



## Corporate Governance

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# Governance

Fiscal 2008 Highlights

## Institution of Chairmanship and Outside Directors

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To enhance the corporate governance structure, the office of chairman was created and an outside director was elected.

# Corporate Governance

The J-POWER Group is committed to addressing changes in society and being worthy of the trust held in it by its diverse stakeholders. To that end, we are taking steady steps to build and operate a structure needed to ensure enhanced corporate governance.

## Corporate Governance Structure

Based on its corporate philosophy of aiming “to ensure constant supplies of energy to contribute to the sustainable development of Japan and the rest of the world,” the J-POWER Group recognizes that the enhancement of corporate governance and thorough implementation of regulatory compliance are highly important management issues for achieving long-term corporate growth and enhanced corporate value and winning the trust of its stakeholders.

### Corporate Governance Framework

In accordance with the J-POWER Group corporate philosophy, J-POWER directors and corporate auditors take the initiative in giving guidance on honest and fair activity based on an unswervingly law-abiding spirit and ethical attitude in accordance with the J-POWER Corporate Conduct Rules. At the same time, they promote efforts to instill this attitude in all J-POWER employees.

At J-POWER, corporate governance is enhanced continually by the Board of Directors, which exercises control by means of mutual checks by directors well versed in the Company’s business, and the Board of Corporate Auditors, which is composed of highly experienced auditors who oversee the management from an independent perspective.

Since June 2009 the supervisory functions of the Board of Directors have been strengthened by the institution of the position of chairman with the aim of enhancing the supervisory capabilities of the directors. In addition, one outside director was elected to participate in decision-making by the J-POWER management from an independent perspective in the capacity of a non-executive director.

To ensure that directors’ duties are carried out efficiently, functions have been allocated to bodies other than Board of Directors. Specifically, the Executive Committee has been established to deliberate on specific matters, in particular matters of key importance to the Company as a whole from among those being handled

by the president in accordance with policies decided on by the board, and the Management Executing Committee deliberates on important matters relating to specific aspects of business execution.

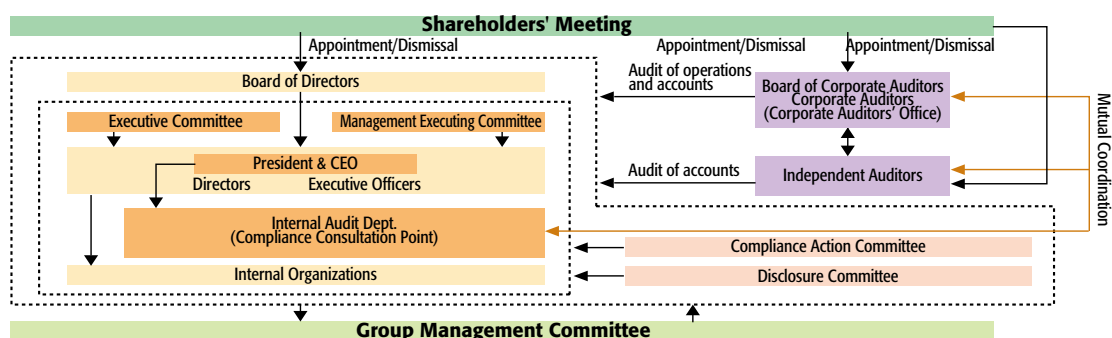
In addition, the creation of the system of executive officers has apportioned the execution of business among directors and executive officers. This has clarified responsibilities and authority, enabling precise and prompt decision-making and efficient corporate management.

J-POWER’s Board of Corporate Auditors comprises five auditors. Three of these are outside auditors, and since July 2008 one of these has had the status of a standing auditor, in order to enhance still further the oversight functions of the Board of Corporate Auditors.

To ensure that the corporate auditors’ auditing is carried out effectively, the directors have created an environment in which corporate auditors attend and state their opinions at meetings of the Board of Directors, the Executive Committee, and the Management Executing Committee, hear descriptions from directors and others concerning the state of business execution, inspect internal Company organizations and major subsidiaries, and engage in smooth mutual coordination with accounting auditors and others.

In addition to these supervisory and oversight functions, J-POWER has established its Internal Audit Department, which conducts internal auditing independent of other Company units. On top of this, each Company unit conducts periodic voluntary audits of its own operations.

### >>> The J-POWER Group’s Corporate Governance Framework



With regard to disclosure, to improve the accountability and transparency of its corporate activities the Company has established the Disclosure Committee, chaired by the president, which ensures that the disclosure of the Company's information is vigorous, fair, transparent, and timely.

The J-POWER Advisory Board was established in September 2008 as part of the Company's measures to enhance corporate governance. The Advisory Board allows outside experts to provide diverse and objective opinions and uses them to enhance corporate value.

With regard to the administration of subsidiaries and affiliates, J-POWER's basic policy calls for Group-wide development in accordance with the Group's management plan. In addition to the administration of subsidiaries based on company regulations, we have set up a Group Management Meeting to enhance the fairness of business activity within the corporate group.

### ● Implementation of Internal Control Reporting System

The J-POWER Group has progressed with the development of an internal control system pertaining to financial reporting under the system of internal control reporting applied under the Financial Instruments and Exchange Law. We have completed visualization (documentation) and compiled regulations for the purpose of identifying risks that may impact financial reporting throughout the J-POWER Group and clarifying the controls needed to address them, and the system was brought into operation in April 2008.

With regard to the evaluation of internal controls by management executives themselves, based on implementation criteria prescribed by Japan's Financial Services Agency in relation to company-wide internal controls, internal controls relating to business processes, and internal controls that use IT, J-POWER's Internal Audit Department has taken the central role in assessing their status of development as of the fiscal 2008 first half and the status of their implementation in the second half, finding that there are no significant defects. At the end of June 2009, the results of management executives' evaluations were compiled and issued as a report on internal control. The J-POWER Group is committed to ongoing enhancement of its internal control systems and to ensuring the reliability of its financial reporting.

## Emergency Management Structure

The risks inherent in J-POWER's business environment are becoming increasingly diverse and complex, requiring us to take responsibility for forecasting the various risks accurately and to manage them appropriately in the event they emerge. In view of this, J-POWER has prepared itself for risk by putting the following structure in place.

### 1 Emergency Response Team

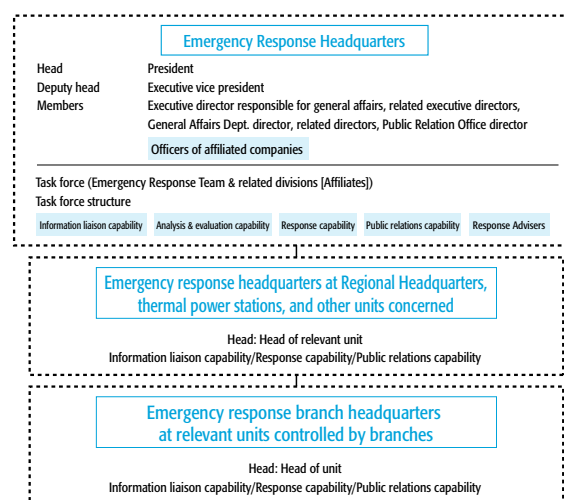
- (1) To deal with emergency management during periods of normality, the Emergency Response Team is established permanently within the General Affairs Department at head office to predict emergencies, conduct rapid first response when they do occur, and take overall charge of emergency management.
- (2) The Emergency Response Team manages the following matters.
  - Prediction of emergencies and rapid first response when they do occur
  - Risk identification, gathering and management of risk information
  - Education and training

### 2 Emergency managers and emergency duty personnel

Emergency managers and duty personnel are appointed in each head office division and local unit, and these undertake rapid first response and transmission of information.

### 3 Emergency Response Headquarters and branches

When emergencies are predicted and occur, and their seriousness warrants emergency countermeasures, the Emergency Response Headquarters (and branches) are established promptly (see chart below).



#### 4 Overseas emergency response task force

The overseas emergency response task force has been established under the Emergency Response Team in line with the expansion of the scale of J-POWER's business outside Japan. Its activities also include the gathering of information relating to emergencies overseas.

#### ● What Emergencies Mean for J-POWER Group

For the J-POWER Group, a variety of events are regarded as being emergencies.

As a wholesale power company the greatest emergency for J-POWER is the malfunctioning of equipment that produces electricity, its product upon which companies depend for their very existence. The causes of equipment malfunctions include natural disasters, man-made causes, and physical causes.

##### (1) Malfunctions caused by natural disasters

Natural disasters such as earthquakes, typhoons, lightning strikes, tsunami, and volcanic eruptions are not able to be prevented by artificial means, though it is possible to minimize the damage they cause through the use of appropriate equipment and systems for disaster recovery. J-POWER takes precautions against the risk of natural disasters by such means as having systems in place to restore equipment functions as rapidly as possible when such natural disasters affect the maintenance and operation of facilities such as those for power generation and transmission, substations, and control centers (for remote operation of power stations), and conducting reinforcement engineering works that incorporate state-of-the-art earthquake-resistant design concepts. In addition, the Company fosters emergency-management awareness among its employees by conducting regular disaster-prevention drills.

##### (2) Malfunctions from man-made causes

With the exclusion of crises that it is impossible for a single company to address alone, the Company addresses warfare, terrorism involving acts of destruction, malicious acts, and other forms of crisis caused by human activity to avoid them as much as possible by such means as making every effort to gather relevant information, liaising with relevant authorities, and building a liaison structure for times of crisis. In addition, power transmission pylons close to public thoroughfares are fenced off and inspected and examined regularly.

##### (3) Malfunctions from physical causes

J-POWER's electricity generation, transmission, substation, and communications equipment was in some cases installed more than 50 years ago, and thus a significant proportion of it is aging. Equipment whose functioning deteriorates and suffers damage is repaired or renewed as necessary, and daily inspections and examinations are conducted to ensure that they do not give rise to significant obstacles to power supplies. In addition, risk is avoided by means of regular overhauls and meticulous inspections to check the performance of key parts and equipment, and the implementation of preventative maintenance to avoid equipment malfunctions.

#### ● Disaster Prevention Measures

In recent years, natural disasters such as major earthquakes and torrential rains due to abnormal weather have been occurring frequently. J-POWER is an electric power supplier with responsibility for the nation's vital lifelines, and has the status of a designated public institution under the Disaster Countermeasures Basic Act and the Civil Protection Law.

In view of this, the Company has long been developing disaster prevention measures and has formulated and announced operational plans for disaster prevention and plans for measures to protect the people. In this way, J-POWER has aimed to be a company that is resilient to disasters.

In-house manuals for responding to disasters, including a set of rules on disaster countermeasures and protection measures for the people, have been prepared, and the Company has built a disaster prevention structure that encompasses head office and all Group units in each region systematically.

In addition to the creation of this structure, disaster drills are held regularly in every unit to improve its practical ability to deal with actual disasters so that emergency situations can be handled appropriately.

#### COLUMN Activities of the Disaster Prevention Task Force

##### Deployment of Company-wide cross-functional disaster prevention activity centered on the Disaster Prevention Task Force established in 2005

Given the frequent occurrence and growing severity of natural disasters since the Chuetsu Earthquake in Niigata Prefecture in 2004, the Disaster Prevention Task Force was established as a cross-functional organization straddling all related divisions. It brings together the Company's knowledge in a broad range of spheres such as civil engineering and construction, studying and implementing measures to protect Company power generation, transmission, substation and communications equipment from such disasters.

Specifically, with regard to potential large-scale earthquakes under such areas as the Tokai, Tonankai, and Nankai regions and the Tokyo Metropolitan Area in the near future, the task force is studying their impact on J-POWER facilities and is implementing necessary countermeasures that include reinforcement works for earthquake resistance.



Emergency drills (Upper: Regional area; Lower: Head office)

## Compliance Promotion Structure

In accordance with its corporate philosophy, J-POWER has instituted its Corporate Conduct Rules as the core of its compliance activity, serving as the model for action in the conduct of business that accords with corporate ethics and reflects a law-abiding spirit, and has also instituted its Compliance Code (see p. 73) to provide specific decision-making standards for managers and employees in their daily business activities. To ensure that the tenor of the Rules and the Code is constantly effective in practice, the Company has established the Compliance Action Committee, chaired by the chairman, to determine policy for Company-wide compliance activities and to evaluate and modulate how they are being applied, and also the Compliance Promotion Headquarters, headed by the executive vice president responsible for compliance, the task of which is to formulate and implement activity plans.

In addition, compliance committees have been established in individual branches, thermal power stations, and other key units, for the purpose of conducting compliance activity that accords with the characteristics of each unit.

Roles are apportioned to these organizations and units, and through cooperation and liaison they endeavor to ensure that compliance-consciousness becomes firmly entrenched in the corporate culture.

### ● Out-of-compliance issues, and measures to prevent recurrence

Since fiscal 2007 J-POWER has been laying down a concrete action program for compliance promotion and has endeavored to prevent out-of-compliance issues from arising. In fiscal 2008, however, there were out-of-compliance issues such as the violation of the dam-management rules for the Kassa Dam.

#### Defective official procedures

Required official procedures have been conducted in a defective manner with regard to cases such as works conducted for the installation of facilities, but when they were discovered the Company filed reports immediately to the authorities, and corrected the situation.

#### Violation of dam-management rules at the Kassa Dam

In May 2008, at the Kassa Dam above the Okukiyotsu Power Station (Niigata Prefecture) there was a discharge caused by a natural surge. At the time of the surge it was obligatory, according to the dam-management rules based on the River Act, to give advance notification to the relevant bodies and for a patrol by an alarm vehicle to be conducted, but owing to deficiencies in the surveillance structure the discharge was not noticed for 15 hours, and no advance notification or patrol was conducted. In addition, it is obligatory under the Electricity Business Act to report abnormal discharges to the director of the responsible industrial safety and inspection department within 48 hours, but here too the report was delayed.

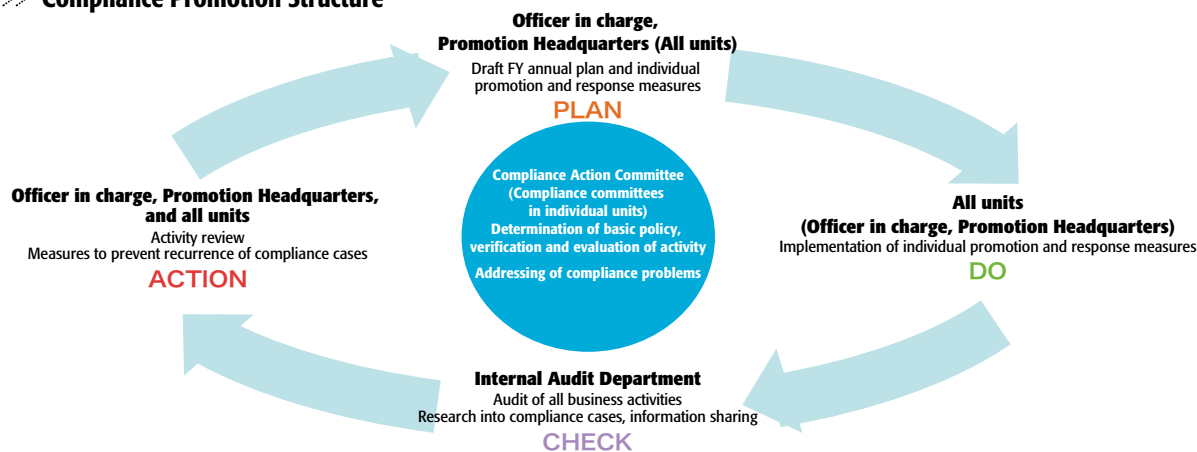
Note: Please refer to p. 66 for the situation regarding occurrences of environment-related problems.

All facts concerning the case referred to above have been exposed and the causes investigated, and measures to prevent recurrence have been formulated based on the results, and then implemented. Other Company departments have been made thoroughly conversant with the facts, and steps taken to ensure no recurrence of similar cases. The state of implementation of these countermeasures is monitored regularly and their effects measured, and these will be reflected in future compliance action programs.



Compliance-related exchange program between different job categories

### >>> Compliance Promotion Structure



## Information Security Activities

As companies have become increasingly information-oriented and are making ever-greater use of IT, the significance of information security is growing.

J-POWER has the duty to build vital national infrastructure in the form of nuclear power stations and to provide stable supplies of electricity. Given this important duty, it seeks to enhance information security and maintain it at a higher level and is implementing a variety of measures to achieve that.

### ● Basic Policy on Information Security

J-POWER has formulated its Group-wide "Basic policy on information security",<sup>1</sup> and publicizes it on its website.

The information security measures outlined below are implemented throughout the Group in accordance with this basic policy.

In addition to existing operations, the J-POWER

Group's business activities are expanding continuously, including the development of nuclear power at Ohma and of power generation business overseas. In tandem with this it is becoming increasingly important to conduct proper information management that earns the trust of society while ensuring the stability of business operations. In view of this, the assurance and enhancement of information security is regarded as an important theme of management, and steps to upgrade the level of security still further are being taken throughout the Group.

### ● Collaboration in Core Electric Power Systems

J-POWER is also making efforts in the field of IT to help ensure the stability of electric power systems. To position ourselves to deal rapidly and properly with IT problems in core systems for electric power operations, we are strengthening the structure of collaboration with the government and electric power industry as a whole.

## Specific Measures

### Organization and structure

- Establishment of Information Security Committee as a lateral organization whose membership comprises the heads of all J-POWER head-office divisions
- Designation of the J-POWER IT & Telecommunications Office of the Corporate Planning & Administration Department as the unit in overall charge of information security to promote the development of rules and the implementation of concrete countermeasures
- Agile first response at any time an information security incident arises
- Joint assessment by all J-POWER Group companies of information security status at individual companies, and implementation of improvements
- Countermeasures involving third-party inspections using external experts

### Personal measures

- Instruction and education for all Group employees, including e-learning and seminars
- Training for staff in charge of promoting information security.

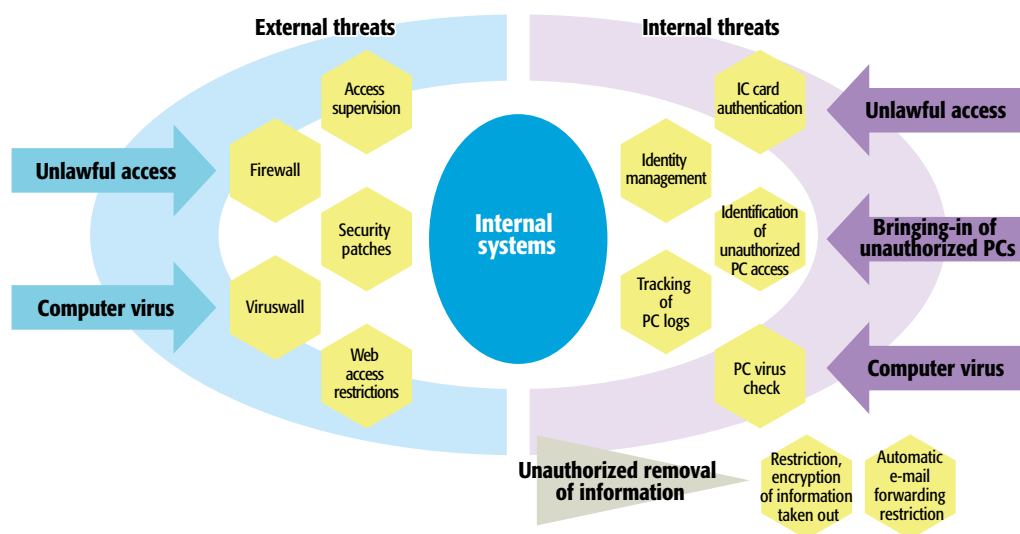
### Physical measures

- Locking control (J-POWER head office) when people enter or leave the premises, by means of IC cards (for employee identification)
- Separation of business areas from meeting and reception space

### Technical measures

- Prevention of unlawful intrusion through the Internet
- Access management (user authentication) for all business systems by means of IC cards (for employee identification)
- Approval by senior staff for removal of electronic information, and encryption of files
- Encryption of e-mail attached files
- Management of collation and analysis of operating logs

### >>> J-POWER Group Information Security Countermeasures



### key word

<sup>1</sup> Basic policy on information security

web [http://www.jpowers.co.jp/english/privacy/privacy\\_003\\_e.html](http://www.jpowers.co.jp/english/privacy/privacy_003_e.html)