

The Company registered increases in net sales and net income on a consolidated basis in the fiscal year ended March 31, 2000. This was made possible partly by the contribution made by our consolidated subsidiaries. The management is currently pursuing a policy of reinforcing the Company's business base by harnessing the combined strength of the whole OEPC group to achieve a level of competitiveness that will allow us to survive and prosper in this age of ongoing deregulation in the power utility industry.

Operating Environment and Performance

During the term under review, the economy of Okinawa showed growing signs of strength overall in spite of the continued low level of consumer spending, thanks to a favorable performance by tourism, one of the region's principal industries, as well as the positive impact of the government's economic stimulus measures. Due to this, OEPC posted firm sales of power to the commercial and residential sectors in volume terms, but sales were unable to equal the previous year, which had benefited from consistently record-high temperatures. In addition, sales of electricity to the industrial sector declined slightly, as a result of which total power sales slipped 0.9% from the previous term, to 6,558 million kWh.

Operating revenue from OEPC's electric power supply activities during the term under review fell below the previous term's level, but thanks to an increase in the number of consolidated subsidiaries (the additionally consolidated subsidiaries are engaged in the construction and telecommunication businesses), total sales on a consolidated basis were up 4.0% year-on-year at ¥141,820 million (US\$1,336.0 million). Income before income taxes and minority interest increased 18.0% to ¥7,606 million (US\$71.7 million), and net income came to ¥4,263 million (US\$40.2 million).

In line with the Company's policy of maintaining a steady annual dividend of ¥50 per share, we declared a term-end dividend of ¥25 per share, which was the same as the interim dividend. In commemoration of the 10th anniversary of OEPC's privatization, which fell on May 1999, and also to return additional profits to our shareholders, we implemented a stock split at a ratio of 1:1.02 shares. Eligible shareholders were those who held shares as of March 31, 1999.

Principal Measures Implemented during the Term

The staff of OEPC have been applying their full efforts to the improvement of management efficiency, which is the main prerequisite for lowering electricity rates. Capital investment during the term increased over the previous year owing to the start of full-scale construction of the Kin Thermal Power Station, which is scheduled to start operation in 2002, but after careful reexamination of the details of construction plans for each facility at the actual implementation stage, we were able to reduce the originally planned ¥57.8 billion capital investment amount by ¥3.2 billion to ¥54.6 billion.

As a means of cutting the cost of equipment purchase, we actively sought out sources of procurement overseas, as a result of which the ratio to total procurement of equipment from abroad rose to 5.9% (¥500 million). We also exerted efforts to improve management efficiency from various angles: the promotion of load leveling (reducing the difference in electric power demand between different seasons and between daytime and nighttime); taking steps to lower the cost of supplying electricity to remote islands; raising the efficiency of clerical work operations through the installation of an advanced information system; and reducing fund procurement costs by issuing bonds and commercial paper.

Apart from stepping up security measures during the G8 Okinawa Summit in July 2000 in order to eliminate all possibility of sabotage of our steady power supply, we have also worked in other ways to ensure the success of the summit meeting, such as environmental beautification campaigns and the provision of interpreters for the foreign press and other officials.

Future Prospects

The partial deregulation of the electric power utility industry, which started on March 2000, allows companies other than the existing 10 Japanese power companies to supply electricity to industrial customers whose contractual consumption exceeds a fixed volume. OEPC displays certain unique characteristics, such as the relatively high ratio of power supplied to remote islands. Due to this, the degree of deregulation applied to OEPC's business is smaller than in the case of the other 9 power companies, but it is only a matter of time before full-scale liberalization is applied to the power supply market in Okinawa. We are therefore fully aware of the need to improve our cost-competitiveness and offer even more attractive services in order to stay ahead of our potential rivals.

For this reason we have established a committee composed of full-time members of the Board of Directors to study ways of responding to this market liberalization.

The committee will be examining the other power companies' responses to deregulation with a view to devising unique countermeasures suited to OEPC's business situation.

At the same time, we must also be prepared for other changes in the business environment such as the rapid spread of IT (information technology). The intensification of market activities, the development of new business lines and the strengthening of our business base in the field of telecommunications are also among our priorities. We are marshalling the total power of the OEPC group to successfully meet these challenges. As part of these efforts, we have established from this year a venture business system with the goals of developing new business lines and expanding operations in the telecommunications field.

Our top priority is to improve management efficiency and in line with this, our long-term management plan, which started in fiscal 2000, calls for a ¥50 billion reduction in our original 10-year capital investment target to ¥350 billion. We will continue to work toward achieving lower electricity charges while maintaining a sufficient level of



Chairman Masaharu Minei

President Hirokazu Nakaima

earnings through the reduction of the cost of power supply. In the meantime, we will devote even more efforts to such ongoing issues as environmental protection, the development and practical realization of new energy sources, and contributions to the regional community.

For the current term, we forecast the volume of power sales to remain largely unchanged from the term under review at 6,543 million kWh, with sales on a consolidated basis rising 0.1% at ¥142 billion and net income of approximately ¥3 billion.

Masaharu Minei

Chairman

Hirokazu Nakaima

President