

Interview with the President

Q What is your assessment of economic conditions and business performance in the year under review (ended March 2014)?

A Our Group's overall revenue increased this year due to increases in residential and commercial power revenue arising from increased electricity tariffs, a fuel cost adjustment included in the electricity price, and increased sales in our IT and other business segments. However, the increase in fuel unit prices and reduced rates of operation of our nuclear power plants led to sizable increases in fuel costs for thermal power generation; as a result, we experienced a severe imbalance in our revenue and expenditures.



Makoto Yagi

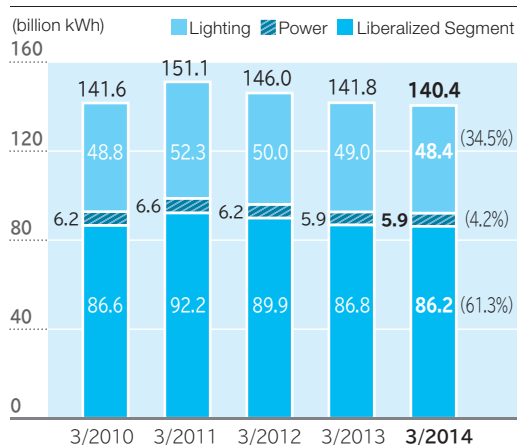
Kansai Electric Power Co., Inc.
President and Director

During this period, the Kansai economy exhibited a slow overall recovery partially buoyed by government economic measures.

Electricity sales registered a year-on-year decline due to consumer cooperation with energy saving activities and decreased power consumption by large industrial customers. While our revenue report shows a resulting decrease in electricity sales, residential and commercial electricity revenues actually rose as a result of electricity tariff increases and fuel cost adjustments. In addition, operating revenues for our IT and other business segments increased. Turning to expenditures, we focused significant attention on reducing costs by improving our operational efficiency, but increased fuel unit costs and reduced operation of our nuclear power plants had an impact in the form of increased thermal power fuel costs. As a result, our business recorded a severe imbalance between revenue and expenditures.

In our IT and other segments, we have steadily promoted the Group's businesses overall, as we have increased the number of subscribers to our FTTH service, raised gas prices, and sold an increased number of housing units through our real estate service.

■ Electricity Sales: Trends in Volume and Composition



Note: Liberalized segment demand is demand in the segment subject to partial liberalization of electricity retail sales. (Until the year ending March 2004, this included customers who received extra-high voltage power of 20,000 V or more, and whose use was generally more than 2,000 kW. For the year ending March 2005, this included customers who received high voltage power of 6,000 V or more, and whose use was generally more than 500 kW. For the year ending March 2006, this included customers who received high voltage power of 6,000 V or more, and whose use was generally more than 50 kW.)

■ Performance by Business Segment (before inter-segment cancellation)

Business Segment		March 31, 2013	March 31, 2014	Increase/Decrease	
		Amount (millions of yen)	Amount (millions of yen)	Amount (millions of yen)	Percentage (%)
Electric Power	Operating revenues	2,439,435	2,870,984	431,549	17.7
	Operating expenses	2,808,920	2,988,914	179,994	6.4
	Operating income/loss	(369,485)	(117,930)	251,554	—
IT	Operating revenues	210,251	206,163	(4,088)	(1.9)
	Operating expenses	185,968	186,489	520	0.3
	Operating income/loss	24,282	19,674	(4,608)	(19.0)
Other	Operating revenues	538,568	548,466	9,898	1.8
	Operating expenses	508,092	523,290	15,197	3.0
	Operating income/loss	30,475	25,176	(5,299)	(17.4)

Note: The above figures exclude consumption taxes.

Q What safety improvement measures have you adopted for nuclear power plants?

A At Kansai Electric Power, we have adopted increasingly varied and multiplex measures to improve the safety of our nuclear power plants. Going forward, we will steadily increase safety by ensuring all companies in our Group continue to promote safety improvement measures that exceed the regulatory framework.

After the accident at Tokyo Electric Power's Fukushima Daiichi Nuclear Power Station, Kansai Electric Power immediately implemented emergency response measures based on what had happened there. Since then, we have bolstered the diversity and scope of safety improvement measures at all of our nuclear power plants. Considering the potential occurrence of various external phenomena, including not only earthquakes and tsunamis, but other natural disasters, we have also strengthened our core damage prevention measures as well as other measures, including those for preventing large-scale radiation leaks.

The new regulatory requirements were enacted on July 8, 2013. To confirm that we are in compliance with those new regulatory requirements, we have applied to the Nuclear Regulation Authority for nuclear reactor installation and upgrade permission, approval of construction plans, and permission to revise safety regulations for Units 3 and 4 at the Ohi Nuclear Power Station and

for Takahama Nuclear Power Station.

Kansai Electric Power hopes to quickly restart those nuclear power plants whose safety has been confirmed by providing timely, accurate, and candid responses at the review meeting while seeking the understanding of the local community.

On June 20, 2014, we summarized and publicly announced our initiatives to voluntarily and continuously enhance the safety of our nuclear power plants. Using the lessons learned from the accident at Tokyo Electric Power's Fukushima Daiichi Nuclear Power Station, we promoted our clearly-stated philosophy on sharing nuclear safety expertise, enhancing risk management, developing infrastructure for improving safety at the Nuclear Power Division, and developing our safety culture.

We will steadily improve safety by working with all our companies to continuously promote safety enhancements that go beyond the regulatory framework.

Q What is the status of efforts to improve business efficiency?

A In FY 2013, we achieved efficiency improvements valued at ¥293 billion related to personnel expenses, fuel costs, cost of purchased power, capital investments, maintenance costs, and miscellaneous expenses. We remain committed to achieving improvements in business efficiency exceeding the ¥47.4 billion assessed adjustment, in addition to the ¥170.4 billion* in efficiency improvements we indicated in our application for an electricity tariff increase. In anticipation of the dawning era of full-scale competition, we will undertake a fundamental review of our operations that challenges conventional wisdom.

While we continue to face very difficult financial circumstances due to increases in thermal fuel costs arising from depreciation of the yen and the reduced operation of our nuclear power plants, our entire Group remained dedicated to working together to continually improve our business efficiency in FY 2013.

As a result, we achieved efficiency improvements valued at ¥293 billion in FY 2013, which represents an increase of about ¥110 billion from the ¥186.8 billion total comprised of the ¥139.4 billion** in efficiency improvements indicated in our application for an electricity tariff increase and the ¥47.4 billion assessed adjustment mandated upon the approval of our application for an electricity tariff increase.

More specifically, efforts were made to improve sustainable efficiency through reviews of operations and reassessment of the details of construction work in addition to a more than 10% reduction in procurement prices. Maximum efficiency was achieved by our postponing maintenance and repair work until after FY 2014 on an emergency basis while ensuring uninterrupted stability of supply. As a result, we achieved efficiency improvements valued at about ¥251 billion in personnel expenses, capital investment, maintenance costs, and other miscellaneous expenditures.

Regarding fuel costs and the cost of purchased power, we achieved efficiency improvements valued at ¥42 billion by

achieving significant efficiencies through accelerated facility improvements to our Himeji No. 2 Power Station and other efficiencies. By adopting a high-efficiency combined-cycle power generation system at this plant, we minimized expenses, to the greatest extent possible, associated with balancing supply and demand in light of the delayed restart of our nuclear power plants.

In FY 2014 and beyond, we will steadily implement overall business efficiency improvements, including reviews of business details and specifications as well as price reductions at the procurement stage. Thus, we aim to achieve a level of business efficiency exceeding the assessed adjustment mandated upon the approval of our electricity tariff increase application in addition to the efficiencies announced when we applied for the electricity tariff increase. In anticipation of the dawning era of full-scale competition, we will undertake a fundamental review of our operations that challenges conventional wisdom.

* ¥170.4 billion: Efficiency improvements valued at ¥155.3 billion (an annual average from FY 2013 to FY 2015), which we announced when we applied for an electricity tariff increase, converted on a capital investment basis from capital investment-related expenses

** ¥139.4 billion: Efficiency improvements valued at ¥125.3 billion (FY 2013 value), announced in our application for an electricity tariff increase, converted on a capital investment basis from capital investment-related expenses

Please also refer to our business efficiency improvements on page 10.

Q Given the current business environment, what is your long-term direction for business operations?

A We recognize that the operating environment in which we operate will change significantly, as indicated by several factors, including

- a lack of clarity in energy policies, including the economic environment for the nuclear power business;
- pending decisions on the specific direction of electric power system reforms and the start of discussions on gas system reforms; and
- diversifying customer needs due to increased awareness of the need for energy conservation and increasing energy costs driven by the tight balance between electricity supply and demand.

In the future, we will monitor trends in energy policies and various changing circumstances so that we can appropriately respond to changing attitudes and the varied needs of our customers.

A Cabinet decision concerning the Basic Energy Plan aims at a stratified, diverse, and flexible energy supply and demand structure that can simultaneously achieve safety plus energy security, environment suitability, and improved economic efficiency, factors known as “S + 3E,” nuclear energy was considered to be “an important base load power supply contributing to stability of the energy supply and demand structure,” and the nuclear fuel cycle was identified for “continued promotion.” We believe that the government’s reaffirmation of this policy has great significance.

Moreover, we expect that the desired energy mix of the future will be identified soon, and that an integrated energy policy will be maintained according to this plan for the medium and long term.

With regard to the establishment of an Interregional System Operator, which is being planned as part of electric power system reforms, we are conducting practical investigations in anticipation of business startup in April of next year. This will contribute to broad-based supply and demand coordination when there is significant tightness in the supply-demand balance and will help expand the introduction of renewable energy sources. We will also provide the utmost cooperation.

We are also actively supporting comprehensive retail

competition by expanding the options available to customers, regarding it as a good opportunity for expanding the scope of our business and for offering more high-value-added services and entering new areas.

However, we still have concerns about separation of the transmission and distribution sectors from the generation and retail sectors, as there would be no easy way to respond to such a change. Adequate consideration must be given to dealing with the technological challenges involved and related developments in the business environment based on the opinions of experts and business persons, and if problems are identified in the process of this investigative process, we must flexibly revise the approach being considered.

Kansai Electric Power is appropriately responding to changes in the operating environment and will continue to fulfill its unchanging mission of serving its customers and communities in the future. With the increasing market competition between electricity and gas, we will suggest the best energy sources for our customers by taking an innovative approach to ensure that customers see us as their service provider of choice.

Q What is your policy on returns for shareholders?

A To appropriately share the results of its business operations with its shareholders, Kansai Electric Power has made the stable payment of dividends a core part of its basic policy for returning profits to shareholders. However, in FY 2013, we decided not to issue a dividend in the interest of placing a higher priority on ensuring the financial soundness of our business.

To appropriately share the results of its business operations with its shareholders, Kansai Electric Power has made the stable payment of dividends a core part of its basic policy for returning profits to shareholders.

However, we continue to promote overall business efficiency and revision of the electricity tariff in addition to making every effort to ensure an early restart of our nuclear power plants. Having recorded a significant deficit in FY 2013 that leaves us facing an extremely challenging revenue situation, we admit

we are facing considerable uncertainty regarding the future operating environment.

Given this and the need to place a high priority on maintaining our company’s financial soundness, Kansai Electric Power regrettably decided not to pay a dividend in FY 2013.

Going forward, we will work diligently to restore a balanced budget by focusing all our efforts on restarting our nuclear power plants, ensuring stable supply to meet demand, and improving our business efficiency.

Focused on Improving Business Efficiency with Diligence

We seek to achieve a level of business efficiency that exceeds the assessed adjustment mandated at the time our electricity tariff increase was approved in addition to the efficiencies announced when we applied for an electricity tariff increase. In anticipation of the dawning era of full-scale competition, we will undertake a fundamental review of our operations that challenges conventional wisdom.

Focused on Business Efficiency and Reforming Our Cost Structure

In order to promote business efficiency and reform of our cost structure, we will address the development of facilities, improved operation and maintenance, business process reform, and reform of distribution and procurement.

Improving asset efficiency with high-efficiency thermal power sources and other innovations

- ▶ Upgrading the Himeji No. 2 Power Station to a high-efficiency combined-cycle system offering the industry's highest level of power generation efficiency (The new Units 4-6 are scheduled to begin operation ahead of schedule in FY 2014.)
- ▶ Conversion of oil-fired thermal power station to LNG (Aioi Power Station)
- ▶ Procurement of low-cost power (1.5 million kW) by bidding on thermal power supply

Developing facilities and improving operation and maintenance with new technologies and abundant data

- ▶ Determining optimum repair timing with facility longevity analysis technology
- ▶ Developing facilities and improving operation and maintenance with data provided from smart meters and sensor data from power stations

Sales of real estate and marketable securities

Promoting business efficiency with diligence

Cost structure reform

Business process reform for improved productivity

- ▶ Improving productivity through a sweeping review of management/indirect operations
- ▶ Reforming as an organization in which our employees, the source of our competitiveness, can feel challenged and continue to grow.

Distribution and procurement reform

* Targeting a 30% competitive order ratio (FY 2015) through procurement reform

- ▶ Rationalization and efficiency of distribution
- ▶ Co-operation with the purchasing division and technology division at the design stage
- ▶ Increasing competition through open offerings
- ▶ Diversifying ordering methods
- ▶ Inviting third parties to objectively evaluate policies

Pursuing maximum economically viable fuel procurement

- ▶ Increased participation in upstream LNG businesses
- ▶ Diversification and decentralization of suppliers and price indices
- ▶ Strengthening and enhancing fuel trading capabilities

To further strengthen competitiveness

Business efficiency plans and results as announced in our application for an electricity tariff increase

In FY 2013, we achieved ¥293 billion in efficiencies that largely exceeded the assessed adjustment (¥47.4 billion) as well as the efficiency cost (¥139.4 billion) of abruptly postponed repair work in FY 2014 and beyond in addition to sustainable efficiencies.

Business efficiency cost estimates as announced in our application for an electricity tariff increase and FY 2013 results (¥ billions)

Category	Specific Item	2013 (Planned)	2014 (Planned)	2015 (Planned)	2013-2015 (Average)	2013 (Actual)
Personnel expenses	<ul style="list-style-type: none"> • Staffing reduction through hiring controls • Reduction in salaries and allowances • Reduction in employee benefits and other reductions 	33.8	34.1	35.4	34.5	36.0
Fuel costs, cost of purchased power	<ul style="list-style-type: none"> • Reduction in fuel costs • Reduction in electricity purchase prices and other reductions 	25.3	53.5	66.9	48.6	42.0
Expenses related to capital investments	<ul style="list-style-type: none"> • Reduction in procurement prices • Revisions of scope and duration of construction projects 	5.3 19.4*	6.4 22.3*	8.2 23.5*	6.6 21.7*	6.0 45.0*
Maintenance costs	<ul style="list-style-type: none"> • Reduction in procurement pricing • Reduction in unit pricing of smart meters and other reductions 	24.3	31.0	30.9	28.7	91.0
Miscellaneous expenses	<ul style="list-style-type: none"> • Reductions of outsourcing expenses • Reductions of demonstration and promotion expenses • Reductions of miscellaneous expenses • Reduction of research expenses and other reductions 	36.6	38.1	36.1	37.0	79.0
Total		125.3 139.4*	163.2 179.1*	177.5 192.8*	155.3 170.4*	254.0 293.0*

* Includes reduction in capital investment.