

Message from the Management

At the Board of Directors meeting after our regular shareholders meeting on June 27, 2003, Hirokazu Nakaima was appointed Chairman of the Board and Representative Director, and Tsugiyoshi Toma was named President and Representative Director.

Operating Environment and Performance

During the term under review, despite declines in housing construction, private capital investment, and public investment, the economy of Okinawa as a whole continued to show signs of recovery, as evidenced by a moderate rise in personal consumption and a turnaround by tourism-related industries.

Amid this economic situation, consumer demand for electric power — for both home and businesses uses — was weaker than year-earlier levels as a result of lower summer temperatures.

On the other hand, water shortages necessitated a high operational level at desalination plants which produce water for industrial use, leading demand to surpass the previous-year level. Consequently, overall electric power demand remained nearly on par with the year-earlier level.

Demand for residential use fell 0.9% year-on-year, to 2,704 million kWh, while demand for electric power rose 0.4% to 4,048 million kWh. Total electric power sales, including sales to special high voltage customers, amounted to 6,883 million kWh, down 0.1% year-on-year.

Operating revenues from the electric power supply business fell 3.3% from the previous year, to ¥133,974 million. This decline is attributable to a decrease in public electricity demand and to the impact of the crude oil price-linked fuel cost adjustment system, by which we lowered electricity charges by an average of 5.79% in October 2002. Operating expenses decreased 2.3% to ¥119,338 million. Consequently, operating income dropped 10.8% to ¥14,636 million.

Revenues from the construction business rose 1.5%, to ¥22,837 million. Although public investment

in general fell short of the previous-year level, owing to the benefits of the Large-Scale Economic Stimulus Measures implemented during that term, the term under review saw the completion of many major construction projects. As a result, operating income came to ¥789 million, a 13.1% increase from the previous year.

Although information technology and telecommunications orders rose and the number of consolidated subsidiaries increased, operating revenue from other business grew only 2.3% to ¥30,852 million. This is mainly because the previous year figure included revenue from one-time orders for large-scale electricity equipment. Operating costs rose 2.6% to ¥28,770 million, while operating income declined 2.1% to ¥2,082 million.

As a result, the Company posted total sales (operating revenue) of ¥145,072 million (US\$1,207 million), down 5.0%, on a consolidated basis. Net income came to ¥5,121 million (US\$43 million), a 12.4% decline from the previous year.

Principal Measures Implemented and Future Prospects

It has been three years since the start of the partial deregulation of electric power retailing in March 2000. Since then, new guidelines for the electricity business were discussed, and in February 2003 the guidelines for the phased expansion of liberalization were finalized, with the ultimate goal being the full liberalization of electric power retailing. Now that the future direction of electricity liberalization has

been clarified, competition has entered a new phase.

Viewing the current term as the first year, the Company's employees and officers rallied together to formulate measures for responding to these developments and to improve efficiency to enable a next round of reductions in electricity charges. At the same time, we are keeping firmly in mind the Company's medium- and long-term tasks. In addition to ongoing initiatives, in the short term we are promoting quality management initiatives in line with the ISO 9001 system and working on our IT business, which we hope to grow into the second core business of the Okiden Group ("Okiden" is an abbreviation of the Japanese name for Okinawa Electric Power Company.)

Despite rising depreciation costs that accompanied the completion of the Kin Thermal Power Station, the introduction of a Renewables Portfolio Standard (RPS) system, the development and introduction of a mapping system, and commencement of Polychlorinated Biphenyls (PCB) processing — all contributing factors to the rise in costs — we are continuing to make utmost efforts to strengthen our price competitiveness. We have also devised specific financial goals, such as securing adequate profits, reducing our balance of interest-bearing debt, and improving our equity ratio, and are undertaking thorough efforts to improve efficiency.

To grow and develop as a strong and ambitious utilities group, we are working diligently to realize Group-wide management efficiency, and making aggressive efforts to expand our non-electricity businesses. Our aim is to achieve 70% of our revenues from the electricity business and 30% of our revenues from other businesses by fiscal 2010. To this



Hirokazu Nakaima, *Chairman*

Tsugiyoshi Toma, *President*

end, for the current term we have set as our three top priorities the expansion of sales outside the Group, the improvement of efficiency, and the further penetration of the Okiden Group brand, and will work steadily to achieve these goals.

We pledge to observe all related regulations and laws, and undertake business activities with a highly developed sense of ethics and morale, while quickly and accurately disclosing corporate data with the aim of fostering an even higher level of trust among our shareholders and investors. We will continue working to remain the company of choice.

Hirokazu Nakaima
Chairman

Tsugiyoshi Toma
President