

**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 cost 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."

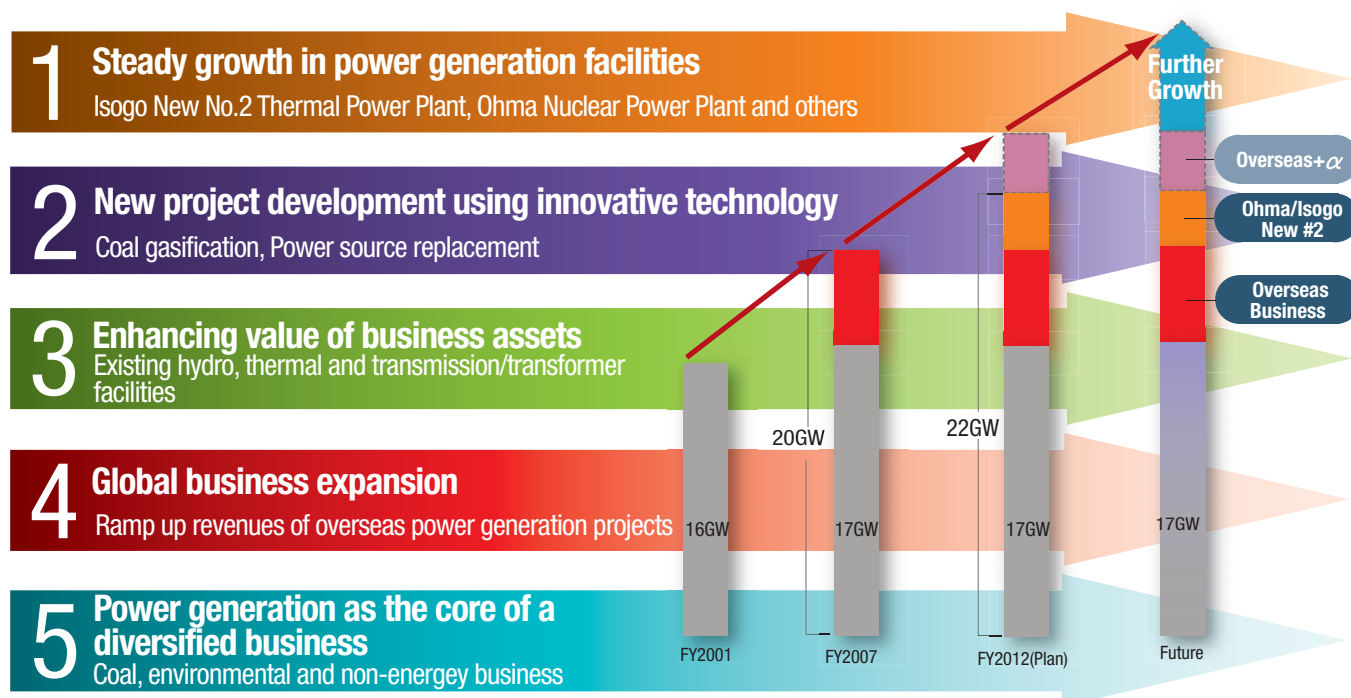
Additionally, we are aware of today's needs, which include "harmony with environment" centering on the global warming issue and "adapting to market mechanisms and building competitiveness." These are issues that have permeated the electric power business, and we have framed a new vision to realize "harmonization 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 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 "Plutermal"(\*) Policy of the Japanese government by promoting the efficient use of uranium fuel through the utilization of MOX fuel.

\*Plutermal: 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.

As 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, we bear 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 the 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 business, 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 desulphurization. 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 (\*).

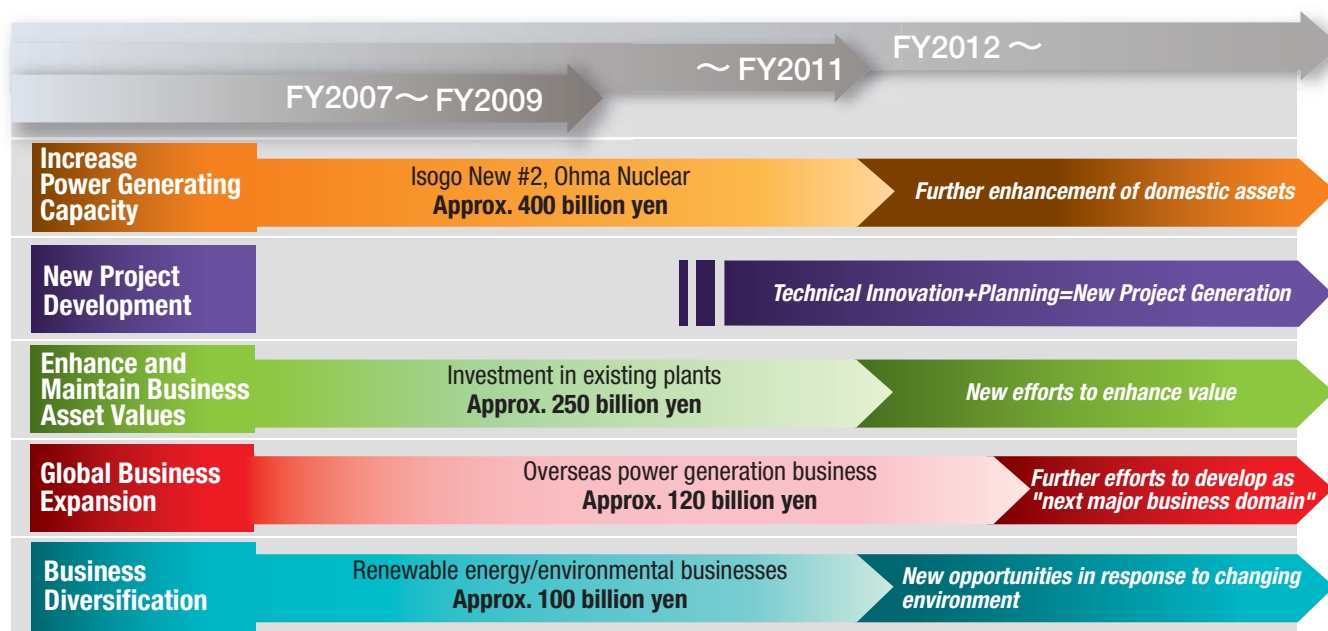
\*PFI Private Finance Initiative  
PPP Public Private Partnership

#### 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



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

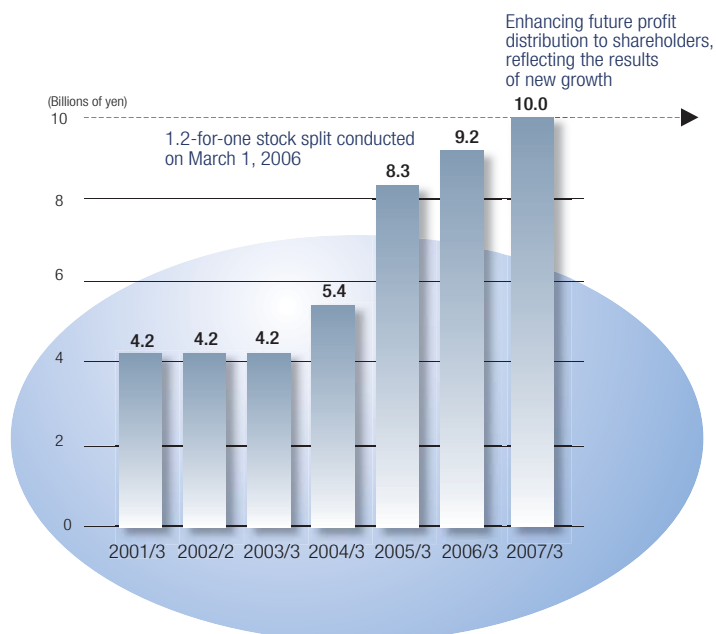
The most prominent characteristic of J-POWER's business is securing returns from its investments in power plants and other infrastructure through the long-term operation of these facilities. In light of such needs in our business operations, we place the utmost importance on shareholder returns in the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

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.

### Trends of aggregate consolidated dividends by year



## 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