Financial Section

Electricity Sales Volume and Operating Revenues

During the fiscal year ended March 31, 2012 (fiscal 2011), electric power demand in Japan fell below that of the previous consolidated fiscal year due mainly to the effects of the slowdown in corporate activities and the widespread penetration of energy-saving measures due to the Great East Japan Earthquake disaster of March 2011 in the previous fiscal year.

Amid these conditions, with regard to sales (operating revenues) for the consolidated fiscal year under review, in the wholesale electric power business, the electricity sales volume from hydroelectric power plants showed little growth on the previous consolidated fiscal year. Sales unit prices for thermal power, however, increased due to a rise in fuel prices and an increase in the load factor in other electric power businesses, resulting in an overall increase in revenues in the electric power business. Including revenues from other businesses, sales (operating revenues) rose ¥18.6 billion (2.9%) year on year, to ¥654.6 billion. Electric power sales volume and operating revenues for individual segments are reviewed in the following sections.

Electric Power Business

In the wholesale electric power business, although the water supply rate was 115%, up from 106% in the previous year, representing an increase of 50 million kWh, the electricity sales volume for hydroelectric power of 10.3 billion kWh was essentially the same as that of the previous year due to the suspension of operations at some plants caused by heavy rain and typhoons. Operating revenues from hydroelectric power were also on par with the previous fiscal year, at ¥108.4 billion.

Regarding the sales volume of thermal power, although electric power generators operated smoothly overall, the fire on the site of the Isogo Thermal Power Plant (in Yokohama, Kanagawa Prefecture) in November 2011 resulted in the shutdown of that plant for about two months. As a result, thermal power sales volume was 53.7 billion kWh, approximately the same as in the previous year. Operating revenues grew by ¥17.9 billion, or 4.4%, year on year, to ¥424.4 billion, owing to a rise in sales prices prompted by increased fuel costs.

As a result, in the wholesale electric power business, total electricity sales volume from hydroelectric and thermal power plants edged down 0.4% compared with the previous year, to 64.0 billion kWh. Operating revenues increased ¥18.2 billion, or 3.6%, to ¥532.9 billion.

In contrast, operating revenues from the power transmission/transformation business decreased 2.4% year on year, to ¥53.0 billion. This business mainly involves the operation of transmission trunk lines linking regional service areas in Japan.

In the other electric power businesses, electricity sales volume increased 37.5% compared with the previous year, to 2.0 billion kWh, owing to such factors as the increase in the load factor in electric power plants for power producers and suppliers (PPSs). Operating revenues surged ¥8.6 billion, or 63.0%, year on year, to ¥22.3 billion.

Consequently, for the electric power business overall, electricity sales volume edged up 0.4% from the previous year, to 66.0 billion kWh, and operating revenues, including internal sales, were up ¥25.3 billion, or 4.3%, year on year, to ¥612.9 billion.

Electric Power-Related Businesses

In fiscal 2011, operating revenues of electric power-related businesses increased ¥6.6 billion, or 2.0%, year on year, to ¥341.3 billion. This reflected factors that included higher revenue from coal sales by consolidated subsidiaries.

Overseas Business

In fiscal 2011, operating revenues of overseas business increased ¥0.1 billion, or 6.6%, year on year, to ¥2.0 billion.

Other Businesses

In fiscal 2011, operating revenues of other businesses decreased ¥3.7 billion, or 14.5%, compared with the previous year, to ¥22.3 billion. This reflected factors that included a drop in revenues from the telecommunications construction operations of consolidated subsidiaries.

Operating Expenses and Operating Income

In fiscal 2011, operating expenses grew ¥39.4 billion, or 7.0%, year on year, to ¥604.8 billion, reflecting an increase in fuel expenses accompanying a rise in coal prices. As a result, operating income decreased ¥20.7 billion, or 29.5%, year on year, to ¥49.8 billion. The operating margin dropped by 3.5 percentage points, to 7.6%.

Non-Operating Revenues and Expenses and Ordinary Income

In fiscal 2011, non-operating income increased ¥0.3 billion, or 2.6%, year on year, to ¥15.3 billion, reflecting such factors as an increase in equity in earnings of affiliates. Non-operating expenses for the year decreased ¥0.6 billion, or 2.4%, year on year, to ¥28.5 billion.

Consequently, ordinary income amounted to ¥36.6 billion, down ¥19.7 billion (35.0%) from the level in the previous year. The ordinary income margin fell 3.3 percentage points, to 5.6%.

Electric Power Business

Despite an increase in sales, ordinary income decreased 46.7%, to ¥22.2 billion, reflecting such factors as the increase in fuel costs.

Electric Power-Related Businesses

Despite the increase in sales, ordinary income decreased 19.7% year on year, to ¥8.3 billion, due to such factors as an increase in sales costs.

Overseas Business

Ordinary income declined 30.7% year on year, to ¥3.4 billion, due mainly to the impact of currency exchange rates.

Other Businesses

Due to the decrease in sales costs, the ordinary loss showed an improvement of ¥1.5 billion in comparison with the previous year and moved to near the breakeven level (an ordinary loss of ¥3 million).

Net Income

In fiscal 2011, income before income taxes and minority interests decreased ¥5.5 billion, or 14.2%, compared with the previous year, to ¥33.2 billion. This decrease reflected the decrease in ordinary income and the Company's posting of an extraordinary loss for disaster recovery expenses relating to the fire at the Isogo Thermal Power Plant. Net income decreased ¥3.4 billion, or 17.7%, compared with the previous year, to ¥16.1 billion, due to an increase in income tax adjustment owing to the reversal of deferred tax assets following the passage of legislation lowering the corporate tax rate.

Net Income per Share

Net income per share was ¥107.39 in fiscal 2011, compared with ¥130.51 in the previous fiscal year.

Dividend Policy

The most distinctive characteristic of J-POWER's business is that the Company uses its expertise with respect to the construction of power plants and other facilities and the operation of those facilities over the long term to make investments in power plants and other kinds of infrastructure and then seeks to obtain returns on its investments through the long-term operation of those assets. J-POWER will continue to allocate an appropriate level of internal reserves to business investments aimed at new growth, while increasing equity capital based on the recognition that it must further reinforce its financial position.

J-POWER's top priority with respect to shareholder returns is to maintain stable dividend levels in line with the characteristics of its business, and the Company also strives to enhance shareholder returns by expanding its business operations and increasing its corporate value in a sustained manner.

The nature of prospective conditions in the Company's operating environment has been increasingly difficult to anticipate since the Great East Japan Earthquake disaster that occurred in March 2011. Going forward, however, J-POWER intends to strengthen the competitiveness of its core wholesale electric power business while striving to bolster its earnings power by expanding its operations. In light of these situations and J-POWER's emphasis on maintaining stable shareholder returns over the long term, the Company distributed a year-end dividend of ¥35 per share. Together with the interim dividend of ¥35 per share, total dividends applicable to fiscal 2011 amounted to ¥70 per share.

As a result, the consolidated payout ratio increased 11.5 percentage points compared with the previous year, to 65.2%, while the consolidated dividend on net assets ratio was 2.6%, up 0.1 percentage point.

Financial Position

Assets

As of March 31, 2011, total assets amounted to ¥2,016.3 billion, up ¥4.0 billion, or 0.2%, from the previous fiscal year-end.

The value of noncurrent assets increased ¥7.1 billion, or 0.4%, compared with the previous fiscal year-end, to ¥1,849.7 billion.* Although there was a decrease in noncurrent assets due mainly to progression in depreciation, this was offset by capital investment in development projects in Thailand.

* This figure includes investments and other assets amounting to ¥238.2 billion.

Liabilities

As of March 31, 2011, total liabilities amounted to ¥1,610.2 billion, up ¥12.7 billion, or 0.8% from the previous fiscal year-end.

Included in the above is an increase in interest-bearing debt, which rose ¥6.6 billion from the end of the previous consolidated fiscal year, to ¥1,435.7 billion, and the debt-equity ratio was 3.5 times, down from 3.4 times at the previous fiscal year-end.

Net Assets and Shareholders' Equity*

As of March 31, 2011, net assets stood at ¥406.1 billion, down ¥8.7 billion from the previous fiscal year-end, reflecting a decline in foreign currency translation adjustments. Shareholders' equity decreased ¥8.3 billion, or 2.0%, year on year, to ¥407.3 billion.

As a result, the shareholders' equity ratio contracted 0.5 percentage point from 20.7% at the end of the previous consolidated fiscal year, to 20.2%.

* Net assets - Minority interests - Share subscription rights (equivalent to shareholders' equity until fiscal 2005)

Capital Expenditures

Capital expenditures in fiscal 2011 amounted to ¥137.7 billion, an increase of ¥44.5 billion, or 47.9%, compared to the previous fiscal year.

Capital expenditures in the electric power business decreased ¥2.4 billion, or 3.5%, year on year, to ¥68.2 billion.

Fund Procurement

Most of J-POWER's financing requirements are related to capital expenditures and debt refinancing, and the Company has a basic policy of procuring long-term funds. When procuring long-term funds, the Company issues straight bonds and long-term debts from financial institutions as a means of maintaining low interest rates and a stable fund procurement platform. The balances of outstanding straight bonds and outstanding borrowings as of March 31, 2012, were ¥734.9 billion and ¥667.9 billion, respectively. In addition, the Company obtains short-term funding as a means of procuring operating funds as well as enhancing the responsiveness and flexibility of procurement operations. To meet short-term funding needs, the Company is currently able to issue up to a total of ¥300.0 billion in commercial paper.

Cash Flows

Cash Flows from Operating Activities

Net cash provided by operating activities decreased ¥25.3 billion (16.8%) from the previous consolidated fiscal year, to ¥125.8 billion, due mainly to an increase in income tax payments and a decrease in internal reserves for depreciation expenses.

Cash Flows from Investing Activities

Net cash used in investing activities increased ¥12.1 billion (9.8%) from the previous consolidated fiscal year, to ¥136.8 billion, due mainly to the increase in investment in the projects currently under development in Thailand.

As a result, free cash flow was a negative ¥10.9 billion.

Cash Flows from Financing Activities

Net cash provided by financing activities amounted to ¥9.2 billion, an increase of ¥38.4 billion (131.9%) from the ¥29.1 billion used in financing activities in the previous fiscal year. This was due mainly to the increase in borrowing.

As a result of these activities, cash and cash equivalents as of March 31, 2012, totaled ¥35.3 billion, a decrease of ¥2.6 billion, or 7.0%, compared with the end of the previous fiscal year.

Risk Factors

This section discusses the main potential risks related to J-POWER's financial position and business results as well as potential risks related to current (as of June 27, 2012) and future business operations and other matters. In light of the objective of proactively 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.

Impact of Progressive Systemic Reforms in the Electric Power Sector on J-POWER's Wholesale Electricity Rates, Etc.

J-POWER derives most of its operating revenues from the wholesale supply of power to Japan's 10 EPCOs. Amid intensifying competition driven by industry reforms in the electric power business, the EPCOs have reduced their retail electricity rates.

Because our contract rates for the wholesale supply of power to the EPCOs are calculated on a fair cost plus fair return on capital basis, those contract rates are not directly affected by the reduction in retail electricity rates. Nevertheless, EPCOs have been calling for a reduction in our contract rates, and it is possible that declines in retail electricity rates and intensifying competition could lead to stronger calls for the Company to lower its contract costs. Since the March 2000 partial liberalization of retail supply, the Company has reduced its fees for both hydroelectric power and power transmission/transformation facilities on five occasions, between 2.9% and 9.1%. In the event of an additional reduction in our contract rates going forward, there could potentially be an 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 currently expect a surge in the amount of electricity traded on the exchange during 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 were to be higher than price indicators, this could potentially have an adverse effect on the results of our operations.

In addition, there remains the possibility that competition will intensify as a result of systemic reforms in the electric power industry. Debate toward the reform of the electric power business system is under way, for example at the Electricity System Reform Expert Committee, which comes under the Advisory Committee for Energy and Natural Resources. Should their review result in new systemic reforms, this could potentially have an adverse effect on business and on the results of our operations.

Delay or Discontinuation of Power Plant Construction Plans

Slackening growth in electricity demand forecast in recent years has prompted EPCOs to postpone or cancel new power plant development and to shut down underutilized thermal power plants on a long-term or permanent basis. In some cases, we have also postponed the start of commercial operations or cancelled the planned construction of power plants to supply EPCOs based on consultations with our EPCO clients. Due to difficulties in acquiring land, there have been cases in which plans were cancelled in consultation with the power receiving companies. The Company bears the appropriate amount for these cancellations and the expenses arising from them in consultation with the planned power receiving company.

Going forward, the cancellation of construction plans as a result of declining demand for electric power, other developments or major changes in the operating environment, or unforeseen circumstances could potentially have an adverse effect on the results of our operations.

Global Warming

J-POWER has a large number of coal-fired thermal power plants, which emit relatively high amounts of carbon dioxide per unit of power output compared to power plants that use LNG and other fossil fuels. Accordingly, both in Japan and overseas, we are working on a raft of measures to combat global warming.

Going forward, if new regulations or other rules related to global warming countermeasures were to be introduced, this could potentially have an adverse effect on the results of our operations.

Overseas Power Generation Business and Other Areas of New Business

J-POWER is pursuing new initiatives in the overseas power generation business and new electric power businesses in Japan, with the aim of creating new profit sources. However, these businesses may not generate the level of profits that we anticipate, due to unforeseeable circumstances, including: a major change in operating conditions; weakening demand; and changes in regulations. Moreover, changes in our business plans or the suspension of operations prompted by these circumstances could result in related expenses that could potentially have an adverse effect on the results of our operations. These businesses also include some that the Company operates in the form of joint ventures, in which the Company retains a minority interest. Overseas businesses also entail foreign exchange risk as well as country risk based on political instability and other factors.

Fund Procurement

J-POWER expects it will need to raise a large amount of funds for the construction of the Ohma Nuclear Power Plant and Takehara Thermal Power Station New No. 1, which are the principal development projects scheduled for implementation during the next 10 years, as well as for the repayment of outstanding debt, investments in the overseas power generation business, and other purposes. If we were to be unable to raise the required funds on acceptable terms and in a timely manner due to the prevailing conditions in the financial markets, the Company's credit situation, or other factors at that time, then this could potentially have an adverse effect on our business development and profitability.

Ohma Nuclear Power Plant Construction Plan

With regard to the Ohma Nuclear Power Plant Plan, following the August 1995 decision of the Japan Atomic Energy Commission, the plan was considered to have been in the political position, under the auspices of the state and electricity utility companies, to expand the flexibility of the plan to use MOX fuel in a light water reactor—an advanced boiling water reactor—with a view to using MOX fuel for the entire core. The Company was identified as having to bear responsibility for this. Having already concluded basic agreements with nine general electric utility companies, excluding the Okinawa Electric Power Company, all nine companies had agreed to the total amount of electricity to be received at a fair cost.

J-POWER commenced construction of the Ohma Nuclear Power Plant after receiving authorization from the national authorities for a license to install a nuclear reactor in April 2008 and approval of the first application for construction plans for the first phase of construction in May 2008. Construction work, however, was suspended directly after the Great East Japan Earthquake that struck in March 2011.

Although it is the intention of J-POWER to continue carrying out the project while giving top priority to ensuring safety, any changes to the plan as a result of drastic changes in operating conditions, the occurrence of unforeseen events, or other factors could potentially have an effect on the results of our operations.

Nuclear power generation involves various risks, such as those associated with the storage and handling of radioactive materials as well as such risk as those associated with natural disasters and similar unforeseen accidents at other power generation facilities. J-POWER intends to ensure that these risks will be avoided or minimized after operations have commenced. However, in the event that any of these risks were to materialize, this potentially could have an adverse effect on the results of our operations.

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 for imported coal, supply and demand dynamics for transport vessels, and problems with the facilities or operations of fuel suppliers, among other factors.

Fuel prices are reflected in our electricity rates for EPCOs on a cost basis. (These rates are generally revised every year, though they are subject to annual revision if costs change significantly.) As a result, fluctuations in coal prices have a limited impact on business performance. However, following a revision to wholesale electricity rates, if coal prices rise sharply before the next revision, there will be a delay before the rise in fuel prices is reflected in electricity rates. This could have a temporary adverse effect on the results of our operations.

Natural Disasters and Accidents

Should a natural disaster, human error, terrorist activity, fuel supply stoppage, or other unforeseen circumstance result in a major disruption of one of J-POWER's power plants, transmission or substation facilities, or of the information systems that control operations at these facilities, this could potentially hamper our business operations and consequently have an adverse effect on the surrounding environment. In addition, should a J-POWER facility halt operations, for example, due to an accident, and should that accident have an adverse effect on the surrounding environment, there exists the possibility that this could have an adverse effect on the results of our operations.

Regulatory Requirements

J-POWER's mainstay wholesale electric power business is subject to Electricity Business Law regulations. 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 an adverse effect on our business operations and performance.

Furthermore, on August 10, 2011, the Nuclear Damage Compensation Facilitation Corporation Act was promulgated and enacted. As a nuclear operator, J-POWER is required to make contributions to the corporation's operating costs and, depending on the amounts involved, these contributions could have a negative impact on our performance. Should operations according to our Ohma Nuclear Power Plant Plan in which we will proceed with be commenced as set out in the Act on Compensation for Nuclear Damage, we will be required to make such contributions.

High Level of Dependence 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, the results of our operations could potentially be affected by EPCOs' market share trends in the retail electricity market as well as by trends in demand for electric power in Japan and other factors.

Protection of Sensitive Information

J-POWER holds a large amount of important information that must be kept confidential, including personal information. J-POWER rigorously manages this information by implementing information security measures, employee training programs, and other measures. However, a leak of sensitive information to outside the Company could have an adverse effect on J-POWER's reputation and the results of our operations.

Note: Ohma Nuclear Power Plant construction work was suspended after March 2011, however, construction is being resumed in October 2012.