

# 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.

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\*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

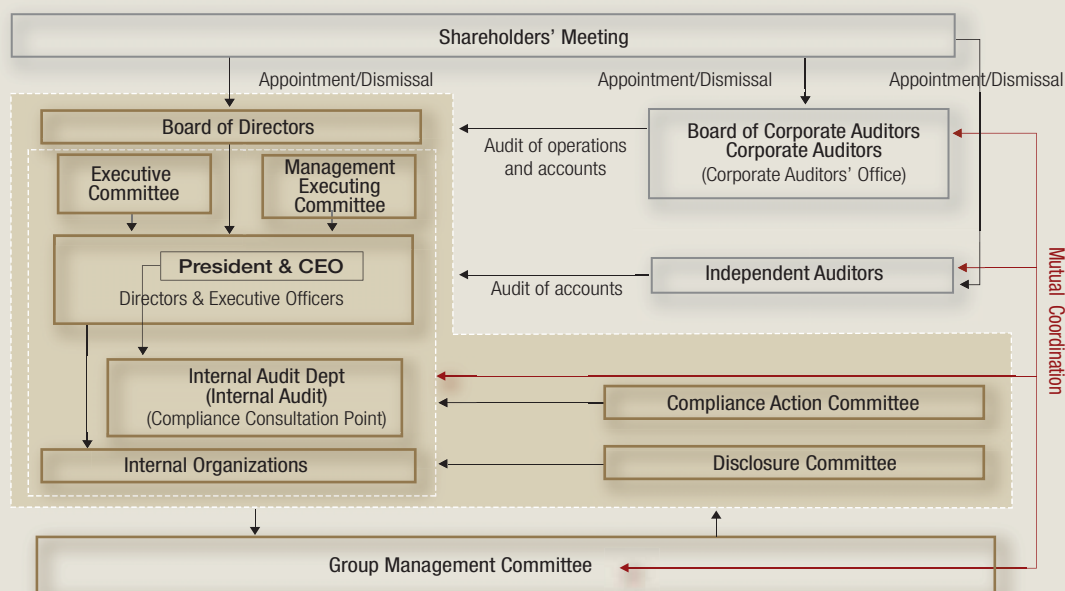
Under the Corporate Philosophy, directors take the initiative in displaying an honest and fair attitude based on a firm, law-abiding spirit and sense of ethics in accordance with the "J-POWER Corporate Conduct Rules." At the same time, they are endeavoring to instill such an attitude in all J-POWER employees.

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.

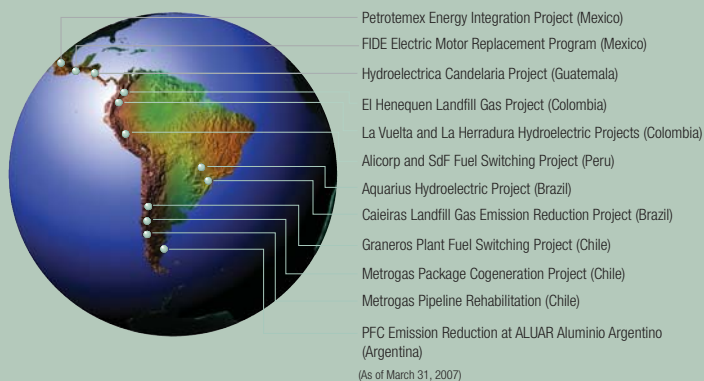
\* Clean Development Mechanism (CDM): A mechanism targeted at joint projects undertaken by developed and developing countries to reduce or absorb greenhouse gases. Developed countries gain credits from the reduced or absorbed emissions.

\* 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.