

# Interview with the President



Michiaki Uriu

President

**Q1** How would you review fiscal 2015 overall?

**A1** The Group as a whole is working toward cutting costs and has recorded a profit for the first time in five years.

Since the suspension of all nuclear power station operations in December 2011, we have made the restart of nuclear power our primary and most urgent issue, and in September 2015, our Group efforts resulted in the return of Sendai Unit 1 to normal operation, followed by Sendai Unit 2 in November.

This is the first restart of a plant in compliance with new regulatory standards since the Great East Japan Earthquake, and I believe it represents a major step not only for us, but for the electric power industry as a whole.

We consider this restart is not a goal, but a beginning, and are keenly aware that efforts to improve the safety of nuclear power are unending, so will continue to work to ensure safe, stable operation of our plants.

In April 2015, we also announced the Kyushu Electric Power Group Medium-term Management Policy, which incorporates three strategic pillars: (I), meeting the diverse energy needs of customers in Kyushu; (II) making the most of Kyuden Group strengths to develop in growth markets; and (III), establishing a robust business foundation.

We have seen steady results from our efforts in the first

year, which included reviewing our options in anticipation of the full liberalization of retail electricity which began in April 2016; the launch of a new company to advance our plans for a coal-fired thermal power plant outside the Kyushu region (in Sodegaura, Chiba Prefecture); and our reorganization in response to the new licensing system.

In our results for the fiscal year ended March 31, 2016, the Kyushu Electric Group returned to profit for the first time in five years. The result reflects a Group-wide effort to achieve thorough cost savings, the restart of electricity generation at Sendai Nuclear Power Station Units 1 and 2, and a decrease in fuel costs attendant on the significant decline of fuel prices. At the same time, on the revenue side, reflection of declining fuel prices in lighting and power prices based on the fuel costs adjustment system, has been partially shifted to the next fiscal year. This was our first profitable year since I assumed the post of president, and the road we traveled to get to this point has truly been a long one. I believe this milestone is the fruit of the long, hard efforts of our employees and everyone else involved.

**Q2** Tell us about your efforts to streamline management in fiscal 2015, and your outlook for fiscal 2016.

**A2** In fiscal 2015, we recorded a ¥267.0 billion reduction in expenses. In fiscal 2016, we will continue striving to cut costs and increase management efficiency.

We have worked to increase management efficiency by an average of ¥140 billion/year over three years (¥153.0 billion

in fiscal 2015 alone), a goal incorporated in our plan at the time of the 2013 rate increase.

In fiscal 2015, we worked to move steadily ahead with our constant efforts at streamlining and to find even deeper efficiencies, including reducing equipment procurement costs. To mitigate the negative impact on revenue and expenses of the suspension of operations at our Genkai Nuclear Power Station, we also put in place emergency countermeasures, including postponing construction and temporarily suspending some work in an attempt at achieving short-term cost reductions wherever possible.

As a result, we achieved additional cuts of ¥114.0

billion, primarily from these short-term efforts, reducing costs by a total of ¥267.0 billion while also posting a ¥4.4 billion profit on the sale of assets.

In fiscal 2016, although the timing of a restart of our Genkai Nuclear Power Station remains uncertain, and despite other factors that may increase costs—including safety measures at nuclear power plants and costs associated with electric power system reforms—we will continue to do our utmost to reduce costs and to achieve the streamlining factored into our electricity rate costs.

#### Fiscal 2015 streamlining initiative results (Billions of yen)

Item	Fiscal 2015 streamlining initiative results [A] + [B]	Cost of streamlining factored into electricity rate costs (Fiscal 2015) [A]	Streamlining efforts (Fiscal 2015) [B]	Cost of streamlining factored into electricity rate costs (2013–2015 average)
Maintenance costs <small>Figures in parentheses are reproduced miscellaneous costs</small>	-91.0	-28.0	-63.0	-32.0
Miscellaneous costs, etc. *1	-59.0 (-23.0)	-22.0 (-20.0)	-37.0 (-3.0)	-22.0 (-20.0)
Personnel costs	-25.0	-51.0	+26.0	-48.0
Fuel costs, cost of electricity purchases*2	-52.0	-22.0	-30.0	-18.0
Depreciation expenses (capital expenditure)	-40.0	-30.0	-10.0	-23.0
Total <small>[Excluding fuel costs and the cost of purchased power]</small>	-267.0 [-215.0]	*-153.0 [-131.0]	-114.0 [-84.0]	Reduction of around ¥140.0 billion

\* 1 Figures in parentheses indicate 9 cost items (outsourcing expense, rental expense, waste disposal expense, supplies expense, research expense, spread and development-related cost, etc. ), retirement of fixed assets expense, nonlife insurance premium expense, etc.

\* 2 Genkai Nuclear power was not operational in fiscal 2015, so the supply–demand balance is a preliminary calculation that differs substantially from rate costs.

#### Results of Asset Sales (Billions of yen)

Item	Sales results (Fiscal 2015)	Sales results (total for Fiscal 2013 and 2015) A+B	Sales plan upon receipt of acceptance to raise the rate cost (total for Fiscal 2013 and 2015) A	Streamlining effect B
Fixed assets	2.1 (2.0)	44.1 (39.0)	10.0	34.1
Securities	4.5 (2.4)	46.9 (32.7)	4.0	42.9
Total	6.6 (4.4)	91.0 (71.7)	14.0	77.0

\*3 Figures in parentheses indicate gains on sales.

**Q3** Fiscal 2016 marks the start of full liberalization of retail electricity and promises to be a turbulent year. What is your outlook for the year, and what are your aspirations?

**A3** We will endeavor to develop new services and bolster competitiveness while also working as a unified Group toward normalization of operations.

I would like to see fiscal 2016 be the year in which all of our stakeholders, including our customers, members of our communities, shareholders and investors, truly sense that Kyushu Electric Power has changed.

With the start of full liberalization of retail electricity in April, we are faced with the arrival of an era of a truly competitive environment as diverse businesses enter the market, alliances are formed across industry lines, and new business models emerge.

In January 2016, we announced a new set of rates in anticipation of this liberalization, and in February, we released the details of our new Kyuden Safety Support and Q-Pico point services. In April, our subsidiary Kyushu Mirai



Energy Co., Inc., launched its retail electricity business outside the Kyushu region. The development of these and other new services are part of our effort to strengthen our competitiveness and ensure that customers will continue to choose Kyushu Electric Power.

Normalizing operations also continues to be an urgent issue for us, and in addition to continued efforts at streamlining, it is essential that we restart Units 3 and 4 at our Genkai Nuclear Power Station, on which our current electricity rates are predicated. We will work to fully leverage the knowledge we gained with the restart of the Sendai Nuclear Power Station, as well as subsequent examples from other nuclear power plants, as the Group works together toward an early restart while making safety our first priority.

By continuing to push forward with these initiatives in fiscal 2016, we are aiming to achieve sustained growth and to provide value to our stakeholders.

☞ Please refer to The Kyushu Electric Group's Policy Regarding Electricity Retail Liberalization (See pages 24 to 27).

**Q4** Please tell us about the progress toward the restart of operations at Genkai Nuclear Power Station.

**A4** Although impact assessments have essentially been decided in regard to earthquakes, tsunami and volcanoes, reviews are currently ongoing for plant-related matters.

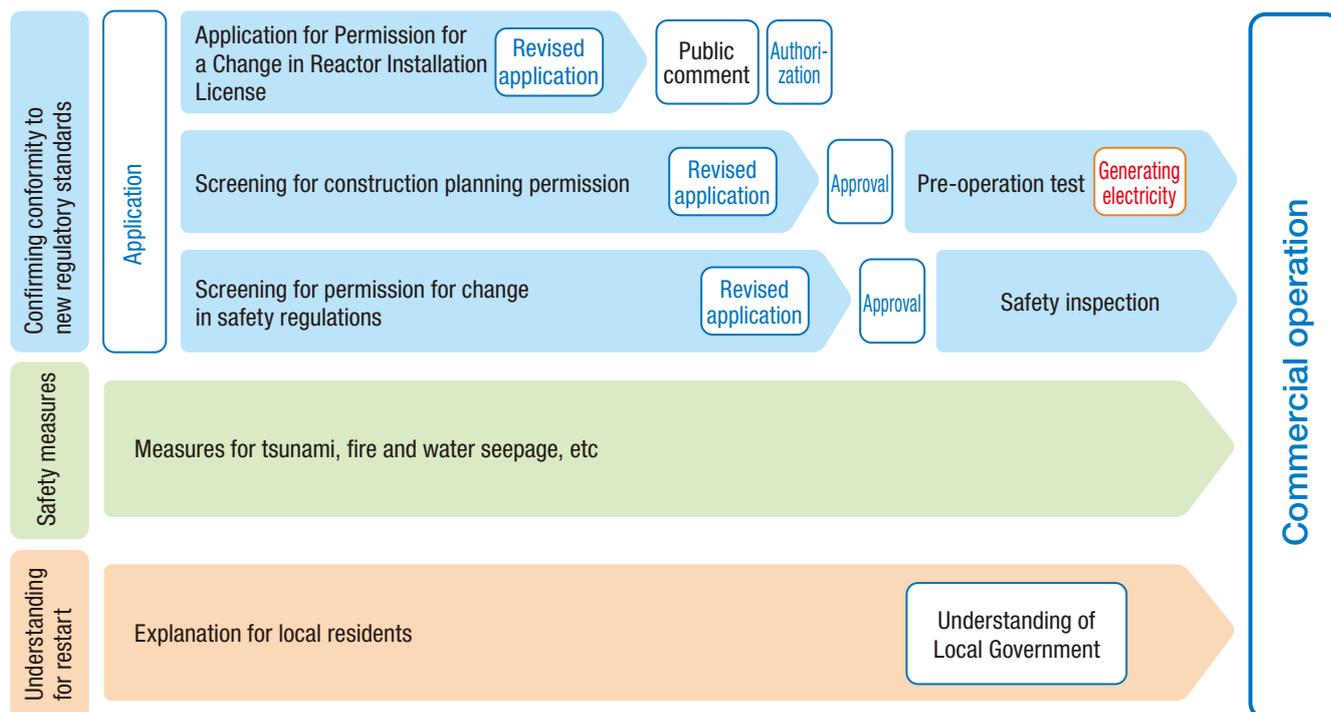
Regarding earthquakes, tsunami and volcano related matters, Kyushu Electric Power finalized the outlines of its standards for seismic motion and standard water intake from tsunami in September 2014. About 11 months later, in November 2015, the review committee reconvened and in February 2016 decided on the outline impact assessment of volcanoes.

Meanwhile, in regard to plants, the main remaining issues presented at the review committee in March 2016 are now being explained in detail, but we are not yet at the

stage of being able to provide detailed comments on when we will submit supplementary materials for our application for authorization to change in the reactor installation license. Moreover, as there is no clear date for the review or pre-operation testing, it is not possible to forecast a specific date for resumption of operations.

Kyushu Electric Power has thoroughly explained matters to the Nuclear Regulation Authority review and is working in earnest toward the earliest possible restart of operations at the Genkai Nuclear Power Station Units 3 and 4.

**Schedule until restart**





**Q5** Fiscal 2015 marked the first resumption of dividends in four years. How will you approach your dividends moving forward?

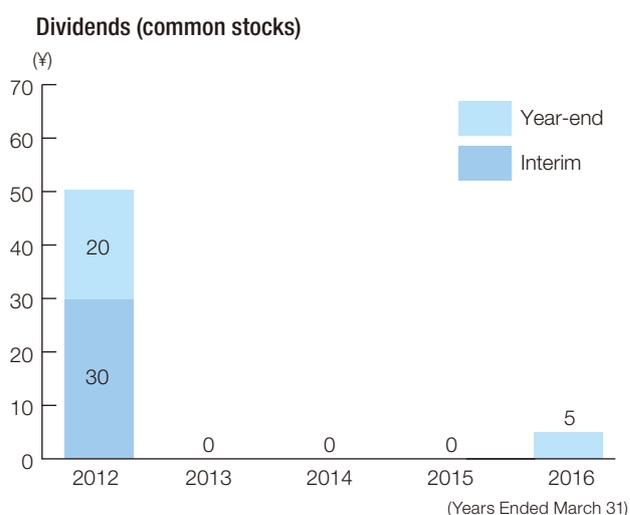
**A5** We will continue our efforts toward a restart of nuclear power operations the Genkai Nuclear Power Station, and toward further streamlining of overall operations so that we can offer at least some level of dividend.

In establishing a dividend of ¥5 for the fiscal year ended March 31, 2016, we considered not only our performance for the year, but a comprehensive review of our efforts at streamlining going forward, the need to improve our damaged financial structure, and our desire to offer returns to our shareholders.

We will determine our dividends going forward based on comprehensive consideration of the economic environment, our mid- to long-term revenue and expenses, and our financial status.

Note that given the lack of a specific date for the restart of our Genkai Nuclear Power Station, the dividend for the fiscal year ending March 31, 2017, remains undetermined. However, we will continue our efforts toward an early restart of the Genkai Nuclear Power Station, and toward further streamlining of overall operations so that we can offer at

least some level of dividend as we did in the fiscal year ended March 31, 2016.



A dividend of ¥7,153,763 per preferred share will be paid out for class A preferred shares, including the accumulated unpaid class A preferred share dividends.

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**Q6** You have announced that beginning in April 2017, you will introduce an in-house company to handle the electricity transmission and distribution business. How do you view these and other future organizational reforms?

**A6** **Outside of the electricity transmission and distribution business, we are considering an organizational and operating structure that gives us the speed and flexibility.**

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Given the entry of new retail electricity businesses associated with the full liberalization that began in April 2016, and the Guidelines for Proper Electric Power Trade associated with the introduction of the new licensing system, our goal is for an autonomous operation in the electricity transmission and distribution business that can ensure an even greater level of fairness, transparency and neutrality. This is why, in April 2017, we will introduce an in-house company that will formally unify our electricity transmission and distribution business.

In other areas as well, we are considering an organizational and operating structure that unites our power generation and retail electricity businesses, giving us the speed and flexibility to compete successfully given the changes in our business environment, including full liberalization.

We will also need to prepare for legal unbundling to be enacted in April 2020. This will require power generation, transmission and distribution, and retail electricity to function autonomously, while we aim to optimize operations as a whole, and this is something we will give careful consideration.

**Q7** Incidentally, controls on renewable energy output are being put into effect on some remote islands. Tell us about your policy in preparing for this move.

**A7** **It is possible that similar controls on output will need to be implemented on the Kyushu mainland, but we will continue working toward maximizing acceptance.**

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Since the introduction of the feed-in tariff (FIT) system for renewable energy in July 2012, the Kyushu area has seen rapid growth in the deployment of solar power, particularly for commercial use.

During mainly light-load periods, particularly daytime hours when solar power output is large, there may be times when steps need to be taken, such as when supply outstrips demand even if thermal power plants are brought down to

their lowest possible level of output without hindrance of stable supply. In those cases, we believe it is necessary to place controls on renewable energy output to ensure a stable supply of electric power.

In fact, since May 2015, several cases have emerged on certain remote islands with independent power systems in which supply exceeded demand on the island even when the renewable energy power generator was brought down to

its lowest level of output, and controls on output had to be implemented.

Going forward, it is possible that similar controls on output will need to be implemented on the Kyushu mainland, depending on the level of renewable energy deployment, demand trends and other power sources.

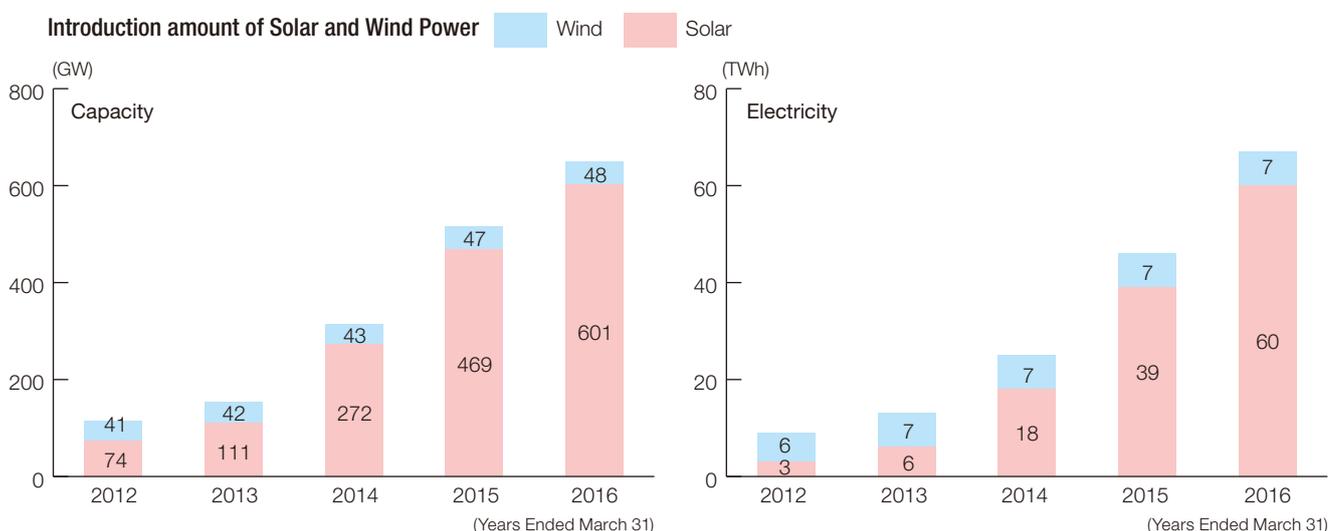
We are reviewing and implementing measures to balance supply and demand with renewable energy output, to ensure we can maximize our acceptance of energy from these

sources, which fluctuate significantly with the weather.

Specifically, we are utilizing government subsidies to mitigate controls on renewable energy output by installing large capacity storage batteries and developing systems that enable finer control over solar power output.

We will continue our efforts to maximize our acceptance of renewable energy.

For more information on large-capacity electricity storage system, refer to ESG section Environmentally Friendly Business (See pages 48 to 49).



Interview with the President

## Q8 Finally, can you tell us about the Kumamoto Earthquake that struck in April of this year?

### • What about recovery efforts?

**There was a maximum of 476,600 households affected by a power outage, but we made a rapid recovery.**

First, I would like to express our heartfelt desire for a rapid recovery for those who suffered as a result of the recent series of earthquakes in Kumamoto.

The earthquake that struck on April 14, 2016, had its

epicenter in the Kumamoto region of Kumamoto Prefecture, and left as many as 16,700 customers without power, primarily in the town of Mashiki and the city of Kumamoto. By the next day, April 15, we had completed installation of a



Large-scale landslide (Minami Aso, Kumamoto Prefecture)



Power transmission via high voltage distribution lines (Kansai Electric Power Company)

high-voltage power distribution line.

On April 16, another earthquake hit the same region, with as many as 476,600 customers losing power, mainly in Aso, Kumamoto Prefecture. By April 20, we again completed installation of high-voltage power distribution lines to the areas, except in places where restoration was made difficult by landslides, damaged roads and so on.

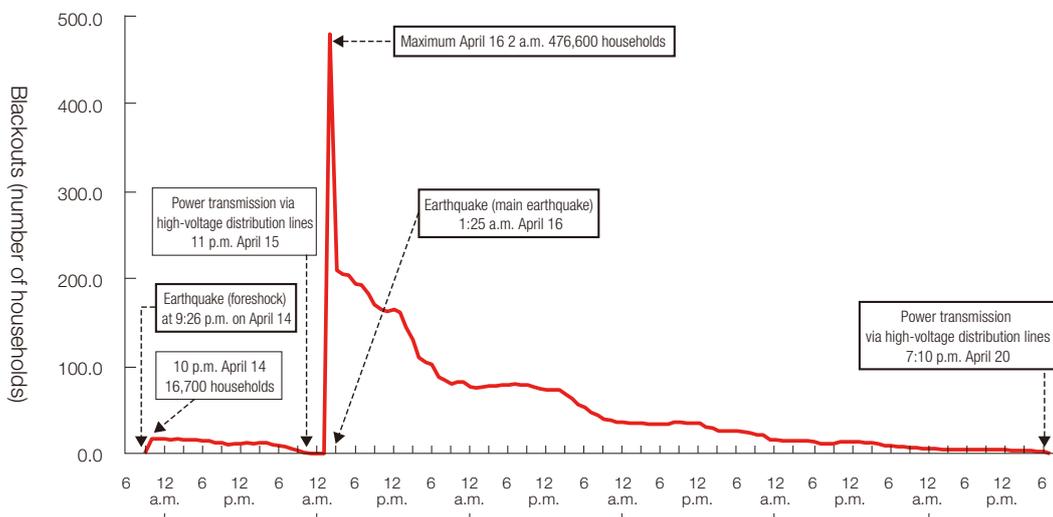
We offer our sincerest apologies for power outages that occurred across a widespread area and the trouble that these caused. We would also like to express our heartfelt gratitude for the understanding and cooperation we received from people from various local authorities and associated organizations while restoring services. I believe our ability to accomplish this so quickly was thanks to the everyday ef-

forts, training and experience of our employees and everyone else involved.

The 9 power companies, from Hokkaido to Okinawa, also dispatched 110 high-voltage power generator trucks, along with 629 support staff. It was moving to see trucks lined up in Kumamoto with logos from Hokkaido Electric Power and Okinawa Electric Power, and made me realize once again the strong bond that exists between those of us involved in the power business.

At this point we estimate that the cost of restoring damaged power supply facilities will be approximately ¥10 billion for repairs, with an additional ¥10 billion in capital investment. \*

\* Calculations of damage are based on information available as of the publication date of this report. Due to various factors, the actual damage and projected amounts may differ from these statements.



• What impact has this had on your nuclear power plants?

**No abnormalities were found at the Sendai Nuclear Power Station, which was operating at the time, and which continues safe, stable operation.**

While there was some concern among the general public about the impact on our nuclear power plants, no abnormalities were found at the Sendai Nuclear Power Station, which was operating at the time, and which continues safe, stable operation.

In formulating a standard seismic motion for the Sendai Nuclear Power Station, we assumed movement of about 100 gal for the Futagawa-Hinagu fault zone, the epicenter of this quake. In terms of standard seismic motion, for the three active fault zones closer to the nuclear power plant site, which would have a more significant impact, we set an estimate of 540 gal, and for seismic motion with no specific epicenter, 620 gal. The nuclear power plant is also equipped with a system for safe, automatic shutdown in the event of a tremor of 160 gal, more than adequate for this standard

seismic motion.

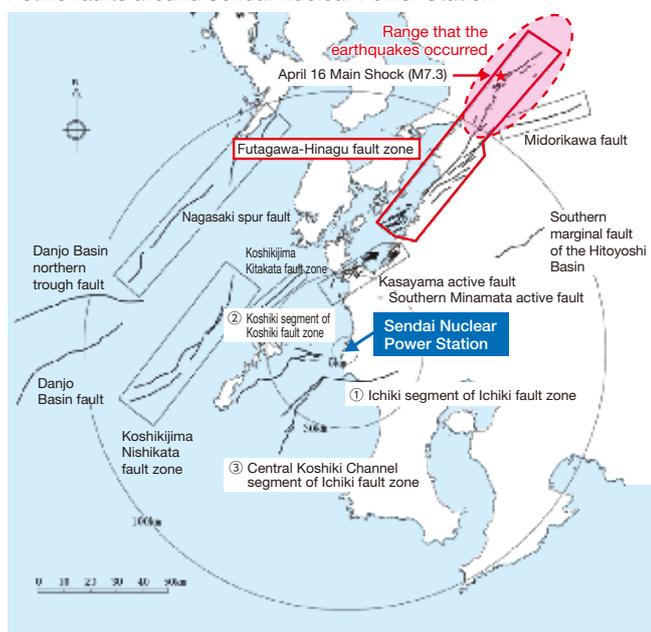
This latest earthquake caused a shift in part of the fault zone, with the tremor measured at 8.6 gal at the Sendai Nuclear Power Station. This is, of course, well below the standard seismic motion, and significantly below the level set for automatic shutdown. Even in the event the remainder of the fault also shifts, it is unlikely to produce a tremor that will have any significant impact on the power plant.

In formulating a standard seismic motion for the Genkai Nuclear Power Station, the Futagawa-Hinagu fault zone was not included in the assessment because of its distance from the plant site. The tremor was measured at 20.3 gal at the power plant, and, as with the Sendai Nuclear Power Station, was well below the level of 170 gal set for automatic shutdown of Units 3 and 4.

We will continue to maintain the safe, stable operation of our nuclear power plants, prioritizing safety as we fulfill our mission to provide a stable supply of electric power.

Interview with the President

Active faults around Sendai Nuclear Power Station



Comparison between assumptions for establishing standard ground motions and observation records

