

# I. Environmental Management



## 1. Business Status and Management Targets

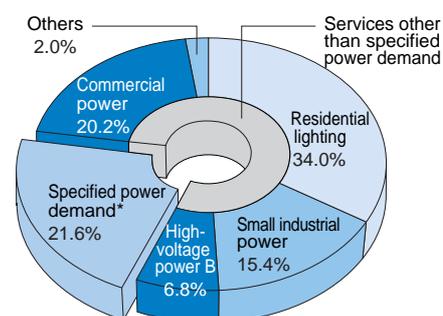
Kyushu Electric Power can be said to be in its second establishment phase, in which a company-wide effort is being made to build a sound foundation for continuous growth, to address new challenges such as competition due to partial liberalization of the power market, and business expansion by entering into new businesses.

### (1) Sale status

The Japanese economy suffered a great deal in fiscal 2001, a state of affairs attributable to a reduction in production and investment in plants and equipment, caused by the slowing of the world economy and domestic demand. It was further hampered by sluggish personal consumption due to worsening unemployment and lower incomes, as well as the aggravation of deflation.

In this economic situation, Kyushu Electric Power's electricity sales for services from large industrial power contracts were 3.0% lower than in fiscal 2000 records. This was caused by a reduction in steel production and the installation of private electric generating facilities at some factories, in addition to inventory adjustment of electric machines, which was triggered by the slump in IT-related businesses. However, sales of general services such as residential lighting and commercial power contracts increased by 1.3% over fiscal 2000. As a result, total electricity sales for fiscal 2001 were 75.32 billion kWh, a 0.1% increase over fiscal 2000. The sales of specified power demand, which are subject to liberalization, amounted to 16.27 billion kWh.

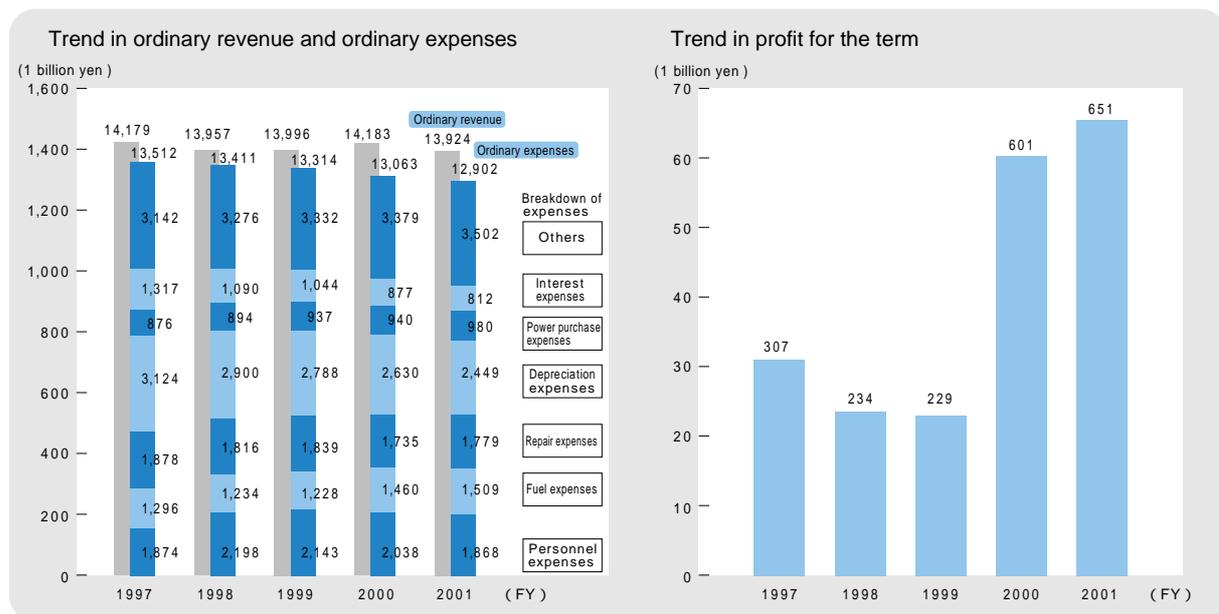
Composition of fiscal 2001 electricity sales



\* Specified power demand means customers who are subject to liberalization under the partial liberalization of electricity retailing that started in March 2000 (customers who receive electricity at an extra-high voltage of 20,000 volts or higher and with a consumption level of 2,000 kW or more, as a rule).

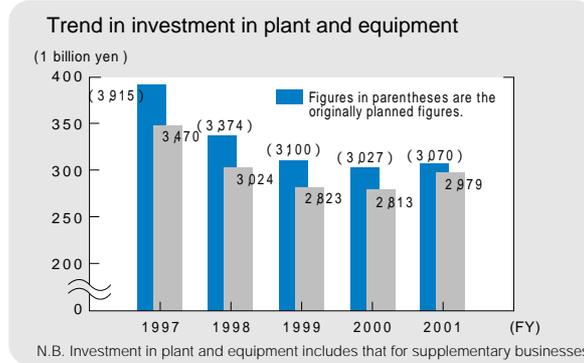
### (2) Revenue and expense

Even though electricity sales for fiscal 2001 were at about the same level as in fiscal 2000, operating revenue was 1.9% less than in fiscal 2000 at 1,384.5 billion yen, due to the electricity rate reduction that started in October 2000. Total ordinary revenue, which comprises operating and other revenues, amounted to 1,392.4 billion yen. As for expenses, fuel costs increased because of a weak yen. However, personnel expenses were less than in fiscal 2000, when retirement-benefit costs began. As a result of other efficiency improvement efforts and capital reductions throughout the business, the total ordinary expense came to 1,290.2 billion yen. Thus the fiscal 2001 ordinary profit was 102.2 billion yen; and the profit for the term, 65.1 billion yen.



### (3) Investment in plant and equipment

Investment in plants and equipment has been kept within the range of owned capital since fiscal 1997, thanks to efforts spanning all projects for efficiency improvement that resulted in higher efficiency than originally planned. The amount invested for fiscal 2001 was 297.9 billion yen, or 3.0%, or a 9.1 billion-yen reduction from the plan. This was attributable to a review of planning and replacement standards, as well as cost reductions achieved in design and construction.



### (4) Management Targets

Kyushu Electric Power established a medium-term management plan in March 1999 to manage the company from a long-term perspective. The plan clearly described the target corporate image and set main policies of management to achieve it. New management policies were added in March 2000, including ROA and reduction of interest-bearing debt, to reinforce business foundations.

In March 2002, it became clear that the original business targets were achievable and that the acceleration of managerial efficiency improvement was needed to keep up with severe competition from other companies. On this basis, a new medium-term management plan was drawn to set new goals for the fiscal period 2002 to 2006.

- Target corporate image**
1. A strong corporation with a competitive edge in all aspects, including price and quality
  2. A flexible corporation that responds to changes in conditions and various needs
  3. A corporation involved in a wide scope of businesses, with the power supply business at its core
  4. A corporation trusted and recognized by society

The new medium-term management plan sets higher business targets (targets for electricity rates and financial affairs) to accelerate the development of price competitiveness and financial strength. Kyushu Electric Power takes on the challenge of realizing a target corporate image under its new medium-term management plan.

#### Target for electricity rates

Realization of an electricity rate system that can compete against PPS (power producers and suppliers), operators of dispersed power sources and other electric utilities

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#### Targets for financial affairs

	Original target (FY2000-2003)	➔	Current target (FY2002-2006)
Shareholder's equity ratio	20% or more at the end of FY 2003		25% at the end of FY 2006
Reduction in interest-bearing debt	Cumulative total reduction of approx. 200 billion yen		Cumulative total reduction of 450 billion yen
FCF (free cash flow)	—		Average of 120 billion yen
Ordinary profit	Average of approx. 90 billion yen		Average of 100 billion yen
ROA (return on assets)	Average of approx. 1.5% (profit for the term/total asset)		Average of 3% (taxed operating profit/total assets)
ROE (return on equity)	Average of approx. 8%		Average of 8%

N.B. Originally, the profit for the term was used as the numerator for ROA as with ROE. However, it has been changed to the taxed operating profit before interest payments, in order to measure the efficiency of the total assets and to ensure awareness of returns to investors.

#### Trend in ratio of shareholders' equity and interest-bearing debt

Fiscal Year (FY)	Shareholders' equity ratio (%)	Interest-bearing debt (1 billion yen)
1997	15.5	27,840
1998	15.7	27,326
1999	17.1	26,026
2000	19.1	25,289
2001	19.6	24,887
2006 (Target)	25%	-450 billion yen

#### Trend in FCF and ordinary profit

Fiscal Year (FY)	FCF	Ordinary profit
1997	760	666
1998	875	545
1999	1,298	682
2000	1,093	1,119
2001	696	1,022
Average between 2002-2006 (Target)	120 billion yen	100 billion yen

#### Trend in ROA and ROE

Fiscal Year (FY)	ROA (%)	ROE (%)
1997	2.7	5.0
1998	2.4	3.8
1999	2.8	3.6
2000	3.3	8.3
2001	3.1	8.4
Average between 2002-2006 (Target)	3.0%	8.0%