

## Interview with the President

**In our aim to become the corporate group that provides Japan's best energy services, we strive to continuously enhance our corporate value.**

**Michiaki Uriu**  
President





**Q** Could you provide an overall review of fiscal 2014?

**A** **We put forth a groupwide effort amid difficult supply–demand and revenue–expense conditions. Working one step at a time, we also made steady progress toward the resumption of operations at our nuclear power stations.**

As the suspension of operations at our nuclear power stations lengthened, in fiscal 2014 our supply–demand, revenue–expense and financial conditions remained problematic.

Regarding supply–demand, since the Great East Japan Earthquake in the winter of 2011, we have continued to ask for our customers' cooperation in efforts to save electricity. In fiscal 2014, as well, we continued to call for efforts to conserve electricity wherever not essential to protect life and health, as well as industrial and economic activity, seriously inconveniencing our customers. Through their cooperation in conserving electricity, purchases from other electric utilities, market procurement and a host of other supply efforts, we succeeded in riding out the circumstances.

We responded to the difficult revenue–expense and financial conditions by stabilizing management through an increase in equity capital. To this end, in August 2014 we issued ¥100 billion in Class A preferred shares to the Development Bank of Japan through a third-party allotment. To improve the revenue–expense situation, we temporarily deferred short-term repairs,

introduced efforts to enhance overall management efficiency and sought to thoroughly reduce costs. Despite these efforts, the ballooning cost of fuel for thermal power generation in the face of a complete suspension of nuclear power operations led us to post a net loss for the fourth consecutive fiscal year, and we forewent dividends for the third straight year. I would like to offer my heartfelt apologies to our shareholders for this situation.

The only way to resolve the tight supply and demand situation and fix our financial condition is to restart the nuclear power stations. We applied in July 2013 for an inspection of Sendai Units 1 and 2 and Genkai Units 3 and 4 for compliance with the new regulatory standards, and have been handling conferences and hearings with the Nuclear Regulation Authority, as well as on-site inspections, with the utmost seriousness.

In September 2015, we resumed commercial operations at Sendai Unit 1. We are pouring all our energies into recommencing operations at Sendai Unit 2 and Genkai Units 3 and 4 to alleviate the tight supply and demand situation and stabilize our financial conditions.

**Q** Please share with us your feelings about recommencing commercial operations at Unit 1 of the Sendai Nuclear Power Plant.

**A** This is the first time in four years for the plant to be operational. All the people involved are moving forward earnestly and with a strong sense of urgency to get the station back on a commercially operational footing.

In August 2015, Sendai Unit 1 began the first plant in Japan since the Great East Japan Earthquake to comply with the new regulatory standards, resuming commercial operations in September.

The power system moves in parallel with the stations, so it was with a profound sense of happiness that I witnessed the numerical results of the power from the unit coming back on line.

It is still too early to relax, however. We were only able to overcome the tight supply and demand situation by repeatedly imploring our customers to save electricity, and the situation will only begin to normalize once we have four units operational: Sendai Units 1 and 2 and Genkai Units 3 and 4.

The Basic Energy Plan set by the Cabinet Office in April 2014 sets the Nuclear Regulation Authority the task of confirming that nuclear power stations meet some of the world's most stringent regulatory standards in order

to recommence operations. Given resource-poor Japan's low energy self-sufficiency rate and global environmental conditions, I believe that nuclear power generation will remain necessary.

We have resolved never to allow an accident such as that which occurred at the Fukushima Daiichi plant. Accordingly, we are working on an ongoing basis to improve safety and reliability and complying earnestly and meticulously with national government inspections as we move toward the restart of operations at other plants where operations have been suspended.

→ Please see the Special Feature (pages 25–31) for details.



**Q** The Group announced its new Medium-Term Management Policy in April 2015. Please describe some of your long-term management directions under this Medium-Term Management Policy.

**A** We will aim to become a corporate group that provides Japan's best energy services and achieve sustainable increases in corporate value.

Fiscal 2015 will be an extremely important year, as it will be the stage of preparing for the full-scale liberalization of electricity retailing in fiscal 2016. At this important juncture, we decided it was necessary to define our new management direction, so we formulated the Kyushu Electric Group Medium-Term Management Policy.

This policy outlines our objectives for working together as a Group on business initiatives and achieving sustainable increases in corporate value. It defines our "Vision for 2030" and our three strategic pillars for realizing this vision.

Specifically, by 2030 we are aiming to become a corporate group that provides Japan's best energy services with the theme that "everyone eventually asks the Kyuden Group for energy."

Our first strategic pillar is to evolve as a "corporate group that provides energy services" for Kyushu, including gas as well as electricity. Taking customers' energy needs into account, we will develop in tandem with the region and society. As one aspect of these activities, we are considering specific measures for a full-fledged entry into the gas business.

Second, we will develop in growth fields. We will push forward with electric power development in the Tokyo metropolitan area and step up our overseas business, centering on Asia. In the renewable energy business, taking supply stability and environmental impact into consideration, we will proactively develop our operations in Japan and overseas in the areas of geothermal and hydro power.

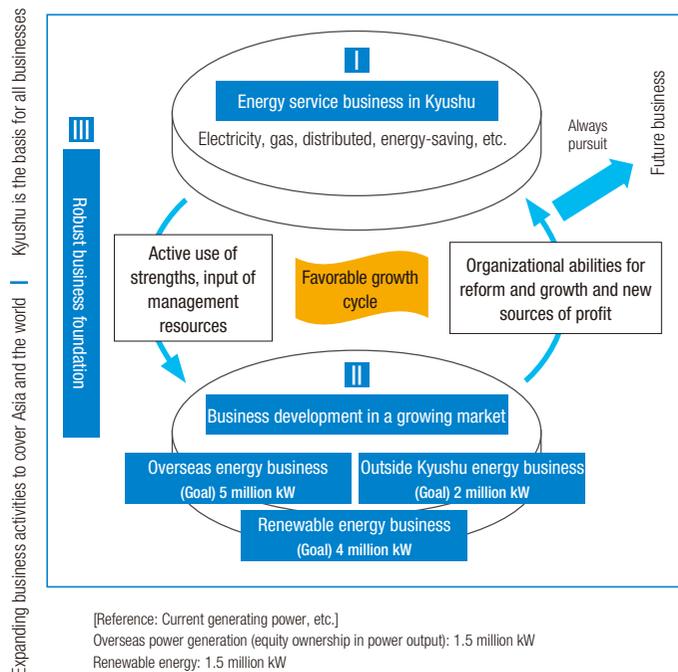
Third, we will enhance the organizational strength required to implement strategies for establishing a robust business foundation.

With regard to the electric utility operating environment, we understand that we will not be able to turn back the clock to the days before the March 11 disaster even if our nuclear power plants restart. Reforms to the electric power system are underway, and we recognize that further changes and competition are certain to occur.

Rather than fear change and competition, the Kyushu Electric Power Group views them as positive opportunities. We will set our sights on further growth and development as we work to remain a reliable company of choice for our stakeholders.

→ For details, please refer to the Medium-Term Management Policy section (pages 7–14).

### Direction of Future Strategy



**Q** An Electricity Business Act reform measure has been passed, calling for the separation of the distribution sector as part of the electricity system reforms. How should this be interpreted?

**A** We will do everything we can to ensure that this reform is to the benefit of our customers.

The passing of the Electricity Business Act reform bill in June 2015 determined the legal unbundling of the transmission/distribution sector from April 2020.

An inexpensive and stable supply of electricity is fundamental to the life of Japan's citizens and industrial activity. Accordingly, as in the past we will do everything we can to maximize our cooperation with electricity system reforms

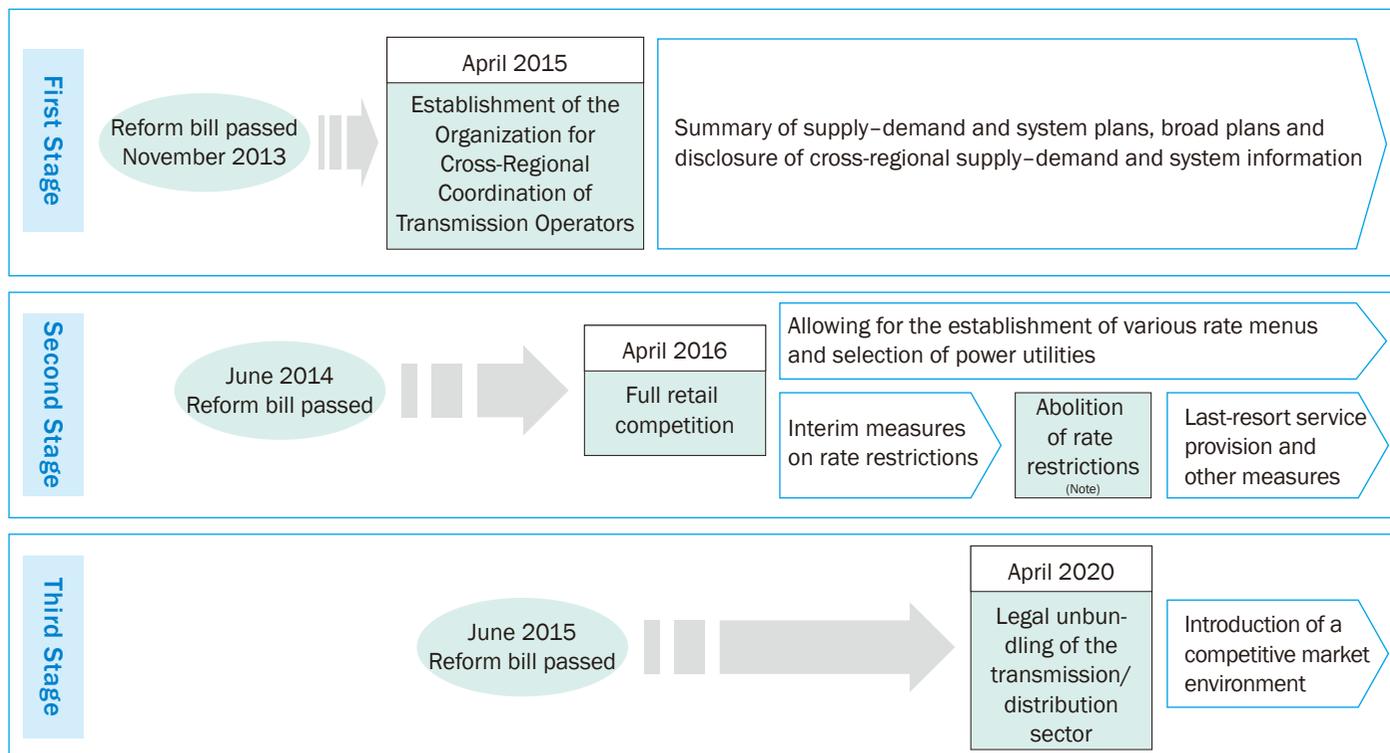
to benefit our customers.

We will respond appropriately to the changes in our operating environment resulting from future electricity system reforms as we develop our business and strive to remain the reliable energy supplier of our choice to our customers, as well as a "strong and supple company."

### Overview of the Electric Power System

The reforms are divided into three stages: (1) the establishment of the Organization for Cross-Regional Coordination of Transmission Operators, (2) full retail competition and (3) legal unbundling of the transmission/distribution sector. Due consideration is being given and the necessary measures implemented at each stage.

### Submission of Reform Bills at Each Stage and the Periods of Reform Implementation



(Note) The timing for the abolition of rate restrictions is to be determined based on the electricity market, operating environment, competitive conditions and other factors.

**Q** Please describe the results of efforts to improve management efficiency in fiscal 2014 and your forecast for fiscal 2015.

**A** In fiscal 2014, in addition to planned cuts of ¥135.0 billion through efficiency improvements, we achieved cuts of ¥179.0 billion mainly on a short-term basis, for a total reduction of ¥314.0 billion. We plan to continue our efficiency improvement efforts in fiscal 2015.

During fiscal 2014, we undertook constant and steady streamlining efforts, including making deep cuts in material procurement costs, to alleviate the difficult financial circumstances stemming from the closure of all our nuclear power stations. While ensuring safety and legal compliance and preventing supply stability from being affected, we did everything we could to reduce short-term costs by temporarily delaying inspections and construction activities.

As a result, in addition to planned cuts of ¥135.0 billion we had announced our intention of making by improving management efficiency, we also achieved reductions of ¥179.0 billion centered on short-term initiatives. In all, we succeeded in slashing costs by ¥314.0 billion.

We also sought to address the problematic revenue–expense and

financial condition by selling off assets where possible. These efforts led to cumulative sales of ¥84.3 billion for fiscal 2013 and fiscal 2014.

In April 2013, we announced a management efficiency enhancement plan to achieve a “three-year average of ¥140 billion in cuts.” Our plans for fiscal 2015 incorporate cost reductions of ¥153.0 billion through efficiency improvements. Although spending will need to increase to conduct the repairs temporarily delayed from fiscal 2013 and 2014, we expect to achieve this objective.

With regard to asset sales, we will continue working to sell off as many assets as possible that are not directly related to the operation of our electricity business, such as company housing sites.

### Status of Operational Streamlining Initiatives

Item	Planned Efficiency Improvements for Fiscal 2015	Fiscal 2014 streamlining initiative results [A] + [B]	Cost of streamlining factored into electricity rate costs (2014 only) [A]	Streamlining efforts (2014 only) [B]	(Billions of yen)
					Cost of streamlining factored into electricity rate costs (2013–2015 average)
Maintenance costs	-28.0	-98.0	-23.0	-75.0	-32.0
Miscellaneous costs, etc.	-22.0	-71.0	-21.0	-50.0	-22.0
Personnel costs	-51.0	-37.0	-44.0	7.0	-48.0
Fuel costs, cost of electricity purchases	-22.0* <sup>1</sup>	-74.0* <sup>2</sup>	-25.0	-49.0	-18.0
Depreciation expenses (capital expenditure)	-30.0	-34.0	-22.0	-12.0	-23.0
Total [Excluding fuel costs and the cost of purchased power]	-153.0 [-131.0]	-314.0 [-240.0]	-135.0 [-110.0]	-179.0 [-130.0]	Reduction of around ¥14.0 billion

\*1 Reference values incorporate rate costs and assume a nuclear power utilization rate of 66%.

\*2 Nuclear power was not operational in fiscal 2014, so the supply–demand balance is a preliminary calculation that differs substantially from rate costs.

### Results of Asset Sales

Item	Sales results (2014)	Sales results* <sup>3</sup> (total for 2013 and 2014) A+B	Sales plan upon receipt of acceptance to raise the rate cost (2013–2015) A	(Billions of yen)
				Streamlining effect B
Property	10.2 (9.8)	41.9 (36.9)	10.0	31.9
Available-for-sale securities	0.3 (0.1)	42.4 (30.3)	4.0	38.4
Total	10.5 (9.9)	84.3 (67.2)	14.0	70.3

\*3 Figures in parentheses indicate gains on sales.

**Q** The rapid proliferation of renewable energy was a hot topic in fiscal 2014. Could you describe your stance on the future development and introduction of renewable energy?

**A** As a Group, we will develop and introduce renewable energy to the best of our capabilities.

Solar, wind, biomass, hydro, geothermal and other forms of renewable energy are examples of domestically produced energy. They are also excellent sources of power for countering global warming. Accordingly, we remain unchanged in our dedication to working together as a group to develop and introduce renewable energy to the best of our capabilities.

However, since the introduction of the feed-in tariff power purchase and sale system the environment surrounding renewable energy has changed due to the rapid proliferation of solar generation. In line with this sharp expansion, we recognized that ensuring a stable supply of electricity could potentially become difficult. Accordingly, in September 2015 we held off on responding to applications to connect renewable energy suppliers to the grid, needing to consider our connection capacity in the aim of maximizing the introduction of renewable energy. After considering our connection capacity, we were named

a designated electric utility. In line with the promulgation and enactment of revised legislation, we are currently responding successively on applications on which considerations have been completed, and we are responding to grid connections in accordance with nationwide rules.

Based on the condition of ensuring a stable supply of electricity, in keeping with the intent of the legislative reform concerning the revised operation of the feed-in tariff power purchase and sale system and taking into account the characteristics of different renewable energy sources we will work to maximize the balanced development of renewable energy.

In the renewable energy business, which is a growing global market, we will leverage the technologies and expertise we have accumulated to date to proactively develop this business both within and outside Japan, concentrating on geothermal and hydro power.

#### Status of Renewable Energy Applications on the Kyushu Mainland (Excluding Isolated Islands, Including for Kyushu Electric) (As of March 31, 2015)

(Thousands of kW)

	Solar	Wind	Biomass, etc.	Hydro (excluding from pumped hydroelectric storage)	Geothermal	Total
Applications under ongoing consideration	4,790	160	90	50	30	5,130
Applications under ongoing agreements	4,910	200	10	60	3	5,180
Related approvals received	3,570	120	40	10	10	3,770
Connected	4,660	460	270	1,830	210	7,440
Total	17,930	950	410	1,950	260	21,500

Notes: Totals may not match exactly because figures have been rounded.  
Cold energy is included in biomass.  
Connectable volume: Solar 8,170,000 kW, wind 1,000,000 kW

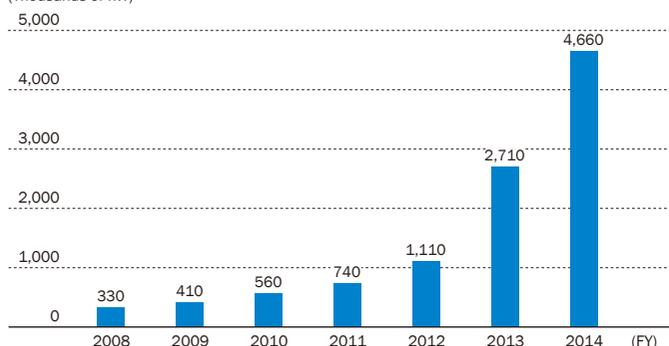
#### Kyushu Electric's (Excluding Isolated Islands, Including Group Companies) Renewable Energy Connection Status (As of March 31, 2015)

(Thousands of kW)

	Solar	Wind	Biomass, etc.	Hydro (excluding from pumped hydroelectric storage)	Geothermal	Total
Connected	40	70	40	1,280	210	1,640

#### Solar Power Connection Volumes on the Kyushu Mainland (Excluding Isolated Islands)

(Thousands of kW)



■ As of March 31, 2015, the renewable energy application status for Kyushu (excluding isolated islands) amounted to 21,500,000 kW (of which solar was 17,930,000 kW). Of this figure, the already-connected portion totaled 7,440,000 kW (of which solar was 4,660,000 kW).

■ As the connection application volume exceeded the connectable volume (8,170,000 kW) on December 22, 2014, the Company was named a designated electric utility\* for solar power.

■ As of December 31, 2014, the total output of connected plants and plants for which connections have been approved had reached the connectable volume.

\* By being named a designated electric utility by the national government, Kyushu Electric is able to request suspension of power output without compensation for up to 30 days per year for applications received after the date on which the total of connected plants and plants for which connections have been approved exceed the connectable volume.

**Q** The Corporate Governance Code, outlining basic principles on corporate governance, went into effect on June 1, 2015. What has been your response?

**A** We are making proactive efforts to reinforce corporate governance to achieve sustainable growth and medium- to long-term increases in corporate value.

We are working to reinforce corporate governance, which we recognize as an important management issue. In the past, we have appointed highly independent external directors to enhance the management supervisory function and undertaken efforts to ensure the effectiveness of audits by corporate auditors by enhancing coordination with the internal auditing body.

We understand the principal thrust of the recently enacted Corporate Governance Code to hinge on enhancing the speed and effectiveness of decision-making with the aim of ensuring sustainable growth and medium- to long-term increases in corporate value, and we are undertaking proactive initiatives in this regard. In June 2015, we appointed two external directors, one more than previously.

We have set up an internal team to consider our response to the code, and their efforts are focused on initiatives targeting all 73 items of the code, including its general principles, principles and supplementary principles.

We plan to issue a corporate governance report in December 2015 outlining our initiatives in response to the code. However, this is an ongoing medium- to long-term initiative that we will continue to consider even after submitting this report.

→ Please see Corporate Governance (pages 33–34) and the Interview with External Directors (pages 35–36) for details.

**Q** Please outline your stance on dividends.

**A** In order to resume dividends as soon as possible, we are undertaking thorough management streamlining and striving to recommence operations at our nuclear power stations as quickly as possible.

We make dividend decisions by taking into overall account our medium- to long-term forecasts of revenues/expenses and financial condition, as well as the balance among all of our stakeholders.

Given that operations at our nuclear power stations were suspended in fiscal 2014, thermal generation and other fuel costs ballooned, resulting in a net loss for the year of ¥119.0 billion for Kyushu Electric on a non-consolidated basis. As a result, we made the decision to forego dividends.

Because we expect severe financial conditions to persist in fiscal 2015, we expect to pay no interim dividends on common stock or Class A preferred shares. I offer my deepest apologies to our shareholders for this situation.

We aim to resume dividend payments as soon as possible. To allow this, we are stepping up thorough management streamlining efforts and doing our utmost to restart operations at our nuclear power stations as the earliest possible date.