

During the fiscal year ended March 31, 1998, thanks to growth in demand for electricity and a policy of thorough efficiency increases in all operational areas, OEPC was able to post increases in revenue and profits for the first time in 6 years.

We, the management, are pleased to be able to present this report on the Company's performance.

Operating Environment and Business Results

Despite vibrancy in the tourist industry, the prefectural economy as a whole stagnated in the term under review, due to factors such as a drop in consumer spending and sluggish housing investment. Amid these conditions, demand for electric power for industrial uses increased, and OEPC's total electric power sales volume, combining lighting and power sales, grew 2.0% to 6,126 million kWh. Turning to earnings, despite the negative effect of a cut in electricity rates implemented in February 1998, the increase in total electric power sales volume and use of the Fuel Cost Adjustment System helped operating revenues to rise 3.8% to ¥131,923 million (US\$988,663 thousand). In addition to decreases in depreciation expenses and interest payable, efforts to effect thorough efficiency increases in all operational areas enabled us to post satisfactory earnings, with income before income taxes growing 205% to ¥5,730 million (US\$43,379 thousand) and net income increasing 307% to ¥2,773 million (US\$20,993 thousand). In line with OEPC's basic policy of paying a stable annual dividend of ¥50 per share, we declared a term-end dividend of ¥25 per share, the same amount as the interim dividend.

Principal Measures

During the term, OEPC continued with its policies of ensuring a long term stable supply of electricity, further reducing costs, and increasing efficiency. In particular, we set ourselves an objective of keeping total capital investment for the next ten years under ¥400 billion (US\$3,028 million), beginning in fiscal 1998, and during the term actual investment was approximately ¥12.1 billion (US\$92 million), or 32.5%, lower than the budget figure.

In addition, we pushed ahead with measures to raise

efficiency in all operational areas, such as improving the load factor (reducing the difference in electric power demand between seasons, and between daytime and nighttime), which forms the core of our cost reduction efforts, and correcting the imbalance between revenue and expenditure for supplying power to outlying islands. In order to return the fruits of these efforts directly to the customer, in February 1998 we implemented a 3.72% cut in electricity rates. Moreover, while continuing with the smooth operation of our existing facilities, on outlying islands we began operations of Unit 4 (10,000 kW) at Miyako No. 2 Power Station, Unit 7 (750 kW) at Minami-Daito Power Station, and Unit 9 (300 kW) at Kita-Daito Power Station, thereby maintaining the stable supply of electricity.

In the field of new energy, trials of a photovoltaic electric power generation system, commissioned by NEDO (the New Energy and Commercial Technology Development Organization), which began in 1990 on Miyako Island, were brought to a successful conclusion in March 1998. Using the results from these trials as a base, OEPC has begun more advanced research of this system with a view to its practical application.

Furthermore, we decided to construct the Okiden Naha Building in Naha, the principal city on the main island, holding the groundbreaking ceremony for the new building in January 1998. With 10 overground floors and a total floor space of 13,547m², this building will have an ice-storage air conditioning system and equipment in the basement to enable the use of rain water, thus promoting energy conservation, and is scheduled for completion in September 1999.

Future Prospects

In October 1998, OEPC celebrated the 10th anniversary of its privatization. We will take this opportunity to reflect on and evaluate our policy of efficiency improvement and a variety of other issues, and view this anniversary year as a chance to prepare ourselves for the next step forward. As part of these efforts, we are continuing to re-assess our long-term management plan, under which we aim to respond to the profound changes in the business environment.

Looking at income and expense trends for the current term, in spite of several favorable factors, such as an expected increase in demand for electric power, centered on power for industrial use, and the depreciation of Gushikawa Thermal Power Station having reached an advanced stage, the fall in revenue resulting from the reduction in electricity rates will likely lead to a difficult earnings situation.

Given such a situation, we have made our primary objective the maintenance of the performance levels achieved in the term under review, and we will apply ourselves to achieving a further increase in operating efficiency. In concrete terms, despite a large increase in costs associated with the full-scale construction of Kin Thermal Power Station, our main source of power for the new era, we will carefully examine our expenditures on this project from a variety of perspectives, such as design and construction methods, and have established a plan which calls for the reduction of expenditures by approximately ¥1.4 billion. In order to achieve our earnings targets, we will closely monitor all expenses and urge everyone in the Company to work toward real reductions.

In addition to this policy to increase efficiency, we will redouble our efforts to establish the Okinawa New Energy Power Generation System, which makes use of new environmentally friendly forms of energy such as photovoltaic power and wind power. At the same time, we have begun working toward obtaining ISO 14001 certification, the international standard for environmental management systems.

Moreover, in our position as a utility that supplies energy to support life in the region and its commercial base, we are involved in vigorous activities that contribute to the promotion



Chairman Masaharu Minei

President Hirokazu Nakaima

of economic activity in Okinawa and to regional society. We ask for your continued understanding and support.

Masaharu Minei, Chairman

Hirokazu Nakaima, President