## Consolidated Balance Sheets

As of March 31, 2011 and 2012

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| **ASSETS** | 2011 | **2012** | **2012** |
| **Property, plant and equipment** | ¥1,591,783 | **¥1,611,491** | **$19,606,909** |
| Power plants (Note 2, 3, 7, 13 and 26) | 1,178,492 | **1,111,251** | **13,520,522** |
| Other property, plant and equipment (Note 2, 3, 7, 13, 18 and 26) | 64,920 | **65,657** | **798,853** |
| Construction in progress (Note 2, 7 and 26) | 301,676 | **380,425** | **4,628,607** |
| Nuclear fuel (Note 26) | 46,693 | **54,157** | **658,925** |
| **Investments and other assets** | 250,875 | **238,295** | **2,899,319** |
| Long-term investments (Note 2, 4, 7, 18, 20, 21, 22, 26 and 27) | 181,934 | **181,132** | **2,203,828** |
| Deferred tax assets (Note 2 and 24) | 56,843 | **52,571** | **639,629** |
| Others, less allowance for doubtful accounts (Note 2, 7, 18 and 19) | 12,096 | **4,591** | **55,862** |
| **Current assets** | 169,727 | **166,607** | **2,027,107** |
| Cash and bank deposits (Note 7, 18 and 20) | 37,202 | **35,112** | **427,209** |
| Notes and accounts receivable, less allowance for doubtful accounts (Note 2, 7, 18 and 20) | 57,772 | **59,219** | **720,514** |
| Inventories (Note 2, 5, 7 and 18) | 32,400 | **34,972** | **425,509** |
| Others (Note 2, 7, 18, 19, 20, 22 and 24) | 42,351 | **37,303** | **453,873** |
| **Total assets** | ¥2,012,386 | **¥2,016,394** | **$24,533,336** |

| LIABILITIES | 2011 | 2012 | 2012 |
|---|---|---|---|
| | | Millions of yen | Thousands of U.S. dollars (Note 2) |
| **Long-term liabilities** | ¥1,319,146 | **¥1,324,663** | **$16,117,089** |
| Long-term debt and lease obligations, less current portion (Note 7, 18 and 20) | 1,236,905 | **1,238,305** | **15,066,376** |
| Accrued employee retirement benefits (Note 2, 9 and 23) | 57,069 | **58,015** | **705,875** |
| Others (Note 2, 6, 18 and 24) | 25,172 | **28,342** | **344,838** |
| **Current liabilities** | 277,563 | **284,761** | **3,464,672** |
| Current portion of long-term debt and other (Note 7, 18 and 20) | 162,958 | **166,342** | **2,023,881** |
| Short-term loans (Note 7 and 20) | 17,528 | **18,443** | **224,404** |
| Commercial paper (Note 7 and 20) | 11,999 | **12,999** | **158,162** |
| Income and other taxes payable | 21,322 | **11,408** | **138,810** |
| Others (Note 2, 6, 18, 20, 22 and 24) | 63,754 | **75,566** | **919,413** |
| **Reserve for fluctuation in water levels** (Note 2) | 777 | **777** | **9,455** |
| **Contingent liabilities** (Note 8) | | | |
| **Total liabilities** | 1,597,487 | **1,610,202** | **19,591,217** |
| **NET ASSETS** | | | |
| **Shareholders' equity** (Note 25) | 435,760 | **441,369** | **5,370,112** |
| Common stock | 152,449 | **152,449** | **1,854,843** |
| Capital surplus | 81,849 | **81,849** | **995,858** |
| Retained earnings | 264,724 | **270,334** | **3,289,139** |
| Treasury stock | (63,263) | **(63,264)** | **(769,729)** |
| **Accumulated other comprehensive income** | (19,997) | **(33,985)** | **(413,495)** |
| Unrealized gain on available-for-sale securities, net (Note 2) | (137) | **(772)** | **(9,393)** |
| Deferred hedging gain and loss (Note 2, 20 and 22) | 611 | **(4,209)** | **(51,216)** |
| Foreign currency translation adjustments (Note 2) | (20,471) | **(29,003)** | **(352,886)** |
| **Minority interests** | (863) | **(1,191)** | **(14,497)** |
| **Total net assets** | 414,898 | **406,192** | **4,942,119** |
| **Total liabilities and net assets** | ¥2,012,386 | **¥2,016,394** | **$24,533,336** |

| | | Yen | U.S. dollars (Note 2) |
|---|---|---|---|
| **Shareholders' equity per share** | ¥2,770.77 | **¥2,714.94** | **$33.03** |

# Consolidated Statements of Income

For the years ended March 31, 2011 and 2012

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| **Operating revenues** (Note 2 and 26) | ¥635,975 | **¥654,600** | **$7,964,475** |
| Electric power | 584,436 | **609,775** | **7,419,092** |
| Other | 51,539 | **44,825** | **545,382** |
| **Operating expenses** (Note 2, 9, 10, 11, 12, 23 and 26) | 565,387 | **604,800** | **7,358,561** |
| Electric power | 509,116 | **553,873** | **6,738,936** |
| Other | 56,271 | **50,927** | **619,625** |
| **Operating income** | 70,588 | **49,800** | **605,914** |
| **Non-operating income (expenses)** (Note 13, 21 and 26) | (14,266) | **(13,180)** | **(160,361)** |
| Interest expenses | (22,371) | **(22,005)** | **(267,744)** |
| Other, net | 8,105 | **8,825** | **107,383** |
| **Ordinary income** (Note 26) | 56,322 | **36,619** | **445,552** |
| **Special gains (losses)** (Note 2, 13, 14, 15 and 26) | (17,582) | **(3,382)** | **(41,152)** |
| Provision or reversal of reserve for fluctuation in water levels | (42) | **—** | **—** |
| Disaster recovery expenses | — | **(3,382)** | **(41,152)** |
| Unrealized loss on valuation of securities | (5,359) | **—** | **—** |
| Loss on liquidation of business | (4,550) | **—** | **—** |
| Impairment loss | (9,266) | **—** | **—** |
| Gain on sales of securities | 1,635 | **—** | **—** |
| **Income before income taxes and minority interests** | 38,739 | **33,237** | **404,400** |
| **Income taxes** (Note 2, 11 and 24) | 22,863 | **17,324** | **210,785** |
| Current | 20,403 | **12,953** | **157,607** |
| Deferred | 2,459 | **4,370** | **53,177** |
| **Income before minority interests** | 15,876 | **15,913** | **193,615** |
| **Minority interests** | (3,707) | **(200)** | **(2,441)** |
| **Net income** | ¥ 19,583 | **¥ 16,113** | **$ 196,056** |

| | Yen | | U.S. dollars (Note 2) |
|---|---|---|---|
| **Amounts per share:** | | | |
| Net income (Note 2) | ¥130.51 | **¥107.39** | **$1.31** |
| Cash dividends applicable to the year (Note 17) | 70.00 | **70.00** | **0.85** |

## Consolidated Statements of Comprehensive Income

For the years ended March 31, 2011 and 2012

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Income before minority interests | ¥15,876 | **¥15,913** | **$193,615** |
| Other comprehensive income (Note 16) | | | |
| Unrealized gain on available-for-sale securities, net | (3,098) | **(640)** | **(7,793)** |
| Deferred hedging gain and loss | 2,507 | **(4,786)** | **(58,235)** |
| Foreign currency translation adjustments | (5,118) | **(4,192)** | **(51,013)** |
| Share of other comprehensive income of associates accounted for using equity method | (210) | **(4,897)** | **(59,583)** |
| Total other comprehensive income | (5,920) | **(14,516)** | **(176,625)** |
| Comprehensive income (Note 16) | 9,955 | **1,396** | **16,989** |
| (Comprehensive income attributable to-abstract) | | | |
| Comprehensive income attributable to owners of the parent | 13,590 | **2,126** | **25,869** |
| Comprehensive income attributable to minority interests | ¥ (3,634) | **¥ (729)** | **$ (8,880)** |

# Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2011 and 2012

## Shareholders' equity

| | Number of shares issued of common stock (thousands) | Common stock | Capital surplus | Retained earnings | Treasury stock*1 | Total shareholders' equity |
|---|---|---|---|---|---|---|
| | | | | | | Millions of yen |
| Balance at March 31, 2010 | ¥166,569 | ¥152,449 | ¥81,849 | ¥255,643 | ¥(63,262) | ¥426,680 |
| Net income | | | | 19,583 | | 19,583 |
| Dividends | | | | (10,503) | | (10,503) |
| Acquisition of treasury stock | | | | | (0) | (0) |
| Net change during the year | | | | | | |
| Balance at March 31, 2011 | 166,569 | 152,449 | 81,849 | 264,724 | (63,263) | 435,760 |
| **Net income** | | | | **16,113** | | **16,113** |
| **Dividends** (Note 17) | | | | **(10,503)** | | **(10,503)** |
| **Acquisition of treasury stock** | | | | | **(0)** | **(0)** |
| **Net change during the year** | | | | | | |
| **Balance at March 31, 2012** | **¥166,569** | **¥152,449** | **¥81,849** | **¥270,334** | **¥(63,264)** | **¥441,369** |

| | Common stock | Capital surplus | Retained earnings | Treasury stock*1 | Total shareholders' equity |
|---|---|---|---|---|---|
| | | | | | Thousands of U.S. dollars (Note 2) |
| Balance at March 31, 2011 | $1,854,843 | $995,858 | $3,220,881 | $(769,721) | $5,301,862 |
| **Net income** | | | **196,056** | | **196,056** |
| **Dividends** (Note 17) | | | **(127,797)** | | **(127,797)** |
| **Acquisition of treasury stock** | | | | **(8)** | **(8)** |
| **Net change during the year** | | | | | |
| **Balance at March 31, 2012** | **$1,854,843** | **$995,858** | **$3,289,139** | **$(769,729)** | **$5,370,112** |

*1 Number of treasury stock as of March 31, 2012: 16,516,790 shares

## Accumulated other comprehensive income

| | Unrealized gain (loss) on available-for-sale securities, net | Deferred hedging gain and loss | Foreign currency translation adjustments | Total accumulated other comprehensive income | Minority interests | Total net assets |
|---|---|---|---|---|---|---|
| | | | | | | Millions of yen |
| Balance at March 31, 2010 | ¥2,960 | ¥(3,747) | ¥(13,217) | ¥(14,003) | ¥ 2,304 | ¥414,981 |
| Net income | | | | | | 19,583 |
| Dividends | | | | | | (10,503) |
| Acquisition of treasury stock | | | | | | (0) |
| Net change during the year | (3,098) | 4,358 | (7,254) | (5,993) | (3,168) | (9,162) |
| Balance at March 31, 2011 | (137) | 611 | (20,471) | (19,997) | (863) | 414,898 |
| **Net income** | | | | | | **16,113** |
| **Dividends** (Note 17) | | | | | | **(10,503)** |
| **Acquisition of treasury stock** | | | | | | **(0)** |
| **Net change during the year** | **(634)** | **(4,821)** | **(8,532)** | **(13,987)** | **(327)** | **(14,315)** |
| **Balance at March 31, 2012** | **¥ (772)** | **¥(4,209)** | **¥(29,003)** | **¥(33,985)** | **¥(1,191)** | **¥406,192** |

| | Unrealized gain (loss) on available-for-sale securities, net | Deferred hedging gain and loss | Foreign currency translation adjustments | Total accumulated other comprehensive income | Minority interests | Total net assets |
|---|---|---|---|---|---|---|
| | | | | | | Thousands of U.S. dollars (Note 2) |
| Balance at March 31, 2011 | $(1,675) | $ 7,443 | $(249,077) | $(243,308) | $(10,511) | $5,048,041 |
| **Net income** | | | | | | **196,056** |
| **Dividends** | | | | | | **(127,797)** |
| **Acquisition of treasury stock** | | | | | | **(8)** |
| **Net change during the year** | **(7,718)** | **(58,659)** | **(103,808)** | **(170,186)** | **(3,985)** | **(174,172)** |
| **Balance at March 31, 2012** | **$(9,393)** | **$(51,216)** | **$(352,886)** | **$(413,495)** | **$(14,497)** | **$4,942,119** |

# Consolidated Statements of Cash Flows

For the years ended March 31, 2011 and 2012

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| **Cash flows from operating activities:** | | | |
| Income before income taxes and minority interests | ¥ 38,739 | **¥ 33,237** | **$ 404,400** |
| Depreciation (Note 2) | 111,644 | **105,271** | **1,280,831** |
| Impairment loss (Note 13) | 9,266 | **946** | **11,521** |
| Loss on disposal of property, plant and equipment | 2,941 | **2,434** | **29,618** |
| Disaster recovery expenses (Note 15) | — | **3,382** | **41,152** |
| Loss on liquidation of business (Note 14) | 4,550 | **—** | **—** |
| Increase (decrease) in accrued employee retirement benefits | (779) | **971** | **11,817** |
| Increase (decrease) in reserve for fluctuation in water levels | 42 | **—** | **—** |
| Interest and dividends income | (2,720) | **(2,284)** | **(27,791)** |
| Interest expenses | 22,371 | **22,005** | **267,744** |
| (Increase) decrease in notes and accounts receivable | (10,753) | **(1,607)** | **(19,558)** |
| (Increase) decrease in inventories | (6,132) | **(2,488)** | **(30,276)** |
| Increase (decrease) in notes and accounts payable | 3,171 | **3,148** | **38,302** |
| Loss (gain) on sales of securities | (1,450) | **(484)** | **(5,898)** |
| Unrealized loss (gain) on valuation of securities | 5,359 | **1,791** | **21,792** |
| Investment income on equity method | (9,072) | **(9,565)** | **(116,386)** |
| Loss (gain) on sales of property, plant and equipment | 432 | **747** | **9,088** |
| Others (Note 2) | 8,355 | **8,526** | **103,736** |
| Subtotal | 175,965 | **166,031** | **2,020,096** |
| Interest and dividends received | 7,644 | **6,869** | **83,581** |
| Interest paid | (22,881) | **(21,765)** | **(264,821)** |
| Income taxes paid | (9,492) | **(25,244)** | **(307,143)** |
| Net cash provided by operating activities | 151,236 | **125,891** | **1,531,712** |
| **Cash flows from investing activities:** | | | |
| Payments for purchase of property, plant and equipment | (115,827) | **(133,711)** | **(1,626,855)** |
| Proceeds from contributions grants | 7,068 | **3,102** | **37,749** |
| Proceeds from sales of property, plant and equipment | 2,453 | **2,285** | **27,809** |
| Payments for investments and loans | (14,184) | **(6,068)** | **(73,836)** |
| Proceeds from collections of investments and loans | 5,235 | **4,915** | **59,812** |
| Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation (Note 18) | — | **1,425** | **17,345** |
| Others | (9,419) | **(8,802)** | **(107,093)** |
| Net cash used in investing activities | (124,675) | **(136,852)** | **(1,665,069)** |
| **Cash flows from financing activities:** | | | |
| Proceeds from issuance of bonds | 79,726 | **—** | **—** |
| Redemption of bonds | (88,000) | **(35,000)** | **(425,842)** |
| Proceeds from long-term loans | 49,036 | **176,745** | **2,150,453** |
| Repayment of long-term loans | (53,988) | **(127,173)** | **(1,547,311)** |
| Proceeds from short-term loans | 84,880 | **103,760** | **1,262,452** |
| Repayment of short-term loans | (80,680) | **(103,070)** | **(1,254,047)** |
| Proceeds from issuance of commercial paper | 392,965 | **359,968** | **4,379,715** |
| Redemption of commercial paper | (406,000) | **(359,000)** | **(4,367,927)** |
| Dividends paid | (10,503) | **(10,502)** | **(127,781)** |
| Dividends paid to minority interests | (8) | **(196)** | **(2,394)** |
| Others | 3,398 | **3,764** | **45,798** |
| Net cash provided by (used in) financing activities | (29,172) | **9,296** | **113,115** |
| **Foreign currency translation adjustments on cash and cash equivalents** | 285 | **(585)** | **(7,118)** |
| **Net increase (decrease) in cash and cash equivalents** | (2,326) | **(2,248)** | **(27,360)** |
| **Cash and cash equivalents at beginning of the year** | 40,329 | **38,002** | **462,377** |
| **Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation** | — | **(394)** | **(4,798)** |
| **Cash and cash equivalents at end of the year** (Note 2 and 18) | ¥ 38,002 | **¥ 35,359** | **$ 430,219** |

# Notes to Consolidated Financial Statements

For the years ended March 31, 2011 and 2012

## 1. Basis of preparation of consolidated financial statements

The accompanying consolidated financial statements of Electric Power Development Co., Ltd. (the Company), and its consolidated subsidiaries have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan, the Electricity Utilities Industry Law and their related accounting regulations, and are prepared on the basis of accounting principles and practices generally accepted and applied in Japan, which are different in certain respects regarding application and disclosure requirements of accounting principles and practices generally accepted in the United States of America and International Financial Reporting Standards.

In addition, the notes to the consolidated financial statements include information that is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

Amounts of less than one million yen or one thousand U.S. dollars have been rounded down. Consequently, the totals shown in the accompanying consolidated financial statements do not necessarily agree with the sum of the individual amounts.

## 2. Summary of significant accounting policies

### (1) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 69 subsidiaries controlled directly or indirectly by the Company.

Biocoal Osaka-Hirano Co., Ltd. and J-Wind Service Co., Ltd., which were established during the current consolidated fiscal year, were newly included within the scope of consolidation.

In April 2011, Green Power Setana Co., Ltd. absorbed the following seven companies: Dream-up Tomamae Co., Ltd., Green Power Kuzumaki Co., Ltd., J-Wind Tokio Co., Ltd., J-Wind Tahara Co., Ltd., Green Power Koriyama Nunobiki Co., Ltd., Hamanasu Windpower Co., Ltd. and Yuya Wind Power Co., Ltd. Following the absorption, Green Power Setana Co., Ltd. changed its business name to J-Wind Co., Ltd.

In May 2011, J-POWER Orange Grove Consolidation GP, LLC and four other consolidated subsidiaries were transferred to J-POWER USA Generation L.P., in which J-POWER and John Hancock Life Insurance Company each hold a 50% stake. Due to the decrease in J-POWER's ownership ratio accompanying the transfer, those companies are no longer considered as consolidated subsidiaries.

In addition, JM Energy Co., Ltd., which became a consolidated subsidiary through the acquisition of shares in the previous consolidated fiscal year, ceased to be a consolidated subsidiary in December 2011 due to a decrease in J-POWER's ownership ratio accompanying Mitsui & Co., Ltd.'s underwriting of a capital increase.

All of the consolidated subsidiaries, except for J-POWER AUSTRALIA PTY. LTD. and 29 other overseas subsidiaries, have the same fiscal year as that of the Company. The fiscal year-end of each of J-POWER AUSTRALIA PTY. LTD. and 29 other overseas subsidiaries is the end of December. The financial statements of these subsidiaries as of these dates are used for consolidation after necessary adjustments with regard to significant transactions incurred during the periods between their fiscal year-ends and that of the Company.

### (2) Equity method (Accounting for investment in affiliates)

Eighty-three affiliates, which have a significant influence on the Company's operations, are accounted for by the equity method.

For the current consolidated fiscal year, PT. BHIMASENA POWER INDONESIA was newly included within the scope of equity affiliates as a company of importance from the perspective of the medium- to long-term management strategy. In addition, due to a decrease in J-POWER's ownership ratio in J-POWER Orange Grove Consolidation GP, LLC and four other subsidiaries as well as JM Energy Co., Ltd., which had been consolidated subsidiaries of J-POWER, those companies are now accounted for under the equity method.

Affiliated companies not accounted for under the equity method (Nishikyushu Kyodo Kowan Co., Ltd., et al.) had a minor impact on net income, retained earnings, etc. and were of little importance in terms of overall impact so they have been excluded from the scope of equity method application.

The above-mentioned 78 affiliates, excluding Mihama Seaside Power Co., Ltd., TOSA POWER Inc., Setouchi Power Corporation, Osaki CoolGen Corporation and Yuzawa Geothermal Power Generation Corporation which were accounted for using the equity method, have different fiscal year-ends from that of the Company. Accordingly, their financial statements as of their respective fiscal closing dates are used in consolidation.

## (3) Accounting policies

### a. Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost. Construction grants received from the Government of Japan and others are deducted from the cost of the related assets. Depreciation of major tangible assets is computed based on the estimated useful lives of the respective assets as prescribed in the Corporation Tax Law of Japan. The declining-balance method has been applied to buildings, structures and machinery and the straight-line method has been applied to other equipment. Major intangible assets are amortized based on the respective estimated useful lives of those assets using the straight-line method. Software costs for internal use are amortized based on the internally available period (normally, five years) using the straight-line method.

### b. Investments

Available-for-sale securities with market value are stated at market value on the balance sheet date. Cost of sold securities is stated using the moving average method. The differences between the acquisition costs and the carrying values of securities are recognized in unrealized gain on available-for-sale securities, net. Unrealized gain (loss) on available-for-sale securities, net of applicable income taxes, is charged to net assets. Available-for-sale securities without market value are stated at cost determined by the moving average method.

Money in trust for cash management purposes is also stated at market value.

### c. Derivatives

Derivative instruments are stated at fair value, and hedge accounting is applied to those instruments which fulfill hedge conditions.

### d. Inventories

Coal and general inventories are stated at cost determined by the monthly average method (book values on the balance sheet are written down on the basis of decline in profitability) and specialty goods are stated at cost determined by the identified cost method.

### e. Allowance for doubtful account

To provide for doubtful accounts in account receivables and other claimed receivables, we consider general receivables on the basis of past bad debt results and specific receivables in danger of falling into default on the basis of their individual recoverability, and we post the anticipated irrecoverable amounts accordingly. With the elimination of receivable and payables, the allowances are adjusted accordingly.

### f. Accrued employee retirement benefits

Accrued employee retirement benefits have been provided principally at an amount calculated based on the retirement benefit obligation and the fair value of the pension assets as of each fiscal year-end.

Actuarial differences are primarily recognized under the declining balance method over two years from the consolidated fiscal year following the fiscal year in which they were incurred, and past service obligations are mainly recognized under the straight-line method over two years from the year in which the expense was incurred.

### g. Reserve for fluctuations in water levels

To offset fluctuations in income in connection with hydroelectric power generation caused by higher or lower than average water levels, the Company records a reserve for fluctuations in water levels under "Ministerial Ordinance Concerning Reserve for Fluctuations in Water Levels" (the Ministerial Ordinance No. 56 of June 15, 1965 of the Ministry of Economy, Trade and Industry) stipulated by Article 36 of the Electricity Utilities Industry Law.

### h. Revenue for construction contracts

Construction for which the degree of completion can be confirmed at the fiscal year-end is accounted for according to the percentage of completion method (the method of apportioning costs for the estimated degree of completion for construction); other construction has been booked based on the completed contract method.

### i. Foreign currency translation

Foreign-currency-denominated monetary receivables and payables are translated into yen at the exchange rate prevailing as of each fiscal year-end, and the conversion differences are processed as gains or losses. The balance sheet accounts, revenue and expenses accounts of overseas consolidated subsidiaries are translated into yen at the exchange rate in effect at each fiscal year-end and the resulting translation differences are presented as the foreign currency translation adjustments account under net assets.

The components of shareholders' equity are translated at historical exchange rates.

#### j. Derivative financial instruments and hedge accounting

The Company utilizes derivative financial instruments including foreign exchange forward contracts, foreign currency swaps and interest rate swaps, to manage its exposure to fluctuations in foreign exchange, interest rates and commodity prices. The Company does not intend to utilize the derivatives for trading or speculative purposes.

All derivatives of the Company are used for hedge purposes, and are principally accounted for under deferral hedge accounting.

The Company uses foreign exchange forward contracts and foreign currency swaps to hedge payment of principal and interest with respect to foreign-currency-denominated bonds and loans, and some foreign-currency-denominated debts and receivables, and uses interest rate swaps and interest rate color to hedge payments of principal and interest with respect to bonds and loans, and uses commodity-price-related swaps to hedge some transactions affected by fluctuations in commodity prices.

Based on its internal regulations relating to derivative transactions, derivatives are executed for the purpose of avoiding the risks of fluctuating interest rates, exchange rates, and commodity purchase prices, and the Company's policy is not to perform speculative transactions.

The Company evaluates hedge effectiveness on a quarterly basis or a per transaction basis by comparing cumulative changes in cash flow of hedging instruments with cumulative changes in hedged cash flow. Evaluation of the effectiveness of certain foreign exchange forward contracts, foreign currency swaps, and special interest rate swaps has been omitted if the substantial terms and conditions of the hedge instruments and the hedged forecasted transactions are the same.

#### k. Capitalization of interest expenses

Interest expenses related to debts incurred for the construction of power plants have been capitalized and included in the cost of the related assets pursuant to the accounting regulations (the Ministerial Ordinance No. 57 of June 15, 1965 of the Ministry of Economy, Trade and Industry) under the Electricity Utilities Industry Law.

#### l. Accounting for consumption taxes

Consumption taxes with respect to the Company and its domestic subsidiaries are accounted for by using the tax-excluded method.

The consumption taxes imposed on sales made to customers by the Company and its domestic subsidiaries are withheld by the Company and its subsidiaries at the time of sale and are subsequently paid to the national and local governments. The consumption taxes withheld upon sale are not included in the amount of operating revenue in the accompanying consolidated statements of income. Consumption taxes paid on purchases of goods and national services by the Company and its domestic subsidiaries are excluded from each account in the consolidated statements of income.

#### m. Income taxes

Income taxes comprise corporate income tax, inhabitant tax and enterprise tax. However, most of the enterprise tax imposed on the Company is computed based on sales and such enterprise tax is included in operating expenses (electric power) in the Company's consolidated statements of income. The provision for corporate income taxes is computed based on pretax income included in the Company's consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

#### n. Cash equivalents

Cash and cash equivalents presented in the accompanying consolidated statements of cash flows represent cash on hand, bank deposits, which are payable on demand, and short-term investments with maturity periods of three months or less which are easily convertible into cash and present insignificant risk of changes in value.

Additional Information

Effective from the beginning of the current consolidated fiscal year, the Company applied Accounting Standard for Accounting Changes and Error Corrections (ASBJ Statement No. 24 of December 4, 2009) and Guidance on Accounting Standard for Accounting Changes and Error Corrections (ASBJ Guidance No. 24 of December 4, 2009).

### (4) Per share information

Net income per share (excluding the value not attributable to ordinary shareholders) is calculated based on the weighted average number of shares of common stock excluding treasury stock during the fiscal year. Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share is not disclosed as there are no outstanding securities, such as convertible bonds or warrants, which are convertible into shares of common stock.

### (5) U.S. dollar amounts

The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of the reader, using the telegraphic transfer middle rate of exchange prevailing on the Tokyo Foreign Exchange Market on March 30, 2012, which was ¥82.19 = US$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted, realized or settled in U.S. dollars at this or any other rate of exchange.

## 3. Property, plant and equipment

Book value of "power plants," less construction grants and accumulated depreciation, as of March 31, 2011 and 2012, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Hydroelectric power plants | ¥ 389,892 | **¥ 374,510** | **$ 4,556,648** |
| Thermal power plants | 454,823 | **423,049** | **5,147,217** |
| Internal combustion power generation facilities | 4,694 | **4,296** | **52,270** |
| Renewable power production facilities | 38,436 | **34,479** | **419,503** |
| Transmission facilities | 197,163 | **186,274** | **2,266,387** |
| Conversion facilities | 34,456 | **31,774** | **386,599** |
| Communication facilities | 9,539 | **9,065** | **110,302** |
| General facilities | 49,486 | **47,801** | **581,593** |
| Total | ¥1,178,492 | **¥1,111,251** | **$13,520,522** |

Construction grants, which were deducted from the cost of property, plant and equipment as of March 31, 2011 and 2012 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Construction grants | ¥112,763 | **¥112,213** | **$1,365,299** |

Accumulated depreciation of property, plant and equipment as of March 31, 2011 and 2012 was as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Accumulated depreciation | ¥2,620,902 | **¥2,699,602** | **$32,845,877** |

## 4. Long-term investments in non-consolidated subsidiaries and affiliated companies

Equity investments in non-consolidated subsidiaries and affiliated companies included in "Long-term investments" at the end of March 2011 and March 2012 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Shares | ¥105,152 | **¥105,136** | **$1,279,193** |

## 5. Inventories

Inventories at the end of March 2011 and the end of March 2012 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Merchandise and finished goods | ¥ 1,485 | **¥ 799** | **$ 9,730** |
| Work in process | 911 | **639** | **7,780** |
| Raw materials and supplies | 30,003 | **33,533** | **407,997** |
| Total | ¥32,400 | **¥34,972** | **$425,509** |

## 6. Provisions

Provisions for directors' bonuses stated by subsidiaries are included in Others of Long-term and current liabilities (¥333 million as of March 31, 2011 and ¥350 million (US$4,268 thousand) as of March 31, 2012).

## 7. Short-term loans, long-term debts and lease obligations

Short-term loans, long-term debts and lease obligations as of March 31, 2011 and 2012 consisted of the following:

| | | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | | 2011 | 2012 | 2012 |
| Loans from banks and Japanese government agencies, due on varying dates through 2034 | | ¥ 657,639 | ¥ 699,369 | $ 8,509,177 |
| Interest rates: | | | | |
| Long-term loans, excluding current portion | 2.119% (average) | | | |
| Current portion of long-term loans | 1.480% (average) | | | |
| Short-term loans | 0.438% (average) | | | |
| Commercial paper | 0.110% (average) | | | |
| Domestic bonds guaranteed by the Government of Japan, due on varying dates through 2011 | 1.4% | 35,000 | — | — |
| Domestic straight bonds, due on varying dates through 2028 | 0.93% to 2.24% | 734,898 | 734,914 | 8,941,649 |
| Lease obligations | | 1,498 | 1,453 | 17,681 |
| Subtotal | | 1,429,037 | 1,435,736 | 17,468,508 |
| Less current portion | | (192,131) | (197,431) | (2,402,131) |
| Total | | ¥1,236,905 | ¥1,238,305 | $15,066,376 |

The annual maturities of bonds, long-term debts and lease obligations subsequent to March 31, 2012 are summarized as follows:

| Year ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2013 | ¥ 197,431 | $ 2,402,131 |
| 2014 | 195,231 | 2,375,373 |
| 2015 | 196,745 | 2,393,786 |
| 2016 | 147,910 | 1,799,613 |
| 2017 | 121,816 | 1,482,128 |
| 2018 and thereafter | 576,601 | 7,015,474 |
| Total | ¥1,435,736 | $17,468,508 |

All of the Company's assets are subject to certain statutory liens as security for bonds. The outstanding amount of such bonds amounted to ¥75,000 million and ¥40,000 million (US$486,677 thousand) as of March 31, 2011 and 2012, respectively. Some long-term investments amounted to ¥2,853 million and ¥2,472 million (US$30,077 thousand) as of March 31, 2011 and 2012, respectively, were used as collateral for loans of other companies.

Some long-term investments of consolidated subsidiaries amounted to ¥1,709 million and ¥2,353 million (US$28,630 thousand) as of March 31, 2011 and 2012, respectively, were used as collateral for loans of other companies.

The book value of consolidated subsidiaries' assets pledged as collateral for the debt of certain consolidated subsidiaries, which totaled ¥19,542 million and ¥86,479 million (US$1,052,193 thousand) as of March 31, 2011 and 2012, respectively, was as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2012 | 2012 |
| Construction in progress | — | ¥64,240 | $781,604 |
| Long-term investments | ¥12,210 | 18,718 | 227,751 |
| Power plants | 14,590 | 13,379 | 162,783 |
| Other property, plant and equipment | — | 3,634 | 44,226 |
| Cash and deposits | 938 | 536 | 6,522 |
| Others (Investments and other assets) | 9,921 | — | — |
| Others (Current assets) | 1,036 | — | — |
| Notes and accounts receivable–trade | 84 | — | — |
| Inventories | 50 | — | — |

## 8. Contingent liabilities

Contingent liabilities as of March 31, 2011 and 2012 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Guarantees given for loans of companies below: | | | |
| TOSA POWER Inc. | ¥ 3,021 | **¥ 2,496** | **$ 30,379** |
| Zajaczkowo Windfarm Sp. z o. o. | 2,698 | **2,429** | **29,562** |
| PT. BHIMASENA POWER INDONESIA | — | **1,397** | **17,000** |
| SAHARA COOLING Ltd. | 106 | **104** | **1,268** |
| Okutadami Kanko Co., Ltd. | 80 | **98** | **1,194** |
| Kanda Eco Plant Co., Ltd. | 52 | **33** | **406** |
| Guarantees given in connection with housing loans to Company employees | 3,852 | **3,130** | **38,093** |
| Subtotal | 9,812 | **9,690** | **117,905** |
| Guarantees given to certain banks of the companies below for performance bonds under power purchase agreements | | | |
| Gulf JP UT Co., Ltd. | 5,329 | **5,174** | **62,961** |
| PT. BHIMASENA POWER INDONESIA | — | **838** | **10,200** |
| Gulf JP NS Co., Ltd. | 2,200 | **—** | **—** |
| Gulf JP NK2 Co., Ltd. (Combined Heat and Power Co., Ltd.)*1 | 1,259 | **—** | **—** |
| Gulf JP NLL Co., Ltd. | 1,259 | **—** | **—** |
| Gulf JP CRN Co., Ltd. | 1,259 | **—** | **—** |
| Gulf JP NNK Co., Ltd. | 1,259 | **—** | **—** |
| Subtotal | 12,568 | **6,013** | **73,161** |
| Guarantees on revenues from electricity sales (using an incremental unit price structure) of the companies below: | | | |
| J-Wind Co., Ltd. (Green Power Kuzumaki Co., Ltd.)*2 | 468 | **456** | **5,553** |
| Nikaho-kogen Wind Power Co., Ltd. | 422 | **365** | **4,443** |
| Subtotal | 890 | **821** | **9,996** |
| Guarantees to EPC contractors on EPC contracts of companies below: | | | |
| Gulf JP NS Co., Ltd. | — | **4,931** | **60,000** |
| PT. BHIMASENA POWER INDONESIA | — | **1,901** | **23,132** |
| Gulf JP NK2 Co., Ltd. (Combined Heat and Power Co., Ltd.)*1 | 717 | **—** | **—** |
| Gulf JP NLL Co., Ltd. | 574 | **—** | **—** |
| Gulf JP NNK Co., Ltd. | 574 | **—** | **—** |
| Gulf JP CRN Co., Ltd. | 360 | **—** | **—** |
| Subtotal | 2,226 | **6,832** | **83,132** |
| Total | ¥25,499 | **¥23,358** | **$284,195** |

*1 The name in parentheses is the former company name which was changed on April 20, 2011.
*2 The name in parentheses is the former company name which was changed on April 1, 2011 due to the merger of eight wind power companies.

## 9. Provision of reserves

Provisions included in operating expenses for the years ended March 31, 2011 and 2012, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Accrued employee retirement benefits | ¥3,757 | **¥7,882** | **$95,905** |

## 10. Operating expenses

Operating expenses (electric power) for the years ended March 31, 2011 and 2012, were summarized as follows:

Total

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2012 | 2012 |
| Personnel expense | ¥ 31,354 | **¥ 34,536** | **$ 420,202** |
| Fuel cost | 214,261 | **249,421** | **3,034,696** |
| Repair expense | 46,035 | **52,915** | **643,814** |
| Consignment cost | 31,491 | **34,700** | **422,198** |
| Taxes and duties | 27,259 | **27,608** | **335,915** |
| Depreciation and amortization cost | 106,929 | **101,139** | **1,230,555** |
| Others | 51,783 | **53,551** | **651,552** |
| Total | ¥509,116 | **¥553,873** | **$6,738,936** |

Selling, general and administrative expenses included in operating expenses (electric power) for the years ended March 31, 2011 and 2012, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2012 | 2012 |
| Personnel expense | ¥20,283 | **¥22,952** | **$279,266** |
| Fuel cost | — | **—** | **—** |
| Repair expense | 1,150 | **1,395** | **16,976** |
| Consignment cost | 7,062 | **7,647** | **93,045** |
| Taxes and duties | 740 | **748** | **9,102** |
| Depreciation and amortization cost | 2,237 | **2,025** | **24,645** |
| Others | 13,226 | **11,129** | **135,410** |
| Total | ¥44,701 | **¥45,898** | **$558,446** |

## 11. Enterprise taxes

Most of the enterprise taxes of the Company and 13 consolidated subsidiaries that operate electric power business are imposed on operating revenues, except for certain enterprise taxes imposed on taxable income. Enterprise tax on operating revenues was included in operating expenses (electric power) in the amount of ¥7,488 million and ¥7,823 million (US$95,185 thousand) for the years ended March 31, 2011 and 2012, respectively. Regarding the enterprise tax for consolidated subsidiaries, the discounted value-added and discounted capital are included in "Operating expenses–Other," and revenues are included in income taxes, excluding the 12 consolidated subsidiaries that operate electric power business.

## 12. Research and development costs

Research and development costs are presented in a total amount pursuant to the Accounting Standard for Research and Development Costs, etc. ("Opinion Concerning Establishment of Accounting Standard for Research and Development Costs, etc." issued by the Business Accounting Deliberation Council on March 13, 1998).

Research and development costs included in general and administrative expenses for the years ended March 31, 2011 and 2012 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2012 | 2012 |
| Research and development costs | ¥6,065 | **¥5,534** | **$67,332** |

## 13. Loss on impairment of fixed assets

The Company and subsidiaries base the grouping of their assets on the categories used in their management accounting, which maintains a continuous grasp of the balance of payments. (Power plants are grouped by business department and other property, plant and equipment are grouped by control management department or site.)

For the current fiscal year, due to the deterioration in the business environment and other factors, the Company examined the potential for future collection, consequently determined that it would be difficult to collect on investments relating to special asset groups and therefore wrote the book value down to the level it would be possible to collect. Moreover, idle assets for which no immediate use was foreseen and others were grouped individually, depreciated to their recoverable value. The appropriate value reduction was booked as an impairment loss within the category of "Other expenses – Other." Loss on impairment of fixed assets was as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | **2012** | **2012** |
| Buildings and structures | **¥ 33** | **$ 406** |
| Land | **61** | **751** |
| Machinery | **851** | **10,361** |
| Others | **0** | **1** |
| Total | **¥946** | **$11,521** |

For the year ended March 31, 2011, due to the deterioration in the business environment and other factors, the Company examined the potential for future collection and consequently determined that it would be difficult to collect on investments relating to special asset groups, and therefore wrote the book value down to the level it would be possible to collect and booked the reduced amount as an impairment loss of ¥9,266 million under extraordinary loss. The major impairment losses were as follows:

| | | Millions of yen |
|---|---|---|
| Power generation plant | Buildings and structures | ¥ 775 |
| Ichihara Power Co., Ltd. (Ichihara city, Chiba Prefecture) | Machinery | 5,749 |
| | Others | 347 |
| | Total | 6,872 |
| Fertilizer plant | Buildings and structures | 1,164 |
| Kaihatsu Hiryou Co., Ltd. (Takehara city, Hiroshima Prefecture) | Machinery | 705 |
| | Others | 19 |
| | Total | ¥1,889 |

(Calculation of the recoverable amount)

The recoverable value of specified asset groups during the current consolidated fiscal year was measured according to value of use and calculated at a 2.34% and 2.26% discount to future cash flow.

The recoverable value of the idle assets concerned was measured according to their net sale value; assets slated for sale are recorded by their expected sale value, while other assets were appraised at value reflecting their appropriate market pricing on fixed assets.

For the previous consolidated fiscal year, the recoverable amount for the power generation plant asset group was measured by the amount of net sales; future cash flow will be negative so this has been booked at residual value. The recoverable amount for the fertilizer plant asset group was measured by the value of use and has been calculated at a 3.5% discount to future cash flow.

## 14. Loss on liquidation of business

Gulf JP UT Co., Ltd., a subsidiary of the Company, was engaged in an IPP (Independent Power Producer) project in the Samet Tai subdistrict in Thailand. However, at the Cabinet meeting of the Thai government held on July 20, 2010, the Thai government decided on a guideline which included changing the location planned for construction of the power plant as a solution to resolve the problem of location. Due to this decision, the Company decided not to proceed with its development project in Samet Tai and recognized the loss on liquidation of business of ¥4,550 million in relation to the project for the previous consolidated fiscal year.

The main loss relating to the project resulted from an anticipated irrecoverable amount of ¥4,007 million in loan receivables.

## 15. Disaster recovery expenses

The Company booked losses of ¥3,382 million (US$41,152 thousand) as disaster recovery expenses due to a fire at the Company's Isogo Thermal Power Plant on November 24, 2011. The breakdown of the losses is ¥2,513 million (US$30,577 thousand) for the restoration and removal of damaged equipment and ¥869 million (US$10,575 thousand) for other disaster-related expenses.

## 16. Consolidated statements of comprehensive income

Reclassification adjustments and tax effects relating to other comprehensive income for the current consolidated fiscal year are as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Unrealized gain on available-for-sale securities, net | | |
| Amount accrued for the current year | **¥ (1,429)** | **$ (17,397)** |
| Reclassification adjustment | **1,110** | **13,509** |
| Amount before tax effect | **(319)** | **(3,888)** |
| Tax effect | **(320)** | **(3,905)** |
| Unrealized gain on available-for-sale securities, net | **(640)** | **(7,793)** |
| Deferred hedging gain and loss | | |
| Amount accrued for the current year | **(5,734)** | **(69,776)** |
| Reclassification adjustment | **(12)** | **(146)** |
| Amount before tax effect | **(5,747)** | **(69,923)** |
| Tax effect | **960** | **11,687** |
| Deferred hedging gain and loss | **(4,786)** | **(58,235)** |
| Foreign currency translation adjustments | | |
| Amount accrued for the current year | **(4,213)** | **(51,267)** |
| Reclassification adjustment | **20** | **254** |
| Amount before tax effect | **(4,192)** | **(51,013)** |
| Foreign currency translation adjustments | **(4,192)** | **(51,013)** |
| Share of other comprehensive income of associates accounted for using equity method | | |
| Amount accrued for the current year | **(5,457)** | **(66,398)** |
| Reclassification adjustment | **560** | **6,814** |
| Share of other comprehensive income of associates accounted for using equity method | **(4,897)** | **(59,583)** |
| Other comprehensive income | **¥(14,516)** | **$(176,625)** |

## 17. Dividends from the surplus

The following dividend from the surplus of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2012, was approved at the general meeting of the shareholders held on June 26, 2012:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Cash dividends (¥35 (US$0.43) per share) | **¥5,251** | **$63,898** |

## 18. Cash and cash equivalents

The reconciliation between cash and bank deposits in the accompanying consolidated balance sheets and cash and cash equivalents in the accompanying consolidated statements of cash flows for the years ended March 31, 2011 and 2012 was as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Cash and bank deposits on the consolidated balance sheets | ¥37,202 | **¥35,112** | **$427,209** |
| Time deposits with a maturity of more than three months | (539) | **(602)** | **(7,332)** |
| Marketable securities with a redemption period of three months or less from the date of acquisition, included in the short-term investments account | 1,340 | **850** | **10,341** |
| Cash and cash equivalents on the consolidated statements of cash flows | ¥38,002 | **¥35,359** | **$430,219** |

The breakdown of the main assets and liabilities at the time of exclusion from consolidation of J-POWER Orange Grove Consolidation GP, LLC and four other companies that ceased to be consolidated subsidiaries during the current consolidated fiscal year due to the sale of shares, and the relationship between the proceeds from the sale of shares and income (net) from the sale of the said subsidiaries.

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Property, plant and equipment, net | **¥ 9,926** | **$120,778** |
| Current assets | **1,559** | **18,971** |
| Long-term liabilities | **(5,350)** | **(65,093)** |
| Investment account after sale of shares | **(2,916)** | **(35,487)** |
| Others | **(445)** | **(5,422)** |
| Proceeds from sale of shares | **2,773** | **33,747** |
| Cash and cash equivalents of companies that ceased to be consolidated subsidiaries | **(1,348)** | **(16,402)** |
| Less: Income from sale | **¥ 1,425** | **$ 17,345** |

## 19. Leases

### Financing and lease transactions

As a lessor:

Amount of leasing fees due on lease receivables for the fiscal years ended March 31, 2011 and 2012 expected to be collected after the close of the fiscal year

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| (Current assets) | | | |
| Due within one year or less | ¥ 1,391 | — | — |
| (Investments and other assets) | | | |
| Due after one year through two years | 1,391 | — | — |
| Due after two years through three years | 1,391 | — | — |
| Due after three years through four years | 1,391 | — | — |
| Due after four years through five years | 1,391 | — | — |
| Due after five years | 26,921 | — | — |

## 20. Financial instruments

### (1) Status of financial instruments

**a. Policy for financial instruments**

The Company formulates funds procurement plans based on demand for funding of capital expenditures related to the wholesale electricity business, investment in the overseas power generation business, and other businesses. The requisite funds are then procured (mainly from the issue of bonds and loans from financial institutions). Funds temporarily in excess are invested in financial assets with a high degree of safety. The Company also procures funds for short-term working capital through borrowings and the issue of commercial paper. Derivatives are used to avoid the risks noted below and it is corporate policy not to engage in speculative transactions.

**b. Types of financial instruments and related risk**

Notes and accounts receivable are operating receivables exposed to client credit risk. Marketable securities held as long-term investments are shares, etc. related to business or capital ties with the partner companies to the transactions and are exposed to the risk of fluctuation in market prices. Short-term investments consist primarily of domestic CDs (transferable deposits) and are exposed to bank credit risk.

Notes and accounts payable are operating liabilities and nearly all have a payment term of one year or less. Also included among operating liabilities are foreign currency transactions for fuel and other imports and these are exposed to currency fluctuation risk; however, part of this is hedged through the use of foreign exchange forward contracts. Loans and bonds are used mainly for the procurement of funds required for capital investment. Redemption term of bonds is 17 years at the longest after the fiscal year settlement date. Some of these have variable interest rates and are thus exposed to interest rate fluctuation risk; however, this is hedged through the use of derivatives transactions (interest rate swaps).

Derivatives transactions consist mainly of transactions involving foreign exchange forward contracts to hedge the risk of currency fluctuation accompanying operating receivables and payables denominated in foreign currencies, interest rate swaps designed to hedge the risk of interest rate fluctuations for loans and bonds, and commodity swaps designed to hedge the risk of fluctuation in commodity prices. Please see section "j. Derivative financial instruments and hedge accounting" under "2. (3) Accounting policies" mentioned above for the hedging methods, hedging targets, hedging policies and methods for appraising hedging effectiveness, etc.

**c. Risk management for financial instruments**

Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with the Rules on Management of Sales, etc., each division of the Company monitors the due dates and balances of operating receivables for each transacting partner and also maintains a perpetual grasp of changes in the state of management, etc. for these companies. Consolidated subsidiaries also follow the Rules on Management of Sales, etc. and manage business affairs in the same manner. Please note that credit risk is minimal for the wholesale electric power business since transactions are conducted mainly with the 10 electric power companies, which have high credit ratings.

When derivative transactions are used, they are conducted only with financial and other institutions with bearing high credit ratings to mitigate counter party risk.

The largest amount of credit risk as of the consolidated fiscal year-end is shown in the value of financial assets exposed to credit risk on the consolidated balance sheet.

Monitoring of market risks (the risks arising from fluctuations in foreign exchange rates, interest rates and others)

The Company and some of its consolidated subsidiaries generally employ foreign exchange forward contracts to hedge the risk of currency fluctuations for foreign-denominated operating receivables and payables, as determined on a monthly basis, by currency. The Company and some of its consolidated subsidiaries also employ interest rate swaps to avoid the risk of fluctuation in interest rates on loans and bonds. The Company engages in commodity swaps to obviate the risk of fluctuation in commodity prices as well.

The board of directors sets the maximum limits for derivatives transactions by purpose, based on the Guidelines for Handling Derivatives Transactions. These transactions are handled within those confines and the Accounting & Finance Department verifies the balances with the contracting parties. Transaction results are reported to the board of directors every six months as a general rule (quarterly for new transactions). Consolidated subsidiaries also adhere to the corporate Guidelines for Handling Derivatives Transactions in managing derivatives.

Monitoring of liquidity risk (the risk that the Company may not be able to meet obligations on scheduled due dates)

The Accounting & Finance Department formulates and updates financing plans in a timely manner based on reports from the various departments and manages liquidity risk through issuance of commercial paper and other means.

**d. Supplemental explanation of the estimated fair value of financial instruments**

Market valuation of financial instruments includes not only values based on market prices, but also values calculated in a reasonable manner for instruments that do not have a market price. Calculation of such values incorporates factors that fluctuate so values may fluctuate with the employment of different underlying assumptions and other factors. Moreover, contract amounts of derivatives transactions in "(2) Estimated fair value of financial instruments" do not indicate the market risk related to the derivatives transactions, in and of themselves.

**e. Concentration of credit risk**

As of March 31, 2012, 85% of the operating receivables were from the 10 electric power companies.

### (2) Estimated fair value of financial instruments

The book values, fair value, and differences between those recorded on the consolidated balance sheet are as follows. Please note that instruments for which it is extremely difficult to ascertain a fair value are not included in the following table (see "b. Financial instruments for which it is extremely difficult to determine the fair value").

| | Millions of yen | | |
|---|---|---|---|
| As of March 31, 2011 | Carrying value | Estimated fair value | Difference |
| Cash and bank deposits | ¥ 37,202 | ¥ 37,202 | — |
| Notes and accounts receivable | 57,781 | 57,781 | — |
| Short-term investments | 2,346 | 2,346 | — |
| Marketable securities and investment securities | 27,544 | 27,544 | — |
| Available-for-sale securities *1 | 27,544 | 27,544 | — |
| Total assets | 124,875 | 124,875 | — |
| Notes and accounts payable | 20,112 | 20,112 | — |
| Short-term loans | 17,528 | 17,528 | — |
| Commercial paper | 11,999 | 11,999 | — |
| Bonds *2 | 769,898 | 793,208 | ¥(23,309) |
| Long-term loans *2 | 628,111 | 637,820 | (9,709) |
| Total liabilities | 1,447,651 | 1,480,670 | ¥(33,019) |
| Derivatives transactions *3 | | | |
| Transactions not subject to hedge accounting | 18,151 | 18,151 | — |
| Transactions subject to hedge accounting | 5,496 | 5,496 | — |
| Total derivatives transactions | ¥ 23,647 | ¥ 23,647 | — |

*1 Includes long-term investments on the consolidated balance sheet.
*2 Includes bonds and long-term loans due within one year.
*3 Indicates the net amount of receivables and payables incurred for derivatives transactions.

| | Millions of yen | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|
| **As of March 31, 2012** | Carrying value | Estimated fair value | Difference | Carrying value | Estimated fair value | Difference |
| Cash and bank deposits | **¥ 35,112** | **¥ 35,112** | **—** | **$ 427,209** | **$ 427,209** | **—** |
| Notes and accounts receivable | **59,283** | **59,283** | **—** | **721,293** | **721,293** | **—** |
| Short-term investments | **1,331** | **1,331** | **—** | **16,195** | **16,195** | **—** |
| Marketable securities and investment securities | **23,819** | **23,819** | **—** | **289,810** | **289,810** | **—** |
| Available-for-sale securities *1 | **23,819** | **23,819** | **—** | **289,810** | **289,810** | **—** |
| Total assets | **119,546** | **119,546** | **—** | **1,454,508** | **1,454,508** | **—** |
| Notes and accounts payable | **20,011** | **20,011** | **—** | **243,478** | **243,478** | **—** |
| Short-term loans | **18,443** | **18,443** | **—** | **224,404** | **224,404** | **—** |
| Commercial paper | **12,999** | **12,999** | **—** | **158,162** | **158,162** | **—** |
| Bonds *2 | **734,914** | **756,421** | **¥(21,506)** | **8,941,649** | **9,203,323** | **$(261,674)** |
| Long-term loans *2 | **667,926** | **680,002** | **(12,075)** | **8,126,610** | **8,273,537** | **(146,926)** |
| Total liabilities | **1,454,294** | **1,487,877** | **¥(33,582)** | **17,694,305** | **18,102,906** | **$(408,601)** |
| Derivatives transactions *3 | | | | | | |
| Transactions not subject to hedge accounting | **177** | **177** | **—** | **2,160** | **2,160** | **—** |
| Transactions subject to hedge accounting | **(2,962)** | **(2,962)** | **—** | **(36,040)** | **(36,040)** | **—** |
| Total derivatives transactions | **¥ (2,784)** | **¥ (2,784)** | **—** | **$ (33,879)** | **$ (33,879)** | **—** |

*1 Includes long-term investments on the consolidated balance sheet.
*2 Includes bonds and long-term loans due within one year.
*3 Indicates the net amount of receivables and payables incurred for derivatives transactions.

**a. Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions**

Assets:

① *Cash and bank deposits, notes and accounts receivable, and short-term investments (transferable deposits, etc.)*
Since these are settled within a short period of time, the fair value is almost the same as the book value so the carrying value is used.

② *Investment securities*
The fair value of shares is based on quoted market prices. For information of securities by holding purposes, please refer to "Note 21. Securities."

Liabilities:

③ *Notes and accounts payable, short-term loans, and commercial paper*
Since these are settled within a short period of time, the fair value is nearly equivalent to the book value so the Company uses the book value.

④ *Bonds*
The fair value of bonds issued by the Company is calculated by taking the current value of the sum of the principal and interest or, in cases subject to special handling with interest rate swaps, the total principal and interest with the interest rate swap combined, discounted by an interest rate which takes the time remaining on the bonds and the credit risk into consideration.

⑤ *Long-term loans*
The fair value of long-term loans is calculated by taking the current value of sum of the principal and interest or, in cases subject to special handling with interest rate swaps, the total principal and interest with the interest rate swaps combined, discounted by the assumed interest rate for an equivalent level of new borrowing.

Derivatives transactions:

Refer to "Note 22. Derivative transactions."

**b. Financial instruments for which it is extremely difficult to determine the fair value**

Amounts booked on the consolidated balance sheet

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Unlisted share (excluding stock sold on the OTC market) | ¥12,036 | **¥12,047** | **$146,577** |
| Unlisted foreign share | 11,188 | **11,171** | **135,922** |
| Capital contribution | 1,490 | **1,668** | **20,304** |
| Foreign capital contribution | 9,012 | **9,231** | **112,315** |
| Other | 965 | **1,010** | **12,293** |

The above do not have a market value and estimation of future cash flows from them would incur substantial cost for estimating fair value. Therefore, they are not included in the table which compares the carrying value and estimated fair value. Please note that the shares of non-consolidated subsidiaries and affiliates have been omitted from the table above because they are listed under "4. Long-term investments in non-consolidated subsidiaries and affiliated companies."

### c. Redemption schedule for receivables and marketable with maturities

| As of March 31, 2011 | Millions of yen<br>Due in one year or less |
|---|---|
| Cash and bank deposits* | ¥37,202 |
| Notes and accounts receivable | 57,781 |
| Short-term investments | 2,346 |
| Marketable securities and investment securities | |
| Available-for-sale securities with maturities | — |
| Total | ¥97,330 |

| **As of March 31, 2012** | Millions of yen<br>Due in one year or less | Thousands of U.S. dollars<br>Due in one year or less |
|---|---|---|
| Cash and bank deposits* | **¥35,112** | **$ 427,209** |
| Notes and accounts receivable | **59,283** | **721,293** |
| Short-term investments | **1,331** | **16,195** |
| Marketable securities and investment securities | | |
| Available-for-sale securities with maturities | **—** | **—** |
| Total | **¥95,726** | **$1,164,698** |

* Amounts in cash and deposits to be redeemed within one year include cash.

### d. Bonds, long-term loans, and other interest-bearing debt scheduled for repayment after consolidated fiscal year-end

| | Millions of yen | | | |
|---|---|---|---|---|
| As of March 31, 2011 | Short-term loans | Commercial paper | Bonds | Long-term loans |
| Due in one year or less | ¥17,528 | ¥11,999 | ¥ 35,000 | ¥127,198 |
| Due after one year through two years | — | — | 20,000 | 145,521 |
| Due after two years through three years | — | — | 60,000 | 107,212 |
| Due after three years through four years | — | — | 80,000 | 68,725 |
| Due after four years through five years | — | — | 60,000 | 84,779 |
| Due after five years | — | — | 515,000 | 94,674 |

| | Millions of yen | | | | Thousands of U.S. dollars | | | |
|---|---|---|---|---|---|---|---|---|
| **As of March 31, 2012** | Short-term loans | Commercial paper | Bonds | Long-term loans | Short-term loans | Commercial paper | Bonds | Long-term loans |
| Due in one year or less | **¥18,443** | **¥12,999** | **¥ 20,000** | **¥145,518** | **$224,404** | **$158,162** | **$ 243,338** | **$1,770,510** |
| Due after one year through two years | **—** | **—** | **60,000** | **134,820** | **—** | **—** | **730,015** | **1,640,349** |
| Due after two years through three years | **—** | **—** | **80,000** | **116,439** | **—** | **—** | **973,354** | **1,416,707** |
| Due after three years through four years | **—** | **—** | **60,000** | **87,741** | **—** | **—** | **730,015** | **1,067,543** |
| Due after four years through five years | **—** | **—** | **90,000** | **31,752** | **—** | **—** | **1,095,023** | **386,331** |
| Due after five years | **—** | **—** | **425,000** | **151,654** | **—** | **—** | **5,170,945** | **1,845,167** |

## 21. Securities

**a. Available-for-sale securities**

Instruments for which the amount booked on the consolidated balance sheet exceeds the acquisition cost

| | | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | Type | 2011 | **2012** | **2012** |
| Acquisition cost | Stocks | ¥ 8,866 | **¥4,088** | **$49,748** |
| Amount booked on the consolidated balance sheet | Stocks | 12,435 | **6,429** | **78,230** |
| Unrealized gain | | ¥ 3,568 | **¥2,340** | **$28,482** |

Instruments for which the amount booked on the consolidated balance sheet does not exceed the acquisition cost

| | | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | Type | 2011 | **2012** | **2012** |
| Acquisition cost | Stocks | ¥19,176 | **¥20,884** | **$254,102** |
| Amount booked on the consolidated balance sheet | Stocks | 15,109 | **17,389** | **211,579** |
| Unrealized gain | | ¥ (4,066) | **¥ (3,494)** | **$ (42,523)** |

**b. Available-for-sale securities sold during the current consolidated fiscal year**

| | Millions of yen | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|
| | Proceeds from sale | Gain on sale | Loss on sale | Proceeds from sale | Gain on sale | Loss on sale |
| Stocks | **¥1,961** | **¥685** | **¥4** | **$23,860** | **$8,335** | **$55** |

**c. Available-for-sale securities recognized as impairment loss during the current consolidated fiscal year**

An impairment loss of ¥1,790 million (US$21,790 thousand) was recognized for stocks in available-for-sale securities.

## 22. Derivatives transactions

Derivatives transactions for the years ended March 31, 2011 and 2012 are as follows:

### (1) Derivatives transactions not subject to hedge accounting

**a. Currencies**

| | Millions of yen | | | |
|---|---|---|---|---|
| | Contract value, etc. | | Fair value | Valuation gain/loss |
| As of March 31, 2011 | Total value | Portion over one year | | |
| Transactions other than market transactions *1 | | | | |
| Forward exchange contracts, short positions | ¥18,104 | ¥5,206 | ¥18,355 | ¥251 |
| Total | ¥18,104 | ¥5,206 | ¥18,355 | ¥251 |

| | Millions of yen | | | | Thousands of U.S. dollars | | | |
|---|---|---|---|---|---|---|---|---|
| | Contract value, etc. | | Fair value | Valuation gain/loss | Contract value, etc. | | Fair value | Valuation gain/loss |
| **As of March 31, 2012** | Total value | Portion over one year | | | Total value | Portion over one year | | |
| Transactions other than market transactions *1 | | | | | | | | |
| Forward exchange contracts, short positions | **¥13,235** | **¥6,376** | **¥177** | **¥177** | **$161,029** | **$77,586** | **$2,160** | **$2,160** |
| Total | **¥13,235** | **¥6,376** | **¥177** | **¥177** | **$161,029** | **$77,586** | **$2,160** | **$2,160** |

*1 The market price is calculated according to the forward exchange rate.

**b. Stocks**

| As of March 31, 2011 | Contract value, etc. Total value | Contract value, etc. Portion over one year | Fair value | Valuation gain/loss |
|---|---|---|---|---|
| | | | | Millions of yen |
| Transactions other than market transactions *2 | | | | |
| Stock option transactions, short positions | ¥3,399 | ¥3,399 | ¥ 751 | — |
| Stock option transactions, long positions | 2,926 | 2,926 | (954) | — |
| Total | ¥6,325 | ¥6,325 | ¥(203) | — |

*2 The market price in question is calculated according to the option price calculation model.

## (2) Derivatives transactions subject to hedge accounting

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | | **2012** | | | **2012** | | |
| | Contract value, etc. | | | Contract value, etc. | | | Contract value, etc. | | |
| | Total value | Portion over one year | Fair value | Total value | Portion over one year | Fair value | Total value | Portion over one year | Fair value |
| (General settlement method) | | | | | | | | | |
| Foreign-currency-denominated debts and receivables | | | | | | | | | |
| Foreign exchange forward contracts transactions *3 | ¥ 278 | — | ¥ 214 | **¥ 7,625** | **—** | **¥ 135** | **$ 92,782** | **—** | **$ 1,646** |
| Bonds and loans | | | | | | | | | |
| Interest rate swaps pay/fixed, receive/floating *4 | 18,289 | ¥ 17,957 | 911 | **56,149** | **¥ 55,809** | **(3,114)** | **683,165** | **$ 679,033** | **(37,891)** |
| Interest rate color transactions *4 | 3,726 | 3,724 | 218 | **12,904** | **12,904** | **(542)** | **157,009** | **157,009** | **(6,602)** |
| Commodity | | | | | | | | | |
| Commodity swaps, pay/fixed, receive/floating *4 | 37,008 | 26 | 2,139 | **51,917** | **—** | **559** | **631,674** | **—** | **6,807** |
| (Special interest rate swaps) | | | | | | | | | |
| Bonds and loans | | | | | | | | | |
| Interest rate swaps, pay/fixed, receive/floating | 276,500 | 243,500 | (*5) | **264,000** | **200,700** | (*5) | **3,212,069** | **2,441,902** | (*5) |
| Interest rate swaps, pay/floating, receive/fixed | 55,000 | 40,000 | (*5) | **40,000** | **20,000** | (*5) | **486,677** | **243,338** | (*5) |
| (Allocation of foreign exchange forward contracts, etc.) | | | | | | | | | |
| Foreign-currency-denominated debt and receivables | | | | | | | | | |
| Foreign exchange forward contracts transactions *3 | 2,013 | — | 2,011 | **—** | **—** | **—** | **—** | **—** | **—** |
| Total | ¥392,816 | ¥305,208 | ¥5,496 | **¥432,597** | **¥289,414** | **¥ (2,962)** | **$5,263,379** | **$3,521,284** | **$ (36,040)** |

*3 The fair value is calculated according to the forward exchange rate.
*4 The fair value is calculated according to the price, etc. specified by the transacting financial institution.
*5 Transactions subject to special interest rate swaps are settled as a combined sum with the long-term loan or bonds being hedged so the fair value is included in the fair value of the long-term loan or bonds in question.

## 23. Employee retirement benefit plans

The Company and certain of its domestic consolidated subsidiaries have defined benefit plans, including defined benefit corporate pension plans, and lump sum retirement benefit plans. Premium severance payments in addition to the retirement benefit plans may be paid to employees upon retirement.

Retirement benefit obligations as of March 31, 2011 and 2012 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Retirement benefit obligation | ¥(134,132) | **¥(133,352)** | **$(1,622,496)** |
| Plan assets at fair value | 73,488 | **73,440** | **893,546** |
| Unfunded retirement benefit obligation | (60,644) | **(59,912)** | **(728,949)** |
| Unrecognized actuarial loss | 3,802 | **2,054** | **24,999** |
| Unrecognized prior service cost*1 | (227) | **(158)** | **(1,924)** |
| Accrued employee retirement benefits | ¥ (57,069) | **¥ (58,015)** | **$ (705,875)** |

*1 Prior service cost (reduction in liabilities) occurred for the fiscal year ended March 31, 2005 due to a change in the method of calculation attendant to the change in the system for some consolidated subsidiaries.
*2 Some consolidated subsidiaries use the simplified method for calculating retirement benefit obligations.

Retirement benefit expenses for the years ended March 31, 2011 and 2012 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Service cost *4 | ¥4,940 | **¥ 5,016** | **$ 61,037** |
| Interest cost | 2,530 | **2,549** | **31,016** |
| Expected return on pension assets | (1,416) | **(1,371)** | **(16,681)** |
| Amortization of prior service cost *3 | (69) | **(69)** | **(844)** |
| Amortization of actuarial gain or loss | (1,868) | **2,161** | **26,304** |
| Additional severance payments, etc. | 1,145 | **219** | **2,672** |
| Total | ¥5,262 | **¥ 8,507** | **$103,505** |

*3 The amount of the amortization for the current consolidated fiscal year pertaining to the prior service cost.
*4 The retirement benefit expenses for consolidated subsidiaries using the simplified method are included in Service cost.

The principal assumptions used in determining the retirement benefit obligations and other components of the retirement benefit plans of the Company and its subsidiaries for the years ended March 31, 2011 and 2012 were as follows:

| | 2011 | **2012** |
|---|---|---|
| Method of allocation of estimated retirement benefits | Equally over the period | **Equally over the period** |
| Discount rate | Mainly 2.0% | **Mainly 2.0%** |
| Expected rate of return on plan assets | Mainly 2.0% | **Mainly 2.0%** |
| Amortization of actuarial gain or loss | Mainly amortized by the declining-balance method over a period of two years from the consolidated fiscal year following the fiscal year incurred | **Mainly amortized by the declining-balance method over a period of two years from the consolidated fiscal year following the fiscal year incurred** |
| Amortization of prior service cost | Mainly amortized by the straight-line method over a period of two years | **Mainly amortized by the straight-line method over a period of two years** |

## 24. Income taxes

Income taxes applicable to the Company and its consolidated subsidiaries comprise corporate income tax, inhabitant tax and enterprise tax, which, in the aggregate, resulted in statutory tax rates of approximately 36% and 40-42%, respectively, for the Company and its consolidated subsidiaries engaged in the electric power business, and other consolidated subsidiaries for the years ended March 31, 2011 and 2012.

The significant components of deferred tax assets and liabilities as of March 31, 2011 and 2012 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Deferred tax assets: | | | |
| Excess of accrued employee retirement benefits | ¥ 25,382 | **¥ 22,048** | **$ 268,262** |
| Tax effect on elimination of unrealized gain on fixed assets | 14,309 | **13,497** | **164,221** |
| Excess of depreciation of fixed assets | 6,507 | **6,184** | **75,250** |
| Amount assigned for bonuses, etc. but not yet paid | 2,893 | **2,648** | **32,219** |
| Excess of amortization of deferred assets for tax purposes | 2,018 | **1,581** | **19,237** |
| Excess of reserve for fluctuation in water levels | 279 | **259** | **3,151** |
| Other | 37,884 | **37,257** | **453,303** |
| Subtotal of deferred tax assets | 89,275 | **83,476** | **1,015,647** |
| Valuation allowance | (18,797) | **(16,339)** | **(198,805)** |
| Total deferred tax assets | 70,478 | **67,136** | **816,842** |
| Deferred tax liabilities: | | | |
| Other | (13,517) | **(14,271)** | **(173,641)** |
| Total deferred tax liabilities | (13,517) | **(14,271)** | **(173,641)** |
| Net deferred tax assets | ¥ 56,961 | **¥ 52,864** | **$ 643,200** |

The breakdown of the main items which caused the difference in the statutory tax rate and the contribution rate of corporate tax after the application of tax effect accounting in the years ended March 31, 2011 and 2012 is as follows:

| | 2011 | **2012** |
|---|---|---|
| Statutory tax rates | 36.00% | **36.00%** |
| (adjusted) | | |
| Downward adjustment of deferred tax assets due to change in tax rate | — | **17.69%** |
| Investment profit/loss based on the equity method | (8.43%) | **(10.36%)** |
| Valuation allowance | 18.98% | **6.16%** |
| Non-deductible expenses | 6.35% | **3.23%** |
| Others | 6.12% | **(0.60%)** |
| Contribution rate of corporate tax after application of tax effect accounting | 59.02% | **52.12%** |

Adjustment of deferred tax assets and deferred tax liabilities due to change in tax rate

Following the promulgation on December 2, 2011 of the Act for the Partial Revision of the Income Tax Act, etc. in Order to Construct a Tax System Addressing Changes in the Socio-Economic Structure (Law No. 114 of 2011) and the Act on Special Measures for Securing Financial Resources to Implement Measures for Reconstruction Following the Tohoku Earthquake (Law No. 117 of 2011), the effective statutory tax rate to be applied in the calculation of deferred tax assets and deferred tax liabilities for the current consolidated year was amended from 36.00% to 33.33% for temporary differences expected to be reversed from April 1, 2012, and to 30.78% for temporary differences expected to be reversed from April 1, 2015.

These changes in effective statutory tax rates resulted in a ¥5,956 million (US$72,476 thousand) decrease in deferred tax assets (after deducting deferred tax liabilities) and a ¥5,881 million (US$71,553 thousand) increase in income taxes-deferred.

## 25. Shareholders' equity

The corporate law provides that an amount equal to at least 10% of the amount to be disbursed as dividends, or the total of the additional paid-in capital and the legal reserves from 25% of the common stock, whichever is less, be deducted and appropriated into the additional paid-in capital or a legal reserve.

The legal reserves are included in retained earnings in the accompanying consolidated financial statements.

The limit allowed for dividends (potential dividend amount) is calculated as set forth in the Company's individual financial statements in accordance with the corporate law.

The additional paid-in capital and the legal reserves are not included with the potential dividend amount, but under the corporate law, they can be switched to the potential dividend amount by a resolution at the general meeting of shareholders.

The basic guideline is that the Company's surplus funds are distributed twice per year as an interim dividend by a resolution of the board of directors and a term-end dividend by resolution of the general meeting of shareholders.

## 26. Segment information

**a. Overview of reportable segments**

The reportable segments of the J-POWER Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the Executive Committee to make decisions about resource allocation and to assess performance.

The J-POWER Group (the Group) is comprised of the Company, 69 subsidiaries and 101 affiliates (for the year ended March 31, 2012) and our core business is the wholesale electric power business where the Company supplies electricity to Japan's 10 electric power companies (EPCOs) from hydroelectric and thermal power plants which the Company owns. Through our power transmission and transforming facilities we also provide transmission services to nine EPCOs (excluding Okinawa Electric Power Company).

The Group reports on four segments in our business activities: "Electric Power Business" which consists of wholesale electric power business primarily, wind power business, the wholesale supply of electricity to EPCOs by IPPs, and the wholesale supply of electricity to PPSs (Power Producers and Suppliers); "Electric Power-Related Business" which complements and contributes to the smooth and efficient implementation of the electric power business; "Overseas Business" which engages in electric power plant projects overseas and businesses related to this; and "Other Businesses" which include various business activities including the sale of coal which fully utilize the Group's management resources and know-how.

**b. Method of calculating amount of sales, income or loss, assets and other items in reportable segments**

The method of accounting for reportable segments is the same as stated in "2. (3) Accounting policies". The income of reportable segments is based on ordinary income. Intersegment internal revenues and transferred amounts are based on current market prices.

**c. Information concerning amounts in sales, income or loss, assets and others for each reportable segment**

Millions of yen

2011

| | Electric power | Electric power-related | Overseas | Other | Total | Adjustments and eliminations*1 | Consolidated*2 |
|---|---|---|---|---|---|---|---|
| Sales to external customers | ¥ 584,436 | ¥ 26,294 | ¥ 1,881 | ¥23,363 | ¥ 635,975 | — | ¥ 635,975 |
| Inter-segment sales and transfer | 3,156 | 308,369 | — | 2,783 | 314,309 | ¥(314,309) | — |
| Total sales | 587,592 | 334,664 | 1,881 | 26,146 | 950,285 | (314,309) | 635,975 |
| Segment income (loss) | 41,832 | 10,425 | 5,047 | (1,517) | 55,788 | 533 | 56,322 |
| Segment asset | 1,785,592 | 161,923 | 155,468 | 11,184 | 2,114,168 | (101,782) | 2,012,386 |
| Other items | | | | | | | |
| Depreciation and amortization | 110,179 | 3,362 | 115 | 1,231 | 114,888 | (3,244) | 111,644 |
| Amortization of goodwill | 49 | — | 0 | — | 50 | — | 50 |
| Interest income | 316 | 90 | 927 | 8 | 1,341 | (121) | 1,220 |
| Interest expenses | 21,710 | 132 | 570 | 78 | 22,492 | (121) | 22,371 |
| Equity income of affiliates (loss) | (299) | — | 9,371 | — | 9,072 | — | 9,072 |
| Investment in affiliates | 5,682 | — | 98,720 | — | 104,402 | — | 104,402 |
| Increase in the tangible and intangible fixed assets | ¥ 70,742 | ¥ 5,236 | ¥ 18,091 | ¥ 643 | ¥ 94,713 | ¥ (1,584) | ¥ 93,128 |

Millions of yen

| | Electric power | Electric power-related | Overseas | Other | Total | Adjustments and eliminations*1 | Consolidated*2 |
|---|---|---|---|---|---|---|---|
| | 2012 | | | | | | |
| Sales to external customers | ¥ 609,775 | ¥ 23,133 | ¥ 2,005 | ¥19,686 | ¥ 654,600 | — | ¥ 654,600 |
| Inter-segment sales and transfer | 3,151 | 318,199 | — | 2,669 | 324,020 | ¥(324,020) | — |
| Total sales | 612,927 | 341,332 | 2,005 | 22,355 | 978,620 | (324,020) | 654,600 |
| Segment income (loss) | 22,290 | 8,373 | 3,499 | (3) | 34,159 | 2,460 | 36,619 |
| Segment asset | 1,730,754 | 170,665 | 212,117 | 9,798 | 2,123,336 | (106,941) | 2,016,394 |
| Other items | | | | | | | |
| Depreciation and amortization | 104,344 | 3,514 | 55 | 521 | 108,436 | (3,164) | 105,271 |
| Amortization of goodwill | 51 | — | — | — | 51 | — | 51 |
| Interest income | 285 | 98 | 687 | 7 | 1,077 | (109) | 968 |
| Interest expenses | 20,841 | 127 | 1,098 | 48 | 22,115 | (109) | 22,005 |
| Equity income of affiliates | 337 | — | 9,228 | — | 9,565 | — | 9,565 |
| Investment in affiliates | 6,094 | — | 98,297 | — | 104,391 | — | 104,391 |
| Increase in the tangible and intangible fixed assets | ¥ 68,286 | ¥ 7,119 | ¥ 62,548 | ¥ 340 | ¥ 138,296 | ¥ (570) | ¥ 137,725 |

Thousands of U.S. dollars

| | Electric power | Electric power-related | Overseas | Other | Total | Adjustments and eliminations*1 | Consolidated*2 |
|---|---|---|---|---|---|---|---|
| | 2012 | | | | | | |
| Sales to external customers | $ 7,419,092 | $ 281,459 | $ 24,399 | $239,523 | $ 7,964,475 | — | $ 7,964,475 |
| Inter-segment sales and transfer | 38,347 | 3,871,512 | — | 32,477 | 3,942,337 | $(3,942,337) | — |
| Total sales | 7,457,440 | 4,152,971 | 24,399 | 272,000 | 11,906,812 | (3,942,337) | 7,964,475 |
| Segment income (loss) | 271,208 | 101,876 | 42,579 | (44) | 415,619 | 29,933 | 445,552 |
| Segment asset | 21,057,973 | 2,076,475 | 2,580,813 | 119,219 | 25,834,482 | (1,301,145) | 24,533,336 |
| Other items | | | | | | | |
| Depreciation and amortization | 1,269,556 | 42,762 | 672 | 6,343 | 1,319,334 | (38,503) | 1,280,831 |
| Amortization of goodwill | 621 | — | — | — | 621 | — | 621 |
| Interest income | 3,469 | 1,194 | 8,361 | 88 | 13,114 | (1,332) | 11,781 |
| Interest expenses | 253,572 | 1,549 | 13,362 | 592 | 269,077 | (1,332) | 267,744 |
| Equity income of affiliates | 4,104 | — | 112,282 | — | 116,386 | — | 116,386 |
| Investment in affiliates | 74,147 | — | 1,195,978 | — | 1,270,126 | — | 1,270,126 |
| Increase in the tangible and intangible fixed assets | $ 830,834 | $ 86,627 | $ 761,029 | $ 4,147 | $ 1,682,638 | $ (6,940) | $ 1,675,698 |

*1 The breakdown of adjustments and elimination is as follows.

(1) The amount of adjustments to segment income (¥533 million and ¥2,460 million (US$29,933 thousand) for the fiscal years ended March 31, 2011 and 2012, respectively) includes elimination of intersegment transactions (¥277 million and ¥1,708 million (US$20,791 thousand) for the fiscal years ended March 31, 2011 and 2012, respectively).

(2) The amount of adjustments for segment assets (-¥101,782 million and -¥106,941 million (-US$1,301,145 thousand) for the fiscal years ended March 31, 2011 and 2012 respectively) includes the offset of receivables (-¥103,098 million and -¥106,350 million (-US$1,293,953 thousand) for the fiscal years ended March 31, 2011 and 2012, respectively).

(3) Adjustments to depreciation and amortization expenses (-¥3,244 million and -¥3,164 million (-US$38,503 thousand) for the fiscal years ended March 31, 2011 and 2012, respectively) include elimination of intersegment transactions (-¥3,241 million and -¥3,159 million (US$38,442 thousand) for the fiscal years ended March 31, 2011 and 2012, respectively).

(4) Intersegment transactions have been eliminated from the adjustments for increases in interest income, interest expenses, tangible fixed assets, and intangible fixed assets.

*2 Segment income is reconciled to ordinary income in the consolidated statements of income.

## d. Regional information

### Operating revenue

Since sales to external customers in Japan during the consolidated fiscal years ended March 31, 2011 and 2012 account for more than 90% of operating revenue in the consolidated statements of income, geographic segment information is not presented.

### Tangible fixed assets

Since tangible fixed assets located in Japan during the consolidated fiscal years ended March 31, 2011 and 2012 account for more than 90% of tangible fixed assets in the consolidated balance sheet, geographic segment information is not presented.

### Information regarding main customers

| | | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | Related segment | 2011 | **2012** | **2012** |
| The Chugoku Electric Power Company, Incorporated | Electric power business | ¥127,776 | **¥127,245** | **$1,548,186** |
| The Tokyo Electric Power Company, Incorporated | Electric power business | 127,102 | **123,419** | **1,501,637** |
| The Kansai Electric Power Company, Incorporated | Electric power business | 107,598 | **112,470** | **1,368,415** |
| Kyushu Electric Power Company, Incorporated | Electric power business | 58,630 | **68,718** | **836,087** |

## e. Impairment losses on fixed assets in reportable segments

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Loss on impairment of fixed assets | | | |
| Electric power business | ¥6,872 | **¥851** | **$10,361** |
| Electric power-related business | 24 | **—** | **—** |
| Overseas business | — | **—** | **—** |
| Other business | 2,369 | **95** | **1,159** |
| Total | ¥9,266 | **¥946** | **$11,521** |

## f. Unamortized goodwill in reportable segments

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Balance at the end of the period | | | |
| Electric power business | ¥43 | **—** | **—** |
| Electric power-related business | — | **—** | **—** |
| Overseas business | — | **—** | **—** |
| Other business | — | **—** | **—** |
| Total | ¥43 | **—** | **—** |

## 27. Related party transactions

During the fiscal year ended March 31, 2011 and 2012, a key affiliate is Gulf Power Generation Co., Ltd. The abbreviated financial information for this company is shown below:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Total current assets | ¥27,722 | **¥23,898** | **$290,769** |
| Total fixed assets | 66,799 | **59,248** | **720,866** |
| Total current liabilities | 10,340 | **10,085** | **122,707** |
| Total long-term liabilities | 39,155 | **31,488** | **383,117** |
| Total net assets | 45,026 | **41,572** | **505,811** |
| Revenues | 61,424 | **55,504** | **675,320** |
| Net income before taxes | 11,480 | **7,452** | **90,677** |
| Net income | 11,480 | **7,452** | **90,677** |

## 28. Significant subsequent event

Acquisition of an interest in the Maules Creek Coal Mine, Australia

At the September 30, 2011 board of directors' meeting J-POWER made a decision to acquire through its subsidiary J-POWER AUSTRALIA PTY. LTD. (JPA) a 10% interest in Maules Creek Coal Mine in New South Wales, Australia, which is currently being developed by Aston Resources Ltd. (Aston), at AUS$370 million (approximately ¥29 billion, approximately US$360 million) and to sign a long-term steaming coal purchase agreement to buy coal from the mine, and signed the agreement with Aston on the same day.

With the abandonment of the exercise of pre-emptive rights in the mine by other stakeholders (rights of stakeholders other than Aston to purchase rights in the mine under the same conditions) and the fulfillment of various other conditions including obtaining permits from relevant authorities, the acquisition and purchase agreements became effective on June 19, 2012.

In line with the above agreements, J-POWER proceeded with the additional investment in JPA on June 18, 2012 by the above amount.

Maules Creek Mine is a coal mine under development in New South Wales, Australia, where Aston intends to commence production in 2013 and expects to produce about 10.7 million t/year of semi-soft coking coal (slightly caking coal) and high quality steaming coal at the mine's peak period.

# The Board of Directors
# Electric Power Development Co., Ltd.

We have audited the accompanying consolidated financial statements of Electric Power Development Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2012, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Electric Power Development Co., Ltd. and its consolidated subsidiaries as at March 31, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

*Convenience Translation*

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Notes 1 and 2.

Ernst & Young ShinNihon LLC

June 27, 2012
Tokyo, Japan