

The Okinawa Electric Power Company Group registered an increase in operating revenues and a decrease in pre-tax profit on a consolidated basis in the fiscal year ended March 31, 2001. In response to the partial deregulation of electric power retailing in 2000, the Company reduced rates in October 2000 to make the best use of the improvements in management efficiency that it had realized. Since the structural reforms implemented in July 2001, the Company has been working actively to ensure competitiveness by strengthening existing electric power operations, and to establish new high-profit businesses.

Operating Environment and Performance

During the term under review, although there were positive trends in consumer spending, with an increase in the number of new car sales, the economy of Okinawa failed to recover due to the stagnation in the construction industry combined with a year-on-year decrease in the number of tourists visiting the area. Amid this situation, however, due to an increase in the number of retail customers as well as increased demand from food manufacturing and telecommunications industries, both home and industrial consumption of electricity increased over the previous year, resulting in electric power sales of 6,626 million kWh, an increase of 1.0% over the previous year.

Operating revenue from the electric power supply business, which accounts for most of OEPC's consolidated revenue, rose 1.8% over the previous year, but since revenues from its involvement in the construction industry fell compared with the previous year, when there were many major construction projects, total sales (operating revenue) on a consolidated basis were up 1.4% year-on-year at ¥143,797 million (US\$1,161 million). Income before income taxes and minority interest decreased 7.7% to ¥7,018 million (US\$57 million), and net income came to ¥3,537 million (US\$29 million), a 17.0% decrease from the previous year.

In line with the Company's policy of maintaining a steady annual dividend, we declared an interim dividend of ¥25 per share, which was then increased to a term-end dividend of ¥35 per share (a total of ¥60, including the interim dividend). This was made possible by recent improvements in management efficiency.

Principal Measures Implemented During the Term

The partial deregulation of electric power retail supply implemented in March 2000 is expected to bring about intense

competition within the power industry. To stay ahead of its potential rivals, the Company adopted priority measures to enhance development of marketing activities that take into account the customers' needs and desires, to ensure additional cost reductions, and to increase the efficiency of clerical operations. As part of our efforts to bring about greater efficiency, we also implemented a 3.78% reduction in electricity rates and other measures including the diversification of the rates menu. Capital investment during the term decreased by ¥8.9 billion to ¥45.7 billion owing to the fact that the construction work on the Kin Thermal Power Station had largely been completed by the end of March 2001, and due to further cost reductions which were possible after careful reexamination of the details of the construction plans for each facility at the actual planning stage.

To deal with the increased demand for electric power, the Company has improved the operational efficiency of its existing facilities and started operations, as scheduled, of the No. 1 and No. 2 fixed-type gas turbine generators (5,000 kW each) at its No. 2 Ishigaki Island Power Station, the No. 8 generator (300 kW) at its Tonaki Power Station, and the No. 7 generator (300 kW) at its Rikkoku Power Station, thereby maintaining a stable supply of electric power. Turning to the Company's environmental preservation efforts, in September and October 2000, respectively, the Gushikawa and Makiminato Thermal Power Stations became the last of the Company's three steam power generation facilities to acquire ISO 14001 certification.

In December 2000, the Company was the first in the prefecture to issue corporate bonds (totaling ¥2 billion) to individual investors, and was able to sell all the bonds within a short period.

Future Prospects

The Company carried out a structural reform in July 2001, introducing a system of five Headquarters, including the Planning



Hirokazu Nakaima, *President*

Headquarters, IT Promotion Headquarters, Customer Service Headquarters, Electric Power Engineering Headquarters, and Remote Island Electrical Service Headquarters. In order to cope with changes in the industry, such as the liberalization of the electric power supply market and the rapid development of computerization, the structural reform was carried out to strengthen the Company's position in the electric power supply market through total cost reductions and to develop new projects that will expand the Company's profit base in the prefecture. In other words, we aim at the sort of corporate structure that combines both a continuing sense of mission as a public utilities company and the vigor of a private company that is confronted with a period of intense competition.

The Planning Headquarters will strengthen the overall strategic design and driving force of the Group, carry out prompt and accurate decision making, and build a more creative corporate structure. The Company will then pursue the more practical aims of expanding into IT-related operations, strengthening customer relations, developing more efficient operations, and reducing the cost of power supply to remote islands. The Company has already begun to develop new business lines and expand operations in the telecommunications field, and is also considering expanding into the prefecture's already thriving tourist resort business.

During fiscal 2001, we aim to solidify our position as the company of choice among the prefecture's customers by promoting our plans for improving efficiency, thereby ensuring cost competitiveness. We decided to reduce our capital investments to under ¥350 billion for the next ten years when we lowered our rates in October 2000, but we have set the new target of reducing our total capital investments to ¥330 billion and are directing all our energies toward cutting back on our investments.

For the current term, we forecast a steady increase in the demand for electric power for home use, but only an insignificant increase in overall demand. In other market activities, although there is expected to be a moderate recovery in the telecommunications field, we forecast continuing severity in the general business environment, with sales on a consolidated basis rising 3.6% to ¥149 billion and net income rising 13.1% to ¥4.0 billion.

The OEPC Group is looking forward to sustained growth in the years ahead, and we would like to thank all our shareholders for their increased understanding and support.

A handwritten signature in black ink, reading "Hirokazu Nakaima".

Hirokazu Nakaima, *President*