Pursuing optimal cost efficiency and a steady path toward sound financial health

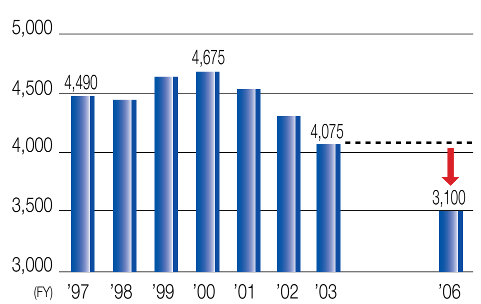
Three Strategic Focuses

Kansai EP's financial strategy agenda encompasses three fundamental points of focus. The first is the enhancement of our cost structure, to permit us to attain greater competitive strength and generate an abundant cash flow. Second, we focus on the development of an optimally efficient infrastructure, to enable us to reduce our capital investment expenditures. Finally, we accord foremost priority to allocating free cash flow to the reduction of our interest-bearing liabilities.

Improved Cost Structure

Cost structure enhancement forms the underlying base of the Company's financial strategies. One of the most effective means toward that end is to reduce our average power-generation costs by elevating the capacity factor of our nuclear power stations, our core energy source. Several years ago we hoisted a target capacity factor above 85%, which we sought to achieve by shortening shutdowns for periodic inspections through measures including replacement of steam generators. In fiscal 2003 we successfully reached — and surpassed — our goal by bringing our capacity factor up to 90.5%.

We are also trimming costs by downsizing our corporate assets. During the past two fiscal years we closed down 16 less efficient power generators with a total output of 2,132 MW, and we have also implemented long-term suspension of operations of another 13 generators with a total output of 5,193 MW. This restructuring of major assets should significantly lower our operation and maintenance costs.



Interest-bearing Liabilities: Performance and Reduction Targets
(billions of yen)

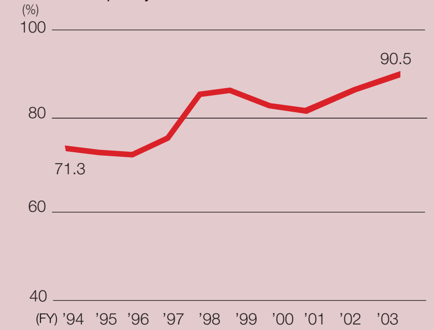
To curb our fixed costs, we are scaling back our payrolls. Our current goal is to cut our core workforce by roughly 3,000 employees between September 2001 and March 2005.

Efficient Infrastructure Development

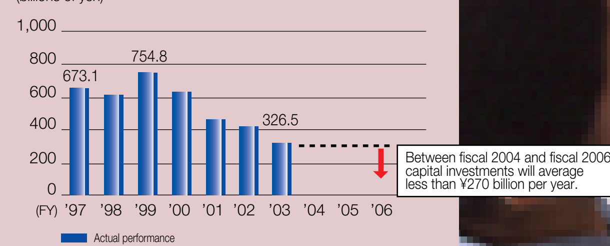
Efficient development of our corporate infrastructure is an important strategy for boosting our assets' earning capacity and increasing free cash flow. At Kansai EP we are currently reducing our investments into power plants and other facilities while maintaining a stable supply of high-quality power.

In fiscal 2003 we undertook a total of ¥326.5 billion in capital investments, 11% less than had been initially planned at the start of the term. Between fiscal 2004 and 2006 we intend to keep capex below ¥270 billion per year on average; the figure represents a reduction of ¥70 billion beyond the target announced in March 2002. To achieve that goal, which will focus on curbing capex into distribution and other facilities, we aim to cut our procurement costs through diversification of purchasing methods and the adoption of new technologies and construction methods. We are also substantially deferring construction of new power generation, distribution and transmission facilities while monitoring power demand trends.

On a consolidated basis, in fiscal 2003 we undertook capital investments totaling ¥386.8 billion, 16% less than originally planned. Between fiscal 2004 and 2006 we are targeting a decrease to less than ¥360 billion per term on average, a further ¥70 billion below the target hoisted in March 2002.



Nuclear Capacity Factor



Capital Investments: Performance and Reduction Targets
(billions of yen)

Mihama Nuclear Plant

Kansai EP's financial strategies are sharply trained on improved cost structure, a leaner infrastructure, and a lighter burden of interest-bearing liabilities.

Reduction of Interest-bearing Liabilities

Kansai EP's longer-range financial strategy calls for expansion of free cash flow through reductions in costs and capital investments. The generated cash flow will be allocated to reducing interest-bearing liabilities as a way of reinforcing our financial structure. In fiscal 2003 we not only decreased those liabilities by ¥251.6 billion at the parent level, we also generated free cash flow above target through measures including the sale of investment securities. The enhanced financial position resulting therefrom enabled us to repurchase and retire our shares and return profits to our shareholders.

Currently, we have set two targets for trimming our liabilities further. At the parent level we aim to reduce our interest-bearing debt to less than ¥3.1 trillion by the end of fiscal 2006, rather than the ¥3.5 trillion goal we had previously set for the end of fiscal 2005. We have simultaneously revised our shareholders' equity ratio target to higher than 24% by the end of fiscal 2006, superseding the earlier goal that targeted a 23% ratio by the end of fiscal 2005. On a consolidated basis we now aim to pare our interest-bearing debt to less than ¥3.4 trillion by the end of fiscal 2006, as opposed to the ¥3.8 trillion target we had formerly set for the end of fiscal 2005. Within the same time frame we have also enhanced our shareholders' equity ratio goal from above 24% to higher than 25%.

Financial Strategies for Corporate Strength

Through the various measures described here, we not only target sustained expansion of both our corporate and shareholder value, but also seek to achieve the financial stability and flexibility that will enable us to manifest our corporate strength even within the increasingly deregulated market of the coming years.