



# Annual Report 2007





## 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.

## 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 "harmonization of energy and the environment."



Tachibanawan Thermal Power Plant (Tokushima Prefecture)

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#### 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 lights of information currently available, and involve both known and unknown risk and uncertainties. Actual events and results may differ materially from those anticipated in these statements.



J-POWER Group's Businesses		Features/Achievements
Domestic Electric Power Businesses	Leading company of coal-fired and hydroelectric power businesses. Playing a vital role in Japan's electricity supply.	
	<b>Core business</b>	<b>67 power plants throughout Japan, 7% share of domestic total output capacity (excluding self-generation)</b>
	<b>Thermal power</b> → P24 Mainstay business accounting for 60% of sales	<b>Output capacity of coal-fired power plants: approx. 7,800 MW (No.1 share in Japan (21%))</b> Based on cost competitiveness, maintain a high load factor as base-load power source.
	<b>Hydroelectric power</b> → P25 Essential power source for meeting peak demand	<b>Output capacity: approx. 8,600 MW (No. 2 share in Japan (19%))</b> Own several plants with large-volume reservoirs to enable to respond flexibility to peak demand.
	<b>Power transmission/Transforming</b> → P25 Core infrastructure linking with regions	<b>Own major transmission lines (total lines: approx. 2,400km), a frequency converter station and other facilities, essential for domestic power network, contributing to power distribution across a wider area and stable operation.</b>
	→ P12 <b>(Nuclear power generation)</b>	<b>The Ohma Nuclear Power Plant (undergoing preparation for construction):</b> A project that will establish new technological horizon and play an important role in business expansion. Also will contribute to Japan's "pluthermal" policy as full MOX-ABWR plant.
Diversified Businesses	<b>Businesses addressing deregulation</b> → P26	<ul style="list-style-type: none"> <li>• Sales in the wholesale electricity market (since 2005)</li> <li>• IPP plants: 520 MW, Wholesale power plants for PPS: 320 MW (without considering the proportion of equity stakes)</li> </ul>
	Approach diversification of business, leveraging experience and technologies accumulated in power generation business.	
	<b>Overseas power generation business</b>  Aim to establish as our "next major business domain"	<ul style="list-style-type: none"> <li>• <b>15 projects in operation in 5 countries/region; overseas output capacity (equity basis) of approximately 1,900 MW</b> (as of June 30, 2007)</li> <li>• Participated in 2 gas-fired projects in the U.S.(Fiscal 2006)</li> <li>• Commenced commercial operations at the Kaeng Khoi #2 Gas-Fired Thermal Power Unit 1 in Thailand (May 2007)</li> </ul>
Diversified Businesses	<b>New businesses</b>	<ul style="list-style-type: none"> <li>• Promote development of renewable energy <ul style="list-style-type: none"> <li>-Wind power: capacity 211 MW (9 locations in Japan)</li> <li>Commenced commercial operations at Koriyama-Nunobiki Kogen Wind Farm, the largest wind farm in Japan (February 2007)</li> <li>-Biomass power generation, micro hydropower, etc.</li> </ul> </li> <li>• Promote coal sales business</li> </ul>
	Create next-generation businesses in energy and environmental fields	



# Initiatives under the Fiscal 2007 Group Management Plan

## Issues from the changing business environment

- Slow growth in domestic electricity market
- The need to move on global warming issues
- Management efficiency and transparency

## A New Vision for the J-POWER Group

- Building cleaner and more efficient business assets  
(Reliability + Efficiency + Environmental Performance)
- Developing a diverse and global business around our core competence in power generation

## Five key approaches to achieving new growth

### ① Steady growth in power generation facilities

Isogo New No.2 Thermal Power Plant, Ohma Nuclear Power Plant and others

→ P12

#### [Steady progress in two new power development projects]

- The Isogo New No.2 Thermal Power Plant  
:Japan's highest-level generating efficiency and environmental performance.  
Reduce CO2 emissions per unit of electricity produced .
- The Ohma Nuclear Power Plant  
:Our first nuclear plant will contribute to Japan's "pluthermal" policy.  
Emit almost no CO2 in generation process.

### ② New project development using innovative technology

Coal gasification, Power source replacement

→ P14

#### [Initiatives for the sustainable use of coal as the most economical, stable source of power]

- Promote development of Oxygen-blown Coal Gasification Technology.
- In the mid- to long-term perspective, seek to apply innovative technologies to replace existing power plants.

### ③ Enhancing value of business assets

Existing hydro, thermal and transmission/transforming facilities

→ P17

#### [Boost economic efficiency, infrastructure reliability and environmental performance of the exsining facilities and strengthen customer services]

- Hydro-Power : Enhance O&M management, renovate facilities to improve efficiency.
- Thermal Power : Implement appropriate capital investment and cost reductions for harmonization with the environment and improvement of competitiveness.
- Transmission/Transforming : Comply with regulations, implement appropriate O&M.

### ④ Global business expansion

Ramp up revenues of overseas power generation projects

→ P18

#### [Make full use of expertise gained through domestic business to ensure overseas earnings growth as our "next major business domain"]

- Strengthen marketing and project management structures, focusing on SE Asia (especially Thailand), the U.S. and China as key markets.
- Expand through collaboration with engineering business.

### ⑤ Power generation as the core of a diversified business

Coal, environmental and non-energy business

→ P20

#### [Pursue stable earnings by broadening value chain, increasing flexibility and liquidity]

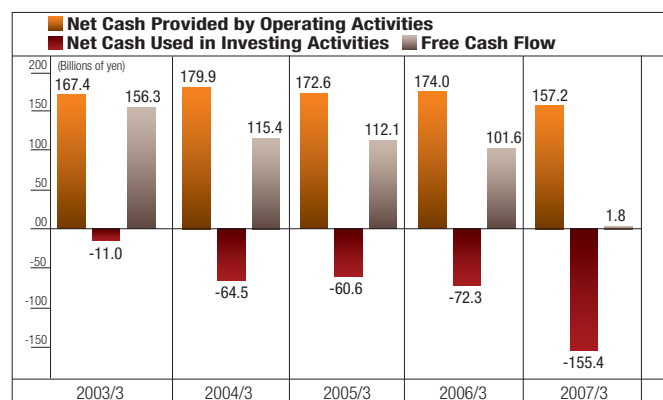
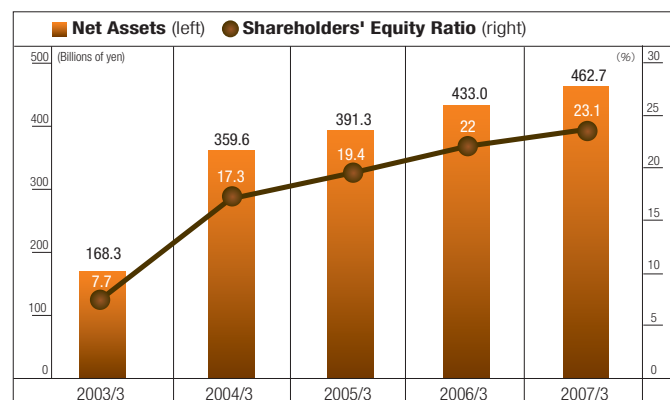
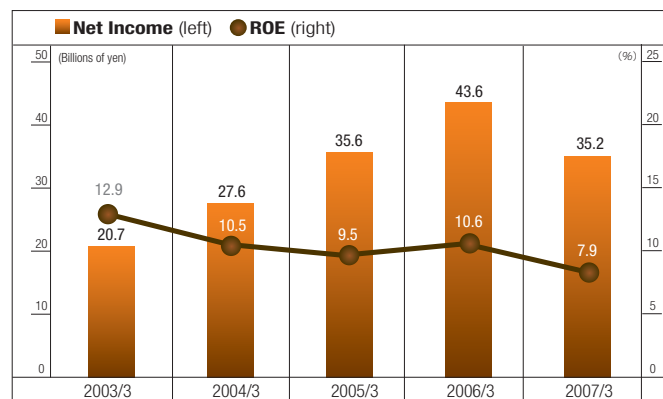
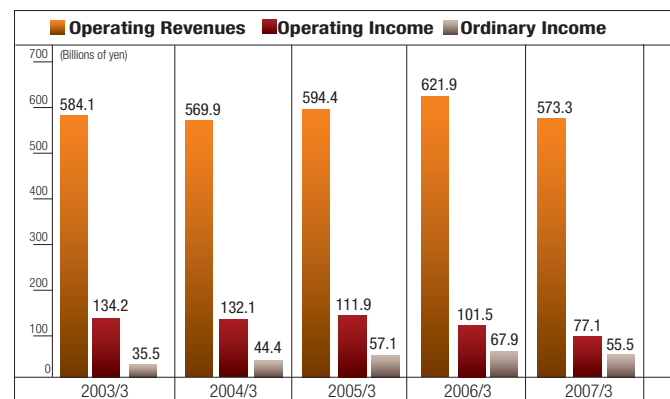
- Environmental business: Renewable energy (wind power, etc.), utilizing CO2 credits.
- Coal business: Coal trading, resource rights.
- Market trading of electricity: Trade on wholesale market, diversify channels/methods.
- Non-power business: PFI/PPP businesses, engineering business.

# Financial Highlights

For the years ended March 31

Consolidated Data	Millions of yen		Thousands of U.S.dollars (Note 1)	
	2005	2006	2007	2007
Operating revenues	594,375	621,933	573,277	4,856,226
Operating income	111,885	101,469	77,141	653,463
Ordinary income	57,093	67,906	55,513	470,257
Net income	35,559	43,577	35,167	297,900
Total net assets	391,327	433,028	462,654	3,919,141
Total assets	2,021,655	1,964,667	1,999,794	16,940,234
Net cash provided by operating activities	172,637	173,954	157,241	1,331,991
Net cash used in investing activities	(60,586)	(72,326)	(155,407)	(1,316,452)
Free cash flow	112,051	101,628	1,834	15,538
Net cash used in financing activities	(111,798)	(103,613)	(2,168)	(18,368)
Return on equity(%)	9.5	10.6	7.9	—
Shareholders' equity(%)	19.4	22	23.1	—

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, 2007, which was ¥118.05=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).



**The J-POWER Group pursues sustainable growth through business development based on the corporate mission, "harmonization of energy and the environment" and seeks to be an attractive and steady-growing company for its stakeholders.**



> Since its public listing in fiscal 2004, J-POWER has made steady progress as a private company by contributing to **the stability of Japan's electricity supply** and pressing ahead with **new domestic and overseas business expansion centering on overseas power generation**.

> However, the future business environment in Japan is far from a reassuring situation, mainly due to **the slow growth of domestic electricity demand**, at 1% per annum, the necessity to respond to **ongoing global warming concerns, the aging of facilities and the outlook of a gradual increase in interest rates**.

We believe that working to overcome these issues will enable us to find opportunities toward new growth. Accordingly, we established **a new business vision** with the formulation of the Fiscal 2007 Group Management Plan.

> In order to realize "harmonization of energy and the environment," **key elements of the new vision include taking active steps to enhance the efficiency and environmental performance of business assets and developing a diverse range of new businesses in Japan and overseas, centering on the power generation business**.

Driven by this vision, in each of our business areas, **we will pursue sustainable growth through capital investments and technological innovation, with the goal of building cleaner and more efficient assets, while expanding output capacity**.

> Through such initiatives, we will continue to make efforts to **maximize corporate value** and meet the stakeholders' expectations, while earning **the public trust**.

## Review of Fiscal 2006 (the fiscal year ended March 31, 2007)

### Initiatives under the Fiscal 2006 Group Management Plan

During fiscal 2006, J-POWER built upon the successes of the third phase of the Restructure Plan\*, and made group-wide efforts toward stable growth under its new Group Management Plan. Main achievements were as follows:

\*Completed in fiscal 2005, the third phase of the Restructure Plan was carried out over five years to improve the quality of J-POWER's corporate structure for its privatization.



### Domestic Electricity Business

While the domestic power market is becoming more competitive, J-POWER has positioned "thorough strengthening of sales activities" as a priority issue. Seeking a proper balance between price and quality, we pursued further efficient operation of our facilities and worked to provide a stable supply of electricity to customers. Although the capacity utilization of thermal power plants was down in the first half of the fiscal year owing to facility problems, repairs and inspections of the facilities were conducted rapidly. As a result, facility reliability was restored, and the load factor of the plants for the full fiscal year exceeded our initial forecasts. The entire Group continues to press forward to strengthen sales activities and to maintain/expand electricity sales.

While carefully watching deregulation trends in the electricity industry, we are working to diversify sales channels and expand business opportunities. With regard to these activities, we collaborated with the Chugoku Electric Power Co., Inc. to launch "the Setouchi Project." Under this project, we established Setouchi Power Co., Ltd. and began sales to the wholesale electricity market.

### Overseas Power Generation Business and New Businesses in Japan

J-POWER is aiming to gain full-fledged earnings contributions from the overseas power generation business as its "next major business domain." During the fiscal year ended March 31, 2007, we acquired equity interests in two gas-fired power plant projects in the United States (Tenaska Frontier and Elwood Energy) and raised our net capacity on an equity basis in overseas power generation to over 10% of the total output capacity of our domestic electricity business. In addition, we pushed ahead with operations at the CBK Hydroelectric Power Plant in the Philippines and other existing projects, increasing equity earnings to approximately 10% of ordinary income and further strengthening the Group's earnings platform.

Regarding new businesses in Japan, we commenced commercial operations at the Koriyama-Nunobiki Kogen Wind Farm, which boasts the highest output capacity (660 MW) of any wind farm in Japan. We are also striving to expand our coal sales business steadily, leveraging the bargaining power of our extensive capabilities.

### Performance (consolidated)

In contrast to the record-high revenues and ordinary income achieved in previous fiscal year, J-POWER saw decreases in revenues and earnings in fiscal 2006. Major factors were as follows:

- The full-year effect of the rate reductions of hydroelectric power and transmission operations effective from October 2005;
- Repair expenses increased owing to higher capacity utilization at thermal power plants in recent years; and
- Personnel expenses increases caused by lower returns on managing retirement pension assets.

However, we accomplished ordinary income of ¥55 billion forecasted at the beginning of the fiscal year, supported by cost reduction initiatives throughout the Group and the increase in equity-method earnings in the overseas power generation business.

### Business Summary

**Consolidated operating revenues: ¥573.3 billion**  
(year-on-year decrease of 7.8%)

**Consolidated ordinary income: ¥55.5 billion**  
(year-on-year decrease of 18.2%)

**Consolidated net income: ¥35.2 billion**  
(year-on-year decrease of 19.3%)

We apologize sincerely for having caused non-compliance issues during fiscal 2006 and the accompanying loss of public trust.

We are ensuring group-wide efforts to strengthen regulatory compliance and to prevent the reoccurrence of such instances, and we are also working to regain public trust.



## The Fiscal 2007 Group Management Plan

### 1. The Change of Business Environment and Issues Ahead

Although J-POWER is making steady progress since its public listing, the future business environment is far from a reassuring situation.

First, in addition to the low anticipated growth rate of 1% per annum in domestic electricity demand over the next decade, we are faced with a competitive environment marked by electric power deregulation. To achieve growth against such a backdrop, it will be essential for us to shore up competitive strength further.

Secondly, as the mainstay of our business is coal-fired power generation, the most pressing issue for us is global warming. Before the beginning of the first commitment period from 2008 under the Kyoto Protocol, an intensified response to this issue is required. In order to cope with this matter, we must work tirelessly to achieve technological innovations for coal-fired power, maintaining its cost and other advantages as a resource.

We are confronted with such severe issues, so we are struggling to develop new technologies and ideas and find new business opportunities through these efforts. With this determination, we formulated the Fiscal 2007 Group Management Plan, which articulates a new vision to achieve further growth and action plans to attain that vision.

### 2. Ultimate Goals of the J-POWER Group

J-POWER operates approximately 7% of Japan's total electric power capacity, as well as important transmission lines, and it is playing a major role in providing a stable electricity supply.

In light of this important responsibility, the Group's commitment to fulfilling its CSR obligations is reflected in its corporate philosophy of "ensuring constant supplies of energy to contribute to the sustainable development of Japan and the rest of the world."

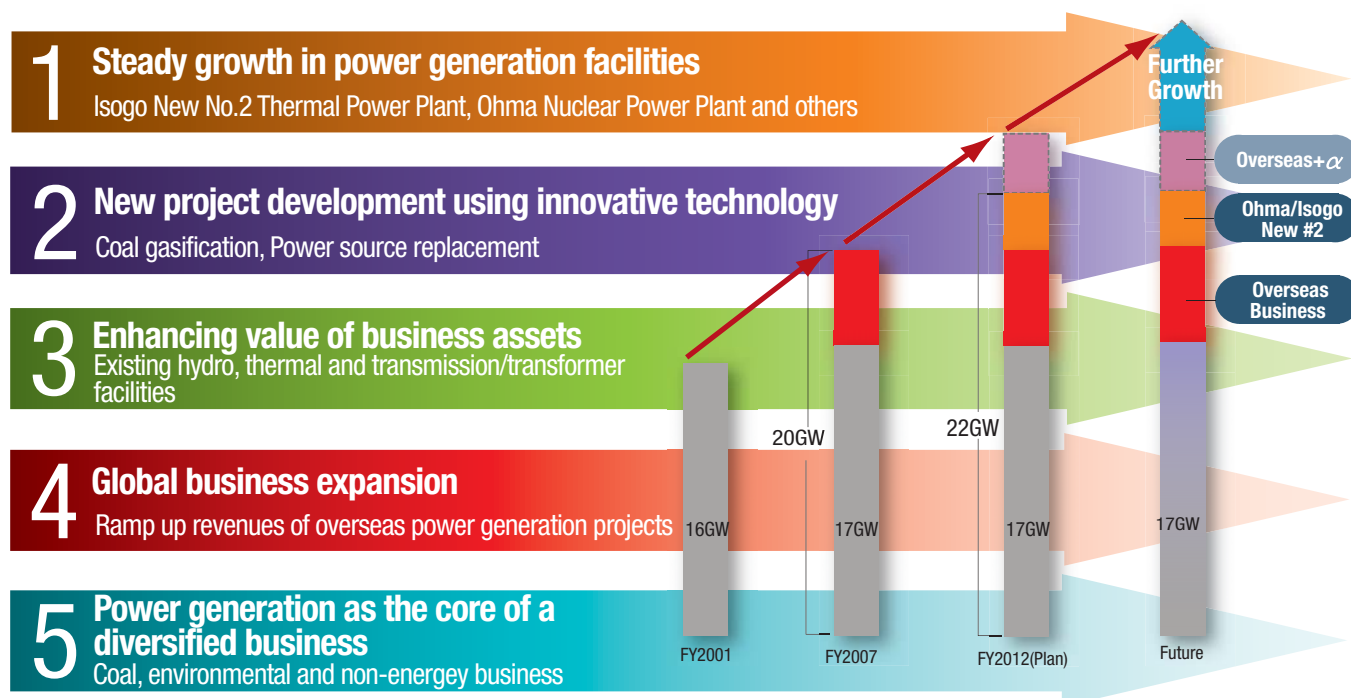
Additionally, we are aware of today's needs, which include "harmony with environment" centering on the global warming issue and "adapting to market mechanisms and building competitiveness." These are issues that have permeated the electric power business, and we have framed a new vision to realize "harmonization of energy and the environment" accordingly.

#### New Vision of the J-POWER Group

- \* **Build cleaner and more efficient business assets**  
(Reliability + Efficiency + Environmental Performance)
- \* **Develop a diverse and global business around our core competencies in power generation**

While enhancing the reliability, efficiency and environmental performance of our business assets, we are taking active steps to leverage our expertise, mainly in the power generation business, to win new business opportunities in Japan and overseas.

#### Five Key Approaches to Achieving New Growth





### 3. Pursuing New Growth

Under the new vision, J-POWER will pursue sustainable growth through capital investments and technological innovation with the goal of building cleaner and more efficient assets while expanding output capacity.

#### Five Key Approaches to Achieving New Growth

##### (1) Steady Growth in Power Generation Facilities

J-POWER will steadily expand its mainstay domestic wholesale electric power business. Two projects: the Isogo New No. 2 Thermal Power Plant, currently under construction, and the Ohma Nuclear Power Plant, undergoing preparation for construction, will be the pillar for our mid- to long-term profit growth, and they will contribute to "harmonization of energy and the environment."

The Isogo New No. 2 Thermal Power Plant, which boasts the highest level of generating efficiency in Japan, will be a plant that can convert coal into electricity in the cleanest way compared to other plants currently in operation.

The Ohma Nuclear Power Plant is an unprecedentedly large-scale project for J-POWER. Nuclear power produces almost no CO<sub>2</sub> in the power generation process, and our project is expected to contribute to the "Pluthermal"(\*) Policy of the Japanese government by promoting the efficient use of uranium fuel through the utilization of MOX fuel.

\*Pluthermal: Re-use plutonium as Mox fuel at the light water reactors



Architect's image

#### Overview of the Isogo New No. 2 Thermal Power Plant (under construction)

Location: Yokohama City, Kanagawa Prefecture  
Capacity: 600 MW  
Fuel: Coal (imported)  
Start of operations: Planned in July 2009 (according to the fiscal 2007 Electricity Supply Plan)

##### (2) New Project Development using Innovative Technology

Coal-fired power generation is J-POWER's mainstay business and its competitive price results from the predominant cost advantage of coal among fossil fuels.

Facing the situation that full-scale countermeasures to global warming are required, we are keenly aware of our responsibilities and role in addressing the issue of sustainable use of coal resources, as a leading company in coal-fired power, bearing the mission of "harmonization of energy and the environment."

Aiming to make a breakthrough on this matter, we are pressing ahead, mainly with "coal gasification technologies," to enhance further the efficiency of coal-fired power generation. We intend to leverage such technological innovation to create new projects such as the replacement of existing thermal power plants.

##### (3) Enhancing Value of Business Assets

As J-POWER confronts the issue of aging facilities in the wholesale electric power business, which is its core business domain, it has become essential to enhance the value of existing business assets.

Aiming to boost generating efficiency and competitiveness in the thermal power generation, we are making appropriate capital investments and working to reduce operating costs. In hydroelectric power, we are improving the management of maintenance operations. In addition, we are implementing facility upgrades for major equipment to improve efficiency.



Architect's image

#### Overview of the Ohma Nuclear Power Plant (undergoing preparation for construction)

Location: Oma-machi, Aomori Prefecture  
Capacity: 1,383 MW  
Type of nuclear reactor: ABWR (Advanced Boiling Water Reactor)  
Fuel: Low enriched uranium and uranium-plutonium mixed oxide (MOX)  
Start of operations: Planned in March 2012 (according to the fiscal 2007 Electricity Supply Plan)

In transmission and transforming facilities, which play a vital role in the infrastructure of the overall electric power business, we will work to ensure transparency and fair network access, while implementing appropriate operation and maintenance of facilities.

Through these ongoing approaches, we are enhancing the reliability and economic efficiency of our facilities, as well as our environmental performance. Consequently, we will strengthen customer services and maintain/bolster Group competitiveness.

#### (4) Global Business Expansion

The overseas power generation business is an area where J-POWER can make full use of the technologies and experiences gained through its business activities in Japan. We are working to apply this expertise in growing markets with higher electricity demand. We have identified the overseas power generation business as our "next major business domain," to be a driving force for further business expansion.

Leveraging the human resources and networks attained through longstanding technological collaboration overseas, we have taken part in several investment-based IPP projects, mainly in Thailand and other Southeast Asian countries. Based on these results and accumulated expertise, we will expand our business through participation in projects in the targeted markets of Thailand, the United States and China.

As of June 30, 2007, we are operating 15 overseas IPP projects in five countries and region, with a total output capacity of approximately 5,700 MW (a net capacity on an equity basis of approximately 1,900 MW). Furthermore, we are constructing two IPP projects.

While undertaking appropriate risk management measures, we will bolster our sales and business management structures. We will also reinforce the overseas transfer of our environmental technologies such as dry-type desulfurization. Through these initiatives, we will

press ahead with the goal of expanding the revenues from our "next major business domain."

#### (5) Power Generation as the Core of a Diversified Business

Leveraging core competencies in power generation and promoting "harmonization of energy and the environment" as key objectives, J-POWER is also pushing ahead with initiatives to diversify its business. Putting to full use the expertise and experience gained through our wholesale electric power business, we will broaden our value chain-centering on the power generation business- to enhance corporate value.

The environmental business is a key business for diversification. In addition to developing renewable energy such as wind power and biomass power generation, we will leverage the Kyoto Mechanisms to acquire credits for reduced or absorbed emissions of greenhouse gases.

Furthermore, we will use our purchasing power and our large-scale transportation capacity, as the largest steaming coal users in Japan. We will also pursue initiatives in variety of our own "unique" businesses, such as coal sales in Japan and overseas, market trading of electricity, and non-energy business centering on PFI/PPP businesses (\*).

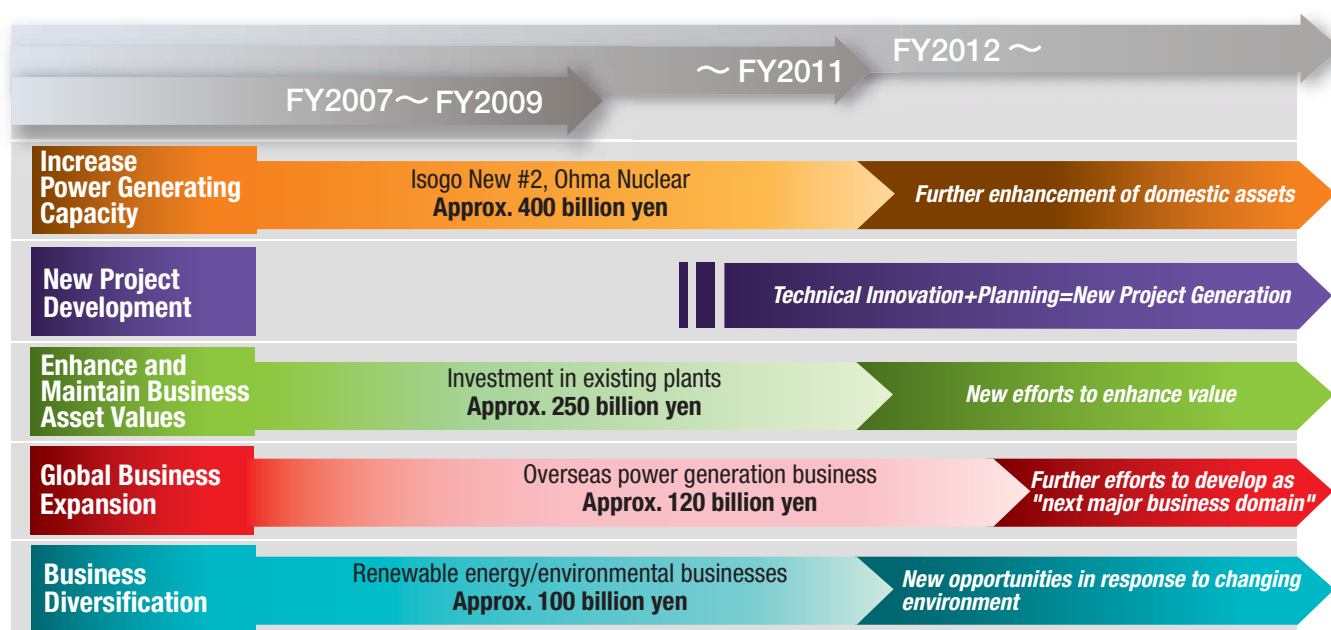
\*PFI Private Finance Initiative  
PPP Public Private Partnership

#### Shifting to "Facilities Formation Phase" and Financial Strategy

To achieve sustainable growth through the five key approaches detailed above, J-POWER will shift into the "Facilities Formation Phase" to conduct concentrated investments during the next five to six years.

Through such investments, we are bolstering our competitive platform to achieve stable earnings into the future, seeking to maximize our corporate value.

#### Investment Plans to Achieve Sustainable Growth



\*Above figures represent current approximate value, and have not been approved by the Board on a project-to-project basis.



A large amount of funds is required to sustain long-term growth as we enter this phase. At the same time, we must work to maintain the profitability of businesses. Accordingly, we will adhere to the following important financial strategy.

- (1) The source of J-POWER's cash flow comes from cost-competitive power generating facilities. Procuring funds under favorable terms is extremely important in maintaining cost competitiveness.
- (2) Thus, maintaining reliability will be very important for us. We must work to maintain and improve funding terms by pursuing/building a financial strength equal to that of industry standards.
- (3) Considering the progress of deregulation in the industry, global warming issues, and our expanding and diversifying business in Japan and overseas, we must work to raise our ability to manage risks.

Based on these points, we will work to maintain an optimal balance between increasing shareholders' equity to improve financial stability and procuring low-cost capital to secure cost competitiveness. At the same time, from a mid-to long-term perspective, we will develop capital policies that best suits each stage of growth.

## **4. Strengthen Management Infrastructure for Sustainability as a Company**

### **(1) Environmental Management Activities**

Under its mission of "harmonization of energy and the environment," J-POWER is promoting "environmental management" to realize both careful consideration of environmental issues and enhancement of economic value at the same time in order to contribute to the sustainable development of society.

As we mentioned earlier, we recognize the utilization of coal while coping with global warming issues as our top-priority challenge, and we are moving forward with initiatives to address this challenge. Specifically, we have set a target for the reduction of CO<sub>2</sub> emissions per unit of electricity sales. To attain this target, we are promoting technological development for further efficiency of coal utilization, actively leveraging Kyoto Mechanisms such as the Clean Development Mechanism (CDM) and Emission Trading. We are also proceeding with the development of power sources that emit low levels of CO<sub>2</sub> such as the Ohma Nuclear Power Plant and wind farms. Furthermore, we are working to expand our highly efficient coal-fired power generation technologies and environmental technologies on a global basis through our business activities.

(Please see p. 33-34 for more details)

### **(2) Securing Transparency**

With regard to corporate governance, in line with structural reforms in fiscal 2006, J-POWER strengthened its audit function and implemented a review of its executive officer system.

Currently we are undertaking exhaustive initiatives to recover public trust and prevent the reoccurrence of non-compliance issues that have arisen since fiscal 2006. To reinforce these initiatives, we are working to strengthen corporate governance further.

In addition, we are progressing with appropriate preparations to address new requirements for internal control under the Financial Instruments and Exchange Law, which is set to be applied from fiscal 2008.

(Please see p. 30-32 for more details)

### **(3) Two-way Communication with a Diverse Group of Stakeholders**

As the scope of J-POWER's activities expands, the number of stakeholders and the variety of ways in which J-POWER relates with stakeholders are on the increase. We understand that maintaining sincere two-way communication activities with our diverse group of stakeholders is extremely important for us.

Moreover, our Group makes appropriate use of management resources in promoting unique endeavors to contribute to society as "a good corporate citizen."

## **5. Group Management Targets**

Fiscal 2007 marks the final year of the current three-year management targets. While the business environment is far from a reassuring situation, the Group is making a concerted push to attain "consolidated ordinary income" of over ¥55.0 billion in fiscal 2007.

Although the "consolidated shareholders' equity ratio" reached 23% as of March 31, 2007, this figure still remains below the industry standard.

As mentioned earlier in the financial strategy section, we are shifting into the "Facilities Formation Phase" necessitating a large amount of funds. In order to secure steadily improving funding terms, we must pursue and build a financial strength equal to that of industry standards. Furthermore, we must work to enhance our ability to manage increasing risks as we face the further advance of deregulation in the industry and seek to expand and diversify our business. With this goal in mind, we need to strengthen our equity base further.

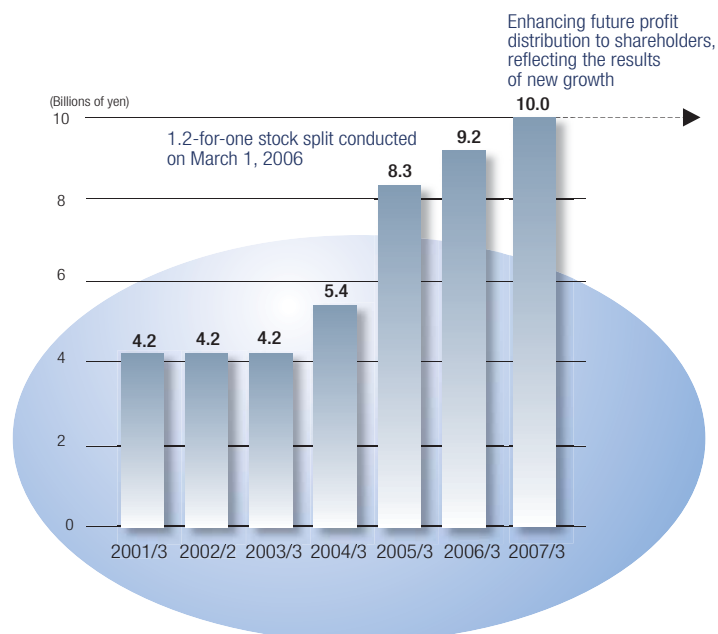


## Approach to Profit Distribution to Shareholders

The most prominent characteristic of J-POWER's business is securing returns from its investments in power plants and other infrastructure through the long-term operation of these facilities. In light of such needs in our business operations, we place the utmost importance on shareholder returns in the form of continuing, stable dividend payments and seeking to increase their level.

Having implemented the corporate restructure plan over five years beginning in fiscal 2001, persistent efforts throughout the Group to

### Trends of aggregate consolidated dividends by year



reduce operating costs have supported an increase in the scale of profits. Under our policy of providing appropriate return of profits to shareholders, we have steadily increased dividend payments over the years. Prior to our public listing, we made annual dividend payments totaling approximately ¥4.0 billion. Furthermore, we paid dividends amounting to approximately ¥8.0 billion in fiscal 2004, followed by dividend payments of about ¥10.0 billion after we split one share of common stock into 1.2 shares in fiscal 2005.

While maintaining the current level of profit distribution reflecting prior business achievements, we will make every effort to continue to strengthen our business platform to achieve sustainable growth and endeavor to enhance future profit distribution through the achievement of future growth. We believe that these activities will contribute to the mutual benefit of shareholders.

## To Our Stakeholders

While continuing to conduct fair and transparent management, the J-POWER Group will endeavor to maximize corporate value and meet stakeholders' expectations by persistently implementing the initiatives of the Fiscal 2007 Group Management Plan.

We will also advance initiatives to reduce operating costs and enhance efficiency. Based on our business characteristics—*achieving sustained profit increases through continual growth and stable operation of facilities over the long-term*—, we will further work to maintain and improve profit distribution to shareholders in the form of stable dividends.

We express our appreciation to shareholders and all stakeholders for your steadfast understanding and support, and sincerely ask for your continuous support.

*Yoshihiko Nakagaki*

President Yoshihiko Nakagaki

## Special Features —Five Key Approaches to Achieving New Growth—

### ① Steady Growth in Power Generation Facilities:

## Approaching the Construction of the Ohma Nuclear Power Plant

### Background of J-POWER's Nuclear Power Plant Development

J-POWER has engaged in various surveys and studies on the development of nuclear power since 1954. From 1969, we began collaborating on design and planning, construction, and operation of the Fugen Advanced Thermal Reactor (ATR) developed by the Power Reactor and Nuclear Fuel Development Corporation (an independent administrative institution, now named the Japan Atomic Energy Agency), for the future development of nuclear power plants. Based on our accumulated nuclear power generation technologies and know-how, we are working on the Ohma project, our first nuclear power project. Through the support of the government and electric power companies (EPCOs), we are pushing ahead with this project and making steady progress.

### The Significance of the Ohma Nuclear Power Plant Today

In addition to playing a vital part in the establishment of a stable and long-term business platform, J-POWER considers the Ohma Nuclear Power Plant as an important project in helping to fulfill its new vision: "building cleaner and more efficient business assets" as outlined in the fiscal 2007 Group Management Plan.

#### (1) Major contribution to stable and sustained earnings

Having concluded basic agreements with EPCOs for the provision of all of its electricity output, J-POWER is pushing ahead with the development of the Ohma Nuclear Power Plant, as well as the Isogo New #2 coal-fired power plant. Included as one of the major new sources in the electricity supply plans submitted by EPCOs to the government, the Ohma project will provide a stable earnings contribution over the long term by ensuring its safety and steady operation.

#### (2) Contribution to reduce CO<sub>2</sub> emissions per unit of electric power sales

In the generation process, nuclear power produces almost no CO<sub>2</sub>. Therefore, it will be an indispensable power source for J-POWER, whose mainstay operation is coal-fired power generation, in terms of its carbon risk management. The Ohma project will play a significant role in reducing CO<sub>2</sub> emissions per unit of electric power sales.

#### (3) Contribution to Japan's Nuclear Energy Policy

J-POWER will adopt a full MOX-ABWR at the Ohma Plant, which will have a capacity to consume approximately 25% of all domestically processed MOX fuel. As such, this project will contribute to promoting the "plutothermal" policy of the Japanese government.

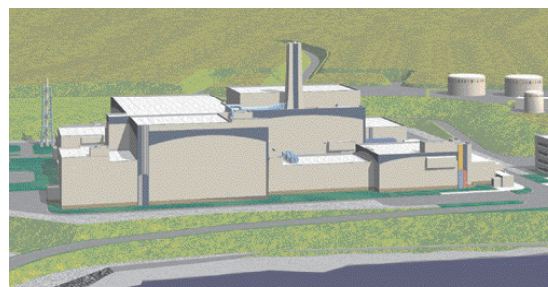


Image of Ohma Nuclear Power Plant

Capacity	1,383 MW
Type of Reactor	ABWR (Advanced Boiling Water Reactor)
Fuel	Low enriched uranium and uranium plutonium mixed oxide (MOX)
Site Area	Approximately 1.3 M m <sup>2</sup>
Planned in operation	March 2012 (according to the fiscal 2007 Electricity Supply Plan)

### Approaching the Commencement of Construction

J-POWER is currently undergoing a governmental safety review prior to the commencement of construction of the Ohma Plant, laying the preparatory work at the site (as of June 30, 2007). Aiming to commence commercial operations in March 2012, we continue making efforts to follow the construction schedule and reduce construction costs, with safety and reliability as top priorities.

#### History of the Ohma Nuclear Power Development

1983	Environmental survey of the construction site executed
1984	Resolution adopted by Oma-machi Council to accept nuclear power plant
1985	Request issued to Aomori Prefecture and three municipalities including Oma-machi to cooperate on a plan for an ATR demonstration reactor
1995	Plan for the ATR demonstration reactor cancelled and new plan for a full MOX-ABWR decided
1999	Original application for reactor establishment made
2003	Power plant layout plans amended
2004	Original application for reactor establishment withdrawn and reapplication made
2005	Referred by Ministry of Economy, Trade and Industry (METI) to the Atomic Energy Commission and the Nuclear Safety Commission of Japan

### Training Technical Staff

In order to acquire sufficient knowledge and capabilities for the construction and operation of the Ohma Plant and to develop its human resources, J-POWER dispatches technical staff for business training to nuclear power plants belonging to other companies.

In particular, our technical staff developed their skills in the management of the MOX fuel nuclear reactor core at the Fugen Advanced Thermal Reactor (\*1).

In addition to such practical training, technical staff are undergoing simulation exercises at training centers such as the BWR Operator Training Center to improve their operational techniques (\*2), and they are also learning the particulars of the ABWR and its operational singularity that makes use of CAI equipment (\*3) installed at the head office.

Thus, through such endeavors to train personnel, we are redoubling our efforts for the commencement of operations at the Ohma Plant.



**The Ohma Nuclear Power Plant is an essential project for J-POWER in pursuing its cleaner and more efficient power source portfolio. With safety and reliability as top priorities, while also ensuring regulatory compliance, we will continue making efforts to enhance economic efficiency through strict control of construction schedules and costs.**

\*1 The Fugen ATR was operated from 1979 to 2003. Currently, an independent administrative institution, the Japan Atomic Energy Agency, is examining a plan to discontinue the facility.

\*2 The BWR Operator Training Center, which is a company jointly established by domestic power generators (nine EPCOs and the Japan Atomic Power Company) in cooperation with nuclear power plant manufacturers (Hitachi and Toshiba), is called "BTC" for short. BTC owns and manages training centers for BWR plant operators in Fukushima Prefecture and Niigata Prefecture.

\*3 Learning equipment with computer aided instruction.

### Safety and Reliability of Full MOX-ABWR

MOX fuel is being used at approximately 5,300 assemblies (as of December 2005) and has been used safely for over 30 years. It has also been used at the Tsuruga Nuclear Power Plant and the Fugen ATR in Japan.

ABWR is a leading-edge reactor that builds on the expertise developed by the government, plant manufacturers and EPCOs to further enhance safety and reliability, based on the accumulated experience in constructing, operating and maintaining nuclear power plants. In Japan, ABWRs have been adopted already at the Kashiwazaki-Kariwa Nuclear Power Station Unit Nos. 6 and 7, which are owned by the Tokyo Electric Power Company and at other nuclear power plants. They have achieved excellent results.

The basic specifications of the full MOX-ABWR adopted at the Ohma Plant are the same as other ABWRs, ensuring that the design of the facilities provides ample safety.

### Japan's Pluthermal Plan and Full MOX-ABWR

Currently, domestic nuclear power, accounting for approximately 30% of Japan's total electricity output, is playing an important role in the stability of Japan's electricity supply and has another advantage of being almost free of CO<sub>2</sub> emissions in the generation process.

As Japan imports more than 90% of its energy resources from overseas, it is essential for us to promote the reuse of plutonium and uranium from spent fuels to maintain a stable supply of energy for the future.

Heading toward the establishment of this "nuclear fuel cycle", the government is promoting "pluthermal" in order to reuse plutonium as MOX fuel in light-water reactors.

Japan's pluthermal plan aims to implement pluthermal power operations at 16 to 18 reactors by 2010, and J-POWER's Ohma Nuclear Power Plant, which can be operated by MOX fuel alone, is expected to play a vital role in Japan's pluthermal plan.

#### Features of Full MOX-ABWRs

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

**Reactor containment vessel**

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

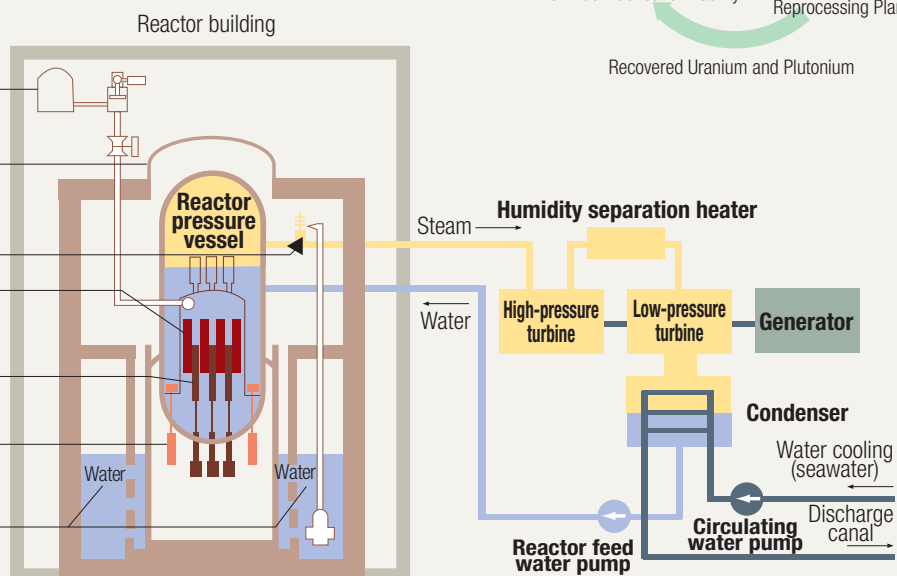
Fuel

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

**Internal recirculating pump**

**Pressure suppression pool**

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



## ② New Project Development using Innovative Technology

### Challenge to the Next-Generation Coal-Fired Power Projects



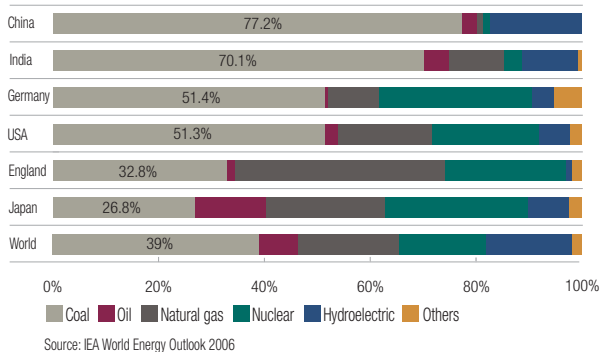
EAGLE pilot-scale testing facilities (Wakamatsu Research Institute, Fukuoka Prefecture)

## The Significance of Coal Usage Today

### The Largest Power Source

Coal resources are widely distributed around the world. Among fossil fuels, coal is the most economical and the most readily available resource. As Japan is highly reliant upon imported energy sources, it is important to maintain a balance between each power-generating method. Currently, approximately 30% of the total electricity output in Japan is generated by coal-fired power. Coal is the leading energy source in a number of countries around the world, and coal-fired power generation in China accounts for approximately 80% of its total electricity output, while coal-fired power generation in the USA accounts for approximately 50% of its total electricity output. On a worldwide scale, coal is the largest power source, generating approximately 40% of total electricity output on global average. Therefore, it is an indispensable resource for meeting growing global energy demand.

### Power generation volume by power source



## World-Leading Generating Efficiency and Environmental Performance

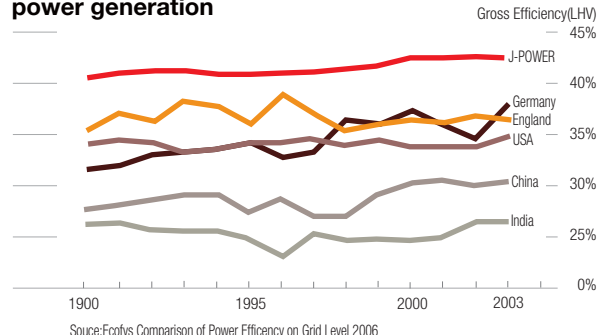
J-POWER and other coal-fired power producers in Japan are using a method of generation that raises the pressure and temperature of steam turbines extremely—to ultra-super critical (USC) level. Compared to methods adopted by Europe and other Asian countries, our method attains a greater level of generating efficiency. Having improved combustion methods and introduced environment-friendly facilities in terms of sulfur oxide (SOx) and nitrogen oxide (NOx) emissions per unit of power production, our technical capabilities are superior to those of other advanced countries, and the emissions level is extremely low.

In particular, as a top operator among Japan's coal-fired power producers, we have attained the highest level of generating efficiency

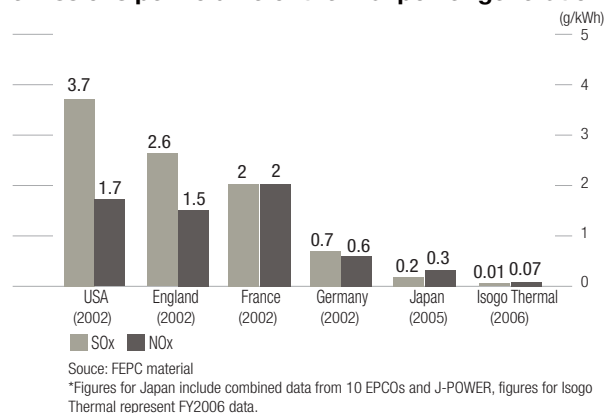
in Japan at the Isogo New No. 1 Thermal Power Plant. Through the introduction of environment-friendly facilities, this plant has also achieved a performance on par with gas-fired plants in terms of SOx and NOx emissions. We will continue making efforts to achieve cleaner power generation and meet the challenges of coal-fired power projects for the next generation.

High-efficiency power generation in itself leads to lower CO2 emissions. In the case of introducing Japan's world-leading coal-firing technologies to top CO2-emitting countries—China, the United States and India—it is calculated that these countries would be able to reduce CO2 emissions by an amount equivalent to 80% of Japan's total emissions. Therefore, preparing for and promoting the transfer and proliferation of these technologies have major significance for us.

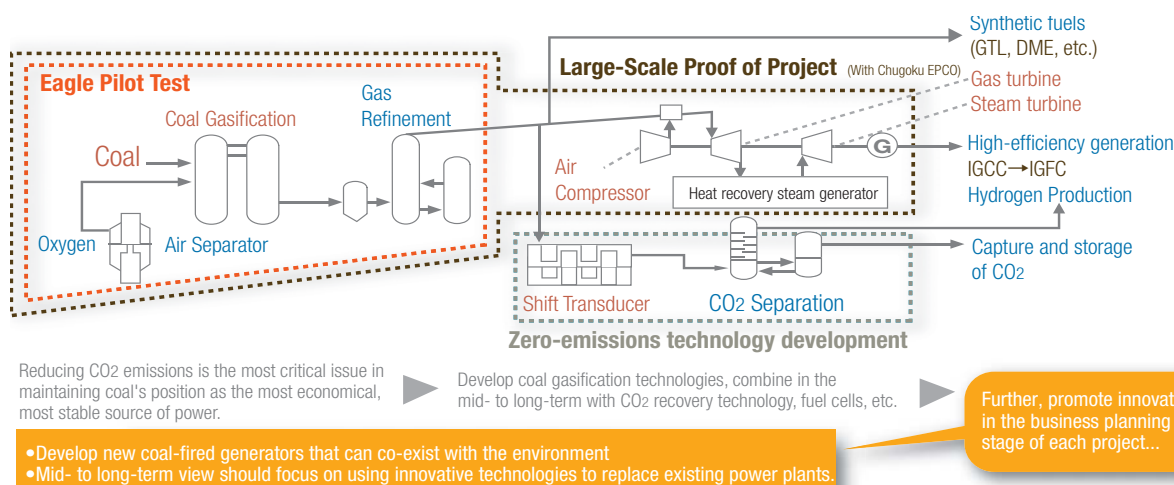
### Trends of efficiency in world's coal-fired power generation



### International comparison of SOx and NOx emissions per volume of thermal power generation



**J-POWER, whose mainstay business is coal-fired power, is keenly aware of its role and responsibility in addressing the global warming issue. Accordingly, we are engaged in the next-generation coal-fired power projects designed to facilitate continuous and more efficient use of coal resources by turning coal into a cleaner energy source.**



## Coal-fired Power Projects for the Next-Generation.

### Outlook of the EAGLE Project (the development of oxygen-blown coal gasification technologies)

#### Global Warming Issue and Energy Security Solutions

J-POWER is working toward the practical application of coal-gasification power generating systems (IGCC, IGFC), which are expected to be future coal-fired power generating systems, and we are also working to promote the development of oxygen-blown coal gasification technologies.

The generating efficiency (net efficiency: HHV basis), making use of Japan's leading-edge pulverized coal-firing (PCF) technology, stands at approximately 40%. However, after Integrated coal Gasification Combined Cycle (IGCC) and Integrated coal Gasification Fuel Cell Combined (IGFC) technologies are established and applied to next-generation coal-firing systems, the generating efficiency will make a substantial leap, and it will be possible to cut CO<sub>2</sub> emissions significantly.

In the oxygen-blown method, the concentration of CO<sub>2</sub> in the producing gases is high, and it is relatively easy to capture CO<sub>2</sub> in comparison with other methods of coal gasification. Therefore, this method is applicable in working toward zero CO<sub>2</sub> emissions.

Although Europe and the United States pioneered the practical applications of coal gasification technologies, our EAGLE (the Coal Energy Application for Gas, Liquid & Electricity) Project meets the challenges through a unique approach, aiming for a further evolution of the technology to provide greater efficiency and reliability, as well as a broader range of system applications.

In May 2007, we completed and successfully accomplished a pilot-scale test of the EAGLE Project, with a continuous test operation of over 1,000 hours, confirming the high level of facility reliability. This marked significant progress toward the next step of creating demonstration equipment for a coal gasification system centering on oxygen-blown coal gasification technology.

### Outlook

Based on the success of the EAGLE Project, we are aiming for viable commercial applications for Integrated Gasification Combined Cycle (IGCC) technology. We are currently investigating the implementation of large-scale trials in collaboration with the Chugoku Electric Power Co., Inc., a company that uses coal for a significant share of its power generation business and shares a keen interest with us in the efficient application of coal resources.

Moreover, at our Chigasaki Research Institute, we are conducting research in a solid oxide fuel cell (SOFC) with the long-term goal of developing applications for IGFC technology.

Based on such pioneering technologies, we will work to bring a variety of innovations to our business development. In the medium term, we will apply IGCC systems in constructing new thermal power plants and replacing existing thermal plants. Over the long term, we will enhance our capability to launch new projects based on IGFC technologies.

### Coal-fired Power Technology for the Next-Generation

Pulverized-coal fired (PC)	Integrated coal gasification combined cycle (1500°C-class IGCC)	Integrated coal gasification fuel cell combined cycle (IGFC)
Boiler	Gasifier	Gasifier
Gross Efficiency: 42% Net Efficiency: 40% (Comparative basis)	Gross Efficiency: 51–53% Net Efficiency: 46–48% CO <sub>2</sub> Reduction -15%	Gross Efficiency: over 60% Net Efficiency: over 55% CO <sub>2</sub> Reduction -30%

\*Pulverized-coal fired (PC) plant, a method of power production in which electric power is produced using only a steam turbine (ST)

\*Integrated coal gasification combined cycle (IGCC) integrates a gas turbine (GT) with an ST

\*Integrated coal gasification fuel cell combined cycle (IGFC) is a triply-integrated type of power production that combines fuel cells (FC) with IGCC

\*Efficiency-related rates shown above are on HHV basis



**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).**

1

### IGCC and IGFC Technologies

The use of coal gasification technology greatly improves power generation efficiencies compared with existing pulverized coal-firing (PCF) technology. While PCF technology relies solely on steam turbines, the IGCC generating system is based upon a double set of power generators consisting of gas turbines and steam turbines. The IGFC generating system enables electricity production by a triple set of power generators combining fuel cells, gas turbines and steam turbines.

Aiming to achieve practical application of these technologies, J-POWER is currently conducting R&D on oxygen-blown gasification technology (the EAGLE Project) and solid oxide fuel cell (SOFC) systems.

2

### EAGLE Project for Development of Oxygen-Blown Coal Gasification Technology

In order to realize the practical application of IGCC and IGFC technologies, it will require high efficiency in gasifying coal, as well as the capacity to effectively reduce and purify dust and sulfur in the gas. Toward these ends, J-POWER is engaged in joint research with the New Energy and Industrial Technology Development Organization (NEDO). As part of these efforts, we conducted pilot tests of Coal Energy Application for Gas, Liquid & Electricity (EAGLE) at our Wakamatsu Research Institute from fiscal 2002 to 2006. These tests were to examine the basic performance and long-term reliability of using such technology, and we obtained the necessary trial data that will enable us to enlarge the scale of applications. From fiscal 2007, we will implement three-year testing under stage two of the EAGLE Project, during which we will work to enhance the efficiency of coal gasification technologies and demonstrate the application of technology for separating CO<sub>2</sub> from gas during the gasification process.

3

### Solid Oxide Fuel Cell (SOFC)

Generating electricity from fuel cells differs from traditional systems that convert heat from the combustion of fuels into electricity, because it transforms chemical en-



SOFC cogeneration system with an Atmospheric pressure (150 kw class) (Chigasaki Research Institute)

ergy directly into electrical energy with lowering energy losses and delivering high efficiency.

The SOFC being developed by J-POWER is made of ion electroconductive ceramics. As it produces heat of between 900°C and 1,000°C during electrochemical reactions, it provides better generating efficiency than other fuel cells when integrated in combined cycle systems. At our Chigasaki Research Institute, we are currently testing an atmospheric pressure (150 kW class) SOFC cogeneration system with the world's largest output capacity.

4

### Carbon Dioxide Capture and Storage Technology

#### CO<sub>2</sub> Capture from Produced Gas

Since the oxygen-blown method of gasifying coal is being applied in the EAGLE Project pilot testing, the density of nitrogen in the produced gas is low, and the primary components of the produced gas are carbon monoxide (CO) and hydrogen (H<sub>2</sub>). Through a shift reaction (CO + H<sub>2</sub>O → CO<sub>2</sub> + H<sub>2</sub>), CO is converted into the higher concentration density CO<sub>2</sub>, enabling efficient recovery of CO<sub>2</sub> and proving beneficial in working toward zero CO<sub>2</sub> emissions. Leveraging these features, J-POWER will set up equipment to demonstrate CO<sub>2</sub> capture at the EAGLE Pilot Testing Plant and conduct verification tests.

Following the separation of CO<sub>2</sub>, the produced gas contains high-concentration hydrogen gas, enabling clean power generation in fuel cells and chemical feedstock applications.

#### CO<sub>2</sub> Capture at PCF Plants

PCF is currently the most widely used method of power generation in systems fueled by coal, and recovery of CO<sub>2</sub> from combustion exhaust is likely to become common in the future.

At J-POWER's Matsushima Thermal Power Plant, the Group is conducting trials in collaboration with Mitsubishi Heavy Industries, Ltd. regarding the chemical absorption method. Trial operations began in fiscal 2006, and tests confirmed the suitability of this method for application at existing PCF facilities, including by demonstrating the impact of trace substances in exhaust gases.



Equipment for demonstrating CO<sub>2</sub> capture at the Matsushima Thermal Plant, Unit 2

#### Surveys of CO<sub>2</sub> Stored Underground

J-POWER is taking part in the government project designed to enable the future storage of CO<sub>2</sub> in the ground.

### ③ Enhancing Value of Business Assets : Targeting Stable Supply and Profitability



Nukabira Power Plant (Hokkaido), where we are executing comprehensive upgrades of major equipment

**J-POWER is facing the progressive aging of its facilities, which inevitably raises the maintenance costs. Putting priority on the reinforcement of its competitiveness and financial structure in line with market deregulation so far, to cope with facility degradation through aging, we have executed the required repairs, partial replacements and upgrades. "Enhancing the value of business assets" is a further approach, which pursues the enhancement of total value of facilities from the long-term perspective. By implementing value-enhancing investment, we can reduce life-cycle costs, improve the efficiency of the facilities and increase electricity sales. Consequently, we will accomplish both to maintain electricity supply stability and to improve profitability. From fiscal 2006 we have been optimizing the company organization and drawing up facility maintenance plans by assessing the condition of each facility. Continuing such efforts, we are working to further establish and cultivate this approach throughout the Group.**

#### Thermal Power

Coal-fired power generation is J-POWER's core business domain, accounting for approximately 60% of its sales. Our current operating environment is becoming more severe, with the progressive aging of facilities and the necessity of full-fledged action to counter the global warming issue. To deal with such problems, we are promoting facility investment to improve harmony with the environment and strengthen competitiveness, as well as cost reduction.

##### Replacement of Turbine Rotor at Takehara Thermal Power Plant Unit 3

As a steam turbine progressively loses mechanical strength as a result of operation under high temperature and high pressure conditions over the years, its replacement is required in accordance with its working life assessment. After over 24 years since the commencement of operation, the turbine rotor at the Takehara Thermal Power Plant Unit 3 has already reached the stage of replacement. Together with its replacement to recover the mechanical strength, we employ the latest efficiency-enhancing technologies for the turbine blades and other aspects in pursuit of a reduction of operating cost and CO<sub>2</sub> emissions resulting from lower fuel consumption.

#### Hydroelectric Power

Hydroelectric power generation is a stable earnings source for J-POWER, accounting for approximately 20% of its sales. Our hydroelectric power plays an important role in a stable power supply, since it is a pure domestic energy source and our generation facilities are especially superior in responding to demand peaks. As a CO<sub>2</sub>-free power source, hydroelectric power maintains great significance in the power source portfolio of J-POWER, whose mainstay operation is coal-fired power generation. We have been engaged in and cultivated hydroelectric power generation for more than 50 years. To cope with the aging of facilities in recent years, we have carried out systematic value-enhancing measures, such as efficient maintenance work and facility upgrades.

##### Comprehensive Upgrades at the Tagokura and Nukabira Power Plants

After over 40 years since the commencement of operations, the Tagokura and the Nukabira Power Plants are facing a degradation of facilities caused by aging. We decided on comprehensive upgrades of major equipment instead of partial replacements as its conventional approach by examining the conditions of facilities to ascertain the most appropriate measures to enhance the total value of the plants from a long-term perspective. At the Tagokura Plant, we started the upgrade work of 4 hydraulic turbines, power generators, and main transformers from 2004. When the upgrades over 9 years are completed, the output capacity will increase by 20MW to 400MW. We are also executing a comprehensive upgrade over 4 years at the Nukabira Plant from 2006, which will increase the output capacity by 2MW to 44MW. Thus, in addition to improving efficiency and reliability, we will also accomplish an increase in electricity sales.

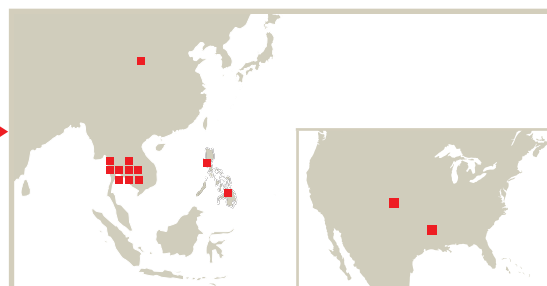
#### Power Transmission / Transforming

Power transmission and transforming facilities, which are vital infrastructures for a stable electricity supply, need to be maintained and managed properly. As major transmission lines and transformers are also utilized by PPS and other new entrants, we have a social need to comply with regulations, maintaining fairness and transparency in network utilization. In order to realize such demands, we will take strategic measures to enhance the value of business assets.

##### Replacement of Control Equipment at Kitahon Linkage Facilities, etc.

J-POWER has operated the Kitahon Linkage Facility Unit 1 (300MW) ultrahigh-voltage DC transmission line linking Hokkaido with Honshu by submarine cable for 26 years. Its operation was started with a capacity of 150MW in 1979, and another 150MW was added in 1980. Currently, together with measures to counter degradation caused by aging, we are promoting facility upgrades from 2006 to improve further the reliability of the facilities and operating functions for the recommencement of operations in the first half of fiscal 2008.

## ④ Global Business Expansion: Overseas Power Generation Business —Establishing as “Next Major Business Domain”—



### Strategic Position of the Overseas Power Generation Business

Business opportunities in Japan's electricity market are limited. Demand for electricity is expected to increase only 1% annually. In such an environment, the overseas power generation business is a driving force for J-POWER's sustainable growth.

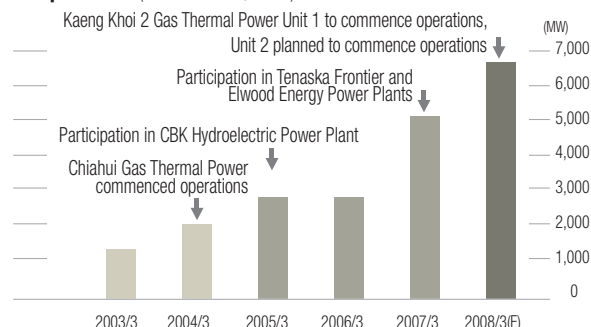
Recently, the global electricity market has been moving toward privatization and deregulation. In addition, independent power producers (IPP) have taken the leading role in power plant development. Business opportunities for IPPs are surging, especially in Asia, where electricity demand is expected to grow rapidly. We believe that the horizontal move of the power generation business into those markets will support our continuous growth.

Our competence in power generation is comprehensive expertise in the power generation business, ranging from site selection, design and planning, and management of construction, to operation and maintenance, acquired through over 50 years of experience in the domestic electricity industry. In particular, we have a state-of-art coal-fired plant operation system and environmental technologies that reduce emissions of sulfur oxides (SOx) and nitrous oxides (NOx).

As the first step of our business expansion abroad, we began with relatively small-scale projects in Thailand and other Southeast Asian countries, leveraging our excellent customer relationships and business networks established through technical consulting services in 61 countries and region over 50 years. Since then, we have been steadily increasing the number and scale of our investments, as well as our equity stake, while gaining business knowledge in global electricity markets.

As of 30 June 2007, we are operating 15 IPP projects in five countries and region, with a combined gross capacity of approximately 5,700 MW (a net capacity on an equity basis of approximately 1,900 MW). We are also constructing two new IPP facilities.

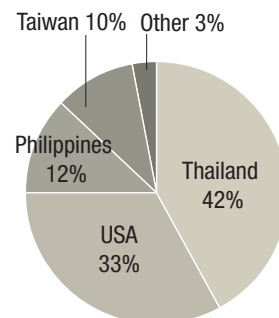
#### Capacity Trends at Overseas Generating Facilities in Operation (as of June 30, 2007)



\*The amount in 2008/3 is estimated based on projects participated in as of June 30, 2007

#### Overseas Power Generation Projects (In operation as of June 30, 2007)

Project Name	Electricity Generation Source	Project Name	Electricity Generation Source
<b>Thailand</b>		<b>USA</b>	
Roi-Et	Chaff	Tenaska Frontier	Gas CCGT
Rayong	Gas CCGT	Elwood Energy	Gas simple cycle
Thaioil Power	Gas CCGT	<b>Philippines</b>	
Independent Power	Gas CCGT	Layte	Geothermal Heat
Gulf Cogeneration (Kaeng Khoi)	Gas CCGT	CBK	Hydroelectric
Samutprakarn	Gas CCGT	<b>Total 15 projects in 5 countries/region</b>	
Nong Khae	Gas CCGT		
Yala	Rubber Wood Waste		
Kaeng Khoi #2 (Unit No.1)	Gas CCGT		
<b>Taiwan</b>			
Chiahui	Gas CCGT		
<b>China</b>			
Tianshi	Coal waste		



Composition of Power Generation (Including those under construction) by Country (As of June 30, 2007)

### Our Future

For higher returns from the overseas power generation business, J-POWER will increase its equity stake in projects, and strengthen both management initiatives and involvement in plant operation and maintenance, as well as engineering services.

We have already established local subsidiaries in the United States and Thailand. We will set up more subsidiaries in other major markets and build/reinforce overseas organizational structures to manage our projects properly and in a timely manner.

As for the fuel type, most of our overseas power plants are gas-fired now. However, in the mid and long term, we are planning to develop coal-fired projects, in which our competence is competitive and advantageous.

The global warming issue has a direct impact on coal-related industries, but the economics and supply stability of coal provide a strong background for the growing demand for efficient and clean coal technology. We are committed to seeking opportunities in which our environment-friendly technology and managerial expertise in power plant operation can contribute to society.



**J-POWER is expanding its power generation business, which is its primary business domain, in fast-growing overseas markets. With technological strengths, global business know-how and networks, we are increasing our commitment to competitive power projects in those markets, which is an important profit-making source for us after the domestic electricity business. Our initiatives in project development and management, including risk management, are vital for a further improvement in earnings.**

## Our Target Markets

Southeast Asia (especially Thailand), the United States and China are J-POWER's key markets. We continue to focus our marketing activities on these markets.

In Thailand, our most important market outside of Japan, we are steadily stepping up investments. Unit 1 (734 MW) of the Kaeng Khoi #2 Gas-Fired Thermal Power Plant commenced its commercial operation in May 2007. We are seeking new business opportunities such as IPP tenders for coal-fired power projects.

In the United States, future expansion of power generation capacity as well as more strict environmental regulations is expected. We consider the United States an attractive market in which we can leverage our leading-edge coal technologies and expertise. Through our subsidiary established in Chicago in 2005, we have surveyed a number of selected projects. As a result of these efforts, we acquired equity interests in Tenaska Frontier Power Plant and Elwood Power Plant (both of which are gas-fired plants) in fiscal 2006. We continue to strengthen our marketing efforts in the United States.

China is the largest potential market in the world. Our participation in a coal waste-fired thermal power project in Shanxi Province, together with our technical consulting services over many years, has deepened our business expertise in China. We will further expand our

business there, focusing on projects in which our technological advantages can contribute to earnings.

## Prospects for Earnings Contributions

J-POWER is increasing its commitment to overseas power projects step-by-step. We carefully examine the long-term power purchase agreements, the technological reliability of the facilities, and the credibility of off-takers and business partners of each project, and see whether we will gain returns higher than the hurdle rates that are set for each project.

In fiscal 2006, the acquisition of operating power plants pushed overseas net capacity on an equity basis to over 10 % of our domestic net capacity. Overseas equity-method earnings reached approximately JPY5 billion, contributing to the steady growth of company earnings.

To make the overseas power generation business as our next major business domain, under the fiscal 2007 Group Management Plan, we will invest approximately JPY120 billion over the next six years. In terms of consolidated ordinary income, we are targeting approximately JPY10 billion from overseas business in the next two to three years and JPY15 billion in next six to eight years. To achieve these targets, we, together with our local partners, will improve our project management system.



**The Kaeng Khoi #2 Gas-Fired Thermal Power Plant Project in Thailand**  
-Project Promotion  
by J-POWER

Overview of the Kaeng Khoi #2 Gas-Fired Thermal Power Plant Project		
Capacity	1,468 MW (734 MW x 2)	
Fuel	Natural gas	
Construction	Dec. 2004	Construction started
Schedule	May 2007	Operation of Unit 1 commenced
	Mar. 2008	Operation of Unit 2 scheduled to commence

Providing consulting services on over 20 projects for 45 years in Thailand, J-POWER is well known among the local electric industry and relevant authorities. We also became familiar with the local electricity market. Thus, we have successfully committed to nine projects on gas-fired, cogeneration and biomass power plants, collaborating with reliable local partners.

In particular, our business relationship with Generating Public Company Limited (EGCO), the largest IPP company in Thailand, has been so important that we have been able to develop many power projects with them.

In the Kaeng Khoi #2 Gas-Fired Thermal Power Plant Project, Gulf Power Generation Company (GPG), a wholly owned subsidiary of Gulf Electric Public Company Limited (GEC, 49% owned by J-POWER and 50% owned by EGCO) is constructing and operating Thailand's largest gas combined-cycle power plant of 1,468 MW. Even on an equity basis, this plant is the largest overseas green field project for us. The recent commencement of operation of Unit 1 of the plant was a major milestone in our global business history.

Today, three technical advisors from J-POWER are working at the plant. They are engaged in performance management, operation and maintenance planning at Unit 1, and they are also carrying out construction supervision at Unit 2.

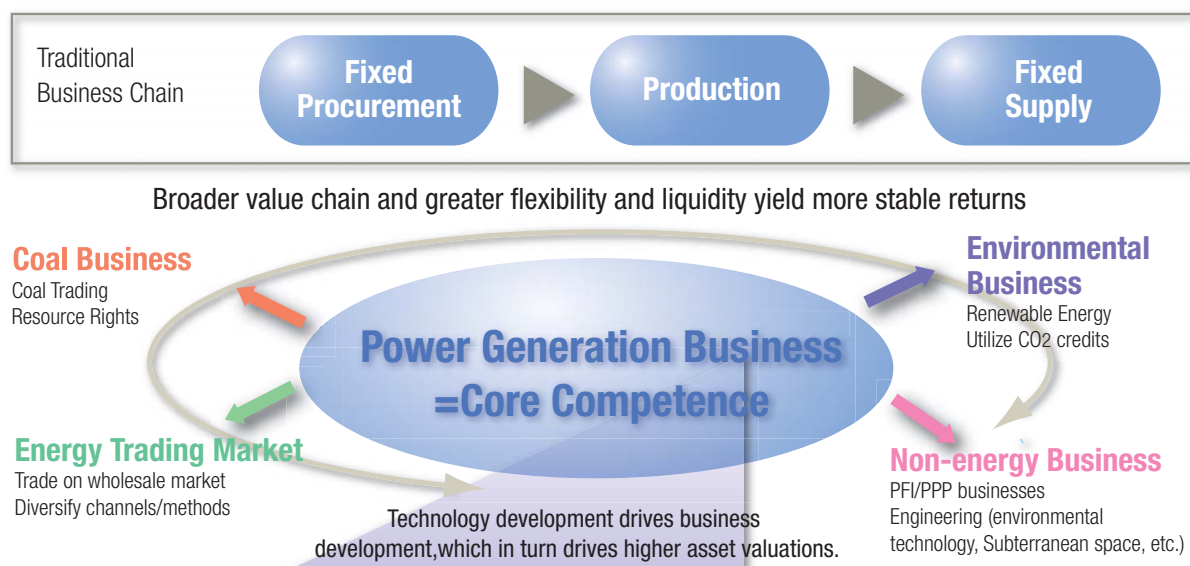
Our technical advisors are contributing to the smooth progress of the project, working with engineers from Thailand, Japan, the United States and Europe, participating in weekly technical meetings, and verifying data on construction and management of the project through daily and monthly reports.

In addition, J-Power Generation (Thailand) Co., Ltd., a subsidiary established in September 2006, is directly managing projects by monitoring events affecting profitability, budget outlays and cash flows, in cooperation with the departments of Asset Management, Treasury and Business Promotion at GEC.

## ⑤ Power Generation as the Core of a Diversified Business Seeking “Harmonization of Energy and the Environment”



Blair Athol Coal Mine(Australia)  
-The first coal mine development project of J-POWER (equity interests acquired in 1982)



### Self-Innovation to Spur New Growth

J-POWER's business model is specialized in power generation, to provide EPCOs with a long-term wholesale electricity supply. However, in light of the growing business risks—for example, the slowing growth of Japan's electricity demand, the increasing global demand for resources, the obviously growing global warming issue—we are keenly aware of the necessity to innovate in order to cope with these risks, without sticking to the current business model.

Based on the current value chain centering on the power generation business, by diversifying the businesses that make use of our competencies, we will enhance the flexibility and liquidity of our entire business process from procurement to sales. Consequently, we think that this approach will bring us the stabilization of future earnings and opportunities for new growth.

### Environmental Business

Under the theme of “harmonization of energy and the environment,” J-POWER is working to further develop renewable energy sources such as wind power and biomass power generation, in addition to acquiring CO2 credits by utilizing the Kyoto Mechanisms.

Our wind-power generation business is already ranked in the top class in Japan in terms of its business scale. As we launched operations at Koriyama-Nunobiki Kogen Wind Farm, which is the largest wind farm in Japan, with a total capacity of 66 MW in fiscal 2006, we

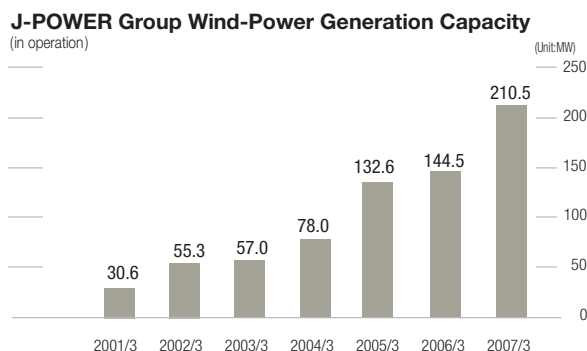
consequently manage nine wind-power generation plants currently in operation, with a total capacity of 210 MW. Leveraging its strengths in such areas as the analysis and forecasting of wind conditions, the design and planning of wind-turbine layouts, and construction, we will put to full use the abilities that were accumulated through activities in project development and wind farm operation so far, and we will continue to launch new development projects in Japan and overseas.

### Launch of operations at Koriyama-Nunobiki Kogen Wind Farm (February 2007)



Construction of the Koriyama-Nunobiki Kogen Wind Farm, which is located at Aizu Nunobiki-Kogen of Koriyama City in Fukushima Prefecture, began in May 2005. The wind farm, which is the largest farm in Japan, boasts 33 turbines with a total capacity of 65,980 kW. All the power generated there is sold to the Tokyo Electric Power Co., Inc.

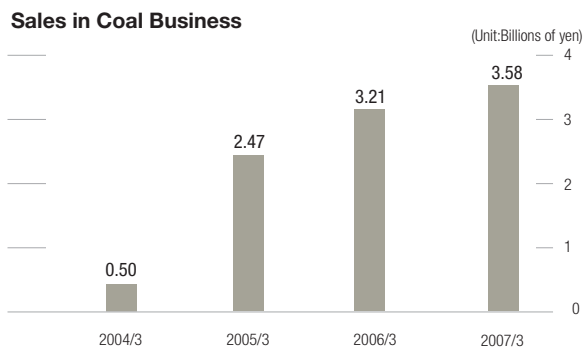
**J-POWER is working on a diversified business making use of its core competencies in the coal business, energy trading market and environmental business. Through these businesses, we are striving to broaden our value chain centering on power generation, stabilize the earnings source and further refine our core competencies.**



### Coal Business

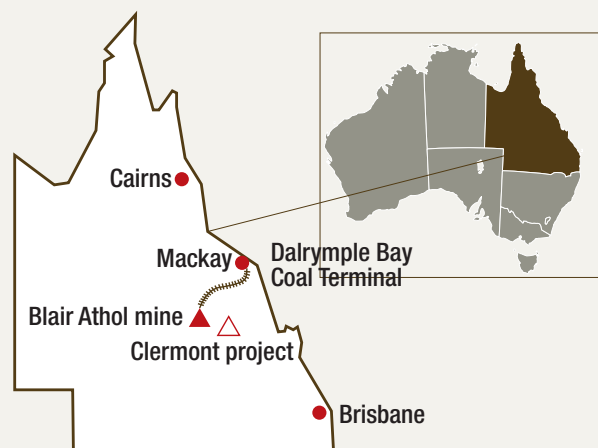
While implementing coal procurement as the largest steaming coal user in Japan, J-POWER has been involved in the versatile operations of the coal chain, from upstream to downstream, including investment in coalmines, management of maritime transport by coal-specific bulk carriers and other operations. The expertise and experience accumulated through these operations have become strong advantages of the Group. Developing these strengths, we are pushing ahead with initiatives to increase the sales of coal in Japan and overseas and to improve access to upstream resource interests.

In recent years, demand for coal has been on the rise in the Asia-Pacific region, and this demand is expected to continue for the time being. Therefore, maintaining a careful watch on the coal market, we will enhance operations to expand the sales volume of coal, working to meet various customer needs by leveraging our bargaining power, resulting from procuring nearly 20 million tons of coal annually, along with the marketing channels we have accumulated so far.



Previously, all coal procured by us was consumed in Group plants. In recent years, however, within a range that does not affect the operation of our power plants, we are engaged in coal sales in Japan and overseas, steadily expanding the scope of these sales year by year.

### Development of Clermont Coal Mine



The Clermont Coal Mine is one of the largest open cut coalmines in Australia, with a projected annual output of 12 million tons of steaming coal for use in power generation. Having acquired a 15% stake in the mine, J-POWER is proceeding with a project aimed at launching production in 2010.

### Market Trading of Electricity

Market trading of electricity in Japan was launched in earnest in fiscal 2005. Through the Japan Electric Power Exchange (JEPX), established in the same year, while the scale of transactions are still relatively small, JEPX enables the spot-trading of electricity and other transactions that were not possible previously.

Having partially altered long-term agreements with EPCOs regarding part of the capacity at existing power plants, J-POWER began selling electricity through JEPX and other wholesale markets from fiscal 2005.

Furthermore, since fiscal 2006, Setouchi Power Co., Ltd, jointly established by the Chugoku Electric Power Co., Inc. and by J-POWER, is also engaged in selling electricity through JEPX.

Such new initiatives have great significance in terms of accumulating experience and expertise at market trading and the diversification of sales networks and customer bases, and they also help the healthy progression of market liberalization.

Looking ahead, by achieving synergies between the coal business, market trading of electricity and environmental businesses such as CO<sub>2</sub> credits and Renewable Portfolio Standard (RPS) activities, we expect to enhance the flexibility of our value chain and generate new business opportunities.



## Segment Overview

Composition of  
Consolidated Operating Revenues  
for fiscal year ended  
March 31, 2007 (Fiscal 2006)

(Total **¥573.3** billion)

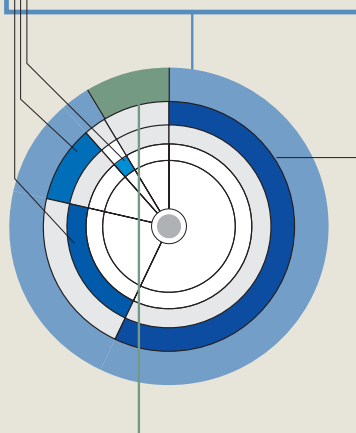
**91.4%**  
**Electric Power Business**  
**¥523.8 billion**

### Wholesale Electric Power Business

Thermal: ¥326.5 billion **57.0%**  
Hydroelectric: ¥123.5 billion **21.5%**

Transmission: ¥55.2 billion **9.6%**  
Others: ¥1.7 billion **0.3%**

**Other Electric Power Businesses** ¥16.9 billion **2.9%**



**8.6%**  
**Other Businesses**  
**¥49.5 billion**

## Electric Power Business

### Wholesale Electric Power Business

We supply electricity to Japan's 10 major electric power companies (EPCOs) through our hydroelectric and thermal power plants.

### Thermal Power

We specialize in coal-fired thermal power, and own a total of 7,812MW of coal-fired power generation facilities, the largest share in Japan. Our coal-fired facilities boast a high load factor, fulfilling base demand for electricity and superior economic efficiency, due to the lower cost per calorie of overseas coal compared with other fossil fuels.

### Hydroelectric Power

We have developed several large-scale hydroelectric power plants and now own hydroelectric power-generating facilities with a total capacity of 8,556MW. As these facilities are able to rapidly respond to changes in electricity demand, they are primarily used in the daytime, when demand is at its peak.

### Power Transmission/Transforming

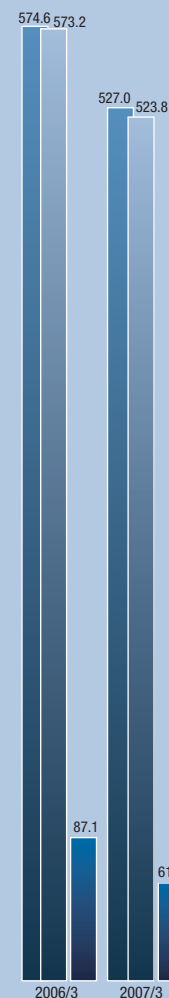
We own major transmission lines, such as those connecting Honshu with Hokkaido, Shikoku and Kyushu respectively (with a total length of 2,408km). We also own a frequency converter station that links the different frequencies of Eastern and Western Japan.

Through our power transmission and transforming facilities, we also provide transmission services to nine EPCOs, excluding Okinawa Electric Power Co., Inc.

### Other Electric Power Businesses

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

Segment operating revenues/  
operating income  
(Billions of yen)



## Electric Power-Related Businesses

We operate businesses that complement and contribute to the smooth and efficient implementation of our Electric Power Business.

### Design, construction and maintenance of facilities

Design, construction, and inspection, maintenance, and repair of electric power facilities such as power plants; port operations related to fuel and coal ash

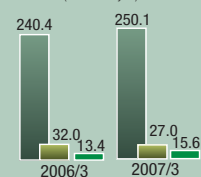
### Supply of fuel for power generation and materials

Coal mine development, coal imports and transportation

### Services

Management of welfare facilities; computing services and others

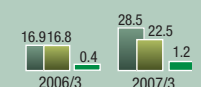
Segment operating revenues/  
operating income  
(Billions of yen)



## Other Businesses

Fully utilizing the group's management resources and know-how, we operate businesses that include overseas power generation, new power businesses in Japan, such as waste-fueled power generation and co-generation, environmental businesses, the telecommunications business, and domestic and overseas engineering and consulting.

Segment operating revenues/  
operating income  
(Billions of yen)



## Business Review in fiscal 2006 and Outlook

**Thermal Power** In the fiscal year ended March 31, 2007 (Fiscal 2006), steady capacity utilization in the second half of the fiscal year led to a load factor of 75%, which exceeded our initial forecast of 70%. However, compared to the previous fiscal year, in which a record-high load factor of 84% was reached owing to record-setting severe winter weather, electricity sales volume declined by 11% year on year to 48 billion kWh, and operating revenues declined by 11% year on year to ¥326.5 billion.

For fiscal 2007, we forecast a load factor at 75% and an electricity sales volume of 48.2 billion kWh.

To keep coal-fired power, which offers advantages of supply stability and economic efficiency, at the core of our business operations, we believe that it is important to enhance both cost competitiveness and facility reliability, while maintaining high-capacity utilization at our plants. In addition to enhancing the competitiveness of existing power plants through an innovative approach to coal procurement and continuing efforts to reduce operation costs, we will also conduct an optimal level of maintenance to prevent the decline of thermal efficiency from aging and deterioration. Moreover, we are pressing steadily ahead with construction of the Isogo New No.2 Thermal Power Plant (600MW and scheduled to commence operations in July 2009), which will become a new source of earnings.

**Hydroelectric Power** In fiscal 2006, as a result of high water flow, with the water supply rate increasing to 112% from the previous year's 90%, which was caused by low water flow, electricity sales volume increased by 24% year on year to 10.6 billion kWh. However, operating revenues declined by 3% year on year to ¥123.5 billion, primarily owing to the rate reductions that took effect from October 2005.

For fiscal 2007, we are expecting an electricity sales volume of 9.7 billion kWh based on an average water supply rate of 100%.

While aging of the existing power plants continues, it is important to maintain and improve profitability at existing plants. To this end, we are promoting measures to improve our capabilities to diagnose the remaining service lifespan of facilities as well as to improve the maintenance and repair processes. Through such efforts, we are pursuing cost reductions and a high level of Operations Management (O&M). At the same time we are also implementing value-enhancing investments to existing plants such as the comprehensive upgrade of major equipment, aiming to increase power generation volume by boosting generation efficiency and to improve facility reliability.

### Transmission and Transforming

Operating revenues in fiscal 2006 declined by 5% year on year to ¥55.2 billion, primarily owing to the rate reductions that took effect from October 2005. Covering regional utilities' service areas, we play an important role in the overall management of Japan's electricity supply. We believe that the importance of our facilities will continue to grow prominently, given the progressive deregulation of the electricity industry, and this is expected to spur the revitalization of power distribution across wider areas.

In fiscal 2006, in spite of an increase in wind-power sales volume as a result of the commencement of operations at the Koriyama-Nunobiki Kogen Wind Farm and the full-year operations at the Setana Seaside Wind Farm, which came on line in the previous fiscal year, a decrease in capacity utilization at thermal plants in the IPP and electricity supply business for PPS consequently led to the decline in total electricity sales volume by 3% year on year to 1.7 billion kWh. However, operating revenue increased by 2% year on year to ¥16.9 billion.

For fiscal 2007, J-POWER is expecting full-year contributions from the Koriyama-Nunobiki Kogen Wind Farm to support a slight increase in electricity sales volume to 1.8 billion kWh.

In the electricity supply business for PPS, although sales volume by PPS in the domestic electricity retail market is still limited, we will explore the feasibility of new development, while carefully 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 new development plans that will entail the exploration of favorable sites and the reduction of construction costs.

Operating revenues increased by 4% year on year to ¥250.1 billion, and operating income rose by 16% to ¥15.6 billion, primarily owing to sales contributions from newly consolidated subsidiaries and Group-wide initiatives to reduce outsourcing and other costs.

The majority of business in this segment is accounted for by intra-Group transactions such as maintenance and coal transportation for our plants. Operating revenues from sales to customers outside the Group amounted to ¥27.0 billion, accounting for 11% of overall operating revenues in this segment.

In fiscal 2006, operating revenues jumped 69% year on year to ¥28.5 billion, and operating income increased by ¥0.8 billion to ¥1.2 billion, primarily owing to sales recorded by newly consolidated subsidiaries.

Going forward, J-POWER will strengthen its initiatives in areas outside of the Group, including the sales of coal (please see p. 20 for further details).

As for the Overseas Power Generation Business, the majority of its profits are recorded as investment profits on an equity-method basis so far. We will look into promising projects, in which we are seeking to acquire a major stake (please see p.18 for further details).

# Electric Power Business— Characteristics and Strengths

## Wholesale Electric Power Business

### Thermal Power

J-POWER's key strength in thermal power generation is our focus on coal-fired power generation, which has strong cost competitiveness and fulfills base demand for electricity with a high load factor. We have 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. We have 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 notice-



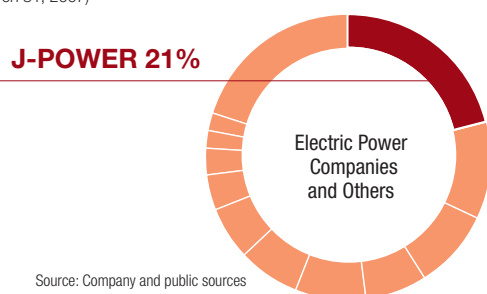
Takehara Thermal Power Plant (Hiroshima Prefecture)

able in light of the recent spate of spiraling oil price increases. These strengths contribute to the formation of attractive rates, and our long-term contracts with EPCOs, generate synergetic effects for forming a stable earnings foundation.

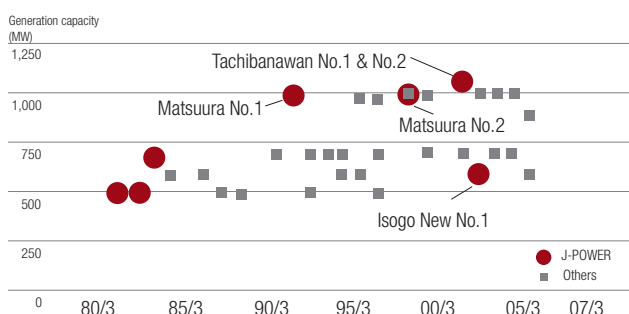
As of March 31, 2007, we operate seven coal-fired power plants with a total capacity of 7,812 MW, representing 21% of the coal-fired power generation facilities in Japan. For fuel, we procure coal from several countries, mainly from Australia, based on long-term or yearly contracts.

#### Share of Coal-Fired Power Generation Capacity

(As of March 31, 2007)

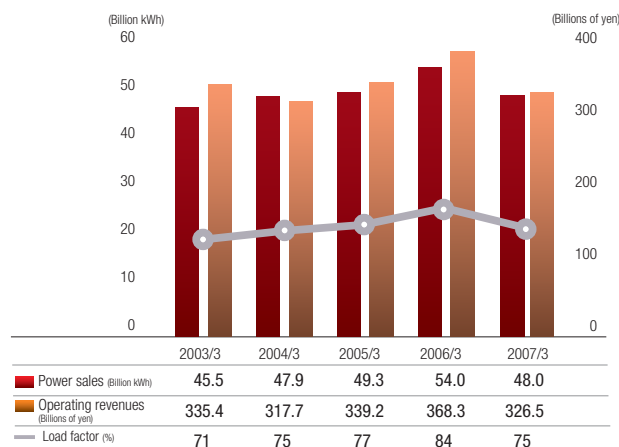


#### Large-Scale Coal-Fired Unit Capacity and First Year of Operation



"Large-scale" defined as power plants with more than 500 MW output.  
Chart data up to March 31, 2007. Source: Company and public sources.

#### Thermal Power Sales and Load Factor



#### Calorific Unit Price by Fossil Fuel (Imports)

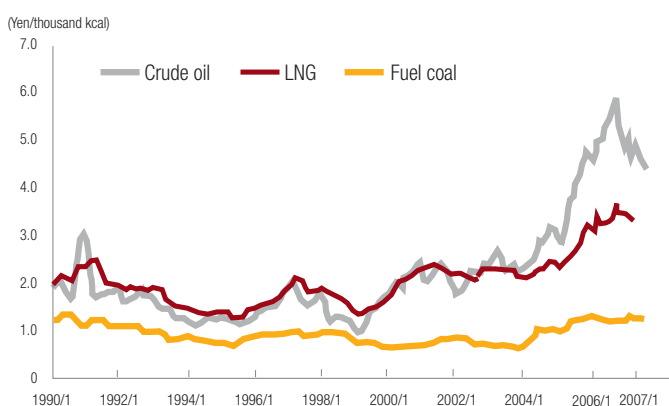


Chart data up to March 31, 2007 Source: The Energy Data and Modelling Center



## Wholesale Electric Power Business

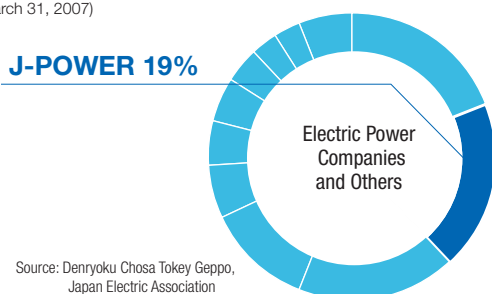
### Hydroelectric Power and Power Transmission/Transforming

#### Hydroelectric Power

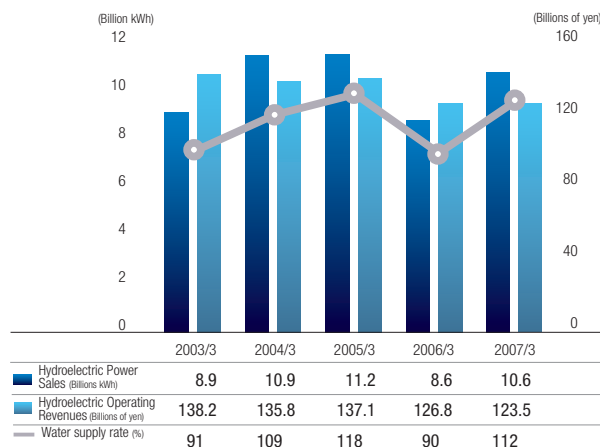
Hydroelectric power is an essential power source, particularly in Japan, for three main reasons. First, it is currently the only truly domestic energy source on a meaningful scale. Second, it is a clean energy source with virtually no fuel expenses, namely marginal costs, and offers many benefits in terms of environmental issues, especially because of no CO<sub>2</sub> emissions. Finally, it has high operational flexibility, which is suitable for intra-day and intra-seasonal demand and supply balancing.

#### Share of Hydroelectric Power Generation Capacity

(As of March 31, 2007)



#### Hydroelectric Power Sales and Water Supply Rate



Nukabira Power Plant (Hokkaido)

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, 2007, we operate 59 hydroelectric power plants throughout Japan, with a total capacity of 8,556 MW, comprising 19% of the total hydroelectric power generation facilities in Japan.

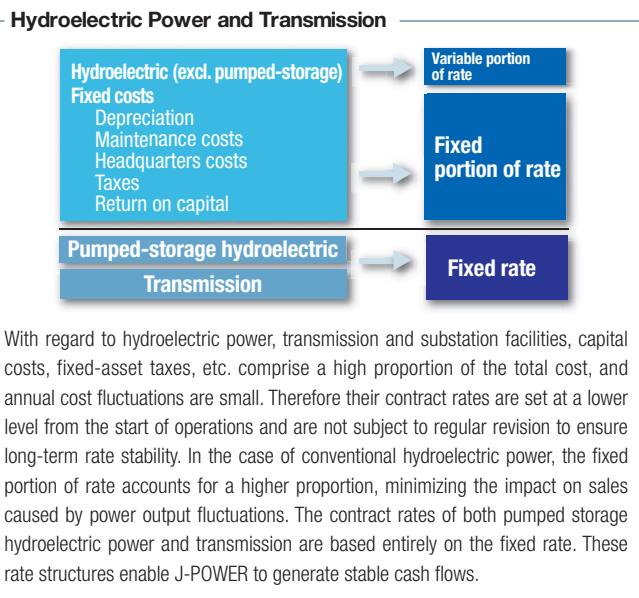
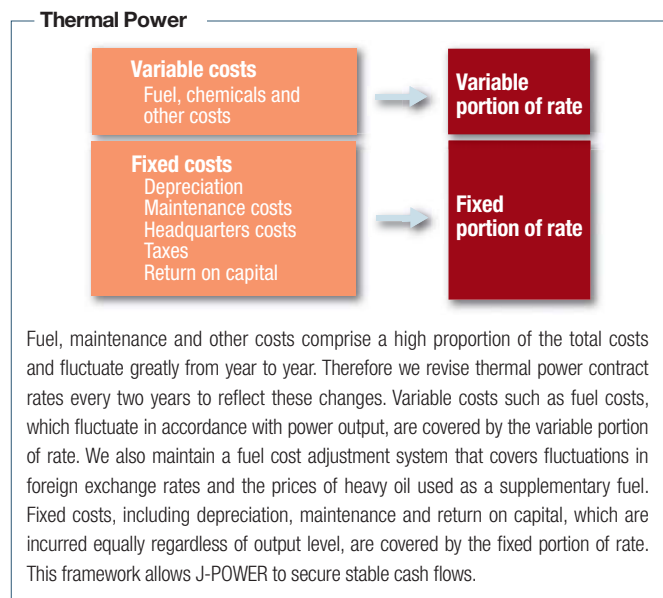
Considering the limited availability of sites suited to the development of large-scale hydroelectric power plants in Japan, we believe our strong market share and economies of scale in hydroelectric power generation will endure for the foreseeable future.

Our hydroelectric power plants generate a steady stream of earnings based on long-term 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 Transforming Facilities

J-POWER's transmission and substation facilities not only distribute electricity from our power plants to demand centers, but also play a huge role in the total operation of Japan's power grid. In particular, 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 respectively, 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).

## J-POWER's Rate Structure for Wholesale Electric Power Business



## Deregulation of the Electric Power Industry and J-POWER's Response

The deregulation of the electric power industry in Japan has created a new environment in which business enterprises other than electric power companies (EPCOs) can participate in electricity wholesaling and retailing businesses. Since April 2005, the deregulation of the retail electricity sector was expanded to approximately 60% of the market, and wholesale electricity transactions were commenced in the Japan Electric Power Exchange (JEPX).

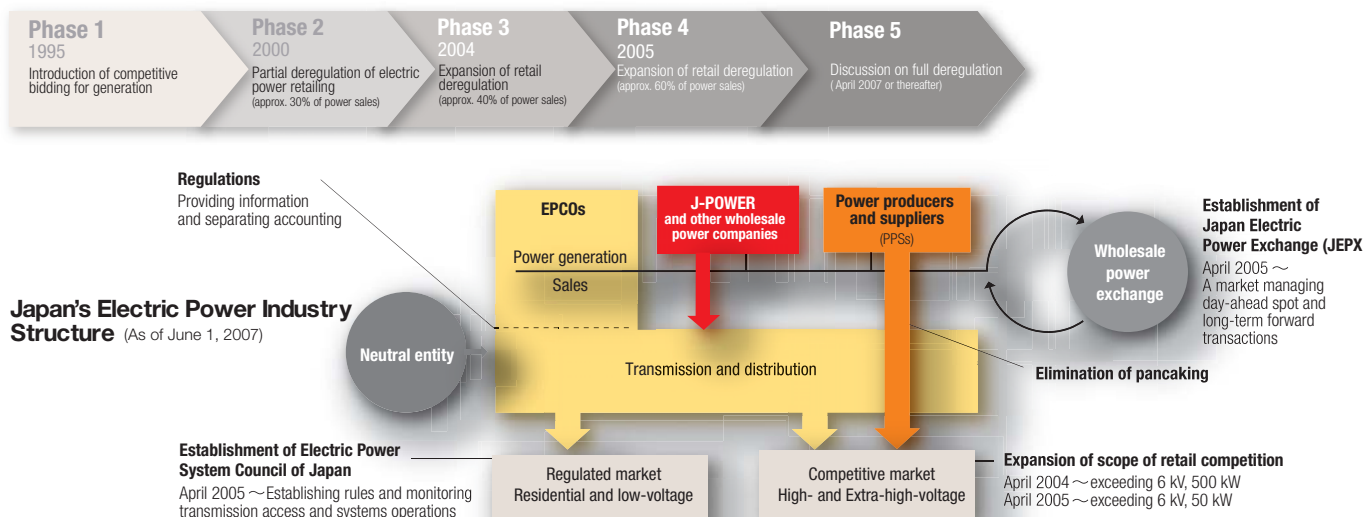
Though the deregulation has had the effect of increasing competition and applying downward pressure on prices, J-POWER considers the deregulation to be a positive change toward expanding its business opportunities from a long-term perspective. We also recognize that it is essential for us to vigorously respond to these changes, and we are promoting the following sorts of initiatives to achieve stable growth.

\* We are developing new types of wholesale electricity businesses such as the IPP business and the electricity supply business for PPSs (See page 27, Other Electric Power Businesses).

\* We have commenced sales of electricity to the wholesale markets such as JEPX by utilizing a part of existing generation capacity (See page 21, "Market Trading of Electricity" in the special features "Power Generation as the Core of a Diversified Business").

Further deregulation of the electric power industry has been under discussion since April 2007 in the Power Business Subcommittee of the Advisory Committee for Natural Resources and Energy. While monitoring carefully the trends toward deregulation and responding flexibly to changes in the business environment, we aim to expand business opportunities by making use of new options created by the deregulation.

### Deregulation of Japan's Electric Power Industry

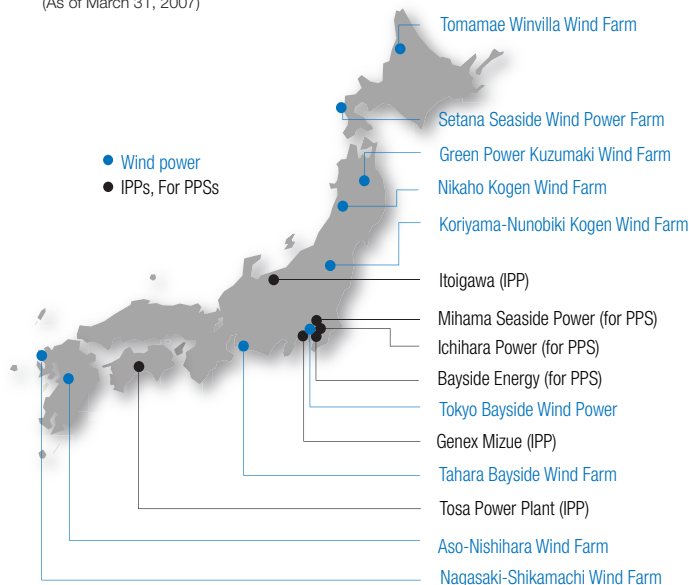


## Other Electric Power Businesses

### IPP, for PPS and Wind Power

#### Facilities of Other Electric Power Businesses

(As of March 31, 2007)



Note: Including facilities of subsidiaries and affiliates.

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	65,980	100%	February 2007
<b>Subtotal</b>	<b>210,530</b>		

● Denotes projects within the scope of consolidation

\* Limited J-POWER participation



Aso-Nishihara Wind Farm (Kumamoto Prefecture)

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

As of March 31, 2007, we are now operating three power plants as IPPs with a total capacity of 522 MW, and three power plants for PPSs with a total capacity of 322 MW. Our wind power generation facilities comprise nine farms/plants currently in operation, with a total capacity of 211 MW, representing a top-ranked capacity in Japan. These businesses are areas where we are able to apply our core competencies in the power generation business.

Electricity Supply	Capacity (kW)	Fuel Type	Ownership	Completion date
<b>IPP</b>				
Genex Mizue	238,000	Gas Oil Residue	40%	June 2003
●Itoigawa	134,000	Coal	80%	April 2003*
Tosa	150,000	Coal	45%	April 2005
<b>Subtotal</b>	<b>522,000</b>			
<b>Wholesale Power for PPS</b>				
●Ichihara Power	110,000	Gas	60%	October 2004
●Bayside Energy	107,650	Gas	100%	April 2005
Mihama Seaside	104,770	Gas	50%	October 2005
<b>Subtotal</b>	<b>322,420</b>			
<b>Total of Other Electric Power Businesses</b>	<b>1,054,950</b>			








# Electric Power Business Facilities





(As of March 31, 2007)

## 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

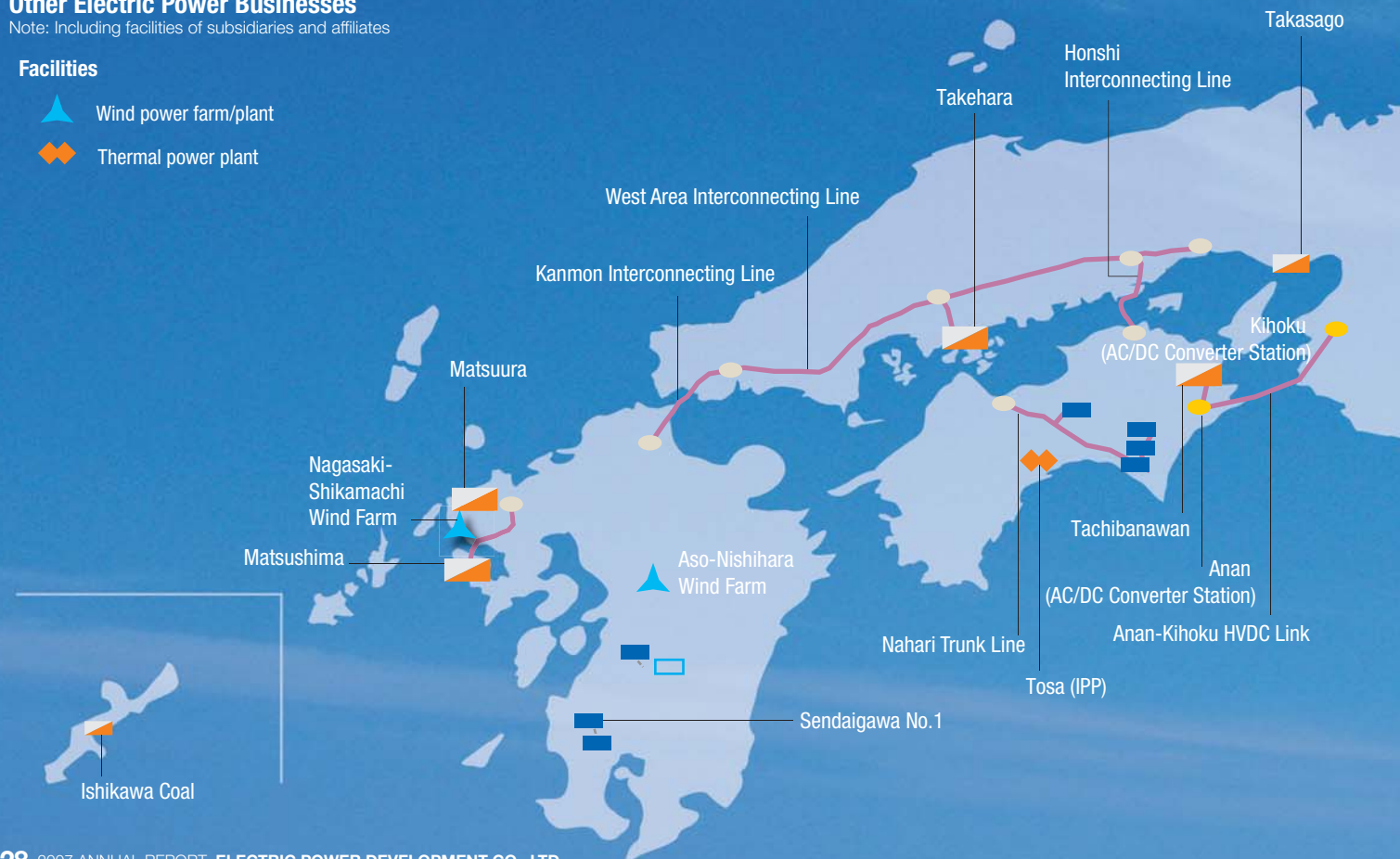


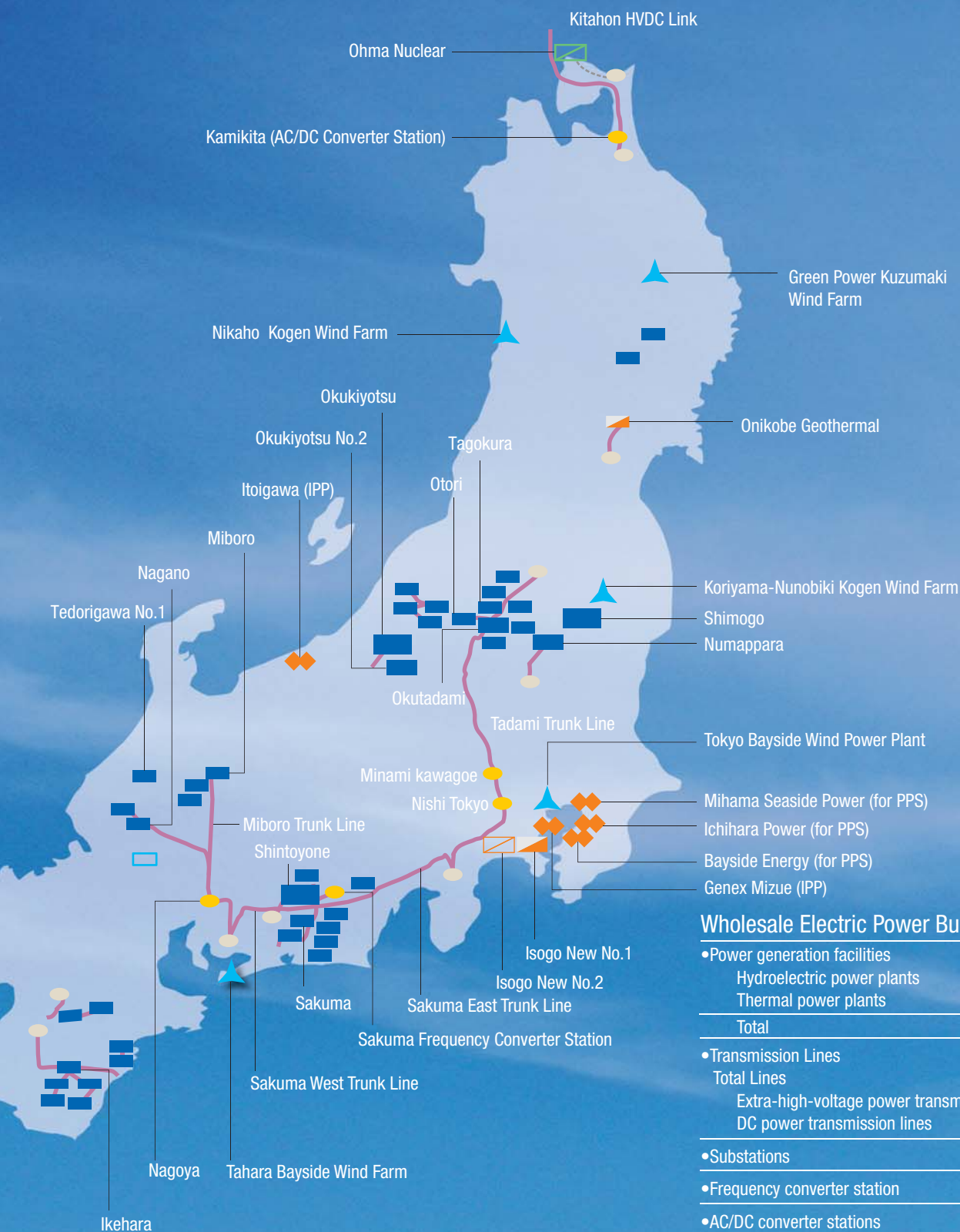
## Other Electric Power Businesses

Note: Including facilities of subsidiaries and affiliates

### Facilities

-  Wind power farm/plant
-  Thermal power plant





## Wholesale Electric Power Business

(As of March 31, 2007)

●Power generation facilities		
Hydroelectric power plants	59	8,556MW
Thermal power plants	8	7,825MW
Total	67	16,380MW
●Transmission Lines		
Total Lines		2,407.6km
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	9	211MW
IPPs	3	522MW
For PPSs	3	322MW
Total	15	1,055MW

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



# Sustainable Development of Society and the J-POWER Group

In addition to achieving long-term growth, the J-POWER Group seeks to contribute to the sustainable development of society.

By advancing its energy business with a focus on "harmonization of energy and the environment," the J-POWER Group conducts its business endeavors with the goal of contributing to a more abundant, safe and comfortable everyday life.

Corporate Governance P30

Environmental Management P33

Relations with Communities, Society and Employees P34

\*Please refer to the 2007 Sustainability Report for more details regarding these initiatives.

The report may be found on the Group's 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 recognizes 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 a greater level of trust from our stakeholders.

Since July 2006, the Group has been working under the following framework to enhance its corporate governance.

### 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 the Group's corporate governance and internal control framework is provided below.

We have contracted Ernst & Young ShinNihon to provide auditing services.

#### 1. Directors' Business Execution Structure

Under the Corporate Philosophy, directors take the initiative in displaying an honest and fair attitude based on a firm, law-abiding spirit and sense of ethics in accordance with the "J-POWER Corporate Conduct Rules." At the same time, they are endeavoring to instill such an attitude in all J-POWER employees.

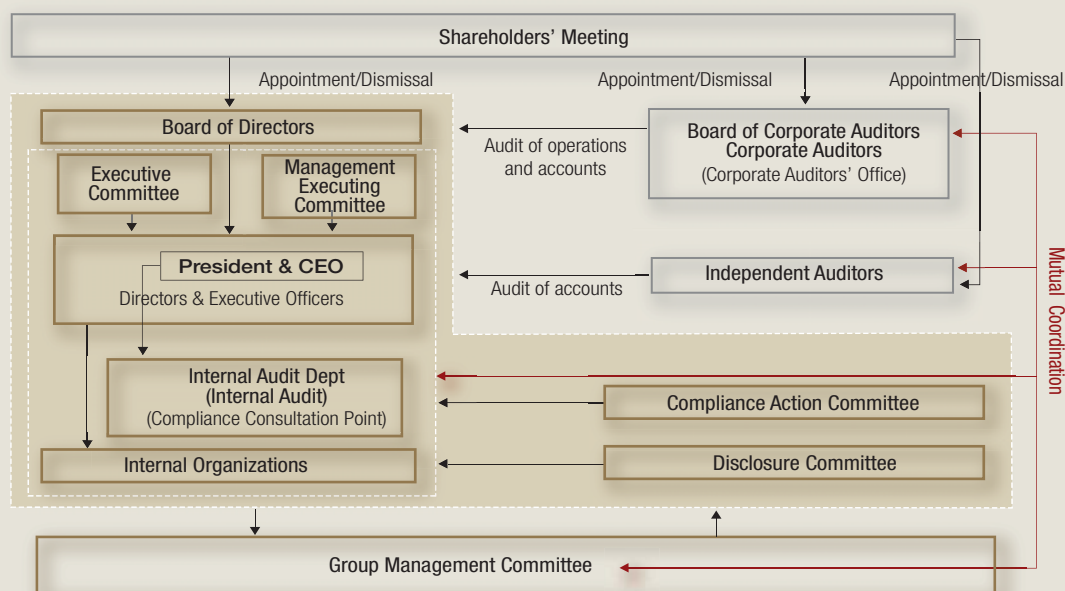
We also introduced an executive officer system to encourage more effective and speedy business implementation, building up a management system in which directors and executive officers share duties based on the Board of Directors' decisions. In addition, we are striving to clarify the management responsibility of directors in order to create a system by which the Company adapts rapidly to changes in the environment. To this end, we have set the term of directors' appointments at one year.

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 and senior corporate auditors 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, we enable precise and prompt decision-making and efficient management. Furthermore, we hold Management Executing Committee meetings twice per month, in principle. These meetings are attended by the president and vice presidents, directors and executive officers from areas related to the matters under discussion, as well as full-time corporate auditors, to discuss important matters concerning the management of each division. By distributing functions among the Board of Directors, the Executive Committee and the Management Executing Committee, we are working to improve efficiency in directors' execution of duties.

Directors make regular reports regarding the status of business



## Corporate Governance and Internal Control Framework (As of July 1, 2007)



execution to the Board of Directors and the Executive Committee, as well as on an as-needed basis. In accordance with an ordinance and company regulations on its execution, the minutes of meetings are prepared and managed appropriately.

Furthermore, in order to ensure that operations are conducted in an appropriate manner, we have established an Internal Audit Department under the direct control of the president to implement internal audits at our business sites. Moreover, each business unit conducts self-audits of our own business administration.

In an effort to improve the accountability and transparency of our corporate activities, we have established a Disclosure Committee, chaired by the president, which ensures that the disclosure of the Company's information is vigorous, fair and transparent.

### Setting of Stock Purchasing Guidelines

So that management might work to reflect the perspective of shareholders in business operations and to raise long-term shareholder value, in 2006 J-POWER established guidelines for the purchase of shares by directors and executive officers. In accordance with these guidelines, they have purchased J-POWER shares monthly through the Director's Shareholding Society.

## 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, 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 shifted to fully consolidated accounting from the

fiscal year ended March 31, 2007. 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, our basic policy calls for Group-wide development in accordance with the Group's management plan. In addition to the administration of subsidiaries based on company regulations, we have set up a Group Management Meeting to enhance fairness within the corporate group. We also conduct audits of our subsidiaries by corporate auditors and the Internal Audit Department.

## 4. Audits by Corporate Auditors

J-POWER's corporate auditors shall supervise the directors in the execution of their business operations by 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 our departments and main subsidiaries.

We have established a Corporate Auditors' Office, which is independent organization, out of the directors' chain of command. Full-time specialist staff members aid the audits of corporate auditors. Senior corporate auditors cooperate in the selection of personnel who make up the Corporate Auditors' Office.

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 Department on each department's audit and with each subsidiary's auditors in the case of subsidiary audit, receiving reports regarding findings.

## Decision-Making Process and Management in Overseas Businesses

In advancing its overseas business strategies, J-POWER annually reviews investment scale and policies regarding geographic regions and types of power.

Based on these policies and reviews, the International Business Division, which is responsible for promoting overseas businesses, conducts feasibility studies from among a number of options as well as early-stage screenings in cooperation with business partners. In this way, the International Business Division selects specific projects for the Company to pursue.

Projects undertaken in this manner are subject to further organizational decisions through checks and deliberations at a number of stages. First, detailed studies are made by people in the planning, legal and finance divisions. Risk factors and items for concern are discovered and organized as issues for management discussion.

Management Execution Meetings attended by the President, related executive directors and executive officers are held to discuss these issues. Depending on details of the projects, we determine which projects to undertake at this stage, based on internal decision-making guidelines.

Further deliberations are held for projects that cannot be determined at Management Execution Meetings, with final decisions made by the Board of Directors through the Executive Committee, which is attended by all executive directors.

During these processes, the economic feasibility of individual projects is assessed comprehensively in accordance with in-house guidelines. Items examined include the term of business operation, commercial and country risks, as well as other factors. Comparisons of capital costs are also conducted.

Projects begun following organizational decisions are monitored regularly. We make every effort to maintain a firm grasp of the status of projects and to discover and address problems rapidly.

Similar processes are also followed when the Group undertakes new businesses in Japan.

### Screening and Decision-making Process of Investment in Overseas Businesses



## 5. Response to Japan's SOX Act

In response to the Financial Instruments and Exchange Law (Japan's version of the Sarbanes-Oxley Act, or "J-SOX"), which was enacted in 2006, J-POWER is progressing with steps to establish an internal control system pertaining to financial reporting.

In July 2006, we set up internal control working groups that examined the ways by which Group initiatives should progress and assessed the status of internal controls throughout the Group's operations. From December 2006 until January 2007, the vice president led a project team in trial efforts to keep written records of work procedures and practices.

Based on implementation standards announced in February 2007 by the Internal Control Committee of the Business Accounting Council in Japan's Financial Services Agency, as well as the results of the in-house assessment of internal controls and the aforementioned trial efforts, we drew up an overall plan under which a group for promoting internal control in financial reporting was established. The Group has been implementing full-fledged initiatives in response to the new legislation since April 2007.

These initiatives help us to clearly identify and appropriately control risks related to financial reporting, providing a stable internal control system for the Group.

### Thorough Compliance

To promote compliance activities, in addition to the J-POWER Corporate Conduct Rules already in place, J-POWER has 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 for any issues that run counter to compliance. Simultaneously, we established a Compliance Consultation Point in our 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.

In response to directives from the national government and local governments, from November 2006, we conducted inspections and surveys to discover whether there had been any falsification of data relating to our electricity generation facilities and to verify that necessary procedures were being followed. Results revealed that there had been data falsification and insufficient procedures at certain hydro-powered and fire-powered plants. Consequently, we were severely warned by relevant government bodies and ordered to alter our safety guidelines. We deeply regret these circumstances and have reduced director compensation as a means of expressing responsibility for management oversight. The Group as a whole is taking active steps to reform corporate culture and employee's disposition. In addition to improving and effectively operating our internal control systems, we are working to strengthen compliance and put in place solid measures to prevent a reoccurrence of such circumstances. We will make every effort to recover the trust of society.

# Environmental Management

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

J-POWER established the Basic Policy for the J-POWER Group Environmental Management Vision in 2004, setting forth its 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 Policies

Efforts relating to global environmental issue	Efforts relating to local environmental issue	Ensuring transparency and reliability
In accordance with the principles of the United Nations Framework Convention on Climate Change (FCCC), we will address issues relating to climate change on a global scale in a cost-effective manner. We will continue to reduce CO <sub>2</sub> 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 CO <sub>2</sub> 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 CO <sub>2</sub> .	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 we will foster good community relations.	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

Measures against global warming	Formation of a recycling-based society	Enhancing our environmental management structure
<b>Targets</b> Reduce CO <sub>2</sub> emissions per unit of electric power sales in Japanese and overseas power plant operations	Zero industrial waste emissions	Introduce environmental management systems (EMS) for the entire J-POWER Group
<b>Target Year</b> Fiscal 2010	Fiscal 2010	Fiscal 2007
<b>Numerical Target or Range</b> 10% below the 2002 level	Recycling rate 97%	All consolidated subsidiaries
<b>Action</b> We will implement and economically combine the following measures, taking cost-effectiveness on a global scale into account * Sustain and improve energy efficiency - Maintain high-efficiency operation of power facilities - Adopt energy-efficient equipment at time of upgrade - Lower power plants' own use ratio through effective operation and management - Introduce high-efficiency technologies in new facilities * Develop various types of power generation with lower CO <sub>2</sub> emissions - Promote development of Ohma Nuclear Power Plant - Promote development of renewable energy (wind power, co-firing with biomass at coal-fired plants, etc.) - Promote development of gas combined-cycle power generation * Utilize the Kyoto Mechanisms - Procure emission reduction credits through Joint Implementation (JI), Clean Development Mechanism (CDM), and Emission Trading * Develop, transfer, and disseminate technologies - Establish technologies for use of biomass fuel - Continuously promote technological development that reduces CO <sub>2</sub> 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	Introduce 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 COP 11 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.

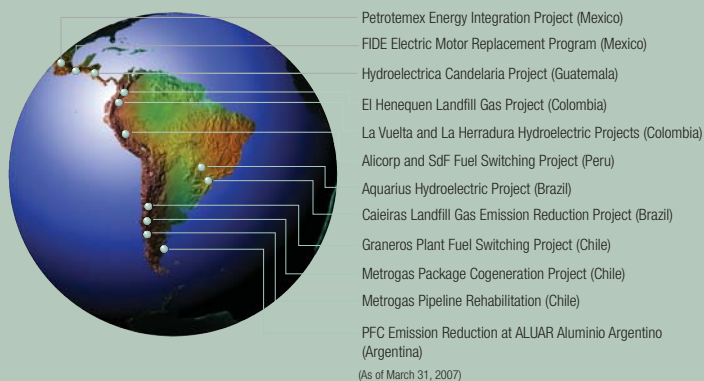
\* Clean Development Mechanism (CDM): A mechanism targeted at joint projects undertaken by developed and developing countries to reduce or absorb greenhouse gases. Developed countries gain credits from the reduced or absorbed emissions.

\* 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. 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 it has been involved in the development of twelve CDM projects. In addition to the Graneros Plant Fuel Switching Project at Nestle's plant in Chile and the Caieiras Landfill Gas Emission Reduction Project in Brazil, both of which had been registered by the CDM Executive Board by the end of the previous fiscal year, J-POWER saw other projects in which it has taken part registered by the board during the fiscal year under review. These included the small hydroelectric power project at the Aquarius Hydroelectric Power Plant in Brazil, as well as the hydroelectric project at La Vuelta and the La Herradura Hydroelectric project in Colombia.

### J-POWER's CDM Projects



## Relations with Communities, Societies and Employees

### Relations with Communities and Societies

Through its primary business activities, the J-POWER Group aims to contribute to the realization of sustainable societies on both a local community and global level. In pursuit of this objective, the Group is engaged in a diverse range of initiatives in Japan and overseas.

### Interaction and Collaboration with Communities

Individual employees of the J-POWER Group gain the trust and confidence of local citizens by taking part in community activities to preserve the environment, including forest conservation, cleanup, and tree planting, as well as in local events and cultural activities.

### Support for Energy and Environmental Education

In order to raise awareness throughout society regarding harmonization of energy and the environment, J-POWER provides support for hands-on educational programs and conducts scientific seminars.

### Activities as a Global Citizen

J-POWER works to contribute to the development of international society by leveraging the experience and networks gained through more than 40 years of business in various areas of the world, conducting activities rooted in local communities overseas.

### Relations with Employees

Placing the utmost priority on workplaces that uphold safety and compliance, the J-POWER Group is moving to establish work environments that foster a high level of motivation among employees, aiming to cultivate continual growth of the Group itself and its individual members. J-POWER takes the following measures in working toward these goals.

### Recruiting and Developing a Diversified Workforce

J-POWER actively recruits new graduates, experienced workers, women and people who are physically challenged. In conjunction with this, we have introduced a continuing employment system 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.

### Adhering to Policies that Prevent Workplace Accidents/ Promoting Physical and Mental Health among Employees and Their Families

### Enhancing Work Environments (Promoting Balanced Work Life-styles)

So that employees may maintain a healthy balance between their personal life and their job, J-POWER is taking active steps to assure appropriate management of working hours and improve systems related to childcare and nursing care.



## 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	2007	2007
Operating revenues	584,122	569,854	594,375	621,933	573,277	4,856,226
Electric power	545,824	522,922	547,960	573,198	523,782	4,436,956
Other	38,297	46,931	46,414	48,734	49,494	419,270
Operating expenses	449,920	437,715	482,489	520,464	496,136	4,202,762
Electric power	407,131	386,463	431,678	469,720	444,463	3,765,041
Other	42,789	51,251	50,810	50,744	51,673	437,721
Operating income	134,201	132,138	111,885	101,469	77,141	653,463
Income before income taxes and minority interests	35,522	43,757	55,984	68,305	54,757	463,848
Net income	20,725	27,623	35,559	43,577	35,167	297,900
Total assets	2,195,897	2,076,107	2,021,655	1,964,667	1,999,794	16,940,234
Interest-bearing debt	1,893,902	1,592,908	1,498,010	1,408,232	1,421,542	12,041,871
Total net assets	168,301	359,645	391,327	433,028	462,654	3,919,141
Net cash provided by operating activities	167,368	179,948	172,637	173,954	157,241	1,331,991
Net cash used in investing activities	(11,030)	(64,507)	(60,586)	(72,326)	(155,407)	(1,316,452)
Free cash flow***	156,338	115,441	112,051	101,628	1,834	15,538
Net cash used in financing activities	(117,709)	(147,516)	(111,798)	(103,613)	(2,168)	(18,368)
Depreciation	137,148	131,380	125,339	135,019	123,083	1,042,641
Capital expenditures	53,443	46,202	50,925	60,861	90,704	768,353
Net income per share (yen, U.S. dollars)	291.40	304.88	255.01	260.76	211.14	1.79
Cash dividends per share (yen, U.S. dollars)	60.00	60.00	60.00	60.00	60	0.51
Shareholders' equity per share (yen, U.S. dollars)	2,381.71	2,590.00	2,818.04	2,598.90	2,768.95	23.46
Return on equity (%)	12.9	10.5	9.5	10.6	7.9	
Equity ratio (%)	7.7	17.3	19.4	22.0	23.1	
Number of shares outstanding (thousands)	70,600	138,808	138,808	166,569	166,569	
Number of employees	6,543	5,871	5,925	5,868	6,494	
Generation capacity (MW)						
Wholesale electric power business	16,085	16,375	16,375	16,375	16,380	
Hydroelectric	8,261	8,551	8,551	8,551	8,556	
Thermal	7,825	7,825	7,825	7,825	7,825	
Other electric power businesses	—	134	375	495	561	
Total	16,085	16,509	16,750	16,870	16,941	
Electric power sales (GWh)						
Wholesale electric power business	54,429	58,787	60,517	62,627	58,672	
Hydroelectric*	8,902	10,850	11,172	8,583	10,633	
Thermal	45,527	47,937	49,345	54,044	48,039	
Other electric power businesses	—	517	965	1,701	1,657	
Total	54,429	59,305	61,483	64,328	60,329	
Electric power revenues						
Wholesale electric power business	473,567	453,478	476,335	495,061	450,034	3812,237
Hydroelectric	138,195	135,758	137,106	126,810	123,490	1,046,090
Thermal	335,371	317,719	339,228	368,250	326,543	2,766,147
Other electric power businesses	—	4,472	8,679	16,495	16,868	142,896
Transmission	66,739	63,398	61,194	58,255	55,184	467,468

\* Pumped-storage hydroelectric power is not included.

\*\* 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, 2007, which was ¥118.05=US\$1.00

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

# Management's Discussion and Analysis

## Operating Revenues

During the fiscal year ended March 31, 2007 (fiscal 2006), overall demand for electricity in Japan narrowly surpassed that of the previous fiscal year. The increased demand was supported by large-load demand in the industrial sector, reflecting the upward trend in the Japanese economy, while offsetting reduced heating-related demand during the record-setting mild winter.

Under these conditions, consolidated operating revenues totaled ¥573.3 billion, down 7.8% from the previous fiscal year. This was mainly owing to the full-year impact of the contract rate reductions of hydroelectric power and transmission, as well as a decline in capacity utilization in the thermal power plants due to periodic inspections. A breakdown of operating revenues by business segment follows.

### Electric Power Business

Electricity sales volume in the "Wholesale electric power business," from both hydroelectric and thermal power plants, declined 6.3% year on year to 58.6 billion kWh. In hydroelectric power, sales volume climbed 23.9% to 10.6 billion kWh, owing to higher water flow compared with the previous fiscal year (the water supply rate was up from 90% in the previous fiscal year to 112%). On the other hand, thermal electricity sales declined 11.1% to 48.0 billion kWh due mainly to a decreased load factor at power plants caused by periodic inspections.

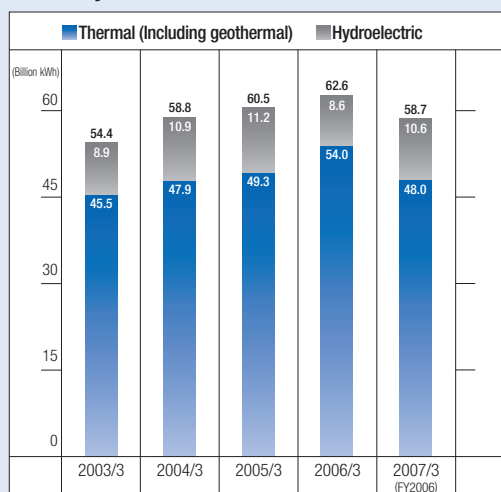
In the "Other electric power businesses," electricity sales volume declined 2.6% compared with the previous fiscal year to 1.7 billion kWh. Although full-year operation of Green Power Setana Co., Ltd. and the start of operations at Green Power Koriyama Nunobiki Co., Ltd. in February 2007 were positive contributing factors, the decline reflected lower capacity utilization of the thermal power plants in the IPP business and wholesale business for PPS. As a result, electricity sales volume in the overall electric power business decreased 6.2% to 60.3 billion kWh.

Overall, operating revenues in the electric power business fell 8.3% year on year to ¥527.0 billion, reflecting the abovementioned rate reductions of hydroelectric power and transmission, as well as the decrease in capacity utilization of thermal power caused by periodic inspections.

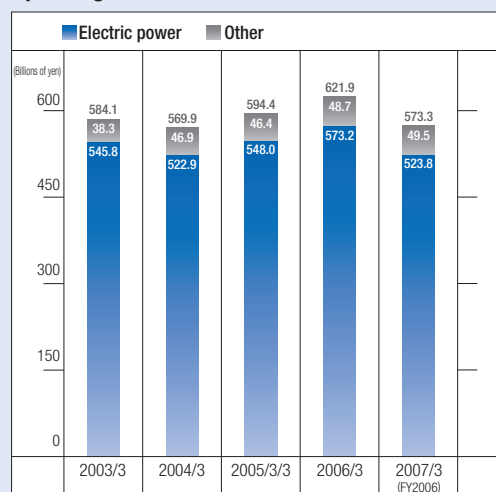
### Electric Power-Related Businesses

Operating revenues from electric power-related businesses increased 4.1% year on year to ¥250.1 billion owing to the addition of revenues from newly consolidated subsidiaries.

Electricity Sales in Wholesale Electric Power Business



Operating Revenues



\*Other includes sales to customers outside the Group of Electric Power-Related and Other businesses



## Operating Expenses and Operating Income

### Other Businesses

Operating revenues from other businesses increased 68.9% year on year to ¥28.5 billion as a result of the addition of revenues from newly consolidated subsidiaries.

In fiscal 2006, operating expenses declined 4.7% year on year to ¥496.1 billion, and operating income decreased 24% to ¥77.1 billion.

### Electric Power Business

Operating income declined 29.4% year on year to ¥61.4 billion. Although depreciation costs decreased ¥12.9 billion and fuel costs dropped ¥11.0 billion because of lower capacity utilization of thermal power, operating revenues also declined. In addition, periodic inspections in the thermal power operations led to an increase of ¥2.5 billion in repair expenses, and personnel expenses climbed ¥6.0 billion owing to the calculation of retirement benefit obligation.

### Electric Power-Related Businesses

Operating income increased 16.3% year on year to ¥15.6 billion because of cost reductions at consolidated subsidiaries and other factors.

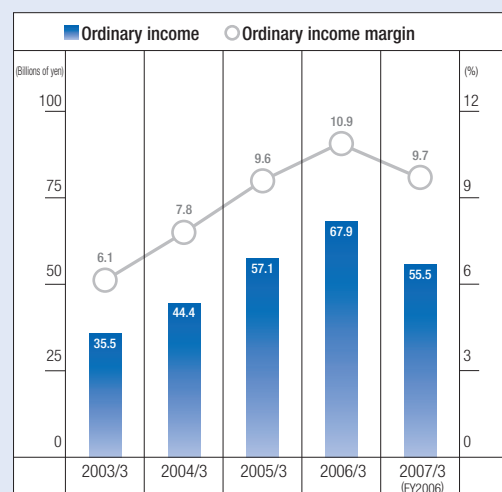
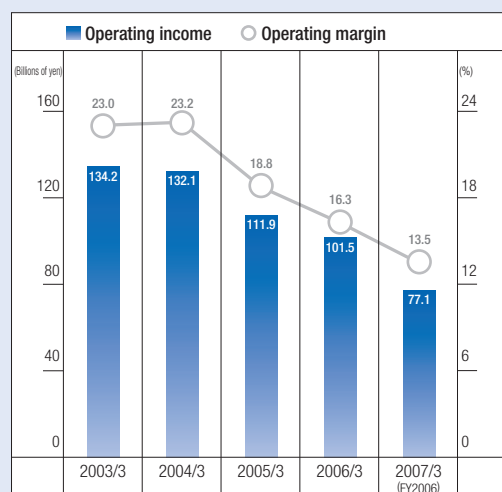
### Other Businesses

Operating income increased ¥0.8 billion year on year to ¥1.2 billion, owing primarily to an increase in operating revenues.

## Non-Operating Revenues and Expenses

### Non-Operating Revenues

Non-operating revenues jumped 70.8% year on year to ¥13.0 billion due to a substantial increase of ¥3.5 billion in investment gains in equity-method affiliates, primarily in the overseas power generation business.





### Non-Operating Expenses

Non-operating expenses decreased 15.9% year on year to ¥34.6 billion, primarily because we did not make early repayments of debt, leading to a decrease of ¥13.1 billion in interest expenses.

As a result, ordinary income declined 18.2% year on year to ¥55.5 billion.

## Net Income

In addition to the above, ¥0.8 billion was added to our “reserve for fluctuation in water levels” due to high water flow. As a result, income before income taxes and minority interests decreased 19.8% year on year to ¥54.8 billion. After accounting for income taxes and tax adjustments, net income declined 19.3% year on year to ¥35.2 billion.

## Per Share Information and Dividend Policy

### Net Income Per Share

Net income per share decreased to ¥211.14, compared to ¥260.76 in fiscal 2005.

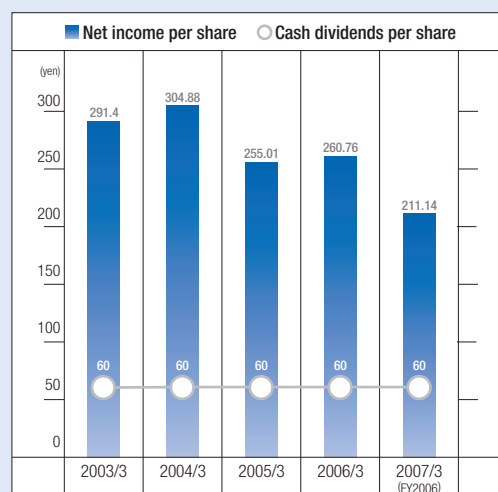
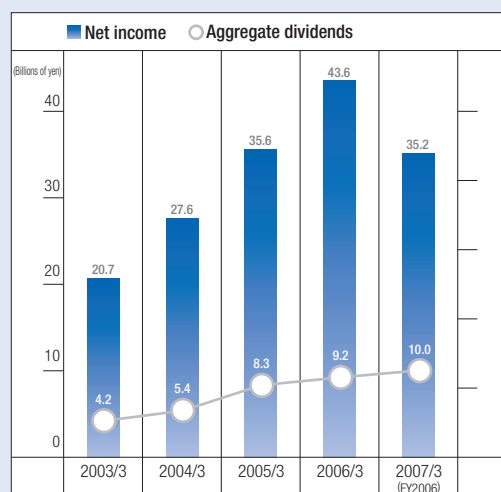
### Dividend Policy

The most prominent characteristic of J-POWER's business is that we secure returns on our investments in power plants and other infrastructure through the long term operations of these facilities utilizing our well-established enterprise management expertise, including the construction of power plants and other infrastructure.

In light of such business characteristics, with respect to profit distribution to shareholders, we place the utmost importance on continuing to pay dividends at a stable level. We continually work to maximize corporate value through long-term initiatives, aiming to enhance future profit distribution through achievement of future growth.

In keeping with this basic dividend policy, we implemented payments of ¥30 per share for both the interim and year-end dividends in fiscal 2006. As a result, the payout ratio became 41.8% and dividend on equity 2.5%.

With regard to internal reserves, we will continue to make capital investments in Japan and overseas with the aim of enhancing the quality and quantity of our business assets.



## Financial Position

## Financial Position and Liquidity

### Assets

As of March 31, 2007, total assets were ¥1,999.8 billion, an increase of 1.8% from a year earlier.

In spite of the decrease due to ongoing depreciation, the value of property, plant and equipment increased 1.9% to ¥1,861.8 billion year on year as a result of capital expenditures at the Isogo New No. 2 Thermal Power Plant and the Ohma Nuclear Power Plant.

### Liabilities

As of March 31, 2007, total liabilities edged up 0.4% year on year to ¥1,537.1 billion, due in part to the issue of corporate bonds in order to raise funds for investments in Japan and overseas. Net interest-bearing debt increased 0.9% year on year to ¥1,421.5 billion.

### Shareholders' Equity\*

Shareholders' equity as of March 31, 2007 amounted to ¥461.2 billion, up 6.5% from a year earlier.

\*Net assets - minority interests - share subscription rights.

As a result, the equity ratio climbed from 22.0% a year earlier to 23.1% as of March 31, 2007.

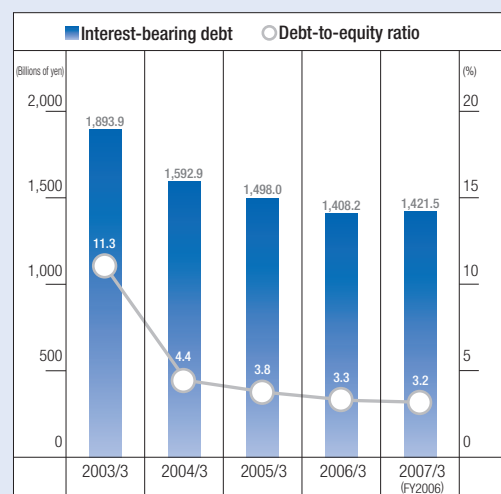
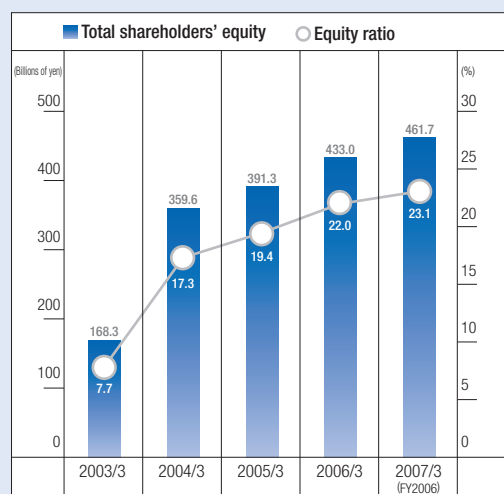
## Capital Expenditures

Capital expenditures for fiscal 2006 remained within the scope of cash flows from operating activities as in the previous fiscal year. Capital expenditures in the electric power business surged 64% year on year to ¥90.4 billion.

Looking ahead, J-POWER's major plans for capital expenditures include the Isogo New No. 2 Thermal Power Plant (output capacity of 600 MW, in Kanagawa Prefecture), which is scheduled to commence operations in fiscal 2009, and the Ohma Nuclear Power Plant (output capacity of 1,383 MW, in Aomori Prefecture), which is scheduled to commence operations in fiscal 2011.

Regarding the construction plan of the Tokuyama Power Plant (output capacity of 153 MW, general hydro-electric power, in Gifu Prefecture), J-POWER has reached an agreement with Chubu Electric Power Co., Inc. that following completion of the Tokuyama Dam (scheduled in fiscal 2007), the required procedures will be taken and the operating body of the power plant shall be transferred from J-POWER to Chubu Electric Power.

As we started construction of the Isogo New No. 2 Thermal Power Plant in the previous fiscal year, capital expenditures are 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 commence in fiscal 2007.



\*Debt-to-equity ratio = Interest-bearing debt ÷ Total shareholders' equity

For fiscal 2007, we are forecasting total capital expenditures of ¥146.2 billion in the electric power business, primarily reflecting investment in the maintenance and upgrading of existing facilities, as well as the two new power plants mentioned above.

## Fund Procurement

J-POWER's financing needs are primarily related to capital expenditures and debt refinancing, and the Group adheres to a basic policy of fund procurement based on long-term funding. As a means of long-term fund procurement, we issue straight bonds in order to maintain a low-rate and stable fund procurement platform. The balance of outstanding straight bonds as of March 31, 2007 was ¥389.9 billion. Also, we undertake short-term funding to raise operating funds, as well as to enhance the flexibility of procurement options. In order to meet the needs for short-term funding, we are currently able to issue up to a total of ¥200 billion in commercial paper.

In addition to these measures, we implement both short- and long-term funding through an extensive business relationship with banking institutions.

## Cash Flow

### Cash flow from operating activities

Net cash from operating activities was ¥157.2 billion, a decrease of ¥16.7 billion compared to the previous fiscal year. This decrease reflected a decline in retained earnings resulting from lower depreciation expenses and other items, in spite of the decrease in accounts receivable and other factors.

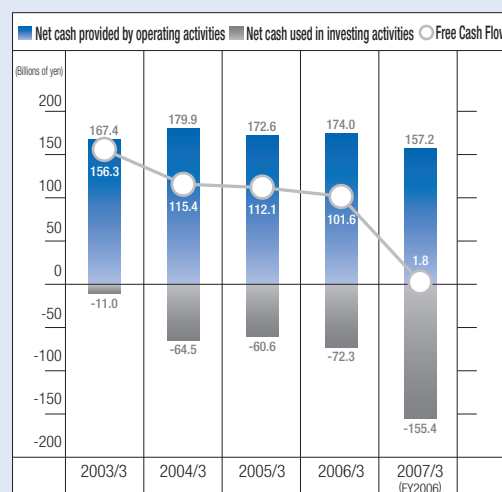
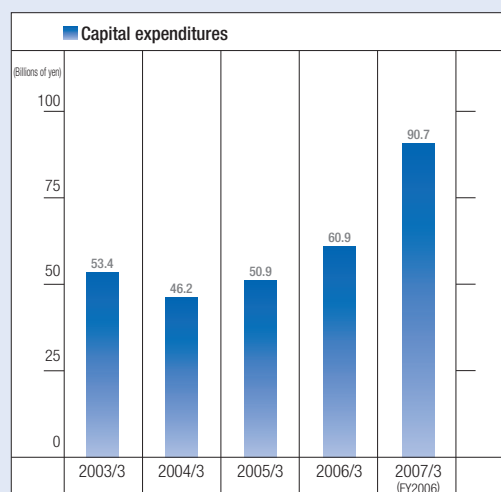
### Cash flow from investing activities

Net cash used in investing activities amounted to ¥155.4 billion, a year-on-year increase of ¥83.1 billion. This increase reflected, among other things, additional construction-related expenditures at the Ohma Nuclear Power Plant, the acquisition of interest in the Tenaska Frontier Power Plant in the United States and other items.

### Cash flow from financing activities

Net cash used in financing activities amounted to ¥2.2 billion, a year on year decrease of ¥101.4 billion. Although the amount of borrowings declined, the decrease also reflected a drop in the redemption of corporate bonds.

As a result of these activities, and after taking into account an increase of ¥5.7 billion from changes in the scope of consolidation, cash and cash equivalents as of March 31, 2007 totaled ¥34.6 billion, up ¥5.7 billion from the balance of ¥28.9 billion as of March 31, 2006.



\*Free Cash Flow=Net Cash used in investing activities+Net Cash provided by operating activities

# Risk Factors

## Business and Other Risks

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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, 2007.

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### 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.

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### Delay or Discontinuation of Our Current Power Plant Construction

Slacking 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. In some cases, 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.

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### 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.

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### 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.



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## 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.

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## 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 1,383 MW). 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.

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## 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.

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## 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.

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## 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.

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## 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, 2006 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2006	2007	2007
<b>Assets</b>			
Property, plant and equipment, net	¥1,666,304	¥1,634,387	\$13,844,878
Power plants (Notes 2, 3 and 4)	1,438,443	1,351,994	11,452,724
Other property, plant and equipment (Notes 2, 3 and 4)	28,336	33,682	285,327
Construction in progress (Note 2)	199,524	248,710	2,106,827
Investment and other assets	161,564	227,430	1,926,559
Long-term investments (Notes 2, 4 and 13)	114,600	180,325	1,527,537
Deferred tax assets (Notes 2 and 16)	42,944	43,094	365,053
Others	4,018	4,009	33,968
Current assets	136,798	137,976	1,168,797
Cash and bank deposits (Note 11)	28,961	35,029	296,734
Notes and accounts receivable, less allowance for doubtful accounts	56,484	47,150	399,413
Inventories (Note 2)	18,160	20,783	176,054
Others (Notes 2 and 16)	33,192	35,013	296,595
<b>Total Assets</b>	<b>¥1,964,667</b>	<b>¥1,999,794</b>	<b>\$16,940,234</b>

## Liabilities, Minority Interests and Net Assets

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2006	2007	2007
Long-term liabilities	¥1,215,033	¥1,193,139	\$10,107,073
Long-term debt, less current portion (Note 4)	1,166,024	1,149,845	9,740,323
Accrued employee retirement benefits (Notes 2 and 15)	36,233	32,611	276,250
Others (Note 16)	12,776	10,683	90,498
Current liabilities	313,999	341,844	2,895,758
Current portion of long-term debt and other (Note 4)	106,772	173,638	1,470,887
Short-term loans (Note 4)	24,436	2,115	17,921
Commercial paper (Note 4)	111,000	95,944	812,746
Income and other taxes payable	20,867	8,752	74,141
Others	50,924	61,393	520,062
Reserve for fluctuation in water levels (Note 2)	1,399	2,155	18,261
Contingent liabilities (Note 5)			
Total Liabilities	1,530,432	1,537,140	13,021,092
Minority interests	1,206	—	—
Shareholders' equity (Notes 2 and 17)			
Common stock	152,449	—	—
Capital surplus	81,849	—	—
Retained earnings	182,760	—	—
Unrealized gain on other securities, net (Note 2)	14,050	—	—
Foreign currency translation adjustments (Note 2)	1,935	—	—
Treasury stock	(17)	—	—
Total Shareholders' equity	433,028	—	—
Total Liabilities, Minority interests and Shareholders' equity	1,964,667	—	—
Shareholders' equity			
Common stock	—	152,449	1,291,398
Capital surplus	—	81,849	693,346
Retained earnings	—	210,713	1,784,954
Treasury stock	—	(56)	(482)
Total Shareholders' equity	—	444,956	3,769,217
Valuation and translation adjustments			
Unrealized gain on other securities, net (Note 2)	—	14,271	120,891
Deferred hedging gain and loss (Notes 2 and 17)	—	(4,131)	(34,996)
Foreign currency translation adjustments (Note 2)	—	6,090	51,589
Valuation and translation adjustments	—	16,230	137,484
Minority interests	—	1,468	12,439
Total Net assets (Notes 2 and 14)	—	462,654	3,919,141
Total Liabilities, Minority interests and Net assets	—	¥1,999,794	\$16,940,234
	Yen		U.S. dollars (Note 2)
Shareholders' equity per share (Note 2)	¥2,598.90	¥2,768.95	\$23.46



# Consolidated Statements of Income

For the years ended March 31, 2005, 2006 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2005	2006	2007	2007
Operating revenues	¥594,375	¥621,933	¥573,277	\$4,856,226
Electric power	547,960	573,198	523,782	4,436,956
Other	46,414	48,734	49,494	419,270
Operating expenses (Notes 2, 6, 7, 8 and 15)	482,489	520,464	496,136	4,202,762
Electric power	431,678	469,720	444,463	3,765,041
Other	50,810	50,744	51,673	437,721
Operating income	111,885	101,469	77,141	653,463
Other income (expenses), net (Notes 2 and 9)	(55,901)	(33,163)	(22,384)	(189,615)
Interest expenses	(50,881)	(35,732)	(22,585)	(191,317)
(Provision for) Reversal of reserve for fluctuation in water levels	(1,108)	399	(756)	(6,409)
Other, net	(3,910)	2,170	957	8,110
Income before income taxes and minority interests	55,984	68,305	54,757	463,848
Income taxes (Notes 2 and 16)				
Current	22,909	26,151	18,461	156,387
Deferred	(2,511)	(1,488)	1,431	12,126
Minority interests	27	65	(302)	(2,565)
Net income	¥35,559	¥43,577	¥35,167	\$297,900
Amounts per share;	Yen			U.S.dollars (Note 2)
Net income (Note 2)	¥255.01	¥260.76	¥211.14	\$1.79
Cash dividends applicable to the year (Note 10)	60.00	60.00	60.00	0.51

# Consolidated Statements of Shareholders' Equity

For the years ended March 31, 2005, 2006 and 2007

	Millions of yen							
	Number of issued and outstanding common stock (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gain (loss) on other securities, net	Deferred hedging gain and loss	Foreign currency translation adjustments
Balance at March 31, 2004	138,808	¥152,449	¥81,849	¥123,213		¥3,738		¥(1,605)
Net income				35,559				
Dividends *				(5,410)				
Bonuses to directors and statutory auditors *				(132)				
Increase in earnings from the addition of consolidated subsidiaries				137				
Decrease in earnings from the addition of consolidated subsidiaries				(1,420)				
Increase due to the addition of affiliates accounted for by the equity method				173				
Acquisition of treasury stock					(1)			
Net change during the year						2,469		306
Balance at March 31, 2005	138,808	152,449	81,849	152,121	(1)	6,207		(1,299)
Stock split	27,761							
Net income				43,577				
Dividends *				(12,492)				
Bonuses to directors and statutory auditors *				(162)				
Decrease in earnings from the addition of consolidated subsidiaries				(400)				
Increase due to the addition of affiliates accounted for by the equity method				187				
Decrease due to the addition of affiliates accounted for by the equity method				(69)				
Acquisition of treasury stock					(16)			
Net change during the year						7,842		3,234
Balance at March 31, 2006	166,569	152,449	81,849	182,760	(17)	14,050		1,935
Net income				35,167				
Dividends *				(9,993)				
Bonuses to directors and statutory auditors *				(161)				
Increase in earnings from the addition of consolidated subsidiaries				4,533				
Decrease in earnings from the addition of consolidated subsidiaries				(1,671)				
Increase due to the addition of affiliates accounted for by the equity method				66				
Decrease due to the addition of affiliates accounted for by the equity method				(6)				
Increase resulting from decrease of consolidated subsidiaries				19				
Acquisition of treasury stock					(39)			
Net change during the year						220	(4,131)	4,155
Balance at March 31, 2007	166,569	¥152,449	¥81,849	¥210,713	¥(56)	¥14,271	¥(4,131)	¥6,090

	Thousands of U.S. dollars (Notes 2)						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gain (loss) on other securities, net	Deferred hedging gain and loss	Foreign currency translation adjustments
Balance at March 31, 2006	\$1,291,398	\$693,346	\$1,548,162	\$(145)	\$119,021		\$16,391
Net income			297,900				
Dividends *			(84,656)				
Bonuses to directors and statutory auditors *			(1,369)				
Increase in earnings from the addition of consolidated subsidiaries			38,404				
Decrease in earnings from the addition of consolidated subsidiaries			(14,156)				
Increase due to the addition of affiliates accounted for by the equity method			564				
Decrease due to the addition of affiliates accounted for by the equity method			(55)				
Increase resulting from decrease of consolidated subsidiaries			161				
Acquisition of treasury stock				(337)			
Net change during the year					1,870	(34,996)	35,197
Balance at March 31, 2007	\$1,291,398	\$693,346	\$1,784,954	\$(482)	\$120,891	\$(34,996)	\$51,589

\*Items approved as distribution of surplus at the general meeting of shareholders held in each fiscal year.

# Consolidated Statements of Cash Flows

For the years ended March 31, 2005, 2006 and 2007

Thousands of  
U.S. dollars  
(Note 2)

	Millions of yen			
	2005	2006	2007	2007
<b>Cash flows from operating activities:</b>				
Income before income taxes and minority interests	¥ 55,984	¥ 68,305	¥54,757	\$463,848
Depreciation	125,339	135,019	123,083	1,042,641
Loss on impairment of fixed assets	1,959	729	347	2,946
Loss on disposal of property, plant and equipment	3,748	2,735	2,710	22,961
(Decrease) increase in accrued employee's retirement benefits	(3,817)	(9,495)	(4,076)	(34,532)
(Decrease) increase in reserve for fluctuation in water levels	1,108	(399)	756	6,409
Interest and dividends	(2,087)	(2,649)	(2,284)	(19,348)
Interest expenses	50,881	35,732	22,585	191,317
(Increase) decrease in notes and accounts receivable	(2,874)	(3,244)	11,383	96,431
(Increase) in inventories	(1,471)	(5,080)	(2,205)	(18,681)
(Decrease) increase in notes and accounts payable	1,151	(1,810)	2,295	19,449
Investment (profit) loss on equity method	1,311	(2,042)	(5,560)	(47,099)
Profit (loss) on sale of property, plant and equipment	303	(167)	(379)	(3,215)
Others	6,504	15,987	2,250	19,065
Subtotal	238,042	233,621	205,665	1,742,192
Interest and dividends received	1,857	2,606	2,661	22,546
Interest paid	(51,940)	(36,472)	(21,934)	(185,809)
Income taxes paid	(15,322)	(25,800)	(29,151)	(246,938)
Net cash provided by operating activities	172,637	173,954	157,241	1,331,991
<b>Cash flows from investing activities:</b>				
Payments for purchase of property, plant and equipment	(57,825)	(68,449)	(95,889)	(812,280)
Proceeds from contributions grants	4,386	7,881	8,383	71,017
Proceeds from sales of property, plant and equipment	543	1,396	1,520	12,880
Payments for investments and advances	(19,952)	(14,180)	(70,345)	(595,893)
Proceeds from collections of investments and advances	13,678	2,931	3,484	29,514
Proceeds from cash and cash equivalents due to inclusion in consolidation	8	—	24	210
Others	(1,424)	(1,905)	(2,585)	(21,901)
Net cash used in investing activities	(60,586)	(72,326)	(155,407)	(1,316,452)
<b>Cash flows from financing activities:</b>				
Proceeds from issuance of bonds	89,952	149,360	89,636	759,306
Redemption of bonds	(279,910)	(234,090)	(59,067)	(500,357)
Proceeds from long-term loans	73,600	131,587	62,811	532,075
Repayment of long-term loans	(64,497)	(117,473)	(47,749)	(404,487)
Proceeds from short-term loans	198,485	128,547	22,084	187,079
Repayment of short-term loans	(188,902)	(154,964)	(44,436)	(376,418)
Proceeds from issuance of commercial paper	348,994	580,977	416,666	3,529,575
Redemption of commercial paper	(284,000)	(575,000)	(432,000)	(3,659,466)
Issuance of common stock	—	—	—	—
Payments for purchase of consolidated subsidiary's equity	—	—	—	—
Dividends paid	(5,410)	(12,472)	(9,989)	(84,623)
Dividends paid to minority interests	(108)	(71)	(84)	(716)
Others	(1)	(15)	(39)	(334)
Net cash used in financing activities	(111,798)	(103,613)	(2,168)	(18,368)
Foreign currency translation adjustments on cash and cash equivalents	17	291	331	2,804
Net (decrease) increase in cash and cash equivalents	270	(1,693)	(3)	(26)
Cash and cash equivalents at beginning of year	27,673	30,221	28,874	244,594
Increase in cash from the addition of consolidated subsidiaries	2,276	346	5,704	48,319
Cash and cash equivalents at end of year (Note 2 and 11)	¥30,221	¥28,874	¥34,575	\$ 292,888



# Notes to Consolidated Financial Statements

For the years ended March 31, 2005, 2006 and 2007

## 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 down. 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

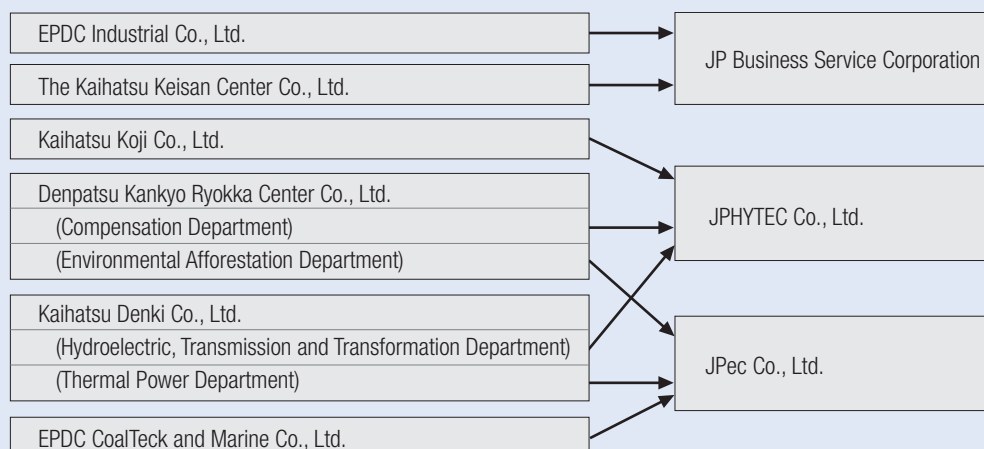
The accompanying consolidated financial statements include the accounts of the Company and its 55 subsidiaries controlled directly or indirectly by the Company.

Recognizing the added importance of consolidated results to the Group, the Company has undertaken a full-scope consolidation of its subsidiaries beginning with the year ended March 31, 2007, that includes a total of 36 companies, 25 of which were non-consolidated subsidiaries until the end of the year ended March 31, 2006. These also include J-POWER USA Investment Co., Ltd., which was established along with 7 other companies with the equity acquisition of the Tenaska Frontier power plant in the US in May 2006, Kaihatu Hiryou Hanbai Co., Ltd., which became a subsidiary when the operations were bought out in September 2006, J-POWER Holdings (Thailand) Co., Ltd., and one other company which were established in September 2006. Additionally, Epure Co., Ltd. ceased to be a consolidated subsidiary starting the year ended March 31, 2007 when the shares were transferred on March 30, 2007. J-POWER Elwood Consolidation, LLC, and 3 other companies which were established in January 2007, were subsidiaries of the Company as of March 31, 2007. Due to the fiscal closing dates of those 4 companies being different from the consolidated closing date, they are not included in the scope of consolidation.

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 6 other companies, have been included in the scope of consolidation because of their importance to mid to long-range corporate strategy.

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.

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. and 16 other companies have the same fiscal year as that of the Company.

The fiscal closing date of ITOIGAWA POWER, Inc. is the end of February, and the fiscal closing date of each of J-POWER AUSTRALIA PTY. LTD. and 16 other overseas subsidiaries is the end of December. The financial statements of these subsidiaries as of these dates are used for consolidation after necessary adjustments with regard to significant transactions incurred during the periods between their fiscal closing dates and that of the Company.

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

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

Note that beginning with the year ended March 31, 2007, the Company has added a total of 7 companies as equity method affiliates to its group, including J-Wind TOKIO Co. Ltd., Setouchi Power Corporation, ShanXi TianShi Power Generation Co., Ltd., EGCO Green Energy Co., Ltd., Roi-Et Green Co., Ltd., Tenaska Frontier Partners, Ltd. and one other company in recognition of its business strategic importance in the mid to long-term.

Note also that with the completion of its liquidation on November 8, 2006, Trang Biomass Co., Ltd. has been excluded effective with the year ended March 31, 2007.

Additionally, regarding Elwood Energy LLC and one other company, as well as Zajaczkowo Windfarm Sp.zo.o., these 3 companies are listed as the Company's affiliates as of March 31, 2007, they will be included as affiliates under the equity method effective with the year ending March 31, 2008 since their fiscal closing dates differ from the consolidated closing date.

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, have been accounted for by the equity method.

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 28 affiliates, excluded TOSA POWER Inc., Mihama Seaside Power Co., Ltd., J-Wind TOKIO Co., Ltd. and Setouchi Power Corporation, which were accounted for using the equity method, have different fiscal closing dates from that of the Company. Accordingly, their financial statements as of their respective fiscal closing dates are used in consolidation. Note also that the fiscal closing date of GENEX Co., Ltd matched the consolidated closing date through the year ended March 31, 2006, but the change in accounting period with the year ended March 31, 2007 caused their fiscal closing dates to differ from the consolidated closing date.

#### (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

Starting with the year ended March 31, 2006, the Company changed from the straight-line method to the declining-balance method for the depreciation of the property, plant and equipment (except for environmental protection equipment) of the Matsuura and Tachibanawan thermal power plants.

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 that was consistent with the method of calculation of the individual cost rates of both plants. Therefore, the straight-line method had been applied at the above thermal power plant facilities, which was different from the method applied at other plants.

With the establishment of the Japan Electric Power Exchange in April 2005 and the clear formation of electric power wholesale prices, there have been even stronger demand to further lower wholesale electric rates, and relative to the time when the depreciation method above was first established, changes have occurred in conditions relating to

the calculation of the Company's wholesale rates. In view of these circumstances, the Company 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 straight-line method.

It is believed that this change in depreciation method will contribute to stronger finances 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 year ended March 31, 2006 increased ¥14,255 million and operating income and income before income taxes and minority interests decreased the same amount respectively.

**c. Investments**

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 net assets. 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.

**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 closing date.

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**

Through the year ended March 31, 2006, bond and stock issuance expenses and discounts on bonds were fully depreciated as carryover assets during the term in which they were incurred. Starting with the year ended March 31, 2007, however, the Company is processing bond issuance expenses as they are incurred and using the amortized cost method for bond discounts in accordance with changes in accounting standards related to financial instruments (see "Changes to Accounting Policies" @below).

**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 closing date, and the conversion differences are processed as gains or losses. The assets, liabilities, revenue and expenses of an overseas consolidated subsidiary are translated into yen at the exchange rate in effect at each fiscal closing date and the resulting translation differences are presented as the foreign currency translation adjustment account under net assets (through the end of the year ended March 31, 2006, minority interests and 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 receivables, 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 its 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 its policy is not to perform speculative transactions.

To evaluate the effectiveness of its hedging strategy on a quarterly basis or a per-transaction 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 the year ended March 31, 2006.

*Changes to Accounting Policies*

① Accounting standards for presentation of net assets in the balance sheet

Effective from the year ended March 31, 2007, the Company has adopted the "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board Statement No. 5, December 9, 2005) and the "Guidance on Accounting Standards for presentation of Net Assets in the Balance Sheet" (Guidance No. 8 of Application Guidelines for Business Accounting Standards, December 9, 2005).

The equivalent amount of the total shareholders' equity regulated formerly is ¥465,317 million.

② Accounting standards for financial instruments

Effective from the year ended March 31, 2007, the Company has adopted the "Accounting Standards for Financial Instruments" (Accounting Standards Board Statement No. 10, Final Revision: August 11, 2006) and the "Practical Guidelines for Financial Instrument Accounting" (Corporate Accounting Standards No. 14, Final Revision: October 20, 2006). The effect of this on the profits and losses has been very slight.

③ Accounting standards for director's bonuses

Effective from the year ended March 31, 2007, the Company has adopted the "Accounting Standards for Director's Bonuses" (Accounting Standards Board Statement No. 4, November 29, 2005). The effect of this on the profits and losses has been very slight.

④ 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 year ended March 31, 2004 (these accounting standards are mandatory from the year ended March 31, 2006), and therefore, these accounting standards and guidelines have been applied from the year ended March 31, 2005.

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



#### Additional information

- ① The 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 year ended March 31, 2005, 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), the Company recorded the discounted value-added and discounted capital of Enterprise tax, as "Operating expenses - Other".
- ② The 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 with the consolidated subsidiaries beginning in the year ended March 31, 2005, Green Power Setana Co., Ltd, which was included with the consolidated subsidiaries beginning in the year ended March 31, 2006, and Green Power Koriyama Nunobiki Co., Ltd., which was included with the consolidated subsidiaries starting with the year ended March 31, 2007, 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) 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.

#### (6) 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.

#### (7) 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 30, 2007, which was ¥118.05 = 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, 2006 and 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Hydroelectric power plants	¥481,068	¥469,750	\$3,979,253
Thermal power plants	613,349	555,959	4,709,526
Internal combustion power generation facilities	16,931	15,471	131,059
Transmission facilities	257,253	242,675	2,055,697
Conversion facilities	38,605	36,581	309,884
Communication facilities	9,170	9,626	81,543
General facilities	22,065	21,928	185,759
Total	¥1,438,443	¥1,351,994	\$11,452,724

Construction grants, which were deducted from the cost of property, plant and equipment as of March 31, 2006 and 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Construction grants	¥103,631	¥106,030	\$898,178

Accumulated depreciation of property, plant and equipment as of March 31, 2006 and 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Accumulated depreciation	¥2,130,163	¥2,238,682	\$18,963,847

#### 4.

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

Short-term loans and long-term debt as of March 31, 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Loans from banks and Japanese government agencies, due on varying dates through 2023	¥ 827,480	¥809,929	\$ 6,860,902
Interest rates:			
Long-term loans, excluding current portion	1.91% (average)		
Current portion of long-term loans	0.96% (average)		
Short-term loans	0.74% (average)		
Commercial paper	0.60% (average)		
Domestic bonds guaranteed by the Government of Japan, due on varying dates through 2011, 1.1% to 2.7%	175,450	145,300	1,230,834
Domestic bonds underwritten by the Government of Japan, due on varying dates through 2007, 2.00%	2,910	2,910	24,650
Domestic straight bonds, due on varying dates through 2025, 0.93% to 2.24%	300,000	389,929	3,303,086
French franc-denominated foreign bonds guaranteed by the Government of Japan, due in 2007, 5.63%	35,474	35,474	300,500
Euro-denominated foreign bonds guaranteed by the Government of Japan, due in 2006, 4.88%	28,917	0	0
Euro yen-denominated foreign bonds guaranteed by the Government of Japan, due in 2010, 1.80%	38,000	38,000	321,897
Subtotal	1,408,232	1,421,542	12,041,871
Less Current portion	(242,207)	(271,697)	(2,301,547)
Total	¥1,166,024	¥1,149,845	\$9,740,323

The annual maturities of bonds and long-term debts subsequent to March 31, 2007, are summarized as follows:

Years ended March 31	Millions of yen	Thousands of U.S. dollars
2008	¥271,697	\$2,301,547
2009	101,546	860,200
2010	72,344	612,829
2011	127,460	1,079,713
2012	90,902	770,036
2013 and thereafter	757,591	6,417,544
<b>Total</b>	<b>¥1,421,542</b>	<b>\$12,041,871</b>

All of the Company's assets are subject to certain statutory liens as security for bonds. The outstanding amount of such bonds amounted to ¥726,081 million and ¥623,054 million (\$5,277,882 thousand, including corporate bonds that were used to discharge certain debts through bond performance underwriting contracts) as of March 31, 2006 and 2007, respectively. Some long-term investments used as collateral for loans to affiliated companies were ¥142 million and ¥1,833 million (\$15,527 thousand) as of March 31, 2006 and 2007 respectively.

The book value of the Company's assets pledged as collateral for the debt of certain consolidated subsidiaries, which debt totaled ¥7,343 million and ¥6,553 million (\$55,512 thousand) as of March 31, 2006 and 2007, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Power plants	¥10,059	¥9,453	\$80,083
Other property, plant and equipment	857	336	2,854

## 5.

### Contingent liabilities

Contingent liabilities as of March 31, 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Guarantees given for loans of other companies:			
TOSA POWER Inc.	¥ 4,731	¥ 4,301	\$ 36,434
Green Power Koriyama Nunobiki Co., Ltd.	4,300	—	—
Ecuador Resources Finance Ltd.	738	—	—
Roi-Et Green Co., Ltd.	264	239	2,029
Okutadami Kanko Co., Ltd.	230	187	1,590
Kanda Eco Plant Co., Ltd.	147	128	1,088
Kawagoe Cable Vision Co., Ltd.	64	43	372
Daiichi Chuo Kisen Kaisha	—	80	684
<b>Subtotal</b>	<b>10,477</b>	<b>4,981</b>	<b>42,200</b>
Guarantees given in connection with housing loans to Company employees	5,471	5,288	44,798
Guarantee liability for performance guarantee insurance contract for PFI business EDOGAWA Water Service (Special-Purpose Company)	44	44	378
Debts assigned by the Company to certain banks under debt assumption agreements	405,330	361,370	3,061,160
<b>Total</b>	<b>¥ 421,323</b>	<b>¥371,684</b>	<b>\$3,148,538</b>

## 6.

## Operating expenses

Operating expenses (electric power) for the years ended March 31, 2005, 2006 and 2007, were summarized as follows:

Total	Millions of yen			Thousands of U.S. dollars
	2005	2006	2007	2007
Personnel expense	¥33,764	¥21,273	¥27,235	\$ 230,713
Fuel cost	116,622	160,823	149,865	1,269,505
Repair expense	47,452	38,712	41,175	348,798
Consignment cost	34,000	31,418	31,785	269,257
Taxes and duties	24,974	29,959	28,566	241,982
Depreciation and amortization cost	122,016	131,511	118,588	1,004,563
Others	52,846	56,022	47,246	400,221
<b>Total</b>	<b>¥ 431,678</b>	<b>¥469,720</b>	<b>¥444,463</b>	<b>\$3,765,041</b>

Selling, general and administration expenses included in operating expenses (electric power) for the years ended March 31, 2005, 2006 and 2007, were as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2006	2007	2007
Personnel expense	¥24,177	¥11,438	¥17,369	\$ 147,140
Fuel cost	—	—	—	—
Repair expense	1,402	1,073	1,360	11,525
Consignment cost	12,042	9,326	8,185	69,338
Taxes and duties	618	561	501	4,245
Depreciation and amortization cost	2,386	2,630	2,201	18,647
Others	16,671	13,413	14,989	126,973
<b>Total</b>	<b>¥57,299</b>	<b>¥38,443</b>	<b>¥44,607</b>	<b>\$ 377,869</b>

## 7.

## Enterprise tax

Most of the enterprise taxes of the Company and 11 affiliates are 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 ¥7,181 million, ¥7,501 million and ¥6,885 million (\$58,325 thousand) for the years ended March 31, 2005, 2006 and 2007, 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 11 consolidated subsidiaries that operate electric power business.

## 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, 2005, 2006 and 2007, were as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2006	2007	2007
Research and development costs	¥6,381	¥6,803	¥6,415	\$54,345



## 9.

### Loss on impairment of fixed assets

The Company's group bases the grouping of its assets on the categories used in its management accounting, which maintains a continuous grasp of the balance of payments. In addition, idle assets for which no immediate use is foreseen and others 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, 2006 and 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Land	¥179	¥ —	\$ —
Buildings and structures	548	—	—
Machinery	—	172	1,457
Other	2	175	1,489
<b>Total</b>	<b>¥729</b>	<b>¥347</b>	<b>\$2,946</b>

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 dividend from surplus of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2007, was approved at the general meeting of the shareholders held on June 27, 2007:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥30 (\$0.25) per share)	<b>¥4,996</b>	<b>\$42,326</b>

## 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, 2006 and 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Cash and bank deposits on the consolidated balance sheets	¥28,961	<b>¥35,029</b>	<b>\$296,734</b>
Time deposits with a maturity of more than three months	(87)	<b>(453)</b>	<b>(3,845)</b>
Cash and cash equivalents on the consolidated statements of cash flows	¥28,874	<b>¥34,575</b>	<b>\$292,888</b>

## 12.

### 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, 2006 and 2007, were as follows:

	Millions of yen						Thousands of U.S. dollars		
	2006			2007			2007		
	Acquisition cost	Accumulated depreciation	Net leased property	Acquisition cost	Accumulated depreciation	Net leased property	Acquisition cost	Accumulated depreciation	Net leased property
Electric utility plant	¥7,729	¥6,659	¥1,070	¥1,640	¥907	¥733	\$13,895	\$7,685	\$6,210
Others	2,938	1,089	1,849	3,137	1,275	1,862	26,576	10,803	15,773
Total	¥10,667	¥7,748	¥2,919	¥4,777	¥2,182	¥2,595	\$40,472	\$18,489	\$21,983

Acquisition cost includes the imputed interest expense portion.

Future lease payments under finance leases as of March 31, 2006 and 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Due within one year	¥1,134	¥830	\$7,037
Due after one year	1,785	1,764	14,946
Total	¥2,919	¥2,595	\$21,983

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

Lease payments (including accumulated depreciation) under finance leases were ¥2,310 million and ¥1,300 million (\$11,013 thousand) as of March 31, 2006 and 2007, 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, 2006 and 2007, were as follows:

	Millions of yen						Thousands of U.S. dollars		
	2006			2007			2007		
	Acquisition cost	Accumulated depreciation	Net leased property	Acquisition cost	Accumulated depreciation	Net leased property	Acquisition cost	Accumulated depreciation	Net leased property
Others	¥82	¥59	¥23	¥35	¥21	¥14	\$300	\$179	\$121

Future lease revenues under finance leases as of March 31, 2006 and 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Due within one year	¥20	¥8	\$75
Due after one year	19	12	107
Total	¥39	¥21	\$182

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

Revenues under finance leases were ¥23 million and ¥14 million (\$122 thousand), for the years ended March 31, 2006 and 2007, respectively.

Depreciation under finance leases was ¥14 million and ¥5 million (\$45 thousand), for the years ended March 31, 2006 and 2007, respectively.

## 13.

## Marketable securities and investment securities

(1) Other securities for which market prices were available as of March 31, 2006 and 2007, were as follows:

## a. Stocks: Balance sheet amount more than cost

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Cost	¥9,422	¥21,370	\$181,031
Balance sheet amount	31,243	42,355	358,792
Unrealized gain	¥21,820	¥20,984	\$177,760

## b. Stocks: Balance sheet amount less than cost

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Cost	¥120	¥9,497	\$80,452
Balance sheet amount	69	9,188	77,837
Unrealized loss	¥ (50)	¥ (308)	\$ (2,615)

## c. Total:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Cost	¥9,542	¥30,868	\$261,483
Balance sheet amount	31,313	51,544	436,629
Unrealized gain	¥21,770	¥20,675	\$175,145

(2) Sale of other marketable securities as of March 31, 2006 and 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Sale value	¥34	—	—
Capital gains	8	—	—
Loss on sale	¥299	—	—

(3) Non-marketable securities and investment securities stated at cost as of March 31, 2006 and 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Unlisted stock	¥17,558	¥17,108	\$144,930
Unlisted foreign stock	1,518	2,710	22,961
Capital contribution	2,468	2,469	20,919
Foreign capital contribution	388	338	2,870
Others	1,263	1,372	11,625
Total	¥23,197	¥24,000	\$203,307

## Derivatives

### (1) Transaction status

#### a. Description of transactions

The derivative transactions that are used are forward foreign exchange contracts, currency swap transactions, interest rate swap transactions and fuel price swap transactions.

#### b. Purpose and policy of transactions

As a policy, the Company utilizes derivatives solely to hedge foreign denominated credit and debt risk, foreign currency exchange risk, interest rate risk on financial debt and fuel purchase price fluctuation risk to its underlying assets and liabilities and does not execute speculative derivatives dealings.

The Company applies hedge accounting for derivatives. Hedged items are bonds, loans, some foreign-denominated credit and debt and some transactions involving fuel purchases. Hedging instruments are derivative transactions assigned to foreign currency-denominated credit and debt, swaps related to fuel prices, and transaction used as specially processed interest rate swaps. Hedging activities are performed to the extent of the underlying liabilities in order to reduce foreign exchange, interest rate and fuel purchase price fluctuation risk.

#### c. Description of risks 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.

#### d. 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, 2006 and 2007, as all derivatives qualified for hedge accounting.

The Company and certain of its domestic consolidated subsidiaries have defined benefit plans, including defined benefit



## Employee retirement benefit plans

corporate pension plans, tax-qualified pension plans and lump sum retirement benefit plans. Note that starting with the year ended March 31, 2007, with the exception of a consolidated subsidiary the Company is transitioning from tax-qualified pension plans to defined benefit corporate pension plans. Severance payments in addition to the amounts actuarially calculated under lump sum retirement benefit plans are sometimes paid to employees upon retirement.

Retirement benefit obligation as of March 31, 2006 and 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Retirement benefit obligation	¥(127,847)	¥(129,366)	\$(1,095,862)
Plan assets at fair value	97,217	98,559	834,895
Unfunded retirement benefit obligation	(30,630)	(30,807)	(260,967)
Unrecognized actuarial loss	(4,825)	(2,313)	(19,601)
Unrecognized prior service cost	(776)	509	4,317
Accrued employees' retirement benefits	¥ (36,233)	¥ (32,611)	\$ (276,250)

Retirement benefit expenses for the years ended March 31, 2005, 2006 and 2007, were as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2006	2007	2007
Service cost	¥ 4,689	¥ 4,618	¥ 4,959	\$42,014
Interest cost	2,477	2,467	2,481	21,017
Expected return on plan assets	(1,943)	(2,097)	(2,573)	(21,798)
Amortization of prior service cost	675	(136)	221	1,873
Amortization of actuarial loss	227	(8,920)	(4,170)	(35,325)
Additional severance payments, etc.	3,651	1,291	1,150	9,744
Total	¥ 9,779	¥(2,775)	¥ 2,068	\$17,526

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, 2005, 2006 and 2007, were as follows:

	2005	2006	2007
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.

Tax effect  
accounting

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, 2006 and 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Deferred tax assets:			
Excess of retirement benefits	¥17,190	¥15,939	\$135,023
Tax effect on elimination of unrealized gain on fixed-assets	14,069	14,694	124,477
Excess of amortization of deferred charges for tax purposes	5,171	4,781	40,505
Excess of depreciation of fixed assets	4,896	4,712	39,920
Amount assigned but not yet paid	2,558	2,755	23,341
Excess of reserve for fluctuations in water levels	503	776	6,573
Other	13,575	16,373	138,702
Subtotal deferred tax assets	57,964	60,033	508,546
Valuation allowance	(1,021)	(3,053)	(25,864)
Total deferred tax assets	56,942	56,980	482,681
Deferred tax liabilities:			
Other	(8,965)	(9,746)	(82,559)
Total deferred tax liabilities	(8,965)	(9,746)	(82,559)
Net deferred tax assets	¥47,977	¥47,234	\$400,122

## 17.

Shareholders'  
equity

The corporate law being applied starting with the year ended March 31, 2007 provides that an amount equal to at least 10% of the amount to be disbursed as dividends, or the total of the additional paid-in capital and the legal reserves from 25% of the common stock, whichever is less, be deducted and appropriated into the additional paid-in capital or legal reserve.

Furthermore, under the commercial code (had been superseded by the New Corporate Law executed on May 1, 2006), which was applied through the end of the year ended March 31, 2006, it was provided that an amount equal to at least 10% of the amounts to be disbursed as dividends 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 legal reserves are included in retained earnings in the accompanying consolidated financial statements.

The limit allowed for dividends (potential dividend amount) is calculated as set forth in the Company's individual financial statements in accordance with the corporate law.

The additional paid-in capital and the legal reserves are not included with the potential dividend amount, but under the corporate law, they can be switched to the potential dividend amount by a resolution at the general meeting of shareholders.

Note that under the previous commercial code, the switch to the potential dividend amount could only be made by a resolution at the general meeting of shareholders when the total amount of the additional paid-in capital and the legal reserves exceeded 25% of the common stock account.

The basic guideline is that the Company's surplus funds be distributed twice per year as an interim dividend by a resolution of the board of directors and a term-end dividend by resolution of the general meeting of shareholders.

Information about business segments of the Company and its consolidated subsidiaries for the years ended March 31, 2005, 2006 and 2007, was as follows:

## (1) Business Segments

	Millions of yen				
	2005		Subtotal	Elimination	Consolidated
	Electric power	Other			
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		Subtotal	Elimination	Consolidated
	Electric power	Other			
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

	Millions of yen					
	2007					
	Electric power	Electric power-related	Other	Subtotal	Elimination	Consolidated
Sales to customers	¥523,782	¥26,996	¥22,497	¥573,277	¥ —	¥573,277
Intersegment sales	3,217	223,149	5,993	232,360	(232,360)	—
Total sales	527,000	250,146	28,491	805,638	(232,360)	573,277
Operating expenses	465,563	234,541	27,334	727,440	(231,304)	496,136
Operating income	61,436	15,604	1,156	78,198	(1,056)	77,141
Assets	1,946,707	137,495	64,273	2,148,475	(148,680)	1,999,794
Depreciation	121,853	3,387	963	126,205	(3,121)	123,083
Loss on impairment of fixed assets	—	347	—	347	—	347
Capital expenditures	90,378	5,470	542	96,391	(5,687)	90,704

	Thousands of U.S. dollars					
	2007					
	Electric power	Electric power-related	Other	Subtotal	Elimination	Consolidated
Sales to customers	\$ 4,436,956	\$228,690	\$190,579	\$4,856,226	\$ —	\$4,856,226
Intersegment sales	27,256	1,890,297	50,771	1,968,325	(1,968,325)	—
Total sales	4,464,212	2,118,988	241,351	6,824,552	(1,968,325)	4,856,226
Operating expenses	3,943,786	1,986,800	231,550	6,162,137	(1,959,374)	4,202,762
Operating income	520,426	132,187	9,800	662,414	(8,950)	653,463
Assets	16,490,531	1,164,720	544,457	18,199,709	(1,259,474)	16,940,234
Depreciation	1,032,221	28,698	8,165	1,069,084	(26,443)	1,042,641
Loss on impairment of fixed assets	—	2,946	—	2,946	—	2,946
Capital expenditures	765,595	46,337	4,595	816,528	(48,175)	768,353

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

**Electric Power Business:** Wholesale electric power business, other electric power businesses

**Other Businesses:** 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.

Starting with the year ended March 31, 2007, the business segments were changed from the traditional two: “Electric Power Business” and “Other Businesses” to three: “Electric Power Business”, “Electric Power-related Businesses” and “Other Businesses”. This will clarify the scale of operations of the separately disclosed “Electric Power-related Businesses” that complements the “Electric Power Business” and contributes to its smooth and efficient implementation. Also, by filling out the information being disclosed, the Company improved the usefulness of the segment information by type of operations. The names of the principal products belonging to each segment are as follows.

**Electric Power Business:** Wholesale electric power business, other electric power businesses

**Electric Power-related Businesses:** 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. and computer services.

**Other Businesses:** Investing in overseas power generation, waste-fueled power generation, co-generation, environmental businesses, telecommunications businesses, and engineering and consulting in the country and abroad.



Furthermore, the segment type information for the operations in the year ended March 31, 2006 are shown below, grouped according to the business segments used in the year ended March 31, 2007.

	Millions of yen					
	2006					
	Electric power	Electric power-related	Other	Subtotal	Elimination	Consolidated
Sales to customers	¥ 573,198	¥ 31,975	¥ 16,758	¥ 621,933	¥ —	¥ 621,933
Intersegment sales	1,390	208,418	106	209,915	(209,915)	—
Total sales	574,589	240,394	16,864	831,848	(209,915)	621,933
Operating expenses	487,531	226,976	16,484	730,992	(210,528)	520,464
Operating income	87,057	13,418	379	100,855	613	101,469
Assets	1,935,719	121,696	22,797	2,080,213	(115,546)	1,964,667
Depreciation	134,747	3,415	92	138,255	(3,235)	135,019
Loss on impairment of fixed assets	729	—	—	729	—	729
Capital expenditures	55,125	6,930	1,510	63,567	(2,705)	60,861

## (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

There were no significant related-party transactions for the years ended March 31, 2005, 2006 and 2007.

## 20.

### Significant subsequent events

#### (1) Establishment of a limited partnership with John Hancock Life Insurance and transfer of ownership of electric power plants in North America.

On May 24, 2007, the Company entered into a limited partnership agreement with John Hancock Life Insurance Company ("Hancock"), headquartered in Boston, Massachusetts, to establish a 50/50 limited partnership J-POWER USA Generation, L.P. ("Generation") for the purpose of promoting IPP business in the US. The Company owns 50% interest in Generation through its subsidiary J-POWER North America Holdings Co., Ltd. and its sub-subsidiaries J-POWER USA Investment Co., Ltd. ("I-Co") and J-POWER USA Generation GP, LLC. The 62% interest in Tenaska Frontier Partners, Ltd. and 49.9% interest in Elwood Energy LLC, which the Company had held through I-Co, were transferred to Generation for US\$80 million (approximately ¥9.5 billion). As a result, the Company holds 31% and 24.95% interest in these companies respectively. The Company expects to record very minor profit relating to this transfer of the interests.

#### (2) Sale of wind generation operations in Spain

On June 15, 2007, the Company entered into an agreement to sell to BABCOCK & BROWN WIND PARTNERS LIMITED, the shares of a Wind farm business in Spain "SEC HoldCo, S.A.", which the Company invested in (50% share) through J-Power Investment Netherlands B.V. ("Netherlands"), the Company's 100% owned overseas investment corporation in the Netherlands. The amount from the sale of Netherlands' shares was approximately €30 million (approximately ¥4.9 billion) and the profit was approximately €21 million (approximately ¥3.5 billion).

## Report of Independent Auditors

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*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, 2007 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years ended March 31, 2007, 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, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years ended March 31, 2007 in conformity with accounting principles generally accepted in Japan.

As described in Note 20 "Significant subsequent event", the Company entered into an agreement to sell the shares of a wind farm business in Spain, which has an effect on the consolidated financial position and the consolidated results of operation after March 31, 2007.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 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 28, 2007

## Major Group Companies (As of March 31, 2007)

### Consolidated subsidiaries

Company name	Capital (Millions of yen)	Equity stake (%)	Main businesses
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
Green Power Koriyama-Nunobiki 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.	600	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
JPHYTECH 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
KEC Corporation	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
KDC Engineering Co., Ltd.	20	110	Design and construction management of electric power facilities; engineering and construction
J-POWER EnTech Co., Ltd.	120	100	Engineering of equipment for removal of atmospheric and water pollutants
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
J-Power North America Holdings Co., Ltd. (USA)	1 (\$)	100	Management of overseas investments
J-Power USA Development Co., Ltd. (USA)	1 (\$)	100 (100)	Research and development of overseas investments
J-POWER USA Investment Co., Ltd. (USA)	8 (\$)	100 (100)	Management of overseas investments
J-Power Frontier, L.P. (USA)	242 (millions of \$)	100 (100)	Management of overseas investments
J-Power Holdings (Thailand) Co., Ltd. (Thailand)	2,968 (millions of baht)	100 (100)	Management of overseas investments
J-Power Generation (Thailand) Co., Ltd. (Thailand)	39 (millions of baht)	100 (100)	Management of overseas investments
J-Power INVESTMENT U.K. LIMITED (England)	5 (thousands of \$)	100	Management of overseas investments
Omuta Plant Service Co., Ltd.	50	100	Operation and maintenance of waste-fueled power generation plant
Japan Network Engineering Co., Ltd.	50	100	Telecommunications; operation and maintenance of telecommunications facilities
Kaihatsu Hiryo Co., Ltd.	25	100 (100)	Production of fertilizer using ash
Kaihatsu Hiryo Hanbai Co., Ltd.	20	100 (100)	Sale of fertilizer using ash
and twenty two companies			

### Affiliates accounted for by the equity method

Company name	Capital (Millions of yen)	Equity stake (%)	Main businesses
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
J-Wind TOKIO Co., Ltd.	250	50	Construction and operation of wind power plants
Setouchi Power Corporation	100	50	Electric power supply
CBK Netherlands Holdings B.V. (Netherlands)	24 (thousands of \$)	50 (50)	Management of overseas investments
Gulf Electric Public Co., Ltd. (Thailand)	11,209 (millions of baht)	49 (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
EGCO Green Energy Co., Ltd. (Thailand)	175 (millions of baht)	26 (26)	Management of overseas investments
Roi-Et Green Co., Ltd. (Thailand)	180 (millions of baht)	— [95]	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
ShanXi TianShi Power Generation Co., Ltd. (China)	99 (millions of yuan)	24	Electric Power Supply
CBK Power Co., Ltd. (The Philippines)	137 (millions of \$)	— [100]	Operation of hydroelectric and pumped-storage electric power plants
Tenaska Frontier Partners, Ltd. (USA)	45 (millions of \$)	25 (25)	Electric power supply
and sixteen 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, 2007)

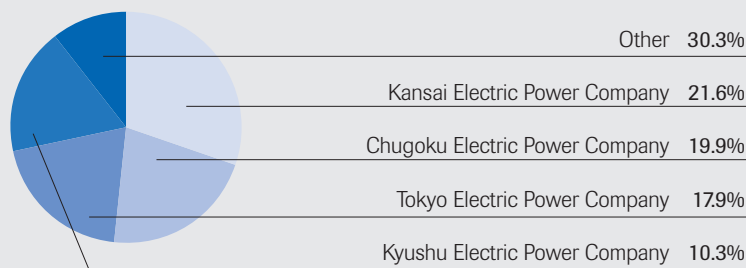
Corporate Name	Electric Power Development Co., Ltd.
Communication Name	J-POWER
Date of Establishment	Sept. 16, 1952
Headquarters Address	15-1, Ginza 6-Chome, Chuo-ku, Tokyo, 104-8165 Japan
Paid-in capital	¥152,449,600,000
Number of Shares Authorized	660,000,000
Number of Shares Outstanding	166,569,600
Number of Shareholders	36,106
Stock Exchange Listing	Tokyo
Independent Public Accountants	Ernst & Young ShinNihon
Transfer Agent	The Sumitomo Trust and Banking Company, Limited.

## Directors and Corporate Auditors

(As of July, 2007)

President (Representative Director) Yoshihiko Nakagaki	Executive Directors <b>Masaharu Fujitomi</b> <b>Toshifumi Watanabe</b> <b>Tomoo Kosugi</b> <b>Koichi Tazawa</b>
Executive Vice Presidents (Representative Director) <b>Shinichiro Ota</b> <b>Kiyoshi Sawabe</b> <b>Masayoshi Kitamura</b> <b>Masashi Hatano</b>	Senior Corporate Auditors (Full-time) <b>Masayuki Hori</b> <b>Akio Ushio</b>
Executive Managing Directors <b>Yasuo Maeda</b> <b>Kanji Shimada</b> <b>Yoshihiko Sakanashi</b> <b>Minoru Hino</b>	Corporate Auditors <b>Yasuo Matsushita</b> <b>Mutsutake Otsuka</b> <b>Hideaki Miyahara</b>

## Principal Customers of J-POWER's Electric Power Business



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

## Regional Network

### Domestic

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

### Overseas

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

For further information, please contact:

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

**IR Group**

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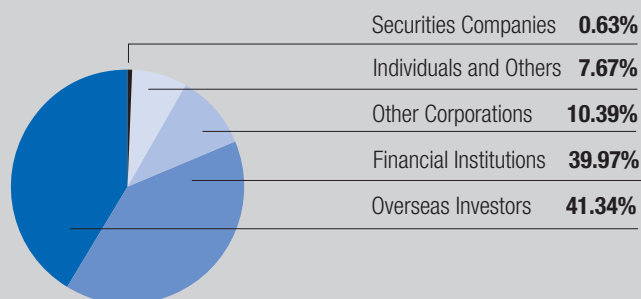
E-mail: [Investors@jpower.co.jp](mailto:Investors@jpower.co.jp)



## Major Shareholders

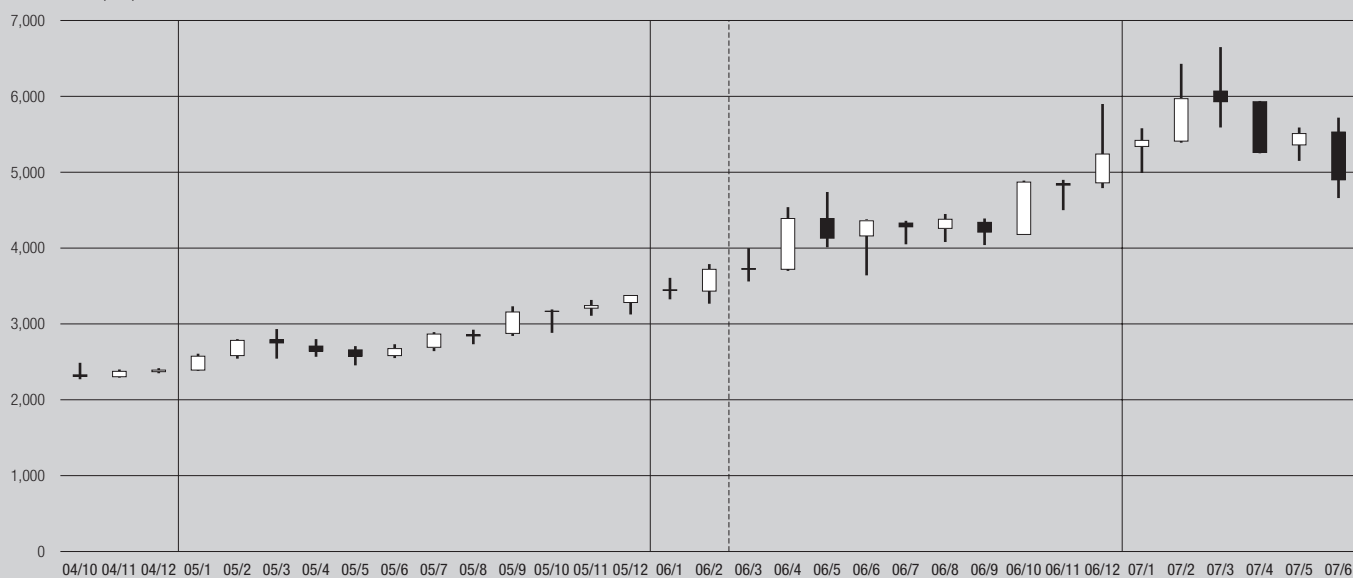
Name or Designation	Number of Shares Held (Thousands of Shares)	Percentage of the Total Shares Outstanding (%)
The Children's Investment Master Fund	16,498	9.90
Nippon Life Insurance Company	9,120	5.48
Mizuho Corporate Bank, Ltd.	8,269	4.96
Deutsche Bank AG London 610	8,195	4.92
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	4,140	2.49
Daido Life Insurance Company	3,658	2.20
Morgan Stanley and Company, Inc.	3,492	2.10
The Master Trust Bank of Japan, Ltd. (Account in Trust)	3,132	1.88
Japan Trustee Services Bank, Ltd. (Account in Trust)	3,084	1.85
National Mutual Insurance Federation of Agricultural Cooperatives	3,039	1.82

## Breakdown of Issued Shares by Type of Shareholders



## Common Stock Price Range

Stock Price (Yen)



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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