Kyushu Electric Power Company, Incorporated

Annual Report 2005 For the year ended March 31, 2005

Contents

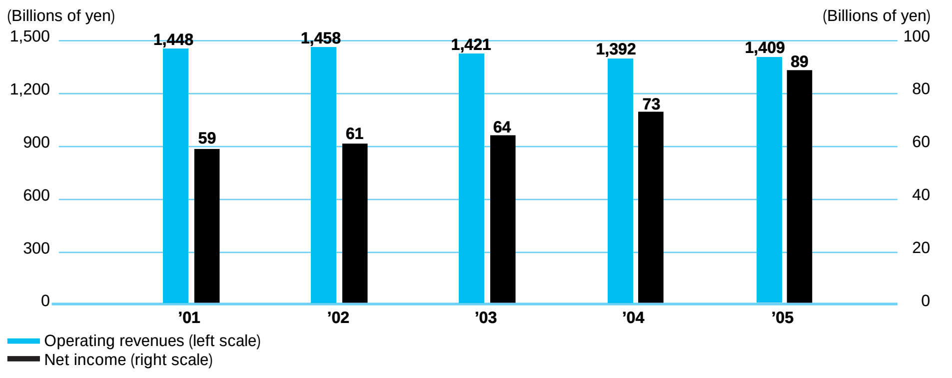
Consolidated Financial Highlights

Kyushu Electric Power Company, Incorporated and Consolidated Subsidiaries
Years Ended March 31, 2005, 2004 and 2003

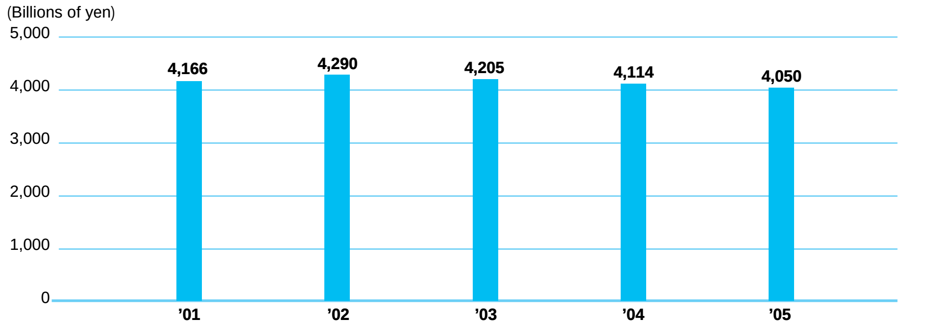
	Millions of Yen (except for per share data)			Thousands of U.S. Dollars (except for per share data)
	2005	2004	2003	**2005**
For the year:				
Operating revenues	**¥1,408,728**	¥1,391,684	¥1,421,310	**$13,115,427**
Operating income	**213,735**	198,966	180,014	**1,989,899**
Net income	**89,288**	72,792	64,319	**831,282**
Per share of common stock (yen and U.S. dollars):				
Net income:				
Basic	**¥ 187.91**	¥ 153.05	¥ 135.13	**$ 1.75**
Diluted				
Cash dividends applicable to the year	**60.00**	50.00	50.00	**0.56**
At year-end:				
Total assets	**¥4,049,713**	¥4,114,378	¥4,204,566	**$37,703,314**
Total shareholders' equity	**979,252**	910,838	840,245	**9,116,954**

Note: All dollar figures herein refer to U.S. currency. Japanese yen amounts have been translated, for convenience only, at the rate of ¥107.41=US$1, the approximate exchange rate prevailing on March 31, 2005.

Operating Revenues and Net Income



Total Assets



Consolidated Six-Year Financial Summary

Kyushu Electric Power Company, Incorporated and Consolidated Subsidiaries
Years Ended March 31,

	Millions of Yen (except for per share data)						Thousands of U.S. Dollars (except for per share data)
	2005	2004	2003	2002	2001	2000	**2005**
For the year:							
Operating revenues	**¥1,408,728**	¥1,391,684	¥1,421,310	¥1,458,066	¥1,448,376	¥1,428,559	**$13,115,427**
Electric	**1,320,581**	1,308,843	1,350,675	1,381,440	1,410,010	1,392,148	**12,294,768**
Other	**88,147**	82,841	70,635	76,626	38,366	36,411	**820,659**
Operating expenses	**1,194,993**	1,192,718	1,241,296	1,260,308	1,236,344	1,246,791	**11,125,528**
Electric	**1,107,744**	1,108,104	1,170,655	1,184,382	1,199,237	1,211,227	**10,313,230**
Other	**87,249**	84,614	70,641	75,926	37,107	35,564	**812,298**
Interest charges	**49,522**	77,121	77,897	85,653	89,952	107,190	**461,056**
Income before income taxes and minority interests	**146,797**	112,451	102,363	99,464	97,447	39,490	**1,366,698**
Income taxes	**57,858**	39,086	38,417	39,808	37,595	16,058	**538,665**
Net income	**89,288**	72,792	64,319	61,120	59,191	22,934	**831,282**
Per share of common stock (yen and U.S. dollars):							
Net income:							
Basic	**¥ 187.91**	¥ 153.05	¥ 135.13	¥ 128.90	¥ 124.83	¥ 48.37	**$ 1.75**
Diluted					123.65	48.21	
Cash dividends applicable to the year	**60.00**	50.00	50.00	60.00	60.00	50.00	**0.56**
At year-end:							
Total assets	**¥4,099,713**	¥4,114,378	¥4,204,566	¥4,290,132	¥4,166,489	¥4,141,718	**$37,703,314**
Net property	**3,300,740**	3,394,855	3,523,273	3,595,794	3,459,859	3,528,297	**30,730,285**
Long-term debt, less current maturities	**1,739,660**	1,858,512	1,984,702	2,130,149	2,071,192	2,137,509	**16,196,444**
Total shareholders’ equity	**979,252**	910,838	840,245	824,928	810,018	725,516	**9,116,954**

Note: All dollar figures herein refer to U.S. currency. Japanese yen amounts have been translated, for convenience only, at the rate of ¥107.41=US$1, the approximate exchange rate prevailing on March 31, 2005.

Operating Results: In fiscal 2004, ended March 31, 2005, the Japanese economy initially showed signs of a turnaround on the strength of rises in exports and private-sector capital investment. But the recovery pace slowed from the second half of the term as personal consumption flattened and export growth decelerated.

Power sales volume advanced 3.1% from a year earlier on higher production among integrated circuit (IC) and chemicals makers, offsetting the impact of cement plant closures on consumption among large industrial customers. Residential (lighting) and commercial demand increased 4.1%. This reflected new shop and restaurant openings as well as a hotter summer, which boosted air-conditioning demand. The Company's sales volume therefore increased 3.8%, to 80.2 billion kilowatt-hours.

Total operating revenues increased 1.2%, to ¥1,408.7 billion. This was mainly because of overall gains in power volume sales, which offset the impact of a rate reduction and lower power volume sales to other electric power companies.

Total operating expenses decreased 0.2%, to ¥1,195.0 billion. This low rise was despite higher power production and increased fuel costs, and was due to groupwide cost-reduction efforts and a management efficiency drive that cut capital and personnel costs.

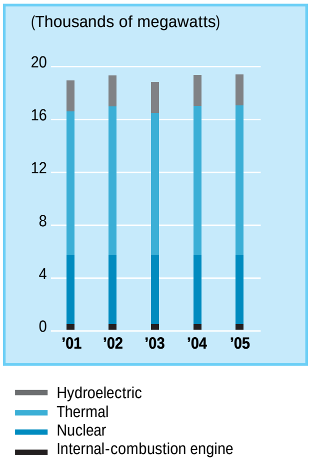
Operating income thus rose 7.4%, to ¥213.7 billion. Net income climbed 22.7%, to ¥89.3 billion, despite extraordinary losses of ¥10.5 billion stemming from the application of new accounting standards for losses on property.

Capital Investment Policy: Kyushu Electric's capital expenditure plans focus on lowering the costs of providing electricity while stabilizing long-term supplies.

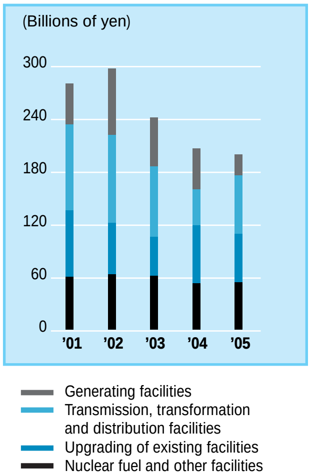
Management is striving to improve the efficiency of its capital spending by (1) accurately projecting future demand and (2) increasing the reliability of its facilities and operating technologies by streamlining the facilities setup, reviewing design and construction standards and diversifying purchasing.

To satisfy growing demand for power, the Company is taking comprehensive steps to maintain secure energy supplies

Generating Capacity



Capital Investment



while balancing its power development, centered on nuclear power, to ensure economy and reduce environmental impact.

In keeping with medium- and long-term demand prospects, we are developing new power sources while serving demand increases and installing transmission and distribution facilities. We are laying distribution lines underground to help reduce environmental impact.

Capital expenditures were ¥800 million higher than we initially planned, at ¥200.1 billion. This reflected the costs of restoration from typhoon damage, which overshadowed efficiency initiatives that included spending cuts on design, construction and procurement.

We are continuing work on a 1,200-megawatt pumped storage hydroelectric power station in Omarugawa. The first 300 megawatts will come on line in July 2007, followed by 300 megawatts in July 2008 and a further 600 megawatts in July 2010.

Financing: Kyushu Electric mainly funds its capital investment requirements internally, supported by diverse sources of low-cost external financing.

In fiscal 2004, capital investment and the redemption of corporate bonds and borrowings were ¥738.6 billion, down 19.1%. Bond redemptions and loan repayments decreased 23.7%, to ¥538.5 billion.

Internal reserves increased 7.9%, to ¥384.7 billion. Proceeds from the issue of bonds and notes dropped 31.0%, to ¥100.0 billion, of which net proceeds were ¥99.6 billion. Borrowings fell 38.2%, to ¥254.3 billion.

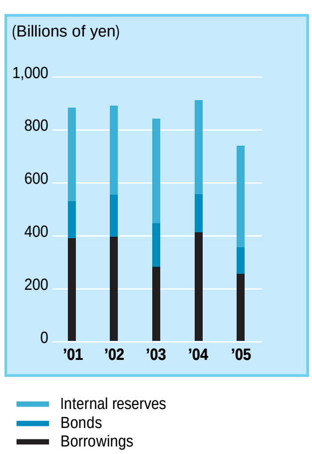
Cash Flows: Net cash provided by operating activities increased 8.4%, to ¥419.3 billion. This rise was due mainly to higher residential electricity revenues.

Net cash used in investing activities dropped 3.1%, to ¥193.6 billion, largely because of lower capital expenditures.

Net cash used in financing activities rose 11.5%, to ¥221.0 billion, reflecting a decline in interest-bearing debt.

As a result of these factors, cash and cash equivalents at end of year stood at ¥42.8 billion, down ¥5.3 billion from the close of fiscal 2003.

Sources of Funds



Japan's Electric Utility Law: The Electric Utility Law of 1964 governs Japan's electric power companies and their activities. The law's principal objectives are to protect the interests of users, to promote the development of the electric power industry, and to assure that the production and provision of electric power is conducted in a safe and nonpolluting manner. The law effectively permits the country's nine regional electric power companies to monopolize the retail sale of electric power in their respective areas, but it also requires that electric power rates be set at levels that reflect the companies' actual operating costs and are fair to both suppliers and consumers.

On March 21, 2000, the government implemented the revised Electric Utility Law, deregulating the retailing of high-voltage power.

The revised Electric Utility Law came into effect on June 11, 2003. Power retailing extended to all high-voltage users from April 2005. The Japanese government has decided to assess specific policies for full liberalization by April 2007.

Consolidated Balance Sheets

Kyushu Electric Power Company, Incorporated and Consolidated Subsidiaries
March 31, 2005 and 2004

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	**2005**
PROPERTY (Notes 3 and 12):			
Plant and equipment	**¥ 8,600,760**	¥ 8,612,773	**$80,074,109**
Construction in progress	**290,548**	239,625	**2,705,036**
Total	**8,891,308**	8,852,398	**82,779,145**
Less—			
Contributions in aid of construction	**127,808**	125,623	**1,189,908**
Accumulated depreciation	**5,462,760**	5,331,920	**50,858,952**
Total	**5,590,568**	5,457,543	**52,048,860**
Net property	**3,300,740**	3,394,855	**30,730,285**
NUCLEAR FUEL	**243,176**	234,854	**2,263,998**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4)	**114,097**	112,606	**1,062,257**
Investments in and advances to non-consolidated subsidiaries and associated companies	**54,632**	54,608	**508,630**
Deferred tax assets (Note 9)	**115,329**	110,531	**1,073,727**
Other assets	**20,820**	18,481	**193,837**
Total investments and other assets	**304,878**	296,226	**2,838,451**
CURRENT ASSETS:			
Cash and cash equivalents	**42,831**	37,520	**398,762**
Receivables	**97,364**	90,739	**906,471**
Allowance for doubtful accounts	**(1,286)**	(1,332)	**(11,973)**
Inventories, principally fuel, at average cost	**38,682**	41,346	**360,134**
Deferred tax assets (Note 9)	**15,161**	15,020	**141,151**
Prepaid expenses and other	**8,167**	5,150	**76,035**
Total current assets	**200,919**	188,443	**1,870,580**
TOTAL	**¥ 4,049,713**	¥ 4,114,378	**$37,703,314**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
LONG-TERM LIABILITIES:			
Long-term debt, less current maturities (Note 6)	¥1,739,660	¥1,858,512	$16,196,444
Liability for employees' retirement benefits (Note 7)	205,435	200,862	1,912,625
Reserve for reprocessing of irradiated nuclear fuel	350,698	327,901	3,265,040
Reserve for decommissioning of nuclear power units	110,506	105,497	1,028,824
Other	18,328	10,776	170,636
Total long-term liabilities	2,424,627	2,503,548	22,573,569
CURRENT LIABILITIES:			
Current maturities of long-term debt (Note 6)	216,422	175,379	2,014,915
Short-term borrowings (Note 8)	183,373	244,327	1,707,225
Commercial paper		58,000	
Notes and accounts payable (Note 13)	77,467	73,623	721,227
Accrued income taxes	35,471	32,355	330,239
Accrued expenses	81,501	71,544	758,784
Other	38,409	33,869	357,592
Total current liabilities	632,643	689,097	5,889,982
RESERVE FOR FLUCTUATIONS IN WATER LEVEL	4,682	2,018	43,590
MINORITY INTERESTS	8,509	8,877	79,219
COMMITMENTS AND CONTINGENCIES (Note 16)			
SHAREHOLDERS' EQUITY (Note 10):			
Common stock, authorized, 1,000,000,000 shares; issued 474,183,951 shares in 2005 and 2004	237,305	237,305	2,209,338
Capital surplus	31,094	31,094	289,489
Retained earnings	675,191	608,656	6,286,109
Unrealized gain on available-for-sale securities	36,914	34,710	343,674
Foreign currency translation adjustments	(272)	(211)	(2,532)
Treasury stock—at cost, 699,439 shares in 2005 and 571,164 shares in 2004	(980)	(716)	(9,124)
Total shareholders' equity	979,252	910,838	9,116,954
TOTAL	¥4,049,713	¥4,114,378	$37,703,314

Consolidated Statements of Income

Kyushu Electric Power Company, Incorporated and Consolidated Subsidiaries
Years Ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	**2005**
OPERATING REVENUES (Note 14):			
Electric	**¥ 1,320,581**	¥ 1,308,843	**$12,294,768**
Other	**88,147**	82,841	**820,659**
Total operating revenues	**1,408,728**	1,391,684	**13,115,427**
OPERATING EXPENSES (Notes 11 and 14):			
Electric	**1,107,744**	1,108,104	**10,313,230**
Other	**87,249**	84,614	**812,298**
Total operating expenses	**1,194,993**	1,192,718	**11,125,528**
OPERATING INCOME	**213,735**	198,966	**1,989,899**
OTHER EXPENSES (INCOME):			
Interest charges	**49,522**	77,121	**461,056**
Loss on impairment of fixed assets (Note 12)	**10,500**		**97,756**
Other—net	**4,252**	7,376	**39,587**
Total other expenses—net	**64,274**	84,497	**598,399**
INCOME BEFORE INCOME TAXES, PROVISION FOR RESERVE FOR FLUCTUATIONS IN WATER LEVEL, AND MINORITY INTERESTS	**149,461**	114,469	**1,391,500**
PROVISION FOR RESERVE FOR FLUCTUATIONS IN WATER LEVEL	**2,664**	2,018	**24,802**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**146,797**	112,451	**1,366,698**
INCOME TAXES (Note 9):			
Current	**64,053**	59,383	**596,341**
Deferred	**(6,195)**	(20,297)	**(57,676)**
Total income taxes	**57,858**	39,086	**538,665**
INCOME BEFORE MINORITY INTERESTS IN NET LOSS (INCOME) OF CONSOLIDATED SUBSIDIARIES	**88,939**	73,365	**828,033**
MINORITY INTERESTS IN NET LOSS (INCOME) OF CONSOLIDATED SUBSIDIARIES	**349**	(573)	**3,249**
NET INCOME	**¥ 89,288**	¥ 72,792	**$ 831,282**
	Yen		U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK (Note 2. r.):			
Basic net income	**¥ 187.91**	¥ 153.05	**$1.75**
Cash dividends applicable to the year	**60.00**	50.00	**0.56**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Kyushu Electric Power Company, Incorporated and Consolidated Subsidiaries
Years Ended March 31, 2005 and 2004

	Thousands of Shares/Millions of Yen							
	Common Stock						Treasury Stock	
	Shares	Amount	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustment	Shares	Amount
BALANCE AT APRIL 1, 2003	474,184	¥237,305	¥31,087	¥556,955	¥15,490		487	¥(592)
Adjustment of capital surplus and retained earnings for newly consolidated subsidiaries			7	2,846				
Adjustment of retained earnings for change in scope of application of equity method				74				
Net income				72,792				
Cash dividends, ¥50 per share				(23,699)				
Bonuses to directors and corporate auditors				(312)				
Increase in treasury stock							84	(124)
Net increase in unrealized gain on available-for-sale securities					19,220			
Net decrease in foreign currency translation adjustment						¥(211)		
BALANCE AT MARCH 31, 2004	474,184	237,305	31,094	608,656	34,710	(211)	571	(716)
Adjustment of retained earnings for exclusion of an equity method accounted company				**104**				
Adjustment of retained earnings for the merger of a non-consolidated subsidiary with a consolidated subsidiary				**1,137**				
Net income				**89,288**				
Cash dividends, ¥50 per share				**(23,695)**				
Bonuses to directors and corporate auditors				**(299)**				
Increase in treasury stock							**128**	**(264)**
Net increase in unrealized gain on available-for-sale securities					**2,204**			
Net decrease in foreign currency translation adjustment						**(61)**		
BALANCE AT MARCH 31, 2005	**474,184**	**¥237,305**	**¥31,094**	**¥675,191**	**¥36,914**	**¥(272)**	**699**	**¥(980)**

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustment	Treasury Stock
BALANCE AT MARCH 31, 2004	$2,209,338	$289,489	$5,666,660	$323,154	$(1,964)	$(6,666)
Adjustment of retained earnings for exclusion of an equity method accounted company			**968**			
Adjustment of retained earnings for the merger of a non-consolidated subsidiary with a consolidated subsidiary			**10,586**			
Net income			**831,282**			
Cash dividends, $0.47 per share			**(220,603)**			
Bonuses to directors and corporate auditors			**(2,784)**			
Increase in treasury stock						**(2,458)**
Net increase in unrealized gain on available-for-sale securities				**20,520**		
Net decrease in foreign currency translation adjustment					**(568)**	
BALANCE AT MARCH 31, 2005	**$2,209,338**	**$289,489**	**$6,286,109**	**$343,674**	**$(2,532)**	**$(9,124)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Kyushu Electric Power Company, Incorporated and Consolidated Subsidiaries
Years Ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 146,797	¥ 112,451	$ 1,366,698
Adjustments for:			
Income taxes—paid	(61,495)	(61,061)	(572,526)
Depreciation and amortization	264,310	285,770	2,460,758
Loss on impairment of fixed assets	10,500		97,756
Provision for liability for employees' retirement benefits	4,521	18,167	42,091
Provision for reserve for reprocessing of irradiated nuclear fuel	22,797	26,590	212,243
Provision for reserve for decommissioning of nuclear power units	5,009	1,633	46,634
Loss on disposal of plant and equipment	8,958	11,360	83,400
Nuclear fuel transferred to reprocessing costs	1,814	184	16,889
Provision for reserve for fluctuations in water level	2,664	2,018	24,802
Reversal of reserve for loss on discontinued operations	(989)	(7,816)	(9,208)
Changes in assets and liabilities, net of effects from newly consolidated subsidiaries and merger of a non-consolidated subsidiary with a consolidated subsidiary:			
Increase in trade receivables	(1,503)	(2,529)	(13,993)
Decrease in inventories	2,663	4,466	24,793
Increase (decrease) in trade payables	1,596	(789)	14,859
Decrease in interest payables	(616)	(4,177)	(5,735)
Other—net	12,248	581	114,030
Total adjustments	272,477	274,397	2,536,793
Net cash provided by operating activities	419,274	386,848	3,903,491
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures including nuclear fuel	(206,303)	(211,821)	(1,920,706)
Payments for investments and advances	(8,209)	(6,229)	(76,427)
Proceeds from sales of investment securities and collections of advances	13,076	10,499	121,739
Other—net	7,880	7,718	73,364
Net cash used in investing activities	(193,556)	(199,833)	(1,802,030)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of bonds	99,632	144,361	927,586
Repayments of bonds	(78,628)	(301,215)	(732,036)
Proceeds from long-term bank loans	48,918	70,798	455,432
Repayments of long-term bank loans	(148,100)	(143,390)	(1,378,829)
Net increase (decrease) in short-term borrowings	(60,954)	30,071	(567,489)
Net increase (decrease) in commercial paper	(58,000)	25,000	(539,987)
Cash dividends paid	(23,698)	(23,693)	(220,631)
Other—net	(213)	(130)	(1,983)
Net cash used in financing activities	(221,043)	(198,198)	(2,057,937)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	8	(70)	75
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,683	(11,253)	43,599
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES AT BEGINNING OF YEAR	195	3,356	1,816
CASH AND CASH EQUIVALENTS OF A NON-CONSOLIDATED SUBSIDIARY MERGED WITH A CONSOLIDATED SUBSIDIARY	433		4,031
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	37,520	45,417	349,316
CASH AND CASH EQUIVALENTS AT END OF YEAR	¥ 42,831	¥ 37,520	$ 398,762

See notes to consolidated financial statements.

Kyushu Electric Power Company, Incorporated and Consolidated Subsidiaries
Years Ended March 31, 2005 and 2004

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and the Japanese Electric Utility Law and their related accounting regulations. Kyushu Electric Power Company, Incorporated (the "Company") and its consolidated subsidiaries (together the "Companies") maintain their accounts and records in accordance with the provisions set forth in the Commercial Code of Japan (the "Code") 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.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made to the consolidated financial statements for the year ended March 31, 2004 to conform to the classifications used in the consolidated financial statements for the year ended March 31, 2005.

The United States dollar amounts included herein are provided solely for the convenience of readers and are stated at the rate of ¥107.41=US$1, the approximate exchange rate prevailing on March 31, 2005. The translations should not be construed as representations that the Japanese yen amounts could be converted into United States dollars at that or any other rate.

2. Summary of Significant Accounting Policies

a. Consolidation and Application of the Equity Method—The consolidated financial statements as of March 31, 2005 include the accounts of the Company and its twenty-one (nineteen for 2004) subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. Investments in thirteen non-consolidated subsidiaries and eleven associated companies are accounted for by the equity method.

The Company adopts the control or influence concept. Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are treated as subsidiaries and those companies over which the Companies have the ability to exercise significant influence are treated as associated companies.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is being amortized over a period of 5 years.

Consolidation of the remaining subsidiaries and the application of the equity method to the remaining non-consolidated subsidiaries and associated companies would not have a material effect on the accompanying consolidated financial statements.

b. Property and Depreciation—Property is stated at cost. Contributions in aid of construction including those made by customers are deducted from the cost of the related assets.

Depreciation is principally computed using the declining-balance method based on the estimated useful lives of the assets.

c. Impairment of Fixed Assets—In August 2002, the Business Accounting Council issued a Statement of Opinion, *Accounting for Impairment of Fixed Assets*, and in October 2003 the Accounting Standards Board of Japan (ASB) issued ASB Guidance No. 6, *Guidance for Accounting Standards for Impairment of Fixed Assets*. These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Companies adopted the new accounting standard for impairment of fixed assets as of April 1, 2004.

The Companies review their fixed assets including leased property for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The effect of adoption of the new accounting standard for impairment of fixed assets was to decrease income before income taxes and minority interests for the year ended March 31, 2005 by ¥10,500 million ($97,756 thousand).

d. Amortization of Nuclear Fuel—Amortization of nuclear fuel is computed based on the proportion of current heat production to the estimated total heat production over the estimated useful life of the nuclear fuel.

e. Investment Securities—The accounting standard for financial instruments requires all applicable securities to be classified and accounted for, depending on management's intent, as follows: i) held-to-maturity debt securities are stated at cost with discounts or premiums amortized throughout the holding periods; ii) available-for-sale securities, which are not classified as the aforementioned securities and investment securities in non-consolidated subsidiaries and associated companies, are stated at market value; and securities without market value are stated at cost.

The Companies record unrealized gains or losses on available-for-sale securities, net of deferred taxes, in shareholders' equity presented as "Unrealized gain on available-for-sale securities."

For other than temporary declines in fair value, investment securities are written down to net realizable value by a charge to income.

f. Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits and bond funds, all of which mature or become due within three months of the date of acquisition.

g. Foreign Currency Transactions—Receivables and payables denominated in foreign currencies are translated into Japanese yen at the rates in effect as of each balance sheet date.

h. Foreign Currency Financial Statements—The balance sheet accounts of the foreign subsidiary, which is not consolidated but accounted for by the equity method, are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate.

Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity.

i. Derivatives and Hedging Activities—The accounting standard for derivative financial instruments and the accounting standard for foreign currency transactions require that: a) all derivatives be recognized as either assets or liabilities and measured at market value, and gains or losses on the derivatives be recognized currently in the income statements and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on the derivatives be deferred until maturities of the hedged transactions.

The long-term debt denominated in foreign currencies for which the foreign exchange forward contracts are used to hedge the foreign currency fluctuations are translated at the contracted rate, since such treatment is also allowed to be incorporated under the standards if the forward contracts qualify for hedge accounting.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized in interest charges, which treatment is also allowed under the standards.

j. Severance Payments and Pension Plans—The Companies have unfunded retirement plans for all of their employees and the Company and most of the consolidated subsidiaries also have contributory funded defined benefit pension plans covering substantially all of their employees.

Under the accounting standard for employees' retirement benefits, the amount of the liability for employees' retirement benefits is determined based on the projected benefit obligations and plan assets of the pension fund at the end of the fiscal year.

Retirement benefits for directors and corporate auditors are charged to income when authorized by the shareholders.

k. Reserve for Reprocessing of Irradiated Nuclear Fuel—The annual provision for the costs of reprocessing irradiated nuclear fuel is calculated to state the related reserve at 60% of the amount that would be required to reprocess all of the irradiated nuclear fuel in accordance with the regulatory authority.

l. Reserve for Decommissioning of Nuclear Power Units—Provision is made for future disposition costs of nuclear power units based on a proportion of the current generation of electric power to the estimated total generation of electric power of each unit.

m. Income Taxes—The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

n. Appropriations of Retained Earnings—Appropriations of retained earnings at each year end are reflected in the financial statements for the following year upon shareholders' approval.

o. Special Reserves—The Japanese Special Taxation Measures Law permits companies in Japan to take tax deductions for certain reserves, if recorded in the books of account, that are not required for financial reporting purposes. These reserves must be reversed to taxable income in future periods in accordance with the law.

The Code requires that the special reserves, except for the reserve for fluctuations in water level, be recorded as a component of shareholders' equity (see Note 10).

A reserve for fluctuations in water level is recorded when the volume of water for generating hydroelectric power is abundant and available for future power generation, and reversed in years when there is an insufficient volume of water, in accordance with the Japanese Electric Utility Law and related accounting regulations. Under the law and regulations, this reserve must be shown as a liability.

p. Bond Issuance Costs and Bond Discount Charges—Bond issuance costs are charged to income when paid or incurred. Bond discount charges are amortized over the term of the related bonds.

q. Treasury Stock—The accounting standard for treasury stock requires that where an associated company holds a parent company's stock, a portion which is equivalent to the parent company's interest in such stock should be presented as treasury stock as a separate component of shareholders' equity and the carrying value of the investment in the associated company should be reduced by the same amount.

r. Net Income and Cash Dividends per Share—Basic earnings per share ("EPS") is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the year and diluted EPS reflects the potential dilution that could occur if securities were exercised or converted into common stock.

Diluted EPS is not disclosed for the years ended March 31, 2005 and 2004, because potentially dilutive securities were not outstanding.

Cash dividends per share represent actual amounts applicable to earnings of the respective year.

s. Research and Development Costs—Research and development costs are charged to income as incurred.

t. Leases—All leases are accounted for as operating leases. Under Japanese accounting standard for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

3. Property

The major classes of property as of March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Original costs:			
Electric power production facilities:			
Hydroelectric power	¥ 546,596	¥ 544,570	$ 5,088,874
Thermal power	1,574,769	1,667,196	14,661,289
Nuclear power	1,516,905	1,513,230	14,122,568
Internal-combustion engine power	124,742	123,409	1,161,363
	3,763,012	3,848,405	35,034,094
Transmission facilities	1,493,201	1,506,348	13,901,881
Transformation facilities	917,555	907,334	8,542,547
Distribution facilities	1,286,500	1,284,673	11,977,470
General facilities	376,332	359,843	3,503,696
Other electricity-related facilities	64,563	28,806	601,089
Other plant and equipment	699,597	677,364	6,513,332
Construction in progress	290,548	239,625	2,705,036
Total	8,891,308	8,852,398	82,779,145
Less contributions in aid of construction	127,808	125,623	1,189,908
Less accumulated depreciation	5,462,760	5,331,920	50,858,952
Carrying amount	¥ 3,300,740	¥ 3,394,855	$30,730,285

4. Investment Securities

The carrying amounts and aggregate fair values of investment securities at March 31, 2005 and 2004 were as follows:

	Millions of Yen								Thousands of U.S. Dollars			
	2005				2004				2005			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:												
Available-for-sale:												
Equity securities	¥13,043	¥57,743	¥ 1	¥70,785	¥13,035	¥54,359	¥14	¥67,380	$121,432	$537,594	$ 9	$659,017
Debt securities					5	1		6				
Other securities	140	9	17	132	139	5	16	128	1,303	84	158	1,229
Held-to-maturity	463	1	1	463	502	2		504	4,311	9	9	4,311

Available-for-sale securities and held-to-maturity securities whose fair value were not readily determinable as of March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Available-for-sale:			
Equity securities	¥38,011	¥40,265	$353,887
Other securities	2,326	1,685	21,655
Held-to-maturity	2,380	2,640	22,158
Total	¥42,717	¥44,590	$397,700

5. Pledged Assets

All of the Company's assets are subject to certain statutory preferential rights established to secure bonds, notes, loans received from The Development Bank of Japan and bonds transferred to banks under debt assumption agreements (see Note 16).

Certain assets of the consolidated subsidiaries, amounting to ¥74,187 million ($690,690 thousand), are pledged as collateral for a portion of their long-term debt and short-term borrowings at March 31, 2005.

Investments in associated companies held by a consolidated subsidiary, amounting to ¥5,934 million ($55,246 thousand), are pledged as collateral for bank loans of the associated companies at March 31, 2005.

6. Long-Term Debt

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

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Domestic bonds, 0.2% to 4.65%, due serially to 2024	¥1,018,310	¥ 996,938	$ 9,480,589
U.S. dollar notes, 7.25%, due 2008	37,860	37,860	352,481
Swiss franc bonds, 4.0%, due 2007	29,513	29,513	274,770
Loans from The Development Bank of Japan, 0.69% to 6.9%, due serially to 2025	331,404	371,624	3,085,411
Loans, principally from banks and insurance companies, 0.25% to 5.1%, due serially to 2025			
Collateralized	21,060	24,650	196,071
Unsecured	517,935	573,306	4,822,037
Total	1,956,082	2,033,891	18,211,359
Less current maturities	216,422	175,379	2,014,915
Long-term debt, less current maturities	¥1,739,660	¥1,858,512	$16,196,444

The outstanding domestic bonds and Swiss franc bonds may be redeemed prior to maturity at the option of the Company, in whole or in part, at prices 100% of the principal amount for the domestic bonds and in whole at prices ranging from 100.25% of the principal amount for Swiss franc bonds.

Certain long-term loan agreements include, among other things, provisions that allow the lenders the right to approve, if desired, any appropriations of retained earnings including dividends. However, to date, no lender has exercised this right.

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

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2006	¥ 216,422	$ 2,014,915
2007	188,083	1,751,076
2008	201,966	1,880,328
2009	163,002	1,517,568
2010	155,988	1,452,267
Thereafter	1,030,621	9,595,205
Total	¥1,956,082	$18,211,359

7. Severance Payments and Pension Plans

Employees terminating their employment with the Companies, either voluntarily or upon reaching mandatory retirement age, are entitled, under most circumstances, to severance payments based on credits earned in each year of service, length of service and certain other factors. As for the Company, if the termination is made voluntarily at one of a number of specified ages, the employee is entitled to certain additional payments.

Additionally, the Company and most of the consolidated subsidiaries have contributory funded defined benefit pension plans covering substantially all of their employees. In general, eligible employees retiring at the mandatory retirement age receive pension payments for the several fixed terms selected by them. As for the Company, eligible employees retiring after at least 20 years of service but before the mandatory retirement age, receive a lump-sum payment upon retirement and annuities.

The liability for employees' retirement benefits at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Projected benefit obligation	**¥ 489,932**	¥ 524,726	**$ 4,561,326**
Fair value of plan assets	**(298,629)**	(278,244)	**(2,780,272)**
Unrecognized actuarial loss	**(16,852)**	(45,810)	**(156,894)**
Unrecognized prior service cost	**30,984**	190	**288,465**
Net liability	**¥ 205,435**	¥ 200,862	**$ 1,912,625**

The components of net periodic benefit costs for the years ended March 31, 2005 and 2004 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Service cost	**¥15,538**	¥17,331	**$144,661**
Interest cost	**9,570**	10,369	**89,098**
Expected return on plan assets	**(3,231)**	(528)	**(30,081)**
Recognized actuarial loss	**18,958**	26,664	**176,501**
Amortization of prior service cost	**(7,748)**	(97)	**(72,135)**
Net periodic benefit costs	**¥33,087**	¥53,739	**$308,044**

Assumptions for actuarial computations for the years ended March 31, 2005 and 2004 are as follows:

	2005	2004
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	mainly 1.0%	mainly 0.0%
Recognition period of actuarial gain/loss	mainly 5 years	mainly 5 years
Amortization period of prior service cost	mainly 5 years	5 years

8. Short-Term Borrowings

Short-term borrowings are generally represented by 365-day notes, bearing interest at rates ranging from 0.12417% to 2.46% and from 0.08633% to 1.375% at March 31, 2005 and 2004, respectively.

9. Income Taxes

The Companies are subject to several income taxes. The aggregate normal statutory tax rates for the Company approximated 36.1% for 2005 and 2004.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2005 and 2004 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Deferred tax assets:			
Pension and severance costs	¥ 71,364	¥ 66,505	$ 664,408
Depreciation	25,181	23,350	234,438
Tax loss carryforwards	11,560	12,959	107,625
Reserve for reprocessing of irradiated nuclear fuel	10,497	10,497	97,728
Reserve for decommissioning of nuclear power units	10,184	10,184	94,814
Unrealized profits arising from the elimination of intercompany transactions in consolidation	9,310	10,077	86,677
Other	34,303	26,462	319,365
Less valuation allowance	(20,167)	(13,996)	(187,757)
Deferred tax assets	¥ 152,232	¥ 146,038	$1,417,298
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ 20,916	¥ 19,678	$ 194,731
Other	862	845	8,025
Deferred tax liabilities	¥ 21,778	¥ 20,523	$ 202,756
Net deferred tax assets	¥ 130,454	¥ 125,515	$1,214,542

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2005 and the actual effective tax rates reflected in the accompanying consolidated statements of income is as follows:

	2005
Normal effective statutory tax rate	36.1%
Valuation allowance	5.3
Extra tax credit on the Japanese Special Taxation Measures Law	(2.1)
Other—net	0.1
Actual effective tax rate	39.4%

Such reconciliation for the year ended March 31, 2004 is not disclosed because the difference between the normal effective statutory tax rate and the actual effective tax rate is immaterial.

10. Shareholders' Equity

As described in Note 2. o., certain special reserves were included in retained earnings. Such reserves at March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Reserve for:			
Depreciation of nuclear power production facilities under construction		¥ 3,734	
Losses on overseas investments	¥ 21	23	$196
Total	¥ 21	¥ 3,757	$196

The Code requires that all shares of common stock are recorded with no par value and at least 50% of the issue price of new shares to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows public companies to repurchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividends plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders' meeting.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends. The amount of retained earnings available for dividends under the Code was ¥565,582 million ($5,265,637 thousand) as of March 31, 2005, based on the amount recorded in the Company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

11. Research and Development Costs

Research and development costs charged to income were ¥9,856 million ($91,761 thousand) and ¥10,677 million for the years ended March 31, 2005 and 2004, respectively.

12. Loss on Impairment of Fixed Assets

The Companies reviewed their fixed assets including leased property for impairment as of the year ended March 31, 2005 and, as a result, recognized an impairment loss of ¥10,500 million ($97,756 thousand) as other expenses mainly for idle assets which will not be used in the future due to the changes in business plan and the carrying amount of these assets was written down to the recoverable amount.

The recoverable amount of these assets was mainly measured by the respective net selling prices which were based on appraisal valuation and assessed value of fixed assets.

13. Related Party Transactions

Significant transactions of the Company with an associated company for the years ended March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
KYUDENKO CORPORATION			
Transactions:			
Order for construction works of distribution facilities and other	¥ 42,256	¥ 43,943	$393,408
Balances at year ended:			
Payables for construction works	4,922	6,237	45,824

14. Leases

(a) Lessee

The Companies lease certain computer and equipment.

For the year ended March 31, 2005, the Companies recorded an impairment loss of ¥831 million ($7,737 thousand) on certain leased property held under finance leases that do not transfer ownership and an allowance for impairment loss on leased property, which is included in long-term liabilities—other.

Pro forma information of leased equipment such as acquisition cost, accumulated depreciation and lease obligations, all of which included imputed interest expense, under finance leases that do not transfer ownership of the leased equipment to the lessee on an "as if capitalized" basis at March 31, 2005 and 2004 were as follows:

	Millions of Yen		
March 31, 2005	General facilities	Other	Total
Acquisition cost	¥24,584	¥35,932	¥60,516
Accumulated depreciation	14,648	13,083	27,731
Accumulated impairment loss		831	831
Net leased equipment	¥ 9,936	¥22,018	¥31,954

	Thousands of U.S. Dollars		
March 31, 2005	General facilities	Other	Total
Acquisition cost	$228,880	$334,531	$563,411
Accumulated depreciation	136,375	121,804	258,179
Accumulated impairment loss		7,737	7,737
Net leased equipment	$ 92,505	$204,990	$297,495

	Millions of Yen		
March 31, 2004	General facilities	Other	Total
Acquisition cost	¥25,265	¥36,632	¥61,897
Accumulated depreciation	14,450	16,060	30,510
Net leased equipment	¥10,815	¥20,572	¥31,387

Obligations under finance leases which included the imputed interest expense at March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Due within one year	¥ 7,955	¥ 7,602	$ 74,062
Due after one year	24,913	23,806	231,943
Total	¥32,868	¥31,408	$306,005

The above-mentioned amounts include sublease agreements.

Allowance for impairment loss on leased property of ¥808 million ($7,523 thousand) as of March 31, 2005 is not included in the obligations under finance leases.

Depreciation expense and other information under financial leases:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Depreciation expense	¥8,102	¥8,837	$75,431
Lease payments	8,125	8,837	75,645
Reversal of allowance for impairment loss	23		214
Impairment loss	831		7,737

Depreciation expense, which is not reflected in the accompanying statements of income, is computed by the straight-line method.

(b) Lessor

Revenues under finance leases were ¥77 million ($717 thousand) and ¥2 million for the years ended March 31, 2005 and 2004, respectively.

Information of leased property such as acquisition cost and accumulated depreciation under finance leases for the years ended March 31, 2005 and 2004 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Other plant and equipment		Other plant and equipment
	2005	2004	2005
Acquisition cost	¥780	¥233	$7,262
Accumulated depreciation	252	6	2,346
Net leased equipment	¥528	¥227	$4,916

Future lease revenue under finance leases which included the imputed interest revenue at March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Due within one year	¥ 119	¥ 35	$ 1,108
Due after one year	1,071	347	9,971
Total	¥1,190	¥382	$11,079

The above-mentioned amounts include sublease agreements.

Depreciation expense relating to the leased assets arrangements mentioned above was ¥246 million ($2,290 thousand) and ¥6 million for the years ended March 31, 2005 and 2004, respectively.

15. Derivatives

The Company enters into foreign exchange forward contracts, currency swaps, interest rate swaps, energy swap agreements and weather derivatives to manage its exposures to fluctuations in foreign exchanges, interest rates, fuel price and electric operating revenues, respectively.

Oita Liquefied Natural Gas Company, Inc. ("Oita LNG"), a consolidated subsidiary of the Company, enters into interest rate swaps to manage its exposure to fluctuations in interest rates.

The Company and Oita LNG do not enter into derivatives for trading or speculative purposes.

Foreign exchange forward contracts, currency swaps, interest rate swaps and energy swap agreements are subject to market risk which is the exposure created by potential fluctuations in market conditions.

Weather derivatives are subject to electric power business risk which is the exposure created by potential fluctuations in summer temperature changes.

The Company and Oita LNG do not anticipate any losses arising from credit risk which is the possibility that a loss may result from counterparties' failure to perform according to the terms and conditions of the contract, because the counterparites to those derivatives have high credit ratings.

The execution and control of derivatives are controlled by the Accounting & Finance Department of the Company and by the Operation Department of Oita LNG based on internal policies or approval of the management.

16. Commitments and Contingencies

At March 31, 2005, the Companies had a number of fuel purchase commitments, most of which specify quantities and dates for fuel deliveries. However, most of purchase prices are contingent upon fluctuations in market prices.

Contingent liabilities as of March 31, 2005 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Co-guarantees of loans, mainly in connection with procurement of fuel	¥118,440	$1,102,691
Guarantees of employees' loans	62,442	581,343
Guarantees under debt assumption agreements	215,245	2,003,957
Other	5,146	47,910

Under the debt assumption agreements, the Company was contingently liable for the redemption of the domestic bonds transferred to banks.

17. Segment Information

Information by business segments for the years ended March 31, 2005 and 2004 is as follows:

Industry Segments

	Millions of Yen				
	2005				
	Electric	IT and telecommunications	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥1,320,581	¥ 34,715	¥ 53,432		¥1,408,728
Intersegment sales	2,415	34,485	88,805	¥(125,705)	
Total sales	1,322,996	69,200	142,237	(125,705)	1,408,728
Operating expenses	1,117,674	69,951	135,022	(127,645)	1,194,993
Operating income (loss)	¥ 205,322	¥ (751)	¥ 7,215	¥ 1,949	¥ 213,735
Total assets	¥3,722,737	¥131,028	¥303,875	¥(107,927)	¥4,049,713
Depreciation	234,484	17,714	15,509	(3,397)	264,310
Impairment loss	6,691	337	3,472		10,500
Capital expenditures	190,360	11,731	11,264	(2,825)	210,530

	Thousands of U.S. Dollars				
	2005				
	Electric	IT and telecommunications	Other	Eliminations/ Corporate	Consolidated
Sales to customers	$12,294,768	$ 323,201	$ 497,458		$13,115,427
Intersegment sales	22,484	321,059	826,785	$(1,170,328)	
Total sales	12,317,252	644,260	1,324,243	(1,170,328)	13,115,427
Operating expenses	10,405,679	651,252	1,257,071	(1,188,474)	11,125,528
Operating income (loss)	$ 1,911,573	$ (6,992)	$ 67,172	$ 18,146	$ 1,989,899
Total assets	$34,659,128	$1,219,886	$2,829,113	$(1,004,813)	$37,703,314
Depreciation	2,183,074	164,919	144,391	(31,626)	2,460,758
Impairment loss	62,294	3,137	32,325		97,756
Capital expenditures	1,772,275	109,217	104,869	(26,301)	1,960,060

	Millions of Yen				
	2004				
	Electric	IT and telecommunications	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥1,308,843	¥ 37,151	¥ 45,690		¥1,391,684
Intersegment sales	2,377	34,538	92,403	¥(129,318)	
Total sales	1,311,220	71,689	138,093	(129,318)	1,391,684
Operating expenses	1,117,142	75,346	131,015	(130,785)	1,192,718
Operating income (loss)	¥ 194,078	¥ (3,657)	¥ 7,078	¥ 1,467	¥ 198,966
Total assets	¥3,777,960	¥134,502	¥314,564	¥(112,648)	¥4,114,378
Depreciation	257,152	16,847	15,482	(3,711)	285,770
Capital expenditures	196,986	15,966	8,690	(3,736)	217,906

IT and telecommunications consisted of providing telephone lines and wirelines.

Other consisted of obtaining, storing, gasifying and supplying LNG, heat supply business and others.

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

Information for overseas sales is not disclosed due to overseas sales being immaterial compared with consolidated net sales.

18. Subsequent Event

At the general shareholders' meeting held on June 29, 2005, the Company's shareholders approved the following appropriations of retained earnings as of March 31, 2005:

Appropriations of Retained Earnings

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥35.00 ($0.33) per share	¥16,583	$154,390
Bonuses to directors and corporate auditors	140	1,303

Deloitte Touche Tohmatsu
Fukuoka Sanwa Building
10-24, Tenjin 1-chome
Chuo-ku, Fukuoka 810-0001
Japan

Tel: +81-92-751-0931
Fax: +81-92-714-5585
www.deloitte.com/jp

Deloitte.

Independent Auditors' Report

To the Board of Directors of
Kyushu Electric Power Company, Incorporated:

We have audited the accompanying consolidated balance sheets of Kyushu Electric Power Company, Incorporated and consolidated subsidiaries (together the "Companies") as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to 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 Kyushu Electric Power Company, Incorporated and consolidated subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2.c. to the consolidated financial statements, the Companies adopted the new accounting standard for impairment of fixed assets as of April 1, 2004.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 29, 2005

Member of
Deloitte Touche Tohmatsu

Non-Consolidated Balance Sheets

Kyushu Electric Power Company, Incorporated
March 31, 2005 and 2004

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
PROPERTY (Notes 3 and 12):			
Plant and equipment	¥8,104,312	¥8,125,157	$75,452,118
Construction in progress	291,218	234,688	2,711,275
Total	8,395,530	8,359,845	78,163,393
Less—			
Contributions in aid of construction	124,117	121,890	1,155,544
Accumulated depreciation	5,195,206	5,087,017	48,367,992
Total	5,319,323	5,208,907	49,523,536
Net property	3,076,207	3,150,938	28,639,857
NUCLEAR FUEL	243,176	234,854	2,263,998
INVESTMENTS AND OTHER ASSETS:			
Investment securities	110,174	108,812	1,025,733
Investments in and advances to subsidiaries and associated companies (Note 4)	112,990	114,803	1,051,950
Deferred tax assets (Note 9)	98,264	92,740	914,850
Other assets	17,624	14,293	164,081
Total investments and other assets	339,052	330,648	3,156,614
CURRENT ASSETS:			
Cash and cash equivalents	31,285	28,344	291,267
Receivables	76,255	73,521	709,943
Allowance for doubtful accounts	(1,168)	(1,141)	(10,874)
Fuel and supplies, at average cost	24,025	26,172	223,676
Deferred tax assets (Note 9)	12,339	12,189	114,877
Prepaid expenses and other	5,397	3,524	50,247
Total current assets	148,133	142,609	1,379,136
TOTAL	¥3,806,568	¥3,859,049	$35,439,605

See notes to non-consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
LONG-TERM LIABILITIES:			
Long-term debt, less current maturities (Note 6)	¥1,635,720	¥1,744,666	$15,228,750
Liability for employees' retirement benefits (Note 7)	188,297	183,765	1,753,068
Reserve for reprocessing of irradiated nuclear fuel	350,698	327,901	3,265,040
Reserve for decommissioning nuclear power units	110,506	105,497	1,028,824
Other	12,526	6,586	116,618
Total long-term liabilities	2,297,747	2,368,415	21,392,300
CURRENT LIABILITIES:			
Current maturities of long-term debt (Note 6)	189,547	146,759	1,764,705
Short-term borrowings (Note 8)	173,900	233,900	1,619,030
Commercial paper		58,000	
Accounts payable	56,926	53,993	529,988
Accrued income taxes	33,921	29,285	315,809
Accrued expenses	87,835	78,585	817,754
Other	32,654	26,184	304,013
Total current liabilities	574,783	626,706	5,351,299
RESERVE FOR FLUCTUATIONS IN WATER LEVEL	4,682	2,018	43,590
COMMITMENTS AND CONTINGENCIES (Note 14)			
SHAREHOLDERS' EQUITY (Note 10):			
Common stock, authorized, 1,000,000,000 shares; issued, 474,183,951 shares in 2005 and 2004	237,305	237,305	2,209,338
Capital surplus:			
Additional paid-in capital	31,087	31,087	289,424
Retained earnings:			
Legal reserve	59,326	59,326	552,332
Unappropriated	566,289	500,739	5,272,219
Unrealized gain on available-for-sale securities	36,056	33,898	335,685
Treasury stock—at cost, 380,989 shares in 2005 and 254,093 shares in 2004	(707)	(445)	(6,582)
Total shareholders' equity	929,356	861,910	8,652,416
TOTAL	¥3,806,568	¥3,859,049	$35,439,605

Kyushu Electric Power Company, Incorporated
Years Ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
OPERATING REVENUES (Note 13)			
Electric	¥1,322,996	¥1,311,220	$12,317,252
Other	10,165	7,117	94,637
Total operating revenues	1,333,161	1,318,337	12,411,889
OPERATING EXPENSES (Notes 11 and 13):			
Electric:			
Personnel	185,902	201,538	1,730,770
Fuel	143,221	126,507	1,333,405
Purchased power	105,553	95,935	982,711
Depreciation	210,386	232,151	1,958,719
Maintenance	158,704	153,232	1,477,553
Reprocessing costs of irradiated nuclear fuel	26,628	27,038	247,910
Decommissioning costs of nuclear power units	5,009	1,633	46,634
Disposal cost of high-level radioactive waste (Note 2. l.)	7,727	8,003	71,939
Disposition of property	14,856	13,933	138,311
Taxes other than income taxes	91,846	90,749	855,097
Subcontract fee	66,779	60,345	621,721
Rent	36,463	36,183	339,475
Other	64,600	69,895	601,434
Total	1,117,674	1,117,142	10,405,679
Other	13,912	10,527	129,523
Total operating expenses	1,131,586	1,127,669	10,535,202
OPERATING INCOME	201,575	190,668	1,876,687
OTHER EXPENSES:			
Interest charges	46,521	73,566	433,116
Loss on impairment of fixed assets (Note 12)	6,691		62,294
Other—net	2,132	9,171	19,849
Total other expenses—net	55,344	82,737	515,259
INCOME BEFORE INCOME TAXES AND PROVISION FOR RESERVE FOR FLUCTUATIONS IN WATER LEVEL	146,231	107,931	1,361,428
PROVISION FOR RESERVE FOR FLUCTUATIONS IN WATER LEVEL	2,664	2,018	24,802
INCOME BEFORE INCOME TAXES	143,567	105,913	1,336,626
INCOME TAXES (Note 9):			
Current	61,074	54,575	568,606
Deferred	(6,892)	(18,780)	(64,165)
Total income taxes	54,182	35,795	504,441
NET INCOME	¥ 89,385	¥ 70,118	$ 832,185
	Yen		U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK (Note 2. p.):			
Basic net income	¥188.33	¥147.65	$1.75
Cash dividends applicable to the year	60.00	50.00	0.56

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Shareholders' Equity

Kyushu Electric Power Company, Incorporated
Years Ended March 31, 2005 and 2004

	Thousands of shares/Millions of Yen							
	Common Stock		Capital Surplus	Retained Earnings		Unrealized Gain on Available-for-Sale Securities	Treasury Stock	
	Shares	Amount	Additional Paid-in Capital	Legal Reserve	Unappropriated		Shares	Amount
BALANCE AT APRIL 1, 2003	474,184	¥237,305	¥31,087	¥59,326	¥454,460	¥15,087	198	¥(341)
Net income					70,118			
Cash dividends, ¥50 per share					(23,699)			
Bonuses to directors and corporate auditors					(140)			
Increase in treasury stock							56	(104)
Net increase in unrealized gain on available-for-sale securities						18,811		
BALANCE AT MARCH 31, 2004	474,184	237,305	31,087	59,326	500,739	33,898	254	(445)
Net income					**89,385**			
Cash dividends, ¥50 per share					**(23,695)**			
Bonuses to directors and corporate auditors					**(140)**			
Increase in treasury stock							**127**	**(262)**
Net increase in unrealized gain on available-for-sale securities						**2,158**		
BALANCE AT MARCH 31, 2005	**474,184**	**¥237,305**	**¥31,087**	**¥59,326**	**¥566,289**	**¥36,056**	**381**	**¥(707)**

	Thousands of U.S. Dollars (Note 1)					
		Capital Surplus	Retained Earnings		Unrealized Gain on Available-for-Sale Securities	
	Common Stock	Additional Paid-in Capital	Legal Reserve	Unappropriated		Treasury Stock
BALANCE AT MARCH 31, 2004	$2,209,338	$289,424	$552,332	$4,661,940	$315,594	$(4,143)
Net income				**832,185**		
Cash dividends, $0.47 per share				**(220,603)**		
Bonuses to directors and corporate auditors				**(1,303)**		
Increase in treasury stock						**(2,439)**
Net increase in unrealized gain on available-for-sale securities					**20,091**	
BALANCE AT MARCH 31, 2005	**$2,209,338**	**$289,424**	**$552,332**	**$5,272,219**	**$335,685**	**$(6,582)**

See notes to non-consolidated financial statements.

Kyushu Electric Power Company, Incorporated
Years Ended March 31, 2005 and 2004

1. Basis of Presenting Non-Consolidated Financial Statements

The accompanying non-consolidated financial statements of Kyushu Electric Power Company, Incorporated (the "Company") have been prepared in accordance with the provisions set forth in the Commercial Code of Japan (the "Code") and the Japanese Electric Utility Law and their related accounting regulations, 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.

As consolidated statements of cash flows and certain disclosures are presented in the consolidated financial statements of the Company, non-consolidated statements of cash flows and certain disclosures are not presented herein in accordance with accounting principles generally accepted in Japan.

In preparing these non-consolidated financial statements, certain reclassifications and rearrangements have been made to the Company's financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The United States dollar amounts included herein are provided solely for the convenience of readers and are stated at the rate of ¥107.41=US$1, the approximate exchange rate prevailing on March 31, 2005. The translations should not be construed as representations that the Japanese yen amounts could be converted into United States dollars at that or any other rate.

2. Summary of Significant Accounting Policies

a. Property and Depreciation—Property is stated at cost. Contributions in aid of construction including those made by customers are deducted from the cost of the related assets.

Depreciation is computed using the declining-balance method based on the estimated useful lives of the assets.

b. Impairment of Fixed Assets—In August 2002, the Business Accounting Council issued a Statement of Opinion, *Accounting for Impairment of Fixed Assets*, and in October 2003 the Accounting Standards Board of Japan (ASB) issued ASB Guidance No. 6, *Guidance for Accounting Standards for Impairment of Fixed Assets*. These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Company adopted the new accounting standard for impairment of fixed assets as of April 1, 2004.

The Company reviews its fixed assets including leased property for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The effect of adoption of the new accounting standard for impairment of fixed assets was to decrease income before income taxes for the year ended March 31, 2005 by ¥6,691 million ($62,294 thousand).

c. Amortization of Nuclear Fuel—Amortization of nuclear fuel is computed based on the proportion of current heat production to the estimated total heat production over the estimated useful life of the nuclear fuel.

d. Investment Securities—The accounting standard for financial instruments requires all applicable securities to be classified and accounted for, depending on management's intent, as follows:
i) held-to-maturity debt securities are stated at cost with discounts or premiums amortized throughout the holding periods;
ii) available-for-sale securities, which are not classified as the aforementioned securities and investment securities in subsidiaries and associated companies, are stated at market value; and securities without market value are stated at cost.

The Company records unrealized gains or losses on available-for-sale securities, net of deferred taxes, in shareholders' equity presented as "Unrealized gain on available-for-sale securities."

For other than temporary declines in fair value, investment securities are written down to net realizable value by a charge to income.

e. Investments in Subsidiaries and Associated Companies—Investments in subsidiaries and associated companies are stated at cost; however, they are written down to appropriate values if the investments have been significantly impaired in value of a permanent nature.

f. Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, which mature or become due within three months of the date of acquisition.

g. Foreign Currency Transactions—Receivables and payables denominated in foreign currencies are translated into Japanese yen at the rates in effect as of the balance sheet date.

h. Derivatives and Hedging Activities—The accounting standard for derivative financial instruments and the accounting standard for foreign currency transactions require that: a) all derivatives be recognized as either assets or liabilities and measured at market value, and gains or losses on the derivatives be recognized currently in the income statements and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on the derivatives be deferred until maturities of the hedged transactions.

The long-term debt denominated in foreign currencies for which the foreign exchange forward contracts are used to hedge the foreign currency fluctuations are translated at the contracted rate, since such treatment is also allowed to be incorporated under the standards if the forward contracts qualify for hedge accounting.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized in interest charges, which treatment is also allowed under the standards.

i. Severance Payments and Pension Plans—The Company has an unfunded retirement plan for all of its employees and a contributory funded defined benefit pension plan covering substantially all of its employees.

Under the accounting standard for employees' retirement benefits, the amount of the liability for employees' retirement benefits is determined based on the projected benefit obligations and plan assets of the pension fund at the end of the fiscal year.

Retirement benefits for directors and corporate auditors are charged to income when authorized by the shareholders.

j. Reserve for Reprocessing of Irradiated Nuclear Fuel—The annual provision for the costs of reprocessing irradiated nuclear fuel is calculated to state the related reserve at 60% of the amount that would be required to reprocess all of the irradiated nuclear fuel in accordance with the regulatory authority.

k. Reserve for Decommissioning of Nuclear Power Units—Provision is made for future disposition costs of nuclear power units based on a proportion of the current generation of electric power to the estimated total generation of electric power of each unit.

l. Disposal Cost of High-Level Radioactive Waste—The Company pays contributions to Nuclear Waste Management Organization of Japan in order to fund costs for the ultimate disposal of high-level radioactive waste. The contributions are charged to income when paid.

m. Income Taxes—The provision for income taxes is computed based on the pretax income included in the non-consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

n. Special Reserves—The Japanese Special Taxation Measures Law permits companies in Japan to take tax deductions for certain reserves, if recorded in the books of account, that are not required for financial reporting purposes. These reserves must be reversed to taxable income in future periods in accordance with the law.

The Code requires that the special reserves, except for the reserve for fluctuations in water level, be recorded as a component of shareholders' equity (see Note 10).

A reserve for fluctuations in water level is recorded when the volume of water for generating hydroelectric power is abundant and available for future power generation, and reversed in years when there is an insufficient volume of water, in accordance with the Japanese Electric Utility Law and related accounting regulations. Under the law and regulations, this reserve must be shown as a liability.

o. Bond Issuance Costs and Bond Discount Charges—Bond issuance costs are charged to income when paid or incurred. Bond discount charges are amortized over the term of the related bonds.

p. Net Income and Cash Dividends per Share—Basic earnings per share ("EPS") is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the year and diluted EPS reflects the potential dilution that could occur if securities were exercised or converted into common stock.

Diluted EPS is not disclosed for the years ended March 31, 2005 and 2004, because potentially dilutive securities were not outstanding.

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

q. Research and Development Costs—Research and development costs are charged to income as incurred.

r. Leases—All leases are accounted for as operating leases. Under Japanese accounting standard for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

3. Property

The major classes of property as of March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Original costs:			
Electric power production facilities:			
Hydroelectric power	¥ 548,400	¥ 546,300	$ 5,105,670
Thermal power	1,590,122	1,683,541	14,804,227
Nuclear power	1,526,888	1,523,505	14,215,511
Internal-combustion engine power	127,112	125,817	1,183,428
	3,792,522	3,879,163	35,308,836
Transmission facilities	1,509,187	1,521,828	14,050,712
Transformation facilities	933,394	923,025	8,690,010
Distribution facilities	1,331,244	1,329,065	12,394,042
General facilities	386,376	370,291	3,597,207
Other electricity-related facilities	64,563	28,806	601,089
Other plant and equipment	87,026	72,979	810,222
Construction in progress	291,218	234,688	2,711,275
Total	8,395,530	8,359,845	78,163,393
Less contributions in aid of construction	124,117	121,890	1,155,544
Less accumulated depreciation	5,195,206	5,087,017	48,367,992
Carrying amount	¥3,076,207	¥3,150,938	$28,639,857

4. Investments in Subsidiaries and Associated Companies

The carrying amounts and aggregate fair values of investments in subsidiaries and associated companies whose market values were available at March 31, 2005 and 2004 were as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2005			2004			2005		
	Carrying amount	Fair value	Unrealized gain	Carrying amount	Fair value	Unrealized gain	Carrying amount	Fair value	Unrealized gain
Associated company	¥4,303	¥15,205	¥10,902	¥4,303	¥10,634	¥6,331	$40,061	$141,560	$101,499

5. Pledged Assets

All of the Company's assets are subject to certain statutory preferential rights established to secure bonds, notes, loans received from The Development Bank of Japan and bonds transferred to banks under debt assumption agreements (see Note 14).

6. Long-Term Debt

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

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Domestic bonds, 0.2% to 4.65%, due serially to 2024	¥1,018,760	¥ 997,388	$ 9,484,778
U.S. dollar notes, 7.25%, due 2008	37,860	37,860	352,481
Swiss franc bonds, 4.0%, due 2007	29,513	29,513	274,770
Loans from The Development Bank of Japan, 0.95% to 6.9%, due serially to 2025	273,639	308,758	2,547,612
Unsecured loans, principally from banks and insurance companies, 0.25% to 5.1%, due serially to 2021	465,495	517,906	4,333,814
Total	1,825,267	1,891,425	16,993,455
Less current maturities	189,547	146,759	1,764,705
Long-term debt, less current maturities	¥1,635,720	¥1,744,666	$15,228,750

The outstanding domestic bonds and Swiss franc bonds may be redeemed prior to maturity at the option of the Company, in whole or in part, at prices 100% of the principal amount for the domestic bonds and in whole at prices 100.25% of the principal amount for Swiss franc bonds.

Certain long-term loan agreements include, among other things, provisions that allow the lenders the right to approve, if desired, any appropriations of retained earnings including dividends. However, to date, no lender has exercised this right.

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

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2006	¥ 189,547	$ 1,764,705
2007	166,841	1,553,310
2008	184,102	1,714,012
2009	146,763	1,366,381
2010	143,721	1,338,060
Thereafter	994,293	9,256,987
Total	¥1,825,267	$16,993,455

7. Severance Payments and Pension Plans

Employees terminating their employment with the Company, either voluntarily or upon reaching mandatory retirement age, are entitled, under most circumstances, to severance payments based on credits earned in each year of service, length of service and certain other factors. If the termination is made voluntarily at one of a number of specified ages, the employee is entitled to certain additional payments.

Additionally, the Company has a contributory funded defined benefit pension plan covering substantially all of its employees. In general, eligible employees retiring at the mandatory retirement age receive pension payments for the several fixed terms selected by them. Eligible employees retiring after at least 20 years of service but before the mandatory retirement age, receive a lump-sum payment upon retirement and annuities.

8. Short-Term Borrowings

Short-term borrowings are generally represented by 365-day notes, bearing interest at rates ranging from 0.12417% to 0.34250% and from 0.08633% to 0.33917% at March 31, 2005 and 2004, respectively.

9. Income Taxes

The Company is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rates of approximately 36.1% for 2005 and 2004.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2005 and 2004 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Deferred tax assets:			
Pension and severance costs	¥ 65,158	¥ 60,706	$ 606,629
Depreciation	23,895	21,946	222,465
Reserve for reprocessing of irradiated nuclear fuel	10,497	10,497	97,728
Reserve for decommissioning of nuclear power units	10,184	10,184	94,814
Deferred charges	4,838	5,145	45,043
Other	21,705	15,647	202,076
Less valuation allowance	(5,267)		(49,036)
Deferred tax assets	¥131,010	¥124,125	$1,219,719
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ 20,369	¥ 19,150	$ 189,638
Other	38	46	354
Deferred tax liabilities	¥ 20,407	¥ 19,196	$ 189,992
Net deferred tax assets	¥110,603	¥104,929	$1,029,727

A reconciliation between the normal effective statutory tax rate for the year ended March 31, 2004 and the actual effective tax rate reflected in the accompanying statements of income is as follows:

	2004
Normal effective statutory tax rate	36.1%
Extra tax credit on the Japanese Special Taxation Measures Law	(2.7)
Other—net	0.4
Actual effective tax rate	33.8%

Such reconciliation for the year ended March 31, 2005 is not disclosed because the difference between the normal effective statutory tax rate and the actual effective tax rate is immaterial.

10. Shareholders' Equity

As described in Note 2. n., certain special reserves were included in unappropriated (a component of retained earnings). Such reserves at March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Reserve for:			
Depreciation of nuclear power production facilities under construction		¥3,734	
Losses on overseas investments	**¥21**	23	**$196**
Total	**¥21**	¥3,757	**$196**

The Code requires that all shares of common stock are recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital. The Code permits companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows public companies to repurchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the shareholders meeting.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends. The amount of retained earnings available for dividends under the Code was ¥565,582 million ($5,265,637 thousand) as of March 31, 2005, based on the amount recorded in the Company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

11. Research and Development Costs

Research and development costs charged to income were ¥9,140 million ($85,094 thousand) and ¥9,701 million for the years ended March 31, 2005 and 2004, respectively.

12. Loss on Impairment of Fixed Assets

The Company reviewed its fixed assets including leased property for impairment as of the year ended March 31, 2005 and, as a result, recognized an impairment loss of ¥6,691 million ($62,294 thousand) as other expenses mainly for idle assets which will not be used in the future due to the changes in business plan and the carrying amount of these assets was written down to the recoverable amount.

The recoverable amount of these assets was mainly measured by the respective net selling prices which were based on assessed value of fixed assets.

13. Leases

(a) Lessee

The Company leases certain computer and other equipment.

Pro forma information of leased equipment such as acquisition cost, accumulated depreciation and lease obligations, all of which included imputed interest expense, under finance leases that do not transfer ownership of the leased equipment to the lessee on an "as if capitalized" basis at March 31, 2005 and 2004 were as follows:

	Millions of Yen		
March 31, 2005	General facilities	Other	Total
Acquisition cost	**¥30,839**	**¥1,689**	**¥32,528**
Accumulated depreciation	**17,563**	**1,012**	**18,575**
Net leased equipment	**¥13,276**	**¥ 677**	**¥13,953**

March 31, 2005	Thousands of U.S. Dollars General facilities	Other	Total
Acquisition cost	$287,115	$15,725	$302,840
Accumulated depreciation	163,514	9,422	172,936
Net leased equipment	$123,601	$ 6,303	$129,904

March 31, 2004	Millions of Yen General facilities	Other	Total
Acquisition cost	¥ 32,382	¥ 1,658	¥ 34,040
Accumulated depreciation	18,270	846	19,116
Net leased equipment	¥ 14,112	¥ 812	¥ 14,924

Obligations under finance leases which included the imputed interest expense at March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Due within one year	¥ 4,738	¥ 4,943	$ 44,111
Due after one year	9,215	9,981	85,793
Total	¥13,953	¥14,924	$129,904

Depreciation expense and other information under financial leases:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Depreciation expense	¥5,363	¥5,544	$49,930
Lease payments	5,363	5,544	49,930

Depreciation expense, which is not reflected in the accompanying statements of income, is computed by the straight-line method.

(b) Lessor

Revenues under finance leases were ¥77 million ($717 thousand) and ¥2 million for the years ended March 31, 2005 and 2004, respectively.

Information of leased property such as acquisition cost and accumulated depreciation under finance leases for the years ended March 31, 2005 and 2004 was as follows:

	Millions of Yen Other plant and equipment		Thousands of U.S. Dollars Other plant and equipment
	2005	2004	2005
Acquisition cost	¥780	¥233	$7,262
Accumulated depreciation	252	6	2,346
Net leased equipment	¥528	¥227	$4,916

Future lease revenue under finance leases which included the imputed interest revenue at March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Due within one year	¥ 77	¥ 24	$ 717
Due after one year	994	331	9,254
Total	¥1,071	¥355	$9,971

Depreciation expense relating to the leased assets arrangements mentioned above was ¥246 million ($2,290 thousand) and ¥6 million for the years ended March 31, 2005 and 2004, respectively.

14. Commitments and Contingencies

At March 31, 2005, the Company had a number of fuel purchase commitments, most of which specify quantities and dates for fuel deliveries. However, purchase prices are contingent upon fluctuations in market prices.

Contingent liabilities as of March 31, 2005 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Co-guarantees of loans, mainly in connection with procurement of fuel	¥118,440	$1,102,691
Guarantees of employees' housing loans	62,394	580,896
Guarantees under debt assumption agreements	215,245	2,003,957
Other	5,223	48,627

Under the debt assumption agreements, the Company was contingently liable for the redemption of the domestic bonds transferred to banks.

15. Subsequent Event

At the general shareholders' meeting held on June 29, 2005, the Company's shareholders approved the following appropriations of retained earnings as of March 31, 2005:

Appropriations of Retained Earnings

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥35.00 ($0.33) per share	¥16,583	$154,390
Bonuses to directors and corporate auditors	140	1,303

Deloitte Touche Tohmatsu
Fukuoka Sanwa Building
10-24, Tenjin 1-chome
Chuo-ku, Fukuoka 810-0001
Japan

Tel: +81-92-751-0931
Fax: +81-92-714-5585
www.deloitte.com/jp

Deloitte.

Independent Auditors' Report

To the Board of Directors of
Kyushu Electric Power Company, Incorporated:

We have audited the accompanying non-consolidated balance sheets of Kyushu Electric Power Company, Incorporated as of March 31, 2005 and 2004, and the related non-consolidated statements of income and shareholders' equity for the years then ended, all expressed in Japanese yen. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to 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 financial position of Kyushu Electric Power Company, Incorporated as of March 31, 2005 and 2004, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2.b. to the non-consolidated financial statements, the Company adopted the new accounting standard for impairment of fixed assets as of April 1, 2004.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 29, 2005

Member of
Deloitte Touche Tohmatsu

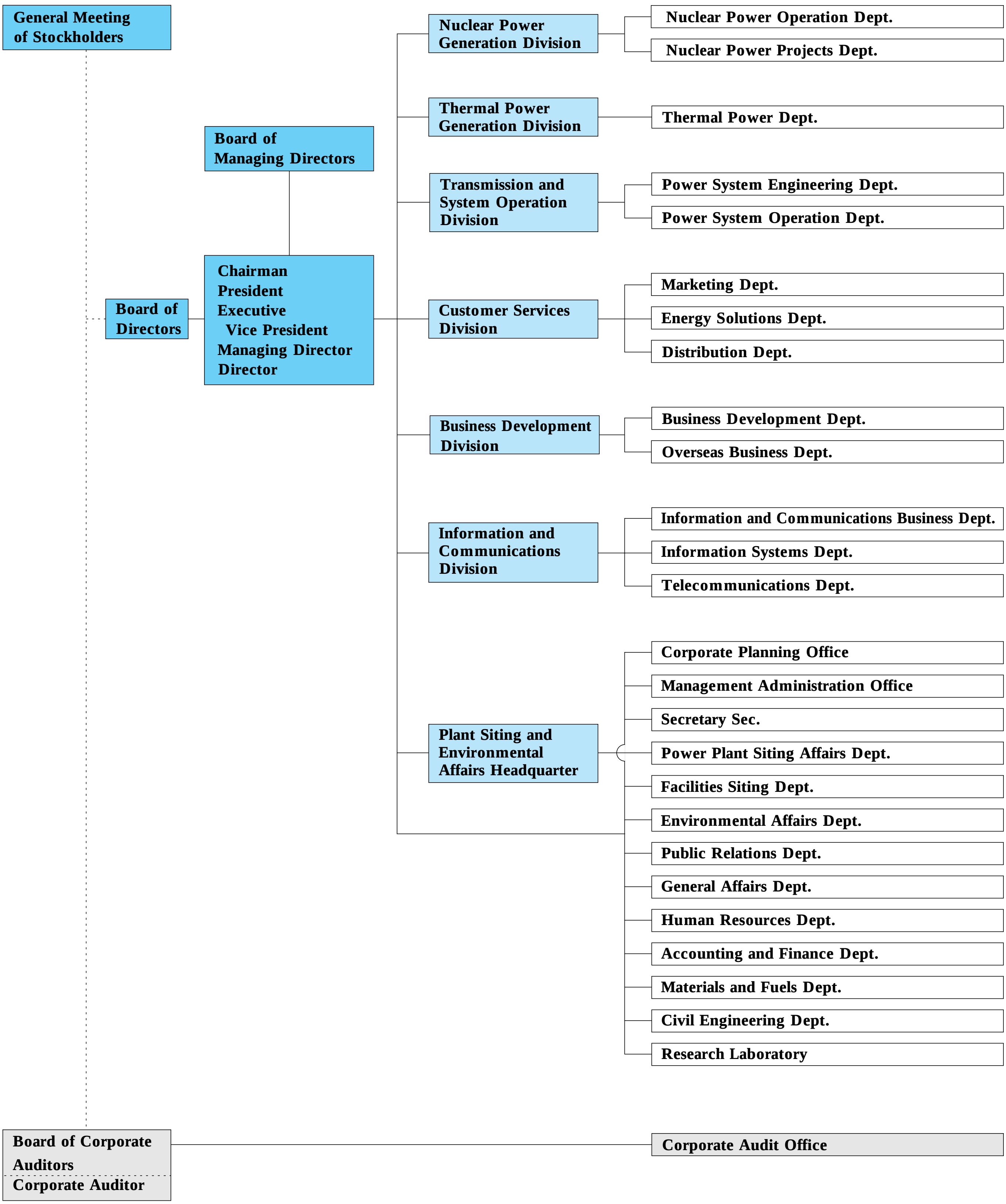
Non-Consolidated Six-Year Financial Summary

Kyushu Electric Power Company, Incorporated
Years Ended March 31,

	Millions of Yen (except for per share data)						Thousands of U.S. Dollars (except for per share data)
	2005	2004	2003	2002	2001	2000	**2005**
For the year:							
Operating revenues	**¥1,333,161**	¥1,318,337	¥1,358,608	¥1,388,834	¥1,411,500	¥1,393,650	**$12,411,889**
Residential (lighting)	**566,751**	550,780	565,499	567,230	570,045	564,029	**5,276,520**
Commercial and industrial	**736,312**	724,955	744,986	761,498	777,747	768,596	**6,855,153**
Other	**30,098**	42,602	48,123	60,106	63,708	61,025	**280,216**
Operating expenses	**1,131,586**	1,127,669	1,185,506	1,197,546	1,207,968	1,219,369	**10,535,201**
Personnel	**185,902**	201,538	190,908	186,870	203,897	214,311	**1,730,770**
Fuel	**143,221**	126,507	137,953	150,959	146,097	122,886	**1,333,405**
Purchased power	**105,553**	95,935	104,682	98,034	94,098	93,725	**982,711**
Depreciation	**210,386**	232,151	247,876	244,946	263,043	278,897	**1,958,719**
Maintenance	**158,704**	153,232	158,851	177,962	173,521	183,902	**1,477,553**
Reprocessing costs of irradiated nuclear fuel	**26,628**	27,038	49,763	39,529	22,510	41,070	**247,910**
Decommissioning costs of nuclear power units	**5,009**	1,633	6,656	4,597	6,898	6,304	**46,634**
Disposal cost of high-level radioactive waste	**7,727**	8,003	8,075	7,640	11,411		**71,939**
Disposition of property	**14,856**	13,933	13,883	20,165	21,465	18,582	**138,311**
Taxes other than income taxes	**91,846**	90,749	94,226	93,236	94,448	94,842	**855,097**
Subcontract fee	**66,779**	60,345	60,215	58,638	64,457	61,364	**621,721**
Rent	**36,463**	36,183	36,159	37,051	36,168	35,249	**339,475**
Other	**78,512**	80,422	76,259	77,919	69,955	68,237	**730,957**
Interest charges	**46,521**	73,566	73,622	81,500	87,724	104,426	**433,116**
Income before income taxes	**143,567**	105,913	98,476	102,234	94,075	36,084	**1,336,626**
Net income	**89,385**	70,118	62,546	65,152	60,140	22,986	**832,185**
Per share of common stock (yen and U.S. dollars):							
Net income:							
Basic	**¥ 188.33**	¥ 147.65	¥ 131.64	¥ 137.40	¥ 126.83	¥ 48.47	**$ 1.75**
Diluted					125.63	48.32	
Cash dividends applicable to the year	**60.00**	50.00	50.00	60.00	60.00	50.00	**0.56**
At year-end:							
Total assets	**¥3,806,568**	¥3,859,049	¥3,929,942	¥3,984,740	¥4,006,257	¥3,959,244	**$35,439,605**
Net property	**3,076,207**	3,150,938	3,259,307	3,322,050	3,339,874	3,396,462	**28,639,856**
Long-term debt, less current maturities	**1,635,720**	1,744,666	1,854,130	1,971,185	2,016,036	2,078,459	**15,228,750**
Total shareholders' equity	**929,356**	861,910	796,924	782,953	765,670	675,368	**8,652,416**
Number of employees	**13,505**	13,660	13,964	14,191	14,348	14,428	

Note: All dollar figures herein refer to U.S. currency. Japanese yen amounts have been translated, for convenience only, at the rate of ¥107.41=US$1, the approximate exchange rate prevailing on March 31, 2005.

Organization



(As of August 31, 2005)

Chairman
Michisada Kamata

President
Shingo Matsuo

Executive Vice-President
Hidemi Ashizuka
Mitsuaki Sato
Kowashi Imamura
Yukio Tanaka

Managing Director
Kouichi Hashida
Takahiro Higuchi
Kyouichi Hiratsuka
Morimasa Takeda
Tokihisa Ichinose
Tomokazu Odahara

Director
Hachirou Kurano
Nobuyoshi Yokoe
Hitoshi Kiyota
Katsuhiko Higuchi
Shuuzou Katayama
Yasumichi Hinago
Keiji Mizuguchi

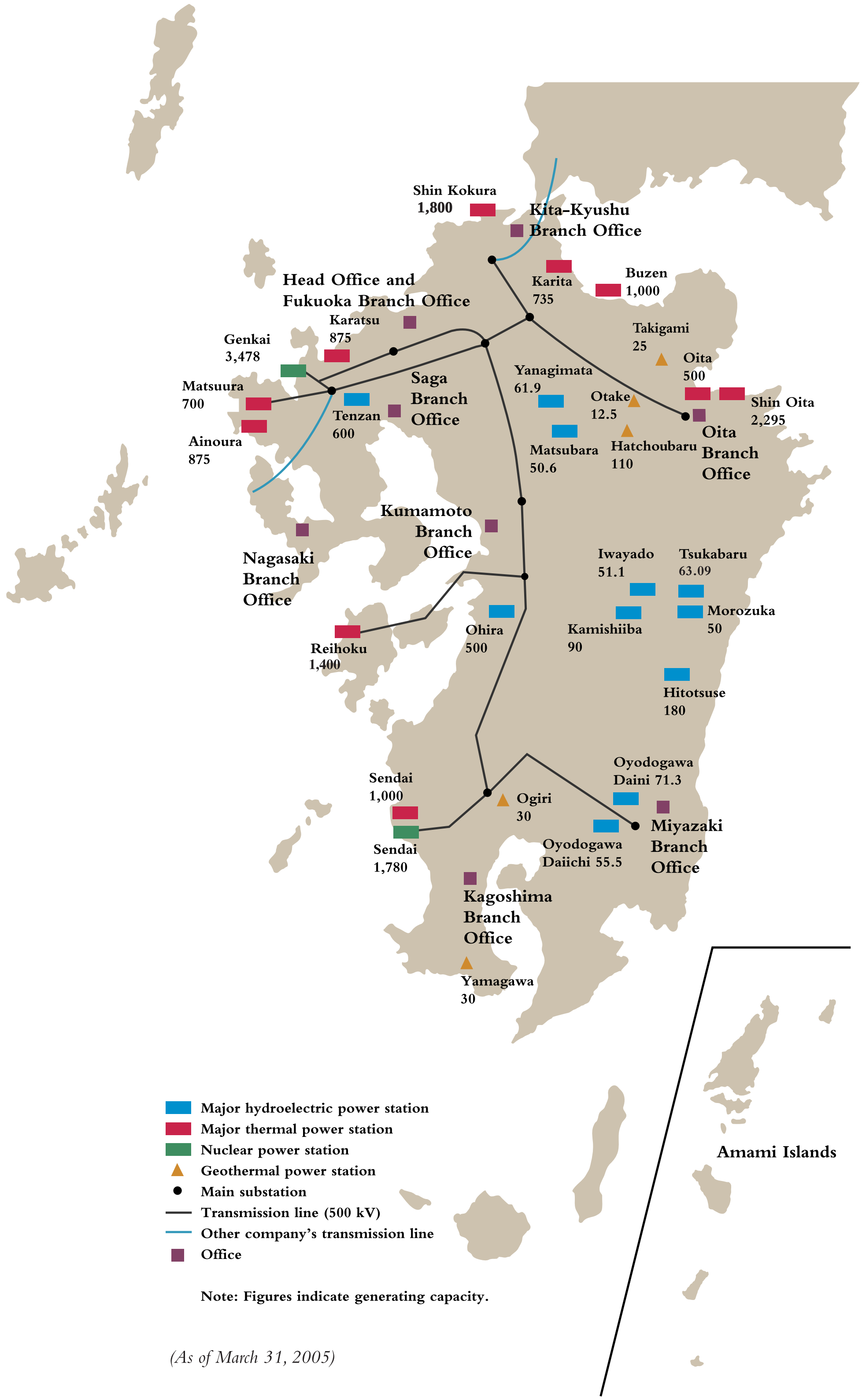
Corporate Auditor
Noriyuki Ueda
Hajime Sankoda
Tooru Soufukuwaki
Kimiya Nakazato
Zengo Ishimura
Michiyo Koike

(As of June 29, 2005)

Head Office	1-82, Watanabe-dori 2-chome, Chuo-ku, Fukuoka 810-8720, Japan Tel: (092) 761-3031 http://www.kyuden.co.jp
Tokyo Branch Office	7-1, Yurakucho 1-chome, Chiyoda-ku, Tokyo 100-0006, Japan Tel: (03) 3281-4931
Date of Establishment	May 1, 1951
Paid-in Capital	¥237,304,863,699
Number of Shares Authorized	1,000,000,000
Number of Shares Issued	474,183,951
Number of Employees	13,505

(As of March 31, 2005)

Main Facilities



(As of March 31, 2005)

KYUSHU ELECTRIC POWER CO., INC.
1-82, Watanabe-dori 2-chome, Chuo-ku, Fukuoka 810-8720, Japan

Printed in Japan
September 2005