

Executing well-focused business strategies to enable sustained growth amid intensifying competition



Transformation of the Power Industry

From April 2005, all customers who contract for electricity received at high voltages became free to choose their preferred power supplier. Users matching that criterion account for roughly 60% of Kansai EP's total sales volume. In addition, wheeling charges formerly levied by the power companies against transmissions through their supply grids were eliminated, and a wholesale power market was newly established, thereby setting in place an ever more competitive environment.

A New Era in Business Competition

Since the implementation of the industry's first deregulatory measures in 2000, new participants have become increasingly active in the

operated in a fully regulated environment – we are focusing on three targets: 1) greater competitive strength, 2) a more muscular financial structure, and 3) enhancement of our earning capacity Groupwide.

First, to achieve greater competitive strength, we are determined to pursue ever stronger price competitiveness in line with developments in deregulation, and to invite greater customer satisfaction through the provision of new forms of value. Toward those ends, we firmly aim to improve efficiency throughout all aspects of our operations, and to develop new equipment operated electrically, new services and new rate menus. Furthermore, we intend to muster our comprehensive Groupwide capabilities toward fortifying our solution-focused services. In this last connection, we will strengthen

vere in coming years, and to win the confidence of the capital markets.

Third, to achieve stronger earning capability as a Group, we will strategically select business operations and develop new areas of business that will enable the most effective use of our Groupwide resources. In doing so, we will concentrate on three core areas: total energy solutions, amenities in support of lifecycle needs, and information technology (IT). Today steady progress is being achieved in each of those fields, for example in the form of retail gas sales capitalizing on our expertise in operating LNG processing facilities, home security services rooted in the trust placed in us by the local community, and Internet services taking advantage of our 67,000-kilometer fiber-optic network. Going forward, we will continue to invest vigorously into new business areas that will lead to ever greater expansion of our earnings base.

As the three supporting pillars of our business strategies, our marketing, financial and Group strategies will enable Kansai EP to maintain its leading position in the coming era of severe competition.

Kansai EP is responding with agility to the continuing deregulation of Japan's power industry, taking decisive steps to strengthen its competitive position.

domestic electricity market. Already, more than 20 new energy providers have entered the market and successfully acquired customers in areas throughout the nation. The Kansai region is no exception, and activities targeted at attracting demand within our traditional operating base are gathering momentum.

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. Going forward, however, it is difficult to project how the competitive situation might change in tandem with continuing developments in industry deregulation.

Focused Response to a Shifting Environment

Kansai EP is keenly cognizant of the risk potential for becoming embroiled in severe competition as our business environment undergoes vertiginous changes. More importantly, however, we view these environmental transformations as an ideal opportunity to enhance both our corporate and shareholder value through profit expansion. To capitalize on this opportunity — one not afforded to us when we



our programs of human resource development so as to cultivate the professional teams needed to provide our key solutions.

Second, in order to make our financial structure ever more muscular, we intend to apply the enhanced cash flow to come from the foregoing efficiency-centered initiatives. Reinforcement of our financial structure is indispensable in two respects: to ensure the Company's survival as competition becomes increasingly se