

Five-Year Summary

THE OKINAWA ELECTRIC POWER COMPANY, INCORPORATED
Years ended March 31

Financial Statistics	Millions of Yen				
	1999	1998	1997	1996	1995
For the year:					
Operating revenues	¥134,471	¥131,923	¥127,095	¥125,070	¥120,862
Operating expenses	114,677	114,179	111,851	110,098	106,245
Operating income	19,794	17,744	15,244	14,972	14,617
Net income	4,844	2,773	904	1,075	1,781
At year-end:					
Total assets	¥338,280	¥322,664	¥323,528	¥333,213	¥331,143
Shareholders' equity	59,158	55,132	53,179	53,090	52,823
Operating Statistics	1999	1998	1997	1996	1995
For the year:					
Electric energy sales (Millions of kWh)	6,616	6,126	6,006	5,854	5,606
Peak load (Thousands of kW)	1,287	1,317	1,329	1,310	1,263
At year-end:					
Generating capacity (Thousands of kW)	1,445	1,444	1,434	1,461	1,452
Transmission lines (km)	668	651	623	589	538
Distribution lines (km)	9,772	9,577	9,446	9,252	9,038

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Financial Review (Non-Consolidated)

Business Results

Japan's prolonged recession persisted in fiscal 1998. The overall situation was extremely severe, with fear of unemployment worsening and disposable income declining, leading to falls in consumer spending and housing investment, while companies were very reluctant to implement capital investment. Amid these difficult economic conditions, although the Okinawa tourist sector enjoyed the largest number of visitors ever, the prefecture's economy as a whole remained stagnant, with housing investment in a slump and consumer spending slack.

During the term under review, the volume of sales of electric power to industrial users declined owing to a fall-off in demand from the cement, petroleum refining, and steel industries, among others. Meanwhile, demand from households and offices increased thanks to record high temperatures and a relatively small number of typhoons. As a result, total power sales volume, including for housing, offices, and industry, came to 6,616 million kWh, up 8.0% over the previous business term. Sales of low-voltage power for use in housing and offices surged 9.6% year-on-year to 2,592 million kWh, while high-voltage power sales to industrial users were up 7.0% at 4,024 million kWh. The peak load in fiscal 1998 increased by 96,000 kW over the previous year, or 7.7%, to 1,337,000 kW.

Operation of existing power generation facilities proceeded efficiently, and we maintained a steady supply of power to remote islands by, for example, starting operation of the No. 8 Generator (250kW) on Hateruma Island.

Turning to business results for fiscal 1998, despite the electricity rate cut implemented in February 1998 and adoption of the Fuel Cost Adjustment System, operating revenues for the Company's power supply business rose 1.9% over the previous term to ¥134,471 million (US\$1,115,483 thousand), thanks to a large increase in power sales volume. Equipment repair and maintenance costs increased, but depreciation expense and interest cost declined. We also made efforts to raise management efficiency across the board and reduce costs. As a result, operating expenses rose 0.4% from the year before to ¥114,677 million (US\$951,282 thousand). Consequently, income before income taxes increased 51.3% year-on-year to ¥8,670 million (US\$71,915 thousand), and net income came to ¥4,844 million (US\$40,179 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. We also worked to pull down equipment spending even more to the region of ¥350 billion as part of our plans for still further improvements in efficiency. As a result, capital investment in fiscal 1998 came to ¥37.8 billion, down ¥11.8 billion from the initially planned figure.

The Company's principal power generation project during the term was the start-up of operation of the 250kW No. 8 Generator on Hateruma Island as part of its efforts to bolster the power supply system to remote islands in the prefecture so as to assure its customers of a steady supply of electricity.

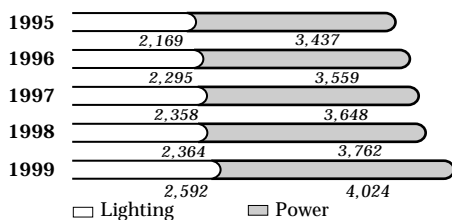
In the field of power transmission facilities, a new transformer station was constructed at Urasoe on Okinawa Island. With a view to holding down capital investment, in addition to existing efficiency improvement measures and know-how, OEPC will combine improvements and new ideas in all operational areas to achieve a permanent cost reduction structure.

Response to the Year 2000 Problem

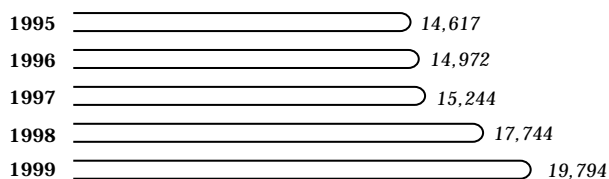
Okinawa Electric Power regards the Year 2000 (Y2K) Problem as one of its most important management issues, and the Company has been steadily dealing with this matter in a systematic manner. In October 1998, in order to handle the problem from an overall perspective, we established a Y2K Countermeasures Committee chaired by one of our managing directors. The committee is responsible for promoting countermeasures against the Y2K problem by all of the Company's departments and for monitoring and supervising progress in these efforts. Regular reports on the status of progress are submitted to the Company's top management.

Comprehensive Y2K compliance tests have been conducted on power control computer systems and systems involved in administrative work, and all necessary program upgradings and modifications, equipment replacements, and simulation tests have been carried out. As of the end of October 1999, all the Company's computer systems were Y2K compliant. From here on, on the basis of our Contingency Plan, we will be concentrating our efforts on effective countermeasures against unforeseeable events likely to arise as a result of the Y2K problem.

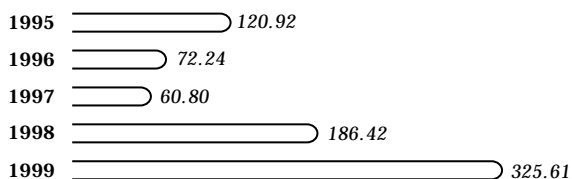
Electric Power Sales (Millions of kWh)



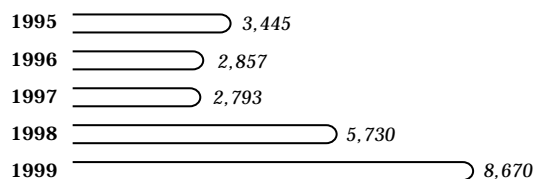
Operating Income (¥ Million)



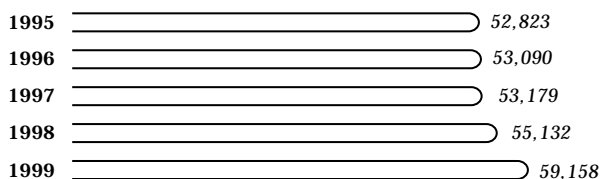
Net Income per Share (¥)



Income before Income Taxes (¥ Million)



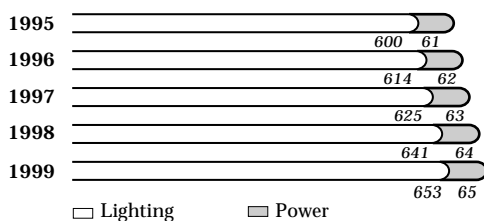
Shareholders' Equity (¥ Million)



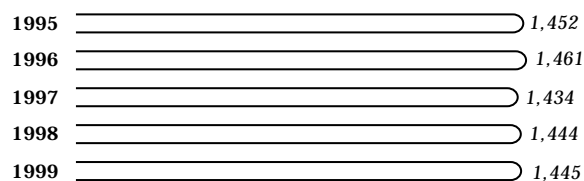
Shareholders' Equity Ratio (%)



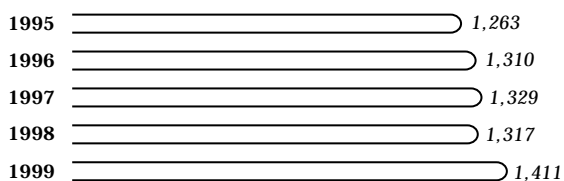
Number of Customers (Thousands)



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, 1999 and 1998	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1999	1998	1999
ASSETS			
Utility plants (Note 3):			
Plants and equipment	¥572,193	¥555,543	\$4,746,520
Construction in progress (Note 10).....	39,993	21,808	331,753
	612,186	577,351	5,078,273
Less:			
Contributions in aid of construction	(21,356)	(21,224)	(177,152)
Accumulated depreciation	(279,779)	(256,172)	(2,320,858)
	(301,135)	(277,396)	(2,498,010)
Net utility plants	311,051	299,955	2,580,263
Investments and other assets:			
Investment securities (Note 4)	1,420	1,367	11,778
Investments in and advances to subsidiaries and affiliates	4,099	989	34,003
Less allowance for doubtful accounts	(78)		(645)
Other assets	984	1,021	8,161
Total investments and other assets	6,425	3,377	53,297
Current assets:			
Cash and time deposits	14,177	11,395	117,607
Short-term investments		999	
Accounts receivable	3,881	3,194	32,198
Less allowance for doubtful accounts.....	(76)	(95)	(627)
Fuel and supplies inventories	2,782	3,779	23,078
Other current assets	40	60	323
Total current assets	20,804	19,332	172,579
Total	¥338,280	¥322,664	\$2,806,139
LIABILITIES AND SHAREHOLDERS' EQUITY			
Long-term liabilities:			
Long-term debt — less current maturities (Notes 5 and 8)	¥212,906	¥211,384	\$1,766,121
Liabilities for severance payments	7,858	7,965	65,188
Other long-term liabilities	1,100	619	9,125
Total long-term liabilities	221,864	219,968	1,840,434
Current liabilities:			
Current maturities of long-term debt (Note 5)	23,499	22,453	194,928
Accounts payable (Note 10).....	18,529	11,292	153,709
Accrued income taxes (Note 6)	2,388	2,205	19,811
Accrued expenses (Note 10)	9,978	9,730	82,767
Other current liabilities	2,864	1,884	23,758
Total current liabilities	57,258	47,564	474,973
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	61,698
Additional paid-in capital	7,290	7,290	60,476
Legal reserve	738	656	6,123
Retained earnings	43,692	39,748	362,435
Total shareholders' equity	59,158	55,132	490,732
Total	¥338,280	¥322,664	\$2,806,139

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Income

THE OKINAWA ELECTRIC POWER COMPANY, INCORPORATED Years ended March 31, 1999 and 1998	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1999	1998	1999
Operating revenues	¥134,471	¥131,923	\$1,115,483
Operating expenses (Notes 7 and 10):			
Fuel	18,989	19,248	157,519
Purchased power	14,381	14,964	119,292
Depreciation	25,275	26,584	209,668
Repair and maintenance	16,920	15,119	140,359
Taxes other than income taxes	6,172	5,680	51,200
Other	32,940	32,584	273,244
Total operating expenses	114,677	114,179	951,282
Operating income	19,794	17,744	164,201
Other (income) expenses:			
Interest expense (Notes 3 and 5)	10,435	11,291	86,567
Other — net	689	723	5,719
Net other expenses	11,124	12,014	92,286
Income before income taxes	8,670	5,730	71,915
Income taxes	3,826	2,957	31,736
Net income	¥ 4,844	¥ 2,773	\$ 40,179
		Yen	U.S. Dollars
Per share of common stock: (Note 2 i)			
Net income	¥325.61	¥186.42	\$2.70
Cash dividends applicable to the year.....	¥ 50.00	¥ 50.00	\$0.41

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Shareholders' Equity

THE OKINAWA ELECTRIC POWER COMPANY, INCORPORATED Years ended March 31, 1999 and 1998	Number of shares (Thousands)	Millions of Yen			
		Common stock	Additional paid-in capital	Legal reserve	Retained earnings
Balance, April 1, 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
Net income					4,844
Appropriations:					
Cash dividends.....					(744)
Transfer to legal reserve				82	(82)
Bonuses to directors and corporate auditors					(74)
Balance, March 31, 1999	14,875	¥7,438	¥7,290	¥738	¥43,692

	Thousands of U.S. Dollars (Note 1)			
	Common stock	Additional paid-in capital	Legal reserve	Retained earnings
Balance, March 31, 1998	\$61,698	\$60,476	\$5,441	\$329,723
Net income				40,179
Appropriations:				
Cash dividends				(6,168)
Transfer to legal reserve			682	(682)
Bonuses to directors and corporate auditors				(617)
Balance, March 31, 1999	\$61,698	\$60,476	\$6,123	\$362,435

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Cash Flows

THE OKINAWA ELECTRIC POWER COMPANY, INCORPORATED Years ended March 31, 1999 and 1998	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1999	1998	1999
Operating activities:			
Net income	¥ 4,844	¥ 2,773	\$ 40,179
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	25,328	26,584	210,105
Loss on disposal of property	709	598	5,882
Loss on redemption of bond	243	257	2,018
Devaluation loss on investment securities	5	413	41
Loss (gain) on sales of investment securities	3	(8)	20
Reversal of provision for severance payment reserve	(107)	(134)	(887)
Provision for doubtful accounts	58	2	485
Bonuses to directors and corporate auditors	(74)	(76)	(617)
Changes in operating assets and liabilities:			
Decrease (increase) in receivables	(688)	191	(5,705)
Decrease (increase) in inventories	997	(497)	8,267
Increase in payables and accrued expenses	7,486	1,818	62,098
Increase in accrued income taxes	183	1,540	1,521
Other	1,518	1,130	12,600
Total adjustments	35,661	31,818	295,828
Net cash provided by operating activities	40,505	34,591	336,007
Investing activities:			
Purchase of utility plants	(37,565)	(24,680)	(311,616)
Proceeds from sale of utility plants	433	394	3,590
Payment for purchase of investment securities	(60)	(454)	(497)
Proceeds from sale of investment securities		8	
Increase in investments in and advances to subsidiaries and affiliates	(3,110)	(97)	(25,794)
Net cash used in investing activities	(40,302)	(24,829)	(334,317)
Financing activities:			
Proceeds from long-term borrowings	26,020	17,500	215,844
Repayments of long-term borrowings	(22,453)	(23,642)	(186,256)
Payment for redemption of debentures	(1,243)	(1,257)	(10,314)
Cash dividends paid	(744)	(744)	(6,170)
Net cash provided by (used in) financing activities	1,580	(8,143)	13,104
Net increase in cash and cash equivalents	1,783	1,619	14,794
Cash and cash equivalents, beginning of year	12,394	10,775	102,813
Cash and cash equivalents, end of year	¥14,177	¥12,394	\$117,607
Additional cash flow information:			
Interest paid	¥10,682	¥11,516	\$ 88,614
Income taxes paid	¥ 3,642	¥ 1,417	\$ 30,213
Supplemental schedule of noncash investing and financing activities:			
The Company sold certain equipment for ¥220 million in exchange for long-term notes receivable in 1998.			

Notes to Non-Consolidated Financial Statements

THE OKINAWA ELECTRIC POWER COMPANY, INCORPORATED
Years ended March 31, 1999 and 1998

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 financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

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 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 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 ¥120.55 to \$1, the approximate rate of exchange at March 31, 1999. 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 plants

Utility plants are 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. Such accounting treatments are required by the regulations described in Note 1. Depreciation of utility plants 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. Investment securities are written down to appropriate values if the investments have been significantly impaired in value of a permanent nature.

(d) Cash and cash equivalents

For the 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 maturities 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 were 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 current income at 100% of the 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, continued increase of past service costs of the pension, and to more accurately reflect results of operations and financial condition. This change had been applied prospectively from 1998 financial statements. As a result of this accounting change, income before income taxes for the year ended March 31, 1998 was approximately ¥619 million 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 ¥3,295 million (\$27,330 thousand) and ¥3,033 million for the years ended March 31, 1999 and 1998, respectively.

(g) Income taxes

The Company provides for income taxes at the amount currently payable. 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 issue costs and bond discount charges

Stock and bond issue 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, 1999				
Thermal power				
generating facilities	¥262,748	¥(17,121)	¥(148,548)	¥ 97,079
Transmission facilities ...	95,874	(2,046)	(39,544)	54,284
Transformation facilities...	75,582	(303)	(36,296)	38,983
Distribution facilities	113,882	(1,873)	(46,884)	65,125
General facilities	24,107	(13)	(8,507)	15,587
Construction in progress...	39,993	—	—	39,993
Total	¥612,186	¥(21,356)	¥(279,779)	¥311,051

	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

At March 31, 1999	Thousands of U.S. Dollars			
	Original cost	Contributions in aid of construction	Accumulated depreciation	Carrying value
Thermal power generating facilities.....	\$2,179,571	\$(142,015)	\$(1,232,270)	\$ 805,286
Transmission facilities....	795,308	(16,976)	(328,027)	450,305
Transformation facilities ...	626,974	(2,511)	(301,083)	323,380
Distribution facilities	944,690	(15,540)	(388,914)	540,236
General facilities	199,977	(110)	(70,564)	129,303
Construction in progress ...	331,753	—	—	331,753
Total	<u>\$5,078,273</u>	<u>\$(177,152)</u>	<u>\$(2,320,858)</u>	<u>\$2,580,263</u>

Interest costs capitalized for the year ended March 31, 1999 and 1998 was ¥73 million (\$607 thousand) and ¥13 million, respectively.

4. Investment securities

The excess of market value over the carrying amount of quoted securities was ¥158 million (\$1,308 thousand) and ¥105 million at March 31, 1999 and 1998, respectively.

5. Long-term debt

Long-term debt at March 31, 1999 and 1998 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
6.10% secured debentures, due 2004	¥	¥ 1,000	\$
Secured loans from Okinawa Development Finance Public Corporation, 1.10% to 6.30% in 1999 and 2.20% to 6.35% in 1998, due on various dates through 2013	230,850	226,437	1,914,971
Unsecured loans from banks, 2.50% to 7.50% in 1999 and 2.60% to 8.40% in 1998, due 1999 through 2009.....	5,555	6,400	46,078
Total	<u>236,405</u>	233,837	<u>1,961,049</u>
Less current maturity	<u>23,499</u>	22,453	<u>194,928</u>
Long-term debt, less current maturity	<u>¥212,906</u>	<u>¥211,384</u>	<u>\$1,766,121</u>

In 1992, the Company issued ¥5,000 million of 6.10% secured debentures maturing on February 25, 2004. The Company liquidated ¥3,000 million debentures in 1997. The Company also redeemed ¥1,000 million of each debenture with warrants transferred to a third party under debt assumption agreements with banks on February 25, 1999 and 1998, respectively. An excess of the redemption price over the net carrying amount of ¥243 million (\$2,018 thousand) and ¥257 million was included in the interest expense for the years ended March 31, 1999 and 1998, respectively. The holder has a security interest in all assets senior to that of general creditors by the Electric Utility Law.

At March 31, 1999, 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, 1999 were as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2000	¥ 23,499	\$ 194,928
2001	24,388	202,302
2002	26,300	218,169
2003	26,595	220,615
2004	25,887	214,742
2005 and thereafter	109,736	910,293
Total	<u>¥236,405</u>	<u>\$1,961,049</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 41% and 44% for the year ended March 31, 1999 and 1998, respectively.

The actual effective tax rates in the non-consolidated statements of income differed from the normal statutory tax rates due to such items as 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 above leases for the years ended March 31, 1999 and 1998 were ¥384 million (\$3,186 thousand) and ¥384 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, 1999 and 1998 were as follows:

As of March 31, 1999	Millions of Yen		
	General facilities	Other	Total
Acquisition cost	¥1,603	¥217	¥1,820
Accumulated depreciation	(892)	(108)	(1,000)
Net leased property	<u>¥ 711</u>	<u>¥109</u>	<u>¥ 820</u>

As of March 31, 1998	Millions of Yen		
	General facilities	Other	Total
Acquisition cost	¥1,675	¥244	¥1,919
Accumulated depreciation	(704)	(151)	(855)
Net leased property	<u>¥ 971</u>	<u>¥ 93</u>	<u>¥1,064</u>

As of March 31, 1999	Thousands of U.S. Dollars		
	General facilities	Other	Total
Acquisition cost	\$13,297	\$1,804	\$15,101
Accumulated depreciation	(7,398)	(896)	(8,294)
Net leased property	<u>\$ 5,899</u>	<u>\$ 908</u>	<u>\$ 6,807</u>

Obligations under finance leases as of March 31, 1999 and 1998:

	Millions of Yen		Thousands of
	1999	1998	U.S. Dollars
Due within one year	¥375	¥ 357	\$3,116
Due after one year	445	706	3,690
Total	¥820	¥1,063	\$6,806

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

Depreciation expense, which is not reflected in the accompanying non-consolidated statement of income, computed by the straight-line method over the remaining lease term was ¥384 million (\$3,186 thousand) and ¥384 million for the year ended March 31, 1999 and 1998, respectively.

8. Contingent liabilities

At March 31, 1999, the Company was contingently liable as a guarantor for loans of affiliate companies in the amount of ¥3,064 million (\$25,417 thousand).

Under the debt assumption agreements, the Company was contingently liable for the redemption of debentures transferred to banks in the amount of ¥2,000 million (\$16,591 thousand) as of March 31, 1999.

9. Shareholders' equity

The Code requires at least 50% of the issue price of new shares, with a minimum of the par value, 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 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.

The Company may repurchase outstanding shares to cancel them with the resolution at the Board of Directors subject to, among the things; the maximum number of shares is within 10% of the outstanding shares. In a repurchase of shares for cancellation, the aggregate purchase price of the shares may not exceed the distributable retained earnings.

Under the amended Article of Incorporation of the Company, the Company may repurchase its outstanding shares up to 1,500,000 shares to cancel them by resolution of the Board of Directors.

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, 1999 and 1998:

	Millions of Yen		Thousands of
	1999	1998	U.S. Dollars
Transactions:			
Construction cost and facilities	¥17,672	¥ 15,498	\$146,596
Repair and other operating expenses...	14,986	18,355	124,314
Balance of accounts:			
Accounts payable	¥ 3,717	¥ 3,278	\$ 30,833
Accrued expenses	4,319	4,539	35,829

11. Subsequent events

The following appropriations of retained earnings at March 31, 1999 were approved at the shareholders' meeting held on June 29, 1999:

	Millions of Yen		Thousands of
			U.S. Dollars
Year-end cash dividends,			
¥25 (21¢) per share	¥372		\$3,085
Bonuses to directors and			
corporate auditors	72		596
Transfer to legal reserve.....	45		373

On May 25, 1999, the Company made a stock split by way of a free share distribution at the rate of 0.02 shares for each outstanding share and 297,508 shares were issued to shareholders of record on March 31, 1999. The aggregate par value of the shares issued was transferred from additional paid-in capital to stated capital.

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Independent Auditors' Report

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, 1999 and 1998, 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, procedures and practices generally accepted and applied 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, 1999 and 1998, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles and practices 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 to the non-consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 29, 1999

Consolidated Balance Sheets

THE OKINAWA ELECTRIC POWER COMPANY, INCORPORATED AND CONSOLIDATED SUBSIDIARIES March 31, 1999 and 1998	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1999	1998	1999
ASSETS			
Property, plants and equipment:			
Utility plants (Note 3)	¥565,895	¥549,451	\$4,694,277
Other plant and equipment	5,937	5,681	49,252
Construction in progress (Note 10).....	39,968	21,763	331,545
	<u>611,800</u>	<u>576,895</u>	<u>5,075,074</u>
Less:			
Contributions in aid of construction	(21,356)	(21,224)	(177,152)
Accumulated depreciation	(280,270)	(256,804)	(2,324,928)
	<u>(301,626)</u>	<u>(278,028)</u>	<u>(2,502,080)</u>
Net property, plant and equipment	<u>310,174</u>	<u>298,867</u>	<u>2,572,994</u>
Investments and other assets:			
Investment securities (Note 4)	1,520	1,469	12,613
Investments in and advances to non-consolidated subsidiaries and affiliates	6,462	850	53,609
Less allowance for doubtful accounts	(113)		(939)
Deferred income taxes (Note 6)	1,184	1,161	9,825
Other assets	1,297	1,298	10,752
Total investments and other assets	<u>10,350</u>	<u>4,778</u>	<u>85,860</u>
Current assets:			
Cash and time deposits	16,107	13,744	133,612
Short-term investments		999	
Notes and accounts receivable	4,759	3,762	39,474
Less allowance for doubtful accounts.....	(121)	(130)	(1,002)
Inventories	3,326	4,535	26,758
Other current assets (Note 10).....	86	223	714
Total current assets	<u>24,057</u>	<u>23,133</u>	<u>199,556</u>
Total	<u>¥344,581</u>	<u>¥326,778</u>	<u>\$2,858,410</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Long-term liabilities:			
Long-term debt, less current maturities (Notes 5 and 8)	¥215,110	¥211,395	\$1,784,404
Liabilities for severance payments	8,283	8,329	68,712
Other long-term liabilities	5,304	1,711	43,998
Total long-term liabilities	<u>228,697</u>	<u>221,435</u>	<u>1,897,114</u>
Current liabilities:			
Current maturities of long-term debt (Note 5)	23,749	22,459	197,008
Accounts payable (Note 10).....	23,195	16,257	192,408
Accrued income taxes (Note 6)	2,819	2,595	23,384
Accrued expenses (Note 10).....	7,383	7,199	61,246
Other current liabilities	1,604	793	13,304
Total current liabilities	<u>58,750</u>	<u>49,303</u>	<u>487,350</u>
Minority interests	340	288	2,818
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	61,698
Additional paid-in capital	7,290	7,290	60,476
Retained earnings	42,066	41,024	348,954
Total shareholders' equity	<u>56,794</u>	<u>55,752</u>	<u>471,128</u>
Total	<u>¥344,581</u>	<u>¥326,778</u>	<u>\$2,858,410</u>

See notes to consolidated financial statements.

Consolidated Statements of Income

THE OKINAWA ELECTRIC POWER COMPANY, INCORPORATED AND CONSOLIDATED SUBSIDIARIES Years ended March 31, 1999 and 1998	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1999	1998	1999
Operating revenues:			
Electric	¥134,471	¥131,923	\$1,115,482
Other (Note 7)	1,848	2,069	15,329
Total operating revenues	136,319	133,992	1,130,811
Operating expenses (Notes 7 and 10):			
Electric	113,494	113,152	941,470
Other	2,190	2,254	18,166
Total operating expenses	115,684	115,406	959,636
Operating income	20,635	18,586	171,175
Other (income) expenses:			
Interest expense (Notes 3 and 5)	10,442	11,291	86,620
Equity in loss of affiliate	3,161	501	26,225
Other — net	640	719	5,308
Net other expenses	14,243	12,511	118,153
Income before income taxes	6,392	6,075	53,022
Income taxes (Note 6)	4,419	3,472	36,652
Net income	¥ 1,973	¥ 2,603	\$ 16,370
		Yen	U.S. Dollars
Per share of common stock: (Note 2 i)			
Net income	¥132.66	¥175.00	\$1.10
Cash dividends applicable to the year.....	¥ 50.00	¥ 50.00	\$0.41

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

THE OKINAWA ELECTRIC POWER COMPANY, INCORPORATED AND CONSOLIDATED SUBSIDIARIES Years ended March 31, 1999 and 1998	Number of shares (Thousands)	Millions of Yen		
		Common stock	Additional paid-in capital	Retained earnings
Balance, April 1, 1997	14,875	¥ 7,438	¥7,290	¥ 39,256
Net income				2,603
Appropriations:				
Cash dividends				(744)
Bonuses to directors and corporate auditors				(91)
Balance, March 31, 1998	14,875	7,438	7,290	41,024
Net income				1,973
Appropriations:				
Cash dividends				(744)
Bonuses to directors and corporate auditors				(87)
Deduction from an affiliate newly applied for equity method				(100)
Balance, March 31, 1999	14,875	¥7,438	¥7,290	¥42,066

	Thousands of U.S. Dollars (Note 1)		
	Common stock	Additional paid-in capital	Retained earnings
Balance, March 31, 1998	\$ 61,698	\$60,476	\$ 340,307
Net income			16,370
Appropriations:			
Cash dividends			(6,172)
Bonuses to directors and corporate auditors			(725)
Deduction from an affiliate newly applied for equity method			(826)
Balance, March 31, 1999	\$61,698	\$60,476	\$348,954

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

THE OKINAWA ELECTRIC POWER COMPANY, INCORPORATED AND CONSOLIDATED SUBSIDIARIES Years ended March 31, 1999 and 1998	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1999	1998	1999
Operating activities:			
Net income	¥ 1,973	¥ 2,603	\$ 16,370
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	25,340	26,605	210,206
Loss on disposal of property	710	610	5,888
Devaluation loss on investment securities	12	426	95
Loss (gain) on sales of investment securities	2	(8)	20
Loss on redemption of bond	243	257	2,018
Equity in loss of affiliates	3,161	507	26,225
Deferred income taxes	(22)	(27)	(187)
Reversal of provision for severance payment reserve	(45)	(90)	(377)
Provision for doubtful accounts	104	8	860
Bonuses to directors and corporate auditors	(87)	(91)	(725)
Changes in operating assets and liabilities:			
Decrease (increase) in receivables	(996)	284	(8,263)
Increase (decrease) in inventories	1,309	(574)	10,858
Increase in payables and accrued expenses	7,122	1,092	59,080
Increase in accrued income taxes	224	1,648	1,857
Other	1,481	952	12,295
Total adjustment	38,558	31,599	319,850
Net cash provided by operating activities	40,531	34,202	336,220
Investing activities:			
Purchase of utility plants	(37,817)	(24,634)	(313,703)
Proceeds from sale of utility plants	459	411	3,808
Payment for purchase of investment securities	(65)	(465)	(543)
Increase in investments in and advances to unconsolidated subsidiaries and affiliates	(5,762)	(108)	(47,795)
Proceeds from sale of investment securities		8	
Net cash used in investing activities	(43,185)	(24,788)	(358,233)
Financing activities:			
Proceeds from long-term borrowings	28,604	17,500	237,279
Repayments of long-term borrowings	(22,599)	(23,648)	(187,469)
Payment for redemption of bonds	(1,243)	(1,257)	(10,314)
Cash dividends paid	(744)	(744)	(6,172)
Net cash provided by (used in) financing activities	4,018	(8,149)	33,324
Net increase in cash and cash equivalents	1,364	1,265	11,311
Cash and cash equivalents, beginning of year	14,743	13,478	122,301
Cash and cash equivalents, end of year	¥16,107	¥14,743	\$133,612
Additional cash flow information:			
Interest paid	¥10,689	¥11,516	\$ 88,668
Income taxes paid	¥ 4,217	¥ 1,735	\$ 34,983
Supplemental schedule of noncash investing and financing activities:			
The Company sold certain equipment for ¥220 million 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, 1999 and 1998

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese 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 consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. 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.

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 ¥120.55 to \$1, the approximate rate of exchange at March 31, 1999. 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.

Certain reclassifications have been made in 1998 consolidated financial statements to conform to the presentations and classifications used in 1999.

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 intercompany transactions and account balances have been eliminated. Investments in significant affiliates are accounted for under the equity method. In 1999, the investment in an affiliate has been accounted for under the equity method due to its increasing materiality with respect to the consolidated net income.

Consolidation of the 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.

(b) Property, plant and equipment

Property, plant and equipment are stated at cost. The cost of utility plants 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. Such 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. Investment securities are written down to the appropriate value if the investments have been significantly impaired in value of a permanent nature.

(d) Cash and cash equivalents

For the 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 principally on the average method.

(f) Severance payments and pension plan

The Companies have unfunded retirement plans for all employees and provide 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 have non-contributory funded pension plans covering most of their employees. The amounts contributed to the fund, including prior service costs which were 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 current income at 100% of the 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, continued increase of past service costs of the pension, and to more accurately reflect results of operations and financial condition. This change has been applied prospectively from 1998 consolidated financial statements. As a result of this accounting change, income before income taxes for the year ended March 31, 1998 was approximately ¥619 million less than it would have been using the prior method of accounting.

Total provisions for liabilities for severance payments and pension costs charged to income were ¥3,405 million (\$28,243 thousand) and ¥3,252 million for the years ended March 31, 1999 and 1998, respectively.

(g) Income taxes

Income taxes are provided at the 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 issue costs and bond discount charges

Stock and bond issue 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, 1999 and 1998 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
Thermal power generating facilities	¥260,579	¥254,665	\$2,161,581
Transmission facilities.....	95,395	93,614	791,330
Transformation facilities	74,190	72,511	615,432
Distribution facilities.....	113,340	108,858	940,195
General facilities	22,391	19,803	185,739
Total	¥565,895	¥549,451	\$4,694,277

Interest costs capitalized for the year ended March 31, 1999 and 1998 was ¥73 million (\$607 thousand) and ¥13 million, respectively.

4. Investment securities

The excess of the market value over the carrying amount of quoted securities was ¥155 million (\$1,287 thousand) and ¥98 million at March 31, 1999 and 1998, respectively.

5. Long-term debt

Long-term debt at March 31, 1999 and 1998 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
6.10% secured debentures, due 2004 ¥	¥ 1,000		\$
Secured loans from Okinawa Development Finance Public Corporation, 1.10% to 6.30% in 1999 and 2.20% to 6.35% in 1998, due on various dates through 2013.....	230,850	226,437	1,914,971
Unsecured loans from banks, 2.50% to 7.50% in 1999 and 2.60% to 8.40% in 1998, due 1999 through 2013.....	6,125	6,417	50,814
Secured debt with a leasing company, Semi-annual payment of ¥144 million (\$1,193 thousand) with interest, maturities in 2005 and 2008.....	1,884	—	15,627
Total.....	238,859	233,854	1,981,412
Less current maturity	23,749	22,459	197,008
Long-term debt, less current maturity.....	¥215,110	¥211,395	\$1,784,404

In 1992, the Company issued ¥5,000 million of 6.10% secured debentures maturing on February 25, 2004. The Company liquidated ¥3,000 million debentures in 1997. The Company also redeemed ¥1,000 million of each debenture with warrants transferred to a third party under debt assumption agreements with banks on February 25, 1999 and 1998, respectively. An excess of the redemption price over the net carrying amount of ¥243 million (\$2,018 thousand) and ¥257 million was included in the interest expense for the year ended March 31, 1999 and 1998, respectively. The holder has a security interest in all assets senior to that of general creditors by the Electric Utility Law.

At March 31, 1999, debentures and long-term debt with the Okinawa Development Finance Public Corporation were collateralized by all of the Company's available assets.

Maturities of long-term debt outstanding at March 31, 1999 were as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2000	¥ 23,749	\$ 197,008
2001	24,749	205,531
2002	26,685	221,359
2003	26,980	223,806
2004	24,951	206,970
2005 and thereafter	111,745	926,738
Total	<u>¥238,859</u>	<u>\$1,981,412</u>

6. Income taxes

The Companies are subject to several taxes based on income. For the years ended March 31, 1999 and 1998, the aggregate normal statutory tax rates approximated 41% and 44% for the Company and 47% and 50% for its consolidated subsidiaries, respectively.

The actual effective tax rates in the consolidated statements of income differed from the normal statutory tax rates due to such items as 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, 1999 and 1998 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
Current.....	¥4,441	¥ 3,499	\$36,840
Deferred.....	(22)	(27)	(188)
Net	¥4,419	¥ 3,472	\$36,652

7. Lease

The Companies lease certain automobiles and office equipment. Total lease payments under the above leases for the year ended March 31, 1999 and 1998 was ¥336 million (\$2,783 thousand) and ¥332 million, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation 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 year ended March 31, 1999 as follows:

	Millions of Yen		
	General facilities	Other	Total
Acquisition cost.....	¥1,465	¥164	¥1,629
Accumulated depreciation.....	(795)	(63)	(858)
Net leased property	<u>¥ 670</u>	<u>¥101</u>	<u>¥ 771</u>

	Thousand of U.S. Dollars		
	General facilities	Other	Total
Acquisition cost.....	\$12,158	\$1,361	\$13,519
Accumulated depreciation.....	(6,598)	(523)	(7,121)
Net leased property	<u>\$ 5,560</u>	<u>\$ 838</u>	<u>\$ 6,398</u>

Obligations under finance leases as of March 31, 1999 and 1998:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
Due within one year.....	¥336	¥ 325	\$2,790
Due after one year.....	435	712	3,607
Total	¥771	¥1,037	\$6,397

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

Depreciation expense, which is not reflected in the accompanying consolidated statement of income, computed by the straight-line method over the remaining lease term was ¥336 million (\$2,783 thousand) and ¥332 million for the year ended March 31, 1999 and 1998, respectively.

The Companies are also lessors of certain automobiles and office equipment. Total lease income from the above leases for the year ended March 31, 1999 and 1998 was ¥163 million (\$1,354 thousand) and ¥177 million, respectively.

The following is the summary of the above leased property as of March 31, 1999:

	Millions of Yen	Thousands of U.S. Dollars
	Other equipment:	
Acquisition cost.....	¥500	\$4,144
Accumulated depreciation.....	(324)	(2,691)
Net leased property	<u>¥176</u>	<u>\$1,453</u>

At March 31, 1999 and 1998, the total lease payment to be received from the above leases were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
Due within one year	¥132	¥155	\$1,096
Due after one year	206	227	1,707
Total.....	¥338	¥382	\$2,803

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

8. Contingent liabilities

At March 31, 1999, the Company was contingently liable as a guarantor for loans of affiliated companies in the amount of ¥3,064 million (\$25,417 thousand).

Under the debt assumption agreements, the Company was contingently liable for the redemption of debentures transferred to banks in the amount of ¥2,000 million (\$16,591 thousand) as of March 31, 1999.

9. Shareholders' equity

The Code requires at least 50% of the issue price of new shares, with a minimum of the par value, 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 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 amount which is included in retained earnings, totals ¥738 million (\$6,123 thousand) and ¥656 million as of March 31, 1999 and 1998, respectively, and 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.

The Company may repurchase outstanding shares to cancel them with the resolution of the Board of Directors subject to, among the things; the maximum number of shares is within 10% of the outstanding shares. In a repurchase of shares for cancellation, the aggregate purchase price of the shares may not exceed the distributable retained earnings.

Under the amended Article of Incorporation of the Company, the Company may repurchase its outstanding shares up to 1,500,000 shares to cancel them by resolution of the Board of Directors.

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, 1999, retained earnings recorded on the Company's books was ¥43,692 million (\$362,435 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, 1999 and 1998:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
Transactions:			
Construction cost of facilities	¥13,278	¥8,445	\$110,143
Repair and other operating expenses...	3,309	7,609	27,448
Balance of accounts:			
Other current assets	¥ 619	¥ 205	\$ 5,136
Accounts payable	2,510	2,340	20,817
Accrued expenses	1,650	2,299	13,684

11. Segment information

Information about operations in different industry segments of the Companies for the years ended March 31, 1999 and 1998 is as follows:

1999	Millions of Yen			Consolidated
	Electric	Other	Eliminations	
Sales to customers.....	¥134,471	¥ 1,848		¥136,319
Intersegment sales.....		16,072	¥(16,072)	
Total operating revenues	134,471	17,920	(16,072)	136,319
Operating expenses	114,677	16,958	(15,951)	115,684
Operating income.....	¥ 19,794	¥ 962	¥ (121)	¥ 20,635
Total assets	¥338,280	¥12,310	¥ (6,009)	¥344,581
Depreciation and amortization	25,275	320	(307)	25,288
Capital investments	37,836	455	(361)	37,930
<hr/>				
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

1999	Thousands of U.S. Dollars			
	Electric	Other	Eliminations	Consolidated
Sales to customers.....	\$1,115,482	\$ 15,329		\$1,130,811
Intersegment sales		133,320	\$(133,320)	
Total operating revenues.....	1,115,482	148,649	(133,320)	1,130,811
Operating expenses.....	951,281	140,675	(132,320)	959,636
Operating income	\$ 164,201	\$ 7,974	\$ (1,000)	\$ 171,175
Total assets.....	\$2,806,139	\$102,118	\$ (49,847)	\$2,858,410
Depreciation and amortization.....	209,667	2,650	(2,547)	209,770
Capital investments.....	313,865	3,775	(2,995)	314,645

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, 1999 and 1998.

12. Subsequent events

The following appropriations of retained earnings at March 31, 1999 were approved at the shareholders' meeting held on June 29, 1999:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥25 (21¢) per share	¥372	\$3,085
Bonuses to directors and corporate auditors	72	596

On May 25, 1999, the Company made a stock split by way of a free share distribution at the rate of 0.02 shares for each outstanding share and 297,508 shares were issued to shareholders of record on March 31, 1999. The aggregate par value of the shares issued was transferred from additional paid-in capital to stated capital.

Independent Auditors' Report

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Independent Auditors' Report

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, 1999 and 1998, 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, procedures and practices generally accepted and applied 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, 1999 and 1998, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles and practices 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 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 29, 1999