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***The Kansai Electric Power Company,  
Incorporated***

*Non-Consolidated Financial Statements for the  
Years Ended March 31, 1999 and 1998, and  
Independent Auditors' Report and  
Certain Unaudited Non-Consolidated Financial Statements  
for the Six Months Ended September 30, 1999 and 1998*

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of  
The Kansai Electric Power Company, Incorporated:

We have examined the non-consolidated balance sheets of The Kansai Electric Power Company, Incorporated as of March 31, 1999 and 1998, and the related non-consolidated statements of income and shareholders' equity for the years then ended. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the non-consolidated financial statements referred to above present fairly the financial position of The Kansai Electric Power Company, Incorporated as of March 31, 1999 and 1998, and the results of its operations for the years then ended, in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

*Deloitte Touche Tokmatsu*

Osaka, Japan  
June 29, 1999

# The Kansai Electric Power Company, Incorporated

## Non-Consolidated Balance Sheets

| ASSETS (Note 5)   | Millions of Yen |             |               | LIABILITIES AND SHAREHOLDERS' EQUITY                | Millions of Yen |             |               |
|---|-----------------|-------------|---------------|---|-----------------|-------------|---------------|
|   | March 31        |             | September 30, |   | March 31        |             | September 30, |
|   | 1999            | 1998        | 1999          |   | 1999            | 1998        | 1999          |
|   |                 |             | (Unaudited)   |   |                 | (Unaudited) |               |
| PROPERTY:   |                 |             |               | LONG-TERM DEBT, LESS CURRENT MATURITIES             |                 |             |               |
| Plant and equipment (Note 3)  | ¥ 12,416,495    | ¥11,975,617 | ¥ 12,551,630  | (Note 5)  | ¥ 3,886,073     | ¥ 3,693,602 |               |
| Construction in progress (Note 3)   | 902,735         | 733,839     | 961,016       |   |                 | ¥ 3,996,079 |               |
| Contributions in aid of construction (Note 3)                                 | (349,366)       | (340,571)   | (351,747)     | LIABILITY FOR SEVERANCE PAYMENTS (Note 6)           | 109,039         | 106,512     |               |
| Accumulated depreciation (Note 3)   | (6,964,102)     | (6,584,291) | (7,148,918)   |   |                 | 109,766     |               |
| Plant and equipment - net (Note 3)  | 6,005,762       | 5,784,594   | 6,011,981     | RESERVE FOR REPROCESSING OF IRRADIATED NUCLEAR FUEL | 351,205         | 338,042     |               |
| Nuclear fuel, net of amortization   | 470,991         | 466,495     | 486,118       |   |                 | 336,239     |               |
| Property - net  | 6,476,753       | 6,251,089   | 6,498,099     | RESERVE FOR DECOMMISSIONING OF NUCLEAR POWER UNITS  | 169,599         | 159,291     |               |
| INVESTMENTS AND OTHER ASSETS:   |                 |             |               |   |                 | 174,878     |               |
| Investment securities (Note 4)  | 110,497         | 100,815     | 86,842        | CURRENT LIABILITIES:                                |                 |             |               |
| Investments in and advances to subsidiaries and associated companies (Note 4) | 63,954          | 51,960      | 87,398        | Current maturities of long-term debt (Note 5)       | 379,985         | 380,548     |               |
| Long-term loans receivable  | 29,073          | 40,554      | 26,684        | Short-term borrowings (Note 7)                      | 468,700         | 468,700     |               |
| Other assets  | 15,487          | 17,545      | 20,787        | Accounts payable                                    | 143,696         | 140,683     |               |
| Total investments and other assets  | 219,011         | 210,874     | 221,711       | Payable to subsidiaries and associated companies    | 86,850          | 106,256     |               |
| CURRENT ASSETS:   |                 |             |               | Accrued income taxes                                | 36,042          | 28,509      |               |
| Cash and time deposits  | 34,976          | 51,656      | 37,579        | Reserve for restoration costs of natural disaster   | 928             | 971         |               |
| Accounts receivable   | 118,876         | 115,539     | 149,507       | Accrued expenses and other current liabilities      | 202,757         | 200,360     |               |
| Allowance for doubtful accounts   | (771)           | (959)       | (1,272)       | Total current liabilities                           | 1,318,958       | 1,326,027   |               |
| Fuel, materials and supplies  | 50,344          | 54,831      | 47,499        | RESERVE FOR FLUCTUATIONS IN WATER LEVEL             | 11,213          | 3,723       |               |
| Other current assets  | 15,398          | 10,770      | 26,096        |   |                 | 10,945      |               |
| Total current assets  | 218,823         | 231,837     | 259,409       | COMMITMENTS AND CONTINGENCIES                       |                 |             |               |
|   |                 |             |               | (Notes 10 and 12)                                   |                 |             |               |
|   |                 |             |               | SHAREHOLDERS' EQUITY (Notes 5, 8 and 13):           |                 |             |               |
|   |                 |             |               | Common stock - authorized, 1,800,000,000 shares     |                 |             |               |
|   |                 |             |               | with par value of ¥500 per share                    | 489,320         | 489,320     |               |
|   |                 |             |               | Additional paid-in capital                          | 65,463          | 65,463      |               |
|   |                 |             |               | Legal reserve                                       | 116,484         | 111,577     |               |
|   |                 |             |               | Retained earnings                                   | 397,233         | 400,243     |               |
|   |                 |             |               | Total shareholders' equity                          | 1,068,500       | 1,066,603   |               |
| TOTAL   | ¥ 6,914,587     | ¥ 6,693,800 | ¥ 6,979,219   | TOTAL   | ¥ 6,914,587     | ¥ 6,693,800 |               |
|   |                 |             |               |   |                 | ¥ 6,979,219 |               |

See notes to non-consolidated financial statements.

# The Kansai Electric Power Company, Incorporated

## Non-Consolidated Statements of Income

|  | Millions of Yen        |                  |                                  |                     |
|--|------------------------|------------------|----------------------------------|---------------------|
|  | Year Ended<br>March 31 |                  | Six Months Ended<br>September 30 |                     |
|  | 1999                   | 1998             | 1999                             | 1998<br>(Unaudited) |
| <b>OPERATING REVENUES:</b>   |                        |                  |                                  |                     |
| Residential  | ¥ 974,791              | ¥ 961,836        | ¥ 477,733                        | ¥ 487,333           |
| Commercial and industrial  | 1,503,089              | 1,567,666        | 764,920                          | 794,994             |
| Other  | 56,923                 | 66,786           | 27,601                           | 30,777              |
| Total  | <u>2,534,803</u>       | <u>2,596,288</u> | <u>1,270,254</u>                 | <u>1,313,104</u>    |
| <b>OPERATING EXPENSES:</b>   |                        |                  |                                  |                     |
| Personnel expenses   | 344,559                | 318,016          | 173,070                          | 166,679             |
| Fuel   | 218,831                | 270,937          | 119,797                          | 114,340             |
| Purchased power  | 327,964                | 280,733          | 164,040                          | 162,836             |
| Maintenance  | 347,212                | 374,767          | 164,701                          | 174,588             |
| Depreciation   | 427,558                | 438,584          | 209,909                          | 217,447             |
| Taxes other than income taxes  | 173,749                | 175,657          | 86,930                           | 88,649              |
| Other  | 396,712                | 399,477          | 215,967                          | 232,001             |
| Total  | <u>2,236,585</u>       | <u>2,258,171</u> | <u>1,134,414</u>                 | <u>1,156,540</u>    |
| OPERATING INCOME   | <u>298,218</u>         | <u>338,117</u>   | <u>135,840</u>                   | <u>156,564</u>      |
| <b>OTHER (INCOME) EXPENSES:</b>  |                        |                  |                                  |                     |
| Interest expense   | 171,009                | 207,128          | 75,857                           | 95,508              |
| Exchange gain  | (1,206)                | (1,496)          | (583)                            | (872)               |
| Other – net  | (427)                  | (1,994)          | (1,202)                          | (658)               |
| Total  | <u>169,376</u>         | <u>203,638</u>   | <u>74,072</u>                    | <u>93,978</u>       |
| INCOME BEFORE PROVISION FOR (REVERSAL OF) RESERVE FOR FLUCTUATIONS IN WATER LEVEL AND INCOME TAXES | 128,842                | 134,479          | 61,768                           | 62,586              |
| PROVISION FOR (REVERSAL OF) RESERVE FOR FLUCTUATIONS IN WATER LEVEL                                | <u>7,489</u>           | <u>3,723</u>     | <u>(268)</u>                     | <u>5,942</u>        |
| INCOME BEFORE INCOME TAXES   | 121,353                | 130,756          | 62,036                           | 56,644              |
| INCOME TAXES (Note 9)  | <u>70,380</u>          | <u>65,001</u>    | <u>26,180</u>                    | <u>30,918</u>       |
| NET INCOME   | <u>¥ 50,973</u>        | <u>¥ 65,755</u>  | <u>¥ 35,856</u>                  | <u>¥ 25,726</u>     |
|  | Yen                    |                  |                                  |                     |
| <b>PER SHARE OF COMMON STOCK:</b>  |                        |                  |                                  |                     |
| Net income   | ¥52.09                 | ¥67.19           | ¥36.64                           | ¥26.29              |
| Fully diluted net income   | 51.59                  | 65.67            | 35.90                            | 26.02               |
| Cash dividends applicable to period  | 50.00                  | 50.00            | 25.00                            | 25.00               |

See notes to non-consolidated financial statements.

**The Kansai Electric Power Company, Incorporated**

**Non-Consolidated Statements of Shareholders' Equity**

|   | Number of<br>Common Shares<br>Issued | Millions of Yen  |                                  |                  |                      |
|---|--------------------------------------|------------------|----------------------------------|------------------|----------------------|
|   |                                      | Common<br>Stock  | Additional<br>Paid-in<br>Capital | Legal<br>Reserve | Retained<br>Earnings |
| BALANCE, APRIL 1, 1997                                  | 978,638,823                          | ¥ 489,320        | ¥ 65,463                         | ¥ 106,669        | ¥ 388,471            |
| Net income  |                                      |                  |                                  |                  | 65,755               |
| Cash dividends, ¥50 per share                           |                                      |                  |                                  |                  | (48,931)             |
| Transfer to legal reserve                               |                                      |                  |                                  | 4,908            | (4,908)              |
| Bonuses to directors and corporate auditors             |                                      |                  |                                  |                  | (144)                |
| Shares issued on conversion of convertible bonds        | <u>208</u>                           |                  |                                  |                  |                      |
| BALANCE, MARCH 31, 1998                                 | 978,639,031                          | 489,320          | 65,463                           | 111,577          | 400,243              |
| Net income  |                                      |                  |                                  |                  | 50,973               |
| Cash dividends, ¥50 per share                           |                                      |                  |                                  |                  | (48,931)             |
| Transfer to legal reserve                               |                                      |                  |                                  | 4,907            | (4,907)              |
| Bonuses to directors and corporate auditors             |                                      |                  |                                  |                  | (145)                |
| BALANCE, MARCH 31, 1999                                 | 978,639,031                          | 489,320          | 65,463                           | 116,484          | 397,233              |
| Net income (unaudited)                                  |                                      |                  |                                  |                  | 35,856               |
| Cash dividends, ¥25 per share (unaudited)               |                                      |                  |                                  |                  | (24,465)             |
| Transfer to legal reserve (unaudited)                   |                                      |                  |                                  | 2,462            | (2,462)              |
| Bonuses to directors and corporate auditors (unaudited) |                                      |                  |                                  |                  | (145)                |
| BALANCE, SEPTEMBER 30, 1999 (unaudited)                 | <u>978,639,031</u>                   | <u>¥ 489,320</u> | <u>¥ 65,463</u>                  | <u>¥ 118,946</u> | <u>¥ 406,017</u>     |

See notes to non-consolidated financial statements.

# The Kansai Electric Power Company, Incorporated

## Notes to Non-Consolidated Financial Statements

(In so far as applicable to the six months ended September 30, 1999 and 1998, or to dates subsequent to June 29, 1999, these notes are unaudited.)

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### 1. BASIS OF PRESENTING FINANCIAL STATEMENTS

The accompanying non-consolidated financial statements have been prepared from accounts maintained by The Kansai Electric Power Company, Incorporated (the "Company") in accordance with the provisions set forth in the Japanese Commercial Code (the "Code"), the Japanese Electric Utility Law and the related accounting regulations and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirement of International Accounting Standards. The non-consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. A non-consolidated statement of cash flows is not required as a part of the basic financial statements in Japan and accordingly, such statements are not presented herein.

In preparing these non-consolidated financial statements, certain reclassifications and rearrangements have been made to the Company's non-consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Property, Depreciation and Amortization* - Property is stated at cost. Costs for plant and equipment include certain interest costs incurred during the construction period on borrowings specifically related to constructed plant and equipment. Contributions in aid of construction, which include certain amounts assessed to and collected from customers, are deducted from the costs of the related assets. Such accounting treatment is required by the regulations described in Note 1.

Depreciation is computed by the declining-balance method based on the estimated useful lives of the assets.

Amortization of nuclear fuel is computed based on the quantity of heat produced for the generation of electricity. Accumulated amortization at March 31, 1999 and 1998 and September 30, 1999 was ¥135,697 million, ¥134,813 million and ¥121,804 million, respectively.

- b. Leases* - All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain, "as if capitalized" information is disclosed in the notes to the lessee's financial statements.
- c. Investments* - Investments in quoted securities, except for subsidiaries and associated companies, are stated at the lower of cost or market value. Other investments, including investments in subsidiaries and associated companies, are stated at cost or less if the value of such investments have been significantly impaired. The cost of securities is determined by the moving-average method.
- d. Fuel, Materials and Supplies* - Fuel, materials and supplies are stated at cost determined by the average method.

- e. Foreign Currency Accounts* - Receivables and payables denominated in foreign currencies are translated into Japanese yen at exchange rates prevailing on the dates when they were acquired or incurred. However, in the case where there is significant fluctuation of currencies with possible exchange losses, receivables or payables denominated in foreign currencies are translated at the current exchange rates as of each balance sheet date. Receivables and payables hedged by forward exchange contracts are translated at the contract rates.

Differences between the contract rates and historical rates resulting from the translation of receivables and payables hedged by forward exchange contracts are recognized as income or expense over the lives of the related contracts. Other exchange gains and losses are recognized in the fiscal periods in which they occur.

If receivables and payables denominated in foreign currencies, not covered by forward exchange contracts, had been translated at the rates in effect at each balance sheet date, net payables would not have changed at March 31, 1998 and would have increased by ¥1 million and ¥7 million at March 31, 1999 and September 30, 1999, respectively.

- f. Severance Payments and Pension Plan* - The annual provision for employees' severance payments is calculated to state the liability at 40% of the amount that would be required if all employees voluntarily terminated their services with the Company at each balance sheet date.

In addition, the Company has a non-contributory funded pension plan. Related past service costs were accounted for under long-term debt. The amounts contributed to the fund, excluding past service costs, are charged to income when paid.

Retirement benefits to directors and corporate auditors are charged to income when authorized by a resolution of the shareholders.

- g. Reserve for Reprocessing of Irradiated Nuclear Fuel* - The Company has accrued costs for the reprocessing of irradiated nuclear fuel since April 1, 1981, in accordance with accounting methods accepted by the regulatory authority.

These accounting regulations were revised effective April 1, 1997, whereby the approved reserve for such costs was decreased to 60% of total estimated reprocessing costs as of the balance sheet date, from 70% of such costs under the former regulations.

The Company's reserve at March 31, 1998 represented 65.6% of the total estimated reprocessing costs as of this date, as allowed under certain transitional provisions contained in the revised regulations. The effect of the application of the revised accounting regulations was to increase income before income taxes for the year ended March 31, 1998 by ¥22,646 million.

- h. Reserve for Decommissioning of Nuclear Power Units* - The Company has accrued costs for decommissioning of nuclear power units since April 1, 1988, in accordance with accounting methods accepted by the regulatory authority.

- i. Income Taxes* - Income taxes are provided for based upon amounts currently payable for each year. The tax effect of temporary differences between tax and financial reporting purposes is not recorded.

The Japanese Special Taxation Measures Law permits certain tax deductible reserves which are not required for financial reporting purposes. Under this law, such reserves must be recorded on the books of account as liabilities or be appropriated as specific reserves in retained earnings.

- j. Reserve for Restoration Costs of Natural Disaster** - In July 1995, a flood in the Kurobe River area resulted in serious damage to the Company's hydroelectric power plants.

The Company has made provisions for estimated costs of repair and abandonment related to the above, excluding amounts for capital expenditures.

- k. Reserve for Fluctuations in Water Level** - A reserve for fluctuations in water level is provided for insufficient water levels, in years in which the volume of water for generating hydroelectric power is abundant and available for future generation, in accordance with the Japanese Electric Utility Law and related accounting regulations.
- l. Per Share Information** - The computation of net income per share is based on the weighted average number of shares of common stock outstanding during each year. The average number of common shares used in the computation was 978,639 thousand for the years ended March 31, 1999 and 1998 and for the six months ended September 30, 1999 and 1998.

The computation of net income per share assuming full dilution is based on the further assumption that all convertible bonds were converted at the beginning of the year with applicable adjustments of interest expense, net of tax effect.

Cash dividends per share presented in the accompanying non-consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year, without giving retroactive adjustment for the stock split.

- m. Stock and Bond Issue Costs** - Costs incurred in connection with the issuance of stock and bonds are charged to income as incurred.
- n. Semi-annual Financial Statements** - Except for the following semi-annual adjustments, the accounting policies for semi-annual periods are essentially the same as those for annual periods as disclosed above in a. through m.
- i) Adjustment of Steam Power Generation Costs* - Seasonal differences in the volume of water available for hydroelectric power generation, and regular inspection and repair of nuclear power generation plants, affect the volume of steam power generation. The unit generation cost of steam power generation is higher than that for hydroelectric and nuclear power generation. Therefore, cost fluctuations between the first and second semi-annual periods are explained and accounted for as follows:
- (1) A portion of the estimated increase in steam power generation costs resulting from lower water levels in the second semi-annual period is allocated to the first semi-annual period based upon the estimated volume of annual hydroelectric power generation for the fiscal year.
  - (2) Depending upon the occurrence of inspection and repair activities for nuclear power generating facilities, differences between steam power generation costs and nuclear power generation costs affect the results of operations for either the first or the second semi-annual periods. Accordingly, the estimated differences in generation costs are allocated equally to each semi-annual period, based upon the estimated volume of annual nuclear power generation for the fiscal year.
- ii) Adjustment of Facility Expenses of Power Plants and Related Facilities* - Due to high temperatures, the consumption of electric power peaks during the summer in Japan. Accordingly, power plants and related facilities are built to handle this peak demand. In order to match costs with the seasonal fluctuation in revenues, facility expenses such as depreciation are allocated to each semi-annual period based upon estimated power generation.
- iii) Adjustment of Repair and Removal Expenses* - Annual repair and removal expenses are estimated and allocated evenly to each semi-annual period.



### 3. PLANT AND EQUIPMENT

Plant and equipment at March 31, 1999 and 1998 and September 30, 1999, consisted of the following:

|  | Millions of Yen |                                      |                          |                |
|--|-----------------|--------------------------------------|--------------------------|----------------|
|  | Original Cost   | Contributions in Aid of Construction | Accumulated Depreciation | Carrying Value |
| As of March 31, 1999                                   |                 |                                      |                          |                |
| Hydroelectric power production facilities              | ¥ 1,165,419     | ¥ 26,117                             | ¥ 581,483                | ¥ 557,819      |
| Thermal power production facilities                    | 2,465,709       | 14,256                               | 1,783,127                | 668,326        |
| Nuclear power production facilities                    | 2,202,261       | 4,716                                | 1,567,838                | 629,707        |
| Internal combustion engine power production facilities | 40,223          | 3,707                                | 25,709                   | 10,807         |
| Transmission facilities                                | 2,602,364       | 189,565                              | 1,070,469                | 1,342,330      |
| Transformation facilities                              | 1,379,033       | 38,239                               | 758,478                  | 582,316        |
| Distribution facilities                                | 2,030,139       | 28,128                               | 905,554                  | 1,096,457      |
| Incidental business facilities                         | 18,117          | 1,171                                | 8,373                    | 8,573          |
| General facilities                                     | 508,075         | 41,474                               | 262,784                  | 203,817        |
| Other facilities                                       | 5,155           | 1,993                                | 287                      | 2,875          |
| Sub-total  | 12,416,495      | 349,366                              | 6,964,102                | 5,103,027      |
| Construction in progress                               | 902,735         |                                      |                          | 902,735        |
| Total  | ¥ 13,319,230    | ¥ 349,366                            | ¥ 6,964,102              | ¥ 6,005,762    |

|  | Millions of Yen |                                      |                          |                |
|--|-----------------|--------------------------------------|--------------------------|----------------|
|  | Original Cost   | Contributions in Aid of Construction | Accumulated Depreciation | Carrying Value |
| As of March 31, 1998                                   |                 |                                      |                          |                |
| Hydroelectric power production facilities              | ¥ 1,045,670     | ¥ 26,170                             | ¥ 545,172                | ¥ 474,328      |
| Thermal power production facilities                    | 2,445,147       | 14,262                               | 1,710,900                | 719,985        |
| Nuclear power production facilities                    | 2,198,112       | 4,716                                | 1,493,227                | 700,169        |
| Internal combustion engine power production facilities | 40,051          | 3,707                                | 24,206                   | 12,138         |
| Transmission facilities                                | 2,477,624       | 184,844                              | 1,001,023                | 1,291,757      |
| Transformation facilities                              | 1,336,503       | 38,304                               | 714,968                  | 583,231        |
| Distribution facilities                                | 1,938,892       | 26,822                               | 843,605                  | 1,068,465      |
| Incidental business facilities                         | 18,057          | 1,172                                | 7,199                    | 9,686          |
| General facilities                                     | 470,979         | 39,051                               | 243,705                  | 188,223        |
| Other facilities                                       | 4,582           | 1,523                                | 286                      | 2,773          |
| Sub-total  | 11,975,617      | 340,571                              | 6,584,291                | 5,050,755      |
| Construction in progress                               | 733,839         |                                      |                          | 733,839        |
| Total  | ¥ 12,709,456    | ¥ 340,571                            | ¥ 6,584,291              | ¥ 5,784,594    |

|  | Millions of Yen     |  |                             |                    |
|--|---------------------|--|-----------------------------|--------------------|
|  | Original Cost       | Contributions in<br>Aid of<br>Construction | Accumulated<br>Depreciation | Carrying<br>Value  |
| As of September 30, 1999                               |                     |  |                             |                    |
| Hydroelectric power production facilities              | ¥ 1,178,631         | ¥ 26,110                                   | ¥ 599,143                   | ¥ 553,378          |
| Thermal power production facilities                    | 2,465,051           | 14,256                                     | 1,816,976                   | 633,819            |
| Nuclear power production facilities                    | 2,229,365           | 4,716                                      | 1,604,447                   | 620,202            |
| Internal combustion engine power production facilities | 40,303              | 3,707                                      | 26,390                      | 10,206             |
| Transmission facilities                                | 2,650,064           | 191,342                                    | 1,106,824                   | 1,351,898          |
| Transformation facilities                              | 1,389,833           | 38,254                                     | 779,848                     | 571,731            |
| Distribution facilities                                | 2,066,967           | 28,733                                     | 936,498                     | 1,101,736          |
| Incidental business facilities                         | 18,117              | 1,171                                      | 8,898                       | 8,048              |
| General facilities                                     | 508,164             | 41,469                                     | 269,603                     | 197,092            |
| Other facilities                                       | 5,135               | 1,989                                      | 291                         | 2,855              |
| Sub-total  | <u>12,551,630</u>   | <u>351,747</u>                             | <u>7,148,918</u>            | <u>5,050,965</u>   |
| Construction in progress                               | <u>961,016</u>      |  |                             | <u>961,016</u>     |
| Total  | <u>¥ 13,512,646</u> | <u>¥ 351,747</u>                           | <u>¥ 7,148,918</u>          | <u>¥ 6,011,981</u> |

#### 4. INVESTMENT SECURITIES

The carrying values and aggregate market values of marketable equity and debt securities included in investment securities and investments in subsidiaries and associated companies at March 31, 1999 and 1998 and September 30, 1999 were as follows:

|                        | Millions of Yen |             |               |
|------------------------|-----------------|-------------|---------------|
|                        | March 31        |             | September 30, |
|                        | <u>1999</u>     | <u>1998</u> | <u>1999</u>   |
| Carrying value         | ¥ 38,108        | ¥ 38,256    | ¥ 37,892      |
| Aggregate market value | 307,075         | 319,740     | 266,369       |
| Unrealized gain        | 268,967         | 281,484     | 228,477       |

The difference between the above carrying amounts and the amounts shown in the accompanying non-consolidated balance sheets principally consists of non-marketable securities for which there is no readily-available market from which to obtain or calculate the market value thereof.

## 5. LONG-TERM DEBT

Long-term debt at March 31, 1999 and 1998 and September 30, 1999, consisted of the following:

|   | Millions of Yen    |                    |                    |
|---|--------------------|--------------------|--------------------|
|   | March 31           |                    | September 30,      |
|   | 1999               | 1998               | 1999               |
| General mortgage bonds:   |                    |                    |                    |
| 0.6% to 6.9%, due serially through 2018   | ¥ 1,597,021        | ¥ 1,316,181        | ¥ 1,767,021        |
| 7.25%, due 2006 (payable in U.S. dollars)   | 54,450             | 54,450             | 54,450             |
| 7.125%, due 1998 (payable in pounds sterling)   |                    | 52,950             |                    |
| 6.625% and 7.0%, due 2006 (payable in French francs)  | 110,266            | 110,266            | 110,266            |
| 5.75%, due 2007 (payable in Netherlands guilder)  | 62,294             | 62,294             | 62,294             |
| General mortgage convertible bonds:   |                    |                    |                    |
| 2.0%, due 2002  | 94,629             | 94,629             | 94,629             |
| 1.4%, due 2005  | 178,637            | 178,637            | 178,637            |
| 1.1% to 8.8% secured loans from The Japan Development Bank* maturing serially through 2023      | 651,763            | 675,646            | 633,289            |
| 1.1% to 7.97% unsecured loans from banks and insurance companies maturing serially through 2033 | 1,413,872          | 1,466,838          | 1,396,150          |
| Other   | 103,126            | 62,259             | 111,382            |
| Total   | <u>4,266,058</u>   | <u>4,074,150</u>   | <u>4,408,118</u>   |
| Less current maturities   | <u>379,985</u>     | <u>380,548</u>     | <u>412,039</u>     |
| Long-term debt, less current maturities   | <u>¥ 3,886,073</u> | <u>¥ 3,693,602</u> | <u>¥ 3,996,079</u> |

\* The Development Bank of Japan was launched on October 1, 1999, taking over the functions of the Japan Development Bank and the Hokkaido-Tohoku Development Finance Public Corporation.

Annual maturities of long-term debt at March 31, 1999 were as follows:

|                       | Millions<br>of Yen |
|-----------------------|--------------------|
| Year ending March 31: |                    |
| 2000                  | ¥ 379,985          |
| 2001                  | 364,566            |
| 2002                  | 420,383            |
| 2003                  | 346,440            |
| 2004                  | 263,460            |
| 2005 and thereafter   | <u>2,491,224</u>   |
| Total                 | <u>¥ 4,266,058</u> |

All of the Company's assets are pledged as collateral for the general mortgage bonds, general mortgage convertible bonds and secured loans presented above.

Certain long-term loan agreements include provisions which allow lenders the right of prior approval, if so requested, of any appropriation from retained earnings, including dividends. To date no lender has exercised this right.

The convertible bonds may be redeemed in whole or in part at prices declining by 1% per year from 107% to 100% of the principal amounts. The 2.0% and 1.4% bonds are currently redeemable. The convertible bonds outstanding at March 31, 1999 and September 30, 1999, were convertible into 59,596 thousand shares of common stock at the conversion prices shown below, subject to certain anti-dilutive provisions:

|            | <u>Conversion Price<br/>per Share</u> |
|------------|---------------------------------------|
| 2.0% bonds | ¥4,218                                |
| 1.4% bonds | 4,807                                 |

## 6. SEVERANCE PAYMENTS AND PENSION PLAN

Employees terminating their employment with the Company, either voluntarily or upon reaching mandatory retirement age, are entitled under most circumstances to severance payments based on the rate of pay at the time of termination, years of service and certain other factors.

The Company has a non-contributory funded pension plan covering substantially all of its employees. A vested interest in the plan is acquired only at retirement age, upon death or in the case of disability. The assets of the fund amounted to ¥219,789 million at March 31, 1998, the most recent date of available information.

Total provisions for severance payments and pension costs charged to income were ¥95,038 million and ¥69,787 million for the years ended March 31, 1999 and 1998, respectively, and ¥47,542 million and ¥39,784 million for the six months ended September 30, 1999 and 1998, respectively.

## 7. SHORT-TERM BORROWINGS

Short-term borrowings at March 31, 1999 and 1998 and September 30, 1999 consisted of the following:

|  | <u>Millions of Yen</u>      |                             |                      |
|--|-----------------------------|-----------------------------|----------------------|
|  | <u>March 31</u>             |                             | <u>September 30,</u> |
|  | <u>1999</u>                 | <u>1998</u>                 | <u>1999</u>          |
| Short-term loans represented by notes to<br>bank and bank overdrafts | ¥ 468,700                   | ¥ 468,700                   | ¥ 418,700            |
| Commercial papers  | <u>                    </u> | <u>                    </u> | <u>50,000</u>        |
| Total  | <u>¥ 468,700</u>            | <u>¥ 468,700</u>            | <u>¥ 468,700</u>     |

Weighted average interest rates on short-term borrowings outstanding were 0.802% and 1.119% at March 31, 1999 and 1998, respectively, and 0.409% at September 30, 1999.

## **8. SHAREHOLDERS' EQUITY**

The Code requires at least 50% of the issue price of new shares, with a minimum of the par value, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital are credited to additional paid-in capital.

The Code also requires the Company to appropriate from retained earnings to a legal reserve an amount equal to at least 10% of all cash payments made as an appropriation of retained earnings, until such reserve equals 25% of the stated capital. This reserve is not available for dividends but may be used to reduce a deficit by shareholders' resolution.

The Company may transfer portions of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Company may also transfer portions of unappropriated retained earnings, available for dividends, to stated capital by resolution of shareholders.

Under the Code, the Company may issue new common shares to existing shareholders without consideration as a stock split pursuant to a resolution of the Board of Directors. The Company may make such a stock split to the extent the aggregate par value of the shares outstanding after the stock split does not exceed the stated capital. However, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split shall not be less than ¥500.

Cash dividends charged to retained earnings were dividends paid during the year, which represented year-end cash dividends for the preceding year and semi-annual interim dividends for the current year.

Certain specific reserves stipulated by the Japanese Special Taxation Measures Law were included in retained earnings at March 31, 1999 and 1998 and September 30, 1999, in the amounts of ¥17,778 million, ¥30,262 million and ¥5,285 million, respectively. These specific reserves were appropriated at the shareholders' meetings to be tax deductible in the respective years. These reserves, however, must be added back to taxable income in future periods in accordance with the above law.

## **9. INCOME TAXES**

The Company is subject to a number of taxes based on income such as corporate income tax and inhabitants taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 45.3% for the year ended March 31, 1998. New tax rates which were enacted at March 31, 1998, and effective April 1, 1998, caused the normal effective statutory tax rates to be reduced from 45.3% to 41.6% for the year ended March 31, 1999 and the six months ended September 30, 1998, and those which were enacted at March 31, 1999, and effective April 1, 1999, caused the normal effective statutory tax rates to be reduced from 41.6% to 36.2% for the six months ended September 30, 1999. The effective tax rates in the accompanying non-consolidated statements of income differed from the normal effective statutory tax rates, principally due to non-recognition of the tax effects of temporary differences between tax and financial reporting and certain expenses that are permanently non-deductible for tax purposes.

## **10. LEASES**

The Company leases certain machinery, computer equipment and other assets.

Total lease payments under finance leases were ¥10,890 million and ¥12,382 million for the years ended March 31, 1999 and 1998, and ¥ 5,090 million and ¥5,734 million for the six months ended September 30, 1999 and 1998, respectively.

Certain pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, and depreciation expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 1999 and 1998 and the six months ended September 30, 1999 consisted of the following:

|                             | Millions of Yen                              |                                 |                       |                     |                 |
|-----------------------------|--|---------------------------------|-----------------------|---------------------|-----------------|
|                             | Nuclear<br>Power<br>Generating<br>Facilities | Distribu-<br>tion<br>Facilities | General<br>Facilities | Other<br>Facilities | Total           |
| As of March 31, 1999        |  |                                 |                       |                     |                 |
| Acquisition cost            | ¥ 6,073                                      | ¥ 8,009                         | ¥ 29,957              | ¥ 8,936             | ¥ 52,975        |
| Accumulated<br>depreciation | <u>2,054</u>                                 | <u>4,302</u>                    | <u>11,108</u>         | <u>4,597</u>        | <u>22,061</u>   |
| Net leased property         | <u>¥ 4,019</u>                               | <u>¥ 3,707</u>                  | <u>¥ 18,849</u>       | <u>¥ 4,339</u>      | <u>¥ 30,914</u> |
| As of March 31, 1998        |  |                                 |                       |                     |                 |
| Acquisition cost            | ¥ 6,140                                      | ¥ 7,751                         | ¥ 34,411              | ¥ 9,244             | ¥ 57,546        |
| Accumulated<br>depreciation | <u>1,565</u>                                 | <u>3,791</u>                    | <u>20,198</u>         | <u>4,646</u>        | <u>30,200</u>   |
| Net leased property         | <u>¥ 4,575</u>                               | <u>¥ 3,960</u>                  | <u>¥ 14,213</u>       | <u>¥ 4,598</u>      | <u>¥ 27,346</u> |
| As of September 30, 1999    |  |                                 |                       |                     |                 |
| Acquisition cost            | ¥ 6,222                                      | ¥ 7,384                         | ¥ 29,628              | ¥ 8,117             | ¥ 51,351        |
| Accumulated<br>depreciation | <u>2,263</u>                                 | <u>4,127</u>                    | <u>11,845</u>         | <u>4,389</u>        | <u>22,624</u>   |
| Net leased property         | <u>¥ 3,959</u>                               | <u>¥ 3,257</u>                  | <u>¥ 17,783</u>       | <u>¥ 3,728</u>      | <u>¥ 28,727</u> |

Obligations under finance leases:

|                     | Millions of Yen |                 |                 |
|---------------------|-----------------|-----------------|-----------------|
|                     | March 31        |                 | September 30,   |
|                     | 1999            | 1998            | 1999            |
| Due within one year | ¥ 9,446         | ¥ 9,367         | ¥ 8,929         |
| Due after one year  | <u>21,468</u>   | <u>17,979</u>   | <u>19,798</u>   |
| Total               | <u>¥ 30,914</u> | <u>¥ 27,346</u> | <u>¥ 28,727</u> |

The amount of leased assets and obligations under finance leases includes the imputed interest expense portion.

Depreciation expense, which is not reflected in the accompanying non-consolidated statements of income, computed by the straight-line method over the respective lease periods was ¥10,890 million and ¥12,382 million for the years ended March 31, 1999 and 1998, respectively, and ¥5,090 million and ¥5,734 million for the six months ended September 30, 1999 and 1998, respectively.

## 11. DERIVATIVES

The Company enters into derivative transactions, in the normal course of business, including foreign exchange forward contracts, currency swaps and interest swaps to reduce the exposure to fluctuations in foreign exchange rates and interest rates associated with liabilities.

These derivatives effectively convert certain floating rate liabilities to fixed rates. The counterparties to certain derivatives are limited to major international financial institutions, therefore, the Company does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Company have been made in accordance with internal policies.

Foreign exchange forward contracts, currency swaps excluding transactions in which forward exchange contracted amounts are assigned to the applicable assets or liabilities and are reflected in the balance sheet at year-end, and interest rate swaps are immaterial for disclosure purposes.

## 12. COMMITMENTS AND CONTINGENCIES

At March 31, 1999 and September 30, 1999, the Company had firm purchase commitments, principally related to utility plant expansion, of approximately ¥454,794 million and ¥382,280 million, respectively. Additionally, the Company has entered into several fuel supply contracts which involve substantial commitments.

At March 31, 1999 and September 30, 1999, the Company had the following contingent liabilities:

|   | Millions of Yen   |                       |
|---|-------------------|-----------------------|
|   | March 31,<br>1999 | September 30,<br>1999 |
| Co-guarantees of loans of other companies:                    |                   |                       |
| Japan Nuclear Fuel Limited                                    | ¥ 201,921         | ¥ 201,054             |
| Other   | <u>3,460</u>      | <u>3,262</u>          |
| Total   | <u>¥ 205,381</u>  | <u>¥ 204,316</u>      |
| A guarantee of equity contribution of KPIC Singapore Pte Ltd. | ¥1,093            | ¥907                  |
| Contingency relating to debt assumption agreement             | ¥ 235,492         | ¥ 235,492             |

## 13. SUBSEQUENT EVENT

On November 18, 1999, the Company declared an interim cash dividend of ¥25 per share to shareholders of record at September 30, 1999, amounting to a total of ¥24,465 million, and a transfer of ¥2,446 million from retained earnings to legal reserve.

\* \* \* \* \*

