

## Interview with the President



**We are continuing this fiscal year to make a concerted companywide effort to deal with the serious matter of restarting our nuclear reactors, to stabilize the supply and demand of power as well as our finances.**

**Michiaki Uriu**  
President

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**Q** What are your general thoughts looking back on fiscal 2013?

**A** It was a difficult year for everyone, and not one to be proud of.

The tight supply and demand situation caused by the ongoing closure of all of our nuclear power plants as well as the deterioration of revenues and expenses and financial condition in fiscal 2013 created problems for our customers, shareholders and investors, so it was not a year of which we can be proud.

We have been continuously asking our customers to conserve power since the winter of 2011 to help deal with the power supply and demand tightness, and even though there were no preparations or numerical targets for planned blackouts in the winter or summer of fiscal 2013, this has nonetheless been a serious inconvenience for them. We took measures that sometimes appeared desperate, such as asking customers to conserve power, borrowing from other power companies and buying power on the market, and have persevered somehow by maintaining our ability to supply power.

We have responded to the rapid deterioration of revenues and expenses

and our financial condition by raising rates and implementing deep streamlining measures, but the cost of fuel for the thermal power that replaces the power generated by the nuclear plants, which have been closed longer than we expected, has risen. This has resulted not only in being in the red for three consecutive fiscal years, but also in an inability to pay dividends for two years in a row, for which I would like to offer my heartfelt apologies to our shareholders.

The only way to resolve the tight supply and demand situation and fix our financial condition is to restart the nuclear power plants. We applied in July 2013 for an inspection of Sendai (Units 1 & 2) and Genkai (Units 3 & 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.

**Q** What is the background of the issuance of Class A preferred stock, and what is your stance concerning returns to regular shareholders?

**A** We issued ¥100 billion in preferred stock to underpin our finances. We are doing everything possible to improve revenues and expenses during the period to resume dividend payments as soon as we can.

Our company has experienced accelerating damage to shareholders' equity due to the posting of a net loss for the three consecutive years since fiscal 2011 as the shutdown of the nuclear plants has evolved into a long-term issue. Taking this into account, in order to fulfill our obligations as a responsible energy producer we determined that it is both necessary and appropriate to seek to increase equity capital as we secure the funds necessary to the stable supply of power by procuring funds that are capital in nature. Therefore, we have issued preferred stock by way of third-party allotment to the Development Bank of Japan.

The preferred stock in this instance cannot be transferred to common stock, and because it is so-called "corporate bond"-type preferred stock, which does not confer General Meeting of Shareholders voting rights, it does not cause dilution of common stock.

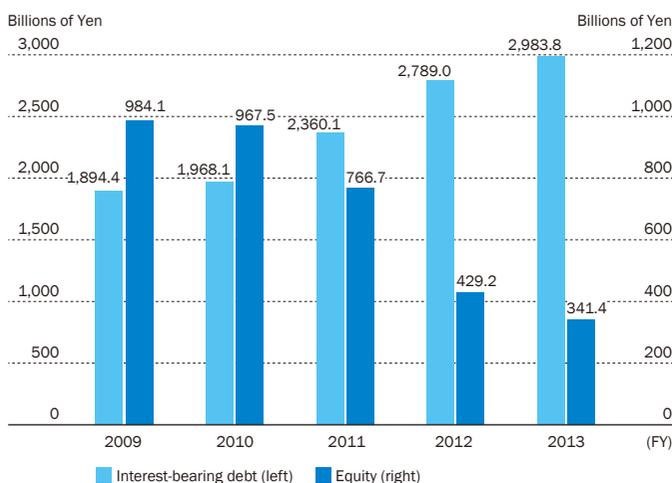
In addition, our basic policy of maintaining stable dividends has not changed, and we will make our determinations about future dividends based on considerations of the proper balance among our stakeholders in addition to revenue forecasts and our financial condition. From our perspective,

after having gone two consecutive fiscal years without offering a dividend we would like to return to offering dividends, even reduced dividends, as soon as possible. Our ability to do so depends first of all on rationalizing our operations and restarting our nuclear plants for better revenues and expenditures.

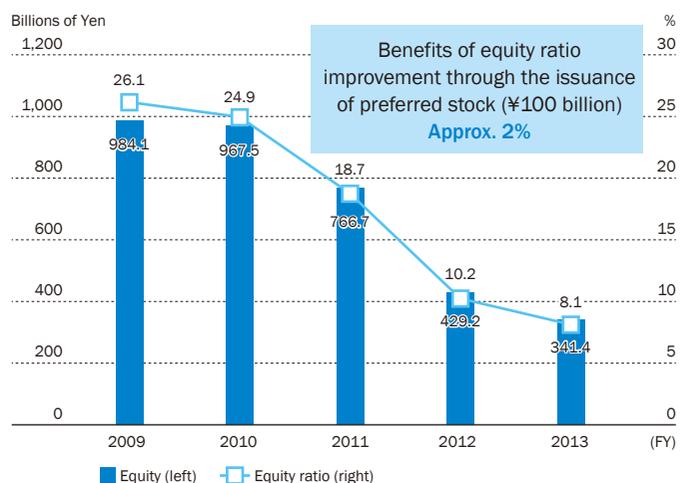
#### Outline of Issuance of Preferred Stock

1. Issuance date	August 1, 2014
2. Class and number of new shares issued	1,000 shares of Class A preferred stock
3. Issue price	¥100 million per share
4. Total amount of the issue price	¥100 billion
5. Preferred dividend	¥3.5 million per share
6. Way of offering	Third-party allotment to the Development Bank of Japan Inc.
7. Uses of proceeds	Proceeds planned to be used entirely for construction to enhance the safety of the Company's nuclear power plants

#### Interest-Bearing Debt and Equity (Nonconsolidated)



#### Equity and Equity Ratio (Nonconsolidated)



**Q** Kyushu Electric Power announced “Voluntary continuous nuclear power safety improvements”<sup>\*</sup> in June of this year. Please give us your thoughts as company president on renewed nuclear power safety improvements.

<sup>\*</sup> For details, please refer to the Special Report on safety efforts at nuclear power plants on page 16.

**A** **Nuclear power risk is our top operational priority, and we aim at always maintaining the world’s highest safety standards.**

We have always been aware of the risks of nuclear power, and have worked to assure its safety. Nevertheless, since the Fukushima incident even we have found it necessary to make greater preparations for the highly unpredictable occurrence of natural phenomena, and engage in nuclear power risk management with even greater awareness of the importance of improving nuclear power safety. Based upon this awareness, I have instructed our employees to proceed with efforts founded on the following four pillars of our Quality Directive:

- (1) Ongoing cultivation of a corporate culture in which nuclear power safety is the top priority;
- (2) Voluntary and continuous efforts to improve safety and reliability;
- (3) Fulfill our duty to inform the public by taking the initiative in providing information;
- (4) Create an organizational climate conducive to openness within Kyushu Electric Power and with our partners.

Everyone at Kyushu Electric Power, including myself, is aware that nuclear power safety efforts constitute a never-ending process. Through the accumulated effect of daily efforts to reduce risk engaged in autonomously and continuously by Kyushu Electric Power together with our partners, we will strive to earn the trust and ensure the ongoing peace of mind of our customers.



## Q What is the status of your streamlining efforts?

### A We are taking it to the limit as power professionals, narrowing operations down to the necessary and essential.

When we raised rates in the spring of 2013, we also embarked on streamlining efforts aimed at cutting costs by ¥140 billion.

Our nuclear plants remained shut in fiscal 2013, making our operations more difficult than ever before, so in addition to our constant streamlining efforts we are cutting costs on a limited short-term basis, for example by temporarily deferring maintenance and miscellaneous costs, and selling such assets as we can.

As a result, in addition to cuts, mainly those of a limited short-term basis, amounting to ¥110 billion, we have also cut other costs by ¥250 billion, and sold assets of around ¥70 billion.

[Examples of constant efforts]

- Control maintenance and facility investment costs through careful examination of the actual state and operation of individual equipment
- Review scope and details of subcontracting and cut miscellaneous costs by streamlining work overall
- Cut materials procurement costs by increasing competitive ordering and reviewing specifications and work methods

[Examples of limited short-term basis efforts]

- In principle, cease any items not immediately necessary to safety and legal compliance or business continuity, reducing the scope of maintenance costs and miscellaneous costs by reducing scope, halting, or postponing execution

In fiscal 2014, we will continue efforts to achieve the “three-year average of ¥140 billion in cuts” announced in April of last year.

As in fiscal 2013, we plan to continue with our sales of assets, reexamining from various perspectives any assets for which sales gains can be forecast.

Given that the prospects for restarting the nuclear power plants remain unclear, we will continue to engage in thorough streamlining efforts.

#### Status of Operational Streamlining Initiatives

(Billions of yen)

Item	Cost of Streamlining Factored into the Electricity rate costs <Fiscal 2013–2015 average>	Fiscal 2013 streamlining initiative results	Fiscal 2013 main initiatives
Maintenance costs	-32.0	-108.0	<ul style="list-style-type: none"> <li>• Lengthening of inspection cycle</li> <li>• Temporarily suspend, defer and scale back repair work</li> </ul>
Miscellaneous costs, etc.	-22.0	-67.0	<ul style="list-style-type: none"> <li>• Review scope and details of subcontracting</li> <li>• Suspend, defer and reduce costs, including expansion and development expenses, group fees, and research and development costs.</li> <li>• Introduce and expand competition for orders by materials and construction vendors</li> </ul>
Personnel costs	-48.0	-48.0	<ul style="list-style-type: none"> <li>• Cut executive compensation and lower remuneration standards</li> <li>• Reduce base pay, and cut annual bonuses to zero</li> <li>• Review benefit packages</li> <li>• Curb recruitment</li> </ul>
Demand–supply related costs (fuel costs, etc.)	-18.0	[-40.0]*	<ul style="list-style-type: none"> <li>• Reduce procurement costs for fuels such as LNG and coal</li> <li>• Actively purchase power on the power trading market</li> </ul>
Depreciation (capital expenditure)	-23.0	-22.0	<ul style="list-style-type: none"> <li>• Review of design standards and specifications</li> <li>• Temporarily suspend, defer and scale back construction</li> <li>• Introduce and expand competition for orders by materials and construction vendors</li> </ul>
Total [Including demand–supply related costs]	[-140.0]	-245.0 [-285.0]	

\* Calculated based on certain assumptions because no nuclear power was available in fiscal 2013, resulting in a supply and demand balance that varied greatly from projected electricity rate costs.

**Q** Although you have already announced the Fiscal 2014 Supply Plan, can you tell us more about your power source development ideas?

**A** We are looking into appropriate power source development that takes the national energy policy into consideration.

In addition to supply and demand trends, our power source development plan is formulated comprehensively, taking into consideration items such as energy security, global warming prevention, the state of existing facilities and the national energy policy.

The Basic Energy Plan set by the Cabinet Office in April 2014 indicates the importance of constructing a balanced supply system from the perspective of "S+3E" that does not depend excessively on any specific power or fuel source.

At the same time, although the Basic Energy Plan does not address in detail items such as the energy mix or the new construction/replacement of

nuclear power plants, it clearly states that "The government will commence examination of the prompt creation of a system that addresses the details indicated in the Basic Energy Plan," so we recognize that discussions are ongoing.

We will take the direction of discussions about energy mix or the new construction/replacement of nuclear power plants into consideration as we move forward, and look into how to proceed with appropriate power source development in light of factors such as the characteristics of each kind of power source and trends in fuels, economic feasibility, etc.

#### Actual Electricity Sales and Forecast

	FY	2012 (Actual)	2013 (Actual)	2014	2015	2016	2017	2018	2023	Annual average growth rate 2023/2012 (%)
	Electric power sold (100 million kWh)		838 (832)	846 (833)	837	844	847	854	861	896
Peak demand (10,000 kW)		1,481 (1,487)	1,583 (1,489)	1,502	1,512	1,522	1,535	1,547	1,610	0.8 (0.7)

Note1: ( ) is after compensation for air temperature and a leap day.

Note2: Peak demand is maximum three days average peak demand at transmission end during summer.

#### Power Plant

Class	Unit	Generating unit name	Output	Construction schedule	
				Commencement of construction	Commencement of commercial operation
Under construction	Hydro power	Shin-Kosa	7,200kW	May 2012	TBD
		Ryugudaki	200kW	May 2013	March 2015
	Thermal power (LNG)	Shin-Oita unit 3-4	480,000kW	July 2013	July 2016
	Thermal power (coal)	Matsuura unit 2*1	1,000,000kW	March 2001	June 2021*2
In preparation for construction	Hydro power	Shin-Naongawa	370kW	September 2014	June 2016
	Thermal power (Internal-Combustion engine power)	Toyotama unit 6*1	8,000kW		June 2018*2
	Nuclear	Sendai unit 3	1,590,000kW	TBD	TBD
	Geothermal	Otake	14,500kW [+2,000kW]	September 2017	December 2019

\*1. Matsuura unit 2 and Toyotama unit 6 are candidates of biddings with Guideline of Thermal Power Plant Bids.

\*2. For Matsuura unit 2 and Toyotama unit 6, supply commencement deadline in biddings is listed instead of actual commencement month of commercial operation.

**Q** You are taking bids for thermal power sources in this fiscal year. What is the background and details of this bidding?

**A** We are proceeding with renewal of our superannuated thermal plant to ensure the competitiveness of that power source.

Most of our thermal power plants are aging, particularly the roughly 3 million kW Kyushu mainland oil-burning plant, which will have been operation for 40 years at the end of fiscal 2020, and Tsushima internal combustion Units 11 (55,700 kW) and Central 5 (10,100 kW), which will be 50 years old at the end of fiscal 2018.

It will be necessary to proceed with the development of substitute power sources in stages, so during this fiscal year we will hold bidding for thermal power sources, as follows:

- A total of 1 million kW at Kyushu mainland, with supply commencing by the end of June 2021;
- For plants located on isolated islands, a total of 8,000 kW at Tsushima in Nagasaki Prefecture, to commence supplying power by the end of June 2018.

Currently, development of Matsuura Unit 2 of Kyushu mainland is ahead of schedule, while we are bidding ourselves for new development of Toyotama Unit 6 on the isolated island (Tsushima).

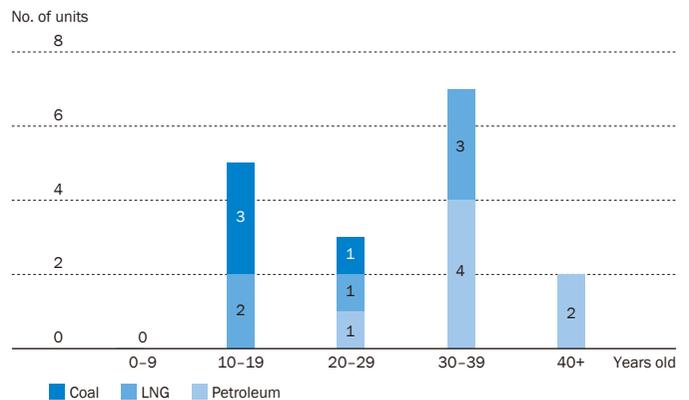
### Status of Aging Thermal Power Facilities

Thermal-oil		(Year)			
		Start of operations	Permitted output (10,000 kW)	March 31, 2014	March 31, 2021
Sendai	1	July 1974	50	39	46
	2	September 1985	50	28	35
Buzen	1	December 1977	50	36	43
	2	June 1980	50	33	40
Ainoura	1	April 1973	37.5	40	47
	2	October 1976	50	37	44
Karita	New Unit 2	April 1972	37.5	41	48

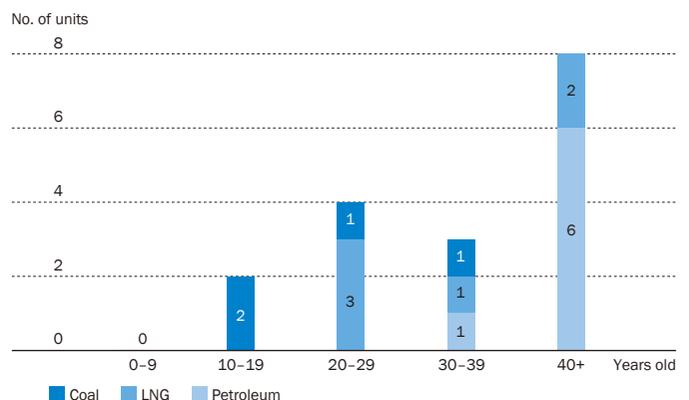
Thermal-LNG		(Year)			
		Start of operations	Permitted output (10,000 kW)	March 31, 2014	March 31, 2021
Shin Kokura	3	September 1978	60	35	42
	4	June 1979	60	34	41
	5	July 1983	60	30	37
Shin Oita	1	June 1991	69	22	29
	2	February 1995	87	19	26
	3	July 1998	73.5	15	22

Thermal-coal		(Year)			
		Start of operations	Permitted output (10,000 kW)	March 31, 2014	March 31, 2021
Matsuura	1	June 1989	70	24	31
Reihoku	1	December 1995	70	18	25
	2	June 2003	70	10	17
Karita	New Unit 1	July 2001	36	12	19

### Distribution of Aging Thermal Power Facilities (As Of End of Fiscal 2013)



### Distribution of Aging Thermal Power Facilities (As Of End of Fiscal 2020)



**Q** Given that Japan is proceeding with reforms to the electric power system in a bid to become more competitive, what is your management strategy henceforth?

**A** **Our goal is to be a strong and supple company that customers trust and continue to choose.**

Electric power system reforms, including matters such as across-the-board liberalization of the retail sector, is currently being debated in Japan. While a detailed system design has yet to be determined, to put things succinctly there is no possibly of the management environment in which we operate returning to pre-Great East Japan Earthquake status. Faced with this situation, I would like us to become “a strong and supple company” that can remain a strong presence no matter what kind of management environment we are in.

“Enlighten Our Future,” which is the slogan of “Kyushu Electric Power’s Mission,” will remain our guiding principle even in the coming era. We will seek not only to supply stable electric power to our customers without fail, but will also be sensitive to their diverse energy needs to create value together with our customers, with the aim of being a trusted company that they continue to choose.

Therefore, the first important matter to address is to solidify our base in Kyushu. We will put our all into taking nuclear power plant safety to a new level, with the goal of restarting our nuclear plants as well as steadily reducing our cost structure by continuing to engage in streamlining. In addition, we will use the relationships we have built with customers and regions, and our strengths such as technical ability and know-how, to offer services spanning the entire energy spectrum.

Moreover, we are drawing up new growth strategies from the perspective of increasing profitability. We are actively developing renewable energy sources, such as geothermal, and building our power business overseas, mainly in Asia. We examining the future shape of the Kyushu Electric Group as an energy services provider as we go beyond our previous boundaries to provide electrical power and other services to customers outside of Kyushu.

