

Midterm Management Policy

March 2009

Kyushu Electric Power Co., Inc

Introduction

- o Under our Midterm Management Policy (2005-2009), Kyushu Electric Power Co., Inc. has been engaged in measures to ensure stable supply of electric power through the efficient development and maintenance of facilities and secured long-term fuel procurement. We have also been working hard to strengthen our price competitiveness, grow electricity demand through promoting electrification, and promote nuclear power generation such as our Pluthermal Project.
- o The business environment surrounding Kyushu Electric, however, has rapidly become uncertain because of extremely turbulent oil prices, unstable financial conditions, and the global economic recession. Also in the long run the business climate is projected to change dramatically due to the growing global energy demand, the reduced availability of energy resources, and the rising awareness of global environmental issues.
- o Resulting from these dynamic changes in business circumstances, it is necessary for us to make a united effort to tackle various challenges surrounding us, enabling us to realize Kyushu Electric Power's Mission, "Enlighten Our Future."
- o While responding to challenges in the current drastically changing business environment, we have established both a long-term management vision and mid-term management policy. Beginning in FY2009 and being implemented over the next three years, these will respond to the various issues which require immediate investigation and having mid to long term perspective.

1. Current Business Environment

[Worldwide economic recession and harsh financial environment]

- (1) We recognize this increasingly harsh economic situation with the current global financial crisis and business turndown.
- (2) The financial climate surrounding Kyushu Electric Power is projected to be extremely severe due to increasingly uncertain fuel prices, foreign exchange rates, and economic trends.

[Increasing importance of energy security and global environmental issues]

(Increasing importance of energy security)

- Along with the growing population worldwide and the economic growth of developing countries, global energy demand is projected to continue growing on a long term basis.
- Since all the fossil fuels including crude oil are limited, the energy resource supply will become tighter.
- As the balance of the worldwide energy supply and demand tightens, fuel procurement is projected to become more difficult resulting from a trend toward resource nationalism, thereby raising concern that the prices for resource, including fuel, may rise sharply.

(Increasing importance of global environmental issues)

- According to The Intergovernmental Panel on Climate Change's (IPCC) fourth assessment report, the temperature on the earth has risen by 0.7 degrees C over the last 100 years and there is a very strong possibility that most of this global warming has been caused by an increase in greenhouse gases resulting from human activities.
- There is a rising awareness of global warming as an issue that may threaten the very foundation of human survival due to its impact on the ecosystem and propensity to magnify disasters.
- There is also a growing awareness worldwide that it is necessary to reduce the emissions of CO₂ and other greenhouse gases at least by half by 2050 in order to contain the temperature rise to 2 degrees C or less, which will minimize the impact on future global warming.
- We in the utility industry regard the reduction of CO₂ emissions as a very important issue; especially because as large scale disasters become even larger due to global warming, they will have an increased impact on electricity infrastructure.

[Changes in energy demand structure]

- Due to a future decline of population, progress of energy-saving strategies and a maturation of the economy there is a possibility that the energy consumption in the future will not continue to increase. . It is, however, projected that the shift to electricity, which has comprehensive advantages in eco-friendliness, economics, and supply stability, will continue at an accelerated pace in the future.
- On the other hand, there is the possibility that the growing cost-consciousness and the awareness of eco-friendliness among electricity customers along with the progress of technical development may lead to diversified electricity supply forms including solar and hydrogen technology, fuel-cell, and storage battery technologies and may therefore intensify the cross-boarder competition.

[Aged facilities]

- Many of our electric facilities were built in response to the power demand growth along with high economic growth and the composition of aged facilities will rise in the future.
- We have been committed to efficient facility formation and other efficiency improvements including the reassessment of design standards and specifications that will be required. Also, the need for measures requiring high technologies to prolong facilities, estimate residual life, and renew facilities which are located near operating facilities and need to stop operation during maintenance will increase.

[Diversification of lifestyle and values, changes in personnel situation with the falling birthrate and the aging population]

- Along with globalization and rapid penetration of the internet, people's lifestyles and values have become more diversified. With a growing awareness that a company should be a good member of society, companies have come under increasing pressure to be responsible to the society.

It is forecasted that labor population in Japan will decrease dramatically with an aging population and a declining birthrate. There is also an increasing awareness about gender equality and work and family balance. At Kyushu Electric Power Group, we recognize the growing need to ensure an adequate workforce to inherit the accumulated expertise and to respond to the personnel changes.

2. Basic Standpoint

(1) Management Position

- o To realize Kyushu Electric Power's Mission and live up to our brand's message of "Enlighten Our Future," we will provide continuous value to all the stakeholders involved in our business activities by responding to the dramatic changes properly and conducting businesses based on the CSR viewpoint.

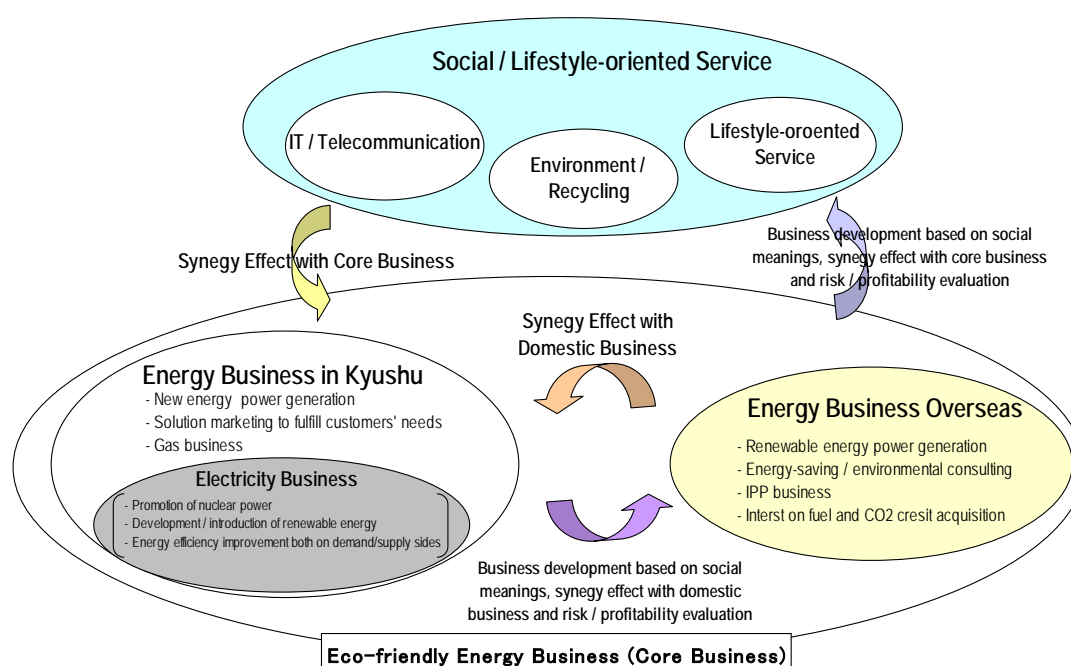
(2) Time-series Positioning (FY2009-FY2011)

- o Considering the current drastically changing business environment, we realize it necessary to respond to energy and global environmental issues as well as personnel issues with a mid to long term perspective in addition to tackling the current severe business environment appropriately.
- o In this Mid-term Management Policy, therefore, we position the next 3 years as a period in which to launch measures to respond to various issues which require immediate investigation with mid to long term perspective based on Long-term Management Vision while responding properly to challenges in the current drastically changing business environment.

(3) Business Domains

- o We will actively develop businesses centered around an environmentally-friendly energy business.
 - Energy business in Kyushu: As a responsible utility company in Kyushu, we will actively work on energy and global environmental issues.
 - Energy business overseas: By utilizing our own techniques and expertise, we will contribute to a stable supply of energy, an improvement in efficiency in the countries/region we develop, as well as contributing to global CO₂ reduction.
- o By utilizing our own tangible and intangible management resources, we will develop socially meaningful lifestyle-oriented service businesses.
- o We will develop businesses based on the needs of society, a synergy effect with other businesses and a valuation of the associated risks and profitability.

[Business Domain]



(4) Management Policy in Each Domain

Environmentally-friendly Energy Business

a. Energy business in Kyushu

- o By utilizing our own techniques and expertise in the electricity business, we will actively develop businesses.
- o We will respond to energy and global environmental issues with mid to long term perspective.
- o Taking into account the highly uncertain business environment, we will work toward a solid financial foundation while responding to changing environment.

<Electricity Business>

- Active measures to changes in energy demand structure
 - Promotion of nuclear power and active development and introduction of renewable energy
 - Energy efficiency improvement on both supply and demand sides including thermal efficiency improvement and promotion of energy savings.
- Assured supply reliability from our customers' viewpoint
- Efficiency improvement based on risk evaluation, stabilization of income and expenditure balance

<New Energy Power Generation Business (Wind, solar, geothermal, biomass, waste products etc)>

- Promotion of new energy power generation by cooperation with customers and the local community

<Solution Business to Meet Customers' Needs>

- Promotion of sales activities to meet various needs of customers

<Gas Business>

- Investigation of Kyushu's natural gas infrastructure along with local gas companies with a long term perspective in consideration of the importance of LNG as fuel for power generation
- Business development based on a stable supply in response to the supply and demand situation of LNG

b. Energy Business Overseas

- o By utilizing our own techniques and expertise, we will contribute to a stable supply of energy and an improvement in efficiency in the countries/region, especially in growing Asian regions, and also contribute to global CO₂ emission reduction.
- o We will use feed back acquired through overseas business experiences and fuel-related interests to domestic management and energy business
- Active development of environmentally-friendly energy business including high-efficiency thermal IPP business, thermal efficiency improvement, and power generation with renewable energy resources mainly in Asian regions
- Investment and business activities based on their meanings in society, the synergy effects with other domestic businesses as well as risk and profitability evaluation
- Business development in view of long term stable fuel procurement and acquirement of CO₂ credit

Society and Lifestyle-oriented Service Businesses

- a. IT and telecommunication business
 - o By utilizing our IT infrastructure such as our fiber-optic network and data center and business expertise, we will support infrastructure in today's highly sophisticated information society and contribute to the local community.
 - Continuous competitiveness and stable income/expenditure balance
 - Business development based on its meanings in society, synergy effects with our core businesses and risk and profitability evaluation
 - Investigation of business strategies capable of drastic change in the IT business environment including technical innovation

- b. Environment / Recycling Business c. Lifestyle-oriented Businesses
 - o By utilizing our own management resources, we will work to develop businesses which bring a rich and comfortable lifestyle to local customers.
 - Business development based on its meanings in society, synergy effects with our core businesses along with risk and profitability evaluation
 - Investigation of new social and lifestyle-oriented services to fulfill the needs of customers and the local community.

3. Prioritized Measures

- o Based on the basic standpoint described above, we at Kyushu Electric Power all share these 5 prioritized measures (management objectives) and actively work toward these objectives.

- (1) Measures for a stable supply of electricity and global environmental issues
- (2) Highly value-added services that fulfill both comfort and eco-consciousness
- (3) Contributions toward establishing sustainable society in Kyushu, Asia and worldwide
- (4) Measures to enhance an account structure capable of handling changes in circumstances
- (5) Personnel enhancement to attract the next generation's workforce

(1) Measures for a stable supply of electricity and global environmental issues

- o In response to the increasing importance of energy security and an increasing awareness of global environmental issues, we will actively work to promote nuclear power generation and to develop and introduce renewable energy.
- o We will pursue stable and efficient facility formation by both improving the efficiency and continuing the maintenance of aged facilities.

We will promote nuclear power and actively develop and introduce renewable energy.

- Encouragement of local understandings and steady progress toward the development of Unit3 at the Sendai Nuclear Power Station by FY2019
- Promotion of the measures to establish nuclear fuel cycle
 - Implementation of the pluthermal operation in Unit3 at the Genkai Nuclear Power Station (FY2009)
 - Enhancement of irradiated fuel storage capacity (Re-racking)
 - Investigation into the building of interim storage facilities for irradiated spent fuel
- Active development and introduction of renewable energy including wind, solar, hydro and geothermal (Target: 1 million kW output of wind and solar power respectively by the end of FY2017)
 - Site investigation and evaluation aiming at newly developed wind, hydro and geothermal power facilities
 - Installation of solar power facilities at power plant sites and all of our offices

We will promote stable and efficient facility formation by improving facility efficiency and maintaining aged facilities.

- Efficiency improvement of thermal power generation facilities by introducing the latest technologies based on the energy resource restriction
 - Replacement of gas turbine at Unit 1 at Shin-Oita thermal power station (FY2009-2012)
 - Development of Unit3-4 at Shin-Oita thermal power station by FY2016
- Steady development of Omarugawa hydroelectric power station (1.2 million kW by FY2011)
- Renewal of hydroelectric facilities and dam management advancement at main water system
- Expansion of the basic power network including the promotion of a 500,000V loop network formation and a local power network formation based on demand trends and supply reliability
- Proper maintenance and renovation of aged facilities and development of techniques to maintain them, extend their life and diagnose power generation and transmission facilities shortcomings.
- Centralization and sophistication of transmission grid operation system

We will address long-term and stable fuel procurement

- Promotion of diversified supply sources
- Stable and efficient fuel transportation utilizing our own LNG vessel
- Investigation in acquiring an upstream interest in LNG and uranium

We will achieve a reduction in CO₂ emissions, with a goal of 20% reduction in end-use CO₂ emission intensity over the period FY2008-2012 in comparison to our FY1990 actual result.

- Maintaining a high nuclear utilization rate to pursue safe and stable operation of our nuclear power plants by responding properly to new guidelines for seismic design evaluation and new inspection systems
- Efficiency improvement at thermal and other power generation facilities
- Utilization of Kyoto mechanism including CDM

We will work on research and development for safe and stable supply of environmentally-friendly energy.

- Research and development aiming to expand the usage of renewable energy including investigation of the impact of drastic introduction of solar power generation on the power network
- Research and development on energy efficiency improvement including IGCC (Integrated Gasification Combined Cycle) and CCS (Carbon Dioxide Capture and Storage), and on CO₂ emission reduction
- Equipment development utilizing high-efficiency lithium battery technology and research and development on power storage equipment
- Research and development on new resources and energy sources including bio fuel
- Research and development on superconductivity

We will work on maintaining a stable and efficient supply of electricity on isolated islands based on each island's geographical characteristics.

- Demonstration experiment of micro grid combining solar, wind and other power sources.

(2) Highly value added services that fulfill both comfort and eco-consciousness

- o We will provide quality electricity in response to the rising importance of electricity as a lifeline as well as various services in order to meet customers' expectation.
- o We will actively support customers' CO₂ emission reduction

We will provide stable and quality electricity to customers

- Thorough implementation of appropriate operations and maintenance of facilities
- Promotion of advanced operations and control systems

We will develop and provide services that meet our customers' needs

- Fair and strict contract management and thorough business management
- Prompt and accurate customer service utilizing mobile devices
- Enhanced interactive communication to listen to comments from customers and optimize services based on customers' feedback
- Excellent information dispersal service including blackout information to customers' PCs and mobile phones, enhancing customer convenience
- Measures to develop technologies and build an infrastructure which will encourage the widespread use of electric vehicles
- Systematic introduction of new electric meters (unite meter) ; improving customer service and business efficiency
- Development and investigation of new ways to use electricity including intelligent houses utilizing information technology

We will provide services to improve energy use efficiency of customers (CO₂ emission reduction: 90,000t/year)

- Proposal of new lifestyle with lower energy consumption and comfort in cooperation with customers
- Measures for the widespread adoption and use of "Eco-Cute" and other energy-saving equipment
- Comprehensive proposals including energy saving assessments and electrification of kitchen appliances in response to the rising environmental awareness of customers
- Promotion of electrification in the agricultural, forestry and fishery industries utilizing heat pump technology

(3) Contributions toward establishing sustainable society in Kyushu, Asia and worldwide

- o We will discuss and work with local communities to establish a sustainable society
- o We will utilize our own expertise and techniques to contribute to a stable supply of energy mainly in Asian countries and regions and global reductions in CO₂ emissions.

We will pursue fair and highly transparent business activities

- Increase in compliance awareness and thorough implementation of fair transactions, from the customers' viewpoint
- Enhancement of organizational structure, centering around the Compliance Committee, to promote compliance management
- Thorough information disclosure from customers, investors and shareholders' standpoints
- Promotion of business operations which respect human rights

We will enhance communication with the society on energy and environmental issues

- Promotion of activities regarding our measures to tackle energy and environmental issues including nuclear power
- Development of a framework to promote the construction of power generation facilities, to provide a detailed understanding of the comments from the local community and to prompt responses
- Energy and environmental education for the next generation (Kyuden Future School)

We will take the lead in eco-friendly business activities in cooperation with customers and local society

- Development of zero emission activities and appropriate operation of Environment Management System (EMS)
- Active introduction of electric vehicles as company cars (including plug-in hybrid vehicles: 1,000 unites by FY2020) and promotion of other energy saving measures at our own facilities
- Active cooperation with customers and local society utilizing regional characteristics including development of renewable energy
- Investigation of gas infrastructure improvement in cooperation with local authority and gas companies
- Promotion of earth-conscious and aesthetic undergrounding

We will work in harmony with local community to develop local industries and cultures

- Support for local cultural, sporting events and volunteer activities of our employees'
- Cooperative promotion to attract enterprises with local authorities and economic organizations

We will develop businesses overseas including IPP businesses and energy-saving and environment-related consulting businesses

- Promotion of high-efficiency thermal power, renewable energy and energy saving consulting businesses utilizing our own expertise and techniques
- Information gathering and business development based in overseas locations
- Thorough risk management based on global economic conditions

Utilizing group-wide resources, we will develop businesses to meet the needs of customers and the community

- Business development based on in the needs of society, a synergy with our core businesses along with a valuation of risk and profitability. Including IT / telecommunication, environmental / recycling, and lifestyle-oriented service businesses.

(4) Measures to enhance an account structure capable of handling changes in circumstances

- o We will implement measures to establish a flexible account structure with multiple revenue sources capable of coping with changes in circumstances including measures to shift to non fossil energy, to improve energy efficiency on both demand and supply sides, and to ensure new revenue sources by developing businesses overseas and in new business domains.
- o Based on a risk evaluation, we will allocate management resources properly and improve efficiency while working to reduce fuel cost through the establishment of flexible fuel procurement portfolio and developing electricity rates based on changes in business circumstances.
- o We will work to ensure the industry's leading cost level and continuous and stable dividend payment.

We will strive to allocate management resources properly based on a risk evaluation and to improve efficiency

- Enhanced risk management by development of risk communication of executives
- Efficient capital investment with revised design basis, specifications and schedule
- Efficient miscellaneous cost and maintenance cost based on revised specifications, frequency and cost-effectiveness
- Cost reduction in equipment procurement by cost-cutting measures in cooperation with suppliers and diversified order methods
- Cutting financing cost by efficient funding among group companies

We will work to reduce fuel cost by economic fuel procurement and operation based on energy price volatility risk

- Measures to establish a flexible fuel procurement portfolio including diversified contract methods
- Investigation into measures that can mitigate the impact of the rise in fuel prices
- Economic power plant operation and flexible use of electric power exchange

We will develop electricity rates based on changes in business circumstances and needs from customers

- Investigation of electricity rates based on our response to requests from society, including an introduction of renewable energy

(5) Personnel enhancement to attract the next generation's workforce

- o Based on changes that affect future business operation including an aging population with low birthrates and employees' age composition, we will review the way and the style of work from a long term point of view.
- o While responding to new needs from society and employees, including satisfying work and family balance and enhanced opportunities for female employees, we will also develop measures to establish a vigorous and motivating organization where each and every employee can maximize their capabilities and pursue personal development through their work.

We will establish an operational and organizational structure based on changes in current business situations

- Promoting efficient and advanced business operation by introducing the latest technologies and restructuring operational processes
- Measures to establish operational structure based on employees' future age composition
- Detailed measures to inherit the electronic core technologies and expertise group-wide
- Working to build industrial relations suitable to changing times

We will develop an environment where various workforces can maximize their capabilities and work vigorously by promoting measures including female employee encouragement

- Comprehensive reformation of personnel structure based on the clarified mind-set and skills required of future employees
- Investigation and development of various ways to work as well as employment systems to enhance the balance of work and family
- Career support for female employees and enhancement of awareness in the workplace
- Expanding employment opportunities for elder workforce including people over 60 years old
- Active internal and cross-functional communication both inside the workplace and beyond functional and institutional boundaries

We will support employees' self-development

- Improvement of leadership and management skills of management level employees who lead the workplace and take active roles in human resource development
- Development of employee education to enhance corporate culture emphasizing human resource development and activation

We will develop group-wide business management functions

- Establishment of a solid group management basis through united utilization of resources
- Enhancement of capacity to respond to emergency situations including such possible situations as new types of influenza and large-scale disasters
- Promotion of TQM aiming to improve company-wide management quality

Based on safety and health, we will create a workplace where we all treat each employee with respect

- Coordinated efforts together with group companies and contractors for thorough implementation of the safety-first policy
- Promotion of health management pertaining to both mental and physical aspects of employee well being, including stress management in the workplace



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