THE CHUGOKU ELECTRIC POWER CO., INC.

ANNUAL REPORT
Year Ended March 31, 2005

2005

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 region.

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 52 subsidiaries and affiliates, is marshalling its entire resources to meet this challenge and remain the power supplier of choice.

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.

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.

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

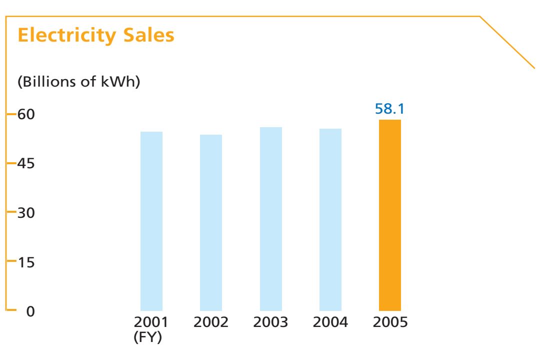
Consolidated Financial Highlights

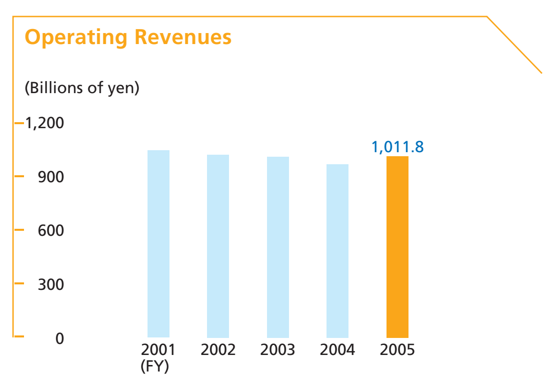
The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
Years ended March 31

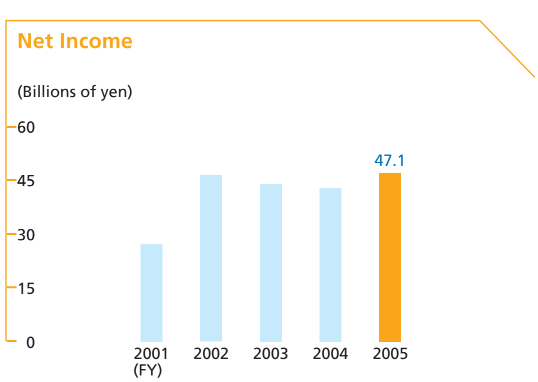
	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	**2005**
For the year:				
Operating revenues	**¥1,011,799**	¥ 967,056	¥1,009,279	**$ 9,456,065**
Operating income	**125,451**	99,586	126,954	**1,172,439**
Net income	**47,062**	42,888	44,129	**439,832**
At year-end:				
Total assets	**2,636,363**	2,712,376	2,815,189	**24,638,907**
Total stockholders' equity	**658,209**	629,604	606,834	**6,151,486**
Interest-bearing debt	**1,613,979**	1,728,285	1,839,175	**15,083,916**

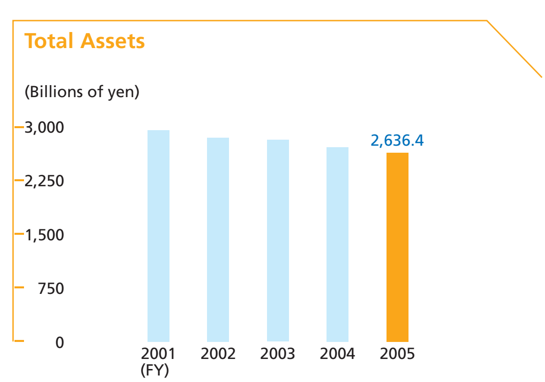
	Yen			U.S. dollars (Note 1)
	2005	2004	2003	**2005**
Per share data:				
Net income:				
Basic	**¥128.61**	¥116.63	¥119.30	**$1.20**
Diluted	**128.61**	116.63	119.30	**1.20**
Cash dividends applicable to the year	**50.00**	50.00	50.00	**0.47**

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at ¥107 to U.S.$1.00, the approximate rate of exchange prevailing on March 31, 2005.
2. The Company's fiscal year begins on April 1 and ends on March 31 of the following year. In this report, fiscal 2005 is used to denote the year ended March 31, 2005.









We see ourselves as moving forward with the community.

In fiscal 2005, ended March 31, 2005, operating revenues from our core electric power business rose on heavier air-conditioner usage and steady industrial demand, helping the Chugoku Electric Group to post higher profits.

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.

POWERING OUR FUTURE THROUGH QUALITY HUMAN RESOURCES AND ORGANIZATIONAL CAPACITY

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 and contributing 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. Since 2001, 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 head office 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 clarify responsibilities, 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. In June 2005, headquarters departments were abolished to flatten our organizational hierarchy.

Shitomi Takasu
Chairperson

Shigeo Shirakura
President

Consolidated and Non-Consolidated Forecasts for Fiscal 2006

(Billions of yen)

(FY)	2006 (Forecast)	2005 (Actual)	Increase
Operating revenues	¥1,000 (940)	¥1,012 (957)	¥–12 (–17)
Operating income	95 (91)	125 (120)	–30 (–29)
Net income	44 (41)	47 (46)	–3 (–5)

Notes:
1. Non-consolidated figures are in parentheses.
2. Forecasts assume:
   - electricity sales volume of approximately 57.9 billion kilowatt hours
   - a foreign exchange rate of ¥105 to $1.00
   - a crude oil cost, insurance and freight (CIF) price of $46 per barrel.

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.

OUTLOOK FOR FISCAL 2006

In fiscal 2006, we expect consolidated and non-consolidated revenues and profits to decline owing to the impact of electricity rate cuts implemented in April 2005, which should overshadow efforts made to cut costs through the streamlining of all aspects of management.

We are well aware that the advent of full-fledged competition will make our 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, 2005

Shitomi Takasu, Chairperson

Shigeo Shirakura, President

The scope of liberalization expanded stepwise in April 2004 and April 2005.

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 including Okinawa Electric.

The electric power industry has run the gamut of change, from complete freedom in its early days to nationalization and postwar local monopolization by private utility companies. 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

Expanding Scope of Electric Power Liberalization (As of March 31, 2005)

Expanding scope of liberalization	March 2000	April 2004	April 2005	Deliberation on full deregulation from April 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 5,000,000
Chugoku Electric's power volume sales share (aggregate shares in parentheses)	Around 30%	Around 10% (40%)	Around 20% (60%)	Around 40%

Chugoku Region

market. In March 2000, the government deregulated the supply of electricity to extra-high-voltage consumers. The scope of liberalization expanded in April 2004 and 2005. As a result, deregulation covers consumers in all high-voltage categories.

In April 2005, the Electric Power System Council of Japan was launched to ensure fair and transparent usage of power transmission facilities, which is central to the competition that expanded liberalization of electricity retailing has fostered. Also that month, aiming for the diversification of power supply procurement, the Japan Electric Power Exchange began operations to handle wholesale spot power and forward trading.

Deliberations have begun for full competition from 2007 in light of the deregulatory progress made to date.

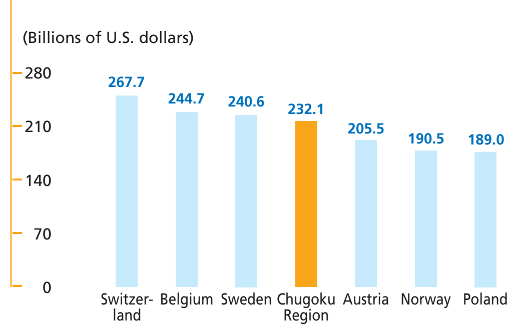
OUR OPERATING AREA

Chugoku Electric's prime operating area in western Japan 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 in the center stretch from west to east. The Seto Inland Sea is to the south, with the Japan Sea to the north.

The area abounds with nature and is full of historical and cultural significance. Hiroshima, where we are headquartered, is renowned for its commitment to being an international city of peace and culture, having suffered the horrors of a 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 2002, its gross domestic product (GDP) was about US$232.1 billion, or 5.8% of Japan's GDP. 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. However, this heavy self-dependence offers excellent businesses opportunities for Chugoku Electric. Many of these companies' facilities have operated for almost 30 years, making rising maintenance costs one of several key issues for them. There is thus tremendous potential for companies to switch to buying power from Chugoku Electric. We can create new demand by proposing new solutions for these large power consumers.

GDP (2002)



Sources: *Annual Report on National Accounts of OECD Countries Vol.1* and *Annual Report on Prefectural Accounts*, Cabinet Office

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

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

Specific Initiatives

- Operate a total solutions business that offers the best overall benefits for customers with various choices under the slogan of "MY BEST CHOICE, Energia"
- Efficient utilization of Group management resources

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

- Reinforce competitiveness by becoming more customer-oriented
- Strengthen Group management capabilities

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

- Ensure operational fairness and transparency
- Identify and resolve public issues

3_ Energize employees and restructure operations

MANAGEMENT NUMERICAL TARGETS

Group Management Objectives (excluding parent company, established in January 2001)

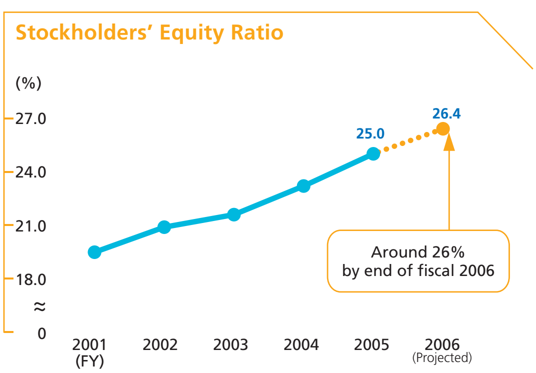
All Group companies shall establish their own management objectives in line with the targets for their respective categories, deploy policies to reach their goals and strive to meet operating, profitability and other listing requirements.

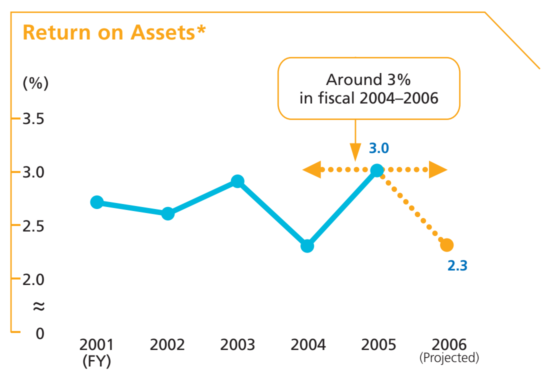
Group Management Objectives (including parent company, established in May 2003)

Management is pursuing the targets for fiscal 2004 through fiscal 2006 to make the Group more profitable, efficient and healthy.

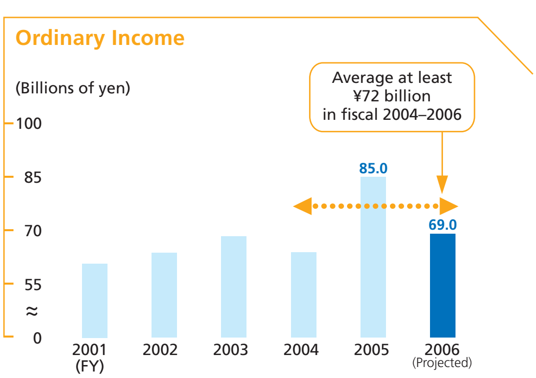
Category	Management Target (End of Fiscal 2006)
Consolidated subsidiaries	Expand sales outside Group from ¥40 billion recorded in fiscal 2000, to ¥60 billion
Equity-method affiliates Non-consolidated subsidiaries Companies not subject to equity method	Expand sales outside Group and secure and build earnings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

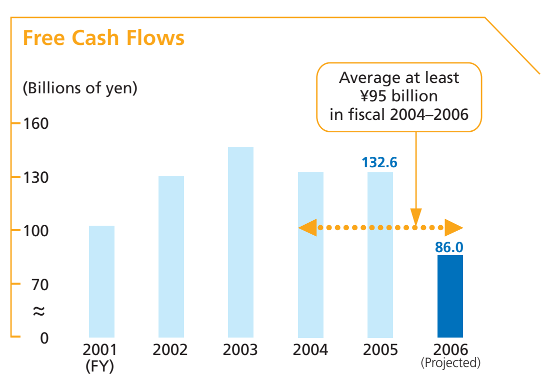
CONSOLIDATED PERFORMANCE DATA





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





Progress in Reaching Non-Consolidated Management Targets

Fiscal 2005 was the final year for reaching targets set in fiscal 2003 to improve our performance and financial position. We reached our non-consolidated objectives on the strength of aggressive efforts to solidify our management foundations for the future, notably through early redemptions of interest-bearing debt.

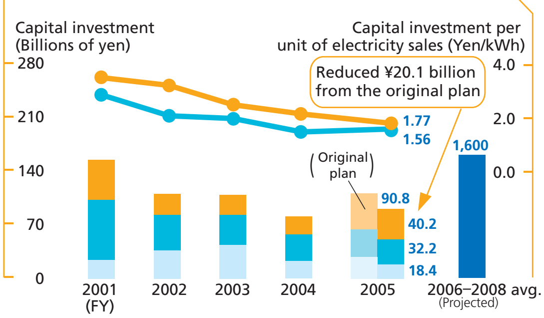
Numerical Targets	Objectives (In fiscal 2003–2005)	Performance
Stockholders' equity ratio	Around 23% by end of fiscal 2005	23.2%
Return on equity	Around 8% in fiscal 2003–2005	8.3%
Return on assets	Around 3% in fiscal 2003–2005	2.8%
Ordinary income	Average at least ¥70 billion in fiscal 2003–2005	¥ 68.8 billion
Free cash flows	Average at least ¥110 billion in fiscal 2003–2005	¥141.4 billion

EFFORTS TO ENHANCE OPERATIONAL EFFICIENCY

We are striving to cut costs by developing and deploying new technologies, reducing outsourcing and materials procurement costs, and we are rationalizing and improving inspection and repair techniques to help constrain capital investment and repair costs. Reduced capital expenditure has helped us to steadily reduce interest-bearing debt and otherwise reinforce our financial position. Overall improvements in operating efficiency have allowed us to cut personnel costs and bolster productivity.

NON-CONSOLIDATED PERFORMANCE DATA

Capital Investment



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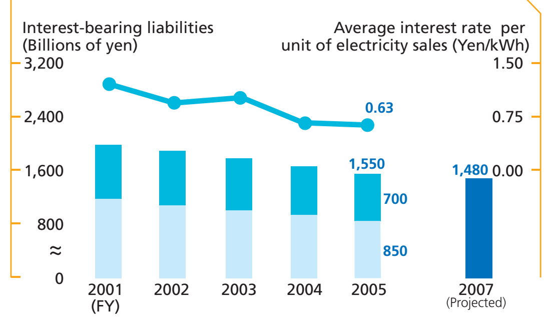
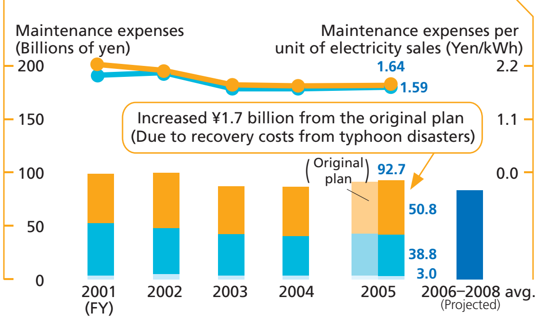
Right scale:
Chugoku Electric ■ Average of nine domestic electric power companies

Balance of Interest-Bearing Liabilities



Balance of interest-bearing liabilities (Bonds)
Balance of interest-bearing liabilities (Loans)
Average interest rate per unit of electricity sales

Maintenance Expenses



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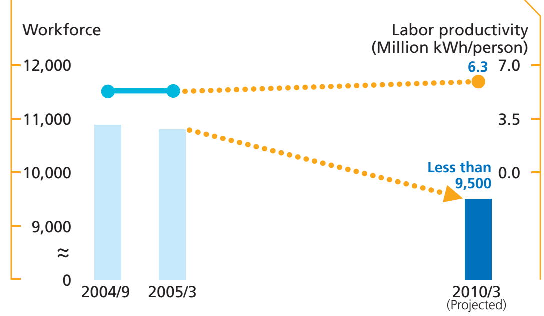
Power generation ■ Power transmission and distribution ■ Other
Right scale:
Chugoku Electric ■ Average of nine domestic electric power companies

Labor Productivity*



Workforce ■ Labor productivity
* Electricity sales / Workforce

ELECTRIC POWER BUSINESS

Overview of electric power operation

In fiscal 2005, electricity sales and operating revenues both rose due to higher air-conditioning demand during a hotter summer, and brisk industrial activity. Operating expenses increased despite overall efforts to raise efficiency, reflecting increases in the prices of fuel and other supplies. As a result, non-consolidated ordinary income increased by ¥17.5 billion, to ¥78.7 billion.

REGIONAL DEMAND FORECASTS

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

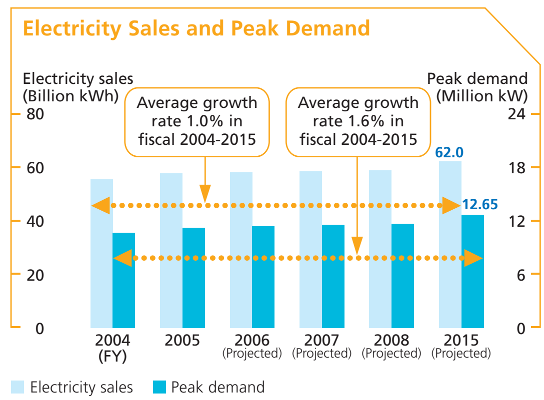
All-Electric Home

1_ Electricity sales

We project electricity sales of 62.0 billion kilowatt hours for fiscal 2015. This would represent an average growth rate of 1.0 % (1.0% after adjusting for climatic fluctuations) from fiscal 2004.

2_ Peak demand

Peak demand should rise from 11.17 million kilowatts in fiscal 2005, to 12.65 million kilowatts in fiscal 2015. Growth between fiscal 2004 and 2015 should average 1.6% (1.0% after adjusting for climatic changes).



POWER DEVELOPMENT PLANS

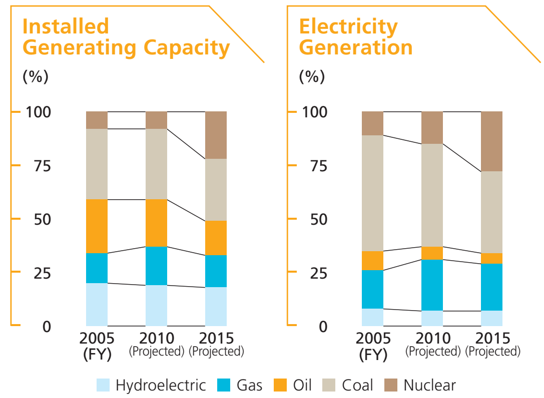
We have formulated power development plans to serve steadily expanding demand by maintaining stable supply capabilities through an efficient facilities network. Our plans consider Japan's almost total reliance on imported resources, focusing on environmental impact reduction initiatives and diversified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

Nuclear power currently accounts for significantly less of our total power output than that of

Shimane Nuclear Power Station

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.

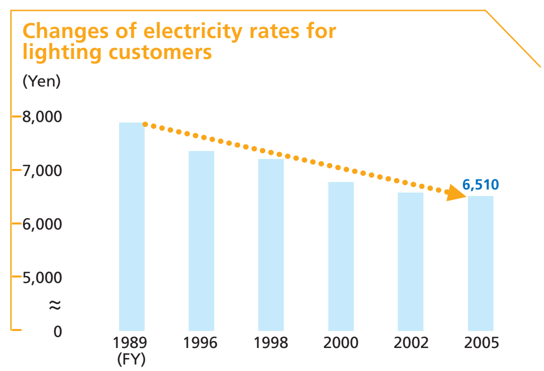
We intend to launch commercial operations at the Shimane Nuclear Power Station No. 3 unit (1,373,000 kilowatts) in December 2011 and at the Kaminoseki Nuclear Power Station No. 1 unit (also 1,373,000 kilowatts) in fiscal 2015.



REINFORCING MARKETING AHEAD OF LIBERALIZATION

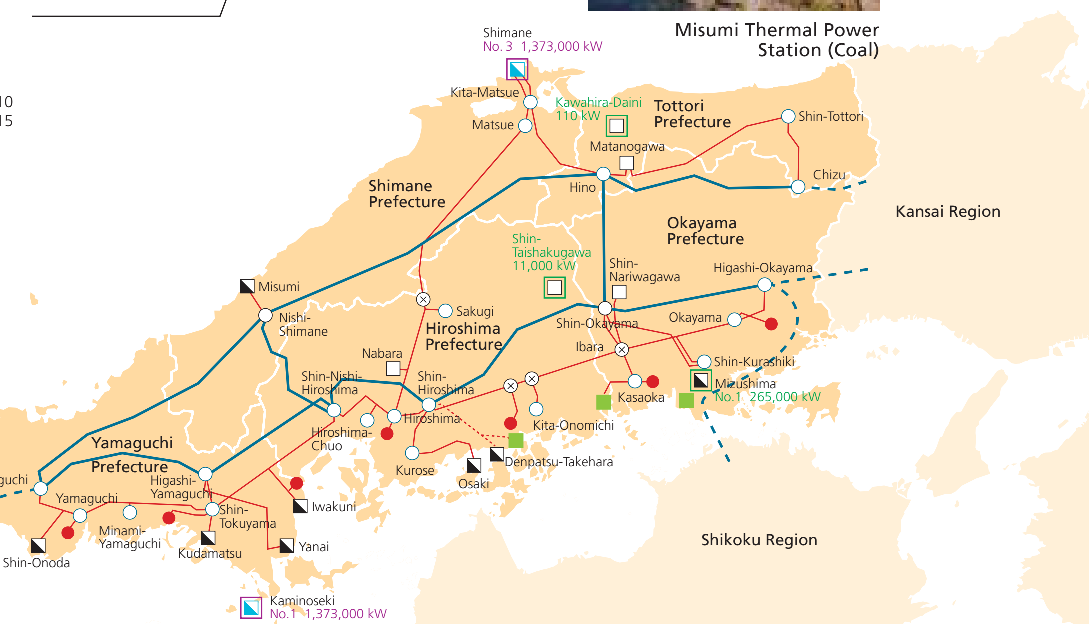
Cutting Electricity Rates

On April 1, 2005, we lowered our electricity rates to pass on the benefits of our cost-cutting efforts. Over the past 10 years, we have cut rates five times, a total of around 16%, for the average residential customer who consumes 300 kilowatt hours per month.

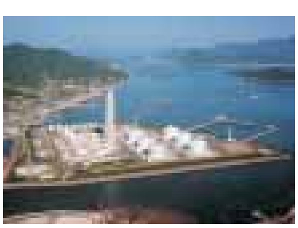


Proposed Extensions to Chugoku Electric's Power Grid
(For Facilities with Capacities of 220 Kilovolts or More)

(As of July 2005)




Misumi Thermal Power Station (Coal)


Yanai Thermal Power Station (LNG)

Strengthening Sales Efforts to Corporate Customers

We aim to bolster sales to extra-high-voltage and other large customers by utilizing specialized salespeople to provide energy assessment services and offer specific solutions.

Stepping Up Sales Efforts to Residential Customers

We are concentrating on the condominium and home renovation markets to increase the proportion of homes in which electricity supplies all light and heat.

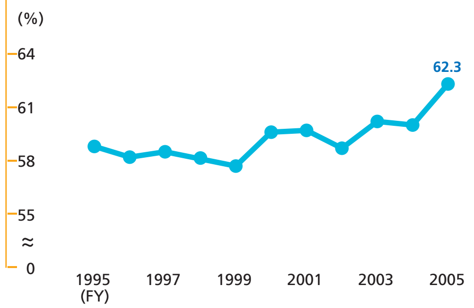
Establishment of Customer Centers

To raise the quality of customer service, we consolidated contract centers and telephone reception operations to create Customer Centers. These centers respond swiftly to customer requests and accurately identify, assess and classify the needs of these people, quickly reflecting these factors in operations.

We also aim to improve our services by allowing people to pay their power bills with credit cards and by providing services over the Internet.

Customer Center

Average Load Levels



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. As part of our efforts to increase facilities utilization rates and slash costs by reducing the gap between demand peaks and troughs, we have performed well in expanding the use of electric water heaters and ice thermal storage air conditioning systems harnessing power produced at night.

The proportion of all-electric homes in our service area has grown steadily in recent years. In fiscal 2005, 25.5% of all new homes and 52.7% 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)	2001	2002	2003	2004	2005
Unit sales of electric water heaters	28,606	29,576	31,315	36,997	41,406
Number of all-electric homes constructed	11,659	16,087	20,328	27,973	32,513

OTHER BUSINESS

Overview of other operations

Other businesses accounted for 6.4 % of consolidated operating revenues in fiscal 2005. Segment operating revenues increased 7.6 %, or ¥4.6 billion, to ¥65.2 billion. Operating income was ¥6.1 billion for the year under review, compared to an operating loss of ¥0.9 billion for the previous term.

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

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

>> 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

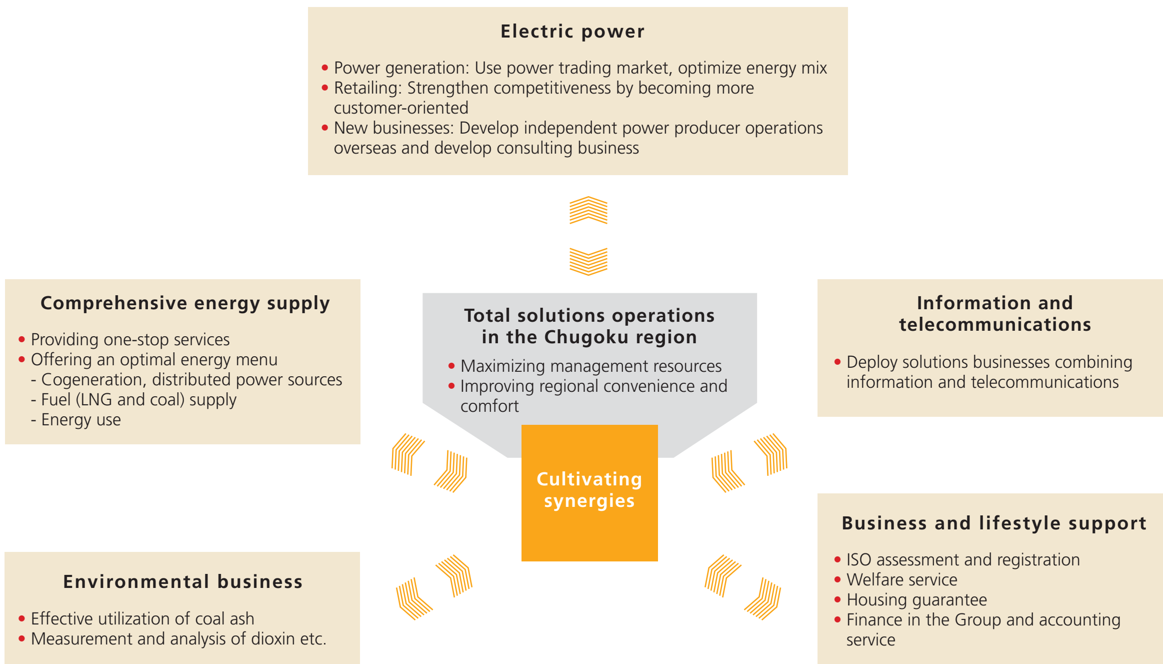
2_ Building Group Management Foundations

We are working on a Groupwide medium-term management plan to help strengthen overall management.

As part of this plan, we will oversee the specific revenues and costs of five areas: energy marketing and services, power generation, power system, telecommunications, and business and lifestyle support.

This approach will allow us to clarify the strategies and roles of Group operations in five fields. We will also forge more alliances to bolster competitiveness and assess the profitability of individual businesses in each Group field, in line with our efforts to more flexibly and swiftly allocate Groupwide management resources.

Strategic Domains of New Business Developments



3_ 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.**
Established in April 2001 to provide 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, Inc. by merging Chugoku Information System Service Co., Inc. and Chugoku Telecommunication Network Co., Inc.

>> **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 Co., Ltd., both of which were providers of electrical equipment and manufacturers of power distribution equipment, to form EnerGia Life & Access Co., Inc.

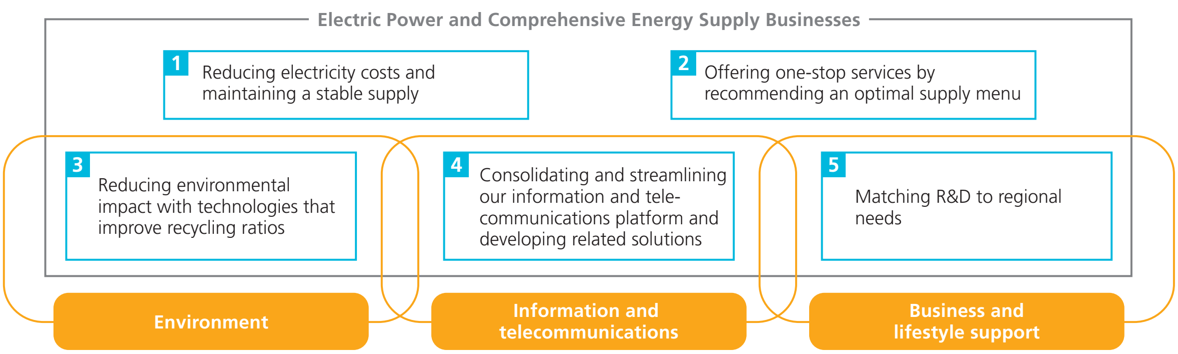
>> **July 2004**
EnerGia Human Resource Solutions Co., Inc., absorbed the personnel dispatch operations of two Group companies.

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 within 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 our recent achievements in R&D.

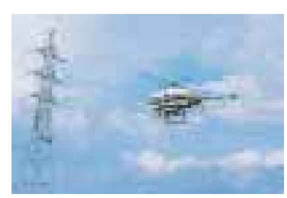


HOME FUEL CELL COGENERATION SYSTEM

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 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.

UNMANNED HELICOPTER-BASED SYSTEM TO INSPECT TRANSMISSION LINES



In September 2004, we completed a joint project with HIROBO LIMITED and Chiba University to develop a system that uses unmanned helicopters to make inspecting transmission lines more efficient.

The helicopters carry autonomous control units, global positioning systems, cameras, and image transmission devices. They fly automatically along predetermined routes, constantly confirming their positions and sending images wirelessly to the ground. This setup offers very low costs and excellent mobility, and also offers great promise for fields outside the power business, such as for inspecting equipment in high locations, monitoring disasters, taking air measurements and aerial photography.

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 formed the Corporate Social Responsibility Division to coordinate the Chugoku Electric Group's CSR initiatives.

As liberalization progresses, we are drawing on CSR to help strengthen our competitiveness and bolster our enterprise value, thereby earning the trust of society and making us the electricity supplier of choice.

Reinforcing compliance is central to our CSR efforts. We are taking action to ensure that we provide quality and trustworthy products and services, respond decisively to environmental issues and contribute to regional social development. We are actively disseminating information on our CSR initiatives while gathering feedback that we can use to refine these endeavors.

CSR OBJECTIVES

Our CSR efforts are designed to earn society's trust and make us the supplier of choice. We therefore aim to: (1) become a leading power company in terms of CSR, while (2) earning greater esteem from our customers.

We have established two benchmarks to objectively and quantitatively assess progress in terms of those twin goals: the CSR Rating Index and the Brand Value Index.

As mentioned earlier, we are constantly identifying and analyzing social opinions for internal feedback to ensure that our CSR efforts are more effective.

Below we explain our benchmarks and the factors used in their assessment.

PROGRESS TOWARD OBJECTIVES

To reach our CSR Rating Index and Brand Value Index objectives, we believe it is crucial to ensure all our operations and employees take proactive approaches.

In April 2005, to deepen the understanding of our CSR objectives in all employees and ensure that they apply the principles to their daily work, we formulated the CSR Applied Action Plan. The following describes the thrust of our CSR efforts.

School Visit

Benchmarks Explained

Targets	Indices	Explanation of Indices
Industry and technology	CSR Rating Index	• The Sustainable Management Rating Institute, a third-party organization, assesses the three CSR elements of management, environment and society, ensuring this benchmark is highly reliable, transparent and fair. • The index primarily assesses our CSR action results. • The assessment is used to consider the quality of our CSR approach.
Earn greater esteem from our customers	Brand Value Index	• This benchmark objectively and quantitatively identifies customer assessments of our corporate image and activities based on opinion surveys. • The index measures the impact of how we communicate our endeavors to customers and how they assess them. • The results are used to determine how we can keep building corporate brand value and remain the supplier of choice.

Index Assessment Components

The CSR Rating Index comprises those components in the chart below, focusing mainly on the three key CSR elements of management, environment and society.

The Brand Value Index comprises assessment components focusing mainly on corporate activities relating to the creation of a corporate brand, as well as components related to corporate image.

CSR Rating Index Assessment Components	Brand Value Index Assessment Components (Relating to Corporate Activities)
• Management philosophy	
• Acts responsibly toward consumers (reflecting customer opinions and providing safe, high-quality services) • Ensures risk management	• Strives to improve service • Endeavors to reflect customer opinions in operations
• Performs quantitative assessment of materials and energy • Reduces environmental impact with products and services • Works toward prevention of global warming	• Tackles environmental issues • Pursues energy savings, etc
• Corporate culture focuses on sustainability • Contributes to and creates local culture	• Contributes to society • Participates in international exchange and cooperation
• Maintains ongoing employment • Ensures equal opportunities	
• Ensures compliance • Acts responsibly toward consumers (Protects personal information)	• Enforces compliance and other aspects of corporate ethics
• Ensures comprehensive disclosure and communication • Acts responsibly toward consumers (discloses product information)	• Ensures public relations has impact • Publicizes and discloses business activities, etc

Brand Value Index Assessment Components (Relating to Corporate Image)
• Customer orientation - Values customers
• Reliability and friendliness - Trustworthy, Friendly
• Meeting challenges - Flexible - Pursues self-improvement
• Social stance - Maintains high social awareness

Note: We modified each component to reflect the notion of acting responsibly toward consumers.

Website

CSR ACTION

PROVIDING SAFE, QUALITY PRODUCTS AND SERVICES

Our greatest obligation as a public utility, and as a lifeline for our operating region, is to ensure we provide stable supplies of quality, reasonably priced electricity. We base our CSR efforts on achieving an optimal long term mix of energy sources, striving daily to keep our facilities operating safely and being ready to respond swiftly to disasters to ensure stable electricity supplies. We must also ensure transparency, safety and reliability by proactively disclosing information on the operation, maintenance and management of all our facilities.

Using this approach, we aim to increase customer satisfaction while enhancing services to satisfy customer needs.

TACKLING ENVIRONMENTAL ISSUES

1_ Environmental Management Harnessing Group Capabilities

With global warming at the forefront of world attention, society and our customers require us to take broad efforts to tackle environmental issues. As a provider of energy we are closely connected to environmental issues, and we have taken decisive steps to reflect the environment in our management while implementing Groupwide activities to safeguard the environment. As society demands even greater environmental efforts from management, we will continue to pursue Group environmental management, harnessing Group capabilities to further reduce the environmental impact of our operations and otherwise contribute to the creation of a sustainable society.

The EnerGia Group has established the following Group Environmental Management Targets to ensure steady progress in tackling environmental issues over the medium and long terms.

Group Environmental Management Components

Environmental management activities	• Environmental education • Environmental protection activities
Offices	• Cutting electricity consumption • Reducing water consumption • Lowering consumption of paper
Manufacturing	• Cutting carbon dioxide emissions • Improving reusage rates of industrial waste • Reducing sulfur hexafluoride emissions • Lowering emissions of substances on Pollutant Release and Transfer Registers • Decreasing emissions of designated chlorofluorocarbons
Distribution	• Introducing low-pollution vehicles • Moderating vehicle fuel consumption

2_ Responding to Environmental Problems

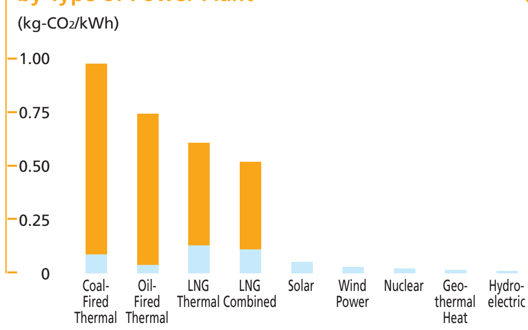
>> Suppressing Carbon Dioxide Emissions

One of management's top priorities is the building of new nuclear power stations, which do not emit carbon dioxide, thus suppressing our overall emissions of this substance. By prioritizing the operation of highly efficient thermal power stations, we aim to maintain and improve our high levels of thermal efficiency, cut fuel costs and reduce carbon dioxide emissions.

>> International Efforts

Our international initiatives to cut greenhouse gases include our participation in international carbon funds to reduce such gas emissions and our joint participation with Marubeni Corporation and other companies in an afforestation project in Victoria, Australia.

Comparison of Carbon Dioxide Emission by Type of Power Plant



Sources: Central Research Institute of Electric Power Industry

>> Purchasing, Developing and Supporting New Energy Sources

The sun, the wind and other natural energy sources are unlimited and do not produce carbon dioxide when used to generate electricity. We help promote the use of new energy sources by actively buying surplus power from facilities that use them and contributing to the development and support of such sources.

CONTRIBUTING TO THE COMMUNITY

We pursue activities involving all employees that focus on the environment, welfare and education, in line with a management philosophy of contributing to regional development.

We base our activities on the perspectives of external stakeholders in drawing on our specific capabilities to satisfy the demands of our customers and local community.

RESPECTING HUMAN RIGHTS AND BEING A GOOD EMPLOYER

It is a corporate fundamental to respect human rights and ensure the safety of all employees and other people involved in our operations.

We are striving to create a workplace and society that truly respects human rights and to build a corporate culture that protects and satisfies our employees.

Specific Social Contributions

Industry and technology	• Established and operating 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	• Established and operating the EnerGia Culture and Sports Foundation (established in 1994) • Supporting the Hiroshima Symphony Orchestra • Holding cultural seminars and sports events
Environmental Conservation and welfare	• Planting trees and cleaning up parks, roads and rivers • Inspecting the electrical equipment of welfare facilities and residences of senior citizens living alone • Producing and donating books in Braille
Education	• Holding lectures at schools about the environment and energy, conducting classes on electricity and donating used books • Holding personal computer classes for senior citizens • Accepting internships
International exchange	• Sending medical equipment to disaster-effected and developing countries and accepting trainees from abroad

STRENGTHENING COMPLIANCE

To earn the trust of society, we consider it critical for all employees to not only comply rigorously with laws and regulations but also act fairly and properly out of a sound and sophisticated sense of ethics. We also believe that it is our duty to quickly and appropriately disclose and explain information. In January 2003, we established a corporate ethics framework that provides the foundations for operating fairly and properly.

On April 1, 2005, the Japanese government implemented the Law Concerning the Protection of Personal Information. To reflect this and future developments that heighten the need to safeguard personal data, we are working on the Chugoku Electric Group Guidelines on handling personal information and are improving in-house regulations to enhance the protection of such information.

CSR COMMUNI-CATION

PROMOTING COMMUNICATION

To translate our CSR efforts into greater trust in our relationship with society, we consider it important to apply the five-point action efforts described earlier and ensure better communication with our customers. It is also crucial to proactively disclose information on our activities to our stakeholders and reflect their assessments, following a cycle of Plan, Do, Check and Act as we work to improve our activities.

All our employees will endeavor to reflect customer opinions in their daily work, share information Groupwide, improve their work and provide new services.

Through our investor relations activities, we will ensure the timely provision of information on our operating environment, financial position and management strategies for the future. At the same time, we will ensure more interactive communication and improve the understanding and trust of our shareholders and investors. In February 2005, we produced and disclosed our Basic IR Policies to clarify management's orientation toward shareholders and investors.

Acceptance of Visitors to Power Station

Corporate Governance

Basic concepts

We adopted an auditor system to ensure that management decision making and operational implementation function smoothly. It is a top management priority to construct a corporate governance structure that allows us to fulfill our social responsibilities by building trust and creating sustainable value. We will continue to enhance corporate governance as part of our efforts to reinforce Group management.

In principle, the Board of Directors meets once monthly, although it also holds extraordinary gatherings as needed. The Management Committee, comprising representative executive directors, meets once or twice weekly to debate and decide on issues. To provide additional objectivity, transparency and oversight, the Board includes one external director.

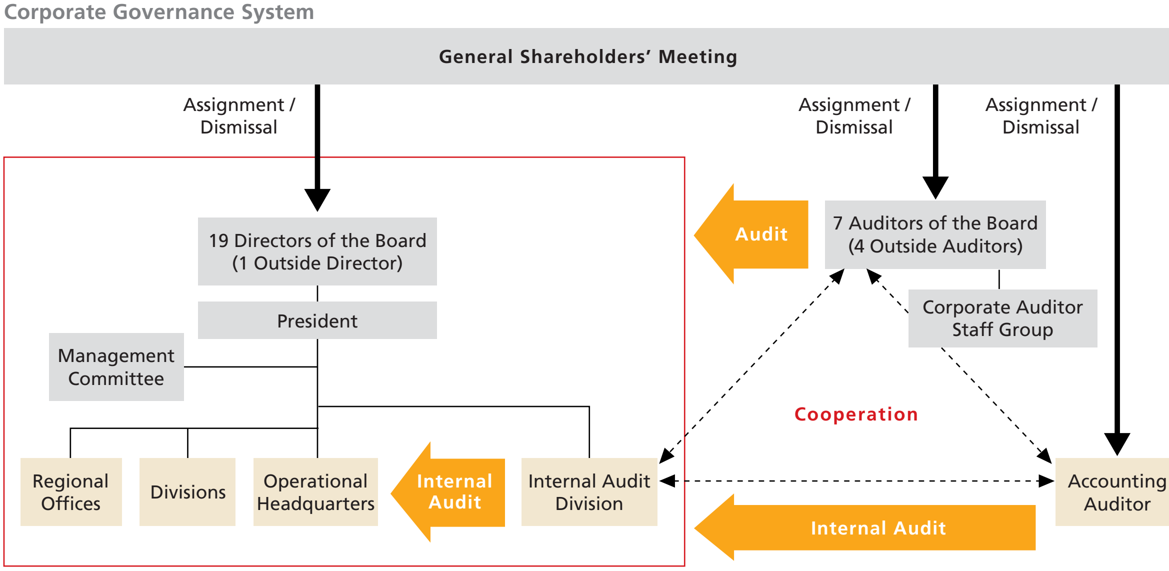
To supplement auditing, we have established an office that operates independent of the president. By ensuring more than half our auditors are external, we reinforced our auditing structure ahead of the May 2002 law reforms that bolstered the functions and objectivity of auditors. (Our external directors 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.

To help reinforce compliance, we established the Chugoku Electric Corporate Ethics Framework covering corporate and employee behavior. We set up the Corporate Ethics Committee, which the chairman oversees, including external specialists. In addition, we formulated our Compliance Rules, which cover basic requirements, and we are otherwise endeavoring to ensure that we operate fairly.

We established a risk management organization within the Corporate Planning Division to oversee companywide operations. On top of that, the Risk Strategies Committee, which the president chairs, meets once monthly to discuss policies to tackle key management risks.

Corporate Governance System



Board of Directors and Auditors

(As of June 29, 2005)

CHAIRPERSON

Shitomi Takasu

PRESIDENT

Shigeo Shirakura

EXECUTIVE VICE PRESIDENTS

Tadashi Fukuda
Takashi Yamashita
Masahiro Hosoda
Hiromu Okada

MANAGING DIRECTORS

Shigeo Suehiro
Yoshitane Okada
Masanori Fukuda
Masaharu Arakawa
Hiroshi Fujii
Toru Jinde
Tadashi Watanabe

DIRECTORS

Shuichi Shirahige
Seiki Hawaka
Kazuhisa Fukumoto
Tomohide Karita
Mitsuo Matsui
Kosuke Hayashi

STANDING AUDITORS

Junji Oki
Chitoshi Nishiguchi

AUDITORS

Michiho Nozaka
Kazuya Nitta
Hiroshi Nakashima
Taka Shiinoki
Michihiko Kikkawa

Organization

(As of June 29, 2005)

- Board of Directors
  - Management Committee
  - Energy Marketing and Services Division
    - Service Offices, etc.
  - Power Generation Division
    - Power Stations, etc.
  - Power System Division
    - Power Management Offices, etc.
  - Corporate Planning Division
  - Energia Business Division
  - Human Resources Development Division
  - Corporate Social Responsibility Division
  - Internal Audit Division
  - Business Support Division
  - Information System & Telecommunications Division
  - Energia Economic & Technical Research Institute
  - Regional Offices
    (Tottori Office, Shimane Office, Okayama Office, Hiroshima Office, Yamaguchi Office, Tokyo Office)
  - Chuden Hospital
- (Auditors)
  - (Auditors Office)

CONTENTS

Consolidated 6-Year Summary

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

	Millions of yen						Thousands of U.S. dollars
	2005	2004	2003	2002	2001	2000	**2005**
Operating revenues	**¥1,011,799**	¥ 967,056	¥1,009,279	¥1,021,149	¥1,044,863	¥1,049,440	**$ 9,456,065**
Operating income	**125,451**	99,586	126,954	118,545	126,621	131,444	**1,172,448**
Net income	**47,062**	42,888	44,129	46,470	27,202	27,615	**439,832**
Total stockholders' equity	**658,209**	629,604	606,834	593,752	575,772	550,856	**6,151,486**
Total assets	**2,636,363**	2,712,376	2,815,189	2,846,207	2,952,869	3,011,101	**24,638,907**
Interest-bearing debt	**1,613,979**	1,728,285	1,839,175	1,900,098	2,012,672	2,104,628	**15,083,916**
Free cash flows (*1)	**132,616**	132,835	146,669	130,496	102,632	107,752	**1,239,402**
Other financial data							
Per share data (yen and dollars):							
Stockholders' equity (*2)	**1,807.59**	1,728.06	1,656.07	1,600.41	1,551.79	1,484.63	**16.90**
Net income (*3):							
Basic	**128.61**	116.63	119.30	125.25	73.31	74.43	**1.20**
Diluted	**128.61**	116.63	119.30	123.99	72.78	73.88	**1.20**
Cash dividends	**50.00**	50.00	50.00	50.00	60.00	60.00	**0.47**
Key financial ratios:							
Equity ratio (%)	**25.0**	23.2	21.6	20.9	19.5	18.3	
Return on equity (ROE) (%)	**7.3**	6.9	7.4	7.9	4.8	5.3	
Return on assets (ROA) (%)(*4)	**3.0**	2.3	2.9	2.6	2.7	2.8	
Price earnings ratio (PER) (times)	**15.8**	16.0	15.4	13.8	23.2	17.4	

	Millions of kWh					
	2005	2004	2003	2002	2001	2000
Power generated and received						
Generated:						
Hydroelectric	**4,169**	4,008	3,025	3,678	3,489	3,506
Thermal	**33,170**	31,978	31,324	30,588	34,656	35,241
Nuclear	**7,333**	7,705	10,736	10,267	6,765	10,059
Total	**44,672**	43,691	45,085	44,533	44,910	48,806
Bought from other companies	**23,663**	22,285	22,560	20,656	21,185	18,499
Sold to other companies	**(3,410)**	(3,961)	(5,261)	(5,251)	(4,779)	(7,840)
Transmission loss and other	**(6,785)**	(6,581)	(6,537)	(6,333)	(6,813)	(6,551)
Total	**58,140**	55,434	55,847	53,605	54,503	52,914
Electricity sales:						
Residential (lighting)	**17,470**	16,667	16,850	16,384	16,208	15,749
Commercial, industrial and other	**15,565**	21,988	22,207	21,930	22,155	21,603
Power consumption by liberalized sector	**25,105**	16,779	16,790	15,291	16,140	15,562
Total	**58,140**	55,434	55,847	53,605	54,503	52,914

(*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 2005, ended March 31, 2005, the Japanese economy changed showing signs of recovery. While production activity changed steadily due to the increase in exports, a rally in personal consumption due to the steep increase in corporate earnings and an improvement of the employment situation were seen. The situation was similar in the Chugoku region.

Non-consolidated sales of electricity increased 4.9% from the previous period, to 58.1 billion kilowatt hours, reflecting a hot summer and a high of level production activity, which led to increased demand for residential, commercial and industrial power.

Operating revenues of the Chugoku Electric Power Co., Inc. (the "Company"), and its consolidated subsidiaries (the "Group") for the term were ¥1,011.8 billion (US$9,456.1 million), up 4.6%, or ¥44.7 billion (US$418.2 million), from fiscal 2004. Net income was ¥47.1 billion (US$439.8 million), a rise of 9.7%, or ¥4.2 billion (US$39.0 million). Free cash flow (net cash provided by operating activities minus net cash used in investing activities) totaled ¥132.6 billion (US$1,239.4 million).

The Company maintained cash dividends per share at ¥50.00 (US$0.47), 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 ¥1,011.8 billion (US$9,456.1 million), up 4.6%, or ¥44.7 billion (US$418.2 million).

Operating revenues from electric power operations amounted to ¥946.6 billion (US$8,846.8 million), up 4.4%, or ¥40.1 billion (US$375.2 million). This was because the amount of electric power sold increased by the firm growth in air conditioning and industrial demand. Operating revenues from other operations such as information and communication businesses and a comprehensive energy supply business rose 7.6%, or ¥4.6 billion (US$42.9 million), to ¥65.2 billion (US$609.2 million).

Operating Expenses and Operating Income

Operating expenses for the term increased 2.2%, or ¥18.9 billion (US$176.4 million), to ¥886.3 billion (US$8,283.6 million).

Operating expenses in electric power operations rose 2.6%, or ¥21.0 billion (US$196.6 million), to ¥825.6 billion (US$7,715.8 million). This stemmed from an increase in materials expense due to the rise in fuel prices, although there were decreases in personnel expenses by reexamination of retirement plans and depreciation expense. In operations other than electric power operations, operating expenses were ¥60.8 billion (US$567.8 million), down 3.4%, or ¥2.1 billion (US$20.2 million).

Operating income thus rose 26.0%, or ¥25.9 billion (US$241.7 million), to ¥125.5 billion (US$1,172.4 million).

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

Total other (income) expenses increased 45.5%, or ¥15.3 billion (US$143.4 million), to ¥49.1 billion (US$458.9 million), owing to recognizing impairment losses on fixed assets.

As a result of these factors, income before income taxes and minority interests in net income of consolidated subsidiaries was up 14.6%, or ¥9.5 billion (US$88.7 million), to ¥74.6 billion (US$697.3 million). Net income increased 9.7%, or ¥4.2 billion (US$39.0 million), to ¥47.1 billion (US$439.8 million). Net income per share was ¥128.61 (US$1.20), up ¥11.98, from ¥116.63.

Financial Position

Assets

At fiscal year-end, total assets were ¥2,636.4 billion (US$24,638.9 million), down 2.8%, or ¥76.0 billion (US$710.4 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 ¥2,167.0 billion (US$20,252.2 million), down 3.9%, or ¥87.9 billion (US$822.0 million). Nuclear fuel was ¥121.1 billion (US$1,131.4 million), up 3.3%, or ¥3.9 billion (US$36.4 million). Total investments and other assets amounted to ¥210.8 billion (US$1,970.0 million), down 0.4%, or ¥0.8 billion (US$7.9 million). Total current assets were ¥137.5 billion (US$1,285.3 million), up 6.9%, or ¥8.9 billion (US$83.1 million).

Liabilities, Minority Interests and Stockholders' Equity

Total liabilities were ¥1,973.3 billion (US$18,442.1 million), down 5.0%, or ¥104.4 billion (US$976.1 million). Of this total, short-term and long-term interest-bearing debt declined 6.6%, or ¥114.3 billion (US$1,068.3 million), to ¥1,614.0 billion (US$15,083.9 million), as the Group pursued capital investments within the scope of its internal funding capabilities. Other liabilities increased 2.8%, or ¥9.9 billion (US$92.2 million), to ¥359.3 billion (US$3,358.2 million).

Minority interests were ¥4.9 billion (US$45.4 million), down 3.4%, or ¥0.2 billion (US$1.6 million).

Total stockholders' equity was ¥658.2 billion (US$6,151.5 million), up 4.5%, or ¥28.6 billion (US$267.3 million). The equity ratio improved 1.8 percentage points, to 25.0%, from 23.2%.

Cash Flows

Net cash provided by operating activities for fiscal 2005 amounted to ¥228.8 billion (US$2,138.0 million), up 1.0%, or ¥2.3 billion (US$21.4 million), compared with the previous period. This was due primarily to an increase in the amount of electric power sold while fuel costs increased.

Net cash used in investing activities was ¥96.2 billion (US$898.6 million), up 2.7%, or ¥2.5 billion (US$23.5 million), mainly because investments in comprehensive energy supply business increased. Free cash flow therefore amounted to ¥132.6 billion (US$1,239.4 million).

Net cash used in financing activities was ¥133.0 billion (US$1,242.8 million), down 0.3%, or ¥0.4 billion (US$3.5 million), as combined debt repayments increased, but purchases of treasury stock decreased. Repayments of total bonds and long-term debt exceeded procurements, causing the balance to drop ¥148.8 billion (US$1,390.8 million) compared with the previous period. Cash dividends paid were ¥18.2 billion (US$170.2 million).

Cash and cash equivalents at end of year totaled ¥23.9 billion (US$223.2 million), up 0.7%, or ¥0.2 billion (US$1.6 million).

Summary of Cash Flows

Years ended March 31

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	**2005**
Net cash provided by operating activities	**¥228,770**	¥226,478	¥269,543	**$2,138,038**
Net cash used in investing activities	**(96,154)**	(93,643)	(122,874)	**(898,636)**
Net cash used in financing activities	**(132,977)**	(133,350)	(143,376)	**(1,242,776)**
Effect of exchange rate changes on cash and cash equivalents	**—**	(5)	—	**—**
Net increase (decrease) in cash and cash equivalents	**(361)**	(520)	3,293	**(3,374)**
Cash and cash equivalents at beginning of year	**23,705**	24,225	20,326	**221,542**
Increase resulting from consolidation of additional subsidiaries	**533**	—	606	**4,982**
Cash and cash equivalents at end of year	**¥ 23,877**	¥ 23,705	¥ 24,225	**$ 223,150**

Outlook

The Group expects operating revenues to decrease to around ¥1,000.0 billion in fiscal 2006, based on the influence of the April, 2005, cut in electricity rates, in spite of lower costs derived from Groupwide efficiency initiatives. Net income should be about ¥44.0 billion.

Management bases these projections on an exchange rate of ¥105 to US$1.00 and a crude oil price of US$46.00 per barrel.

Risk Factors

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

The forward-looking statements included below represent estimates as of March 31, 2005.

1. Systemic reform of electric power business

In the electric power business, the Electricity Utilities Industry Law was revised in June 2003, and the resulting reform will fully take effect in April 2005. The reforms include the expansion of the scope of liberalization into all high-voltage users, the termination of the transfer supply fee, and the establishment of the national wholesale electric power exchange. Moreover, it is anticipated that competition in prices and services will be heating up partly because it is assumed appropriate to start considering the possibilities of full liberalization in around April 2007 based on an assessment of the new regulations, according to the report of Electric Power Business Subcommittee of the Advisory Committee on Natural Resources and Energy.

As for the future of nuclear power in the liberalization of electric power business, the report suggests the way to develop its environment for the purpose of realization of long-term stable operations. Especially the report discusses the systems and measures to promote the Back-End Project smoothly, taking into account, its super long-term aspect and its uniqueness that it will cost after power generation. Based on the report, the "Draft Bill on the Creation and Management of Reserve Funds for the Reprocessing of Spent Fuel at Nuclear Power Stations" was approved by the Cabinet meeting in February 2005. Given that the draft bill is scheduled to be deliberated and enacted in the Diet (approved in May 2005), the risk of the business will be mitigated by such systems and measures.

The changing business environment, including the systemic reform and the tough competition described above, has the potential to affect the Companies' results and financial condition.

2. Business other than electric power

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

In addition, Energia Communications, Inc., which is in the information and telecommunications business, terminated its PHS voice service in December 2004, and is concentrating its resources on the Internet access service, service for corporations, and so on.

3. Economic conditions in power supply area

The Company supplies electric power mainly in the 5 prefectures of the Chugoku region, and accordingly electricity sales are subject to the influence of economic conditions such as industrial activities in the power supply area. As a result, the economic conditions in the power supply area have the potential to affect the Companies' results and financial condition.

4. Seasonal variations in weather

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

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

5. Changes in fuel prices

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

6. Changes in interest rates

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

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

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

8. Management of personal information

The Companies maintain a large volume of personal information on individuals including that of electric power customers. The Companies established a guideline for personal information protection and rigorously administrate this personal information. However, a lapse in administration of personal information has the potential to affect the Companies' results and financial condition.

9. Natural disasters, troubles

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

Consolidated Balance Sheets

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	2005	2004	2005
Property:			
Utility plant and equipment	¥5,298,331	¥5,294,981	$49,517,112
Other plant	246,278	241,785	2,301,664
Construction in progress	137,258	130,770	1,282,785
	5,681,867	5,667,536	53,101,561
Less—			
Contributions in aid of construction	73,784	72,671	689,570
Accumulated depreciation	3,441,098	3,339,931	32,159,794
	3,514,882	3,412,602	32,849,364
Net property (Note 7)	2,166,985	2,254,934	20,252,197
Nuclear fuel	121,060	117,166	1,131,402
Investments and other assets:			
Investment securities (Note 4)	53,025	54,512	495,561
Investments in and advances to non-consolidated subsidiaries and affiliates	88,021	89,416	822,626
Long-term loans to employees	2,074	2,388	19,383
Deferred tax assets (Note 12)	52,996	60,027	495,290
Other assets	14,672	5,293	137,121
Total investments and other assets	210,788	211,636	1,969,981
Current assets:			
Cash and time deposits (Note 3)	24,037	23,836	224,645
Receivables, less allowance for doubtful accounts of ¥666 million ($6,224 thousand) in 2005 and ¥742 million in 2004	60,559	54,635	565,972
Inventories, fuel and supplies	29,099	32,347	271,953
Deferred tax assets (Note 12)	12,106	8,619	113,140
Other current assets	11,729	9,203	109,617
Total current assets	137,530	128,640	1,285,327
Total assets	¥2,636,363	¥2,712,376	$24,638,907

See accompanying notes.

Liabilities, Minority Interests and Stockholders' Equity	Millions of yen 2005	Millions of yen 2004	Thousands of U.S. dollars (Note 1) 2005
Long-term debt due after one year (Note 6)	¥1,293,362	¥1,429,265	$12,087,495
Other long-term liabilities due after one year	8,609	5,247	80,458
Employees' severance and retirement benefits (Note 11)	59,136	81,313	552,673
Reserve for reprocessing of irradiated nuclear fuel	102,065	99,373	953,879
Reserve for decommissioning of nuclear power generating plants	42,876	42,203	400,710
Current liabilities:			
Long-term debt due within one year (Note 6)	139,377	152,290	1,302,589
Short-term borrowings	97,970	77,920	915,608
Accounts payable	56,167	38,043	524,925
Accrued income taxes	16,300	19,374	152,337
Accrued expenses	42,049	39,906	392,981
Other current liabilities			
(including other long-term liabilities due within one year)	112,932	92,101	1,055,439
Total current liabilities	464,795	419,634	4,343,879
Reserve for drought	2,458	712	22,972
Contingent liabilities (Note 9)			
Minority interests	4,853	5,025	45,355
Stockholders' equity (Note 13)**:**			
Common stock:			
Authorized—1,000,000,000 shares			
Issued—371,055,259 shares	185,528	185,528	1,733,907
Capital surplus	16,685	16,680	155,935
Retained earnings (Note 15)	455,821	427,159	4,260,009
Net unrealized holding gains on securities	12,130	11,810	113,364
Foreign currency translation adjustments	(9)	(4)	(84)
Treasury stock (7,047,789 shares in 2005 and 6,853,116 shares in 2004)	(11,946)	(11,569)	(111,645)
Total stockholders' equity	658,209	629,604	6,151,486
Total liabilities, minority interests and stockholders' equity	¥2,636,363	¥2,712,376	$24,638,907

Consolidated Statements of Income

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	2005
Operating revenues (Note 14)**:**				
Electric	¥ 946,612	¥906,466	¥ 961,002	$8,846,841
Other	65,187	60,590	48,277	609,224
	1,011,799	967,056	1,009,279	9,456,065
Operating expenses (Note 14)**:**				
Electric	825,591	804,552	832,274	7,715,804
Other	60,756	62,918	50,051	567,813
	886,347	867,470	882,325	8,283,617
Operating income	125,452	99,586	126,954	1,172,448
Other expenses (income):				
Interest expense	37,570	37,682	56,885	351,121
Interest income	(87)	(114)	(117)	(813)
Gains on sales of securities	(3,078)	(3,873)	(4,969)	(28,766)
Equity in earnings of affiliated companies	(1,861)	(1,909)	(1,203)	(17,393)
Write-off of consolidation adjustments account	—	—	3,426	—
Loss on impairment of fixed assets (Notes 7 and 14)	4,447	—	—	41,561
Loss on discontinued operations	4,232	—	—	39,551
Other, net	7,874	1,963	972	73,589
	49,097	33,749	54,994	458,850
Special item:				
Reserve for drought	1,747	712	—	16,327
Income before income taxes and minority interests in net income of consolidated subsidiaries	74,608	65,125	71,960	697,271
Provision for income taxes (Note 12)**:**				
Current	26,600	30,689	33,157	248,598
Deferred	666	(8,520)	(5,274)	6,224
	27,266	22,169	27,883	254,822
Income before minority interests in net income of consolidated subsidiaries	47,342	42,956	44,077	442,449
Minority interests in net loss (income) of consolidated subsidiaries	280	(68)	52	2,617
Net income	¥ 47,062	¥ 42,888	¥ 44,129	$ 439,832

	Yen			U.S. dollars (Note 1)
Per share data :				
Net income:				
Basic	¥128.61	¥116.63	¥119.30	$1.20
Diluted	128.61	116.63	119.30	1.20
Cash dividends applicable to the year	50.00	50.00	50.00	0.47

See accompanying notes.

Consolidated Statements of Stockholders' Equity

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the years ended March 31, 2005, 2004 and 2003

	Shares of common stock	Millions of yen						
		Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock	Common stock held by consolidated subsidiaries
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 increase in investments accounted for by the equity method				281				
Effect of newly consolidated subsidiaries				(193)				
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)	
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)	—
Net income				47,062				
Cash dividends paid (¥50.00 per share)				(18,173)				
Bonuses to directors and statutory auditors				(227)				
Effect of decrease in investments accounted for by the equity method				(711)				
Effect of merger of consolidated subsidiaries with company accounted for by the equity method				711				
Surplus from sale of treasury stock			5					
Increase in unrealized holding gains on securities					320			
Foreign currency translation adjustments						(5)		
Treasury stock purchased, net							(377)	
Balance at March 31, 2005	**371,055,259**	**¥185,528**	**¥16,685**	**¥455,821**	**¥12,130**	**¥ (9)**	**¥(11,946)**	**¥—**

	Thousands of U.S. dollars (Note 1)						
Balance at March 31, 2004	$1,733,907	$155,888	$3,992,140	$110,374	$(37)	$(108,121)	$—
Net income			439,832				
Cash dividends paid ($0.47 per share)			(169,842)				
Bonuses to directors and statutory auditors			(2,121)				
Effect of decrease in investments accounted for by the equity method			(6,645)				
Effect of merger of consolidated subsidiaries with company accounted for by the equity method			6,645				
Surplus from sale of treasury stock		47					
Increase in unrealized holding gains on securities				2,990			
Foreign currency translation adjustments					(47)		
Treasury stock purchased, net						(3,524)	
Balance at March 31, 2005	**$1,733,907**	**$155,935**	**$4,260,009**	**$113,364**	**$(84)**	**$(111,645)**	**$—**

See accompanying notes.

Consolidated Statements of Cash Flows

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	2005
Cash flows from operating activities:				
Income before income taxes and minority interests in net income of consolidated subsidiaries	¥ 74,608	¥ 65,125	¥ 71,960	$ 697,271
Depreciation	157,467	171,787	173,648	1,471,654
Loss on impairment of fixed assets	4,447	—	—	41,561
Amortization of nuclear fuel	5,331	5,864	8,127	49,822
Write-off of consolidation adjustments account	—	—	3,426	—
Loss on disposal of property	9,991	9,320	9,756	93,374
Increase (decrease) in employees' severance and retirement benefits	(22,311)	2,395	569	(208,514)
Increase in provision for decommissioning of nuclear power generating plants	673	—	2,458	6,290
Increase in provision for reprocessing of irradiated nuclear fuel	2,691	8,975	7,355	25,150
Increase in provision for drought	1,747	712	—	16,327
Provision for reserve for loss on discontinued operations	1,491	—	—	13,935
Interest and dividend income	(762)	(619)	(609)	(7,121)
Interest expense	37,570	37,682	56,885	351,121
Gains on sales of securities	(3,073)	(3,873)	(4,969)	(28,720)
Decrease (increase) in notes and accounts receivable	(5,717)	3,208	5,477	(53,430)
Decrease in inventories	1,536	5,099	4,480	14,355
Increase (decrease) in notes and accounts payable	14,265	(2,335)	(3,475)	133,318
Increase in liabilities for defined contribution pension and prepaid pension	9,831	—	—	91,879
Other	6,761	5,823	2,704	63,186
Subtotal	296,546	309,163	337,792	2,771,458
Interest and dividends received	1,287	1,204	1,260	12,028
Interest paid	(39,030)	(39,090)	(58,277)	(364,766)
Income taxes paid	(30,033)	(44,799)	(11,232)	(280,682)
Net cash provided by operating activities	228,770	226,478	269,543	2,138,038
Cash flows from investing activities:				
Purchase of property	(105,882)	(101,092)	(127,830)	(989,552)
Purchase of investments in securities	(1,977)	(2,583)	(9,860)	(18,477)
Proceeds from sale of investment securities	6,578	5,882	8,577	61,477
Cash of a newly consolidated subsidiary	—	—	1,467	—
Other	5,127	4,150	4,772	47,916
Net cash used in investing activities	(96,154)	(93,643)	(122,874)	(898,636)
Cash flows from financing activities:				
Proceeds from issue of bonds	14,943	39,838	59,764	139,654
Repayment of bonds	(110,000)	(107,125)	(135,000)	(1,028,037)
Proceeds from long-term debt	30,790	78,700	39,304	287,757
Repayment of long-term debt	(84,606)	(75,215)	(97,313)	(790,710)
Proceeds from short-term loans	353,000	309,700	378,105	3,299,065
Repayment of short-term loans	(332,490)	(340,950)	(392,705)	(3,107,383)
Proceeds from issue of commercial paper	742,000	795,000	683,000	6,934,579
Repayment of commercial paper	(728,000)	(811,000)	(649,000)	(6,803,738)
Purchase of treasury stock	(430)	(3,999)	(11,153)	(4,019)
Cash dividends paid	(18,209)	(18,329)	(18,481)	(170,178)
Other	25	30	103	234
Net cash used in financing activities	(132,977)	(133,350)	(143,376)	(1,242,776)
Effect of exchange rate changes on cash and cash equivalents	—	(5)	—	—
Net increase (decrease) in cash and cash equivalents	(361)	(520)	3,293	(3,374)
Cash and cash equivalents at beginning of year	23,705	24,225	20,326	221,542
Increase resulting from merger of equity method affiliate with consolidated subsidiary	533	—	606	4,982
Cash and cash equivalents at end of year (Note 3)	¥ 23,877	¥ 23,705	¥ 24,225	$ 223,150

See accompanying notes.

Notes to Consolidated Financial Statements

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the years ended March 31, 2005, 2004 and 2003

1. Basis of presenting consolidated financial statements

The Chugoku Electric Power Co., Inc. (the "Company") and its consolidated subsidiaries (the "Companies") maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code (the "Code") and the Electricity Utilities Industry Law and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accompanying 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 translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the readers outside Japan, using the prevailing exchange rate on March 31, 2005, which was ¥107 to US$1.00. The convenience translations should not be construed as representation that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

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

Consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has power of control through majority voting rights or existence of certain conditions evidencing control by the Company. In the elimination of investments in subsidiaries, all the assets and liabilities of a subsidiary, not only to the extent of the Company's share, but also including the minority interest share, are evaluated based on fair value at the time 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, 2005, 23 subsidiaries (24 in 2004, 21 in 2003) were consolidated and 10 subsidiaries were excluded from consolidation due to immateriality in terms of consolidated total assets, sales and revenues, net income and retained earnings of the consolidated financial statements.

For the year ended March 31, 2005, 10 (11 in 2004, 10 in 2003) non-consolidated subsidiaries and 10 (10 in 2004, 9 in 2003) affiliates were accounted for by the equity method.

Other than the above, 9 (10 in 2004, 11 in 2003) affiliates, were stated at cost without applying the equity method of accounting. If the equity method had been applied for these investments, the amounts of net income and retained earnings of the excluded affiliates would not have had a material effect on the 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, net of the amount considered not collectible. Other investments for which market value is readily determinable are stated at market value as of the end of the period with unrealized gains and losses, net of applicable deferred tax assets/liabilities, not reflected in earnings but directly reported as a separate component of shareholders' equity. The cost of securities sold is determined by the moving-average method. Other investments for which market value is not readily determinable are stated primarily at moving-average cost.

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

Accounting for the impairment of fixed assets

In the year ended March 31, 2005, the Company adopted 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). As a result of the new accounting standard for impairment of fixed assets, income before income taxes and minority interests in net income of consolidated subsidiaries decreased by ¥4,447 million (US$41,561 thousand) for the year ended March 31, 2005.

Property and depreciation

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

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

Nuclear fuel and amortization

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

Allowance for doubtful accounts

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

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

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

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

Prior service costs are recognized in expenses within the average of estimated remaining service 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 irradiated currently, 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.

Reserve for loss on discontinued operations

Provision is made for losses on withdrawal from personal handy phone voice service of Energia Communications, Inc., a consolidated subsidiary. The amount is estimated primarily based on disposal of equipment.

Accounting for certain lease transactions

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

Derivatives and hedge accounting

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

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

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

1. If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,
   (a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the consolidated statements of income in the period which includes the inception date, and
   (b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.
2. If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized. In this case, assessment of hedge effectiveness is not necessary.

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

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

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

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

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

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

Reclassifications
Certain prior year amounts have been reclassified to conform to the 2005 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

Change in useful lives
For certain fixed assets, Energia Communications, Inc., a consolidated subsidiary, changed the useful lives from those based on income tax regulations to economic useful lives.

As a result of changing the useful lives, income before income taxes and minority interests in net income of consolidated subsidiaries increased by ¥2,810 million (US$26,262 thousand) for the year ended March 31, 2005.

Consolidated tax system
In the year ended March 31, 2005, the Companies introduced the consolidated tax system.

3. Cash and cash equivalents
The reconciliations of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows at March 31, 2005 and 2004, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Cash and time deposits	**¥24,037**	¥23,836	**$224,645**
Less: Time deposits with maturities exceeding three months	**(160)**	(131)	**(1,495)**
Cash and cash equivalents	**¥23,877**	¥23,705	**$223,150**

4. Securities
A. The following tables summarize acquisition costs, book values (fair values) of securities with available fair market values as of March 31, 2005 and 2004:

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
	2005	2004	**2005**	2004	**2005**	2004	**2005**		
Equity securities	**¥4,890**	¥4,663	**¥26,541**	¥25,999	**¥21,651**	¥21,336	**$45,701**	**$248,047**	**$202,346**
Bonds	**26**	19	**26**	20	**0**	1	**243**	**243**	**0**
Other	**23**	24	**31**	32	**8**	8	**215**	**290**	**75**
Total	**¥4,939**	¥4,706	**¥26,598**	¥26,051	**¥21,659**	¥21,345	**$46,159**	**$248,580**	**$202,421**

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
	2005	2004	2005	2004	2005	2004	2005		
Equity securities	¥74	¥382	¥62	¥363	¥(12)	¥(19)	$692	$580	$(112)
Bonds	9	21	9	21	0	—	84	84	0
Other	—	—	—	—	—	—	—	—	—
Total	¥83	¥403	¥71	¥384	¥(12)	¥(19)	$776	$664	$(112)

B. Book values of available-for-sale securities with no available fair market value as of March 31, 2005 and 2004, are as follows:

	Millions of yen		Thousands of U.S. dollars
	Book value		Book value
	2005	2004	2005
Non-listed equity securities	¥24,453	¥26,583	$228,533
Other	1,418	1,368	13,252
Total	¥25,871	¥27,951	$241,785

C. At March 31, 2005, 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
Corporate bonds	¥26	¥9	¥35	$243	$84	$327

D. Total sales of available-for-sale securities in the year ended March 31, 2005, amounted to ¥5,316 million (US$49,682 thousand), and the related gains and losses amounted to ¥3,078 million (US$28,766 thousand) and ¥5 million (US$47 thousand), respectively. Total sales of available-for-sale securities in the year ended March 31, 2004, amounted to ¥5,144 million, and the related gains amounted to ¥3,873 million. 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.

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, 2005. Derivative financial instruments accounted for by hedge accounting in accordance with the Accounting Standard for Financial Instruments are also excluded from disclosure in the notes to the consolidated financial statements as of March 31, 2005. In addition, those items whose contract amounts and their related revaluation gains or losses are immaterial are omitted from disclosure because they are not significant.

As of March 31, 2005 and 2004, derivatives for hedging currency items and interest swaps were used. Disclosure of information on hedging derivatives is not required except for below.

	Millions of yen						Thousands of U.S. dollars		
	Notional amount		Fair value		Gain		Notional amount	Fair value	Gain
	2005	2004	**2005**	2004	**2005**	2004		**2005**	
Dealing outside a market									
Currency swap	**¥5,884**	¥—	**¥136**	¥—	**¥136**	¥—	**$54,991**	**$1,271**	**$1,271**

6. Long-term debt

Long-term debt at March 31, 2005 and 2004, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Domestic bonds due through 2029 at rates of 0.58% to 4.1%	**¥ 844,800**	¥ 939,800	**$ 7,895,327**
Loans from the Development Bank of Japan due serially through 2023 at rates of 0.75% to 5.0%	**262,662**	297,380	**2,454,785**
Unsecured loans, principally from banks and insurance companies, due serially through 2032 at rates of 0.17% to 6.45%	**325,277**	344,375	**3,039,972**
	1,432,739	1,581,555	**13,390,084**
Less amounts due within one year	**(139,377)**	(152,290)	**(1,302,589)**
Total	**¥1,293,362**	¥1,429,265	**$12,087,495**

At March 31, 2005 and 2004, loans from the Development Bank of Japan of ¥243,039 million (US$2,271,393 thousand) and ¥274,865 million, respectively, and all bonds were secured by a statutory preferential right which gives the creditors a security interest in all assets of the Company, totaling ¥2,447,206 million (US$22,871,084 thousand) and ¥2,518,789 million, respectively, senior to that of general creditors. Some assets of subsidiaries are being used as collateral for loans from financial institutions and other sources.

The annual maturities of long-term debt at March 31, 2005, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥139,377	$1,302,589
2007	75,871	709,075
2008	141,862	1,325,813
2009	108,555	1,014,532
Thereafter	967,074	9,038,075

7. Impairment loss on fixed assets

Since all property currently used for the electric business are generating cash flows that result from power generation sales, they are considered one property group.

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

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

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

For the year ended March 31, 2005, the Companies recognized ¥4,447 million (US$45,561 thousand) of impairment losses on fixed assets which consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Construction in progress	¥2,313	$21,617
General facilities, other property, plant and equipment	2,134	19,944
Total	¥4,447	$41,561

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

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

8. Leases

(As lessee)

The Companies lease certain equipment for business use.

Lease payments under non-capitalized finance leases amounted to ¥184 million (US$1,720 thousand), ¥383 million and ¥397 million for the years ended March 31, 2005, 2004 and 2003, respectively.

The present values of future minimum lease payments under non-capitalized finance leases and future minimum lease payments under operating leases as of March 31, 2005 and 2004, were as follows:

	Millions of yen				Thousands of U.S. dollars	
	Finance leases		Operating leases		Finance leases	Operating leases
	2005	2004	2005	2004	2005	
Current portion	¥172	¥351	¥242	¥314	$1,608	$2,261
Non-current portion	339	450	31	75	3,168	290
Total	¥511	¥801	¥273	¥389	$4,776	$2,551

(As lessor)

Lease payments received under finance leases, accounted for as operating leases, amounted to ¥302 million (US$2,822 thousand), ¥229 million and ¥165 million for the years ended March 31, 2005, 2004 and 2003, respectively.

The present values of future minimum lease payments to be received under finance leases as of March 31, 2005 and 2004, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Current portion	¥ 354	¥250	$ 3,308
Non-current portion	1,855	720	17,337
Total	¥2,209	¥970	$20,645

9. Contingent liabilities

At March 31, 2005, the Companies were contingently liable as guarantor for loans of other companies and employees in the amount of ¥137,842 million (US$1,288,243 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 ¥35,000 million (US$327,103 thousand).

10. Research and development expenses

Research and development expenses charged to operating expenses were ¥8,310 million (US$77,664 thousand), ¥8,788 million and ¥8,629 million for the years ended March 31, 2005, 2004 and 2003, respectively.

11. Employees' severance and pension benefits

The liabilities for employees' severance and retirement benefits included in the liabilities section of the consolidated balance sheets as of March 31, 2005 and 2004, consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Projected benefit obligation	**¥256,303**	¥270,158	**$2,395,355**
Fair value of pension assets	**187,107**	168,306	**1,748,663**
	69,196	101,852	**646,692**
Unrecognized pension assets	**31**	—	**290**
Less unrecognized actuarial differences	**(19,537)**	(32,634)	**(182,589)**
Unrecognized prior service costs	**275**	11,646	**2,570**
Prepaid pension expense	**9,171**	449	**85,710**
Liability for severance and retirement benefits	**¥ 59,136**	¥ 81,313	**$ 552,673**

The effect of the transition to a defined contribution pension plan at March 31, 2005, is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Decrease in projected benefit obligation	¥17,478	$163,346
Transferred pension assets	(1,248)	(11,664)
Decrease in liability for severance and retirement benefits	¥16,230	$151,682

The amount of pension assets to be transferred to the defined contribution pension plan, except the amount of transferred plan assets, is ¥16,230 million (US$151,682 thousand), and the pension assets will be transferred over a period of 4 years. The amount of pension assets not yet transferred is ¥9,831 million (US$91,879 thousand), which is included in other long-term liabilities due after one year and other current liabilities.

Included in the consolidated statements of income for the years ended March 31, 2005, 2004 and 2003, are employees' severance and retirement benefit expenses comprised of the following:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Service costs-benefits earned during the year	¥ 8,753	¥10,307	¥ 9,417	$ 81,804
Interest cost on projected benefit obligation	5,037	5,913	6,336	47,074
Expected return on plan assets	(6,939)	(707)	(892)	(64,850)
Prior service costs	(11,371)	(1,567)	(138)	(106,271)
Amortization of actuarial losses	11,349	13,653	8,360	106,065
Severance and retirement benefit expenses	6,829	27,599	23,083	63,822
Defined contribution pension premium etc	717	—	—	6,701
Loss on a shift to optional system for defined contribution pension plan or prepayment plan	—	135	—	—
Total	¥ 7,546	¥27,734	¥23,083	$ 70,523

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, 2005, the discount rate and the rates of expected return on plan assets used by the Company are 2.0% and mainly 4.5%, respectively.

In the year ended March 31, 2004, the discount rate and the rates of expected return on plan assets used by the Company were 2.0% and 0% to 1.2%, respectively.

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

12. Income taxes

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate a statutory rate in Japan of approximately 36% for the years ended March 31, 2005, 2004 and 2003. The Companies' statutory tax rate is lower than companies in other industries because enterprise tax is included in the operating expenses of electrical utilities.

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 and 2003:

	2004	2003
The Companies' statutory tax rate	36.15%	36.15%
Effect of tax credits taken by the Company	(1.53)	—
Losses in subsidiaries	1.98	1.36
Non-taxable dividend income	(0.22)	(0.22)
Non-deductible expenses	0.48	0.45
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
Effective tax rate	34.04%	38.75%

The difference for the year ended March 31, 2005 is not disclosed because it is immaterial.

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Deferred tax assets:			
Excess depreciation	**¥17,624**	¥17,098	**$164,710**
Adjustment for unrealized intercompany profits	**11,379**	11,881	**106,346**
Carryforward of operating losses	**1,190**	2,326	**11,121**
Severance and retirement benefits	**14,355**	21,740	**134,159**
Future reprocessing costs of irradiated nuclear fuel	**4,742**	4,742	**44,318**
Future decommissioning costs of nuclear power generating plants	**4,288**	4,288	**40,075**
Accrued bonuses and other expenses	**5,627**	5,690	**52,589**
Accrued defined contribution pension	**3,554**	—	**33,215**
Other	**13,943**	9,120	**130,308**
Total gross deferred tax assets	**76,702**	76,885	**716,841**
Less, valuation allowance	**(3,157)**	(2,710)	**(29,505)**
Total deferred tax assets	**73,545**	74,175	**687,336**
Deferred tax liabilities:			
Adjustment of allowance for doubtful accounts with losses offset by gains	**(12)**	(48)	**(112)**
Unrealized holding gains on securities	**(8,120)**	(8,087)	**(75,888)**
Other	**(311)**	(253)	**(2,906)**
Total deferred tax liabilities	**(8,443)**	(8,388)	**(78,906)**
Net deferred tax assets	**¥65,102**	¥65,787	**$608,430**

13. 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.

14. Segment information

For the year ended March 31, 2005, the Companies reclassified their operations into four segments; "Electric power," "Information and telecommunications," "Comprehensive energy supply" and "Other" from the two previous segments; "Electric power" and "Other."

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

A summary of net sales, cost and expenses and operating income by segment for the years ended March 31, 2005, 2004 (restated to conform to 2005 classifications) and 2004 is as follows:

	Millions of yen						
	2005						
	Electric power	Information and tele-communications	Comprehensive energy supply	Other	Total	Elimination	Consolidated
Operating revenues:							
Outside customers	¥ 946,612	¥15,930	¥ 8,754	¥ 40,503	¥1,011,799	¥ —	¥1,011,799
Intersegment	5,198	22,282	1,312	84,521	113,313	(113,313)	—
Total	951,810	38,212	10,066	125,024	1,125,112	(113,313)	1,011,799
Cost and expenses	832,469	36,872	9,546	120,756	999,643	(113,296)	886,347
Operating income	¥ 119,341	¥ 1,340	¥ 520	¥ 4,268	¥ 125,469	¥ (17)	¥ 125,452
Identifiable assets	¥2,412,777	¥81,905	¥16,889	¥240,278	¥2,751,849	¥(115,486)	¥2,636,363
Impairment of fixed assets	2,313	—	—	358	2,671	1,776	4,447
Depreciation expense	144,622	9,044	1,280	4,092	159,038	(1,571)	157,467
Capital expenditures	90,770	9,446	5,726	5,948	111,890	(2,234)	109,656

	Thousands of U.S. dollars						
	2005						
	Electric power	Information and tele-communications	Comprehensive energy supply	Other	Total	Elimination	Consolidated
Operating revenues:							
Outside customers	$ 8,846,841	$148,878	$ 81,813	$ 378,533	$ 9,456,065	$ —	$ 9,456,065
Intersegment	48,579	208,243	12,262	789,916	1,059,000	(1,059,000)	—
Total	8,895,420	357,121	94,075	1,168,449	10,515,065	(1,059,000)	9,456,065
Cost and expenses	7,780,084	344,598	89,215	1,128,561	9,342,458	(1,058,841)	8,283,617
Operating income	$ 1,115,336	$ 12,523	$ 4,860	$ 39,888	$ 1,172,607	$ (159)	$ 1,172,448
Identifiable assets	$22,549,318	$765,467	$157,841	$2,245,589	$25,718,215	$(1,079,308)	$24,638,907
Impairment of fixed assets	21,617	—	—	3,346	24,963	16,598	41,561
Depreciation expense	1,351,607	84,523	11,963	38,243	1,486,336	(14,682)	1,471,654
Capital expenditures	848,318	88,280	53,514	55,589	1,045,701	(20,879)	1,024,822

	Millions of yen						
	2004						
	Electric power	Information and tele-communications	Comprehensive energy supply	Other	Total	Elimination	Consolidated
Operating revenues:							
Outside customers	¥ 906,466	¥15,331	¥ 6,308	¥ 38,951	¥ 967,056	¥ —	¥ 967,056
Intersegment	2,691	22,227	1,261	68,683	94,862	(94,862)	—
Total	909,157	37,558	7,569	107,634	1,061,918	(94,862)	967,056
Cost and expenses	809,782	39,227	7,432	107,007	963,448	(95,978)	867,470
Operating income (loss)	¥ 99,375	¥ (1,669)	¥ 137	¥ 627	¥ 98,470	¥ 1,116	¥ 99,586
Identifiable assets	¥2,482,949	¥86,225	¥11,628	¥220,708	¥2,801,510	¥(89,134)	¥2,712,376
Depreciation expense	156,469	11,852	1,098	3,949	173,368	(1,581)	171,787
Capital expenditures	80,337	13,938	2,959	6,197	103,431	(5,022)	98,409

	Millions of yen				
	2003				
	Electric power	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

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

As a result of changing the useful lives of assets of a consolidated subsidiary (Note 2), cost and expenses of the "Information and telecommunications" segment decreased by ¥2,810 million (US$26,262 thousand) and operating income increased by the same amount for the year ended March 31, 2005.

15. Subsequent events

The following appropriations of retained earnings at March 31, 2005, were approved at the annual meeting of stockholders held on June 29, 2005:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥25 ($0.23) per share	¥9,114	$85,178
Bonuses to directors and statutory auditors	120	1,121

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, 2005 and 2004, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended March 31, 2005, 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, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2005, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements. As discussed in Note 2 to the consolidated financial statements, effective April 1, 2004, The Chugoku Electric Power Co., Inc. and consolidated domestic subsidiaries adopted early the new accounting standards for impairment of fixed assets.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Hiroshima, Japan
June 29, 2005

Non-Consolidated Balance Sheets

The Chugoku Electric Power Co., Inc.
March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	2005	2004	2005
Property:			
Plant and equipment	¥5,414,184	¥5,414,597	$50,599,850
Construction in progress	137,451	129,747	1,284,589
	5,551,635	5,544,344	51,884,439
Less—			
Contributions in aid of construction	72,393	71,255	676,570
Accumulated depreciation	3,391,623	3,292,370	31,697,411
	3,464,016	3,363,625	32,373,981
Net property (Note 5)	2,087,619	2,180,719	19,510,458
Nuclear fuel	121,060	117,166	1,131,402
Investments and other assets:			
Investment securities	46,628	46,670	435,776
Investments in and advances to subsidiaries and affiliated companies	40,842	38,391	381,701
Long-term loans to employees	1,953	2,288	18,252
Deferred tax assets (Note 9)	38,939	43,961	363,916
Other assets	11,843	2,303	110,682
Total investments and other assets	140,205	133,613	1,310,327
Current assets:			
Cash and time deposits	13,491	10,066	126,084
Receivables, less allowance for doubtful accounts of ¥576 million ($5,383 thousand) in 2005 and ¥631 million in 2004	45,663	40,922	426,757
Inventories, fuel and supplies	20,543	22,208	191,991
Deferred tax assets (Note 9)	9,690	6,822	90,561
Other current assets	8,935	7,273	83,504
Total current assets	98,322	87,291	918,897
Total assets	¥2,447,206	¥2,518,789	$22,871,084

See accompanying notes.

Liabilities and Stockholders' Equity	Millions of yen 2005	2004	Thousands of U.S. dollars (Note 1) 2005
Long-term debt due after one year (Note 4)	¥1,253,353	¥1,388,718	$11,713,579
Other long-term liabilities due after one year	7,441	1,201	69,542
Employees' severance and retirement benefits	48,968	71,831	457,645
Reserve for reprocessing of irradiated nuclear fuel	102,064	99,373	953,869
Reserve for decommissioning of nuclear power generating plants	42,876	42,203	400,710
Current liabilities:			
Long-term debt due within one year (Note 4)	134,601	145,695	1,257,953
Short-term borrowings	85,950	65,950	803,271
Commercial paper	71,000	60,000	663,551
Accounts payable	36,780	24,731	343,738
Accrued income taxes	15,633	17,692	146,103
Accrued expenses	36,302	35,695	339,271
Other current liabilities (including other long-term liabilities due within one year)	42,233	26,595	394,702
Total current liabilities	422,499	376,358	3,948,589
Reserve for drought	2,458	712	22,972
Contingent liabilities (Note 7)			
Stockholders' equity (Note 10)**:**			
Common stock			
Authorized—1,000,000,000 shares			
Issued—371,055,259 shares	185,528	185,528	1,733,907
Capital surplus	16,685	16,680	155,935
Retained earnings (Note 11)	366,407	338,265	3,424,364
Net unrealized holding gains on securities	10,411	9,029	97,299
Treasury stock (6,509,313 shares in 2005 and 6,316,625 shares in 2004)	(11,484)	(11,109)	(107,327)
Total stockholders' equity	567,547	538,393	5,304,178
Total liabilities and stockholders' equity	¥2,447,206	¥2,518,789	$22,871,084

Non-Consolidated Statements of Income

The Chugoku Electric Power Co., Inc.
For the years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	2005
Operating revenues	¥956,690	¥912,813	¥965,499	$8,941,028
Operating expenses:				
Personnel	113,433	132,080	127,697	1,060,121
Fuel	128,076	100,058	110,466	1,196,972
Purchased power	154,910	134,488	141,496	1,447,757
Depreciation	144,622	156,469	166,822	1,351,607
Maintenance	92,717	86,261	86,855	866,514
Taxes other than income taxes	63,266	63,220	64,736	591,271
Purchased services	38,392	35,948	36,184	358,804
Other	101,513	104,850	104,949	948,720
	836,929	813,374	839,205	7,821,766
Operating income	119,761	99,439	126,294	1,119,262
Other expenses (income):				
Interest expense	36,727	36,771	56,646	343,243
Interest income	(61)	(82)	(88)	(570)
Loss on impairment of fixed assets (Note 5)	4,089	—	—	38,215
Other, net	4,325	1,556	(1,944)	40,421
	45,080	38,245	54,614	421,309
Income before special item and income taxes	74,681	61,194	71,680	697,953
Special item:				
Reserve for drought	1,747	712	—	16,327
Provision for income taxes:				
Current	25,061	28,457	31,368	234,215
Deferred	1,374	(7,504)	(5,382)	12,841
Net income	¥ 46,499	¥ 39,529	¥ 45,694	$ 434,570

	Yen			U.S. dollars (Note 1)
Per share data:				
Net income:				
Basic	¥127.18	¥107.62	¥123.70	$1.19
Diluted	127.18	107.62	123.70	1.19
Cash dividends applicable to the year	50.00	50.00	50.00	0.47

See accompanying notes.

Non-Consolidated Statements of Stockholders' Equity

The Chugoku Electric Power Co., Inc.
For the years ended March 31, 2005, 2004 and 2003

		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, 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)		
Surplus from sale of treasury stock			3			
Decrease in unrealized holding gains on securities					(4,664)	
Treasury stock purchased, net						(7,037)
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)
Net income				46,499		
Cash dividends paid (¥50.00 per share)				(18,237)		
Bonuses to directors and statutory auditors				(120)		
Surplus from sale of treasury stock			5			
Increase in unrealized holding gains on securities					1,382	
Treasury stock purchased, net						(375)
Balance at March 31, 2005	**371,055,259**	**¥185,528**	**¥16,685**	**¥366,407**	**¥10,411**	**¥(11,484)**

	Thousands of U.S. dollars (Note 1)				
Balance at March 31, 2004	$1,733,907	$155,888	$3,161,355	$84,383	$(103,822)
Net income			434,570		
Cash dividends paid ($0.47 per share)			(170,439)		
Bonuses to directors and statutory auditors			(1,122)		
Surplus from sale of treasury stock		47			
Increase in unrealized holding gains on securities				12,916	
Treasury stock purchased, net					(3,505)
Balance at March 31, 2005	**$1,733,907**	**$155,935**	**$3,424,364**	**$97,299**	**$(107,327)**

See accompanying notes.

Notes to Non-Consolidated Financial Statements

The Chugoku Electric Power Company, Inc.
For the years ended March 31, 2005, 2004 and 2003

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 are included solely for the convenience of the readers outside Japan, using the prevailing exchange rate on March 31, 2005, which was ¥107 to US$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, net of the amount considered not collectible. Equity securities issued by subsidiaries and affiliated companies are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of stockholders' equity. Realized gains and losses on the sale of such securities are computed using the moving-average cost. Other securities with no available fair market value are stated at moving-average cost.

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

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

Accounting for the impairment of fixed assets

For the year ended March 31, 2005, the Company adopted 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 Standard Board of Japan on October 31, 2003).

As a result of the new accounting standard for impairment of fixed assets, income before income taxes decreased by ¥4,089 million (US$38,215 thousand) for the year ended March 31, 2005.

Nuclear fuel and amortization

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

Allowance for doubtful accounts

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

Severance and retirement benefits

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

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

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

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

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

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

Prior service costs are recognized in expenses within the average of estimated remaining periods of the employees (one year). Actuarial 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 for the reserve for decommissioning of nuclear power plants by charging to income periodically the future decommissioning costs of nuclear power plants.

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

Reserve for drought

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

Accounting for certain lease transactions

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

Derivatives and hedge accounting

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

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

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

1. If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,
   (a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the statements of income in the period which includes the inception date, and
   (b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.
2. If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized. In this case, assessment of hedge effectiveness is not necessary.

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

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

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

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

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

Reclassifications
Certain prior year amounts have been reclassified to conform to the 2005 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

Consolidated tax system
In the year ended March 31, 2005, the Company introduced the consolidated tax system.

3. Securities
Disclosure of market value information of securities, except for investments in subsidiaries and affiliates, with readily available market values at March 31, 2005, is required only in consolidated financial statements.

Book values and fair values of equity securities issued by subsidiaries and affiliated companies with available fair values as of March 31, 2005 and 2004, were as follows:

	Millions of yen						Thousands of U.S. dollars		
	Book value		Fair value		Difference		Book value	Fair value	Difference
	2005	2004	2005	2004	2005	2004	2005		
Equity securities of affiliated companies	¥2,493	¥2,493	¥44,725	¥47,504	¥42,232	¥45,011	$23,299	$417,991	$394,692

4. Long-term debt
Long-term debt at March 31, 2005 and 2004, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Domestic bonds due through 2029 at rates of 0.58% to 4.1%	¥ 845,000	¥ 940,000	$ 7,897,196
Loans from the Development Bank of Japan due serially through 2023 at rates of 0.75% to 4.95%	243,038	274,865	2,271,383
Unsecured loans, principally from banks and insurance companies, due serially through 2032 at rates of 0.17% to 6.45%	299,916	319,548	2,802,953
	1,387,954	1,534,413	12,971,532
Less amount due within one year	(134,601)	(145,695)	(1,257,953)
Total	¥1,253,353	¥1,388,718	$11,713,579

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, 2005, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥134,601	$1,257,953
2007	68,361	638,888
2008	134,593	1,257,879
2009	101,415	947,804
Thereafter	948,984	8,869,008

5. Impairment loss on fixed assets

Since all property currently used for the electric business are generating cash flows that result from power generation sales, they are considered one property group.

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

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

For the year ended March 31, 2005, the Company recognized ¥4,089 million (US$38,215 thousand) of impairment losses on fixed assets which consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Construction in progress	¥2,313	$21,617
General facilities	1,776	16,598
Total	¥4,089	$38,215

Impairment losses relating to "construction in progress" with uncertain future cash flows is recognized by individual project. Impairment losses relating to "general facilities" are grouped within respective areas because these assets are supplemental in terms of generating cash flows. The Company determines if assets are impaired by comparing their undiscounted expected future cash flows to their carrying amounts in the accounting records. The Company recognizes impairment losses if the undiscounted expected future cash flows are less than the carrying amounts of the asset.

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

6. Leases

(As lessee)

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

Lease payments under non-capitalized finance leases amounted to ¥994 million (US$9,290 thousand), ¥911 million and ¥849 million for the years ended March 31, 2005, 2004 and 2003, respectively.

The present values of future minimum lease payments under non-capitalized finance leases and future minimum lease payments under operating leases as of March 31, 2005 and 2004, were as follows:

	Millions of yen				Thousands of U.S. dollars	
	Finance leases		Operating leases		Finance leases	Operating leases
	2005	2004	2005	2004	2005	
Current portion	¥ 827	¥ 761	¥386	¥403	$ 7,729	$3,607
Non-current portion	1,396	1,151	173	68	13,047	1,617
Total	¥2,223	¥1,912	¥559	¥471	$20,776	$5,224

7. Contingent liabilities

At March 31, 2005, the Company was contingently liable as guarantor for loans of other companies and employees in the amount of ¥165,801 million (US$1,549,542 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 ¥35,000 million (US$327,103 thousand).

8. Research and development expenses

Research and development expenses charged to operating expenses were ¥8,068 million (US$75,402 thousand), ¥8,386 million and ¥8,371 million for the years ended March 31, 2005, 2004 and 2003, respectively.

9. Income taxes

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2005 and 2004, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Deferred tax assets:			
Excess depreciation	**¥12,392**	¥10,859	**$115,813**
Severance and retirement benefits	**10,858**	18,702	**101,477**
Future reprocessing costs of irradiated nuclear fuel	**4,742**	4,742	**44,318**
Future decommissioning costs of nuclear power generating plants	**4,288**	4,288	**40,075**
Amortization of deferred charges	**4,287**	5,255	**40,065**
Accrued bonuses to employees	**4,028**	4,122	**37,645**
Accrued defined contribution pension	**3,554**	—	**33,215**
Others	**11,719**	8,071	**109,523**
Total gross deferred tax assets	**55,868**	56,039	**522,131**
Less, valuation allowance	**(1,199)**	—	**(11,206)**
Total deferred tax assets	**54,669**	56,039	**510,925**
Deferred tax liabilities:			
Unrealized holding gains on securities	**(5,894)**	(5,113)	**(55,084)**
Other	**(146)**	(142)	**(1,364)**
Total deferred tax liabilities	**(6,040)**	(5,255)	**(56,448)**
Net deferred tax assets	**¥48,629**	¥50,784	**$454,477**

10. Stockholders' equity

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

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

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

11. Subsequent events

The following appropriations of retained earnings at March 31, 2005, were approved at the annual meeting of stockholders held on June 29, 2005:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥25 ($0.23) per share	¥9,114	$85,178
Bonuses to directors and statutory auditors	120	1,121

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, 2005 and 2004, and the related non-consolidated statements of income and stockholders' equity for each of the three years in the period ended March 31, 2005, 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, 2005 and 2004, and the non-consolidated results of its operations for each of the three years in the period ended March 31, 2005, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to Note 2 to the non-consolidated financial statements. As discussed in Note 2 to the non-consolidated financial statements, effective April 1, 2004, The Chugoku Electric Power Co., Inc. adopted early the new accounting standards for impairment of fixed assets.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the non-consolidated financial statements.

KPMG AZSA & Co.

Hiroshima, Japan
June 29, 2005

Major Subsidiaries and Affiliated Companies

(As of July 1, 2005)

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
The Chugoku Electric Manufacturing Company, Incorporated*	¥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 Solution & Service Company, Incorporated*	¥1,000	100.0	Fuel supply, energy utilization
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
CHUGOKU KOATSU CONCRETE INDUSTRIES CO., LTD.*	¥150	44.5	Manufacture of concrete products
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
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

Corporate Data

(As of March 31, 2005)

DATE OF ESTABLISHMENT May 1, 1951

PAID-IN CAPITAL ¥185,528 million

NUMBER OF EMPLOYEES 10,798

LOCATIONS

Head Office
4-33, Komachi, Naka-ku, Hiroshima 730-8701, Japan
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NUMBER OF USERS

	(Thousands)
Residential (lighting)	4,564
Industrial and commercial	645
Total*	5,209

*Excludes power consumption by the liberalized sector.

SUPPLY INFRASTRUCTURE

Power Stations

	Number of Facilities	Generating Capacity (MW)
Hydroelectric	95	2,900
Thermal	12	8,026
Nuclear	1	1,280
Total	108	12,205

Transmission Lines (Total Length) 8,057 kilometers
Number of Substations 394
Distribution Lines (Total Length) 80,407 kilometers

Investor Information

(As of March 31, 2005)

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
KPMG AZSA & Co.

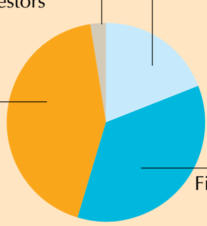
TRANSFER AGENT AND REGISTRAR
The Sumitomo Trust & Banking Co., Ltd.

SECURITIES TRADED
Tokyo Stock Exchange, Osaka Securities Exchange

NUMBER OF STOCKHOLDERS
162,476

COMMON STOCK ISSUED
371,055,259 shares

DISTRIBUTION OF COMMON STOCK ISSUED



*Thousands of shares

MAJOR STOCKHOLDERS

Name	Number of shares held (thousands)	Percentage (%)
Yamaguchi Pref. Shinko Zaidan	49,505	13.34
Nippon Life Insurance Company	23,148	6.24
Japan Trustee Services Bank, Ltd. (Trust account)	17,958	4.84
The Master Trust Bank of Japan, Ltd. (Trust account)	17,374	4.68
The Sumitomo Trust & Banking Co., Ltd.	7,060	1.90
The Dai-ichi Mutual Life Insurance Company	6,054	1.63
Mizuho Corporate Bank, Ltd.	5,801	1.56
Company's stock investment	5,393	1.45
The Hiroshima Bank, Ltd.	5,092	1.37
Trust & Custody Services Bank, Ltd.	4,443	1.20

STOCK PRICE RANGE ON THE TOKYO STOCK EXCHANGE

Fiscal year		High (yen)	Low (yen)
2005	1st quarter	1,917	1,801
	2nd quarter	1,960	1,876
	3rd quarter	1,928	1,845
	4th quarter	2,070	1,897
2006	1st quarter	2,175	1,959

THE CHUGOKU ELECTRIC POWER CO., INC.

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