

F i n a n c i a l S e c t i o n

F i v e - Y e a r S u m m a r y

THE OKINAWA ELECTRIC POWER COMPANY, INCORPORATED
Years ended March 31

	Millions of Yen				
Financial Statistics	1998	1997	1996	1995	1994
For the year:					
Operating revenues	¥131,923	¥127,095	¥125,070	¥120,862	¥118,479
Operating expenses	114,179	111,851	110,098	106,245	102,382
Operating income	17,744	15,244	14,972	14,617	16,097
Net income	2,773	904	1,075	1,781	3,163
At year-end:					
Total assets	¥322,664	¥323,528	¥333,213	¥331,143	¥321,992
Shareholders' equity	55,132	53,179	53,090	52,823	51,838
Operating Statistics	1998	1997	1996	1995	1994
For the year:					
Electric energy sales (Millions of kWh)	6,126	6,006	5,854	5,606	5,446
Peak load (Thousands of kW)	1,317	1,329	1,310	1,263	1,220
At year-end:					
Generating capacity (Thousands of kW)	1,444	1,434	1,461	1,452	1,289
Transmission lines (km)	651	623	589	538	536
Distribution lines (km)	9,577	9,446	9,252	9,038	8,872

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Business Results

In fiscal 1997, in addition to a fall in consumption and stagnant housing demand, caused by a hike in the consumption tax, factors such as sluggish stock prices and unease about the financial system contributed to a deepening feeling of an economy in recession. In the economy of Okinawa Prefecture, thanks to the large number of visitors to the region, the tourism industry was buoyant. However, affected by sluggishness in personal consumption and construction demand, growth in the prefectural economy as a whole came to a standstill.

Total electric power sales volume, combining lighting and power sales, for the term under review amounted to 6,126 million kWh, an increase of 2.0% over the previous term. This was due to increased demand for power for commercial uses, such as from stores, theaters, and leisure facilities, and an increase in demand for commercial uses, including from oil refineries, the non-ferrous metals industry, and the water industry, and despite low demand for power for household use caused by low temperatures and typhoons in the summer. Of the total, lighting sales rose 0.3% to 2,364 million kWh, and power sales grew 3.1% to 3,762 million kWh. The peak load decreased 15,000 kW, or 1.2%, to 1,241,000 kW.

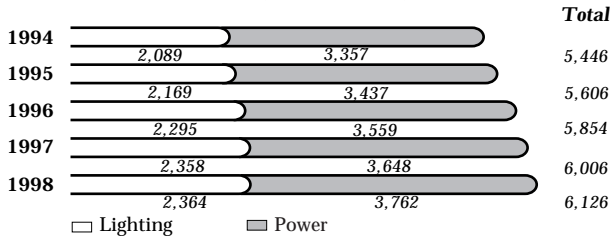
Operating revenues for the term came to ¥131,923 million (US\$998,663 thousand), up 3.8%. Although there was a negative effect from the electricity rate cut in February 1998, increased sales volume and application of the Fuel Cost Adjustment System, which automatically reflects fluctuations in crude oil prices and exchange rates in the electricity rate, contributed to the increase in revenues. Despite a rise in repair costs because of the strengthening of facilities, there were falls in depreciation costs and in interest payable, and we worked to increase efficiency in all operating areas and to cut a variety of expenses. As a result, operating expenses rose only 2.1% to ¥114,179 million (US\$864,341 thousand). Consequently, income before income taxes increased 205.2% to ¥5,730 million (US\$43,379 thousand), and net income grew 306.8% to ¥2,773 million (US\$20,993 thousand).

Capital Investment

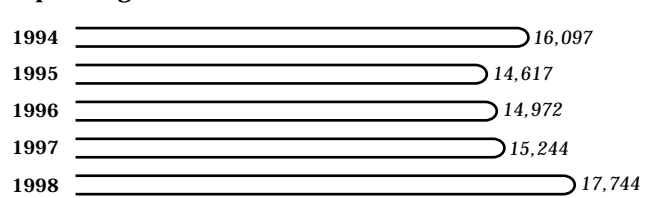
With the reduction in electricity rates in February 1998, OEPC established a new efficiency target of cutting total capital investment for the next ten years by a further ¥50 billion to under ¥400 billion, and strove to restrain capital investment during the term, which amounted to ¥25.1 billion, ¥12.1 billion lower than initial plans, and ¥3.2 billion lower than the previous term's figure.

We began operation 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 as the main sources of power, thereby maintaining the stable supply of electricity to outlying islands. In transmission facilities, we conducted expansion work at the Enobi substation on the main island. Aiming to hold down capital investment, in addition to current efficiency policies and know-how, OEPC will combine improvements and new ideas in all operational areas to achieve permanent reductions in cost.

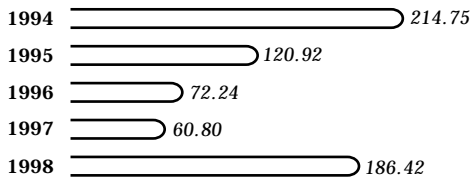
Electric Power Sales (Millions of kWh)



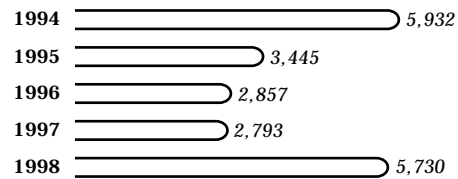
Operating Income (¥ Million)



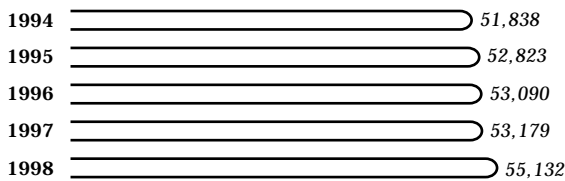
Net Income per Share (¥)



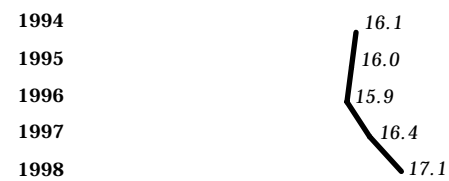
Income before Income Taxes (¥ Million)



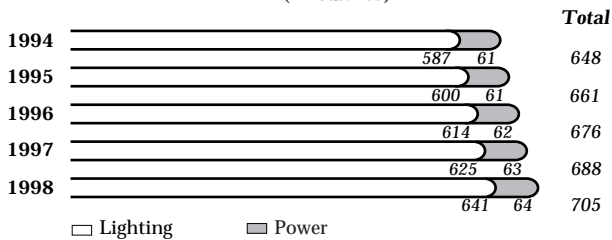
Shareholders' Equity (¥ Million)



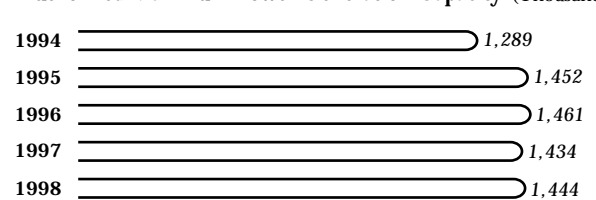
Shareholders' Equity Ratio (%)



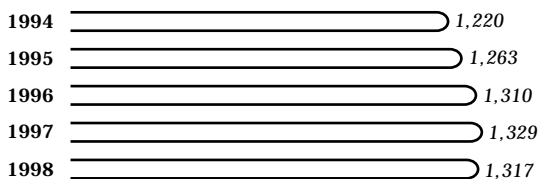
Number of Customers (Thousands)



Authorized Maximum Power Generation Capacity (Thousands of kW)



Peak Load (Thousands of kW)



Non-Consolidated Balance Sheets

THE OKINAWA ELECTRIC POWER COMPANY, INCORPORATED March 31, 1998 and 1997	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1998	1997	1998
ASSETS			
Utility plants (Note 3):			
Plants and equipment	¥555,543	¥539,122	\$4,205,476
Construction in progress (Note 10).....	21,808	17,319	165,088
	<u>577,351</u>	<u>556,441</u>	<u>4,370,564</u>
Less:			
Contributions in aid of construction	(21,224)	(21,232)	(160,665)
Accumulated depreciation	(256,172)	(232,138)	(1,939,232)
	<u>(277,396)</u>	<u>(253,370)</u>	<u>(2,099,897)</u>
Net utility plant	<u>299,955</u>	<u>303,071</u>	<u>2,270,667</u>
Investments and other assets:			
Investment securities (Note 4)	1,367	1,326	10,351
Investments in and advances to subsidiaries and affiliates	989	672	7,483
Other assets	1,021	1,040	7,726
Total investments and other assets	<u>3,377</u>	<u>3,038</u>	<u>25,560</u>
Current assets:			
Cash and time deposits	11,395	8,776	86,260
Short-term investments	999	1,999	7,563
Accounts receivable net of allowance for doubtful accounts of ¥95 million (\$718 thousand) in 1998 and ¥93 million in 1997.....	3,009	3,292	23,458
Fuel and supplies inventories	3,779	3,282	28,604
Other current assets	60	70	461
Total current assets	<u>19,332</u>	<u>17,419</u>	<u>146,346</u>
Total	<u>¥322,664</u>	<u>¥323,528</u>	<u>\$2,442,573</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Long-term liabilities:			
Long-term debt — less current maturities (Notes 5 and 8)	¥211,384	¥219,570	\$1,600,186
Liabilities for severance payments	7,965	8,099	60,298
Other long-term liabilities	619	0	4,682
Total long-term liabilities	<u>219,968</u>	<u>227,669</u>	<u>1,665,166</u>
Current liabilities:			
Current maturities of long-term debt (Note 5)	22,453	21,409	169,971
Accounts payable (Note 10).....	11,292	10,783	85,477
Accrued income taxes (Note 6)	2,205	665	16,691
Accrued expenses (Note 10)	9,730	8,421	73,655
Other current liabilities	1,884	1,402	14,260
Total current liabilities	<u>47,564</u>	<u>42,680</u>	<u>360,054</u>
Commitment and contingent liabilities (Notes 7 and 8)			
Shareholders' equity (Notes 9 and 11):			
Common stock, ¥500 par value;			
Authorized — 30,000,000 shares			
Issued and outstanding — 14,875,413 shares	7,438	7,438	56,304
Additional paid-in capital	7,290	7,290	55,189
Legal reserve	656	574	4,965
Retained earnings	39,748	37,877	300,895
Total shareholders' equity	<u>55,132</u>	<u>53,179</u>	<u>417,353</u>
Total	<u>¥322,664</u>	<u>¥323,528</u>	<u>\$2,442,573</u>

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Income

THE OKINAWA ELECTRIC POWER COMPANY, INCORPORATED Years ended March 31, 1998 and 1997	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1998	1997	1998
Operating revenues	¥131,923	¥127,095	\$998,663
Operating expenses (Note 10):			
Fuel	19,248	18,859	145,710
Purchased power	14,964	14,842	113,280
Depreciation	26,584	28,738	201,244
Repair and maintenance	15,119	12,862	114,448
Taxes other than income taxes	5,680	5,468	43,000
Other	32,584	31,082	246,659
Total operating expenses	114,179	111,851	864,341
Operating income	17,744	15,244	134,322
Other income	258	293	1,959
Other expenses:			
Interest expense (Note 3)	11,291	11,901	85,473
Other — net	981	843	7,429
Total other expenses	12,272	12,744	92,902
Income before income taxes	5,730	2,793	43,379
Income taxes (Note 6)	2,957	1,889	22,386
Net income	¥ 2,773	¥ 904	\$ 20,993
	Yen		U.S. Dollars
Per share of common stock:			
Net income	¥186.42	¥60.80	\$1.41
Cash dividends applicable to the year.....	¥ 50.00	¥50.00	\$0.38

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Shareholders' Equity

THE OKINAWA ELECTRIC POWER COMPANY, INCORPORATED Years ended March 31, 1998 and 1997	Number of shares (Thousands)	Millions of Yen			
		Common stock	Additional paid-in capital	Legal reserve	Retained earnings
Balance, April 1, 1996	14,875	¥7,438	¥7,290	¥492	¥37,870
Net income					904
Appropriations:					
Cash dividends					(744)
Transfer to legal reserve				82	(82)
Bonuses to directors and corporate auditors					(71)
Balance, March 31, 1997	14,875	7,438	7,290	574	37,877
Net income					2,773
Appropriations:					
Cash dividends.....					(744)
Transfer to legal reserve				82	(82)
Bonuses to directors and corporate auditors					(76)
Balance, March 31, 1998	14,875	¥7,438	¥7,290	¥656	¥39,748

	Thousands of U.S. Dollars (Note 1)			
	Common stock	Additional paid-in capital	Legal reserve	Retained earnings
Balance, March 31, 1997	\$56,304	\$55,189	\$4,343	\$286,729
Net income				20,993
Appropriations:				
Cash dividends				(5,630)
Transfer to legal reserve			622	(622)
Bonuses to directors and corporate auditors				(575)
Balance, March 31, 1998	\$56,304	\$55,189	\$4,965	\$300,895

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Cash Flows

THE OKINAWA ELECTRIC POWER COMPANY, INCORPORATED Years ended March 31, 1998 and 1997	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1998	1997	1998
Operating activities:			
Net income	¥ 2,773	¥ 904	\$ 20,993
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	26,584	28,730	201,241
Loss on disposal of property	598	1,350	4,527
Devaluation loss on investment securities	413		3,126
Gain on sales of investment securities	(8)		(61)
Loss on redemption of bond	257	677	1,950
(Reversal of) provision for severance payment reserve	(134)	51	(1,014)
Provision for (reversal of) doubtful accounts	2	(13)	15
Bonuses to directors and corporate auditors	(76)	(72)	(575)
Changes in operating assets and liabilities:			
Decrease (increase) in receivables	191	(47)	1,446
(Increase) decrease in inventories.....	(497)	161	(3,762)
Increase (decrease) in payables and accrued expenses	1,818	(129)	13,762
Increase (decrease) in accrued income taxes	1,540	(343)	11,658
Other	1,130	(942)	8,547
Total adjustments	31,818	29,423	240,860
Net cash provided by operating activities	34,591	30,327	261,853
Investing activities:			
Purchase of utility plant	(24,680)	(31,769)	(186,829)
Proceeds from sales of utility plant	394	3,239	2,983
Payment for purchase of investment securities	(454)	(197)	(3,437)
Proceeds from sales of investment securities	8		61
Increase in investments in and advances to subsidiaries and affiliates	(97)	(50)	(734)
Net cash used in investing activities	(24,829)	(28,777)	(187,956)
Financing activities:			
Proceeds from long-term borrowings	17,500	13,000	132,475
Payments of long-term borrowings	(23,642)	(18,439)	(178,970)
Payment for redemption of debentures	(1,257)	(3,677)	(9,516)
Cash dividends paid	(744)	(744)	(5,630)
Net cash used in financing activities	(8,143)	(9,860)	(61,641)
Net increase (decrease) in cash and cash equivalents	1,619	(8,310)	12,256
Cash and cash equivalents, beginning of year	10,775	19,085	81,567
Cash and cash equivalents, end of year	¥12,394	¥10,775	\$ 93,823
Additional cash flow information:			
Interest paid	¥11,516	¥12,071	\$ 87,176
Income taxes paid	¥ 1,417	¥ 2,232	\$ 10,730
Supplemental schedule of noncash investing and financing activities:			
The Company sold certain equipment for ¥220 million (\$1,665 thousand) in exchange for long-term notes receivable in 1998.			

See notes to non-consolidated financial statements.

Notes to Non-Consolidated Financial Statements

THE OKINAWA ELECTRIC POWER COMPANY, INCORPORATED
Years ended March 31, 1998 and 1997

1. Basis of presenting non-consolidated financial statements

The accompanying non-consolidated financial statements have been prepared from the accounts maintained by The Okinawa Electric Power Company, Incorporated (the "Company") in accordance with the provisions set forth in the Japanese Commercial Code (the "Code"), the Securities and Exchange Law, the Electric Utility Law and 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 requirements of International Accounting Standards. The non-consolidated statements of cash flows are not required as a part of the basic financial statements in Japan but are presented herein as additional information.

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

The non-consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥132.10 to \$1, the approximate rate of exchange at March 31, 1998. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Summary of significant accounting policies

(a) Non-consolidation

The non-consolidated financial statements do not include the accounts of subsidiaries. Investments in subsidiaries and affiliates (20% — 50% ownership) are stated at cost.

(b) Utility plant and depreciation

Utility plant is stated at the cost of construction, which includes the interest costs incurred on borrowed funds during the construction period. Contributions in aid of constructions are deducted from the cost of the related assets. The above accounting treatments are required by the regulations described in Note 1. Depreciation of utility plant is provided on the declining-balance method over the estimated useful lives of the assets.

(c) Investment securities

Investment securities are stated at cost determined by the moving-average method.

(d) Cash and cash equivalents

For purpose of the non-consolidated statements of cash flows, the Company considers all time deposits and short-term investments to be cash equivalents. Time deposit and short-term investments, which are securities purchased under resale agreements, have original maturity of one year or less and can be withdrawn on demand with no diminution of principal.

(e) Fuel and supplies inventories

Fuel and supplies inventories are stated at cost, based on principally average method.

(f) Severance payments and pension plan

The Company has an unfunded retirement plan for all employees and provides a liability for employees' severance payments at 40% of the amount required if all employees voluntarily terminated their employment at each balance sheet date.

The Company also has a non-contributory funded pension plan covering substantially all of its employees. The amounts contributed to the fund, including prior service costs which was amortized at 30% of the beginning balance of the year, were charged to income when paid up to the year ended March 31, 1997. Effective April 1, 1997, the Company has changed the method of accounting for the prior service cost to charge to the current income at the 100% amount of prior service cost as of the most recent date of available actuarial information. This change was made due to the depressed financial market condition for pension funds, continual increase of past service costs of the pension, and to more accurately reflect results of operations and financial condition. This change has been applied by prospectively from current year financial statements. As a result of this accounting change, income before income taxes for the year ended March 31, 1998 is approximately ¥619 million (\$4,682 thousand) less that it would have been on the prior method of accounting.

Total provisions for liabilities for severance payments and pension costs charged to income were ¥3,033 million (\$22,958 thousand) and ¥1,716 million for the years ended March 31, 1998 and 1997, respectively.

(g) Income taxes

The Company provides for income taxes currently payable for each year. Deferred income taxes are not provided for temporary differences in recognizing certain income and expense items for financial and tax reporting purposes.

(h) Stock and bond issuance costs and bond discount charges

Stock and bond issuance costs and bond discount charges are charged to income when paid or incurred.

(i) Net income per share

Net income per share is computed based upon the weighted average number of shares of common stock outstanding during each year.

(j) Lease

All leases are accounted for as operating leases. Under the 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.

3. Utility plants

The major classes of utility plants are as follows:

	Millions of Yen			
	Original cost	Contributions in aid of construction	Accumulated depreciation	Carrying value
At March 31, 1998				
Thermal power generating facilities	¥256,682	¥(17,113)	¥(135,702)	¥103,867
Transmission facilities ...	94,076	(2,033)	(35,610)	56,433
Transformation facilities...	73,836	(240)	(33,313)	40,283
Distribution facilities	109,377	(1,824)	(44,128)	63,425
General facilities	21,572	(14)	(7,419)	14,139
Construction in progress...	21,808	—	—	21,808
Total	¥577,351	¥(21,224)	¥(256,172)	¥299,955

	Millions of Yen			
	Original cost	Contributions in aid of construction	Accumulated depreciation	Carrying value
At March 31, 1997				
Thermal power generating facilities	¥250,381	¥(17,113)	¥(122,913)	¥110,355
Transmission facilities ...	90,521	(2,038)	(31,265)	57,218
Transformation facilities...	71,504	(240)	(29,993)	41,271
Distribution facilities	105,945	(1,827)	(41,230)	62,888
General facilities	20,771	(14)	(6,737)	14,020
Construction in progress...	17,319	—	—	17,319
Total	<u>¥556,441</u>	<u>¥(21,232)</u>	<u>¥(232,138)</u>	<u>¥303,071</u>

	Thousands of U.S. Dollars			
	Original cost	Contributions in aid of construction	Accumulated depreciation	Carrying value
At March 31, 1998				
Thermal power generating facilities	\$1,943,090	\$(129,545)	\$(1,027,272)	\$ 786,273
Transmission facilities	712,156	(15,391)	(269,566)	427,199
Transformation facilities ...	558,938	(1,816)	(252,182)	304,940
Distribution facilities	827,987	(13,809)	(334,050)	480,128
General facilities	163,305	(104)	(56,162)	107,039
Construction in progress...	165,088	—	—	165,088
Total	<u>\$4,370,564</u>	<u>\$(160,665)</u>	<u>\$(1,939,232)</u>	<u>\$2,270,667</u>

Interest costs capitalized for the years ended March 31, 1998 and 1997 were ¥13 million (\$98 thousand) and ¥11 million, respectively.

4. Investment securities

The excess of market value over the carrying amount of quoted securities was ¥105 million (\$793 thousand) at March 31, 1998.

At March 31, 1997, the excess of the carrying amount of quoted securities over their market value was ¥264 million.

5. Long-term debt

Long-term debt at March 31, 1998 and 1997 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
6.10% secured debentures, due 2004	¥ 1,000	¥ 2,000	\$ 7,570
Secured loans from Okinawa Development Finance Public Corporation, 2.20% to 6.35% in 1998 and 3.15% to 6.35% in 1997, due on various dates through 2012	226,437	228,661	1,714,133
Unsecured loans from banks, 2.60% to 8.40% in 1998 and 2.50% to 8.40% in 1997, due 1998 through 2012	6,400	10,318	48,454
Total	233,837	240,979	1,770,157
Less current maturities	22,453	21,409	169,971
Long-term debt, less current maturities	<u>¥211,384</u>	<u>¥219,570</u>	<u>\$1,600,186</u>

In 1992, the Company issued ¥5,000 million (\$37,850 thousand) of 6.10% secured debentures maturity on February 25, 2004. The Company liquidated ¥3,000 million debentures from certain holders at ¥122.55 per ¥100 on February 25, 1997. An excess of the liquidation price over the net carrying amount of ¥677 million was charged to 1997 income. The Company also redeemed ¥1,000 million (\$7,570 thousand) debentures with warrants transferred to a third party under a debt assumption agreement with a bank on February 25, 1998. An excess of the redemption price over the net carrying amount of ¥257 million (\$1,950 thousand) was included in the interest expense for the year ended March 31, 1998. The holder has a security interest in all assets senior to that of general creditors by the Electric Utility Law.

At March 31, 1998, debentures and long-term debt with the Okinawa Development Finance Public Corporation were collateralized by all of the Company's available assets.

Maturity of long-term debt outstanding at March 31, 1998 were as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
1999	¥ 22,453	\$ 169,971
2000	23,499	177,885
2001	24,629	186,439
2002	24,821	187,893
2003	24,566	185,962
2004 and thereafter	113,869	862,007
Total	<u>¥233,837</u>	<u>\$1,770,157</u>

6. Income taxes

The Company is subject to national corporate tax and local inhabitant taxes based on income with aggregate normal statutory tax rates of approximately 44% for the year ended March 31, 1998 and 1997, respectively.

The actual effective tax rates in the non-consolidated statements of income differed from the normal statutory tax rates are mainly due to permanently non-deductible expenses and temporary differences in recognizing certain income and expense items for tax and financial statement purposes.

7. Lease

The Company leases certain automobiles and office equipment. Total lease payments under the above leases for the years ended March 31, 1998 and 1997 were ¥384 million (\$2,907 thousand) and ¥466 million, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense, interest expense of finance leases that do not transfer ownership of the leased property to the lessee on a "as if capitalized" basis for the years ended March 31, 1998 and 1997 were as follows:

	Millions of Yen		
	General facilities	Other	Total
Acquisition cost	<u>¥1,675</u>	<u>¥244</u>	<u>¥1,919</u>
Accumulated depreciation	<u>704</u>	<u>151</u>	<u>855</u>
Net leased property	<u>¥ 971</u>	<u>¥ 93</u>	<u>¥1,064</u>

	Millions of Yen		
	General facilities	Other	Total
Acquisition cost	¥2,760	¥310	¥3,070
Accumulated depreciation	1,465	177	1,642
Net leased property	<u>¥1,295</u>	<u>¥133</u>	<u>¥1,428</u>

	Thousands of U.S. Dollars		
	General facilities	Other	Total
Acquisition cost	<u>\$12,676</u>	<u>\$1,848</u>	<u>\$14,524</u>
Accumulated depreciation	<u>5,326</u>	<u>1,146</u>	<u>6,472</u>
Net leased property	<u>\$ 7,350</u>	<u>\$ 702</u>	<u>\$ 8,052</u>

Obligations under finance leases:

	Thousands of U.S. Dollars	
	Millions of Yen	Thousands of U.S. Dollars
Due within one year.....	<u>¥ 357</u>	<u>\$2,702</u>
Due after one year.....	<u>707</u>	<u>5,350</u>
Total	<u>¥1,064</u>	<u>\$8,052</u>

The imputed interest expense portion is not excluded from the above obligations under finance leases due to immaterial.

Depreciation expense, which is not reflected in the accompanying non-consolidated statements of income, computed by the straight-line method over the remaining lease term was ¥384 million (\$2,907 thousand) and ¥466 million for the year ended March 31, 1998 and 1997, respectively.

8. Contingent liabilities

At March 31, 1998, the Company was contingently liable as a guarantor for loans of affiliate companies in the amount of ¥2,735 million (\$20,704 thousand).

Redemption of debentures with warrants transferred to a third party under a debt assumption agreement with a bank amounting to ¥1,000 million (\$7,570 thousand) as of March 31, 1998.

9. Shareholders' equity

The Code requires at least 50% of the issue price of new shares, with a minimum of the par value thereof; 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 companies to appropriate from retained earnings to a legal reserve an amount equal to at least 10% of all cash payments which are made as an appropriation of retained earnings until such reserve equals 25% of stated capital. This reserve is not available for dividends but may be used to reduce a deficit by resolution of the shareholders.

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, which are 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 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.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semi-annual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

10. Related party transactions

The following is a summary of transactions and balances with subsidiaries and affiliates for the years ended March 31, 1998 and 1997:

	Millions of Yen	1997	Thousands of U.S. Dollars
	1998		1998

Transactions:

Construction cost of facilities	<u>¥15,498</u>	¥14,931	<u>\$117,323</u>
Repair and other operating expenses...	<u>18,355</u>	16,447	<u>138,949</u>

Balance of accounts:

Accounts payable	<u>3,278</u>	3,950	<u>24,816</u>
Accrued expenses	<u>4,539</u>	3,156	<u>34,362</u>

11. Subsequent event

The following appropriations of retained earnings at March 31, 1998 were approved at the shareholders' meeting held on June 26, 1998:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends,		
¥25 (19¢) per share	¥372	\$2,815
Bonuses to directors and		
corporate auditors	74	563
Transfer to legal reserve.....	45	341

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

We have examined the non-consolidated balance sheets of The Okinawa Electric Power Company, Incorporated as of March 31, 1998 and 1997, and the related non-consolidated statements of income, shareholders' equity and cash flows for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards generally accepted 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 Okinawa Electric Power Company, Incorporated as of March 31, 1998 and 1997, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan consistently applied during the period except for the change, with which we concur, in the accounting for pension plan, as discussed in Note 2.

Our examinations also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 26, 1998

Consolidated Balance Sheets

THE OKINAWA ELECTRIC POWER COMPANY, INCORPORATED AND CONSOLIDATED SUBSIDIARIES March 31, 1998 and 1997	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1998	1997	1998
ASSETS			
Property, plants and equipment:			
Utility plants (Note 3)	¥549,451	¥530,144	\$4,159,355
Other plants and equipment	5,681	8,859	42,998
Construction in progress (Note 10).....	21,763	17,195	164,746
	<u>576,895</u>	<u>556,198</u>	<u>4,367,099</u>
Less:			
Contributions in aid of construction	(21,224)	(21,232)	(160,665)
Accumulated depreciation	(256,804)	(232,887)	(1,944,006)
	<u>(278,028)</u>	<u>(254,119)</u>	<u>(2,104,671)</u>
Net property, plant and equipment	<u>298,867</u>	<u>302,079</u>	<u>2,262,428</u>
Investments and other assets:			
Investment securities (Note 4)	1,469	1,430	11,120
Investments in and advances to non-consolidated subsidiaries and affiliates	850	501	6,435
Deferred income taxes (Note 6)	1,161	1,134	8,789
Other assets	1,298	1,299	9,829
Total investments and other assets	<u>4,778</u>	<u>4,364</u>	<u>36,173</u>
Current assets:			
Cash and time deposits	13,744	11,479	104,045
Short-term investments	999	1,999	7,563
Notes and accounts receivable net of allowance for doubtful accounts of ¥130 million (\$987 thousand) in 1998 and ¥122 million in 1997	3,632	3,924	27,488
Inventories	4,535	3,961	34,328
Other current assets (Note 10)	223	603	1,692
Total current assets	<u>23,133</u>	<u>21,966</u>	<u>175,116</u>
Total	<u>¥326,778</u>	<u>¥328,409</u>	<u>\$2,473,717</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Long-term liabilities:			
Long-term debt, less current maturities (Notes 5 and 8)	¥211,395	¥219,587	\$1,600,268
Liabilities for severance payments	8,329	8,419	63,048
Other long-term liabilities	1,711	564	12,953
Total long-term liabilities	<u>221,435</u>	<u>228,570</u>	<u>1,676,269</u>
Current liabilities:			
Current maturities of long-term debt (Note 5)	22,459	21,415	170,018
Notes and accounts payable (Note 10).....	16,257	15,712	123,067
Accrued income taxes (Note 6)	2,595	947	19,645
Accrued expenses (Note 10)	7,199	6,652	54,494
Other current liabilities	793	875	6,003
Total current liabilities	<u>49,303</u>	<u>45,601</u>	<u>373,227</u>
Minority interests	288	254	2,180
Commitment and contingent liabilities (Notes 7 and 8)			
Shareholders' equity (Notes 9 and 12):			
Common stock, ¥500 par value;			
Authorized — 30,000,000 shares			
Issued and outstanding — 14,875,413 shares	7,438	7,438	56,304
Additional paid-in capital	7,290	7,290	55,189
Legal reserve	656	574	4,965
Retained earnings	40,368	38,682	305,583
Total shareholders' equity	<u>55,752</u>	<u>53,984</u>	<u>422,041</u>
Total	<u>¥326,778</u>	<u>¥328,409</u>	<u>\$2,473,717</u>

See notes to consolidated financial statements.

Consolidated Statements of Income

THE OKINAWA ELECTRIC POWER COMPANY, INCORPORATED AND CONSOLIDATED SUBSIDIARIES Years ended March 31, 1998 and 1997	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1998	1997	1998
Operating revenues:			
Electric	¥131,923	¥127,095	\$ 998,663
Other	2,069	2,242	15,657
Total operating revenues	133,992	129,337	1,014,320
Operating expenses:			
Electric (Note 10)	113,152	111,059	856,566
Other	2,254	2,442	17,058
Total operating expenses	115,406	113,501	873,624
Operating income	18,586	15,836	140,696
Other (income) expenses:			
Interest expense (Note 3)	11,291	11,902	85,477
Other — net	719	608	5,435
Net other expenses	12,010	12,510	90,912
Income before income taxes and equity in loss of affiliates	6,576	3,326	49,784
Income taxes (Note 6)	3,472	2,188	26,282
Equity in loss of affiliates	501	534	3,796
Net income	¥ 2,603	¥ 604	\$ 19,706
	Yen		U.S. Dollars
Per share of common stock:			
Net income	¥175.00	¥40.58	\$1.32
Cash dividends applicable to the year.....	¥ 50.00	¥50.00	\$0.38

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

THE OKINAWA ELECTRIC POWER COMPANY, INCORPORATED AND CONSOLIDATED SUBSIDIARIES Years ended March 31, 1998 and 1997	Number of shares (Thousands)	Millions of Yen			
		Common stock	Additional paid-in capital	Legal reserve	Retained earnings
Balance, April 1, 1996	14,875	¥7,438	¥7,290	¥492	¥39,089
Net income					604
Appropriations:					
Cash dividends					(744)
Transfer to legal reserve				82	(82)
Bonuses to directors and corporate auditors					(89)
Deduction from an affiliate newly applied for equity method					(96)
Balance, March 31, 1997	<u>14,875</u>	<u>7,438</u>	<u>7,290</u>	<u>574</u>	<u>38,682</u>
Net income					2,603
Appropriations:					
Cash dividends					(744)
Transfer to legal reserve				82	(82)
Bonuses to directors and corporate auditors					(91)
Balance, March 31, 1998	<u>14,875</u>	<u>¥7,438</u>	<u>¥7,290</u>	<u>¥656</u>	<u>¥40,368</u>

	Thousands of U.S. Dollars (Note 1)			
	Common stock	Additional paid-in capital	Legal reserve	Retained earnings
Balance, March 31, 1997	\$56,304	\$55,189	\$4,343	\$292,827
Net income				19,706
Appropriations:				
Cash dividends				(5,630)
Transfer to legal reserve			622	(622)
Bonuses to directors and corporate auditors				(698)
Balance, March 31, 1998	<u>\$56,304</u>	<u>\$55,189</u>	<u>\$4,965</u>	<u>\$305,583</u>

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

THE OKINAWA ELECTRIC POWER COMPANY, INCORPORATED AND CONSOLIDATED SUBSIDIARIES Years ended March 31, 1998 and 1997	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1998	1997	1998
Operating activities:			
Net income	¥ 2,603	¥ 604	\$ 19,706
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	26,605	28,792	201,397
Loss on disposal of property	610	1,504	4,618
Devaluation loss on investment securities	426	0	3,226
Gain on sales of investment securities	(8)	0	(59)
Loss on redemption of bond	257	677	1,950
Equity in loss of affiliates	507	540	3,843
Deferred income taxes	(27)	27	(207)
(Reversal of) provision for severance payment reserve	(90)	99	(681)
Provision for (reversal of) doubtful accounts	8	(3)	64
Bonuses to directors and corporate auditors	(91)	(89)	(698)
Changes in operating assets and liabilities:			
Decrease in receivables	284	56	2,145
Increase in inventories	(574)	(140)	(4,352)
Increase in payables	1,092	747	8,272
Increase (decrease) in accrued income taxes	1,648	(243)	12,479
Other	952	(1,909)	7,200
Total adjustment	31,599	30,058	239,197
Net cash provided by operating activities	34,202	30,662	258,903
Investing activities:			
Purchase of utility plants	(24,634)	(29,108)	(186,480)
Proceeds from sales of utility plants	411	469	3,111
Payment for purchase of investment securities	(465)	(199)	(3,527)
Increase in investments in and advances to unconsolidated subsidiaries and affiliates	(108)	(77)	(817)
Proceeds from sales of investment securities	8	0	61
Net cash used in investing activities	(24,788)	(28,915)	(187,652)
Financing activities:			
Proceeds from long-term borrowings	17,500	13,000	132,475
Payments of long-term borrowings	(23,648)	(18,460)	(179,001)
Payment for redemption of bonds	(1,257)	(3,676)	(9,516)
Decrease in short-term bank borrowings	0	(2,400)	0
Cash dividends paid	(744)	(744)	(5,630)
Net cash used in financing activities	(8,149)	(12,280)	(61,672)
Net increase (decrease) in cash and cash equivalents	1,265	(10,533)	9,579
Cash and cash equivalents, beginning of year	13,478	24,011	102,029
Cash and cash equivalents, end of year	¥14,743	¥13,478	\$111,608
Additional cash flow information:			
Interest paid	¥11,516	¥12,072	\$ 87,180
Income taxes paid	¥ 1,735	¥ 2,405	\$ 13,137
Supplemental schedule of noncash investing and financing activities:			
The Company sold certain equipment for ¥220 million (\$1,665 thousand) in exchange for long-term notes receivable in 1998.			

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

THE OKINAWA ELECTRIC POWER COMPANY, INCORPORATED AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 1998 and 1997

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared from the consolidated financial statements, which are issued for domestic reporting purpose in accordance with the provisions set forth in the Japanese Securities and Exchange Law and the Electric Utility Law, and related accounting regulations. The Okinawa Electric Power Company, Incorporated (the "Company") and its consolidated subsidiaries (together the "Companies") maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code (the "Code") and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form, which is more familiar to readers outside Japan. The consolidated statements of cash flows are not required as a part of the basic financial statements in Japan but are presented herein as additional information.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥132.10 to \$1, the approximate rate of exchange at March 31, 1998. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Summary of significant accounting policies

(a) Consolidation and investments in unconsolidated subsidiaries and affiliates (20% to 50% ownership)

The consolidated financial statements include the accounts of the Company and its three significant subsidiaries. All significant inter-company transactions and account balances have been eliminated. Investments in significant affiliates are accounted for under the equity method. In 1996, the investment in an affiliate has been accounted for the equity method due to its increasing materiality with respect to the consolidated net income.

Consolidation of remaining subsidiaries and the application of the equity method to the remaining affiliates would have no material effect on the accompanying consolidated financial statements.

Investments in unconsolidated subsidiaries and other affiliates are stated at cost. The excess of net assets over cost of subsidiaries acquired is charged to income when incurred.

The Companies provide the equity portion of deficit in net assets of an affiliate, of which loan has been guaranteed by the Company, as "loss on investment under equity method applied" of ¥1,092 million (\$8,270 thousand) and ¥564 million included in other liabilities on the accompanying consolidated balance sheets as of March 31, 1998 and 1997, respectively.

(b) Property, plant and equipment

Property, plant and equipment are stated at cost. The cost of utility plant includes certain interest costs incurred on borrowed funds during the construction period of new plant facilities. Contributions in aid of constructions are deducted from the cost of the related assets. The above accounting treatment is required by the regulations described in Note 1. Depreciation of property, plant and equipment is provided on the declining-balance method over the estimated useful lives of the assets.

(c) Investment securities

Investment securities are stated at cost determined by the moving-average method.

(d) Cash and cash equivalents

For purpose of the consolidated statements of cash flows, the Companies consider all time deposits and short-term investments to be cash equivalents. Time deposit and short-term investments, which are securities purchased under resale agreements, have original maturity of one year or less and can be withdrawn on demand with no diminution of principal.

(e) Inventories

Inventories are stated at cost, based on principally average method.

(f) Severance payments and pension plan

The Companies have unfunded retirement plans for all employees and provides a liability for employees' severance payments at 40% of the amount required if all employees voluntarily terminated their employment at each balance sheet date.

The Companies also has non-contributory funded pension plans covering most of their employees. The amounts contributed to the fund, including prior service costs which was amortized at 30% of the beginning balance of the year, were charged to income when paid up to the year ended March 31, 1997. Effective April 1, 1997, the Company has changed the method of accounting for the prior service cost to charge to the current income at the 100% amount of prior service cost as of the most recent date of available actuarial information. This change was made due to the depressed financial market condition for pension funds, continual increase of past service costs of the pension, and to more accurately reflect results of operations and financial condition. This change has been applied by prospectively from current year consolidated financial statements. As a result of this accounting change, income before income taxes for the year ended March 31, 1998 is approximately ¥619 million (\$4,682 thousand) less than it would have been on the prior method of accounting.

Total provisions for liabilities for severance payments and pension costs charged to income were ¥3,252 million (\$24,617 thousand) and ¥1,774 million for the years ended March 31, 1998 and 1997, respectively.

(g) Income taxes

Income taxes are provided for amounts currently payable for each year. Deferred income taxes arising from temporary differences between reporting for accounting purposes and tax purposes have not been recognized, except for those applicable to unrealized profits arising from the elimination of intercompany transaction in consolidation.

(h) Stock and bond issuance costs and bond discount charges

Stock and bond issuance costs and bond discount charges are charged to income when paid or incurred.

(i) Net income per share

Net income per share is computed based upon the weighted average number of shares of common stock outstanding during each year.

(j) Lease

All leases are accounted for as operating leases. Under new Japanese accounting standards for leases, finance lease 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. The disclosure requirements of these new standards to the consolidated financial statements are being applied on a step-by-step basis beginning with fiscal years starting on/or after April 1, 1996, with full implementation expected for fiscal years starting on or after April 1, 1998.

3. Utility plants

Utility plants, at cost, as of March 31, 1998 and 1997, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Thermal power generating facilities	¥254,665	¥248,627	\$1,927,823
Transmission facilities.....	93,614	90,081	708,659
Transformation facilities	72,511	70,242	548,906
Distribution facilities.....	108,858	105,457	824,058
General facilities	19,803	15,737	149,909
Total	¥549,451	¥530,144	\$4,159,355

Interest costs capitalized for the years ended March 31, 1998 and 1997 were ¥13 million (\$98 thousand) and ¥11 million, respectively.

4. Investment securities

The excess of the market value over the carrying amount of quoted securities was ¥98 million (\$741 thousand) at March 31, 1998.

At March 31, 1997, the excess of the carrying amount of quoted securities over their market value was ¥282 million.

5. Long-term debt

Long-term debt at March 31, 1998 and 1997 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
6.10% secured debentures, due 2004	¥ 1,000	¥ 2,000	\$ 7,570
Secured loans from Okinawa Development Finance Public Corporation, 2.20% to 6.35% in 1998 and 3.15% to 6.35% in 1997, due on various dates through 2012	226,437	228,661	1,714,133
Unsecured loans from banks, 2.60% to 8.40% in 1998 and 1.875% to 8.40% in 1997, due 1998 through 2012.....	6,417	10,341	48,583
Total.....	233,854	241,002	1,770,286
Less current maturity	22,459	21,415	170,018
Long-term debt, less current maturity.....	¥211,395	¥219,587	\$1,600,268

In 1992, the Company issued ¥5,000 million (\$37,850 thousand) of 6.10% secured debentures maturity on February 25, 2004. The Company liquidated ¥3,000 million debentures from certain holders at ¥122.55 per ¥100 on February 25, 1997. An excess of the liquidation price over the net carrying amount of ¥677 million was charged to 1997 income. The Company also redeemed ¥1,000 million (\$7,570 thousand) debentures with warrants transferred to a third party under a debt assumption agreement with a bank on February 25, 1998. An excess of the redemption price over carrying amount of ¥257 million (\$1,950 thousand) was included in the interest expense for the year ended March 31, 1998. The holder has a security interest in all assets senior to that of general creditors by the Electric Utility Law.

At March 31, 1998, debentures and long-term debt with the Okinawa Development Finance Public Corporation were collateralized by all of the Company's available assets.

Maturity of long-term debt outstanding at March 31, 1998 were as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
1999	¥ 22,459	\$ 170,018
2000	23,505	177,932
2001	24,633	186,475
2002	24,821	187,893
2003	24,566	185,962
2004 and thereafter	113,870	862,006
Total	¥233,854	\$1,770,286

6. Income taxes

The Companies are subject to several taxes based on income. For the years ended March 31, 1998 and 1997, the aggregate normal statutory tax rates approximated 44% for the Company and 50% for its consolidated subsidiaries.

The actual effective tax rates in the consolidated statements of income differed from the normal statutory tax rates are mainly due to permanently non-deductible expenses and temporary differences in recognizing certain income and expense items for tax and financial statement purposes.

The provision for income taxes for the years ended March 31, 1998 and 1997 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Current.....	¥3,499	¥2,162	\$26,489
Deferred.....	(27)	26	(207)
Net	¥3,472	¥2,188	\$26,282

7. Lease

The Companies lease certain automobiles and office equipment. Total lease payments under the above leases for the years ended March 31, 1998 and 1997 were ¥332 million (\$2,511 thousand) and ¥376 million, respectively.

At March 31, 1998, the commitment under the above leases were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year.....	¥ 325	\$2,460
Due after one year.....	712	5,393
Total	¥1,037	\$7,853

The imputed interest expense portion is not excluded from the above obligations under finance leases due to immaterial.

The Companies are also lessor of certain automobiles and office equipment. Total lease income from the above leases for the years ended March 31, 1998 and 1997 were ¥177 million (\$1,337 thousand) and ¥172 million, respectively.

At March 31, 1998, the total lease payment to be received from the above leases were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year.....	¥155	\$1,177
Due after one year.....	227	1,718
Total	<u>¥382</u>	<u>\$2,895</u>

The imputed interest income portion is not excluded from the above receivables under finance leases due to immaterial.

8. Contingent liabilities

At March 31, 1998, the Company was contingently liable as a guarantor for loans of affiliate companies in the amount of ¥1,642 million (\$12,434 thousand).

Redemption of debentures with warrants transferred to a third party under a debt assumption agreement with a bank amounting to ¥1,000 million (\$7,570 thousand) as of March 31, 1998.

9. Shareholders' equity

The Code requires at least 50% of the issue price of new shares, with a minimum of the par value thereof, 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 companies to appropriate from retained earnings to a legal reserve an amount equal to at least 10% of all cash payments which are made as an appropriation of retained earnings until such reserve equals 25% of stated capital. This reserve is not available for dividends but may be used to reduce a deficit by resolution of the shareholders.

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, which are 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 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.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semi-annual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

Under the Code, the amount available for dividends is based on retained earnings as recorded on the Company's books. At March 31, 1998, retained earnings recorded on the Company's books were ¥39,748 million (\$300,893 thousand) which is available for future dividends subject to the approval of the shareholders and legal reserve requirements.

10. Related party transactions

The following is a summary of transactions and balances with non-consolidated subsidiaries and affiliates for the years ended March 31, 1998 and 1997:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998

Transactions:

Construction cost of facilities	¥8,445	¥9,337	\$63,929
Repair and other operating expenses...	7,609	6,043	57,597

Balance of accounts:

Other current assets	205	216	1,549
Accounts payable	2,340	2,148	17,712
Accrued expenses	2,299	1,458	17,402

11. Segment information

Information about operations in different industry segments of the Companies for the years ended March 31, 1998 and 1997 is as follows:

1998	Millions of Yen			Consolidated
	Electric	Other	Eliminations	
Sales to customers.....	¥131,923	¥ 2,069	—	¥133,992
Intersegment sales.....	—	17,800	¥(17,800)	—
Total operating revenues	131,923	19,869	(17,800)	133,992
Operating expenses	114,179	19,056	(17,829)	115,406
Operating income.....	¥ 17,744	¥ 813	¥ 29	¥ 18,586
Total assets	¥322,664	¥ 9,324	¥ (5,210)	¥326,778
Depreciation and amortization	26,584	334	(313)	26,605
Capital investments	25,108	264	(388)	24,984

1997	Millions of Yen			Consolidated
	Electric	Other	Eliminations	
Sales to customers.....	¥127,095	¥ 2,242	—	¥129,337
Intersegment sales.....	—	15,998	¥(15,998)	—
Total operating revenues	127,095	18,240	(15,998)	129,337
Operating expenses	111,851	17,707	(16,057)	113,501
Operating income.....	<u>¥ 15,244</u>	<u>¥ 533</u>	<u>¥ 59</u>	<u>¥ 15,836</u>
Total assets	¥323,528	¥12,635	¥ (7,754)	¥328,409
Depreciation and amortization	28,738	380	(326)	28,792
Capital investments	28,319	266	(343)	28,242

1998	Thousands of U.S. Dollars			
	Electric	Other	Eliminations	Consolidated
Sales to customers.....	\$ 998,663	\$ 15,657	—	\$1,014,320
Intersegment sales	—	134,746	\$(134,746)	—
Total operating revenues.....	998,663	150,403	(134,746)	1,014,320
Operating expenses.....	864,341	144,248	(134,965)	873,624
Operating income	\$ 134,322	\$ 6,155	\$ 219	\$ 140,696
Total assets	\$2,442,574	\$ 70,580	\$ (39,437)	\$2,473,717
Depreciation and amortization	201,244	2,525	(2,372)	201,397
Capital investments	190,072	2,000	(2,939)	189,133

Notes: 1. "Other" industry segment consisted of sales and maintenance services of electric appliances, and electrical and mechanical engineering and others. Under the guidance of the regulatory authority, the Company is only

allowed to invest in industry segments, which are related to the electric segment.

- The Companies do not have foreign operations.
- No sales to foreign customers were made during the years ended March 31, 1998 and 1997.

12. Subsequent event

The following appropriations of retained earnings at March 31, 1998 were approved at the shareholders' meeting held on June 26, 1998:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥25 (19¢) per share	¥372	\$2,815
Bonuses to directors and corporate auditors	74	563
Transfer to legal reserve.....	45	341

Independent Auditors' Report

Deloitte Touche Tohmatsu



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

We have examined the consolidated balance sheets of The Okinawa Electric Power Company, Incorporated and consolidated subsidiaries as of March 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards generally accepted 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 consolidated financial statements referred to above present fairly the financial position of The Okinawa Electric Power Company, Incorporated and consolidated subsidiaries as of March 31, 1998 and 1997, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan consistently applied during the period except for the change, with which we concur, in the accounting for pension plan, as discussed in Note 2.

Our examinations also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 26, 1998