

During the year beginning April 1, 1998 (“fiscal 1998”), OEPC was able to post growth in both revenues and profits for the second year in succession. We also made great strides in achieving some of our management objectives, such as obtaining ISO 14001 certification, the international standard for environmental management systems, for Ishikawa Thermal Power Station on Okinawa Island in February 1999, thus setting us on the right path for the 21st century.

Operating Environment and Results

The Japanese economy during the period under review was mired in a recession of unprecedented severity. In the economy of Okinawa Prefecture, despite continued vibrancy in the tourist industry, with a record number of visitors to the region, overall conditions remained stagnant, exemplified by a fall in housing investment and sluggish consumer spending.

Under these difficult conditions, OEPC recorded an 8.0% rise in electric power sales volume, the largest growth in the last decade, due mainly to an increase in power for residential use, thanks to a stretch of record high temperatures and the small number of typhoons that hit the region during the term. Combined lighting and power sales for the term totaled 6,616 million kWh. Consequently, notwithstanding the negative effects of a reduction in electricity rates in February 1998, operating revenues rose 1.9% to ¥134,471 million (US\$1,115.5 million). In addition, partly as a result of measures to thoroughly reduce costs, we were able to achieve earnings that were substantially higher than in the previous term, income before income taxes increasing 51.3% to ¥8,670 million (US\$71.9 million) and net income rising 74.7% to ¥4,844 million (US\$40.2 million). Given the increased severity of the operating environment, these results are all the more satisfying.

In line with our fundamental policy of paying a stable dividend of ¥50 per share (par value ¥500), we declared a term-end dividend of ¥25 per share, the same as the interim dividend.

Principal Measures Enacted During the Term

Establishing the maintenance of earnings levels as a major management objective, we pushed ahead with thorough cost reduction, including a reassessment of our long-term management plan, and with raising operational efficiency. As a result of a further review of construction methods and practices, we were able to significantly reduce capital investment for the

term from the projected ¥49.6 billion to ¥37.8 billion. In addition, we also continued promoting load leveling to eliminate the difference in electric power demand between seasons, and between daytime and night, and made efforts to further increase efficiency in operations on outlying islands, making steady progress in both areas.

To raise operational efficiency, in pursuit of our goal of “maintaining a staff level of 1,500,” we continued to work to increase productivity from a variety of perspectives, by, for example, launching a drive for improved daytime operations, switching to a new personnel system based on performance evaluations, and introducing an advanced computer information system. As a result of these efforts, as of the end of March 1999, we had reduced employee numbers by 60 from the 1976 level, when the unified transmission system was established, despite the growth in the scale of the business, as exemplified by the construction of new power stations, while raising energy sales per employee 2.9 times in the same period.

On the supply side, in addition to conducting appropriate and efficient operations at existing facilities, we commenced operation of Unit 8 (250kW) at Hateruma Power Station, thus maintaining a stable supply of electricity on outlying islands.

At Kin Thermal Power Station, a facility currently under construction which will absorb increases in electricity demand on Okinawa Island from 2001 onward, we obtained a license to conduct reclamation work in a government-owned offshore area, and began full-scale construction of the land and sea portions of the project.

OEPC has positioned the Year 2000 (Y2K) problem as a major management issue, and has established a Y2K Countermeasures Committee, as well as pushing ahead with failsafe countermeasures for all systems. In addition to the ¥155 million used in fiscal 1998, we estimate that an additional ¥420 million will be necessary to deal with this issue in fiscal 1999.

Future Prospects

Amid continuing turmoil in the Japanese economy, there is no letup in the demands from society for a reduction in electricity supply costs, and the year 2000 is expected to see the liberalization of electricity retailing to large customers. Furthermore, with concrete targets for reductions in greenhouse gases in developed countries stipulated at the Kyoto Protocol to the United Nations Framework Convention on Climate Change (COP3), there are increasing calls for electricity companies to do more on this issue.

Under these conditions, reflecting the company-wide management issues that came to the fore during the term under review, we have revised our long-term management plan, which incorporates measures to respond to the price competition that has resulted from increased liberalization, to ensure an appropriate level of profits, and to respond to environmental issues. While maintaining our fundamental stance on guaranteeing a stable electricity supply and promoting efficient operations, we have identified fiscal 1999 as marking a completely new start in our efforts to respond to the demands of the new era, and we will devote ourselves to the resolution of all management issues.

Turning to the economy of Okinawa Prefecture, in addition to another expected increase in the number of tourists visiting the region, the economy is experiencing a boost from preparations for the Okinawa/Kyushu G8 Summit, which is to be held in 2000. Against this background, demand for electric power is forecast to grow in line with a rise in, for example, public works projects, although power for residential use is expected to fall as we cannot expect a repeat of the extremely high temperatures experienced during the term under review.

Consequently, an increase in revenue in fiscal 1999 will be difficult to achieve, and the whole Company will devote itself to further raising efficiency and rationalizing operations.



Chairman Masaharu Minei

President Hirokazu Nakaima

In addition, we will also work toward obtaining ISO 14001 certification for all facilities, promote the introduction of new energy sources, strengthen Group capabilities through consolidated management, and make increased contributions to regional society.

We ask for your continued understanding and support.

Masaharu Minei, Chairman

Hirokazu Nakaima, President