

**Kansai EP is responding with alacrity to changing parameters in its business environment, with dynamic initiatives focused on safety assurance and optimal customer value.**

## Laying down the foundations today for sustained growth in tomorrow's world of new and evolving needs

### The Year in Review

In fiscal 2006, the period from April 1, 2005 through March 31, 2006, the Japanese economy generally remained in a holding pattern during the first half and then marked steady recovery during the second half on robust exports, resumed momentum in production within the corporate sector, and expanded capital investments.

Against this backdrop, The Kansai Electric Power Co., Inc. (Kansai EP) recorded total electricity sales volume of 147.11 billion kWh, up 1.5% year-on-year. The figure constituted a new record for the Company, outstripping the previous high registered in fiscal 2005. The unprecedented sales volume, boosted by economic recovery, owed largely to a significant increase in demand for heating and air-conditioning. Heating demand was especially strong as the Kansai region experienced an unusually cold winter; in Osaka, for example, the average temperature in December was the lowest on record for the past 30 years.

Outside core operations in electricity, the Company vigorously pursued business expansion along three main vectors – information technology (IT), total energy solutions, and amenities in support of lifecycle needs – and steady earnings base expansion is being achieved in all areas. To illustrate, in the IT area, home subscriptions for our communication services, including mainstay fiber-to-the-home (FTTH) Internet connections, exceeded 500,000 at the end of the fiscal year. In the realm of total energy solutions, the year's total sales volume of gas, LNG and other energies reached 640,000 tons.

Turning to the financial side of fiscal 2006, total operating revenue finished at ¥2,579.0 billion, down ¥34.4 billion from the preceding year. Income from electricity operations reached ¥2,358.7 billion, down ¥53.3 billion year-on-year. Total sales volume increased but revenue contracted, largely as a result of rate reductions implemented in April 2005. Revenue from other operations totaled ¥220.3 billion, up ¥18.9 billion from the year-earlier level primarily on expanded IT operations.

Total operating expenses in fiscal 2006 reached ¥2,251.8 billion, up ¥25.3 billion year-on-year. Operating expenses related to electricity operations totaled ¥2,048.4 billion, up ¥9.7 billion from fiscal 2005. Retirement stipends decreased following revisions to the Company's employee retirement pension system, and efforts were made to trim capital costs and operating expenditure; but these were offset by increased fuel costs incurred for operation of thermal power plants, arising from higher fuel costs, and increased maintenance and repair outlays targeted at ensuring the safety of the Company's nuclear power stations. Operating expenses incurred in the performance of other operations totaled ¥203.4 billion, up ¥15.6 billion year-on-year. In this case, the increase owed heavily to increased fuel costs in conjunction with gas operations.

As the combined result of the foregoing revenue and expense figures, consolidated operating income in fiscal 2006 came to ¥327.1 billion, down ¥59.7 billion from the previous year. Consolidated net income



Shosuke Mori  
President and Director

reached ¥161.0 billion, up ¥91.3 billion. At term's end, our shareholders' equity ratio was up 2.0 percentage points from the level of fiscal 2005, and our interest-bearing liabilities were reduced by ¥165.8 billion.

**Management Issues Demanding Immediate Attention**

In 2004 we set down a new “Group Management Vision” targeted at making Kansai EP a company that garners an unparalleled level of satisfaction from its customers. In line with this vision, a broad palette of initiatives have been made within our Groupwide business activities to deliver superior services that will invite total customer satisfaction. The foundation on which those activities rest is the trust we receive from society as a whole, but unfortunately that trust was seriously eroded as a direct outgrowth of the accident at the Mihama Nuclear Power Station in August 2004.

In March 2005 the Company submitted an action plan to the Japanese government outlining measures designed to prevent a recurrence of any accident of the kind that occurred at Mihama. In line with the President's pledge to maintain safety under all circumstances as both his personal mission and as the mission of the entire Company, ongoing efforts have been made to firmly keep that promise to society to securely implement preventive measures against any accidental recurrence and to forge a new corporate culture focused on safety. In February 2005 we made open disclosure of the progress we had achieved toward those ends to date, and of the challenges we still face. One month later we received an evaluation of our initiatives from the Ministry of Economy, Trade and Industry. The assessment rendered was that Kansai EP is autonomously carrying out activities in planning, execution, evaluation and improvement.

In the coming years we will continue to pursue utmost safety in our nuclear power generating operations and, with concerted efforts Companywide, will carry forward reforms of our corporate culture targeted at forging a business management structure that accords foremost priority to safety and fulfilling our corporate social responsibility (CSR), as a way of enabling us to restore the public's trust in us.

Today, both the national economy and the economy of the Kansai region are on a full-fledged recovery course, and firm growth is projected to continue into the future. At the same time, however, the environment surrounding the Company is becoming increasingly severe as a result of a variety of factors including intensified competition between energy platforms. Against the backdrop of this business environment, we have set down a new “Kansai Electric Power Group Management Plan for Fiscal 2007” to make fiscal 2007 a year of transition to a new stage heading toward sustained growth.

Specifically, the Plan incorporates three action plans collectively targeted at creating customer value through implementation of measures devised from the long-term perspective, with highest priority placed on safety. Individually, the action plans respectively have the following overriding objectives: 1) the cultivation of a corporate culture that accords foremost priority to safety; 2) the creation of customer value through a concerted commitment by all Group members; and 3) development of human resources and enhancement of technological capabilities.

In line with the new Group Management Plan, all members of management as well as each and every employee will at all times act in ways that give first priority to safety, and efforts will be made to forge the

mechanisms that will enable business operations to be carried out with full propriety and assurance, for example by developing quality management systems relating to the safety of all facilities. In addition, initiatives will be pursued to set down basic policies pertaining to internal control systems to ensure that business is conducted in a proper manner, and risk assessment and management will be securely implemented to achieve optimal efficacy in all related endeavors.

Based on the foregoing actions, we will seek to provide products and services that are truly valuable to the customer, not only through the provision of optimal energy services as an enterprise that delivers total energy solutions but also through our business operations in information technology and amenities in support of lifecycle needs as well as overseas operations. In doing so, we aim to contribute to the development of our customers and our local communities, and to ensure the sustained development of the entire Kansai Electric Power Group.

Furthermore, we will pursue the development of our human resources – the driving force behind all our activities – and enhancement of our technological capabilities, to serve as a solid foundation for our business activities.

In a quest to further strengthen our corporate governance position, at this year's general shareholders meeting resolutions were passed that will enable us to achieve swifter decision-making and stronger supervisory functions through a reduced number of Company directors and vitalization of the board of directors. In addition, initiatives to boost the speed and effectiveness of business execution were set in motion through introduction of a system of executive officers.

Through these diverse initiatives, we pledge to devote our comprehensive strength toward realizing our ambition to become a company that invites optimal customer satisfaction, a company sustained by the public's trust.

**Wholehearted Commitment to Future Growth**

Going forward, Kansai EP will pursue profit growth and expanded shareholder value in a sustained manner, in three ways: 1) by consistently instilling loyal trust among all customers on a Groupwide basis; 2) by achieving and maintaining the flexibility and strength to respond to all changes in the business environment; and 3) by driving the continuing development of the Kansai region as a growth enterprise.

Our business environment is presently on the threshold of even greater transformations ahead. To weather the challenges of these changing times, we renew our pledge to continuously pursue innovations on broad fronts and to seek dramatic new heights for tomorrow. We sincerely ask for your continuing support as we proceed toward these demanding goals.



Shosuke Mori  
President and Director