

Proactively addressing the demands of an evolving industry

The Year in Review

The Kansai Electric Power Co., Inc. (Kansai EP), like most Japanese companies, faced difficult challenges in fiscal 2000, the period extending from April 1, 1999 through March 31, 2000. Broad restraint in capital investments and weak personal consumption together made for a harshly depressed operating environment. Signs of a modest upturn finally began to emerge in the second half of the term, but the overall outlook continues to suggest that more time will be needed before the Japanese economy regains its former vigor.

Our consolidated business results for the year under review reflect the challenges posed by this environment. Total electricity sales expanded for the seventh consecutive year, to 140.4 billion kWh, but were up a modest 1.1% from the level of the previous year. Consolidated operating revenues declined ¥8.7 billion year-on-year, to ¥2,588.3 billion; this resulted from a low electricity unit-rate through the term as demanded by Japan's fuel cost adjustment system, which requires that fuel charges be linked to crude-oil prices. Operating expenses totaled ¥2,277.8 billion, down ¥8.6 billion from the previous year; the reduction was achieved largely through initiatives targeted at curbing both repair and capital costs. Thanks to those efforts, operating profit finished at ¥310.5 billion, unchanged from the level of fiscal 1999.

Interest payments rendered during the period declined year-on-year. To conform with international accounting practices, ¥105.3 billion was appropriated to the reserve against retirement allowances. Meanwhile we generated ¥24.4 billion in profit from the partial sale of our securities holdings. The final result was consolidated net profit totaling ¥52.3 billion.

Burgeoning Deregulation and its Impact

Symbolic of the diversified challenges posed by the shifting parameters of our operating environment is the partial opening of our retail market in March 2000. Under revisions to legislation governing the nation's electric utility industry, high-demand industrial and commercial customers are now free to purchase electricity from the source of their choice. This liberalized approach has opened the door to market entry by numerous new participants, including foreign companies.

This burgeoning deregulation will have both positive and negative impact on Kansai EP. On the one hand our high-volume industrial and commercial customers, who have traditionally contribut

Kansai EP is taking decisive and farsighted steps to meet the challenges and shifting parameters of the energy industry.



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ed 30% to our electricity sales volume and 20% to our sales revenue, are now accorded a broader palette of suppliers to choose from. This newfound freedom puts unprecedented pressure on Kansai EP to provide these vital segments with a level of satisfaction that will ensure our selection as their continued supplier of choice, to enable us to survive the severe competition we now face. On the other hand the new legislation will serve as a viable means toward greater competitive strength, since under the newly introduced electricity-rate reporting system we will now be less bound by price-setting constraints. Also, whereas until now rates have generally been forced lower any time profit was generated, going forward the deregulatory measures will put us in a better position to generate profits for our shareholders, through enhanced operating efficiency.

Taking Advantage of a Dynamic Opportunity

While deregulation, in progress or impending, is clearly bringing significant changes in the operating environment of the nation's power industry, at Kansai EP we look on these shifting parameters as a dynamic opportunity for us to strengthen our corporate position. Specifically we are focusing on three areas: our basic strategies, our marketing strategies, and our financial strategies.

We aim to remold our basic strategies in several important ways. First, we look to utilize the advantages presented by the deregulation of the industry as means that will enable us to enhance our competitive strength in our core business segment, so that we may look forward with confidence to sustained revenue growth groupwide. Second, we plan to build on the broad-based trust already placed in us, which we recognize to be our greatest corporate asset. For our customers, we will probe optimum solutions to their evolving energy demands, with the constant goal of retaining their profound loyalty. For our shareholders and investors, we will pursue an ever sounder financial structure and undertake business activities worthy of their backing. Third, we will strive to elevate our corporate value to progressively higher levels, based on the full satisfaction of our users. Toward that end, we will continue to accord highest priority to our customers, but with a new focus on the attainment of competitive strength in all areas of business as demanded by the new era of competition in energy supplies.

To enhance our marketing strategies, we will carry forward important innovations on two fronts. First, we will vigorously pursue improved marketing capabilities through ongoing development of solution-oriented operations and greater input from our engineering staff. Second, we will actively

work to fortify our products and services. To do so, we will strive for ever more competitive rate schedules coupled with strategically sound marketing policies.

Finally, with an eye toward building up our financial strategies, while seeking to realize the attractive rate schedules that will enable us to sustain our competitive edge, we will direct our managerial resources into the enhancement of our financial structure. To achieve that goal, we will trim our capital investments and curb operating expenses in order to raise our assets efficiency and boost our corporate earnings, as a means of increasing our cash flow.

Never Content with the Status Quo

Kansai EP has no interest in resting on its laurels. We are constantly seeking ways to enhance our managerial resources in order to better serve our customers. Our vision for tomorrow is three-pronged. First, we aim to be a company customers can always rely on for high-quality service. That we are securely on track in this aspect is confirmed by our winning of the Deming Prize in recognition of our quality improvement activities. Second, we aim to be a company that consistently develops in step with the development of the Kansai region. Third, we aim to be the Number One company in all aspects of our activities, including quality, dependability and dynamic progress.

We will carry forward the ongoing optimization of our corporate value, bringing to bear the full force of our outstanding infrastructure, our proven technical expertise in the energy field, and our overwhelming brand recognition in the Kansai area. At the same time, we will continue to take proactive measures to transform Kansai EP from a supplier of energy into a comprehensive provider of solutions to support not only the energy needs of our customers but also their information, communication and other everyday requirements and dreams.

We sincerely look forward to your sustained support as we recast Kansai EP into a new mold to match the evolving needs of our times.



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