Building new foundations today for sustained growth in the changing world of tomorrow

Kansai EP is boldly responding to changes in its business environment with dynamic initiatives of unprecedented diversity and strength.

The Year in Review

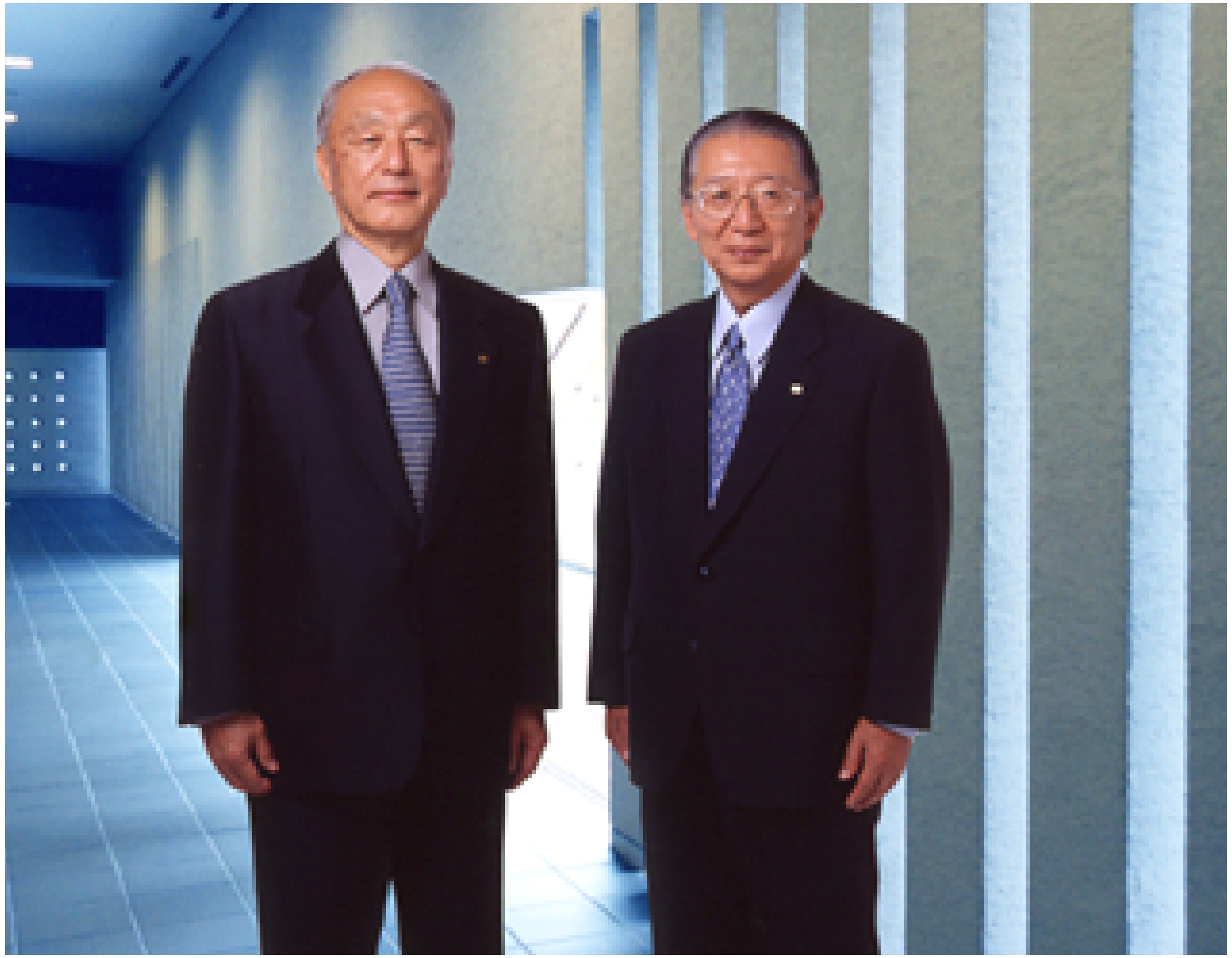
In fiscal 2004, the period from April 1, 2003 through March 31, 2004, the Japanese economy held generally flat during the first half but gradually shifted into recovery, largely driven by exports and capital investments, during the second half.

Against this backdrop The Kansai Electric Power Co., Inc. (Kansai EP) recorded total electricity sales volume of 140.2 billion kWh, down 1.1% year-on-year. The decrease owed primarily to reduced demand for heating and air-conditioning, in response to predominantly high temperatures during the Japanese winter after the coolest summer in ten years.

Outside core operations in electricity, the Company currently pursues business along three main vectors: information technology (IT), total energy solutions, and amenities in support of lifecycle needs. To enhance our capacity to provide comprehensive IT services, in December 2003 we merged K-Opti.com and Osaka Media Port; the new configuration has enabled the development of a broad menu of services responding to customer needs. We also achieved steady progress in expanding earnings based on the remaining two vectors of our business domain. As a total energy solution provider, expansion is being accomplished centered on gas operations; in the area of lifecycle amenities, earnings growth is building on operations in real estate development and new life-support services.

Turning to the financial side of fiscal 2004, total operating revenue finished at ¥2,540.1 billion, down ¥74.9 billion year-on-year. Income from electricity operations reached ¥2,351.5 billion, down ¥110.0 billion. Two causes were behind the year-on-year contraction in power revenue: the aforementioned decline in total electricity sales volume and the full-year impact of rate reductions implemented in October 2002. Revenue from other operations totaled ¥188.5 billion, up ¥35.0 billion from fiscal 2003. Expansion came on the back largely of increased sales in operations in IT and total energy solutions.

Total operating expenses in fiscal 2004 reached ¥2,190.6 billion. The figure translates to a ¥98.9 billion reduction year-on-year, more than enough to offset the decline in sales suffered this term. Operating expenses related to electricity operations totaled ¥2,015.3 billion, down ¥126.0 billion from fiscal 2003. The year-on-year reduction was diversely attributable to trimming of retirement allowance payments in tandem with measures offering preferential treatment to early retirees, reduced fossil-fuel costs enabled by increased production of hydro power resulting from this year's abundant rains, and enhanced efficiency pursued in all aspects of electricity operations. Operating expenses incurred in the performance of other business operations totaled ¥175.3 billion, up a modest ¥27.1 billion year-on-year. The relatively small increase was made possible by efficiency-enhancement initiatives.



Yoshihisa Akiyama
Chairman of the Board of Directors

Yohsaku Fuji
President and Director

As the combined result of the foregoing revenue and expense figures, consolidated operating income in fiscal 2004 came to ¥349.4 billion, up ¥23.9 billion from the previous year. Consolidated net income reached ¥90.1 billion, up ¥9.6 billion. At term's end our shareholders' equity ratio was up 2 percentage points from the level of fiscal 2003, and our interest-bearing liabilities were reduced by ¥470.5 billion.

One item deserving special mention in conjunction with this year's business results is the Company's continuing drive to reduce its assets, as a way of easing future cost burdens. Measures taken during fiscal 2004 included the booking of extraordinary depreciation against 1.95 million kW related to the Miyazu and Tanagawa No. 2 power plants, shelving of the Suzu nuclear power plant project, writing down of appraisal values of idle land holdings, and trimming of asset appraisal values in tandem with the merger of K-Opti.com and Osaka Media Port. Further to K-Opti.com, although we booked an extraordinary loss this term arising from withdrawal from conventional PHS (personal handyphone system) services, the firm turned a profit at the operating level for the first time, thereby contributing to a return to profitability in our Groupwide telecom operations as a whole.

One problem that merits notice is the lethargic pace of growth in operating income from the Company's core business relative to the term's expansionary achievement in net revenues. Securing the appropriate profit level depends largely on reductions not only in operating costs but also in financing costs, and in light of the steady progress being recorded in trimming the Company's interest-bearing debt, the potential for increases in our financing costs going forward should be virtually nil, even if interest rates turn upward. Accordingly, the prime task ahead of us now is to boost our operating revenue. Toward that end, we will continue to strive to trim our operating costs and, from the standpoint of expanding earnings, we believe it will be imperative for us to pursue vigorous sales and pricing strategies.

Groupwide Response to an Evolving Business Environment

In Japan today, as individual values diversify in tandem with the maturation of society, expectations held of the corporate sector are intensifying with respect to both environmental and social responsibilities. Furthermore, in the process of the electrical utility business, the nation is presently in the incipient stages of deregulation, a transformation of major significance. In these ways, the circumstances surrounding Kansai EP are currently undergoing changes of massive impact.

In April 2004 the scope of industry deregulation was expanded to include all customers contracting for more than 500 kilowatts of power. From April 2005 the deregulatory parameters will be further widened to encompass all recipients of electric power delivered at high voltages, and wheeling charges traditionally levied whenever power has crossed into the grid of another provider will be eliminated. As a consequence of these changes, in fiscal 2005 customers affected by the new deregulation measures will account for approximately 60 percent of the total electricity sold by Kansai EP, setting the stage for competition on nationwide scale.

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To meet the challenges of this changing environment, in March 2004 Kansai EP set down a new "Group Management Vision." The Vision represents a commitment by all Group members to meld their collective capabilities in a quest to secure unparalleled satisfaction from customers in all areas of operation, centering on energy to support their lifestyles, as a way of seeking sustained growth of the Group collectively.

To realize the aims outlined in the Group Management Vision, we have drawn up a new business plan for fiscal 2005. Fundamentally the plan has two overriding targets: 1) to create further customer value through provision of solutions relating to usage of electricity and other modes of energy, equipment maintenance and life-supporting services; and 2) to boost our competitive strength by pursuing optimal cost reductions while simultaneously maintaining uncompromised quality. The new business plan also calls for optimal allocation of all managerial resources Groupwide and functional restructuring of affiliated enterprises.

Through implementation of the fiscal 2005 business plan, we are targeting a number of achievements on a consolidated basis, including a free cash flow averaging more than ¥400 billion per annum between fiscal 2004 and fiscal 2006, a shareholders' equity ratio above 25% by the end of fiscal 2006, and a reduction in our interest-bearing debt to less than ¥3.3 trillion by the end of fiscal 2006. In nearly all ways, these targets are even more demanding than the corresponding goals that we set in place just one year earlier.

Of course, at Kansai EP we hold nothing more dearly than the trust placed in us by our customers. In order to respond to that trust, we pledge to continue to do our very best to provide products and services with optimal safety and stability.

Wholehearted Commitment to Future Growth

Going forward Kansai EP will continue to pursue profit growth and expanded shareholder value in a sustained manner, in three ways: 1) by achieving and maintaining the resiliency and strength to respond to all changes in the operating environment; 2) by driving the continuing development of the Kansai region as a growth enterprise; and 3) by instilling loyal trust among all customers on a Groupwide basis.

Our operating environment is presently on the threshold of even greater transformations ahead. To weather the challenges of these changing times, we renew our pledge to pursue innovations on broad fronts and to seek dramatic new heights for tomorrow. We sincerely ask for your continuing support as we proceed toward these demanding goals.

Yoshihisa Akiyama
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