

# ***J-POWER***

## **2007 Group Management Plan**

April 2007

Electric Power Development Co., Ltd.

The following contains statements that constitute forward-looking statements, plans for the future and management targets, etc. relating to the Company and/or J-POWER group. These statements are made based on certain assumptions of future events, and there exist possibilities that such assumptions are objectively incorrect and that actual results may differ from those in the statements as a result of various factors.

Furthermore, information and data other than those concerning the Company and its subsidiaries/affiliates are quoted from public information, and the Company has not verified and will not ensure its accuracy or appropriateness.

# To Our Stakeholders:



Based on the achievements of our privatization and other structural reforms implemented to date, in FY2006, we succeeded in maintaining a stable electricity supply by efficiently managing our power generating facilities, with a capacity of 17 million kW, representing approximately 7% of our nation's total capacity, and our transmission and transformer facilities. We are also making every effort to achieve our goal of increasing our average consolidated ordinary income (3-year average from FY2005 to FY2007) to 55 billion yen or more, through expansion of new businesses centered on new overseas projects, including two projects in the U.S.

Still, our current operating environment leaves little room for optimism that such environment will improve in the future. With growing demand worldwide for energy resources accompanied by their rising prices, even the price of coal, which is the core of our competitiveness, has a tendency to rise gradually. Furthermore, as the IPCC (Intergovernmental Panel on Climate Change) report suggests, the global warming issue, the most significant challenge for coal, has become increasingly serious, and 2008 will see the beginning of the first commitment period of the Kyoto Protocol. Strengthening our bargaining power by expanding into new coal business opportunities, as well as promoting development of highly-efficient advanced coal utilization technology and gaining CO2 credits available under the Kyoto mechanisms, are critical for us to retain the price competitiveness and resource advantage of our coal-fired power generating capacities in the upcoming years.

While free-market competitive conditions in the electricity industry are now being established, the domestic demand for electricity is growing at as little as approximately 1% per annum. In addition, the ongoing aging of our overall generating and transmission facilities and a bottoming out of finance costs are expected to put increasing pressure on the relatively steady sales growth we have enjoyed in the past.

In this management environment, the J-POWER Group will be putting all of our efforts into overcoming the challenges we face. Specifically, to begin with, we place sustained growth through enhancement of our operations across all lines of business at the core of our management plan. The Ohma Nuclear Power Plant Project, one of our largest scale projects, backed by contracts with electric power companies, which is expected soon to begin construction, will not only support our long-term growth, but also contribute to a more stable supply of energy and to addressing the global warming issue. Furthermore, regarding our domestic generating and transmission facilities (including the Isogo New No. 2 Power Plant now under construction), which will be a foundation of our sustained growth, we will improve the efficiency and sophistication of our facility management by working together with our head office administration staff and, through enhancement of both the reliability and efficiency of these facilities, we will enhance power sales. While working to gain CO2 credits as a response to heightened concern of a global warming, we will actively promote medium- to long-term technical development for better control of CO2 emissions, such as early commercialization of an integrated coal gasification fuel cell combined cycle, and will connect such achievements to further expansion of our coal business in and outside Japan. Overseas, we will seek to create new investment opportunities, with a particular focus on the Asian and U.S. markets, and will also strengthen our efforts to develop coal-fired and renewable energy resources, as well as traditional natural gas and hydropower resources. We plan to develop our overseas business into "second core business" after the domestic business.

# To Our Stakeholders:



The most critical factor in J-POWER Group's success in achieving sustainable growth through the business development, described above, is to enjoy the full trust of the public and our stakeholders. We realize that, since last year, a number of incidents involving regulatory conflicts have caused great concern among all of you. We will do our best to regain your trust by sincerely reflecting on these incidents, conducting an exhaustive investigation into the causes of these incidents, and uniting J-POWER Group's organizational power to prevent recurrence.

It goes without saying that it is the individuals making up our organization who build our businesses and form us into an enterprise worthy of trust that can continue to grow. We continue to retain the most talented people, including women and the elderly, to strengthen our ability to develop each person into a skilled, reliable resource and to establish a solid, organized team.

With our original and basic principle of harmonization of energy and the environment, and by business expansion in and outside Japan that is unique to J-POWER, we will continue to focus on sustained growth in corporate value and on meeting the expectations of all of our stakeholders. We look forward to your continued support for the J-POWER Group.

取締役社長  
中塚喜彦 3

# Review of 2006 Group Management Plan



## Management Target

Consolidated ordinary income: **Over 55 billion yen** (Average FY 2005~2007)

Consolidated shareholders' equity ratio: **Over 23%** (end of FY 2007)

### <Issue>

### <Objectives/Results>

#### Strengthening Sales

- Meeting the expectation of our customers by ensuring stable supply
- Focus on market transactions (power, fuel)

#### Strategies for Building Asset Value

- Organizational restructuring to improve internal processes
- Establish equipment maintenance plans based on cost competitiveness analysis

#### Revenue contribution of overseas business

- Increasing revenue from existing assets
- Participation in two U.S.-based gas-fired projects

#### Enhancement of corporate governance

- Review directorship structure; clarify Board functions
- Strengthen audit function



- We have achieved steady results since privatization, and distributed the returns to our stakeholders.
- Still, aging facilities and rising interest rates leave little room for optimism about operating results going forward.

# The Changing Environment and Issues Ahead



Sign of the substantial changes in the operating environment **J-POWER Group** faces

## **Slow growth in the domestic power market**

- Only 1% annual growth in demand for power expected over the next 10 years.
- Need to enhance competitive strength to meet continuing changes in the market by deregulation

## **The need to move on global environmental challenges**

- More moves worldwide as first commitment period of Kyoto obligations start.
- Need to work to continue to demonstrate the resource advantages of coal

## **Management efficiency and transparency**

- Increased accidents and other problems
- Need to build both management efficiency and community trust

- **Pursue new business chances in the course of addressing existing challenges**
- **Present a new vision for growth and measures to achieving such vision.**

# J-POWER Group's Ultimate Goals



Using its 17 million kW generating capacity\*, or about 7% of domestic output, and 2,400 km of transmission lines, **J-POWER** have taken the roll for **stable power supply**.

Our CSR (**Corporate Social Responsibility**) rests on our corporate philosophy of “ensuring constant supplies of energy to contribute to the sustainable development of Japan and the rest of the world.”

Also promoting the **Ohma Nuclear Project** in support of pluthermal policy.

Environmental  
Harmony

Understanding today's needs

Adapt to market  
mechanisms and build  
competitiveness

**Energy and the  
environment  
harmonize**

## A New Vision for the J-POWER Group

- ① Build **cleaner and more efficient business assets** (Reliability + Efficiency + Environmental Performance)
- ② Develop a **diverse and global business** around our core competence in power generation

\* on domestic consolidated basis

# Towards New Growth ~Five Key Approaches to Achieving Growth



## ① Steady growth in power generation facilities

Isogo New #2, Ohma Nuclear Plant and others

## ② New Project Development with Technology Innovation

Coal gasification; power source replacement

## ③ Enhancing value of business assets

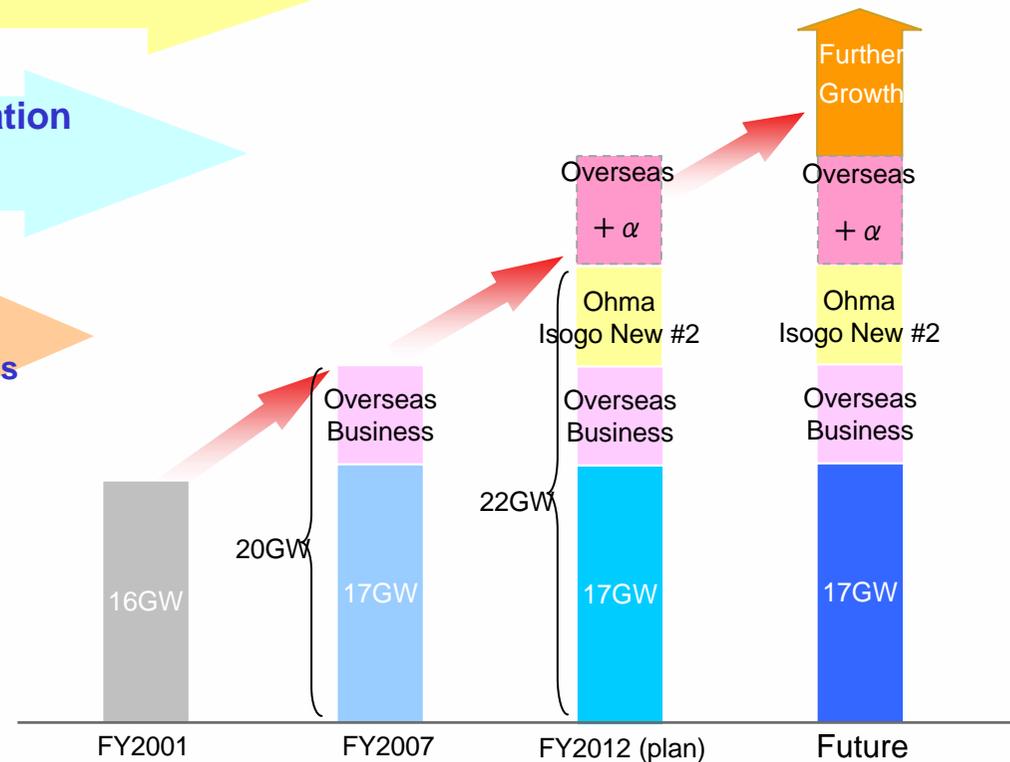
Existing hydro, thermal, and transmission/transformer facilities

## ④ Global business expansion

Ramp up revenues of overseas power generation projects

## ⑤ Power generation as the core of a diversified business

Coal business and environmental business, etc.



- Continuing to enhance the quantity and quality of domestic and overseas business assets based on capital investment, while promoting innovation to develop distinguished technique, will drive sustained growth.

# 1. Steady Growth in Power Generation Facilities

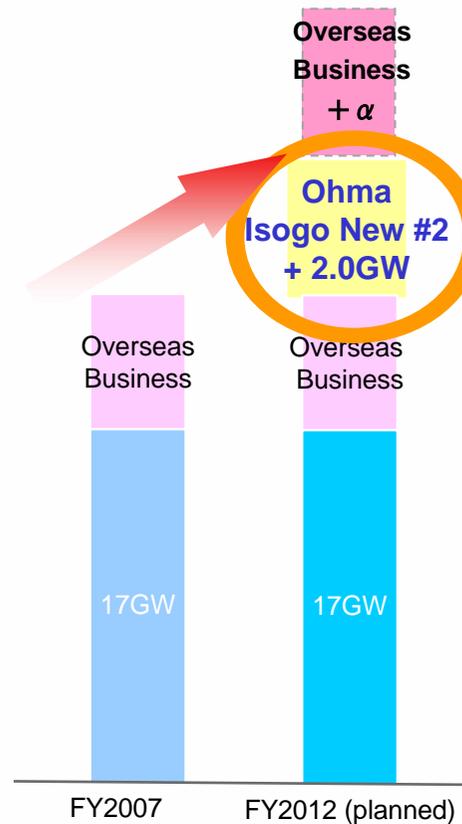


## Isogo New #2

600,000 kW coal-fired

Scheduled for start-up in FY2009

- Project replaces obsolete plant with latest coal-firing technology
- Significant increase in capacity from 265,000 kW (old #2 plant) to 600,000 kW (new #2 plant)
- Highest thermal efficiency of any domestic pulverized coal-fired plant. Low CO<sub>2</sub> emissions per unit of electricity produced.
- Employ new technology of dry desulfurizing equipment after Isogo new #1 plant.



## Ohma Nuclear

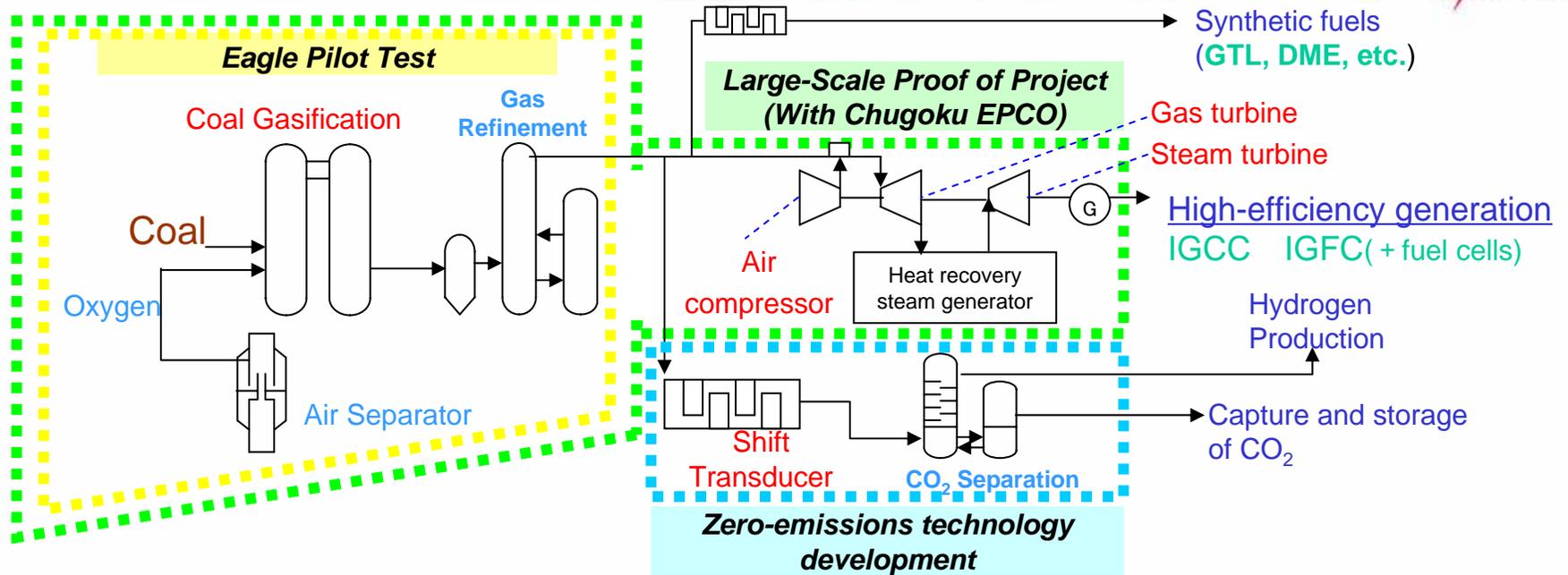
1.383 million kW Full MOX ABWR\*

Scheduled for start-up in FY2011

- Our first nuclear plant. Will contribute greatly to increase capacity.
- Generates almost no CO<sub>2</sub> during operation.
- Will contribute to pluthermal policy by consuming about 25% of domestically processed MOX fuel.
- Give top priority to safety as we develop the structure needed by a new nuclear power generator.

\* Full MOX ABWR: Targeting use of plutonium/uranium mixed oxide fuel (MOX) throughout the Ohma nuclear plant's reactors.

## 2. New Project Development with Technology Innovation



● Reducing CO<sub>2</sub> emissions is the most critical issue in maintaining coal's position as the most economical, most stable source of power.

● Develop coal gasification technologies, combine in the mid- to long-term with CO<sub>2</sub> recovery technology, fuel cells, etc.

*Further, promote innovation in the business planning stage of each project...*

- **Develop new coal-fired generators that can co-exist with the environment**
- **Mid- to long-term view should focus on using innovative technique to replace existing power plants.**

# 3. Enhancing Value of Business Assets



## Hydro-Power

- 59 locations generating 8.5 million kW representing about 19% of domestic facilities
- Effective as part of pure domestic energy production, in combination with coal-fired generation.
- To maintain critical role in providing a stable revenue source, working to renew facilities and focus on improving O&M management and efficiency.

## Power Transmission/ Transforming

- Operating nearly 2,400 km of transmission lines, along with transforming facilities, frequency converter stations, and other critical infrastructure.
- Working to comply with regulations and to implement appropriate O&M, while meeting society's needs for transparency and fair network access.

## Thermal Power

- 8 locations, approx. 7.8 million kW\*
- Coal-fired production represents about 21% of total domestic output
- Appropriate capital investment and cost cutting where needed to build even greater competitiveness and environmental balance
- Diversify sales methods to meet growing influence of market mechanisms on power generation business
- Diversify and stabilize fuel procurement, manage risks in terms of pricing and volume.

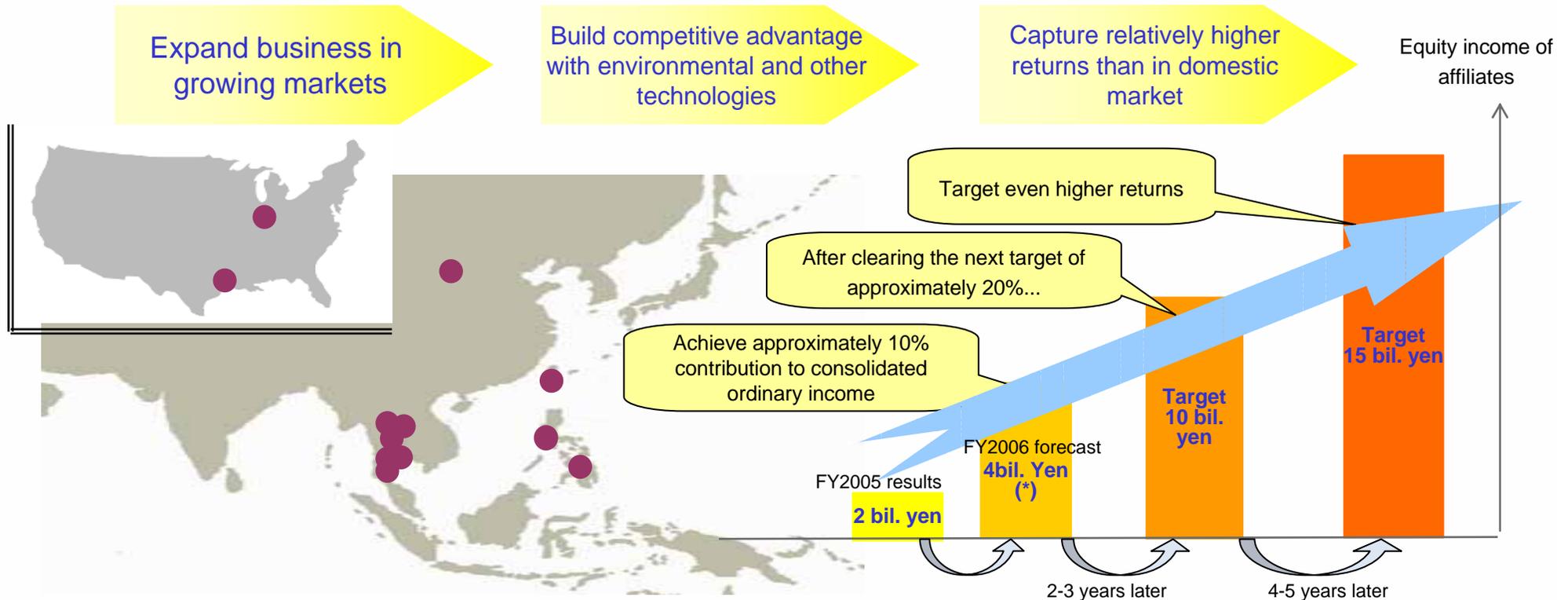
- **Greater asset efficiency drives corporate value growth and is the source of stakeholder returns.**
- **Build stronger economic efficiency, infrastructure reliability, and higher environmental performance; strengthen customer service.**

\* Additional facilities owned by related companies

# 4. Global Business Expansion



**J-POWER Group** is working on overseas power generation markets to...

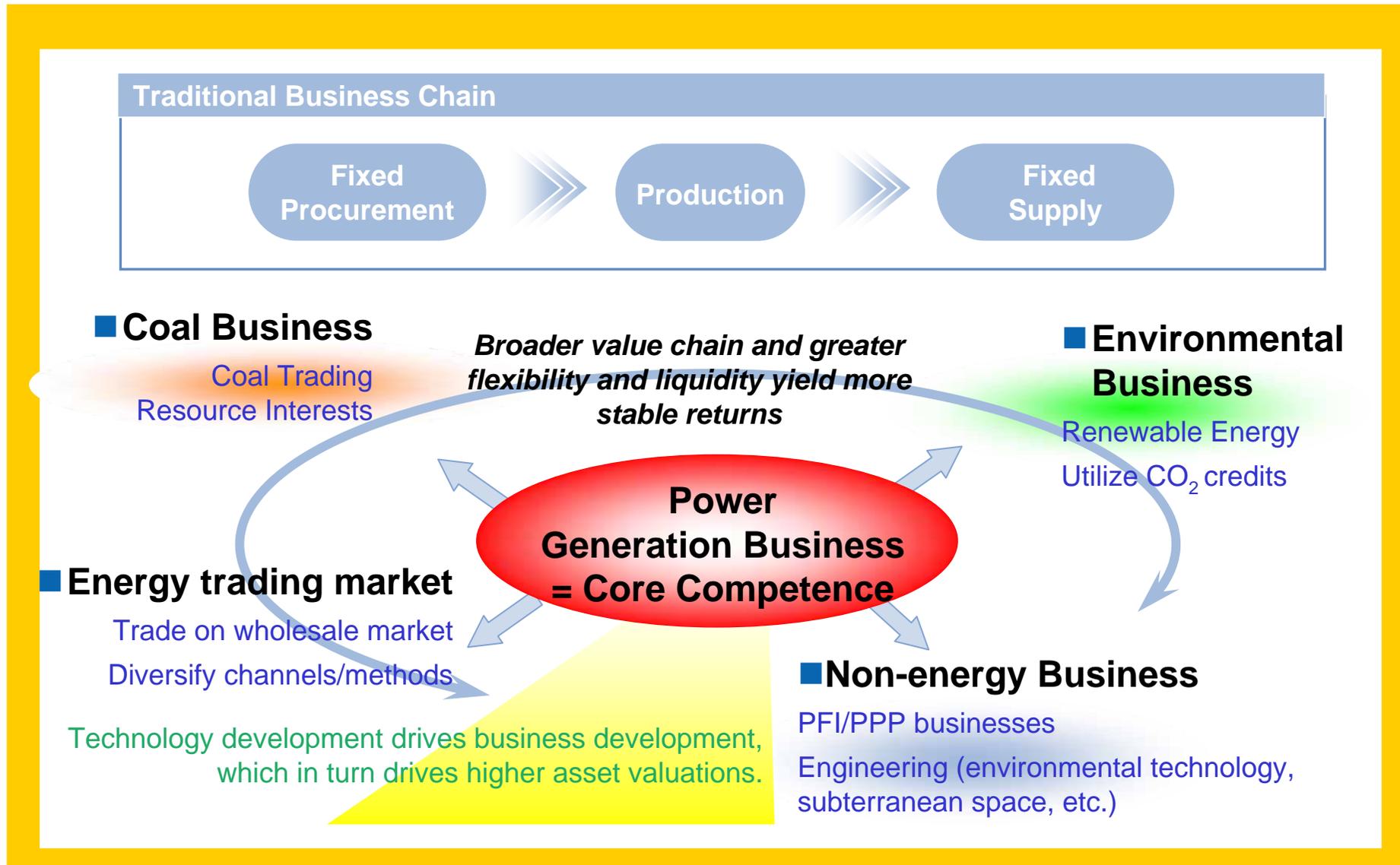


**Take full advantage of skills gained in domestic market to build revenue growth of “second core business”**

- With Thailand, S.E. Asia, China and the U.S. as key markets, strengthen sales and project management infrastructure
- Expand through collaboration with engineering division

\* The figure for FY2006 is an estimate based on equity income of affiliates for the nine months ended December 31, 2006.

# 5. Power Generation as the Core of a Diversified Business





## Efforts Relating to Global Environmental Issues

Aim to reduce CO<sub>2</sub> emissions per unit of electric power sales in Japanese and overseas power plant operations to 10% below the 2002 level by fiscal 2010.

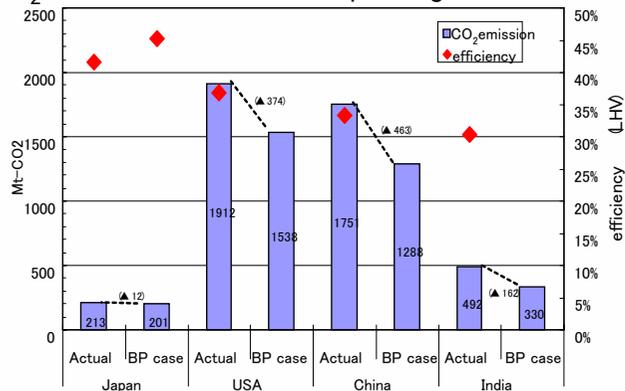
## Ensuring Transparency and Reliability

Plan to introduce environmental management system (EMS) for the entire J-POWER group by the end of fiscal 2007

## Efforts Relating to Local Environmental Issues

Aim to achieve a recycling rate of 97% across the J-POWER group by fiscal 2010, toward our ultimate objective of zero industrial waste emissions

CO<sub>2</sub> emissions from coal-fired power generation



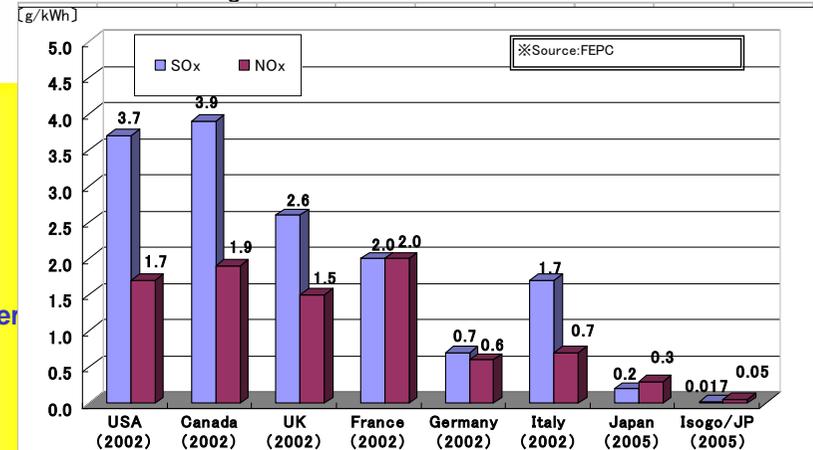
Source: IEA "CO<sub>2</sub> Emissions from Fuel Combustion" 2004 edition  
Ecofys Comparison of Power Efficiency on Grid Level

Using Japanese best practices (the highest level of efficiency), total emission reduction potential for the U.S., China, and India would correspond to about 80% of Japan's total CO<sub>2</sub> emissions.

## Efforts to Reduce CO<sub>2</sub> Emission Units

- Sustainability and improvement of energy efficiency
- Development, transfer, and dissemination of technologies
- Utilization of Kyoto mechanisms
  - ▶ CDM projects
- Development of various types of power generation with low CO<sub>2</sub> emissions
  - ▶ Nuclear power
  - ▶ Wind Power
  - ▶ Biomass
  - ▶ Micro Hydro-power

Levels of SO<sub>x</sub>, NO<sub>x</sub> emissions from coal-fired power generation vs. international standards



Japan, and particularly J-POWER, have some of the lowest SO<sub>x</sub> and NO<sub>x</sub> emission rates in the world, and are easier on the environment.

## Efforts to Further Enhance Corporate Governance

- **Target further improvements based on implementation of steps outlined in FY2006 restructuring.**
  - Clarify Board functions
  - Overhaul Executive Officer system
  - Strengthen audit function
- **In FY2006, established guidelines for purchase of stock by directors and officers, as a measure to improve shareholder value\***
- **Issues for 2007 and beyond**
  - Work to establish appropriate internal control system in advance of the FY2008 implementation of Japanese version of the SOX Act.
  - Work to build more unified group consensus.

*Building corporate governance is also key to successful regulatory compliance.*

## Efforts to Ensure Regulatory Compliance

- **We need to reflect seriously on our past violations of regulatory rules**
  - Too much reliance on convenient personal interpretation of the rules, on both the individual and organizational levels
  - Inadequate function to check errors and improprieties by management and senior levels
  - Inadequate PDCA cycle for promoting compliance
  - Lack in knowledge and understanding of regulations related to individual areas of responsibility
- **Ensure group-wide efforts to prevent recurrence; work to regain public trust**
  - Establish rules to discourage personal interpretation of the rules
  - Create better understanding of work processes, and recognize the risks of error and impropriety contained therein
  - Review of structure for promoting compliance efforts
  - Provide training on regulations related to work areas of each department.

(\*) Directors and officers purchase stock every month through the director's share holding society and keep holding them during their services.

# Maximizing Consolidated Corporate Values Throughout the Group



- By working together to ensure stable operations and safety and disaster management, the **J-POWER** group companies maximize the value of the consolidated corporate value.
- **J-POWER** Group's unique O&M structure provides integrated maintenance solutions group-wide.

• Maintenance of thermal power plants, etc.

• Communications systems design, construction, and maintenance



• Import and sales of power generating fuels



• Engineering and construction consulting

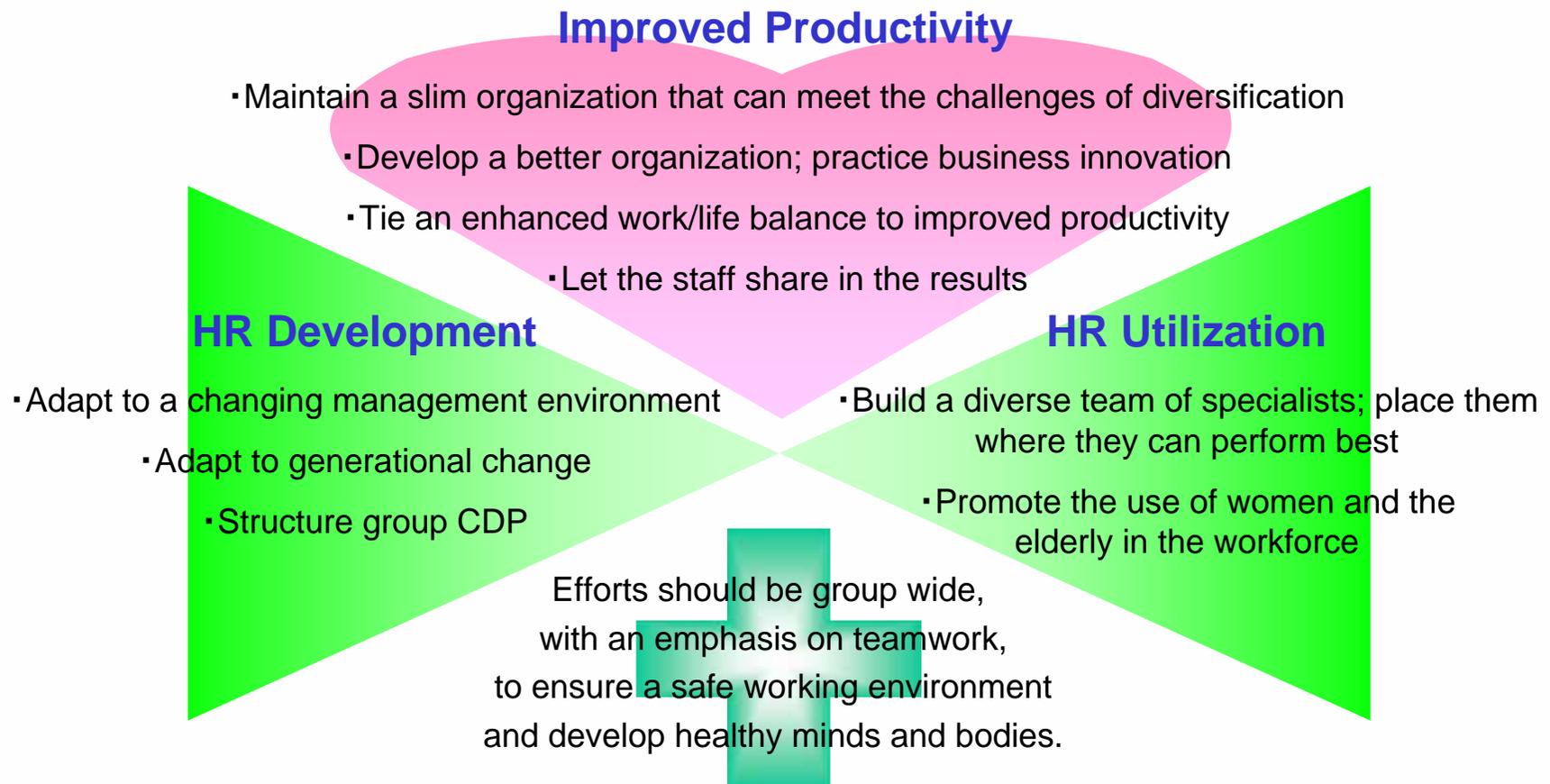


• System design, product sales, etc.



• Maintenance of hydro-power plants, etc.

- HR development and utilization improve productivity and drive growth
- Build an environment in which people can see the results of expansion, and are motivated to work together to achieve further growth



## ***Communicating with Stakeholders***

- Communicating with a diverse group of stakeholders is even more important as business expands.
- Important to implement a two-way dialog with our stakeholders, helping them to understand our business, while incorporating their feedback into our management practices.

## ***Partnership with the Public***

- Contributing to the sustainable advancement of society at large is what enables our own sustainable growth.
- Important to establish programs that emphasize our social contributions as a “good corporate citizen”.

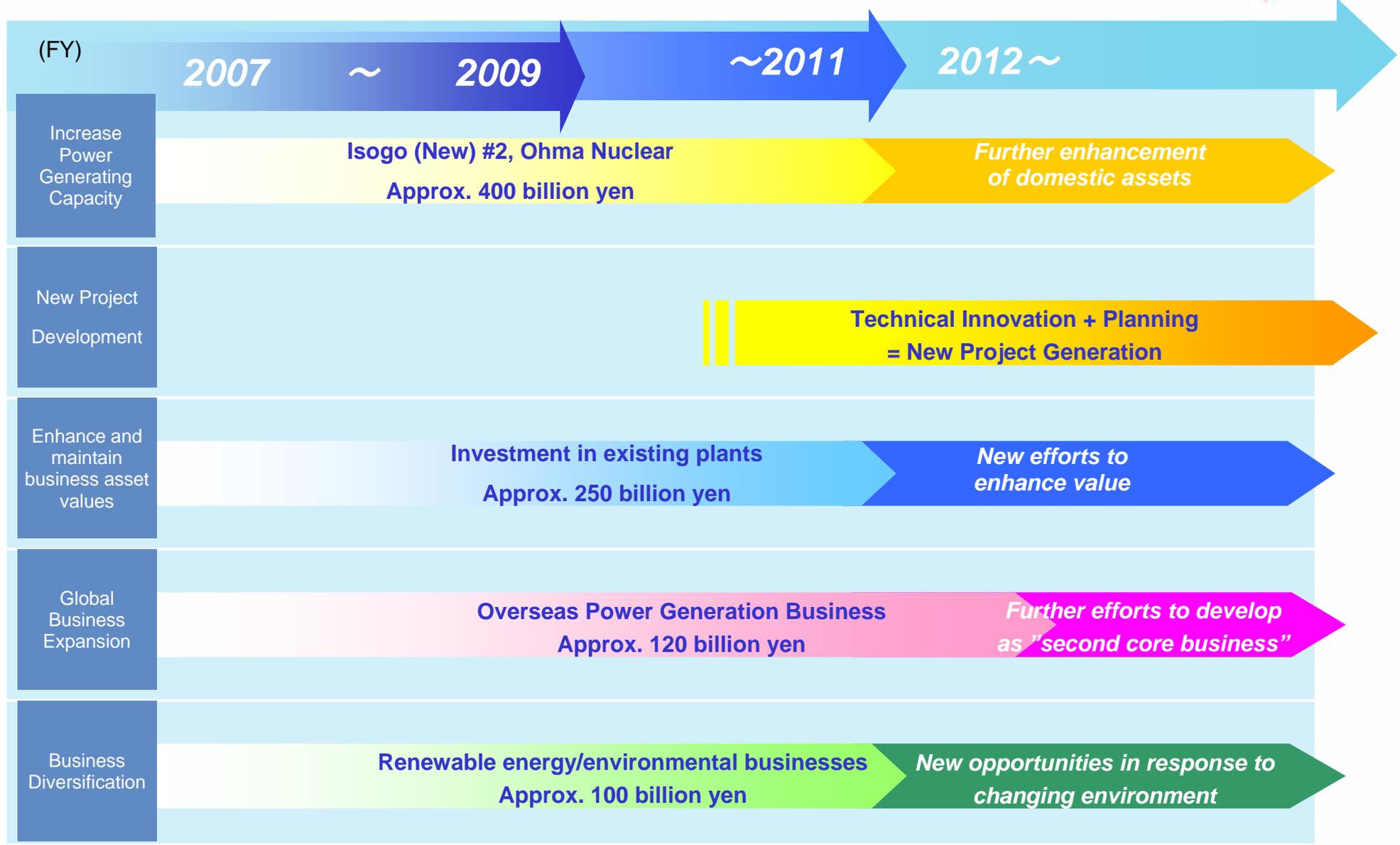
# Financial Strategy



- Important to maintain high bond ratings even as growing competition creates greater business risks.
- Low-cost fund raising needed to maintain cost competitiveness.
- We must enhance our ability to manage increased risk from expansion into overseas growing markets, increasing deregulation and global warming.

- **Pursue a capital structure that balances stability with cost competitiveness (low-rate financing)**
- **Take a mid- to long-term view in developing capital policies that best suit each stage of growth**

# Mid- to Long-Term Investment Plan



\*Above figures represent current approximate values, and have not been approved by the Board on a project-to-project basis.

# Approach to Shareholder Returns



- The most prominent characteristic of our business is that we secure returns on our investments in power plants and other infrastructure through the long-term operation of these facilities, utilizing our well-established enterprise management expertise, including the construction of power plants and other infrastructure.
  - Business results achieved over the long term will constitute a source of profit distributions to shareholders. In view of the characteristics of our business, we place the utmost importance on continuing to pay dividends at a stable level.
  - Moreover, we will make long-term efforts to enhance our corporate value on a continuous basis. Then, reflecting the results of our growth, we will seek to further enhance profit distribution to shareholders.
- ⇒ We seek to increase profits through our management efforts in order to gain the long-term support of our shareholders.
- ⇒ We seek to enhance a source of profit distributions to shareholders by increasing revenues from overseas and other businesses.

# Management Targets



- FY2007 is the last year of the current management targets.
- Despite an increasingly difficult operating environment, we plan to achieve our consolidated ordinary income target by strengthening sales, improving asset value, and strengthening profits from overseas business.
- We expect to hit our consolidated shareholders' equity ratio target ahead of schedule and then go on to exceed it.

**Consolidated  
Ordinary Income**

**Over 55 billion yen**  
(Average FY2005-FY2007)

**Consolidated  
Shareholders' Equity  
Ratio**

**Over 23%**  
(End of FY2007)