

3. Advancing Our Emergency Management Response

In response to the extremely difficult business environment, the Kyushu Electric Power Group will unite in making rigorous efficiency improvements in management, and in reducing costs. In this section, we respond to comments from stakeholders who want improved profitability from Kyushu Electric Power.

Comment from Stakeholders | “The mission of every power utility is to stably supply safe and affordable power, so I would like to see Kyushu Electric Power work to cut costs further.”

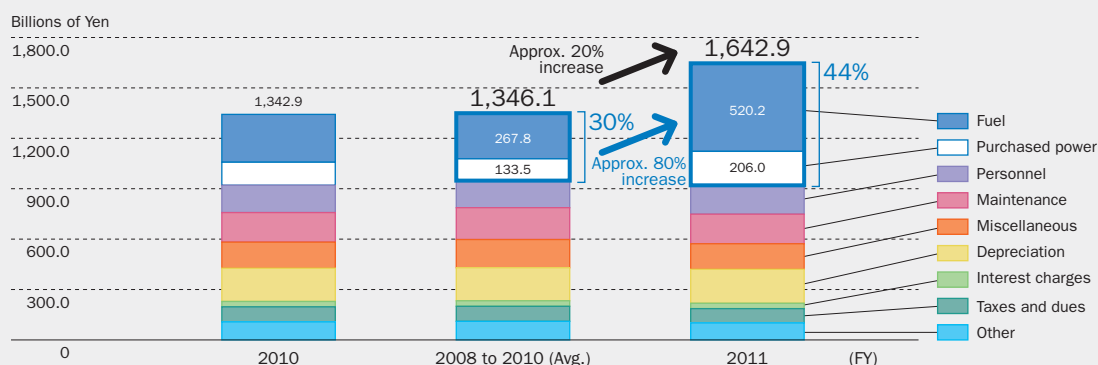
Supplemental Information

A number of factors, including delays in the resumption of nuclear power plant operations, triggered a jump in thermal power fuel costs in the year ended March 31, 2012 (fiscal 2011). This caused ordinary expenses (non-consolidated) to climb by roughly 20%, or around ¥300.0 billion, compared to the average for the years from fiscal 2008 to fiscal 2010. The increase was especially evident in costs for fuel and purchased power, which rose by approximately 80%, lifting the percentage of ordinary expenses accounted for by these items from 30% to 44%.

Maintenance costs in fiscal 2011 were largely unchanged from the previous fiscal year at ¥176.0 billion. Along with a review of the facility inspection and a maintenance checklist to enhance efficiency, we responded to rising fuel costs and other items by minimizing the suspension, deferral and scale of maintenance work performed. These and other efforts overcame the impact of measures needed for aging facilities and other factors that have been driving higher costs.

Miscellaneous costs declined ¥3.1 billion year on year to ¥152.0 billion. Greater overall operational efficiency was gained largely by means of reviewing systems development and the scope of subcontracting. Additionally, costs were lowered through assertive efforts to minimize the suspension, deferral and scale of costs, particularly for advertising promoting the spread and development of all-electric homes, subcontract fees, and research and development activities.

Ordinary Expenses (Non-consolidated)



How We Are Answering |

As an emergency management measure for fiscal 2012, the Group is working to achieve a ¥120 billion reduction in costs from last year's business plan.

Today, operations remain suspended at all of Kyushu Electric Power's nuclear power stations. Furthermore, the timetable for when operations will resume remains unclear. In this situation, several costs are nevertheless set to rise even further. In addition to greater thermal power fuel costs, these include an increase in the general dues payable to the Nuclear Damage Facilitation Fund and costs for nuclear safety measures, as well as higher interest charges accompanying an increase in bank loans. Consequently, the conditions for profitability are likely to become even more difficult going forward.

In consideration of increasing costs, the Group will work together to conduct sufficient risk analysis on expenses and investments; ensure safety, compliance with laws and regulations, and a stable power supply; and make thorough efficiency improvements and cost reductions, including carrying out short-term measures such as deferring expenses.

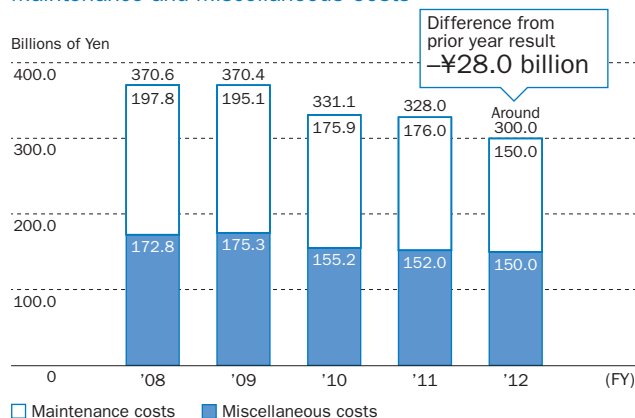
As an emergency management measure for fiscal 2012, the Group has been working to effect a ¥120 billion reduction from last year's business plan. We are both working steadily to achieve this reduction and we are also examining emergency management measures in more detail.

Overview of Fiscal 2012 Emergency Management Response

*Reduction represents the difference from the previous year's plan

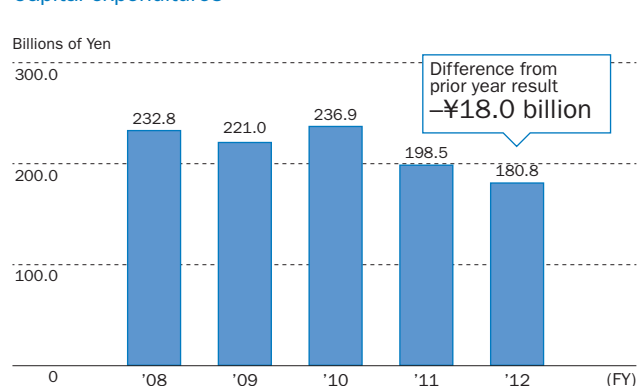
Category	Key Items and Reductions
Expenses	
Maintenance costs	•Cut or defer after evaluation of risk all items not related to safety or legal compliance, or that do not immediately impact supply stability (-¥35.0 billion)
Miscellaneous costs, others	•Cut miscellaneous costs, including subcontract fees, research and development costs, electricity sales-related expenses, advertising costs, training costs, donations, and industry-group membership fees •Cut executive compensation, review benefit packages, and reduce overtime work and other personnel costs •Cut transportation costs, reduce fuel costs by expanding purchase of heavy oil from overseas and adopting use of low-grade coal, and cut cost for power purchased from other companies (-¥20.0 billion)
Total costs	-¥55.0 billion
Investment	
Capital expenditures, others	•Cut or defer after evaluation of risk all items not related to safety or legal compliance, or that do not immediately impact supply stability •For other investments, defer all items not related to investment in upstream fuel interests, and make other efforts to safeguard supply capabilities
Total investment	-¥65.0 billion
Total reductions	-¥120.0 billion

Maintenance and Miscellaneous Costs



*Results for 2008 to 2011, plan for 2012

Capital expenditures



*Results for 2008 to 2011, plan for 2012