

As Japan's power industry undergoes unprecedented deregulation, Kansai EP is taking aggressive steps to strengthen its competitive position.



Implementing vital new strategies to ensure dynamic growth into the future

Japan's Power Industry in Transformation

Under revisions to Japanese regulations governing the electric power industry that took effect from March 2000, retail users who contract for more than 2,000 kW of power received at voltages above 20,000V are now permitted to choose their preferred power supplier. Users matching those criteria account for roughly 30% of Kansai EP's sales volume and 20% of the Company's revenue.

In tandem with this deregulatory measure, the nation's electric power providers now offer open access to their power transmission networks. This liberal disposition permits total fairness in the usage of transmission systems by all competitors in the newly deregulated segment of the industry.

Today a special government committee

on the electric power industry serving in an advisory capacity to the Minister of Economy, Trade and Industry is undertaking a further review of the scope of industry deregulation plans in a quest for continuing improvements for the nation's benefit.

Competition Entering a New Phase

Since the inception of the deregulatory change initiated in 2000, new participants have become increasingly active in the domestic electricity market. As of March 31, 2002, nine 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 underway, rate reductions have been executed by all power firms, leading to rate leveling that to date has prevented scrambles for customers.

Proactive Response to a Changing Environment

Kansai EP views the transformations in its operating environment as an ideal opportunity for corporate reform, and we are taking aggressive steps now in that direction. Specifically we are taking positive steps to maximize efficiency in all areas of our operations, with the cash flow generated from these initiatives to be applied strategically in the following three ways.

First, we are resolved to enhance our price competitiveness. Historically the Company has long maintained a pricing advantage, but going forward we will face

intensifying competition against new power providers and on-site power sources, compelling us to fortify our price competitiveness even further. Also, in preparation for future expansion of market liberalization and ongoing developments in competition, we will focus our business policies more sharply on the needs of our customers. By providing them with added value and optimal solutions, we aim to secure the loyal patronage not only of customers in the newly deregulated segment but also of home users and other customers in the regulated markets.

Second, we intend to use our enhanced cash flow to make our financial structure ever more muscular. Reinforcement of our financial structure is indispensable in two respects: to ensure the Company's survival as competition becomes increasingly more severe in coming years, and to win the confidence of the capital markets.

Third, we will turn our newly generated cash flow to advantage by undertaking investments particularly into new business areas that have promise of expanding our earnings base. Notably, we intend to pursue Group operations more strategically by concentrating our comprehensive managerial resources into three core areas: energy solutions, IT services, and amenities in support of lifecycle needs. The broad-ranging products and services that we offer within our total Group framework will be applied to provide clients with a full spectrum of solution-oriented services.

Our newly evolving Group strategy will come to form an integral element of the Company's comprehensive business strategy, together with our marketing and financial strategies. In combination, these three powerful pillars will provide the solid support we require to maintain our leading position in the coming era of severe competition.