



Amid deregulation and liberalization throughout the economy as a whole, retail power sales to high-voltage users (20 kV or more) were liberalized in March 2000, introducing competition into a market previously dominated by regional monopolies. Several foreign energy companies, and Japanese gas companies, trading companies and manufacturers have already entered the power market, and bidding for government and other large power contracts has become more competitive.

To respond to these challenges, Kyushu Electric Power is committed to several Companywide management reform measures that will allow us to meet our management objectives more rapidly, give us more competitive power rates, and improve our quality, service, and entire financial structure. At the same time, we are ever conscious of our public obligation to ensure stable power supplies, work on global environmental problems, and maintain universal service and energy security.

To remain competitive in the current climate of liberalization, power companies need to improve their profitability, strengthen their financial structure and raise their share price. To accomplish these ends, our Medium-Term Management Guidelines set forth specific management objectives to clarify our management stance to our customers and stakeholders and outline how to create more rapid management reforms to achieve this management stance. Our management objectives include improving our shareholder capital ratio, reducing our interest-bearing debt, and improving our return on assets (ROA) and return on equity (ROE).

To accomplish these management objectives, we will need to maximize our free cash flow to provide the capital needed for a flexible response. This free cash flow will be used for such applications as (1) reducing our interest-bearing debt, (2) dividend payouts, (3) lowering power rates and (4) investing in new business areas.

Our free cash flow for fiscal 2000 (ended March 31, 2001) was ¥109.3 billion, the result of rigorous cost reductions and more efficient capital spending across the board. Fiscal 2000 was the second year in a row in which we managed to maintain a large free cash flow (above ¥100 billion), following last year's figure of ¥129.8 billion.

Operation reforms in fiscal 2001 include our ongoing introduction of information technology (IT) and the start of an executive officer system. These reforms will speed up management processes and improve our autonomous operation system.

We are also working on a series of initiatives to improve customer satisfaction. We aim to provide total energy services that meet a wide range of customer needs. We are improving our services to corporate head offices, offering consultations to provide the optimum rate options for individual user needs, and analyzing user feedback to reduce energy costs and environmental impact.

To increase profitability, we are making the most of the facilities, technologies and expertise we have accumulated through our many years of experience in the power industry, and focusing our management resources on business areas that best reflect the strengths of the Group. These business areas include total energy supply (supply of high-quality, low-cost power), information and communication networks (high-speed, large-capacity fiber optic networks), consumer services (customer relations) and environmental recycling (constructing a recycling society economic system).

Kyushu Electric Power celebrated its 50th anniversary in May 2001. In the years ahead, we are determined to continue being the premier energy provider in the Kyushu region and to continue earning the trust of our customers and stakeholders. Thank you for your support.



Michisada Kamata
President and Chief Executive Officer