

# Aiming for Sustainable Development of Society and the J-POWER Group

The J-POWER Group aims to achieve sustainable growth while contributing to the sustainable development of society.

By advancing its energy business with a focus on “harmonizing energy supply with 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 Sustainability Report 2009 for more details regarding these initiatives. The report may also be found on the Group's website: <http://www.jpowers.co.jp/english>

## 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.

### Corporate Governance Framework

J-POWER strives to continuously enhance corporate governance through both the Board of Directors, where controls are effective through mutual checks and balances among directors who are highly knowledgeable of the Company's operations, and the Board of Corporate Auditors, which is made up of highly experienced corporate auditors who monitor management from an independent perspective.

Furthermore, from June 2009, aiming to strengthen the supervisory functions of the Board of Directors, J-POWER established a chairman position that mainly emphasizes the supervisory functions of directors, while appointing one outside director to participate in management decision-making from an independent standpoint as a non-executive director.

### 1. Directors' Business Execution Structure

Under the J-POWER Group 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 Group Corporate Conduct Rules.” At the same time, they are endeavoring to instill such an attitude in all J-POWER employees.

The Board of Directors meets monthly in principle, but also on an as-needed basis, with all directors and corporate auditors, including outside directors and auditors present. The Executive Committee normally meets every week, with all executive directors, executive managing officers and full-time corporate auditors present. This committee discusses 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 that are part of the executive duties of the president based on policies approved by the Board of Directors. Furthermore, we hold Management Executing Committee meetings twice per month, in principle. These meetings are attended by the president and executive 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, as well as introducing an executive officer system, we have established a management system in which executive directors and executive officers share duties. By clarifying management's responsibility and authority in this manner, we enable precise and prompt decision-making and efficient management.

Executive directors make regular reports regarding the performance of their duties to the Board of Directors and the Executive Committee, as well as on an as-needed basis. In accordance with relevant laws and regulations, and company regulations, the minutes of meetings are prepared and managed appropriately. Other documents on the status of the performance of directors' duties are properly prepared, stored and managed in accordance with company regulations.

In addition to these supervisory and monitoring functions, in order to ensure that operations are conducted in an appropriate manner, we have established an Internal Audit Department to conduct internal audits from an independent standpoint from other business units. Moreover, each business unit regularly conducts self-audits.

Regarding the disclosure of information outside the Company, 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.

Furthermore, in September 2008, we established the J-POWER Advisory Board to obtain from a panel of external experts multifaceted and objective advice and proposals that help to raise corporate value, and ultimately lead to the enhancement of corporate governance.

## 2. Risk Management

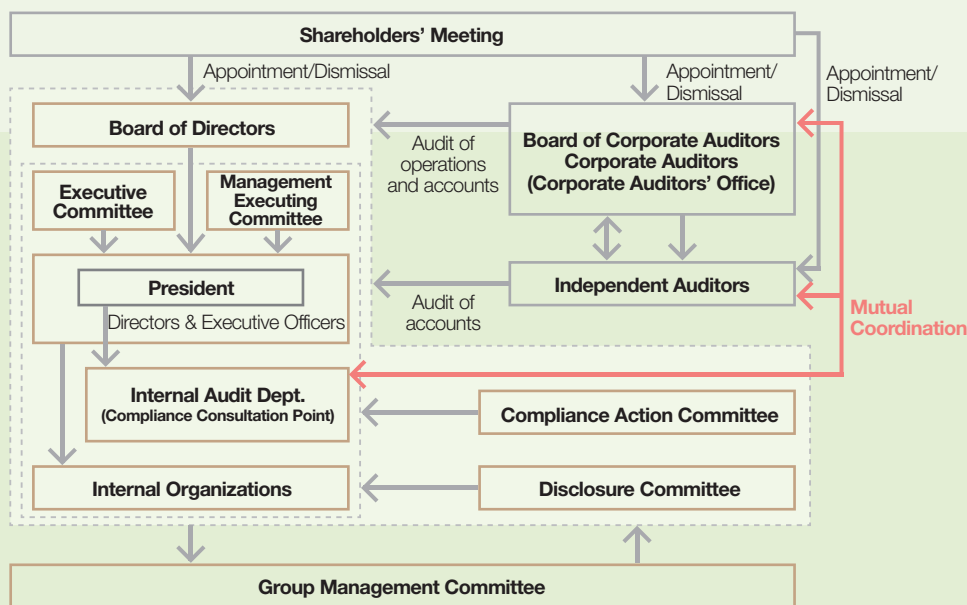
With regard to potential risks in its corporate activities, J-POWER conducts mutual supervision in its decision-making process, holds discussions in various meetings and committees, and develops its risk management framework on a routine basis in accordance with company regulations. Taking these initiatives 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 Committee to enhance the appropriateness of

## Corporate Governance and Internal Control Framework (As of July 1, 2009)



operations within the corporate group. We also conduct audits of our subsidiaries by corporate auditors and the Internal Audit Department. In this manner, we are working to ensure proper operations at all J-POWER Group companies.

## 4. Audits by Corporate Auditors

J-POWER's corporate auditors 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.

In the course of accounting audits, corporate auditors liaise with independent auditors to coordinate each other's auditing schedule and exchange opinions regarding findings, in order to ensure that the independent auditors' results are consistent with their own findings.

When auditing internal business units, corporate auditors liaise with the Internal Audit Department on each department's audit and with each subsidiary's auditors in the case of an audit of a subsidiary, receiving reports regarding findings in the course of conducting audits.

Regarding support staff for corporate auditors, we have established a Corporate Auditors' Office, which is an independent organization outside of the directors' chain of command. Full-time specialist staff members support the audits of corporate auditors.

## 5. Response to Internal Control and Reporting System

The J-POWER Group has been working to establish an internal control system over financial reporting. From April 2008, the J-POWER Group has begun operating the internal control and reporting system of the Financial Instruments and Exchange Act, after completing the process of ensuring transparency (through the preparation of

documentation) and establishing regulations for identifying risks that could affect financial reporting for the entire group as a whole and clarifying controls for each risk.

In regard to the evaluation of internal control by management, the Internal Audit Department, J-POWER's internal auditing division, played a lead role in conducting evaluations of the development of internal controls in the first half of fiscal 2008 and the operation of internal controls in the second half of the fiscal year. Evaluations were conducted from the perspective of enforcing Company-wide internal controls, internal controls related to operational processes, and internal controls using IT based on implementation standards laid out by Japan's Financial Services Agency. As a result, these evaluations recognized no material deficiencies in the internal control system. On June 30, 2009, J-POWER submitted an Internal Control Report containing the findings of the evaluations by management to the authorities. Going forward, efforts will continue to be made to enhance internal control systems throughout the J-POWER Group, with the view to ensuring the reliability of financial reporting.

## Thorough Compliance

Based on the J-POWER Group Corporate Philosophy, we have formulated basic guidelines for behavior in line with compliance and business ethics principles that must be observed in the course of conducting business operations. The J-POWER Compliance Code sets forth basic principles for compliance, while the J-POWER Group Corporate Conduct Rules lays down more

concrete decision-making guidelines for actions taken by individual employees, including members of management, when conducting business activities.

Furthermore, to ensure that the purport of these principles is realized in a sustainable and effective manner, Company-wide compliance is overseen by the chairman, and as a promotion framework, J-POWER has appointed a director in charge of compliance who implements promotion operations and assists the chairman and president in this regard. In addition, the Compliance Action Committee, chaired by the chairman, has been established to discuss and evaluate the implementation status of Company-wide compliance promotion measures, and to address issues related to compliance breaches. Under this committee, the Company has also set up a Compliance Promotion Headquarters led by an executive vice president to implement compliance promotion-related operations in a rapid and appropriate manner. At major operating bases, such as offices and thermal power plants, J-POWER has also established On-site Compliance Committees, to carry out compliance activities matched to the characteristics of each location. Additionally, a Compliance Consulting Point has been established at the Internal Audit Department and at an external law firm as a consulting hotline in the event that employees face compliance issues. We are working to entrench a strong awareness of compliance in our corporate culture by fostering cooperation and collaboration among these internal organizations and operating bases, while dividing duties and responsibilities among them.

## 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, project status, and types of power, as well as personnel assignments and overseas operating bases.

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.

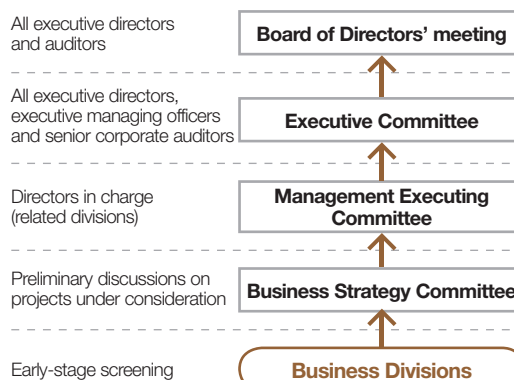
Projects undertaken in this manner are subject to further organizational decisions through checks and deliberations at a number of stages. First, detailed studies are made by people in the planning, legal and finance divisions. Risk factors and items for concern are pointed out and organized as issues for management discussion. Management Executing Committee 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 Executing Committee, with final decisions made by the Board of Directors through the Executive Committee, which is attended by all executive directors.

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.

## Setting of Stock Purchasing Guidelines

To provide further incentive for management to 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 Directors' Shareholding Society.

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



## Environmental Management

Based on its corporate philosophy of “harmonizing energy supply with 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.

Pursuant to the Basic Policy for the J-POWER Group’s Environmental Management Vision, which was established in 2004, J-POWER has formulated an Action Program setting out mid- and long-term goals, and is now working toward those objectives.

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

#### BASIC STANCE

As an energy supplier, we will contribute to the sustainable development of Japan and the world by harmonizing our operations with the environment and ensuring the constant supply of energy essential to human life and economic activity.

#### BASIC POLICY

##### Efforts relating to global environmental issues

In accordance with the principles of the United Nations Framework Convention on Climate Change (FCCC), we will 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>.

##### Efforts relating to local environmental issues

We will take measures to reduce the environmental impact of our operations by saving, recycling, and reusing resources to limit the generation of waste, and we will foster good community relations.

##### Ensuring transparency and reliability

We will ensure that our business activities comply with all laws and regulations, disclose a wide range of environmental information and enhance communications with stakeholders.

#### ACTION PROGRAM [Corporate Objectives at a Glance]

##### Efforts Relating to Global Environmental Issues

CO <sub>2</sub> emissions per unit of electric power sales	We will work to reduce the CO <sub>2</sub> emissions per volume of electric power sales in the power generation business worldwide by around 10% in fiscal 2010 compared with the fiscal 2002 level.
Total thermal energy efficiency (HHV, Gross Efficiency—LLV)	We will maintain thermal power plant efficiency at its current level (around 40%).
SF6 recovery rate	We will strive to improve the SF6 recovery rate [recovery rate of at least 97% when inspecting equipment] [recovery rate of at least 99% when removing equipment].
Office electricity consumption	We will work to reduce office electricity consumption in fiscal 2010 by at least 4% compared with fiscal 2006 (an improvement of at least 1% from the prior fiscal year).
Office fuel consumption	We will work to reduce office electricity consumption in fiscal 2010 by at least 4% compared with fiscal 2006 (an improvement of at least 1% from the prior fiscal year).

##### Efforts Relating to Local Environmental Issues

SOx emissions per volume of thermal power generation	Maintain SOx emissions per volume of thermal power generation at its current level (around 0.2 g/kWh)
NOx emissions per volume of thermal power generation	Maintain NOx emissions per volume of thermal power generation at its current level (around 0.5 g/kWh)
Recycling rate for industrial waste	We will strive to achieve a recycling rate of 97% by the end of fiscal 2010, with the aim of attaining zero industrial waste emissions.
Recycling rate for waste paper	We aim to achieve a recycling rate of at least 85% for waste paper included in ordinary waste by the end of fiscal 2010 (an improvement of at least 1% from the prior fiscal year).
Procurement ratio for recycled copier paper	We aim to achieve a green procurement ratio for copier paper of at least 99% by the end of fiscal 2010 (an improvement of at least 1% from the prior fiscal year).
Green procurement ratio for office supplies (stationery)	We aim to achieve a green procurement ratio for office supplies (stationery) of at least 80% by the end of fiscal 2010.
Ownership ratio of low-pollution vehicles, etc.	We aim to achieve an ownership ratio of low-pollution vehicles, etc., of at least 90% by the end of fiscal 2010.

##### Ensuring Transparency and Reliability

Enhancing environmental management	We will strive to continuously improve our environmental management systems (EMS).
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## Countering Global Warming—Four Measures by the J-POWER Group

The J-POWER Group's domestic CO<sub>2</sub> emissions account for roughly 3% of the total for Japan. Taking this fact very seriously, and recognizing our social responsibility as a leading coal-user company, we have positioned global environmental problems as one of our top management priorities. Accordingly, we strive to continuously reduce CO<sub>2</sub> emissions per unit of electric power sales by consistently implementing an optimal combination of the four measures below over short-, medium- and long-term timeframes.

### ■ Maintenance and improvement of the efficiency of energy use

We are working to raise the efficiency of thermal power plants, while improving the power generation efficiency of hydroelectric plants, which generate no CO<sub>2</sub> emissions, through equipment upgrades and more efficient operations.

### ■ Development of low CO<sub>2</sub> emission power sources

We are working to develop power sources that emit little or no CO<sub>2</sub>, such as nuclear, wind, solar, and biomass derived from organic matter.

### ■ Development, transfer and diffusion of new technologies

We are advancing technology development to improve power generating efficiency through coal gasification and the capture of CO<sub>2</sub>. In pursuit of the next generation of technology, we seek to become a leader in global coal-fired thermal power generation.

### ■ Utilization of the Kyoto Mechanisms

Leveraging our own technologies and capital, we hope to contribute to effective CO<sub>2</sub> reduction on a global scale by, among other means, utilizing CDM and other Kyoto Mechanisms. These mechanisms allow emissions reductions achieved by greenhouse gas reduction projects conducted in other countries to count towards Japan's own emissions reductions.

## CDM Executive Board—Registered Projects Developed with J-POWER Participation

Country	Project	Details
Chile	Nestle Graneros Plant Fuel-Switching Project	Switch to natural gas in conjunction with renovation of facilities
Chile	Metrogas Package Cogeneration Project	Introduction of cogeneration for improved energy-use efficiency
Columbia	La Vuelta and La Herradura Hydroelectric Projects	Use of renewable energy sources
Brazil	Aquarius Hydroelectric Project	Use of renewable energy sources
Brazil	Caieiras Landfill Gas Emission-Reduction Project	Reducing greenhouse gas emissions by burning landfill gas
China	Erdaoqiao Hydropower Project	Use of renewable energy

## Relations with Communities, Society and Employees

### Relations with Communities and Society

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.

#### Together with Regions and Communities

Individual employees and business sites of the J-POWER Group gain the trust and confidence of local citizens as good residents and through good corporate citizenship, respectively, 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.

#### Aiming to “Harmonize Energy Supply With the Environment”

In order to raise awareness throughout society regarding “harmonizing energy supply with the environment,” J-POWER provides support for hands-on educational programs, holds outdoor nature workshops 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 50 years of business in various areas of the world, conducting activities rooted in local communities overseas.

### Building Safe, Healthy and Productive Workplaces

The J-POWER Group places the utmost priority on preventing workplace accidents and ensuring compliance, while showing respect for the character and individuality of employees, as it strives to create an organization where employees can constantly embrace new challenges with a high level of motivation.

#### Ensuring and Nurturing a Diversified Workforce

J-POWER strives to maintain a stable, diversified workforce through such means as the recruitment of new graduates and experienced workers. The Company also actively works to nurture its workforce mainly by offering programs for employees to hone the practical skills and abilities needed to address changes and growth in business opportunities, as well as programs designed to maintain and enhance technical expertise.

#### Energizing the Workforce and Enhancing Work Environments (Promoting Balanced Work Lifestyles)

J-POWER is working to develop workplaces where its employees, who specialize in a wide range of fields and cover many different age groups, can succeed on the job by demonstrating their skills and abilities to the fullest. This is being achieved primarily by enhancing work environments and personnel systems so as to maximize the Company's diversified workforce and values.