Forging the solid foundations for strong and sustainable growth in a changing world

Kansai EP is implementing bold initiatives toward achieving a dynamic corporate transformation, to cope with today's new and shifting parameters.

The Year in Review

Fiscal 2002, the period from April 1, 2001 through March 31, 2002, was a year marked by the steady deterioration of the Japanese economy. Personal consumption grew progressively weaker, corporate production levels sagged, and capital investments were scaled back substantially.

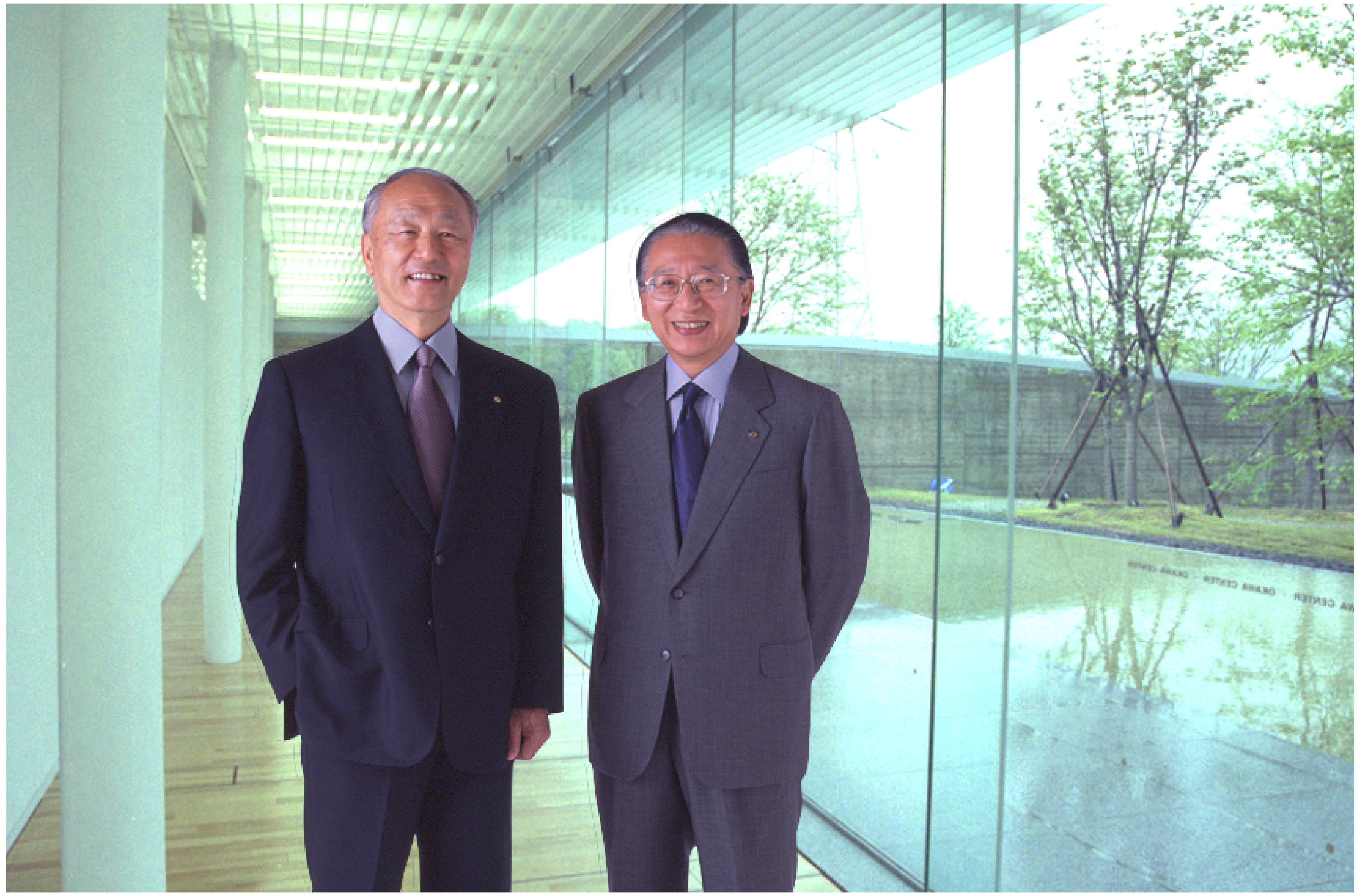
Against this severe backdrop The Kansai Electric Power Co., Inc. (Kansai EP) recorded a year-on-year decrease in total electricity sales for the first time in nine terms; sales volume reached 139.8 billion kWh, down 2.2%. Operating revenues, however, expanded by ¥3.6 billion to ¥2,651.5 billion. A 2.5% fall in operating income from electricity operations, the combined result of the decreased sales volume and full-term impact of the rate reductions implemented in October 2000, was outweighed by expanded revenues from other operational segments, which were largely attributable to an increase in the Company's consolidated subsidiaries this term. Operating expenses totaled ¥2,332.2 billion, up a modest ¥25.0 billion from the level of fiscal 2001. On the one hand expenses linked to electricity operations registered a 2.0% year-on-year decline, as increased outlays for purchasing power from independent producers were offset by lower fossil-fuel costs, ascribable to higher dependency on nuclear power plants, reductions in maintenance and capital costs, and management efficiency enhancement initiatives executed throughout all segments. In the end the Company recorded ¥319.3 billion in operating income, down ¥21.3 billion from the year-earlier level.

Consolidated net income reached ¥128.4 billion, up ¥5.6 billion from fiscal 2001. The year-on-year increase in net profit despite the decline in operating income derived primarily from extraordinary profit booked in tandem with the sale of part of the Company's securities holdings.

At term's end our shareholders' equity ratio had been enhanced by 0.3 percentage point over the level one year earlier. Interest-bearing liabilities had been reduced by ¥168.1 billion.

Dynamic Response to a Golden Opportunity

The environment surrounding the electricity business is currently undergoing transformations that have imposing ramifications for the future. We are now in the third year since regulations governing the nation's electric utility industry were revised whereby high-demand industrial and commercial customers now have the freedom to purchase electricity from the supplier of their choice. Already a host of new power providers have become increasingly active in the Japanese energy market. Also, competition among energy modes is projected to reach unprecedented proportions in the coming years, as suggested by today's increasing



Yoshihisa Akiyama
Chairman of the Board of Directors

Yohsaku Fuji
President and Director

adoption of independent generating facilities, cogeneration and other on-site power supplies. Furthermore, an advisory panel to the government is presently debating additional modifications to systems regulating the nation's electricity industry, including measures for expanding the scope of deregulation further. Together these developments are expected to accelerate the speed of changes in the industry's operating environment all the more.

At Kansai EP, while we are keenly cognizant of the risk of becoming embroiled in severe competition amid this rapidly changing business environment, more importantly we look on these shifting parameters as a dynamic opportunity for us to raise our corporate and shareholder value through earnings expansion. To capitalize fully on this opportunity — an opportunity not afforded to us when the industry was totally regulated — we have set three overriding targets on which to focus our managerial resources: 1) reinforcement of our competitive strength, 2) enhancement of our Groupwide earning power, and 3) strengthening of our financial structure. Here is how we aim to achieve this triad of objectives.

First, to boost our competitive strength, we are taking determined initiatives to fortify our price competitiveness while closely monitoring developments in market liberalization, and to enhance customer satisfaction through provision of new forms of value. Toward these ends we will pursue optimal efficiency in all areas of management and devote our resources to the development of ever better electrical equipment, service menus and rate options. We will also pool our comprehensive Group resources in a quest for enhanced capabilities as a provider of a full slate of energy solutions. Finally, we will strive to achieve ever more effective programs to cultivate and train the professional staff we will require to furnish this kaleidoscopically changing palette of solutions to our customers.

Second, with the aim of strengthening our Groupwide earning capacity, we will pursue enhanced management efficiency, including radical reorganization of our Group companies, and strive for ever more effective use of our Groupwide managerial resources. We also will explore new business avenues through selective concentration into operations that will offer us the ability to effectively apply our Groupwide resources along three vectors in particular: comprehensive energy solutions, amenities in support of lifecycle requirements, and information technology services. During fiscal 2002, steady progress continued to be achieved in each of these directions through the launch of new business operations. For example, during the year under review we instituted retail gas sales by applying our expertise in the operation of facilities handling LNG; we inaugurated services in home security, capitalizing on the trust placed in us by the regional community; and we launched Internet services making use of our 40,000-kilometer fiber-optic network. In the coming years we will continue to aggressively pursue investments into new business areas that will lead to ongoing expansion of our earnings base into the future.

The Kansai Electric Power Co., Inc. | Annual Report 2002

Third, in conjunction with the fortification of our financial structure, tangible achievements are now coming to the fore in this quest vigorously pursued in recent years. In March 2002 we took the unusual step of revising upward the financial targets that we had set one year earlier, despite the deepening severity of our operating environment projected ahead. We now aim for an average per annum free cash flow between fiscal 2003 and fiscal 2005 exceeding ¥310 billion, rather than the earlier target of ¥200 billion; we seek to raise our shareholders' equity ratio above 24% by the end of fiscal 2005, in place of 20% by the end of fiscal 2004; and we intend to reduce our interest-bearing debt to ¥3.5 trillion by the end of fiscal 2005, instead of ¥4 trillion. We also newly laid down financial targets on a consolidated basis, in order to clarify Groupwide objectives. In this regard we are targeting an average annual free cash flow above ¥250 billion between fiscal 2003 and fiscal 2005, a shareholders' equity ratio above 24% by the end of fiscal 2005, and a reduction in interest-bearing liabilities to ¥3.8 trillion by the close of fiscal 2005.

Crossing the Threshold to a New Era of Growth

Going forward Kansai EP will continue to fulfill its social responsibilities as a corporate global citizen, including our indelible commitment to resolution of environmental issues. Synchronously we will also seek profit growth and expanded shareholder value in a sustained manner, in three ways: by instilling loyal trust among our customers on a Groupwide basis; by driving the continuing development of the Kansai region as a growth enterprise; and by achieving and sustaining the resiliency and strength to respond to any and all changes in our operating environment.

The year 2001 marked a milestone in Kansai EP's history as we celebrated our 50th Anniversary since our founding. Now, as we embark into our second half-century we renew our pledge to pursue innovations on broad fronts, to enable us to weather the challenges of these changing times and achieve dramatic new heights tomorrow. We sincerely ask for your continuing support as we proceed toward these demanding goals.

Yoshihisa Akiyama
Chairman of the Board of Directors

Yohsaku Fuji
President and Director