

Message from the President

To come out ahead in this competitive market, we will work harder than ever to reduce costs, enhance operational efficiency, and bolster our cost competitiveness, while dealing with management issues that will help us strengthen our ability to provide services that lead to customer satisfaction.

Operating Environment and Performance

During the term under review, the economy of Okinawa failed to recover due to the stagnation in the construction industry, the decline in tourism as a result of the September 11th terrorist attacks on the United States, and the general lack of vigor in consumer spending. Amid this economic situation, however, there was an increase in the number of new home-use customers and a general increase in demand for electric power due to hotter summer months. The demand for electric power from the iron and steel industries also increased over the previous term, resulting in total electric power sales of 6,889 million kWh, an increase of 4.0% over the previous year.

During the term under review, we broke our daily peak load record three times due to record-high temperatures during the summer months. This brought about a 67,000 kW, or 5%, increase in our annual peak load, to 1,396,000 kW. To cope with the increased demand for electric power, the Company enhanced its generating capacity by improving the operational efficiency of existing facilities and starting operations, as scheduled, of the No. 1 generator at the Kin Thermal Power Station (220,000 kW: began operations in February 2002) and the No. 6 generator of the Shin-Tarama Power Station (500 kW: began operations in May 2001), thereby maintaining a stable supply of power.

Total combined operating revenues on a consolidated basis from the electric power supply business, construction business, and OEPC's other businesses

(all of which increased) rose 6.2% year-on-year to ¥152,714 million (US\$1,146 million) due to increased electric power volume and to price fluctuations under the fuel cost adjustment system (under which electricity prices are revised every 3 months, reflecting fluctuations in exchange rates and oil prices). Net income came to ¥5,845 million (US\$44 million), a 65.3% jump over the previous year.

In line with the Company's policy of maintaining steady annual dividends, we declared an interim dividend of ¥30 per share, which was added to a term-end dividend of ¥30 per share, to become a total annual dividend of ¥60 (US\$0.45) per share.

Principal Measures Implemented During the Term

We have encouraged our employees to put marketing needs first and persuade customers to select rate packages that promote load leveling, and we have developed marketing activities that have real relevance for the local communities.

Capital investment during the term decreased by ¥13 billion to ¥32.6 billion owing to the fact that the construction work on the Kin Thermal Power Station had been largely completed. Due to this and to careful examination of the details of the construction plans for each facility at the construction stage, we were able to reduce by ¥8.6 billion the planned figure of ¥41.2 billion.

In July 2001, the Company carried out a structural reform, introducing a system whereby Company business is managed through different headquarters. In response to the phased

liberalization of the electric power market and the rapid development of information technologies, the Company is making efforts to maintain and strengthen its position in the electricity business, through thorough cost reductions and strengthened marketing capabilities, and to develop new projects that will expand the Company's profit base. Of particular note is that the Company established the Remote Island Electrical Service Headquarters, in order to centralize and improve the efficiency of the Company's remote island operations. The Company has positioned this as a step toward introducing an in-house company system, which will clarify the rights and responsibilities of each in-house company.

Future Prospects

In the current term, aiming to solidify our position as the company of choice among the prefecture's customers, we will continue to enhance our cost competitiveness, improve our services, upgrade the efficiency of our electric power supply system, and work toward environmental preservation. In fiscal 2001, we stated in our Management Efficiency Plan that we would "hold our annual capital investments down to ¥330 billion over the next 10 years." To further enhance our efficiency, we set a new goal and reduced the amount of our intended investments once more. In our 2002 Management Efficiency Plan, we stated that we will "hold our annual capital investments down to ¥300 billion over the next 10 years."

For the current term, we forecast a steady



Hirokazu Nakaima, *President*

increase in the demand for electric power for home use, despite the fact that we foresee lower temperatures over the summer months this year. We forecast a 1.0% increase in demand for electric power, to a total of 6,957 million kWh. We also estimate a 3.7% decrease, to ¥147 billion (US\$1,103 million), in operating revenues on a consolidated basis, and a 5.9% decrease, to ¥5.5 billion (US\$41 million), in net income.

In May 2002, the Company celebrated the 30th anniversary of its founding. In this same year, our stock was upgraded to the 1st Section of the Tokyo Stock Exchange. We will continue to earn the trust of our shareholders and investors, enhance our position as the company of choice among the prefecture's customers, strive for thoroughgoing efficiency, and work to meet the expectations of all our stakeholders.

A handwritten signature in black ink, which appears to read "Hirokazu Nakaima". The signature is written in a cursive, flowing style.

Hirokazu Nakaima
President