Kyushu Electric Power Company Inc.

Annual Report 2006

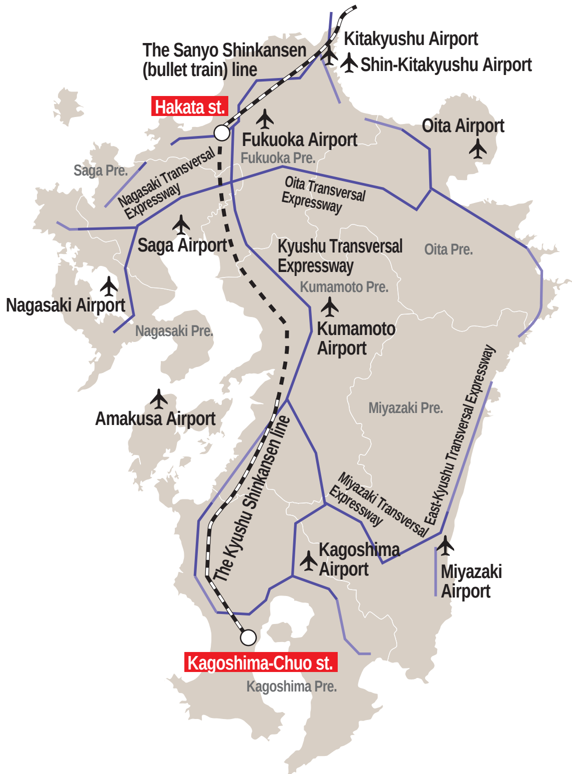
year ended March 31, 2006

Introduction to the Ambitious Island Kyushu

Kyushu Electric Power Co., Inc. was established in 1951 and has been providing electric power service to the Kyushu region which includes the most southwestern of Japan's four main islands, and more than 1,400 of the smaller islands surrounding Kyushu Island. With an area of 4.2 million hectares, the region is comprised of the seven prefectures of Fukuoka, Saga, Nagasaki, Kumamoto, Oita, Miyazaki and Kagoshima. It has a population of about 13.4 million, or approximately 12% of the national total. By region, Kyushu ranks next to the Kanto, Kinki and Tokai metropolitan areas with regards to the scale of population and gross domestic product. As far as regional spheres, it ranks as the largest in scale. Its GDP in FY2002 was US$372.7 billion, which in terms of economic scale, rivals Russia (US$432.8 billion), Brazil (US$492.3 billion) and Australia (US$507.7 billion).

As the closest part of Japan to continental Asia, Kyushu has traditionally been the nation's portal for cultural and technological exchange. One of the geographical advantages of the Kyushu region is the fact that the area within a 1,000-kilometer radius of Kyushu Island includes such major East Asian cities as Tokyo, Osaka, Seoul, Pusan, Tsingtao, and Shanghai. Each prefecture of the Kyushu region has one or more airports with more than 30 international routes in total which connect Kyushu with Pusan, Seoul, and Shanghai all in less than 2 hours. The domestic transportation system in the Kyushu area is also very extensive. The Kyushu Bullet Train Kagoshima Line was partly opened in March 2004 and the entire line is expected to open by 2011, thus an increasing amount of traffic activity inside the Kyushu region is projected.

■Transportation system in the Kyushu Island



The Kyushu region has been a well-known supplier of electronic products, fine ceramics, and automobiles for markets world-wide. However, in recent years, we have seen an accumulated growth in the semiconductor related industry. With regard to the automobile industry, with three assembly plants, Nissan Motor Company Ltd., Kyushu Factory, Toyota Motor Company Ltd., and the Daihatsu Auto Body Company Ltd., factory, the projected number of manufactured automobiles in Kyushu for 2006 is expected to reach about a million units. In the semiconductor industry, Kyushu produces approximately one fourth of the semiconductors manufactured nationally.

Reflecting the steady increase in Kyushu's demand for power since our inception, our sales volume has risen from 4.1 billion kWh in FY1951 to 83.0 billion kWh in FY2005. To support this growth in demand, we have established a supply network throughout Kyushu that has been the key in ensuring efficient supplies of power to the region since our establishment.

Contents

Introduction to the Ambitious Island Kyushu 1
Consolidated Financial Highlights 3
To our shareholders and investors 4
Overview of FY2005 (April 2005 ~ March 2006) 5
Midterm Management Plan 7
Sales Strategy to Satisfy Customers 9
Low-cost Operation of Power Generation Facilities 10
Expanding the Area of Our Business 11
SPECIAL TOPICS 13
Business Management and Corporate Governance 14
Corporate Social Responsibility 15
Environmental Activities 17
Promoting Technology Development 20
Board of Directors and Auditors 21
Organization Chart 22
Major Subsidiaries and Affiliated Companies 23
Financial Section 24
Corporate Data 60
Overview of Power Generation Facilities 61
Main Facilities 62

Disclaimer Regarding Forward-Looking Statements:

Statements made in this annual report regarding Kyushu Electric Power Group's strategies and forecasts and other statements that are not historical facts are forward-looking statements based on management's assumptions and beliefs in light of information currently available, and should not be interpreted as promises or guarantees. Owing to various uncertainties, actual results may differ materially from these statements. Investors are hereby cautioned against making investment decisions solely on the basis of forward-looking statements contained herein.

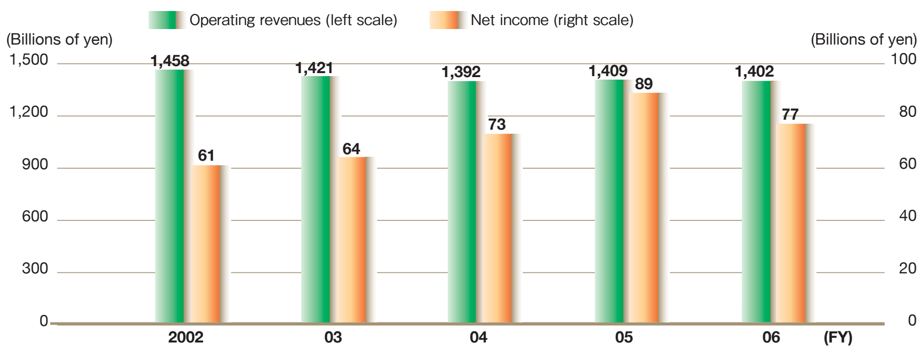
Consolidated Financial Highlights

Kyushu Electric Power Company, Incorporated and Consolidated Subsidiaries
Years Ended March 31, 2006, 2005 and 2004

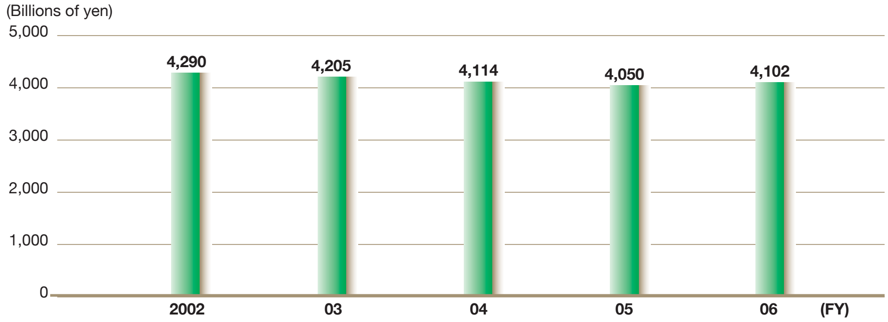
	Millions of Yen (except for per share data)			Thousands of U.S. Dollars (except for per share data)
	2006	2005	2004	**2006**
For the year:				
Operating revenues	**¥1,401,752**	¥1,408,728	¥1,391,684	**$11,932,851**
Operating income	**171,285**	213,735	198,966	**1,458,117**
Net income	**76,850**	89,288	72,792	**654,210**
Per share of common stock (yen and U.S. dollars):				
Net income:				
Basic	**¥ 161.67**	¥ 187.91	¥ 153.05	**$ 1.38**
Diluted				
Cash dividends applicable to the year	**60.00**	60.00	50.00	**0.51**
At year-end:				
Total assets	**¥4,102,319**	¥4,049,713	¥4,114,378	**$34,922,270**
Total shareholders' equity	**1,052,785**	979,252	910,838	**8,962,161**

Note: All dollar figures herein refer to U.S. currency. Japanese yen amounts have been translated, for convenience only, at the rate of ¥117.47=US$1, the approximate exchange rate prevailing on March 31, 2006.

■Operating Revenues and Net Income



■Total Assets



To our shareholders and investors ~Message from the president~

We wish to take this opportunity to sincerely thank you for your continuing support of our business.

In the electric power market, the scope of deregulation expanded in April 2005 to cover all customers who have signed either the high voltage or the extra high voltage power purchase contract. Other deregulation initiatives recently taken include the establishment of the Japan Electric Power Exchange (JEPX), an organization dedicated to the wholesale supply of electric power, and the abolishment of fees for transmitting power for other utilities. As a result of these initiatives, nationwide competition has intensified significantly. Moreover, increasing energy demands in Asia and rising crude oil prices inhibit us from presenting a clear forecast for future market trends.

To ensure further growth of our business in this environment, Kyushu Electric Power Co., Inc. is striving to promote a total energy business by fortifying our group's business bases, in line with the Midterm Management Plan launched in March 2005.

We are also working to provide our customers with optimal solutions, responding to their needs in a timely way and with sincerity, by adhering to customers' viewpoints. While committed to reducing costs to realize competitive electric rates, we will continue working to enhance our brand value and establish our reputation as a trustworthy utility that ensures peace of mind for all stakeholders.

Regarding financial aspects, we will continue to seek both profitability and financial stability. At the same time, we are committed to achieving the highest efficiency among the domestic power companies, creating new demands for the energy business, and boosting sales in non-energy businesses as well.

Finally, I would like to request your generous understanding of and support for our efforts to continually enhance our group's corporate value.

June 2006

S. Matsuo

Shingo Matsuo
President

Overview of FY2005 (April 2005 ~ March 2006)

Pursuit of Management Efficiency

Since April 2005

Continued review of the allocation of customer service offices and reduced the number of customer service offices from 81 to 68 (as of March 31, 2006).

July 2005

Restructured Branch Offices' organization

To rigorously implement information management of the wheeling system, we established a Transmission & Power System Operation Administration Dept. at each branch office. We also combined the Civil Engineering Sector of the Power System Maintenance Offices with the Engineering Dept. at branch offices and established 4 Civil Engineering Maintenance Offices in remote areas.

Electric Power Supply and Demand

May 2005

Started a marine survey at Sendai Nuclear Power Station as part of an Environmental Survey conducted aiming to develop next-generation nuclear power in the latter half of the 2010s.

June 2005

Commencement of operation of Goto Archipelago link

The construction of the Goto Archipelago link that links Nagasaki Prefecture's Goto Archipelago with Kyushu Island, which began in October 2003, has been completed and operation has started. The distance along the seabed of the archipelago link is 53 kilometers which is the longest undersea electric power cable in Japan.

July 2005

Commencement of operation of Tamukae Hydroelectric Power Station in Kumamoto Prefecture (2,200kW).

August 2005

Submitted the scoping document to the national and local government. This included our assessment items and methods of implementation, forecast and survey for the environmental impact assessment (EIA) regarding the expansion plan of the Sendai Nuclear Power Station Unit 3.

September 2005

Received permission to convert the nuclear reactor facilities regarding the Pluthermal project at the Genkai Nuclear Power Station Unit 3 from the Ministry of Economy Trade and Industry.

October 2005

The 30th anniversary of commencement of operation of the Genkai Nuclear Power Station Unit 1.

February 2006

Received recommendation about the scoping document regarding the expansion plan of the Sendai Nuclear Power Station Unit 3 from the Ministry of Economy Trade and Industry.

March 2006

Received prior understanding about the Pluthermal project at the Genkai Nuclear Power Station Unit 3 from Saga Prefectureal and Genkai-cho municipal government.

April 2005 ~ March 2006

Annual electricity sales volume recorded the highest (83.0 billion kWh) in Kyushu Electric Power Co., Inc.'s history.

Strengthen the Profitability of Kyushu Electric Power Group

1. Total Energy

April 2005

Kitakyushu Ecoenergy Co., Ltd. started operation in cogeneration business.

May 2005

Miyazaki Biomass Recycling Co., Ltd. started operation of power generation facility which generates electricity from poultry manure incineration.

August 2005

Commencement of operation of Fukuoka Clean Energy Co., Ltd. East Factory.

August 2005

Established Pacific Hope Shipping Limited in Nassau, Bahamas, to own the vessel to transport LNG to Kyushu Electric Power Co., Inc. in partnership with Tokyo Electric Power Co., Inc.

2. IT and Telecommunications

April 2005

Kyushu Telecommunication Network Co., Ltd. started IP phone service with fiber optics telephone network.

3. Environment and Recycling

June 2005

J-Re-Lights Co., Ltd. started selling vacuum fluorescent tubes "Top Star" which meet the standard set by Law on Promoting Green Purchase.

The "Top Star" product line is an energy-saving fluorescent tube manufactured using recycled glass and phosphor.

4. Lifestyle-oriented Service

April 2005

Kyushu Electric Power Co., Inc.'s Research Laboratory developed a package product of seedlings for the kitchen garden targeting individual consumers and started commercial production.

July 2005

Established Kyuden Home Security Co., Inc. which started a home security business in November 2005.

Corporate Social Responsibility

July 2005

Established the CSR Promotion Committee.

July 2005

Kyushu Energy Science Center broke the 5 million visitor mark.

Overseas

June 2005

Concluded an exchange agreement with China Huadian Corporation.

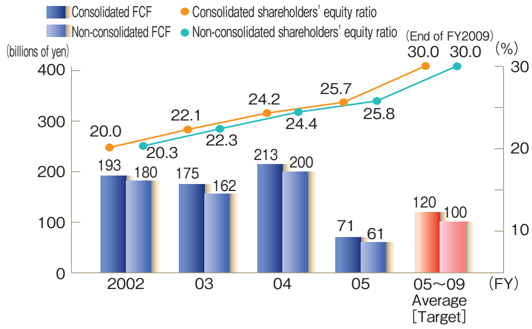
September 2005

Amakusa, a coal carrier for our power generation facilities from overseas, began service.

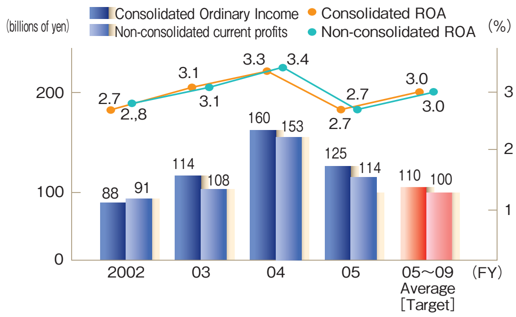
Midterm Management Plan

Kyushu Electric Power Co.,Inc. positioned this 5 years (FY2005-FY2009) as a term to solidify the business foundation of our group with total energy business as our main business focus and pursue further growth with the strengthened basis. Management aims to achieve sustainable improvements in corporate value through customer focused activities by improving management quality and raising the satisfaction levels of all the stakeholders such as customers, shareholders, investors, society and employees. Under this management approach, we set our slogan, "Solidify the base and pursue growth", management objectives from customers' viewpoint, and financial targets to secure profitability, stability, efficiency and future growth. We plan to use those FCF for mainly these three purposes: reduction of interest-bearing liabilities to achieve long term interest-bearing debt ratio of 40%, which backs us up to achieve an equity capital ratio of 30% by the end of FY2009, strategic investment according of ¥60 billion in 5 years, and consecutive dividends.

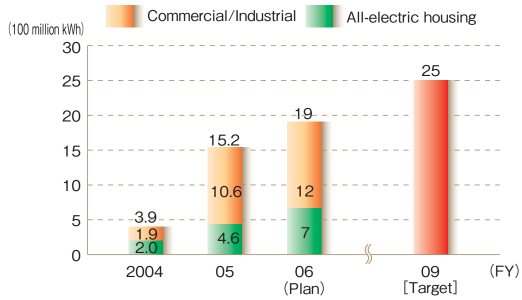
■FCF and Shareholders' equity ratio



■Ordinary Income and ROA



■Creation of Electricity Sales Volume (Incremental to FY2003)



Management Objectives

■Customer Outlook

Price	Offer competitive electric rates
Quality	Respond promptly and maintain high reliability
Service	Provide solutions to cater the various needs of customers
Corporate Image	Establish a brand image of "safe and reliable"

■Financial Outlook

		Target		Targeted year
		Consolidated	Non-consolidated	
Profit performance/ Financial stability	FCF (Free cash flow)	¥120 billion	¥100 billion	Five year average (FY2005 to FY2009)
	Ordinary income	¥110 billion	¥100 billion	
	ROA (return on assets) *	3%	3%	
	Shareholders' equity ratio	30%	30%	End of FY2009
Efficiency		Highest among the domestic electric power companies		
Growth	New demand in electricity business	2.5 billion kWh		FY2009 compared with FY2003
	Non-electricity sales to outside the Group	¥100 billion		FY2009 compared with FY2003
Ordinary income for each business area	Total energy service (not including electricity business)	¥4 billion		Consolidated five year average FY2005-2009
	IT and telecommunication service	¥4 billion		
	Environment and recycling business, lifestyle-oriented service business	¥2 billion		

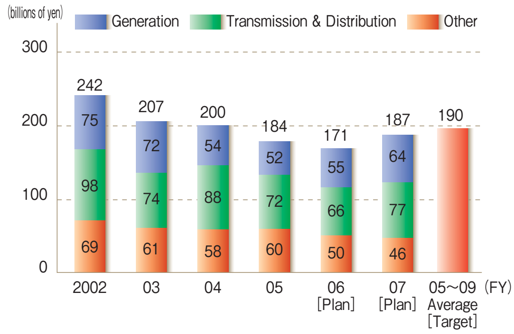
* ROA (return on assets) = net operating profit after tax divided by average total assets

Management Efficiency

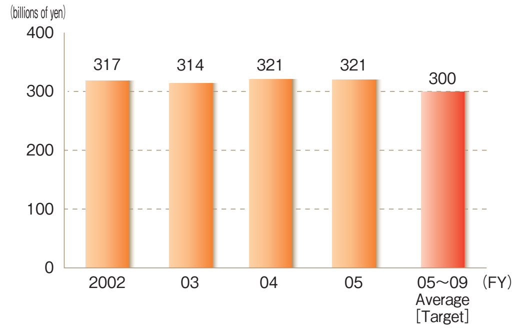
We continue to address the improvement of management efficiency as a top priority issue and are making efforts to reduce costs by setting numeric goals. While ensuring we can adequately respond to demand trends, we are gradually promoting greater efficiency in our investment of facilities and equipment by reviewing design standards and specifications. Regarding our non-consolidated capital expenditure, we set annual average of ¥190 billion as our target for this 5 year periods (FY2005-FY2009).

Although there are factors such as expansion of electric power facilities and the aging of existing facilities that will cause increases in maintenance costs, we are striving to make the maintenance of our facilities more efficient and sophisticated by introducing risk management techniques and adopting new technologies and new processes. We expect factors such as the temporary cost of system development which makes our operations more efficient to increase our miscellaneous operating expenses, but we are looking to achieve further reductions by working to streamline and simplify our overall operations. As for improvement of operational efficiency and reduction of personnel levels, we set our target number of employees of 12,500 by the end of FY2006. We are working to achieve this target by reforming business processes through greater utilization of information technology that we have cultivated.

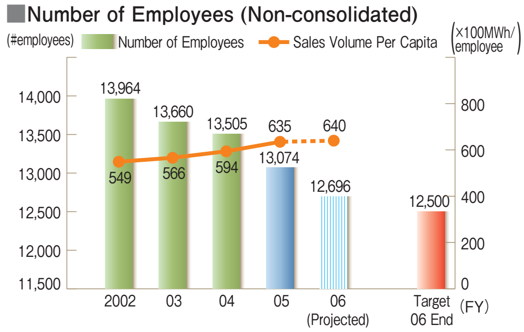
■Capital Expenditure (Non-consolidated)



■Maintenance and Miscellaneous costs (Non-consolidated)



■Number of Employees (Non-consolidated)



Sales Strategy to Satisfy Customers

Competition among electric power companies and other power producers and suppliers (PPS) has increased since the deregulation started in March 2000. Expansion of the scope of deregulation of electric power retailing to customers continued and the possibility of complete deregulation is to be discussed from April 2007. Under this circumstance, it is an important issue for Kyushu Electric Power Co.,Inc. to establish our competitive superiority.

Proposing total solution services for corporate customers

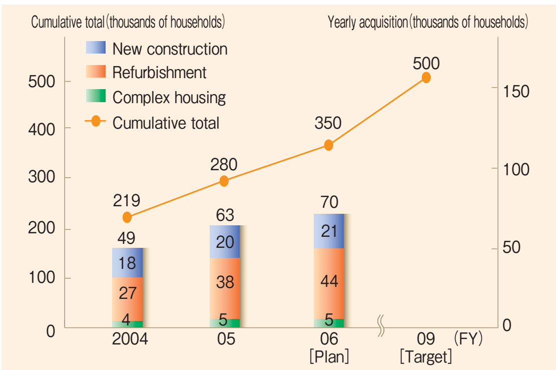
We render total solution service for corporate customers to meet various needs with our group's resources. Not only proposing optimum energy solutions based on each customer's energy usage, we also provide a wide range of services including gas sales, environment preservation, IT network and introduction of electrical air conditioning systems and all-electric kitchen appliance. Specialized sales representatives are assigned to each of approximately 3,000 customers of specific scale and high-voltage power of 500 kW or above to offer one-stop service at each branch office and customer service office. In addition to these 151 representatives, we will strengthen our sales force by increasing the number of sales representatives for high-voltage customers (500 kW or less) to 130 by the end of FY2006.

Sales Expansion Strategy –All Electric Housing-

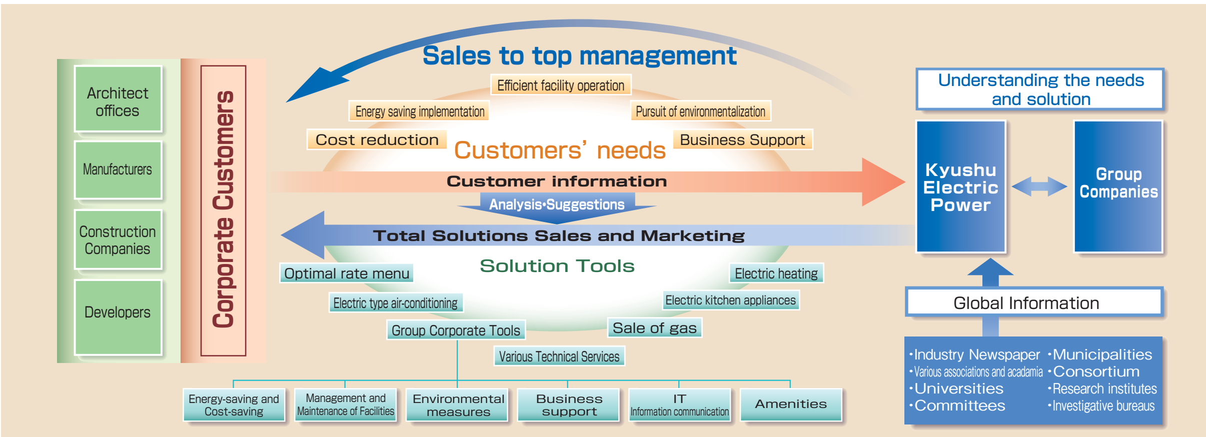
To stimulate residential demand, we aggressively promote all-electric housing by setting an acquisition target of 500,000 houses (cumulative) which will account for an additional 1.3 billion kWh of annual electric power sales by the end of FY2009.

In FY2005, we acquired 63,000 all-electric housings which made the accumulated number of acquisition 280,000. All-electric housing is highly evaluated for its safety, convenience, and economic efficiency and the penetration rate of all-electric housing in new construction exceeded 20% in FY2005. To improve this rate, we vigorously promote all-electric adaptation for housing complexes by strengthening ties with home electronics companies, condominium builders and developers.

■Growth in All-electric housing



■Outline of total solution sales and marketing



Low-cost Operation of Power Generation Facilities

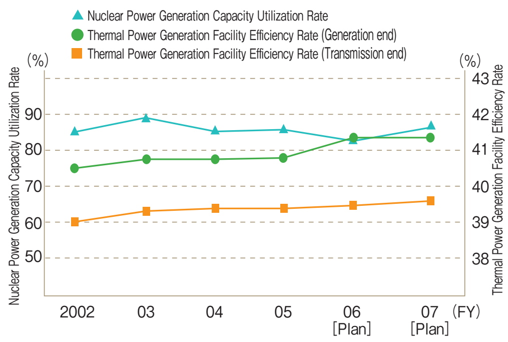
We are pursuing a balance of electric power development and introduction of new energy sources, with comprehensive consideration of power supply stability, economic efficiency and environmental preservation.

Kyushu Electric Power Co.,Inc.'s competitive advantage rests on the low-cost operation of its supply system along with an optimum mixture of power generation facilities. Our facilities are comprised mainly of nuclear, coal and LNG, which makes us one of the electric power companies with the lowest CO_2-emissions per unit in Japan. Diversification of power sources also reduces the fuel procurement risks. We will pursue efficient operation including a high utilization rate of nuclear power facilities and improvement of thermal efficiency in thermal power stations based on the premise of ensuring safety.

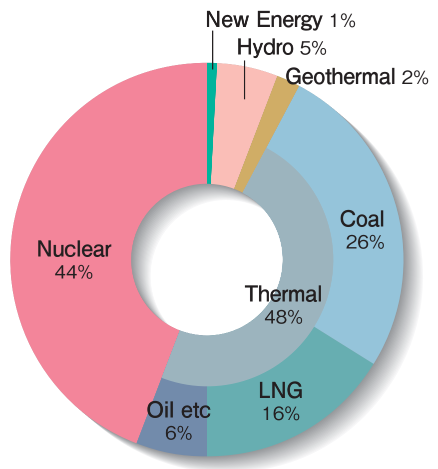
Currently nuclear power accounts for 44% of our total power generation and does not produce CO_2 during its power generation process. In addition to this great advantage in environment preservation, nuclear power generation offers great cost competitiveness in the long term due to its low variable costs including fuel cost over thermal power generation. To take full advantage of nuclear generation, we place priority on maintenance and enhancement of quality levels during plant operation with the high utilization rate of nuclear power facilities.

Improvement of thermal power generation facility efficiency leads to less fuel consumption, resulting in a reduction of CO_2, SOx and NOx emissions. In FY2005, the total thermal efficiency of the company's thermal power stations maintained the highest level in our history. This can be attributed to the operation of the new and advanced the Reihoku Thermal Power Station Unit2 and the greater use of highly efficient power stations employing the combined cycle power generation method, such as the Shin-Oita Power Station.

■Nuclear Power Generation Capacity Utilization Rate and Thermal Power Generation Facility Efficiency Rate



■Composition of power generation by energy source



■Target ratio of power sources

		Percentage of total equipment	Percentage of total electricity generated
Nuclear		Approx. 30%	Approx. 45–50%
Hydro		Approx. 10%	Approx. 10%
Geothermal			
Pumped storage		Approx. 10%	
Thermal	Coal	Each taking approximately one third of the remaining half	Allocated according to fuel rates and other factors
	LNG		
	Oil		

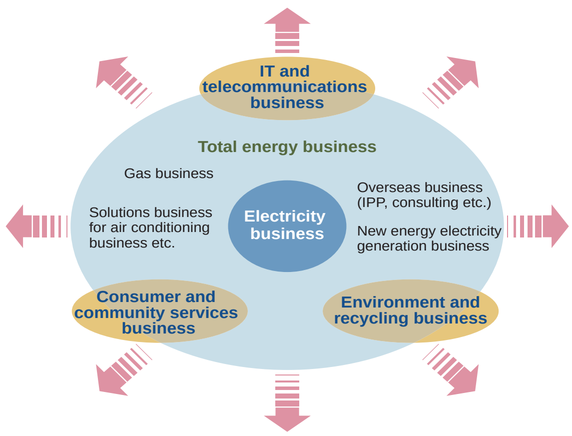
Expanding the Area of Our Business

Kyushu Electric Power Group expands and strengthens our revenue earning base by proactively developing business services both in total energy business and the other three business areas where we believe we can meet the needs of customers and by leveraging the resources of our group. We are aiming to achieve profitability in these respective business areas by focusing on improving efficiency and pursuing growth.

Total Energy Business

We believe there is a lot of room for us to grow in the total energy business as currently our group accounts for approximately 14 % of final energy consumption in the Kyushu region. To improve this ratio, it is essential to develop our energy business beyond electric power generation. In the gas business, we make full use of our group's LNG base by aggressively expanding sales of gas and LNG to gas companies and large industrial customers. Overseas, we focus on IPP[1] business utilizing our technology and know-how in hands-on approach as well as environmental-related projects and consulting business to capitalize on our technical prowess mainly in Asian countries, Mexico, and North America. Since FY2004, ongoing projects have brought us receipts of dividends and the projected revenue from ongoing projects is ¥2 billion in around FY2008.

■Direction of Business expansion



[1] Independent Power Producer

IT and Telecommunications business

The IT and telecommunication industries have enormous growth potential. There are areas where we utilize assets such as our high speed, large capacity data network. In FY2005, we have expanded our service area of BBIQ (a high-speed internet access service with fiber optic network) to 25 areas and started IP phone service for residential customers.

Principal Business Areas

Business Area	Outline of business
Sales of gas and LNG	Gas and LNG supply
New energy generation	Biomass power generation Wind power generation
Oversea Businesses	Power generation (IPP) Consulting
Telecommunications	Internet access service IP phone service Fiber-optic cable leasing service
IT Solutions	IT system planning, building, and implementation
International Communication	International line service International VLAN service
Recycling	Fluorescent bulb recycling Confidential document recycling
Real estate, housing	Dwelling performance evaluation Wooden house construction
Welfare and Caring	Senior citizens apartment Medical support
Business support	Personnel service ISO certification Captioning
Social capital related	PFI[2] for educational institution
Other Lifestyle-oriented service	Home security Rental video Beverage manufacturing and sales Outsourcing

[2] Private Finance Initiative

Environment and recycling business

In an effort to promote the development of a recycling-oriented society, we operate waste recycling businesses with the cooperation of our group companies.

Lifestyle-oriented service business

We keep exploring new areas of business that support a rich and comfortable lifestyle.

TOPICS

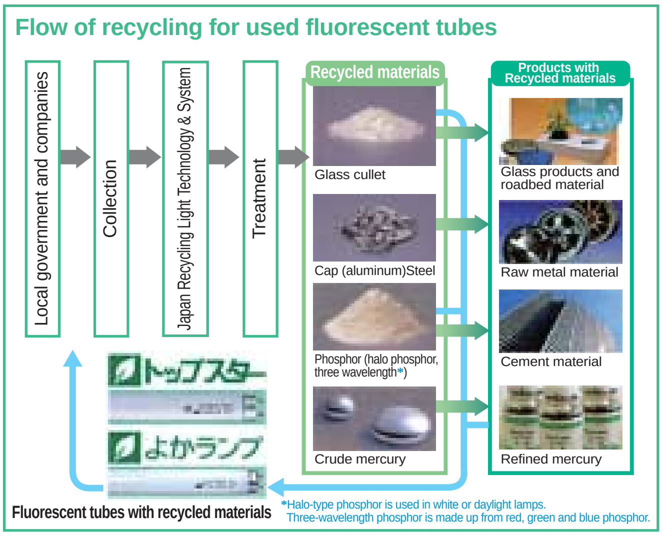
Fluorescent bulb recycling business

Japan Recycling Light Technology & System (J-Re-Lights Co., Ltd.)

Currently most used fluprescent tubes are incinerated or disposed of in landfills. However, fluorescent tubes contain a very small amount of hazardous mercury and require proper collection, processing and recycling. J-Re-Lights collects used fluorescent tubes from companies, schools, local governments and households, and recycles them into recycling resources including glass, metals, phosphor and mercury in an effort to reduce waste and environmental load aiming toward a recycling-oriented society.

In FY2005, the Company treated approximately 8.40 million fluorescent tubes, contributing to reducing emissions of approximately 380 tons-CO_2 compared to disposal at landfills, and other environmental loads such as mercury.

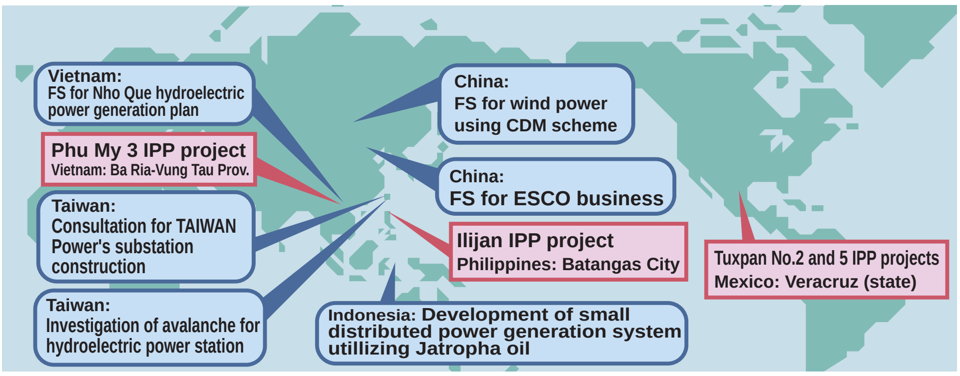
Flow of recycling for used fluorescent tubes



Project locations

IPP business

Consulting and environment-related business



*F/S survey: Feasibility Survey CDM: Clean Development Mechanism

Thermal power projects (IPP projects)

Project Name	Joint venture companies	Type of generation (fuel)	Output (MW)	Commenced construction	Commenced operations
Mexico: Tuxpan No. 2, IPP project	Mitsubishi Corp.	Natural gas fired combined cycle system	495	February 2000	December 2001
Philippines: Ilijan, IPP project	Korea Electric Power Corp., Mitsubishi Corp., Mirant Corp. (Hong Kong)		1,200	March 1999	June 2002
Vietnam: Phu My 3, IPP project	BP p.l.c. (UK), SembCorp Utilities Pte Ltd. (Singapore),Sojitz Corp.		717	December 2001	March 2004
Mexico: Tuxpan No. 5, IPP project	Mitsubishi Corp.		495	July 2004	September 2006

Our Pluthermal Project*

In April 2004, Kyushu Electric Power established a policy for the Pluthermal project at the Genkai Nuclear Power Station Unit3 to be in use by FY2010. In May of the same year, we issued request for a preliminary agreement from Saga Prefecture and the Genkai-Cho municipality and at the same time, applied to the national government to convert the nuclear reactor facilities.

Following this request, a safety survey has been conducted and in September 2005, we received permission from the Ministry of Economy Trade and Industry. Through repetition of various campaigns to obtain the acceptance and understanding from local community, our request for a preliminary agreement has been accepted by Saga Prefecture and the Genkai-Cho municipality on March 26, 2006

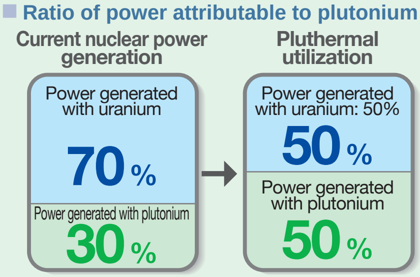
Outline of Pluthermal Project

Uranium fuel used at nuclear power stations contains new fuel called plutonium. The Pluthermal project is a plan to call for recovery, recycling and utilization of plutonium in nuclear power stations.

Location: Genkai Nuclear Power Station Unit 3
Timing: Implementation by FY2010
Plan: The ratio of MOX fuel containing plutonium will be around 25%, for the rest 75% we keep using uranium fuel.

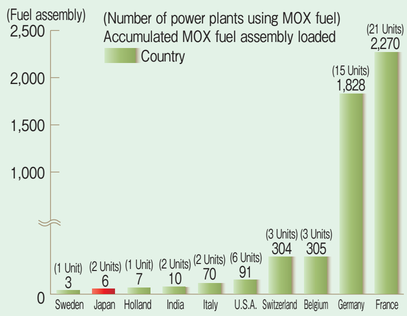
In current nuclear power generation using only uranium fuel, some uranium transforms into plutonium in the nuclear reactor, which is utilized as fuel in power generation. The ratio of power generation attributable to this transformed plutonium accounts for about 30%. In the Pluthermal utilization the ratio goes up to about 50% as the fuel already cotains plutonium from the beginning.

■ Ratio of power attributable to plutonium



MOX fuel stands for Mixed Oxide Fuel, and is a fuel consisting of a mixture of plutonium and non-fissionable uranium. Nuclear power plants worldwide, especially in Europe, have over 40 years of experience in loading about 4,900 MOX fuel assemblies cumulatively. There has been no reported case of fuel damage or power plant troubles attributable to characteristics particular to MOX fuel.

■ MOX fuel used in light-water reactors in various countries



Source: Nuclear Power 2005 by these Agency for Natural Resources and Energy

We are committed to every effort to gain everyone's understandings towards our Pluthermal project, which places the utmost priority on maintaining a safe nuclear power station.

* Note: The term "Pluthermal" is a Japanese word that combines the English words of "plutonium" and "thermal".

Business Management and Corporate Governance

We are committed to reinforcement of business management as a primary task for Kyushu Electric Power Co., so that we can respond to changes in the business environment appropriately and increase our corporate value continuously. Above all, we develop effective corporate governance system to ensure soundness of business management.

Corporate Governance

We are working to develop organizational structure to increase efficiency and effectiveness in business execution, ensure credibility of financial reports, promote legal compliance and conduct legitimate asset protection. In June 2006, we established a principal policy on corporate governance to enhance corporate governance structure in line with Commercial Code of Japan.

● Directors/Board of Directors

The Board of Directors meets once a month in principle and holds extraordinary gatherings as needed. It is responsible for discussing and making decisions on the execution of important business matters as well as supervising the execution of duties. As of May 2006, it comprised 19 members, including one outside director.

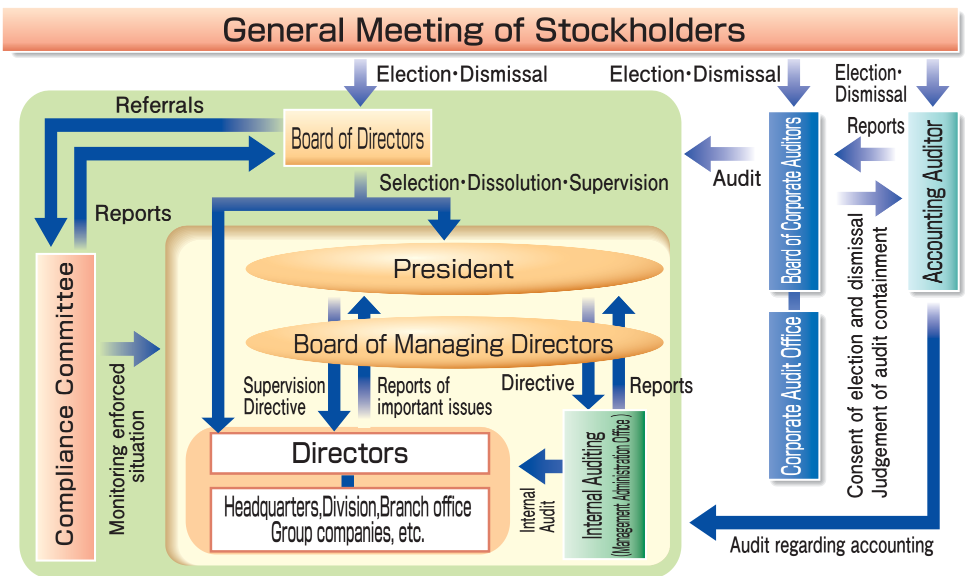
We have also established the Board of Managing Directors, which composes of the President, the Executive Vice Presidents and the Managing Directors. It is responsible for discussing the Board of Directors' decisions and issues involving important executorial decision-making processes. Executive Officers are assigned to each department and branch office for prompt decision-making and efficient business execution.

● Auditors/ Board of Corporate Auditors

The Board of Corporate Auditors comprises 6 auditors, including three outside auditors. It meets once a month in principle and holds extraordinary gatherings as needed. It is responsible for receiving reports, discussing, and resolving important matters relating to audit stipulated by laws, regulations, or corporation charters. In addition to it, Corporate Audit Office comprising 15 staff members is established to support Corporate Auditors.

● Internal Auditing

20 staff members are assigned in the Management Administration Office to audit legal compliance and business execution at each division and branch office in addition to quality assurance system in safety activities at important supply facilities including nuclear and thermal power generation facilities.

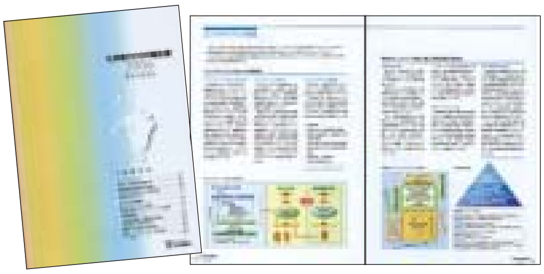


Corporate Social Responsibility

Our company mission and centerpiece of social responsibility is to supply electricity in a stable and efficient manner placing first priority on safety. This will never change even under full-scale competition in the energy market. We are proud of fulfilling this responsibility to society.

Our efforts for CSR

Following the formulation of Kyushu Electric Power Group Corporate Behavior Charter, which outlines our group's corporate responsibilities and role in society, in July 2005 we have established the CSR Promotion Committee chaired by the President and consisting of executives, to strengthen CSR activities and discuss CSR issues.
In June 2006, we published the CSR Report 2006 as one of communication tools to promote better understandings from stakeholders.



For more details about our CSR activities, visit our website at
http://www.kyuden.co.jp/en_index
(English version of CSR report is available on the website only)

Main measures for CSR

Area	Main Activities
Promotion of compliance management	● Promote fair business activities in strict conformity with laws and business ethics ● Enhance employees' legal and ethical compliance ● Correct handlings of Information Security ● Protect personal information
Promotion of information disclosure to ensure management transparency	● Promote information disclosure ● Timely and appropriate transmission of nuclear power-related information with various stakeholders ● Promote IR activities based on the needs from shareholders/investors
Promotion of Environmental Management	● Promote development of renewable energy sources and zero emissions ● Promote green procurement ● Develop environment-related new business ● Enhance collaboration with environmental NPOs
Respect for human rights and improvement of labor environment	● Promote gender equality ● Job development for elder and persons with disabilities ● Employee education and staffing to motivate employees
Safety-first Policy	● Prioritize the safety of facilities, equipment and their operation ● Safety around nuclear power generation facilities ● Occupational safety and health improvement ● Industrial and public accident prevention
Corporation with local community and society	● Social contribution activities ● Promote volunteer activities of employees ● Social welfare activities

Promotion of Compliance Management

We established the Compliance Committee under the Board of Directors in October 2002. This committee is chaired by the President and comprises the company's directors, lawyers, academic experts, advisory specialists for consumers' affairs, and a chairperson of labor union to ensure objectivity and transparency. We also assigned management officers in charge of compliance issues in each department and branch office. To ensure opportunities for our employees, employees of our group companies and business partners to consult about legal and ethical issues, we provide internal and external counseling services.

● Building of Information Security System

In current times, information technology deeply penetrated corporate activities and social lives. Ensuring information security is, therefore, a precondition to execute business activities organically and efficiently. Under this circumstance, we recognize "Ensuring Information Security" as an important management issue and established a principal policy on information security in January 2005. Each department, branch office and division has security officers or staff to strictly handle information acquisition, management, storage, and disposal. Those officers are also in charge of private information protection. In line with Private Information Protection Law which went into effect in April 2005, we established principal policy, internal rules, and internal guidelines for private information protection, which specify our stance on information disclosure and the use of private information. We enhance our information security system to ensure proper management of information we acquire through business activities from internal and external sources including customers, shareholders, investors, and land owners.

Corporation with local community and society

As a corporate citizen, we are working on the development of community and local society. As part of our social responsibilities, we promote and support various social activities including cultural and artistic activities, sports, local revitalization, and social welfare.

● Kyuden Classical Concert

Since 1993, we have held full-scale classical concerts by the Kyushu Symphony Orchestra, the only professional orchestra in Kyushu region inviting distinguished conductors and soloists. In FY2005, the total number of attendance was 9,732 and we donated the ticket sales of ¥ 5,542,500 to the Kyushu Symphony Orchestra as a support from local fans.

● Continued Corporation on High Moor Preservation

Our employees in Oita Branch have volunteered for regeneration of the high moor and wildfire prevention activities in Bogatsuru Wetland. In November 2005, Oita Branch Office received a certificate of gratitude for its continued cooperation on Kujyu Bogatsuru-Tadehara Wetland Burn-off.

Bogatsuru Wetland is inscribed as a registered wetland under the Ramsar Convention in Kujyu Range, Oita Prefecture and one of the largest wetlands in Japan. As the soil moisture content has decreased, many swamp vegetations are in danger of extinction in the area. To save them and regenerate the high moor, we established Bogatsuru Burn-off Committee in corporation with local organizations in 1999 and have supported and volunteered for prescribed burn. We make continuous efforts in corporation with the local community to preserve this precious nature habitat.

Environmental Activities

1. Promotion of Environmental Management

Kyushu Electric Power Group prioritizes environmental conservation in its management activities. We make concerted efforts focusing on environmental management, which contributes to a productive environment through raising environmental consciousness in conducting all our corporate activities. Aiming to make our contribution to building a sustainable society, we strive to fulfill our social responsibility of promoting both environmental conservation and business activities based on the Kyushu Electric Power Environment Charter with the theme, "Towards an Environmentally Friendly Corporate Stance".

Environmental Policy

The Kyushu Electric Power Environment Charter was established in February 2001 to define the stance and direction of environmental activities to be pursued.

Kyushu Electric Power Environment Charter

Towards Environmentally Friendly Corporate Stance

1. **The company shall recognize the importance of maintaining awareness of environmental conservation needs in all its corporate activities.**
   - Fully realize that dealing with environmental problems is a fundamental precondition for its own existence and business activities.
2. **The company shall make concerted efforts to contribute to a sound environment in all its corporate activities.**
   - Strive to prevent global warming and to conserve nature and environment.
   - Actively implement environmental conservation programs that contribute to the community's well being
   - Reduce waste output and encoourage use of waste as a resource, thus promoting a recycling society
3. **The company shall promote the disclosure of environment related information in all its corporate activities.**
   - Promote ease of public access to environment related information concerning the company's business activities and provide opportunities for communicating with members of society.

Environmental Action Plan

Kyushu Electric Power Group formulated the Environmental Action Plan as a guideline for all employees to participate in the implementation of environmental management. To continue the secure implementation of environmental activities, the Action Plan is revised and improved every year based on several factors, including the evaluation of current social conditions and needs, and internal and external evaluations related to the company's environmental activities during the previous year.

–FY2006 Environmental Action Plan–

The FY2006 Environmental Action Plan consists of five environmental action policies: promoting environmental management, addressing global environmental issues, establishing a recycling society, maintaining harmony with the local environment, and working with society. Targets and detailed plans follow under those policies. (See our Environmental Action Report 2006 for detailed information at www.kyuden.co.jp/en_environment_index)

Environmental Management System

All of our operational sites have introduced efficient and effective environmental management systems (EMS). Each operational site sets its own goal such as energy saving and resource saving besides managing environmental risks by using a checklist for conformity to environmental regulations to expedite compliance management and conducting drills to better cope with environmental accidents or disasters.

2. Measures for Global Environmental Issues

Reduction of Greenhouse Gases in Power Supply

We will contribute to the fulfillment of Japan's national commitments by controlling Greenhouse Gases emitted in the courses of our business activities.

Target for CO_2 emission reduction

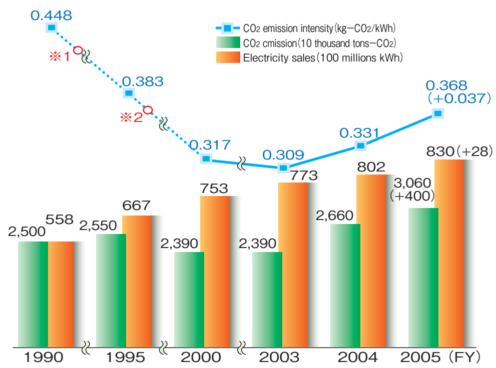
The target for CO_2 emission reduction was established in correspondence with the FY 2010 commitment set in the Kyoto Protocol.

Commitment: 20% reduction in FY2010 end-use CO_2 emission intensity from FY1990

Promotion of Optimal Combination of Power Sources

While our electricity sales have increased by about 50%, our CO_2 emission has increased by only 20% since 1990s. This is due to our commitment to CO_2 emission reduction through the optimal combination of power sources by promoting a balanced development of sources around our core source of nuclear power as well as through the improvement of the utilization rate of nuclear power stations and thermal power generation facility efficiency.

■End-use CO_2 emission intensity, CO_2 emissions and electricity sales



(Note) The ( ) for FY2005 is the increased amount compared to the previous year
※1: Genkai Nuclear Unit 3 started operations in March 1994
※2: Genkai Nuclear Unit 4 started operations in July 1997

Promotion of Renewable Energy Use

We have developed geothermal and hydroelectric power generation, systematically installed wind and photovoltaic power facilities, and purchased electricity generated by new energy sources such as wind and photovoltaic power from customers or businesses. Due to these measures, we have achieved 450 million kWh of electricity generated using new energy sources, or the standard amount of new energy utilization (minimum requirement) set under the Renewable Portfolio Standard.

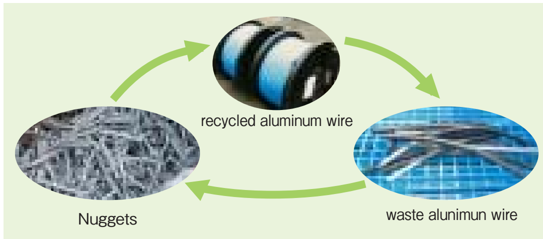
3. Establishing a Recycling Society

Towards the development of a recycling society, we have committed to minimize the amount of final disposal waste as close to zero. For waste generated during the course of our business activities, we promote the 3Rs (Reduce, Reuse and Recycle).

● Industrial Waste

Industrial waste includes coal ash, gypsum from desulphurization facilities, sludge from wastewater treatment, scrap metal and discarded concrete poles. We effectively utilized coal ash, which accounts for about 80% of our industrial waste, to achieve a 91% recycling rate in FY2005. We also developed recycled aluminum wires using waste aluminum wires from our electric works, which have been employed since FY2005.

■Recycling of aluminum wires



4. Maintaining Harmony with the Local Environment

We take active measures conserving and coexisting with the local environment, such as conducting environmental impact assessments prior to the construction of our power stations, and practicing environmental conservation and management during our facility operation.

Environmental Impact Assessment

Three types of environmental surveys are conducted on the premises of Sendai Nuclear Power Station towards the development of new nuclear power facilities. The surveys include an environmental impact assessment, geological survey and meteorological survey.

5. Working with Society

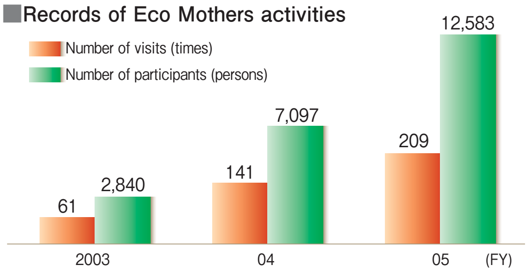
We maintain communication with the public through the Environmental Action Report, Eco Mothers Activities and study tours. We also promote local environmental activities.

Eco Mother Activities

We aim to promote environment-related communication with mothers responsible for environmental education at home. We support Eco Mothers' visits to places where children and parents gather to provide information on environmental issues to raise awareness, while we promote Eco Mothers activities to seek opinions and requests about our environmental activities.

Encourage children to be involved In eco-friendly activities at home

■Records of Eco Mothers activities



Planting One Million Trees under the Kyushu Homeland Forestation Program

To commemorate our 50th anniversary, we began the Kyushu Homeland Forestation Program to plant one million trees throughout Kyushu in 10 years (100 thousands trees per year) starting FY 2001 in cooperation with local citizens. In FY 2005, approximately 105,000 trees were planted in 57 locations, bringing the 5-year total to about 540,000 trees.

Supporting the Environmental Education

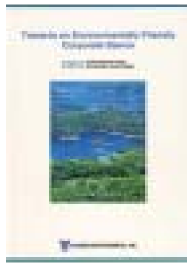
Since FY2002, we have developed environmental education support activities including nature watch and classes in forests to utilize our abundant natural environment in the Onagohata Recreation Forest located near the dam of the Onagohata Power Station in Hita City, Oita Prefecture. In FY2005, we had eight groups or 371 participants, with a total of 27 groups or 973 participants as of the end of FY2005.

TOPICS

Win the Green Reporting Award

Kyushu Electric Power Environment Action Report 2005 won the top prize at the 9th Green Reporting Award co-hosted by Toyo Keizai Inc. and Green Reporting Forum as the first top prize winner from electricity and gas industry since the establishment of the award in 1998.

This award evaluated the clear commitment of top management and the originality of the information disclosure methods we applied to show our environmental performance.



Promoting Technology Development

While engaging in the development of electric power core technologies such as cost reduction, stable supply of electric power and conservation of the environment, we are also promoting the technological development aimed at long term growth focusing on new technologies, creating demand for electric power and improving profitability of Kyushu Electric Power Group.

Electric discharge sampling equipment

Plasma wire method

Electric ductless grill

Superconducting magnetic energy storage system (SMES)

Main on-going R&D projects

For Cost Reduction

- Research into maintaining and preventing the corrosion of electric power facilities (steel structures)
- Technological development into evaluating the life expectancy of metals used in thermal power stations and evaluating coal type suitability etc.

For Environmental Preservation and Stable Electric Supply

- Research on the output characteristics and systematic influences of wind power generation
- Research on effective coal ash utilization and CO_2 fixzation using trees etc.

For Improvement of Profitability of Kyushu Electric Power Group

- Research into anti-corrosive technology such as anti-corrosive spraying method (plasma wire method)
- Development of devices for measuring deterioration and remaining capacity of lead-acid battery etc.

For Electric Power Demand Creation and Total Solution Service

- Technological development for the effective utilization of electric power for heating.
- Research to support technological consulting for the momentary voltage drop etc.

For the Future Growth and Technology Innovation

- Research into commercializing the superconducting magnetic energy storage system (SMES)
- Research into fuel cell batteries and hydrogen technology etc.

Board of Directors and Auditors

(As of June 29, 2006)

Chairman
Michisada Kamata

President
Shingo Matsuo

Executive Vice President
Hidemi Ashizuka

Executive Vice President
Mitsuaki Sato

Executive Vice President
Kowashi Imamura

Executive Vice President
Yukio Tanaka

Board of Directors

Chairman
Michisada Kamata

President
Shingo Matsuo

Executive Vice Presidents
Hidemi Ashizuka
Mitsuaki Sato
Kowashi Imamura
Yukio Tanaka

Managing Directors
Kouichi Hashida
Takahiro Higuchi
Tokihisa Ichinose
Tomokazu Odahara
Katsuhiko Higuchi

Directors
Hachirou Kurano
Nobuyoshi Yokoe
Hitoshi Kiyota
Shuuzou Katayama
Yasumichi Hinago
Toshio Manabe
Keiji Mizuguchi

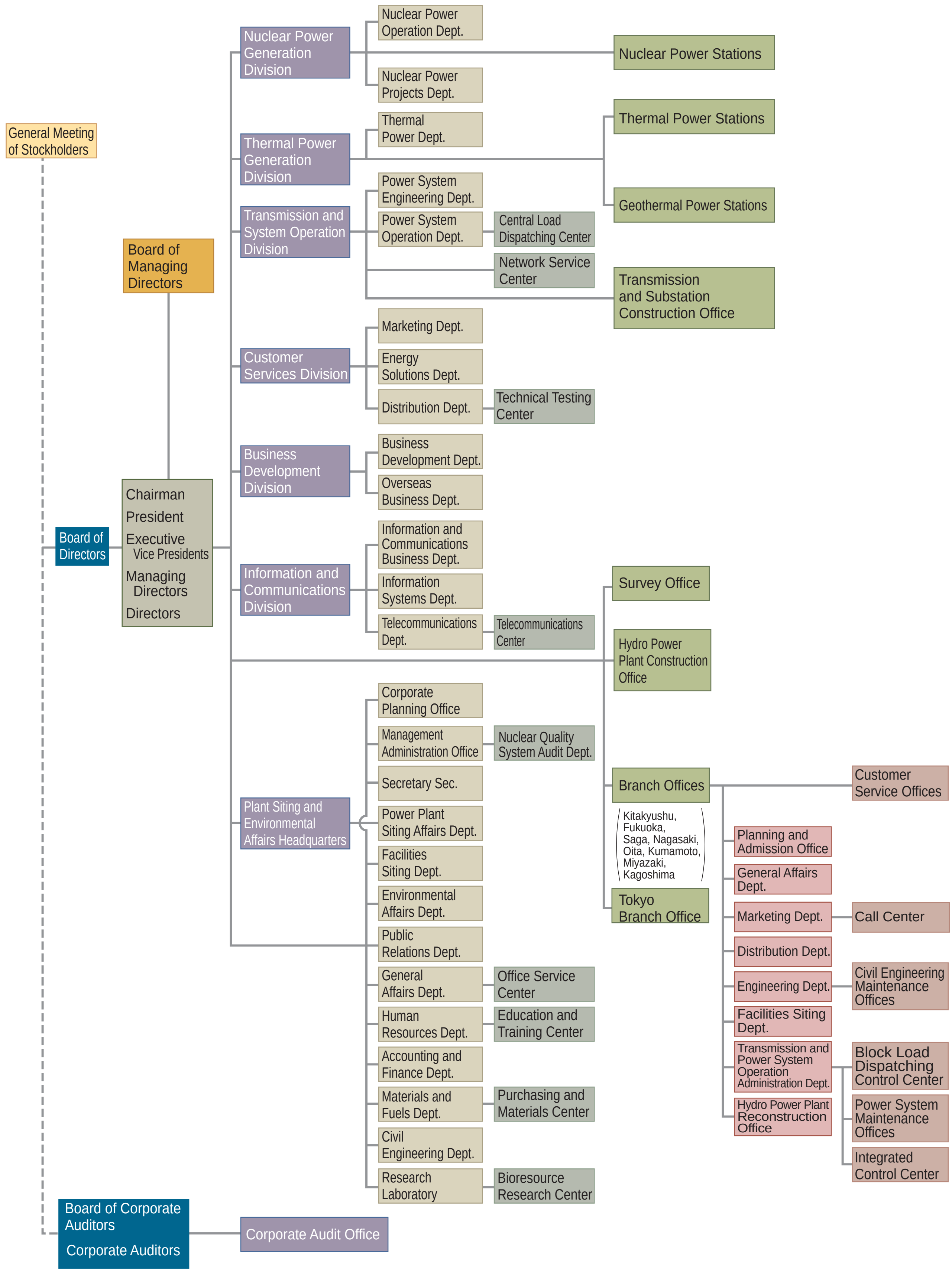
Auditors

Senior Corporate Auditors
Noriyuki Ueda
Tooru Soufukuwaki

Corporate Auditors
Hajime Sankoda
Kimiya Nakazato
Zengo Ishimura
Michiyo Koike

Note: Auditors Zengo Ishimura and Michiyo Koike are outside Corporate Auditors assigned in accordance with the Law of Special Exceptions to the Commercial Code regarding corporate auditing

Organization Chart (As of July 1, 2006)



Major Subsidiaries and Affiliated Companies

(As of March 31, 2006)

Major Consolidated Subsidiaries

Company Name	Capital (Millions of yen)	Equity Ownership (%)	Business
Total Energy			
Oita Liquefied Natural Gas Co.,Inc.	7,500	90.0	Receipt, storage, vaporization and delivery of LNG
Kitakyushu Liquefied Natural Gas Co.,Inc.	4,000	75.0	Receipt, storage, vaporization and delivery of LNG
Nishinippon Environmental Energy Co.,Inc.	1,010	100.0	Consultation about energy efficiency
Fukuoka Energy Service Co.,Inc.	490	80.0	Heat supply business
Nishi Nippon Plant Engineering and Construction Co.,Inc.	150	82.5	Construction, maintenance and repair of power generation facilities
KYUKI Corporation	305	66.4	Manufacture and sales of electric machinery
Kyushu Meter&Relay Engineering Corporation	22	98.2	Repair and maintenance of electronic instruments
Kyuden International Corporation	8,100	100.0	Acquiring and owning securities of power companies overseas
West Japan Engineering Consultants, Inc.	40	100.0	Consultation and planning of civil engineering and construction
IT and Telecommunication			
Kyushu Telecommunication Network Co.,Inc.	22,020	96.8	Fiber-optic cable and broadband service, IP phone service
Nishimu Electronics Industries, Co., Ltd.	300	100.0	Manufacturing, sale, installation and maintenance of telecommunication devices
Kyuden Business Solutions Co.,Inc.	100	100.0	Development, operation and maintenance of information system
Lifestyle-oriented service			
Capital Kyuden Corporation	600	91.3	Acquiring and owning of securities, loan to group companies
DENKI BLDG. Co.,Ltd.	495	89.9	Leasing and management of real estate
Kyuden Sangyo Co.,Inc.	117	100.0	Environmental preservation activities in power generation facilities
Shinrintoshi Co.,Ltd.	32	98.1	Leasing of company housing and other real estate

Major Subsidiaries and Affiliated Companies accounted by Equity Method

Company Name	Capital (Millions of yen)	Equity Ownership (%)	Business
Total Energy			
Electricidad Aguila de Tuxpan	642million (Mexico Peso)	50.0	Overseas IPP business
Tobata Co-operative Thermal Power Co.,Inc.	9,000	50.0	Wholesale electricity supply
Kyudenko Corporation	7,901	30.5	Engineering works for power supply facilities
Oita Co-operative Thermal Power Co.,Inc.	4,000	50.0	Wholesale electricity supply
Kyuhen Co.,Ltd.	225	35.9	Manufacture and sale of electric equipment
Kyushu Koatsu Concrete Industries Co.,Ltd.	240	30.0	Manufacture and sale of concrete poles
Seishin Corporation	200	24.5	Sale of electic equipment
Nishigi Kogyo	20	49.0	Maintenance and repair of hydroelectric power generation facilities
Environmental and Recycling			
Kyushu Environmental Management Corporation	80	98.1	Recycle of confidential documents
J-Re-Lights Co.,Ltd.	50	100.0	Recycle of fluorescent bulb
Lifestyle-oriented service			
Kyuken Co.,Ltd.	100	14.1	Construction and rapair of electric lines, leasing of real estate for students

Note: There is no specified subsidiary

Financial Section

Contents

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Review 25
Consolidated Six-Year Financial Summary 27
Independent Auditors' Report 28
Consolidated Balance Sheets 29
Consolidated Statements of Income 31
Consolidated Statements of Shareholders' Equity 32
Consolidated Statements of Cash Flows 33
Notes to Consolidated Financial Statements 34

NON-CONSOLIDATED FINANCIAL STATEMENTS

Independent Auditors' Report 46
Non-consolidated Balance Sheets 47
Non-consolidated Statements of Income 49
Non-consolidated Statements of Shareholders' Equity ... 50
Notes to Non-consolidated Financial Statements 51
Non-Consolidated Six-Year Financial Summary 59

Operating Results: In FY2005, ended March 31, 2006, the Japanese economy continued to recover on increases in private sector capital investment, exports, and production. The economy also benefited from improved corporate earnings and employment conditions.

Against this backdrop, power sales volume rose 4.6% from the previous year owing to the steady performances of digital appliance and chemicals markers.

Residential (lighting) and commercial demand gained 3.0%, reflecting higher temperatures in September and October 2005, which boosted air-conditioning demand, colder conditions in November and December, which raised demand for heating, and more shop openings. The Company's sales volume therefore improved 3.4%, to 83.0 billion kilowatt-hours.

Total operating revenues were down 0.5%, to ¥1,401.8 billion. The main factor was the impact of a rate reduction in January 2005, which offset a rise in power volume sales.

Total operating expenses increased 3.0%, to ¥1,230.5 billion. This was because higher oil prices raised fuel costs, while we stepped up power purchases from other companies. These factors outstripped the impact of lower depreciation and interest payments from management efficiency efforts.

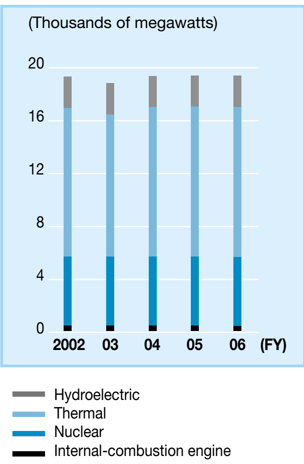
Operating income therefore dropped 19.9%, to ¥171.3 billion.

We posted ¥9.2 billion in extraordinary losses after curtailing the distributed power business of subsidiary Nishinippon Environmental Energy Company, Incorporated. Net income thus declined 13.9%, to ¥76.8 billion.

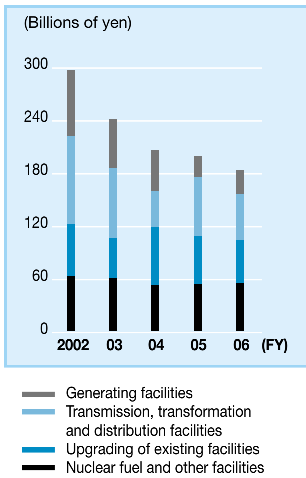
Capital Investment Policy: Kyushu Electric's capital expenditure plan encompasses further reducing the costs of providing electricity and stabilizing long-term supplies, as follows:

- Management is striving to improve the efficiency of its capital spending by accurately projecting demand and 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

Generating Capacity



Capital Investment



supplies 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 for the year were ¥4.2 billion lower than planned, at ¥184.4 billion. This was due to cost reductions for design and construction.

Our main power development project is the Omarugawa pumped storage hydroelectric power station. The first 300 megawatts will come on line in July 2007, followed by 300 megawatts each in July 2008, July 2010, and July 2011.

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

In FY2005, capital investment and the redemption of corporate bonds and borrowings were ¥606.9 billion, down 17.8%. Bond redemptions and loan repayments fell 21.5%, to ¥422.5 billion.

Internal reserves dropped 45.7%, to ¥208.8 billion. Proceeds from the issue of bonds and notes rose 10.0%, to ¥110.0 billion, of which net proceeds were ¥109.6 billion. Borrowings increased 13.4%, to ¥288.5 billion.

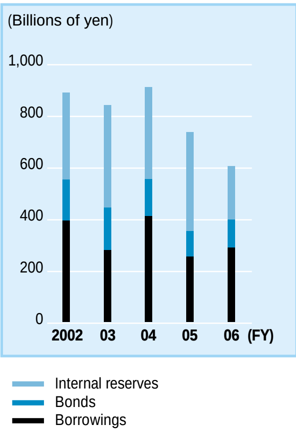
Cash Flows: Net cash provided by operating activities decreased 35.4%, to ¥270.9 billion. This reflected a larger provision for the reserve to reprocess irradiated nuclear fuel and the impact of the January 2005 reduction in electric rates.

Net cash used in investing activities was up 1.8%, to ¥197.1 billion.

Net cash used in financing activities plunged 69.9%, to ¥66.6 billion.

As a result of these factors, cash and cash equivalents at end of year, including a ¥1.6 billion addition to cash and cash equivalents of newly consolidated subsidiaries, stood at ¥51.7 billion, up ¥8.8 billion from the close of FY2004.

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 complete deregulation by April 2007.

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)
	2006	2005	2004	2003	2002	2001	**2006**
For the year:							
Operating revenues	**¥1,401,752**	¥1,408,728	¥1,391,684	¥1,421,310	¥1,458,066	¥1,448,376	**$11,932,851**
Electric	**1,311,996**	1,320,581	1,308,843	1,350,675	1,381,440	1,410,010	**11,168,775**
Other	**89,756**	88,147	82,841	70,635	76,626	38,366	**764,076**
Operating expenses	**1,230,467**	1,194,993	1,192,718	1,241,296	1,260,308	1,236,344	**10,474,734**
Electric	**1,140,797**	1,107,744	1,108,104	1,170,655	1,184,382	1,199,237	**9,711,390**
Other	**89,670**	87,249	84,614	70,641	75,926	37,107	**763,344**
Interest charges	**41,130**	49,522	77,121	77,897	85,653	89,952	**350,132**
Income before income taxes and minority interests	**120,790**	146,797	112,451	102,363	99,464	97,447	**1,028,262**
Income taxes	**43,038**	57,858	39,086	38,417	39,808	37,595	**366,374**
Net income	**76,850**	89,288	72,792	64,319	61,120	59,191	**654,210**
Per share of common stock (yen and U.S. dollars):							
Net income:							
Basic	**¥ 161.67**	¥ 187.91	¥ 153.05	¥ 135.13	¥ 128.90	¥ 124.83	**$ 1.38**
Diluted						123.65	
Cash dividends applicable to the year	**60.00**	60.00	50.00	50.00	60.00	60.00	**0.51**
At year-end:							
Total assets	**¥4,102,319**	¥4,049,713	¥4,114,378	¥4,204,566	¥4,290,132	¥4,166,489	**$34,922,270**
Net property	**3,217,982**	3,300,740	3,394,855	3,523,273	3,595,794	3,459,859	**27,394,075**
Long-term debt, less current portion	**1,724,179**	1,739,660	1,858,512	1,984,702	2,130,149	2,071,192	**14,677,611**
Total shareholders' equity	**1,052,785**	979,252	910,838	840,245	824,928	810,018	**8,962,161**

Note: All dollar figures herein refer to U.S. currency. Japanese yen amounts have been translated, for convenience only, at the rate of ¥117.47=US$1, the approximate exchange rate prevailing on March 31, 2006.

Deloitte Touche Tohmatsu
Elgala
1-4-2, Tenjin
Chuo-ku, Fukuoka 810-0001
Japan

Tel: +81 (92) 751 0931
Fax: +81 (92) 751 1035
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, 2006 and 2005, 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, 2006 and 2005, 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.
As discussed in Note 2. b. to the consolidated financial statements, the Company began depreciation of easements related to lands below transmission lines as of April 1, 2005.
As discussed in Note 2. k. to the consolidated financial statements, the Company adopted a revised accounting standard for reserve for reprocessing of irradiated nuclear fuel as of April 1, 2005.

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, 2006

Member of
Deloitte Touche Tohmatsu

Consolidated Balance Sheets

Kyushu Electric Power Company, Incorporated and Consolidated Subsidiaries
March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	**2006**	2005	**2006**
PROPERTY (Notes 3 and 13):			
Plant and equipment	**¥8,682,387**	¥8,600,760	**$73,911,526**
Construction in progress	**303,045**	290,548	**2,579,765**
Total	**8,985,432**	8,891,308	**76,491,291**
Less—			
Contributions in aid of construction	**132,713**	127,808	**1,129,761**
Accumulated depreciation	**5,634,737**	5,462,760	**47,967,455**
Total	**5,767,450**	5,590,568	**49,097,216**
Net property	**3,217,982**	3,300,740	**27,394,075**
NUCLEAR FUEL	**234,358**	243,176	**1,995,046**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4)	**160,311**	114,097	**1,364,697**
Investments in and advances to non-consolidated subsidiaries and associated companies	**58,863**	54,632	**501,090**
Reserve funds for reprocessing of irradiated nuclear fuel (Note 8)	**60,135**		**511,918**
Deferred tax assets (Note 10)	**103,387**	115,329	**880,114**
Other assets	**24,926**	20,820	**212,190**
Total investments and other assets	**407,622**	304,878	**3,470,009**
CURRENT ASSETS:			
Cash and cash equivalents	**51,676**	42,831	**439,908**
Receivables	**109,553**	97,364	**932,604**
Allowance for doubtful accounts	**(1,462)**	(1,286)	**(12,446)**
Inventories, principally fuel, at average cost	**48,746**	38,682	**414,966**
Deferred tax assets (Note 10)	**21,443**	15,161	**182,540**
Prepaid expenses and other	**12,401**	8,167	**105,568**
Total current assets	**242,357**	200,919	**2,063,140**
TOTAL	**¥4,102,319**	¥4,049,713	**$34,922,270**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars (Note 1) 2006
LONG-TERM LIABILITIES:			
Long-term debt, less current portion (Note 6)	¥ 1,724,179	¥ 1,739,660	$14,677,611
Liability for employees' retirement benefits (Note 7)	204,289	205,435	1,739,074
Reserve for reprocessing of irradiated nuclear fuel (Note 8)	353,390	350,698	3,008,343
Reserve for decommissioning of nuclear power units	119,627	110,506	1,018,362
Other	24,569	18,328	209,151
Total long-term liabilities	2,426,054	2,424,627	20,652,541
CURRENT LIABILITIES:			
Current portion of long-term debt (Note 6)	196,203	216,422	1,670,239
Short-term borrowings (Note 9)	184,605	183,373	1,571,508
Notes and accounts payable (Note 14)	83,425	77,467	710,181
Accrued income taxes	21,048	35,471	179,178
Accrued expenses	86,076	81,501	732,749
Reserve for loss on business restructuring (Note 2. m.)	1,958		16,668
Other	40,040	38,409	340,853
Total current liabilities	613,355	632,643	5,221,376
RESERVE FOR FLUCTUATIONS IN WATER LEVEL		4,682	
MINORITY INTERESTS	10,125	8,509	86,192
COMMITMENTS AND CONTINGENCIES (Note 17)			
SHAREHOLDERS' EQUITY (Note 11):			
Common stock, authorized, 1,000,000,000 shares; issued 474,183,951 shares in 2006 and 2005	237,305	237,305	2,020,133
Capital surplus	31,094	31,094	264,697
Retained earnings	720,036	675,191	6,129,531
Unrealized gain on available-for-sale securities	65,831	36,914	560,407
Foreign currency translation adjustments	(306)	(272)	(2,605)
Treasury stock—at cost, 777,738 shares in 2006 and 699,439 shares in 2005	(1,175)	(980)	(10,002)
Total shareholders' equity	1,052,785	979,252	8,962,161
TOTAL	¥ 4,102,319	¥ 4,049,713	$34,922,270

Consolidated Statements of Income

Kyushu Electric Power Company, Incorporated and Consolidated Subsidiaries
Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	**2006**
OPERATING REVENUES (Note 15):			
Electric	**¥1,311,996**	¥1,320,581	**$11,168,775**
Other	**89,756**	88,147	**764,076**
Total operating revenues	**1,401,752**	1,408,728	**11,932,851**
OPERATING EXPENSES (Notes 12 and 15):			
Electric	**1,140,797**	1,107,744	**9,711,390**
Other	**89,670**	87,249	**763,344**
Total operating expenses	**1,230,467**	1,194,993	**10,474,734**
OPERATING INCOME	**171,285**	213,735	**1,458,117**
OTHER EXPENSES:			
Interest charges	**41,130**	49,522	**350,132**
Loss on impairment of fixed assets (Note 13)		10,500	
Loss on business restructuring	**9,172**		**78,080**
Other—net	**4,875**	4,252	**41,500**
Total other expenses—net	**55,177**	64,274	**469,712**
INCOME BEFORE INCOME TAXES AND PROVISION FOR (REVERSAL OF) RESERVE FOR FLUCTUATIONS IN WATER LEVEL AND MINORITY INTERESTS	**116,108**	149,461	**988,405**
PROVISION FOR (REVERSAL OF) RESERVE FOR FLUCTUATIONS IN WATER LEVEL	**(4,682)**	2,664	**(39,857)**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**120,790**	146,797	**1,028,262**
INCOME TAXES (Note 10):			
Current	**53,687**	64,053	**457,027**
Deferred	**(10,649)**	(6,195)	**(90,653)**
Total income taxes	**43,038**	57,858	**366,374**
INCOME BEFORE MINORITY INTERESTS IN NET LOSS (INCOME) OF CONSOLIDATED SUBSIDIARIES	**77,752**	88,939	**661,888**
MINORITY INTERESTS IN NET LOSS (INCOME) OF CONSOLIDATED SUBSIDIARIES	**(902)**	349	**(7,678)**
NET INCOME	**¥ 76,850**	¥ 89,288	**$ 654,210**
	Yen		U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK (Note 2. s.):			
Basic net income	**¥161.67**	¥187.91	**$1.38**
Cash dividends applicable to the year	**60.00**	60.00	**0.51**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Kyushu Electric Power Company, Incorporated and Consolidated Subsidiaries
Years Ended March 31, 2006 and 2005

	Thousands of Shares/Millions of Yen							
	Common Stock				Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	
	Shares	Amount	Capital Surplus	Retained Earnings			Shares	Amount
BALANCE AT APRIL 1, 2004	474,184	¥237,305	¥31,094	¥608,656	¥34,710	¥(211)	571	¥ (716)
Adjustment of retained earnings for exclusion of a company accounted by equity method				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 change in foreign currency translation adjustments						(61)		
BALANCE AT MARCH 31, 2005	474,184	237,305	31,094	675,191	36,914	(272)	699	(980)
Adjustment of retained earnings for inclusion of a company accounted by equity method				**(904)**				
Net income				**76,850**				
Cash dividends, ¥65 per share				**(30,796)**				
Bonuses to directors and corporate auditors				**(305)**				
Increase in treasury stock							**79**	**(195)**
Net increase in unrealized gain on available-for-sale securities					**28,917**			
Net change in foreign currency translation adjustments						**(34)**		
BALANCE AT MARCH 31, 2006	**474,184**	**¥237,305**	**¥31,094**	**¥720,036**	**¥65,831**	**¥(306)**	**778**	**¥(1,175)**

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE AT MARCH 31, 2005	$2,020,133	$264,697	$5,747,774	$314,242	$(2,316)	$(8,342)
Adjustment of retained earnings for inclusion of a company accounted by equity method			**(7,696)**			
Net income			**654,210**			
Cash dividends, $0.55 per share			**(262,161)**			
Bonuses to directors and corporate auditors			**(2,596)**			
Increase in treasury stock						**(1,660)**
Net increase in unrealized gain on available-for-sale securities				**246,165**		
Net change in foreign currency translation adjustments					**(289)**	
BALANCE AT MARCH 31, 2006	**$2,020,133**	**$264,697**	**$6,129,531**	**$560,407**	**$(2,605)**	**$(10,002)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Kyushu Electric Power Company, Incorporated and Consolidated Subsidiaries
Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 120,790	¥ 146,797	$ 1,028,262
Adjustments for:			
Income taxes—paid	(68,110)	(61,495)	(579,808)
Depreciation and amortization	253,440	264,310	2,157,487
Loss on impairment of fixed assets		10,500	
Provision for (reversal of) liability for employees' retirement benefits	(1,146)	4,521	(9,756)
Provision for reserve for reprocessing of irradiated nuclear fuel	2,692	22,797	22,917
Provision for reserve for decommissioning of nuclear power units	9,121	5,009	77,645
Loss on disposal of plant and equipment	8,353	8,958	71,108
Provision for (reversal of) reserve for fluctuations in water level	(4,682)	2,664	(39,857)
Loss on business restructuring	9,172		78,080
Cash contribution for business restructuring	(6,643)		(56,550)
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 reserve funds for reprocessing of irradiated nuclear fuel	(60,135)		(511,918)
Increase in trade receivables	(10,768)	(1,503)	(91,666)
Decrease (increase) in inventories	(10,064)	2,663	(85,673)
Increase in trade payable	7,157	1,596	60,926
Decrease in interest payable	(732)	(616)	(6,231)
Other—net	22,477	13,073	191,342
Total adjustments	150,132	272,477	1,278,046
Net cash provided by operating activities	270,922	419,274	2,306,308
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures including nuclear fuel	(200,111)	(206,303)	(1,703,507)
Payments for investments and advances	(7,449)	(8,209)	(63,412)
Proceeds from sales of investment securities and collections of advances	1,520	13,076	12,940
Other—net	8,959	7,880	76,266
Net cash used in investing activities	(197,081)	(193,556)	(1,677,713)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of bonds	108,824	99,632	926,398
Repayments of bonds	(74,700)	(78,628)	(635,907)
Proceeds from long-term bank loans	92,160	48,918	784,541
Repayments of long-term bank loans	(163,239)	(148,100)	(1,389,623)
Net increase (decrease) in short-term borrowings	619	(60,954)	5,269
Net decrease in commercial paper		(58,000)	
Cash dividends paid	(30,779)	(23,698)	(262,016)
Other—net	514	(213)	4,376
Net cash used in financing activities	(66,601)	(221,043)	(566,962)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(10)	8	(85)
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,230	4,683	61,548
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES AT BEGINNING OF YEAR	1,615	195	13,748
CASH AND CASH EQUIVALENTS OF A NON-CONSOLIDATED SUBSIDIARY MERGED WITH A CONSOLIDATED SUBSIDIARY		433	
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	42,831	37,520	364,612
CASH AND CASH EQUIVALENTS AT END OF YEAR	¥ 51,676	¥ 42,831	$ 439,908

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Kyushu Electric Power Company, Incorporated and Consolidated Subsidiaries
Years Ended March 31, 2006 and 2005

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. Especially accounting related to the nuclear power generation is regulated by above accounting regulations which are dependent on a governmental long term nuclear energy policy. Kyushu Electric Power Company, Incorporated (the "Company") and its domestic consolidated subsidiaries 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, 2005 to conform to the classifications used in the consolidated financial statements for the year ended March 31, 2006.

The United States dollar amounts included herein are provided solely for the convenience of readers and are stated at the rate of ¥117.47=US$1, the approximate exchange rate prevailing on March 31, 2006. 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, 2006 include the accounts of the Company and its twenty-six (twenty-one for 2005) subsidiaries (together, the "Companies"). All significant intercompany transactions and balances have been eliminated in consolidation. Investments in twelve (thirteen for 2005) non-consolidated subsidiaries and twelve (eleven for 2005) 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 five years.

Consolidation of the remaining subsidiaries and the application of the equity method to the remaining 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. Depreciation of easements is computed using the straight-line method based on the estimated useful lives of the transmission lines.

Prior to April 1, 2005, the Company treated easements related to lands below transmission lines as non-depreciable assets. Effective April 1, 2005, the Company began depreciation of such easements to determine transmission and distribution costs more adequately in accordance with the revision of the Japanese Electric Utility Law requiring electric utility providers to account for revenues and expenses of transmission and distribution.

The effect of this change was to increase operating expenses and to decrease income before income taxes and minority interests by ¥6,155 million ($52,396 thousand) for the year ended March 31, 2006.

c. Impairment of Fixed Assets—In August 2002, the Business Accounting Council ("BAC") issued a Statement of Opinion, *Accounting for Impairment of Fixed Assets*, and in October 2003 the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Guidance No. 6, *Guidance for Accounting Standard 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.

d. Amortization of Nuclear Fuel—Amortization of nuclear fuel is computed based on the proportion of current heat produced to the estimated total potential 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, 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 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—Prior to April 1, 2005, the annual provision for the costs of reprocessing irradiated nuclear fuel was 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.

Effective April 1, 2005, the Company adopted a revised accounting standard for reserve for reprocessing of irradiated nuclear fuel. In accordance with the revised accounting rules applicable to electric utility providers in Japan, the reserve is stated at the amount that would be required to reprocess the irradiated nuclear fuel of which reprocessing will be performed by the reprocessing companies.

The effect of this accounting change was to increase operating expenses and to decrease income before income taxes and minority interests by ¥2,546 million ($21,674 thousand) for the year ended March 31, 2006.

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 life-time generation of electric power of each unit.

In December 2005, "Law to Amend the Law on the Regulation of Nuclear Source Material, Nuclear Fuel Material and Reactors" and the related regulation were issued. This law and related regulation changed the criteria of density of radioactive waste. However the effect of the change of criteria on the cost of the disposition of nuclear power units is not disclosed by the Government. As at March 31, 2006 present the reserve for decommissioning of nuclear power units is recorded based on estimation by the former criteria, because calculation by the revised criteria is impractical. When the estimate based on the revised criteria becomes practical, the amount of necessary reserve may be changed.

m. Reserve for Loss on Business Restructuring—Provision is made for losses relating to the restructuring of the distributed generation business by Nishinippon Environmental Energy Company, Incorporated ("NEECO"), a consolidated subsidiary of the Company. The amount is based on the estimated cost of rescinding unprofitable contracts by NEECO.

n. 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.

o. 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.

p. 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.

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.

q. 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.

r. 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.

s. 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, 2006 and 2005, because potentially dilutive securities were not outstanding.

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

t. Research and Development Costs- Research and development costs are charged to income as incurred.

u. Leases- All leases are accounted for as operating leases. Under Japanese accounting standard for leases, finance leases that are deemed 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.

v. New Accounting Pronouncements-

Business Combination and Business Separation

In October 2003, the BAC issued a Statement of Opinion, *Accounting for Business Combinations*, and on December 27, 2005 ASBJ issued *Accounting Standard for Business Separations* and ASBJ Guidance No.10, *Guidance for Accounting Standard for Business Combinations and Business Separations*. These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests.

These specific criteria are as follows:

(a) the consideration for the business combination consists solely of common shares with voting rights,

(b) the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and

(c) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combinations considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statements of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

Bonuses to Directors and Corporate Auditors

Prior to the fiscal year anded March 31,2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force No. 13, *Accounting treatment for bonuses to directors and corporate auditors*, which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

3. Property

The breakdown of property as of March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Costs:			
Electric power production facilities:			
Hydroelectric power	¥ 547,133	¥ 546,596	$ 4,657,640
Thermal power	1,577,196	1,574,769	13,426,373
Nuclear power	1,528,454	1,516,905	13,011,441
Internal-combustion engine power	119,125	124,742	1,014,089
	3,771,908	3,763,012	32,109,543
Transmission facilities	1,533,004	1,493,201	13,050,174
Transformation facilities	927,925	917,555	7,899,251
Distribution facilities	1,287,240	1,286,500	10,958,032
General facilities	376,251	376,332	3,202,954
Other electricity-related facilities	64,559	64,563	549,579
Other plant and equipment	721,500	699,597	6,141,993
Construction in progress	303,045	290,548	2,579,765
Total	8,985,432	8,891,308	76,491,291
Less contributions in aid of construction	132,713	127,808	1,129,761
Less accumulated depreciation	5,634,737	5,462,760	47,967,455
Carrying amount	¥3,217,982	¥3,300,740	$27,394,075

4. Investment Securities

The carrying amounts and aggregate fair values of investment securities at March 31, 2006 and 2005 were as follows:

	Millions of Yen								Thousands of U.S. Dollars			
	March 31, 2006				March 31, 2005				March 31, 2006			
	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	¥13,126	¥102,975	¥ 0	¥116,101	¥13,043	¥57,743	¥ 1	¥70,785	$111,739	$876,607	$ 0	$988,346
Other securities	96	24	4	116	140	9	17	132	817	204	34	987
Held-to-maturity	1,842	0	101	1,741	463	1	1	463	15,681		860	14,821

Available-for-sale securities and held-to-maturity debt securities whose fair value is not readily determinable as of March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Available-for-sale:			
Equity securities	¥38,139	¥38,011	$324,670
Other securities	1,994	2,326	16,974
Held-to-maturity	2,119	2,380	18,039
Total	¥42,252	¥42,717	$359,683

5. Pledged Assets

All of the Company's assets are subject to certain statutory preferential rights established to secure bonds, notes, loans borrowed from The Development Bank of Japan and bonds transferred to banks under debt assumption agreements (see Note 17).

Certain assets of the consolidated subsidiaries, amounting to ¥71,517 million ($608,811 thousand), are pledged as collateral for a portion of their long-term debt and short-term borrowings at March 31, 2006.

Investments in associated companies held by a consolidated subsidiary, amounting to ¥8,592 million ($73,142 thousand), are pledged as collateral for bank loans of the associated companies at March 31, 2006.

6. Long-Term Debt

Long-term debt consisted of the following at March 31, 2006 and 2005:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Yen bonds, 0.2% to 3.65%, due serially to 2024	**¥1,052,860**	¥1,018,310	**$ 8,962,799**
U.S. dollar notes, 7.25%, due 2008	**37,860**	37,860	**322,295**
Swiss franc bonds, 4.0%, due 2007	**29,513**	29,513	**251,239**
Loans from The Development Bank of Japan, 0.69% to 6.9%, due serially to 2026	**289,515**	331,404	**2,464,586**
Loans, principally from banks and insurance companies, 0.25% to 5.1%, due serially to 2025			
Collateralized	**18,520**	21,060	**157,657**
Unsecured	**492,114**	517,935	**4,189,274**
Total	**1,920,382**	1,956,082	**16,347,850**
Less current portion	**196,203**	216,422	**1,670,239**
Long-term debt, less current portion	**¥1,724,179**	¥1,739,660	**$14,677,611**

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, 2006 were as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2007	¥ 196,203	$ 1,670,239
2008	199,940	1,702,052
2009	171,518	1,460,100
2010	155,455	1,323,359
2011	156,529	1,332,502
Thereafter	1,040,737	8,859,598
Total	¥1,920,382	$16,347,850

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, 2006 and 2005 consisted of the followings:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Projected benefit obligation	**¥ 498,084**	¥ 489,932	**$ 4,240,095**
Fair value of plan assets	**(351,185)**	(298,629)	**(2,989,572)**
Unrecognized actuarial gain (loss)	**34,370**	(16,852)	**292,586**
Unrecognized prior service cost	**23,020**	30,984	**195,965**
Net liability	**¥ 204,289**	¥ 205,435	**$ 1,739,074**

The components of net periodic benefit costs for the years ended March 31, 2006 and 2005 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Service cost	**¥14,676**	¥15,538	**$124,934**
Interest cost	**9,656**	9,570	**82,200**
Expected return on plan assets	**(3,491)**	(3,231)	**(29,718)**
Recognized actuarial loss	**17,019**	18,958	**144,879**
Amortization of prior service cost	**(7,942)**	(7,748)	**(67,609)**
Net periodic benefit costs	**¥29,918**	¥33,087	**$254,686**

Assumptions for actuarial computations for the years ended March 31, 2006 and 2005 are as follows:

	2006	2005
Discount rate	**2.0%**	2.0%
Expected rate of return on plan assets	**mainly 1.0%**	mainly 1.0%
Recognition period of actuarial gain/loss	**mainly 5 years**	mainly 5 years
Amortization period of prior service cost	**mainly 5 years**	mainly 5 years

8. Reserve for Reprocessing of Irradiated Nuclear Fuel

In August 2004, Japanese Government, i.e. the Ministry of Economy, Trade and Industry published a report "Systems and measures concerning back-end operations," in which the government showed an estimate of the back-end costs such as decommissioning costs of reprocessing facilities which had been treated as impractical to estimate. Based on the report electric utility providers have been able to estimate liabilities related to such as decommissioning costs of reprocessing facilities. Additionally on September 30, 2005, the government revised accounting regulations applicable to electric utility providers which prescribe estimation of the back-end costs.

In accordance with the revised accounting regulations above, the Company recorded the annual provision for reprocessing of irradiated nuclear fuel as an amount that would be required to reprocess the irradiated nuclear fuel of which reprocessing will be performed by the reprocessing companies. The amount of reserve consists of two parts and each of them is calculated in different ways. The costs reprocessed in Japan Nuclear Fuel Limited are calculated as an expected future cash flows being discounted at 1.9%. The other part is calculated based on the quantities to be reprocessed as of March 31, 2006 and contractual reprocessing rate.

The unrecognized costs which had not been recognized in the past as liability were ¥130,495 million ($1,110,879 thousand) as of April 1, 2005, and they are amortized on a straight-line basis over 15 years. Annual amortization is presented as operating expenses in the statement of income. Balance of unrecognized past costs as of March 31, 2006 is ¥121,796 million ($1,036,826 thousand). The Company is permitted to recover these reprocessing costs by including them in the admitted cost elements for electric rate.

In case any assumptions for calculations of reserve such as expected future cash flows and the discount rate, unrecognized difference might be incurred. Balance of unrecognized difference as of March 31, 2006 is ¥13,927 millions ($118,558 thousand). In accordance with the revised accounting regulations, the difference will be amortized on a straight-line basis beginning the next year of the change made over the period in which the irradiated nuclear fuel was produced. The annual amortization is charged to operating expenses.

Regarding 53 tons out of 106 tons of irradiated nuclear fuel which was derived this year, no reserve is provided because there is no authorized definite reprocessing plan and then reasonable estimation of future reprocessing cost is impractical.

An independent fund managing body was set up based on a specific law and the Company is obliged to contribute same amounts as the balance of reserve for reprocessing of irradiated nuclear fuel to reserve funds in 15 years. The reserve funds is presented as "Reserve funds for reprocessing of irradiated nuclear fuel."

9. Short-Term Borrowings

Short-term borrowings are generally represented by 365-day notes, bearing interest at rates ranging from 0.11091% to 5.03% and from 0.12417% to 2.46% at March 31, 2006 and 2005, respectively.

10. Income Taxes

The Companies are subject to several income taxes. The aggregate normal statutory tax rates for the Company approximated 36.1% for 2006 and 2005.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2006 and 2005 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Deferred tax assets:			
Pension and severance costs	**¥ 74,122**	¥ 71,364	**$ 630,987**
Depreciation	**29,174**	25,181	**248,353**
Tax loss carryforwards	**13,789**	11,560	**117,383**
Reserve for reprocessing of irradiated nuclear fuel	**10,509**	10,497	**89,461**
Reserve for decommissioning of nuclear power units	**10,184**	10,184	**86,695**
Unrealized profits arising from the elimination of intercompany transactions in consolidation	**9,061**	9,310	**77,134**
Accrued bonus to employees	**7,572**	7,631	**64,459**
Other	**29,378**	26,672	**250,089**
Less valuation allowance	**(20,864)**	(20,167)	**(177,611)**
Deferred tax assets	**¥ 162,925**	¥ 152,232	**$1,386,950**
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	**¥ 37,301**	¥ 20,916	**$ 317,537**
Other	**849**	862	**7,227**
Deferred tax liabilities	**¥ 38,150**	¥ 21,778	**$ 324,764**
Net deferred tax assets	**¥ 124,775**	¥ 130,454	**$1,062,186**

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

	2005
Normal effective statutory tax rate	36.1%
Valuation allowance	5.3
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, 2006 is not disclosed because the difference between the normal effective statutory tax rate and the actual effective tax rate is immaterial.

11. Shareholders' Equity

Through May 1, 2006, Japanese companies are subject to the Code.

The Code requires that all shares of common stock be issued 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 are required to be presented 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 by way of 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 of 10% or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 25% of common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders after transferring such excess in accordance with the Code. 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 purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥603,588 million ($5,138,231 thousand) as of March 31, 2006, based on the amount recorded in the parent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the end of 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.

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006, The significant changes in the Corporate Law that affect financial and accounting matters are summarized below;

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/decreases and transfer of common stock, reserve and surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve or as additional paid-in capital depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, ASBJ published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

12. Research and Development Costs

Research and development costs charged to income were ¥9,788 million ($83,323 thousand) and ¥9,856 million for the years ended March 31, 2006 and 2005, respectively.

13. Loss on Impairment of Fixed Assets

Losses on impairment recognized for mainly idle assets which will not be used in the future due to the changes in business plan was ¥10,500 million for the year ended March 31, 2005. Such loss for the year ended March 31, 2006 was immaterial and included in "Other-net."

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

14. Related Party Transactions

Significant transactions of the Company with an associated company for the years ended March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
KYUDENKO CORPORATION			
Transactions:			
Purchase of construction works on distribution facilities and other	**¥42,685**	¥42,256	**$363,369**
Balances at year ended:			
Payables for construction works	**5,109**	4,922	**43,492**

15. Leases

a. Lessee

The Companies lease certain computer and other equipment.

The Companies recorded an impairment loss of ¥1,081 million ($9,202 thousand) and ¥831 million for the years ended March 31, 2006 and 2005, respectively 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, 2006 and 2005 were as follows:

	Millions of Yen		
March 31, 2006	General facilities	Other	Total
Acquisition cost	**¥23,842**	**¥26,421**	**¥50,263**
Accumulated depreciation	**12,786**	**12,156**	**24,942**
Accumulated impairment loss		**1,190**	**1,190**
Net leased equipment	**¥11,056**	**¥13,075**	**¥24,131**

	Thousands of U.S. Dollars		
March 31, 2006	General facilities	Other	Total
Acquisition cost	**$202,963**	**$224,917**	**$427,880**
Accumulated depreciation	**108,845**	**103,482**	**212,327**
Accumulated impairment loss		**10,130**	**10,130**
Net leased equipment	**$ 94,118**	**$111,305**	**$205,423**

	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

Obligations under finance leases which included the imputed interest expense at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Due within one year	**¥ 8,612**	¥ 7,955	**$ 73,312**
Due after one year	**16,657**	24,913	**141,798**
Total	**¥25,269**	¥32,868	**$215,110**

The above-mentioned amounts include sublease agreements.

Allowances for impairment loss on leased property of ¥1,073 million ($9,134 thousand) and ¥808 million as of March 31, 2006 and 2005 are not included in the obligations under finance leases.

Depreciation expense and other information under financial leases:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Depreciation expense	**¥7,196**	¥8,102	**$61,258**
Lease payments	**8,012**	8,125	**68,205**
Reversal of allowance for impairment loss	**816**	23	**6,946**
Impairment loss	**1,081**	831	**9,202**

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

b. Lessor

The Company leases industrial batteries.

Revenues under finance leases were ¥84 million ($715 thousand) and ¥77 million for the years ended March 31, 2006 and 2005, respectively.

Information of leased property such as acquisition cost and accumulated depreciation under finance leases for the years ended March 31, 2006 and 2005 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Other plant and equipment		Other plant and equipment
	2006	2005	**2006**
Acquisition cost	**¥850**	¥780	**$7,236**
Accumulated depreciation	**442**	252	**3,763**
Net leased equipment	**¥408**	¥528	**$3,473**

Future lease revenues under finance leases which included the imputed interest revenue at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Due within one year	**¥ 114**	¥ 119	**$ 970**
Due after one year	**1,051**	1,071	**8,947**
Total	**¥1,165**	¥1,190	**$9,917**

The above-mentioned amounts include sublease agreements.

Depreciation expense relating to the leased assets arrangements mentioned above was ¥190 million ($1,617 thousand) and ¥246 million for the years ended March 31, 2006 and 2005, respectively.

16. 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.

Some consolidated subsidiaries of the Company enter into interest rate swaps to manage exposure to fluctuations in interest rates.

The Companies 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 Companies 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 executive and administrative section based on internal policies.

17. Commitments and Contingencies

At March 31, 2006, 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, 2006 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Co-guarantees of loans, mainly in connection with procurement of fuel	¥117,192	$ 997,633
Guarantees of employees' loans	66,089	562,603
Guarantees under debt assumption agreements	189,266	1,611,186
Other	11,238	95,667

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

18. Segment Information

Information by business segments for the years ended March 31, 2006 and 2005 is as follows:

Business Segments

	Millions of Yen					
	2006					
	Electric	Energy Related Business	IT and telecommunications	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥1,311,996	¥ 46,153	¥ 36,011	¥ 7,592		¥1,401,752
Intersegment sales	2,398	77,684	37,739	12,582	¥(130,403)	
Total sales	1,314,394	123,837	73,750	20,174	(130,403)	1,401,752
Operating expenses	1,151,486	119,236	74,401	17,124	(131,780)	1,230,467
Operating income (loss)	¥ 162,908	¥ 4,601	¥ (651)	¥ 3,050	¥ 1,377	¥ 171,285
Total assets	¥3,751,602	¥244,459	¥131,926	¥126,744	¥(152,412)	¥4,102,319
Depreciation	223,387	9,957	18,059	5,130	(3,093)	253,440
Impairment loss	694	1,173	2	220		2,089
Capital expenditures	174,229	5,756	18,420	2,313	(2,759)	197,959

	Thousands of U.S. Dollars					
	2006					
	Electric	Energy Related Business	IT and telecommunications	Other	Eliminations/ Corporate	Consolidated
Sales to customers	$11,168,775	$ 392,892	$ 306,555	$ 64,629		$11,932,851
Intersegment sales	20,414	661,309	321,265	107,108	$(1,110,096)	
Total sales	11,189,189	1,054,201	627,820	171,737	(1,110,096)	11,932,851
Operating expenses	9,802,383	1,015,034	633,362	145,773	(1,121,818)	10,474,734
Operating income (loss)	$ 1,386,806	$ 39,167	$ (5,542)	$ 25,964	$ 11,722	$ 1,458,117
Total assets	$31,936,682	$2,081,034	$1,123,061	$1,078,948	$(1,297,455)	$34,922,270
Depreciation	1,901,651	84,762	153,733	43,671	(26,330)	2,157,487
Impairment loss	5,908	9,985	17	1,873		17,783
Capital expenditures	1,483,179	49,000	156,806	19,690	(23,487)	1,685,188

	Millions of Yen					
	2005					
	Electric	Energy Related Business	IT and telecommunications	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥1,320,581	¥ 47,149	¥ 34,715	¥ 6,283		¥1,408,728
Intersegment sales	2,415	76,082	34,485	13,161	¥(126,143)	
Total sales	1,322,996	123,231	69,200	19,444	(126,143)	1,408,728
Operating expenses	1,117,674	119,825	69,951	15,635	(128,092)	1,194,993
Operating income (loss)	¥ 205,322	¥ 3,406	¥ (751)	¥ 3,809	¥ 1,949	¥ 213,735
Total assets	¥3,715,086	¥225,102	¥131,028	¥119,215	¥(140,718)	¥4,049,713
Depreciation	234,484	10,568	17,714	4,941	(3,397)	264,310
Impairment loss	6,691	3,356	337	116		10,500
Capital expenditures	190,360	6,348	11,731	4,916	(2,825)	210,530

Energy related business consisted of obtaining, storing, gasifying and supplying LNG, heat supply business, distributed generation business, energy consulting and other businesses related to energy.

IT and telecommunications consisted of providing telephone lines and wirelines.

Other consisted of environment and recycling, consumer and community services and others.

The effect of the change in the accounting for easements related to lands below transmission lines described in Note 2. b. was to increase operating expenses and to decrease operating income of Electric for the year ended March 31, 2006 by ¥6,155 million ($52,396 thousand).
In addition, the effect of the change in the accounting for reserve for reprocessing of irradiated nuclear fuel described in Note 2.k. was to increase operating expenses and to decrease operating income of Electric for the year ended March 31, 2006 by ¥2,546 million ($21,674 thousand).

Effective April 1, 2005, the Companies changed its business segmentation from three segments, "Electric," "IT and telecommunications" and "Other" to four segments, "Electric," "Energy related business," "IT and telecommuninications" and "Other" in accordance with business categories mentioned in the Midterm Management Plan resolved by the Board of Directors in March 2005. Business segments for the year ended March 31, 2005 are rearranged to conform to business segments for the year ended March 31, 2006.

Geographic segment information is not disclosed because the Companies' overseas operations are immaterial.

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

19. Subsequent Event

At the general shareholders meeting held on June 29, 2006, the Company's shareholders approved the following appropriations of retained earnings as of March 31, 2006:

Appropriations of Retained Earnings

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥30.00 ($0.26) per share	¥14,212	$120,984
Bonuses to directors and corporate auditors	140	1,192

Deloitte Touche Tohmatsu
Elgala
1-4-2, Tenjin
Chuo-ku, Fukuoka 810-0001
Japan

Tel: +81 (92) 751 0931
Fax: +81 (92) 751 1035
www.deloitte.com/jp

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, 2006 and 2005, 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, 2006 and 2005, 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.
As discussed in Note 2. a. to the non-consolidated financial statements, the Company began depreciation of easements related to lands below transmission lines as of April 1, 2005.
As discussed in Note 2. j. to the non-consolidated financial statements, the Company adopted a revised accounting standard for reserve for reprocessing of irradiated nuclear fuel as of April 1, 2005.

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, 2006

Member of
Deloitte Touche Tohmatsu

Non-Consolidated Balance Sheets

Kyushu Electric Power Company, Incorporated
March 31, 2006 and 2005

ASSETS	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars (Note 1) 2006
PROPERTY (Notes 3 and 13):			
Plant and equipment	¥8,174,756	¥8,104,312	$69,590,159
Construction in progress	300,424	291,218	2,557,453
Total	8,475,180	8,395,530	72,147,612
Less—			
Contributions in aid of construction	129,087	124,117	1,098,893
Accumulated depreciation	5,345,135	5,195,206	45,502,128
Total	5,474,222	5,319,323	46,601,021
Net property	3,000,958	3,076,207	25,546,591
NUCLEAR FUEL	234,358	243,176	1,995,046
INVESTMENTS AND OTHER ASSETS:			
Investment securities	154,116	110,174	1,311,960
Investments in and advances to subsidiaries and associated companies (Note 4)	120,312	112,990	1,024,193
Reserve funds for reprocessing of irradiated nuclear fuel (Note 8)	60,135		511,918
Deferred tax assets (Note 10)	88,646	98,264	754,627
Other assets	14,892	17,624	126,773
Total investments and other assets	438,101	339,052	3,729,471
CURRENT ASSETS:			
Cash and cash equivalents	37,088	31,285	315,723
Receivables	91,814	76,255	781,595
Allowance for doubtful accounts	(1,335)	(1,168)	(11,364)
Fuel and supplies, at average cost	31,957	24,025	272,044
Deferred tax assets (Note 10)	15,762	12,339	134,179
Prepaid expenses and other	8,614	5,397	73,329
Total current assets	183,900	148,133	1,565,506
TOTAL	¥3,857,317	¥3,806,568	$32,836,614

See notes to non-consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars (Note 1) 2006
LONG-TERM LIABILITIES:			
Long-term debt, less current portion (Note 6)	¥1,638,092	¥1,635,720	$13,944,769
Liability for employees' retirement benefits (Note 7)	187,492	188,297	1,596,084
Reserve for reprocessing of irradiated nuclear fuel (Note 8)	353,390	350,698	3,008,343
Reserve for decommissioning of nuclear power units	119,627	110,506	1,018,362
Other	13,510	12,526	115,008
Total long-term liabilities	2,312,111	2,297,747	19,682,566
CURRENT LIABILITIES:			
Current portion of long-term debt (Note 6)	163,071	189,547	1,388,193
Short-term borrowings (Note 9)	174,000	173,900	1,481,229
Accounts payable	64,218	56,926	546,676
Accrued income taxes	18,322	33,921	155,972
Accrued expenses	94,797	87,835	806,989
Reserve for loss on financial support for a subsidiary (Note 2. l.)	3,662		31,174
Other	31,474	32,654	267,932
Total current liabilities	549,544	574,783	4,678,165
RESERVE FOR FLUCTUATIONS IN WATER LEVEL		4,682	
COMMITMENTS AND CONTINGENCIES (Note 15)			
SHAREHOLDERS' EQUITY (Note 11):			
Common stock, authorized, 1,000,000,000 shares; issued, 474,183,951 shares in 2006 and 2005	237,305	237,305	2,020,133
Capital surplus:			
Additional paid-in capital	31,087	31,087	264,638
Retained earnings:			
Legal reserve	59,326	59,326	505,031
Unappropriated	604,490	566,289	5,145,910
Unrealized gain on available-for-sale securities	64,356	36,056	547,850
Treasury stock—at cost, 459,121 shares in 2006 and 380,989 shares in 2005	(902)	(707)	(7,679)
Total shareholders' equity	995,662	929,356	8,475,883
TOTAL	¥3,857,317	¥3,806,568	$32,836,614

Non-Consolidated Statements of Income

Kyushu Electric Power Company, Incorporated
Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
OPERATING REVENUES (Note 14):			
Electric	¥1,314,394	¥1,322,996	$11,189,189
Other	15,041	10,165	128,041
Total operating revenues	1,329,435	1,333,161	11,317,230
OPERATING EXPENSES (Notes 12 and 14):			
Electric:			
Personnel	178,455	185,902	1,519,154
Fuel	179,745	143,221	1,530,135
Purchased power	113,252	105,553	964,093
Depreciation	199,587	210,386	1,699,047
Maintenance	157,370	158,704	1,339,661
Reprocessing costs of irradiated nuclear fuel	31,080	26,628	264,578
Decommissioning costs of nuclear power units	9,121	5,009	77,645
Disposal cost of high-level radioactive waste (Note 2. m.)	8,041	7,727	68,452
Disposition of property	16,407	14,856	139,670
Taxes other than income taxes	89,259	91,846	759,845
Subcontract fee	64,896	66,779	552,447
Rent	36,316	36,463	309,151
Other	67,957	64,600	578,505
Total	1,151,486	1,117,674	9,802,383
Other	18,314	13,912	155,904
Total operating expenses	1,169,800	1,131,586	9,958,287
OPERATING INCOME	159,635	201,575	1,358,943
OTHER EXPENSES:			
Interest charges	38,445	46,521	327,275
Loss on impairment of fixed assets (Note 13)		6,691	
Loss on financial support for a subidary	10,064		85,673
Other—net	6,993	2,132	59,530
Total other expenses—net	55,502	55,344	472,478
INCOME BEFORE INCOME TAXES AND PROVISION FOR (REVERSAL OF) RESERVE FOR FLUCTUATIONS IN WATER LEVEL	104,133	146,231	886,465
PROVISION FOR (REVERSAL OF) RESERVE FOR FLUCTUATIONS IN WATER LEVEL	(4,682)	2,664	(39,857)
INCOME BEFORE INCOME TAXES	108,815	143,567	926,322
INCOME TAXES (Note 10):			
Current	49,471	61,074	421,138
Deferred	(9,793)	(6,892)	(83,366)
Total income taxes	39,678	54,182	337,772
NET INCOME	¥ 69,137	¥ 89,385	$ 588,550

	Yen		U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK (Note 2. q.):			
Basic net income	¥145.64	¥188.33	$1.24
Cash dividends applicable to the year	60.00	60.00	0.51

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Shareholders' Equity

Kyushu Electric Power Company, Incorporated
Years Ended March 31, 2006 and 2005

	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, 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)
Net income					**69,137**			
Cash dividends, ¥65 per share					**(30,796)**			
Bonuses to directors and corporate auditors					**(140)**			
Increase in treasury stock							**78**	**(195)**
Net increase in unrealized gain on available-for-sale securities						**28,300**		
BALANCE AT MARCH 31, 2006	**474,184**	**¥237,305**	**¥31,087**	**¥59,326**	**¥604,490**	**¥64,356**	**459**	**¥(902)**

	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, 2005	$2,020,133	$264,638	$505,031	$4,820,712	$306,938	$(6,019)
Net income				**588,550**		
Cash dividends, $0.55 per share				**(262,161)**		
Bonuses to directors and corporate auditors				**(1,191)**		
Increase in treasury stock						**(1,660)**
Net increase in unrealized gain on available-for-sale securities					**240,912**	
BALANCE AT MARCH 31, 2006	**$2,020,133**	**$264,638**	**$505,031**	**$5,145,910**	**$547,850**	**$(7,679)**

See notes to non-consolidated financial statements.

Kyushu Electric Power Company, Incorporated
Years Ended March 31, 2006 and 2005

1. Basis of Presenting Non-Consolidated Financial Statements

The accompanying non-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. Especially accounting related to the nuclear power generation is regulated by above accounting regulations which are dependent on a governmental long term nuclear energy policy. Kyushu Electric Power Company, Incorporated (the "Company") maintains its 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.

If non-consolidated financial statements are disclosed along with consolidated financial statements and 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 required 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. In addition, certain reclassifications have been made to the non-consolidated financial statements for the year ended March 31, 2005 to conform to the classifications used in the non-consolidated financial statements for the year ended March 31, 2006.

The United States dollar amounts included herein are provided solely for the convenience of readers and are stated at the rate of ¥117.47=US$1, the approximate exchange rate prevailing on March 31, 2006. 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 principally computed using the declining-balance method based on the estimated useful lives of the assets. Depreciation of easements is computed using the straight-line method based on the estimated useful lives of the transmission lines.

Prior to April 1, 2005, the Company treated easements related to lands below transmission lines as non-depreciable assets. Effective April 1, 2005, the Company began depreciation of such easements to determine transmission and distribution costs more adequately in accordance with the revision of the Japanese Electric Utility Law requiring electric utility providers to account for revenues and expenses of transmission and distribution.

The effect of this change was to increase operating expenses and to decrease income before income taxes by ¥6,155 million ($52,396 thousand) for the year ended March 31,2006.

b. Impairment of Fixed Assets—In August 2002, the Business Accounting Council ("BAC") issued a Statement of Opinion, *Accounting for Impairment of Fixed Assets*, and in October 2003 the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Guidance No. 6, *Guidance for Accounting Standard 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.

c. Amortization of Nuclear Fuel—Amortization of nuclear fuel is computed based on the proportion of current heat produced to the estimated total potential 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 each 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.

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—Prior to April 1, 2005, the annual provision for the costs of reprocessing irradiated nuclear fuel was 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.

Effective April 1, 2005, the Company adopted a revised accounting standard for reserve for reprocessing of irradiated nuclear fuel. In accordance with the revised accounting rules applicable to electric utility providers in Japan, the reserve is stated at the amount that would be required to reprocess the irradiated nuclear fuel of which reprocessing will be performed by the reprocessing companies.

The effect of this accounting change was to increase operating expenses and to decrease income before income taxes by ¥2,546 million ($21,674 thousand) for the year ended March 31, 2006.

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 life-time generation of electric power of each unit.

In December 2005, "Law to Amend the Law on the Regulation of Nuclear Source Material, Nuclear Fuel Material and Reactors" and the related regulation were issued. This law and related regulation changed the criteria of density of radioactive waste. However the effect of the change of criteria on the cost of the disposition of nuclear power units is not disclosed by the Government. As at March 31, 2006 present the reserve for decommissioning of nuclear power units is recorded based on estimation by the former criteria, because calculation by the revised criteria is impractical. When the estimate based on the revised criteria becomes practical, the amount of necessary reserve may be changed.

l. Reserve for Loss on Financial Support for a Subsidiary—Provision is made for losses relating to the financial support for restructuring of the distributed generation business by Nishinippon Environmental Energy Company, Incorporated ("NEECO"), a consolidated subsidiary of the Company. The amount is based on the estimated cost of rescinding unprofitable contracts by NEECO, which will be financed by the Company.

m. 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.

n. 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.

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.

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. 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, 2006 and 2005, because potentially dilutive securities were not outstanding.

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

r. Research and Development Costs- Research and development costs are charged to income as incurred.

s. Leases- All leases are accounted for as operating leases. Under Japanese accounting standard for leases, finance leases that are deemed 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.

t. New Accounting Pronouncements

Business Combination and Business Separation

In October 2003, the BAC issued a Statement of Opinion, *Accounting for Business Combinations*, and on December 27, 2005 ASBJ issued *Accounting Standard for Business Separations* and ASBJ Guidance No. 10, *Guidance for Accounting Standard for Business Combinations and Business Separations*. These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. These specific criteria are as follows:

(a) the consideration for the business combination consists solely of common shares with voting rights,

(b) the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and

(c) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including netative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statements of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

Bonuses to Directors and Corporate Auditors

Prior to the fiscal year ended March 31,2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force No. 13, *Accounting treatment for bonuses to directors and corporate auditors*, which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses form retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

3. Property

The breakdown of property as of March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Cost:			
Electric power production facilities:			
Hydroelectric power	¥ 549,002	¥ 548,400	$ 4,673,551
Thermal power	1,592,281	1,590,122	13,554,788
Nuclear power	1,538,143	1,526,888	13,093,922
Internal-combustion engine power	121,463	127,112	1,033,992
	3,800,889	3,792,522	32,356,253
Transmission facilities	1,549,464	1,509,187	13,190,295
Transformation facilities	943,893	933,394	8,035,183
Distribution facilities	1,331,928	1,331,244	11,338,452
General facilities	385,878	386,376	3,284,907
Other electricity-related facilities	64,559	64,563	549,579
Other plant and equipment	98,145	87,026	835,490
Construction in progress	300,424	291,218	2,557,453
Total	8,475,180	8,395,530	72,147,612
Less contributions in aid of construction	129,087	124,117	1,098,893
Less accumulated depreciation	5,345,135	5,195,206	45,502,128
Carrying amount	¥3,000,958	¥3,076,207	$25,546,591

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, 2006 and 2005 were as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2006			2005			2006		
	Carrying amount	Fair value	Unrealized gain	Carrying amount	Fair value	Unrealized gain	Carrying amount	Fair value	Unrealized gain
Associated company	¥4,303	¥17,189	¥12,886	¥4,303	¥15,205	¥10,902	$36,631	$146,327	$109,696

5. Pledged Assets

All of the Company's assets are subject to certain statutory preferential rights established to secure bonds, notes, loans borrowed from The Development Bank of Japan and bonds transferred to banks under debt assumption agreements (see Note 15).

6. Long-Term Debt

Long-term debt consisted of the following at March 31, 2006 and 2005:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Yen bonds, 0.2% to 3.65%, due serially to 2024	¥1,053,760	¥1,018,760	$ 8,970,460
U.S. dollar notes, 7.25%, due 2008	37,860	37,860	322,295
Swiss franc bonds, 4.0%, due 2007	29,513	29,513	251,239
Loans from The Development Bank of Japan, 0.95% to 6.9%, due serially to 2026	236,310	273,639	2,011,663
Unsecured loans, principally from banks and insurance companies, 0.25% to 5.1%, due serially to 2021	443,720	465,495	3,777,305
Total	1,801,163	1,825,267	15,332,962
Less current portion	163,071	189,547	1,388,193
Long-term debt, less current portion	¥1,638,092	¥1,635,720	$13,944,769

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, 2006 were as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2007	¥ 163,071	$ 1,388,193
2008	180,332	1,535,132
2009	152,993	1,302,401
2010	140,380	1,195,029
2011	144,810	1,232,740
Thereafter	1,019,577	8,679,467
Total	¥1,801,163	$15,332,962

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. Reserve for Reprocessing of Irradiated Nuclear Fuel

In August 2004, Japanese Government, i.e. the Ministry of Economy, Trade and Industry published a report "Systems and measures concerning back-end operations," in which the government showed an estimate of the back-end costs such as decommissioning costs of reprocessing facilities which had been treated as impractical to estimate. Based on the report electric utility providers have been able to estimate liabilities related to such as decommissioning costs of reprocessing facilities. Additionally on September 30, 2005, the government revised accounting regulations applicable to electric utility providers which prescribe estimation of the back-end costs.

In accordance with the revised accounting regulations above, the Company recorded the annual provision for reprocessing of irradiated nuclear fuel as an amount that would be required to reprocess the irradiated nuclear fuel of which reprocessing will be performed by the reprocessing companies. The amount of reserve consists of two parts and each of them is calculated in different ways. The costs reprocessed in Japan Nuclear Fuel Limited are calculated as an expected future cash flows being discounted at 1.9%. The other part is calculated based on the quantities to be reprocessed as of March 31, 2006 and contractual reprocessing rate.

The unrecognized costs which had not been recognized in the past as liability were ¥130,495 million ($1,110,879 thousand) as of April 1, 2005, and they are amortized on a straight-line basis over 15 years. Annual amortization is presented as operating expenses in the statement of income. Balance of unrecognized past costs as of March 31, 2006 is 121,796 million ($1,036,826 thousand). The Company is permitted to recover these reprocessing costs by including them in the admitted cost elements for electric rate.

In case any assumptions for calculations of reserve such as expected future cash flows and the discount rate, unrecognized difference might be incurred. Balance of unrecognized difference as of March 31, 2006 is ¥13,927 millions ($118,558 thousand). In accordance with the revised accounting regulations, the difference will be amortized on a straight-line basis beginning the next year of the change made over the period in which the irradiated nuclear fuel was produced. The annual amortization is charged to operating expenses.

Regarding 53 tons out of 106 tons of irradiated nuclear fuel which was derived this year, no reserve is provided because there is no authorized definite reprocessing plan and then reasonable estimation of future reprocessing cost is impractical.

An independent fund managing body was set up based on a specific law and the Company is obliged to contribute same amounts as the balance of reserve for reprocessing of irradiated nuclear fuel to reserve funds in 15 years. The reserve funds is presented as "Reserve funds for reprocessing of irradiated nuclear fuel."

9. Short-Term Borrowings

Short-term borrowings are generally represented by 365-day notes, bearing interest at rates ranging from 0.11091% to 0.31273% and from 0.12417% to 0.34250% at March 31, 2006 and 2005, respectively.

10. 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 2006 and 2005.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2006 and 2005 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Deferred tax assets:			
Pension and severance costs	¥ 67,693	¥ 65,158	$ 576,258
Depreciation	27,900	23,895	237,507
Reserve for reprocessing of irradiated nuclear fuel	10,509	10,497	89,461
Reserve for decommissioning of nuclear power units	10,184	10,184	86,695
Deferred charges	6,275	4,838	53,418
Accrued bonus to employees	5,516	5,599	46,957
Other	19,865	16,106	169,107
Less valuation allowance	(7,135)	(5,267)	(60,739)
Deferred tax assets	¥140,807	¥131,010	$1,198,664
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ 36,357	¥ 20,369	$ 309,500
Other	42	38	358
Deferred tax liabilities	¥ 36,399	¥ 20,407	$ 309,858
Net deferred tax assets	¥104,408	¥110,603	$ 888,806

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2006 and 2005, and the actual effective tax rates reflected in the accompanying non-consolidated statements of income is not disclosed because the difference between those rates is immaterial.

11. Shareholders' Equity

Through May 1, 2006, Japanese companies are subject to the Code.

The Code requires that all shares of common stock be issued 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 are required to be presented as additional paid-in capital. The Code permits companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration by way of 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 of 10% or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve until the total of such reserve and additional paid-in capital equals 25% of common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders after transferring such excess in accordance with the Code. 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 purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate repurchased amount of treasury stock cannot exceed the amount available for future dividend plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥603,588 million ($5,138,231 thousand) as of March 31, 2006, 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 end of 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.

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006, The significant changes in the Corporate Law that affect financial and accounting matters are summarized below;

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/decreases and transfer of common stock, reserve and surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve or as additional paid-in capital depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights.

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, ASBJ published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

12. Research and Development Costs

Research and development costs charged to income were ¥8,917 million ($75,909 thousand) and ¥9,140 million for the years ended March 31, 2006 and 2005, respectively.

13. Loss on Impairment of Fixed Assets

Losses on impairment recognized for mainly idle assets which will not be used in the future due to the changes in business plan was ¥6,691 million for the year ended March 31, 2005. Such loss for the year ended March 31, 2006 was immaterial and included in "Other-net."

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

14. 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, 2006 and 2005 were as follows:

	Millions of Yen		
March 31, 2006	General facilities	Other	Total
Acquisition cost	¥32,995	¥1,619	¥34,614
Accumulated depreciation	15,503	1,203	16,706
Net leased equipment	¥17,492	¥ 416	¥17,908

March 31, 2006	General facilities	Other	Total
	Thousands of U.S. Dollars		
Acquisition cost	$280,880	$13,782	$294,662
Accumulated depreciation	131,974	10,241	142,215
Net leased equipment	$148,906	$ 3,541	$152,447

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

Obligations under finance leases which included the imputed interest expense at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due within one year	¥ 5,555	¥ 4,738	$ 47,288
Due after one year	12,353	9,215	105,159
Total	¥17,908	¥13,953	$152,447

Depreciation expense and other information under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Depreciation expense	¥5,832	¥5,363	$49,647
Lease payments	5,832	5,363	49,647

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

b. Lessor

The Company leases industrial batteries.

Revenues under finance leases were ¥84 million ($715 thousand) and ¥77 million for the years ended March 31, 2006 and 2005, respectively.

Information of leased property such as acquisition cost and accumulated depreciation under finance leases for the years ended March 31, 2006 and 2005 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Other plant and equipment		Other plant and equipment
	2006	2005	2006
Acquisition cost	¥850	¥780	$7,236
Accumulated depreciation	442	252	3,763
Net leased equipment	¥408	¥528	$3,473

Future lease revenues under finance leases which included the imputed interest revenue at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due within one year	¥ 84	¥ 77	$ 715
Due after one year	1,011	994	8,607
Total	¥1,095	¥1,071	$9,322

Depreciation expense relating to the leased assets arrangements mentioned above was ¥190 million ($1,617 thousand) and ¥246 million for the years ended March 31, 2006 and 2005, respectively.

15. Commitments and Contingencies

At March 31, 2006, 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, 2006 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Co-guarantees of loans, mainly in connection with procurement of fuel	¥117,192	$ 997,633
Guarantees of employees' housing loans	66,054	562,305
Guarantees under debt assumption agreements	189,266	1,611,186
Other	9,977	84,932

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

16. Subsequent Event

At the general shareholders meeting held on June 29, 2006, the Company's shareholders approved the following appropriations of retained earnings as of March 31, 2006:

Appropriations of Retained Earnings

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥30.00 ($0.26) per share	¥14,212	$120,984
Bonuses to directors and corporate auditors	140	1,192

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)
	2006	2005	2004	2003	2002	2001	**2006**
For the year:							
Operating revenues	**¥1,329,435**	¥1,333,161	¥1,318,337	¥1,358,608	¥1,388,834	¥1,411,500	**$11,317,230**
Residential (lighting)	**562,365**	566,751	550,780	565,499	567,230	570,045	**4,787,308**
Commercial and industrial	**728,580**	736,312	724,955	744,986	761,498	777,747	**6,202,264**
Other	**38,490**	30,098	42,602	48,123	60,106	63,708	**327,658**
Operating expenses	**1,169,800**	1,131,586	1,127,669	1,185,506	1,197,546	1,207,968	**9,958,587**
Personnel	**178,455**	185,902	201,538	190,908	186,870	203,897	**1,519,154**
Fuel	**179,745**	143,221	126,507	137,953	150,959	146,097	**1,530,135**
Purchased power	**113,252**	105,553	95,935	104,682	98,034	94,098	**964,093**
Depreciation	**199,587**	210,386	232,151	247,876	244,946	263,043	**1,699,047**
Maintenance	**157,370**	158,704	153,232	158,851	177,962	173,521	**1,339,661**
Reprocessing costs of irradiated nuclear fuel	**31,080**	26,628	27,038	49,763	39,529	22,510	**264,578**
Decommissioning costs of nuclear power units	**9,121**	5,009	1,633	6,656	4,597	6,898	**77,645**
Disposal cost of high-level radioactive waste	**8,041**	7,727	8,003	8,075	7,640	11,411	**68,452**
Disposition of property	**16,407**	14,856	13,933	13,883	20,165	21,465	**139,670**
Taxes other than income taxes	**89,259**	91,846	90,749	94,226	93,236	94,448	**759,845**
Subcontract fee	**64,896**	66,779	60,345	60,215	58,638	64,457	**552,447**
Rent	**36,316**	36,463	36,183	36,159	37,051	36,168	**309,151**
Other	**86,271**	78,512	80,422	76,259	77,919	69,955	**734,409**
Interest charges	**38,445**	46,521	73,566	73,622	81,500	87,724	**327,275**
Income before income taxes	**108,815**	143,567	105,913	98,476	102,234	94,075	**926,322**
Net income	**69,137**	89,385	70,118	62,546	65,152	60,140	**588,550**
Per share of common stock (yen and U.S. dollars):							
Net income:							
Basic	**¥ 145.64**	¥ 188.33	¥ 147.65	¥ 131.64	¥ 137.40	¥ 126.83	**$ 1.24**
Diluted						125.63	
Cash dividends applicable to the year	**60.00**	60.00	50.00	50.00	60.00	60.00	**0.51**
At year-end:							
Total assets	**¥3,857,317**	¥3,806,568	¥3,859,049	¥3,929,942	¥3,984,740	¥4,006,257	**$32,836,614**
Net property	**3,000,958**	3,076,207	3,150,938	3,259,307	3,322,050	3,339,874	**25,546,591**
Long-term debt, less current portion	**1,638,092**	1,635,720	1,744,666	1,854,130	1,971,185	2,016,036	**13,944,769**
Total shareholders' equity	**995,662**	929,356	861,910	796,924	782,953	765,670	**8,475,883**
Number of employees	**13,074**	13,505	13,660	13,964	14,191	14,348	

Note: All dollar figures herein refer to U.S. currency. Japanese yen amounts have been translated, for convenience only, at the rate of ¥117.47=US$1, the approximate exchange rate prevailing on March 31, 2006.

Corporate Data (As of March 31, 2006)

Company Overview

- Trade Name: Kyushu Electric Power Company, Incorporated
- Head Office: 1-82, Watanabe-dori 2-chome, Chuo-ku, Fukuoka 810-8720, Japan
  Phone +81-92-761-3031
- Tokyo Branch Office: 7-1, Yurakucho 1-chome, Chiyoda-ku, Tokyo 100-0006, Japan
  Phone +81-3-3281-4931
- Date of establishment: May 1, 1951
- Paid-in Capital: ¥237,304,863,699
- Number of Employees: 13,074

Number of customers (FY 2005)

- Residential electric power: 7.31 million
- Commercial and industrial electric power: 1.05 million
- Total: 8.36 million

Electric power sales (FY 2005)

- Residential electric power: 28.3 billion kWh
- Commercial and industrial electric power: 54.7 billion kWh
- Total: 83.0 billion kWh

Stock Information

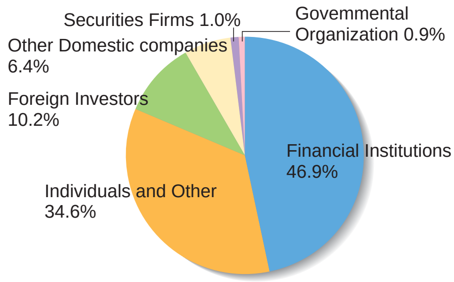
- Total Number of Shares Authorized: 1,000,000,000
- Number of Shares Issued and Outstanding: 474,183,951
- Number of Shareholders: 194,439
- Shareholders' Meeting: June
- Fiscal Year End: March 31
- Stock Listings: Tokyo Stock Exchange, Osaka Stock Exchange, Fukuoka Stock Exchange (Code: 9508)
- Transfer Agent and Registrar: The Chuo Mitsui Trust and Banking Co.,Ltd.
  33-1, Shiba 3-chome, Minato-ku, Tokyo, Japan
- Accounting Auditor: Deloitte Touche Tohmatsu

Major Shareholders

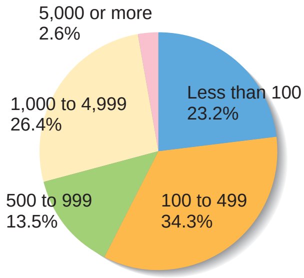
Name	Number of shares held (Thousand)	Shareholding ratio (%)
Meiji Yasuda Life Insurance Company	23,710	5.00
The Master Trust Bank of Japan, Ltd. (Trust Account)	23,247	4.90
Nippon Life Insurance Company	18,454	3.89
Japan Trustee Services Bank, Ltd. (Trust Account)	16,793	3.54
Mizuho Corporate Bank, Ltd.	10,419	2.20
Mizuho Trust and Banking Co.,Ltd., Retirement Benefit Trust Fukuoka Bank Account	8,637	1.82
Sumitomo Mitsui Banking Corporation	8,474	1.79
Kyushu Electric Power Co.,Inc. Employees' Shareholding Association	7,218	1.52
Kochi Shinkin Bank	6,751	1.42
Shinkin Central Bank	6,000	1.27

Composition of Shareholders

By type of shareholder



By number of shares held



Corporate information is also available on our website where we also introduce our technical development, procurement activities and overseas projects. (http://www.kyuden.co.jp/en_index)

Publications introduced in this annual report listed below are also available on our website as well as leaflets.
-CSR Report (Leaflet only in Japanese)
-Environment Action Report

Overview of Power Generation Facilities

(As of March 31, 2006)

Nuclear Power Stations

Station name	Rated output (kW)	Operation commencement date	System	Location
Genkai	3,478,000 (559,000×2 1,180,000×2)	Oct. 1975	Pressurized water reactor	Genkai-cho, Higashi Matsuura-gun, Saga Prefecture
Sendai	1,780,000 (890,000×2)	July 1984	Pressurized water reactor	Gumisaki-cho, Satsumasendai-shi

Rated output **Total 5,258,000kW**

Sendai Nuclear Power Station

Thermal Power Stations

Station name	Approved maximum output (kW)	Operation commencement date	Main fuel	Location
Shin Kokura	1,800,000 (600,000×3)	Oct. 1961	LNG	Nishi Minato-cho, Kokura Kita-ku, Kita Kyushu-shi
Karita	735,000 (375,000×1 360,000×1)	April 1972	Heavy oil/crude oil/coal (PFBC)	Kanda-machi, Miyako-gun, Fukuoka Prefecture
Buzen	1,000,000 (500,000×2)	Dec. 1977	Heavy oil/ crude oil	Hachiya, Buzen-shi
Karatsu	875,000 (375,000×1 500,000×1)	July 1971	Heavy oil/ crude oil	Futago, Karatsu-shi
Matsuura	700,000	June 1989	Coal	Shisa-cho, Matsuura-shi
Shin Oita	2,295,000 (115,000×6 217,500×4 245,000×3)	June 1991	LNG	Aosaki, Oita-shi
Oita	500,000 (250,000×2)	July 1969	Heavy oil	Ichinosu, Oita-shi
Ainoura	875,000 (375,000×1 500,000×1)	April 1973	Heavy oil/ crude oil	Hikari-machi, Sasebo-shi
Reihoku	1,400,000 (700,000×2)	Dec. 1995	Coal	Reihoku-machi, Amagusa-gun, Kumamoto Prefecture
Sendai	1,000,000 (500,000×2)	July 1974	Heavy oil/ crude oil	Minato-cho, Satsumasendai-shi

Approved maximum output **Total 11,180,000kW**

Reihoku Power Station

Hydroelectric Power Stations

(Stations with output 50,000kW or more are listed.)

Station name	Approved maximum output (kW)	Operation commencement date	System	Location
Tenzan	600,000	Dec. 1986	Dam and conduit system (pure pumped storage)	Kyuragi-machi, Karatsu-shi
Ohira	500,000	Dec. 1975	Dam and conduit system (pure pumped storage)	Sakamoto-machi, Yatsushiro-shi
Hitotsuse	180,000	June 1963	Dam and conduit system	Katauchi, Saito-shi
Kamishiiba	90,000	May 1955	Dam and conduit system	Shiiba-son, Higashi Usuki-gun, Miyazaki Prefecture
Oyodogawa No. 2	71,300	March 1932	Dam and conduit system	Takaoka-cho, Higashi Morokata-gun, Miyazaki Prefecture
Tsukabaru	63,090	Oct. 1938	Dam and conduit system	Morotsuka-son, Higashi Usuki-gun, Miyazaki Prefecture
Yanagimata	61,900	June 1973	Dam and conduit system	Uchigawano, Hita-shi
Oyodogawa No. 1	55,500	Jan. 1926	Dam system	Takazaki-cho, Kita Morokata-gun, Miyazaki Prefecture
Iwayado	51,100	Jan. 1942	Dam and conduit system	Shiiba-son, Higashi Usuki-gun, Miyazaki Prefecture
Matsubara	50,600	Aug. 1971	Dam system	Oyama-machi, Hita-shi
Morozuka	50,000	Feb. 1961	Dam and conduit system (river pumped storage)	Morotsuka-son, Higashi Usuki-gun, Miyazaki Prefecture

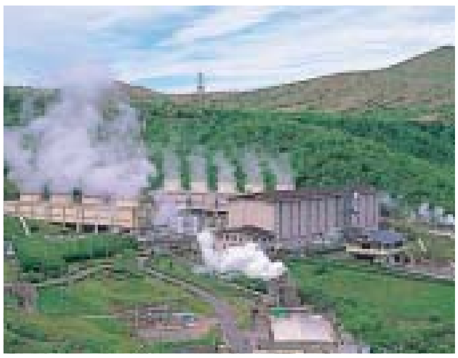
Approved maximum output **Total 2,377,716kW**

Tenzan Power Station

Geothermal Power Stations

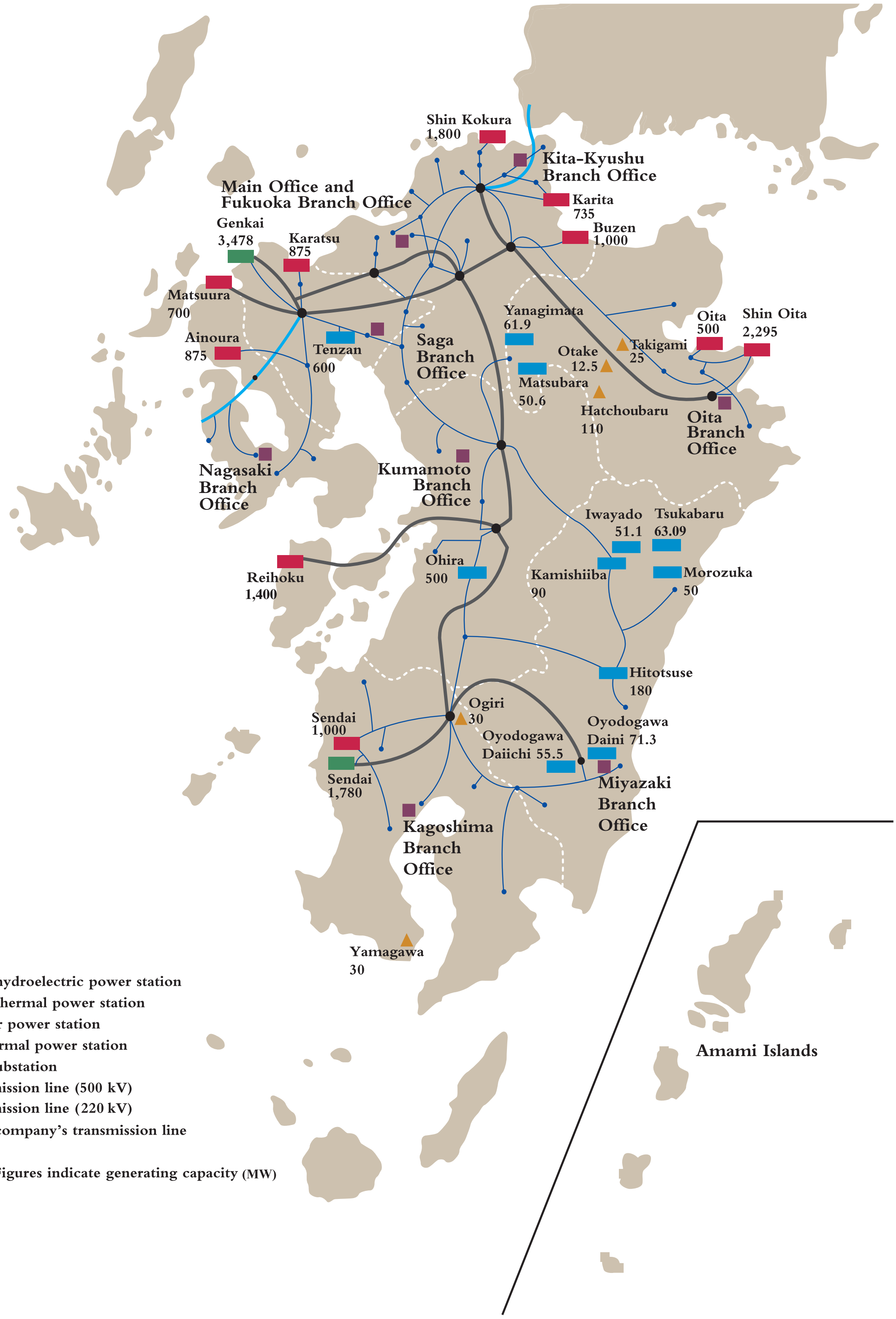
Station name	Approved maximum output (kW)	Operation commencement date	Location
Takigami	25,000	Nov. 1996	Kokonoe-machi, Kusu-gun, Oita Prefecture
Hatchobaru	110,000 (55,000×2)	June 1977	Kokonoe-machi, Kusu-gun, Oita Prefecture
Otake	12,500	Aug. 1967	Kokonoe-machi, Kusu-gun, Oita Prefecture
Ogiri	30,000	March 1996	Makizono-cho, Kirishima-shi
Yamagawa	30,000	March 1995	Yamagawa-cho, Ibusuki-gun, Kagoshima Prefecture

Approved maximum output **Total 207,500kW**



Hatchobaru Power Station

Main Facilities (As of March 31, 2006)



- Major hydroelectric power station
- Major thermal power station
- Nuclear power station
- Geothermal power station
- Main substation
- Transmission line (500 kV)
- Transmission line (220 kV)
- Other company's transmission line
- Office

Note: Figures indicate generating capacity (MW)

KYUSHU ELECTRIC POWER CO., INC.
1-82, Watanabe-dori 2-chome, Chuo-ku, Fukuoka 810-8720, Japan
http://www.kyuden.co.jp/