

Business Update

May 21, 2004

Kyushu Electric Power Co., Inc.

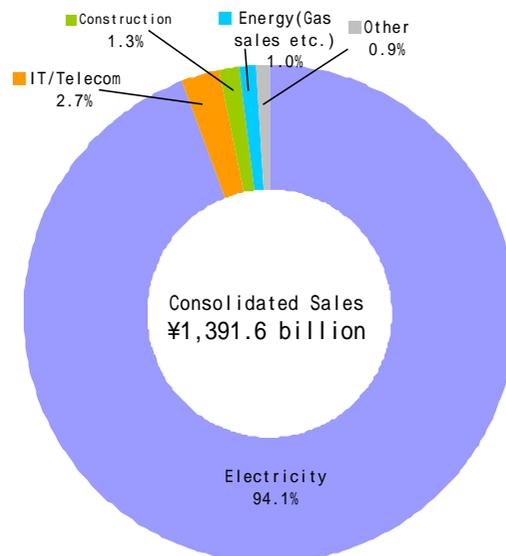
Profile of Kyushu Electric Power



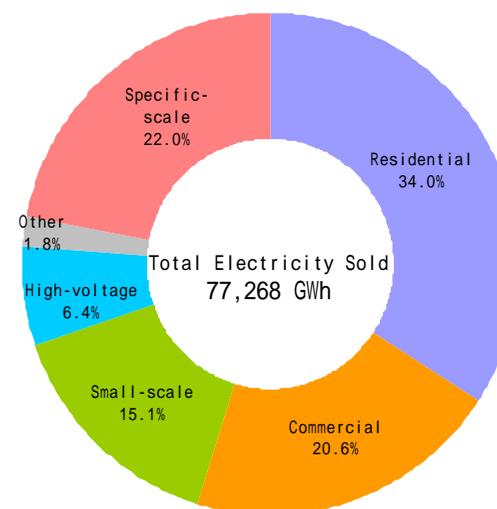
- Established: 1951 One of the 9 electric power companies in Japan that covers generation, transmission, and distribution of electricity
- Business area: Kyushu (composed of 7 prefectures)
- Power plants: 197 plants/19,889 MW (total supply capability: 23,031 MW)
- Electricity sold: 77,268 GWh
- Contracted customers: 8.2 million
- Sales: (Non-consolidated) ¥1,318.3 billion, (Consolidated) ¥1,391.6 billion
- Net income: (Non-consolidated) ¥70.1 billion, (Consolidated) ¥72.7 billion
- Consolidation: 19 consolidated subsidiaries and 24 subsidiaries/associated companies by equity method

(* All the figures are of FY2003)

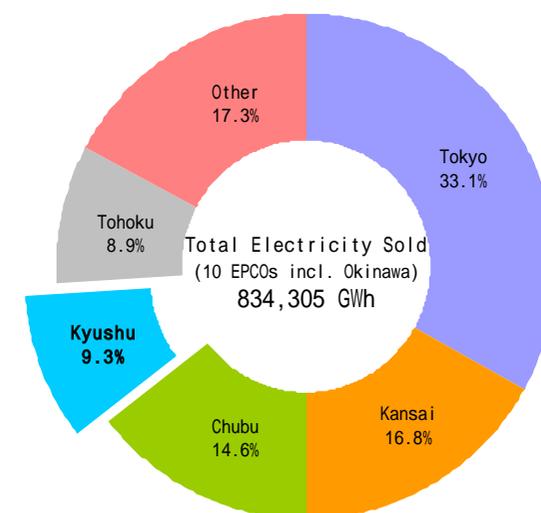
Breakdown of consolidated sales



Breakdown of electricity sold



Comparison of electricity sold



Achievement of financial targets in sight

We plan to set new targets which will further secure competitiveness in core electricity business and improve profitability as Kyushu Electric Power Group

	FY2001	FY2002	FY2003	FY2004E	Targets (FY2002 to FY2006)
Reduction of interest-bearing debt	- ¥40.1 billion	- ¥156.5 billion	- ¥148.8 billion	Approx. - ¥155 billion	Total - ¥450 billion (Approx. ¥2,040 billion)
Total reduction	NA	- ¥156.5 billion	- ¥305.3 billion	Approx. - ¥460 billion	
(Balance)	(¥2,488.7 billion)	(¥2,332.1 billion)	(¥2,183.3 billion)	(Approx. 2,030 billion)	
Shareholders' equity ratio	19.6%	20.3%	22.3%	24.3%	25% as of the end of FY2006
FCF	¥69.6 billion	180.2 billion	162.2 billion	Approx. 182 billion	Average ¥120 billion
Ordinary income	¥102.2 billion	90.7 billion	107.9 billion	Approx 140 billion	Average ¥100 billion
ROA	3.1%	2.8%	3.1%	3.1%	Average 3%
ROE	8.4%	7.9%	8.5%	9.9%	Average 8%

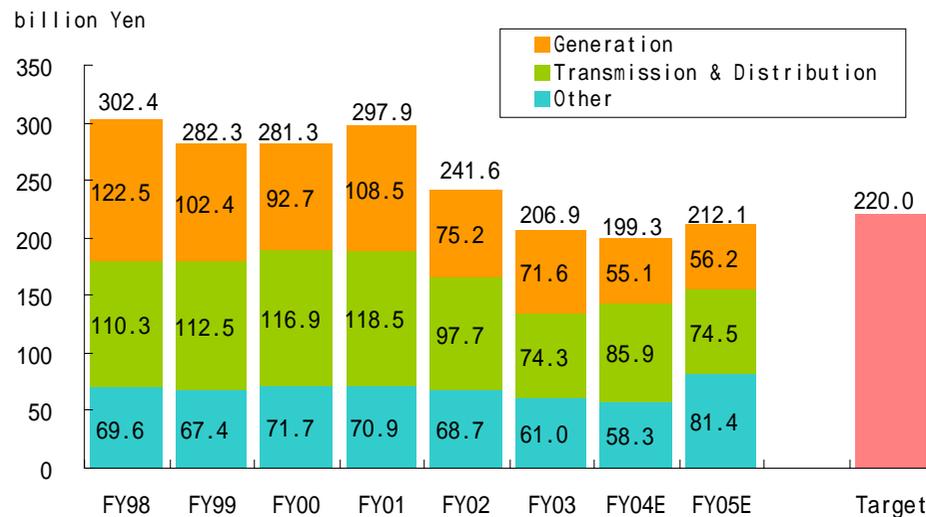
Note: Non-consolidated basis

$$\text{ROA} = \frac{\text{NOPAT}}{\text{Average total assets}}$$

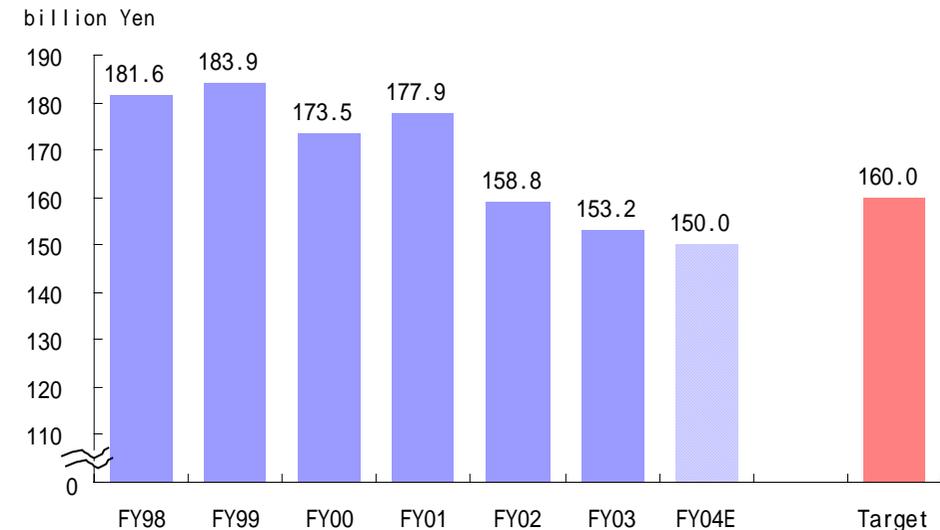
$$\text{ROE} = \frac{\text{Net income}}{\text{Average shareholders' equity}}$$

Improvement of management efficiency

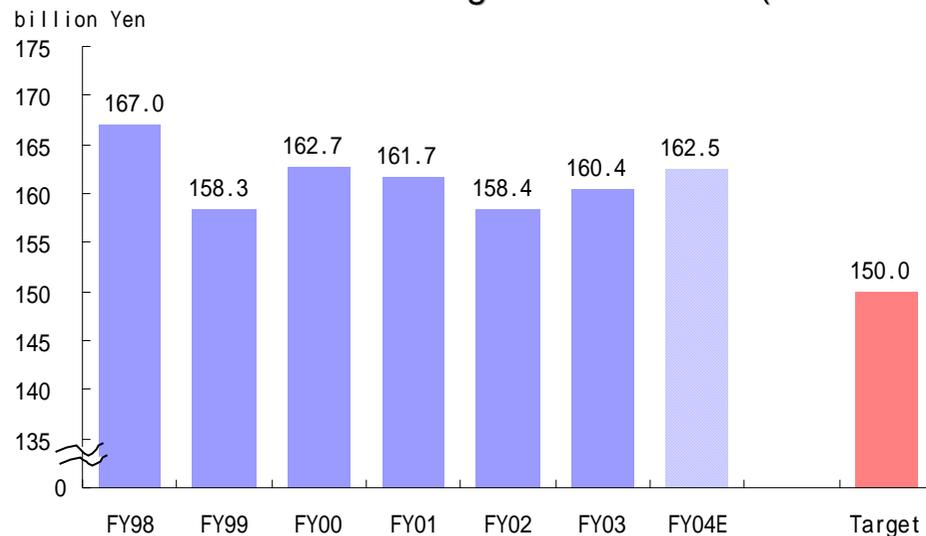
CAPEX: average ¥220 billion (FY03-06)



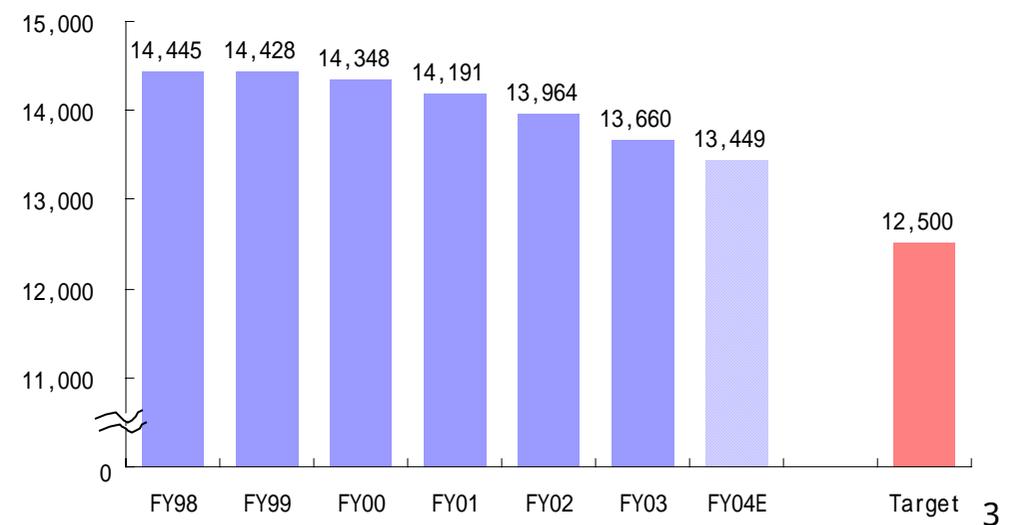
Maintenance cost: average ¥160 billion (FY03-06)



Miscellaneous: average ¥150 billion (FY03-06)



Number of employees: 12,500 (FY2006 end)



Ensuring stable supply of electricity in the long run

Balancing reduction of supply costs and stable electric power supply over the long term with sincere environmental concern

○ Demand forecast

	FY02	FY03	FY04E	FY05E	FY06E	FY07E	FY08E	FY13E	Growth rate*
Electricity sales volume (billion kWh)	76.6	77.3	77.8	78.2	79.1	80.0	80.9	85.4	1.0%
Peak demand (million kW)	15.35	15.56	16.16	16.28	16.50	16.71	16.92	18.00	1.5%

Annualized growth rate from FY2002 to FY2013

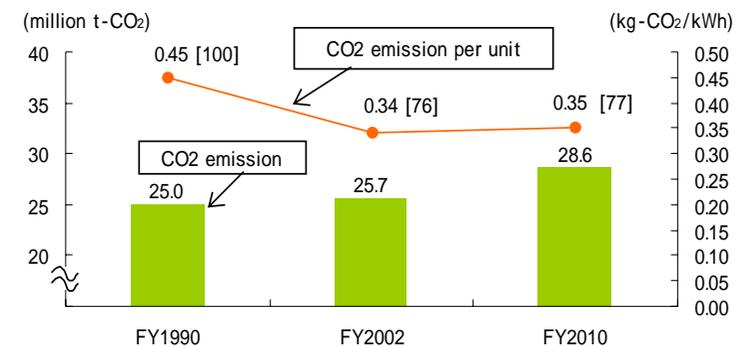
○ Major power plant construction plans

	FY07	FY08	FY09 to FY13
Matsuura #2 (Coal/1,000MW)			Mar 2012
Omarugawa (Pumping hydro/1,200MW)	Jul 2007 (300MW)	Jul 2008 (300MW)	Jul 2010 (600MW)

○ Shut-down and suspension of aged plants

	Plant	Capacity & Type	Effective
Discontinued	Omura #2	156MW (Coal)	Mar 2004
	Minato #1	156MW (Coal)	Apr 2004
	Shin-Kokura #1 & #2	156MWx2(LNG)	Oct 2004
Suspended	Oita #1 & #2	250MWx2(Petroleum)	FY02 to FY09
	Karatsu #2 & #3	375MW, 500MW(Petroleum)	FY04 to FY13

Reduction of CO₂ emission



*Numbers in [] are for reference (FY1990 as 100).

○ Sendai Nuclear Power Station Unit #3 Project

- A new nuclear power generation unit is necessary for both stable energy supply in resources-poor Japan and reduction of CO₂ emission.
- Environmental survey at Sendai Nuclear Power Station Site is under way aiming at adding unit #3 by mid 2010's.

○ Plu-Thermal Project (to burn MOX fuel* in light water reactors)

- We have decided to implement Plu-Thermal at Genkai #3 by FY2010 in accordance with national energy policy to promote nuclear fuel cycle and to use plutonium for peaceful purposes.

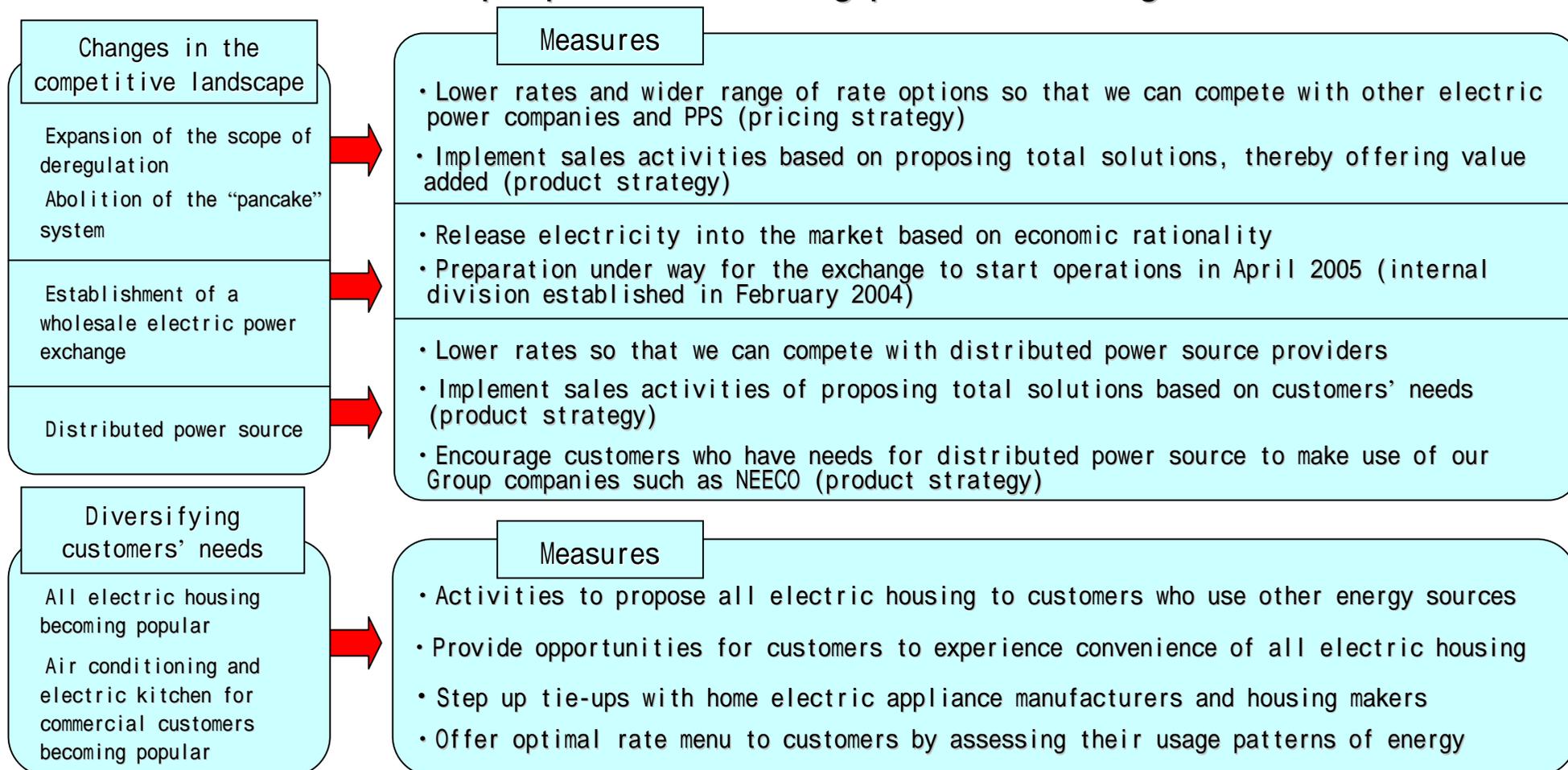
*MOX (mixed oxide) fuel is a mixture made up of non-fissionable uranium and plutonium generated when uranium undergoes fission.

Competitive strategies under deregulation

Our basic position against intensifying competition

Aim to be the most preferred electric power company for customers

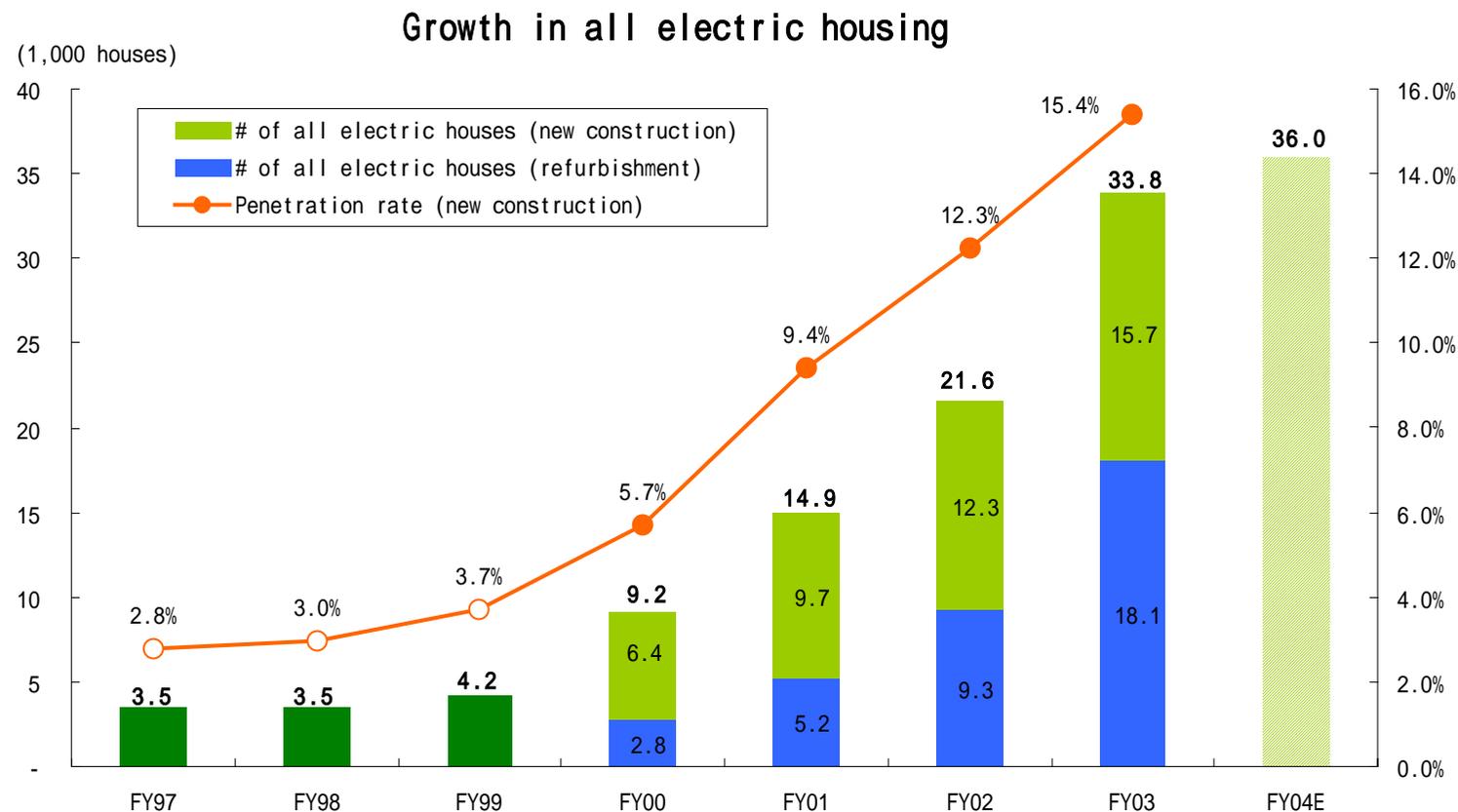
Measures to take to prepare for coming potential deregulation



Sales expansion strategy (promoting all electric housing)

All electric housing has steadily increased alongside new constructions as well as home refurbishments

- Achieved 33,796 units in FY2003, which sufficiently surpassed the targeted 24,000
- FY2004 target has been set 36,000 that should bring estimated additional sales of 80 GWh per year
- We aim for 500,000 of accumulated total number of all electric houses by FY2010 (172,879 as of end FY2003)



- <Main efforts>
- 1) Propose all electric housing to those who use other energy sources
 - 2) Step up tieups with home electric appliance manufacturers, housing makers and others.
 - 3) Provide opportunities for people to experience all electric housing through exhibitions or cooking classes using IH cooking heaters.
 - 4) Improve recognition and understanding of all electric lifestyles through providing software enabling trial calculation of heating and electricity charges.
 - 5) Introduce a loan program for all electric houses through tieups with local financial institutions.

Expansion of gas business

Market gas and liquefied natural gas (LNG) through Kitakyushu LNG and Oita LNG
Generated profit in FY2003

(1) Gas sales

Customer	Transportation method	Shipping base	Start of sales	Sales Volume for FY2003
Saibu Gas	Pipeline	Kitakyushu	July 1986	Approx. 30,000 t
Oita Gas	Pipeline	Oita	March 1992	Residential: Approx. 20,000 t Industrial: Approx 10,000 t * ¹

(2) LNG sales

Customer	Transportation method	Shipping base	Start of sales	Sales Volume for FY2003
Shikoku Gas/ Okayama Gas	Coastwise vessel	Kitakyushu	August 2003	Approx. 10,000 t
Chikushi Gas/ Nogata Gas * ²	Tank truck	Kitakyushu	Chikushi Gas: February 2002 Nogata Gas: January 2003	Residential: Approx. 2,000 t Industrial (Chikushi Gas): Approx. 4,000 t * ¹

*¹ Including sales to 4 industry-scale utility customers

*² Marketed by Kitakyushu LNG Lorry Sales established by Kitakyushu LNG, Nippon Steel and Japan Petroleum Exploration

Overseas business

Overseas Business Strategy

- Utilize our business know-how acquired in the domestic field to expand profit-earning opportunities for company-wide operations
- Learn business operation and feedback to the strategies under the electric power deregulation in Japan
- Major target areas are Asia and North and Central America

Revenue Forecasts

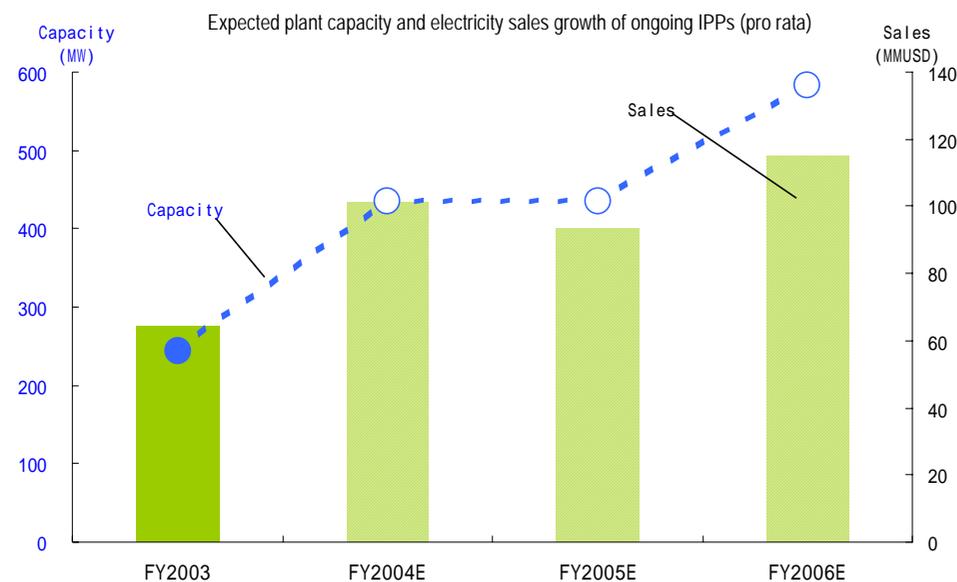
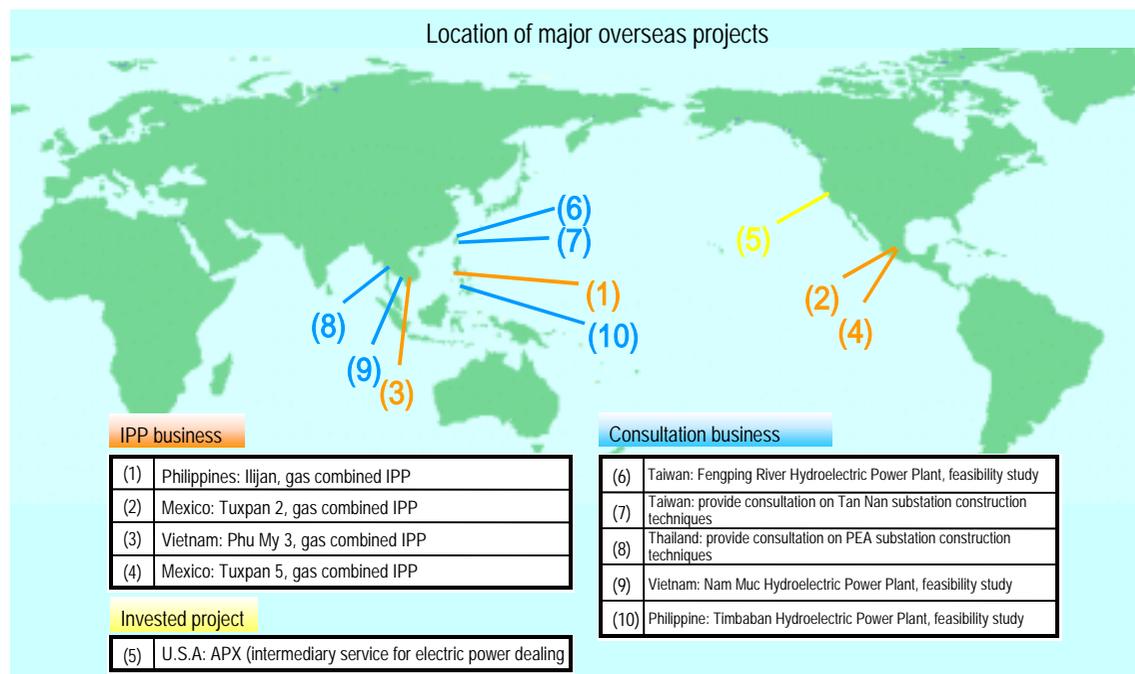
- Revenues of dividends expected from FY2004
- Revenues from ongoing projects expected over ¥1 billion by FY2008

Risk Control

- Reduce risks by obtaining government guarantees and overseas investment insurance
- Reduce operation risks by providing our technical capabilities

Objective for Future Development

- Continuously focus on IPP businesses and consultation services
- As for IPP, focus on fine existing projects in Asian countries and good new/existing projects in North America



IT/Telecommunications business

Positioning in Group and Strategy

- Reinforcing our IT/Telecommunication business as a second core project of Kyushu Electric Power Group with improvement of QNet as the center pillar company
- The Group is implementing intensive promotion of new businesses such as broadband and IT total solution in addition to present lease line and fixed-line telephone services

Improving profitability of IT/Telecom business segment on consolidation basis

- Aiming for a profit for IT/Telecom segment in FY2006

Specific actions taken at QNet to improve profitability

- Business situations and approaches
 - (1) “Kyushu Denwa” (fixed-line telephone service): No additional capex necessary. Focusing on B-to-B marketing for larger profit
 - (2) “BBIQ” (broadband service): 25 thousand active accounts as of FY2003 end. Implementing intensive promotion utilizing the Group’s resources to acquire 80 thousand accounts as a top priority
 - (3) IP telephone service: Proactively taking advantage of the growing market
 - (4) Lease line service: Cutting costs further to remain profitable in shrinking market
- Reinforcement of sales forces
 - (1) Established a new promotion division to integrate sales departments to better meet customer needs
 - (2) Increased the number of sales representatives from 96 to 130 for B-to-B promotion
- QNet aims for a profit in FY2004

Dividend policy

Our dividend policy

- Prioritize repaying the interest-bearing debt to reduce financial risks and to strengthen the balance sheet
- Continue the distribution of current ¥50 dividends, but will discuss further possibility taking account of mid/long term business forecasts after the current mid-term financial targets are achieved

Usage of free cash flow according to current Midterm Management Plan

FY2002 to FY2006: Over ¥120 billion average annual FCF

Reduction of interest-bearing debts:
Average ¥90 billion

Dividends:
Average ¥24 billion

Investment in new business:
Average ¥6 billion

Statements made in this overview of operations regarding Kyushu Electric Power's strategies and forecasts and other statements that are not historical facts are forward-looking statements based on management's assumptions and beliefs in lights 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.

<For further information>

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