

AN INTERVIEW WITH PRESIDENT MASAYOSHI KITAMURA

The business environment surrounding the J-POWER Group is becoming increasingly uncertain and opaque in terms of worldwide power demand, anti-global warming measures and other factors.

In this business environment, we spoke with President Masayoshi Kitamura about how the J-POWER Group intends to achieve sustained growth based on its mission of “harmonizing energy supply with the environment.”

MASAYOSHI KITAMURA, *President*



Q1

How do you rate J-POWER's performance in fiscal 2009? Also, what progress have you made on the “Five Key Approaches” outlined in the five-year J-POWER Group management plan, which sets targets for fiscal 2012.

A1

What I must first say is that circumstances have arisen that were not initially envisioned, including a lower load factor caused by equipment failures at several thermal power plants in the first half and an accompanying increase in facility maintenance costs. I fear that these issues have inconvenienced our customers and other stakeholders and have been a source of concern for them. However,

the necessary repairs were performed and operations were steadily restored at these thermal power plants in the second half. Overall, electric power sales for the full year decreased 3.2% year on year. With regard to financial performance, consolidated operating revenues decreased 17.1% from the previous year, partly due to falling fuel prices. Despite a decrease in fuel costs, personnel expenses and other items, operating income declined by 14.3% due partially to lower capacity utilization at thermal power plants. By contrast, consolidated ordinary income increased 5.3%. This was due in

FIVE KEY APPROACHES: BUSINESS STRATEGIES AND INVESTMENT PLANS FOR ACHIEVING TARGETS

(FY)

	2008–2012	2013–
Steady Growth in Power Generation Facilities		Isogo New No. 2, Ohma Nuclear Approx. ¥300 billion
Technological Innovation and New Project Development		Coal gasification technology and others
Enhancing the Value of Business Assets	In FY2008–2009, we invested approximately ¥340 billion.	Investment in existing plants Approx. ¥270 billion
Global Business Expansion		Overseas power generation business Approx. ¥250 billion (Amount of direct contribution: Approx. ¥90 billion)
Power Generation as the Core of a Diversified Business		Renewable energy/coal businesses, etc. Approx. ¥100 billion

* The amounts recorded are the amounts recorded in J-POWER's consolidated assets. Moreover, we plan to establish project financing for overseas projects, and this will limit J-POWER's exposure to an amount equivalent to project capital multiplied by our investment ratio (expected amount of direct contribution: about ¥90 billion). The investment amount for fiscal 2008–2009 is an estimate, as of the end of the third quarter of fiscal 2009.

part to higher profits from investment in the overseas power generation business based on the equity method. Net income also increased by 49.8% compared to the previous fiscal year.

Fiscal 2009 marked the second year of the J-POWER Group management plan. We continued to make steady progress on the “Five Key Approaches” and to generate results. In terms of “Steady Growth in Power Generation Facilities,” we launched operations at the Isogo New No. 2 Thermal Power Plant in July and made good progress on construction of the Ohma Nuclear Power Plant ahead of its scheduled launch in November 2014. In terms of “Technological Innovation and New Project Development,” we partnered with The Chugoku Electric Power Co., Inc. to establish a new company, Osaki CoolGen Corporation, to undertake a large-scale demonstration project for oxygen-blown integrated gasification combined cycle (IGCC) technology and CO₂ separation and capture technology. In terms of “Enhancing the Value of Business Assets,” we completed comprehensive upgrade work on hydroelectric turbines at aging facilities such as Nukabira Power Plant. Progress was made on “Global Business Expansion” in the form of acquiring equity interests in two gas-fired power plants in Long Island in the United States and in Gemeng International Energy Co., Ltd. in China. We also steadily carried out initiatives for “Power Generation as the Core of a Diversified Business,” which included acquiring three additional wind farms in Japan and establishing two manufacturing companies for biomass fuels.

PROGRESS ON CONSTRUCTION OF OHMA NUCLEAR POWER PLANT

Construction work is proceeding steadily. We have initiated full-scale construction on the reactor building, turbine building and other main buildings, and are steadily assembling large equipment for each building at surrounding worksites.

Overview of the Ohma Nuclear Power Plant (under construction)

Location	: Ohma-machi, Shimokita-gun, Aomori Prefecture
Capacity	: 1,383 MW
Type of nuclear reactor	: ABWR (Advanced Boiling Water Reactor)
Fuel	: Enriched uranium and uranium-plutonium mixed oxide (MOX)
Start of commercial operations	: Planned for November 2014



Construction work (as of July 2010)

OHMA NUCLEAR POWER PLANT AND JAPAN'S PLUTHERMAL PLAN

Nuclear power currently accounts for approximately 30% of all electricity generated in Japan. Nuclear power generation is thus playing an important role in ensuring the stable supply of electric power in Japan. It also has the advantage of producing no CO₂ emissions during the power generation process.

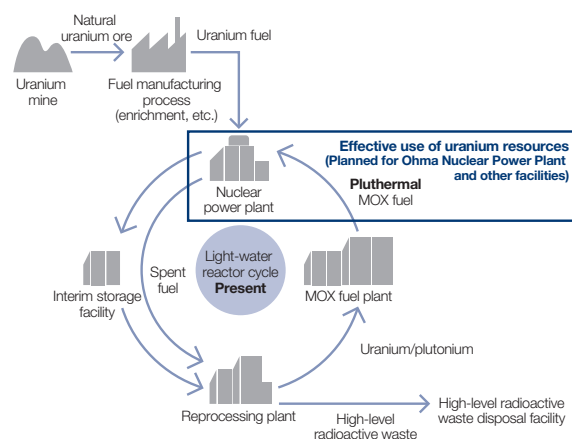
As Japan imports more than 90% of its energy resources from overseas, it is essential for us to promote the reuse of plutonium and uranium from spent fuels to maintain a stable supply of energy for the future.

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

J-POWER's Ohma Nuclear Power Plant, as a full MOX-AWBR in which every reactor core can be operated on MOX fuel alone, is able to use roughly 25% of the MOX fuel produced at sites in Japan. As such, the plant is expected to play a vital role in Japan's pluthermal plan.

* MOX fuel for the initial operation cycle and first replacement is planned to be processed at an overseas MOX fuel plant.

Nuclear Fuel Cycle and the Pluthermal Plan



Q2

Based on the J-POWER Group's performance in fiscal 2009, what are the Group's management issues going forward?

A2

The first issue is to “ensure plant reliability and work to reinforce our business operating infrastructure.” Given the equipment failures that occurred in fiscal 2009, we must enhance diagnostic capabilities for existing facilities and do our utmost to implement preventive maintenance. Stable long-term operation of large-scale assets like power generation facilities and transformers is an essential part of fulfilling the responsibility of the J-POWER Group to ensure the stable supply of electric power; this will also lead to stable earnings. The same holds true overseas, where we are actively developing business. Working together with local staff and business partners, we are focusing on ensuring stable operations at facilities in our various projects, both existing and new.

The second issue is “to address the transition to a low-carbon society from a long-term perspective.” The debate surrounding an international climate change framework is currently adding another layer of uncertainty. Even with the ongoing uncertainty in business conditions, the J-POWER Group will further develop initiatives for transitioning to a low-carbon society, which have so far been implemented to realize our corporate philosophy. We will track, anticipate and respond to major trends in the movement toward a low-carbon society to establish a solid position for the Company and ensure its sustained development.

**Q3**

Why did you revise some of the management targets in your FY2010 Group Management Plan?

A3

In the FY2010 Group Management Plan, we revised our consolidated ordinary income target for fiscal 2010 from at least ¥50.0 billion to at least ¥41.0 billion. There were three major reasons. The first is ongoing uncertainty in the outlook for electric power demand. The second is the need to increase facilities maintenance expenditures in order to ensure the reliability of plant facilities, which is one of the issues I discussed previously. The third is to reinforce initiatives for transitioning to a low-carbon society, which is another issue I discussed earlier. Specifically, taking a long-term view, we have determined that now is the time to invest in research and development on technology for high-efficiency coal-fired power generation. And, we are planning to write-off CO₂ emissions credits to achieve the voluntary CO₂ reduction goal we set for fiscal 2010.

Given these factors, we determined that we must reduce the initial consolidated ordinary income target. Regarding the fiscal 2012 target of ¥60.0 billion, there are major uncertainties over the power demand outlook, social trends and trends in government policy related to the shift to low-carbon technologies, and other factors. Fiscal 2012 targets will therefore be reviewed in the fiscal 2011 management plan based on these factors and progress on initiatives in fiscal 2010. Our target for return on assets (ROA), which is used as a management

index, is also subject to review in the fiscal 2011 management plan. The numerical consolidated shareholders' equity ratio target has been retracted for now, but there is no change in the need for us to continuously improve our financial position going forward.

FIVE-YEAR MANAGEMENT TARGETS CONSOLIDATED ORDINARY INCOME

FY2010: ¥41 billion or more

* Reduced from prior target of ¥50 billion or more



FY2012: ¥60 billion

* Review targets in FY2011 Management Plan

Q4

Please discuss specific initiatives to address the transition to a low-carbon society from a long-term perspective—one of your management issues.

A4

Our foremost initiative is to ensure that we complete the construction of the Ohma Nuclear Power Plant on schedule, and significantly enhance the share of non-fossil fuel-based power generation in our power portfolio.

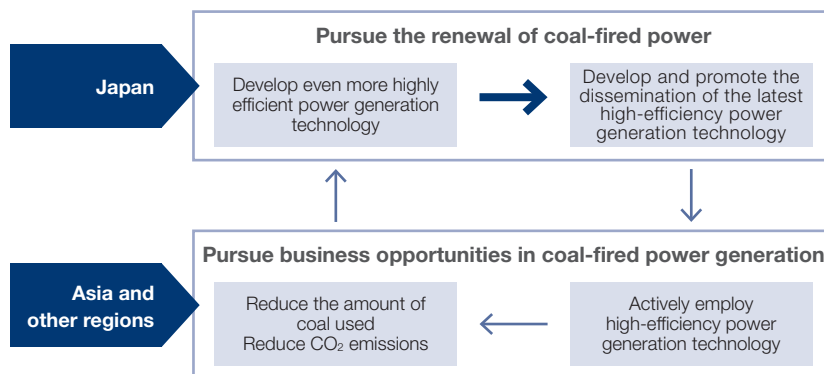
Next, it is generally thought that a low-carbon society will be achieved by reducing the use of fossil fuels and shifting to renewable energies like solar power, wind power and biomass. However, the current reality is that countries throughout the world are still dependent on coal and other fossil fuels, so it will be extremely difficult to shift to renewable energies immediately. For this reason, as we make the transition to renewable energies, we must also work to use fossil fuels in a cleaner, more efficient manner.

J-POWER intends to remain focused on developing highly effective power generation technologies that allow coal—a fossil fuel with which we have ample operational experience and have gained substantial expertise—to be used highly efficiently. Over the long term, we aim to commercialize integrated coal gasification combined cycle technologies (IGCC), which use innovative technology to substantially raise power generation efficiency through the gasification of coal.

Ultimately, our goal is to achieve zero CO₂ emissions by incorporating carbon capture and storage (CCS) technology besides IGCC. (See page 20 for more detailed information.)

However, commercialization of these technologies will take a long period of time. Until that time, we will address the transition to low-carbon with our existing portfolio of facilities and technologies. That is to say, in terms of short-term and medium-term initiatives, we intend to upgrade aging thermal power facilities to cutting-edge facilities, effectively

NEW BUSINESS MODEL BASED ON THE TRANSITION TO A LOW-CARBON SOCIETY



**Achieve the Twin Goals of Growth in Japan & Asia and
Transitioning to Low-Carbon & Improving the Environment**

utilize biomass fuels, raise the power output and capacity of hydropower facilities through comprehensive upgrades, and promote wind and geothermal power projects.

In addition, given that power demand is expected to increase in countries and regions where additional coal-fired power plants are planned to be built, such as China, India and Southeast Asia, we will deploy J-POWER's highly efficient coal-fired power generation technology in order to assist with economic development and the transition to low-carbon in each country.

Q5

How are your efforts to proactively develop overseas business progressing?

A5

We are currently working to further strengthen the overseas power generation business so as to develop it into a second major area that is able to drive earnings growth for the J-POWER Group as a whole.

The J-POWER Group conducts business operations in Japan and overseas, centering on the power generation business. The Japanese economy is in a mature phase marked by low economic growth and increased energy conservation. Therefore, pursuing major business growth in Japan will not be easy.

On the other hand, if we turn our gaze overseas, we find that there are still many countries and regions where a larger supply of power is required in step with rapid economic growth, including China, India and Southeast Asia. We have developed technologies and experience in the domestic electricity business, and have amassed expertise and human networks through technology consulting projects in over 60 countries and regions around the world. By taking full advantage of these strengths, we intend to play a part in supplying power to these countries and regions and lay the groundwork for the J-POWER Group's next phase of growth.

In fiscal 2009 steady progress was made on overseas initiatives. We acquired equity interests in two U.S. power plants, as discussed previously, and other assets. And in Thailand, seven SPP projects (combined output of 780 MW) in which we have a major share, signed a 25-year power purchase agreement with the Electricity Generating Authority of Thailand.



Orange Grove Power Plant in the United States

J-POWER has also worked to expand the scale of the overseas power generation business by acquiring equity interests in existing gas-fired power facilities. By leveraging the achievements of these activities, we will focus on new development projects (green-field projects) in which we are involved in all project stages, from

project planning to construction and operation. Of these projects, we will prioritize coal-fired thermal power plant projects that contribute to the transition to low-carbon through higher efficiency—an area where we can leverage our strengths. In terms of regions, we will actively develop projects in countries and regions such as Southeast Asia and China, where coal-fired thermal power accounts for a large share of the national fuel source mix and where there is considerable room for improving power generation efficiency and environmental performance.

Such greenfield projects carry more risk and take more time than acquiring existing facilities. However, the returns justify the amount of risk taken, which will allow us to raise our profitability as a company while simultaneously helping to bring about a low-carbon society. In fiscal 2009, we acquired an equity interest in China's Gemeng International Energy Co., Ltd. The Company's mainstay is coal-fired thermal power, so it will be possible to apply J-POWER's expertise in the area of operations and development in the future.

Q6

Finally, what is your long-term vision for J-POWER as president, and do you have any messages for shareholders and investors?

A6

I want to reshape the J-POWER Group into a global energy company.

Our main business is to generate power. We will not be altering this main business itself, but we recognize that the scope of this business changes with the times. I believe that technological prowess is the key to adapting to such changes and realizing sustained growth. Our plant facilities, which include high-efficiency coal-fired thermal power, hydropower and wind power, and our operational expertise constitute a storehouse of technology that has been amassed in the process of “harmonizing energy supply with the environment.” By promoting technological innovation in various fields, we will combine various businesses related to electric power while fulfilling our responsibility to provide stable power supplies in order to become a truly global energy company.

In order to move closer to our goal, I believe that human resources responsible for this technology are our most important asset. Therefore, we believe that one important theme will be to develop a framework for the recruitment, training and revitalization of our human resources.

Based on our mission of “harmonizing energy supply with the environment,” one defining characteristic of the J-POWER Group's business model is to recover investment in large-scale power facilities through stable long-term operations over the space of ten or twenty years. We intend to build relationships of trust with shareholders by steadily amassing power facility assets and appropriately distributing profits generated from these operations to them. We will maintain dividend payments at the level we have promised, and when we reach the stage at which we can confidently raise that level, we will consider doing so.

We appreciate your understanding of the nature of the J-POWER Group's business as investors and shareholders, and we thank you for your continued encouragement and support.

