

Electric Power Development Co., Ltd.
ANNUAL REPORT 2006



J-POWER'S PROFILE

J-POWER (Electric Power Development Co., Ltd.) was established in 1952 through a government initiative to increase the supply of electricity in Japan. Over the half a century since then, J-POWER, as a wholesale power company, has provided an inexpensive and stable supply of electricity to Japan's 10 major electric power companies (EPCOs). At the same time, J-POWER has contributed to the development of the Japanese economy and the improvement of the quality of life in Japan by constructing and operating a nationwide network of transmission trunk lines for EPCOs. In October 2004, J-POWER achieved complete privatization and was listed on the First Section of the Tokyo Stock Exchange.

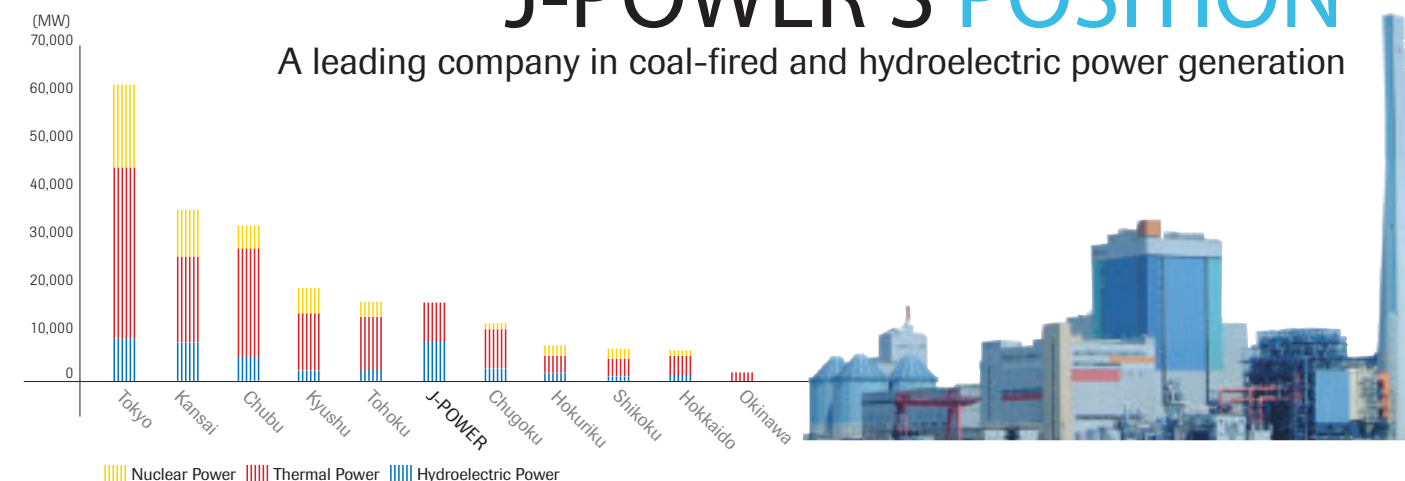
At the time of its foundation, J-POWER began to develop large-scale hydroelectric power generation, followed by pumped-storage power generation to address sharply growing peak demand for electricity during the summer, and built additional extra-high-voltage power transmission lines. After the oil crises in the 1970s, J-POWER began to aggressively develop thermal power generation that uses imported coal in a bid to diversify into different energy sources. In this way, J-POWER has expanded the power generation business in tune with the needs of the time.

Since 1960, J-POWER has provided electric power-related consulting services in over 60 countries, including surveys, undertaken design planning and construction supervision for thermal and hydroelectric power development, as well as environmental measures. In recent years, J-POWER has diversified its international operations to encompass independent power producer (IPP) projects.

In order to respond to changes in its operating environment, including the progress of electric power deregulation and global warming issues, the J-POWER Group will strengthen competitiveness in the wholesale electric power business while striving to create new businesses based on "the harmonization of energy and the environment."

J-POWER'S POSITION

A leading company in coal-fired and hydroelectric power generation



J-POWER is the only large-scale wholesale power company in Japan that has power plants as well as transmission lines and substation facilities essential in Japan's power network nationwide.

Approximately 90% of the power generation capacity in Japan is held by J-POWER and the EPCOs. As of March 31, 2006, J-POWER had power generation facilities in 67 locations throughout Japan for a total output of approximately 16,380MW, a scale rivaling any of the EPCOs. J-POWER ranks sixth among the 11 major power companies, representing an approximate 7% share of power generation in Japan.

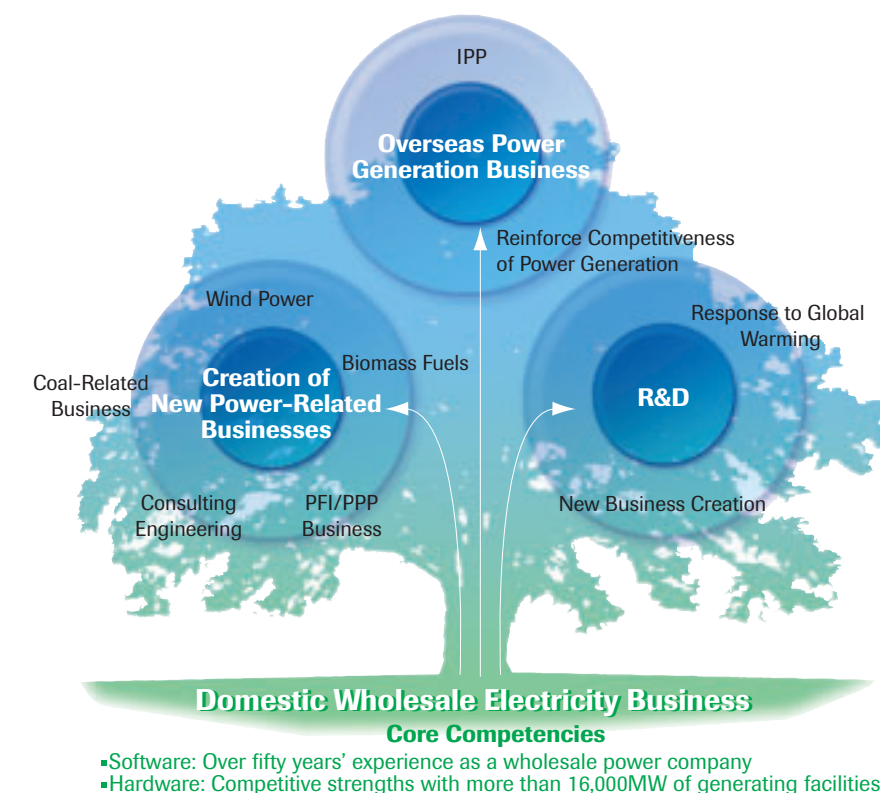
With regard to thermal power generation, J-POWER is unique in that it specializes in coal-fired power generation and has held the highest share (21%) of coal-fired thermal power generation capacity in Japan for many years.

In hydroelectric power generation, J-POWER is a forerunner in the development of large-scale hydroelectric power plants, which excel at fulfilling peak demand for electricity. We have a top-class share (19%) of hydroelectric power generation capacity in Japan.

STRATEGIC BUSINESS FIELDS

Applying core competence

J-POWER is taking full advantage of its management foundation built up through extensive business experience in Japan and overseas. Piloted by the keywords "the harmonization of energy and the environment," we are concentrating efforts on research and development and the creation of new businesses, as well as advancing the overseas power generation businesses on the basis of our core competence in the domestic wholesale electricity business.



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.

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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.

Financial Highlights

For the years ended March 31

Consolidated Data	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	2006
Operating revenues	621,933	594,375	569,854	5,294,402
Operating income	101,469	111,885	132,138	863,786
Ordinary income	67,906	57,093	44,446	578,077
Net income	43,577	35,559	27,623	370,963
Total shareholders' equity	433,028	391,327	359,645	3,686,286
Total assets	1,964,667	2,021,655	2,076,107	16,724,843
Net cash provided by operating activities	173,954	172,637	179,948	1,480,843
Net cash used in investing activities	(72,326)	(60,586)	(64,507)	(615,699)
Free cash flow	101,628	112,051	115,441	865,144
Net cash used in financing activities	(103,613)	(111,798)	(147,516)	(882,045)

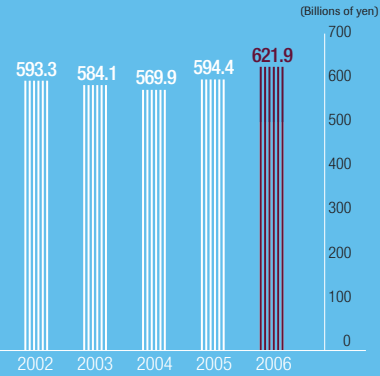
Notes: 1. The translation of the Japanese yen amounts into U.S. dollars uses the telegraphic transfer middle rate of exchange prevailing on the Tokyo Foreign Exchange Market on March 31, 2006, which was ¥117.47=US\$1.00

2. Free cash flow=Net cash provided by operating activities+Net cash used in investing activities

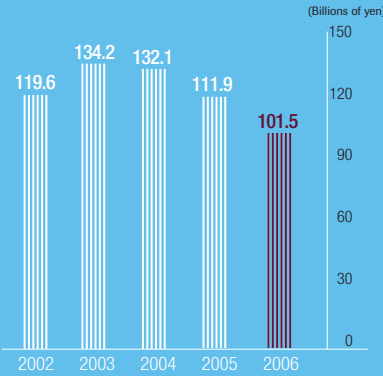
3. Although not shown on U.S. GAAP consolidated financial statements or in International Financial Reporting Standards, ordinary income is commonly used in Japan as an indication of profits on the statements of income.

J-POWER calculates ordinary income by adding net other income (expenses) to operating income and excluding (provision for) reversal of reserve for fluctuation in water levels and extraordinary profit (loss).

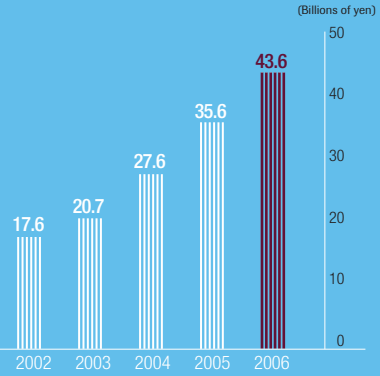
Operating Revenues



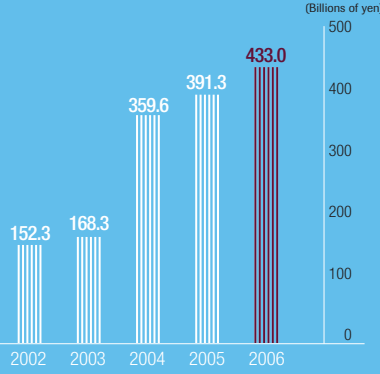
Operating Income



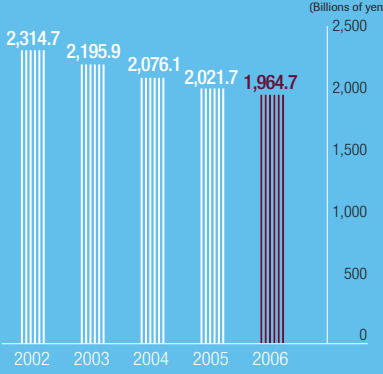
Net Income



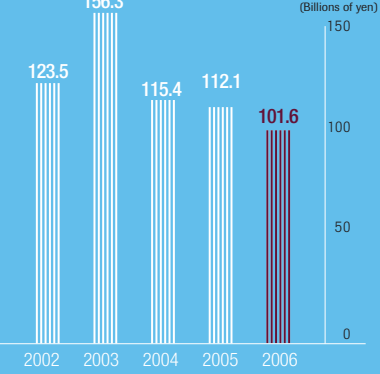
Total Shareholders' Equity



Total Assets



Free Cash Flow



Message from the President



The Fiscal Year in Review

Third Phase of the Restructure Plan Achieved

The fiscal year ended March 31, 2006 (fiscal 2005), was the first full year since J-POWER's listing on the First Section of the Tokyo Stock Exchange in October 2004. Fiscal 2005 was also the final year of the Third Phase of the Restructure Plan commenced in April 2001. This plan aimed to reinforce competitiveness in the core wholesale electric power business and create new electric power businesses and other new businesses under the circumstances prevailing in the ongoing deregulation of the electric power industry. We set such targets as improving productivity by reducing the group workforce from 8,000 to 6,000, cutting controllable expenses by 20% and increasing shareholders' equity ratio. As a result of making Group-wide efforts, we successfully achieved these goals and established the foundation for future business development.

Principal Achievements in Fiscal 2005

Domestic Electricity Business

Wholesale Electric Power Business: Record-High Sales Volume

In the wholesale electric power business, coal-fired power plants maintained high capacity utilization and marked record-high electricity sales volume due to strong demand in the cold winter and coal's cost advantage over other fossil fuels.

Smooth Progress in New Power Plant Development

J-POWER is promoting a new power plant construction plan to supply electricity to EPCOs. We embarked on the con-

struction of the Isogo New No. 2 Thermal Power expecting to commence operations in fiscal 2009. The Ohma Nuclear Power project is currently undergoing the evaluation for nuclear reactor approval by the national authorities, prior to the commencement of construction in fiscal 2006. The Nuclear Safety Commission of Japan held a public hearing in Ohmachi in fiscal 2005.

Inauguration of IPPs and New Power Plants for Power Producers and Suppliers (PPSs)

We added three power plants to our business in response to electric power industry deregulation: the Tosa Power Plant (150MW, IPP), Bay Side Energy Ichihara Power Plant (108MW, for PPSs), and Mihama Seaside Power Shin-Minato Power Station (105MW, for PPSs).

Commencement of Sales to Wholesale Electricity Market

In another initiative taken under ongoing deregulation, we amended the long-term electricity supply contracts with EPCOs for a few existing power plants and commenced sales through the wholesale electricity market. Although we are basically focusing on sales to EPCOs and are expecting limited sales volume to the wholesale market, we believe our new challenge is a worthwhile step in terms of future client diversification.

Promotion of New Businesses

Wind Power Generation and Coal Sales Business

In the wind power generation business, we commenced operations at the Setana Seaside Wind Power Farm, which has a total capacity of 12MW. The construction of the 66MW Koriyama-Nunobiki kogen Wind Farm is progressing smoothly and is on course for inauguration in fiscal 2006. This wind power plant will have the largest output power of all currently planned wind power plants in Japan. Furthermore, we are steadily promoting our coal sales business, leveraging our procurement capacity.

Other Initiatives

In the renewable energy field, we brought future business development one step closer to reality by commencing the test manufacture of biomass fuels derived from general waste at the Matsushima Thermal Power Plant in Nagasaki Prefecture. The research is being conducted in conjunction with the New Energy and Industrial Technology Development Organization (NEDO) and the local government of Saikai City. In addition, we advanced the development of micro-hydropower generation, which makes effective use of the unutilized head of water. Furthermore, we embarked on a dry-type desulfurization engineering business, leveraging the environmental technologies accumulated in our coal-fired generating operations.

Overseas Power Generation Business

In the overseas power generation business, there was steady progress made in the two large-scale projects in which we had participated in fiscal 2004. The CBK Hydroelectric Power Project is in operation through cooperation between Japanese and local staff in the Philippines and significantly contributed to the improvement of equity method profit in fiscal 2005. At the Kaeng Khoi 2 Gas-Fired Thermal Power Plant Project in Thailand, facility construction is on target for the first unit to commence operations during fiscal 2006. In addition, we acquired equity interests in the Tenaska Frontier Gas Thermal Power Plant, which is our first power generation project in the United States, in May 2006.

Business Results: Record-High Marks Achieved in Operating Revenues, Ordinary Income and Net Income

J-POWER achieved record-high results that surpassed the fiscal year targets. These can be attributed to the improvement in earnings structure as a result of the Third Phase of the Restructure Plan. In addition to this, new businesses in both domestic and overseas markets enhanced profit contributions, and temporary factors such as an increase in demand for electricity due to the cold winter and a significant reduction in personnel expenses owing to higher returns on employees' retirement pension assets contributed to the results. Consequently, we posted record-high figures in operating revenues, ordinary income and net income, meeting stakeholders' expectations.

Business Summary

Consolidated operating revenues:	¥621.9 billion	(Up 4.6% year on year)
Consolidated ordinary income:	¥67.9 billion	(Up 18.9% year on year)
Consolidated net income:	¥43.6 billion	(Up 22.5% year on year)

Operating revenues: Despite lower water flow at hydroelectric power plants and reductions in hydroelectric power and transmission line contract rates, operating revenues improved ¥27.6 billion from fiscal 2004 due to higher load factor at thermal power plants and the commencement of operations at power plants for PPSs.

Operating income: Although there was a significant reduction in personnel expenses due to an increase in actual return on employees' retirement pension assets, operating income declined by ¥10.4 billion. This resulted from the depreciation method changes at some thermal power plants and the hydroelectric power and transmission line rate reductions.

Ordinary income and net income: In addition to the decrease in interest expenses, the improvement of an investment profit on equity method from overseas IPP projects contributed to profit growth.

J-POWER Group Management Plan for Fiscal 2006

To Realize Sustainable Growth with Society

The J-POWER Group Management Plan for fiscal 2006 coincides with the second year of the three-year management target set up in fiscal 2005. Having reviewed business activities in fiscal 2005 and considered various elements in the management environment, we have made the necessary amendments to the previous plan. Specifically, we placed three core elements for our management approach, based on the results from the Third Phase of the Restructure Plan: the pursuit of stable growth, enhancement of corporate governance, and sustainability as a company.

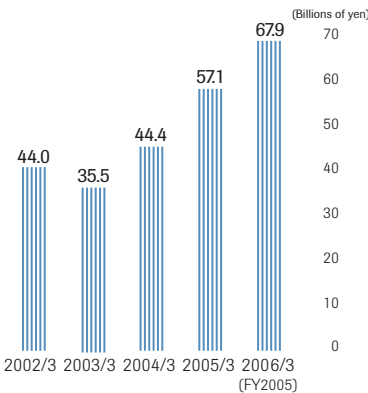
Pursuit of Stable Growth

Under the stagnant growth in the domestic electricity demand, competition among existing electric power companies and new entrants has further intensified as a result of deregulation. On the other hand, our electric power facilities are slowly but surely aging, thus we need to respond to enhance facility credibility as well as maintain and improve profitability. Under these circumstances, J-POWER established the following measures to realize stable growth, with the harmonization of energy and the environment as our basic mission.

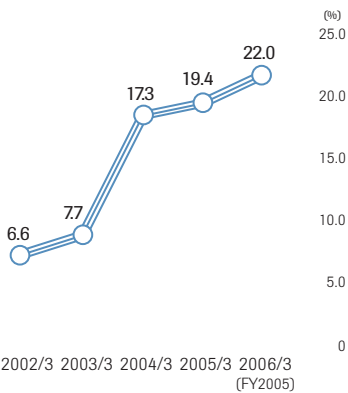
1. Domestic Electricity Business

Enhance Sales Activities
Amid the intensifying competition in the Japanese electricity market, we placed priority on enhancing sales activities, based on competitiveness in terms of both quality and value.
In the production division, we will continue improvement activities, including cost reductions. In the sales division, we will strive to grasp customer needs more accurately and provide feedback to the production division. By strengthening cooperation between production and sales divisions, we will maintain and increase sales volumes at existing generation facilities, primarily by wholesaling to EPCOs. Together with these efforts, we will leverage sales diversification options amid the deregulation of the electric power industry and maximize earnings created from domestic generation facilities. (See Page 10 for more information on J-POWER's approach to electric power industry deregulation)

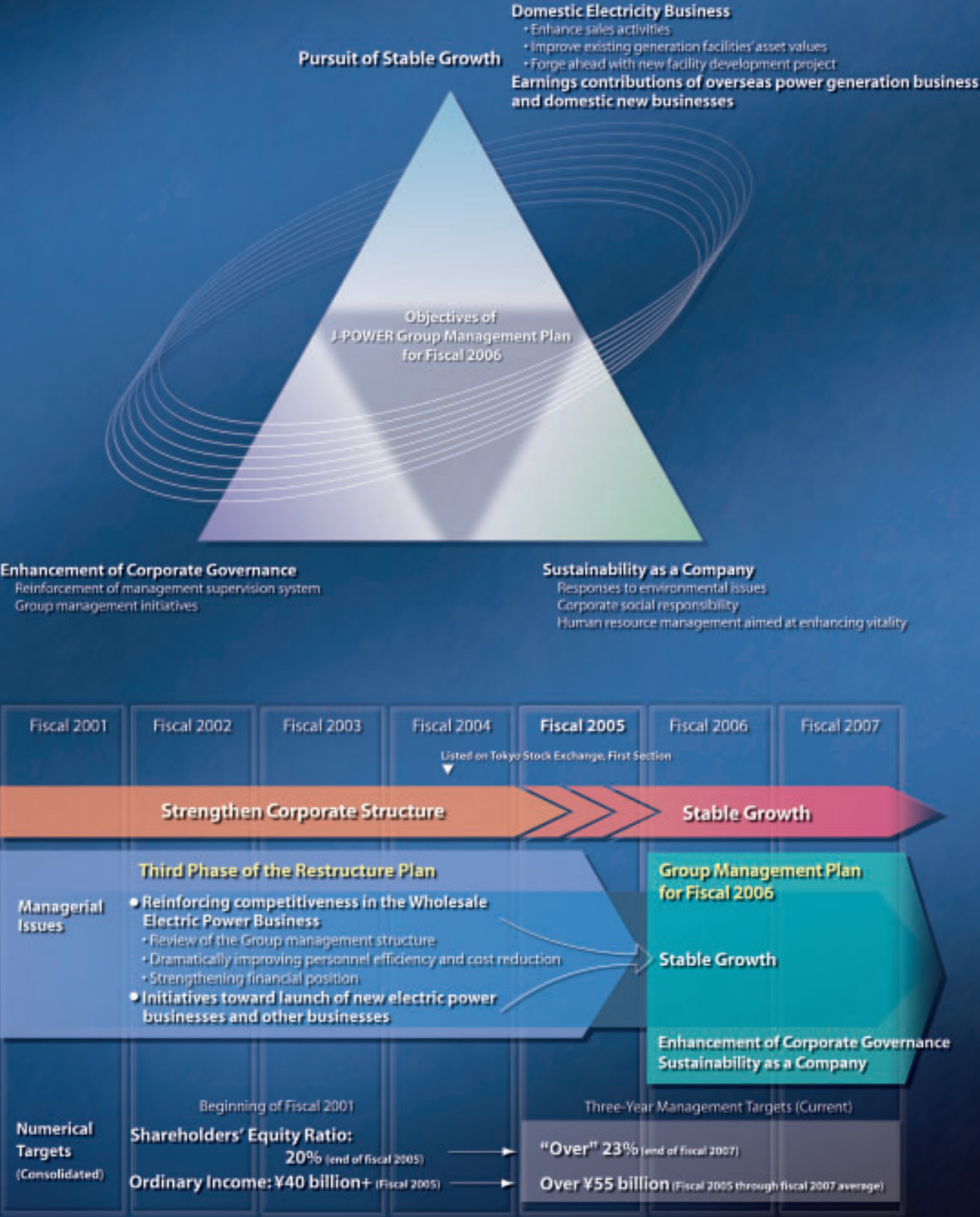
Ordinary Income (Consolidated)



Equity Ratio (Consolidated)



Overview of J-POWER Group Management Plan for Fiscal 2006



Improve Existing Generation Facilities' Asset Values

As there is a limit to increasing new generation facilities in a low-growth market environment, we have embarked on a program to improve existing generation facilities' asset values from a long-term perspective as a theme in the new growth outline. The cornerstone of this theme involves assessing the condition at each facility with regard to aging and taking strategic measures to enhance the total value of our power generation facilities. While maintaining a sound consolidated balance sheet, we will pursue the most appropriate solutions by applying a variety of options such as large-scale repair, investment in renovations and upgrades, as well as replacement.
(See Page 11 for details)

Forge Ahead with New Facility Development Project

Aiming for long-term growth, we will continue to make efforts to develop new power generating facilities in tune with domestic demand growth. We are steadily implementing two development projects: the Isogo New No. 2 Thermal Power Plant (currently under construction) and the Ohma Nuclear Power Plant (scheduled to commence construction in fiscal 2006).
(See below for Isogo New No. 2 and Ohma project overviews)



Summary of the Isogo New No.2 Thermal Power Plant Construction Project

Location	Yokohama City, Kanagawa Prefecture
Capacity	600MW
Fuel	Coal (imported)
Construction Schedule	Started in Fiscal 2005 Planned in operation: Fiscal 2009



Summary of the Ohma Nuclear Power Plant Construction Project

Location	Ohma, Aomori Prefecture
Capacity	1,383MW
Nuclear Reactor Model	MOX-ABWR (Mixed Oxide-Advanced Boiling Water Reactor)
Fuel	Low enriched uranium and uranium plutonium mixed oxide (MOX)
Construction Schedule	Planned to start: Fiscal 2006 Planned in operation: Fiscal 2011

2. Earnings Contributions of Overseas Power Generation Business and Domestic New Businesses

Our new businesses in Japan and overseas, promoted under the Third Phase of the Restructure Plan, are steadily yielding results. Once the incubation period has ended, we will strive to enhance scale and quality while moving toward a full-fledged development phase aimed at ensuring earnings contributions. We regard the overseas power generation business as our next major business domain. In this regard, we have participated in overseas power generation projects that are equivalent to more than 10% of domestic operations*.

*Calculated based on owned output of implemented and already committed projects

As for domestic new businesses, we will redouble our efforts chiefly in wind power generation and environmental recycling projects such as the production of biomass fuels, which will lead to earnings contributions.
(See Pages 12-14 for details)

Enhancement of Corporate Governance

The essence of corporate governance is to establish a highly transparent management structure and rules for the overall group that stakeholders can depend on. Aiming to achieve this objective, we have set up two key measures for reinforcing the management supervisory function and establishing a Group-wide governance system, and applied the necessary policies in July 2006.
(See Pages 24-25 for details)

Sustainability as a Company

Society as a whole is facing growing threats to its sustainability, such as global warming and a declining birth rate accompanied by an aging society. It has become increasingly important for a company to contribute to the sustainability of society in order to realize stable growth. The key to the J-POWER Group's initiatives in this regard lies in responses to environmental issues, corporate social responsibility (CSR), and human resource management aimed at enhancing employees' motivation and expertise.
(See Pages 26-27 for details)

J-POWER's Group Management Targets

Our goal remains consolidated ordinary income of over ¥55 billion (three-year average from fiscal 2005 to fiscal 2007), as quoted in the Group Management Plan for fiscal 2005. Amid an increasingly severe management environment, including intensifying competition in the electricity business and declining electricity rates, we aim to achieve our target by focusing on thorough sales activities enhancement and ensuring full-fledged earnings contributions from overseas power generation businesses.
With regard to consolidated shareholders' equity ratio, we revised our target of 23% (end of fiscal 2007), set in the Group Management Plan for fiscal 2005, to "over" 23% (end of fiscal 2007). Preparing for ongoing deregulation in the electric power industry and large-scale capital investment in the Isogo New No. 2 Thermal Power Plant and the Ohma Nuclear Power Plant, we do not regard a consolidated shareholders' equity ratio of 23% as our destination, but foresee a growing need for further financial structure improvements. With this in mind, we will aim to achieve our target as soon as possible.

Returning Profits to Shareholders

Stable Level of Dividends Remains Our Basic Policy Based on a Long-Term Business Model

The most prominent characteristic of our business is that we secure returns on our investment in mainly power plants through the long-term operation of these facilities. In consideration of this characteristic, we intend to continue to reflect the results of our efforts for medium- and long-term profit growth in future profit distributions to shareholders and will place the utmost importance on continuing to provide a stable level of dividends.
Under this basic policy, in order to increase profit distributions to shareholders, to improve the liquidity of our shares, and to broaden our investor base, we undertook a share split as of March 1, 2006, one common stock being split into 1.2 shares. The share split was based on considerations such as steady progression to achieve the aforementioned management targets in the short term, and improving our financial status in the medium term in anticipation of a large-scale capital demand for the construction of the Isogo New No. 2 Thermal Power Plant and the Ohma Nuclear Power Plant. The annual dividend payment per share continues to be 60 yen as before, representing an effective dividend increase of 20% when the share split is taken into account.
We fully intend to maintain this level.

To Our Stakeholders

Aiming to be an Attractive, Stable Growth Company

The J-POWER Group has as its basic management mission the harmonization of energy and the environment and features a long-term business model. In the Group Management Plan for fiscal 2006, we stipulated issues that need to be confronted in order to realize sustainable growth in harmony with society and how to aim for these goals. Under this new management plan, we aim to become "an attractive, stable growth company," and make constant efforts to increase corporate value.
We appreciate the understanding and continued support of all our stakeholders, including shareholders, in our business characteristics and management initiatives aiming for attractive, stable growth. We sincerely ask for your continued support.

YOSHIHIKO NAKAGAKI President

IN PURSUIT OF STABLE GROWTH:

Practical Initiatives under the Group Management Plan for Fiscal 2006



Q1 Please let us know J-POWER's future direction in pursuit of stable growth under electric power deregulation.

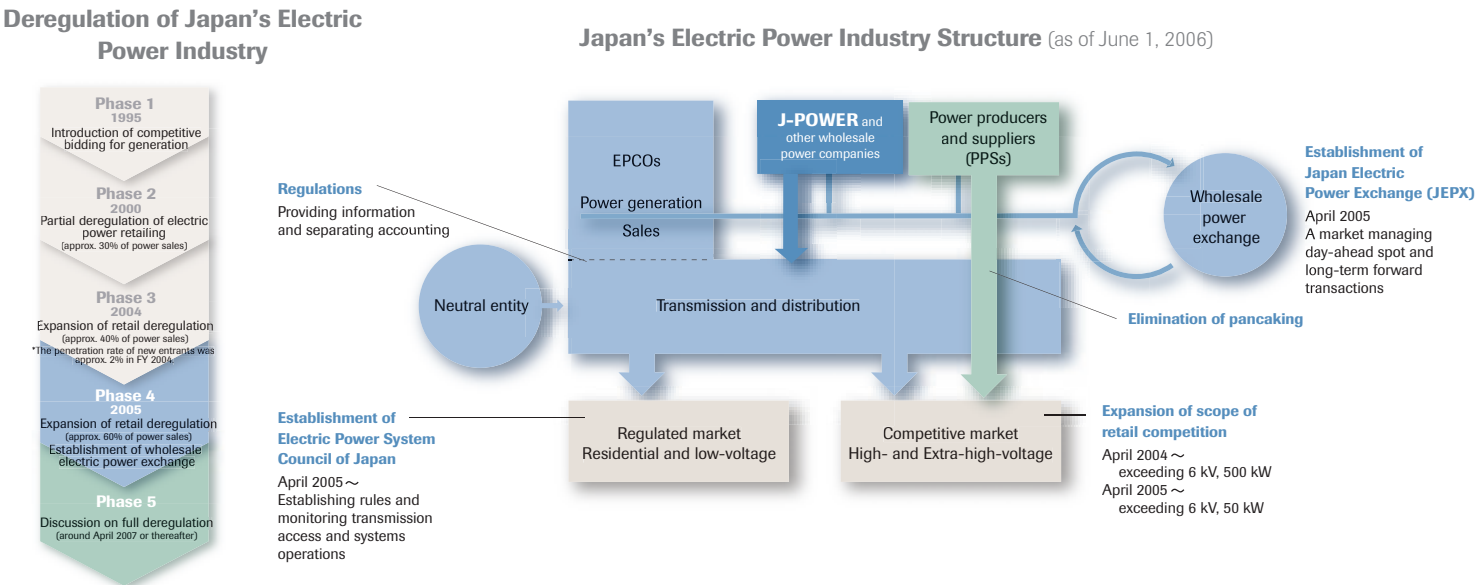
A. Viewing the changes in the business environment stemming from deregulation as an opportunity, we are striving for stable growth.

The deregulation of the electric power industry in Japan has created an environment in which business enterprises other than electric power companies (EPCOs) can participate in electricity wholesaling and retailing. In April 2005, the deregulation of the retail electricity sector was expanded to approximately 60% of the market, and the Japan Electric Power Exchange (JEPX) commenced wholesale electricity transactions. Though these trends toward deregulation have had the effect of increasing competition and applying downward pressure on prices, we view these trends in a positive manner from a long-term perspective as a step toward expanding J-POWER's business opportunities. We consider it essential to vigorously respond to these changes by promoting a variety of initiatives to achieve stable growth. The basis of these initiatives is to remain an attractive and indispensable partner to our customers in the core wholesale electric power business for EPCOs by thoroughly refining our competitiveness in terms of both quality and value through persistent effort. Over and above this, we will closely monitor the trends toward deregulation and engage in the expansion of business opportunities by leveraging any new options that deregulation creates.

First, we are developing a new type of wholesale electric power business to supply electricity to EPCOs as independent power producers (IPPs) and to power producers and suppliers (PPSs). Currently six thermal power generation facilities have commenced operations with a total output of 850MW (see Page 20 for Business Overview).

Second, we amended a part of the long-term electricity supply contracts with EPCOs for several existing power plants and commenced power sales to the wholesale electricity market, i.e. JEPX last summer. Despite utilizing a quite limited generation capacity amounting to only several dozen megawatts for these sales, we think it is in keeping with the current total volume of transactions through JEPX. We need to make decisions from now on by carefully watching trends in the wholesale electricity market and changes in the business environment. But what I can say is that the participation in wholesale electricity market transactions is meaningful in many ways: we can accumulate experience and knowledge in market transactions and diversify our customer base as a part of our initiatives in responding appropriately to the environmental changes brought about by deregulation. Meanwhile, it will be expected to play a certain role in the sound development of the deregulated electricity market.

Furthermore, we aim to construct a new business model that can flexibly respond to the changing electricity market and decided to jointly establish a new electricity supply company with the Chugoku Electric Power Co., Inc. This new company was established in August 2006 and is initially planned to purchase electricity from Chugoku Electric and J-POWER and trade on wholesale electricity market, i. e. JEPX. The new company will have its own power source and will accordingly explore future trading possibilities in the retail market.



Q2 Please let us know how you'll be tackling issues to improve the asset value of existing generation facilities.

A. We will strive to enhance the total value of our power generation facilities with innovative ideas from the long-term perspective.

Our new management plan has stipulated policies to take the most appropriate measures to enhance asset value in terms of how to increase cash flows by looking at the overall life cycles of facilities.

To give an example, we are currently implementing a comprehensive upgrade of the major equipment at the Tagokura Power Plant. The Tagokura Power Plant is a large-scale hydroelectric power generation facility with the second largest output capacity of all the hydroelectric power plants except pumped-storage type in Japan. It has a particularly high operational flexibility that is suitable for demand and supply balancing and has been playing a major role in maintaining stable electricity supplies. However, after over 40 years since the commencement of operations, the plant is showing signs of aging. With regard to counteracting the degradation of our facilities caused by aging, we place great importance on maintaining operating performance and implementing partial repairs, replacements and upgrades. In the case of the Tagokura Power Plant, however, we went one step further and decided on a comprehensive upgrade of major equipment by examining the conditions of its facilities to ascertain the most appropriate measures to enhance the total value of the plant from a long-term perspective.

Consequently, we started upgrade work in November 2004. In the total of nine years till May 2012, we will upgrade four hydraulic turbines, power generators, and major transformers. When the upgrade is completed, the output capacity will have been increased by 20MW, from the current 380MW to 400MW. Together with this, we can extend the power station's life and increase its credibility. While maintaining a sound consolidated balance sheet, we will take strategic measures to enhance the total asset value of our power generation facilities in both hydroelectric and thermal power generation fields.



The Tagokura Power Plant No. 4 recommenced operations after the completion of a comprehensive upgrade of major equipment in May 2006.

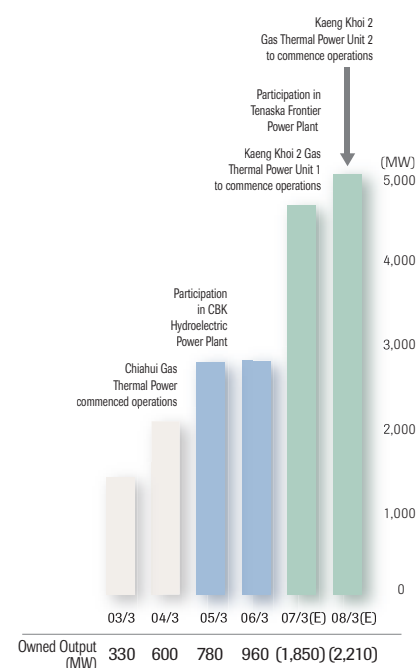


Q3

Please let us know the future direction of the Overseas Power Generation Business and its earnings contribution prospects.

A. We aim to ensure a full-fledged earnings contribution, making it our next major business domain.

Capacity Trends at Operational Overseas Generating Facilities (as of June 30, 2006)



Note: Total owned output of already implemented and already committed projects (including those under construction) as of June 30, 2006, is 2,210MW

We are expanding the overseas power generation business, which has stood at the pinnacle of our core competence, into fast growing overseas power markets. With steady growth in earnings, we aim to nurture overseas power generation as our next major business domain.

In recent years, the IPP approach to developing power resources has become mainstream, particularly in light of a worldwide trend toward the privatization of power companies and the deregulation of electric power industries. We have accumulated experience and a network of professional connections over the last 40 years through our consulting services on a number of projects in 61 countries and regions worldwide. Supported by this expertise, we are now participating in a number of IPP operations, especially across Asia, where substantial growth in the demand for electricity is expected.

As of June 30, 2006, we are participating in the operation of 13 IPP projects in six countries and regions, with a combined capacity of approximately 3,650MW. By the end of March 2008, when two IPP projects currently under construction are scheduled to come on line, our net capacity on an equity basis under commercial operation should be as much as 2,200MW, exceeding 10% of the capacity scale of our domestic electricity wholesaling.

Future Direction

First, we will reinforce our marketing activities: in addition to the Southeast Asian market centering on Thailand, we will regard the United States and China as markets worthy of special attention.

With future U.S. needs for reinforcement of power generation capacity and possible utilization of our cutting-edge coal technologies and know-how to respond to the trend toward tighter environmental standards, we consider the country as an attractive market. We have been engaged in the exploration and preliminary survey of U.S.-based power projects through a subsidiary established in Chicago in 2005. Thanks to these efforts, we acquired equity interests in Tenaska Frontier Power Plant project (gas combined thermal, 830MW) in the suburb of Houston, Texas, in May 2006. This is our first IPP project in the United States.

China is the world's largest potential market. Based on our long-standing technological collaborations in the country, we will strive for long-term business development while building up experience in the IPP project involving a waste coal-fired thermal power plant in Shanxi Province.

Second, we will maintain a steady level of investment in high-performing projects in accordance with the build-up of experience, expertise and networks. We are attempting to play a key role in certain projects by appropriately controlling risks and aim for the acquisition of majority equity interests in pursuit of higher returns.

While striving to increase our percentage interests in projects to acquire, we are vigorously involving in power plant management and O&M, our major selling point, so that we can improve power plants' asset values and raise earnings. The CBK Hydroelectric Power Project in the Philippines, in which we have participated since 2005, is a prime example. For this project we have acquired an O&M company that handles whole plant operations, in addition to our participation in the project company. In this way, by integrating our expertise in the overall operations of the power plant, we are aiming to increase our earnings.

Prospects for Earnings Contributions

When we first entered the overseas power generation business, we had to invest heavily in market surveys and lay the groundwork for business development, which was hardly destined to bring profitability. Later, we experienced a favorable start of commercial operation at power plants that had been under construction when we invested, as well as the acquisition of existing power plants after long market surveys. Through these events, we are now ready to harvest the fruit of our efforts, i.e. full-fledged earnings contributions, from the overseas power generation business.

At present, we have set targets for the relevant earnings contributions of our overseas projects proportional to the net capacity on an equity basis under commercial operation, soon to exceed 10% of domestic operations. Together with this, we will further improve the project management structure through close relationships with local business partners, to yield steady profits. We expect to reach this target when the Kaeng Khoi 2 Gas-Fired Thermal Power Plant, which is currently under construction in Thailand, comes on stream and starts contributing to earnings.



The Kaeng Khoi 2 Gas-Fired Thermal Power Plant Project now under construction in Thailand

Overseas Power Generation Projects

(In operation as of June 30, 2006)

SEC HoldCo, S.A.
(Wind power, Spain)

Roi-Et Green Co., Ltd.
(Biomass, Thailand)

Gulf Cogeneration Co., Ltd.
(Gas cogeneration, Thailand)

Nong Khae Cogeneration Co., Ltd.
(Gas cogeneration, Thailand)

Samutprakarn Cogeneration Co., Ltd.
(Gas cogeneration, Thailand)

Thaioil Power Co., Ltd.
(Gas cogeneration, Thailand)

Independent Power (Thailand) Co., Ltd.
(Gas combined cycle power generation, Thailand)

TLP Cogeneration Co., Ltd.
(Gas cogeneration, Thailand)

Tenaska Frontier Partners, Ltd.
(Gas combined cycle power generation, U.S.A.)

Shanxi Tianshi Power Generation Co., Ltd.
(Waste coal, China)

Chiahui Power Corporation
(Gas combined cycle power generation, Taiwan)

CBK Power Co., Ltd.
(Hydroelectric power, The Philippines)

Ormat Leyte Co., Ltd.
(Geothermal, The Philippines)



Q4 Please tell us more about the areas you are focusing on to create new business.

A. Spurred by creativity and technical capability, we will blaze a trail to new business frontiers.

Initiatives for Biomass Utilization



J-POWER carried out mixed combustion tests of dried sewage sludge (bio-solid) at the Matsuura Thermal Power Plant (in Nagasaki Prefecture) from fiscal 2003 to fiscal 2005 and commenced full-scale mixed combustion from April 2006.

Micro-Hydropower Generation System



J-POWER co-developed a hydro-agri micro-hydropower system, which makes effective use of the utilized head of water in existing irrigation channels, and commercialized it after conducting trials in fiscal 2004.
<System Overview>
Power generation method: Waterfall
Effective head of water: 2m
Maximum capacity: 30kW

We are aiming for new businesses in which we can fully capitalize on the technologies and expertise we have cultivated in the wholesale electric power business and enhance our corporate value by creating a unique corporate identity.

The principal feature of our unique corporate identity is to pursue “the harmonization of energy and the environment,” which is the Group’s basic management mission. We are promoting the development of renewable energies such as wind power, biomass fuels, and micro-hydropower generation as underpinning elements.

J-POWER has been developing wind power generation primarily in Japan, where our total capacity of 210MW (including plants under construction) is top ranked. We are considering ways to leverage our performance in the domestic market as a step toward business expansion overseas.

We consider biomass as a renewable energy second only to wind power, in both domestic and overseas markets. In Japan, we operate a waste-fueled power plant in Omuta City, Fukuoka Prefecture, with a total capacity of approximately 20MW. Overseas, we are implementing biomass power generation in Thailand using rice chaff. In the days ahead, we will promote the utilization of biomass fuels for mixed combustion at existing coal-fired thermal power plants and the commercialization of biomass fuels. This is expected to provide a solution for two of society’s needs: CO₂ emission reductions and environmental recycling.

As for micro-hydropower generation, our first commercial system is in operation in Tochigi Prefecture, making effective use of the unutilized head of water in existing irrigation channels to generate electricity. We will make economical and technological improvements to the system for further market penetration.

In addition to these endeavors, we continue to engage in R&D activities to create new businesses. We will steadily implement the development of coal gasification technology in particular. This could strengthen our competitiveness, provide a measure to address global environment issues, and prove to be important technology that has long-term diversification potential (see Page 28 for R&D).

Another new business frontier is the coal-related business. While implementing coal procurement as the largest fuel coal user in Japan, J-POWER has been involved in the overall coal chain from upstream to downstream, including investment in coal mines and maritime transport by dedicated carriers. Deploying know-how and experience accumulated from these activities, we commenced such businesses as coal sales.

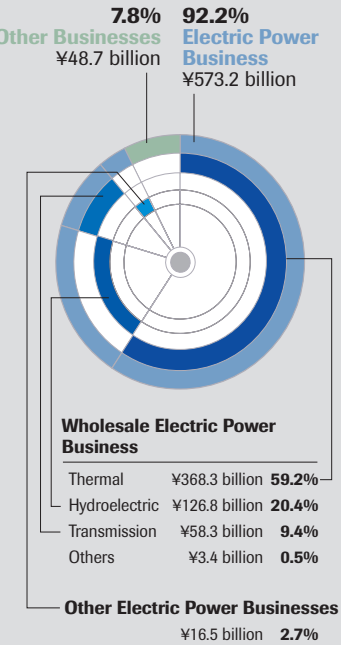
In light of skyrocketing crude oil prices in recent years, coal is being reevaluated on a global scale, and there is an increasing demand for coal in the Asia-Pacific region. We have been implementing experimental activities over the past few years. In the near future, we will enhance the coal-related business by leveraging our bargaining power, derived from a scale of operations that procures nearly 20 million tons of coal for power generation annually, and the marketing channels we have cultivated so far. Together with this, we will strive to respond to a variety of customer needs.

Furthermore, we will continue to explore possibilities in the engineering business, including dry-type desulfurization, PFI/PPP*-type operations and consulting services.

*Notes PFI: Private Finance Initiative
 PPP: Public Private Partnership

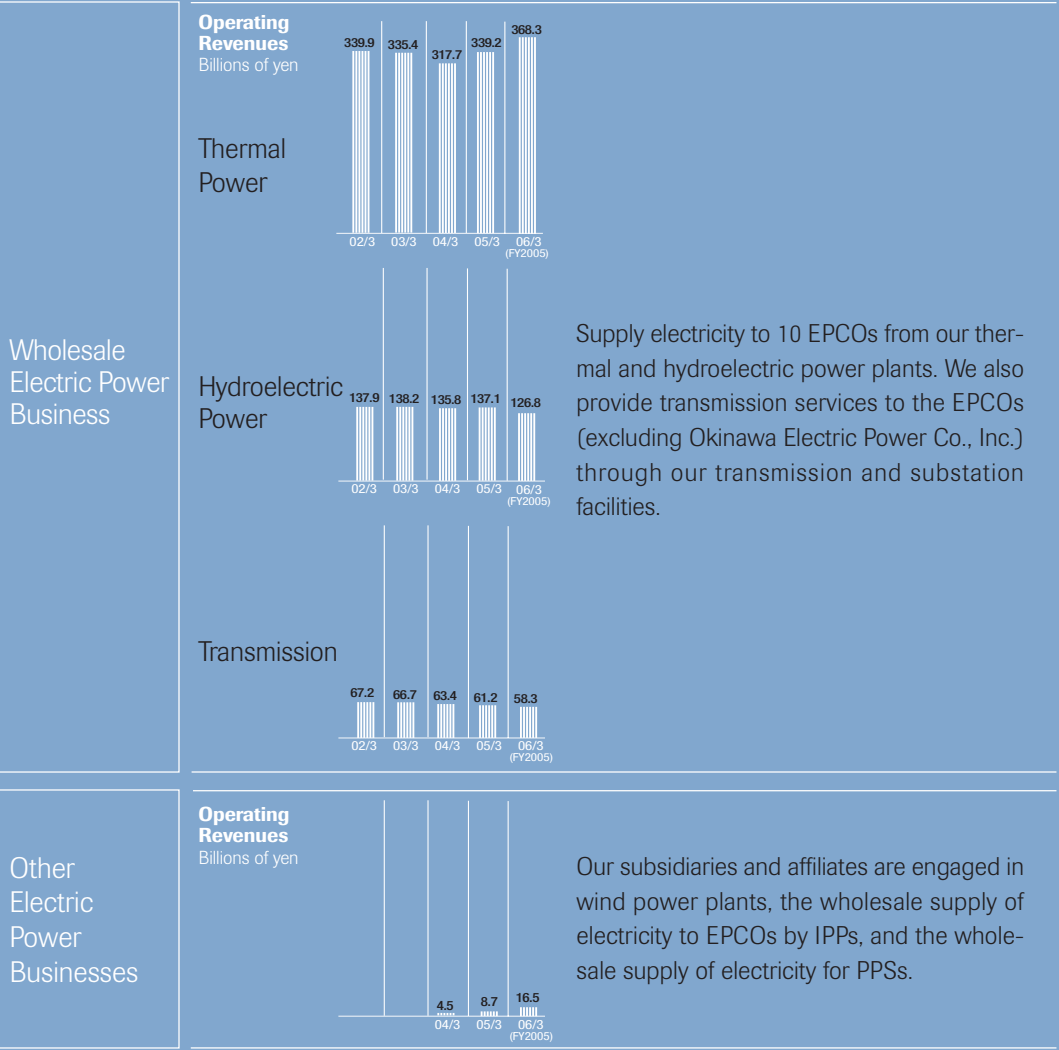
Business Overview

Composition of Operating Revenues for fiscal year ended March 31, 2006 (fiscal 2005)
 (Total ¥621.9 billion)



Electric Power Business

Core businesses that account for over 90% of J-POWER Group’s sales: Further improving competitiveness

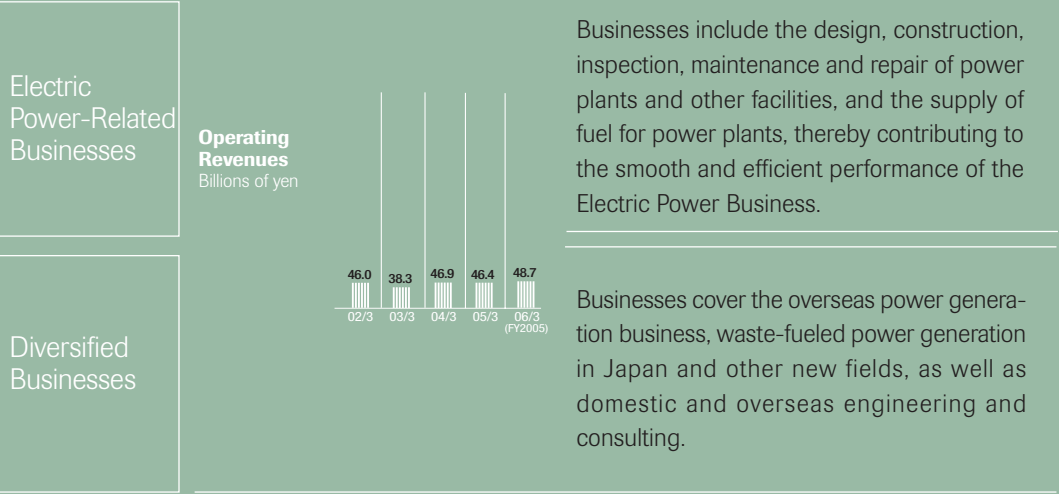


Supply electricity to 10 EPCOs from our thermal and hydroelectric power plants. We also provide transmission services to the EPCOs (excluding Okinawa Electric Power Co., Inc.) through our transmission and substation facilities.

Our subsidiaries and affiliates are engaged in wind power plants, the wholesale supply of electricity to EPCOs by IPPs, and the wholesale supply of electricity for PPSs.

Other Businesses

J-POWER Group’s new earnings foundation: Aiming for diversified business development responding to changes in business environment



Businesses include the design, construction, inspection, maintenance and repair of power plants and other facilities, and the supply of fuel for power plants, thereby contributing to the smooth and efficient performance of the Electric Power Business.

Businesses cover the overseas power generation business, waste-fueled power generation in Japan and other new fields, as well as domestic and overseas engineering and consulting.

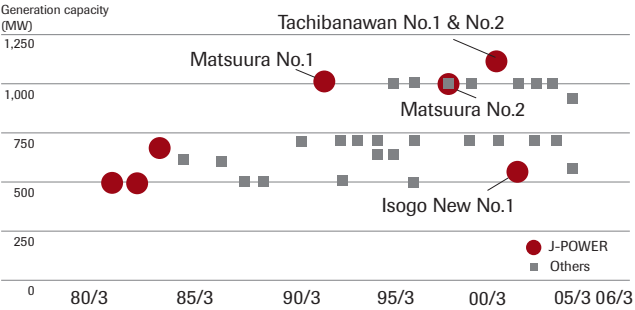
THERMAL POWER

utilization (load factor rose from 77% to 84%) at our power plants, which was caused by the increased demand due to a harsh winter and economic recovery, as well as the shorter duration of periodic inspections. As a result, operating revenues climbed 9% to ¥368.3 billion.

For fiscal 2006, we anticipate a reactionary decline in the high capacity utilization of fiscal 2005 and estimate electricity sales volume to decrease 17% year on year to 44.9 billion kWh. With forecasts for a gradual decline in demand growth for electricity over the medium- and long-term, we believe it is important to enhance cost competitiveness and maintain high capacity utilization at our thermal power plants. Through an optimal level of maintenance, we are slowing the decline in thermal efficiency caused by aging and deterioration. We are also taking an innovative approach to coal procurement and continuing efforts to reduce costs. We believe these and other measures will increase the competitiveness of our existing power plants. During fiscal 2005, we commenced construction of the 600MW Isogo New No. 2 Thermal Power Plant, which is scheduled to start operations in Kanagawa Prefecture in July 2009. This project is making steady progress toward becoming a new source of revenue and earnings.

Coal-fired power plants have relatively higher emissions of CO2 per unit of electricity produced than power plants that use LNG and other fossil fuels. Based on the Environmental Action Plan of the Electric Utility Industry, which was adopted by 12 entities consisting of EPCOs and wholesale electric utilities, J-POWER works in collaboration with each company to address the issues of global warming. (See Pages 26-27 for more information on Activities to Address Environmental Issues).

Large-Scale Coal-Fired Unit Capacity and First Year of Operation



"Large-scale" defined as power plants with more than 500MW output. Chart data up to March 31, 2006. Source: Company and public sources.

Calorific Unit Price by Fossil Fuel (Imports)

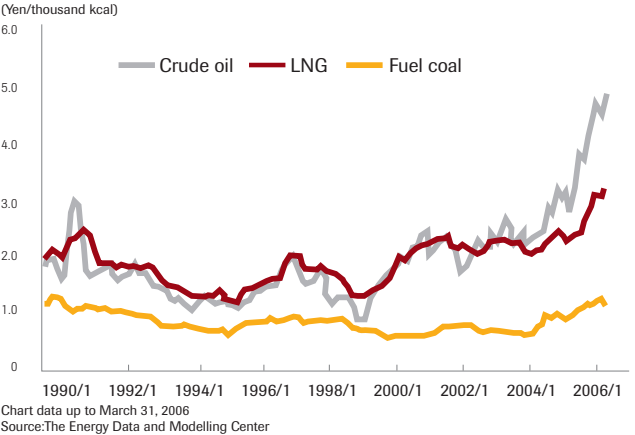
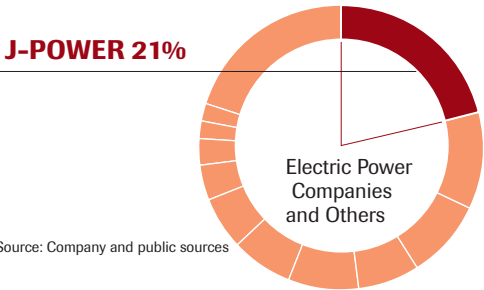
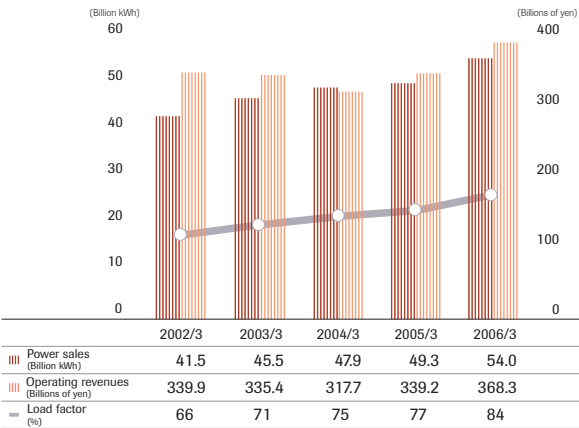


Chart data up to March 31, 2006. Source: The Energy Data and Modelling Center

Share of Coal-Fired Power Generation Capacity
(As of March 31, 2006)



Thermal Power Sales and Load Factor



Characteristics and Strengths

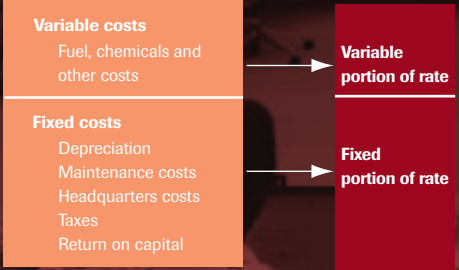
J-POWER's key strength in the thermal power generation business is our focus on coal-fired power generation, which has strong cost competitiveness and fulfills base demand for electricity with a high load factor. J-POWER has long maintained the number one share in coal-fired power generation capacity since becoming the first company in Japan to use overseas coal in a thermal power plant. J-POWER has also enjoyed substantial economies of scale by pioneering the building of large-scale coal-fired power plants. As a fuel, coal is a natural resource found in abundance throughout the world and is arguably the most economically stable fossil fuel available. This has become even more noticeable in light of the recent spate of spiraling oil price increases. These strengths contribute to the formation of attractive electricity rates, and our long-term electricity supply contracts with EPCOs, which cover fair cost and fair return, generate synergetic effects for forming a stable earnings foundation.

As of March 31, 2006, J-POWER operates seven coal-fired power plants with a total capacity of 7,812MW, representing approximately 21% of the coal-fired power generation facilities in Japan. For fuel, J-POWER procures coal from several countries, mainly from Australia, based on long-term or yearly contracts.

Business Review and Outlook

In the fiscal year ended March 31, 2006 (fiscal 2005), electricity sales volume grew 10% to a record-high 54.0 billion kWh, reflecting continued high capacity

J-POWER's Rate Structure for Thermal Power



Fuel, maintenance and other costs comprise a high proportion of the total costs and fluctuate greatly from year to year. Therefore we revise thermal power contract rates every two years to reflect these changes. Variable costs such as fuel costs, which fluctuate in accordance with power output, are covered by the variable portion of the rate. We also maintain a fuel cost adjustment system that covers fluctuations in foreign exchange rates and the prices of heavy oil used as a supplementary fuel. Fixed costs, including depreciation, maintenance and return on capital, which are incurred equally regardless of output level, are covered by the fixed portion of the rate. This framework allows J-POWER to secure stable cash flows.

HYDROELECTRIC POWER AND TRANSMISSION

Our hydroelectric power plants generate a steady stream of earnings based on long-term electricity supply contracts with EPCOs. Roughly 80% of rate for conventional-type facilities and 100% of rate for pumped-storage-type facilities are fixed rates.

Transmission and Substation Facilities

Our transmission and substation facilities not only distribute electricity from our power plants to demand centers, but also play a central role in the total operation of Japan’s power grid. We operate critical facilities that support the wide-area power interchange in Japan, such as extra-high-voltage transmission lines connecting Honshu with Hokkaido, Shikoku and Kyushu, as well as the Sakuma Frequency Converter Station, which was the first in Japan to enable transmission of electricity between the different frequencies of Eastern Japan (50 Hz) and Western Japan (60 Hz).

Business Review and Outlook

Hydroelectric Power Generation

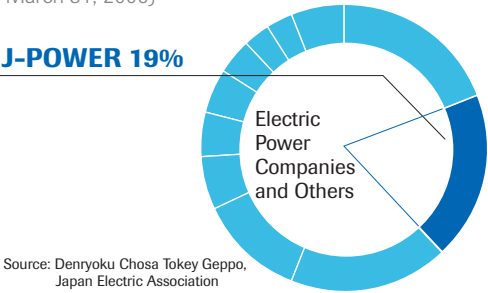
In fiscal 2005, electricity sales volume declined 23% from fiscal 2004 to 8.6 billion kWh, due to lower-than-average water flow (the water supply rate fell from the historical average of 118% to 90%). Operating revenues decreased 8% year on year to ¥126.8 billion due to the lower-than-average water flow and an approximate 9% reduction in hydroelectric power and transmission line rates from October 2005. In fiscal 2006, we expect electricity sales volume to rise 13% to 9.7

billion kWh, based on our average level of supply targets. Due to the limited number of sites suitable for the development of new hydroelectric power plants, it is important to improve profitability at existing power generation facilities. To this end, we are promoting measures to improve our capabilities to diagnose the remaining service lifespan of facilities, improve maintenance and repair processes. Through these and other efforts, we are pursuing cost reductions while maintaining a high level of O&M, and at the same time, we are revamping existing hydroelectric power plants by upgrading their major equipment in order to increase power generation volume by enhancing power generation efficiency and to improve reliability.

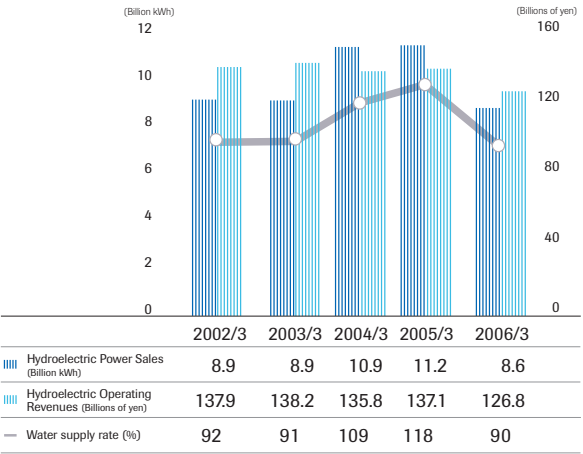
Transmission and Substation Facilities

With regard to transmission and substation facilities, J-POWER has transmission lines extending a total length of 2,408km and a total of eight substations and converter stations. Connecting regional utilities’ service areas, J-POWER plays a critical role in the overall management of Japan’s electric power grid system. In fiscal 2005, operating revenues from transmission service were ¥58.3 billion, a 5% decline from fiscal 2004 due to the previously mentioned reductions in hydroelectric power and transmission line rates. Amid expectations of a revitalized wide-area electricity exchange brought about by the electric power deregulation, we believe our facilities will gain in importance.

Share of Hydroelectric Power Generation Capacity
(As of March 31, 2006)



Hydroelectric Power Sales and Operating Revenues



Characteristics and Strengths

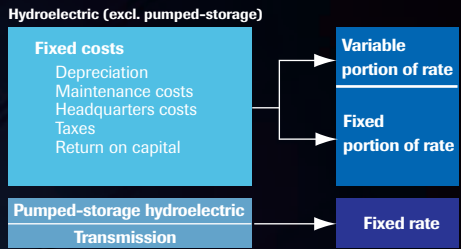
Hydroelectric Power Generation

Hydroelectric power is an essential power source, particularly in Japan, for three main reasons. First, it is currently the only truly domestic energy source on a meaningful scale. Second, it is a clean energy source with virtually no fuel expenses, namely marginal costs. Finally, it has high operational flexibility, which is suitable for intra-day and intra-seasonal demand and supply balancing.

J-POWER has the advantage of high technological expertise in developing hydroelectric power and possesses the most advanced technologies available in Japan, particularly for the construction of dams and large-scale underground structures. We have built and operated hydroelectric power plants for almost half a century, starting with the development of large-scale hydroelectric power plants represented by the Sakuma Power Plant, which started operations in 1956, and the development of pumped-storage power plants, which excel in adjusting output in response to demand peaks. As of March 31, 2006, we operate 59 hydroelectric power plants throughout Japan that with a total capacity of 8,551MW make up nearly 20% of the total hydroelectric power generation facilities in Japan.

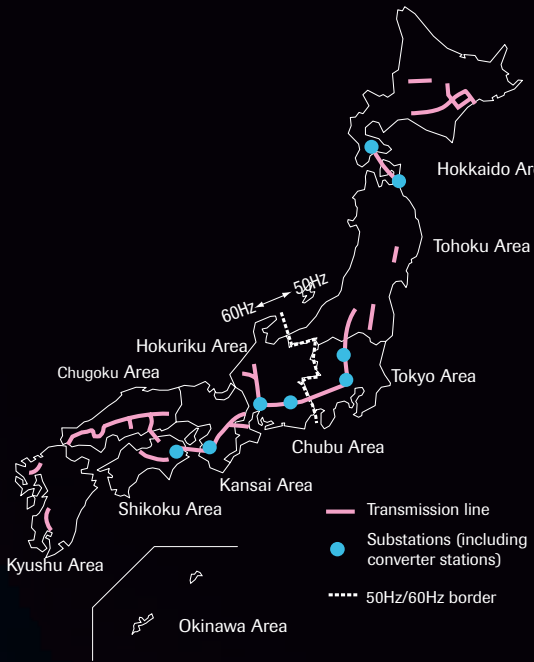
Considering the limited availability of sites suited to the development of large-scale hydroelectric power plants in Japan, we believe our strong market share and economies of scale in hydroelectric power generation will endure for the foreseeable future.

J-POWER's Rate Structure for Hydroelectric Power and Transmission



With regard to hydroelectric power, transmission and substation facilities, capital costs, fixed-asset taxes, etc. comprise a high proportion of the total cost, and annual cost fluctuations are small. Therefore their contract rates are set at a lower level from the start of operations and are not subject to regular revision to ensure long-term rate stability. In the case of conventional hydroelectric power, the fixed portion of the rate accounts for a higher proportion, minimizing the impact on sales caused by power output fluctuations. The contract rates of both pumped storage hydroelectric power and transmission are based entirely on the fixed rate. These rate structures enable J-POWER to generate stable cash flows.

Transmission Facilities and Regional Utilities' Service Areas (As of March 31, 2006)



Other Electric Power Businesses/ Other Businesses



Other Businesses Characteristics and Strengths

Electric Power-Related Businesses

This business mainly consists of complementary businesses related to the construction and operation of power plants as well as transmission and substation facilities. These include the design, construction, inspection, maintenance and repair of power plants and other facilities, and the supply of fuel for power plants. The characteristics of these businesses are that transactions among Group companies account for a large share, but some businesses are also conducted outside the Group to provide various products and services, including electric or telecommunication engineering works, marine transportation services and coal transactions. In such fields, our strengths are considered to be the highly reliable technologies and quality assurance accumulated through the construction and operation of power plants for J-POWER.

Diversified Businesses

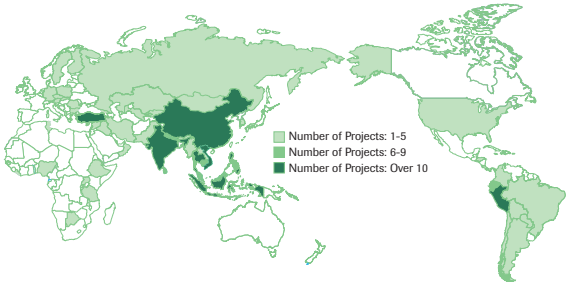
Leveraging management resources and knowledge cultivated in the wholesale electric power business, J-POWER promotes diversified businesses in electricity business and its application areas in Japan and overseas based on the harmonization of energy and the environment. The main activities are overseas power generation business, PFI/PPP-type operations such as waste-fueled power generation in Japan, and other fields such as domestic and overseas engineering and consulting services. In particular, we are developing IPP operations primarily in Asia, where electricity demand is expected to grow significantly, by

fully deploying the know-how and trustworthiness that we have garnered through our power consulting services over the past 40 years. We are strengthening these businesses aiming for making a full-scale contribution to earnings with the firm intention of making them our next major business domain.

Business Review and Outlook

For fiscal 2005, operating revenues rose 5% from fiscal 2004 to ¥48.7 billion, mainly due to an increase in coal sales by J-POWER and our subsidiaries. We will boost our efforts to expand sales outside the Group, including coal transactions. The overseas power generation business still makes no contribution to operating revenues but a limited contribution to the investment profit on equity method, because those businesses have so far been operated as equity-method affiliates. We are looking into favorable projects, in which we are also seeking to acquire major stakes.

Overseas Consulting Business Results (cumulative total) (As of March 31, 2006)



Other Electric Power Businesses Characteristics and Strengths

In response to the deregulation in the electric power industry, J-POWER is focusing efforts on new types of wholesale power businesses. Through its subsidiaries and affiliates, J-POWER is engaging in the wholesale supply of electricity to EPCOs by independent power producers (IPPs), the wholesale supply of electricity for power producers and suppliers (PPSs), which are new entrants into the electricity retailing business, and wind power generation for EPCOs.

As of March 31, 2006, we are jointly operating three power plants as IPPs with a total capacity of 522MW, and three power plants for PPSs with a total capacity of 322MW. Our wind power generation facilities comprise eight power plants currently in operation and one under construction, with a total capacity of 211MW, which ranks at the top of their class in Japan. These businesses are areas where we are able to apply our core competencies in power generation.

Facilities of Other Electric Power Businesses (•denotes projects within the scope of consolidation) (As of March 31, 2006)

IPP	Capacity	Fuel Type	Ownership	Completion date
Genex Mizue	238MW	Gas Oil Residue	40%	June 2003
•Itoigawa	134MW	Coal	80%	April 2003*
Tosa	150MW	Coal	45%	April 2005

Wholesale Power for PPS

•Ichihara Power	110MW	Gas	60%	October 2004
•Bay Side Energy	108MW	Gas	100%	April 2005
Mihama Seaside Power	105MW	Gas	50%	October 2005

*Limited J-POWER participation

Business Review and Outlook

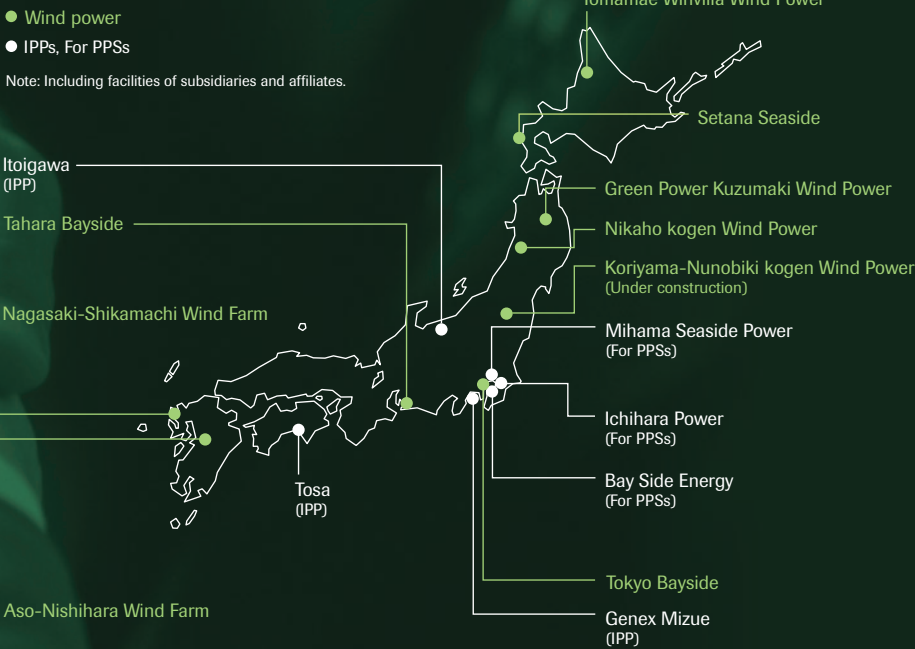
Two power plants for PPSs and one wind power plant commenced operations in fiscal 2005, and a power plant that had come on stream in fiscal 2004 contributed to electricity sales volume surged 76% year on year to 1.7 billion kWh, and operating revenues jumped 90% to ¥16.5 billion.

In fiscal 2006, we estimate electricity sales volume to decrease 3% to 1.6 billion kWh despite the start of operations at a new wind power plant.

Although sales volume for PPSs is still limited in the domestic electric power retail market, we will explore the feasibility of new development while closely monitoring the need for new power sources and trading trends in the wholesale electricity market. In wind power generation, we are working toward the launch of a new development plan that will entail the exploration of favorable sites and the reduction of construction costs.

Wind Power	Capacity (kW)	Ownership	Completion date
•Tomamae Winvilla	30,600	100%	December 2000
•Nikaho kogen	24,750	67%	December 2001
Tokyo Bayside	1,700	50%	March 2003
•Green Power Kuzumaki	21,000	100%	December 2003
•Nagasaki-Shikamachi	15,000	70%	February 2005
•Aso-Nishihara	17,500	81%	February 2005
•Tahara Bayside	22,000	66%	March 2005
•Setana Seaside	12,000	100%	December 2005
•Koriyama-Nunobiki kogen (Under construction)	65,980	100%	Scheduled in fiscal 2006

Other Electric Power Businesses (As of March 31, 2006)



Electric Power Business Facilities

(As of March 31, 2006)

Wholesale Electric Power Business

Facilities

- Hydroelectric power plant
- Thermal power plant
- Substation, frequency converter station, AC/DC converter station
- Transmission Line
- Substation of EPCOs

Under Construction, Preparing for construction and Planning

- Hydroelectric power plant
- Thermal power plant
- Nuclear power plant
- Transmission line

Other Electric Power Businesses

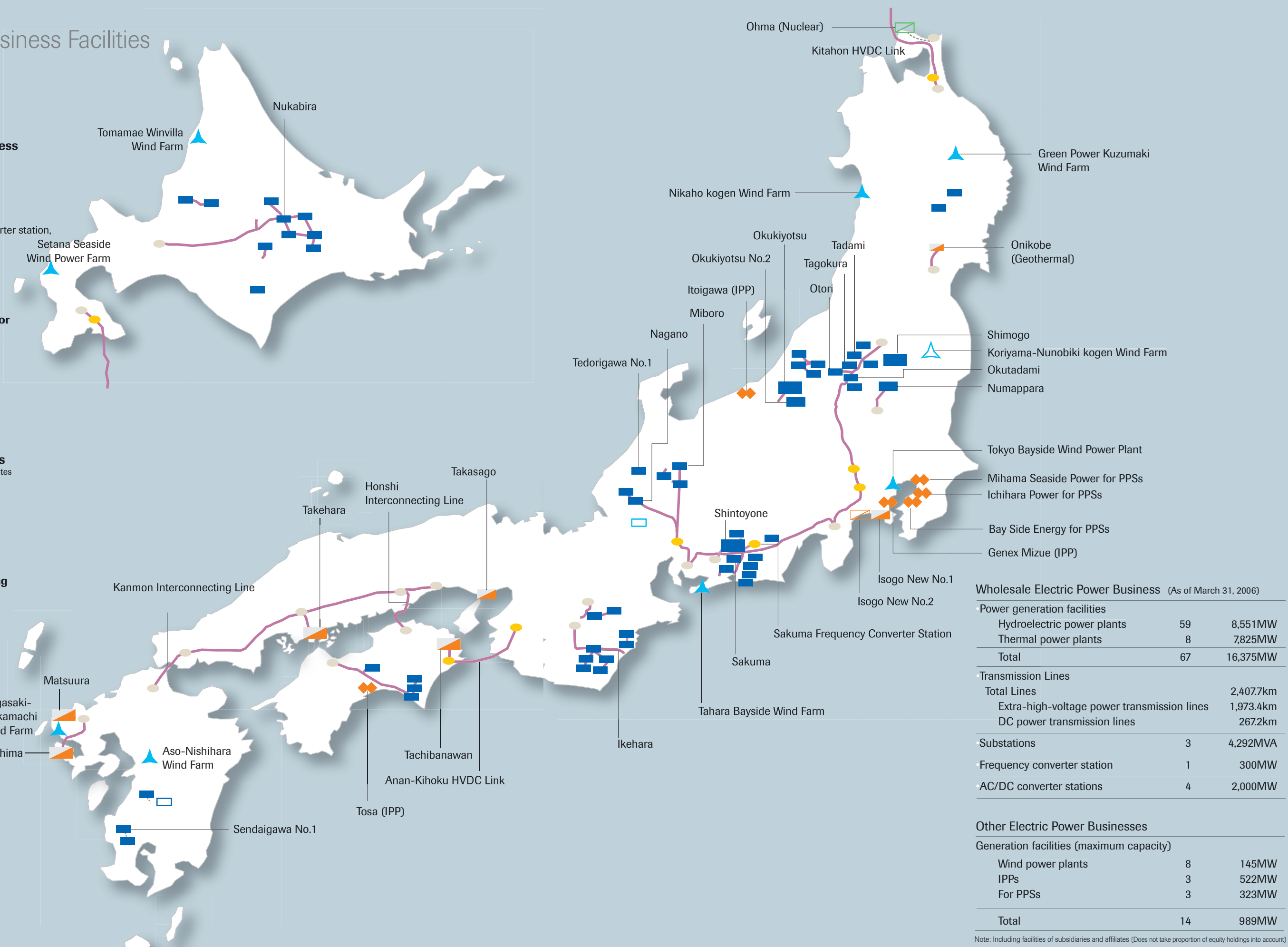
Note: Including facilities of subsidiaries and affiliates

Facilities

- Wind power plant
- Thermal power plant

Under Construction and Planning

- Wind power plant
- Thermal power plant



Wholesale Electric Power Business (As of March 31, 2006)

Power generation facilities			
Hydroelectric power plants	59	8,551MW	
Thermal power plants	8	7,825MW	
Total	67	16,375MW	
Transmission Lines			
Total Lines		2,407.7km	
Extra-high-voltage power transmission lines		1,973.4km	
DC power transmission lines		267.2km	
Substations	3	4,292MVA	
Frequency converter station	1	300MW	
AC/DC converter stations	4	2,000MW	

Other Electric Power Businesses

Generation facilities (maximum capacity)			
Wind power plants	8	145MW	
IPPs	3	522MW	
For PPSs	3	323MW	
Total	14	989MW	

Note: Including facilities of subsidiaries and affiliates (Does not take proportion of equity holdings into account)

Maintaining Sustainability

J-POWER recognizes that it is more important than ever to conduct responsible corporate activities as a member of society and contribute to social sustainability to realize stable growth.

The J-POWER Group intends to establish a management structure based on its corporate philosophy of:

- * Building community trust, harmonizing with the environment
- * Working in strong partnership with society
- * Implementing corporate activities based on sincerity and pride
- * Refining our knowledge and technologies to be a leader in the industry
- * Meeting the challenges of tomorrow by harnessing our unique skills and enthusiasm

On top of that, by promoting J-POWER's unique approach, we aim to grow as a company that is trusted, appreciated and held in high esteem by people in Japan and all over the world, including our stakeholders.

Corporate Governance > P. 24

Environmental Management > P. 26

Relationships with Communities, Society and Employees > P. 27

*Practical approaches toward “Environmental Management” and “Relationships with Communities, Society and Employees” are described in the Environmental Management Report.
(Available on our Web site: <http://www.jpowers.co.jp>)

Corporate Governance

Basic Philosophy

Under its corporate philosophy of “ensuring constant supplies of energy to contribute to the sustainable development of Japan and the rest of the world,” J-POWER treats enhancing corporate governance and thoroughly implementing compliance procedures as key management issues. By accomplishing this dual objective, we will ensure long-term corporate development, enhance corporate value and gain more trust from our stakeholders.

The J-POWER Group has been taking the following measures to enhance its corporate governance since July 2006.

Corporate Governance Framework

J-POWER has adopted an auditing system and has 13 directors and 5 corporate auditors, 3 of the latter being outside auditors. An overview of corporate governance and its internal control framework are provided below.

J-POWER has contracted Ernst & Young ShinNihon to provide auditing services.

1. Directors’ Business Execution Structure

Under the Corporate Philosophy, directors take the initiative in providing guidance on displaying an honest and fair attitude based on a firm, law-abiding spirit and sense of ethics in accordance with “J-POWER Corporate Conduct Rules.” Simultaneously, they are promoting efforts to instill such an attitude in all J-POWER employees. Furthermore, in order to ensure that operations are conducted in an appropriate manner, J-POWER has established an Internal Audit Dept. under the direct control of the president to implement internal audits at its business sites. Moreover, each business unit conducts self-audits of its own business administration.

In an effort to improve the accountability and transparency of its corporate activities, J-POWER has established a Disclosure Committee, chaired by the president, which ensures that any information disclosed about the Company is vigorous, fair and transparent.

The Board of Directors meets monthly in principle, but also convenes on an as-needed basis. The Executive Committee normally meets every week, with all executive directors present, where matters that need to be brought to the attention of the Board of Directors, as well as important matters relevant to the overall administrative policy and management of the Company, come under discussion. Thus clarifying the management’s responsibility and authority, J-POWER enables precise and prompt decision-making and efficient management. Furthermore, J-POWER holds Management Executing Committee meetings in the presence of all the representative directors, directors and executive officers from areas related to the matters under discussion, and full-time corporate auditors to discuss important matters concerning the management of each division.

J-POWER also introduced an executive officer system to encourage effective and speedier business implementation, building up a management system in which directors and executive officers share duties based on the Board of Directors’ decisions. In addition,

J-POWER is striving to enhance its supervising framework and clarify the management responsibility of directors, to create a management system that is able to respond rapidly to changes in the environment. To this end, J-POWER has shortened the terms of directors’ appointments from two years to one year and has abolished retirement allowances for board members.

2. Risk Management

With regard to potential risks in its corporate activities, J-POWER conducts mutual supervision in its decision-making process, holds discussions in various meetings and committees, bodies and develops its risk management framework on a routine basis in accordance with company regulations. Taking these initiatives demonstrates that we are fully aware of such risks, have adopted thorough measures to avert them and endeavor to minimize any impact from them.

3. Group Governance

The J-POWER Group will conduct fully consolidated accounting from fiscal 2006. We recognize the increasing importance of consolidated business results in terms of the comprehensive strength of the Group and aim to clarify the role of each Group company and increase value based on a system of specialization.

With regard to the administration of subsidiaries, J-POWER’s basic policy calls for Group-wide development in accordance with the J-POWER Group’s management plan. In addition to the administration of subsidiaries based on its company regulations, J-POWER has set up a Group Management Meeting to enhance fairness within the corporate group. J-POWER also conducts audits of its subsidiaries by corporate auditors and the Internal Audit Dept.

4. Audits by Corporate Auditors

J-POWER’s corporate auditors shall supervise the directors in the execution of their business operations through attending Board of Directors’ meetings and other important meetings or committees and interviewing the Board of Directors. In addition, corporate auditors implement accounting audits and audit each of J-POWER’s departments and main subsidiaries.

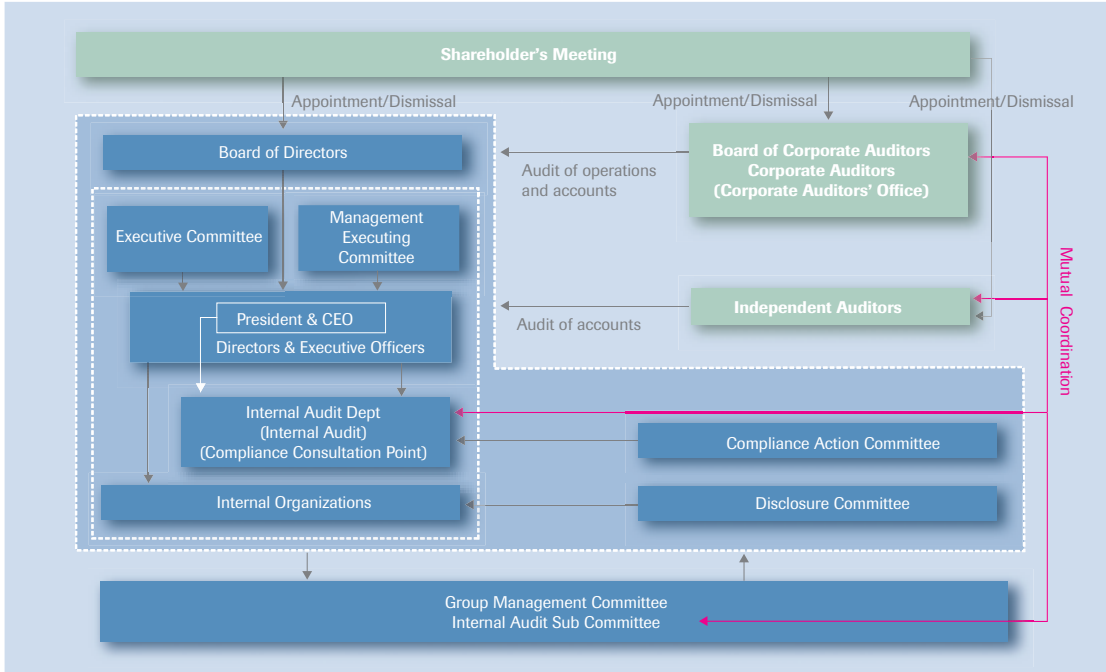
In the course of accounting audits, corporate and independent auditors shall liaise to coordinate each other’s auditing schedule and exchange opinions regarding findings in order to examine each other’s results.

Corporate auditors liaise with the Internal Audit Dept. on each department’s audit and with each subsidiary’s auditors in the case of subsidiary audit, receiving reports regarding findings.

Thorough Compliance

To promote compliance activities, in addition to the J-POWER Corporate Conduct Rules already in place, we have formulated a Compliance Code to provide specific behavior guidelines for managers and employees in their daily business operations. We have also created a Compliance Action Committee, chaired by the president, to examine measures to promote compliance activities across the Company and to implement prompt action and preventive measures to any issues that run counter to compliance. Simultaneously, J-POWER established a Compliance Consultation Point in its Internal Audit Dept. to serve as a point of contact for employees seeking advice on compliance issues and to promote its use. The system shall protect privacy and ensure that those employees who come forward are not penalized.

Corporate Governance and Internal Control Framework (As of July 1, 2006)



Environmental Management

Based on its corporate philosophy of harmonizing energy and the environment, the J-POWER Group engages in environmental management that simultaneously realizes the improvement of both environment-friendliness and economic value in order to further contribute to a sustainable social development.

J-POWER established the Basic Policy for the J-POWER Group Environmental Management Vision in 2004 that stipulates our approach to environmental management. In accordance with that policy, we formulated an Action Program setting out mid- and long-term goals and we are now working toward those objectives.

The J-POWER Group’s Environmental Management Vision (Overview)

Basic Stance		
As an energy supplier, we will contribute to the sustainable development of Japan and the world by harmonizing our operations with the environment and ensuring the constant supply of energy essential to human life and economic activity.		
Basic Policy		
Efforts relating to global environmental issues In accordance with the principles of the United Nations Framework Convention on Climate Change (FCCC), we will cost-effectively address issues relating to climate change on a global scale. We will continue to reduce CO2 emissions per unit of electric power sales through an economically reasonable combination of measures, including maintenance and improvement of the efficiency of energy use; development of low CO2 emission power sources; development, transfer and diffusion of new technologies; and utilization of the Kyoto Mechanisms. Furthermore, we will continue to work toward our ultimate goal of achieving zero emissions through the capture and storage of CO2.	Efforts relating to local environmental issues We will take measures to reduce the environmental impact of our operations by saving, recycling, and reusing resources to limit the generation of waste, and fostering good community relations.	Ensuring transparency and reliability We will ensure that our business activities comply with all laws and regulations, disclose a wide range of environmental information and enhance communications with stakeholders.
Action Program		
Targets (Measures against global warming) Reduce CO2 emissions per unit of electric power sales in Japanese and overseas power plant operations	(Formation of a recycling-based society) Zero industrial waste emissions	(Enhancing our environmental management structure) Introduce environmental management systems (EMS) for the entire J-POWER Group
Target Year Fiscal 2010	Fiscal 2010	Fiscal 2007
Numerical Target or Range 10% below the 2002 level	Recycling rate 97%	All consolidated subsidiaries
Action We will implement and economically combine the following measures, taking cost-effectiveness on a global scale into account * Sustainability and improvement of energy efficiency - Maintain high-efficiency operation of power facilities - Adopt energy-efficient equipment in case of renewal - Lower power plants’ own use ratio through effective operation and management - Introduce high-efficiency technologies in new facilities * Development of various types of power generation with lower CO2 emissions - Promote development of Ohma Nuclear Power Plant - Promote development of renewable energy - Promote development of gas combined cycle power generation - Promote development of gas cogeneration systems * Utilization of the Kyoto Mechanisms (See opposite page) - Procure emission reduction credits through Joint Implementation (JI), Clean Development Mechanism (CDM), and Emission Trading * Development, transfer, and dissemination of technologies - Establish technologies for use of biomass fuel - Continuously promote technological development that reduces CO2 emissions by power sales volume in the long term - Develop coal gasification technology and Integrated coal Gasification Fuel cell Combined cycle (IGFC) technology	* Promote the effective use of coal ash * Reduce all types of industrial waste emitted from the maintenance and operation of power plants	Introduction of EMS (J-POWER had acquired ISO 14001 certification for all its thermal power plants by the end of fiscal 2005.)



Utilization of Kyoto Mechanisms: J-POWER Group’s Approach to Clean Development Mechanism (CDM) Project

The Kyoto Protocol came into force in February 2005. In November 2005, the COP11 and COP/MOP1 conferences were held in Montreal, Canada, where the particulars of the Kyoto Mechanisms were officially approved. The Kyoto Mechanisms were established as a flexible means for countries to achieve their commitments stipulated in the Kyoto Protocol. The three key mechanisms are described as follows.

- * **Clean Development Mechanism (CDM):** A mechanism targeted at joint projects undertaken by developed and developing countries to reduce or absorb greenhouse gases. The developed countries gain credits from the reduced or absorbed emissions
- * **Joint Implementation (JI):** A mechanism targeted at joint projects undertaken by contracting developed countries to reduce or absorb greenhouse gases. The investing countries gain credits from the reduced or absorbed emissions
- * **Emissions Trading:** A mechanism targeted at emissions sales and purchases among developed countries to achieve their commitments stipulated in the Kyoto Protocol

The J-POWER Group had been promoting the Kyoto Mechanisms mainly in the development of CDM projects even before the Kyoto Protocol was enacted. While JI and Emissions Trading will not generate credits for emission reductions before 2008, CDM covers emission reductions starting from 2000, and thus credit issuance has been assured for the activities before 2008. To gain experience, J-POWER initially participated only in small CDM projects in receptive Central and South American countries. However, J-POWER began to take part in large-scale projects after the Kyoto Protocol came into force, and today J-POWER is involved in twelve CDM projects. In fiscal 2005, the Graneros Plant Fuel Switching Project at Nestle’s plant in Chile was approved by the CDM Executive Board, making it J-POWER’s first registered CDM project. This achievement was followed by the registration of the Caieiras Landfill Gas Emission Reduction Project in Brazil.



Relationships with Communities, Society and Employees

Relationships with Communities

The J-POWER Group assures the stable supply of electricity and engages in appropriate facility maintenance and contingency planning. By doing so, we earn the trust of local communities and are able to continue our corporate activities. The J-POWER Group has adopted a number of approaches as a member of local communities and society as a whole:

- * **Participation in traditional art events**
- * **Exchange activities**
- * **Local environment preservation activities (forest protection, cleanup and planting)**

Relationships with Society

In recent years, growing importance has been attached to the social roles that companies must perform to be perceived as good corporate citizens. The J-POWER Group is vigorously taking a variety of initiatives on social issues, from the perspective of a global company conducting its corporate activities not only in Japan but also all over the world. With these efforts, we gain and maintain the trust of a wide range of stakeholders.

- * **Energy and environmental education**
J-POWER conducts experience-based education, energy- and natural science-related classes and facility tours as awareness-raising activities for the general public in pursuit of realizing the harmonization of energy and the environment.
- * **Volunteer support**
J-POWER has established a volunteer leave of absence system to support employees’ participation in volunteer and community events.
- * **Providing reconstruction assistance in and donating funds to areas affected by natural disaster**

Relationships with Employees

To sustain its growth, the J-POWER Group recruits and develops the careers of people who display a wealth of individuality and strives to provide its employees with a working environment in which they can feel at ease.

- * **Recruiting and Developing Careers of a Broad Cross Section of Personnel**
J-POWER is actively involved in the recruitment of new graduates, experienced workers, women and people with disabilities. In conjunction with this, we have introduced a system of continued employment to make full use of senior citizen’s experience and technical expertise. Furthermore, we promote voluntary training sessions for personnel based on a career development program.
- * **Creating a Pleasant Working Environment**
J-POWER is making improvements to its overall system relating to the appropriate management of working hours, child raising and nursing care in order to allow employees to have more of a balance in their work and home lives.
- * **Preventing of Accidents at the Workplace**
- * **Giving Employees and Their Families the Opportunity of a Physical and Mental Health Workout**

Research and Development

Since its establishment half a century ago, J-POWER has concentrated R&D initiatives on technological fields related to energy and the environment that leverage its accumulated technologies and expertise.

Our R&D programs aim to maintain stable supplies of high-quality power at low cost by enhancing the operations of existing facilities while strengthening environmental countermeasures. We also engage in R&D to create new businesses related to resources, energy and the environment.

R&D Structure

J-POWER's R&D activities are conducted mainly at the Technology Development Center, Chigasaki Research Institute (in Chigasaki, Kanagawa Prefecture) and the Wakamatsu Research Institute (in Kita-Kyushu, Fukuoka Prefecture), all of which come under the jurisdiction of the Technology Development Center.

Areas of Concentration

- 1. R&D contributing to the maintenance of functions and the improvement of efficiency for existing power generating facilities
 - Facility deterioration diagnostic technologies, etc.

- 2. Development of highly efficient power generating technology that addresses global warming issues
 - Coal gasification technology development for IGFC generating systems (see below)
- 3. Development of next-generation electric power
 - Development of solid oxide fuel cell (SOFC) systems

Joint Research with Prominent Researchers and Universities in and outside Japan

We proactively form relationships with external research institutions and prominent researchers in an effort to find projects that will drive our future business development.

In commemoration of our 50th anniversary in 2002, we invited submissions of research ideas about energy and the environment, selected the ten best proposals and are pursuing them as joint research into advanced technologies.

We vigorously apply for patents on intellectual property. In fiscal 2005, we made 31 patent applications, and 17 patents were newly approved. As of March 31, 2006, we held a total of 185 patents.

J-POWER's Initiative for Commercialization of Coal Gasification Technology

Coal is crucial energy resource for the future, but has relatively high CO₂ emissions when burned. As a way to handle this issue, we are aggressively developing highly efficient coal-fired power generation systems that generate electricity by gasifying coal.

Integrated Gasification Combined Cycle (IGCC) and Integrated Coal Gasification Fuel Cell Combined Cycle (IGFC) Technology

The IGFC generating system uses coal gasification technology and improves power generation efficiencies compared with existing pulverized coal firing (PCF) technology. The PCF technology uses only steam turbines, but the IGCC generating system comprises a double set of power generators based on gas and steam turbines. The IGFC generating system enables power to be generated by a triple set of power generators based on fuel cells, gas and steam turbines.

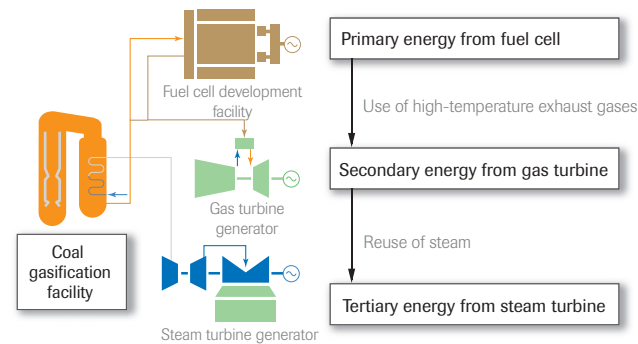
J-POWER is the world's leading developer of advanced coal utilization technologies. When this development is complete, power generation gross efficiencies of as high as 60% will be possible, and CO₂ emissions should fall by 30% compared with existing PCF power generation plants. Aiming to achieve this goal, J-POWER is conducting R&D on the Coal Energy Application for Gas, Liquid & Electricity (EAGLE) project and solid oxide fuel cell (SOFC) systems.

Coal Energy Application for Gas, Liquid & Electricity (EAGLE) and Large-Scale Test Project of Oxygen-Blown Coal Gasification Technology

To use coal as a raw material of synthesis gas for fuel cells in IGFC, the coal must be gasified and refined to remove dust and sulfur. In joint research with the New Energy and Industrial Technology Development Organization (NEDO), J-POWER is implementing pilot-scale tests for the EAGLE project (FY2001-2006). From these endeavors, we are getting the test data that will enable us to scale up our facilities.

For the next pre-commercialization phase, J-POWER has joined forces with Chugoku Electric Power Co., Inc. to commence the feasibility study of a large-scale demonstration test plant using oxygen-blown coal gas-

IGFC Power System



ification technology. Primarily in pursuit of the scaling up of our coal gasification facilities, we aim to commercialize IGCC generating systems in the near future. We consider this as a step in the development of higher efficiency leading to IGFC and zero CO₂ emissions to help to solve global warming issues.

Solid Oxide Fuel Cell (SOFC)

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 systems that convert heat from the combustion of fuels to electricity, because it transforms chemical energy directly into electrical energy, thus lowering losses and delivering high efficiency.

Our SOFC under development is made of ion electroconductive ceramics and operates at between 900°C and 1,000°C. So it has better generating efficiency than other fuel cells through its integration in combined cycle systems. The SOFC can be run on natural gas, methanol, coal gas and biogas.

J-POWER is currently promoting the development of an atmospheric-pressure (150 kW class) SOFC cogeneration system in pursuit of long-term reliability and the development of system formulation technology.

Financial Section

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Consolidated Financial Summary

For the years ended March 31

	Millions of yen				Thousands of U.S. dollars
	2003	2004	2005	2006	2006
Operating revenues	584,122	569,854	594,375	621,933	5,294,402
Electric power	545,824	522,922	547,960	573,198	4,879,532
Other	38,297	46,931	46,414	48,734	414,869
Operating expenses	449,920	437,715	482,489	520,464	4,430,615
Electric power	407,131	386,463	431,678	469,720	3,998,641
Other	42,789	51,251	50,810	50,744	431,974
Operating income	134,201	132,138	111,885	101,469	863,786
Income before income taxes and minority interests	35,522	43,757	55,984	68,305	581,476
Net income	20,725	27,623	35,559	43,577	370,963
Total assets	2,195,897	2,076,107	2,021,655	1,964,667	16,724,843
Interest-bearing debt	1,893,902	1,592,908	1,498,010	1,408,232	11,988,015
Total shareholders' equity	168,301	359,645	391,327	433,028	3,686,286
Net cash provided by operating activities	167,368	179,948	172,637	173,954	1,480,843
Net cash used in investing activities	(11,030)	(64,507)	(60,586)	(72,326)	(615,699)
Free cash flow	156,338	115,441	112,051	101,628	865,144
Net cash used in financing activities	(117,709)	(147,516)	(111,798)	(103,613)	(882,045)
Depreciation	137,148	131,380	125,339	135,019	1,149,394
Capital expenditures	53,443	46,202	50,925	60,861	518,099
Net income per share (yen, U.S. dollars)	291.40	304.88	255.01	260.76	2.22
Cash dividends per share (yen, U.S. dollars)	60.00	60.00	60.00	60.00	0.51
Shareholders' equity per share (yen, U.S. dollars)	2,381.71	2,590.0	2,818.04	2,598.9	22.12
Return on equity (%)	12.9	10.5	9.5	10.6	
Equity ratio (%)	7.7	17.3	19.4	22.0	
Number of shares outstanding (thousands)	70,600	138,808	138,808	166,569	
Number of employees	6,543	5,871	5,925	5,868	
Generation capacity (MW)					
Wholesale electric power business	16,085	16,375	16,375	16,375	
Hydroelectric	8,261	8,551	8,551	8,551	
Thermal	7,825	7,825	7,825	7,825	
Other electric power businesses	—	134	375	495	
Total	16,085	16,509	16,750	16,870	
Electric power sales (GWh)*					
Wholesale electric power business	54,429	58,787	60,517	62,627	
Hydroelectric	8,902	10,850	11,172	8,583	
Thermal	45,527	47,937	49,345	54,044	
Other electric power businesses	—	517	965	1,701	
Total	54,429	59,305	61,483	64,328	
Electric power revenues					
Wholesale electric power business	473,567	453,478	476,335	495,061	4,214,363
Hydroelectric	138,195	135,758	137,106	126,810	1,079,514
Thermal	335,371	317,719	339,228	368,250	3,134,849
Other electric power businesses	—	4,472	8,679	16,495	140,421
Transmission	66,739	63,398	61,194	58,255	495,920

*Pumped-storage hydroelectric power is not included.

**Free cash flow = Net cash provided by operating activities + net cash used in investing activities

Management Discussion and Analysis

Operating Revenues

During the fiscal year ended March 31, 2006 (fiscal 2005), demand for electricity in both the industrial and consumer sectors surpassed that of fiscal 2004. Large-load demand in the principal industries, including the mechanical industry, reflected the upward trend in the Japanese economy. The higher demand in the consumer sector largely resulted from a record-setting harsh winter, since air-conditioning demand fell due to generally lower temperatures during the summer.

Under these conditions, consolidated operating revenues totaled ¥621.9 billion, up 4.6% from fiscal 2004. This was attributable to higher year-on-year revenues in our mainstay electric power business. A breakdown of operating revenues by business segment follows.

Electric Power Business

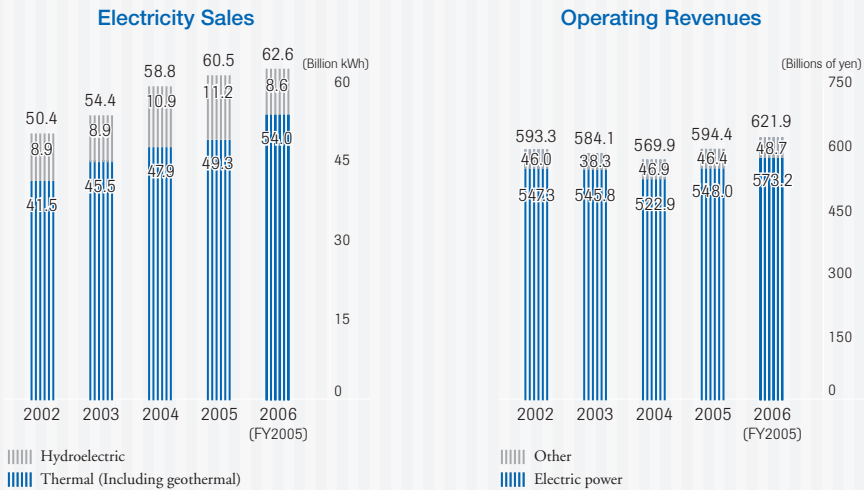
Electric sales volume in the wholesale electric power business, from both hydroelectric and thermal power plants, rose 3.5% year on year to 62.6 billion kWh. In hydroelectric power, sales volume declined 23.2% to 8.6 billion kWh, owing to lower water flow compared with fiscal 2004 (the water supply rate was down from 118% in fiscal 2004 to 90%). On the other hand, thermal electricity sales expanded 9.5% to 54.0 billion kWh due to the higher load factor at power plants.

In the other electric power businesses, electricity sales volume surged 76.2% to 1.7 billion kWh compared with fiscal 2004 due to the full-year operation of Ichihara Power Co., Ltd., Dream Up Tomamae Co., Ltd, and three other wind power companies. In addition to this, Bay Side Energy Co., Ltd. and Green Power Setana Co., Ltd., which were included in the scope of consolidation during fiscal 2005, also contributed to this increase. As a result, electric sales volume in the overall electric power business improved 4.6% to 64.3 billion kWh.

Despite lower hydroelectric and transmission revenues as a result of contract rate reductions, electric power operating revenues grew 4.6% to ¥573.2 billion, owing to the increase in electric sales volume in the overall electric power business.

Other Businesses

Operating revenues from other businesses totaled ¥48.7 billion, up 5.0% from fiscal 2004, due to increased coal sales at both J-POWER and J-POWER's subsidiaries.



Operating Income and Expenses

In fiscal 2005, operating expenses increased 7.9% year on year to ¥520.4 billion.

Electric Power Business

In the wholesale electric power business, operating expenses rose 8.8% to ¥469.7 billion. This was primarily due to the following factors: ¥44.2 billion due to escalating fuel prices; ¥9.5 billion recorded as added depreciation costs, reflecting depreciation method changes at the Matsuura and Tachibanawan Thermal Power Plants; and increased operating expenses in other electric power businesses incurred by adding Bay Side Energy Co., Ltd. to the scope of consolidation and other factors; while a significant ¥12.5 billion decrease in personnel expenses was recorded, owing to the increase in actual return on the company's retirement pension plans.

Other Businesses

Despite the escalating cost of sales associated with increased sales, operating expenses in the other businesses was almost on par with fiscal 2004 at ¥50.7 billion, edging down 0.1% due to cost reduction measures.

Consequently, operating income amounted to ¥101.5 billion, down 9.3% from fiscal 2004.

Other Income and Expenses

Other Income

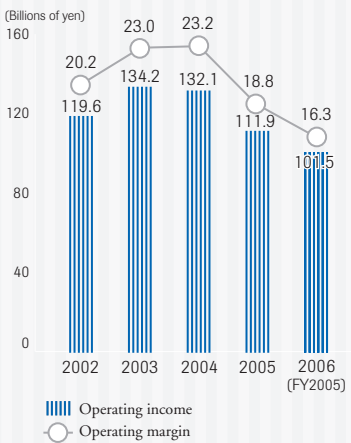
Other income jumped 96.4% to ¥7.6 billion, reflecting ¥2.0 billion of investment gain on equity method centered on the overseas power generation business.

Other Expenses

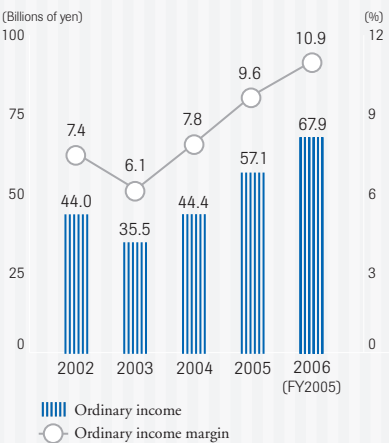
Interest payments declined ¥15.1 billion year on year, reflecting efforts to reduce interest-bearing debt and lower interest rates from fiscal 2004 levels, as well as a decrease in prepayment premiums on early repayments of debt. In addition, a ¥1.3 billion depreciation of past development costs as an investment loss on equity method in accordance with a change in overseas IPP development sites (a special factor in fiscal 2004), was not recorded in fiscal 2005. Accordingly, other expenses fell 29.8% year on year to ¥41.2 billion.

As a result of these components, ordinary income rose 18.9% to ¥67.9 billion from fiscal 2004.

Operating Income, Operating Margin



Ordinary Income, Ordinary Income Margin



Net Income

In addition to the above, a ¥0.4 billion reversal of reserve for fluctuation in water levels due to lower water flow being added, income before income taxes and minority interests increased 22.0% to ¥68.3 billion. After accounting for income taxes and tax adjustments, net income rose 22.5% to ¥43.6 billion.

Per Share Information and Dividend Policy

Per Share Information

Net income per share increased to ¥260.76, compared to ¥255.01 in fiscal 2004.

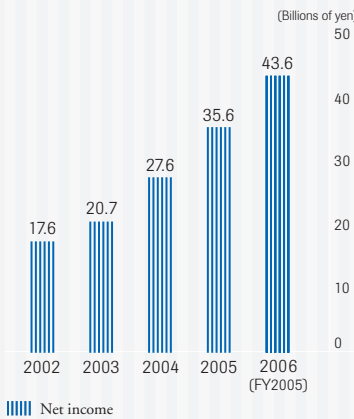
J-POWER carried out a 1.2-for-1 stock split on March 1, 2006. Net income per share for fiscal 2005 is calculated based on the assumption that the stock split was carried out at the beginning of fiscal 2005. Note that net income per share for fiscal 2004 would have been ¥212.51 based on the assumption that the stock split was carried out at the beginning of fiscal 2004.

Dividend Policy

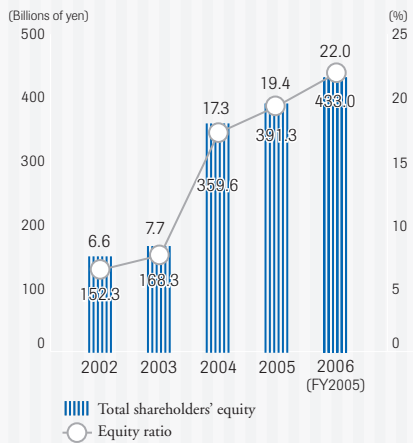
Recognizing that it is necessary to continue to increase its financial strength, J-POWER adheres to a basic policy of reducing interest-bearing debt through enhancing our retained earnings and allocates internal reserves appropriately to new investments in businesses for the growth of the Company. With respect to returning profits to our shareholders, in view of the stock-split which was carried out during fiscal 2005, J-POWER's management will place its highest priority on the continued payment of stable dividends, while taking into account the results of efforts to increase profits in the medium- to long-term.

In keeping with this basic dividend policy, J-POWER implemented payments of ¥30 per share for both the interim and year-end dividends in fiscal 2005. As a result, payout ratio became 27.5% and dividend on equity 2.3%.

Net Income



Total Shareholders' Equity, Equity Ratio



Financial Position

Financial Position and Liquidity

Assets

As of March 31, 2006, consolidated total assets were ¥1,964.7 billion, a decline of 2.8% from a year earlier, reflecting ongoing efforts to streamline assets. Despite the new inclusion of Bay Side Energy Co., Ltd. and Green Power Setana Co., Ltd. in the scope of consolidation during fiscal 2005, the value of property, plant and equipment declined 3.3% to ¥1,827.9 billion year on year, due to continuing depreciation of assets.

Liabilities

Total liabilities decreased 6.1% to ¥1,530.4 billion, primarily due to the debt repayment. J-POWER also regards the reduction of interest-bearing debt as a vital management issue and aggressively engaged in debt-reduction measures, such as the repayment of high-interest debt ahead of schedule. As a result of these efforts, interest-bearing debt as of March 31, 2006, dropped 6.0% to ¥1,408.2 billion. The debt-to-equity (D/E) ratio improved from 3.8 times to 3.3 times.

Shareholders' Equity

Shareholders' equity climbed 10.7% to ¥433 billion on account of the increase in retained earnings. Accordingly, the shareholders' equity ratio improved to 22.0% compared with 19.4% at the end of fiscal 2004.

Capital Expenditures

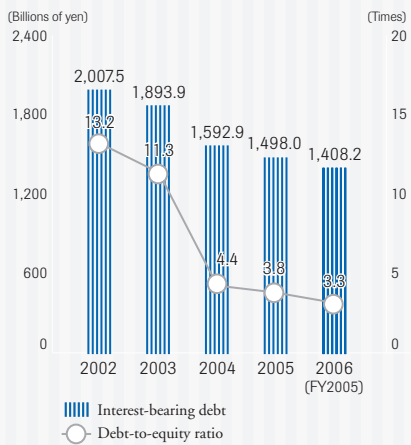
As in fiscal 2004, capital expenditures for fiscal 2005 remained within operating cash flows. During fiscal 2005, capital expenditures for the electric power business climbed 9.2% to ¥55.1 billion.

J-POWER envisages investing capital in the Isogo New No. 2 Thermal Power Plant (total capacity of 600MW, Kanagawa Prefecture), which is scheduled to commence operations in fiscal 2009, and the Ohma Nuclear Power Plant (total capacity of 1,383MW, Aomori Prefecture), which is scheduled to come on stream in fiscal 2011.

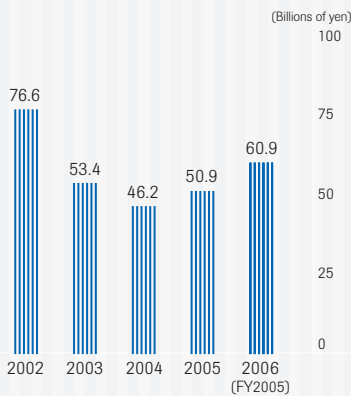
J-POWER started construction of the Isogo New No. 2 Thermal Power Plant in fiscal 2005. Capital investment is expected to increase until the commencement of operations at the Ohma Nuclear Power Plant, which is undergoing government safety inspections to pave the way for construction scheduled to start in fiscal 2006.

Total capital expenditures for the electric power business in fiscal 2006 is estimated to be ¥105.0 billion, reflecting investment in the maintenance and upgrading of existing facilities as well as the aforementioned two new power plants.

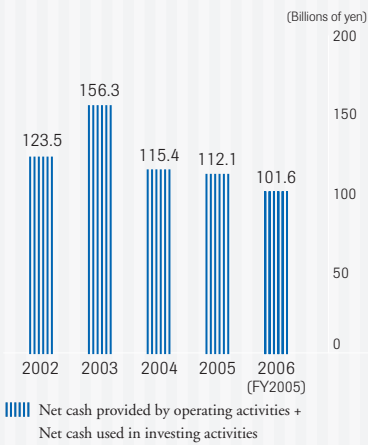
Interest-Bearing Debt, Debt-to-Equity Ratio



Capital Expenditures



Free Cash Flow



Fund Procurement

The requirements for J-POWER's fund procurement, which has to be procured by long-term funding, are mostly related to capital expenditures and debt refinancing. For the purposes of long-term fund procurement, J-POWER issues straight bonds in keeping with low-rate, stable fund procurement. The amount of outstanding issue as of March 31, 2006, was ¥300 billion. For short-term funding, J-POWER implements expeditious stopgap funding in light of enhancing operating funds and procurement readiness. In light of these demands for short-term funding, it is currently able to issue up to a total of ¥200 billion in commercial paper. In addition to these measures, J-POWER implements both short- and long-term funding from its extensive business with banking institutions.

Cash Flows

Cash flow from operating activities

Net cash from operating activities was ¥173.9 billion, an increase of ¥1.3 billion from fiscal 2004. This increase reflects higher retained earnings resulting from higher depreciation expenses and other items, in spite of the decrease in accrued employees' retirement benefits and other factors.

Cash flow from investing activities

Net cash used in investing activities amounted to ¥72.3 billion, a year-on-year increase of ¥11.7 billion. This increase reflects, among other things, the construction of the Ohma Nuclear Power Plant and the Isogo New No. 2 Thermal Power Plant, as well as increased construction costs associated with Bay Side Energy Co., Ltd. and Green Power Setana Co., Ltd., both of which were newly added to the scope of consolidation in fiscal 2005.

Cash flow from financing activities

Net cash used in financing activities amounted to ¥103.6 billion, a decline of ¥8.2 billion. This decrease in net cash disbursements was due primarily to increased issue and decreased redemption of corporate bonds, offsetting an increase in cash disbursements due to repayment of loans, the payment of an interim dividend and other factors.

As a result of these activities, cash and cash equivalents as of March 31, 2006, totaled ¥28.9 billion, after taking into account an increase of ¥0.3 billion from the change in the scope of consolidation, down ¥1.3 billion from ¥30.2 billion as of March 31, 2005.

Risk Factors

Business and Other Risks

This section discusses the main potential risks related to J-POWER's financial position, business results, current and future business operations, as well as other matters. From the perspective of actively disclosing information to investors, this section also provides information to help investors understand business and other risks that the Company does not necessarily consider significant. Statements about future matters are based on judgments as of June 30, 2006.

Impact of Electric Power Deregulation on J-POWER's Wholesale Electricity Rates and Business

J-POWER derives most of its operating revenues from wholesale power supply to Japan's 10 electric power companies (EPCOs). Amid deregulation in the retail power sector, the EPCOs have been reducing their retail electricity rates. However, because our contract rates are calculated on a fair cost plus fair return on capital basis, we are not directly affected by the reduction in retail electricity rates. Nevertheless, EPCOs have been calling for a reduction in our contract rates, and if further deregulation results in a significant reduction in our contract rates, it could potentially have a material adverse effect on the results of our operations.

Wholesale power trading on the Japan Electric Power Exchange commenced in April 2005. J-POWER is currently trading in the wholesale power markets. Although we do not expect a large amount of electricity to be traded on the exchange in the near term, an increase in the importance of exchange-traded power prices as a price indicator could potentially have an indirect effect on our rate levels. If the rates set in contracts between J-POWER and EPCOs are higher than price indicators, this could potentially have a material adverse effect on the results of our operations.

Delay or Discontinuation of Our Current Power Plant Construction

Lower growth in electricity demand in recent years has prompted EPCOs to postpone or cancel new power plant development and to shut down inefficient thermal power plants on a long-term or permanent basis. We have also postponed the start of commercial operations or canceled the planned construction of power plants to supply EPCOs based on consultations with our EPCO clients. The cancelation of construction plans as a result of major changes in the operating environment or unforeseen circumstances could potentially have a material adverse effect on the results of our operations.

Global Warming

J-POWER has a large number of coal-fired thermal power plants, which emit relatively high amounts of carbon dioxide with respect to power output compared to power plants that use LNG and other fossil fuels. We have taken several initiatives to combat global warming both in Japan and overseas, but if the Japanese government establishes new regulations to achieve the greenhouse gas emission reduction targets in the Kyoto Protocol, which sets reduction targets for advanced countries and came into force in February 2005, this could potentially have a material adverse effect on the results of our operations.

New Electric Power Businesses and New Areas of Business

J-POWER is pursuing new initiatives both in Japan and overseas with the aim of creating new profit sources in new electric power businesses and new areas of business. However, these businesses may not generate the level of profits that we anticipate. Moreover, changes in our business plans or the suspension of operations could result in related expenses that could potentially have a material adverse effect on the results of our operations. Overseas businesses also entail foreign exchange risk as well as country risk based on political instability and other factors.

Raising Capital Funds

J-POWER expects it will need to raise a large amount of funds to build the Isogo New No. 2 Thermal Power Plant and the Ohma Nuclear Power Plant, which are scheduled to commence operations during the next ten years. If we are unable to raise the required funds on acceptable terms and in a timely manner due to the prevailing conditions on the financial markets, the company's credit situation, or other factors at that time, then this could potentially have a material adverse effect on our business development and profitability.

Ohma Nuclear Power Plant Construction Project

J-POWER is currently undergoing the evaluation for nuclear reactor approval by the national authorities, prior to the commencement of construction of the Ohma Nuclear Power Plant (in Aomori Prefecture; scheduled to commence commercial operation in March 2012 with a capacity of 1,383MW). Although it is the intention of J-POWER to carry out the project as planned, any changes to the plan as a result of drastic changes in operating conditions, the occurrence of unforeseen events, or other factors could potentially affect the business performance of the company. In addition, the plan may be affected to a certain extent in the event of an accident involving a facility either in Japan or elsewhere, which could erode society's confidence in nuclear power generation.

Nuclear power generation involves various risks, such as those associated with the storage and handling of radioactive materials, as well as those common to all types of power generation facilities, such as natural disasters and unforeseen accidents. J-POWER intends to ensure that these risks will be avoided or minimized after operation has commenced. However, in the event that any of these risks do materialize, it could adversely affect the business performance of the company.

Coal-Fired Thermal Power Plant Fuel

J-POWER's coal-fired thermal power plants use imported coal as their main source of fuel, and fuel costs are affected by price fluctuations. Coal prices are reflected in our electricity rates for EPCOs on a cost basis. These rates are generally revised every two years, though they are subject to annual revision if costs change significantly. As a result, fluctuations in coal prices have a limited impact on earnings.

Natural Disasters and Accidents

Should a natural disaster, human error, terrorist activity, fuel supply stoppage, or other unforeseen circumstance result in major disruption at one of J-POWER's power plants, transmission or substation facilities, or with the information systems that control operations at these facilities, this could potentially hamper our business operations and consequently have a material adverse effect on the surrounding environment as well as the results of our operations.

Regulatory Requirements

J-POWER operates its mainstay wholesale electric power business in accordance with the regulations in the Electricity Utilities Industry Law. In addition to this law, our business operations are subject to a variety of other laws. If we are unable to comply with these laws and regulations, or if these laws and regulations are revised, this could potentially have a material adverse effect on our business operations and earnings.

Concentration on a Limited Number of Customers

Sales to EPCOs account for the majority of J-POWER's operating revenues. We expect EPCOs to remain our most important customers going forward, and accordingly our earnings could potentially be affected by EPCOs' market share trends in the retail electricity market.

Consolidated Balance Sheets

As of March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2005	2006	2006
Assets			
Property, plant and equipment, net	¥1,745,865	¥1,666,304	\$14,184,935
Power plants (Notes 2, 3 and 4)	1,547,374	1,438,443	12,245,196
Other property, plant and equipment (Notes 2, 3 and 4)	27,877	28,336	241,227
Construction in progress (Note 2)	170,613	199,524	1,698,512
Investment and other assets	144,135	161,564	1,375,365
Long-term investments (Notes 2, 4 and 13)	95,031	114,600	975,574
Deferred tax assets (Notes 2 and 16)	46,150	42,944	365,580
Others	2,953	4,018	34,210
Current assets	131,654	136,798	1,164,542
Cash and bank deposits (Note 11)	30,351	28,961	246,547
Notes and accounts receivable, less allowance for doubtful accounts	52,125	56,484	480,840
Inventories (Note 2)	13,158	18,160	154,594
Others (Notes 2 and 16)	36,018	33,192	282,560
Total Assets	¥2,021,655	¥1,964,667	\$16,724,843

The accompanying notes are an integral part of these financial statements.

Liabilities, Minority Interests and Shareholders' Equity

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2005	2006	2006
Long-term liabilities	¥1,286,912	¥1,215,033	\$10,343,353
Long-term debt, less current portion (Note 4)	1,231,100	1,166,024	9,926,146
Accrued employee retirement benefits (Notes 2 and 15)	45,729	36,233	308,446
Others (Note 16)	10,082	12,776	108,760
Current liabilities	340,405	313,999	2,673,022
Current portion of long-term debt and other (Note 4)	111,163	106,772	908,930
Short-term loans (Note 4)	50,750	24,436	208,023
Commercial paper (Note 4)	105,000	111,000	944,922
Income and other taxes payable	21,783	20,867	177,638
Others	51,706	50,924	433,507
Reserve for fluctuation in water levels (Note 2)	1,798	1,399	11,910
Contingent liabilities (Note 5)			
Total Liabilities	1,629,115	1,530,432	13,028,286
Minority interests	1,212	1,206	10,271
Shareholders' equity (Notes 2 and 17)			
Common stock	152,449	152,449	1,297,774
Capital surplus	81,849	81,849	696,770
Retained earnings	152,121	182,760	1,555,806
Unrealized gain on other securities, net	6,207	14,050	119,608
Foreign currency translation adjustments	(1,299)	1,935	16,472
Treasury stock (Note 17)	(1)	(17)	(146)
Total Shareholders' Equity	391,327	433,028	3,686,286
Total Liabilities, Minority Interests and Shareholders' Equity	¥2,021,655	¥1,964,667	\$16,724,843
Shareholders' equity per share (Note 2)	¥2,818.04	¥2,598.90	\$22.12

Consolidated Statements of Income

For the years ended March 31, 2004, 2005 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2004	2005	2006	2006
Operating revenues	¥569,854	¥594,375	¥621,933	\$5,294,402
Electric power	522,922	547,960	573,198	4,879,532
Other	46,931	46,414	48,734	414,869
Operating expenses (Notes 2, 6, 7, 8 and 15)	437,715	482,489	520,464	4,430,615
Electric power	386,463	431,678	469,720	3,998,641
Other	51,251	50,810	50,744	431,974
Operating income	132,138	111,885	101,469	863,786
Other income (expenses), net (Notes 2 and 9)	(88,381)	(55,901)	(33,163)	(282,310)
Interest expenses	(83,519)	(50,881)	(35,732)	(304,186)
(Provision for) reversal of reserve for fluctuation in water levels	(689)	(1,108)	399	3,398
Other, net	(4,172)	(3,910)	2,170	18,476
Income before income taxes and minority interests	43,757	55,984	68,305	581,476
Income taxes (Notes 2 and 16)				
Current	16,222	22,909	26,151	222,625
Deferred	(309)	(2,511)	(1,488)	(12,670)
Minority interests	220	27	65	557
Net income	¥ 27,623	¥ 35,559	¥ 43,577	\$ 370,963
Amounts per share:		Yen		U.S. dollars (Note 2)
Net income (Note 2)	¥304.88	¥255.01	¥260.76	\$2.22
Cash dividends applicable to the year (Note 10)	60.00	60.00	60.00	0.51

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Shareholders’ Equity

For the years ended March 31, 2004, 2005 and 2006

	Number of issued and outstanding common stock (thousands)	Millions of yen				
		Common stock	Capital surplus	Retained earnings	Unrealized gain (loss) on other securities, net	Foreign currency translation adjustments
Balance at March 31, 2003	70,600	¥ 70,600	¥ —	¥ 99,528	¥ (31)	¥(1,795)
Issuance of common stock	68,208	81,849	81,849			
Net income				27,623		
Increase in earnings from the addition of consolidated subsidiaries				0		
Increase in earnings from the change in consolidated subsidiary’s equity				449		
Dividends				(4,236)		
Bonuses to directors and statutory auditors				(152)		
Net change during the year					3,770	189
Balance at March 31, 2004	138,808	152,449	81,849	123,213	3,738	(1,605)
Net income				35,559		
Increase in earnings from the addition of consolidated subsidiaries				137		
Increase due to the addition of affiliates accounted for by the equity method				173		
Dividends				(5,410)		
Bonuses to directors and statutory auditors				(132)		
Decrease in earnings from the addition of consolidated subsidiaries				(1,420)		
Net change during the year					2,469	306
Balance at March 31, 2005	138,808	152,449	81,849	152,121	6,207	(1,299)
Stock split	27,761					
Net income				43,577		
Increase in earnings from the addition of consolidated						
Increase due to the addition of affiliates accounted for by the equity method				187		
Dividends				(12,492)		
Bonuses to directors and statutory auditors				(162)		
Decrease in earnings from the addition of consolidated				(400)		
Decrease due to the addition of affiliates accounted for by the equity method				(69)		
Net change during the year					7,842	3,234
Balance at March 31, 2006	166,569	¥152,449	¥81,849	¥182,760	¥14,050	¥ 1,935
		Thousands of U.S. dollars (Note 2)				
		Common stock	Capital surplus	Retained earnings	Unrealized gain (loss) on other securities, net	Foreign currency translation adjustments
Balance at March 31, 2005		\$1,297,774	\$696,770	\$1,294,979	\$ 52,846	\$(11,065)
Net income				370,963		
Increase in earnings from the addition of consolidated						
Increase due to the addition of affiliates accounted for by the equity method				1,595		
Dividends				(106,347)		
Bonuses to directors and statutory auditors				(1,381)		
Decrease in earnings from the addition of consolidated				(3,412)		
Decrease due to the addition of affiliates accounted for by the equity method				(589)		
Net change during the year					66,762	27,537
Balance at March 31, 2006		\$1,297,774	\$696,770	\$1,555,806	\$119,608	\$ 16,472

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2004, 2005 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2004	2005	2006	2006
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 43,757	¥ 55,984	¥ 68,305	\$ 581,476
Depreciation	131,380	125,339	135,019	1,149,394
Loss on impairment of fixed assets	—	1,959	729	6,209
Loss on disposal of property, plant and equipment	2,464	3,748	2,735	23,287
(Decrease) increase in accrued employee’s retirement benefits	407	(3,817)	(9,495)	(80,837)
(Decrease) increase in reserve for fluctuation in water levels	689	1,108	(399)	(3,398)
Interest and dividends	(1,707)	(2,087)	(2,649)	(22,553)
Interest expenses	83,519	50,881	35,732	304,186
(Increase) decrease in notes and accounts receivable	94	(2,874)	(3,244)	(27,616)
Increase in inventories	(326)	(1,471)	(5,080)	(43,250)
(Decrease) increase in notes and accounts payable	4,406	1,151	(1,810)	(15,408)
Investment (profit) loss on equity method	(804)	1,311	(2,042)	(17,389)
Profit (loss) on sale of property, plant and equipment	49	303	(167)	(1,423)
Others	23,639	6,504	15,987	136,096
Subtotal	287,572	238,042	233,621	1,988,774
Interest and dividends received	1,323	1,857	2,606	22,189
Interest paid	(87,223)	(51,940)	(36,472)	(310,484)
Income taxes paid	(21,724)	(15,322)	(25,800)	(219,635)
Net cash provided by operating activities	179,948	172,637	173,954	1,480,843
Cash flows from investing activities:				
Payments for purchase of property, plant and equipment	(52,337)	(57,825)	(68,449)	(582,697)
Proceeds from contributions grants	3,124	4,386	7,881	67,091
Proceeds from sales of property, plant and equipment	258	543	1,396	11,884
Payments for investments and advances	(22,250)	(19,952)	(14,180)	(120,712)
Proceeds from collections of investments and advances	7,056	13,678	2,931	24,959
Proceeds from cash and cash equivalents due to inclusion in consolidation	—	8	—	—
Others	(359)	(1,424)	(1,905)	(16,225)
Net cash used in investing activities	(64,507)	(60,586)	(72,326)	(615,699)
Cash flows from financing activities:				
Proceeds from issuance of bonds	49,988	89,952	149,360	1,271,481
Redemption of bonds	(45,010)	(279,910)	(234,090)	(1,992,764)
Proceeds from long-term loans	166,035	73,600	131,587	1,120,180
Repayment of long-term loans	(499,603)	(64,497)	(117,473)	(1,000,028)
Proceeds from short-term loans	239,730	198,485	128,547	1,094,299
Repayment of short-term loans	(256,087)	(188,902)	(154,964)	(1,319,181)
Proceeds from issuance of commercial paper	83,998	348,994	580,977	4,945,752
Redemption of commercial paper	(44,000)	(284,000)	(575,000)	(4,894,866)
Issuance of common stock	163,115	—	—	—
Payments for purchase of consolidated subsidiary’s equity	(1,439)	—	—	—
Dividends paid	(4,236)	(5,410)	(12,472)	(106,176)
Dividends paid to minority interests	(7)	(108)	(71)	(610)
Others	—	(1)	(15)	(131)
Net cash used in financing activities	(147,516)	(111,798)	(103,613)	(882,045)
Foreign currency translation adjustments on cash and cash equivalents	(184)	17	291	2,484
Net (decrease) increase in cash and cash equivalents	(32,260)	270	(1,693)	(14,416)
Cash and cash equivalents at beginning of year	59,787	27,673	30,221	257,267
Increase in cash from the addition of consolidated subsidiaries	147	2,276	346	2,952
Cash and cash equivalents at end of year (Notes 2 and 11)	¥ 27,673	¥ 30,221	¥ 28,874	\$ 245,802

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

For the years ended March 31, 2004, 2005 and 2006

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 application and disclosure requirements of accounting principles and practices generally accepted in the United States of America and International Financial Reporting Standards. All the intercompany balances and transactions are eliminated upon consolidation.

In addition, the notes to the consolidated financial statements include information that 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

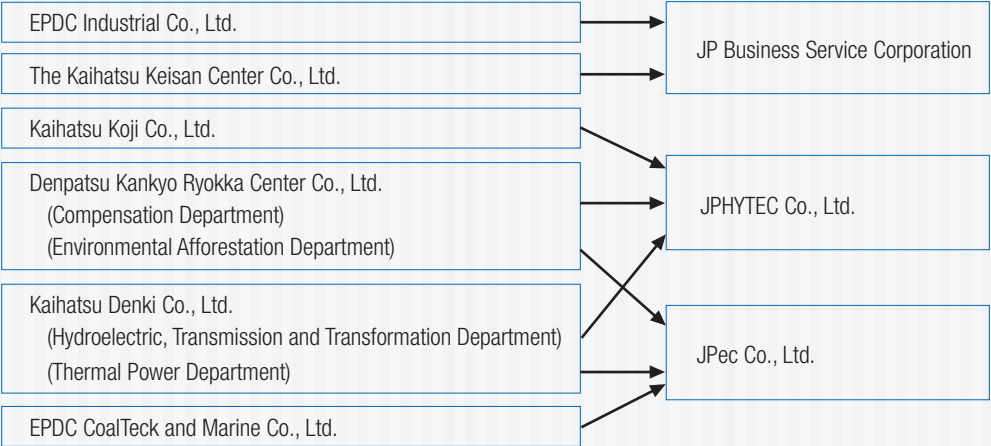
(1) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 20 significant subsidiaries controlled directly or indirectly by the Company. From the year ended March 31, 2006, Bay Side Energy Co., Ltd. and Green Power Setana Co., Ltd., from the year ended March 31, 2005, Ichihara Power Co., Ltd. and six other companies, have been included in the scope of consolidation because of their importance to mid- to long-range corporate strategy, and from the year ended March 31, 2004, ITOIGAWA POWER, Inc. and J-Power Investment Netherlands B.V. have been included in the scope of consolidation due to their increasing influence on the consolidated financial position and results of operations of the Company.

Also, through the purchase on July 27, 2004 of shares that had been held by Tomamae-cho, Dream-Up Tomamae Co., Ltd., which had been a non-equity-method affiliate, became a wholly-owned subsidiary and included in the scope of consolidation for the year ended March 31, 2005.

Unconsolidated subsidiaries do not have a significant effect on the Company’s consolidated financial position or operating results taken as a whole.

Denpatsu Holding Company Ltd., the consolidated subsidiary, was absorbed by and merged with the Company on April 1, 2004, and the main business companies were reorganized as follows.



Based on this reorganization, it was resolved on April 5, 2004 to dissolve the Denpatsu Kankyo Ryokka Center Co., Ltd., and liquidation was completed as of June 14, 2004.

Generally, the difference between the acquisition costs of investment in a subsidiary and the underlying equity in its net assets adjusted based on the fair value at the time of acquisition is deferred and amortized over certain periods within 20 years using the straight-line method.

All of the consolidated subsidiaries, except for ITOIGAWA POWER, Inc., a domestic subsidiary, and overseas subsidiaries J-POWER AUSTRALIA PTY. LTD., J-Power Investment Netherlands B.V. have the same fiscal year as that of the Company. The fiscal year end of ITOIGAWA POWER, Inc. is the end of February, and

the fiscal year end of each of J-POWER AUSTRALIA PTY. LTD. and J-Power Investment Netherlands B.V. is the end of December. The financial statements of these three subsidiaries as of these dates are used for consolidation after necessary adjustments with regard to significant transactions incurred during the periods between their fiscal year-ends and that of the Company.

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

26 affiliates which have a significant influence on the Company's operations are accounted for by the equity method.

From the year ended March 31, 2006, TOSA POWER Inc., Mihama Seaside Power Co., Ltd. and 10 other affiliates, from the year ended March 31, 2005, GENEX Co., Ltd. and 4 other affiliates, from the year ended March 31, 2004, SEC HoldCo, S.A. and 4 other affiliates, have been accounted for by the equity method due to their increasing influence on the consolidated financial position and results of operations of the Company. Unconsolidated subsidiaries and affiliates which do not have a significant effect on consolidated net income and retained earnings as a whole are not accounted for by the equity method.

The above-mentioned affiliates, excluded GENEX Co., Ltd., TOSA POWER Inc. and Mihama Seaside Power Co., Ltd. accounted for by the equity method have different fiscal year-ends from that of the Company, and accordingly, before their financial statements as of their respective year-ends are used in consolidation, they are adjusted with regard to significant transactions during the periods between their fiscal year-ends and that of the Company.

(3) Accounting policies

a. Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost. Construction grants received from the Government of Japan and others 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 buildings, structures and machinery and the straight-line method has been applied to other equipment. Major intangible assets are amortized based on the respective estimated useful lives of those assets using the straight-line method. Software costs for internal use are amortized based on the internally available period (normally, five years) using the straight-line method.

b. Changes in depreciation methods for major depreciation assets

In the past, the straight-line method was applied to depreciation of the property, plant and equipment (except for environmental protection equipment) in relation to the Matsuura and Tachibanawan thermal power plants but the method has been changed to the declining-balance method from the fiscal year ending March 31, 2006.

In view of the operating environment at the time of the commencement of operations of both thermal plants, it was necessary to apply a method of depreciation which was consistent with the method of calculation of the individual cost rates of both plants. Therefore, the straight-line method was applied for the above thermal power plant facilities, unlike the method applied at other plants.

In April 2005, the Japan Electric Power Exchange commenced operation and became clear the formation of electric power wholesale prices, there are growing demands to lower wholesale electric rates further and changes have occurred in conditions relating to the calculation of our wholesale rates since the time when the depreciation method for the above two thermal power plants was initially applied.

In view of these circumstances, we decided to bring both power plants in line with other power plants by changing the method of depreciation of both thermal power plants to the declining-balance method. It is believed that this change in depreciation method will contribute to stronger financial positions through the early recovery of investment capital.

As a result of this change, in comparison with calculations applying the previous depreciation method, electric power operating expenses for the current fiscal year increased ¥14,255 million (\$121,354 thousand) and operating income and income before income taxes and minority interests decreased the same amount respectively.

c. 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 costs and the carrying values of securities are recognized in unrealized gain (loss) on securities. Unrealized gain (loss) on securities, net of applicable income taxes, is 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.

d. Inventories

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

e. 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 using the declining-balance method and the straight-line method, respectively.

f. Deferred charges

Bond and stock issuance expenses and discount on bonds are fully amortized when incurred.

g. (Provision for) Reversal of reserve for fluctuations in water levels

To offset fluctuations in income in connection with hydroelectric power generation caused by higher or lower than average water levels, the Company records reserve for fluctuations in water levels under "Ministerial Ordinance Concerning Reserve for Fluctuations in Water Levels" (the ministerial ordinance No. 56 of June 15, 1965 of the Ministry of Economy, Trade and Industry) stipulated by Article 36 of the Electricity Utilities Industry Law.

h. Foreign currency translation

Foreign currency-denominated monetary receivables and payables are translated into yen at the exchange rate 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 rate 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 historical exchange rates.

i. 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.

j. Derivative financial instruments 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 the derivatives for trading or speculative purposes.

The Company uses foreign currency forward contracts and foreign currency swaps to hedge foreign currency-denominated bonds and some foreign-currency-denominated debts, and uses interest swaps to hedge payments and receipts of principal and interest with respect to bonds and debts, and uses fuel price related swaps to hedge some transactions related to fuel purchases.

Based on our internal regulations relating to derivative transactions, derivatives are executed for the purpose of avoiding the risks of fluctuating interest rates, exchange rates, and fuel purchase prices, and our policy is not to perform speculative transactions.

To evaluate the effectiveness of our hedging strategy on a quarterly basis, by comparing cumulative changes in cash flow of hedging instruments with cumulative changes in hedged cash flow. Evaluation of the effectiveness of certain foreign-exchange contracts, currency swaps, and special interest-rate swaps that depend on allocation processing has been omitted.

k. Capitalization of interest expenses

Interest expenses related to debts incurred for the construction of power plants have been capitalized and included in the cost of the related assets pursuant to the accounting regulations (the ministerial ordinance No. 57 of June 15, 1965 of the Ministry of Economy, Trade and Industry) under the Electricity Utilities Industry Law.

l. 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 national and local governments. The consumption tax withheld upon sale is not included in the amount of operating revenue in the accompanying consolidated statements of income. Consumption tax paid on purchases of goods and national services by the Company and its domestic subsidiaries is excluded from each account in the consolidated statements of income.

m. Other significant issues for the preparation of consolidated financial statements

Per share information

Effective March 1, 2006, the company carried out a 1.2-for-1 stock split. The per-share information for the year ended March 31, 2006, is calculated based on the assumption that said stock split was carried out at the beginning of that year.

Changes to Accounting Policies

Accounting standards related to impairment losses on fixed assets

Accounting standards related to impairment losses on fixed assets ("Statement of Position on the Setting of Accounting Standards Related to Impairment Losses on Fixed Assets" (Business Accounting Council, August 9, 2002)), and "Application Guidelines for Accounting Standards Related to Impairment Losses on Fixed Assets" (Guideline No. 6 of Application Guidelines for Business Accounting Standards, October 31, 2003), became applicable to financial statements for the fiscal year ended March 31, 2004 (these accounting standards are mandatory from the fiscal year ended March 31, 2006), and therefore, these accounting standards and guidelines have been applied from the fiscal year ended March 31, 2005.

Please note that impairment losses comprising the cumulative total have been written off directly from the respective assets.

Accounting for the domestic engineering business and consulting business

Income and related expenses related to the domestic engineering business and consulting business were recorded in "Electric power operating revenues" and "Electric power operating expenses" respectively, until the fiscal year ended March 31, 2003. However, because the Electric Power Development Promotion Law was repealed on October 2, 2003, beginning in the fiscal year ended March 31, 2004, the Company started to record income and related expenses related to its domestic engineering business and consulting business in "Other operating revenues" and "Other operating expenses" respectively.

Additional information

- ①The 2003 Law Revising Parts of the Local Tax Law (2003 Law No. 9) was promulgated on March 31, 2003, and the external standard taxation system was instituted with the business year that began April 1, 2004. Beginning with the previous fiscal year, in accordance with the "Operational Handling of Disclosures Regarding Pro Forma Standard Taxation Portions of Corporate Taxes in Profit/Loss Statements" (Corporate Accounting Standards Committee Operational Response Report No. 12, dated February 13, 2004), we recorded the discounted value-added and discounted capital of Enterprise tax, as "Operating expenses—Other".
- ②The wind-power facilities of Nikaho-kogen Wind Power Co., Ltd., Green Power Kuzumaki Co. Ltd., Nagasaki-Shikamachi Wind Power Co., Ltd., Green Power Aso Co., Ltd., J-Wind TAHARA Ltd. and Dream-Up Tomamae Co., Ltd., which were included as consolidated subsidiaries beginning in the year ended March 31, 2005, and Green Power Setana Co., Ltd. which was included as consolidated subsidiaries beginning in the year ended March 31, 2006, were reported as "Power plants—Hydroelectric power plants" under the Electric Utilities Industry Law.

(4) Income taxes

Income taxes comprise corporate income tax, inhabitant tax and enterprise tax, except for the one imposed on the sales of the Company. Most of the enterprise tax imposed on the Company is imposed on sales and such enterprise tax is included in operation expenses (electric power) in its consolidated statements of income. The provision for income taxes is computed based on pretax income included in the Company's 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 with original maturities of three months or less which are easily convertible into cash and present insignificant risk of changes in value.

(7) Per share information

Net income per share is calculated based on the weighted average number of shares of common stock excluding treasury stock 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 securities, such as convertible bonds or warrants, those are convertible into shares of common stock.

(8) U.S. dollar amounts

The translation of Japanese yen amounts into U.S. dollar amount 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, 2006, which was ¥117.47 = 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

Power plants, less construction grants and accumulated depreciation, as of March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Hydroelectric power plants	¥ 499,017	¥ 481,068	\$ 4,095,244
Thermal power plants	686,072	613,349	5,221,327
Internal combustion power generation facilities	10,071	16,931	144,131
Transmission facilities	276,661	257,253	2,189,946
Conversion facilities	41,605	38,605	328,638
Communication facilities	9,985	9,170	78,068
General facilities	23,961	22,065	187,838
Total	¥1,547,374	¥1,438,443	\$12,245,196

Construction grants, which were deducted from the cost of property, plant and equipment as of March 31, 2005 and 2006, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Construction grants	¥102,862	¥103,631	\$882,191

Accumulated depreciation of property, plant and equipment as of March 31, 2005 and 2006, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Accumulated depreciation	¥2,013,443	¥2,130,163	\$18,133,681

4.

Short-term loans and long-term debt

Short-term loans and long-term debt as of March 31, 2005 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Loans from banks and Japanese government agencies, due on varying dates through 2023	¥ 833,169	¥ 827,480	\$ 7,044,189
Interest rates:			
Long-term loans, excluding current portion	1.56% (average)		
Current portion of long-term loans	1.57% (average)		
Short-term loans	0.50% (average)		
Commercial paper	0.09% (average)		
Domestic bonds guaranteed by the Government of Japan, due on varying dates through 2011, 1.1% to 2.7%	355,870	175,450	1,493,572
Domestic bonds underwritten by the Government of Japan, due on varying dates through 2007, 2.00%	46,580	2,910	24,772
Domestic straight bonds, due on varying dates through 2025, 0.93% to 2.24%	160,000	300,000	2,553,843
French franc-denominated foreign bonds guaranteed by the Government of Japan, due in 2007, 5.63%	35,474	35,474	301,983
Euro-denominated foreign bonds guaranteed by the Government of Japan, due in 2006, 4.88%	28,917	28,917	246,166
Japanese yen-denominated foreign bonds guaranteed by the Government of Japan, due in 2010, 1.80%	38,000	38,000	323,486
Subtotal	1,498,010	1,408,232	11,988,015
Less current portion	(266,910)	(242,207)	(2,061,868)
Total	¥1,231,100	¥1,166,024	\$ 9,926,146

The annual maturities of bonds and long-term debts subsequent to March 31, 2006, are summarized as follows:

Years ended March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 242,207	\$ 2,061,868
2008	173,361	1,475,791
2009	101,154	861,106
2010	38,854	330,762
2011	126,970	1,080,873
2012 and thereafter	725,684	6,177,613
Total	¥1,408,232	\$11,988,015

All of the Company's assets are subject to certain statutory liens as security for bonds. The outstanding amount of such bonds amounted to ¥819,801 million and ¥726,081 million (\$6,180,992 thousand, including corporate bonds that were used to discharge certain debts through bond performance underwriting contracts) as of March 31, 2005 and 2006, respectively. Some long-term investments used as collateral for loans to affiliated companies were ¥125 million and ¥142 million (\$1,208 thousand) as of March 31, 2005 and 2006 respectively.

The book value of the Company's assets pledged as collateral for the debt of certain consolidated subsidiaries, which debt totaled ¥9,196 million and ¥7,343 million (\$62,510 thousand) as of March 31, 2005 and 2006, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Power plants	¥8,812	¥10,059	\$85,635
Other property, plant and equipment	3,685	857	7,303

5.

Contingent liabilities

Contingent liabilities as of March 31, 2005 and 2006, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Guarantees given for loans of other companies:			
TOSA POWER Inc.	¥ 3,195	¥ 4,731	\$ 40,276
Green Power Koriyama Nunobiki Co., Ltd.	3,300	4,300	36,605
Green Power Setana Co., Ltd.	950	—	—
Ecuador Resources Finance Ltd.	586	738	6,289
Roi-Et Green Co., Ltd.	289	264	2,253
Okutadami Kanko Co., Ltd.	251	230	1,959
Kanda Eco Plant Co., Ltd.	166	147	1,255
Kawagoe Cable Vision Co., Ltd.	129	64	550
JP Enterprise Corporation (Former: Kyoeki Ryokou Co., Ltd., effective May 1, 2004)	17	—	—
Subtotal	8,886	10,477	89,190
Guarantees given in connection with housing loans to Company employees	5,823	5,471	46,574
Guarantee liability for performance guarantee insurance contract for PFI business			
EDOGAWA Water Service (Special-Purpose Company)	44	44	380
Debts assigned by the Company to certain banks under debt assumption agreements	274,960	405,330	3,450,497
Total	¥289,714	¥421,323	\$3,586,643

6.

Operating expenses

Operating expenses (electric power) for the years ended March 31, 2004, 2005 and 2006, are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2004	2005	2006	2006
Personnel expense	¥ 42,220	¥ 33,764	¥ 21,273	\$ 181,093
Fuel cost	85,927	116,622	160,823	1,369,058
Repair expense	28,652	47,452	38,712	329,549
Consignment cost	26,193	34,000	31,418	267,460
Taxes and duties	23,984	24,974	29,959	255,040
Depreciation and amortization cost	128,395	122,016	131,511	1,119,532
Others	51,089	52,846	56,022	476,906
Total	¥386,463	¥431,678	¥469,720	\$3,998,641

Selling, general and administration expenses included in operating expenses (electric power) for the years ended March 31, 2004, 2005 and 2006, were as follows:

	Millions of yen			Thousands of U.S. dollars
	2004	2005	2006	2006
Personnel expense	¥31,614	¥24,177	¥11,438	\$97,370
Fuel cost	—	—	—	—
Repair expense	836	1,402	1,073	9,139
Consignment cost	6,997	12,042	9,326	79,393
Taxes and duties	649	618	561	4,779
Depreciation and amortization cost	2,403	2,386	2,630	22,393
Others	13,692	16,671	13,413	114,185
Total	¥56,192	¥57,299	¥38,443	\$327,263

7.

Enterprise tax

Most of the enterprise tax of the Company and 10 affiliates is imposed on operating revenues, except for certain enterprise taxes imposed on taxable income. Enterprise tax on operating revenues was included in operating expenses (electric power) in the amount of ¥6,845 million, ¥7,181 million and ¥7,501 million (\$63,858 thousand) for the years ended March 31, 2004, 2005 and 2006, respectively. Regarding the enterprise tax for consolidated subsidiaries, the discounted value-added and discounted capital are included in “Operating expenses—Other”, and revenues are included in corporate income tax, excluding the 10 consolidated subsidiaries that operate electric power businesses.

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, 2004, 2005 and 2006, were as follows:

	Millions of yen			Thousands of U.S. dollars
	2004	2005	2006	2006
Research and development costs	¥6,752	¥6,381	¥6,803	\$57,919

9.

Loss on impairment of fixed assets

Our corporate group bases the grouping of our assets on the categories used in our management accounting, which maintains a continuous grasp of the balance of payments. There are no signs of impairment in these assets, so no impairment losses have been recognized. In addition, idle assets for which no immediate use is foreseen are grouped individually, depreciated to their recoverable value, and the appropriate value reduction is booked as an impairment loss within the category of “Other expenses—Other”. Loss on impairment of fixed assets for the years ended March 31, 2005 and 2006, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Land	¥ 748	¥179	\$1,524
Buildings and structures	1,002	548	4,666
Other	31	2	17
Total	¥1,782	¥729	\$6,209

The recoverable value of the idle assets concerned is measured according to their net sale value; assets slated for sale are recorded by their expected sale value, while other assets are appraised at a value reflecting their appropriate market pricing, rationally adjusted to reflect the tax on fixed assets.

Impairment losses outside this asset group are of minor importance, so we have omitted them.

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, 2006, were approved at the general meeting of the shareholders held on June 28, 2006:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥30 (\$0.26) per share)	¥4,996	\$42,538
Directors' and statutory auditors' bonuses	55	469

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, 2005 and 2006, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Cash and bank deposits on the consolidated balance sheets	¥30,351	¥28,961	\$246,547
Time deposits with a maturity of more than three months	(130)	(87)	(744)
Cash and cash equivalents on the consolidated statements of cash flows	¥30,221	¥28,874	\$245,802

Leases

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, 2005 and 2006, were as follows:

	Millions of yen						Thousands of U.S. dollars		
	2005			2006			2006		
	Acquisition cost	Accumulated depreciation	Net leased property	Acquisition cost	Accumulated depreciation	Net leased property	Acquisition cost	Accumulated depreciation	Net leased property
Electric utility plant	¥ 8,370	¥5,862	¥2,508	¥ 7,729	¥6,659	¥1,070	\$65,796	\$56,686	\$ 9,109
Others	2,079	1,076	1,002	2,938	1,089	1,849	25,018	9,271	15,746
Total	¥10,450	¥6,939	¥3,511	¥10,667	¥7,748	¥2,919	\$90,814	\$65,958	\$24,855

Acquisition cost includes the imputed interest expense portion.

Future lease payments under finance leases as of March 31, 2005 and 2006, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Due within one year	¥2,054	¥1,134	\$ 9,659
Due after one year	1,456	1,785	15,196
Total	¥3,511	¥2,919	\$24,855

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

Lease payments (including accumulated depreciation) under finance leases were ¥2,279 million and ¥2,310 million (\$19,672 thousand) as of March 31, 2005 and 2006, respectively. Depreciation expense is computed using 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, 2005 and 2006, were as follows:

	Millions of yen						Thousands of U.S. dollars		
	2005			2006			2006		
	Acquisition cost	Accumulated depreciation	Net leased property	Acquisition cost	Accumulated depreciation	Net leased property	Acquisition cost	Accumulated depreciation	Net leased property
Others	¥75	¥50	¥24	¥82	¥59	¥23	\$702	\$504	\$197

Future lease revenues under finance leases as of March 31, 2005 and 2006, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Due within one year	¥20	¥20	\$170
Due after one year	28	19	168
Total	¥49	¥39	\$339

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

Revenues under finance leases were ¥21 million and ¥23 million (\$202 thousand), for the years ended March 31, 2005 and 2006, respectively.

Depreciation under finance leases was ¥13 million and ¥14 million (\$122 thousand), for the years ended March 31, 2005 and 2006, respectively.

Marketable securities and investment securities

(1) Other securities for which market prices were available as of March 31, 2005 and 2006 were as follows:

a. Stocks: Balance sheet amount more than cost

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Cost	¥ 9,442	¥ 9,422	\$ 80,215
Balance sheet amount	19,004	31,243	265,973
Unrealized gain	¥ 9,561	¥21,820	\$185,757

b. Stocks: Balance sheet amount less than cost

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Cost	¥120	¥120	\$1,021
Balance sheet amount	118	69	589
Unrealized loss	¥ (1)	¥ (50)	\$ (431)

c. Total:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Cost	¥ 9,562	¥ 9,542	\$ 81,237
Balance sheet amount	19,123	31,313	266,563
Unrealized gain	¥ 9,560	¥21,770	\$185,325

(2) Sale of other marketable securities as of March 31, 2005 and 2006, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Sale value	¥404	¥ 34	\$ 290
Capital gains	311	8	76
Loss on sale	—	299	2,549

(3) Non-marketable securities and investment securities stated at cost as of March 31, 2005 and 2006, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Unlisted stock	¥17,031	¥17,558	\$149,476
Unlisted foreign stock	1,401	1,518	12,926
Capital contribution	1,942	2,468	21,013
Foreign capital contribution	17	388	3,306
Others	1,258	1,263	10,753
Total	¥21,651	¥23,197	\$197,477

Derivatives

(1) Transaction status

a. Purpose and policy of transactions

The Company enters into forward foreign exchange contracts and currency swaps and enters into interest rate swaps fuel rate swaps.

The Company utilizes derivatives solely to hedge the foreign currency exchange risk and interest rate risk exposure of its underlying assets and liabilities and does not execute speculative derivatives dealings as a policy.

The Company adopts hedge accounting for derivatives. Hedged items are bonds and debts and hedging instruments are derivatives such as forward exchange contracts and currency swaps assigned to foreign currency-denominated bonds and debts and interest rate swaps. Hedging activities are performed to the extent of the underlying liabilities.

b. Purpose of transactions, and policies regarding transactions

Derivative trading should only be based on actual liabilities stemming from transactions relating to actual demand, to avert risks related to foreign-currency-denominated liabilities and fluctuations in foreign-exchange rates, risks related in order to fluctuating interest rates, and risks related to fluctuating fuel purchase prices.

The Company engages in derivatives trading aimed at hedging risk exposure. Hedges may cover corporate bonds, loans, some foreign-currency-denominated liabilities and some fuel-purchase transactions; hedging instruments may include derivatives based on foreign-currency-denominated debt securities, transactions based on special disposal of interest rate swaps, swaps based on fuel prices, aimed at lessening risks related to foreign exchange, interest rates and fuel purchases, so hedging should remain within the scale of the underlying instruments and liabilities.

c. Risk management system

The Company's Treasury Department is responsible for managing derivatives transactions in accordance with the Company's internal rules governing trading authorities, trading limits and reporting, among other things.

(2) Fair value

There are no derivatives for which the fair value should be disclosed as of March 31, 2005 and 2006, as all derivatives qualified for hedge accounting.

Employee retirement benefit plans

The Company and certain of its domestic consolidated subsidiaries have defined benefit plans, including tax-qualified pension plans and lump sum retirement benefit plans. Severance payments in addition to the amounts actuarially calculated under lump sum retirement benefit plans are also paid to employees upon retirement.

Retirement benefit obligation as of March 31, 2005 and 2006, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Retirement benefit obligation	¥(126,821)	¥(127,847)	\$(1,088,345)
Plan assets at fair value	81,570	97,217	827,591
Unfunded retirement benefit obligation	(45,250)	(30,630)	(260,754)
Unrecognized actuarial loss	430	(4,825)	(41,079)
Unrecognized prior service cost	(909)	(776)	(6,611)
Accrued employees' retirement benefits	¥ (45,729)	¥ (36,233)	\$ (308,446)

Retirement benefit expenses for the years ended March 31, 2004, 2005 and 2006, were as follows:

	Millions of yen			Thousands of U.S. dollars
	2004	2005	2006	2006
Service cost	¥ 4,303	¥ 4,689	¥ 4,618	\$ 39,320
Interest cost	2,962	2,477	2,467	21,009
Expected return on plan assets	(1,719)	(1,943)	(2,097)	(17,855)
Amortization of prior service cost	2,093	675	(136)	(1,158)
Amortization of actuarial loss	4,145	227	(8,920)	(75,938)
Additional severance payments, etc.	1,769	3,651	1,291	10,992
Total	¥13,555	¥ 9,779	¥(2,775)	\$(23,629)

The principal assumptions used in determining the retirement benefit obligations and other components of the plans of the Company and its subsidiaries for the years ended March 31, 2004, 2005 and 2006, were as follows:

	2004	2005	2006
Method of allocation of estimated retirement benefits	Equally over the period	Equally over the period	Equally over the period
Discount rate	Mainly 2.0%	Mainly 2.0%	Mainly 2.0%
Expected rate of return on plan assets	Mainly 3.0%	Mainly 3.0%	Mainly 3.0%
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

16.

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 40–42%, respectively for the Company and its consolidated subsidiaries engaged in the electric power business, other consolidated subsidiaries.

The significant components of deferred tax assets and liabilities as of March 31, 2005 and 2006, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Deferred tax assets:			
Excess of retirement benefits	¥19,537	¥17,190	\$146,336
Tax effect on elimination of unrealized gain on fixed-assets	14,424	14,069	119,767
Excess of amortization of deferred charges for tax purposes	2,038	5,171	44,020
Excess of depreciation of fixed assets	4,830	4,896	41,681
Amount assigned but not yet paid	2,613	2,558	21,779
Excess of reserve for fluctuations in water levels	647	503	4,287
Other	10,933	13,575	115,565
Subtotal deferred tax assets	55,026	57,964	493,438
Valuation allowance	—	(1,021)	(8,694)
Total deferred tax assets	55,026	56,942	484,744
Deferred tax liabilities:			
Other	(4,107)	(8,965)	(76,318)
Total deferred tax liabilities	(4,107)	(8,965)	(76,318)
Net deferred tax assets	¥50,919	¥47,977	\$408,425

17.

Shareholders' equity

The Code (had been superseded by the New Corporate Law executed on May 1, 2006) 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.

On October 7, 2003, J-POWER Privatization Fund Co., Ltd. (the “Fund”) was established to ensure the smooth acquisition and sale of the Company’s shares during the course of the Company’s privatization. All of the 47,083,000 shares of the Company formerly held by the Minister of Finance, which represented 66.69% of the Company’s total issued shares, were transferred by the Minister of Finance to the Fund in November 2003.

On December 18, 2003, the Company issued an additional 68,208,000 shares to the Fund, in return for which the Fund paid the Company ¥163,699 million thereby increasing the Company’s common stock account from ¥70,600 million to ¥152,449 million, and increase the Company’s capital surplus to ¥81,849 million as of March 31, 2004. Through the issuance of these additional shares to the Fund, the Fund became the owner of 83.06% of the Company’s outstanding shares.

After that, on October 6, 2004, when the Company was listed on the First Section of the Tokyo Stock Exchange, the Fund sold its all of the shares, and so no longer belonged to the parent company. The Fund has already been dissolved.

Furthermore, the number of shares of treasury stock held by the Company, its consolidated subsidiaries and equity-method affiliates totals 4,908 shares.

18.

Segment information

Information about business segments of the Company and its consolidated subsidiaries for the years ended March 31, 2004, 2005 and 2006, was as follows:

(1) Business Segments

	Millions of yen				
	2004				
	Electric power	Other	Subtotal	Elimination	Consolidated
Sales to customers	¥ 522,922	¥ 46,931	¥ 569,854	¥ —	¥ 569,854
Intersegment sales	527	150,047	150,575	(150,575)	—
Total sales	523,450	196,978	720,429	(150,575)	569,854
Operating expenses	404,046	184,193	588,239	(150,524)	437,715
Operating income	119,404	12,785	132,189	(50)	132,138
Assets	2,015,716	115,443	2,131,159	(55,051)	2,076,107
Depreciation	131,869	3,001	134,870	(3,489)	131,380
Capital expenditures	44,896	3,837	48,733	(2,531)	46,202

	Millions of yen				
	2005				
	Electric power	Other	Subtotal	Elimination	Consolidated
Sales to customers	¥ 547,960	¥ 46,414	¥ 594,375	¥ —	¥ 594,375
Intersegment sales	1,388	207,569	208,958	(208,958)	—
Total sales	549,348	253,984	803,333	(208,958)	594,375
Operating expenses	450,078	241,957	692,036	(209,547)	482,489
Operating income	99,270	12,026	111,296	589	111,885
Assets	1,990,431	114,946	2,105,377	(83,722)	2,021,655
Depreciation	125,371	3,322	128,693	(3,354)	125,339
Loss on impairment of fixed assets	1,347	611	1,959	—	1,959
Capital expenditures	50,454	3,962	54,417	(3,492)	50,925

	Millions of yen				
	2006				
	Electric power	Other	Subtotal	Elimination	Consolidated
Sales to customers	¥ 573,198	¥ 48,734	¥ 621,933	¥ —	¥ 621,933
Intersegment sales	1,390	206,240	207,630	(207,630)	—
Total sales	574,589	254,974	829,564	(207,630)	621,933
Operating expenses	487,531	241,176	728,708	(208,244)	520,464
Operating income	87,057	13,797	100,855	613	101,469
Assets	1,935,719	144,493	2,080,213	(115,546)	1,964,667
Depreciation	134,747	3,507	138,255	(3,235)	135,019
Loss on impairment of fixed assets	729	—	729	—	729
Capital expenditures	55,125	8,441	63,567	(2,705)	60,861

	Thousands of U.S. dollars				
	2006				
	Electric power	Other	Subtotal	Elimination	Consolidated
Sales to customers	\$ 4,879,532	\$ 414,869	\$ 5,294,402	\$ —	\$ 5,294,402
Intersegment sales	11,837	1,755,682	1,767,519	(1,767,519)	—
Total sales	4,891,369	2,170,552	7,061,922	(1,767,519)	5,294,402
Operating expenses	4,150,264	2,053,093	6,203,358	(1,772,742)	4,430,615
Operating income	741,105	117,458	858,564	5,222	863,786
Assets	16,478,419	1,230,049	17,708,468	(983,624)	16,724,843
Depreciation	1,147,076	29,862	1,176,939	(27,544)	1,149,394
Loss on impairment of fixed assets	6,209	—	6,209	—	6,209
Capital expenditures	469,271	71,863	541,135	(23,035)	518,099

For the fiscal year ended March 31, 2004, in connection with the repeal of the Electric Power Development Promotion Law in October 2003, businesses that generate and sell wind power or thermal power (as an independent power producer (IPP)) operated by subsidiaries of the Company, which previously would have been classified under the “Others” segment, were reclassified under the “Electric power” segment. This change in classification had no material effect on the segment information for the fiscal year ended March 31, 2004, because there were no consolidated subsidiaries of the Company engaged in these businesses, except for ITOIGAWA POWER Inc., an IPP subsidiary, which was newly included in the scope of consolidation for the fiscal year ended March 31, 2004, under the “Electric power” segment.

Beginning with the fiscal year ended March 31, 2004, the Company began to record income and related expenses related to its domestic engineering business and consulting business under other operating revenues and other operating expenses, respectively, rather than under operating revenues (electric power) and operating expenses (electric power) as had been its practice through the fiscal year ended March 31, 2003. The effect of this change is immaterial.

With the reorganization of the Group on April 1, 2004, we have changed the details of the main products and business activities listed in the “other business” category for the fiscal year ended March 31, 2005.

The main products within each segment as of March 31, 2004, were as follows:

Electric power: Wholesale electricity, other electricity

Other: Electricity and construction work, fuel transportation, computing, lease of computers, engineering, consulting.

The main products within each segment as of March 31, 2005 and 2006, were as follows:

Electric power: Wholesale electricity, other electricity

Other: Planning, construction, inspection, maintenance, repair of electric power generation and electric power facilities, harbor transport of fuel and coal ash, development of coal mines, import and transport of coal, operation of welfare facilities etc., computer services, and engineering and consulting in the country and abroad.

(2) Geographic Segments

Since the proportion of the Company’s business that is conducted in Japan accounts for more than 90% of the Company’s total revenues and assets, geographic segment information is not presented.

(3) Overseas Revenues

Overseas revenues are omitted because revenues from foreign countries account for less than 10% of the Company’s total revenues.

19.

Related party transactions

20.

Significant subsequent events

During the fiscal year ended March 31, 2004, the Company rented a house to one of its Executive Vice Presidents. The rental fee received by the Company was approximately ¥1 million. The amount of the rental fee was decided based on the Company’s internal rules and in consideration of Japanese income tax law.

There were no significant related-party transactions for the fiscal years ended March 31, 2005 and 2006.

Equity infusion and debt guarantee for the acquisition of an interest in the Tenaska Frontier Project

The Company has entered into agreements on April 4, 2006 for the acquisition of a 62% interest in a gas combined cycle power plant located in Houston, Texas from Tenaska Energy, Inc. and CES Acquisitions Corp. The acquisition will be made via the Company’s wholly owned subsidiary, J-POWER North America Holdings Co., Ltd.

In order to acquire the above-mentioned interest, the Company established J-POWER Frontier, L.P. and J-POWER Frontier GP, LLC in April, 2006 as wholly owned subsidiary entities held through J-POWER North America Holdings Co., Ltd. The Company has also made an equity infusion of \$78.5 million (approximately ¥9,000 million) to J-POWER North America Holdings Co., Ltd. on April 28, 2006.

Prior to non-recourse loan financing for this project being finalized, a bridge loan agreement with a maximum facility amount of \$195 million (approximately ¥22,000 million) was concluded on May 1, 2006 by J-POWER Frontier Capital L.P. (a wholly owned subsidiary established in April, 2006 under J-POWER North America Holdings Co., Ltd.). The Company has provided its guarantee with respect to all liabilities related to this agreement as a parent company.

The Tenaska Frontier Generating Station with three gas turbines and one steam turbine has a Power Purchase Agreement to sell its entire 830-megawatt output to Exelon Generation Company, LLC until September, 2020.

Report of Independent Auditors

To 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, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years ended March 31, 2006, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards 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, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years ended March 31, 2006 in conformity with accounting principles generally accepted in Japan.

As described in Note 2, The Electric Power Development Co., Ltd. changed the depreciation method of fixed assets (except for environmental protection equipment) in relation to the Matsuura and Tachibanawan thermal power plants in the electric power business from April 1, 2005.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 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.

Ernst & Young Shin Nihon

June 29, 2006

Major Group Companies

(As of March 31, 2006)

Company name	Capital (Millions of yen)	Equity stake (%)	Main businesses
Consolidated subsidiaries			
Bay Side Energy Co., Ltd.	2,400	100	Electric power supply
Green Power Kuzumaki Co., Ltd.	490	100	Construction and operation of wind power plants
Green Power Setana Co., Ltd.	100	100	Construction and operation of wind power plants
Dream-Up Tomamae Co., Ltd.	10	100	Construction and operation of wind power plants
Green Power Aso Co., Ltd.	490	81	Construction and operation of wind power plants
ITOIGAWA POWER Inc.	1,006	80	Electric power supply
Nagasaki-Shikamachi Wind Power Co., Ltd.	490	70	Construction and operation of wind power plants
Nikaho-kogen Wind Power Co., Ltd.	100	67	Construction and operation of wind power plants
J-Wind TAHARA Ltd.	245	66	Construction and operation of wind power plants
Ichihara Power Co., Ltd.	490	60	Electric power supply
JPOWER GENEX CAPITAL Co., Ltd.	100	100	Management of IPP projects
Jpec Co., Ltd.	500	100	Construction, technical development, design, consulting, maintenance and research for thermal and nuclear power plants; unloading and transporting of coal to thermal power plants; sale of fly ash; shipping of coal for thermal power plants; research, construction and maintenance for environmental engineering; research and planning of environmental conservation
JPHYTEC Co., Ltd.	500	100	Construction, technical development, design, consulting, maintenance and research for hydroelectric power plants, substations and transmission lines; surveying and compensation of construction sites; civil engineering, construction management and construction services
Kaihatsu Denshi Gijutsu Co., Ltd.	110	100	Construction and maintenance of electronic and communications facilities
EPDC CoalTech and Marine Co., Ltd.	20	100 (100)	Marine transportation of ash and fly ash from thermal power plants
Kaihatsu Sekkei Consultant Co., Ltd.	20	100	Design and construction management of electric power facilities; engineering and construction
J-POWER RESOURCES Co., Ltd.	1,000	100	Research, exploration and development of, and investments in coal mines
J-POWER AUSTRALIA PTY. LTD. (Australia)	10 (millions of A\$)	100 (100)	Investments in coal mines in Australia
JP Business Service Corporation	450	100	Operation of welfare facilities; facility maintenance; business process outsourcing; development of computer software
J-Power Investment Netherlands B.V. (Netherlands)	68 (millions of \$)	100	Management of overseas investments
Affiliates accounted for by the equity method			
Mihama Seaside Power Co., Ltd	490	50	Electric power supply
Tosa Electric Power Co., Ltd.	2,755	45	Electric power supply
GENEX Co., Ltd.	2,800	40 (40)	Electric power supply
CBK Netherlands Holdings B.V. (Netherlands)	24 (thousands of \$)	50 (50)	Management of overseas investments
Gulf Electric Public Co., Ltd. (Thailand)	6,054 (millions of baht)	49	Holding company for thermal power generation companies
TLP Cogeneration Co., Ltd. (Thailand)	1,060 (millions of baht)	20	Electric power supply
Thaioil Power Co., Ltd. (Thailand)	2,810 (millions of baht)	19	Electric power supply
SEC HoldCo, S.A. (Spain)	121 (thousands of €)	50 (50)	Operation of wind power generation facilities
Chiahui Power Corporation (Taiwan)	4,300 (millions of NT\$)	40 (40)	Electric power supply
CBK Power Co., Ltd. (The Philippines)	137 (millions of \$)	0 (100)	Operation of hydroelectric and pumped-storage electric power plants
Gulf Power Generation Co., Ltd. (Thailand)	1,850 (millions of baht)	0 (100)	Electric power supply
Nong Khae Cogeneration Co., Ltd. (Thailand)	1,241 (millions of baht)	0 (100)	Electric power supply
Samutprakarn Cogeneration Co., Ltd. (Thailand)	981 (millions of baht)	0 (100)	Electric power supply
Gulf Cogeneration Co., Ltd. (Thailand)	850 (millions of baht)	0 (100)	Electric power supply
Gulf Yala Green Co., Ltd. (Thailand)	444 (millions of baht)	0 (98)	Construction and operation of bio-mass power plants
Independent Power (Thailand) Co., Ltd. (Thailand)	1,771 (millions of baht)	0 (56)	Electric power supply
and ten companies			

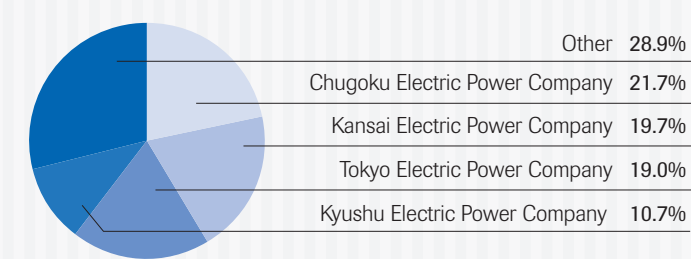
Note: The equity stake values in parentheses are indirect holding ratios, while those shown in brackets are the ratios held by closely-related party or parties in agreement.

Corporate Information

(As of March 31, 2006)

Corporate Name	Electric Power Development Co., Ltd.
Communication Name	J-POWER
Date of Establishment	Sep. 16, 1952
Headquarters Address	15-1, Ginza 6-Chome, Chuo-ku, Tokyo, 104-8165 Japan
Paid-in capital	¥152,449,600,000
Number of Shares Authorized	660,000,000
Number of Shares Outstanding	166,569,600
Number of Shareholders	43,948
Stock Exchange Listing	Tokyo
Independent Public Accountants	Ernst & Young ShinNihon
Transfer Agent	The Sumitomo Trust and Banking Company, Limited.

Principal Customers of J-POWER's Electric Power Business



Note: Breakdown of J-POWER's electric power operating revenues by customer.

Directors and Corporate Auditors

(As of July, 2006)

President Yoshihiko Nakagaki	Executive Directors Kanji Shimada Yoshihiko Sakanashi Minoru Hino Masaharu Fujitomi Toshifumi Watanabe
Executive Vice Presidents Hisao Nakagami Katsuhiko Miyashita Shinichiro Ota Kiyoshi Sawabe	Senior Corporate Auditors Masayuki Hori Akio Ushio
Executive Managing Directors Masayoshi Kitamura Masashi Hatano Yasuo Maeda	Corporate Auditors Yasuo Matsushita Terukazu Inoue Toshimichi Yagi

Regional Network

Domestic
Hokkaido Regional Headquarter
Aomori Branch Office
Tohoku Office
East Regional Headquarter
Chubu Regional Headquarter
Hokuriku Office
West Regional Headquarter
Chugoku Office
Shikoku Office
Kyushu Office

Overseas
Washington Office (U.S.A.)
Beijing Office (China)
Bangkok Office (Thailand)
Kuala Lumpur Office (Malaysia)
Hanoi Office (Vietnam)

For further information, please contact:

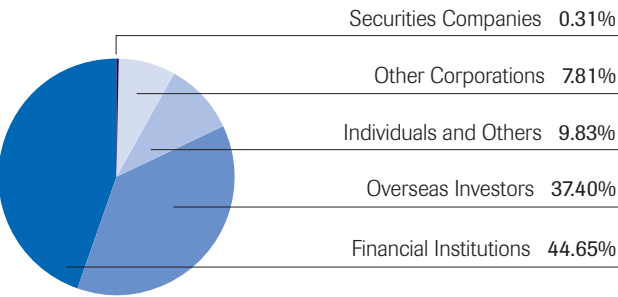
Electric Power Development Co., Ltd.
IR Group

TEL: +81-3-3546-2211 FAX: +81-3-3546-9531
E-mail: Investors@jpower.co.jp

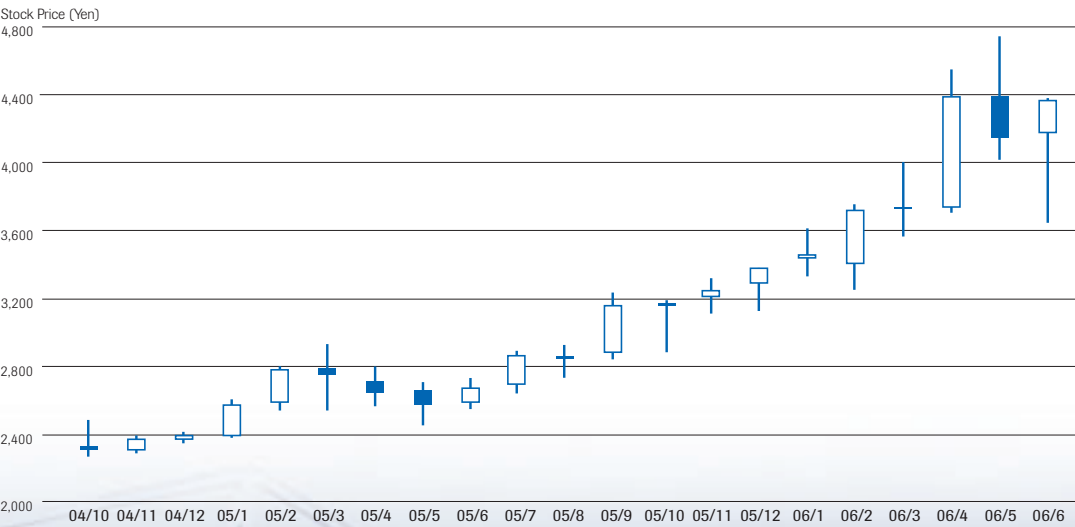
Major Shareholders

Name or Designation	Number of Shares Held (Thousands of Shares)	Percentage of the Total Shares Outstanding (%)
Goldman Sachs International	9,659	5.80
Japan Trustee Services Bank, Ltd. (Account in Trust)	8,048	4.83
Goldman, Sachs & Co. Regular Account	7,825	4.70
Nippon Life Insurance Company	7,620	4.57
Mizuho Corporate Bank, Ltd.	7,579	4.55
UBS AG London Asia Equities	5,669	3.40
The Master Trust Bank of Japan, Ltd. (Account in Trust)	5,486	3.29
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	4,140	2.49
Daido Life Insurance Company	3,658	2.20
Deutsche Bank AG London 610	3,393	2.04

Breakdown of Issued Shares by Type of Shareholders



Common Stock Price Range



Note: Stock prices before the 1.2-for-one stock split that was conducted on March 1, 2006 have been adjusted to the post-split prices.



Electric Power Development Co., Ltd.

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