



# Powering Tomorrow Today

Annual Report

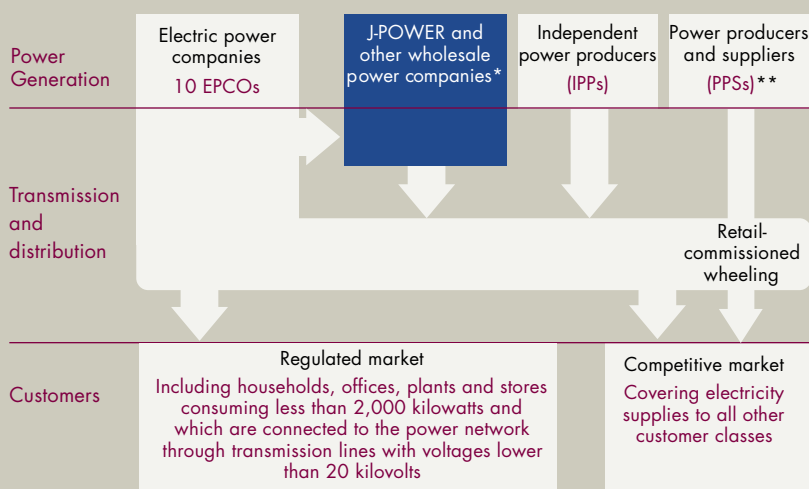
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# Profile

J-POWER (Electric Power Development Co., Ltd.) was established in 1952 to increase Japan's electricity supplies. Since then, J-POWER has endeavored to provide stable supplies of power, an essential for lifestyles and economic activities. The Company focuses on developing power sources and building transmission lines, and sells electricity to Japan's 10 major electric power companies (EPCOs) through hydroelectric and coal-fired thermal power stations that it builds and operates. J-POWER has stabilized supplies and enhanced efficiency by constructing a nationwide network of extra-high-voltage transmission lines for EPCOs.

Since 1960, J-POWER has participated in power projects in 59 countries and diversified its international operations through thermal and hydroelectric power development initiatives that encompass everything from surveys, designs, construction management and technical assistance on environmental issues to independent power producer (IPP) projects.

**Japan's Electric Power Industry Structure** (As of March 31, 2003)



\* With output capacity exceeding 2 million kilowatts for supply to EPCOs.

\*\* Supplying large-load customers subject to partial retail liberalization from March 2000.

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## Corporate Philosophy

*We aim to ensure constant supplies of energy to contribute to the sustainable development of Japan and the rest of the world.*

- *Sincerity and pride underlie all our corporate activities.*
- *We build community trust by harmonizing our operations with the environment.*
- *Profits are a growth source, and we share the benefits with society.*
- *We continuously refine our knowledge and technologies to be a leader in these areas.*
- *We meet the challenges of tomorrow by harnessing our unique skills and enthusiasm.*

## Forward-Looking Statements

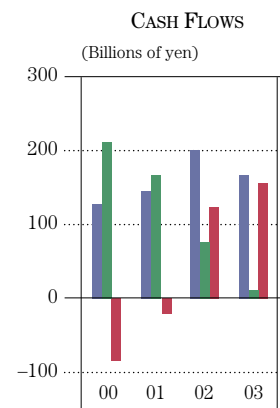
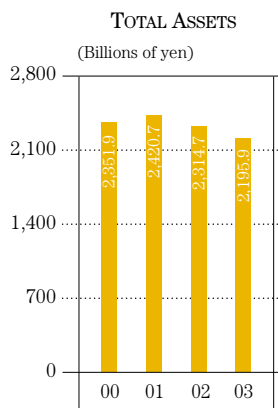
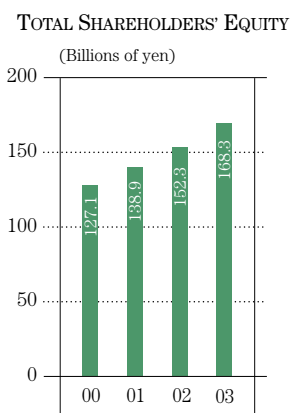
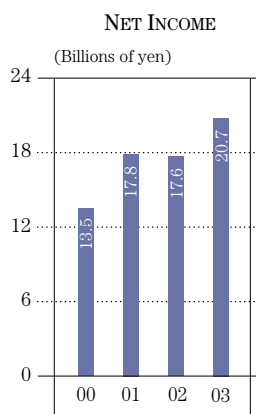
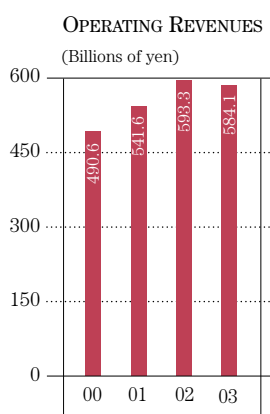
Statements in this annual report, other than those of historical fact, are forward-looking statements about the future performance of J-POWER that are based on management's assumptions and beliefs in light of information currently available, and involve both known and unknown risks and uncertainties. Actual events and results may differ materially from those anticipated in these statements.

# Financial Highlights

For the years ended March 31

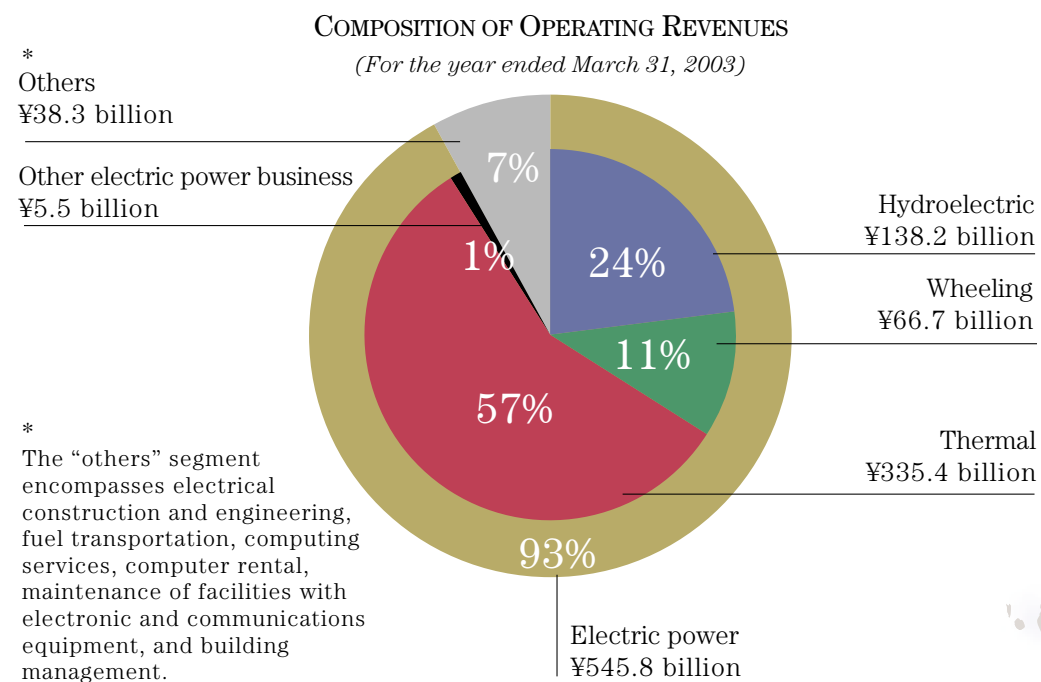
| Consolidated Data                                   | Millions of yen |           |           | Thousands of U.S. dollars (Note) |
|---|-----------------|-----------|-----------|----------------------------------|
|   | 2003            | 2002      | 2001      | 2003                             |
| Operating revenues                                  | ¥ 584,122       | ¥ 593,343 | ¥ 541,592 | \$ 4,859,587                     |
| Operating income                                    | 134,201         | 119,590   | 117,313   | 1,116,486                        |
| Ordinary income                                     | 35,522          | 44,022    | 41,461    | 295,527                          |
| Net income  | 20,725          | 17,638    | 17,838    | 172,427                          |
| Total shareholders' equity                          | 168,301         | 152,304   | 138,868   | 1,400,179                        |
| Total assets  | 2,195,897       | 2,314,720 | 2,420,661 | 18,268,696                       |
| Net cash provided by operating activities           | 167,368         | 200,708   | 145,835   | 1,392,415                        |
| Net cash used in investing activities               | (11,030)        | (77,248)  | (166,942) | (91,767)                         |
| Free cash flow                                      | 156,337         | 123,460   | (21,107)  | 1,300,648                        |
| Net cash (used in) provided by financing activities | (117,709)       | (125,572) | 22,127    | (979,276)                        |

Note: The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of the reader; using the telegraphic transfer middle rate of exchange prevailing on the Tokyo Foreign Exchange Market on March 31, 2003, which was ¥120.20 = US\$1.00.



■ Net cash provided by operating activities  
■ Net cash used in investing activities  
■ Free cash flow

J-POWER posted **¥584.1 billion** in consolidated operating revenues, mainly from the electric power business



**Electric Power Sales**  
(For the year ended March 31, 2003)

|                                   | Power sales (GWh) | Percentage of total | Revenues from power sales and wheeling (Billions of yen) | Percentage of total |
|-----------------------------------|-------------------|---------------------|--|---------------------|
| Hokkaido Electric Power Co., Inc. | 828               | 1.5                 | 14.9   | 2.8                 |
| Tohoku Electric Power Co., Inc.   | 1,606             | 3.0                 | 23.0   | 4.3                 |
| Tokyo Electric Power Co., Inc.    | 5,717             | 10.5                | 125.3  | 23.2                |
| Chubu Electric Power Co., Inc.    | 3,170             | 5.8                 | 36.9   | 6.8                 |
| Hokuriku Electric Power Co., Inc. | 705               | 1.3                 | 11.6   | 2.1                 |
| Kansai Electric Power Co., Inc.   | 10,226            | 18.8                | 100.1  | 18.5                |
| Chugoku Electric Power Co., Inc.  | 18,538            | 34.1                | 113.0  | 20.9                |
| Shikoku Electric Power Co., Inc.  | 5,666             | 10.4                | 49.3   | 9.1                 |
| Kyushu Electric Power Co., Inc.   | 5,991             | 11.0                | 53.7   | 9.9                 |
| Okinawa Electric Power Co., Inc.  | 1,956             | 3.6                 | 12.2   | 2.3                 |
| Other*                            | 26                | 0.0                 | 0.2  | 0.0                 |
| <b>Total</b>                      | <b>54,429</b>     | <b>100.0</b>        | <b>540.3</b>   | <b>100.0</b>        |

\* Sumitomo Joint Venture Thermal Power Co., Ltd.  
Figures do not include pumped-storage hydroelectric power

J-POWER maintains generating facilities at **72 locations** nationwide, contributing to stable electricity supplies.  
(Including facilities of associated companies)

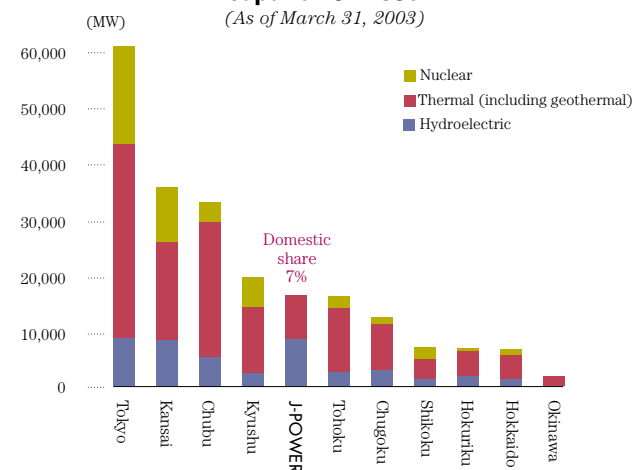
**POWER GENERATION FACILITIES**

|                              | (Number)  | (Capacity)      |
|------------------------------|-----------|-----------------|
| Hydroelectric power stations | 58        | 8,261MW         |
| Thermal power stations       | 8         | 7,825MW         |
| Wind power stations          | 3         | 57MW            |
| Cogeneration                 | 1         | 12MW            |
| Waste-Fueled Power Station   | 1         | 21MW            |
| IPP                          | 1         | 134MW           |
| <b>Total</b>                 | <b>72</b> | <b>16,309MW</b> |

**TRANSMISSION LINES** 2,404.4km

- MAJOR FACILITIES**
- Hydroelectric power stations
  - Thermal power stations
  - ▲ Geothermal power station
  - ▲ Wind power stations
  - ◆ Waste-fueled power station, cogeneration, IPP
  - Substations, frequency converter station and AC/DC converter stations
  - Transmission lines
  - ▲ Technology Development Center, research institute

**Power Generation Capacity of J-POWER and Japan's 10 EPCOs**  
(As of March 31, 2003)



J-POWER accounts for **7%** of the total capacity of Japan's generating facilities and plays a crucial role in the domestic supply of power.

**Recent Developments and Initiatives at J-POWER**

- 1997 JUNE** The cabinet finalizes its privatization plans.
- 2001 MAY** Management formulates new management policies to drive toward privatization and ensure progress thereafter.  
  
Groupwide activities under the Third Phase of the Company Reform Plan are launched, along with initiatives to bolster our competitiveness in the wholesale electric power business and expand international and new business activities.
- NOVEMBER** Decision is made to stop seeking further fiscal investment and loans from the government, in favor of full funding from the marketplace.
- 2002 APRIL** New, employee-selected trading name of J-POWER is introduced.
- DECEMBER** Plans are finalized to strengthen financial position through an increase of capital utilizing a fund.
- 2003 JUNE** The Diet approves a bill to abolish the Electric Power Development Promotion Law in line with privatization policies.

**Accompanying the abolishment, the Diet formulated a resolution, shown below, regarding the future operation of J-POWER:**

"To ensure that J-POWER swiftly establishes autonomous management foundations as a private company and operates effectively and positively, the company should take measures to reinforce its financial position while endeavoring ahead of full privatization to build a more independent and responsible management organization in terms of funding and personnel affairs."

—Upper House additional resolution

## Message from the President

In June 2003, the Diet resolved to repeal the Electric Power Development Promotion Law, which governed our establishment in 1952, thus creating the legislative basis for the full privatization of J-POWER. We plan to swiftly list on the stock markets and do our utmost to become a completely private entity.

In recent years, we have experienced a tough operating environment, owing mainly to slower growth in electric power demand, further structural reforms in our industry and global warming. At the same time, change has created new business opportunities. We will strive to enhance our enterprise value by reinforcing our cost-competitiveness in electricity wholesaling and building solid revenues and earnings foundations. We will also establish new operations in our core competencies of energy and the environment.

### The Year in Review

We started using the trade name J-POWER in April 2002. The name reflects our desire to harness the track record and technological clout we have built over the past half-century to provide environment-friendly power to countless people and thereby become a more valuable and powerful company.

We made steady progress in the year ended March 31, 2003, the second year of the Third Phase of the Company Reform Plan that is guiding us toward and beyond privatization. For example, we introduced business department and executive officer systems and reduced the size of the board of directors to accelerate decision making and clearly delineate responsibilities for operating more efficiently and reaching earnings goals. In addition, we strove to stabilize our revenues

and earnings by cutting personnel and implementing efficiency measures, including reviewing the maintenance structure for our electric power facilities.

On the business front, we launched new projects centered on our strengths in electricity generation. In April 2002, we started operations at the 600-megawatt No. 1 unit of the Isogo Thermal Power Station in Kanagawa Prefecture. The new facility has already reached high output levels. We decided to invest in two IPPs that serve EPCOs, and began development on two power plants in metropolitan Tokyo for power producers and suppliers (PPSs), the term for new entrants to the competitive power retail market. Overseas, we participated in gas-fired thermal generation operations in Thailand and Taiwan and in a wind power project in Spain.

Also during the year, the government decided on a scheme to increase capital through a fund firm so we could improve our financial position—our prime management issue—ahead of privatization. We are thus well positioned to dramatically boost our equity ratio.

During the term, consolidated operating revenues dipped 1.6%, or ¥9.2 billion, to ¥584.1 billion. This was due to a reduction in thermal power rates in response to lower coal prices and accelerated depreciation. Power sales rose 8.0%, however, to a record 54,429 gigawatt-hours, as a result of the operational launch at the new No. 1 unit of the Isogo Thermal Power Station and higher demand from EPCOs. Operating income climbed 12.2%, or ¥14.6 billion, to ¥134.2 billion. In our view, this figure validates our cost-cutting efforts under the Third Phase of the Company Reform Plan. Ordinary income fell 19.3%, or ¥8.5 billion, to ¥35.5 billion, primarily because financial expenditures rose after repaying long-term loans before they were due.

Net income was up 17.5%, or ¥3.1 billion, to ¥20.7 billion, in the absence of extraordinary losses posted in the previous term.

Net cash provided by operating activities declined as a result of the drop in operating revenues and greater interest expenses. Nonetheless, free cash flow improved to ¥156.3 billion on the strength of cash proceeds from the transfer of ownership of the Hitachinaka Thermal Power Station, which is still under construction, to Tokyo Electric Power Co., Inc. We used those proceeds to reduce interest-bearing debt and improve our financial position.

### **Toward J-POWER's Full Privatization**

In June 2003, the 156th plenary session of the Diet approved the abolishment of the Electric Power Development Promotion Law, which was the legislative foundation for our establishment. This ended our government-mandated mission of quantitatively and qualitatively supplementing the domestic electricity supplies of the nation's 10 EPCOs. The decision brought our regulatory framework into parity with those of other power companies. As a private entity, we will strive to become an even more competitive and attractive electricity provider as structural reforms progress.



Yoshihiko Nakagaki,  
President

We maintain stable, long-term wholesale electricity supply contracts with the 10 EPCOs, accounting for more than 90% of our operating revenues. Even after privatization, the generating and transmission and substation facilities used to fulfill these agreements will remain the bedrock of our business. At the same time, we fully recognize that our operations form a critical foundation for ensuring stable supplies of electricity

in Japan. It accordingly remains our mission to continue reducing the costs of our generating and transmission facilities while maintaining their high reliability.

As structural reforms evolve in the electric power business, I believe J-POWER's new mission in the private sector will be to tackle the challenges of the power wholesaling market and perform many other new roles assigned to it.

### **Cultivating Next-Generation Businesses**

To continue to prosper amid structural reforms, J-POWER will need to become more competitive in its core business of electricity wholesaling to solidify its revenues and earnings bases. The Third Phase of the Company Reform Plan specifically addresses this issue.

It will also be critical for us to complement our central operations by creating new businesses in Japan and

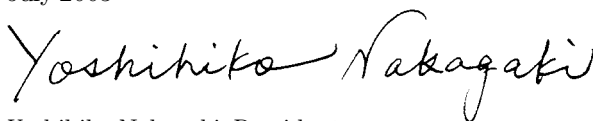
abroad. We are therefore reinforcing risk management while building businesses and developing products that allow us to hone the Group's competitive edge.

In Japan, for example, we have identified opportunities in the structural reform of the electrical utilities business and in the problems associated with global warming. We are thus accelerating our drive to cultivate operations for PPSs and develop clean energy sources like wind and biomass power. We also aim to draw on our strong engineering and project management capabilities to expand our business with the public sector, such as by overseeing energy supply facilities under private finance initiatives (PFIs).

Internationally, we are working hard to uncover promising new markets. We are employing the expertise and networks we have accumulated through the consulting business around the world over the past 40 years to concentrate on the IPP business, particularly in Asia, where demand for power is rocketing. We will cultivate international power operations so they eventually become a second core focus for us, after our domestic activities, and play an important role in our progress.

We are harnessing our energy and environmental capabilities so we can expand as the sole ("only one") or leading ("number one") provider of products and services in each business area. This approach is essential to building corporate value and is a shared priority of everyone at J-POWER. I ask for your ongoing support and encouragement as we advance toward an exciting future.

July 2003



Yoshihiko Nakagaki, President

*Better Understanding J-POWER*



## Interview with Top Management:

# Toward and Beyond Privatization

*Q. What steps are you taking toward listing J-POWER?*

**A.** This year, the government will abolish the Electric Power Development Promotion Law—the law underpinning our establishment. Thereafter, it plans to establish a funding firm that takes our increased capitalization and offers our shares in the marketplace. The government will invest its entire stake in J-POWER in that firm.

The plan, thereafter, is to assess and execute a listing, and we will do our utmost to ensure it is successful.



*Q. How will the abolishment of the Electric Power Development Promotion Law affect J-POWER?*

**A.** Once that law is repealed, the Japanese Commercial Code will govern our operations, just as with any other private company.

To date, the government has been obligated to hold at least half of our shares, as we have functioned as a special corporation under the auspices of national energy policies. Other restrictions have included everything from the scope of

operations to the selection of board members. On top of that, after the law is repealed,

the sole legislation specifically overseeing our activities as a wholesale electric power company will be the Electricity Utilities Industry Law, which gives us far greater autonomy.

Over the years, we have started countless power development projects based on our planning capability. The government played a pivotal role in these endeavors by providing most of our funding through fiscal investment and loans. From now on we will be responsible for all aspects of J-POWER's management and for securing our own finance.

We have already prepared for privatization in many ways. For example, we have informed our workforce of the implications of imminent changes. We have improved operational efficiency, entered new business areas and issued bonds. We will leverage our half-century of experience in supporting the progress of Japan's electric utilities industry to seize the opportunities that liberalization affords while pioneering new fields domestically and abroad.

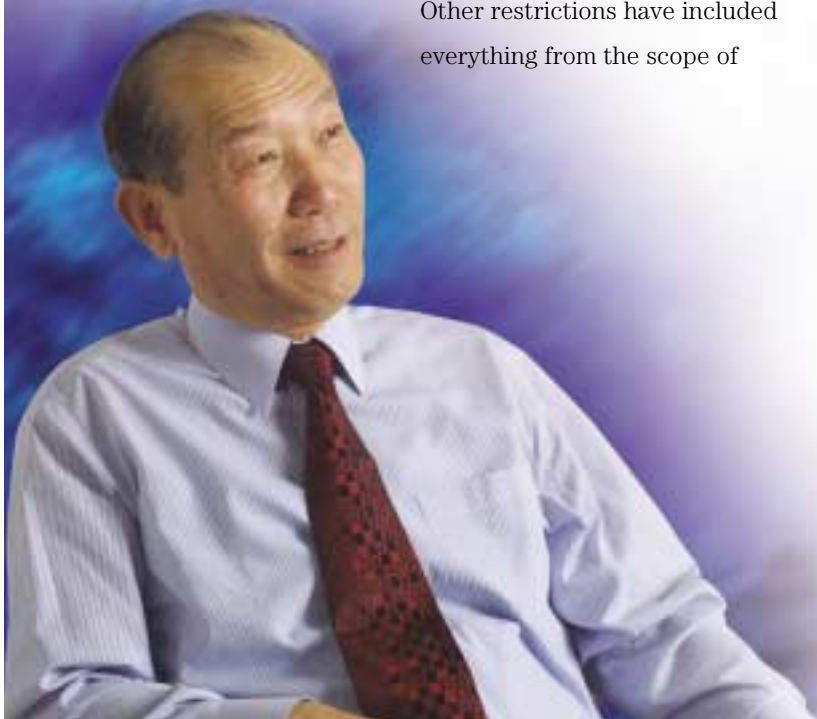


*Q. Please outline the framework of your scheme to boost capitalization as part of your initiatives to strengthen your financial position.*

**A.** We have traditionally used our profit sources to lower wholesale electricity rates and thereby benefit consumers, so our internal reserves have not been

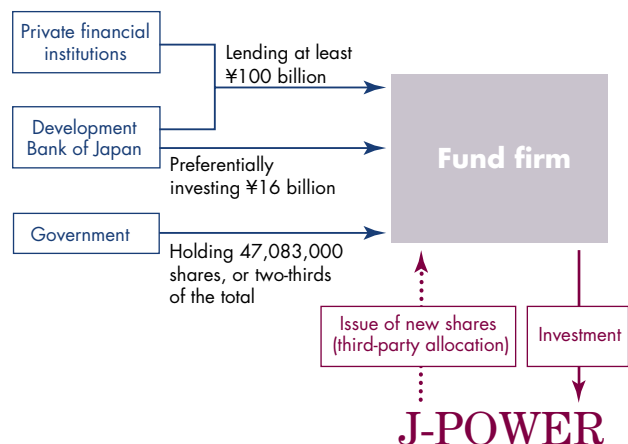
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*As a private company, J-POWER will operate independently and responsibly to seize the opportunities that liberalization affords.*





### Overview of Scheme to Increase Capitalization



sufficient. We have sourced most of our long-term funding for constructing power plants not through capital increases but from government loans or government-guaranteed bonds. This is why our shareholders' equity has been much lower than that of the 10 EPCOs.

The government's new scheme to raise our capitalization will strengthen us before listing. This is an extremely important and forward-looking measure to ensure our sound operation and development as a privatized entity.

The scheme entails the government putting its J-POWER shares into a fund that will operate for a limited time. The Development Bank of Japan will invest in the fund and, together with private financial institutions, will provide finance. The fund will underwrite the capital increase in J-POWER, divesting its entire holdings when we list and then distributing the proceeds to the lenders and investors.

The government will be the largest holder in the fund, giving it oversight rights and reinforcing its total support for our privatization.

After we increase capitalization, our shareholders' equity will be dramatically higher than the total of ¥168.3 billion at the end of March 2003. We expect to boost our equity ratio from 7.7% to at least around 15%.

These steps will complete one aspect of our prime management goal in heading toward privatization—strengthening our financial position. We will continue to constrain capital expenditure and bolster revenues and earnings to reduce interest-bearing debt and overall assets. We thereby aim to further solidify our financial standing, raising our equity ratio to around 20% by the end of March 2006.



#### Q. *What funding policies are in place ahead of privatization?*

A. For a start, it is very important for us to stabilize our capitalization by generating more revenues and earnings, as this will help raise our creditworthiness when securing external finance. We plan a diverse and stable funding mix that includes obtaining loans from banks, insurance companies and other private financial institutions, and issuing bonds.

We will focus particularly on bonds. In keeping with that focus, in March 2003 we publicly issued ¥20 billion in bonds that were our first not to be government-guaranteed. This stabilized our cash flows, which in turn led to us receiving praise as well as strong ratings, notably an AA+ from

Rating and Investment, Inc., and an AAA from the Japan Credit Rating Agency, Ltd.

#### **Ratings on First Bond Issue**

Rating and Investment, Inc.

AA+

Japan Credit Rating Agency, Ltd.

AAA



■  
*Q. Please outline how the structural reforms are progressing and how you are responding to the changes.*

*A.* Partial liberalization of power retailing began in March 2000. This move deregulated the supply of electricity with extra-high-voltage consumers that account for roughly 30% of total power demand. As of the end of March 2003, PPSs accounted for just under 1% of the competitive retail market. While this proportion is small, the entry of new players prompted EPCOs to slash their prices in 2000 and 2002. So the structural reforms have exerted a significant impact, especially in terms of pricing.

In April 2005, the structural reforms in Japan will reach a new stage. The government aims to extend power retailing to high-voltage consumers, which represent about 60% of Japan's electricity consumption, and allow the establishment of a power exchange.

We provide the 10 EPCOs with wholesale electricity through long-term contracts. As the competitive market expands, we will see more retail price competition that will pressure us to further reduce wholesale rates.

*The electricity industry's structural reforms are setting a new stage.*

We will therefore strive to increase efficiency and become more price-competitive.

The Electricity Industry Committee compiled a report on structural reforms, mentioning the possible formation of a wholesale power exchange in which we are confident we can play a critical role. We plan to take full advantage of our strengths as an electricity wholesaler in such a market.

While endeavoring to slash costs, we will seek new business opportunities by closely monitoring the diversification of the operating environment. We aim to remain the supplier of choice in all respects.

**Excerpt from February 2003  
Electricity Industry Committee Report**

The Electric Power Development Co., Ltd., is set for privatization in keeping with a June 1997 resolution of the House of Councilors. We consider it proper to keep the company integral and privatize it. The company should remain able to operate in line with its mission as a foundation of the social infrastructure and concertedly harness its diverse capabilities to play a critical role in a new framework brought about through structural reforms, including those to the wholesale power market.





*Q. What progress did you make on the Third Phase of the Company Reform Plan in the period under review?*

**A.** We deployed this five-year initiative from the year ended March 31, 2002, to strengthen our competitiveness in power wholesaling and streamline our progress toward and beyond privatization. The plan concentrates on reorganizing, cutting costs and reinforcing our financial position, with numerical targets for each of these areas by plan completion. The year under review, the second year of the plan, was important because we took specific steps groupwide.

On the reorganization front, to improve efficiency, in April 2002 we instituted business department and executive officer systems. Our business departments pursue profit maximization in their respective fields. We also established corporate departments that formulate and promote Group management strategies. We have appointed executive officers to each business

department, clarifying their operational and earnings responsibilities to accelerate decision making and operational progress. We accordingly restructured regional operations responsible for facilities maintenance and operations, with business departments overseeing their activities. These regional bodies also have clear mandates, including for profit targets. We streamlined our top management system by reducing the number of board members from 19 to 13.

By the fiscal year ending March 31, 2006, we aim to cut controllable costs at least 20%. Such expenses include personnel, outsourcing and fuels. The prime focus will be on reducing the number of Group employees from 8,000 as of March 31, 2001, to 6,000 as of March 31, 2006. To date, we have cut our workforce by roughly 1,000 people, or more than 10%. This is in keeping with our plans.

We are striving to enhance our financial position by bolstering revenues and earnings and lowering interest-bearing debt through the reduction of capital expenditure and assets. We have responded to slower growth in power demand by halting construction at, or transferring development rights for, four power station projects covering a total output capacity of 2.8 million kilowatts. In addition, we securitized our headquarters building.

As a result of these efforts, we have reduced total assets and interest-bearing debt for the past two years by around 10% of pre-plan levels.

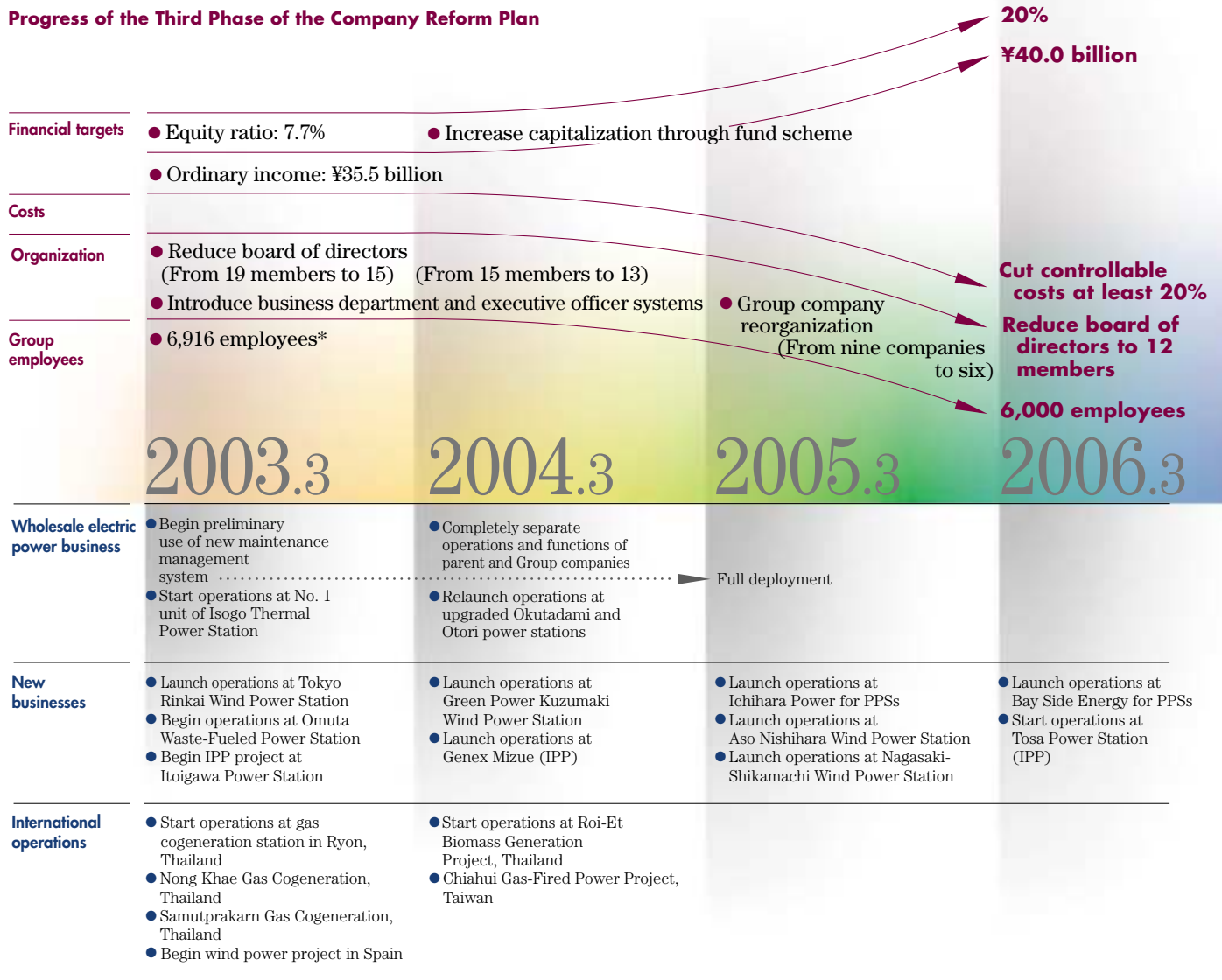


*Q. What is your outlook for new business development centered on energy and the environment?*

**A.** The operating environment in Japan has become tougher because growth in demand for electricity is



## Progress of the Third Phase of the Company Reform Plan



\* Including personnel assigned to companies other than consolidated subsidiaries.

slowing, while power prices are falling and the number of new players entering the business is increasing. That said, reforms to the electric utilities industry and responses to global warming are creating new opportunities. Overseas, many regions are poised for fast rises in demand for energy.

We have been using the expertise we have accumulated domestically and abroad over the past 50 years to

apply our core operational and technological competencies in fields related to energy and the environment. We aim to harness our capabilities to capitalize on new opportunities in Japan and internationally and thereby build new revenues and earnings foundations.

Specifically, we have identified five business domains. These include our main focus—domestic electricity—and extend to overseas electricity,

*We will expand our fields of business and become a leader in highly strategic sectors*

environmental business, energy resources and engineering. We are launching new projects

through our Business Development, International Activities and Engineering departments. Supporting these departments is the Business Planning Department, which cultivates and commercializes the seeds of new fields. In addition, we set up the Technology Development Center to promote advances not only in traditional business areas but also in a broad range of other fields. We are concentrating on areas in which we can be the sole or leading player. We plan to concentrate capital, personnel and management resources in highly strategic sectors.

As the structural reforms progress, more opportunities are arising in new power fields beyond our traditional focus on wholesaling. I am convinced that we can draw fully on our strengths to cultivate those areas. We are

currently involved in five projects for IPPs and PPSs. These facilities will have a combined output capacity of 700,000 kilowatts. We anticipate considerable growth in the use of renewable energy to combat global warming and respond to government policies. We have a top track record in Japan in developing wind power. We pioneered the operation of highly efficient facilities powered by refuse-derived fuel (RDF), and we will leverage that expertise to build a very solid competitive position.

We will maintain facilities based on PFIs and public-private partnerships. We will harness Group management resources to offer diverse services, including engineering and consulting.

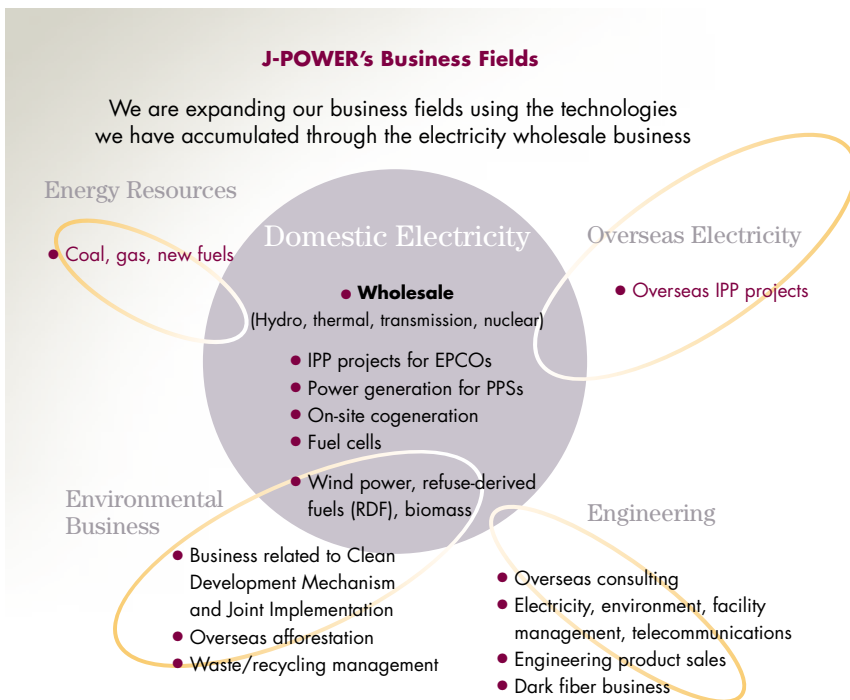
Internationally, our focus is on the IPP business. We have invested in IPPs with total existing or planned output capacities of 2.6 million kilowatts, centered in Asia, where we expect demand for power to expand particularly fast. We will continue to manage risk and

analyze profitability appropriately and work with trustworthy local partners to cultivate outstanding projects. We will increase our investment stakes and contribute heavily to own and manage projects to expand overall revenues and earnings.



*Q. What are you doing in your nuclear power business?*

**A.** Nuclear power will remain a very powerful part of Japan's energy portfolio. Nuclear generation is free of carbon dioxide and



the stable operation of nuclear facilities can allow us to enjoy stable earnings. We are therefore pushing ahead with plans to build the Oma Nuclear Power Station, a 1,383-megawatt facility, in Aomori Prefecture. Our nuclear power plans are in line with the government's policy of establishing a nuclear fuel cycle and are supported by the August 1995 decision of the Atomic Energy Commission to promote the use of a full mixture of oxidized uranium and plutonium (full-MOX) for the whole core of advanced boiling water reactors.

In keeping with the policy, the government provided funds to assist the technical development of full-MOX facilities for the Oma project. We have concluded basic accords with nine EPCOs to supply power from the facility, and they have pledged to pay fees at appropriate rates for all its output.

The Oma facility is scheduled to go on line in 2012. In the meantime, we are pushing ahead with our construction plans, paying full attention to safety and environmental considerations and closely consulting with the local community.

There have been various problems with the operations of other organizations' nuclear power stations in Japan, but the issues have related to corporate compliance failures, not of the nuclear power system itself. We aim to create an operational system that prevents compliance problems.

■  
*Q. How is J-POWER tackling global warming, given that its operations center around coal-fired thermal power generation?*

*A.* Coal is plentiful and far cheaper than other sources of thermal energy. As liberalization continues, coal

will be an important tool for maintaining our cost-competitiveness. At the same time, we recognize that coal emits more carbon dioxide than other alternatives, making it important to address global warming issues. As a pioneer of coal usage in the electric power industry, we will continue to combat the side-effects of coal through technological development.

For example, we are exploring technologies to improve generating efficiency and have already developed world-class pulverized coal-fired plants. We have also begun reducing carbon dioxide emissions through the development of integrated coal gasification combined cycle power generation (IGCC). In addition, we are developing and deploying nuclear, wind and biomass power facilities as part of a generation system that is emission-free.

We are also taking advantage of other vehicles to reduce emissions under the Kyoto Protocol, notably



its tools for carbon credit trading, Joint Implementation and the Clean Development Mechanism. We have planned several projects under a framework linking developed and developing nations, and have already begun afforestation operations in Australia and Ecuador.



**Q.** *Please outline your corporate governance stance.*

**A.** It is essential for us to build a better corporate governance and compliance system ahead of privatization.

In April 2002, we took steps to operate more transparently and accountably and thereby enhance corporate governance, by instituting an executive officer system and reinforcing the board of directors while reducing its number. We transferred operational implementation responsibilities to the executive officers of each business to accelerate decision making. At the same time, we focused the responsibilities of the board so it can concentrate on management strategy and monitor implementation. This approach gave us a high-quality strategic and administrative setup. We reduced the number of board members from 19 to 13. We also reinforced the role of corporate auditors, for example to participate in executive committee meetings. To support our drive to improve transparency and accountability, in 2001 we established the Disclosure Committee, which the president chairs. We act accountably toward investors by proactively and fairly disclosing information. At the same time, we strive to reflect investors' opinions in our management.

In March 2003, we made further progress by establishing the Compliance Code. Based on our corporate

philosophy and corporate conduct rules we formulated in January 2001, we maintain specific standards for assessing the actions of executives and employees alike. We maintain a setup under which compliance extends to all areas of the Group, with strict guidelines covering each stakeholder.

We established the Compliance Action Committee, also headed by the president, to deal swiftly with compliance breaches and prevent reoccurrences. Our larger offices also hold regular seminars to improve awareness of compliance issues.

On top of that, we appointed an executive to oversee and promote compliance. We will monitor the effectiveness of compliance programs by strengthening internal checks and introducing a system of checksheet-based self-assessments.

### Separation of Oversight and Execution

#### BOARD OF DIRECTORS

- Transferred operational implementation to the executive officers of each business department
- Concentrating on formulating Group strategies and overseeing operational implementation
- Reduced board from 19 directors to 13

#### EXECUTIVE OFFICERS

- Responsible for implementing operations and meeting earnings targets in their respective departments

We aim to build stable sales and profits foundations while becoming more competitive in power wholesaling. We will also expand into new fields centered on energy and the environment.

### Power Wholesaling Business

Hydropower & Power Network Department  
*Reduce construction and maintenance expenses while boosting earnings and safeguarding the environment.*

Thermal Power Department  
*Improve technological capabilities and supply more efficient energy.*

Nuclear Power Department  
*Provide stable, long-term business foundations without compromising meeting safety and economy targets.*

### New Businesses and International Operations

Business Development Department  
*Build new operational foundations centered on wind power, recycling and electrical energy supplies.*

International Activities Department  
*Draw on the expertise and networks created through our consulting activities around the world to cultivate IPP businesses.*

Engineering Department  
*Harness technologies from power wholesaling to provide comprehensive engineering services.*



## Hydropower & Power Network Department

*J-POWER is a top-class player, accounting for around 18% of Japan's hydroelectric capacity, with a total capacity of 8,261 megawatts.*

### Fiscal Year Performance

This department oversees the wholesale generation and distribution of hydroelectric power.

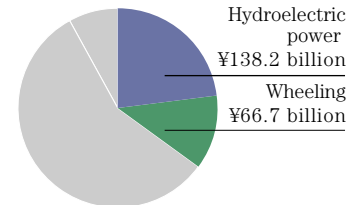
At the close of the year under review, we maintained 58 hydroelectric power stations with a total capacity of 8,261 megawatts, making us one of the largest suppliers in the nation. During the year, the water outflow rate from our facilities was virtually unchanged, at 91%. We marketed 8,902 gigawatt-hours of hydroelectric power, up 0.3%. Operating revenues from this business area rose 0.2%, to ¥138.2 billion.

At year-end, we maintained 2,404 kilometers of transmission lines and three substations, a frequency converter station and four alternating current/direct current (AC/DC) converter stations. These network facilities are linked with those of EPCOs. In the period under review, operating revenues from wheeling slipped 0.7%, to ¥66.7 billion.

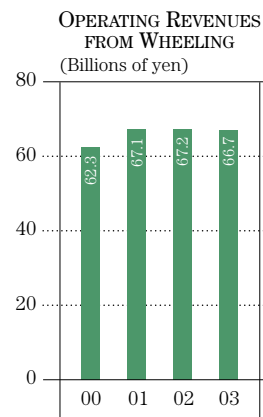
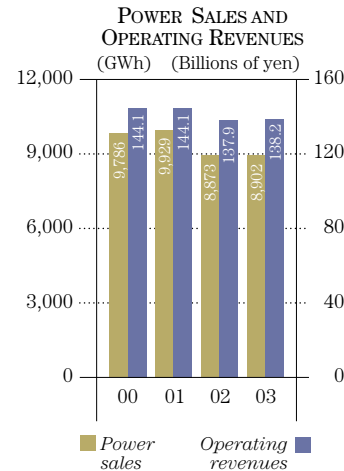
### Hydroelectric Generation

Our hydropower business dates to 1956, when operations started at the large Sakuma Hydroelectric Power Station. We have since built a leading position in hydro-power generation. Our comprehensive technological capabilities—from design and construction to maintenance and operations—are a competitive strength. We have the best technologies in Japan in constructing dams and large subterranean facilities. On the operational front, we maintain high efficiency by controlling our 58 plants around the nation from four regional centers. This setup helps us ensure high safety and reliability. Many of our large hydroelectric facilities have reservoirs that ensure low costs and flexibility. Another strength is that the wide distribution of our facilities minimizes the risks of unfavorable climatic variations.

COMPOSITION OF OPERATING REVENUES



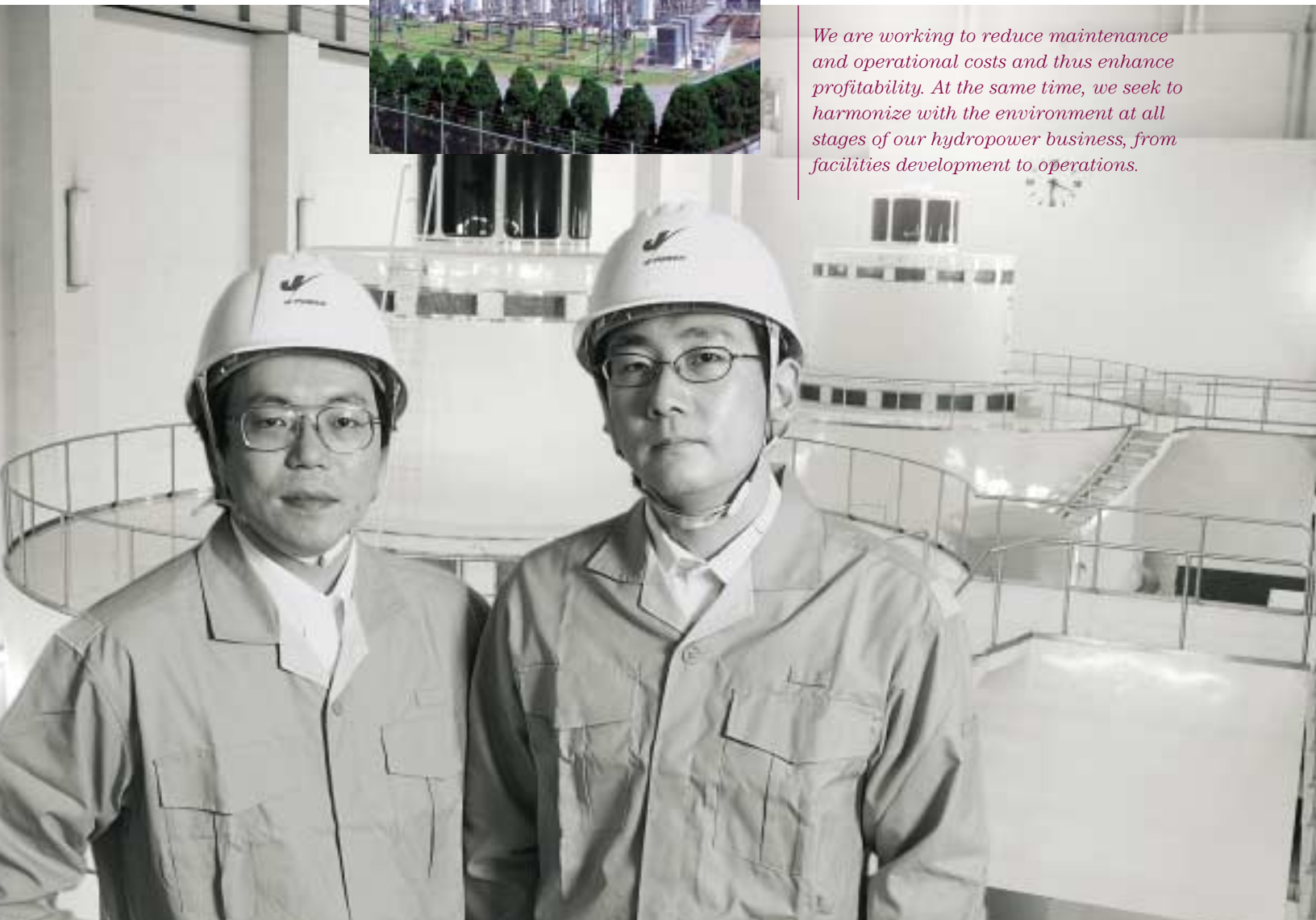
*The Hydropower & Power Network Department's operations comprise 35% of J-POWER's operating revenues*



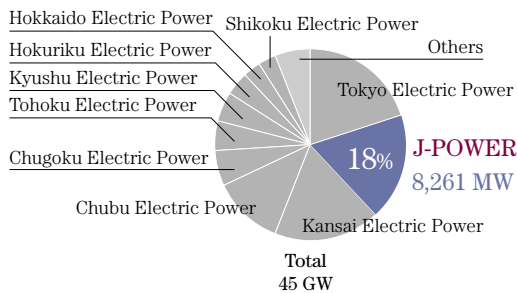
Sakuma Frequency Converter Station



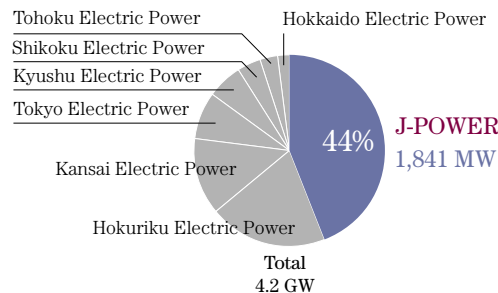
*We are working to reduce maintenance and operational costs and thus enhance profitability. At the same time, we seek to harmonize with the environment at all stages of our hydropower business, from facilities development to operations.*



CAPACITY OF HYDROELECTRIC POWER GENERATION  
(As of March 31, 2003)



CAPACITY OF RESERVOIR-TYPE HYDROELECTRIC POWER  
(As of March 31, 2002)



*As well as pumped-storage facilities, which allow it to flexibly adjust output, J-POWER maintains many hydropower stations served with reservoirs that permit long-term adjustments to river flows. These capabilities have increased our ability to operate efficiently in keeping with supply plans.*

Hydropower is one of Japan's few domestic sources of energy. Its other key advantage is that it is clean and renewable, making it an important tool in the battle against global warming. Few locations remain in Japan for the development of large facilities, so our hydroelectric power stations should become increasingly valuable in the years ahead.

We are striving to make our existing facilities more useful by cutting maintenance and operational costs to bolster profitability. Specifically, we have developed diagnostic technologies that optimize facilities maintenance. We have also reduced the number of employees involved in upkeep and operations and upgraded facilities

to improve generating efficiency.



Introduction of new technology at our Okutadami Power Station made it possible to increase the facility's capacity to 200 megawatts without changing the water level.

### Networks

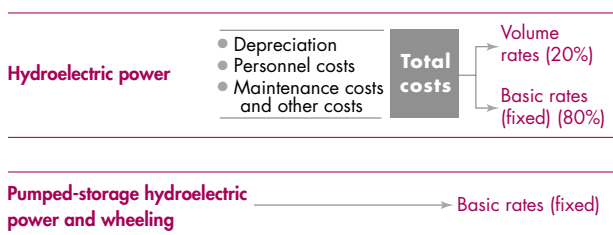
Our network not only distributes electricity from our facilities to regional customers but also plays a central role in keeping Japan's power system in operation.

In 1965, we started operations at the Sakuma Frequency Converter Station. This facility was the first in Japan to link the 50-hertz power system of east Japan with the 60-hertz setup of west Japan. Our Tadami Trunk Line links Tokyo with the Tohoku region. Our Miboro Trunk Line covers the Chubu, Hokuriku and Kansai areas. We also maintain ultrahigh-voltage transmission lines stretching from Hokkaido to Honshu, Shikoku and Kyushu, contributing mightily to regional power management.



J-POWER maintains a structure that clearly separates generating facilities maintenance and operations among Group companies to eliminate duplication. We are also working to reduce the number of maintenance personnel and other costs. To provide a foundation for our activities, we have created a facilities maintenance administration system for the monitoring of everything from work planning to employee dispatch, supplies sourcing and results management. We are building a database of inspection and job results and costs so we can strengthen our technological capabilities by switching from time-based maintenance to condition-based maintenance.

### J-POWER's Rate System for Hydroelectric Power and Wheeling

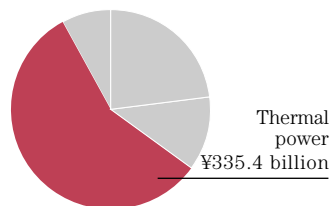


We base our rates on the individual costs of generating and wheeling power at each facility, to which we add compensation. We conclude contracts with power companies selling our electricity according to site or water system. Capital costs and fixed asset taxes account for a high proportion of the expenses of our hydropower, transmission and substation facilities, and annual cost fluctuations are small. We therefore set low rates from the start of operations to ensure long-term price stability. The proportion of basic (fixed) rates is high, minimizing the impact of output fluctuations on sales. This approach generates stable cash flows for our revenues and earnings structure.

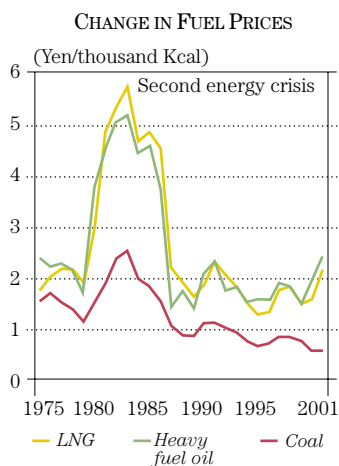
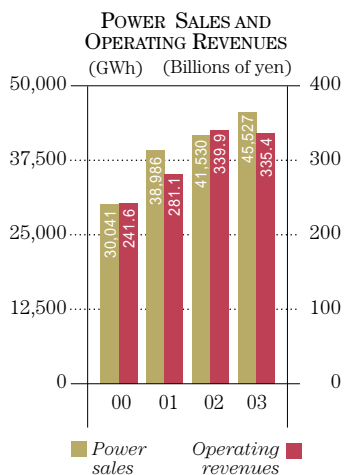
## Thermal Power Department

*J-POWER is a leader in coal-fired thermal power generation, with its annual combined output of 7,812 megawatts accounting for around 23% of Japan's total output from this energy source.*

COMPOSITION OF OPERATING REVENUES



*Thermal power accounts for 57% of J-POWER's operating revenues.*



*Coal remains consistently cheaper than liquefied natural gas and oil, helping stabilize power supplies.*

### Fiscal Year Performance

The Thermal Power Department looks after our thermal power stations.

At the end of the year under review, we operated seven coal-fired power stations and one geothermal power station, with a combined output of 7,825 megawatts. We are Japan's largest operator of coal-fired power stations. During the term, the No. 1 unit of the state-of-the-art Isogo Thermal Power Station came on line. This factor and higher demand from EPCOs lifted electric power sales from thermal facilities 9.6%, to a record 45,527 gigawatt-hours. Income from thermal power sales declined 1.3%, to ¥335.4 billion, however, reflecting lower coal prices and depreciation, which cut costs and featured in a decrease in rates.

### Coal-Fired Thermal Power Generation

We started to develop coal-fired thermal power facilities from the latter half of the 1960s. Since then, coal has been the sole fuel for our thermal facilities, which are our largest source of revenues and earnings.

Coal has many advantages. It is widely distributed around the world and is the most economic fossil fuel, so it enables stable supplies. Coal is cheaper than oil or liquefied natural gas per unit of power generated. We were swift to focus on developing overseas sources of coal, planning facilities fueled on foreign coal before the energy crises of the 1970s. We were the first in Japan to commercially use foreign coal in coal-fired plants. We sought economies of scale by developing large power stations that would serve demand from several EPCOs.

We are Japan's biggest consumer of foreign coal, importing more than 10 million metric tons every year. We diversify our international sourcing of coal and

conclude an optimal mix of long-term and spot contracts to ensure stability and economy. We have also invested in coal development efforts overseas to further stabilize our long-term access to coal.

To maintain a strong position in the marketplace, the Thermal Power Department is striving to boost its cost-competitiveness. It is working to lower the costs of constructing power stations by implementing new techniques and equipment sourcing methods. In maintenance and operations, the department is expanding the use of cheaper sub-bituminous coal. It is also developing technologies that reduce costs, such as a system that diagnoses the remaining lifespan of facilities. As with the Hydropower & Power Network Department, we have deployed a system that allocates operations among Group companies, and are endeavoring to lower personnel and other costs.

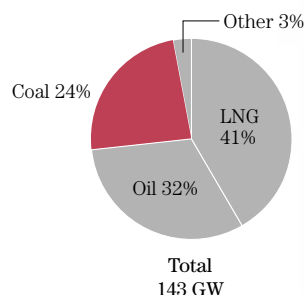
While coal is superior in cost terms, it is a greater emitter of carbon dioxide per unit of energy produced than liquefied natural gas or oil, making it imperative to reduce emissions. We have tackled this issue by seeking ways to enhance thermal efficiency, achieving top-class results for these efforts in Japan. Higher thermal

efficiencies not only cut carbon dioxide emissions but also decrease generating costs. We also maintain industry-leading technologies to cut emissions of sulfur and nitrous oxides. We are continuing to develop tools that optimize the efficiency of coal, such as our coal gasification technology.

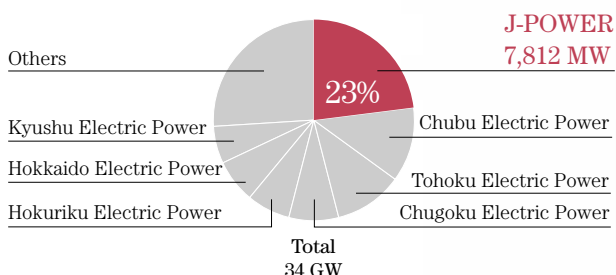


In April 2002, we completed replacement work and began operations at the No. 1 unit of the Isogo Thermal Power Station. We plan to construct the No. 2 unit, which is scheduled to go on line in July 2009.

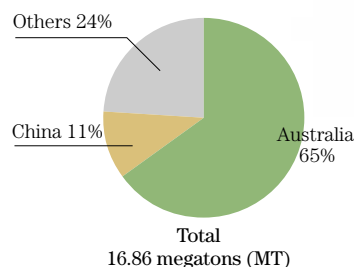
PORTION OF THERMAL POWER GENERATION CAPACITY BY SOURCE IN JAPAN  
(As of March 31, 2003)



CAPACITY OF COAL-FIRED POWER GENERATION  
(As of March 31, 2003)



PROPORTION OF J-POWER'S COAL IMPORTS BY COUNTRY  
(Year ended March 31, 2003, by procurement)



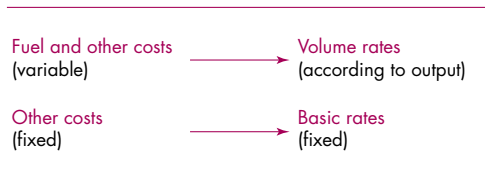


Japanese coal-fired thermal power stations mostly use imported coal, which accounts for 96% of the coal that J-POWER sources.

*Coal is important for Japan as an economic and stable source of energy. J-POWER is endeavoring to extend coal's advantages by cutting carbon dioxide emissions and developing advanced technologies that improve usage efficiency.*



### Thermal Power Rate System



We base rates on individual costs. Fuel, repair and other expenses comprise a high proportion of such costs, however, and fluctuate greatly by year. Every two years, therefore, we revise our rates to reflect those changes. We use volume rates to reflect changes in fuel costs according to power output. We also maintain a fuel cost adjustment system that covers fluctuations in foreign exchange rates and crude oil prices. Capital, repairs and maintenance and other costs are part of the basic (fixed) rates for all output levels. This framework allows the department to secure stable cash flows.

## Nuclear Power Department

*We develop highly reliable nuclear power stations that make safety their top priority.*

### Operational Overview

Nuclear power is highly attractive because of stable fuel supplies and prices and low environmental impact. This energy source accounts for one third of power generated in Japan, making it essential to the nation.

We began studying nuclear power in 1954. In 1969, we started working closely with the Power Reactor and Nuclear Fuel Development Corp., now the Japan Nuclear Cycle Development Institute, to design, build and operate the Fugen Advanced Thermal Reactor. We are applying the nuclear power technologies we have accumulated over the years with support from the government and EPCOs to construct the Oma Nuclear Power Station. Our first such facility, it is scheduled to go on line in March 2012, with a capacity of 1,383 megawatts.

### Plans for Oma Nuclear Power Station

This will be an advanced boiling water reactor (ABWR) that builds on the expertise from almost 100 BWR plants worldwide. It will run on full-MOX to provide operational flexibility. The power station will also be able to operate on uranium fuel alone. Initially, we will limit the MOX load to one third of the total, gradually raising the proportion thereafter.

### Economy

We have projected the cost of constructing the Oma facility at ¥469.0 billion. We are working to reduce that expense by rationalizing its design and streamlining the sourcing of supplies. The government has provided us with technical development assistance funding in view of the Oma facility's national importance.



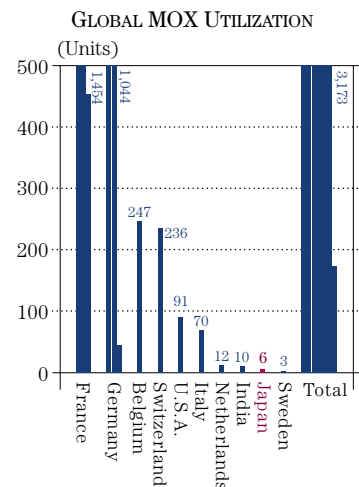
Planned construction site of Oma Nuclear Power Station

### Construction Plan of Oma Nuclear Power Station

|                                   |                                       |
|-----------------------------------|---------------------------------------|
| Generating capacity               | 1,383 MW                              |
| Type of reactor                   | Advanced boiling water reactor (ABWR) |
| Thermal power generating capacity | 3,926 MW                              |
| Type of fuel                      | Low enriched uranium and MOX          |

### Pluthermal Plan

It is essential for Japan, with scant local energy sources, to reuse plutonium and uranium from spent fuels to maintain stable supplies of electricity. The government is pushing ahead with the Pluthermal Plan as part of nuclear power policies to establish a nuclear fuel cycle. The term pluthermal refers to the use of MOX fuels through light water reactors. Plutonium-based reactors use MOX fuels. The Pluthermal Plan will expand to cover more than 10 power plants by 2010.



Source: Ministry of Economy, Trade and Industry

We formulated basic accords to supply nine EPCOs with electricity from the Oma plant. They have already pledged to collectively accept all its output and pay rates that reflect the proper costs. Nonetheless, we will strive to reduce construction, maintenance and operating expenses and make the plant competitive, thereby generating a stable cash flow and further improving our management.

### Safety and Reliability

It is all-important for nuclear power plants to run safely. Pluthermal facilities have been operating mainly

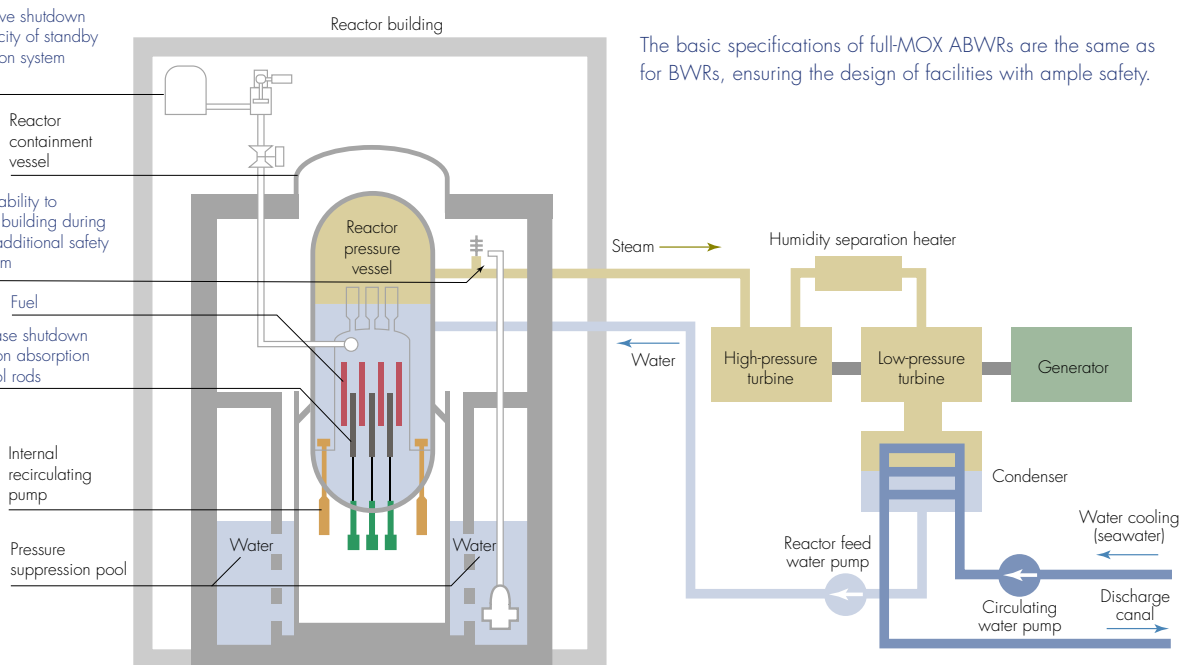
in Europe for around 40 years, and safety tests of pilot plants in Japan have confirmed their safety. To further enhance safety, we have put measures in place that cover everything from facilities to employee training. We are constructing a management system that prevents compliance violations, which have become a noteworthy problem in Japan in recent years. In addition, we are actively disclosing information on our activities while working closely with the community to maintain its trust.

### Features of Full MOX ABWRs

Feature 1: To improve shutdown performance, capacity of standby liquid control injection system increased

Feature 2: Greater ability to withstand pressures building during abnormalities with additional safety valves to let off steam

Feature 3: To increase shutdown performance, neutron absorption enhanced for control rods



Feature 4: Automatic MOX fuel inspection devices fitted to reduce worker exposure



## Business Development Department

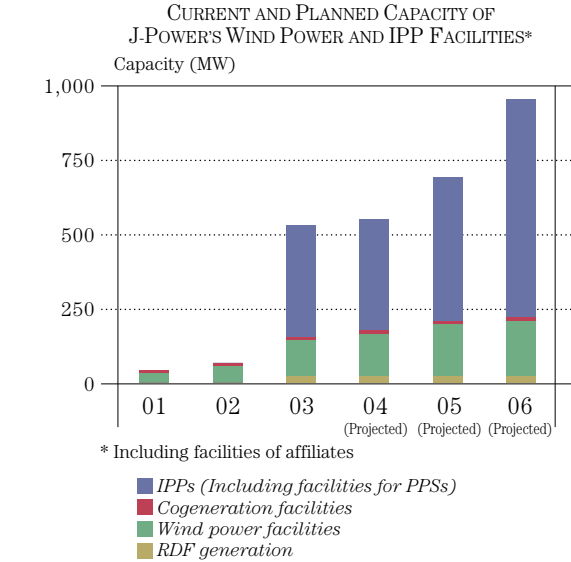
*We are focusing on energy and the environment in order to become the sole or leading player in our new business areas.*

### Operational Overview

J-POWER is working to build its positions in energy supply, wind power generation and recycling as promising areas where it can build a competitive edge. Our basic policy in implementing businesses is to choose the most suitable partners so we can lower risks and generate steady, long-term returns.

### Energy Supply Business

This area draws on the expertise we have accumulated over the years. We have launched several projects in the IPP and PPS markets, which have expanded on the back of the structural reforms. More than 40 IPP facilities designed to serve EPCOs are operating or planned around the nation. We are participating in three of these projects, which will have a total contracted output capacity of 520 megawatts. In the PPS market, we have started developing two 100-megawatt thermal



facilities fired by liquefied natural gas near Tokyo Bay. We have created long-term agreements with the customers for the electricity from these plants, which should generate stable cash flows.

We are also active in the management of facilities that supply energy to the public sector under PFIs and public-private partnerships. This reflects the growing need among government bodies to introduce market principles. We supply power and steam through cogeneration facilities that we installed in October 2000 at the Kanamachi Filtration Plant of the Tokyo Metropolitan Waterworks Bureau. This model power project was Japan's first PFI.

### Wind Power Generation

Wind power is becoming popular around the world as a clean, renewable energy source. In April

### New Business Projected

Tomamae Winvilla Power Station  
(30.6 MW, Operating)

Setana Wind Power Station  
(12.0 MW, Planning)

Nikaho Kogen Wind Power Station  
(24.8 MW, Operating)

Itoigawa Power Station (IPP)  
(134.0 MW, Operating)

Omuta Waste-Fueled Power Station  
(20.6 MW, Operating)

Tosa Power Station (IPP)  
(150.0 MW, Under construction)

Aso Nishihara Wind Power Station  
(17.5 MW, Planning)

Nagasaki-Shikamachi Wind Power Station  
(15.0 MW, Planning)

Leasing Fiber-Optic Lines  
(Operating)

Green Power Kuzumaki Wind Power Station  
(21.0 MW, Under construction)

Cogeneration Facilities in Kanamachi Filtration Plant  
(12.3 MW, Operating)

Ichihara Power for PPSs  
(107.7 MW, Under construction)

Bay Side Energy for PPSs  
(100.0 MW, Under construction)

Tokyo Rinkai Wind Power Station  
(1.7 MW, Operating)

Genex Mizue Station (IPP)  
(238.0 MW, Launching operations in June 2003)

2003, the Japanese government adopted the Renewable Portfolio Standard (RPS), which should accelerate the development of wind power facilities around the nation. J-POWER is a leader in wind power, having constructed and managed Japan's largest wind farms. As of March 31, 2003, we maintained three such facilities in Japan and another three overseas, with a combined capacity of 120 megawatts.

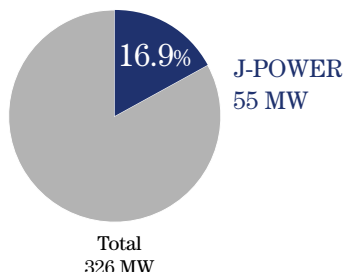


The 24.75-megawatt Nikaho Kogen Wind Power Station in Akita Prefecture is one of a handful of large wind farms in Japan. We are conducting many surveys of other promising sites.

In March 2003, we started operations at the Tokyo Rinkai Wind Power Station, the city's first such facility, which has a capacity of 1,700 kilowatts. Also that month, we jointly acquired a Spanish wind power generation firm that owned three sites with a combined capacity of 64,210 kilowatts.

The RPS requires sellers of retail electricity to ensure that wind power and other new energy sources meet or exceed minimum proportions of generated power. The proportions under the new energy output mandates will rise every year until 2010.

SHARE OF J-POWER'S  
WIND POWER GENERATION IN JAPAN  
(As of September 30, 2002)



*J-POWER is actively pursuing wind power generation to help combat global warming.*

In Iwate Prefecture, we are currently building the 21-megawatt Green Power Kuzumaki Wind Power Station, which is scheduled to go on line in December 2003. We are preparing to construct another three facilities in Kyushu and Hokkaido that will have a combined output of 45 megawatts. We are conducting surveys in many promising wind power locations in Japan and abroad.

### Recycling Operations

We engage in PFIs, public-private partnerships and other business arrangements to handle waste treatment that to date local governments have managed themselves. J-POWER and these bodies bring their respective skills and resources to bear in these operations, enabling the parties to share risks, local governments to lower administrative costs and the Company to generate appropriate returns.

In December 2002, operations began at a power facility in Omuta, Fukuoka Prefecture, that employs a refuse-derived fuel (RDF) system. This was the fruit of a project we launched in 1999—our first recycling business effort—with the Fukuoka Prefectural Government and 28 municipalities. The municipalities supply the RDF, which is easy to transport and store and offers excellent combustion performance. Burning the fuel at a single location secures revenues from the highly efficient generation of electricity and reduces treatment costs. The facility also cuts dioxin emissions by burning the fuel continuously at high temperatures, supported by an advanced smoke treatment system.

We anticipate that PFIs and public-private partnerships will extend to many other public services in the years ahead, such as for water and sewage treatment, and we will use our pioneering position to enter such fields.

## International Activities Department

*We are drawing on the strong J-POWER brand built through consulting services to expand our electricity business internationally.*

### Operational Overview

In the energy field, the standardization of market competition rules and progress in free trade are creating a borderless world. J-POWER is cultivating its international activities to seize new opportunities in a global marketplace that offers tremendous potential.

We are leveraging 40 years of expertise in providing consultancy services and building our local networks to secure more consulting mandates, while reinforcing overseas IPP operations that will eventually form a pillar of revenues and earnings.

### Consulting

Our consultancy services offer technologies around the world for electric power development, environmental management of generating facilities, and setting up transmission and substation facilities.

In these areas we receive commissions from Japanese organizations, such as the Japan International Cooperation Agency, to conduct basic surveys related to Japan's technological assistance plans, as well as detailed designs and construction management for contracts between ourselves and foreign governments.

We have won top marks for our comprehensive technological capabilities, particularly in Asia and Latin America. By March 31, 2003, we had provided technical consultation on 212 projects in 59 countries and territories.



J-POWER provides technological expertise to countries and territories around the world, with electric power services ranging from basic surveys to facilities design and construction management. The photo shows our personnel advising on plans to develop a hydropower station in Yuncan, Peru.

We have expanded our consulting beyond hydropower and thermal generation to enter new areas. These include the use of wind power and other renewable energy sources, as well as measures to make operating and maintaining existing power facilities more efficient.

### IPP Business

Around the globe, privatization and liberalization of the power market have prompted many countries to switch from state-guided power development to privately financed IPP initiatives. We have taken advantage of this trend to participate in IPP projects for coal-fired, geothermal, gas-fired and biomass power generation while considering regional uniqueness and needs.

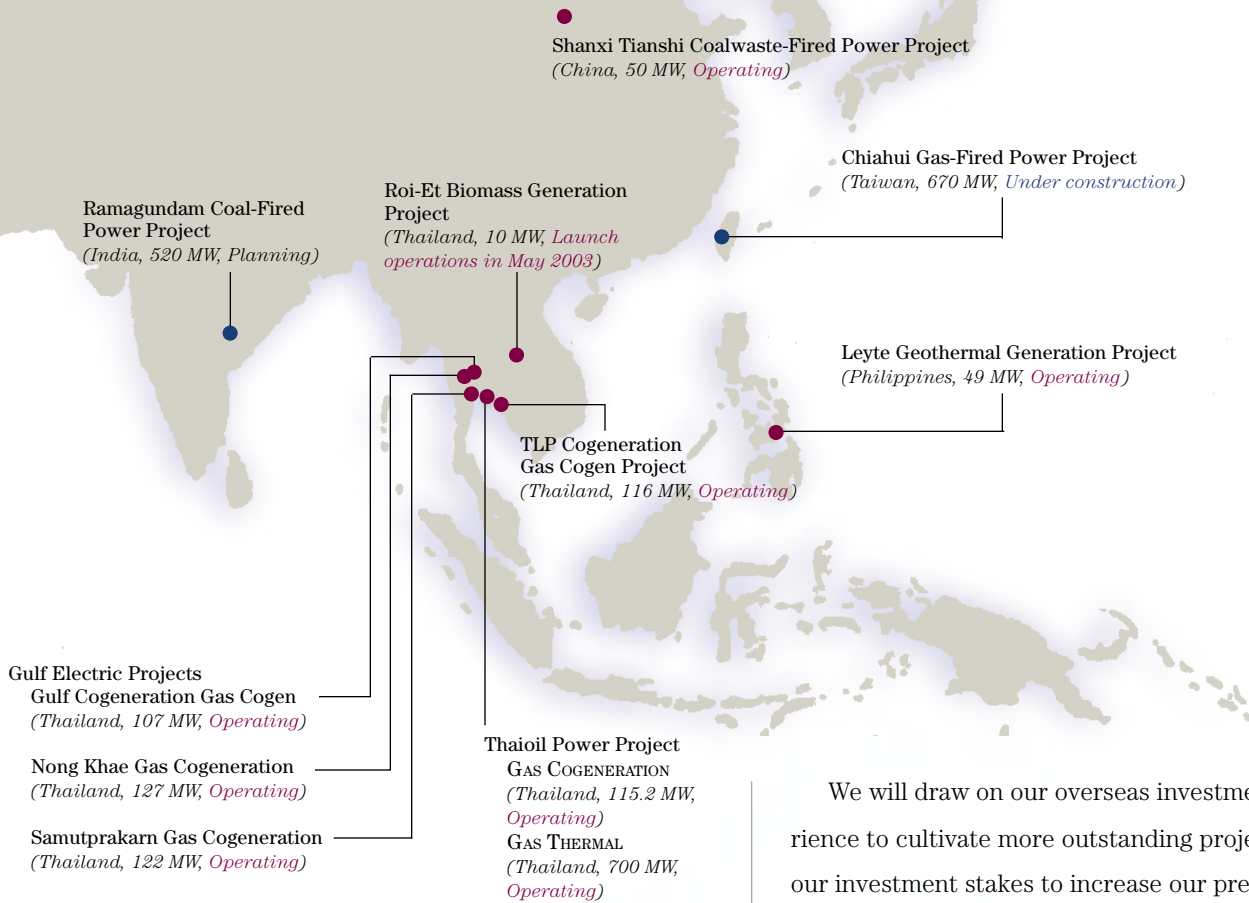
In the year ended March 31, 2003, we began operations at a 116-megawatt gas-fired thermal power station in Thailand. We also participated in three IPP projects for facilities generating a combined 920 megawatts, including a 670-megawatt gas-fired plant in Taiwan that is scheduled to start operations in 2004.

To date, we have been involved in 11 IPP projects in Thailand, the Philippines, China and other countries, with an aggregate output of 2,580 megawatts.



Roi-Et Biomass Generation Project in Thailand

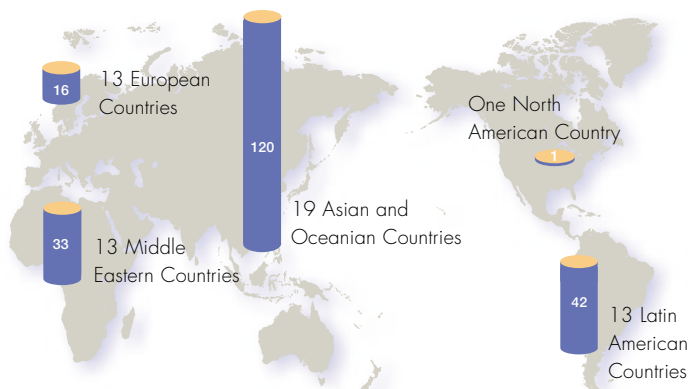
### IPP Investment Projects



### Overseas Consultation Projects

(As of March 31, 2003)

|                                     |     |
|-------------------------------------|-----|
| Number of Countries and Territories | 59  |
| Number of Projects                  | 212 |



We will draw on our overseas investments and experience to cultivate more outstanding projects, raising our investment stakes to increase our presence in project management. We will also contribute actively to operation-and-management and other initiatives to expand profits through dividends and other benefits. Our investments will center on 10 ASEAN countries, China, Korea and Taiwan. We are also keen to diversify into eastern European countries, which are becoming more aware of environmental issues through their admission to the European Union, and into North America, the world's largest market.

We will ameliorate the country and other risks that international investments incur by teaming with responsible local partners and participating in projects through which we can conclude long-term contracts to purchase power. We will also use more project finance, procuring funds from seasoned investment banks and choosing investments based on careful risk assessments. In addition, we will conduct appropriate risk management for projects already under way to ensure steady returns.

## Engineering Department

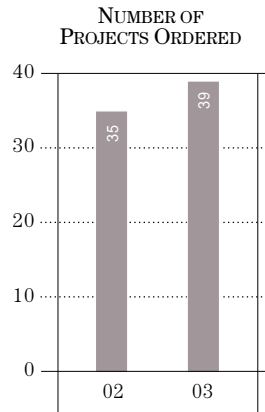
*We provide diverse engineering services based on our comprehensive technological capabilities.*

### Operational Overview

The Engineering Department aims to consolidate, maintain and improve its technological capabilities to serve a broad customer base within and outside J-POWER as one of the world's superior engineering groups. Its main targets are energy, recycling, power systems, infra-structural facilities and underground facilities usage.

Over the past 50 years, we have accumulated expertise in electrical business engineering, covering everything from power station planning to construction, maintenance and operation. The department's greatest strengths are its track record and its teams of experts in every engineering field. To meet the challenges of a dramatically changing operating environment, the department is using its technologies and know-how to cultivate new opportunities and expand orders.

In the year under review, orders were lower, at ¥3.4 billion, reflecting a reduction in volume from government institutions. We seek to increase revenues and earnings opportunities in the years ahead by boosting order volume while employing our engineering capabilities to develop new businesses. As part of this effort, in July 2002 we began to promote ways of building new underwater environments with Ashcrete, a solidified coal ash. We have also made progress in cultivating our spatio-temporal geographic information systems.



Our technologies have found applications at state oil facilities and in underground storage facilities for liquid petroleum gas. We have used our experience in building underground generating facilities and tunneling in such projects as the Kushikino storage base in Kagoshima (pictured above). We have also used our design and construction management expertise for three oil storage and two liquid petroleum storage bases.



A spatio-temporal geographic information system records time information for all spatial data used to create maps. This system plots changes in the data through a time series. Prime applications for the system are urban planning, facilities management for roads and sewage facilities, disaster and environmental management, and monitoring for customers.

## Group Businesses

*Group businesses complement and help streamline the activities of J-POWER by spearheading peripheral operations.*

**K**AIHATSUDENKI Co., Ltd., and other consolidated subsidiaries complement parent operations. They design, construct and maintain power facilities, supply fuels and engage in other fields that complement parent operations. They also help us streamline our activities. Most of the sales of these companies are to J-POWER, although they also provide various electric power, telecommunications and shipping services and products to outside the Group. In the year to March 31, 2003, operating revenues were down 17%, to ¥38.3 billion, reflecting completions in the previous fiscal term of wind power and other facilities. In the years ahead, consolidated subsidiaries will step up marketing to expand orders while striving to enhance profitability.



Installing a turbine blade at Green Power Kuzumaki Wind Power Station.

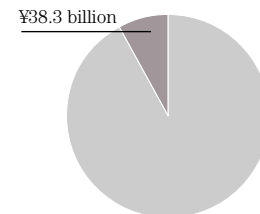
### *Facilities Design, Construction and Maintenance*

Group businesses ensure stable and efficient supplies of electricity by constructing, upgrading and regularly inspecting facilities and conducting daily maintenance. They plan, design, construct and maintain transmission and substation facilities and engage in operations to prevent mishaps.

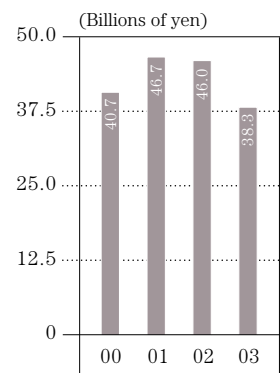
These businesses also build and maintain electronic and telecommunications facilities, handle design and construction for engineering work, and maintain, repair and inspect desulfurization and other equipment for generating facilities.

**Fuels supply:** These operations encompass surveying, prospecting and developing coal resources and importing and transporting coal for power generation.

COMPOSITION OF OPERATING REVENUES



OPERATING REVENUES



**Peripheral activities:** These activities include using coal ash from thermal power stations to make fertilizers, selling cosmetics made from driftwood, engaging in real estate operations and offering insurance services. Group businesses survey, construct and maintain greenery reserves and survey and plan conservation projects. Some develop, analyze and assess systems in electric power, engineering and construction fields. Others develop management and administrative systems, outsource operations and handle networking and office automation.



Our Fresse skincare lotion incorporates a natural moisturizer extracted from driftwood.

## Research and Development

*J-POWER is contributing to new horizons for energy and the environment by developing pioneering technologies.*

### Strengthening and Renewing Our Technological Development Structure Ahead of Privatization

Since its establishment, J-POWER has remained a leader in developing technologies in the fields of hydro-power, coal-fired thermal generation, transmission and substation facilities, and in other facets of electric power and energy. The Company has contributed to technical progress in Japan's electric power industry by employing its technological advances in its facilities.

Technological development activities focus on strengthening the cost-competitiveness of existing facilities. They are also increasingly valuable tools in allowing us to gain a competitive edge by developing innovating products and services for new businesses.

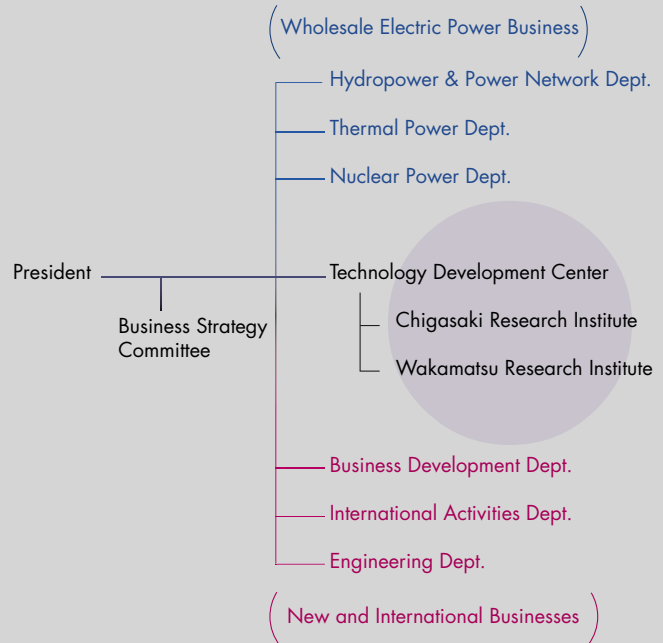
In April 2002, we established the Technology Development Center to integrate related operations previously dispersed throughout our organization. The center comprises a headquarters, which formulates our R&D strategy; the Chigasaki Research Institute, which oversees environmental technologies; and the Wakamatsu Research Institute, which manages energy-related fields. This setup allows us to strategically focus Group technological development and pursue advances more efficiently.

We are concentrating management resources on technological development, expanding staffing in this field, increasing the training of researchers, hiring more people and establishing a new personnel management system.

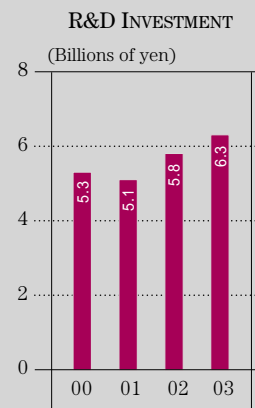


Technology Development Center

### R&D Structure



*The Technology Development Center works closely with operations while strategically streamlining Group technological development.*



*We are investing aggressively in R&D to reinforce the creation of new technologies.*

## Creating New Energy and Environmental Technologies

We target a wide range of energy and environmental fields under our R&D structure, pursuing both short- and long-term progress.

Selective concentration guides our development themes. In line with specific standards, we organize, systematize and prioritize these themes and assess the scope of development.

Principal development initiatives include activities to improve the value of existing facilities, such as by enhancing the efficiency of coal-fired and hydropower generation. We also cultivate technologies to improve operations and maintenance systems for generating facilities and pursue commercialization, notably in the fields of coal gasification and fuel cells. Long-term R&D areas include next-generation hybrid power supply systems, technologies that resolve global and regional environmental problems and biotechnology.

We cultivate new fields through partnerships with external research organizations and leading experts,

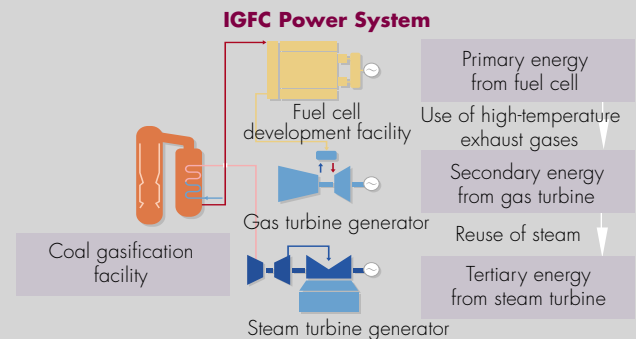
### Main R&D Areas in the Year under Review

- Technologies to enhance the efficiency of coal-fired thermal power generation  
*(Including for coal gasification and coal gas production for fuel cells)*
- Power generation technologies  
*(Including for seawater pumped storage power plants, fuel cells and coal biomass)*
- Advanced simulation technologies
- Cost-reduction technologies  
*(Notably for diagnosing deterioration, and for advances in operations, maintenance, design and construction techniques)*
- Environmental technologies  
*(Including for determining ways to reduce emissions of carbon dioxide)*
- Technologies for using coal ash effectively
- Geothermal power technologies

outsource surveys of new market and technological opportunities and otherwise overhaul our technological development processes.

### Toward the World's First Integrated Coal Gasification Fuel Cell (IGFC) Technology

We are working to create the world's first IGFC generating system, which will raise efficiency by harnessing coal energy through fuel cells, gas turbines and steam turbines. As part of that goal, we are working on the development of solid oxide fuel cells (SOFCs) and EAGLE, our acronym for Coal Energy Application for Gas, Liquid and Electricity.



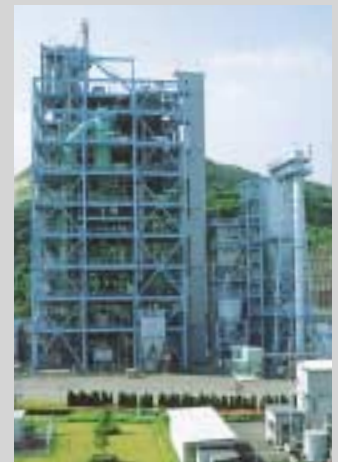
#### Solid Oxide Fuel Cells

Fuel cells generate electricity through a chemical reaction between oxygen and hydrogen extracted from gasified fuel, which is the reverse of water electrolysis. This generating system differs from traditional setups, which convert heat from the combustion of fuels, because it transforms heat directly into electrical energy, thus lowering losses and delivering high efficiency.

Our SOFCs are made of ion electroconductive ceramics and operate at between 900°C and 1,000°C. They enhance generating efficiency through their integration in combined cycle systems. SOFCs can be run on natural gas, methanol, coal gas and biogas.

#### EAGLE

To use coal as a gas for fuel cells, the coal must be gasified and refined to remove dust and sulfur. The Japanese government and the New Energy and Industrial Technology Development Organization have funded us to build and operate a pilot plant, through which we are conducting a five-year test program that ends in March 2007. We plan to test our SOFC system at that facility.





## Tackling Environmental Issues

J-POWER's main focus is ensuring stable supplies of electricity by constructing and operating large hydroelectric power stations and coal-fired thermal power stations. We acknowledge the environmental impacts of these operations and view conservation as a key obligation to society. Accordingly, our corporate philosophy champions harmonizing with the environment and earning local trust through our business activities. As part of our environmental commitment, we conduct environmental assessments before building power stations and implement antipollution measures at our thermal power facilities. We strive at all stages of operations, from planning and design to construction and operation, to protect the environment both on global and local levels.

In June 2000, we formulated our Environmental Policy, which guides our medium-term endeavors to address environmental issues. Based on this policy, every fiscal year we formulate an action agenda of specific plans through which we push ahead with conservation efforts in light of new social developments and changes in our operations.

### ENVIRONMENTAL POLICY

#### Basic Policy

*To minimize the environmental impact of the Company's operations, we maintain rigorous environmental management systems. We also take action at the global and local level to conserve the environment and engage with communities to contribute to sustainable development.*

#### Global and Local Conservation of the Environment

- We improve energy efficiency and promote nuclear power, renewable and untapped energy, and the development of new technologies for conservation of local environments. We contribute to conservation of the global environment by transferring our advanced environmental technologies overseas.
- We reduce waste and reuse and recycle resources in all our activities to contribute to establishing a recycling-based society.
- We continue to adopt various measures to minimize the environmental impact of our activities, including the construction and operation of power facilities.

#### Strengthening Environmental Management

- We formulate and implement efficient environmental management systems.
- We identify the environmental impact of our activities and strive to meet goals to reduce it.

#### Communicating with the Community

- We communicate our environmental conservation efforts to promote community understanding of our activities.
- As a good corporate citizen, we keep in close touch with local communities through our environmental initiatives.

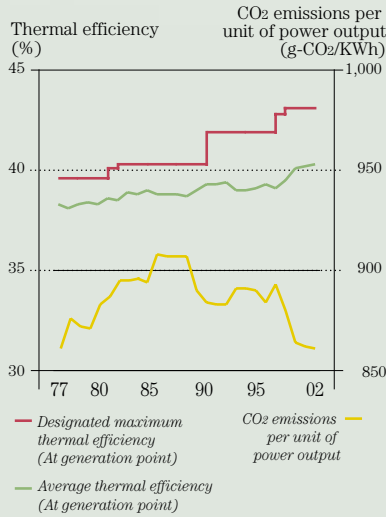
### Specific Measures against Global Warming

Preventing global warming is a top management priority, which is why J-POWER is so proactive in establishing and implementing policies to address this issue.

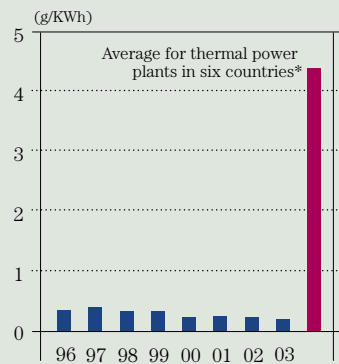
*Reducing Greenhouse Gas Emissions:* We and other electric power companies in Japan are committed to a process of cutting carbon dioxide emissions from our facilities by 20% of levels as of March 31, 1991, by the year ending March 31, 2011. We are working with our counterparts to reach this objective. As part of our endeavors, we are maintaining and improving the already high operating efficiencies of our coal-fired thermal power stations while developing technologies that can allow us to use coal even more efficiently. At upgrade stages, we enhance generating efficiency at hydropower stations. We are constructing nuclear power stations, whose operations do not emit carbon dioxide. We are also pushing ahead with efforts to tap energy by generating power from waste and harnessing wind, biomass and other renewable energy sources.

*Sequestering and Fixing Carbon:* To economically sequester and fix carbon dioxide, we maintain afforestation projects in Australia and Ecuador that covered 2,200 hectares during the year under review. We will continue to research and develop new ways to sequester and fix carbon.

DESIGNATED MAXIMUM THERMAL EFFICIENCY, AVERAGE THERMAL EFFICIENCY AND CO<sub>2</sub> EMISSIONS AT J-POWER'S COAL-FIRED THERMAL POWER STATIONS

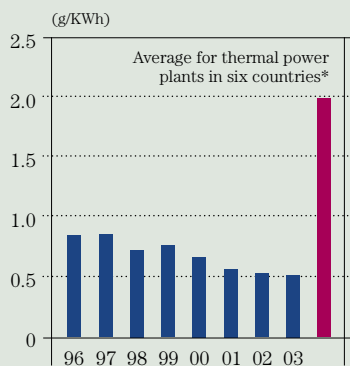


SO<sub>x</sub> EMISSIONS PER UNIT OUTPUT AT J-POWER'S COAL-FIRED THERMAL POWER STATIONS



Source: SO<sub>x</sub> and NO<sub>x</sub> levels for the six countries were calculated on information in *Environmental Data Compendium 1999*.  
\* Canada, France, Italy, Germany, the United Kingdom and the United States

NO<sub>x</sub> EMISSIONS PER UNIT OUTPUT AT J-POWER'S COAL-FIRED THERMAL POWER STATIONS



Source: SO<sub>x</sub> and NO<sub>x</sub> levels for the six countries were calculated on information in *Environmental Data Compendium 1999*.  
\* Canada, France, Italy, Germany, the United Kingdom and the United States



*Preparation for Kyoto Protocol Mechanisms:*

We expanded our afforestation projects in the fiscal year under review in keeping with our belief that these initiatives, combined with our domestic programs, will help us act more flexibly in meeting our carbon dioxide emission reduction targets under the Kyoto Protocol mechanisms. Also during the term, we began surveys in preparation for the full use of those mechanisms. We have already applied the results of our technological collaboration efforts overseas to our activities under the Kyoto Protocol's Joint Implementation and Clean Development mechanisms. In Thailand, for example, we sought certification under the Clean Development Mechanism for our biomass generation activities. We are conducting surveys to help us reduce our carbon dioxide emissions through carbon credits trading.

**Specific Mitigation Measures for the Local Environment**

While adhering to national laws and ordinances and regional accords, we have endeavored to lower environmental loads by introducing leading-edge technologies and properly managing our facilities.

We ensure that our power stations harmonize with their surroundings, and endeavor to recycle and reuse resources, cut waste and otherwise contribute to a recycling-oriented society.

We also conserve the environment by transferring the technologies we have accumulated domestically to other countries.

*Lowering the Environmental Impact of Emissions:*

We have installed various systems at our coal-fired thermal power stations to prevent air and water pollution. These include electrical dust catchers and flue gas

desulfurization and denitration units. As a result, our emissions of sulfur and nitrous oxides are much lower than those of our counterparts in Europe and the United States.

*Cutting Waste by Recycling and Reusing Resources:*

We actively reuse and recycle byproducts from our operations, including ash and gypsum from our coal-fired thermal facilities, driftwood from our hydroelectric dam reservoirs and concrete and rock from facilities construction and repairs. All our generating facilities recycle water and are working to reduce their use of chemicals, lubricants and other pollutants. Our offices use recycled paper and other green products, have expanded their fleets of low-emissions vehicles, and endeavor to reduce general waste. In the fiscal year under review, we pursued the following goals:

| Activity                                | Target  | Actual                           |
|---|---|----------------------------------|
| Coal ash reuse                          | At least 65%  | 67%                              |
| Gypsum reuse                            | 100%  | 100%                             |
| Driftwood reuse                         | At least 5,000 cubic meters   | 15,000 cubic meters              |
| Recycled paper purchase ratio           | 100%  | 98%                              |
| Paper and other general waste reduction | Minimization across group<br>Less than 60 metric tons at headquarters | 48.9 metric tons at headquarters |

*Transferring Environmental Technologies Overseas:*

For over 40 years, we have transferred our technologies to countries around the world through technical cooperation projects. These technologies benefit the environment by improving the generating efficiency of coal-fired thermal power plants, preventing air pollution and promoting the use of hydropower, wind power, solar power, waste-based generation and other reusable and unused energy. We accept foreign trainees (cumulatively 1,980 as of March 31, 2003), helping them better understand the importance of safeguarding the environment

and disseminate information on specific environmental programs in their countries.

*Pursuing Technological R&D:* We are pursuing a variety of R&D initiatives to enhance environmental protection. These encompass technologies to clean soil, drain water and remove sand from storage ponds, and studies on applications for sludge and used plastics.

**Promoting Environmental Management**

In the fiscal year ended March 31, 2002, all our operations adopted an environmental management system that conforms with the ISO 14001 environmental management standard, as part of our efforts to methodically and efficiently improve environmental protection. We provide employees with planned education, seminars and training to enhance their awareness of environmental issues. The J-POWER Group Environmental Management Committee works to strengthen our environmental management structure, thus improving environmental administration groupwide.

We streamlined environmental management by



introducing an environmental accounting system from the previous fiscal year, and we publish annual environmental activity reports\*.

\* The 2002 version can be downloaded at:  
<http://www.jpowers.co.jp/english/index.html>

**Communicating with the Community**

We communicate with the community through our annual environmental activity report and other disclosure documents on environmental initiatives, and by actively participating in local environmental activities, such as regional cleanup campaigns.

## Industry Restructuring

Since the implementation of the revised Electricity Utilities Industry Law on March 21, 2000, the pace of competition has gradually accelerated in Japan. The government again revised the law in 2003 as part of complete restructuring that we expect will lead to more diversity and intense competition in power transactions.

### Retail Competition to Date

In the three years since the revision of the law first provided for competition in electricity retailing, 11 companies have applied to supply retail power. The competitive retailers have 2,000 megawatts of capacity, as of the end of March 2003, supplying 0.89% of the competitive retail market.

The slow expansion of new players reflects the limits to obtaining an adequate supply capacity. Most providers rely on surplus power from captive generation, although companies increasingly plan to boost capacity by establishing new power plants.

Nonetheless, partial liberalization has had an impact, as EPCOs have responded competitively by lowering their prices. This has limited the number of customers switching suppliers, which is one of the reasons why the market shares of new players remain low.

### New Industry Restructuring

The Electricity Industry Committee of the Advisory Committee for Natural Resources and Energy, a consultative body of the Ministry of Economy, Trade and

Industry, began deliberating the future of the nation's electricity industry in April 2002 after discussing and assessing the impact to date of partial liberalization. In February 2003, the committee submitted a proposed framework to the Minister as a formal recommendation.

### Committee Recommendations and Legal Revisions

One of the prime focuses of industry restructuring is the expansion of retail competition. In April 2004, retail choice will extend to some users supplied at six kilovolts and contracting for supplies of more than 500 kilowatts. Further expansion will begin from April 2005, for users of 50 kilowatts. Retail competition will thus encompass 60% of power consumption, double the current proportion. It has been confirmed that around April 2007 the Electricity Industry Committee will assess the result of restructuring and start deliberating whether to extend competition to the entire retail market, including residential customers.

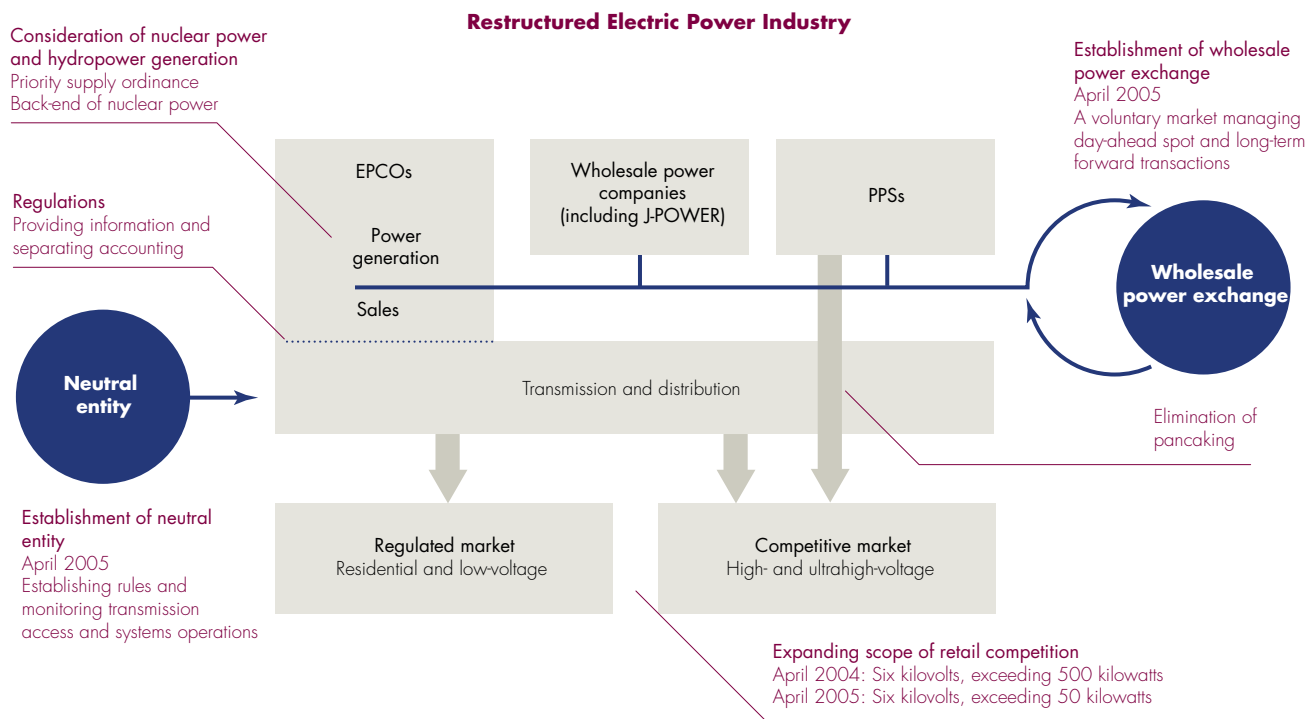
Another area of restructuring is the transmission sector. Transmission and systems operation businesses are required to be neutral and more transparent, while ensuring reliability. Based on a code of conduct for neutrality and transparency, EPCOs will be required to disclose more information and separate their accounting operations, and from the launch of a neutral body to establish and monitor new rules on systems operations. This body will also arbitrate on disputes and disclose information on transmission activities.

To facilitate the nationwide transaction of electricity, it has been decided to eliminate “pancaking”—the piling up of transmission fees when a transaction crosses two or more areas.

As part of restructuring, a wholesale power exchange will be established. This is expected to provide a price index to facilitate investment decision making. The exchange will be established by concerned companies voluntarily. The market will manage day-ahead spot transactions and long-term forward transactions.

Certain types of power generation, such as nuclear and hydropower, will continue to play an important role in the electricity industry in terms of stable supply, environmental conservation and energy security. Government support for nuclear power will be discussed and arranged by the end of 2004.

In June 2003, the Diet approved the amendment of the Electricity Utilities Industry Law. A revised law will go into effect from April 2005. At this juncture, only a framework has been decided, and the details will be discussed by the committee in autumn 2003.



## Financial Section

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## Consolidated Financial Summary

For the years ended March 31

|  | Millions of yen |           |           |           | Thousands of<br>U.S. dollars |
|--|-----------------|-----------|-----------|-----------|------------------------------|
|  | 2003            | 2002      | 2001      | 2000      | 2003                         |
| Operating revenues                                     | ¥ 584,122       | ¥ 593,343 | ¥ 541,592 | ¥ 490,607 | \$ 4,859,587                 |
| Electric power   | 545,824         | 547,333   | 494,907   | 449,902   | 4,540,971                    |
| Others   | 38,297          | 46,010    | 46,684    | 40,705    | 318,616                      |
| Operating expenses                                     | 449,920         | 473,753   | 424,279   | 383,288   | 3,743,101                    |
| Electric power   | 407,131         | 421,816   | 371,683   | 331,268   | 3,387,119                    |
| Others   | 42,789          | 51,937    | 52,595    | 52,020    | 355,982                      |
| Operating income                                       | 134,201         | 119,590   | 117,313   | 107,319   | 1,116,486                    |
| Income before income taxes and<br>minority interests   | 35,522          | 30,526    | 29,790    | 23,305    | 295,527                      |
| Net income   | 20,725          | 17,638    | 17,838    | 13,485    | 172,427                      |
| Total assets   | 2,195,897       | 2,314,720 | 2,420,661 | 2,351,886 | 18,268,696                   |
| Fixed assets   | 2,013,870       | 2,080,763 | 2,278,162 | 2,227,259 | 16,754,326                   |
| Long-term debt, less<br>current portion                | 1,733,126       | 1,794,228 | 1,900,141 | 1,906,097 | 14,418,692                   |
| Total shareholders' equity                             | 168,301         | 152,304   | 138,868   | 127,149   | 1,400,179                    |
| Net cash provided by<br>operating activities           | 167,368         | 200,708   | 145,835   | 127,857   | 1,392,415                    |
| Net cash used in investing activities                  | (11,030)        | (77,248)  | (166,942) | (211,920) | (91,767)                     |
| Free cash flow   | 156,337         | 123,460   | (21,107)  | (84,063)  | 1,300,648                    |
| Net cash (used in) provided by<br>financing activities | (117,709)       | (125,572) | 22,127    | 85,055    | (979,276)                    |
| Operating revenues (Hydroelectric)                     | 138,195         | 137,901   | 144,100   | 144,114   | 1,149,714                    |
| Operating revenues (Thermal)                           | 335,371         | 339,947   | 281,084   | 241,604   | 2,790,113                    |
| Operating revenues (Wheeling)                          | 66,739          | 67,183    | 67,095    | 62,287    | 555,240                      |
| Depreciation   | 137,148         | 149,145   | 127,322   | 100,440   | 1,141,000                    |
| Interest paid  | 87,136          | 68,160    | 75,695    | 71,695    | 724,926                      |
| Capital expenditures                                   | 53,443          | 76,641    | 191,473   | 204,141   | 444,621                      |
| Net income per share<br>(yen, U.S. dollars)            | 291.40          | 247.20    | 249.78    | 187.87    | 2.42                         |
| Cash dividends per share<br>(yen, U.S. dollars)        | 60.00           | 60.00     | 60.00     | 60.00     | 0.50                         |
| Shareholders' equity per share<br>(yen, U.S. dollars)  | 2,381.71        | 2,154.65  | 1,964.08  | 1,797.83  | 19.81                        |
| Return on equity (%)                                   | 12.9            | 12.1      | 13.4      | 11.5      |                              |
| Equity ratio (%)                                       | 7.7             | 6.6       | 5.7       | 5.4       |                              |
| Number of shares outstanding<br>(thousands)            | 70,600          | 70,600    | 70,600    | 70,600    |                              |
| Number of employees                                    | 6,543           | 7,073     | 7,434     | 7,742     |                              |
| Capacity of power generation facilities (MW)           |                 |           |           |           |                              |
| Hydroelectric  | 8,261           | 8,261     | 8,261     | 8,261     |                              |
| Thermal  | 7,825           | 7,825     | 7,755     | 5,655     |                              |
| Total  | 16,085          | 16,085    | 16,015    | 13,915    |                              |
| Power sales (GWh)*                                     |                 |           |           |           |                              |
| Hydroelectric  | 8,902           | 8,873     | 9,929     | 9,786     |                              |
| Thermal  | 45,527          | 41,530    | 38,986    | 30,041    |                              |
| Total  | 54,429          | 50,403    | 48,915    | 39,827    |                              |

\* Pumped-storage hydroelectric power is not included.

## Management Discussion and Analysis

This discussion of results for the fiscal year ended March 31, 2003, categorizes the operations of J-POWER and its 11 consolidated subsidiaries into electric power and others business segments.

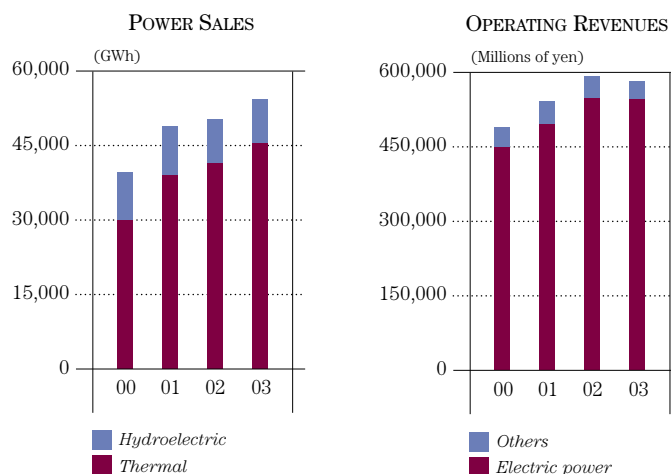
The Group's electric power business segment accounted for 93.4% of consolidated operating revenues in the year under review. The others business segment, which covers the operations of the 11 consolidated subsidiaries, encompasses the design, construction and maintenance of electrical facilities, fuel supplies for electricity generation and related activities.

### Fiscal Year Performance

In the year under review, the earnings of Japanese companies improved against the backdrop of cost reductions, increased exports and other factors. In this environment, capital expenditure bottomed out, while there were signs of a mild upturn in production. The political situation in Iraq and other concerns, however, heightened the feeling of global economic uncertainty. These conditions, combined with sluggish stock markets worldwide, prolonged the harsh economic environment.

Residential sector power demand in Japan expanded, owing mainly to generally high temperatures, which increased usage of air conditioning equipment. In addition, demand from large industrial users expanded in every field except textiles, ceramics and cement. Demand was especially strong from the chemicals and steel industries. As a result, the EPCOs' combined power sales to the residential and industrial sectors expanded for the year.

The Group's hydroelectric power sales advanced 0.3%, to 8,902 gigawatt-hours, reflecting overall water levels of 91%, virtually unchanged from a year earlier. Thermal power sales increased 9.6%, to 45,527 gigawatt-hours, as the new No. 1 unit of the Isogo Thermal Power Station came on line during the term, while demand expanded from EPCOs purchasing electricity from J-POWER. Total power sales thus increased 8.0%, to a record 54,429 gigawatt-hours.





Consolidated operating revenues decreased 1.6%, to ¥584,122 million. Because it employs a cost basis for its power rates, the Company lowered its thermal power rates to reflect reduced prices for coal, which resulted from such factors as falling domestic coal consumption during the year and cost reductions from accelerated depreciation. In addition, the severe operating environment in Japan affected revenues from the others segment.

The Company posted an increase in periodic repair and upgrade expenses for thermal power facilities, but falling fuel prices, efforts to reduce personnel and other costs and decreased depreciation costs resulting from accelerated facilities depreciation lowered operating expenses 5.0%, to ¥449,920 million.

Group operating income for the year thus expanded 12.2%, to a record ¥134,201 million.

#### Other Income and Expenses

Other income increased ¥1,093 million, or 51.2%, to ¥3,228 million, mainly because of equity method earnings from an IPP affiliate in Thailand and expanded interest and dividends received.

Other expenses rose 31.2%, to ¥101,908 million, as the Group accelerated repayments of long-term debt as well as premium severance pay for early retirement and lump-sum payments for transferees.

#### Ordinary Income

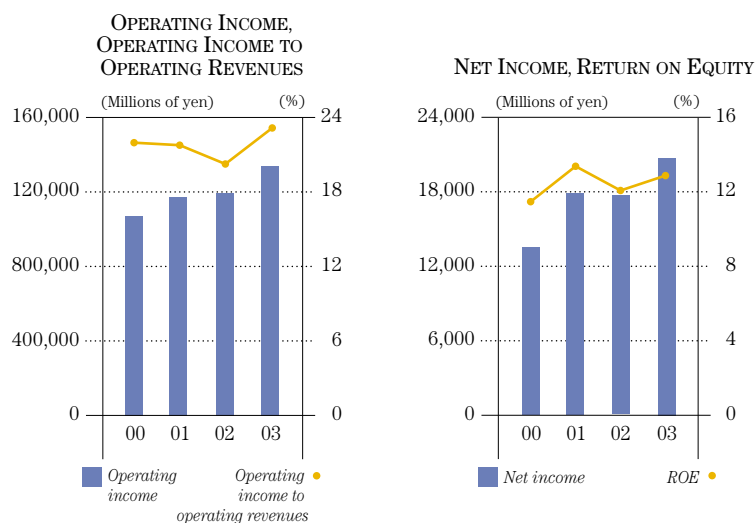
As a result of the above factors, ordinary income decreased ¥8,500 million, or 19.3%, to ¥35,522 million.

#### Reserve for Drought

Although drought conditions continued, all drought reserve was dispositioned the previous year, so no allocation was made in the year under review.

#### Extraordinary Loss

In the previous year, the Group incurred an extraordinary loss resulting from a ¥7,894 million valuation loss on securitizing its headquarters building and a ¥5,951 million write-off loss on its investment in the Japan Nuclear Cycle Development Institute. During the year under review, however, no extraordinary loss was recorded.



## Income before Income Taxes and Net Income

Owing to the aforementioned factors, income before income taxes and minority interests grew ¥4,996 million, or 16.4%, to ¥35,522 million. Current income taxes totaled ¥20,850 million. After tax effect adjustments, net income increased ¥3,086 million, or 17.5%, to ¥20,725 million.

## Assets, Liabilities and Shareholders' Equity

At year-end, total assets were down ¥118,822 million, or 5.1%, from a year earlier, to ¥2,195,897 million, a second consecutive decline. The Group increased capital investment for projects, including to extend capacity at the Okutadami and Otori power stations, and allocated investment for international and new businesses. At the same time, accelerated depreciation led to a decrease in property, plant and equipment, net.

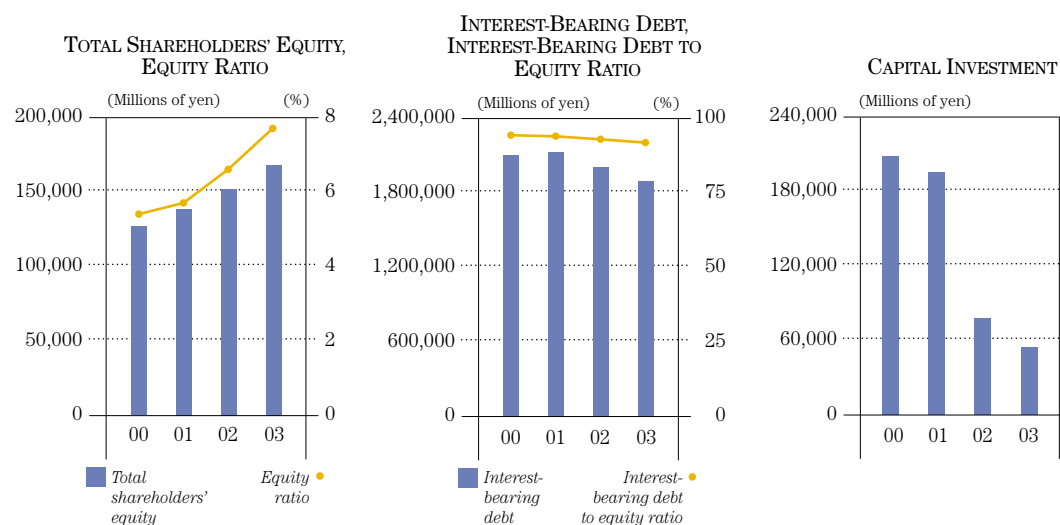
Total liabilities fell ¥135,249 million, or 6.3%, to ¥2,026,216 million, as a result of repayments of debt and other factors. Interest-bearing debt decreased ¥113,584 million, or 5.7%, to ¥1,893,902 million, which lowered the debt ratio from 92.9% in the previous period, to 91.8%.

At the close of the term, total shareholders' equity had increased ¥15,996 million, or 10.5%, to ¥168,301 million, owing mainly to a rise in the separate reserve to fund initiatives to strengthen management foundations after privatization. As a result, the equity ratio improved to 7.7%, from 6.6%.

## Capital Investment and Funding

The Group's capital investment in the year under review dropped ¥24,355 million, or 30.2%, to ¥56,233 million, primarily because of a decline in facility investment in line with the completion of the 600-megawatt No. 1 unit at the Isogo Thermal Power Station. Main construction projects during the year included a 287-megawatt facility capacity extension for the Okutadami and Otori power stations and preparatory construction for the Oma Nuclear Power Station. Other spending centered on maintenance and upgrades on existing facilities.

In the past, most of the funding for the J-POWER Group's capital investment has come from government fiscal investment and loans and government-guaranteed bonds. In light of impending privatization, however, the Group shifted all funding to open-market sources in the year under review. In addition to our first issue of bonds without government guarantee, we acquired funding needed for capital investment through loans from private financial institutions.



## Cash Flows

In the year under review, net cash provided by operating activities was ¥167,368 million, a decrease of ¥33,340 million, or 16.6%, compared with the previous year, owing mainly to a drop in operating revenues, combined with a rise in interest paid.

Net cash used in investing activities amounted to ¥11,030 million, a drop of ¥66,217 million, or 85.7%, from the previous year-end. Higher investments in overseas and new businesses were offset by income from the transfer of a joint project to build the Hitachinaka Thermal Power Station to the project partner and by the decrease in capital investment for construction.

As a result of these factors, free cash flow was ¥156,337 million, a rise of ¥32,877 million, or 26.6% from the previous year-end.

The Group used this free cash flow for such activities as the repayment of long-term debt, resulting in net cash used in financing activities of ¥117,709 million, compared with ¥125,572 million a year earlier. Thus, cash and cash equivalents at end of year were ¥59,787 million, a rise of ¥38,658 million.

## Management Risk Factors

### Effects of Structural Reforms on J-POWER's Rates

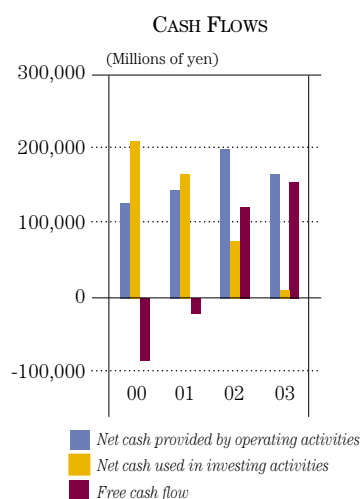
J-POWER supplies electric power to Japan's 10 EPCOs and Sumitomo Joint Venture Electric Power Co., Ltd. These companies are contractually obligated to purchase 100% of the electric power supplied from the Company's facilities.

As industry structural reforms proceed in Japan, EPCOs are steadily reducing their electricity rates. Since J-POWER's contracts with these companies are based on costs, EPCO's rate changes do not directly affect the Company's fees. That said, the Company expects power rate levels to decrease in line with the reforms, so EPCOs that J-POWER supplies may demand renewed efforts to lower fees.

### Global Warming

J-POWER operates many coal-fired thermal power stations that emit heavily volumes of carbon dioxide. The Company has taken various steps to reduce these emissions to combat global warming.

In Japan, the Company is developing nuclear power, which does not emit carbon dioxide, and is working on untapped energy sources, including waste power, and such clean energy as



wind power. J-POWER is also improving the generating efficiency of its coal-fired thermal power stations to lower emissions.

In addition, the Company is preparing to meet greenhouse gas reduction levels ahead of the enactment of the Kyoto Protocol. It is planning projects in line with the Protocol's mechanisms—Joint Implementation, Clean Development Mechanism and Emissions Trading—and has already begun an afforestation project outside Japan.

#### Design and Construction of Power Stations

J-POWER enters into agreements with relevant EPCOs before starting full-scale construction of plants. These accords are based on the total power acquired by target EPCOs, covering the scope of development, the timing of operational starts and planned construction costs. Between April 1, 2003 and March 31, 2013, the Company plans to bring seven new power stations on line, with an aggregate output capacity of 2,689 megawatts.

Considering the slowdown in electricity demand at Chubu Electric Power Co., Inc., J-POWER has applied to, and is deliberating with, the local government to delay the start of operations at the Tokuyama Power Station, from the fiscal year ending March 31, 2009 to the year ending March 31, 2015. Other projects may be affected by major changes in preconditions or unforeseen events that require changes to development plans.

Given the trend in recent years to lower long-term electricity demand forecasts, EPCOs are increasingly delaying construction plans for new power stations and are choosing to eliminate or temporarily halt production at thermal power stations with low operating rates. Following deliberations with EPCO clients, J-POWER has decided to shelve some construction plans. This decision has generated unforeseen costs, and should other discontinuations follow, J-POWER may incur losses.

#### Stance on New and Overseas Businesses

J-POWER is working to build new businesses based on energy and the environment, thereby enhancing enterprise corporate value. Its basic policy regarding individual sectors—including IPPs in Japan and abroad and the wind power business—is to manage risks appropriately and foster businesses that will provide steady investment returns. The pursuit of new and overseas businesses may encounter significant changes in preconditions and unforeseen events that force the Company to change or abandon plans. Such events might generate unforeseen costs that cause losses to J-POWER. Also, currency risks are inherent in overseas operations, as is country risk and the potential for difficulties arising from national and regional political unrest.

#### Dependence on Interest-Bearing Debt

To ensure the rapid development of electric power resources, J-POWER has traditionally required significant funding every fiscal year. As a result, free cash flow has tended to be negative, and the Company has depended mainly on loans and bonds to secure finance. J-POWER has reduced capital investments since starting operations at the Tachibanawan Thermal Power Station in the year ended March 31, 2001. It has achieved positive free cash flow since the year ended March 31, 2002, and the Company's interest-bearing debt has also declined over the past two fiscal years.

## Consolidated Balance Sheets

As of March 31, 2003 and 2002

|  | Millions of yen   |                   | Thousands of<br>U.S. dollars<br>(Note 2) |
|--|-------------------|-------------------|--|
|  | 2003              | 2002              | 2003                                     |
| <b>Assets</b>  |                   |                   |  |
| Property, plant and equipment, net                                     | ¥1,890,617        | ¥1,999,364        | \$15,728,933                             |
| Electric utility plant (Notes 2 and 3)                                 | 1,672,846         | 1,783,126         | 13,917,191                               |
| Other property, plant and equipment<br>(Notes 2, 3 and 4)              | 28,598            | 30,744            | 237,920                                  |
| Construction in progress (Note 2)                                      | 189,173           | 185,493           | 1,573,821                                |
| Investment and other assets  | 123,252           | 81,399            | 1,025,392                                |
| Long-term investments (Notes 2 and 13)                                 | 77,438            | 38,690            | 644,251                                  |
| Deferred tax assets (Notes 2 and 16)                                   | 43,319            | 40,507            | 360,393                                  |
| Others   | 2,493             | 2,201             | 20,748                                   |
| Current assets   | 182,027           | 233,956           | 1,514,370                                |
| Cash and bank deposits (Note 11)                                       | 60,136            | 21,939            | 500,302                                  |
| Notes and accounts receivable,<br>less allowance for doubtful accounts | 50,693            | 52,169            | 421,746                                  |
| Inventories (Note 2)   | 11,201            | 12,033            | 93,190                                   |
| Others (Notes 2 and 16)  | 59,995            | 147,814           | 499,130                                  |
| <b>Total assets</b>  | <b>¥2,195,897</b> | <b>¥2,314,720</b> | <b>\$18,268,696</b>                      |

|   | Millions of yen  |            | Thousands of<br>U.S. dollars<br>(Note 2) |
|---|--|------------|--|
|   | 2003   | 2002       | 2003                                     |
|   | Liabilities, Minority<br>Interests and<br>Shareholders' Equity |            |  |
| Long-term liabilities   | ¥1,783,728   | ¥1,844,535 | \$14,839,668                             |
| Long-term debt, less current portion (Note 4)                     | 1,733,126  | 1,794,228  | 14,418,692                               |
| Accrued employees' retirement benefits                            |  |            |  |
| (Notes 2 and 15)  | 49,138   | 47,091     | 408,807                                  |
| Others (Note 16)  | 1,462  | 3,216      | 12,168                                   |
| Current liabilities   | 242,487  | 316,930    | 2,017,370                                |
| Current portion of long-term debt and other (Note 4)              | 105,845  | 116,340    | 880,581                                  |
| Short-term loans (Note 4)   | 56,717   | 96,919     | 471,856                                  |
| Income and other taxes payable                                    | 19,082   | 22,624     | 158,759                                  |
| Others  | 60,842   | 81,045     | 506,173                                  |
| Reserve for fluctuation in water levels (Note 2)                  | —  | —          | —  |
| Contingent liabilities (Note 5)                                   |  |            |  |
| Total liabilities   | 2,026,216  | 2,161,466  | 16,857,039                               |
| Minority interests (Note 2)                                       | 1,379  | 949        | 11,478                                   |
| Shareholders' equity (Notes 2 and 17)                             |  |            |  |
| Common stock  | 70,600   | 70,600     | 587,354                                  |
| Authorized: 100,000,000 shares                                    |  |            |  |
| Issued and outstanding: 70,600,000 shares                         |  |            |  |
| Retained earnings   | 99,528   | 83,127     | 828,026                                  |
| Unrealized gain (loss) on securities                              | (31)   | 296        | (262)                                    |
| Foreign currency translation adjustments                          | (1,795)  | (1,719)    | (14,938)                                 |
| Total shareholders' equity  | 168,301  | 152,304    | 1,400,179                                |
| Total liabilities, minority interests and<br>shareholders' equity | ¥2,195,897   | ¥2,314,720 | \$18,268,696                             |
|   |  |            |  |
|   | Yen  |            | U.S. Dollars<br>(Note 2)                 |
| Shareholders' equity per share (Note 2)                           | ¥2,381.71  | ¥2,154.65  | \$19.81                                  |

## Consolidated Statements of Income

For the years ended March 31, 2003, 2002 and 2001

|  | Millions of yen |          |          | Thousands of<br>U.S. dollars<br>(Note 2) |
|--|-----------------|----------|----------|--|
|  | 2003            | 2002     | 2001     | 2003                                     |
| Operating revenues   | ¥584,122        | ¥593,343 | ¥541,592 | \$4,859,587                              |
| Electric power   | 545,824         | 547,333  | 494,907  | 4,540,971                                |
| Others   | 38,297          | 46,010   | 46,684   | 318,616                                  |
| Operating expenses (Notes 2, 6, 7, 8 and 15)               | 449,920         | 473,753  | 424,279  | 3,743,101                                |
| Electric power   | 407,131         | 421,816  | 371,683  | 3,387,119                                |
| Others   | 42,789          | 51,937   | 52,595   | 355,982                                  |
| Operating income   | 134,201         | 119,590  | 117,313  | 1,116,486                                |
| Other income and expenses                                  | (98,679)        | (75,567) | (75,852) | (820,959)                                |
| Interest expenses (Note 2)                                 | (87,136)        | (68,160) | (75,695) | (724,926)                                |
| Other, net   | (11,543)        | (7,407)  | (156)    | (96,033)                                 |
| Ordinary income  | 35,522          | 44,022   | 41,461   | 295,527                                  |
| Reversal of reserve for fluctuation in<br>water levels     | —               | (349)    | —        | —  |
| Extraordinary loss (Note 9)                                | —               | 13,845   | 11,670   | —  |
| Loss on sale of fixed assets                               | —               | 7,894    | —        | —  |
| Unrealized loss on securities                              | —               | 5,951    | —        | —  |
| Amortization of net retirement<br>obligation at transition | —               | —        | 11,670   | —  |
| Income before income taxes and<br>minority interests       | 35,522          | 30,526   | 29,790   | 295,527                                  |
| Income taxes (Notes 2 and 16):                             |                 |          |          |  |
| Current  | 20,850          | 16,386   | 21,645   | 173,467                                  |
| Deferred   | (6,480)         | (3,899)  | (9,876)  | (53,914)                                 |
| Minority interests   | 426             | 400      | 182      | 3,547                                    |
| Net income   | ¥ 20,725        | ¥ 17,638 | ¥ 17,838 | \$ 172,427                               |
|  |                 | Yen      |          | U.S. Dollars<br>(Note 2)                 |
| Per share:   |                 |          |          |  |
| Net income (Note 2)  | ¥291.40         | ¥247.20  | ¥249.78  | \$2.42                                   |
| Cash dividends applicable to the year                      | 60.00           | 60.00    | 60.00    | 0.50                                     |

## Consolidated Statements of Shareholders' Equity

For the years ended March 31, 2003, 2002 and 2001

|   | Millions of yen  |              |                   |                                      |  |
|---|--|--------------|-------------------|--------------------------------------|--|
|   | Number of issued and outstanding common stock (in thousands) | Common stock | Retained earnings | Unrealized gain (loss) on securities | Foreign currency translation adjustments |
| Balance at March 31, 2000   | 70,600   | ¥70,600      | ¥56,549           | ¥ —                                  | ¥ —                                      |
| Net income  |  |              | 17,838            |                                      |  |
| Dividends   |  |              | (4,236)           |                                      |  |
| Bonuses to directors and statutory auditors                                   |  |              | (222)             |                                      |  |
| Net change during the year  |  |              |                   | 223                                  | (1,884)                                  |
| Balance at March 31, 2001   | 70,600   | 70,600       | 69,929            | 223                                  | (1,884)                                  |
| Net income  |  |              | 17,638            |                                      |  |
| Dividends   |  |              | (4,236)           |                                      |  |
| Bonuses to directors and statutory auditors                                   |  |              | (204)             |                                      |  |
| Net change during the year  |  |              |                   | 73                                   | 164                                      |
| Balance at March 31, 2002   | 70,600   | 70,600       | 83,127            | 296                                  | (1,719)                                  |
| Net income  |  |              | 20,725            |                                      |  |
| Increase due to the addition of affiliates accounted for by the equity method |  |              | 97                |                                      |  |
| Dividends   |  |              | (4,236)           |                                      |  |
| Bonuses to directors and statutory auditors                                   |  |              | (186)             |                                      |  |
| Net change during the year  |  |              |                   | (328)                                | (75)                                     |
| Balance at March 31, 2003   | 70,600   | ¥70,600      | ¥99,528           | ¥ (31)                               | ¥(1,795)                                 |

|   | Thousands of U.S. dollars (Note 2) |                   |                                      |  |
|---|------------------------------------|-------------------|--------------------------------------|--|
|   | Common stock                       | Retained earnings | Unrealized gain (loss) on securities | Foreign currency translation adjustments |
| Balance at March 31, 2002   | \$587,354                          | \$691,580         | \$2,467                              | \$(14,306)                               |
| Net income  |                                    | 172,427           |                                      |  |
| Increase due to the addition of affiliates accounted for by the equity method |                                    | 810               |                                      |  |
| Dividends   |                                    | (35,241)          |                                      |  |
| Bonuses to directors and statutory auditors                                   |                                    | (1,550)           |                                      |  |
| Net change during the year  |                                    |                   | (2,729)                              | (632)                                    |
| Balance at March 31, 2003   | \$587,354                          | \$828,026         | \$ (262)                             | \$(14,938)                               |



## Consolidated Statements of Cash Flows

For the years ended March 31, 2003, 2002 and 2001

|   | Millions of yen |           |           | Thousands of<br>U.S. dollars<br>(Note 2) |
|---|-----------------|-----------|-----------|--|
|   | 2003            | 2002      | 2001      | 2003                                     |
| Cash flows from operating activities:                                 |                 |           |           |  |
| Income before income taxes and minority interests                     | ¥ 35,522        | ¥ 30,526  | ¥ 29,790  | \$ 295,527                               |
| Depreciation  | 137,148         | 149,145   | 127,322   | 1,141,000                                |
| Loss on disposal of property, plant and equipment                     | 2,914           | 8,117     | 3,294     | 24,248                                   |
| Loss on sale of property, plant and equipment                         | 649             | 7,911     | 35        | 5,400                                    |
| Increase in accrued employees' retirement benefits                    | 2,047           | 6,054     | 988       | 17,033                                   |
| Interest and dividends  | (1,268)         | (917)     | (397)     | (10,554)                                 |
| Interest expenses   | 87,136          | 68,160    | 76,667    | 724,926                                  |
| Decrease (increase) in notes and accounts receivable                  | 3,126           | 663       | (6,931)   | 26,012                                   |
| Decrease (increase) in inventories                                    | 1,142           | 468       | (4,445)   | 9,504                                    |
| (Decrease) increase in notes and accounts payable                     | (2,850)         | (194)     | (3,002)   | (23,717)                                 |
| Equity in earnings of affiliates                                      | (275)           | —         | —         | (2,295)                                  |
| Others  | 3,981           | 21,091    | 16,144    | 33,124                                   |
| Subtotal  | 269,273         | 291,026   | 239,468   | 2,240,209                                |
| Interest and dividends received                                       | 1,140           | 917       | 281       | 9,484                                    |
| Interest paid   | (87,383)        | (69,279)  | (76,140)  | (726,980)                                |
| Income taxes paid   | (15,661)        | (21,956)  | (17,774)  | (130,298)                                |
| Net cash provided by operating activities                             | 167,368         | 200,708   | 145,835   | 1,392,415                                |
| Cash flows from investing activities:                                 |                 |           |           |  |
| Payments for purchase of property, plant and equipment                | (78,877)        | (97,150)  | (176,934) | (656,216)                                |
| Proceeds from contributions in aid of construction                    | 3,958           | 11,883    | 12,328    | 32,934                                   |
| Proceeds from sales of property, plant and equipment                  | 101,775         | 21,887    | 2,667     | 846,716                                  |
| Payments for investments and advances                                 | (42,207)        | (15,403)  | (5,016)   | (351,143)                                |
| Proceeds from collections of investments and advances                 | 5,069           | 2,350     | 512       | 42,173                                   |
| Others  | (749)           | (815)     | (499)     | (6,232)                                  |
| Net cash used in investing activities                                 | (11,030)        | (77,248)  | (166,942) | (91,767)                                 |
| Cash flows from financing activities:                                 |                 |           |           |  |
| Proceeds from issuance of bonds                                       | 20,000          | 35,000    | 157,461   | 166,389                                  |
| Redemption of bonds   | (33,500)        | (68,034)  | (113,159) | (278,702)                                |
| Proceeds from long-term loans   | 246,256         | 791       | 25,748    | 2,048,721                                |
| Repayment of long-term loans  | (306,020)       | (116,718) | (60,967)  | (2,545,927)                              |
| Proceeds from short-term loans  | 117,194         | 252,221   | 178,181   | 974,999                                  |
| Repayment of short-term loans   | (157,397)       | (224,591) | (160,900) | (1,309,461)                              |
| Dividends paid  | (4,236)         | (4,236)   | (4,236)   | (35,241)                                 |
| Dividends paid to minority interests                                  | (6)             | (5)       | —         | (55)                                     |
| Net cash (used in) provided by financing activities                   | (117,709)       | (125,572) | 22,127    | (979,276)                                |
| Foreign currency translation adjustments on cash and cash equivalents | 29              | 54        | (76)      | 247                                      |
| Net increase (decrease) in cash and cash equivalents                  | 38,658          | (2,057)   | 943       | 321,619                                  |
| Cash and cash equivalents at beginning of year                        | 21,128          | 23,186    | 22,242    | 175,780                                  |
| Cash and cash equivalents at end of year (Notes 2 and 11)             | ¥ 59,787        | ¥ 21,128  | ¥ 23,186  | \$ 497,399                               |

# Notes to Consolidated Financial Statements

For the years ended March 31, 2003, 2002 and 2001

1.

## Basis of preparation of consolidated financial statements

The accompanying consolidated financial statements of Electric Power Development Co., Ltd. (“the Company”), and its consolidated subsidiaries have been compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan and the Electricity Utilities Industry Law and their related accounting regulations, and are prepared on the basis of accounting principles and practices generally accepted and applied in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. All the intercompany balances and transactions are eliminated in consolidation.

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

Amounts of less than one million yen or one thousand U.S. dollars have been rounded off. Consequently, the totals shown in the accompanying consolidated financial statements do not necessarily agree with the sum of the individual amounts.

Certain amounts in the prior years’ consolidated financial statements have been reclassified to conform to the current year’s presentation.

2.

## Summary of significant accounting policies

### (1) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 11 significant subsidiaries (listed on page 70) controlled directly or indirectly by the Company.

Unconsolidated subsidiaries excluded from the scope of consolidation do not have a significant effect on the consolidated financial position or operating results taken as a whole.

The differences between acquisition costs of investments in subsidiaries and the underlying equity in their net assets adjusted based on the fair value at the time of acquisition are principally deferred and amortized over certain periods within 20 years using the straight-line method, if any.

All of the consolidated subsidiaries, except for an overseas subsidiary, EPDC (Australia) Pty. Ltd., have the same fiscal year as that of the Company. The fiscal year-end of EPDC (Australia) is December 31 and its financial statements as of that date are used for consolidation after necessary adjustments with regard to significant transactions incurred during the period between its fiscal year-end and that of the Company.

### (2) Equity method (Accounting for investment in affiliates)

Affiliates which have a significant influence on the Company’s operations are accounted for by the equity method.

From the year ended March 31, 2003, Gulf Electric Public Co., Ltd., and six other affiliates have been accounted for by the equity method due to their increased influence on the consolidated financial statements. In addition, unconsolidated subsidiaries and affiliates which do not have a significant effect on consolidated net income and retained earnings as a whole are excluded from the scope of application by the equity method.

The abovementioned affiliates accounted for by the equity method have different fiscal year-ends from that of the Company and accordingly the financial statements for their respective accounting periods are used in consolidation.

### (3) Accounting policies

#### *a. Property, plant and equipment and depreciation*

Property, plant and equipment are stated at cost. Contributions in aid of construction are deducted from the cost of the related assets. Depreciation of major tangible assets is computed based on the estimated useful lives of the respective assets. The declining-balance method has been applied to the buildings, structures and machinery and the straight-line method has been applied to other equipment and the whole facilities of the Matsuura and Tachibanawan thermal power stations, except for their environmental protection equipment. Major intangible assets are amortized based on the respective estimated useful lives by the straight-line method and software costs for internal use are amortized based on the internally available period (five years) by the straight-line method.

#### *b. Investments*

Held-to-maturity debt securities are stated using the amortized cost method on a straight-line basis.

Other securities with market value are stated at market value on the balance sheet date. Cost of sold securities is stated using the moving average method. The differences between the acquisition cost and the carrying value of securities are recognized in unrealized gain (loss) on securities. Unrealized gain (loss) on securities, net of applicable income taxes, was charged to shareholders' equity. Other securities without market value are stated at cost determined by the moving average method. Money in trust for cash management purposes is also stated at market value. Investments in unconsolidated subsidiaries and affiliates which are not accounted for by the equity method are stated at cost.

From the year ended March 31, 2001, the Company has applied the new Accounting Standard for Financial Instruments, including for investment securities ("Opinion Concerning Establishment of the Accounting Standard for Financial Instruments," issued by the Business Accounting Deliberation Council on January 22, 1999).

#### *c. Inventories*

Fuel, materials and supplies are stated at cost determined by the average method.

#### *d. Accrued employees' retirement benefits*

Accrued employees' retirement benefits have been provided principally at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of each fiscal year-end.

Actuarial gain or loss and prior service cost are mainly being amortized over a period of two years by the declining-balance method and the straight-line method, respectively.

From the year ended March 31, 2001, the Company has applied the new Accounting Standard for Employees' Retirement Benefits ("Opinion Concerning Establishment of Accounting Standard for Retirement Benefits," issued by the Business Accounting Deliberation Council on June 16, 1998).

#### *e. Deferred charges*

Bond issue expenses are fully amortized when incurred.

#### *f. Reserve for fluctuations in water levels*

To offset fluctuations in income caused by high water levels or by drought conditions in connection with hydroelectric power generation, the Company recorded reserve for fluctuations in water levels under "Ministerial Ordinance Concerning Reserve for Fluctuations in Water Levels" (Article No. 56 of the ministerial order by the Ministry of Economy, Trade and Industry) stipulated by Article No. 36 of the Electricity Utilities Industry Law.

#### *g. Foreign currency translation*

Foreign currency denominated monetary receivables and payables are translated into yen at the exchange rates prevailing as of each fiscal year-end and the resulting gains or losses are charged to income currently. The assets, liabilities, revenue and expenses of an overseas consolidated subsidiary are translated into yen at the exchange rates in effect at each fiscal year-end and the resulting translation differences are presented as minority interests and foreign currency

translation adjustments under shareholders' equity. The components of shareholders' equity are translated at their historical exchange rate.

#### *h. Leases*

Finance leases other than those which are deemed to transfer ownership of the leased property to the lessee are accounted for on a basis similar to ordinary operating lease transactions.

#### *i. Derivatives and hedge accounting*

The Company utilizes derivative financial instruments, such as foreign exchange forward contracts, foreign currency swaps and interest rate swaps, to manage its exposure to fluctuations in foreign exchange and interest rates. The Company does not intend to utilize derivatives for trading purposes or speculative purposes.

The Company utilizes foreign currency forward contracts and foreign currency swaps for hedging foreign currency denominated bonds and debts, and interest swaps for hedging payments and receipts of principal and interest with respect to bonds and debts.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows.

All derivatives, except those utilized for hedging purposes, are generally recognized as either assets or liabilities and measured at fair value and gains or losses on derivative transactions are recognized in the consolidated statements of income. For derivatives utilized for hedging purposes, if such derivatives meet specific hedging accounting criteria because of high correlation and effectiveness between the hedging instruments and hedged items, gains or losses on derivative transactions are deferred until maturity of the hedged transactions.

#### *j. Capitalization of interest expenses*

Interest expenses of debts utilized for the construction of electric utility plants have been capitalized and included in the cost of the related assets pursuant to the accounting regulations related by the Electricity Utilities Industry Law (ministerial order No. 57 of the Ministry of Economy, Trade and Industry).

#### *k. Accounting for consumption taxes*

Consumption tax with respect to the Company and its domestic subsidiaries is accounted for using the tax-excluded method.

The consumption tax imposed on sales made to customers by the Company and its domestic subsidiaries is withheld by the Company and its subsidiaries at the time of sale and is subsequently paid to the state and local governments. The consumption tax withheld upon sale is not included in the amount of operating revenues in the accompanying consolidated statements of income. Consumption tax paid on purchases of goods and services by the Company and its domestic subsidiaries is excluded from each account in the consolidated statements of income.

#### *l. Other significant issues for the preparation of consolidated financial statements*

*(Accounting for treasury stock and reduction of legal reserves)*

As "Accounting Standard for Treasury Stock and Reduction of Legal Reserves" (Accounting Standards Board of Japan, Financial Accounting Standard No. 1) came into effect on April 1, 2002, the Company has applied this new accounting standard from the year ended March 31, 2003. There is no effect on the consolidated statement of income for the period under review.

*(Per share information)*

As "Accounting Standard for Earnings per Share" (Accounting Standards Board of Japan, Financial Accounting Standard No. 2) and "Implementation Guidance on Accounting Standard for Earnings per Share" (Accounting Standards Board of Japan, Financial Accounting Standard Implementation Guidance No. 4) were applied to the consolidated financial statements for the year beginning from April 1, 2002, the Company followed this new accounting standard and implementation guidance. Net income per share for the years ended March 31, 2002 and 2001, is reclassified based on this standard and implementation guidance.

#### (4) Income taxes

Income taxes comprise corporate income tax, inhabitant tax and enterprise tax, but exclude the tax imposed on the sales of the Company. Most of the enterprise tax of the Company, which is engaged in the electric utilities industry, is imposed on the sales amount and such enterprise tax is included in operation expenses (electric power) in the consolidated statements of income. The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

#### (5) Appropriation of retained earnings

Appropriation of retained earnings is accounted for and reflected in the accompanying consolidated financial statements when approved by shareholders.

#### (6) Cash equivalents

Cash and cash equivalents presented in the accompanying consolidated statements of cash flows represent cash on hand, bank deposits, which are payable on demand, and short-term investments which are easily convertible into cash and present insignificant risk of changes in value with original maturities of three months or less.

#### (7) Per share information

Net income per share is calculated based on the weighted average number of outstanding common shares during the fiscal year. Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share is not disclosed as there are no outstanding potential shares like convertible bonds or warrants.

#### (8) U.S. dollar amounts

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of the reader, using the telegraphic transfer middle rate of exchange prevailing on the Tokyo Foreign Exchange Market on March 31, 2003, which was ¥120.20 = US\$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted, realized or settled in U.S. dollars at this or any other rate of exchange.

3.

### Property, plant and equipment

Electric utility plant, less contributions in aid of construction and accumulated depreciation as of March 31, 2003 and 2002, is summarized as follows:

|   | Millions of yen |            | Thousands of U.S. dollars |
|---|-----------------|------------|---------------------------|
|   | 2003            | 2002       | 2003                      |
| Hydroelectric power production facilities | ¥ 475,200       | ¥ 495,273  | \$ 3,953,413              |
| Thermal power production facilities       | 803,105         | 871,781    | 6,681,408                 |
| Transmission facilities                   | 307,963         | 326,315    | 2,562,088                 |
| Transformation facilities                 | 47,320          | 50,168     | 393,679                   |
| Communication facilities                  | 11,730          | 11,289     | 97,590                    |
| General facilities                        | 27,527          | 28,297     | 229,010                   |
| Total                                     | ¥1,672,846      | ¥1,783,126 | \$13,917,191              |

Contributions in aid of construction, which were deducted from the cost of property, plant and equipment as of March 31, 2003 and 2002, were as follows:

|                                      | Millions of yen |         | Thousands of U.S. dollars |
|--------------------------------------|-----------------|---------|---------------------------|
|                                      | 2003            | 2002    | 2003                      |
| Contributions in aid of construction | ¥97,719         | ¥99,719 | \$812,978                 |

Accumulated depreciation of property, plant and equipment as of March 31, 2003 and 2002, was as follows:

|                          | Millions of yen |            | Thousands of<br>U.S. dollars |
|--------------------------|-----------------|------------|------------------------------|
|                          | 2003            | 2002       | 2003                         |
| Accumulated depreciation | ¥1,787,841      | ¥1,665,389 | \$14,873,890                 |

4.

#### Short-term loans and long-term debt

Short-term loans and long-term debt as of March 31, 2003 and 2002, consisted of the following:

|   | Millions of yen |            | Thousands of<br>U.S. dollars |
|---|-----------------|------------|------------------------------|
|   | 2003            | 2002       | 2003                         |
| Loans from banks and Japanese government's agencies,<br>due on varying dates through 2027           | ¥1,044,141      | ¥1,144,226 | \$ 8,686,703                 |
| Average interest rates:   |                 |            |                              |
| Long-term loans, excluding current portion  | 2.7%            |            |                              |
| Current portion of long-term loans  | 2.7%            |            |                              |
| Short-term loans  | 0.5%            |            |                              |
| Domestic bonds guaranteed by Japanese government,<br>due on varying dates through 2011, 1.1%–3.0%   | 536,120         | 536,120    | 4,460,232                    |
| Domestic bonds underwritten by Japanese government,<br>due on varying dates through 2008, 2.0%–5.1% | 191,250         | 224,750    | 1,591,098                    |
| Domestic straight bonds (its issue), due on 2013, 0.9%  | 20,000          | —          | 166,389                      |
| Foreign bonds in French francs guaranteed by<br>Japanese government, due on 2007, 5.6%              | 35,474          | 35,474     | 295,125                      |
| Foreign bonds in euros guaranteed by<br>Japanese government, due on 2006, 4.9%                      | 28,917          | 28,917     | 240,575                      |
| Foreign bonds in Japanese yen guaranteed by<br>Japanese government, due on 2010, 1.8%               | 38,000          | 38,000     | 316,139                      |
| Total   | 1,893,902       | 2,007,487  | 15,756,264                   |
| Less: Current portion   | (160,776)       | (213,259)  | (1,337,571)                  |
|   | ¥1,733,126      | ¥1,794,228 | \$14,418,692                 |

The annual maturities of bonds and long-term debt subsequent to March 31, 2003, are summarized as follows:

| Years ended March 31 | Millions of yen | Thousands of<br>U.S. dollars |
|----------------------|-----------------|------------------------------|
| 2004                 | ¥ 160,776       | \$ 1,337,571                 |
| 2005                 | 81,009          | 673,954                      |
| 2006                 | 133,806         | 1,113,198                    |
| 2007                 | 172,881         | 1,438,280                    |
| 2008                 | 195,289         | 1,624,701                    |
| 2009 and thereafter  | 1,150,140       | 9,568,557                    |
| Total                | ¥1,893,902      | \$15,756,264                 |

The Company's entire property was subject to certain statutory preferential rights as security for bonds, which amounted to ¥849,761 million (\$7,069,560 thousand) and ¥863,261 million as of March 31, 2003 and 2002, respectively.

The assets pledged as collateral for certain consolidated subsidiaries' debt, which amounted to ¥3,232 million (\$26,892 thousand) and ¥4,477 million as of March 31, 2003 and 2002, respectively, were as follows:

|                                     | Millions of yen |        | Thousands of<br>U.S. dollars |
|-------------------------------------|-----------------|--------|------------------------------|
|                                     | 2003            | 2002   | 2003                         |
| Other property, plant and equipment | ¥4,514          | ¥4,852 | \$37,555                     |

## 5.

## Contingent liabilities

Contingent liabilities as of March 31, 2003 and 2002, consisted of the following:

|  | Millions of yen |                | Thousands of U.S. dollars |
|--|-----------------|----------------|---------------------------|
|  | 2003            | 2002           | 2003                      |
| Guarantees given for loans of other companies  | ¥12,356         | ¥ 8,087        | \$102,800                 |
| Guarantees given in connection with housing loans to employees of the Company            | 5,505           | 6,854          | 45,803                    |
| Guarantees for electricity sales revenue of Nikaho Kogen Wind Power Generation Co., Ltd. | 158             | 55             | 1,314                     |
| Debts assigned by the Company to certain banks under debt assumption agreements          | 50,120          | 50,120         | 416,971                   |
| <b>Total</b>   | <b>¥68,140</b>  | <b>¥65,117</b> | <b>\$566,890</b>          |

## 6.

## Operating expenses

Operating expenses (electric power) for the years ended March 31, 2003, 2002 and 2001, are summarized as follows:

|                                    | Millions of yen |                 |                 | Thousands of U.S. dollars |
|------------------------------------|-----------------|-----------------|-----------------|---------------------------|
|                                    | 2003            | 2002            | 2001            | 2003                      |
| Personnel expense                  | ¥ 49,923        | ¥ 54,230        | ¥ 51,116        | \$ 415,336                |
| Fuel cost                          | 86,438          | 92,876          | 80,048          | 719,119                   |
| Repair expense                     | 36,189          | 30,366          | 31,935          | 301,076                   |
| Consignment fee                    | 25,126          | 22,958          | 22,136          | 209,041                   |
| Taxes and duties                   | 23,312          | 23,754          | 20,718          | 193,948                   |
| Depreciation and amortization cost | 134,043         | 145,676         | 123,479         | 1,115,173                 |
| Others                             | 52,097          | 51,953          | 42,248          | 433,423                   |
| <b>Total</b>                       | <b>¥407,131</b> | <b>¥421,816</b> | <b>¥371,683</b> | <b>\$3,387,119</b>        |

Selling, general and administration expenses included in the above totals for the years ended March 31, 2003, 2002 and 2001, were as follows:

|                                    | Millions of yen |                |                | Thousands of U.S. dollars |
|------------------------------------|-----------------|----------------|----------------|---------------------------|
|                                    | 2003            | 2002           | 2001           | 2003                      |
| Personnel expense                  | ¥33,758         | ¥37,191        | ¥33,938        | \$280,856                 |
| Fuel cost                          | —               | —              | —              | —                         |
| Repair expense                     | 1,013           | 858            | 830            | 8,427                     |
| Consignment fee                    | 9,618           | 7,806          | 7,553          | 80,019                    |
| Taxes and duties                   | 650             | 749            | 904            | 5,409                     |
| Depreciation and amortization cost | 2,391           | 2,295          | 2,608          | 19,896                    |
| Others                             | 15,350          | 12,197         | 7,901          | 127,707                   |
| <b>Total</b>                       | <b>¥62,782</b>  | <b>¥61,099</b> | <b>¥53,736</b> | <b>\$522,318</b>          |

## 7.

## Enterprise tax

Most of the enterprise tax of the Company, which is engaged in the electric utilities industry, is imposed on sales, except for certain enterprise tax which is imposed on taxable income. Enterprise tax on sales is included in operating expenses (electric power) in the amount of ¥7,097 million (\$59,049 thousand), ¥7,140 million and ¥6,465 million for the years ended March 31, 2003, 2002 and 2001, respectively. Enterprise tax of the consolidated subsidiaries is included in income taxes, since it is imposed on taxable income.

8.

### Research and development costs

Research and development costs are presented in a total amount pursuant to “Accounting Standard for Research and Development Costs, etc.” (“Opinion Concerning Establishment of Accounting Standard for Research and Development Costs, etc.” issued by the Business Accounting Deliberation Council on March 13, 1998).

Research and development costs included in general and administrative expenses for the years ended March 31, 2003, 2002 and 2001, were as follows:

|                                | Millions of yen |        |        | Thousands of U.S. dollars |
|--------------------------------|-----------------|--------|--------|---------------------------|
|                                | 2003            | 2002   | 2001   | 2003                      |
| Research and development costs | ¥6,333          | ¥5,805 | ¥5,108 | \$52,693                  |
| Total                          | ¥6,333          | ¥5,805 | ¥5,108 | \$52,693                  |

9.

### Extraordinary loss

In the account of extraordinary loss for the year ended March 31, 2002, the Company recorded a loss on sale of the head office building for securitization to strengthen the Company’s financial position and also a loss on valuation of investment in Japan Nuclear Cycle Development Institute as a result of adopting impairment accounting in accordance with the Accounting Standard for Financial Instruments. For the year ended March 31, 2001, the Company treated as an extraordinary loss a contribution to a retirement benefit trust which was established to cover the shortage of funding of a retirement benefit plan arising from the adoption of the Accounting Standard for Employees’ Retirement Benefits.

10.

### Subsequent events

The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2003, were approved at the general meeting of the shareholders held on June 30, 2003:

|  | Millions of yen | Thousands of U.S. dollars |
|--|-----------------|---------------------------|
| Cash dividends (¥60 [\$0.50] per share)    | ¥4,236          | \$35,241                  |
| Directors’ and statutory auditors’ bonuses | 59              | 490                       |

Due to revision of the Japanese Commercial Code in the year ended March 31, 2002, the par value of common stock was changed from ¥1,000 per share to non par value share.

11.

### Cash and cash equivalents

The reconciliation between cash and bank deposits in the accompanying consolidated balance sheets and cash and cash equivalents in the accompanying consolidated statements of cash flows for the years ended March 31, 2003 and 2002, was as follows:

|  | Millions of yen |         | Thousands of U.S. dollars |
|--|-----------------|---------|---------------------------|
|  | 2003            | 2002    | 2003                      |
| Cash and bank deposits on the consolidated balance sheets              | ¥60,136         | ¥21,939 | \$500,302                 |
| Time deposits with a maturity of more than three months                | (349)           | (811)   | (2,903)                   |
| Securities with a maturity of three months or less                     | —               | —       | —                         |
| Cash and cash equivalents on the consolidated statements of cash flows | ¥59,787         | ¥21,128 | \$497,399                 |



Finance leases other than those which are deemed to transfer ownership of the leased property to the lessee:

● *As a lessee*

Acquisition cost, accumulated depreciation and net leased property as of March 31, 2003 and 2002, were as follows:

|                        | Millions of yen  |                          |                     |                  |                          |                     | Thousands of U.S. dollars |                          |                     |
|------------------------|------------------|--------------------------|---------------------|------------------|--------------------------|---------------------|---------------------------|--------------------------|---------------------|
|                        | 2003             |                          |                     | 2002             |                          |                     | 2003                      |                          |                     |
|                        | Acquisition cost | Accumulated depreciation | Net leased property | Acquisition cost | Accumulated depreciation | Net leased property | Acquisition cost          | Accumulated depreciation | Net leased property |
| Electric utility plant | ¥ 9,131          | ¥3,738                   | ¥5,393              | ¥ 9,307          | ¥2,773                   | ¥6,534              | \$75,970                  | \$31,103                 | \$44,867            |
| Others                 | 2,489            | 1,338                    | 1,150               | 2,812            | 1,507                    | 1,304               | 20,708                    | 11,138                   | 9,570               |
| Total                  | ¥11,620          | ¥5,077                   | ¥6,543              | ¥12,119          | ¥4,280                   | ¥7,838              | \$96,679                  | \$42,241                 | \$54,438            |

Acquisition cost includes the imputed interest expense portion.

Future lease payments under finance leases as of March 31, 2003 and 2002, were as follows:

|                     | Millions of yen |        | Thousands of U.S. dollars |
|---------------------|-----------------|--------|---------------------------|
|                     | 2003            | 2002   | 2003                      |
| Due within one year | ¥2,271          | ¥2,318 | \$18,898                  |
| Due after one year  | 4,271           | 5,520  | 35,539                    |
| Total               | ¥6,543          | ¥7,838 | \$54,438                  |

Future lease payments under finance leases include the imputed interest expense portion.

Lease payments and accumulated depreciation under finance leases were ¥2,494 million (\$20,752 thousand) and ¥2,088 million as of March 31, 2003 and 2002, respectively. Depreciation expense is computed by the straight-line method over the respective lease periods.

● *As a lessor*

Acquisition cost, accumulated depreciation and net leased property as of March 31, 2003 and 2002, were as follows:

|        | Millions of yen  |                          |                     |                  |                          |                     | Thousands of U.S. dollars |                          |                     |
|--------|------------------|--------------------------|---------------------|------------------|--------------------------|---------------------|---------------------------|--------------------------|---------------------|
|        | 2003             |                          |                     | 2002             |                          |                     | 2003                      |                          |                     |
|        | Acquisition cost | Accumulated depreciation | Net leased property | Acquisition cost | Accumulated depreciation | Net leased property | Acquisition cost          | Accumulated depreciation | Net leased property |
| Others | ¥58              | ¥35                      | ¥22                 | ¥52              | ¥27                      | ¥24                 | \$484                     | \$296                    | \$188               |
| Total  | ¥58              | ¥35                      | ¥22                 | ¥52              | ¥27                      | ¥24                 | \$484                     | \$296                    | \$188               |

Future lease revenues under finance leases as of March 31, 2003 and 2002, were as follows:

|                     | Millions of yen |      | Thousands of U.S. dollars |
|---------------------|-----------------|------|---------------------------|
|                     | 2003            | 2002 | 2003                      |
| Due within one year | ¥14             | ¥12  | \$122                     |
| Due after one year  | 33              | 32   | 280                       |
| Total               | ¥48             | ¥45  | \$403                     |

Future lease revenues under finance leases include the imputed interest income portion.

Revenues under finance leases were ¥15 million (\$130 thousand) and ¥27 million as of March 31, 2003 and 2002.

Depreciation under finance leases was ¥12 million (\$105 thousand) and ¥18 million as of March 31, 2003 and 2002, respectively.

13.

Marketable securities and investment securities

(1) Held-to-maturity securities for which market prices were available as of March 31, 2003 and 2002, were as follows:

Bonds: Market value more than balance sheet amount

|                      | Millions of yen |      | Thousands of U.S. dollars |
|----------------------|-----------------|------|---------------------------|
|                      | 2003            | 2002 | 2003                      |
| Balance sheet amount | ¥7              | ¥306 | \$58                      |
| Market value         | 7               | 337  | 59                        |
| Unrealized gain      | ¥0              | ¥ 30 | \$ 0                      |

(2) Other securities for which market prices were available as of March 31, 2003 and 2002, were as follows:

Stocks: Balance sheet amount more than cost

|                      | Millions of yen |      | Thousands of U.S. dollars |
|----------------------|-----------------|------|---------------------------|
|                      | 2003            | 2002 | 2003                      |
| Cost                 | ¥153            | ¥ 6  | \$1,276                   |
| Balance sheet amount | 562             | 345  | 4,682                     |
| Unrealized gain      | ¥409            | ¥338 | \$3,405                   |

Stocks: Balance sheet amount less than cost

|                      | Millions of yen |       | Thousands of U.S. dollars |
|----------------------|-----------------|-------|---------------------------|
|                      | 2003            | 2002  | 2003                      |
| Cost                 | ¥4,411          | ¥42   | \$36,702                  |
| Balance sheet amount | 3,828           | 36    | 31,847                    |
| Unrealized loss      | ¥ (583)         | ¥ (5) | \$ (4,854)                |

Total

|                        | Millions of yen |      | Thousands of U.S. dollars |
|------------------------|-----------------|------|---------------------------|
|                        | 2003            | 2002 | 2003                      |
| Cost                   | ¥4,565          | ¥ 49 | \$37,978                  |
| Balance sheet amount   | 4,390           | 381  | 36,529                    |
| Unrealized gain (loss) | ¥ (174)         | ¥332 | \$ (1,448)                |

(3) Non-marketable securities and investment securities stated at cost as of March 31, 2003 and 2002, were as follows:

|                              | Millions of yen |         | Thousands of U.S. dollars |
|------------------------------|-----------------|---------|---------------------------|
|                              | 2003            | 2002    | 2003                      |
| Unlisted stock               | ¥17,117         | ¥ 7,212 | \$142,411                 |
| Unlisted foreign stock       | 2,049           | 1,118   | 17,051                    |
| Capital contribution         | 1,852           | 1,849   | 15,412                    |
| Foreign capital contribution | 85              | 129     | 715                       |
| Others                       | 1,724           | 1,129   | 14,344                    |
| Total                        | ¥22,830         | ¥11,441 | \$189,935                 |

(4) The redemption schedule for securities with maturity dates classified as other securities and held-to-maturity securities as of March 31, 2003 and 2002, is summarized as follows:

Bonds

|  | Millions of yen |      | Thousands of<br>U.S. dollars |
|--|-----------------|------|------------------------------|
|  | 2003            | 2002 | 2003                         |
| Due in one year or less                | ¥1              | ¥ 50 | \$ 8                         |
| Due after one year through five years  | 6               | 127  | 49                           |
| Due after five years through ten years | —               | 30   | —                            |
| Due after ten years                    | —               | 99   | —                            |

14.

## Derivatives

### 1. Transaction status

#### *(1) Purpose and policy of transactions*

The Company enters into forward foreign exchange contracts and currency swaps as currency-related derivatives and interest rate swaps as interest rate-related derivatives.

The Company utilizes derivatives solely for the purpose of hedging its exposure of underlying assets and liabilities generated in the actual trades to foreign currency exchange risk and exposure of financial liabilities to interest rate risk and does not intend to execute speculative dealings as a matter of policy.

In addition, the Company adopts hedge accounting for derivatives. Hedged items are bonds and debts and hedging instruments are derivatives assigned to receivables and payables denominated in foreign currencies and interest rate swaps which qualify as hedging activities. Hedging activities are performed to the extent of the underlying liabilities.

#### *(2) Content of transaction risk*

The management of the Company recognizes that foreign exchange risk exposed to forward exchange contracts and interest rate risk exposed to interest rate swaps are minimized, since all of these derivatives are intended to avoid market risk. In addition, the management considers that counterparty risk is extremely minimized since the Company enters into such derivative contracts with financial institutions with high credit ratings.

#### *(3) Risk management system*

The Treasury Department is responsible for the management of derivatives in accordance with the internal rules defined for trading authorities, trading limits, reporting and others.

### 2. Fair value

There are no derivatives for which the fair value should be disclosed as of March 31, 2003 and 2002, since all derivatives which qualify for hedge accounting are not required.

## Employees' retirement benefit plans

The Company and certain of its domestic consolidated subsidiaries have defined benefit plans, including tax-qualified retirement pension plans and lump sum retirement benefit plans. Severance payments in addition to the amounts actuarially calculated under lump sum retirement benefit plans would be paid upon an employee's retirement as the case may be.

Retirement benefit obligation as of March 31, 2003 and 2002, was as follows:

|   | Millions of yen |            | Thousands of U.S. dollars |
|---|-----------------|------------|---------------------------|
|   | 2003            | 2002       | 2003                      |
| Retirement benefit obligation   | ¥(123,851)      | ¥(123,033) | \$(1,030,374)             |
| Plan assets at fair value   | 66,983          | 71,254     | 557,268                   |
| Unfunded retirement benefit obligation                                | (56,867)        | (51,779)   | (473,106)                 |
| Unrecognized differences arising from a change in accounting standard | —               | —          | —                         |
| Unrecognized actuarial loss   | 4,786           | 5,548      | 39,824                    |
| Unrecognized prior service cost                                       | 2,941           | (860)      | 24,474                    |
| Accrued employees' retirement benefits                                | ¥ (49,138)      | ¥ (47,091) | \$ (408,807)              |

Retirement benefit expenses for the years ended March 31, 2003, 2002 and 2001, were as follows:

|  | Millions of yen |         |         | Thousands of U.S. dollars |
|--|-----------------|---------|---------|---------------------------|
|  | 2003            | 2002    | 2001    | 2003                      |
| Service cost   | ¥ 4,424         | ¥ 4,164 | ¥ 4,481 | \$ 36,812                 |
| Interest cost  | 2,918           | 3,224   | 3,329   | 24,276                    |
| Expected return on plan assets   | (1,826)         | (1,776) | (2,231) | (15,196)                  |
| Amortization of differences arising from a change in accounting standard | —               | 5,926   | 17,483  | —                         |
| Amortization of actuarial loss   | 8,942           | 9,135   | 4,540   | 74,395                    |
| Amortization of prior service cost                                       | 384             | (1,721) | (860)   | 3,198                     |
| Additional severance payments, etc.                                      | 1,637           | 783     | 599     | 13,620                    |
| Total  | ¥16,480         | ¥19,737 | ¥27,342 | \$137,107                 |

The principal assumptions used in determining the retirement benefit obligation and other components of the Companies' plans for the years ended March 31, 2003, 2002 and 2001, were as follows:

|   | 2003  | 2002  | 2001  |
|---|---|---|---|
| Method of allocation of estimated retirement benefits                           | Equally over the period   | Equally over the period   | Equally over the period   |
| Discount rate   | Mainly 2.6%   | Mainly 2.6%   | Mainly 3.0%   |
| Expected rate of return on plan assets  | Mainly 3.0%   | Mainly 3.0%   | Mainly 4.0%   |
| Amortization period of unrecognized actuarial loss                              | Mainly amortized by the declining-balance method over a period of two years | Mainly amortized by the declining-balance method over a period of two years | Mainly amortized by the declining-balance method over a period of two years |
| Amortization period of prior service cost                                       | Mainly amortized by the straight-line method over a period of two years     | Mainly amortized by the straight-line method over a period of two years     | Mainly amortized by the straight-line method over a period of two years     |
| Amortization period of differences arising from a change in accounting standard | —   | Mainly two years  | Mainly two years  |

## Income taxes

Income taxes applicable to the Company and its consolidated subsidiaries comprise corporate income tax, inhabitant tax and enterprise tax, which, in the aggregate, resulted in statutory tax rates of approximately 36% and 42%, of the Company and its consolidated subsidiaries, respectively.

The significant components of deferred tax assets and liabilities as of March 31, 2003 and 2002, were as follows:

|  | Millions of yen |         | Thousands of<br>U.S. dollars |
|--|-----------------|---------|------------------------------|
|  | 2003            | 2002    | 2003                         |
| Deferred tax assets  |                 |         |                              |
| Reserve for retirement benefits                              | ¥18,970         | ¥16,126 | \$157,826                    |
| Excess of depreciation of fixed assets                       | 3,684           | 2,832   | 30,656                       |
| Excess of amortization of deferred charges for tax purposes  | 2,258           | 2,455   | 18,791                       |
| Tax effect on elimination of unrealized gain on fixed assets | 14,274          | 15,539  | 118,752                      |
| Other  | 12,265          | 7,795   | 102,040                      |
| Total deferred tax assets                                    | 51,453          | 44,748  | 428,065                      |
| Deferred tax liabilities                                     |                 |         |                              |
| Other  | (636)           | (614)   | (5,293)                      |
| Total deferred tax liabilities                               | (636)           | (614)   | (5,293)                      |
| Net deferred tax assets                                      | ¥50,817         | ¥44,133 | \$422,772                    |

Differences between effective and statutory tax rates as of March 31, 2003, 2002 and 2001, were as follows:

|  | 2003    | 2002    | 2001    |
|--|---------|---------|---------|
| Statutory tax rate   | 36.00%  | 36.00%  | 36.00%  |
| Permanently non-deductible expenses such as entertainment expenses                           | 1.35%   | 1.66%   | 1.93%   |
| Permanently non-taxable income such as dividends income                                      | (0.80%) | (1.07%) | (1.13%) |
| Difference in the taxation method of enterprise tax between the Company and its subsidiaries | 2.03%   | 1.50%   | 4.20%   |
| Reduction of deferred tax assets due to a change in the income tax rate                      | 0.29%   | —       | —       |
| Other  | 1.58%   | 2.82%   | (1.49%) |
| Effective tax rate   | 40.45%  | 40.91%  | 39.51%  |

As the Law to Revise Elements of Local Tax Laws, etc. (Law No. 9 in 2003) was promulgated during the year ended March 31, 2003, the statutory tax rate for six subsidiaries out of the 11 consolidated subsidiaries which was used to calculate deferred tax assets and liabilities for the year ended March 31, 2003 (only for the portion to be realized after March 31, 2004), was 42.06% for the years ended March 31, 2002 and 2001, and 40.69% for the year ended March 31, 2003. As a result of the change in the income tax rate during the year ended March 31, 2003, net deferred tax assets decreased by ¥98 million (\$816 thousand), deferred income taxes increased by ¥102 million (\$855 thousand) and unrealized gain on other securities increased by ¥4 million (\$39 thousand) for the year ended March 31, 2003.

17.

Shareholders'  
equity

On October 1, 2001, an amendment (the "Amendment") to the Commercial Code of Japan (the "Code") became effective. The Amendment eliminates the stated par value of the Company's outstanding shares, which resulted in all outstanding shares having no par value as of October 1, 2001.

The Amendment also provides that all share issuances after September 30, 2001, will be of shares with no par value. Prior to the date on which the Amendment became effective, the Company's shares had a par value of ¥1,000 per share.

The Code provides that an amount equal to at least 10% of the amounts to be disbursed as distributions of earnings be appropriated to the legal reserve until the sum of the legal reserve and additional paid-in capital equals 25% of the common stock account. The Code also stipulates that, to the extent that the sum of the additional paid-in capital account and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders.

The legal reserves are included in retained earnings in the accompanying consolidated financial statements.

18.

Segment  
information

Information about business segments of the Company and its consolidated subsidiaries for the years ended March 31, 2003, 2002 and 2001, was as follows:

## (1) Business Segments

|                      | Millions of yen |          |           |             |              |
|----------------------|-----------------|----------|-----------|-------------|--------------|
|                      | 2003            |          |           |             |              |
|                      | Electric power  | Others   | Subtotal  | Elimination | Consolidated |
| Sales to customers   | ¥ 545,824       | ¥ 38,297 | ¥ 584,122 | ¥ —         | ¥ 584,122    |
| Intersegment sales   | 385             | 135,138  | 135,523   | (135,523)   | —            |
| Total sales          | 546,209         | 173,435  | 719,645   | (135,523)   | 584,122      |
| Operating expenses   | 421,750         | 165,107  | 586,858   | (136,937)   | 449,920      |
| Operating income     | 124,459         | 8,328    | 132,787   | 1,414       | 134,201      |
| Assets               | 2,137,705       | 110,905  | 2,248,610 | (52,713)    | 2,195,897    |
| Depreciation         | 137,736         | 3,104    | 140,840   | (3,692)     | 137,148      |
| Capital expenditures | 54,885          | 1,347    | 56,233    | (2,790)     | 53,443       |

|                      | Thousands of U.S. dollars |            |              |             |              |
|----------------------|---------------------------|------------|--------------|-------------|--------------|
|                      | 2003                      |            |              |             |              |
|                      | Electric power            | Others     | Subtotal     | Elimination | Consolidated |
| Sales to customers   | \$ 4,540,971              | \$ 318,616 | \$ 4,859,587 | \$ —        | \$ 4,859,587 |
| Intersegment sales   | 3,204                     | 1,124,276  | 1,127,481    | (1,127,481) | —            |
| Total sales          | 4,544,175                 | 1,442,893  | 5,987,069    | (1,127,481) | 4,859,587    |
| Operating expenses   | 3,508,742                 | 1,373,608  | 4,882,350    | (1,139,249) | 3,743,101    |
| Operating income     | 1,035,433                 | 69,284     | 1,104,718    | 11,768      | 1,116,486    |
| Assets               | 17,784,570                | 922,671    | 18,707,241   | (438,544)   | 18,268,696   |
| Depreciation         | 1,145,890                 | 25,827     | 1,171,717    | (30,716)    | 1,141,000    |
| Capital expenditures | 456,621                   | 11,211     | 467,833      | (23,212)    | 444,621      |

|                      | Millions of yen |                |                |                  |                |
|----------------------|-----------------|----------------|----------------|------------------|----------------|
|                      | 2002            |                |                |                  |                |
|                      | Electric power  | Others         | Subtotal       | Elimination      | Consolidated   |
| Sales to customers   | ¥ 547,333       | ¥ 46,010       | ¥ 593,343      | ¥ —              | ¥ 593,343      |
| Intersegment sales   | 399             | 142,169        | 142,569        | (142,569)        | —              |
| <b>Total sales</b>   | <b>547,733</b>  | <b>188,179</b> | <b>735,913</b> | <b>(142,569)</b> | <b>593,343</b> |
| Operating expenses   | 434,241         | 180,549        | 614,791        | (141,037)        | 473,753        |
| Operating income     | 113,492         | 7,629          | 121,121        | (1,531)          | 119,590        |
| Assets               | 2,260,233       | 107,792        | 2,368,026      | (53,305)         | 2,314,720      |
| Depreciation         | 149,175         | 3,468          | 152,644        | (3,499)          | 149,145        |
| Capital expenditures | 78,787          | 1,802          | 80,589         | (3,947)          | 76,641         |

|                      | Millions of yen |                |                |                  |                |
|----------------------|-----------------|----------------|----------------|------------------|----------------|
|                      | 2001            |                |                |                  |                |
|                      | Electric power  | Others         | Subtotal       | Elimination      | Consolidated   |
| Sales to customers   | ¥ 494,907       | ¥ 46,684       | ¥ 541,592      | ¥ —              | ¥ 541,592      |
| Intersegment sales   | 400             | 170,330        | 170,730        | (170,730)        | —              |
| <b>Total sales</b>   | <b>495,307</b>  | <b>217,015</b> | <b>712,322</b> | <b>(170,730)</b> | <b>541,592</b> |
| Operating expenses   | 384,937         | 203,551        | 588,488        | (164,209)        | 424,279        |
| Operating income     | 110,369         | 13,464         | 123,833        | (6,520)          | 117,313        |
| Assets               | 2,356,878       | 119,913        | 2,476,791      | (56,130)         | 2,420,661      |
| Depreciation         | 126,756         | 3,843          | 130,600        | (3,277)          | 127,322        |
| Capital expenditures | 196,896         | 3,818          | 200,714        | (9,241)          | 191,473        |

Main products within each segment are as follows:

Electric power: Wholesale electricity

Others: Electricity and construction works, fuel transportation, computing, lease of computers, etc.

## (2) Geographic Segments

Since the proportion of business the Company conducts in Japan exceeds 90% of total revenues and assets, geographic segment information is not presented.

## (3) Overseas Revenues

Overseas revenues are omitted because revenues in foreign countries account for less than 10% of total revenues.

19.

Related party transactions

There are no significant transactions to be mentioned.

## Independent Auditors' Report

The Board of Directors  
Electric Power Development Co., Ltd.

We have audited the accompanying consolidated balance sheets of Electric Power Development Co., Ltd. and consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2003, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards, procedures and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Electric Power Development Co., Ltd. and consolidated subsidiaries at March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2003, in conformity with accounting principles and practices generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2003 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

  
Shin Nihon & Co.

June 30, 2003

*See Note 1 to the consolidated financial statements which explains the basis of preparation of the consolidated financial statements of Electric Power Development Co., Ltd. and consolidated subsidiaries under Japanese accounting principles and practices.*



## Non-Consolidated Financial Summary

For the years ended March 31

|   | Millions of yen |           |           |           |
|---|-----------------|-----------|-----------|-----------|
|   | 2003            | 2002      | 2001      | 2000      |
| Operating revenues (Electric power)                   | ¥ 546,209       | ¥ 547,733 | ¥ 495,307 | ¥ 450,330 |
| Operating revenues (Hydroelectric)                    | 138,195         | 137,901   | 144,100   | 144,114   |
| Operating revenues (Thermal)                          | 335,371         | 339,947   | 281,084   | 241,604   |
| Others (Wheeling)                                     | 72,642          | 69,884    | 70,122    | 64,611    |
| Operating expenses (Electric power)                   | 421,541         | 434,241   | 384,937   | 344,493   |
| Personnel expense                                     | 50,057          | 54,367    | 51,324    | 44,497    |
| Fuel cost   | 88,494          | 94,753    | 81,497    | 80,926    |
| Repair expense  | 39,570          | 32,718    | 34,730    | 32,494    |
| Consignment fee                                       | 28,531          | 25,672    | 25,276    | 24,533    |
| Taxes and duties                                      | 23,312          | 23,754    | 20,718    | 20,367    |
| Depreciation and amortization cost                    | 137,736         | 149,175   | 126,756   | 98,918    |
| Others  | 53,838          | 53,798    | 44,634    | 42,754    |
| Operating income                                      | 124,668         | 113,492   | 110,369   | 105,837   |
| Income before income taxes                            | 27,275          | 23,386    | 23,664    | 20,405    |
| Net income  | 17,121          | 14,711    | 14,757    | 12,702    |
| Total assets  | 2,137,705       | 2,260,233 | 2,356,878 | 2,282,881 |
| Fixed assets  | 1,996,701       | 2,061,262 | 2,256,302 | 2,204,655 |
| Long-term debt, less current portion                  | 1,727,952       | 1,786,840 | 1,891,262 | 1,897,571 |
| Total shareholders' equity                            | 153,603         | 141,143   | 130,637   | 120,185   |
| Interest paid   | 86,866          | 67,778    | 75,207    | 71,096    |
| Net income per share (yen, U.S. dollars)              | 241.69          | 207.42    | 208.02    | 178.93    |
| Cash dividends per share (yen, U.S. dollars)          | 60.00           | 60.00     | 60.00     | 60.00     |
| Shareholders' equity per share<br>(yen, U.S. dollars) | 2,174.85        | 1,998.24  | 1,849.37  | 1,701.35  |
| Return on equity (%)                                  | 11.6%           | 10.8%     | 11.8%     | 11.2%     |
| Equity ratio (%)                                      | 7.2%            | 6.2%      | 5.5%      | 5.3%      |
| Payout ratio (%)                                      | 24.7%           | 28.8%     | 28.7%     | 33.3%     |
| Number of shares outstanding (thousands)              | 70,600          | 70,600    | 70,600    | 70,600    |
| Number of employees                                   | 3,070           | 3,297     | 3,379     | 3,534     |
| Capacity of power generation facilities (MW)          |                 |           |           |           |
| Hydroelectric   | 8,261           | 8,261     | 8,261     | 8,261     |
| Thermal   | 7,825           | 7,825     | 7,755     | 5,655     |
| Total   | 16,085          | 16,085    | 16,015    | 13,915    |
| Power sales (GWh)*                                    |                 |           |           |           |
| Hydroelectric   | 8,902           | 8,873     | 9,929     | 9,786     |
| Thermal   | 45,527          | 41,530    | 38,986    | 30,041    |
| Total   | 54,429          | 50,403    | 48,915    | 39,827    |

\* Pumped-storage hydroelectric power is not included.

| Millions of yen |           |           |           |           |           |           | Thousands of<br>U.S. dollars |
|-----------------|-----------|-----------|-----------|-----------|-----------|-----------|------------------------------|
| 1999            | 1998      | 1997      | 1996      | 1995      | 1994      | 1993      | 2003                         |
| ¥ 451,543       | ¥ 476,217 | ¥ 451,096 | ¥ 440,113 | ¥ 415,368 | ¥ 415,513 | ¥ 416,116 | \$ 4,544,175                 |
| 145,643         | 143,997   | 139,834   | 132,941   | 127,969   | 134,089   | 129,898   | 1,149,714                    |
| 246,830         | 272,851   | 252,731   | 250,158   | 233,511   | 241,731   | 251,994   | 2,790,113                    |
| 59,069          | 59,368    | 58,530    | 57,013    | 53,886    | 39,692    | 34,224    | 604,347                      |
| 345,367         | 372,563   | 357,210   | 347,112   | 325,374   | 327,156   | 328,492   | 3,506,997                    |
| 45,801          | 42,693    | 41,413    | 40,696    | 40,101    | 39,081    | 39,545    | 416,453                      |
| 83,444          | 111,972   | 112,539   | 105,931   | 96,977    | 104,424   | 112,531   | 736,224                      |
| 35,152          | 33,814    | 39,174    | 38,099    | 37,603    | 36,984    | 33,271    | 329,208                      |
| 24,848          | 25,726    | 22,542    | 21,304    | 20,446    | 19,814    | 20,060    | 237,368                      |
| 22,111          | 20,904    | 20,183    | 19,806    | 18,300    | 19,200    | 19,465    | 193,948                      |
| 94,451          | 93,943    | 79,875    | 79,225    | 72,804    | 67,889    | 66,580    | 1,145,890                    |
| 39,556          | 43,506    | 41,481    | 42,048    | 39,140    | 39,760    | 37,037    | 447,905                      |
| 106,176         | 103,654   | 93,886    | 93,001    | 89,994    | 88,356    | 87,624    | 1,037,178                    |
| 32,056          | 16,584    | 10,656    | 10,044    | 10,331    | 10,606    | 10,942    | 226,917                      |
| 15,860          | 7,245     | 5,538     | 4,857     | 4,767     | 4,833     | 4,999     | 142,445                      |
| 2,174,729       | 2,100,181 | 1,975,394 | 1,877,683 | 1,774,314 | 1,660,705 | 1,589,024 | 17,784,570                   |
| 2,097,306       | 1,995,277 | 1,894,964 | 1,794,742 | 1,689,077 | 1,572,898 | 1,498,520 | 16,611,492                   |
| 1,836,101       | 1,591,398 | 1,711,472 | 1,636,581 | 1,500,340 | 1,419,232 | 1,344,566 | 14,375,641                   |
| 105,908         | 94,354    | 91,424    | 90,203    | 89,660    | 89,204    | 88,679    | 1,277,899                    |
| 70,938          | 85,655    | 83,523    | 83,637    | 82,838    | 80,003    | 80,876    | 722,683                      |
| 223.63          | 101.64    | 77.33     | 67.64     | 66.41     | 67.41     | 69.77     | 18.09                        |
| 60.00           | 60.00     | 60.00     | 60.00     | 60.00     | 60.00     | 60.00     | 0.50                         |
| 1,499.10        | 1,335.47  | 1,293.84  | 1,276.51  | 1,268.87  | 1,262.46  | 1,255.05  | 2.01                         |
| 15.8%           | 7.8%      | 6.1%      | 5.4%      | 5.3%      | 5.4%      | 5.7%      |                              |
| 4.9%            | 4.5%      | 4.6%      | 4.8%      | 5.1%      | 5.4%      | 5.6%      |                              |
| 26.7%           | 58.5%     | 76.5%     | 87.2%     | 88.9%     | 87.6%     | 84.7%     |                              |
| 70,600          | 70,600    | 70,600    | 70,600    | 70,600    | 70,600    | 70,600    |                              |
| 3,601           | 3,658     | 3,687     | 3,675     | 3,609     | 3,537     | 3,469     |                              |
| 8,261           | 8,261     | 8,253     | 7,653     | 7,653     | 7,633     | 7,633     |                              |
| 5,655           | 5,655     | 4,655     | 4,655     | 4,655     | 4,655     | 4,655     |                              |
| 13,915          | 13,915    | 12,907    | 12,307    | 12,307    | 12,288    | 12,288    |                              |
| 10,741          | 10,119    | 8,773     | 9,401     | 7,369     | 11,182    | 9,134     |                              |
| 24,905          | 31,590    | 28,462    | 28,607    | 26,598    | 27,856    | 27,533    |                              |
| 35,646          | 41,709    | 37,235    | 38,008    | 33,967    | 39,038    | 36,667    |                              |

## Future Power Development

J-POWER has submitted to the Minister of Economy, Trade and Industry its plans for the next 10 years, ending March 31, 2013, based on the provisions of the Electricity Utilities Industry Law. Under these plans, we seek to increase total capacity from 16,085 megawatts from the end of the period under review, to 18,745 megawatts by the end of March 2013. Two major facilities should go on line by then. One will be the 600-megawatt No. 2 Unit of the Isogo Thermal Power

Station, scheduled to start operations in July 2009. The other will be the Oma Nuclear Power Station, a 1,383-megawatt facility expected to begin operations in March 2012.

By March 31, 2006, J-POWER plans to establish generating facilities with a combined capacity of about 400 megawatts from IPP, wind power and other new businesses, which its 10-year plans do not include.

### Wholesale electric power business

*For the year ended March 31, 2003, and years ending March 31, 2004, 2005, 2006 and 2013*

|                              | Power generation capacity (MW) |               |               |               |               |
|------------------------------|--------------------------------|---------------|---------------|---------------|---------------|
|                              | 2003<br>(Actual)               | 2004          | 2005          | 2006          | 2013          |
| Hydroelectric power stations | 8,261                          | 8,551         | 8,551         | 8,551         | 8,937         |
| Conventional                 | 3,274                          | 3,564         | 3,564         | 3,564         | 3,550         |
| Pumped storage               | 4,987                          | 4,987         | 4,987         | 4,987         | 5,387         |
| Thermal power stations       | 7,825                          | 7,825         | 7,825         | 7,825         | 8,425         |
| Coal-fired                   | 7,812                          | 7,812         | 7,812         | 7,812         | 8,412         |
| Geothermal                   | 13                             | 13            | 13            | 13            | 13            |
| Nuclear power station        | —                              | —             | —             | —             | 1,383         |
| <b>Total</b>                 | <b>16,085</b>                  | <b>16,375</b> | <b>16,375</b> | <b>16,375</b> | <b>18,745</b> |

### New businesses (IPP, wind power)

*For the year ended March 31, 2003, and years ending March 31, 2004, 2005 and 2006*

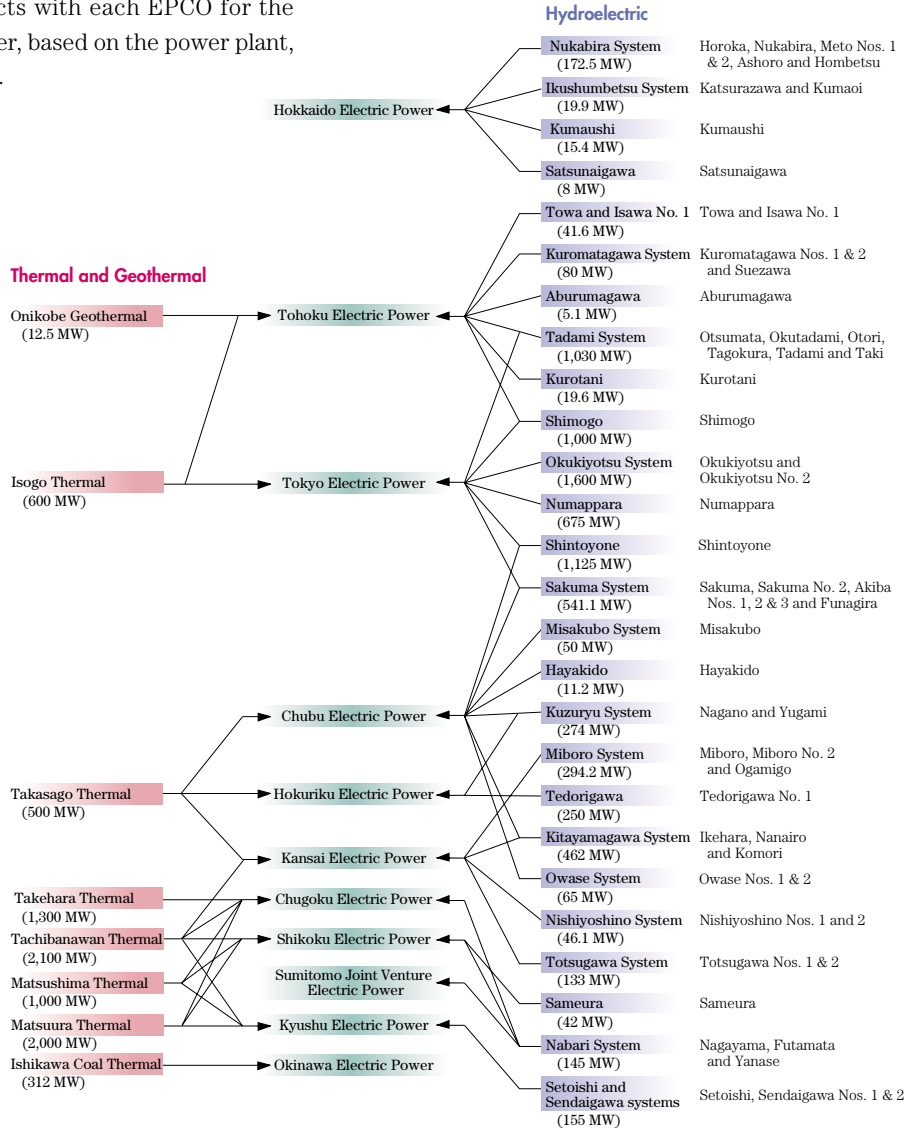
|  | Power generation capacity (MW) |            |            |            |
|--|--------------------------------|------------|------------|------------|
|  | 2003<br>(Actual)               | 2004       | 2005       | 2006       |
| IPP projects for EPCOs and power generation for PPSs | 372                            | 372        | 480        | 730        |
| Cogeneration   | 12                             | 12         | 12         | 12         |
| Wind power stations                                  | 121                            | 142        | 175        | 187        |
| Waste-fueled power stations                          | 21                             | 21         | 21         | 21         |
| <b>Total</b>   | <b>526</b>                     | <b>547</b> | <b>688</b> | <b>950</b> |

# Customers by Facilities

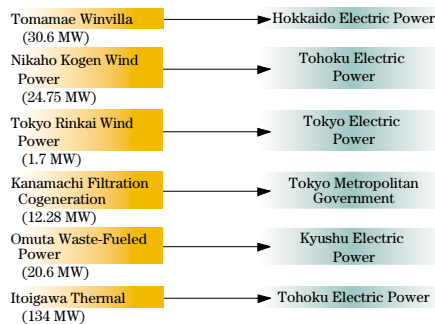
(As of March 31, 2003)

## Wholesale Electric Power Businesses

We enter into contracts with each EPCO for the supply of electric power, based on the power plant, water system and site.



## New Businesses



# Facilities

(As of March 31, 2003)

## Wholesale Electric Power Businesses — Facilities

- Hydroelectric power stations
- ▭ Thermal power stations
- Substations, frequency converter stations and AC/DC converter stations
- Transmission lines
- Substations of EPCOs and others

## Wholesale Electric Power Businesses — Under Construction and Planning

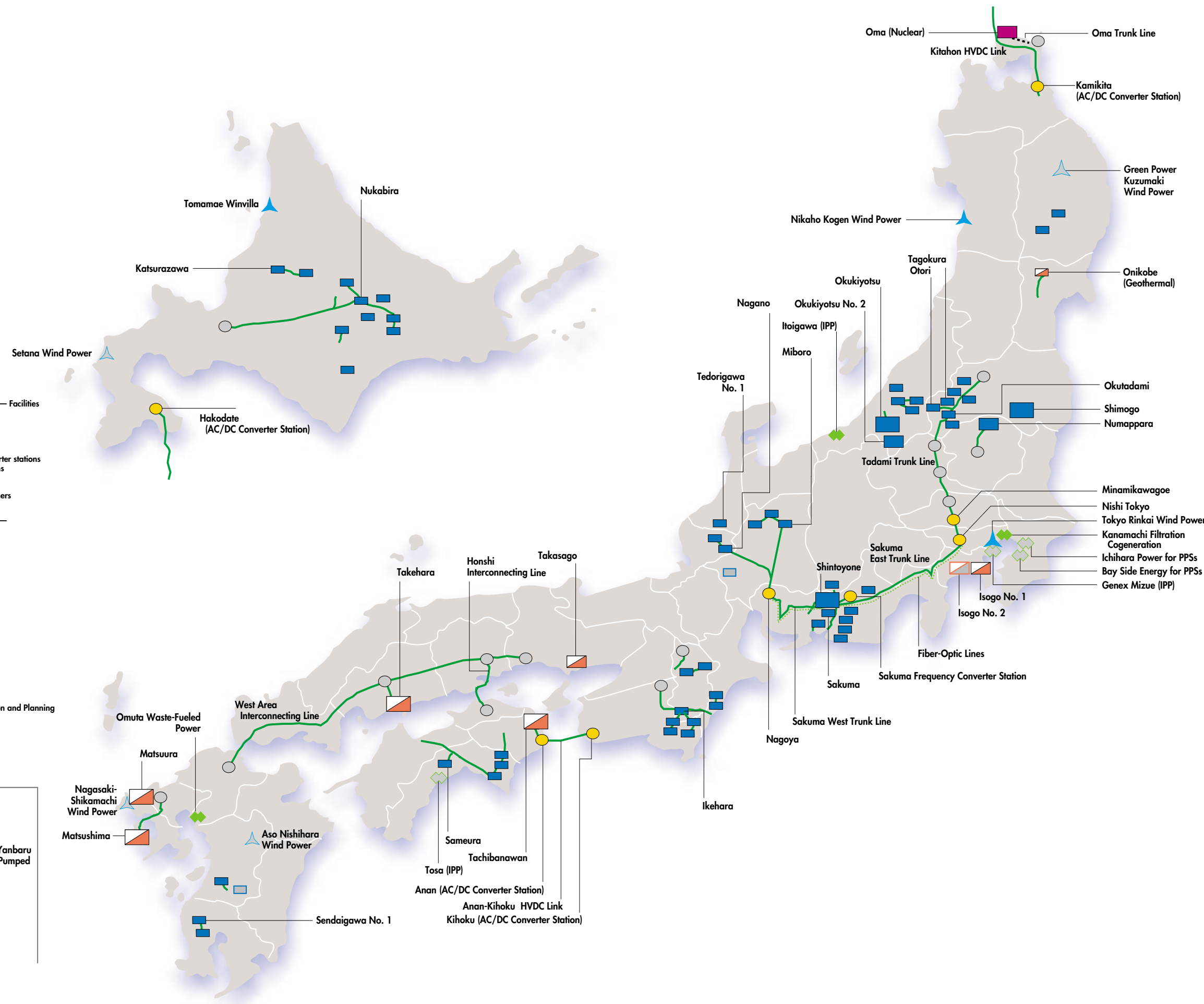
- ▭ Hydroelectric power stations
- ▭ Thermal power stations
- ▭ Nuclear power station
- Substations and others
- Transmission lines

## New Businesses — Facilities

- ▲ Wind power station
- ◆ Waste-fueled power station, cogeneration, IPP

## New Businesses — Under Construction and Planning

- ▲ Wind power station
- ◆ Waste-fueled power station, cogeneration, IPP, PPS



## Wholesale Electric Power Business

| POWER GENERATION FACILITIES                 |                    |
|---|--------------------|
| Hydroelectric power stations                |                    |
| Number                                      | 58                 |
| Capacity                                    | 8,260.8 MW         |
| Thermal power stations                      |                    |
| Number                                      | 8                  |
| Capacity                                    | 7,824.5 MW         |
| <b>Total number</b>                         | <b>66</b>          |
| <b>Total capacity</b>                       | <b>16,085.3 MW</b> |
| TRANSMISSION LINES                          |                    |
| Total lines                                 | 2,404.4 km         |
| Extra high voltage power transmission lines | 1,970.2 km         |
| DC power transmission lines                 | 267.2 km           |
| SUBSTATIONS                                 |                    |
| Number                                      | 3                  |
| Capacity                                    | 4,292 MVA          |
| FREQUENCY CONVERTER STATION                 |                    |
| Number                                      | 1                  |
| Capacity                                    | 300 MW             |
| AC/DC CONVERTER STATIONS                    |                    |
| Number                                      | 4                  |
| Capacity                                    | 2,000 MW           |
| WIRELESS COMMUNICATION FACILITIES           |                    |
| Circuit length                              | 1,002,146 ch-km    |

| New Businesses             |               |
|----------------------------|---------------|
| Wind power stations        |               |
| Number                     | 3             |
| Capacity                   | 57 MW         |
| Cogeneration               |               |
| Number                     | 1             |
| Capacity                   | 12 MW         |
| Waste-fueled power station |               |
| Number                     | 1             |
| Capacity                   | 21 MW         |
| IPP                        |               |
| Number                     | 1             |
| Capacity                   | 134 MW        |
| <b>Total number</b>        | <b>6</b>      |
| <b>Total capacity</b>      | <b>224 MW</b> |

## Major Group Companies

(As of March 31, 2003)

### Consolidated Subsidiaries

| Company  | Address            | J-POWER's capital<br>(Millions of yen) | Ownership<br>(%) | Business lines   |
|--|--------------------|--|------------------|--|
| EPDC Holding Co., Ltd.                           | Chuo-ku, Tokyo     | 120                                    | 100              | Management of affiliates and subsidiaries  |
| KAIHATSUDENKI Co., Ltd.                          | Chiyoda-ku, Tokyo  | 500                                    | 100<br>100*      | Construction, technical development, design, consulting, maintenance and research for power stations, substations and transmission lines                                     |
| EPDC Industrial Co., Ltd.                        | Shinjuku-ku, Tokyo | 310                                    | 100<br>100*      | Management of welfare facilities and buildings<br>Representative agency for insurance  |
| KAIHATSUKOJI Co., Ltd.                           | Shinjuku-ku, Tokyo | 300                                    | 100<br>100*      | Boring, grouting, surveying and other civil engineering and construction services  |
| The Kaihatsu Computing Service Center Ltd.       | Koto-ku, Tokyo     | 120                                    | 100<br>100*      | Development of computer software   |
| KEC Corporation                                  | Bunkyo-ku, Tokyo   | 110                                    | 100<br>100*      | Construction and maintenance of electronic and communications facilities   |
| EPDC Environmental Engineering Service Co., Ltd. | Chiyoda-ku, Tokyo  | 60                                     | 100<br>100*      | Research, construction and maintenance for environmental engineering<br>Survey and compensation of construction sites<br>Research and planning of environmental conservation |
| EPDC Coal Tech and Marine Co., Ltd.              | Shinjuku-ku, Tokyo | 20                                     | 100<br>100*      | Unloading and transporting of coal to thermal power stations<br>Disposition of ash<br>Sales of fried ash<br>Shipping of coal for thermal power stations                      |
| KDC Engineering Co., Ltd.                        | Nakano-ku, Tokyo   | 20                                     | 100<br>100*      | Design and construction management of electric power facilities<br>Engineering and construction  |
| EPDC Overseas Coal Co., Ltd.                     | Chuo-ku, Tokyo     | 1,000                                  | 80<br>80*        | Research, investigation and development of coal mines<br>Investment in coal mining   |
| EPDC (Australia) Pty. Ltd.                       | Australia          | (Millions of Australian dollars)<br>10 | 100<br>100*      | Investment in coal mining in Australia   |

### Companies Accounted For by the Equity Method

|  |          |                             |            |  |
|--|----------|-----------------------------|------------|--|
| Gulf Electric Public Co., Ltd.         | Thailand | (Millions of baht)<br>4,000 | 49         | Operation of gas cogeneration facility |
| Gulf Cogeneration Co., Ltd.            | Thailand | (Millions of baht)<br>850   | —<br>100** | Operation of gas cogeneration facility |
| Gulf Power Generation Co., Ltd.        | Thailand | (Millions of baht)<br>577   | —<br>60**  | Operation of coal fired power station  |
| Samutprakarn Cogeneration Co., Ltd.    | Thailand | (Millions of baht)<br>1,291 | —<br>100** | Operation of gas cogeneration facility |
| Nong Khae Cogeneration Co., Ltd.       | Thailand | (Millions of baht)<br>1,678 | —<br>100** | Operation of gas cogeneration facility |
| Thaioil Power Co., Ltd.                | Thailand | (Millions of baht)<br>2,810 | 19         | Operation of gas cogeneration facility |
| Independent Power (Thailand) Co., Ltd. | Thailand | (Millions of baht)<br>1,771 | —<br>56**  | Operation of gas cogeneration facility |

\* Indirect holdings

\*\* Held by associated persons and not included in ownership

## Directors and Statutory Auditors

(As of July 2003)

President Yoshihiko Nakagaki\*

### Executive Vice Presidents

Yoshihide Yamasaki\*  
Youki Kawata\*  
Hisao Nakagami\*

### Executive Managing Directors

Masamichi Ohno  
Toru Namiki  
Masaaki Tanaka  
Katsuhiko Miyashita

### Executive Directors

Akinobu Yasumoto  
Takeharu Okitsu  
Kiyoshi Sawabe  
Masayuki Hori  
Masayoshi Kitamura

### Auditors

Koichi Fujino  
Takeshi Sone  
Yasuo Matsushita

\* Representative Directors

## Corporate Network

(As of September 2003)

### Head Office

15-1, Ginza 6-chome, Chuo-ku,  
Tokyo 104-8165, Japan  
Tel: 81-3-3546-2211  
URL: www.jppower.co.jp  
E-mail: webmaster@jpower.co.jp

### Regional Headquarters and Others

#### HOKKAIDO REGIONAL HEADQUARTERS

Kitasanjonishi 3-chome,  
Chuo-ku, Sapporo City,  
Hokkaido 060-0003, Japan  
Tel: 81-11-221-8445

#### TOHOKU OFFICE

6-1, Ichibancho 4-chome,  
Aoba-ku, Sendai City,  
Miyagi 980-0811, Japan  
Tel: 81-22-267-2551

#### EAST REGIONAL HEADQUARTERS

151, Minami-Otsuka, Kawagoe City,  
Saitama 350-1162, Japan  
Tel: 81-49-246-9711

#### CHUBU REGIONAL HEADQUARTERS

3030-68-1, Jyusanduka,  
Jyusanzuka-cho, Kasugai City,  
Aichi 486-0815, Japan  
Tel: 81-568-81-2300

#### HOKURIKU OFFICE

5-13, Sakurabashi-dori, Toyama City,  
Toyama 930-0004, Japan  
Tel: 81-76-442-1151

#### WEST REGIONAL HEADQUARTERS

2-27, Nakanoshima 6-chome,  
Kita-ku, Osaka City,  
Osaka 530-0005, Japan  
Tel: 81-6-6448-5921

#### CHUGOKU OFFICE

15-10, Hacchobori, Naka-ku,  
Hiroshima City,  
Hiroshima 730-0013, Japan  
Tel: 81-82-221-0423

#### SHIKOKU OFFICE

4-3, Kotobuki-cho 1-chome,  
Takamatsu City,  
Kagawa 760-0023, Japan  
Tel: 81-87-822-0821

#### KYUSHU OFFICE

2-1, Hakataekimae 3-chome, Hakata-ku,  
Fukuoka City,  
Fukuoka 812-0011, Japan  
Tel: 81-92-472-3736

#### ISHIKAWA COAL THERMAL POWER STATION

4-1, Akazaki 3-chome, Ishikawa City,  
Okinawa 904-1103, Japan  
Tel: 81-98-964-3711

### Overseas Offices

#### EPDC WASHINGTON OFFICE

1101 17th Street, N.W., Suite 802,  
Washington D.C. 20036, U.S.A.  
Tel: 1-202-429-0670  
Fax: 1-202-429-1660

#### EPDC (AUSTRALIA) PTY., LTD.

Level 25 Waterfront Place, 1 Eagle Street,  
Brisbane, Queensland 4000, AUSTRALIA  
Tel: 61-7-3211-7055  
Fax: 61-7-3211-7044

#### EPDC BEIJING OFFICE

8008 Chang Fu Gong Office Bldg.,  
Jia-26, Jian Guo Men Wai Da Jie,  
Beijing 100022, PRC  
Tel: 86-10-6513-7091/7092  
Fax: 86-10-6513-3371

#### EPDC BANGKOK OFFICE

10th Floor, Nantawan Building,  
161 Rajdamri Road, Bangkok  
10330 THAILAND  
Tel: 66-2-252-5496/5497  
Fax: 66-2-252-5498

#### EPDC KUALA LUMPUR OFFICE

No. 32-1, Jalan 28/70A Desa Sri  
Hartamas, 50480 Kuala Lumpur  
Tel: 60-3-2300-2420  
Fax: 60-3-2300-2422

#### EPDC LIMA OFFICE

Morelli No. 109, 3er. Piso, San Borja,  
Lima 41, Peru  
Tel: 51-1-476-9757  
Fax: 51-1-476-9758

#### YUNCAN HYDROPOWER PROJECT OFFICE (PERU)

(also contact via EPDC Lima Office)

#### PARAGUAY METROPOLITAN POWER NETWORK PROJECT OFFICE (PARAGUAY)

#### PURULIA PUMPED-STORAGE HYDROPOWER OFFICE (INDIA)

# Corporate Data

(As of March 31, 2003)

|                                     |  |
|-------------------------------------|--|
| <b>Category of Business</b>         | Electric utility   |
| <b>Date of Incorporation</b>        | September 16, 1952   |
| <b>Law of Foundation</b>            | Electric Power Development Promotion Law                   |
| <b>Paid-in Capital</b>              | ¥70,600 million  |
| <b>Authorized Shares</b>            | 100,000,000  |
| <b>Number of Shares Outstanding</b> | 70,600,000   |
| <b>Number of Shareholders</b>       | 10 (Minister of Finance and nine electric power companies) |

## Major Shareholders

| Shareholders                              | Number of shares held | Percentage of total |
|---|-----------------------|---------------------|
| Government of Japan (Ministry of Finance) | 47,083,000            | 66.69               |
| Tokyo Electric Power Co., Inc.            | 7,037,000             | 9.97                |
| Kansai Electric Power Co., Inc.           | 5,164,000             | 7.31                |
| Chubu Electric Power Co., Inc.            | 4,460,000             | 6.32                |
| Tohoku Electric Power Co., Inc.           | 1,417,000             | 2.01                |
| Kyushu Electric Power Co., Inc.           | 1,417,000             | 2.01                |
| Chugoku Electric Power Co., Inc.          | 1,415,000             | 2.00                |
| Hokkaido Electric Power Co., Inc.         | 947,000               | 1.34                |
| Hokuriku Electric Power Co., Inc.         | 947,000               | 1.34                |
| Shikoku Electric Power Co., Inc.          | 713,000               | 1.01                |
| Total                                     | 70,600,000            | 100.00              |

## Power Generation (Year ended March 31, 2003)

|               |            |
|---------------|------------|
| Hydroelectric | 10,624 GWh |
| Thermal       | 48,679 GWh |
| Total         | 59,303 GWh |

**Electric Power Sales** (Year ended March 31, 2003) 54,429 GWh

## Income from Electric Power Sales (Year ended March 31, 2003)

¥473,567 million

|                                   | Power sales (GWh) | Percentage of total |
|-----------------------------------|-------------------|---------------------|
| Hokkaido Electric Power Co., Inc. | 828               | 1.5                 |
| Tohoku Electric Power Co., Inc.   | 1,606             | 3.0                 |
| Tokyo Electric Power Co., Inc.    | 5,717             | 10.5                |
| Chubu Electric Power Co., Inc.    | 3,170             | 5.8                 |
| Hokuriku Electric Power Co., Inc. | 705               | 1.3                 |
| Kansai Electric Power Co., Inc.   | 10,226            | 18.8                |
| Chugoku Electric Power Co., Inc.  | 18,538            | 34.1                |
| Shikoku Electric Power Co., Inc.  | 5,666             | 10.4                |
| Kyushu Electric Power Co., Inc.   | 5,991             | 11.0                |
| Okinawa Electric Power Co., Inc.  | 1,956             | 3.6                 |
| Other                             | 26                | 0.0                 |
| Total                             | 54,429            | 100.0               |

## Wholesale Electric Power Facilities

### HYDROELECTRIC POWER STATIONS

|          |          |
|----------|----------|
| Number   | 58       |
| Capacity | 8,261 MW |

### THERMAL POWER STATIONS

|                |           |
|----------------|-----------|
| Number         | 8         |
| Capacity       | 7,825 MW  |
| Total number   | 66        |
| Total capacity | 16,085 MW |

### TRANSMISSION LINES

|   |            |
|---|------------|
| Total lines                                 | 2,404.4 km |
| Extra high voltage power transmission lines | 1,970.2 km |
| DC power transmission lines                 | 267.2 km   |

### SUBSTATIONS

|          |           |
|----------|-----------|
| Number   | 3         |
| Capacity | 4,292 MVA |

### FREQUENCY CONVERTER STATION

|          |        |
|----------|--------|
| Number   | 1      |
| Capacity | 300 MW |

### AC/DC CONVERTER STATIONS

|          |          |
|----------|----------|
| Number   | 4        |
| Capacity | 2,000 MW |

### WIRELESS COMMUNICATION FACILITIES

|                |                 |
|----------------|-----------------|
| Circuit length | 1,002,146 ch-km |
|----------------|-----------------|

## New Businesses

### WIND POWER STATIONS

|          |       |
|----------|-------|
| Number   | 3     |
| Capacity | 57 MW |

### COGENERATION

|          |       |
|----------|-------|
| Number   | 1     |
| Capacity | 12 MW |

### WASTE-FUELED POWER STATION

|          |       |
|----------|-------|
| Number   | 1     |
| Capacity | 21 MW |

### IPP

|                |        |
|----------------|--------|
| Number         | 1      |
| Capacity       | 134 MW |
| Total number   | 6      |
| Total capacity | 224 MW |

## Number of Group Employees

6,543





**Electric Power Development Co., Ltd.**

15-1, Ginza 6-chome, Chuo-ku,  
Tokyo 104-8165, Japan  
Tel: 81-3-3546-2211  
URL: [www.jpowers.co.jp](http://www.jpowers.co.jp)  
E-mail: [webmaster@jpowers.co.jp](mailto:webmaster@jpowers.co.jp)

