

# Operating Overview

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April 2007

Kyushu Electric Power Co., Inc.

# 1. Income and Expense Overview

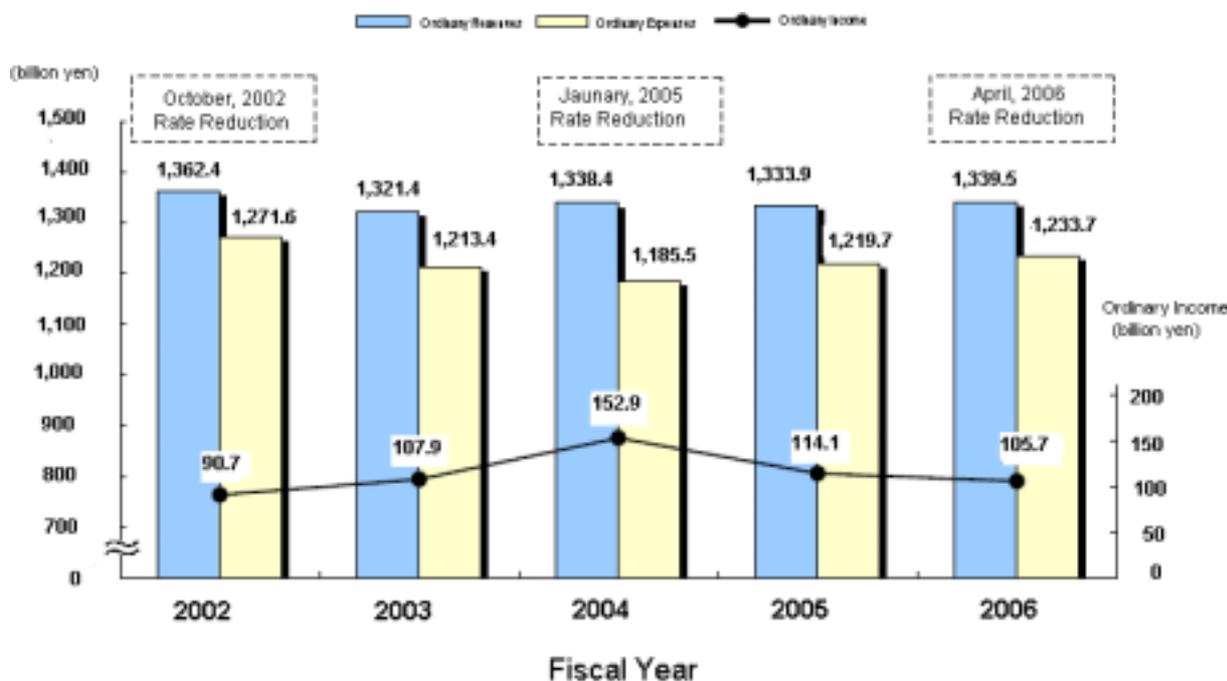
## (1) Operating Performance in the Past 5 years (FY2002 - 2006)

Ordinary revenue in the past 5 years has stayed in the same level as the steady growth in electricity sales volume (2.3% annual increase on average) was offset by the rate reduction that we have implemented three times during the past 5 years (October 2002 : -5.21%, January 2005 : -5.46%, April 2006 : -3.71%).

On the expense side, we have been committed to restraining ordinary expenses by improving management efficiency including the reduction of interest payable, capital investment and number of employees which have been partially offset by increased fuel cost due to the increase in crude oil prices. [See page 4 and after for current status of management efficiency improvement]

As a result, we have maintained the annual ordinary income of approximately 100 billion yen through the past 5 years.

We will maintain the current electric rates and promote overall management efficiency so that we are able to improve the balance sheet, increase profitability, and enhance sustainable corporate value.



[Income and Expenses in the Past 5 years]

(Unit: billion yen)

Fiscal Year		2002	2003	2004	2005	2006	
Ordinary Revenues	Electricity-Lighting	565.4	550.7	566.7	562.3	551.0	
	Electricity-Power	744.9	724.9	736.3	728.5	735.4	
	(Subtotal)	(1,310.4)	(1,275.7)	(1,303.0)	(1,290.9)	(1,286.4)	
	Other	51.9	45.6	35.3	43.0	53.0	
	Total	1,362.4	1,321.4	1,338.4	1,333.9	1,339.5	
Ordinary Expenses	Supply-related	Fuel	137.9	126.5	143.2	179.7	211.3
		Electricity purchase	104.6	95.9	105.5	113.2	112.6
		Subtotal	242.6	222.4	248.7	292.9	323.9
	Capital-related	Depreciation	247.8	232.1	210.3	199.5	189.0
		Interest	73.6	73.5	46.5	38.4	35.7
		Maintenance	158.8	153.2	158.7	157.3	170.7
		Subtotal	480.3	458.9	415.6	395.3	395.5
	Other	Labor	190.9	201.5	185.9	178.4	144.8
		Taxes and public dues	95.8	92.3	93.4	90.7	88.7
		Other	261.8	238.1	241.7	262.1	280.6
		Subtotal	548.6	532.0	521.1	531.3	514.2
	Total	1,271.6	1,213.4	1,185.5	1,219.7	1,233.7	
	Ordinary Income		90.7	107.9	152.9	114.1	105.7
	Drought Reserve			2.0	2.6	-4.6	
Extraordinary Income		23.1					
Extraordinary Losses		15.4		6.6	10.0	5.6	
Income before income taxes		98.4	105.9	143.5	108.8	100.0	
Income taxes		35.9	35.7	54.1	39.6	40.8	
Net Income		62.5	70.1	89.3	69.1	59.2	

Note: As the numbers are rounded down to the nearest hundred-million, the sum of each numbers may not correspond with the numbers in subtotal or total.

[Key Factors Affecting Performance]

Fiscal Year	2002	2003	2004	2005	2006
Electricity sales (million kWh) [Changes from the previous year]	76,636 [1.7%]	77,268 [0.8%]	80,199 [3.8%]	82,956 [3.4%]	84,399 [1.7%]
Electricity rate revision [Changes from the previous rate]	Oct. 2002 [-5.21%]		Jan. 2005 [-5.46%]		April 2006 [-3.71%]
Exchange rate (¥/\$)	122.0	113.2	107.5	113.3	117.0
Crude oil price (\$/b)	27.4	29.4	38.8	55.8	63.6

## (2) Financial Indexes

Kyushu Electric Power is striving to improve management efficiency and have set financial target in our midterm management policy for FY2005-2009.

Both ordinary income and shareholders' equity ratio show steady improvement while FCF and ROA are still below the target level due to the increased external funding in accordance with the accounting regulation regarding the reserve for nuclear back-end expenses issued in October 2005.

(Unit: %, billion yen)

Fiscal Year	2002	2003	2004	2005	2006	Target (FY2005-2009)
	Ordinary Income	90.7	107.9	152.9	114.1	105.7
Free Cash Flow (FCF)	180.2	162.2	200.1	60.5	87.3	Ave. 100
Return on Assets (ROA)	2.8	3.1	3.4	2.7	2.4	Ave. 3%*
Shareholders' Equity Ratio	20.3	22.3	24.4	25.8	26.9	30%**

\*ROA = Operating income after income tax / net asset

\*\* at the end of FY2009

## (3) Forecast for Operating Performance in FY2007

Sales revenue is projected to increase in FY2007 as the sales volume of electricity is projected to increase by 1.3% from the previous year to approximately 85.5 billion kWh mainly due to the increasing number of all-electric housings, openings of commercial facilities, and booming production activities of the customers in industrial and commercial sectors.

Ordinary income and net income both are projected to increase due to the increasing sales while the expenses is also projected to increase mainly due to the impact of the revised depreciation system which will be implemented as a part of the tax system revision for FY2007.

[Forecast for Operational Performance in FY2007]

Fiscal Year	2007	(Reference) 2006
	Sales (billion yen)	Approx. 1,349
Ordinary income (billion yen)	Approx. 108	105.7
Net income (billion yen)	Approx. 67	59.2

[Key Factors Affecting Performance]

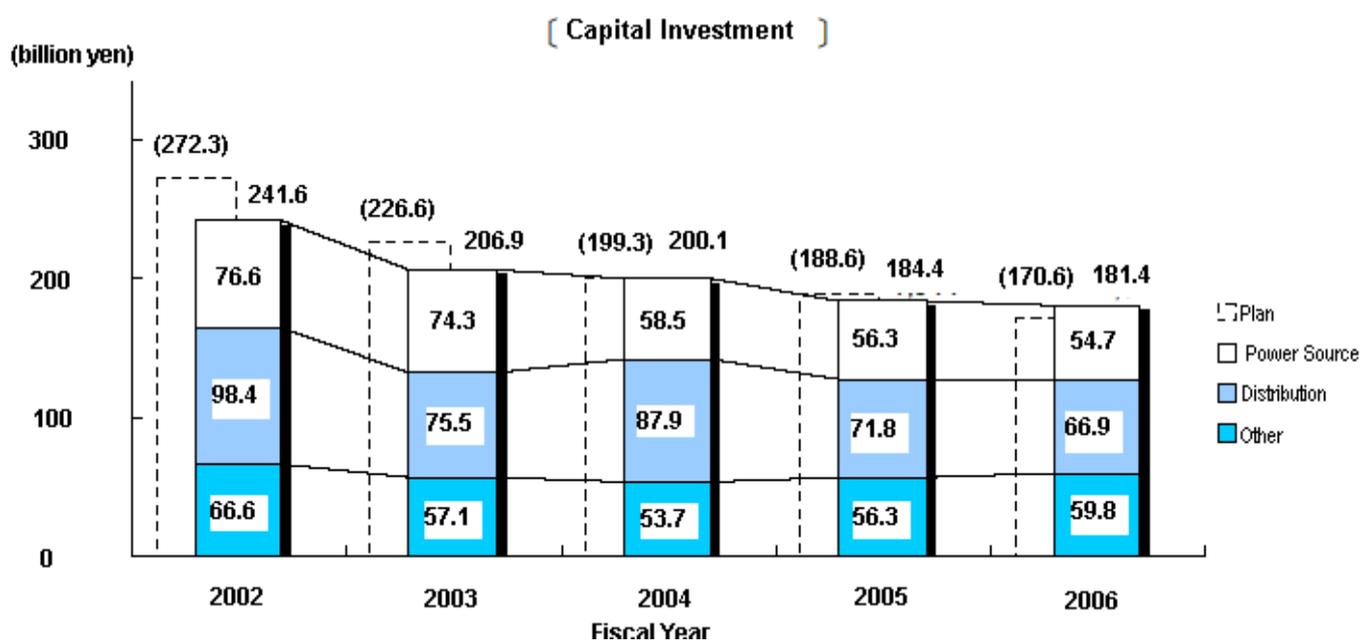
Fiscal Year	2007	(Reference) 2006
	Electricity sales (billion kWh)	Approx. 85.5
Exchange rate (¥/\$)	Approx. 120	117
Crude oil price (\$/b)	Approx. 63	64

## 2. Current Status of Management Efficiency Improvement

### (1) Improvement in Capital Investment Efficiency

We have promoted efficiency improvement in capital investment targeting the annual capital investment of 190 billion yen on 5-year average for FY2005-2009.

In FY2006, the capital investment increased by 10.8 billion yen compared with the original plan to 181.4 billion yen due to the measures to augment facilities and equipment to cope with the increase in demand while we have taken several measures to enhance efficiency including the reduction of designing and construction costs.



### (2) Maintenance and Miscellaneous Costs

We have promoted efficiency improvement targeting the annual maintenance and miscellaneous costs of 300 billion yen on 5-year average for FY2005-2009.

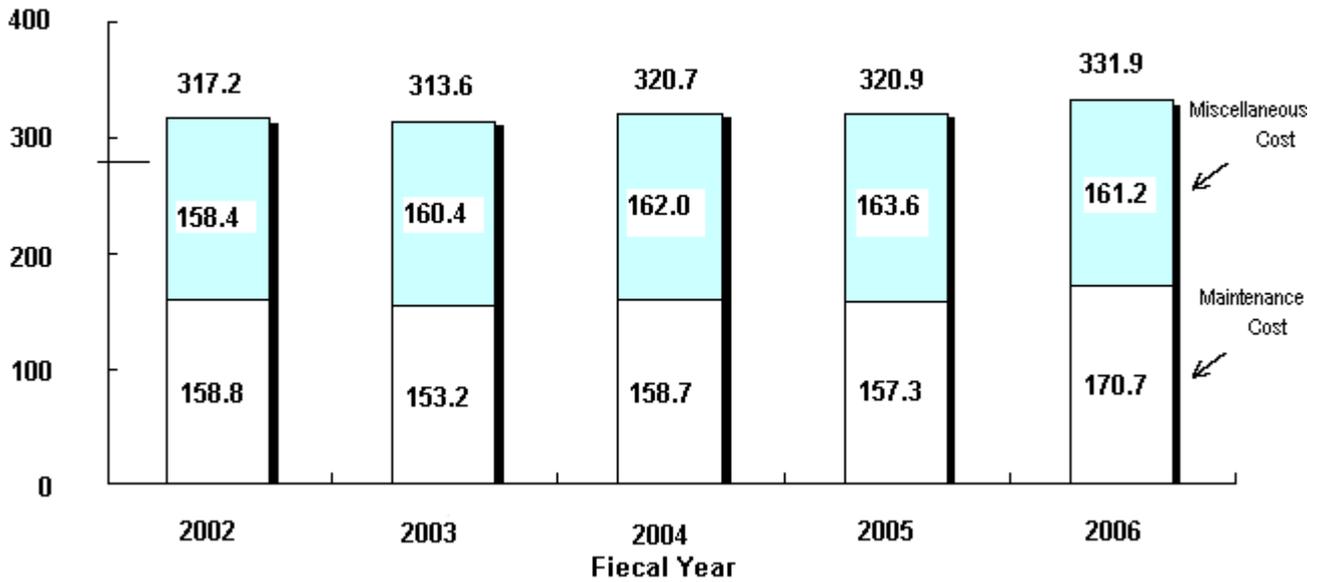
In FY2006, the maintenance cost increased by 13.4 billion yen from the previous year to 170.7 billion yen due to the measures against the age-related degradation of facilities while we have strived to make the maintenance of our facilities more efficient by reviewing our inspection and maintenance processes.

The miscellaneous cost, on the other hand, in FY2006 decreased by 2.4 billion yen from the previous year to 161.2 billion yen as we have enhanced overall business efficiency.

As a result, the maintenance and miscellaneous costs for FY2006 totaled 331.9 billion yen.

[ Maintenance and Miscellaneous Costs ]

(billion yen)

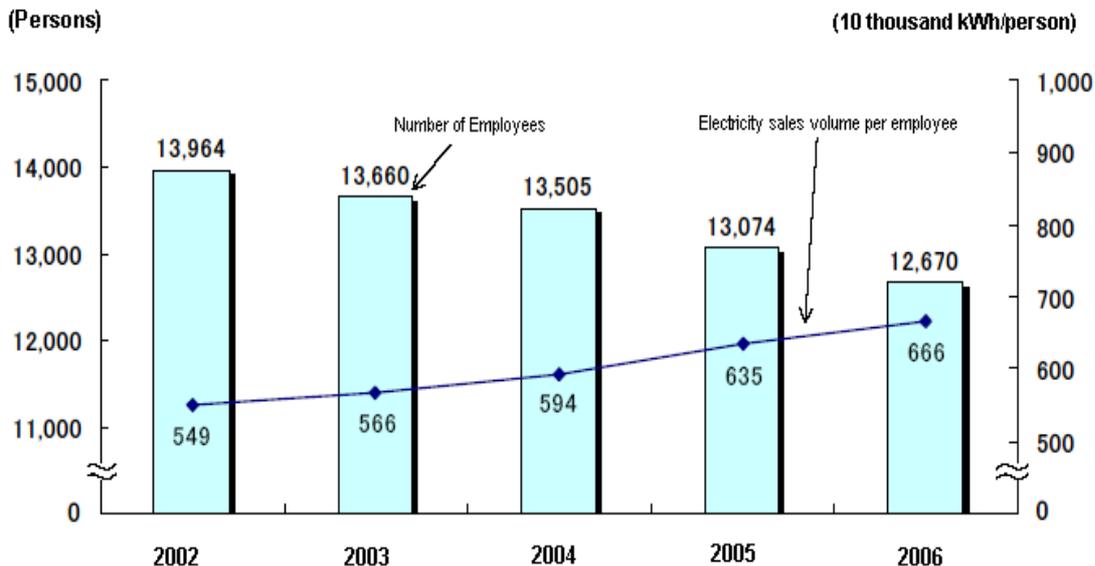


### (3) Improvement in Business Operation and Labor Productivity

We have worked on personnel downsizing by promoting concentration and simplification of business operations through such measures as business process reforms making use of information technology.

Number of employees at the end of FY2006 was 12,670, a decrease of 404 persons from the end of FY2005, due to the review of service area assignments (the number of customer service offices was reduced from 85 at the end of FY2003 to 54) and implementation of the preferential early-retirement program (FY2005, 2006).

[ Number of Employees ]



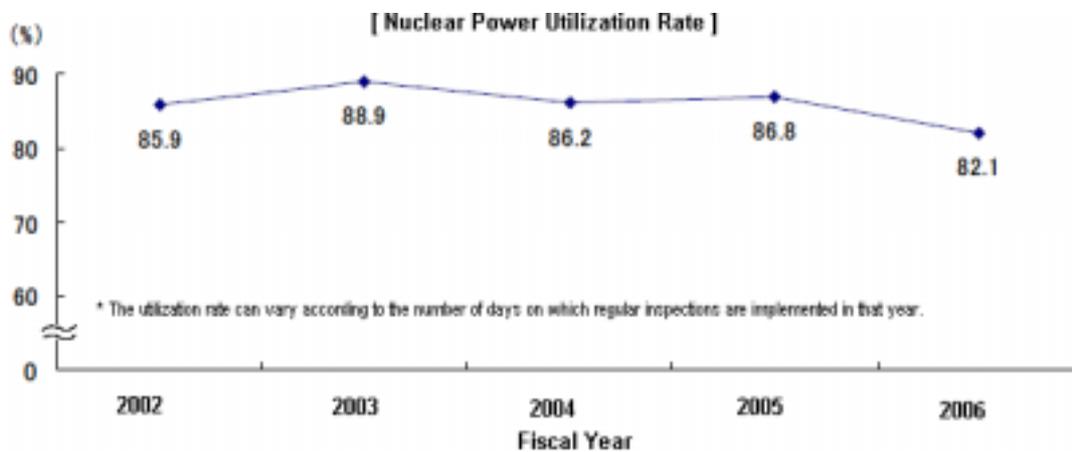
#### (4) Promotion of Efficient Facility Operations

##### a. Maintaining a high nuclear power utilization rate

We have worked to maintain a high utilization rate of nuclear power facilities based on the major premise of ensuring safety.

In FY2006, the nuclear power utilization rate was 82.1% mainly due to the continuous safe and stable operation of nuclear power stations and the implementation of the constant cycling at rated thermal output at all the nuclear power plants.

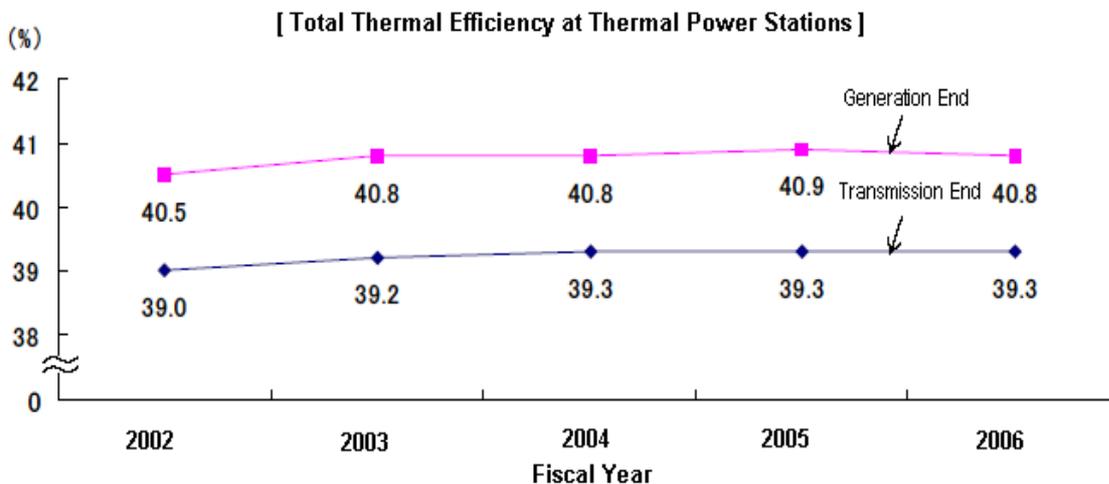
Note: Constant cycling at rated thermal output refers to the operation of generation facilities at the rated reactor thermal power approved by the government. In winter season when the temperature of seawater drops, the thermal efficiency goes up and the power output increases.



##### b. Maintaining/improving thermal power generating facility efficiency rate

We have been committed to maintaining and improving the total thermal efficiency at thermal power stations based on the major premise of ensuring safety.

In FY2006, the total thermal efficiency at thermal power stations on transmission end was 39.3% mainly due to a high rate of operation at highly efficient Shin-Oita Power Station.





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