

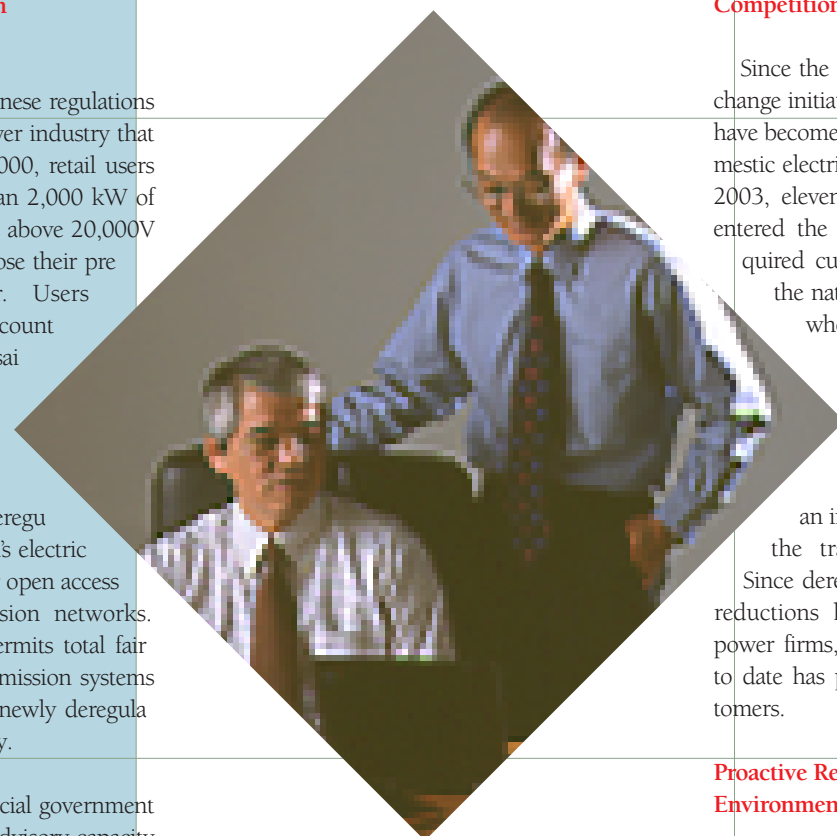
Adopting resilient new business strategies to ensure a future of dynamic growth

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.

In February 2003 a special government committee serving in an advisory capacity to the Minister of Education, Trade and Industry suggested a menu of system changes for achieving further deregulation of the electric power industry going forward. The newly indicated measures call for graduated expansion of the scope of liberalization, elimination of wheeling charges levied by the power companies against transmissions through their supply grids, and the establishment of a wholesale power market. Collectively these and other complementary initiatives are designed to enhance the industry's competitive environment.



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, 2003, eleven 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 under way, 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 working assiduously 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



In step with the continuing deregulation of Japan's power industry, Kansai EP is making aggressive moves to strengthen its competitive position.

er 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.

