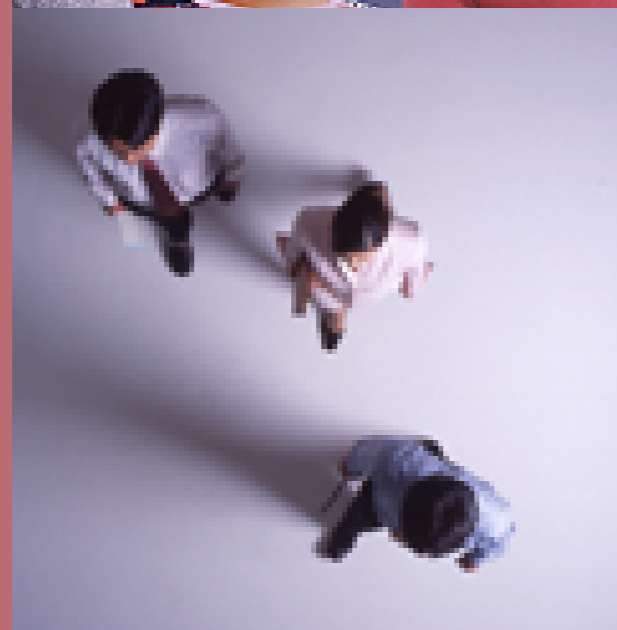




## Fine-tuning a trio of business strategies to ensure dynamic growth in the face of intensifying competition



Keeping pace with ongoing deregulation of Japan's power industry, Kansai EP is ardently taking salient steps to strengthen its competitive position.



### Transformation of the Power Industry

Under continuing revisions to Japanese regulations governing the electric power industry that took effect from April 2004, all customers who contract for more than 500 kW of power are now permitted to choose their preferred power supplier. Users matching those criteria account for roughly 40% of Kansai EP's sales volume.

The deregulatory trend that has been underway in the Japanese power industry in recent years is projected to continue further ahead. From April 2005, the scope of deregulation is to be expanded to encompass all customers of electricity received at high voltages. Simultaneously, wheeling charges presently levied by the power companies against transmissions through their supply grids will be eliminated, and a wholesale power market will be established. Collectively these and other complementary initiatives will serve to enhance the industry's competitive environment.

### A New Era in Business Competition

Since the implementation of the industry's first deregulatory measures in 2000, new participants have become increasingly active in the domestic electricity market. As of March 31, 2004, twelve new energy providers had entered the market and successfully acquired customers in areas throughout the nation. Kansai is but one region where their activities targeted at attracting demand are beginning to gather momentum.

Deregulation has also had an impact on competition among the traditional power providers. Since deregulation got under way, rate reductions have been executed by all power firms, leading to rate leveling that to date has prevented scrambles for customers. Going forward, however, it is difficult to project how the competitive situation might change in tandem with continuing developments in industry deregulation.

### Focused Response to a Shifting Environment

Kansai EP is keenly cognizant of the risk potential for becoming embroiled in severe competition as our business environment undergoes vertiginous changes. More importantly, however, we view these environmental transformations as an ideal opportunity to enhance both our corporate and shareholder value through profit expansion. To capitalize on this opportunity – one



structure ever more muscular, we intend to apply the enhanced cash flow to come from the foregoing efficiency-centered initiatives. Reinforcement of our financial structure is indispensable in two respects: to ensure the Company's survival as competition becomes increasingly severe in coming years, and to win the confidence of the capital markets.

Third, to achieve stronger earning capability as a Group, we will pursue optimal utilization of our Groupwide managerial resources and enhanced operational efficiency, opting for radical restructuring of Group companies as may be deemed necessary. We will also develop new areas of business by strategically selecting business areas that will enable the most effective use of our Groupwide resources. In doing so, we will concentrate on three core areas: total energy solutions, amenities in support of lifecycle needs, and information technology (IT). Today steady progress is being achieved in a diversity of fields, including retail gas sales capitalizing on our expertise in operating LNG processing facilities, home security services rooted in the trust placed in us by the local community, and Internet services taking advantage of our 65,000-kilometer fiber-optic network. Going forward, we will continue to invest vigorously into new business areas that will lead to ever further expansion of our earnings base.

As the three supporting pillars of our business strategies, our marketing, financial and Group strategies will enable Kansai EP to maintain its leading position in the coming era of severe competition.

not afforded to us when we operated in a fully regulated environment – we are focusing on three targets: greater competitive strength, a more muscular financial structure, and enhancement of our earning capacity Groupwide.

First, to achieve greater competitive strength, we are determined to pursue ever stronger price competitiveness in line with developments in deregulation, and to invite greater customer satisfaction through the provision of new forms of value. Toward those ends, we are firmly resolved to pursue improved efficiency throughout all aspects of our operations, and to develop new electricity-operated devices, services and rate menus. Furthermore, we intend to muster our comprehensive Groupwide capabilities toward fortifying our solution-focused services. In this last connection, we aim to strengthen our programs of human resource development so as to cultivate the professional teams needed to provide our key solutions.

Second, in order to make our financial