

During the fiscal year ended March 31, 1997, Okinawa Electric Power Company, Incorporated (OEPC) achieved the following results, while performing its public mission to provide a stable and efficient supply of electric power. OEPC is working to ensure profits, while improving customer service and contributing to the development of regional society.

Business Performance for the Term

The economy of Okinawa Prefecture during the term under review followed a mild recovery path. In addition to firm consumer spending, housing investment increased bolstered by low interest rates, and tourism, one of the prefecture's major industries, expanded further, with the number of tourists coming to the prefecture far exceeding the previous year's level, which had marked an all-time-high.

Given these encouraging conditions, sales volume of electric power rose 2.6% to 6,006 million kWh. During the term under review, we made three electricity rate adjustments in accordance with the newly introduced "Fuel Cost Adjustment System," a system which reflects fluctuations in crude oil prices and exchange rates.

Net sales amounted to ¥127,095 million (US\$1,024.1 million), a rise of 1.6% over the previous year. This was achieved due to an increase in sales volume and the application of the "Fuel

Cost Adjustment System," and despite the adverse impact of an electricity rate reduction carried out in January 1996. We strove to reduce expenses through streamlined operations, although construction of facilities for power generation and transmission required a high outlay. As a result, income before income taxes dropped 2.2% to ¥2,793 million (US\$22.5 million), and net income came to ¥904 million (US\$7,288 thousand), a decrease of 15.9% from the previous fiscal year.

OEPC's basic policy is to pay a stable annual dividend of ¥50 per share. In line with that policy, we declared an annual dividend of ¥50 per share, including an interim dividend of ¥25.

Principal Measures

OEPC endeavored to curb investment and drew up a plan to enhance management efficiency, in accordance with the long-term management plan implemented in fiscal 1994. In July 1996, the Company established a team to promote the improvement of management efficiency, while reducing its overall investment amounts by 20.3%.

In the area of power supply, in addition to existing facilities which operated smoothly, we started commercial operations at Unit 8 (1,000 kW) of Izena power station on an outlying island, and Unit 8 (750 kW) of Yonaguni power station, thereby contributing to the stable supply of electric power.

In July 1996, the Power Development Council of the Japanese government approved the construction of Kin thermal power station, scheduled to start operation in May 2001 with a capacity of 440,000 kW, which will cope with growing demand for electric power in the 21st century. To handle the construction of this power station, the Company set up "Kin Thermal Power Station Construction Office," and aiming to reduce construction costs, concluded a construction contract on a "full-turnkey" basis.

The development of new enterprises, part of our long-term management plan, produced satisfying results. In October 1996, OEPC established Okinawa New Energy Development Company, Incorporated and Okinawa Communications Network Company, Incorporated. The aim of the former is to commercialize new energy sources, such as photovoltaic and wind power generation, while the latter will offer information and communications services to the Okinawa region through the effective use of OEPC's communications facilities, including optical fibers. Making the most of OEPC's management know-how, the activities of these two companies are expected to contribute to environmental conservation and to meeting the needs of the multimedia era.

Future Prospects

Demand for electric power in Okinawa

Prefecture is expected to grow steadily, centered on household demand. However, the outlook for fuel prices and exchange rates is uncertain, and costs related to the preparation of facilities to meet future demand will remain high. In addition, the government has announced a policy to bring domestic electric power rates in line with international levels. As an electric power company, we should actively work on this issue.

Under these circumstances, the Company drew up a plan to enhance management efficiency for fiscal 1997, ending March 31, 1998, aiming to attain a long-term stable supply of electric power at lower costs. The main tenets of the plan are a 30% reduction in capital investment, load leveling (the adjustment for the difference in electric power demand by season, and between daytime and night), correction of the imbalance in revenue and expenditure for supplying power to remote islands, and more efficient operations. Everyone at OEPC will tackle these issues and strive for a thorough reduction in costs.

Furthermore, we will do our best to introduce new energy sources, promote international exchange, respond to environmental problems, upgrade the level of customer service, and contribute further to regional society.

Turning to our facilities, we will start construction of Kin thermal power station in the autumn of 1997, with operation scheduled for 2001. In fiscal



Chairman Masaharu Minei President Hirokazu Nakaima

1997, we will continue efforts to fulfill our mission as a public utility company, while steadily enhancing management efficiency, and expanding profits to meet the expectations of our shareholders.

Masaharu Minei, Chairman

Hirokazu Nakaima, President