

April 2006  
Electric Power Development Co., Ltd.

## **The J-POWER Group Management Plan for FY2006**

### **President's Message**

J-POWER managed to complete the five-year period of the Third Phase of the Restructure Plan, which it initiated in FY2001, by accomplishing the two goals of reinforcing the group's competitiveness and creating new businesses, thanks to the combined efforts of all group employees. Following the public listing in October 2004, we have significantly improved our financial base as a private-sector company and further strengthened our economic competitiveness. At the same time, new businesses have steadily expanded in the domestic and overseas markets. Besides deeply expressing my respect for the earnest endeavors of all the group's employees during this period, I would also like to sincerely thank all our stakeholders, including our new shareholders, for their support.

By leveraging this solid start as a private-sector company, now is the time when J-POWER must earnestly pursue the path to stable, long-term growth. With the harmonization of energy and the environment as our mission, we are continuing to strive to reduce costs and improve efficiency further in a market where competition has become increasingly intensive. At the same time, we intend to maintain a solid management base, and by constantly working to achieve steady business growth as we head toward the future, we aim to grow as a company that is trusted, enjoyed and held in high expectations by people in Japan and the rest of the world, including our stakeholders.

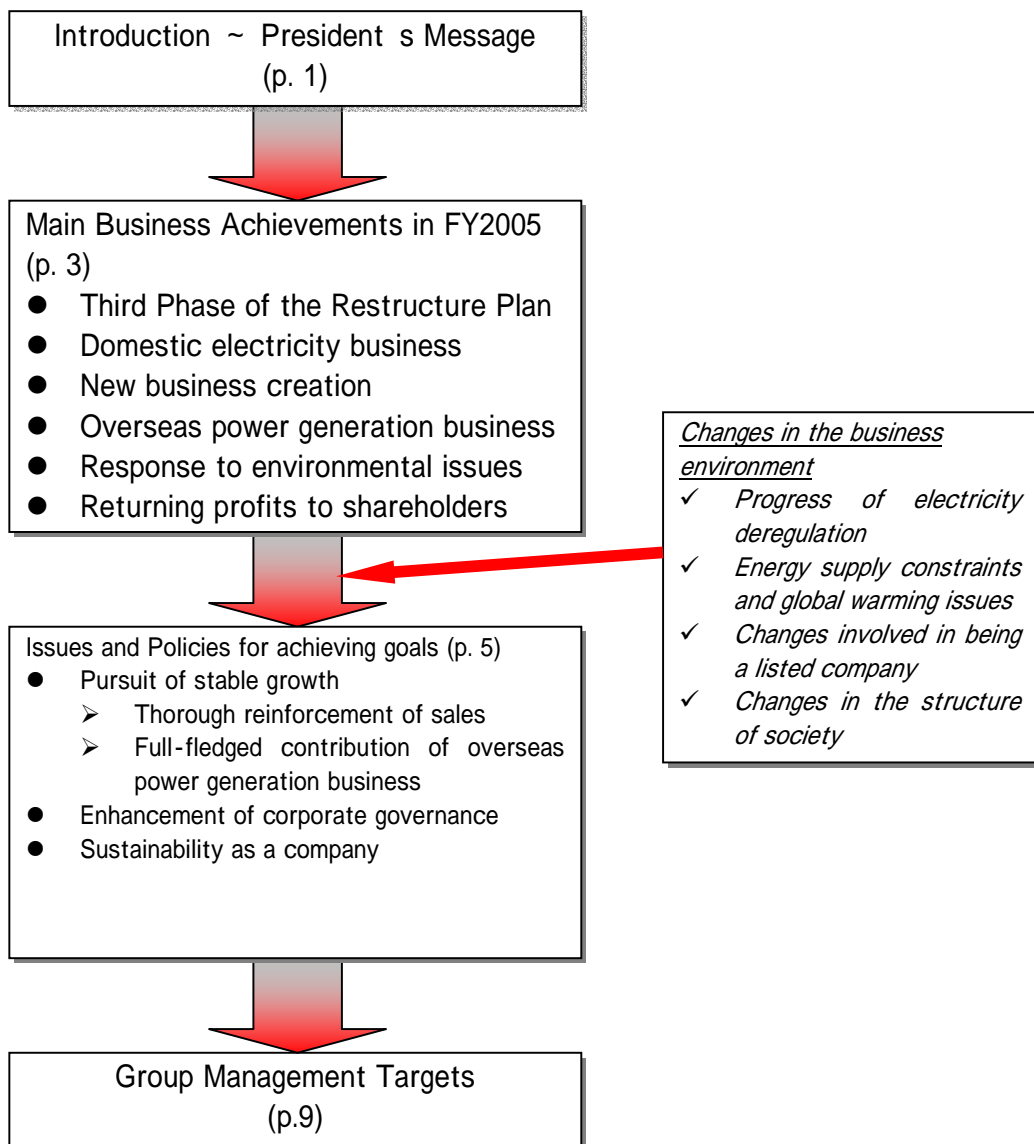
Therefore, the management of the J-POWER Group must first of all take the initiative in interpreting the social and economic trends of our age and enhance the spirit of entrepreneurship that will dynamically reflect those trends in corporate management and business development. In addition, I expect our employees, who support the company at its foundations, to actively propose innovative ideas to management and to accumulate and maximize the intellect and vitality to implement these ideas themselves on a daily basis. Furthermore, what is required above all is for management and employees to build more solid teamwork based on mutual understanding and solidarity, without forgetting to cultivate their respective abilities.

Whether the J-POWER Group gives full play or not to such dynamism as a company depends on the strength of every single individual that makes up the group and their combined strength. With Japan having entered the unprecedented situation of a population declining due to downward birth rate and an aging society, I hope that the J-POWER Group will constantly maximize the strength of our limited work force of 6,000 people and value their respective personalities and characteristics. By doing this, I trust that we will cause our business operations to advance in all areas, seize the path of stable corporate growth, and contribute to the sustainable development of Japan and the world.

**Yoshihiko Nakagaki**  
**President**

## FY2006 J-POWER Group Management Plan

- ➡ This fiscal year will mark the second year of the 3-year plan presented in FY2005.
- ➡ First, we will review our business activities in FY2005. Then, after combining the factor of changes in the business environment with the achievements concerned, we will present the management challenges at the present time and our policies relating to them.



## **Main business achievements in FY2005**

### **Third Phase of the Restructure Plan**

- In FY2005, we completed the Third Phase of the Restructure Plan, which the whole group embarked on in FY2001. We achieved the goal of the reduction of group employees (reduced from 8,000 to 6,000 employees) and cutting controllable expenses by 20%, and we reinforced the earnings structure by substantially reducing financial expenses, including a reduction in interest bearing debt.

### **Domestic electricity business**

- We endeavored to ensure economical and stable supply of electricity while operating a competitive electricity wholesaling business. Sales volume in the electricity wholesaling business reached a new all-time high because thermal power generation achieved a record load factor.
- In terms of new businesses arising from electricity deregulation, we segregated small part of the electricity supply agreement for our power plants, and we started selling electricity in markets that were newly created as a result of electricity deregulation.
- In terms of new business assets, Tosa Power Plant (Kochi Prefecture, 150,000 kW), Bay Side Energy Ichihara Power Plant (Chiba Prefecture, 108,000 kW approx.), and Mihama Seaside Power Shinko Power Plant (Chiba Prefecture, 105,000 kW approx.) commenced operation.
- We commenced construction of the Isogo New No. 2 Thermal Power Plant, and construction progressed smoothly. In addition, in the case of the Oma nuclear power project, the Nuclear Safety Commission of Japan conducted its second safety investigation.

### **New business creation**

- Setana Rinkai Wind Power Plant (Hokkaido, 12,000 kW), which had been under construction, commenced operation in December. Construction work also proceeded favorably on Koriyama Nunobiki-kogen Wind Power Plant (Fukushima Prefecture, 65,980 kW).
- With the aim of realizing an environmental recycling business based on the premise of mixed combustion at existing thermal power facilities, we initiated an experiment to manufacture biomass fuels that are derived from general waste matter at Matsushima Thermal Plant (Nagasaki Prefecture, 1,000,000 kW) in conjunction with the local Saikai-shi government and the New Energy and Industrial Technology Development Organization (NEDO).
- Using environmental technology cultivated in coal-fired power generation, we launched a dry-type desulfurization engineering business.

### **Overseas power generation business**

- With regard to the Kaeng Khoi No. 2 Gas-Fire Power Project (1,468,000 kW, 49% owned by J-POWER), which is being undertaken as one of the largest IPPs in Thailand, we proceeded with construction work aimed at the start of operation of Unit No. 1 in FY2006.
- In the case of the CBK Hydroelectric Power Project in the Philippines (728,000 kW, 50% owned by J-POWER), we established an operational organization based on cooperation between Japanese and local staff.

- We reinforced the team at J-Power USA Development, which we established as a business development company in the United States, and initiated full-scale marketing activities aimed at participation in profitable projects.

#### **Response to environmental issues**

- The Graneros Plant Fuel Switching Project in Chile received Clean Development Mechanism (CDM) registration by the United Nations, marking the first such achievement for J-POWER. Subsequently, the United Nations CDM Executive Board also registered a methane gas collection and flaring project in Caieiras, Brazil.
- All J-POWER's power generation facilities acquired ISO 14001 certification.
- We carried out an experiment that entailed the mixed combustion of biosolid fuel(\*1) and coal.

(\*1) Sewage sludge that has been dehydrated with waste cooking oil

#### **Returning profits to shareholders**

- Thanks to the understanding and support of all our shareholders, the share price has performed favorably over the past year. Based on the state of business and the management environment, we returned profits to shareholders through a stock split in this March.

## Challenges for the achievement of management goals and policies to overcome them

### (1) The pursuit of stable growth

- ✓ Stable growth is the keynote of the management of the J-POWER Group, which aims to ensure the harmonization of energy and the environment.
- ✓ Even though the growth of the domestic electricity demand is low, competition among existing companies and new entrants has further intensified. On the other hand, our business facilities are surely aging. We need to selectively respond to demand for renewal investment in order to maintain and improve our competitiveness while maintaining the strength of our balance sheet.
- ✓ Our new businesses in Japan and overseas are steadily producing results. Once the incubation period has ended, moving forward to a full-fledged development phase aimed at ensuring earnings contributions will be the key to realizing stable growth.

### Pursuing growth in the domestic wholesale electricity business

- In terms of new facilities to ensure growth, we are constructing the Isogo New No. 2 thermal power plant (Kanagawa Prefecture, 600 MW coal-fired). While simultaneously keeping safety, concern for the surrounding environment, and adhering to its process, we will continue to devote maximum effort to constructing highly economical and reliable power facilities.
- Competition among generation facilities in the Japanese electricity market is becoming increasingly fierce. Therefore, **we are placing priority on thoroughly reinforcing sales force**, primarily wholesaling to electric power companies, based on competitiveness in terms of both quality and value. Through continuous improvement activities in the production division and strengthened cooperation with the sales division, we will display our comprehensive strength as a corporate group and meet customers' needs more precisely.
- In a low-growth market environment, maintaining and improving the competitiveness of existing generation facilities based on a long-term viewpoint will enhance management efficiency and produce growth. We will pursue improvement in total value of our power generation facilities by expanding and reinforcing the maintenance and operation of facilities and improving efficiency while maintaining a sound consolidated balance sheet. We will set up a new department for power facility planning to play a pivotal role in this regard, and in conjunction with the production division and the engineering division, we will pursue overall optimization in the domestic wholesale electricity business.
- Based on the results of the Third Phase of the Restructure Plan, we will continually endeavor to strengthen our business competitiveness.

### Steady progress of Oma nuclear power project

- Nuclear power is an essential energy source for the stable supply of energy over the long term. The promotion of the nuclear fuel cycle has been reconfirmed, and the positioning of the Oma project as Mixed-Oxide Advanced Boiling Water Reactor (MOX-ABWR) will rise further.

- J-POWER will finally receive the governmental approval to construct a nuclear reactor in FY2006. The Oma project will enhance our power source portfolio in terms of the global environment and deepen our comprehensive technological capabilities. To complete this project successfully so that it contributes to corporate value, we will strive to guarantee technological reliability and enhance economic efficiency while putting the greatest priority on safety.
- The promotion of the nuclear power business is rooted in regional communities and obtaining their understanding and trust is indispensable. We are therefore building an overall organization that will keep in mind its quality control and maintaining cooperation with regional communities.

### **Earnings contribution of overseas power generation business**

- One of the two themes mentioned in the Third Phase of the Restructure Plan is the “Expansion of overseas business and new business”. Of this, expanding generation business in overseas, where higher demands for improvement of generation facilities exist, will enlarge the opportunities for global steady growth of the J-POWER Group, and we have participated in overseas projects that are equivalent to about 10% of domestic operations so far (\*2). **We regard the full-fledged earnings contribution of the power generation assets that we have developed as a policy of high priority**, and we aim to nurture overseas power generation as our next major business domain.  
(\*2) Calculated based on owned output of already implemented and already committed projects
- To realize earnings contributions from these businesses, it is essential to keep safety, carry out construction work as planned, and operate plants in a stable manner. Based on cooperation with our partners, we aim to further improve our project management systems in local areas and at the head office.
- To continue to participate in profitable projects and develop business, we will strengthen our marketing activities with a focus on the markets of Thailand, the United States, and China.

### **New business creation**

- We will set up a new department for business relating to environment and energy to enhance corporate value through the harmonization of energy and the environment. We see the core operation as the manufacture of biomass-derived fuels, based on the premise of mixed combustion at existing thermal power plants as a solution that displays J-Power’s corporate identity, and we will pursue the realization of this business. It will contribute simultaneously to two social needs, namely, a reduction in carbon dioxide emissions and environmental recycling.
- We aim to concentrate businesses where marketing and technological synergies are produced, including the domestic engineering business and PFI-type projects, in the new department for business relating to environment and energy and thereby strengthen our marketing capabilities. With regard to wind power generation, we will set up a division for wind power development, and it will be positioned as a major domain of the new business. We will reinforce the earnings contributions of existing projects and pursue the development of new projects in Japan and overseas.
- We will continue to create businesses based on technology development as a new source of value. The mission of technology development is to bolster the competitiveness of existing businesses and develop technology for future electricity businesses. In particular, in the

development of coal gasification technology, we will advance steadily toward the stage of commercialization, based on the results of a pilot test that will be completed in FY2006.

**Strengthening the financial structure**

- For J-POWER's businesses, which make huge investments in power generation facilities and other equipment, procuring long-term finance at a low cost is a lifeline for securing cost competitiveness. The financial structure, which is the foundation of this, has improved as a result of measures such as the accumulation of shareholders' equity and a reduction in interest bearing debt during the past several years, but we cannot say it is at an adequate level yet.
- Furthermore, during the next several years, there will be demand for capital expenditure funds, including the Oma Nuclear Power Plant, the Isogo New No. 2 Plant, and improving and maintenance investment in existing power sources, and we will also need to invest in future growth, including overseas power generation business and businesses related to the environment and energy resources.
- We also recognize that there are signs of a change in the financial market, where interest rates have remained at very low levels, and we foresee that the quality of the financial structure will have an increasing impact on financing.
- To achieve sustained, stable growth, we will allocate cash flow in a well balanced way so that we ensure business growth while also maintaining and strengthening the financial structure.

## (2) Improvement of corporate governance

- ✓ We always make our best effort to create a stable relationship with all our shareholders.
- ✓ Under the new Corporate Law, we will improve our management supervision functions and practice highly transparent management, which we believe will lead to the establishment of a stable relationship with shareholders.
- ✓ The J-POWER Group will also conduct fully consolidated accounting from FY2006. Promoting the establishment of a governance system in the overall group is an important issue.

### **Reinforcement of management supervision system**

- To clarify the management responsibility of directors and create a management system that is able to respond rapidly to changes in the environment, we will shorten the term of directors' appointments from two years to one year. We will also abolish retirement allowances for the board members.
- With regard to the executive officer system, which we introduced to ensure speedier business implementation, we will overhaul its structure with the aim of making further improvements and we will endeavor to clarify executive responsibility by changing to a contracted mandate system. At the same time, we will increase authority relating to business execution.
- Based on the enforcement of the Corporate Law, we aim to further improve our internal control systems. As part of this process, we will reorganize the Internal Audit & Legal Office in order to strengthen its function.

### **Group management initiatives**

- Beginning in FY2006, the J-POWER Group will conduct fully consolidated accounting. We recognize the increasing importance of consolidated business results in terms of the comprehensive strengths of the group, and we aim to clarify the role of each group company and increase value based on a system of specialization.
- In relation to domestic and overseas subsidiaries that we have established or taken a capital stake in for the purpose of conducting new business, we will dispatch personnel to important positions and strengthen internal control systems as part of the development of a project management system.



### (3) Sustainability as a company

- ✓ Problems that threaten the sustainability of society as a whole, such as global warming and the declining birth rate accompanied by an aging society, are becoming severe. Thus, contributing to the sustainability of society has become increasingly important for a company to realize stable growth.
- ✓ While problems involving energy and the environment are becoming complex in response to structural constraints on the supply of primary energy resources, the first commitment period of the Kyoto Protocol will begin in 2008. Since the J-POWER Group is mainly engaged in coal-fired thermal power generation, we will need to clarify our policy on responding to global warming and accelerate our initiatives.
- ✓ Dealing with corporate social responsibility demands that J-POWER make an appropriate contribution that fits the “identity of J-POWER” as a member of society.
- ✓ Human resources are the basis of the sustainability of a company. J-POWER will be required to adopt a strategy for the employment of human resources that is based on changes in the social structure itself, including the rapid generation shift and the acceleration of the declining birth rate and an aging society.

#### **Responses to environmental issues**

- As a pioneer of coal-fired thermal power generation, the J-POWER Group should play a role in developing technology aimed at the advanced use of coal. With regard to the development of coal gasification technology, which we are undertaking as a voluntary endeavor aimed at reducing carbon dioxide emissions, we are undertaking development toward the next step.
- To resolve the problem of global warming, cooperation based on an international framework is indispensable. We will utilize the method of the Kyoto mechanisms, namely, the Clean Development Mechanism (CDM) and the Joint Implementation (JI), and continue to strive to reduce emissions on a global scale.
- As a group, we have continued to endeavor to conserve regional environments. We are endeavoring to reduce environmental load and to recycle and reuse materials as resources.
- We are promoting endeavors as a group aimed at introducing an environmental management system for the entire J-POWER Group by the end of the fiscal year ending March 31, 2008.

#### **Corporate social responsibility (CSR)**

- As the group’s business domain has expanded domestically and internationally form of relations with various society have increased. At the same time, it has become important to engage in business operations while obtaining understanding and cooperation based on diverse relationships.
- For the J-POWER Group to achieve sustained, stable growth, we believe it is essential for the company to fulfill a specific role and responsibility in relation to various relevant social issues through its business activities.
- To this end, we will reevaluate from the viewpoint of the company’s corporate philosophy the method of involvement with society that we previously established through our business activities, and steadfastly engage in behavior that suit our corporate identity, beginning with social contribution activities.

**Human resource management aimed at enhancing vitality**

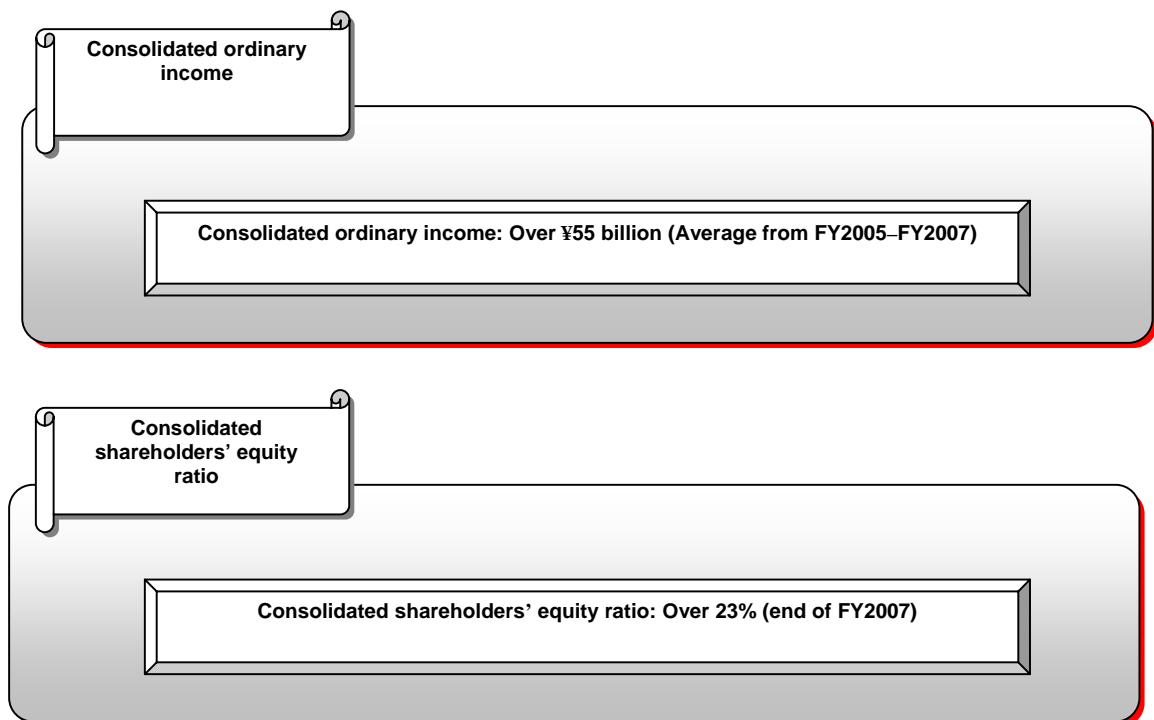
- What supports a company is human resources, and their development and use is an essential condition for a company to be sustainable, including the maintenance and inheritance of skills. We aim to secure and foster suitable personnel while expanding recruitment, promoting the use of elderly employees, and promoting the active use of female employees.
- To raise the productivity of the overall organization by drawing out employees' individual abilities, we will put greater emphasis on the utilization and enhancement of diverse abilities.
- New ideas are required even in our existing business segments, and we will also foster personnel with a view to our expanding business fields, such as overseas businesses and new businesses.

### Group Management Targets

Based on our business results in FY2005 and our policies for resolving management issues, we will continue to exert all our efforts toward the achievement of the three-year management targets that we outlined last fiscal year.

With regard to consolidated ordinary income, amid an increasingly severe management environment, including intensifying competition in the electricity business and declining electricity rates, we aim to achieve our target by focusing on **thoroughly reinforcing sales force** and **ensuring a full-fledged earnings contribution from overseas power generation business**.

We do not see a consolidated shareholders' equity ratio of 23% as our destination. Rather, based on the need for a further improvement in the financial structure, we have advanced the FY2007 target as **“Over” 23%** and we will aim to achieve it as soon as possible.

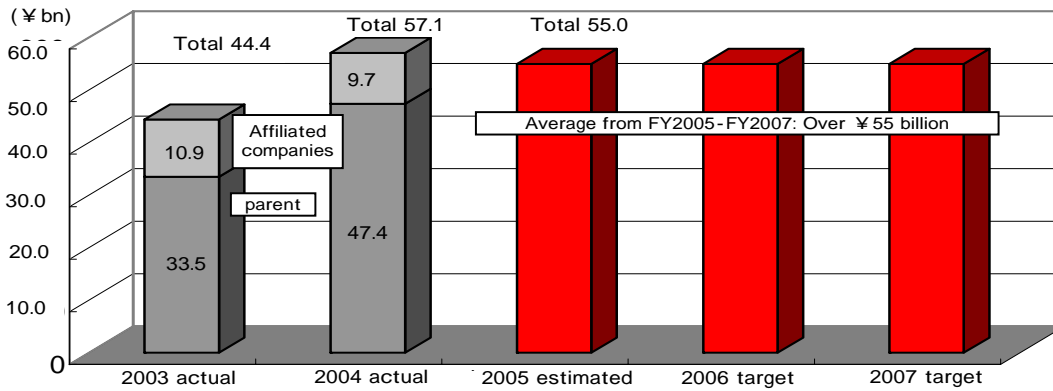


## Management Targets (FY2005-FY2007)

Appendix

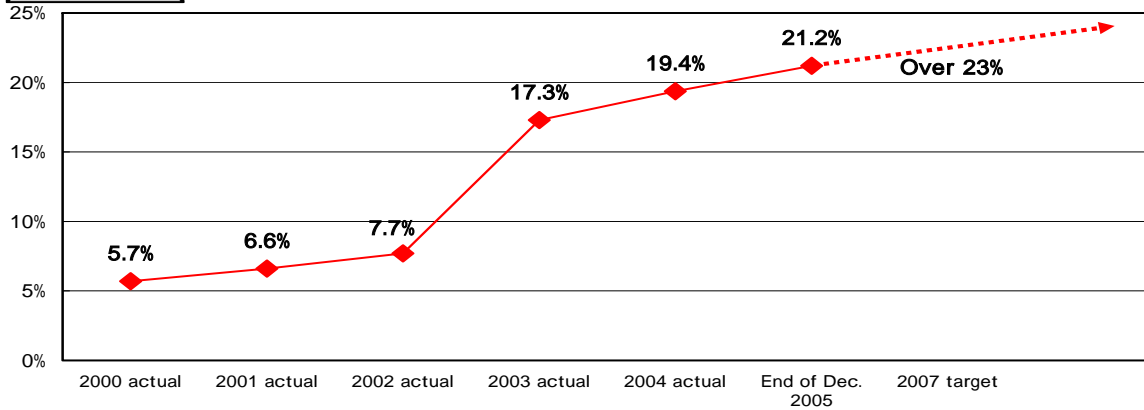
Consolidated

### Changes in ordinary income



Consolidated

### Changes in shareholders' equity ratio



Consolidated

### Changes in group employees

(employees)

