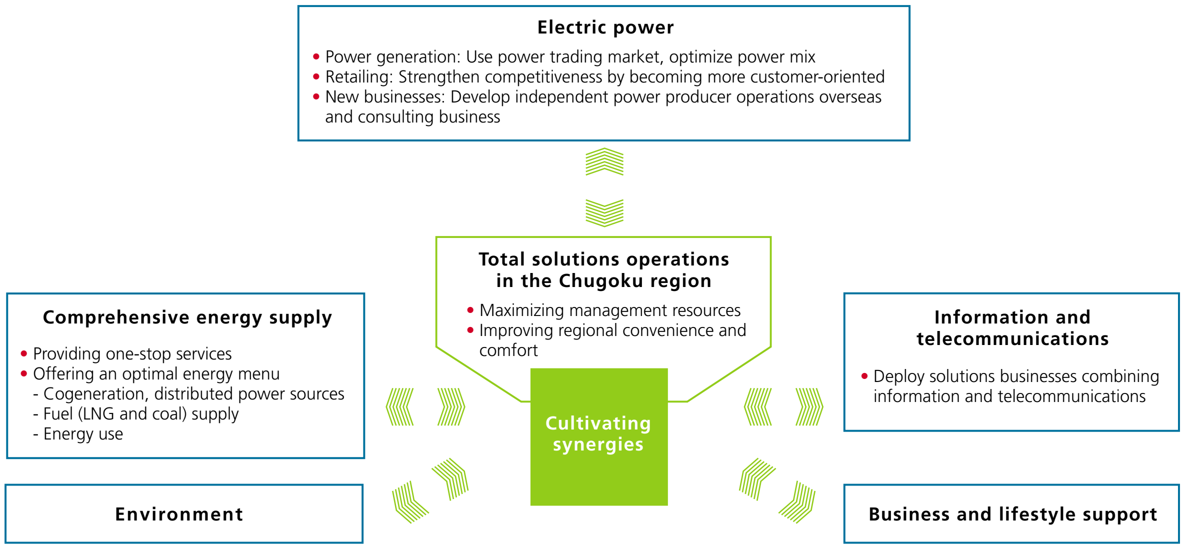
>> **Business and lifestyle support**

We founded EnerGia Care Service Co., Inc., in April 2003 to provide a wide range of services, including private nursing services, daily care and home nursing services for senior citizens. This company is effectively using Groupwide management resources to maximize its potential.

In March 2004, we separated off the staffing services businesses of CHUDEN KANKYO TECHNOS CO., LTD., and Chuden Life Co., Ltd., to form EnerGia Human Resource Solutions Co., Inc.

>> **Information and telecommunications**

In July 2003, we formed Energia Communications, Inc., through the merger of Chugoku Information System Service Co., Inc., and Chugoku Telecommunication Network Co., Inc.



>> **Other fields**

Also in July 2003, together with Hitachi, Ltd., we established Energia Nuclear Technology Co., Inc., which provides maintenance and engineering services for nuclear power stations. This subsidiary draws on the design, construction, operations and maintenance technologies that both partners cultivated at the Shimane Nuclear Power Station. Its high-quality maintenance services contribute greatly to the safe and stable operations of nuclear facilities. Energia Nuclear Technology was the first company in Japan to result from a partnership between a plant maker and electric power company.

(2) Effective application of Group management resources

We are striving to bolster the Group's operating efficiency and competitiveness.

Optimizing Group management efficiency

We established subsidiaries to centralize the administrative and other support operations of Group companies, enhancing efficiency and saving resources.

>> **Energia Business Service Co., Inc.**

Provides accounting, procurement and human resources services for Group companies.

>> **The Energia Logistics Co., Inc.**

Established in February 2003 to create new logistics systems for the Group.

Group company reorganizations and mergers

From fiscal 2004, the Company assessed and implemented several reorganizations and mergers of Group companies to improve overall competitiveness and efficiency.

>> **July 2003**

We formed Energia Communications by merging Chugoku Information System Service and Chugoku Telecommunication Network.

>> **April 2004**

We merged CHUDEN KOGYO CO., LTD., a provider of painting, construction and renovation services, with DENSETSU CO-TEC CO., LTD.

>> **July 2004**

We merged the Chuden Access Company, Incorporated, with Chuden Life, both of which were providers of electrical equipment and manufacturers of power distribution equipment, to form Energia Life & Access Co., Inc.

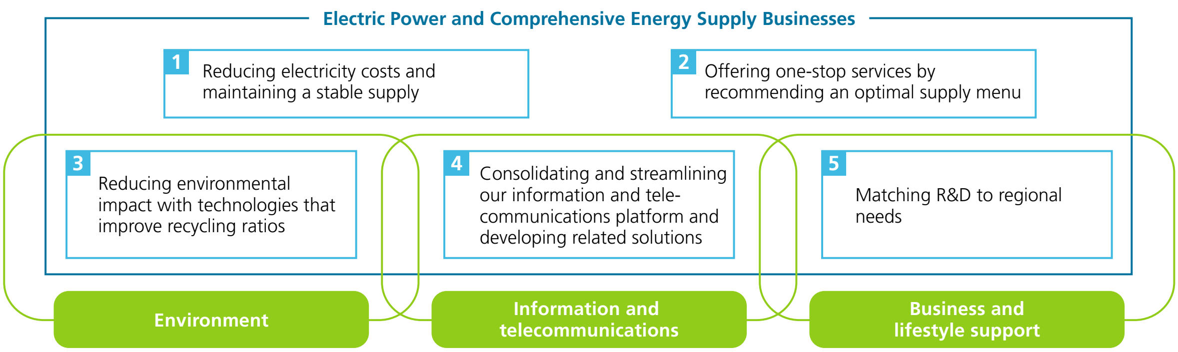
Research and Development

Our Technical Research Center spearheads research and development covering five themes shown in the table below. These include reducing electricity costs and maintaining a stable supply, optimizing energy services menus that take full advantage of electricity, and reducing environmental impact, such as by efficiently reusing waste. This work is in line with the Chugoku Electric Group's four strategic business fields.

Practical research involves performing in-depth cost analysis, strengthening ties between the industrial, academic and government sectors, and accelerating development through three-year projects. We established the Research and Development Promotion Committee to assist groupwide activities.

Our efforts have borne much fruit, helping the Company and the Chugoku Electric Group bolster competitiveness and improve enterprise value.

Below, we outline two key R&D achievements in fiscal 2004.



TRANSMISSION TOWER-PAINTING ROBOT

In October 2003, we developed a painting robot that can work along the inclined and horizontal steel pipes of transmission towers. This device eliminates the need for scaffolding and manual painting, thereby boosting productivity and slashing the time and cost of paint jobs.

We plan to commercialize the technology used in this robot for various structures using pipes, including exhaust smoke towers at electric power stations, plant piping, pipes bridging rivers and other structures outside the electric power business.

We have filed a patent application for our painting robot, which is the first of its kind in Japan.

HOME FUEL CELL COGENERATION SYSTEM

In February 2004, we completed development and started proving tests with Kobelco Eco-Solutions Co., Ltd., on a hybrid fuel cell cogeneration system that combines polymer electrolyte fuel cells and high-purity hydrogen/oxygen generators.

The proving tests on this system are a first in Japan. They entail electrolyzing water to produce hydrogen fuel. The fuel cell generates power while supplying hot water. We conducted the tests at subsidiary Energia Solution & Service Company, Incorporated's Research and Development Center for Energy Use Technology, where we assessed the overall efficiency of the system and compiled data. We have been running operational tests since April 2004.

Corporate Social Responsibility

Recognizing that maintaining trust is essential to its operations, Chugoku Electric endeavors to secure the understanding and cooperation of the people it serves in the Chugoku region. Our corporate social responsibility (CSR) program therefore embraces fulfilling our public mission, contributing to the region, safeguarding the environment and complying with laws and regulations.

In June 2004, we reorganized our administrative support units to form the Corporate Social Responsibility Division. This new entity coordinates efforts to contribute to the environment and regional development and to comply with laws and regulations. It is also responsible for public relations, secretarial services and general affairs. A Corporate Social Responsibility Department within this division oversees our CSR initiatives.

FOSTERING COMPLIANCE

In April 2003, we formulated the Chugoku Electric Corporate Ethics Platform to guide business and employee activities. The platform outlines the values and ethical viewpoints that directors and employees alike must share to ensure compliance with laws and regulations as well as in-house rules.

To assure the community that our operations are fair and transparent, we established the Corporate Ethics Committee. Members of the committee include directors, external lawyers and labor union representatives. As a general rule, the committee debates compliance policies in its semiannual gatherings.

We also formed the EnerGia Group Corporate Ethics Liaison Committee to disseminate compliance information throughout the Chugoku Electric Group.

The Corporate Ethics Counseling Unit provides advice on legal violations and other ethical issues so we can swiftly identify and address related problems. All directors, employees, contractors, employees dispatched from Group companies, business partners and others involved in our operations can use the services of this office.

TACKLING ENVIRONMENTAL ISSUES

Constantly seeking harmony with nature is a key element of our management philosophy. The Chugoku Electric Environmental Action Plan sets forth our Basic Environmental Policies, Environmental Action Guidelines and Environmental Management Targets. This initiative seeks to address a wide range of environmental issues, including climate change, and champions such actions as the "Three Rs" of reduce, reuse and recycle.

In September 2003, we produced the EnerGia Group Environmental Vision to ensure all members of the Chugoku Electric Group share our policies and code of conduct as environmental issues become more critical. We also formed the EnerGia Group Environmental Management Committee, which comprises representatives, or Environmental Management Promoters, from Group companies.

Afforestation project in Australia

(1) Promoting Nuclear Power and Other Efforts to Reduce the Effects of Climate Change

Nuclear power is a stable and economic source of energy that does not emit carbon dioxide during operation and therefore helps greatly reduce the effects of climate change. We are building nuclear power stations in Shimane and Kaminoseki, as well as improving the thermal efficiency of thermal power stations and increasing our use of liquefied natural gas (LNG). Our international efforts include contributing to the World Bank's Prototype Carbon Fund and an afforestation project in Australia.

(2) Three Rs Initiatives for a Recycling-Oriented Society

>> Efficient Coal Usage

Chugoku Electric has stepped up efforts under its Three Rs concept to reduce industrial waste and by-products and use these resources more efficiently.

One of our main initiatives to date is the use of coal ash in cement. We have developed technologies to use this ash in an array of civil engineering materials. A good example is Hi Beeds, which replaces sand in shoreline landfill. We also make Geo Seed, a soil conditioner, and NA-Crete, a new concrete material. We will continue to fully harness our coal ash usage technologies to contribute even more to recycling and reduce the costs of thermal power generation.

In fiscal 2004, we received three chairman's prizes in the Clean Japan Center's awards program, which recognizes organizations and individuals for distinguished achievements in the Three Rs. The prizes were for: (1) recycling coal ash in civil engineering materials; (2) reusing old watt-hour meters; and (3) reusing personal computers.

>> Achieving Zero Emissions at Head Office

In July 2003, we launched our Zero Emissions* initiative to cut waste at our head office. This effort, which also involved Group companies, required separating batteries and other non-recyclable items from waste, which we then recycled. We achieved our Zero Emissions goals in April 2004.

In fiscal 2005, we will deploy this program companywide to complement our Three Rs endeavors.

* To cut final disposal to less than 1% of general and industrial waste volume.

(3) Cultivating New Energy Sources

Chugoku Electric has taken many steps to foster new sources of energy. Our endeavors range from using these energy sources to generate electricity to buying surplus power, developing new sources, and assisting the Chugoku Green Power Fund.

The Industrial Development Center for Chugoku (IDCC) runs this fund, which solicits participation and financial contributions from local residents to help construct public solar and wind power facilities. Chugoku Electric supports the fund by arranging publicity and contributions and by helping handle application procedures and donation remittances.

Photovoltaic power generation panel in the Technical Research Center

Chugoku Green Power Fund Participation (as of March 31, 2004)	
Number of applications	1,615
Number of contributors	2,133 (at ¥500 a month)

Facilities Subsidized in Fiscal 2004	
Solar power facilities	11 (subsidy budget of ¥11.1 million, translating into output of 222.6 kilowatts)
Small and medium-sized wind power facilities	2 (subsidy budget of ¥14.0 million, translating into output of 3,300 kilowatts)

The subsidy for solar and wind power facilities to be constructed in fiscal 2005 is ¥27.5 million.

Clean-up activity

School visit

COMMUNITY CONTRIBUTIONS

We engage in companywide activities to contribute to the development of the region—a key area of our management philosophy. Our diverse initiatives encompass the promotion of industrial and technological development, culture and sports, and conservation and welfare. We maintain the EnerGia Volunteer Personnel Bank for employees who are interested in serving the community in special fields. Local residents can access our web site to seek volunteers from this body.

In fiscal 2004, 32,000 people devoted a total of 60,600 hours of community service on behalf of Chugoku Electric.

Community Action Examples

Industry and technology
- Participating in the Electric Technology Research Foundation of Chugoku (established in 1991)
- Distributing Chugoku Regional Company Location Information to promote the region as a place to do business

Culture and sports
- Participating in the EnerGia Culture and Sports Foundation (established in 1994)
- Supporting the Hiroshima Symphony Orchestra
- Holding cultural seminars and sports events

Conservation and welfare
- Planting trees, looking after parks and roads and cleaning up roads and rivers
- Inspecting the electrical equipment of welfare facilities and residences of senior citizens living alone
- Producing and donating books in braille

Education
- Visiting schools, taking electricity courses and donating used books
- Holding personal computer classes for senior citizens
- Accepting internships

International exchange
- Collecting used clothing and accepting trainees from abroad

Board of Directors and Auditors

(As of June 29, 2004)

CHAIRPERSON

Shitomi Takasu

PRESIDENT

Shigeo Shirakura

EXECUTIVE VICE PRESIDENTS

Susumu Takato

Tadashi Fukuda

Takashi Yamashita

MANAGING DIRECTORS

Shigeo Suehiro

Kokichi Otsuka

Tatsuaki Terada

Yoshitane Okada

Masahiro Hosoda

Hiromu Okada

Masanori Fukuda

DIRECTORS

Masaharu Arakawa

Hiroshi Fujii

Toru Jinde

Tadashi Watanabe

Masao Nagano

Kosuke Hayashi

STANDING AUDITORS

Kohei Takata

Junji Oki

AUDITORS

Chitoshi Nishiguchi

Kazuya Nitta

Hiroshi Nakashima

Taka Shiinoki

Corporate Governance

In response to deregulation of the electric power industry, in 2001 Chugoku Electric reorganized operations into Power Generation, Power System, and Energy Marketing and Services divisions to strengthen its management foundations and accelerate decision making. These three divisions have clear responsibilities and authority. We have also built a corporate governance structure that balances decision-making and oversight functions.

Our corporate structure reflects the central position of the electric power business to our operations and integrates decision making and implementation. The Board of Directors meets once a month, and the Management Committee, which consists of the representative executive directors, gathers once or twice a week to debate and decide on issues. To provide additional objectivity, transparency and oversight, the Board includes one external director.

To supplement auditing, we have established an office that operates independent of the president. By ensuring more than half our auditors are external, we reinforced our auditing structure ahead of the May 2002 law reforms that bolstered the functions and objectivity of auditors. Our external directors and auditors have no special personal, capital or business relationships with Chugoku Electric.

We have strengthened the ability of our Internal Audit Division to assess the suitability and effectiveness of our internal administrative structure and suggest improvements. We are also using accounting firms, lawyers and other third parties to improve checks and balances.

The president chairs the Risk Strategies Committee, which meets once a month to comprehensively discuss key management risks.

Management is keenly aware of the importance of building and maintaining a governance structure that ensures the Company remains trusted and able to enhance shareholder value and meet its social responsibilities. To this end, we will continue to strengthen corporate governance and Group management.

Financial Section

CONTENTS

Consolidated 6-Year Summary

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

	Millions of Yen						Thousands of US dollars
	2004	2003	2002	2001	2000	1999	**2004**
Operating revenues	**¥ 967,056**	¥1,009,279	¥1,021,149	¥1,044,863	¥1,049,440	¥1,039,011	**$ 9,298,615**
Operating income	**99,586**	126,954	118,545	126,621	131,444	134,985	**957,558**
Net income	**42,888**	44,129	46,470	27,202	27,615	29,306	**412,385**
Total stockholders' equity	**629,604**	606,834	593,752	575,772	550,856	485,718	**6,053,885**
Total assets	**2,712,376**	2,815,189	2,846,207	2,952,869	3,011,101	2,998,389	**26,080,538**
Interest-bearing debt	**1,728,285**	1,839,175	1,900,098	2,012,672	2,104,628	2,165,187	**16,618,125**
Free cash flows (*1)	**132,835**	146,669	130,496	102,632	107,752	—	**1,277,260**
Other financial data							
Per share data (yen and dollars):							
Stockholders' equity (*2)	**1,728.06**	1,656.07	1,600.41	1,551.79	1,484.63	1,309.02	**16.62**
Net income (*3):							
Basic	**116.63**	119.30	125.25	73.31	74.43	78.98	**1.12**
Diluted	**116.63**	119.30	123.99	72.78	73.88	78.32	**1.12**
Cash dividends	**50.00**	50.00	50.00	60.00	60.00	50.00	**0.48**
Key financial ratios:							
Equity ratio (%)	**23.2**	21.6	20.9	19.5	18.3	16.2	
Return on equity (ROE) (%)	**6.9**	7.4	7.9	4.8	5.3	6.1	
Return on assets (ROA) (%)(*4)	**2.3**	2.9	2.6	2.7	2.8	2.8	
Price earnings ratio (PER) (times)	**16.0**	15.4	13.8	23.2	17.4	23.8	

	Millions of kWh					
	2004	2003	2002	2001	2000	1999
Power generated and received						
Generated:						
Hydroelectric	**4,008**	3,025	3,678	3,489	3,506	3,298
Thermal	**31,978**	31,324	30,588	34,656	35,241	35,699
Nuclear	**7,705**	10,736	10,267	6,765	10,059	10,702
Total	**43,691**	45,085	44,533	44,910	48,806	49,699
Bought from other companies	**22,285**	22,560	20,656	21,185	18,499	13,980
Sold to other companies	**(3,961)**	(5,261)	(5,251)	(4,779)	(7,840)	(5,757)
Transmission loss and other	**(6,581)**	(6,537)	(6,333)	(6,813)	(6,551)	(6,310)
Total	**55,434**	55,847	53,605	54,503	52,914	51,612
Electricity sales:						
Residential (lighting)	**16,667**	16,850	16,384	16,208	15,749	15,358
Commercial, industrial and other	**21,988**	22,207	21,930	22,155	21,603	36,254
Power consumption by liberalized sector	**16,779**	16,790	15,291	16,140	15,562	—
Total	**55,434**	55,847	53,605	54,503	52,914	51,612

(*1) Free cash flows represent net of cash flows from operating activities and those from investing activities.
(*2) Stockholders' equity per share is computed using the number of shares of common stock in issue at the end of each year.
(*3) See Note 2 (Amounts per share of common stock) of the consolidated financial statements.
(*4) ROA = Operating income x (1 – Income tax rate) / Total assets x 100

Consolidated Financial Review

Summary of Operations

In fiscal 2004, ended March 31, 2004, the Japanese economy showed some signs of a turnaround. While the employment situation was still severe and personal consumption was still at a low ebb, production activity and capital investment rose, based on strong exports. The situation was similar in the Chugoku region.

Non-consolidated sales of electricity declined 0.7% from the previous period, to 55.4 billion kilowatt hours, reflecting a cool summer and warm winter, which depressed demand for residential and commercial power.

Operating revenues of the Chugoku Electric Power Co., Inc. (the "Company"), and its consolidated subsidiaries (the "Group") for the term were ¥967.1 billion (US$9,298.6 million), down 4.2%, or ¥42.2 billion (US$406.0 million), from fiscal 2003. Net income was ¥42.9 billion (US$412.4 million), a drop of 2.8%, or ¥1.2 billion (US$11.9 million). Free cash flow (net cash provided by operating activities minus net cash used in investing activities) totaled ¥132.8 billion (US$1,277.3 million).

The Company maintained cash dividends per share at ¥50.00 (US$0.48), in line with management's policy of providing stable returns while enhancing the financial position and otherwise solidifying the Group's business foundations.

Operating Revenues

As mentioned above, operating revenues for the term were ¥967.1 billion (US$9,298.6 million), down 4.2%, or ¥42.2 billion (US$406.0 million).

Operating revenues from electric power operations amounted to ¥906.5 billion (US$8,716.0 million), down 5.7%, or ¥54.5 billion (US$524.4 million). This decline was due partly to an October 2002 reduction in electricity rates. Operating revenues from other operations jumped 25.5%, or ¥12.3 billion (US$118.4 million), to ¥60.6 billion (US$582.6 million). These operations encompass such activities as producing and marketing equipment and materials, construction contracting, and telecommunications and information processing and other business.

Operating Expenses and Operating Income

Operating expenses for the term decreased 1.7%, or ¥14.8 billion (US$142.8 million), to ¥867.5 billion (US$8,341.1 million).

Operating expenses in electric power operations dropped 3.3%, or ¥27.7 billion (US$266.5 million), to ¥804.6 billion (US$7,736.1 million). This stemmed from lower materials and depreciation costs. In other operations, operating expenses were ¥62.9 billion (US$605.0 million), up 25.7%, or ¥12.8 billion (US$123.7 million).

Operating income thus fell 21.6%, or ¥27.4 billion (US$263.1 million), to ¥99.6 billion (US$957.6 million).

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

Total other (income) expenses plunged 38.6%, or ¥21.3 billion (US$204.3 million), to ¥33.7 billion (US$324.5 million), owing primarily to a decrease in interest expense.

As a result of these factors, income before income taxes and minority interests in net income was down 9.5%, or ¥6.9 billion (US$65.7 million), to ¥65.1 billion (US$626.2 million). Net income decreased 2.8%, or ¥1.2 billion (US$11.9 million), to ¥42.9 billion (US$412.4 million). Net income per share was ¥116.63 (US$1.12), down ¥2.67, from ¥119.30.

Financial Position

Assets

At fiscal year-end, total assets were ¥2,712.4 billion (US$26,080.5 million), down 3.7%, or ¥102.8 billion (US$988.6 million), from the close of the previous term. This was largely due to depreciation and lower capital investment in electric power operations.

Net property stood at ¥2,254.9 billion (US$21,682.1 million), down 4.5%, or ¥107.0 billion (US$1,028.3 million). Nuclear fuel was ¥117.2 billion (US$1,126.6 million), down 0.6%, or ¥0.7 billion (US$6.7 million). Total investments and other assets amounted to ¥211.6 billion (US$2,035.0 million), up 6.4%, or ¥12.7 billion (US$123.0 million). Total current assets were ¥128.6 billion (US$1,236.9 million), down 5.8%, or ¥8.0 billion (US$76.5 million).

Liabilities, Minority Interests and Stockholders' Equity

Total liabilities were ¥2,077.7 billion (US$19,978.3 million), down 5.7%, or ¥125.7 billion (US$1,208.6 million). Of this total, interest-bearing debt declined 6.0%, or ¥110.9 billion (US$1,066.3 million), to ¥1,728.3 billion (US$16,618.1 million) as the Group pursued capital investments within the scope of its internal funding capabilities. Mainly owing to a decrease in accrued income taxes, other liabilities fell 4.1%, or ¥14.8 billion (US$142.3 million), to ¥349.5 billion (US$3,360.2 million). This was despite rises in employees' severance and retirement benefits and the reserve for reprocessing of irradiated nuclear fuel.

Minority interests were ¥5.0 billion (US$48.3 million), up 2.1%, or ¥0.1 billion (US$1.0 million).

Total stockholders' equity was ¥629.6 billion (US$6,053.9 million), up 3.8%, or ¥22.8 billion (US$219.0 million). The equity ratio improved 1.6 percentage points, to 23.2%, from 21.6%.

Cash Flows

Net cash provided by operating activities for fiscal 2004 amounted to ¥226.5 billion (US$2,177.7 million), down 16.0%, or ¥43.0 billion (US$414.1 million), compared with the previous period. This was due primarily to the October 2002 cut in electricity rates, which lowered power sales and overshadowed efforts to streamline overall operations.

Net cash used in investing activities was ¥93.6 billion (US$900.4 million), down 23.8%, or ¥29.3 billion (US$281.1 million), mainly because of more efficient capital investment. Free cash flow therefore amounted to ¥132.8 billion (US$1,277.3 million).

Net cash used in financing activities was ¥133.4 billion (US$1,282.2 million), down 7.0%, or ¥10.0 billion (US$96.4 million), owing to lower repayments of bonds and long-term debt. Repayments of total bonds and long-term debt exceeded procurements, causing the balance to drop ¥63.6 billion (US$611.9 million). Cash dividends paid were ¥18.3 billion (US$176.2 million).

Cash and cash equivalents at end of year totaled ¥23.7 billion (US$227.9 million), down 2.1%, or ¥0.5 billion (US$5.0 million).

Summary of Cash Flows

Years ended March 31

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Net cash provided by operating activities	**¥226,478**	¥269,543	¥253,418	**$2,177,673**
Net cash used in investing activities	**(93,643)**	(122,874)	(122,922)	**(900,413)**
Net cash used in financing activities	**(133,350)**	(143,376)	(131,230)	**(1,282,212)**
Effect of exchange rate changes on cash and cash equivalents	**(5)**	—	—	**(48)**
Net increase (decrease) in cash and cash equivalents	**(520)**	3,293	(734)	**(5,000)**
Cash and cash equivalents at beginning of year	**24,225**	20,326	21,060	**232,933**
Increase resulting from consolidation of additional subsidiaries	**—**	606	—	**—**
Cash and cash equivalents at end of year	**¥ 23,705**	¥ 24,225	¥ 20,326	**$ 227,933**

Outlook

The Group expects operating revenues to improve to around ¥980.0 billion in fiscal 2005, based on higher sales in electric power operations and lower costs derived from Groupwide efficiency initiatives. Net income should be about ¥46.0 billion.

Management bases these projections on an exchange rate of around ¥110 to US$1.00 and a crude oil price of around US$30.00 per barrel.

Consolidated Balance Sheets

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**2004**	2003	**2004**
Property:			
Utility plant and equipment	**¥5,294,981**	¥5,274,360	**$50,913,279**
Other plant	**241,785**	222,757	**2,324,856**
Construction in progress	**130,770**	138,915	**1,257,404**
	5,667,536	5,636,032	**54,495,539**
Less—			
Contributions in aid of construction	**72,671**	69,264	**698,760**
Accumulated depreciation	**3,339,931**	3,204,883	**32,114,721**
	3,412,602	3,274,147	**32,813,481**
Net property	**2,254,934**	2,361,885	**21,682,058**
Nuclear fuel	**117,166**	117,860	**1,126,596**
Investments and other assets:			
Investment securities (Note 4)	**54,512**	48,527	**524,154**
Investments in and advances to non-consolidated subsidiaries and affiliates	**89,416**	85,958	**859,769**
Long-term loans to employees	**2,388**	2,627	**22,962**
Deferred tax assets	**60,027**	54,298	**577,183**
Other assets	**5,293**	7,443	**50,893**
Total investments and other assets	**211,636**	198,853	**2,034,961**
Current assets:			
Cash and time deposits (Note 3)	**23,836**	24,372	**229,192**
Receivables, less allowance for doubtful accounts of ¥742 million ($7,135 thousand) in 2004 and ¥768 million in 2003	**54,635**	58,860	**525,337**
Inventories, fuel and supplies	**32,347**	34,248	**311,029**
Deferred tax assets	**8,619**	7,764	**82,875**
Other current assets	**9,203**	11,347	**88,490**
Total current assets	**128,640**	136,591	**1,236,923**
Total assets	**¥2,712,376**	¥2,815,189	**$26,080,538**

See accompanying notes.

Liabilities, Minority Interests and Stockholders' Equity	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars (Note 1) 2004
Long-term debt due after one year (Note 6)	**¥1,429,265**	¥1,463,028	**$13,742,933**
Other long-term liabilities due after one year	**5,247**	4,781	**50,451**
Employees' severance and retirement benefits (Note 10)	**81,313**	78,918	**781,856**
Reserve for reprocessing of irradiated nuclear fuel	**99,373**	90,398	**955,510**
Reserve for decommissioning of nuclear power generating plants	**42,203**	42,203	**405,798**
Current liabilities:			
Long-term debt due within one year (Note 6)	**152,290**	182,167	**1,464,327**
Short-term borrowings	**77,920**	109,080	**749,231**
Commercial paper	**62,000**	78,000	**596,154**
Accounts payable	**38,043**	42,209	**365,798**
Accrued income taxes	**19,374**	33,692	**186,288**
Accrued expenses	**39,906**	42,351	**383,711**
Other current liabilities (including other long-term liabilities due within one year)	**30,101**	36,607	**289,433**
Total current liabilities	**419,634**	524,106	**4,034,942**
Reserve for drought	**712**	—	**6,846**
Contingent liabilities (Note 8)			
Minority interests	**5,025**	4,921	**48,317**
Stockholders' equity (Note 12)**:**			
Common stock			
Authorized—1,000,000,000 shares			
Issued—371,055,259 shares	**185,528**	185,528	**1,783,923**
Capital surplus	**16,680**	16,680	**160,385**
Retained earnings (Note 15)	**427,159**	402,971	**4,107,298**
Net unrealized holding gains on securities	**11,810**	9,170	**113,557**
Foreign currency translation adjustments	**(4)**	17	**(38)**
Treasury stock (6,853,116 shares in 2004 and 4,625,714 shares in 2003)	**(11,569)**	(7,532)	**(111,240)**
Total stockholders' equity	**629,604**	606,834	**6,053,885**
Total liabilities, minority interests and stockholders' equity	**¥2,712,376**	¥2,815,189	**$26,080,538**

Consolidated Statements of Income

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	2003	2002	**2004**
Operating revenues:				
Electric	**¥ 906,466**	¥ 961,002	¥ 971,344	**$8,716,019**
Other	**60,590**	48,277	49,805	**582,596**
	967,056	1,009,279	1,021,149	**9,298,615**
Operating expenses (Note 9)**:**				
Electric	**804,552**	832,274	851,849	**7,736,077**
Other	**62,918**	50,051	50,755	**604,980**
	867,470	882,325	902,604	**8,341,057**
Operating income	**99,586**	126,954	118,545	**957,558**
Other expenses (income):				
Interest expense	**37,682**	56,885	50,857	**362,327**
Interest income	**(114)**	(117)	(154)	**(1,096)**
Gains on sales of securities	**(3,873)**	(4,969)	(1,033)	**(37,240)**
Equity in earnings of affiliated companies	**(1,909)**	(1,203)	(3,256)	**(18,356)**
Write-off of consolidation adjustments account	**—**	3,426	—	**—**
Other, net	**1,963**	972	13,095	**18,875**
	33,749	54,994	59,509	**324,510**
Special item:				
Reserve for drought	**712**	—	—	**6,846**
Income before income taxes and minority interests in net income of consolidated subsidiaries	**65,125**	71,960	59,036	**626,202**
Provision for income taxes (Note 11)**:**				
Current	**30,689**	33,157	9,648	**295,087**
Deferred	**(8,520)**	(5,274)	2,718	**(81,923)**
	22,169	27,883	12,366	**213,164**
Income before minority interests in net income of consolidated subsidiaries	**42,956**	44,077	46,670	**413,038**
Minority interests in net loss (income) of consolidated subsidiaries	**(68)**	52	(200)	**(653)**
Net income	**¥ 42,888**	¥ 44,129	¥ 46,470	**$ 412,385**

	Yen			U.S. dollars (Note 1)
Per share data (Note 2)**:**				
Net income:				
Basic	**¥116.63**	¥119.30	¥125.25	**$1.12**
Diluted	**116.63**	119.30	123.99	**1.12**
Cash dividends applicable to the year	**50.00**	50.00	50.00	**0.48**

See accompanying notes.

Consolidated Statements of Stockholders' Equity

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the years ended March 31, 2004, 2003 and 2002

		Millions of yen						
	Shares of common stock	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock	Common stock held by consolidated subsidiaries
Balance at March 31, 2001	371,055,259	¥185,528	¥16,677	¥351,578	¥21,999	¥—	¥ (4)	¥ (6)
Net income				46,470				
Cash dividends paid (¥55.00 per share)				(20,355)				
Bonuses to directors and statutory auditors				(270)				
Decrease in unrealized holding gains on securities					(7,795)			
Treasury stock purchased, net							(70)	
Balance at March 31, 2002	371,055,259	185,528	16,677	377,423	14,204	—	(74)	(6)
Net income				44,129				
Cash dividends paid (¥50.00 per share)				(18,427)				
Bonuses to directors and statutory auditors				(242)				
Effect of newly consolidated subsidiaries				(193)				
Effect of increase in investments accounted for by the equity method				281				
Decrease in unrealized holding gains on securities					(5,034)			
Surplus from sale of treasury stock			3					
Foreign currency translation adjustments						17		
Treasury stock purchased, net							(7,458)	
Decrease in treasury stock held by consolidated subsidiaries								6
Balance at March 31, 2003	371,055,259	185,528	16,680	402,971	9,170	17	(7,532)	—
Net income				42,888				
Cash dividends paid (¥50.00 per share)				(18,282)				
Bonuses to directors and statutory auditors				(220)				
Effect of increase in investments accounted for by the equity method				(198)				
Increase in unrealized holding gains on securities					2,640			
Foreign currency translation adjustments						(21)		
Treasury stock purchased, net							(4,037)	
Balance at March 31, 2004	**371,055,259**	**¥185,528**	**¥16,680**	**¥427,159**	**¥11,810**	**¥ (4)**	**¥(11,569)**	**¥—**
		Thousands of U.S. dollars (Note 1)						
Balance at March 31, 2003		$1,783,923	$160,385	$3,874,721	$ 88,173	$ 163	$ (72,423)	$—
Net income				412,385				
Cash dividends paid ($0.48 per share)				(175,788)				
Bonuses to directors and statutory auditors				(2,115)				
Effect of increase in investments accounted for by the equity method				(1,905)				
Increase in unrealized holding gains on securities					25,384			
Foreign currency translation adjustments						(201)		
Treasury stock purchased, net							(38,817)	
Balance at March 31, 2004		**$1,783,923**	**$160,385**	**$4,107,298**	**$113,557**	**$ (38)**	**$(111,240)**	**$—**

See accompanying notes.

Consolidated Statements of Cash Flows

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	2003	2002	**2004**
Cash flows from operating activities:				
Income before income taxes and minority interests in net income of consolidated subsidiaries	**¥ 65,125**	¥ 71,960	¥ 59,036	**$ 626,202**
Depreciation	**171,787**	173,648	185,516	**1,651,798**
Amortization of nuclear fuel	**5,864**	8,127	8,154	**56,385**
Write-off of consolidation adjustments account	**—**	3,426	—	**—**
Loss on disposal of property	**9,320**	9,756	7,027	**89,615**
Increase (decrease) in employees' severance and retirement benefits	**2,395**	569	(6,700)	**23,029**
Increase in provision for decommissioning of nuclear power generating plants	**—**	2,458	1,986	**—**
Increase in provision for reprocessing of irradiated nuclear fuel	**8,975**	7,355	13,219	**86,298**
Decrease in provision for casualty loss	**—**	—	(3,612)	**—**
Increase in provision for drought	**712**	—	—	**6,846**
Interest and dividend income	**(619)**	(609)	(755)	**(5,952)**
Interest expense	**37,682**	56,885	50,857	**362,327**
Gains on sales of securities	**(3,873)**	(4,969)	(1,033)	**(37,240)**
Decrease (increase) in notes and accounts receivable	**3,208**	5,477	(3,243)	**30,846**
Decrease in inventories	**5,099**	4,480	1,938	**49,029**
Decrease in notes and accounts payable	**(2,335)**	(3,475)	(1,683)	**(22,452)**
Other	**5,823**	2,704	8,997	**55,990**
Subtotal	**309,163**	337,792	319,704	**2,972,721**
Interest and dividends received	**1,204**	1,260	1,203	**11,577**
Interest paid	**(39,090)**	(58,277)	(52,434)	**(375,865)**
Income taxes paid	**(44,799)**	(11,232)	(15,055)	**(430,760)**
Net cash provided by operating activities	**226,478**	269,543	253,418	**2,177,673**
Cash flows from investing activities:				
Purchase of property	**(101,092)**	(127,830)	(131,011)	**(972,038)**
Purchase of investments in securities	**(2,583)**	(9,860)	(6,707)	**(24,837)**
Proceeds from sale of investment securities	**5,882**	8,577	7,250	**56,558**
Cash of a newly consolidated subsidiary	**—**	1,467	—	**—**
Other	**4,150**	4,772	7,546	**39,904**
Net cash used in investing activities	**(93,643)**	(122,874)	(122,922)	**(900,413)**
Cash flows from financing activities:				
Proceeds from issue of bonds	**39,838**	59,764	149,402	**383,058**
Repayment of bonds	**(107,125)**	(135,000)	(248,548)	**(1,030,048)**
Proceeds from long-term debt	**78,700**	39,304	70,622	**756,731**
Repayment of long-term debt	**(75,215)**	(97,313)	(73,168)	**(723,221)**
Decrease in short-term bank loans	**(31,250)**	(14,600)	(53,060)	**(300,481)**
Increase (decrease) in commercial paper	**(16,000)**	34,000	44,000	**(153,846)**
Purchase of treasury stock	**(3,999)**	(11,153)	(160)	**(38,452)**
Cash dividends paid	**(18,329)**	(18,481)	(20,398)	**(176,240)**
Other	**30**	103	80	**287**
Net cash used in financing activities	**(133,350)**	(143,376)	(131,230)	**(1,282,212)**
Effect of exchange rate changes on cash and cash equivalents	**(5)**	—	—	**(48)**
Net increase (decrease) in cash and cash equivalents	**(520)**	3,293	(734)	**(5,000)**
Cash and cash equivalents at beginning of year	**24,225**	20,326	21,060	**232,933**
Increase resulting from consolidation of additional subsidiaries	**—**	606	—	**—**
Cash and cash equivalents at end of year (Note 3)	**¥ 23,705**	¥ 24,225	¥ 20,326	**$ 227,933**

See accompanying notes.

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, the Electricity Utilities Industry Law and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of statements of stockholders' equity) 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 Securities and Exchange Law. Some 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 translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of the readers outside Japan, using the prevailing exchange rate at March 31, 2004, which was ¥104 to U.S.$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

The following is a summary of the significant accounting policies used in the preparation of the 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 when the Company acquired control of the subsidiary.

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

For the year ended March 31, 2004, 24 subsidiaries (21 in 2003 and 14 in 2002) were consolidated and 21 (19 in 2003 and 5 in 2002) non-consolidated subsidiaries and affiliates were accounted for by the equity method.

For the year ended March 31, 2004, investments in no (none in 2003 and 12 in 2002) non-consolidated subsidiaries and 10 (11 in 2003 and 18 in 2002) affiliates were stated at cost without applying the equity method of accounting. If the equity method had been applied for these investments, the amounts of net income and retained earnings of these excluded subsidiaries and affiliates would not have had a material effect on the consolidated financial statements.

Inventories, fuel and supplies

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

Securities

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

Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market values are stated at moving-average cost.

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

Property and depreciation

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

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

Accounting for the impairment of fixed assets

In the year ended March 31, 2004, the Company did not adopt early the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The new accounting standard is required to be adopted in periods beginning on or after April 1, 2005, but the standard does not prohibit earlier adoption. The Company has begun its analysis of possible impairment of fixed assets. The Company cannot currently estimate the effect of adoption of the new standard, because the Company has not yet completed its analysis.

Nuclear fuel and amortization

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

Allowance for doubtful accounts

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

Severance and retirement benefits

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

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

Prior to April 1, 2003, the Company had adopted a tax-qualified retirement pension plan to cover a certain portion of its employees' retirement benefit plans. In March 2004, however, the Company revised its rules related to retirement benefit and pension plans to mitigate the effect of the retirement benefit and pension plans on the corporate accounts, stably maintain and operate these plans for a long time period, and properly reflect employees' capabilities and achievements. Elements of the revised rules applying from April 1, 2004, are as follows:

- The Company has shifted from a qualified retirement pension plan to a cash balance plan, which is a hybrid pension plan based on variable interest rates, enabling the Company to flexibly respond to market interest rate fluctuations. As the related rules were revised in March 2004, retirement benefit obligations and other items for the year ended March 31, 2004, are computed based on the new plan.
- A part of the current lump-sum retirement benefit plan was shifted to an optional system, under which the employees may choose a defined contribution pension plan or a prepayment plan.

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

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

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

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

Reserve for reprocessing of irradiated nuclear fuel

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

Reserve for decommissioning of nuclear power plants

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

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

Reserve for drought

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

For the years ended March 31, 2003 and 2002, no reserve was recorded because it was not required.

Accounting for certain lease transactions

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

Derivatives and hedge accounting

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

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

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

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

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.

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. Commodity swap contracts that do not qualify as hedges are stated at current value and unrealized gains or losses are recognized in the statements of income.

Amortization of consolidation differences

Differences between acquisition cost and the underlying net equity at the time of acquisition are being amortized on a straight-line basis principally over five years.

Consolidation differences arising from investments in Chugoku Telecommunication Network Co., Inc. were written-off in the year ended March 31, 2003.

Cash and cash equivalents

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

Bond issue expenses

Bond issue expenses are charged to income when paid.

Foreign currency translation

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

Income taxes

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

Amounts per share of common stock

The computations of basic net income per share of common stock are based on the weighted average number of shares in issue during each fiscal year.

The computations of diluted net income per share assume conversion of all dilutive convertible bonds at the beginning of the period or a later date of issuance.

Effective April 1, 2002, the Companies adopted the new accounting standard for earnings per share (Accounting Standard Board Statement No. 2, "Accounting Standard for Earnings per Share", issued by the Accounting Standards Board of Japan on September 25, 2002).

Net income per share for the year ended March 31, 2002 would have been reported as follows, if this new accounting standard was applied retroactively.

For the year ended March 31, 2002

Net income per share:	
Basic	¥124.71
Diluted	123.46

Cash dividends per share represent actual amounts applicable to the respective years.

Reclassifications

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

3. Cash and cash equivalents

The reconciliations of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows at March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Cash and time deposits	¥23,836	¥24,372	$229,192
Less: Time deposits with maturities exceeding three months	(131)	(147)	(1,259)
Cash and cash equivalents	¥23,705	¥24,225	$227,933

4. Securities

A. The following tables summarize acquisition costs, book values (fair values) of securities with available fair market values as of March 31, 2004 and 2003:

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

	Millions of yen						Thousands of U.S. dollars		
	Acquisition cost		Book value		Difference		Acquisition cost	Book value	Difference
	2004	2003	**2004**	2003	**2004**	2003	**2004**		
Equity securities	**¥4,663**	¥3,660	**¥25,999**	¥17,677	**¥21,336**	¥14,017	**$44,836**	**$249,990**	**$205,154**
Bonds	**19**	39	**20**	40	**1**	1	**183**	**192**	**9**
Other	**24**	—	**32**	—	**8**	—	**231**	**308**	**77**
Total	**¥4,706**	¥3,699	**¥26,051**	¥17,717	**¥21,345**	¥14,018	**$45,250**	**$250,490**	**$205,240**

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

	Millions of yen						Thousands of U.S. dollars		
	Acquisition cost		Book value		Difference		Acquisition cost	Book value	Difference
	2004	2003	**2004**	2003	**2004**	2003	**2004**		
Equity securities	**¥382**	¥2,419	**¥363**	¥2,247	**¥(19)**	¥(172)	**$3,673**	**$3,490**	**$(183)**
Bonds	**21**	38	**21**	36	**—**	(2)	**202**	**202**	**—**
Other	**—**	25	**—**	23	**—**	(2)	**—**	**—**	**—**
Total	**¥403**	¥2,482	**¥384**	¥2,306	**¥(19)**	¥(176)	**$3,875**	**$3,692**	**$(183)**

B. Book values of available-for-sale securities with no available fair market value as of March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	Book value		Book value
	2004	2003	**2004**
Non-listed equity securities	**¥26,583**	¥26,617	**$255,606**
Other	**1,368**	1,756	**13,154**
Total	**¥27,951**	¥28,373	**$268,760**

C. At March 31, 2004 available-for-sale securities with maturities and held-to-maturity debt securities mature as follows:

	Millions of yen			Thousands of U.S. dollars		
	Within one year	Within five years	Total	Within one year	Within five years	Total
Government bonds	¥—	¥—	¥ —	$—	$ —	$ —
Corporate bonds	5	36	41	49	347	396
Other	—	—	—	—	—	—
Total	¥ 5	¥36	¥41	$49	$347	$396

D. Total sales of available-for-sale securities in the year ended March 31, 2004 amounted to ¥5,144 million (US$49,462 thousand), and the related gains amounted to ¥3,873 million (US$37,240 thousand). Total sales of available-for-sale securities in the year ended March 31, 2003 amounted to ¥5,274 million, and the related gains amounted to ¥4,960 million. Total sales of available-for-sale securities in the year ended March 31, 2002 amounted to ¥1,074 million, and the related gains and losses amounted to ¥1,033 million and ¥6 million, respectively.

5. Derivatives

The Company and certain of its consolidated subsidiaries enter into currency swap contracts, interest rate swap contracts, commodity swap contracts and weather derivative instruments to mitigate and avoid market risk. The Company adopts hedge accounting for these derivatives, except for a part of commodity swap contracts and weather derivative instruments. Information on hedging instruments and hedged items is disclosed at "Derivatives and hedge accounting" in Note "2. Significant accounting policies".

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

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

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

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

Interest rate swap contracts applying the "exceptional" method in accordance with the Accounting Standard for Financial Instruments are excluded from disclosure in the notes to the consolidated financial statements as of March 31, 2004. Derivative financial instruments accounted for by hedge accounting in accordance with the Accounting Standard for Financial Instruments are also excluded from disclosure in the notes to the consolidated financial statements as of March 31, 2004. In addition, those items whose contract amounts and their related revaluation gains or losses are immaterial are omitted from disclosure because they are not significant.

As to commodity swap contracts, 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 year-end.

6. Long-term debt

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Domestic bonds due through 2029 at rates of 0.58% to 5.0%	**¥ 939,800**	¥ 984,800	**$ 9,036,539**
Deutsche mark bonds due in 2003 at a rate of 5.625%	**—**	22,125	**—**
Loans from the Development Bank of Japan due serially through 2023 at rates of 0.75% to 6.9%	**297,380**	322,786	**2,859,423**
Unsecured loans, principally from banks and insurance companies, due through 2032 at rates of 0.23% to 7.2%	**344,375**	315,484	**3,311,298**
	1,581,555	1,645,195	**15,207,260**
Less amount due within one year	**(152,290)**	(182,167)	**(1,464,327)**
Total	**¥1,429,265**	¥1,463,028	**$13,742,933**

All bonds and loans from the Development Bank of Japan are secured by a statutory preferential right which gives the creditors a security interest in all assets of the Company, totaling ¥2,518,789 million (US$24,219,125 thousand), 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, 2004 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2005	¥ 152,290	$ 1,464,327
2006	144,544	1,389,846
2007	86,336	830,154
2008	147,003	1,413,490
Thereafter	1,051,382	10,109,443

7. Leases

(As lessee)

The Companies lease certain equipment for business use.

Lease payments under non-capitalized finance leases amounted to ¥383 million (US$3,683 thousand), ¥397 million and ¥546 million for the years ended March 31, 2004, 2003 and 2002, respectively.

The present values of future minimum lease payments under non-capitalized finance leases and future minimum lease payments under operating leases as of March 31, 2004 and 2003 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	Finance leases		Operating leases		Finance leases	Operating leases
	2004	2003	**2004**	2003	**2004**	
Current portion	**¥351**	¥354	**¥314**	¥293	**$3,375**	**$3,019**
Non-current portion	**450**	462	**75**	101	**4,327**	**721**
Total	**¥801**	¥816	**¥389**	¥394	**$7,702**	**$3,740**

(As lessor)

Lease payments received under finance leases, accounted for as operating leases, amounted to ¥229 million (US$2,202 thousand), ¥165 million and ¥112 million for the years ended March 31, 2004, 2003 and 2002, respectively.

The present values of future minimum lease payments to be received under finance leases as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Current portion	**¥250**	¥202	**$2,404**
Non-current portion	**720**	561	**6,923**
Total	**¥970**	¥763	**$9,327**

8. Contingent liabilities

At March 31, 2004, the Companies were contingently liable as guarantor for loans of other companies and employees in the amount of ¥131,250 million (US$1,262,019 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 ¥109,123 million (US$1,049,260 thousand).

9. Research and development expenses

Research and development expenses charged to operating expenses were ¥8,788 million (US$84,500 thousand), ¥8,629 million and ¥9,986 million for the years ended March 31, 2004, 2003 and 2002, respectively.

10. Employees' severance and pension benefits

The liabilities for severance and retirement benefits included in the liabilities section of the consolidated balance sheets as of March 31, 2004 and 2003 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Projected benefit obligation	**¥270,158**	¥270,212	**$2,597,673**
Fair value of pension assets	**168,306**	138,496	**1,618,327**
	101,852	131,716	**979,346**
Less unrecognized actuarial differences	**(32,634)**	(56,796)	**(313,789)**
Unrecognized prior service costs	**11,646**	551	**111,981**
Prepaid pension expense	**449**	3,447	**4,318**
Liability for severance and retirement benefits	**¥ 81,313**	¥ 78,918	**$ 781,856**

Included in the consolidated statements of income for the years ended March 31, 2004, 2003 and 2002 are severance and retirement benefit expenses comprised of the following:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Service costs-benefits earned during the year	**¥10,307**	¥ 9,417	¥ 8,806	**$ 99,106**
Interest cost on projected benefit obligation	**5,913**	6,336	6,966	**56,855**
Expected return on plan assets	**(707)**	(892)	(5,277)	**(6,798)**
Prior service costs	**(1,567)**	(138)	(127)	**(15,067)**
Amortization of actuarial losses	**13,653**	8,360	2,951	**131,279**
Severance and retirement benefit expenses	**27,599**	23,083	13,319	**265,375**
Loss on a shift to optional system for defined contribution pension plan or prepayment plan	**135**	—	—	**1,298**
Total	**¥27,734**	¥23,083	¥13,319	**$266,673**

The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years. In the year ended March 31, 2004, the discount rate and the rates of expected return on plan assets used by the Company are 2.0% and 0% to 1.2%, respectively.

In the year ended March 31, 2003, the discount rate and the rates of expected return on plan assets used by the Company were 2.2% and 0.5% to 3.5%, respectively.

In the year ended March 31, 2002, the discount rates and the rates of expected return on plan assets used by the Company are 2.5% and 1.0% to 4.0%, respectively.

11. 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, 2004, 2003 and 2002. The Companies' statutory tax rate is lower than companies in other industries because enterprise tax is included in the operating expenses of electrical utilities.

Pursuant to the introduction of a consolidated tax return system in 2004, the Company and certain of its consolidated subsidiaries that applied for the system have applied tax-effect accounting in their non-consolidated financial statements from the year ended March 31, 2004, in accordance with "Temporary Treatment of Accounting for Tax Effects to be Applied under Consolidated Tax Return System (No. 1, No. 2)" (Report of Practical Issues No. 5, No. 7).

The following table summarizes the significant differences between the Companies' statutory tax rate and the effective tax rate for financial statements purposes for the years ended March 31, 2004, 2003 and 2002:

	2004	2003	2002
The Companies' statutory tax rate	36.15%	36.15%	36.15%
Effect of tax credits taken by the Company	(1.53)	—	—
Losses in subsidiaries	1.98	1.36	(13.18)
Non-taxable dividend income	(0.22)	(0.22)	(0.58)
Non-deductible expenses	0.48	0.45	0.58
Write-off consolidation differences	—	1.72	—
Gain on change in interests in a subsidiary	(1.10)	(1.04)	—
Effect of introduction of consolidated tax return system	(1.40)	—	—
Other	(0.32)	0.33	(2.02)
Effective tax rate	34.04%	38.75%	20.95%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deferred tax assets:			
Excess depreciation	¥17,098	¥16,929	$164,404
Adjustment for unrealized intercompany profits	11,881	12,591	114,241
Carryforward of operating losses	2,326	1,782	22,365
Severance and retirement benefits	21,740	14,018	209,038
Future reprocessing costs of irradiated nuclear fuel	4,742	4,742	45,596
Future decommissioning costs of nuclear power generating plants	4,288	4,288	41,231
Accrued bonuses and other expenses	5,690	4,572	54,712
Other	9,120	9,275	87,692
Total deferred tax assets	76,885	68,197	739,279
Valuation allowance	(2,710)	(2,849)	(26,058)
Net deferred tax assets	74,175	65,348	713,221
Deferred tax liabilities:			
Adjustment of allowance for doubtful accounts with losses offset by gains	(48)	(45)	(461)
Net unrealized holding gains on securities	(8,087)	(5,188)	(77,760)
Other	(253)	(6)	(2,433)
Total deferred tax liabilities	(8,388)	(5,239)	(80,654)
Net deferred tax assets	¥65,787	¥60,109	$632,567

12. Stockholders' equity

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

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

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

13. Segment information

The Companies' primary business activities include electric and other segments.

A summary of net sales, costs and expenses and operating income and other information by segment for the years ended March 31, 2004, 2003 and 2002 is as follows:

	Millions of yen				
	2004				
	Electric	Other	Total	Elimination	Consolidated
Operating revenues:					
Outside customers	¥ 906,466	¥ 60,590	¥ 967,056	¥ —	¥ 967,056
Intersegment	2,691	88,969	91,660	(91,660)	—
Total	909,157	149,559	1,058,716	(91,660)	967,056
Cost and expenses	809,782	150,466	960,248	(92,778)	867,470
Operating income (loss)	¥ 99,375	¥ (907)	¥ 98,468	¥ 1,118	¥ 99,586
Identifiable assets	¥2,482,949	¥275,041	¥2,757,990	¥(45,614)	¥2,712,376
Depreciation expense	156,469	16,892	173,361	(1,574)	171,787
Capital expenditures	80,208	23,095	103,303	(4,894)	98,409

	Thousands of U.S. dollars				
	2004				
	Electric	Other	Total	Elimination	Consolidated
Operating revenues:					
Outside customers	$ 8,716,019	$ 582,596	$ 9,298,615	$ —	$ 9,298,615
Intersegment	25,875	855,471	881,346	(881,346)	—
Total	8,741,894	1,438,067	10,179,961	(881,346)	9,298,615
Cost and expenses	7,786,365	1,446,788	9,233,153	(892,096)	8,341,057
Operating income (loss)	$ 955,529	$ (8,721)	$ 946,808	$ 10,750	$ 957,558
Identifiable assets	$23,874,510	$2,644,625	$26,519,135	$(438,597)	$26,080,538
Depreciation expense	1,504,510	162,423	1,666,933	(15,135)	1,651,798
Capital expenditures	771,231	222,067	993,298	(47,058)	946,240

	Millions of yen				
	2003				
	Electric	Other	Total	Elimination	Consolidated
Operating revenues:					
Outside customers	¥ 961,002	¥ 48,277	¥1,009,279	¥ —	¥1,009,279
Intersegment	1,559	90,115	91,674	(91,674)	—
Total	962,561	138,392	1,100,953	(91,674)	1,009,279
Cost and expenses	836,601	138,477	975,078	(92,753)	882,325
Operating income (loss)	¥ 125,960	¥ (85)	¥ 125,875	¥ 1,079	¥ 126,954
Identifiable assets	¥2,601,004	¥263,663	¥2,864,667	¥(49,478)	¥2,815,189
Depreciation expense	166,822	8,561	175,383	(1,735)	173,648
Capital expenditures	108,755	18,547	127,302	(2,442)	124,860

	Millions of yen				
	2002				
	Electric	Other	Total	Elimination	Consolidated
Operating revenues:					
Outside customers	¥ 971,344	¥ 49,805	¥1,021,149	¥ —	¥1,021,149
Intersegment	1,191	85,756	86,947	(86,947)	—
Total	972,535	135,561	1,108,096	(86,947)	1,021,149
Cost and expenses	855,519	134,388	989,907	(87,303)	902,604
Operating income	¥ 117,016	¥ 1,173	¥ 118,189	¥ 356	¥ 118,545
Identifiable assets	¥2,684,591	¥204,814	¥2,889,405	¥(43,198)	¥2,846,207
Depreciation expense	180,066	6,874	186,940	(1,424)	185,516
Capital expenditures	109,780	25,464	135,244	(11,904)	123,340

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

14. Significant acquisition

At the Board of Directors' meeting held on November 20, 2002, the Company decided to acquire all of the stock of Chugoku Telecommunication Network Co., Inc. to make it a wholly owned subsidiary through a share exchange. On the same day, the Company signed the agreement for the exchange of stock with Chugoku Telecommunication Network Co., Inc.

Following this agreement, the actual share exchange took place on March 1, 2003.

(1) Purpose of the share exchange

The Companies have positioned their Information and Telecommunications operations as one of the main pillars for developing new business and has made a wholehearted effort in promoting it. By fully consolidating Chugoku Telecommunication Network Co., Inc., which plays a core role in the Group's Information and Telecommunications operations, the Companies aim to further clarify management accountability in an increasingly competitive market climate. At the same time, the Company aims to further strengthen its cooperation with Chugoku Telecommunication Network Co., Inc., and to develop projects in a swift and strategic manner.

(2) Conditions for the share exchange

The Company allotted 29.6 shares of its common stock to one share of common stock of Chugoku Telecommunication Network Co., Inc.

(3) Number of shares allotted in the share exchange
The Company's common stock: 2,450,880 shares
(4) Chugoku Telecommunication Network Co., Inc.'s assets and liabilities (As of March 31, 2003)

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 3,780	$ 31,765
Fixed assets	50,757	426,529
Total assets	¥54,537	$458,294

	Millions of yen	Thousands of U.S. dollars
Current liabilities	¥28,597	$240,311
Long-term liabilities	24,184	203,227
Stockholders' equity	1,756	14,756
Total liabilities and stockholders' equity	¥54,537	$458,294

15. Subsequent events

The following appropriations of retained earnings at March 31, 2004 were approved at the annual meeting of stockholders held on June 29, 2004:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥25 ($0.24) per share	¥9,118	$87,673
Bonuses to directors and statutory auditors	120	1,154

Energia Communications, Inc., a consolidated subsidiary, resolved to discontinue its personal handy phone (PHS) voice service at the Board of Directors' meeting held on May 18, 2004, because a decrease in the number of customers has meant the service's future profitability is not expected to improve. Accordingly, for the year ending March 31, 2005, the Companies will record an extraordinary loss from the discontinued operation amounting to approximately ¥3,000 million.

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, 2004 and 2003, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended March 31, 2004, 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, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2004, 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, 2004 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.

Hiroshima, Japan
June 29, 2004

KPMG AZSA & Co.

Non-Consolidated Balance Sheets

The Chugoku Electric Power Co., Inc.
March 31, 2004 and 2003

Assets	Millions of yen 2004	2003	Thousands of U.S. dollars (Note 1) 2004
Property:			
Plant and equipment	¥5,414,597	¥5,387,228	$52,063,433
Construction in progress	129,747	137,223	1,247,567
	5,544,344	5,524,451	53,311,000
Less—			
Contributions in aid of construction	71,255	67,847	685,144
Accumulated depreciation	3,292,370	3,164,796	31,657,404
	3,363,625	3,232,643	32,342,548
Net property	2,180,719	2,291,808	20,968,452
Nuclear fuel	117,166	117,860	1,126,596
Investments and other assets:			
Investment securities	46,670	42,967	448,750
Investments in and advances to subsidiaries and affiliated companies (Note 3)	38,391	38,329	369,144
Long-term loans to employees	2,288	2,527	22,000
Deferred tax assets (Note 8)	43,961	38,497	422,702
Other assets	2,303	3,395	22,144
Total investments and other assets	133,613	125,715	1,284,740
Current assets:			
Cash and time deposits	10,066	10,612	96,788
Receivables, less allowance for doubtful accounts of ¥631 million ($6,067 thousand) in 2004 and ¥640 million in 2003	40,922	43,091	393,481
Inventories, fuel and supplies	22,208	25,864	213,539
Deferred tax assets (Note 8)	6,822	6,658	65,596
Other current assets	7,273	8,226	69,933
Total current assets	87,291	94,451	839,337
Total assets	¥2,518,789	¥2,629,834	$24,219,125

See accompanying notes.

Liabilities and Stockholders' Equity	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars (Note 1) 2004
Long-term debt due after one year (Note 4)	¥1,388,718	¥1,434,667	$13,353,058
Other long-term liabilities due after one year	1,201	1,410	11,547
Employees' severance and retirement benefits	71,831	69,774	690,683
Reserve for reprocessing of irradiated nuclear fuel	99,373	90,398	955,510
Reserve for decommissioning of nuclear power generating plants	42,203	42,203	405,798
Current liabilities:			
Long-term debt due within one year (Note 4)	145,695	173,833	1,400,913
Short-term borrowings	65,950	90,450	634,135
Commercial paper	60,000	78,000	576,923
Accounts payable	24,731	29,067	237,798
Accrued income taxes	17,692	32,761	170,115
Accrued expenses	35,695	38,590	343,221
Other current liabilities (including other long-term liabilities due within one year)	26,595	30,664	255,722
Total current liabilities	376,358	473,365	3,618,827
Reserve for drought	712	—	6,846
Contingent liabilities (Note 6)			
Stockholders' equity (Note 9)**:**			
Common stock			
Authorized—1,000,000,000 shares			
Issued—371,055,259 shares	185,528	185,528	1,783,923
Capital surplus	16,680	16,680	160,385
Retained earnings (Note 10)	338,265	317,201	3,252,548
Net unrealized holding gains on securities	9,029	5,719	86,817
Treasury stock (Note 2) (6,316,625 shares in 2004 and 4,133,685 shares in 2003)	(11,109)	(7,111)	(106,817)
Total stockholders' equity	538,393	518,017	5,176,856
Total liabilities and stockholders' equity	¥2,518,789	¥2,629,834	$24,219,125

Non-Consolidated Statements of Income

The Chugoku Electric Power Co., Inc.
For the years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	2003	2002	**2004**
Operating revenues	**¥912,813**	¥965,499	¥972,535	**$8,777,048**
Operating expenses (Note 7)**:**				
Personnel	**132,080**	127,697	122,866	**1,270,000**
Fuel	**100,058**	110,466	105,956	**962,096**
Purchased power	**134,488**	141,496	146,075	**1,293,154**
Depreciation	**156,469**	166,822	180,066	**1,504,510**
Maintenance	**86,261**	86,855	99,705	**829,433**
Taxes other than income taxes	**63,220**	64,736	65,089	**607,885**
Purchased services	**35,948**	36,184	35,163	**345,654**
Other	**104,850**	104,949	100,599	**1,008,172**
	813,374	839,205	855,519	**7,820,904**
Operating income	**99,439**	126,294	117,016	**956,144**
Other expenses (income):				
Interest expense	**36,771**	56,646	50,244	**353,567**
Interest income	**(82)**	(88)	(109)	**(788)**
Loss on investments in subsidiaries and affiliated companies	**—**	—	17,150	**—**
Other, net	**1,556**	(1,944)	12,473	**14,961**
	38,245	54,614	79,758	**367,740**
Income before income taxes and special item	**61,194**	71,680	37,258	**588,404**
Special item:				
Reserve for drought	**712**	—	—	**6,846**
Provision for income taxes:				
Current	**28,457**	31,368	7,584	**273,625**
Deferred	**(7,504)**	(5,382)	5,205	**(72,154)**
Net income	**¥ 39,529**	¥ 45,694	¥ 24,469	**$ 380,087**

	Yen			U.S. dollars (Note 1)
Per share data (Note 2)**:**				
Net income:				
Basic	**¥107.62**	¥123.70	¥65.95	**$1.03**
Diluted	**107.62**	123.70	65.52	**1.03**
Cash dividends applicable to the year	**50.00**	50.00	50.00	**0.48**

See accompanying notes.

Non-Consolidated Statements of Stockholders' Equity

The Chugoku Electric Power Co., Inc.
For the years ended March 31, 2004, 2003 and 2002

		Millions of yen				
	Shares of common stock	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Treasury stock
Balance at March 31, 2001	371,055,259	¥185,528	¥16,677	¥286,180	¥21,270	¥ —
Net income				24,469		
Cash dividends paid (¥55.00 per share)				(20,408)		
Bonuses to directors and statutory auditors				(125)		
Decrease in unrealized holding gains on securities					(10,887)	
Treasury stock purchased, net						(74)
Balance at March 31, 2002	371,055,259	185,528	16,677	290,116	10,383	(74)
Net income				45,694		
Cash dividends paid (¥50.00 per share)				(18,489)		
Bonuses to directors and statutory auditors				(120)		
Decrease in unrealized holding gains on securities					(4,664)	
Treasury stock purchased, net						(7,037)
Surplus from sale of treasury stock			3			
Balance at March 31, 2003	371,055,259	185,528	16,680	317,201	5,719	(7,111)
Net income				39,529		
Cash dividends paid (¥50.00 per share)				(18,345)		
Bonuses to directors and statutory auditors				(120)		
Increase in unrealized holding gains on securities					3,310	
Treasury stock purchased, net						(3,998)
Balance at March 31, 2004	**371,055,259**	**¥185,528**	**¥16,680**	**¥338,265**	**¥ 9,029**	**¥(11,109)**

	Thousands of U.S. dollars (Note 1)				
Balance at March 31, 2003	$1,783,923	$160,385	$3,050,010	$54,990	$ (68,375)
Net income			380,087		
Cash dividends paid ($0.48 per share)			(176,395)		
Bonuses to directors and statutory auditors			(1,154)		
Increase in unrealized holding gains on securities				31,827	
Treasury stock purchased, net					(38,442)
Balance at March 31, 2004	**$1,783,923**	**$160,385**	**$3,252,548**	**$86,817**	**$(106,817)**

See accompanying notes.

Notes to Non-Consolidated Financial Statements

The Chugoku Electric Power Company, Inc.
For the years ended March 31, 2004, 2003 and 2002

1. Basis of presenting non-consolidated financial statements

The accompanying financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, the Electricity Utilities Industry Law and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accompanying non-consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of statements of stockholders' equity) from the non-consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language non-consolidated financial statements, but not required for fair presentation is not presented in the accompanying financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of the readers outside Japan, using the prevailing exchange rate at March 31, 2004, which was ¥104 to U.S.$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

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

Inventories, fuel and supplies

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

Securities

Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of stockholders' equity. Realized gains and losses on the sale of such securities are computed using the moving-average cost.

Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving-average cost.

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

Property and depreciation

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

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

Accounting for the impairment of fixed assets

In the year ended March 31, 2004, the Company did not adopt early the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The new accounting standard is required to be adopted in periods beginning on or after April 1, 2005, but the standard does not prohibit earlier adoption. The Company has begun its analysis of possible impairment of fixed assets. The Company cannot currently estimate the effect of adoption of the new standard, because the Company has not yet completed its analysis.

Nuclear fuel and amortization

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

Allowance for doubtful accounts

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

Severance and retirement benefits

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

The Company has also adopted a non-contributory funded pension plan which provides a part of total retirement benefits for employees with 20 years or more of service and who have reached age 55 or more.

Prior to April 1, 2003, the Company had adopted a tax-qualified retirement pension plan to cover a certain portion of its employees' retirement benefit plans. In March 2004, however, the Company revised its rules related to retirement benefit and pension plans to mitigate the effect of the retirement benefit and pension plans on the corporate accounts, stably maintain and operate these plans for a long time period, and properly reflect employees' capabilities and achievements. Elements of the revised rules applying from April 1, 2004, are as follows:

- The Company has shifted from a qualified retirement pension plan to a cash balance plan, which is a hybrid pension plan based on variable interest rates, enabling the Company to flexibly respond to market interest rate fluctuations. As the related rules were revised in March 2004, retirement benefit obligations and other items for the year ended March 31, 2004, are computed based on the new plan.
- A part of the current lump-sum retirement benefit plan was shifted to an optional system, under which the employees may choose a defined contribution pension plan or a prepayment plan.

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

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

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

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

Reserve for reprocessing of irradiated nuclear fuel

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

Reserve for decommissioning of nuclear power plants

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

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

Reserve for drought

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

For the years ended March 31, 2003 and 2002, no reserve was recorded because it was not required.

Accounting for certain lease transactions

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

Derivatives and hedge accounting

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

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

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

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

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.

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. Commodity swap contracts that do not qualify as hedges are stated at current value and unrealized gains or losses are recognized in the statements of income.

Bond issue expenses

Bond issue expenses are charged to income when paid.

Income taxes

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

Foreign currency translation

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

Amounts per share of common stock

The computations of basic net income per share of common stock are based on the weighted average number of shares in issue during each fiscal year.

The computations of diluted net income per share assume conversion of all dilutive convertible bonds at the beginning of the period or a later date of issuance.

Effective April 1, 2002, the Company adopted the new accounting standard for earnings per share (Accounting Standard Board Statement No. 2, “Accounting Standard for Earnings per Share”, issued by the Accounting Standards Board of Japan on September 25, 2002).

Net income per share for the year ended March 31, 2002 would have been reported as follows, if this new accounting standard was applied retroactively.

For the year ended March 31, 2002

Net income per share:	
Basic	¥65.62
Diluted	65.20

Cash dividends per share represent actual amounts applicable to the respective years.

Treasury stock

Effective April 1, 2002, the Company adopted the new accounting standard for treasury stock and reduction of statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and Reduction of Statutory Reserves", issued by the Accounting Standards Board of Japan on February 21, 2002).

The effect on the statements of income of adopting this new accounting standard was immaterial.

Reclassifications

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

3. Securities

Disclosure of market value information of securities, except for investments in subsidiaries and affiliates, with readily available market values at March 31, 2004 is required only on a consolidated basis.

Book values and fair values of equity securities issued by subsidiaries and affiliated companies with available fair values as of March 31, 2004 and 2003 were as follows:

	Millions of yen						Thousands of U.S. dollars		
	Book value		Fair value		Difference		Book value	Fair value	Difference
	2004	2003	**2004**	2003	**2004**	2003	**2004**		
Equity securities of affiliated companies	**¥2,493**	¥2,493	**¥47,504**	¥26,323	**¥45,011**	¥23,830	**$23,971**	**$456,769**	**$432,798**

4. Long-term debt

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Domestic bonds due through 2029 at rates of 0.58% to 5.0%	**¥ 940,000**	¥ 985,000	**$ 9,038,461**
Deutsche mark bonds due in 2003 at a rate of 5.625%	**—**	22,125	**—**
Loans from the Development Bank of Japan due serially through 2023 at rates of 0.75% to 6.9%	**274,865**	297,379	**2,642,933**
Unsecured loans, principally from banks and insurance companies, due through 2032 at rates of 0.23% to 7.2%	**319,548**	303,996	**3,072,577**
	1,534,413	1,608,500	**14,753,971**
Less amount due within one year	**(145,695)**	(173,833)	**(1,400,913)**
Total	**¥1,388,718**	¥1,434,667	**$13,353,058**

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, 2004 were as follows:

Year ending March	Millions of yen	Thousands of U.S. dollars
2005	¥ 145,695	$1,400,913
2006	140,343	1,349,452
2007	79,250	762,019
2008	140,139	1,347,490
Thereafter	1,028,986	9,894,097

5. Leases

(As lessee)

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

Lease payments under non-capitalized finance leases amounted to ¥911 million (US$8,760 thousand), ¥849 million and ¥598 million for the years ended March 31, 2004, 2003 and 2002, respectively.

The present values of future minimum lease payments under non-capitalized finance leases and future minimum lease payments under operating leases as of March 31, 2004, 2003 and 2002 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	Finance leases		Operating leases		Finance leases	Operating leases
	2004	2003	**2004**	2003	**2004**	
Current portion	**¥ 761**	¥ 884	**¥403**	¥267	**$ 7,317**	**$3,875**
Non-current portion	**1,151**	1,710	**68**	—	**11,068**	**654**
Total	**¥1,912**	¥2,594	**¥471**	¥267	**$18,385**	**$4,529**

6. Contingent liabilities

At March 31, 2004, the Company was contingently liable as guarantor for loans of other companies in the amount of ¥152,111 million (US$1,462,606 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 ¥109,123 million (US$1,049,260 thousand).

7. Research and development expenses

Research and development expenses charged to operating expenses were ¥8,386 million (US$80,635 thousand), ¥8,371 million and ¥9,899 million for the years ended March 31, 2004, 2003 and 2002, respectively.

8. Income taxes

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deferred tax assets:			
Excess depreciation	¥16,114	¥15,977	$154,942
Future reprocessing costs of irradiated nuclear fuel	4,742	4,742	45,596
Future decommissioning costs of nuclear power generating plants	4,288	4,288	41,231
Severance and retirement benefits	18,702	11,446	179,827
Reserve for bonuses to employees	—	3,009	—
Accrued bonuses and other expenses	4,122	—	39,635
Other	8,071	8,940	77,606
Total deferred tax assets	56,039	48,402	538,837
Deferred tax liabilities:			
Net unrealized holding gains on securities	(5,113)	(3,238)	(49,164)
Other	(142)	(9)	(1,365)
Total deferred tax liabilities	(5,255)	(3,247)	(50,529)
Net deferred tax assets	¥50,784	¥45,155	$488,308

9. Stockholders' equity

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

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

10. Subsequent events

The following appropriations of retained earnings at March 31, 2004, were approved at the annual meeting of stockholders held on June 29, 2004:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥25 ($0.24) per share	¥9,118	$87,673
Bonuses to directors and statutory auditors	120	1,154

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, 2004 and 2003, and the related non-consolidated statements of income and stockholders' equity for each of the three years in the period ended March 31, 2004, 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, 2004 and 2003, and the non-consolidated results of its operations for each of the three years in the period ended March 31, 2004, 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, 2004 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.

Hiroshima, Japan
June 29, 2004

KPMG AZSA & Co.

Major Subsidiaries and Affiliated Companies

(As of July 1, 2004)

Name	Capital (Millions of yen)	Chugoku Electric's Ownership (%)	Business
CHUDEN KOGYO CO., LTD.*	¥77	100.0	Manufacture of electrical equipment and painting materials, painting, construction
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
CHUGOKU ELECTRIC MFG. CO., LTD.*	¥150	100.0	Manufacture of electric machine tools
CHUDEN KANKYO TECHNOS CO., LTD.*	¥50	100.0	Operation and management of thermal power station equipment
Energia Communications, Inc.*	¥6,000	100.0	Type 1 telecommunications business, data processing
Energia Business Service Co., Inc.*	¥490	100.0	Financial services for the Group, accounting and personnel-related services
Energia Real Estate Co., Inc.*	¥295	100.0	Housing sales, rental business
Energia Eco Materia Company, Incorporated*	¥300	100.0	Processing and marketing of products made of coal ash and powdered limestone
OZUKI STEEL INDUSTRIES CO., LTD.*	¥50	80.0	Manufacture 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, manufacture of power distribution materials
Power Engineering and Training Services, Incorporated*	¥400	72.0	Training in thermal power generation technology, engineering
The Energia Logistics Co., Inc.*	¥40	70.0	Logistics, electric cable drum leasing
International Standard Management Center Inc.*	¥100	66.0	Inspection of quality control and environmental management system
Energia Nuclear Technology Co., Inc.*	¥100	60.0	Maintenance and engineering of nuclear power stations
TEMPEARL INDUSTRIAL CO., LTD.*	¥150	56.6	Manufacture of electric machine tools
Energia Solution & Service Company, Incorporated*	¥1,000	53.0	Fuel supply, energy utilization
SANKO INC.*	¥30	46.7	Printing, advertising
Houseplus Chugoku Housing Warranty Corporation Limited*	¥50	35.6	Functional evaluation and warranty for housing
Energia Care Service Co., Inc.*	¥78	33.3	Management of a nursing home, daycare services, home nursing care services
Energia Human Resource Solutions Co., Inc.*	¥60	30.0	Personnel dispatching business
Fukuyama Joint Thermal Power Co., Ltd.**	¥5,000	50.0	Thermal power generation
Mizushima Joint Thermal Power Co., Ltd.**	¥4,000	50.0	Thermal power generation
CHUGOKU HEALTH AND WELFARE CLUB CO., INC.**	¥50	50.0	Welfare agency services
MIZUSHIMA LNG COMPANY, LIMITED**	¥200	50.0	LNG station management
CHUDENKO CORPORATION**	¥3,481	42.6	Electrical and telecommunications engineering
MIZUSHIMA LNG SALES COMPANY, LIMITED**	¥50	40.0	LNG and natural gas sales
Hiroshima City Cable Television Co., Ltd.**	¥1,200	35.0	Cable television broadcasting
CHUGOKU KOATSU CONCRETE INDUSTRIES CO., LTD.**	¥150	33.3	Manufacture of concrete products
EAML Engineering Company Limited**	¥50	21.8	Manufacture of instruments for hydroelectric power generation
Bab-Hitachi & Energia Allied Techno-Research Co., Ltd.**	¥40	5.0	Dioxin measurement and analysis

* Consolidated subsidiary
** Affiliated company accounted for by the equity method

Organization

(As of June 29, 2004)

- **BOARD OF DIRECTORS**
  - **MANAGEMENT COMMITTEE**
    - Energy Marketing and Services Division
      - Service Offices
        - Service Centers
      - Call Centers
      - District Heating & Cooling Center
      - Energy Sales Center
    - Power Generation Division
      - Thermal Power Stations
      - Nuclear Power Station
      - Thermal Power Plant Construction Office
      - Nuclear Power Plant Construction Office
      - Power Plant Construction Station
      - Survey Offices
      - Environment Survey Office
    - Power System Division
      - Power Management Offices
        - Power Management Centers
        - Control Centers
        - Substations
      - Construction Office
      - Construction Station
      - Hydropower Survey Office
      - Network Service Center
      - Central Load Dispatching Center
      - Load Dispatching & Control Center
    - Corporate Planning Division
      - Corporate Planning Department
    - Energia Business Division
      - Energia Business Development Department
      - Accounting & Finance Department
      - Purchasing & Materials Department
    - Human Resources Development Division
      - Human Resources Development Department
        - Education & Training Center
      - Labor Relations Department
        - Health Care Center
    - Corporate Social Responsibility Division
      - Corporate Social Responsibility Department
      - Secretary Department
      - General Affairs Department
    - Internal Audit Division
      - Internal Audit Department
    - Business Support Division
      - Property Management & Land Affairs Department
      - Civil Engineering Department
    - Information System & Telecommunications Division
      - Information System & Telecommunications Business Planning Department
      - Information System Department
      - Telecommunications System Department
        - Central Telecommunications Center
    - Research & Development Division
      - Economic Research Center
      - Technical Research Center
    - Regional Offices (Tottori, Shimane, Okayama, Hiroshima, Yamaguchi and Tokyo)
      - Health Care Center (Except Tokyo)
    - Chuden Hospital
    - Business Project
- Auditors
  - Auditors Office

Corporate Data

(As of March 31, 2004)

DATE OF ESTABLISHMENT	May 1, 1951
PAID-IN CAPITAL	¥185,528 million
NUMBER OF EMPLOYEES	10,850

LOCATIONS

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

Tottori Office
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Tel: +81-857-24-2241 Fax: +81-857-67-3016

Shimane Office
115, Horomachi, Matsue-shi, Shimane 690-8514, Japan
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6-12, Koamicho, Naka-ku, Hiroshima 730-8691, Japan
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Yamaguchi Office
3-1, Chuo 2-chome, Yamaguchi 753-8506, Japan
Tel: +81-83-922-0690 Fax: +81-83-921-3151

Tokyo Office
8-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005, Japan
Tel: +81-3-3201-1171 Fax: +81-3-3212-1067

NUMBER OF USERS

Residential (lighting)	4,537,036
Industrial and commercial	659,249
Total*	5,196,285

*Excludes power consumption by the liberalized sector.

SUPPLY INFRASTRUCTURE

Power Stations

	Number of Facilities	Generating Capacity (MW)
Hydroelectric	95	2,900
Thermal:		
Steam	9	7,990
Internal combustion	3	36
Nuclear	1	1,280
Total	108	12,205

Transmission Lines (Total Length)	8,058 kilometers
Number of Substations	436
Distribution Lines (Total Length)	80,035 kilometers

Investor Information

(As of March 31, 2004)

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

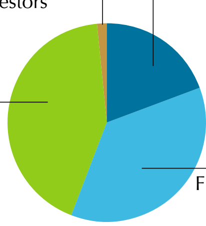
NUMBER OF STOCKHOLDERS

164,450

COMMON STOCK ISSUED

371,055,259 shares

DISTRIBUTION OF COMMON STOCK ISSUED



*Thousands of shares

MAJOR STOCKHOLDERS

Name	Number of shares held (thousands)	Percentage (%)
Yamaguchi Pref. Shinko Zaidan	49,505	13.34
Nippon Life Insurance Company	23,247	6.27
The Master Trust Bank of Japan, Ltd. (Trust account)	16,175	4.36
Japan Trustee Services Bank, Ltd. (Trust account)	12,946	3.49
Mizuho Corporate Bank, Ltd.	9,907	2.67
The Dai-ichi Mutual Life Insurance Company	8,054	2.17
The Sumitomo Trust & Banking Co., Ltd.	7,060	1.90
Shinsei Bank, Limited	5,687	1.53
Company's stock investment	5,214	1.41
The Hiroshima Bank, Ltd.	5,092	1.37

STOCK PRICE RANGE ON THE TOKYO STOCK EXCHANGE

Fiscal year		High (yen)	Low (yen)
2004	1st quarter	1,947	1,808
	2nd quarter	1,943	1,790
	3rd quarter	1,875	1,782
	4th quarter	1,930	1,812
2005	1st quarter	1,917	1,801

THE CHUGOKU ELECTRIC POWER CO., INC.

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Printed in Japan

PRINTED WITH SOY INK

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