

# Business Update

November 12, 2008



**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 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.**

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# Business Environment

Mid-term Management Policy  
(Established March 2005)

## 《Current Business Environment》

### 【Tighten Energy Demand · Escalated Fuel Prices】

- Due to an increase in energy demand and rising recourse nationalism
  - Tighten demand for natural gas, environmentally preferred resource
  - Rising demand for uranium supported by increasing construction of nuclear power stations in China and USA

### 【Increasingly Uncertain Global Economy Trend】

- Affected by volatile financial situation

### 【Rising Awareness on Global Environmental Issues】

- < Kyoto Protocol >
  - Reduce greenhouse gas emission by 6% from 1990 level in 2008-2012
- < Fukuda Vision >
  - Cut worldwide CO<sub>2</sub> emission by half by 2050
  - Cut domestic emission by 60-80% from current level by 2050

## 《Impact and Response》

### =Rate Revision to Reflect Fuel Price Trend=

- Sept 2008 Rate Revision
- Jan-March 2009 Special measures to reduce impact of fuel prices on electricity bills
- \*Future fuel cost adjustment system is currently under government's nationwide discussion

### =Worse Financial Condition due to Fuel Cost=

- FY2008 Ordinary Loss ¥15B (Non-consolidated)

### =Impact on Economy in Kyushu=

- Worse global economy, slump in export-related sectors affected by the appreciation of yen, impact on economy in Kyushu

### =Promotion of Nuclear Power Generation=

- High utilization rate of nuclear power stations
- Measures to build new unit at Sendai NPS

### =Improvement of Thermal Power Efficiency=

### =Introduction of Renewable Energy=

- Sept 2008 Announcement of Mega-solar power development
- Oct 2008 Start operation of Nagashima Wind Power Station

# Long-term Management Vision

Drastic Changes in Business Environment

## Characteristics of Utility Business

- Electric facility formation requires extremely long term like 20-30 years to build large-scale power sources and core transmission facilities
- Establishing personnel basis also requires decades to settle operational organization and succession of technical expertise

Due to those unique factors, 30 years-ahead responses in facility issues and 10 years-ahead in personnel are necessary

## Business Environment over next 30 years

### 《External Factor》

- Increasing importance of energy security
- Increasing awareness of global environmental issues
- Low birthrates and aging population, diverse values
- Fiercer competition in electricity/energy market and changing demand formation

### 《Internal Factor》

- Aged facilities
- Visible challenges on personnel issues

## Purpose of Establishing Long-term Management Vision

To realize Kyushu Electric Power's Mission, establish the long-term management direction, highlight the urgent challenges which need immediate responses, and enhance the measures to work on the challenges

## Management Direction (To Achieve Kyushu Electric Power's Mission)

Even in the midst of a significantly changing management environment, where we face issues such as energy security and the global environment, we are working to achieve Kyushu Electric Power's mission, providing value to all of our stakeholders by producing environmentally-friendly power and continuing to ensure a stable supply of energy.

### Ensure a stable supply of environmentally-friendly energy

- We will continue to move forward aggressively on working toward nuclear power that is comprehensively superior in terms of stability of resource procurement, and environmental and economic factors; on expanding our use of recyclable energy; on improving energy efficiency and development of new technologies, and on a systematic upgrade of our older facilities given the potential for natural disasters of even greater scale.

### Think and move in tune with our customers and the community to build a sustainable society

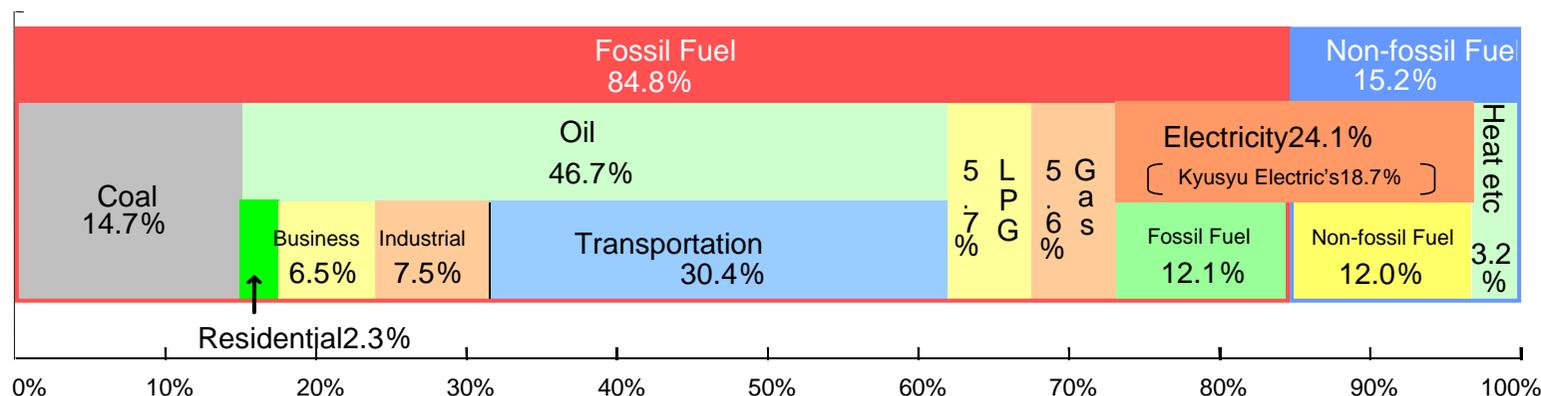
- In order to contribute to building a more sustainable society, the foundation of which is energy, we will work together with our customers and our communities, and with other energy businesses, in promoting conversion to non-fossil fuel energy alternatives and greater energy conservation, and toward a shift in the structure of energy throughout Kyushu.
- We will also keep a firm watch on Asia, which is undergoing dramatic economic growth, and on other global developments, using the technology and experience we have cultivated to ensure greater efficiency, a stable supply of energy in the countries and communities in which we do business, and contributing to a global reduction of CO<sub>2</sub>. At the same time, we will work towards building social and live services business that are meaningful to the community.

### Establish an organization and operational structure in which all employees, who are the foundation of our business, can experience growth and satisfaction in their work.

- As the labor force continues to decline with the falling birthrate and aging population, we will continue to address the variety of issues we face, including securing personnel for Kyushu Electric Power and its group companies, the difficulty of ensuring that technology is passed on, and a growing imbalance in the age composition of our staff. We will establish an organization and operational structure under which every employee at Kyushu Electric Power and its group companies can experience personal growth and satisfaction in their work.

( Reference ) Final energy consumption in Kyushu by fuel type in FY2004

- Among final energy consumption in Kyushu, currently 85% are from fossil fuel. To secure energy supply and response to global environmental issues, it is necessary to reduce the share of the consumption of fossil fuel.



【 Final Energy Consumption ( FY2004 compared with FY1994 )】

	FY1994	FY2004	Annual growth rate
Final Consumption Rate ( PJ )	1,459	1,547	0.6%
Actual GDP ( Billion yen )	43,735	46,486	0.6%
Kyushu Electric's Electricity sales ( 100million kWh )	643	802	2.2%
	15.9%	18.7%	

(Note1) Final energy consumption excludes consumption as raw materials

(Note2) Actual GDP in FY1994 is adjusted to FY2004 standard

(Note3) □ shows Kyushu Electric's share in final energy consumption total

# Mid-term Management Policy

## Purpose of Mid-term Management Policy

While responding properly to challenges in the current drastically changing business environment, we will respond to energy and global environmental issues with mid to long term perspective.

### 【Challenges】

- (1) Toward long-term stable supply of electricity and responses to global environmental issues
- (2) Services that fulfill both comfortable and environmentally-friendly life of customers
- (3) Contribution on establishing sustainable society in Kyushu, Asia and the world
- (4) Toward solid financial basis to respond to changing circumstances
- (5) Personnel enhancement to attract next generation workforce

## Period and Positioning

【Period】 FY2009 – FY2011 (3 years)    【Position】 Period to start new measures  
in forward-looking viewpoint

## Future Business Development

- Active development of environmentally-friendly energy business
  - 《Kyushu》 As a responsible utility company in Kyushu, we will actively work on energy and global environmental issues
  - 《Overseas》 By utilizing our own techniques and expertise, we will contribute to stable supply of energy and improvement of the efficiency in the countries/region we develop to, and also contribute to global CO<sub>2</sub> reduction
- Utilization of our own tangible and intangible management resources to develop socially meaningful lifestyle-oriented services

Business development based on its meanings in society, synergy effect with other businesses  
and valuation of its risk and profitability

# Measures on Energy and Environmental Issues

## 《Expansion of new energy introduction》

As a responsible utility company in Kyushu, we will actively work on energy and global environmental issues

### Introduction Target of New Energy

100 million kWh [ 10 thousand kW ]

	FY2007	FY2017 (target)
Wind	4 (25)	16 (100)
Solar	2 (30)	6 (100)
Biomass etc	6 (24)	6 ( 20)
New energy total	12 (79)	28 (220)

\* Figures includes purchases from other companies

### Mega-solar Development Project

Kyushu Electric's first mega-solar (large size solar power generation system) to be developed on the site of Minato Power Station in Omuta, Fukuoka pref.

With the capacity of 3,000kW, it will be the largest solar power facility in Kyushu.

#### [ Outline of Mega-solar Project on Minato Power Station Site ]

- Location : Omuta city, Fukuoka pref.
- Capacity : 3,000kW
- Annual output : 3,150MWh ( plan )
- Annual CO<sub>2</sub> reduction : 1,300 t (plan)
- Construction : Start in FY2009 (plan)
- Commencement : FY2010 (plan)

### Start Operation of Nagashima Wind Power Station

We established Nagashima Windhill Co., as a joint venture with Kyudenko Co., started construction of Nagashima Wind Power Station in October 2005, and started operation on October 1, 2008.

#### [ Outline of Nagashima Wind Power Station ]

- Location : Izumi-gun, Kagoshima pref.
- Capacity : 50,400kW (2,400kW × 21units)
- Annual output : 100million kWh [30thousand households worth] ( estimated )
- Annual CO<sub>2</sub> reduction : 40,000t (plan)

#### [ Outline of Nagashima Windhill Co., Ltd. ]

- Establishment : Dec. 20, 2004
- Capital : 490 million yen
- Shareholders : Kyushu Electric Power 86%、  
Kyudenko Corporation 14%

# Measures on Overseas Businesses

In energy business overseas, by utilizing technical expertise and knowledge we have accumulated, we seek to contribute to stable supply of electricity and efficiency improvement in the areas/countries we conduct businesses, and to the reduction of global CO<sub>2</sub> emission.

## Prioritized Measures

- Aggressively develop environmentally-friendly energy business including renewable energy and thermal efficiency improvement around the Asia.
- Investment/business activities based on the social meanings, synergy effects with domestic businesses and valuation of risk and profitability.
- Business development in view of long-term stable fuel procurement and the acquirement of CO<sub>2</sub> credits.

## Energy Conservation Consulting in China

July 2008: Commencement of Energy Conservation Improvement Project (ESCO business) at a glass factory in Shanghai, where Kyushu Electric has been conducting energy-conservation consultation.

### [ Outline of Project ]

- Project Name : ESCO business at Shanghai Koa Glass Co., Ltd.
- Contractor : Greenensign (Beijing) New Energy Technology Co., Ltd.  
(Kyushu Electric is engaged in project management contracted by Greenensign)
- Project Length : 3 years from July 2008

## Acquisition of Senoko Power Limited

September 2008, the consortium comprised of Marubeni Corp., Kansai Electric Power, Kyushu Electric Power, Japan Bank for International Cooperation and GDF Suez S. A. has reached the agreement to acquire all the shares of Senoko Power Limited, the largest power generation company in Singapore.

Sufficient profit stream is expected under stable business environment in Singapore. Also this will be a foothold to further develop businesses in South East Asia.

### [ Shareholding ]

Marubeni 30%, GDF Suez 30%, Kansai Electric 15%, Kyushu Electric 15%, JBIC 10%

### [ Outline of Senoko Power Limited ]

- Main Business : Power Generation
- Generation Capacity : 3,300 MW (Largest in Singapore)
- Number of Employees : 346
- Sales : 2.495 billion S\$ ( ¥199.6 billion )

\* Calculated as 1S\$=¥80

## Other Overseas Businesses

### I P P Projects

Project		Overview
Ongoing	Tuxpan IPP Project / Mexico	<ul style="list-style-type: none"> <li>• Output: 495MW gas-combined cycle. In cooperation with Mitsubishi Corp.</li> <li>• Started construction: Feb. 2000, Commenced operations: Dec. 2001</li> </ul>
	Tuxpan V IPP Project / Mexico	<ul style="list-style-type: none"> <li>• Output 495MW gas-combined cycle. In cooperation with Mitsubishi Corp.</li> <li>• Started construction: July 2004, Commenced operations: September 2006</li> </ul>
	Ilijan Gas IPP Project / Philippines	<ul style="list-style-type: none"> <li>• Output 1,200MW gas-combined cycle. In cooperation with Korea Electric Power, Mitsubishi Corporation, Tokyo Electric Power, and Marubeni Corporation.</li> <li>• Started construction: March 1999, Commenced operations; June 2002</li> </ul>
	Phu My Gas IPP Project / Vietnam	<ul style="list-style-type: none"> <li>• Output: 717MW gas combined cycle. In cooperation with BP (UK), Sembcorp (Singapore) and Sojitz Corporation.</li> <li>• Started construction: Dec. 2001, Commenced operations: March 2004</li> </ul>
Under Consideration	Sarulla Geothermal IPP / Indonesia	<ul style="list-style-type: none"> <li>• Output: 300MW, Planned to start partial operation in 2011 and full-scale operation in 2012.</li> </ul>
	Inner Mongolia Autonomous Wind Power IPP / China	<ul style="list-style-type: none"> <li>• Output: 50MW, Planned to start operation in 2009.</li> </ul>

### Consulting Projects

Ongoing	Taiwan Power's substation construction consulting	<ul style="list-style-type: none"> <li>• Bid for construction consulting for Taiwan Power's Tai Ma substation, Pu Ri substation and Gon Shue substation as a technical support for Chang Shing Electric Co., Ltd., a transformer manufacturer in Taiwan to manage drawings for design and technical consulting to support for site experiment.</li> </ul>
	Taiwan Power's coal-fired thermal power plant consulting	<ul style="list-style-type: none"> <li>• Joint bid with Sinotech Engineering Consultants, Ltd., a consulting firm in Taiwan. Consulting on renewal/expansion plan of Taiwan Power's Shenao Power Plant.</li> </ul>
	Feasibility study on the Erdenebuieren hydroelectric power plant in Mongolia	<ul style="list-style-type: none"> <li>• Joint bid with West Japan Engineering Consultants, Inc., Industrial Decisions, Inc. and MCS International Co., Ltd, a consulting firm in Mongolia</li> <li>• Conduct geological and environmental surveys, prepare power generation plan, conduct financial assessment, and evaluate feasibility of the development.</li> </ul>
	Energy conservation project for a spinning and weaving plant in Xi'an, China	<ul style="list-style-type: none"> <li>• A consortium of Kyushu Electric and Greenensign (Beijing) New Energy Technology Co., Ltd. won contracts for energy conservation consulting project from Five Rings (group) Shareholding Co., Ltd.</li> <li>• This project was designated as the 2<sup>nd</sup> Japan-China Energy Conservation and Environmental Business Promotion Model Project in September 2007 as it is expected to be a dissemination model in China.</li> </ul>

# (Reference 1) Philosophy, Vision, Policy and Plan

**Kyushu Electric Power's  
Mission**

【Period】 Permanent  
【Purpose】 Corporate philosophy · Permanent mission ·  
Bond and promises to customers and other stakeholders

**Long-term  
Management Vision**

【Period】 30 years (10 yrs for personnel/organizational )  
【Purpose】 Management direction in long-term standpoint

Object : To response to changes in business environment , to  
activate communication with stakeholders and to motivate  
employees

**Mid-term  
Management Policy**

【Period】 3 to 5 years  
【Purpose】 Management direction in detailed measures

To show direction in detailed measures to enhance steady  
steps toward challenges that need immediate actions based  
on long-term management vision while responding to current  
challenges properly.

**Mid-term Management Plan  
( Overview of Management Plan)**

【Period】 3 years ( Reviewed every year )  
【Purpose】 Actual plan based on Mid-tern management Policy

## (Reference2) Kyushu Electric Power's Mission

In accordance with the changing business environment surrounding Kyushu Electric Power Group, we have discussed how to strengthen our customers' trust in us, in the view of what would be a bond which we can share with our customers for a long term and established "Kyushu Electric Power's Mission" to replace our previous "Corporate Philosophy" in April 2007.

### Enlighten Our Future

Towards a comfortable and environment-friendly lifestyle today and for generations to come

To fulfill this mission, we are dedicated to achieving the following 4 goals:

1 **Steady and reliable, Earth-friendly energy.**

In order for our customers to lead harmonious lives we will provide steady and reliable, Earth-friendly energy, while anticipating global trends and making full use of our advanced technology and abundant experience with energy and the environment.

2 **Services that truly satisfy.**

We will offer services that place the gaining of trust from the customer as top priority. We would like to listen to the various voices of our customers in order to respond to their needs with services that truly satisfy.

3 **In company with Kyushu. And to Asia and the world.**

In company with the people of Kyushu, we will work together to take action while thinking of our children's future and of the prosperity of the region. And from there, we will look to Asia and the world.

4 **Discovering solutions, and putting them into practice.**

We will discover solutions that lead to a better tomorrow through honest, sincere and active discussions, believing in people's potential and mutually respecting personalities, and we will put these solutions into practice.

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