

Kansai EP is boldly reshaping itself into a dynamic and ever more robust company optimally prepared for the challenges of changing times.

Laying the vital groundwork for sustained growth in a world of shifting paradigms

The Year in Review

The Japanese economy continued to improve at a slow but sustained pace in fiscal 2001, the period from April 1, 2000 through March 31, 2001. Capital investments by the corporate sector led in propelling the economy steadily toward incipient recovery, until momentum stalled near the end of the term, inviting a consensus that more time will be needed before recovery might be achieved on full scale.

Against this backdrop The Kansai Electric Power Co., Inc. (Kansai EP) recorded a year-on-year increase in total electricity sales for the eighth consecutive term. Sales volume reached 142.9 billion kWh, up 1.7%, and operating revenues expanded by ¥59.5 billion to ¥2,647.9 billion. Impact from an average 4.2% reduction in electricity rates, implemented in October 2000 to enhance the Company's competitive position, was outweighed by the expanded sales volume and by income growth attributable to Japan's Fuel-Cost Adjustment System, which links electricity rate levels to crude-oil prices. Operating expenses totaled ¥2,307.2 billion, up a modest ¥29.4 billion from the level of fiscal 2000. Increased fuel costs, stemming from higher oil prices, and expanded costs arising from increased purchases of power from independent producers were offset by reductions in maintenance/repair and capital costs coupled with management efficiency enhancement initiatives executed throughout all segments. In the end the Company recorded ¥340.6 billion in operating income, up ¥30.1 billion from the year-earlier level.

Our net income reached ¥122.7 billion, constituting a significant ¥70.4 billion increase over fiscal 2000. The differential was primarily ascribable to the appropriation of funds last term to cover a shortfall in the Company's reserve against retirement allowances, a move undertaken to conform with international accounting practices. The Company's financial structure was also notably fortified during the past year. At term's end the shareholders' equity ratio had been enhanced by 2.1 percentage point over the level one year earlier, and interest-bearing liabilities had been reduced by ¥137.0 billion.

Dynamic Response to a Golden Opportunity

The environment surrounding the electricity business has undergone transformations with imposing ramifications during the past year. Under revisions to regulations governing the nation's electric utility industry effective from March 2000, high-demand industrial and commercial customers — who have traditionally contributed 30% to our total sales volume and 20% to our sales revenue — are now free to purchase electricity from the supplier of their choice. This newfound freedom has ushered in an era of full-fledged competition, and already a host of new power providers, including affiliates of foreign entities, are actively participating in the energy market. At the same time, increasingly diversified and sophisticated customer



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requirements are creating growing demand for independent power-generating facilities and cogeneration, with the result that competition among energy modes is projected to reach unprecedented proportions going forward.

At Kansai EP, while we are keenly cognizant of the risk of becoming embroiled in severe competition amid this rapidly changing business environment, more importantly we look on these shifting parameters as a dynamic opportunity for us to raise our corporate and shareholder value through earnings expansion. To capitalize fully on this opportunity — an opportunity not afforded to us when the industry was totally regulated — we have set three overriding targets on which to focus our managerial resources: 1) reinforcement of our competitive strength and enhancement of customer satisfaction; 2) elevation of our Groupwide growth potential; and 3) further reinforcement of our financial structure. Here is how we aim to achieve this triad of objectives.

First, to boost our competitive strength and customer contentment, we are taking determined initiatives to strengthen our price competitiveness and enhancing our position as a provider of energy solutions with added value. Fortification of our price competitiveness demands that we apply our comprehensive corporate resources, including our human resources, toward the goal of greater operating efficiency. Two specific measures have been implemented in this connection: 1) upgrading of our organizational structure, including the establishment of management centers for each business segment assigned with the task of strengthening the competitive position of its sphere of operations; and 2) the introduction of improved management tools, as illustrated by the launch of a new management control system promoting autonomous administrative management by each sales office, including management of monthly income and outlays. In a quest for heightened customer satisfaction, we are assigning engineering staff to the front lines, offering rate schedules attuned to the needs and energy usage patterns of each customer, and aggressively applying our Groupwide resources. On another level, we are also taking proactive measures to remold the fundamental stance of all Company personnel, using direct communication with top management as one means of instilling a more aggressive approach to their jobs than was demanded prior to deregulation.

Second, with the aim of extending the potential growth trajectory of the entire Kansai EP Group, we are overhauling our underlying disposition toward Group activities. Whereas heretofore Group operations have been viewed merely as a sustaining force to support core business in electric utility supply, going forward we are committed to transforming our Groupwide activities to a new and independent earnings driver in its own right. This goal is being pursued along three vectors: comprehensive energy provision, information technology services, and amenities in support of lifecycle requirements. During fiscal 2001, al-


ready steady progress was achieved in each of these areas as related operations shifted from the drawing board to practical implementation. For example, during the year under review we instituted wholesale gas supplies to gas operators and determined to commence retail gas sales to high-demand customers from 2002; we consolidated our communications-related companies in order to use our fiber-optic network to optimum effect; and we launched services in nursing care. We also proceeded aggressively in expanding our operations overseas, as exemplified by the construction of a gas-turbine power-generating plant in the United States (sales inaugurated from June 2001).

Third, in conjunction with our determination to fortify our financial structure, in March 2001 we took the unusual step of revising our financial targets upward despite the deepening severity of our operating environment projected ahead. This audacious and ambitious measure was decided on the heels of the solid progress achieved during fiscal 2001 toward the attainment of the targets initially hoisted in March 2000. We now aim to average more than ¥200 billion in free cash flow between fiscal 2002 and fiscal 2004, and we have moved forward our 20% shareholders' equity target by one year, from fiscal 2005 to fiscal 2004.

Crossing the Threshold to a New Era of Growth

In the coming years Kansai EP will continue to fulfill its social responsibilities as a corporate global citizen, including our indelible commitment to resolution of environmental issues. Synchronously we will also enhance our corporate and shareholder value on a sustained basis, in three ways: by instilling loyal trust among our customers not merely as an energy supplier but as a comprehensive supporter of their lifecycle needs; by maintaining consistent corporate growth in tandem with the ongoing progress of the Kansai region; and by achieving and sustaining the resiliency and strength to respond to any and all changes in our operating environment.

The year 2001 has set a milestone in Kansai EP's history as we celebrate our 50th Anniversary since our founding. On this occasion we wish to express our profound appreciation to all those who have supported us over the decades, and as a mark of that gratitude we renew our pledge to achieve dramatic new heights as we now leap forward into our second half-century. We sincerely ask for your continuing support as we proceed with the innovative reforms demanded by the evolving needs of our times.


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President and Director