

Sustainable Growth and Increased Corporate Value Over the Mid- to Long-Term

Masayoshi Nuki × Akiyoshi Watanabe × Ritsuko Kikukawa

Last year, Japan announced a Corporate Governance Code that now applies to all listed companies. We are working to strengthen corporate governance at Kyushu Electric Power with the goal of meeting the objective of the code, which is to seek sustainable corporate growth and increased corporate value over the mid- to long-term. In that process, the role of the Board of Directors is of particular importance.

We asked Chairperson of the Board Masayoshi Nuki, and external directors Akiyoshi Watanabe and Ritsuko Kikukawa to share their thoughts regarding the Board of Directors.



Akiyoshi Watanabe
External Director

Masayoshi Nuki
Chairperson

Ritsuko Kikukawa
External Director

Q1 What is your thinking regarding the roles and responsibilities of the Board of Directors in achieving sustainable growth and increased corporate value over the mid- to long-term?

Chairperson Nuki The Board of Directors is expected to deliberate carefully on matters of corporate strategy and other proposals on important items relating to management from a supervisory position, decide on these and move them in a direction that will enable us to prevail in an intensely competitive environment. As chairperson, I believe that is one of my most important responsibilities.

Diversity is important in generating vigorous, high-quality debate, and we thus make it a practice to promote directors from

within the Company from different backgrounds and fields of specialization. For external directors, we designate individuals with rich experience and knowledge in corporate management and other specialized fields.

Since last year, we have also been conducting questionnaires and interviews with our directors and corporate auditors as a means of analyzing and assessing the Board's effectiveness. Through these efforts, we will continue working to improve the operation of the Board of Directors.

Q2 Chairperson Nuki, can you describe your expectations for Mr. Watanabe and Ms. Kikukawa regarding deliberations of the Board of Directors and so on? Would each of the directors then tell us about your own roles and what you try to keep in mind during Board discussions?



Chairperson Nuki My expectation is that our two external directors will share their honest opinions and suggestions from an outside viewpoint regarding our management. I also hope they will utilize their extensive experience and deep insight to offer better solutions for our management issues.

Moreover, to improve the effectiveness of the Board, we need to ensure that the external directors feel free to speak up when appropriate and can make rational decisions. We work to ensure we share with our external directors enough information to allow them to do this, including having them attend meetings of our Corporate Management Committee.

External Director Watanabe Corporate governance can be considered a framework that enables management to balance profitability and fiscal soundness by ensuring an effective supervisory function. On the Board, which supervises business execution, the external directors need to strengthen that function. With that in mind, we utilize our own experience to proactively offer opinions and suggestions, not only to the Board of Directors, but at Corporate Management Committee meetings and elsewhere.

External Director Kikukawa Kyushu Electric Power has created an atmosphere in which the external directors can feel free to speak up about any questions they may have, and that contributes to the vigorous discussions we see at meetings of the Board. We also attend the weekly Corporate Management Committee meetings, and try to offer suggestions from our

unique outsider perspective even away from the Board, to help clarify issues and accelerate decision-making. We want to take a perspective bearing in mind consumers and the experience we have accumulated through to now and make it useful for Company management.

Q3 What are your thoughts on the Corporate Governance Code mentioning “engaging in constructive dialogue with shareholders?”



Chairperson Nuki It is important to clearly articulate corporate strategy and to conduct an ongoing dialogue with shareholders and investors. The Corporate Governance Code also calls on the Board of Directors to establish a framework for encouraging that dialogue. We recognize that IR is an important issue for management, and the entire Company works together, under the leadership of the president, to engage in IR-related activities. At the same time, given the enormous changes in conditions surrounding the electric power industry, it is also important that we always continue to consider steps for enhancing corporate value in the mid- to long-term.

External Director Watanabe Kyushu Electric Power has built a framework to share information obtained in dialogue with shareholders and investors with management and across the entire Company. The opinions of shareholders and investors considering mid- to long-term investments can be particularly valuable to management and the directors. Going forward, in addition to promoting understanding of the Company’s business, it will be important for the Company to establish an interactive dialogue with its shareholders and investors, and truly listen to their opinions and suggestions. I think it is these mid- to long-term investments that enable a company to execute forward-thinking strategies, and eventually enhance corporate value.

External Director Kikukawa Kyushu Electric Power has formulated a Company-wide IR Policy, and is proactive in disclosing information investors need to make decisions. Going forward, shareholders and investors considering mid- to long-term investments will be increasingly interested not just in corporate philosophy or management issues, but in non-financial matters such as the Company's response to environmental issues and efforts to promote diversity. More than ever, it will be important to clearly divulge not just financial data, but the kind of information that can lead to sustained growth.



Corporate Governance

Basic Stance on Corporate Governance

We aim to generate sustainable value for all shareholders and other stakeholders in keeping with “Kyushu Electric Power’s mission” by engaging in operations that are socially meaningful from a long-term perspective. It is a top management priority to strengthen corporate governance to ensure that we do business properly.

In concrete terms, we have a corporate governance structure centered on the Board of Directors and the Board of Corporate Auditors, and based on this we work to strengthen management oversight functions by appointing highly independent external directors, while heightening the effectiveness of audits by fostering close cooperation between the corporate auditors and in-

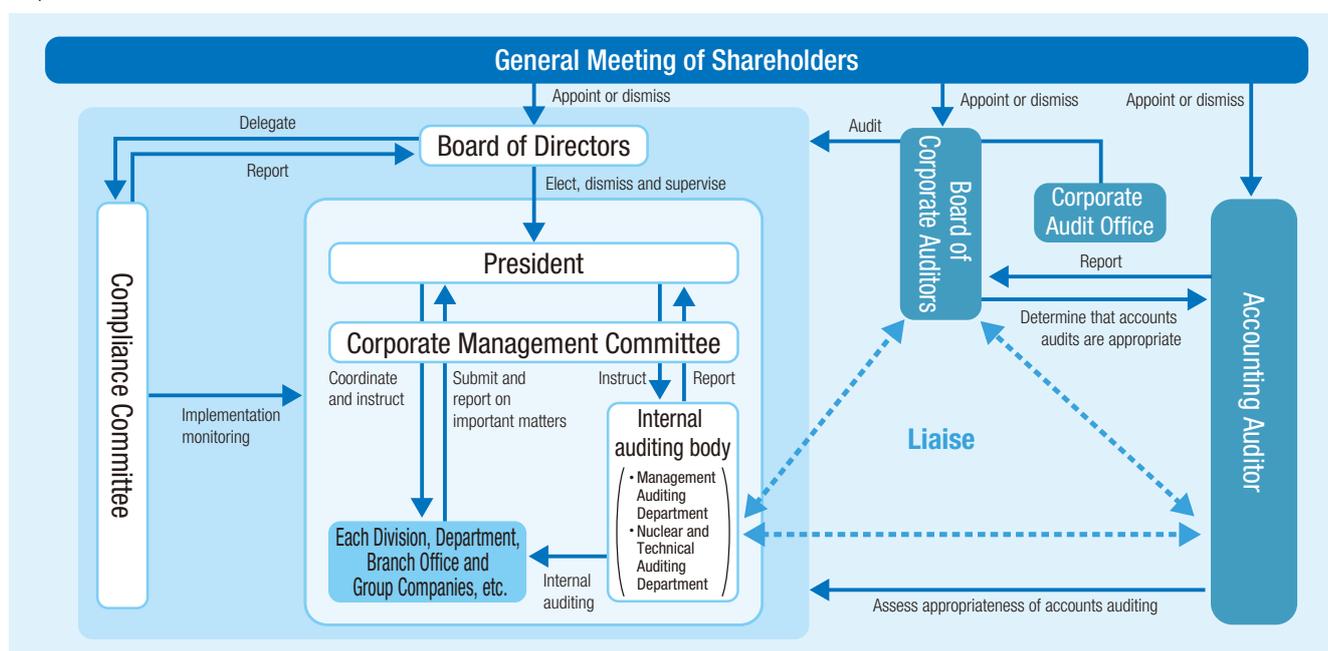
ternal auditing bodies. Furthermore, we have clearly defined the oversight and executive roles of directors and executive officers, while striving to rigorously enforce compliance management. At the same time, we have developed a basic policy on the formation of a system to ensure proper business operations (basic internal control policy), as we work to continuously improve the internal control system.

In response to the application of the Japan’s Corporate Governance Code to listed companies, after giving due consideration to the tenor of the Code, we will further reinforce our corporate governance in the aim of ensuring sustainable growth and medium- to long-term increases in corporate value.

Overview of Internal Organizations

Organization	Role	Members (As of March 31, 2016)	Meeting Frequency
Board of Directors	<ul style="list-style-type: none"> Decides on important corporate management matters Supervises performance of duties 	<ul style="list-style-type: none"> 14 directors in total (including 2 external directors) 	Once a month in principle (16 times during fiscal 2015)
Corporate Management Committee	<ul style="list-style-type: none"> Considers matters requiring discussion before being decided by the Board of Directors Makes important decisions on business execution 	<ul style="list-style-type: none"> President, vice president, senior managing executive officers, managing executive officers, and others 	Once a week in principle (39 times during fiscal 2015)
Board of Corporate Auditors	<ul style="list-style-type: none"> Perform audits relating to general status of directors’ performance of duties <ul style="list-style-type: none"> → Attend Board of Directors and other important meetings → Receive oral reports from executive divisions, consolidated subsidiaries, and others Perform business site inspections Deliberate and decide on important matters related to audits stipulated by laws and regulations and the articles of incorporation 	<ul style="list-style-type: none"> 6 corporate auditors in total (including 3 external corporate auditors) * The Corporate Audit Office, which has 12 members, was established to assist the corporate auditors as a specialist organizational body. 	Once a month in principle (15 times during fiscal 2015)
Internal auditing body	<ul style="list-style-type: none"> Audit observance of laws, regulations, and so forth in divisions and business sites and status of business execution Audit quality assurance systems in place to monitor safety initiatives and the status of operations based on these 	<ul style="list-style-type: none"> Management Auditing Department (22 members) Nuclear and Technical Auditing Department (11 members) 	*Held constantly as part of duties.

Corporate Governance Structure



External Directors and External Corporate Auditors

We have appointed two highly independent external directors. They draw on their knowledge and experience to provide necessary input and advice in the discussion of proposals at Board of Directors meetings, as well as participating and advising appropriately on nomination, remuneration, and other matters regarding director candidates.

We have six corporate auditors. One of them has considerable knowledge regarding finance and accounting, having experience as manager of the Company's Accounting Department. Three are external corporate auditors. Corporate auditors attend important gatherings, including those of the Board of Directors. They conduct hearings for all divisions, consolidated subsidiaries, and other business units, and otherwise conduct overall audits of the work of directors and executive officers.

When appointing external directors or external corporate auditors, the Company refers to its own independence evaluation standards. These are based on criteria for independent external directors and external corporate auditors stipulated by the Companies Act and the Tokyo Stock Exchange's evaluation standards regarding the independence of directors and corporate auditors.

Moreover, the Company has designated all of its external directors and external corporate auditors as independent directors and independent corporate auditors, respectively, judging that these individuals will offer objective and neutral opinions about the Company's business based on their experience and insight.

Reason for Appointment of External Directors

External Director	Reason for Appointment
Akiyoshi Watanabe	Mr. Watanabe has a wealth of experience and insight due to his many years serving as a business manager, as well as the appropriate character, insight, and professional background for an external director of the Company. We consider him a most appropriate person to provide useful opinions about the Company's business from an objective standpoint, and to perform a supervisory function.
Ritsuko Kikukawa	Ms. Kikukawa has a wealth of experience and insight due to her many years serving in national and regional government, mainly in the education field, as well as the appropriate character, insight, and professional background for an external director of the Company. We consider her a most appropriate person to provide useful opinions about the Company's business from an objective standpoint, and to perform a supervisory function.

Reasons for Appointment of External Corporate Auditors

External Corporate Auditor	Reason for Appointment
Fumiko Furusho	Ms. Furusho has a wealth of experience and insight due to her many years serving as a business manager, as well as the appropriate character, insight, and professional background for an external corporate auditor of the Company. We consider her a most appropriate person to provide useful opinions about the Company's business from an objective standpoint, and to perform a supervisory function.
Yusuke Inoue	Mr. Inoue has a wealth of experience and insight due to his many years serving as a business manager, as well as the appropriate character, insight, and professional background for an external corporate auditor of the Company. We consider him a most appropriate person to provide useful opinions about the Company's business from an objective standpoint, and to perform audit and supervisory functions.
Kazutaka Koga	Mr. Koga has a wealth of experience and insight due to his many years serving as an attorney, as well as the appropriate character, insight, and professional background for an external corporate auditor of the Company. We consider him a most appropriate person to provide useful opinions about the Company's business from an objective standpoint, and to perform audit and supervisory functions.

Policy Regarding Determination of Remuneration for Directors and Corporate Auditors

Our policy on remuneration is to set it at a level commensurate with the capabilities and responsibilities required of the Company's directors and corporate auditors, giving due consideration to factors such as the Company's management environment, remuneration levels at other companies, primarily listed companies, and the level of treatment of the Company's employees.

Specifically, remuneration for directors and corporate audi-

tors comprises a monthly basic remuneration and bonuses. To ensure objectivity and transparency, the level of remuneration is determined by the Board of Directors and the Board of Corporate Auditors based on the deliberations of the Remuneration Discussion Committee, which is chaired by an external director.

Directors' bonuses are paid in correspondence with the Company's performance within a limited amount to clarify directors' responsibility for performance and provide them with an incentive to improve it.

Classification	Directors (excluding external directors)		Corporate auditors (excluding external corporate auditors)		External directors and corporate auditors	
	Number of people	Amount (Millions of yen)	Number of people	Amount (Millions of yen)	Number of people	Amount (Millions of yen)
Basic remuneration	15	244	4	53	7	31
Bonuses	—	—	—	—	—	—
Total	—	244	—	53	—	31

(Note) The number of people listed above as recipients for basic remuneration includes three directors (excluding external directors) and one external officer (external corporate auditor) who retired at the end of the 91st Annual General Meeting of Shareholders, held on June 25, 2015. The number also includes one external officer (external corporate auditor) who retired on February 29, 2016 due to passing away.

Disclosure of Important Concurrent Positions Held by Directors and Corporate Auditors

Important concurrent positions held by the Company's directors and corporate auditors are as follows.

Director	Important Concurrent Position
Michiaki Uriu	Outside Audit & Supervisory Board member, Kyudenko Corporation Outside director, THE NISHI-NIPPON CITY BANK, LTD.
Naofumi Satou	Outside director, RKB MAINICHI HOLDINGS CORPORATION Outside director, Nishi-Nippon Railroad Co., Ltd.
Kazuhiro Izaki	Outside director, Nippon Tungsten Co., Ltd.
Yuuzou Sasaki	Outside director, FUJI P.S CORPORATION
Akiyoshi Watanabe	Outside director, Kyudenko Corporation
Ritsuko Kikukawa	Director of Fukuoka Study Center, Open University of Japan

Corporate Auditors	Important Concurrent Position
Yusuke Inoue	Chairman, Kyusyu Servicer
Kazutaka Koga	Attorney (Koga Hanashima Law Office) External auditor, MAXVALU KYUSHU CO., Ltd.

Analysis and Evaluation of Overall Effectiveness of the Board of Directors

The Company conducts questionnaires and interviews with directors and corporate auditors, and the results are confirmed by the Board of Directors.

(1) Regarding the function and composition of the Board of Directors

- Appropriateness of the decision-making process
- Formulation and external disclosure of management strategies and policies
- Appropriateness of supervision of business execution
- Appropriateness of composition (diversity, scale)

(2) Operation of the Board of Directors

- Appropriateness of determination of matters for resolution and reporting and matters for deliberation
- Clarity of materials and explanations
- Appropriateness of frequency and time allocation for deliberation

Compliance Committee

To promote compliance, the Compliance Committee has been established to ensure compliance with corporate ethics, laws and regulations, internal rules, and so forth. The committee is chaired by the president and includes external experts and promotes fair business practices. In addition, compliance officers have been established for every division. The officers promote compliance with corporate ethics, laws and regulations, and so forth, in accordance with the basic policies and recommendations set forth by the Compliance Committee, as well as the specific measures it has deliberated.

Accounting Auditor

The Company's accounting audits are carried out by certified public auditors Masanori Motono, Kei Nozawa, and Hideo Muroi, of Deloitte Touche Tohmatsu LLC. The Company's accounting audit was assisted by 17 certified public accountants and another 11 personnel.

The internal auditing body, corporate auditors and accounting auditor work to improve and enhance audit functions through close cooperation on formulating audit plans and reporting audit results.

Financial Reporting

The Company properly operates internal controls governing financial reporting and establishes systems to make corrections as necessary. At the same time, the Company's Financial Reporting Disclosure Committee, which is chaired by the president and consists of management executives, works to ensure the appropriateness of financial reporting.

Information Management

With regard to information management, the Company properly stores and manages documents stipulated by laws and regulations such as minutes of Board of Directors meetings, as well as other documents concerning important decision-making matters. To this end, the Company assigns responsibility for document management to appropriate departments based on internal rules. At the same time, the Company works to ensure the security of information concerning the execution of duties as necessary, based on basic policies and rules concerning information security.

Risk Management

To manage risk, we regularly identify, categorize and assess risks based on our risk management rules, clarifying Company-wide and division-specific threats that could affect management.

Each division and business office produces contingency plans to appropriately manage clear general and specific risks.

With regard to risks that relate to multiple departments and risks for which concerns of materializing are high, we share information among related departments, clarify response structures and address these risks appropriately

For nuclear power in particular, we take external knowledge and opinions into consideration as we work to identify a broad range of risks and address them thoroughly and on an ongoing basis.

Furthermore, we have established rules for a response structure and procedures to quickly and properly address situations where the materialization of a risk may lead to an emergency, loss of public trust, or other situations that could have a significant impact on Company operations and society. This includes enhancing and strengthening our crisis management system to minimize the impact on the Company and society. We also regularly conduct drills.